



Macroeconomic Situation of Nepal, Covid-19 Pandemic and Policy Responses

Nepal Country Paper



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Presentation Outline

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Current Macroeconomic Situation

❑ Real Sector

Heading (Growth rate and ration in %)	2016/17	2017/18	2018/19	2019/20	2020/21
Nominal GDP (Rs. in billion)	3077	3456	3859	3915	4266
Nominal GDP (US\$ in billion)	29.0	33.1	34.2	33.7	36.2
Nominal Percapita GNI (US\$)	1009	1138	1159	1126	1191
RGDP Growth (at basic prices)	8.6	7.4	6.4	-2.1	3.9
Gross Fixed Capital Formation/GDP	30.6	32.4	33.8	28.4	27.3
Gross Domestic Savings/GDP	13.0	14.8	15.3	6.3	6.6

- ❑ **RGDP** growth turned **negative** (-2.1%) in the last fiscal year owing to **Covid-19** pandemic.
- ❑ The **second wave** of Covid-19 adding **downside risks** to economic growth (preliminary estimates of 3.9% for 2020/21).
- ❑ Lower saving-gdp ratio indicating wider **resource gap**.



Current Macroeconomic Situation...

❑ Price

Headings (Annual % change)	2015/16	2016/17	2017/18	2018/19	2019/20	10 Months	
						2019/20	2020/21
CPI (y-o-y)	10.4	2.7	4.6	6.0	4.8	5.8	3.7
Average CPI	9.9	4.5	4.2	4.6	6.2	6.5	3.5
National Wholesale Price Index (y-o-y)	6.2	0.9	2.1	5.4	5.6	5.2	8.1
Average Salary and Wage Rate Index	6.0	14.4	6.2	9.3	9.4	9.9	1.5

- ❑ Despite Covid-19 pandemic, CPI inflation is contained. Demand deficiency, supply measures, sluggish activities along with base effect contributed to lower inflation.
- ❑ Wholesale price index showing upward movement.
- ❑ The overall salary and wage index decelerated.



Current Macroeconomic Situation...

❑ External Sector

Headings (Annual % change)	2015/16	2016/17	2017/18	2018/19	2019/20	10 Months	
						2019/20	2020/21
Export Growth	-17.8	4.2	11.4	19.4	0.6	4.5	32.2
Import Growth	-0.1	28.0	25.8	13.9	-15.6	-13.0	22.3
BOP(-Deficit) (Rs. in billion)	189	82	1	-67	282	120.9	7.8
Current Account Balance (Rs. in billion)	140	-10	-247	-264	-34	-96.2	-247.1
Workers' Remittances (Rs. in billion)	665	695	755	879	875	680	810
FOREX Reserves (USD in million)	9736	10494	10084	9500	11646	10250	11869

- ❑ Both exports and imports gradually recovered in recent months. But, uncertainty persists after second wave of Covid-19.
- ❑ Trade deficit around 30 percent of GDP.
- ❑ Surplus BoP accompanied mainly by workers' remittances.
- ❑ Forex reserves sufficient to cover the prospective imports of goods and services for 10.3 months.



Current Macroeconomic Situation...

☐ Fiscal Sector

Headings (% change)	2015/16	2016/17	2017/18	2018/19	2019/20	10 Months	
						2019/20	2020/21
Revenue Growth (%)	17.8	26.2	18.6	15.5	0.2	-	25.4
Expenditure Growth (%)	13.1	39.3	29.9	2.1	-1.5	-	8.3
Revenue / GDP	18.6	19.9	21.0	21.8	21.5	-	-
Domestic Debt / GDP	9.0	9.2	11.3	11.7	15.7	-	-
External Debt / GDP	14.9	13.5	15.2	15.4	20.6	-	-

- ☐ Budgetary operations are affected by Covid-19 pandemic.
- ☐ **Sluggish** growth of total **expenditure** compared to resource mobilization.
- ☐ Public **debt-GDP ratio** increased to 36.3 percent.



Current Macroeconomic Situation...

❑ Monetary and Financial Sector

Headings (% change)	2015/16	2016/17	2017/18	2018/19	2019/20	10 Months	
						2019/20	2020/21
Broad Money (M2) (y-o-y)	19.5	15.5	19.4	15.8	18.1	16.1	23.4
Claims on Private Sector (y-o-y)	23.2	18	22.3	19.1	12.6	14.4	23.1
Deposits of BFIs	-	14.0	19.2	18.0	18.7	17.3	22.2
Interbank Rate of Commercial Banks	0.69	0.64	2.96	4.52	0.35	4.06	4.12
Deposit Rate of Commercial Banks	3.3	6.2	6.5	6.6	6.01	6.44	4.81
Lending Rate of Commercial Banks	8.9	11.3	12.5	12.13	10.11	10.99	8.53
Base Rate	6.5	9.9	10.47	9.57	8.5	8.9	6.8
Stock Market Capitalization/GDP	72.5	60.3	41.5	40.6	45.8	39.2	87.3

❑ Gradual pick up of **credit** growth.

❑ **Short-term interest** rates around 4 percent.

❑ Base rate in declining trend.

❑ Upward movement of **stock market**, indicated by mcap-GDP ratio



Current Macroeconomic Situation...

❑ Monetary and Financial Sector...

Based on capital and the nature of work, banks and financial institutions in Nepal are classified into 4 main categories.

A. Commercial Banks
C. Finance Companies

B. Development Banks
D. Microfinance Institutions

Number of Banks and Financial Institutions (as of mid-May 2021)		
Category	Number	Branches
Commercial Banks (A Class)	27	4693
Development Banks (B Class)	18	1016
Finance Companies (C Class)	20	264
Microfinance Institutions (D Class)	72	4625
Infrastructure Development Bank	1	-
Total	138	10,598

❑ In addition, more than 13,000 financial cooperatives are providing limited financial services.



Covid-19 Pandemic and Policy Responses

Until 21 June 2021, **649,948** people tested Covid positive and the deaths toll reached to **8,772** in Nepal.

A. Containment Measures

- ❑ Domestic and international flight suspension (March 22, 2020).
- ❑ Nationwide lockdown and closure of land boarder (March 24, 2020).
- ❑ Mandatory requirement of PCR negative report and 14-day quarantines for suspected Covid-19 cases.
- ❑ Series of lockdown and activity resumption orders based on no. of Covid-19 cases (from 1st to 2nd wave).



Covid-19 Pandemic and Policy Responses...

B. Fiscal/Budgetary Measures

- ❑ Increment in health sector spending for medical supplies, equipments, insurance coverage, quarantines, etc.
- ❑ Exemption of import duty on specified medical supplies.
- ❑ Food distribution for vulnerable group in coordination with local municipalities.
- ❑ Extension on tax-filing dadlines.
- ❑ Business continuation scheme (fund) for Covid affected business: credit facility through BFIs at 5 percent interest rate .



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures

29 March, 2020

☐ Reduction in policy rates:

CRR from 4 percent to 3 percent.

Bank rate from 6 percent to 5 percent.

Repo rate from 4.5 percent to 3.5 percent.

☐ The provision of Countercyclical Buffer suspended.

☐ The interest and principal of the borrowers due in mid-April deferred to mid-July 2020;

☐ BFIs required to provide 10 percent discount on interest due in mid-April 2020 if the payment is made in the same month.



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures...

- ❑ Repayment period of short-term loans such as working capital loan due in mid-April 2020 extended for 60 days.
- ❑ Credit extended to private health institutions for expanding or upgrading their services to facilitate the treatment of COVID-19 patients classified as Priority Sector Lending.

28 April, 2020

- ❑ BFIs required to lower interest rate by 2 percentage point from interest rate level of mid-April 2020 in specified sectors.
- ❑ The interest and principal of the borrowers deferred to mid-July 2020.



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures...

17 July, 2020 (Monetary Policy 2020/21)

- ❑ Repo rate further decreased from 3.5 percent to 3 percent.
- ❑ LTV ratio increased from 65 to 70 percent on margin nature loans against the collateral of shares.

Refinance Facilities:

- ❑ Extension of NRB refinance fund (5 times of existing).
- ❑ Special refinance facility at 1 percent, MSMEs refinance at 2 percent and other refinances at 3 percent. Borrowers to pay 3 percent, 5 percent and 5 percent respectively.



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures...

Moratorium, Loan Restructuring and Rescheduling

- ☐ Provision to defer the installment and interest payment of loans extended to Covid-19 affected professions/businesses from mid-July 2020 to mid-July 2021.
- ☐ BFIs allowed restructuring and rescheduling loans after collecting 10 percent of interest.
- ☐ Credit to Deposit Cum Core Capital (CCD) Ratio increased from 80 percent to 85 percent until mid-July 2021 to increase resource availability.
- ☐ Relaxation in computation of capital adequacy.



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures...

- ❑ Countercyclical buffer suspended until mid-July 2021.
- ❑ Loans classified under pass category in mid-January 2020 could be classified in the same category in mid-July 2020 as well.

14 February, 2021 (Mid-Term Review of Monetary Policy 2020/21)

- ❑ Upward revision of digital transaction limit.
- ❑ Further rescheduling of loans upon the request of borrowers' plan.
- ❑ Ease of forex transactions for the imports of Covid-19 related medicines and medical equipment.



Covid-19 Pandemic and Policy Responses...

C. Monetary and Financial Measures...

18 May, 2021 (Third Quarter Review of Monetary Policy 2020/21)

- ☐ BFIs to provide loan at base rate to the health service providers, hospitals and oxygen industries for installing oxygen/liquid oxygen plant. Special refinance facility of upto Rs. 500 million for oxygen plants.
- ☐ BFIs are directed not to issue debt recovery notice and any kind of penalty and extra charge from the borrower during lockdown.
- ☐ BFIs encouraged to provide digital banking services and interest discounts.
- ☐ BFIs are directed to allocate CSR fund in Covid related health sector.



Covid-19 Panemic and Policy Responses...

❑ Covid-19 Impact

- ❑ The NRB conducted an online survey to assess the preliminary impact of Covid-19 on businesses.
- ❑ The initial survey conducted in June 2020 followed by first and second follow-up survey in Nov. 2020 and April 2021 respectively.

❑ The major findings of survey

- ❖ 81.2 percent businesses were in full operation in April 2021 compared to 54 percent in Nov. 2020 and 4.1 percent only in July 2020.
- ❖ Compared to the pre-COVID level, the average employment in the businesses reached 93.8 percent while such figure was 87.5 percent in Nov. 2020 and 77.5 percent in July 2020.
- ❖ Compared to pre-COVID level, production of all types of business reached 61.4 percent in April 2021, which was 50.5 percent in Nov. 2020 and 28.8 percent in July 2020.



Covid-19 Panemic and Policy Responses...

- ❑ Despite the improvements in business operations, employment and production as shown by the latest survey, the present situation is worse than before due to 2nd wave of Covid-19 and the containment measures undertaken since 29 April 2021.

Covid-19 Impact on Banking Sector

- ❑ Impact on asset quality (NPL).
- ❑ Impact on regulatory capital (CAR decreased to 13.64 percent in mid-April 2021 from 14.16 percent in mid-July 2020).
- ❑ Doward pressure on profitability.
- ❑ Gradual change in traditional banking habit (increased use of digital banking-Fintech).



Covid-19 Pandemic and Policy Responses...

Way Forward

- ☐ Close monitoring of the situation (Covid-19 impact on economy) and formulating fiscal-monetary policy responses.
- ☐ Financial and macroeconomic stability to be placed at the centre while making policy relaxations and providing relief.
- ☐ Proper coordination between government, central bank and the public at large.
- ☐ International (bilateral, regional, multilateral) coordination and support.



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Thank You