DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

SU/23/62

May 2, 2023

The Acting Chair's Summing Up
Nepal—2023 Article IV Consultation, First and Second Reviews Under the Extended Credit Facility Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, Extension of the Arrangement, and Rephasing of Disbursements
Executive Board Meeting 23/33
May 1, 2023

Directors agreed with the thrust of the staff appraisal. They noted the impact that global shocks have had on Nepal through higher commodity prices, and that while the outlook is favorable, inflation remains elevated, and risks are to the downside. Directors recognized that program performance was mixed, in the context of the difficult environment, and that while there was continued progress on reforms, the pace of implementation was slower than desired. They emphasized that strong program ownership and Fund capacity development are central to achieving program objectives. Directors underscored the importance of safeguarding macroeconomic stability and supporting sustainable, inclusive, and green growth.

Directors agreed that fiscal policy should focus on addressing near-term fiscal pressures through expenditure rationalization, while protecting high-quality infrastructure and social spending. They noted the need to support medium-term fiscal sustainability through fiscal consolidation and continued progress on fiscal structural reforms. Important measures include advancing revenue mobilization reforms, strengthening the fiscal federalism framework, and improving public investment management. Directors stressed that maintaining momentum on governance reforms is critical to cementing recent gains in fiscal transparency and that strengthening the financial oversight and governance of public enterprises would help to limit fiscal risks.

Directors agreed that monetary policy, supported by macroprudential measures, should take a cautious, data driven approach to maintain external stability and address elevated inflation. They noted that while capital adequacy ratios remain above regulatory minima, non-performing loans are increasing. Directors thus concurred that the central bank should prioritize bank asset quality. They recommended advancing the financial sector reform strategy and implementing the outstanding 2021 safeguards assessment recommendations, including to improve the autonomy and accountability of the central bank. Directors noted the importance of improving financial inclusion through digitalization. They stressed the need to strengthen efforts to enhance the AML/CFT framework and its effectiveness.

Directors highlighted the importance of an ambitious structural reform agenda and recommended reforms to reduce the cost of doing business, lower barriers to foreign investment, and enhance governance and anti-corruption. Noting Nepal's vulnerability to

climate shocks and natural disasters, which can hamper poverty reduction and exacerbate food insecurity, Directors stressed the need for better targeted social assistance, enhanced agricultural productivity, and investment in climate resilient infrastructure.

It is expected that the next Article IV Consultation with Nepal will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.