

**EXECUTIVE
BOARD
MEETING**

SM/20/53
Correction 2

March 26, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Nepal—Staff Report for the 2020 Article IV Consultation**

Board Action: The attached correction to SM/20/53 (2/28/20) has been provided by the staff:

Evident Ambiguity **Page 1**

Questions: Ms. Jaramillo Mayor, APD (ext. 39946)



NEPAL

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

February 27, 2020

KEY ISSUES

This Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on March 17, 2020 on a lapse-of-time basis. The staff report reflects discussions with the Nepali authorities in Kathmandu during January 5-17, 2020 and is based on the information available as of end-January 2020. It focuses on Nepal's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. The report, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Nepal and globally.

Context. Recent strong growth has been supported by greater political stability, more reliable electricity supply, and earthquake reconstruction. Nepal has seen significant poverty reduction, but vulnerabilities remain, exacerbated by climate related shocks. Fiscal federalism is expected to improve service delivery and accountability, though faces challenges from weak capacity of subnational governments.

Outlook and risks. For FY2019/20, growth is expected to ease to 6 percent, due to slower growth in India, sluggish remittance inflows, and weaker agricultural production. There has been a welcome narrowing of the current account deficit and stabilization of gross official reserves. Nonetheless, downside risks remain, related to a further slowdown in remittances and the financial-sector.

Main policy recommendations. The policy mix should be geared at containing external pressures and protecting financial stability, while preserving fiscal sustainability.

- A neutral fiscal stance—which would entail under-execution of the budget as observed in previous years—would help contain external and domestic pressures. The overall expenditure envelope of subnational governments should be aligned with available funding, with tight limits on any subnational borrowing.