

Nepal

Macroeconomic Update

VOLUME 8, NO. 1 | APRIL 2020

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ABBREVIATIONS

BFI = banks and financial institutions

COVID-19 = coronavirus disease

GDP = gross domestic product

M2 = broad money

MW = megawatts

NRs = Nepali rupees

y-o-y = year-on-year

NOTE

- i. The fiscal year (FY) of the government ends in mid-July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ended on 16 July 2019.
- ii. In this report, "\$" refers to US dollars.

Executive Summary

- 1. Gross Domestic Product (GDP) growth edged up to an estimated 7.1% in fiscal year 2019 (FY2019, ended 16 July 2019) from 6.7% a year earlier.** Accelerated post-earthquake reconstruction, bumper harvest, better management of electricity supply and stepped-up tourists' arrivals supported growth. Industry, providing 15.2% of GDP, grew by 8.1% on a greater political stability and increased availability of electricity. Services, contributing slightly over half of GDP, picked up by 7.3% on higher inflow of remittances that supported retail trade, and buoyant tourists' arrival which favored hotel and restaurant and travel and communication.
- 2. On the demand side, high consumption induced by remittance growth dominated spending in FY2019, to account for an estimated 80.0% of GDP.** Private investment mostly on energy and services accelerated by 27.0% to account for slightly below a third of GDP. Public investment however increased by mere 5.5% after rising by 54.2% a year earlier, owing to delays in the construction of large infrastructure projects. Net exports were a drag on growth and the trade deficit widened in the fiscal year.
- 3. Inflation inched up to 4.6% in FY2019 from 4.2% a year earlier.** Food inflation averaged 3.1%, up from 2.7% in FY2018 as floods and landslides in early July 2019 disrupted distribution channel. Strict tests along the Indo-Nepal border over concern on pesticides delayed food supply temporarily. Prices for clothing and footwear, housing and utilities, furnishing and household equipment and transportation and education services edged up during the year on strong demand.
- 4. Merchandise export earnings exceeded expectations with a surge in the export of palm oil and jute.** But with low export base and rising import of oil and non-oil products, merchandise trade deficit widened by 4.6%. Workers' remittances increased healthily by 7.8% on depreciation of Nepali rupee vis-à-vis US dollar and a crackdown on informal means of remitting. Yet, net invisible earnings fell short of trade deficit expansion, widening current account deficit to 7.7% of GDP.
- 5. GDP growth will likely moderate to 5.3% in FY2020, down from 7.1% a year earlier.** The slower growth centers on several key factors, notably the global outbreak of novel coronavirus disease, also known as COVID-19. The outbreak of this disease and subsequent nationwide lockdown imposed from 24 March to 7 April 2020 have hit industry and services hard. Remittances in the last quarter of this fiscal year will be adversely affected by this pandemic reflecting travel restrictions to contain the contagion and weaker demand in destination countries. Growth will also be dampened by lower agricultural yield, in particular of rice, which supplies nearly 7% of GDP. Late monsoon, floods in early July and pest infestation in some farmlands crimped rice production. Industrial output will rise more slowly owing to supply disruptions reflecting the lockdown and reduced domestic demand. Services growth will wane this fiscal year with a significant slowdown in tourists' arrival.
- 6. Average annual inflation will inch up to 6.0% in FY2020, up from 4.6% a year earlier.** Headline inflation has averaged 6.5% in the first seven months of FY2020, significantly higher than 4.2% in the year earlier period. Food inflation increased by 9.8% y-o-y as of mid-February 2020 with significant increase in the prices of vegetables, spices and alcoholic beverages. Food prices elevated owing to late monsoon and disruption in supply channel. The temporary closure of international borders over COVID-19 concern has already nudged up food prices. The average annual inflation in FY2020 could be higher

than the anticipated 6.0% if the situation further worsens due to COVID-19 pandemic.

7. Merchandise trade deficit narrowed by 4.9% y-o-y in the first seven months of FY2020 after widening by 15.0% in the year-earlier period. The deficit contracted on higher export growth particularly of palm oil and cardamom to India and reduced import of construction materials, vehicles and petroleum products. The improved trade balance has helped contain current account deficit to \$1.0 billion in the fiscal year through mid-February 2020 from \$1.5 billion in the corresponding period a year earlier. The suppressed current account deficit and relatively elevated financial inflows led to an overall balance of payment surplus of \$191.1 million in mid-February 2020 compared to the deficit of \$431.7 million in the year earlier period. The deficit is forecast to narrow from 7.7% of GDP in FY2019 to 5.4% on shrinking imports of petroleum products, capital and consumer goods. International trade has substantially slowed during the period of lockdown. Nonetheless, the deficit could further widen if remittances fall substantially in the last quarter of FY2020.

8. GDP growth at 6.4% is envisaged for FY2021, assuming a quick end of COVID-19 pandemic, swift recovery from this disease and a normal monsoon. A couple of large infrastructure projects, namely Upper Tamakoshi Hydroelectric of 456 MW and Gautam Buddha International Airport are most likely to be commercially operated in FY2021. Expectation of higher sub-national level spending will also stimulate growth.

9. Average annual inflation will stay moderate at 5.5% in FY2021, assuming a reversal to normal activities after the COVID-19 disruption, a better harvest, subdued oil prices and a modest uptick of inflation in India. The

current account deficit is expected to widen from 5.0% of GDP in FY2020 to 5.6% as imports of capital goods increase. The deficit will however be largely contained by lower oil prices, a gradual reduction in the import of fossil fuel with better electricity supply, and higher hydroelectricity exports to India.

10. Downside risks to the outlook in FY2021 are the pervasiveness of COVID-19 pandemic that could paralyze the economy if the disease persists for long. Natural hazards like erratic monsoons and floods could depress farm output and damage infrastructure. Persistent capacity deficiencies regarding project and program execution at the provincial and local levels will weaken sub-national spending. Exogenous shocks such as COVID-19 pandemic will weaken global demand, affecting out-migration for foreign employment and putting pressure on Nepal's external stability.

11. This edition of Macroeconomic Update sheds light on intraregional trade and investment in South Asia with a focus on Nepal. Intraregional trade and investment in South Asia have been historically low. Intraregional trade has hovered at slightly above 5.0% of South Asia's total trade, below its true potential. Intraregional FDI is mere 1.1% of total outward FDI in South Asia. Even with zero tariff rates, cross-border trade in South Asia is not hassle-free. Traders and investors are faced with bureaucratic inefficiencies related to several documentation, customs protocol, and highly restrictive visa regulations, among others. This chapter discusses Nepal's prospects of attracting more FDI from within the region particularly in the context of greater domestic political stability and recently enacted legal reforms. The chapter concludes with policy recommendations for furthering intraregional investment in South Asia.

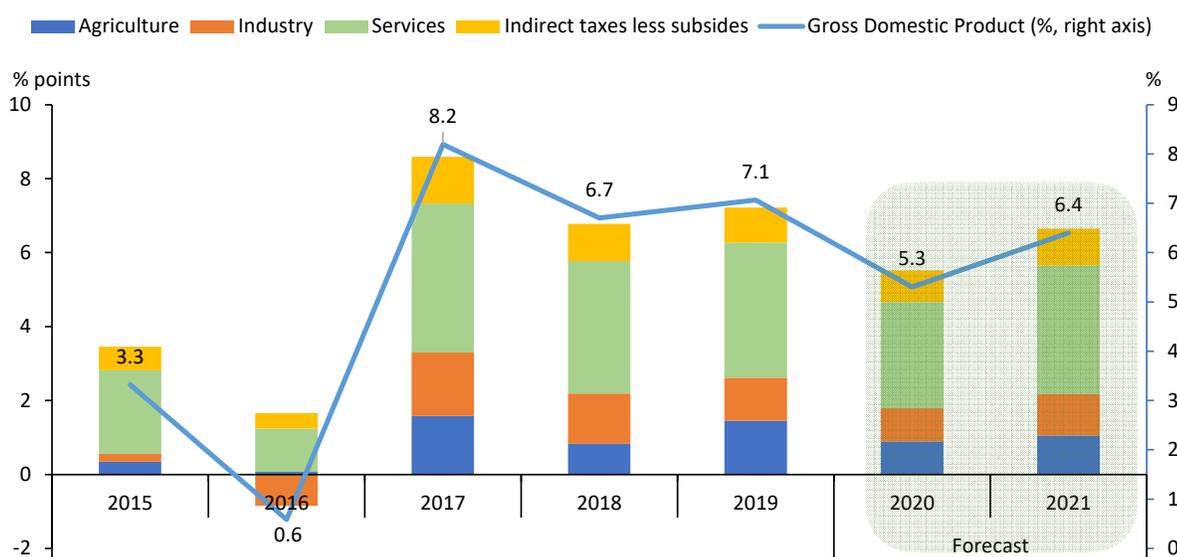
MACROECONOMIC UPDATE

A. Economic Performance in FY2019

1. Gross Domestic Product (GDP) growth edged up to an estimated 7.1% in fiscal year 2019 (FY2019, ended 16 July 2019) from 6.7% a year earlier. Accelerated post-earthquake reconstruction, bumper harvest, better management of electricity supply and stepped-up tourists' arrivals supported growth (Figure 1). Industry, providing 15.2% of GDP, grew by 8.1% on a favorable socio-political environment and an increased availability of electricity. Services, contributing slightly over half of GDP, picked up by 7.3% on higher inflow of remittances that supported retail trade and a buoyant tourists' arrival which favored hotel and restaurant and travel and communication.

2. On the demand side, high consumption induced by remittance growth dominated spending in 2019, to account for an estimated 80.0% of GDP. Private investment mostly on energy and services accelerated by 27.0% to account for slightly below a third of GDP. Public investment

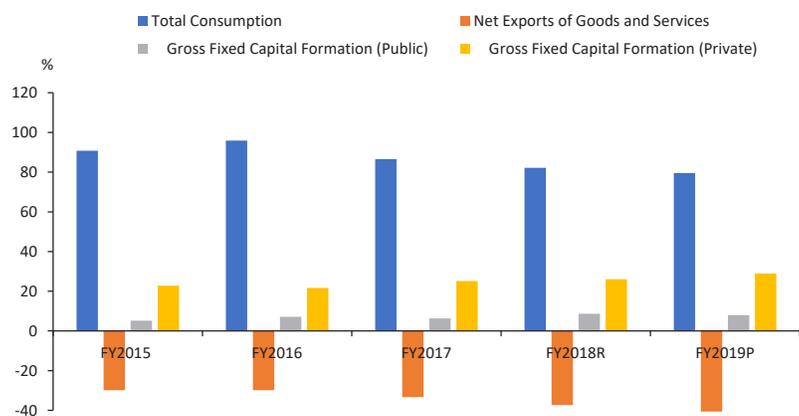
Figure 1: Supply-side contributions to growth



Note: Years are fiscal years ending in mid-July

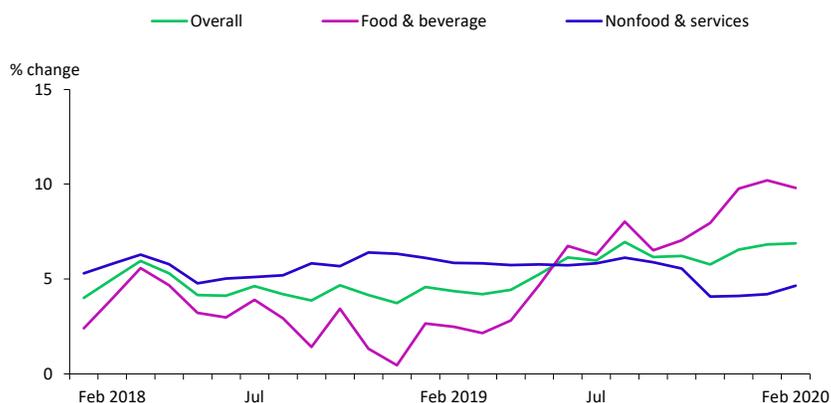
Source: Central Bureau of Statistics, 2019. National Accounts of Nepal 2018/19 . <http://cbs.gov.np/> and staff estimates

Figure 2: Share of GDP by expenditure



Note: Years are fiscal years ending in mid-July
 Source: Central Bureau of Statistics. 2019. National Accounts of Nepal 2018/19 . <http://cbs.gov.np/> and staff estimates

Figure 3: Monthly inflation



Source: Nepal Rastra Bank. 2020. Recent Macroeconomic Situation. <http://www.nrb.org.np>

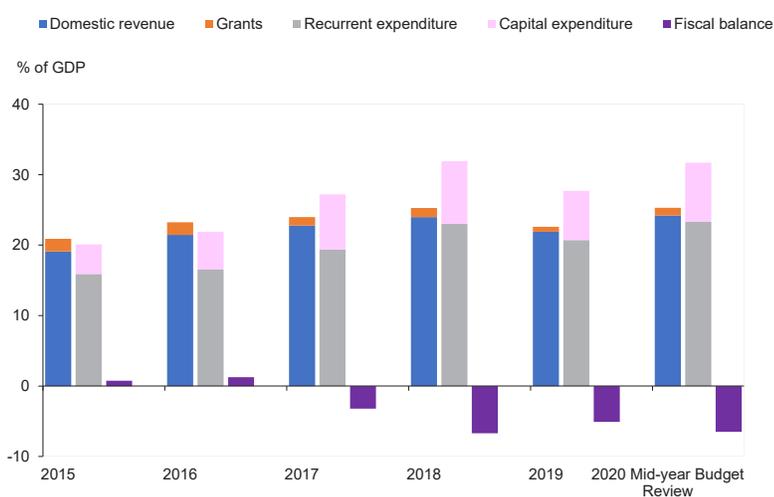
however increased by mere 5.5% after rising by 54.2% a year earlier, owing to delays in the construction of national pride projects. Net exports were a drag on growth as trade deficit widened in the fiscal year (Figure 2).

3. Inflation inched up to 4.6% in FY2019 from 4.2% a year earlier (Figure 3). Food inflation averaged 3.1%, up from 2.7% in FY2018 as floods and landslides in early July disrupted distribution channel. Strict tests along the Indo-Nepal border over concern on pesticides delayed food supply. Prices for clothing and footwear, housing and utilities, furnishing and household equipment and transportation and education services edged up during the year on strong demand.

4. Fiscal deficit moderated to 5.1% of GDP in FY2019, after rising to 6.7% in FY2018, on lower-than-planned capital expenditures (Figure 4). Capital expenditure decreased by 10.8% in FY2019 due to long-standing challenges tied to project readiness, procurement processes and project management. Revenue increased by 4.2% mainly on higher customs earnings from import growth and an improvement of the tax system. Reforms to custom valuation and an adoption of risk-based custom clearance and e-payment system helped enhance revenue.

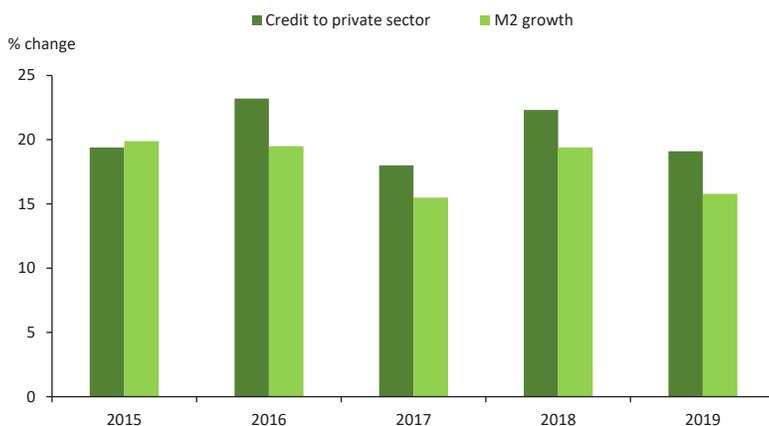
5. Growth in broad money (M2) supply moderated to 15.8% after rising by 19.4% a year earlier. Dwindling net foreign assets and a modest rise in net domestic assets slowed M2 growth (Figure 5). Credit growth to private sector decelerated to 19.1% after rising by 22.3% on

Figure 4: Fiscal indicators



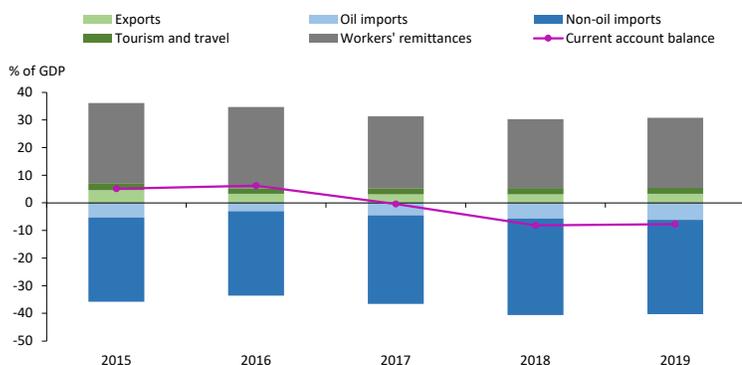
Note: Years are fiscal years ending in mid-July
Source: Ministry of Finance, Budget Speech 2020

Figure 5: Credit to the private sector and M2 growth



Note: Years are fiscal years ending in mid-July
Source : Nepal Rastra Bank, 2019, Recent Macroeconomic Situation . <http://www.nrb.org.np>

Figure 6: Current account indicators

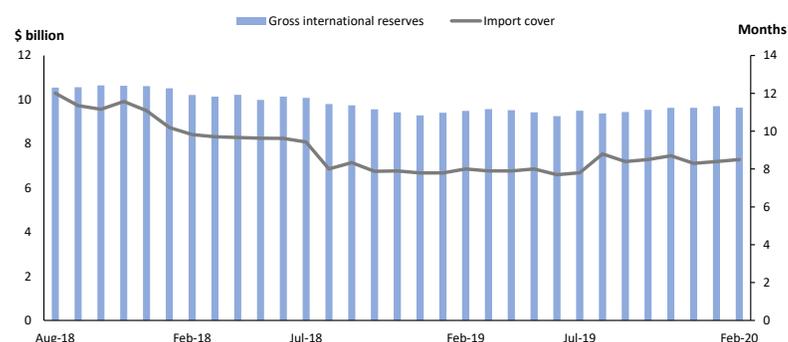


Note: Years are fiscal years ending in mid-July
 Source: Nepal Rastra Bank. 2019. Recent Macroeconomic Situation. <http://www.nrb.org.np>

higher lending rates and an intermittent liquidity crunch. Nepal Rastra Bank, the central bank, had nonetheless sought to address the liquidity shortage by lowering cash reserve ratio for banks and financial institutions.

6. Merchandise export earnings exceeded expectations with a surge in the export of palm oil and jute. But with low export base and rising import of oil and non-oil products, merchandise trade deficit widened by 4.6%. Workers' remittances increased healthily by 7.8% on depreciation of Nepali rupee vis-à-vis US dollar and a crackdown on informal means of remitting. Yet, net invisible earnings fell short of trade deficit expansion, widening current account deficit to 7.7% of GDP (Figure 6). The rising current account deficit was financed primarily by external borrowing and a drawdown of foreign exchange reserves, shrinking the reserves by 5.8% to \$9.5 billion, leaving import cover of 7.8 months in FY2019 (Figure 7).

Figure 7: Gross international reserves and foreign exchange adequacy



Source : Nepal Rastra Bank. 2020. Recent Macroeconomic Situation . <http://www.nrb.org.np>

B. Economic prospects in FY2020 and FY2021

7. GDP growth will likely moderate to 5.3% in FY2020, down from 7.1% a year earlier (Figure 1; Table 2). The slower growth centers on several key factors—one notably the global outbreak of novel coronavirus disease, also known as COVID-19. The outbreak of this disease and subsequent nationwide lockdown imposed from 24 March to 7 April have hard-hit industry and services (see Box I). Remittances in the last quarter of this fiscal year will be adversely affected by this pandemic. Growth will further shrink on lower agricultural yield, in particular of rice, which supplies nearly 7% of GDP.¹ Late monsoon, floods in early July and pest infestation in some farmlands crimped rice production.

8. Industrial output will depress owing to reduced domestic demand, further worsened by COVID-19 pandemic. Major industries like cement, iron rod, steel and brick were operating below their full potential up until the third quarter of this fiscal year. Slack in demand was partly due to winding down of post-earthquake reconstruction work that accelerated back-to-back over the last two fiscal years. Stringent policies on real estate lending also contributed to slowdown.² The industrial output has further worsened with many industries, except those producing essential goods and services, being temporarily closed during this lockdown. Both supply and demand of goods and services has substantially dropped.

Table 1: Selected economic indicators (%)

	2020	2021
GDP growth	5.3	6.4
Inflation	6.0	5.5
Current account balance (share of GDP)	-5.0	-5.6

Source: ADB estimates

¹ Rice production is estimated to drop by 1.05% in FY2020 compared to a year earlier.

² Stringent measures enforced by Central Bank in relation to personal, home and hire purchase credit has resulted in lower auto sales and home purchases. Consequently, personal home loan grew at a decreasing rate of 14.7% y-o-y as of mid-February 2020 after rising by 16.9% in the year earlier period. Hire purchase credit decreased by 0.6% y-o-y in mid-February 2020 after rising by 13.6% in the year earlier period.

Box 1: Economic Impact of COVID-19 Pandemic on Nepal³

The outbreak of a new coronavirus disease, also known as COVID-19, has panicked the whole world and crippled the global economy. The disease was first identified in early January 2020.⁴ Since then the disease has spread in 199 countries and territories currently infecting 5,46,934 individuals.⁵ The fatalities from this disease stands at 35,004. Given the huge number of fatalities and a sustained risk of further global spread, the World Health Organization (WHO) declared the disease a pandemic on 11 March 2020.⁶ The WHO has urged economies to implement precautionary measures to contain the spread of COVID-19 and test for any suspicious cases. There have been five COVID-19 cases in Nepal.⁷ While one has already recovered from this disease, the remaining patients are under treatment.

COVID-19 pandemic will hard hit Nepal's tourism industry. With the outbreak of disease, tourist arrivals dipped by 2.0% y/y in January 2020 and 1.0% y/y in February 2020. Hotels and restaurant have been shut temporarily. Overall, travel receipts which supply about 2.0 to 3.0% of GDP will decline this fiscal year. However, the extent of decline will depend on the persistence of this disease. The fall could be more if there is a wide and prolonged outbreak of this disease.

Remittance income will be severely affected due to COVID-19 pandemic. The income fell by 0.2% y/y in mid-February 2020 after rising by 16.0% in the year earlier period. Remittance income, about \$ 8 billion per fiscal year, or 26% of GDP, is one of the major sources of foreign earnings. A sharp decline of remittance will undermine Nepal's external stability.

International trade will be adversely affected with the temporary closure of borders. Only essential goods such as food and medicine are being imported. Commodity prices particularly of food and beverages has risen on account of supply chain disruptions.

Decreased remittance income compounded by a fall in tourism receipts will weaken domestic demand. Domestic spending particularly on travel and recreation will plunge this fiscal year because of COVID-19 pandemic. Again, the extent of weakening will rest on the persistence of this disease. The decline could be more if there is a wide and prolonged outbreak of the COVID-19 pandemic.

This assessment of COVID-19 on Nepalese economy builds on three scenarios. The first scenario is based on the current situation faced by Nepal and policy measures implemented thereof. The nationwide lockdown imposed from 24 March to 7 April has brought major economic activities to a standstill. Manufacturing industries have closed their operations during the lockdown. Only those industries producing essential items such as medical supplies, food and dairy products have continued their business operations. Offices remain closed, except those providing essential services such as healthcare and customs. Domestic and international trade has substantially slowed during the lockdown. Supply of goods and services has plummeted, and demand as well, reflecting economic slowdown. Demand will also plummet, reflecting

Table 2: Loss Measured in Constant Prices (NRs Million)

	Scenario I	Scenario II	Scenario III
Agriculture	1069.8	1663.7	2733.5
Loss as a percentage of sector GDP	0.4	0.6	1.0
Industry	1721.4	3552.2	4234.5
Loss as a percentage of sector GDP	1.3	2.6	3.1
Services	5763.9	8640.1	9982.0
Loss as a percentage of sector GDP	1.2	1.8	2.1
Wholesale and retail trade	1835.1	3145.9	3801.3
Loss as a percentage of sector GDP	0.4	0.7	0.8
Hotel and restaurant	442.8	590.3	664.1
Loss as a percentage of sector GDP	0.09	0.1	0.1
Transport, storage and communications	450.2	2251.0	2701.2
Loss as a percentage of sector GDP	0.1	0.5	0.6
Total Loss (Economy-wide)	8555.1	13856.0	16950.1
Total loss as a percentage of GDP	1.0	1.6	2.0

Source: NRM staff estimates

economic slowdown. If this situation normalizes soon and the lockdown is removed from 8 April, then the loss to the economy may restrict to about 1.0% of GDP (Table 2).

The second scenario assumes that the nationwide lockdown will further prolong for weeks. While import of essential goods may continue during this period, all other economic activities will be severely affected. Foreign earnings will be hard-hit. Domestic production will be badly affected. Hundreds of thousands of people living on daily wages may be pushed to further poverty due to prolonged shut-down of the economy. Remittance income will substantially fall as out-migration will be totally discontinued. Under this scenario, the economy will lose about 1.6% of GDP (Table 2).

The third scenario assumes the further prolongation of the nationwide lockdown for 1–2 months with the sporadic rise of COVID-19 cases in Nepal. This will put pressure on Nepal's relatively weaker health systems.⁸ Under this scenario, the economy will lose about 2.0% of GDP (Table 2).

Government responses:

With a rapid surge of COVID-19 cases and increasing fatalities globally, the government of Nepal announced a series of measures to restrict the spread of virus in the country. On 20 March 2020, the government announced the following measures to contain the spread of coronavirus:⁹

- Suspension of all international flights from March 22 to 31 March 2020;
- Closure of all public and private offices from March 22 to April 3 except those providing emergency services;
- Halting the operation of long-route public buses from March 23 until further notice;
- Sealing all land border crossings from March 23 to 29; and
- Contribution of NRs 100 million or about \$ 1.0 million to the recently established SAARC fund to combat COVID-19 pandemic.

On 23 March 2020, the government further announced a nationwide lockdown for a week from 24–30 March 2020.¹⁰ The government also established a Central Relief Fund of about \$5.0 million to combat the COVID-19 pandemic. This nationwide lockdown has been further extended until 7 April 2020.

On 29 March 2020, the government announced relief package to combat the effects of COVID-19 pandemic. Selected measures under the relief package are:

- Local bodies will distribute food to needy ones during this period of pandemic.
- Employers will have to pay salaries of their workers during the period of lockdown. However, they can utilize welfare fund for such compensation.
- Tourism enterprises must pay wages of their staff for the month of Chaitra i.e. mid-March to mid-April.
- Workers' contributions to social security fund for Chaitra (mid March to mid April) that were to be deposited by employees and employers will now be deposited by the government.
- Information regarding people who could not depart for foreign employment despite receiving permission will be collected. Individuals will be provided employment opportunities through local bodies. They will be registered at the Local Level Employment Service Center and provided employment opportunities through Prime Minister Employment Program.
- The government has requested private house owners to waive off a month home rent for organized workers residing in urban areas. In return, the government has announced to waive off the rental tax for that period.
- Consumers will be entitled to a 10% discount on purchase of food items from government owned food companies.
- Nepal Telecom will provide a 25 percent discount on internet services during the period of lockdown.
- Private telecommunication companies must also provide such discount on data and voice call charges during the period of lockdown.
- Nepal Electricity Authority will provide a discount of 25% on electricity tariff for a month (mid-March to mid-April) to households consuming 150 units of electricity.
- Late fees shall not be levied on utility bills for the previous two months (mid-February to mid-April) if paid by mid-May.
- An insurance package of Rs 2.5 million will be provided to healthcare and security personnel involved in treating and managing COVID-19 patients.
- Import of health and medical equipment by government, private and community sectors will be exempted from custom duties until further notice.
- The tax payment deadline of 12 April for businesses has been extended until 7 May.

Source: Ministry of Finance.

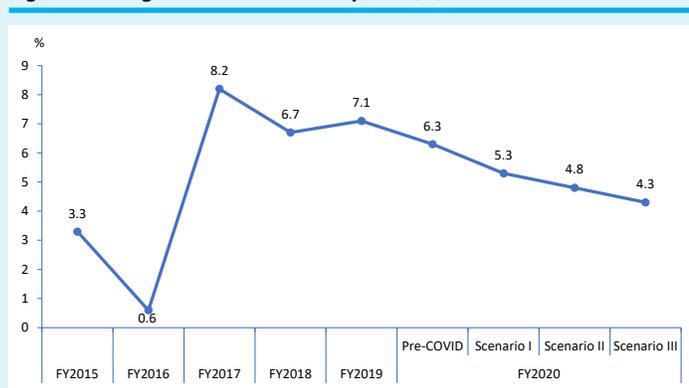
On 29 March 2020, the Central Bank announced following policy measures in relation to COVID-19 pandemic:

- To inject liquidity into the economy, cash reserve ratio for commercial banks, development banks and finance companies has been reduced by 100 basis points to 3.0%.
- Bank rate reduced by 100 basis points to 5.0%.
- The standing liquidity facility or the ceiling rate has been reduced by 100 basis points to 5.0%. The repo and floor rates also reduced by 100 basis points each to 3.5% and 2.0%, respectively.
- Monthly amortization (principal and interest payments) on loans can be deferred until the end of FY2020 (mid-July). No penal charges and penal interest shall be levied on such loans.
- Tourism and Transport entrepreneurs, who have been regularly paying monthly installment of their loan, will be eligible for short-term loans, if needed. Such loans shall be processed within 5 days of application.
- Loans sought for the import, distribution and sale of medical equipment approved by the Department of Health Service and essential items such as food shall be processed within 5 days of application.
- Workers who could not depart for foreign employment due to this pandemic despite receiving permission earlier shall be eligible for subsidized loan to initiate their own businesses. Once the pandemic ends, they can apply for loans that will be approved within 7 days of application.
- Small and Medium Enterprises affected by COVID-19 will be prioritized for Refinancing facility.

Source: Nepal Rastra Bank

Economic growth in FY2020 is anticipated to contract from pre-COVID estimate of 6.3% to 5.3%. However, growth could further contract if the economic and financial crisis deepens due to this pandemic (Figure 8). The impact on livelihood of daily wagers and informal workers could be huge if the situation persists for much longer period.

Figure 8: GDP growth rate at market prices (%)



Source: NRM staff estimates

3 This analysis does not delve into the scenario of a significant outbreak of COVID-19 in Nepal.

4 ADB. (2020). The Economic Impact of the COVID-19 Outbreak on Developing Asia. For details, please see: <<https://www.adb.org/sites/default/files/publication/571536/adb-brief-128-economic-impact-covid19-developing-asia.pdf>>

5 This information is as of 30 March 2020. For details, please see: <<https://www.worldometers.info/coronavirus/>>

6 For details, please see: <<https://time.com/5791661/who-coronavirus-pandemic-declaration/>>

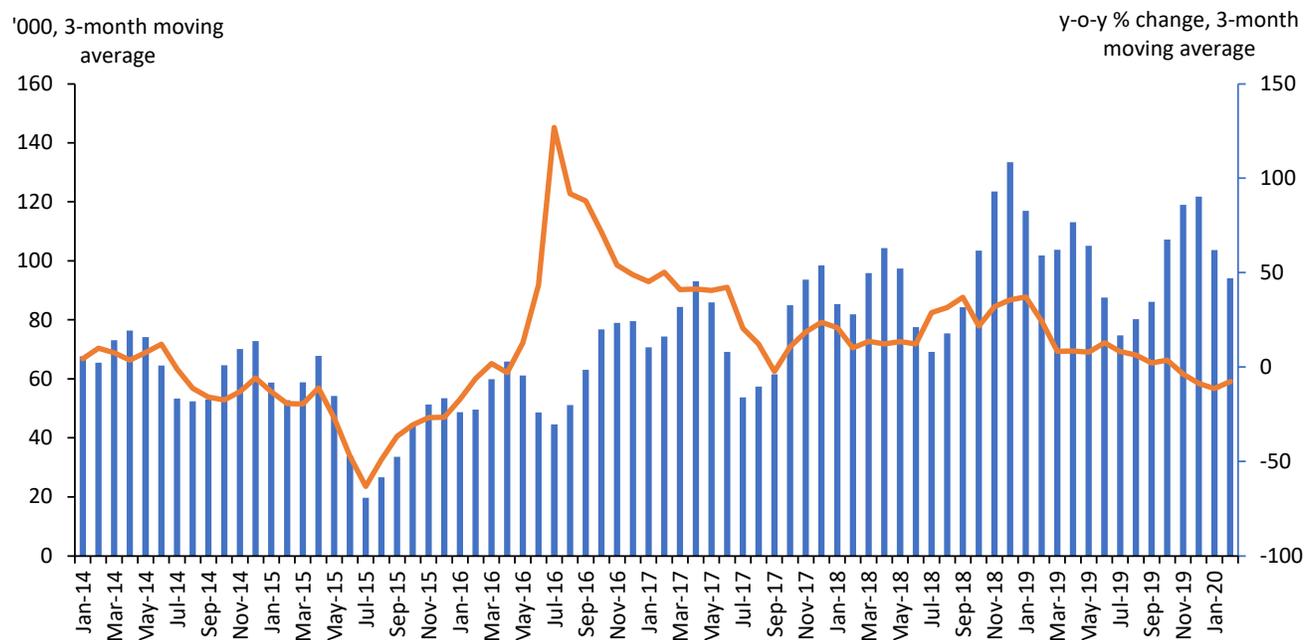
7 As of 30 March 2020. As per the Ministry of Health and Population, Government of Nepal.

8 The government has begun the process of procuring medical kits, supplies and building quarantine facilities to face any such crisis arising out of COVID-19 pandemic.

9 For details, please see: <<https://english.onlinekhabar.com/nepal-suspends-all-international-flights-from-sunday-long-route-public-buses-from-monday.html>>

10 For details, please see: <<https://www.spotlightnepal.com/2020/03/24/nepals-lockdown-begins-till-march-31/>>

Figure 9: Tourist arrival

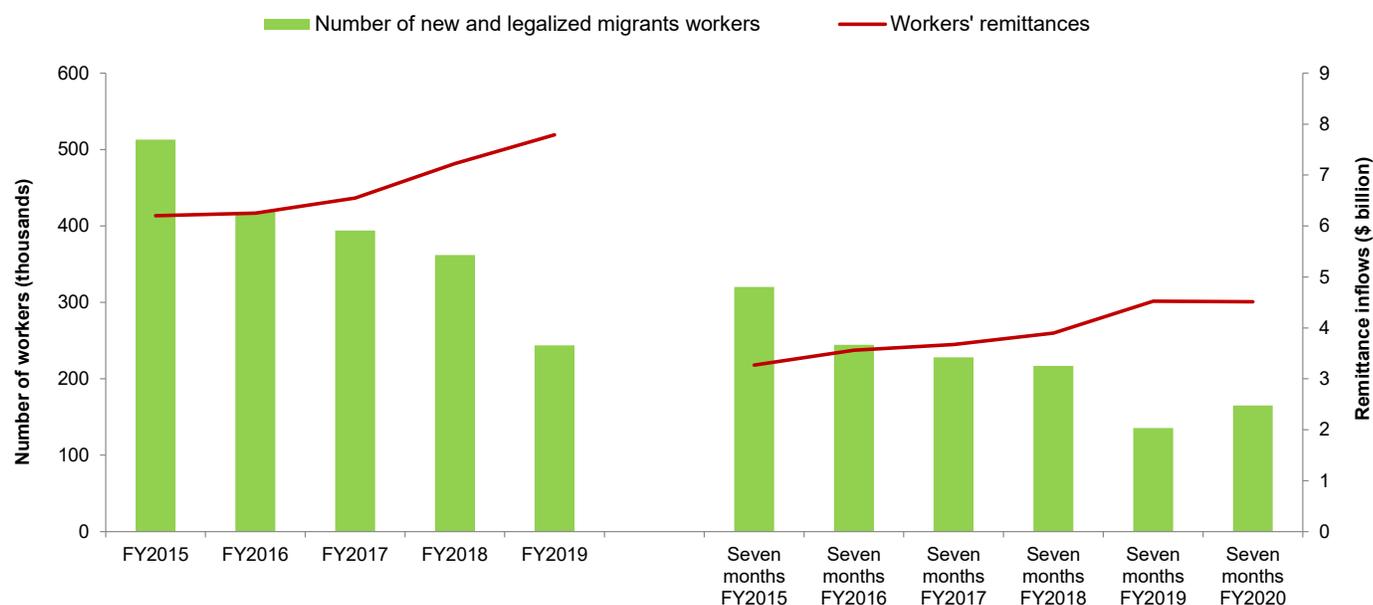


Source : Nepal Rastra Bank, 2020. Recent Macroeconomic Situation . <http://www.nrb.org.np>

9. Services growth will wane this fiscal year with a slowdown in tourists' arrival. The global outbreak of COVID-19 will negatively impact Nepal's tourism. February 2020 arrivals from all markets were 1.0% lower than a year earlier (Figure 9).

10. Private consumption growth will stumble on the back of diminishing remittance growth and recent depreciation of Nepali rupee vis-à-vis US dollar, eroding purchasing capacity. Despite an increased outmigration for foreign employment, workers' remittances contracted by 0.2% y-o-y in mid-February 2020 after rising by 16.0% in the year earlier period (Figure 10). Remittances will be adversely affected in the last quarter of this fiscal year as out-migration for foreign employment has completely ceased during this global pandemic. Budget execution of national pride projects in the first seven months of FY2020 has been very tepid, contracting fixed investment. Data to mid-February 2020 show that while capital expenditure accelerated from 6.7% y-o-y to 7.2% a year later, execution, however, plunged by 3.5% points (Figure 11). Project implementation will be severely affected in the last quarter due to COVID-19 pandemic.

Figure 10: Number of Migrants and Remittance Inflows

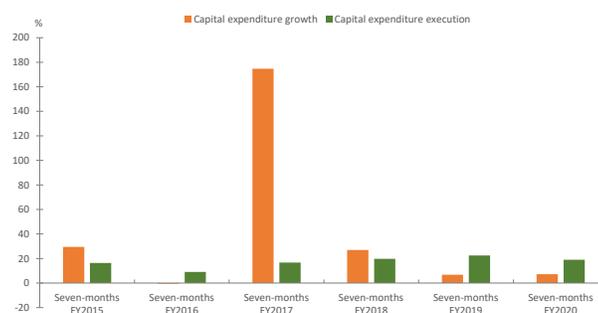


Source: Department of Foreign Employment; Nepal Rastra Bank

11. Revenue mobilization increased by 26.6% y-o-y in the first seven months of FY2020, up from an increase of 2.0% in the year earlier period (Figure 12). Revenue collection increased primarily on higher customs earnings, thanks to Custom Reforms and Modernization for Trade Facilitation Program. Improvements in tax administration, advances in custom valuation procedures, adoption of risk-based custom clearance and implementation of e-payment system helped raise revenue mobilization. The midyear review of the FY2020 budget envisages a deficit of about 6.5% of GDP, but it will likely be lower as capital expenditure continues to underperform allocation. Moreover, COVID-19 pandemic has affected the implementation of ongoing projects. The temporary nationwide lockdown imposed from 24 March to 7 April has further raised uncertainty with regard to project implementation.

12. The external debt increased by 6.2% to NRs 631.4 billion (18.2% of GDP) in the first quarter of FY2020. The internal debt only marginally increased by 0.06%, reflecting the early improved fiscal balance. The total public debt increased by 3.5% to NRs 1,084.9 billion (31.3% of GDP) in the first quarter of the fiscal year 2020. Nepal nonetheless faces low debt distress given the high level of official concessional borrowing at longer maturity.

Figure 11: Capital expenditure growth and execution



Note: Years are fiscal years ending in mid-July
Source: Ministry of Finance, Budget speech various years; Financial Comptroller General Office

13. Merchandise trade deficit narrowed by 4.9% y-o-y in mid-February 2020 after widening by 15.0% in the year-earlier period. The deficit contracted on higher export growth particularly of palm oil and cardamom to India and reduced import of construction materials, vehicles and petroleum products. The improved trade balance has helped contain current account deficit to \$1.0 billion in the fiscal year through mid-February 2020 from \$1.5 billion in the corresponding period a year earlier (Figure 13). The suppressed current account deficit and relatively elevated financial inflows led to an overall balance of payment surplus of \$191.1 million in mid-February 2020 compared to the deficit of \$431.7 million in the year earlier period. The deficit is forecast to narrow from 7.7% of GDP in FY2019 to 5.4% on shrinking imports of petroleum products, capital and consumer goods. Further with the global outbreak of COVID-19 pandemic, international trade has substantially slowed during the period of lockdown.

14. Average annual inflation will inch up to 6.0% in FY2020, up from 4.6% a year earlier. Headline inflation has averaged 6.5% in the first seven months of FY2020, significantly higher than 4.2% in the year earlier period. Food inflation increased by 9.8% y-o-y as of mid-February 2020 with significant increase in the prices of vegetables, spices and alcoholic beverages. Food prices elevated owing to late monsoon and disruption in supply channel.¹¹ The temporary closure of international borders over COVID-19 concern has also nudged up food prices. Prices of non-food items such as clothing and footwear, furnishing and household equipment and healthcare services also increased in the fiscal year through mid-February 2020. Rising inflationary pressure in neighboring India too has a direct bearing on Nepal's inflation as nearly two-thirds of Nepal's international trade is with India.

15. GDP growth at 6.4% is envisaged for FY2021, assuming a quick end of COVID-19 pandemic, swift recovery from this disease and a normal monsoon. A couple of large infrastructure projects, namely Upper Tamakoshi Hydroelectric of 456 MW and Gautam Buddha International Airport are most likely to be commercially operated in FY2021. Expectation of higher sub-national level spending will also stimulate growth.

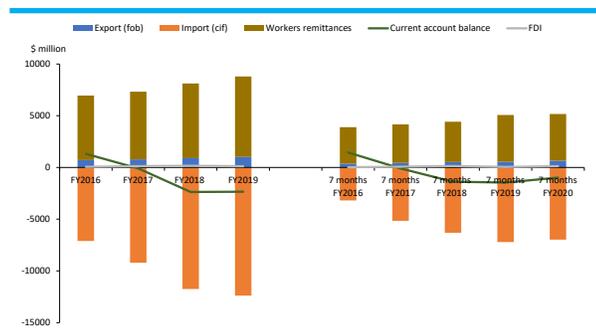
16. Average annual inflation will stay moderate at 5.5% in FY2021, assuming a better harvest, subdued oil prices and a modest uptick of inflation in India. The current account deficit is expected to widen from 5.0% of GDP in FY2020 to 5.6% as imports of capital goods surge. The deficit will however be largely contained by lower

Figure 12: Revenue growth and realization



Note: Years are fiscal years ending in mid-July
Source: Ministry of Finance, Budget speech various years; Financial Comptroller General Office

Figure 13: External sector



Source: Nepal Rastra Bank

¹¹ Floods and landslides in early July disrupted supply channels of goods and services.

oil prices, a gradual reduction in the import of fossil fuel, and higher hydroelectricity exports to India.

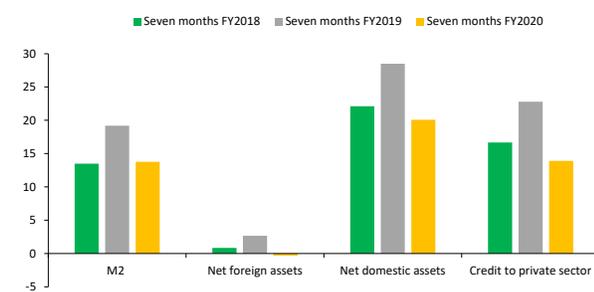
17. Monetary Policy for FY2020 aims at containing inflation within 6.0% via maintaining broad money (M2) supply growth at 18.0% while prioritizing interest rate stability. M2 expanded by 13.8% y-o-y on higher domestic credit in the fiscal year through mid-December 2019, after rising by 19.2% a year earlier (Figure 14). However, credit to private sector increased by only 13.9% in the fiscal year through mid-February 2020 after rising by 22.8%, reflecting a sluggish credit expansion and dampened demand.¹² Growth in deposit collection of banks and financial institutions stumbled in the fiscal year through mid-February 2020. It increased by 15.5% y-o-y after rising by 21.3% in the year earlier period owing to a decline in remittance growth and a slow public expenditure in the first seven months of FY2020 (Figure 15). Credit disbursement of banks and financial institutions also slowed in the fiscal year through mid-February 2020 owing to a slack in demand. (Figure 16). Both deposit collection and credit disbursement will be adversely affected in the fourth quarter of this fiscal year by COVID-19 pandemic. With the fall in remittances, growth in deposit collection will decline. With majority of industries, businesses and offices closed during this nationwide lockdown, credit demand will plunge.

18. To address short-term interest rate volatility, an interest rate corridor (IRC) had been implemented since FY2017. The standing liquidity facility (SLF) or the ceiling rate¹³ was lowered by 50 basis points to 6.0% in FY2020, and policy and floor rates fixed at 4.5% and 3.0%, respectively, narrowing the IRC width.¹⁴ Data as of mid-February 2020 show that the interbank interest rates hovered around 4.6%, maintaining short-term interest rate stability (Figure 17). With the global outbreak of COVID-19, the Nepal Rastra Bank has introduced policy measures to combat economic slowdown arising from this pandemic (see Box I).

19. The weighted average deposit and lending rates of commercial banks are gradually stabilizing with the interest rate spread moderating toward 5.1%, albeit still higher than the mandated spread of 4.4% by mid-July 2020 (Figure 18).

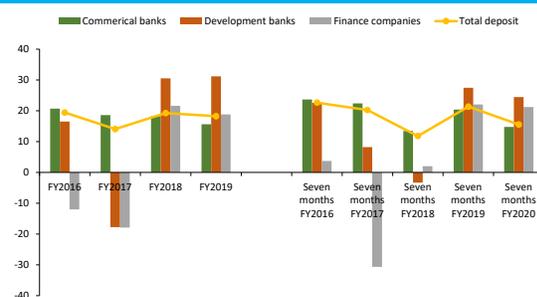
20. Possible downside risks to outlook in FY2021 are the pervasiveness of COVID-19 pandemic that could paralyze the economy if the disease persists for long. Natural hazards like erratic monsoons and floods could depress farm output and damage infrastructure.

Figure 14: Monetary sector (y-o-y % change)



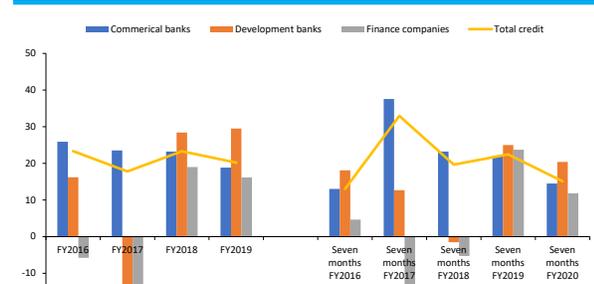
Source: Nepal Rastra Bank

Figure 15: Growth in deposit collection (y-o-y % change)



Source: Nepal Rastra Bank

Figure 16: Credit disbursement of BFIs (y-o-y % change)



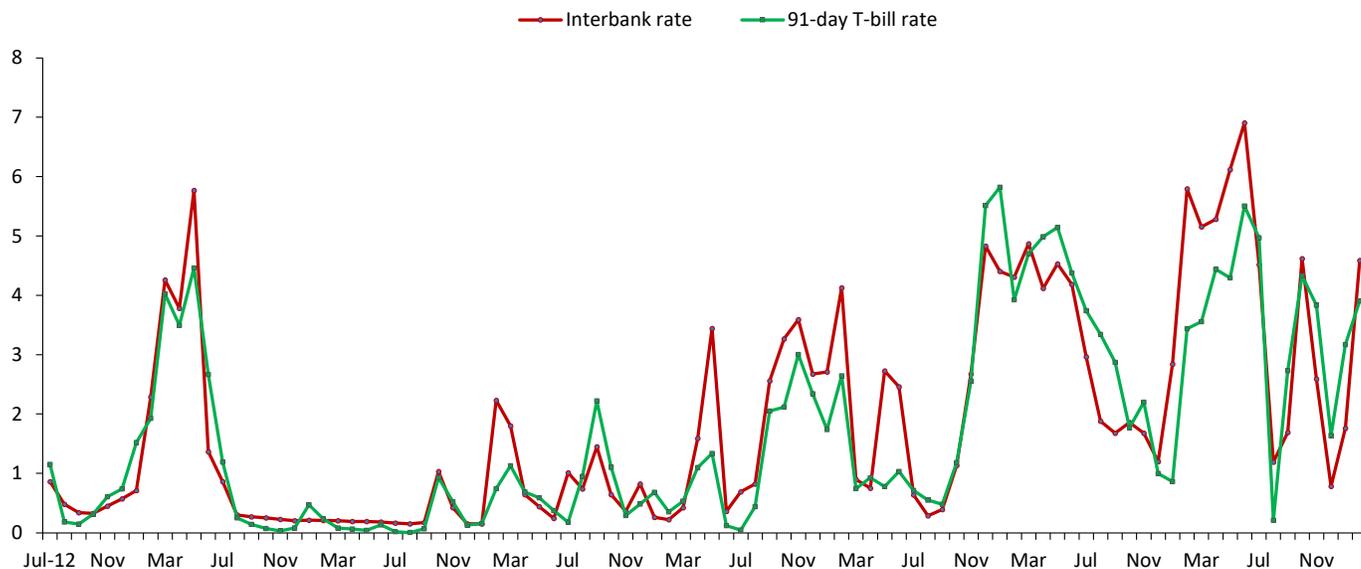
Source: Nepal Rastra Bank

¹² Of the total sector wise credit, wholesale and retail trade, production and construction constituted the biggest shares at 20.7%, 16.6% and 10.7%, respectively in the first 7 months of FY2020.

¹³ This is the upper limit of the interest rate corridor.

¹⁴ The repo facility is for overnight and deposit collection at floor rate is for a week.

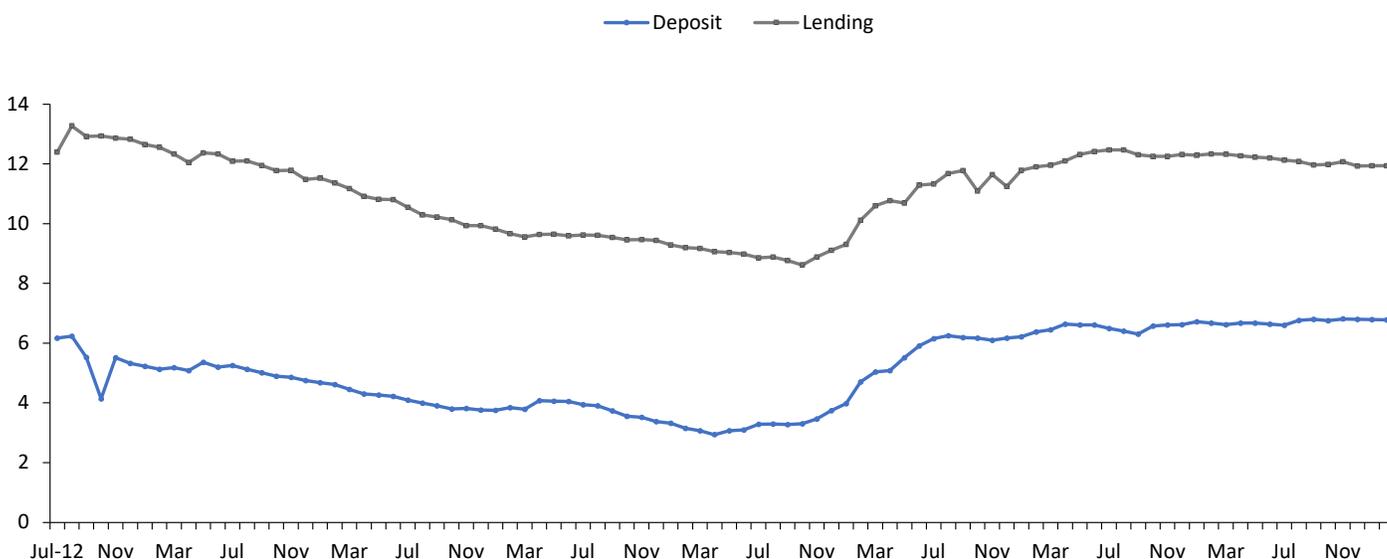
Figure 17: Weighted average rates



Source: Nepal Rastra Bank

Capacity deficiencies regarding project execution and grant utilization at provincial and local levels will weaken sub-national spending. Lack of fiscal prudence and accountability may undermine Nepal’s aspiration of high economic growth and poverty reduction. Exogenous shocks such as COVID-19 will weaken global demand, affecting out-migration for foreign employment and putting pressure on Nepal’s external stability.

Figure 18: Weighted average rates (commercial banks)



Source: Nepal Rastra Bank

THEME CHAPTER

Intraregional investment in South Asia: A Case of Nepal

A. Introduction

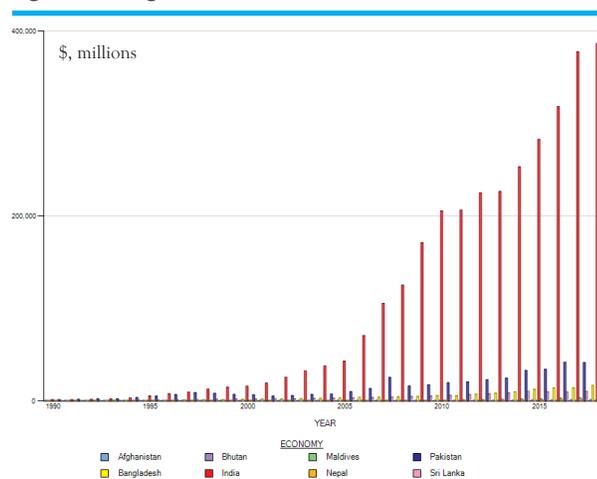
1. Intraregional trade and investment in South Asia have been historically low largely owing to trust deficit and a multitude of barriers (Chatterjee and George (eds.) 2012 and Kathuria (ed.) 2018). Intraregional trade has hovered at slightly above 5.0% of South Asia's total trade, below its true potential (Kathuria (ed.) 2018). Average tariffs in South Asia are much higher at 13.6% compared to East Asia and the Pacific and the world average at 7.3% and 6.3%, respectively in 2016 (Kathuria (ed.) 2018).

2. To foster collective development via economic cooperation in the region, South Asia Association for Regional Cooperation (SAARC) was established in 1985. Despite the promulgation of South Asian Preferential Trade Agreement (SAPTA) and South Asian Free Trade Area (SAFTA) in 1995 and 2006, respectively, the envisaged regional economic integration has been limited due to high level of protectionism (Kathuria and Arenas 2018). The region has lagged in achieving economic integration vis-à-vis Association of Southeast Asian Nations (ASEAN) member states (Kathuria et al. 2018).

3. In Southeast Asia, vertical integration of industries has helped promote intraregional trade and investment. Multinational companies have expanded their production networks to utilize country-specific strengths, integrating economies closer over the years (The Economist, 2016). Whereas in South Asia, such a prospect has been hindered due to 'policy fragmentation, inadequate regional transport networks and high tariff levels' (The Economist, 2016). Tariff and non-tariff barriers have dented the prospects of intraregional trade and investment. Tariff barriers persist under 'sensitive' list encompassing hundreds of products not applicable for tariff concessions.

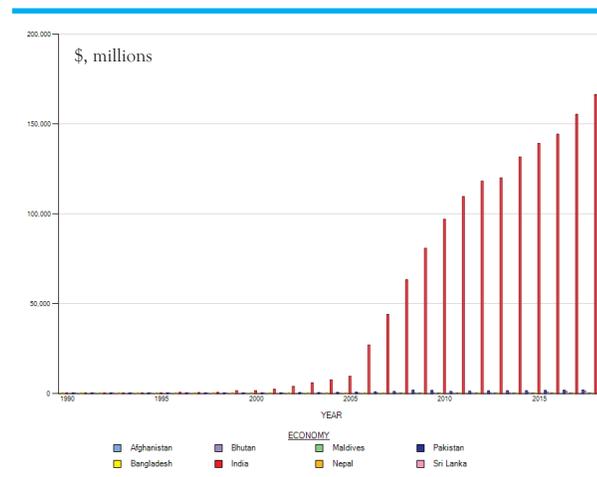
4. With the adoption of economic liberalization policies by many South Asian economies since early 1990s, the inward foreign direct investment (FDI) stock increased in South Asia (Figure

Figure 1: Foreign Direct Investment: Inward Stock, South Asia



Source: UNCTAD STAT

Figure 2: Foreign Direct Investment: Outward Stock, South Asia



Source: UNCTAD STAT

1). The outward FDI stock also increased over the years with India emerging as a key player in foreign investment (Figure 2).

5. However, intraregional investment compared with the region's total investment to world has not increased substantially. Intraregional FDI is mere 1.1% of total outward FDI in South Asia (Kathuria (ed.) 2018). Even with zero tariff rates, cross-border trade in South Asia is not hassle-free. Traders and investors are faced with bureaucratic hassles related to several documentation, customs protocol, and highly restrictive visa regulations, among others. This paper discusses Nepal's prospects of attracting more FDI from within the region particularly in the context of greater domestic political stability and recently enacted legal reforms. The paper concludes with policy recommendations for furthering intraregional investment in South Asia.

B. Case of Nepal

6. Nepal began implementing favorable policies to attract FDI with the enactment of Industrial Policy and Enterprises Act in 1987. Policies offering a 10-year tax holiday, easing visa constraints and opening of almost all sectors for foreign investment were implemented (ADB 2009). But political instability and civil unrest during 1996-2006 heavily dented the prospects of increasing foreign investment in the country. Lately, with the promulgation of Constitution in 2015, a smooth transition from unitary to a federal structure of governance and the formation of a stable government in 2018, Nepal is inclined towards political stability and economic prosperity.

7. There are select key sectors where Nepal can attract foreign investment, the major ones are hydropower and tourism. While the economically feasible potential of hydropower generation stands at 43,000 MW, about 3.0% of this potential has been harnessed so far. With a favorable socio-political environment, Nepal has lately been able to garner large foreign investment in the hydropower sector. The GMR group of India and the Investment Board of Nepal (IBN) had signed an agreement for the development of Upper Karnali hydropower project of 900 MW in 2014. This is an export-oriented project aimed at supplying electricity to neighboring India. The state-owned Indian developer Satluj Jal Vidyut Nigam (SJVN) Limited had signed project development agreement with IBN to develop 900 MW Arun III hydropower project in 2014. Similarly, the government of the People's Republic of Bangladesh has signed a memorandum of understanding (MOU) with the government of Nepal for purchasing hydroelectricity from Nepal and investing in hydropower development, transmission, and various types of renewable energy in 2018.

8. India is the biggest investor in Nepal with a share of about 84.5% of the total investment from South Asia. Investment from Bangladesh and Pakistan account for about 12.8% and 2.2%, respectively (Kathuria (ed.) 2018). Investments from India into Nepal have centered largely in manufacturing and services like banking, insurance and tourism. Major investments in Nepal from India have come from Dabur, ITC, Hindustan Lever Limited, CONCOR, SBI, PNB, LIC, Oriental Insurance, Asian Paints and Colgate-Palmolive (Sahoo et al. 2014). Other potential areas of intraregional investment in Nepal are automotive industry given the increasing demand for vehicles, agro-processing industry, processing of medicinal and aromatic plants, high-value low-volume cash crops such as tea, coffee, ginger and cardamom, among others (Aggarwal, 2008).

9. To promote FDI, Nepal has amended Foreign Investment and Technology Transfer Act, promulgated new acts like Public-Private Partnership and Investment Act 2018 and Special Economic Zone Act 2016 (Box I, Box II and Box III). These legal reforms have potential to attract more foreign investment mainly on the backdrop of greater political stability—a binding constraint for policy consistencies.

Box I: Selected Features of The Foreign Investment and Technology Transfer Act, 2019

- All services pertaining to foreign investment will be provided via one stop service center. Such services include approval of foreign investment, industry registration, company registration, VISA application, labor permits, income repatriation, value added tax registration, environmental impact assessment report approval and foreign exchange approval, among others.
- Approval for foreign investment must be sought from the federal government. The Department of Industry provides approval for foreign investment under approximately \$53 million. The Investment Board chaired by the Prime Minister grants approval for foreign investment above \$53 million.
- The foreign investment approving body will grant approval within 7 days of application. If permission cannot be granted, then the approving authority will have to notify the applicant stating the reasons for denial within 7 days of application.
- Once foreign investment in a sector/industry is approved, the investor must self-declare at Central Bank of Nepal that the amount to be invested has been earned through legitimate source.
- The law mandates that foreign investors in Nepal notify change in ownership of holding company's shareholders and pay applicable taxes due to change in ownership.
- The minimum threshold for FDI is revised upward and fixed at about half a million US dollar.

Source: The Foreign Investment and Technology Transfer Act, 2019

Box II: Selected Features of The Public-Private Partnership and Investment Act, 2018

- The Investment Board chaired by the Prime Minister will approve private investment worth \$53 million or above.
- The project under PPP modality will be implemented by a local government if it lies under its jurisdiction and a provincial government if it rests under the jurisdiction of provincial government.
- The concerned Ministry of the Government of Nepal will implement the PPP modality project worth up to \$53 million if it rests under the jurisdiction of the federal government.
- The Board will implement the project worth above \$53 million and hydro power projects of 200 MW.
- The Board will execute functions related to hybrid financing in areas of infrastructure building and project development.
- The Board will provide one stop service center for projects to be implemented under PPP modality.

Source: Public-Private Partnership and Investment Act, 2018

Box III: Selected Features of The Special Economic Zone Act, 2016

Income tax concession:

- Industries established within SEZs situated in high mountain and other government designated mountain districts will be 100% exempted from income tax for the first ten years of their business operations, following which, they can enjoy 50% tax concession.
- Dividend tax shall be 100% exempted for the first 5 years of their business operations, following which, 50% exemption will be applicable for another three years.
- Foreign investors are entitled to 50% tax concession on income generated from services fees or royalties via transfer and or management of foreign technology in industries established within SEZs.

Export requirements:

- Industries established within SEZs can sell their entire products in the domestic market during the first year of their business operations.
- The industries will have to export at least 60% of goods or services produced within the SEZs from their second year of business operations.

Establishment and operation of SEZs:

- The government of Nepal as per the recommendation of SEZ authority can grant permission to the private sector for establishing, operationalizing, and managing SEZs including development of necessary infrastructure.
- The government can also opt to establish and operationalize SEZs under the Public Private Partnership modality.

Value Added Tax (VAT) exemption:

- A zero percent VAT will be levied on goods and or services exported by industries established within SEZs.
- VAT exemption will also hold on raw materials sold to industries within SEZs.

Income repatriation:

- Foreign investors can repatriate foreign currencies earned from the sale of either partial or total shares held in the industry.
- Foreign investors can repatriate the dividends generated from their investments in the industries.

Source: SEZ Act, 2016 and First Amendment to SEZ Act

10. To minimize risks arising from foreign exchange fluctuations for investors, the Government of Nepal has issued Hedging Regulations 2019.¹ The following projects with foreign investment loans will be eligible for the hedging facility:

- Hydropower projects of 100 megawatt capacity or more;
- Fast-track roads of more than 50 kilometers in length;
- Rail, metro and mono railway lines of more than 10 kilometers in length;
- Electricity transmission lines of more than 30 kilometers in length with a capacity of 220 kilovolt amperes or more; and
- Other projects as specified by the Government of Nepal.

Source: Hedging Regulations, 2019

C. Way forward

11. South Asian economies have familiarity of cultures, and they enjoy similar comparative advantages in production. These similarities will benefit the region more via economic complementariness resulting from trade and investment (ADB 2009 and Athukorola 2013). Smaller economies such as Bhutan and Nepal can benefit from economies of scale by focusing on product differentiation. If South Asia focuses on intra-industry trade, then this will benefit the region by relieving from small-market size and export supply constraints (RIS 2014). For instance, If South Asian economies are better connected via tourism circuits, then mountain tourism can be promoted in Nepal, Bhutan and mountain states of India. Coastal tourism can be promoted in India, Bangladesh and Sri Lanka.

12. In the case of religious tourism, the Buddhist circuit is quite popular among the followers of Buddhism. The circuit begins from Lumbini in Nepal, the birthplace of Buddha to Bihar in India where he was enlightened and to Sarnath and Kushinagar in Uttar Pradesh in India where he delivered his first teachings and died (IFC 2014). These sites are over 2,500 years old and hence an important pilgrimage for Buddhists as well as historians, cultural and traveler enthusiasts from across the globe. The Ramayana circuit is another religious tour that has gained more traction among Hindus in Nepal and India with the commencement of direct bus service in 2018 between Janakpur in Nepal, the birthplace of Hindu goddess Sita to Ayodhya in Uttar Pradesh, India.

¹ Hedging facility will allow foreign investors to repatriate foreign income at the same exchange rate when they initially deposited foreign currency at the Central Bank of Nepal.

13. Apart from tourism, there are a wide variety of sectors such as agro-processing, textiles, pharmaceuticals, light manufacturing goods where intraregional trade and investment can be promoted. But, a favorable business climate and a good cooperation among investment promotion agencies of the economies will be instrumental (UNESCAP 2008). In Nepal, Investment Board is the focal agency for promoting foreign investment. The Board has been actively sharing information among foreign investors on potential areas of investment.

14. While legislations are important for promoting intraregional investment, their effective implementation is equally crucial. For instance, Bangladesh, Bhutan, India and Nepal had signed the intraregional Motor Vehicle Agreement (MVA) in 2015. As of now, high-level inter-governmental discussions pertaining to draft protocols on three country (Bangladesh, India and Nepal) implementation of cargo and passenger vehicles are underway. The region could benefit more from the MVA implementation as this promise to promote people-to-people connectivity, intraregional trade and investment. Similarly, to spur intraregional trade in services, SAARC Agreement on Trade in Services (SATIS) was signed in 2010. But the member countries are yet to finalize their specific liberalization commitments under SATIS (RIS 2014). Once the 'Final Offer Lists' pertaining to SATIS from all the member countries are received, the lists will be circulated among the nations. The lists will be examined by the member states and will subsequently be tabled in the 12th Meeting of the Expert Group on SATIS.

15. There have been several agreements aimed at promoting intraregional investment namely, SAARC arbitration council, multilateral agreement on avoidance of double taxation and mutual administrative assistance in tax matters. Successful implementation of such agreements will greatly facilitate intraregional trade and investment (Razzaque and Basnett (eds.) 2014). The creation of SAARC investment area should also be considered while concluding the regional agreement on Promotion and Protection of Investment (RIS 2014).

16. In sum, the region needs to improve trade facilitation via eliminating impediments to trade and simplifying trade procedures. The cost of doing business across borders in South Asia is quite high due to poor cross-border infrastructure, non-tariff measures related to standards, licensing restrictions, visa regulations, poor customs management and administrative hurdles. Therefore, customs procedures must be enhanced, standards must be harmonized, and transit procedures must be simplified for facilitation of intraregional trade and investment.

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Appendix 1: Country Economic Indicators

Item	Fiscal Year				
	2015	2016	2017	2018R	2019 ^P
A. Income and Growth					
1. GDP per Capita (\$, current)	763.6	745.2	873.5	993.9	1,036.5
2. GDP Growth (% in basic prices)	3.3	0.6	8.2	6.7	7.1 ^a
a. Agriculture	1.1	0.2	5.2	2.8	5.0 ^a
b. Industry	1.4	(6.4)	12.4	9.6	8.1 ^a
c. Services	4.6	2.4	8.1	7.2	7.3 ^a
B. Saving and Investment (current and market prices, % of GDP)					
1. Gross Domestic Investment ^b	28.0	28.7	31.4	34.7	36.9
2. Gross National Saving	44.1	40.1	46.4	47.1	52.4
C. Money and Inflation					
1. Consumer Price Index (average annual % change)	7.2	9.9	4.5	4.2	4.6 ^c
2. Total Liquidity (M2) (annual % change)	19.9	19.5	15.5	19.4	15.8 ^c
D. Government Finance (% of GDP)					
1. Revenue and Grants	20.8	23.1	24.0	25.3	22.5 ^d
2. Expenditure and Onlending	20.1	21.9	27.2	31.9	27.7 ^d
3. Overall Fiscal Surplus (Deficit) ^e	0.8	1.3	(3.2)	(6.7)	(5.1) ^d
E. Balance of Payments					
1. Merchandise Trade Balance (% of GDP)	(31.1)	(30.3)	(33.5)	(37.5)	(37.1) ^c
2. Current Account Balance (% of GDP)	5.1	6.2	(0.4)	(8.2)	(7.7) ^c
3. Merchandise Export (\$) Growth (annual % change)	(3.9)	(28.7)	9.8	16.0	11.6 ^c
4. Merchandise Import (\$) Growth (annual % change)	8.0	(7.1)	29.4	27.1	6.7 ^c
5. Remittances (% of GDP)	29.0	29.5	26.0	24.9	25.4 ^c
F. External Payments Indicators					
1. Gross Official Reserves (\$ million)	8,147.7	9,736.4	10,494.2	10,084.0	9,500.0 ^c
Months of current year's imports of goods)	11.2	14.1	11.4	9.4	7.8 ^c
2. External Debt Service (% of exports of goods and services)	8.1	9.9	10.8	8.3	8.2 ^f
3. Total External Debt (% of GDP)	16.1	17.3	15.5	17.3	17.0 ^f
G. Memorandum Items					
1. GDP (current prices, NPR billion)	2,130.2	2,253.2	2,674.5	3,031.0	3,464.3 ^a
2. Exchange Rate (NPR/\$, average)	99.5	106.4	106.2	104.4	112.9 ^c
3. Population (million)	28.0	28.4	28.8	29.2	29.6

GDP = gross domestic product; R = revised; P = preliminary
 Note: FY2019 covers 17 July 2018 to 16 July 2019.

a Based on FY2019 National Accounts Statistics. Central Bureau of Statistics

b Refers to gross fixed investment and does not include change in stocks

c Based on FY2019 annual data. Nepal Rastra Bank

d Based on FY2020 Budget Speech. Ministry of Finance; and FY2019 Income and expenditure provisional data. Financial Comptroller General Office

e Revenue and Grants minus Expenditure

f Based on FY2019 annual data. Financial Comptroller General Office

Sources: Ministry of Finance. FY2020 Budget Speech. Kathmandu; Nepal Rastra Bank. 2019. Macroeconomic Situation. Kathmandu; Central Bureau of Statistics. April 2019. FY2019 National Accounts Statistics. Kathmandu; Central Bureau of Statistics. 2014. National Population and Housing Census 2011 (Population Projection 2011 – 2031). Kathmandu; Financial Comptroller General Office.

Appendix 2: Country Poverty and Social Indicators

Item	Period					
	1990s		2000s		Latest Year	
A. POPULATION INDICATORS						
1. Population (million)	18.5	(1991)	24.8	(2006)	29.2	(2018)
2. Population growth (annual % change)	2.1		1.2		1.4	(2017)
B. Social Indicators						
1. Fertility rate (births/woman)	5.1	(1996)	3.6	(2004)	2.3	(2016)
2. Maternal mortality ratio (per 100,000 live births)	539.0	(1996)	281	(2006)	239.0	(2018)
3. Infant mortality rate (below 1 year/1,000 live births)	82.0	(1991)	48.0	(2006)	28.4	(2016)
4. Life expectancy at birth (years)	55.0	(1991)	62.0	(2001)	69.7	(2018)
a. Female	54.0	(1991)	63.0	(2001)	72.2	(2017)
b. Male	55.0	(1991)	62.0	(2001)	69.0	(2017)
5. Adult literacy (%)	35.6	(1996)	48.0	(2004)	66.8	(2017)
a. Female	19.4	(1996)	33.8	(2004)	57.2	(2017)
b. Male	53.5	(1996)	64.5	(2004)	77.8	(2017)
6. Primary school gross enrollment (%)	57.0	(1996)	122.0	(2004)	118.5	(2017)
7. Secondary school gross enrollment (%)	43.8	(2001)	54.4	(2004)	79.0	(2016)
8. Child malnutrition (% below 5 years old)	57.0		49.0	(2006)	36.0	(2016)
9. Population below poverty line (international, %)	68.0	(1996)	30.9	(2004)	18.7	(2018)
10. Population with access to safe water (%)	45.9		82.5	(2006)	92.7	(2017)
11. Population with access to sanitation (%)	22.0	(1995)	24.5	(2006)	87.6	(2017)
12. Public education expenditure (% of GDP)	2.0		2.9	(2005)	4.4	(2016)
13. Human development index	0.341		0.429	(2005)	0.574	(2017)
14. Rank/total number of countries	152/173		136/177	(2003)	149/189	(2017)
15. Gender-related development index	0.33	(1995)	0.511	(2003)	0.925	(2017)
16. Rank/total number of countries	148/163	(1995)	106/140	(2003)	149/189	(2017)
C. Poverty Indicators						
1. Poverty incidence	42	(1996)	31	(2004)	25.16	(2011)
2. Proportion of poor to total population						
a. Urban	23.0	(1996)	9.55	(2004)	15.46	(2011)
b. Rural	44.0	(1996)	34.62	(2004)	27.43	(2011)
c. Mountain	57.0	(1996)	32.6	(2004)	42.77	(2011)
d. Hills	40.7	(1996)	34.5	(2004)	24.32	(2011)
e. Terai	40.3	(1996)	27.6	(2004)	23.44	(2011)
3. Poverty gap	11.75	(1996)	7.55	(2004)	5.43	(2011)
4. Poverty severity index	4.67	(1996)	2.7	(2004)	1.81	(2011)
5. Inequality (Theil Index)	
6. Multidimensional poverty index ¹		0.116	(2015)

... = not available, GDP = gross domestic product,

Sources:

Central Bureau of Statistics. 2012. National Population and Housing Census 2011. Kathmandu; Central Bureau of Statistics. 2014. National Population and Housing Census 2011 (Population Projection 2011-2031). Kathmandu; Central Bureau of Statistics. 2017. Annual Household Survey 2016/17. Kathmandu; Ministry of Health. 2017. Nepal Demographic and Health Survey 2016. Kathmandu; United Nations Development Programme. 2018. Human Development Report 2018. New York; Central Bureau of Statistics. 2011. Poverty in Nepal (2010/11). Kathmandu; Ministry of Finance. 2019. Budget Speech of FY2019/20. Kathmandu; World Bank. World Development Indicators database. <https://data.worldbank.org/> (accessed 1 July 2019).

1 UNDP replaced Human Poverty Index with Multidimensional Poverty Index from Human Development Report 2011.



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