

**EXECUTIVE
BOARD
MEETING**

SM/20/53
Supplement 3
Correction 1

March 27, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached corrections to SM/20/53, Sup. 3 (3/16/20) have been provided by the staff:

Evident Ambiguity **Pages 1 and 4**

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



IMF Executive Board Concludes 2020 Article IV Consultation with Nepal

FOR IMMEDIATE RELEASE

- The 2020 Article IV 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.
- During rRecent years, strong growth in Nepal has been supported by greater political stability, improved electricity supply, and reconstruction activity following the devastating earthquakes in 2015.
- GDP growth is expected to moderate amid slower growth in India, sluggish remittances, and weaker agricultural production. In this context, there has been a welcome narrowing of the current account deficit, stabilization of gross official reserves, and slower credit growth.
- Additional policies are needed to continue to support inclusive growth, while safeguarding macroeconomic and financial stability. Fiscal policy should remain prudent, and the transition to fiscal federalism carefully managed. Macroprudential measures should remain in place to limit the buildup of financial sector risk. Recent reforms to boost foreign investment need a supportive implementation environment.

Washington, DC – [May 17, 2020]

On March 17, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Nepal and considered and endorsed the staff appraisal without a meeting.²

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Table 1. Nepal: Selected Economic Indicators, 2016/17-2024/25 ^{1/}

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|--|---------|---------|---------|-------------|---------|---------|---------|---------|---------|
| | | | Est. | Projections | | | | | |
| Output and prices (annual percent change) | | | | | | | | | |
| Real GDP | 8.2 | 6.7 | 7.1 | 6.0 | 5.7 | 5.5 | 5.4 | 5.3 | 5.3 |
| Headline CPI (period average) | 4.5 | 4.1 | 4.6 | 6.0 | 5.9 | 5.8 | 5.6 | 5.3 | 5.3 |
| Headline CPI (end of period) | 2.7 | 4.6 | 6.0 | 5.9 | 5.8 | 5.7 | 5.5 | 5.3 | 5.3 |
| Fiscal Indicators: Central Government (in percent of GDP) | | | | | | | | | |
| Total revenue and grants | 24.1 | 25.3 | 26.0 | 25.8 | 26.0 | 25.8 | 25.5 | 25.6 | 25.5 |
| of which: Tax revenue | 20.7 | 21.1 | 21.9 | 21.9 | 21.8 | 21.6 | 21.4 | 21.3 | 21.4 |
| Expenditure | 27.2 | 31.9 | 30.6 | 30.4 | 30.4 | 30.0 | 29.7 | 29.4 | 29.3 |
| Expenses | 19.4 | 23.0 | 23.6 | 23.1 | 23.1 | 22.9 | 22.7 | 22.7 | 22.8 |
| Net acquisition of nonfinancial assets | 7.8 | 8.9 | 7.0 | 7.3 | 7.3 | 7.1 | 7.0 | 6.7 | 6.5 |
| Operating balance | 4.7 | 2.3 | 2.4 | 2.8 | 2.9 | 2.9 | 2.9 | 2.8 | 2.8 |
| Net lending/borrowing | -3.1 | -6.7 | -4.6 | -4.5 | -4.4 | -4.2 | -4.1 | -3.9 | -3.7 |
| Statistical discrepancy | -1.3 | -3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financial transactions | 1.8 | 3.6 | 4.6 | 4.5 | 4.4 | 4.2 | 4.1 | 3.9 | 3.7 |
| Net acquisition of financial assets | 1.4 | -0.7 | 1.7 | 1.6 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Net incurrence of liabilities | 3.2 | 2.9 | 6.3 | 6.1 | 5.3 | 5.0 | 5.0 | 4.8 | 4.6 |
| Foreign | 1.3 | 2.4 | 2.1 | 2.4 | 1.9 | 1.6 | 1.6 | 1.5 | 1.3 |
| Domestic | 1.9 | 0.4 | 4.2 | 3.7 | 3.4 | 3.4 | 3.4 | 3.3 | 3.3 |
| Money and credit (annual percent change) | | | | | | | | | |
| Broad money | 15.5 | 19.4 | 15.8 | 13.2 | 11.9 | 11.6 | 11.1 | 10.9 | 10.7 |
| Domestic credit | 20.2 | 26.1 | 21.7 | 17.6 | 15.7 | 14.3 | 13.8 | 13.3 | 13.1 |
| Private sector credit | 18.0 | 22.3 | 19.1 | 15.0 | 13.8 | 12.5 | 12.2 | 12.0 | 12.0 |
| Saving and Investment (in percent of nominal GDP) | | | | | | | | | |
| Gross investment | 45.2 | 55.2 | 62.3 | 54.6 | 53.4 | 52.4 | 51.5 | 50.6 | 49.8 |
| Private | 23.6 | 25.8 | 30.0 | 25.1 | 24.4 | 24.0 | 23.5 | 23.3 | 23.0 |
| Central government | 7.8 | 8.9 | 7.0 | 7.3 | 7.3 | 7.1 | 7.0 | 6.7 | 6.5 |
| Change in Stock | 13.8 | 20.5 | 25.3 | 22.2 | 21.7 | 21.3 | 21.0 | 20.6 | 20.2 |
| Gross national saving | 44.8 | 47.1 | 54.6 | 49.4 | 48.5 | 47.6 | 46.8 | 46.0 | 45.3 |
| Private | 41.3 | 46.1 | 53.3 | 47.8 | 47.0 | 46.1 | 45.3 | 44.6 | 44.0 |
| Central government | 3.5 | 1.0 | 1.2 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 |
| Balance of Payments | | | | | | | | | |
| Current account (in millions of U.S. dollars) | -93 | -2,350 | -2,369 | -1,760 | -1,832 | -1,963 | -2,104 | -2,215 | -2,323 |
| In percent of GDP | -0.4 | -8.1 | -7.7 | -5.2 | -4.9 | -4.8 | -4.7 | -4.6 | -4.4 |
| Trade balance (in millions of U.S. dollars) | -8,446 | -10,849 | -11,373 | -11,658 | -12,379 | -13,140 | -13,956 | -14,770 | -15,643 |
| In percent of GDP | -33.5 | -37.4 | -37.1 | -34.2 | -33.1 | -32.2 | -31.4 | -30.5 | -29.6 |
| Exports of goods (y/y percent change) | 9.9 | 15.5 | 12.1 | 1.4 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 |
| Imports of goods (y/y percent change) | 30.0 | 27.4 | 5.4 | 2.4 | 6.5 | 6.5 | 6.5 | 6.2 | 6.3 |
| Workers' remittances (in millions of U.S. dollars) | 6,556 | 7,224 | 7,769 | 8,402 | 8,825 | 9,270 | 9,737 | 10,227 | 10,742 |
| In percent of GDP | 26.0 | 24.9 | 25.3 | 24.7 | 23.6 | 22.7 | 21.9 | 21.1 | 20.3 |
| Gross official reserves (in millions of U.S. dollars) | 9,264 | 9,304 | 8,545 | 8,536 | 8,419 | 8,233 | 8,045 | 7,850 | 7,673 |
| In months of prospective imports | 8.3 | 7.9 | 7.0 | 6.6 | 6.1 | 5.5 | 5.1 | 4.7 | 4.3 |
| Memorandum items | | | | | | | | | |
| Public debt (in percent of GDP) | 26.1 | 30.2 | 30.1 | 33.7 | 35.7 | 37.4 | 39.0 | 40.3 | 41.1 |
| Nominal GDP (in billions of U.S. dollars) | 25.2 | 29.0 | 30.7 | 34.1 | 37.4 | 40.8 | 44.5 | 48.4 | 52.9 |
| Nominal GDP (in billions of Nepalese Rupees) | 2,674 | 3,031 | 3,464 | 3,892 | 4,354 | 4,860 | 5,406 | 5,997 | 6,687 |
| Private Sector Credit (in percent of GDP) | 74.7 | 80.6 | 84.0 | 86.0 | 87.5 | 88.2 | 88.9 | 89.8 | 90.2 |
| Exchange rate (NPR/US\$; period average) | 106.2 | 104.4 | 112.9 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (average, y/y percent change) | 3.6 | 0.2 | -1.4 | ... | ... | ... | ... | ... | ... |

Sources: Nepalese authorities; and IMF staff estimates and projections.

Note: Data as of January 31, 2020.

1/ Fiscal year ends in mid-July.