

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/84

April 30, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Nepal—Request for Disbursement Under the Rapid Credit Facility**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, May 6, 2020**

Proposed Decision: Page 15

Publication: Yes\*

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

Document Transmittal  
in the Absence of  
an Objection and in  
accordance with  
Board policy: After Board Consideration—Asian Development Bank, Asian  
Infrastructure Investment Bank, World Trade Organization

\*The authorities have indicated that they consent to the Fund's publication of this paper.





# NEPAL

April 27, 2020

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

### EXECUTIVE SUMMARY

**Context.** The COVID-19 pandemic is having a severe impact on Nepal's economy. During recent months, remittances have fallen considerably, tourist arrivals collapsed, and domestic activity has taken a hit amidst social distancing measures. As a result, immediate external financing and fiscal financing gaps have emerged of 3 percent of GDP and 2.6 percent of GDP, respectively. Given the ongoing uncertainty and still-large downside risks, it is crucial for Nepal to maintain a strong level of foreign reserves.

**Request for Fund support.** The authorities are seeking financial assistance under the "exogenous shock" window of the Rapid Credit Facility (RCF). In the attached Letter of Intent (LOI), the authorities request a disbursement of SDR156.9 million, equivalent to 100 percent of quota, with the full amount to become available upon Board approval. The authorities request that the RCF be disbursed directly to the Federal Treasury to provide budget support for COVID-19 related spending. Staff assesses that Nepal meets the RCF eligibility requirements and supports the request. Public debt is at low risk of distress and there is adequate capacity to repay the Fund. The IMF disbursement is expected to play a catalytic role in securing additional financing from Nepal's development partners.

**Macroeconomic policies.** The authorities' immediate priority is to deal with the human and economic impact of the COVID-19 pandemic. The need for policy action is urgent given the sharp deterioration of economic activity, and significant downside risks to the outlook. The authorities intend to increase health spending, strengthen social assistance, ensure adequate liquidity to the banking system, and support access to credit. A sound policy mix before the COVID-19 pandemic, including a modest fiscal deficit and macroprudential measures to rein in excessive credit growth, contributed to macroeconomic stability, providing a strong footing to support Nepal's pandemic-response efforts. The authorities remain committed to a policy agenda that promotes inclusive growth while preserving financial-sector and external stability as well as fiscal sustainability. A cornerstone of the agenda is strengthening the investment climate in Nepal, including by implementing structural reforms that encourage high-quality public- and private-sector investment projects, in particular FDI.

Approved By  
**Anne-Marie Gulde-  
 Wolf (APD) and Maria  
 Gonzalez (SPR)**

An IMF team comprising Ms. L. Jaramillo Mayor (Head), Mr. P. Blagrove, Mr. K. Min, Ms. J. Yoo (all APD), Ms. S. Ogawa (MCM), and Mr. L. Breuer (Senior Resident Representative for Bhutan/India/Nepal) held discussions with the Nepali authorities (Nepal Rastra Bank Governor Mr. Adhikari, Finance Secretary Mr. Dhungana, and other senior government officials) by video conferences on April 13, 14, and 16, 2020. Ms. A. Mahasandana, Mr. K. Tan, and Ms. R. Pandit (all OED) participated in the policy discussions. Mr. N. Singh and Mr. K. Rivas (both APD) and Ms. S. Dulal (local office) supported the preparation of this report.

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## BACKGROUND

**1. The Executive Board completed the 2020 Article IV consultation for Nepal on March 17, 2020.** The staff report highlighted that strong growth in recent years has been supported by greater political stability, more reliable electricity supply, and earthquake reconstruction. The policy mix was assessed as broadly appropriate, with macroprudential measures in place to contain previously high credit growth, and the fiscal stance consistent with containing domestic and external pressures while ensuring debt sustainability.

## IMPACT OF THE PANDEMIC AND OUTLOOK

### A. Pre-COVID-19 Pandemic Economic Developments

**2. Growth was already moderating in early FY2019/20 (July 16, 2019, to July 15, 2020), helping to contain macroeconomic stability risks.** Nepal's strong growth performance in recent years (7.1 percent in FY2018/19) has been supported by a stable political environment, a more reliable electricity supply, and post-earthquake reconstruction spending. For FY2019/20, growth was expected to ease to 6 percent including because of slower growth in India, sluggish remittance inflows, and weaker agricultural production. In the context of moderating growth, there was a welcome narrowing of the current account deficit, reflecting both slowing reconstruction activities and greater domestic electricity and cement production. Gross official reserves remained stable and were at US\$8.7 billion in February 2020, about 6.8 months of prospective imports. Credit growth moderated from very high levels, though credit as a share of GDP remained elevated relative to peers. In FY2019/20, the central government deficit was expected to be 4.5 percent of GDP, similar to the previous FY. Public debt at 30 percent of GDP in FY2018/19 was assessed to be at low risk of external and overall debt distress.

### B. Impact of the COVID-19 Pandemic

**3. Social distancing measures to contain the pandemic have intensified.** The government announced bans on public gatherings, halted international flights, implemented border tightening, and instituted a nationwide lockdown until May 7. Although the number of confirmed cases thus far remains limited<sup>1</sup>, experience in neighboring countries suggests this is likely to increase. Nepal's healthcare system is not well equipped to handle the spike in COVID-19 cases from a country-wide spread of the virus.

**4. The economy is expected to be severely affected through the following channels<sup>2</sup>:**

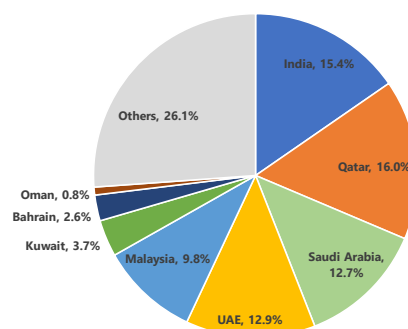
<sup>1</sup> Nepal has 52 confirmed cases as of April 28.

<sup>2</sup> Nepal's goods exports were only 3.3 percent of GDP in FY2018/19 (compared to 40.3 percent of GDP for goods imports) and therefore are expected to be a less important factor in the growth slowdown.

- Remittances.** Remittance inflows—mainly from Gulf Cooperation Council (GCC) countries, India, and Malaysia—represented 25 percent of GDP in FY 2018/19. They provide important support for the balance of payments and domestic consumption. Remittances are expected to fall drastically in the last quarter of FY2019/20 and the first quarter of FY2020/21 (Text Chart 1), as a result of lower remittances from workers already abroad in the face of weaker earnings and travel restrictions for Nepali workers seeking jobs abroad.

**Remittances by Origin**

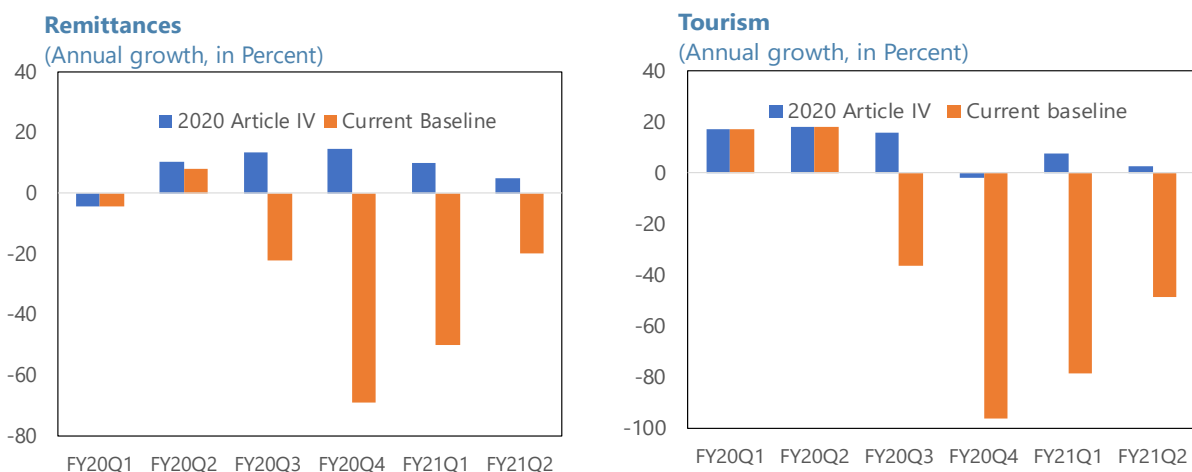
(Percent of total; August 2019–February 2020)



Sources: Nepali Authorities and IMF staff calculations.

- Tourism.** Tourism and related service sectors will bear the brunt of the worldwide collapse in air travel and domestic containment measures. Tourism is expected to see a severe contraction in the last quarter of FY2019/20 and the first quarter of FY2020/21 (Text Chart 1), with a significant impact on employment.

**Text Chart 1. Nepal: Remittances and Tourism Projection (Article IV vs. current baseline)**



Sources: NRB and IMF staff estimates and projections

Note: Fiscal year starts July 16. Actual data as of mid-February 2020. 2020 Article IV baseline is based on data as of end-January 2020, while the current baseline forecast is as of April 15, 2020.

- Construction.** Post-earthquake reconstruction and infrastructure development have buttressed growth in recent years. Supply disruptions, restrictions on mobility, and foreign labor shortages in the case of some foreign commissioned projects will cause implementation delays.

- *Trade services.* Lock down measures implemented by neighboring countries and the nationwide restrictions on movement have significantly disrupted international and domestic trade.

**5. Growth would fall sharply in FY2019/20, with a deterioration in the fiscal and external accounts (Text Table 1):**

- Growth in FY2019/20 (July 16, 2019 to July 15, 2020) would fall to 1 percent (5 percentage points below the pre-pandemic baseline) and 3.5 percent in FY2020/21 (compared to 5.7 percent in the pre-pandemic baseline), as the COVID-19 shock in recent months derailed the growth momentum observed in the earlier part of the FY.
- Inflation is expected to reach 7.5 percent by July 2020 (end-FY2019/2020), as the pressure on food prices continues due to disruptions to imports and food production.
- An increase in health spending, economic support measures, and revenue shortfalls would widen the overall fiscal deficit by 2.7 percent of GDP to 7.2 percent of GDP in FY2019/20. Revenue losses are estimated at 1.8 percent of GDP, of which 0.3 percent of GDP is due to active COVID-response measures. Higher healthcare costs and economic support measures would increase spending by 2 percent of GDP, but delays and reprioritization of capital expenditures would provide some offset (about 1.2 percent of GDP) (Text Table 2).
- The current account deficit is expected at 7.6 percent of GDP (compared to 5.2 percent in the pre-pandemic baseline) due to the sharp drop in remittance inflows and tourism receipts, even as imports decline.<sup>3</sup>

**6. Based on the above, an urgent external financing need of 3.0 percent of GDP in FY2019/20 has emerged (Text Table 2).** In parallel, the fiscal financing need is 2.6 percent of GDP. The external gap results from a worsened current account deficit of 7.6 percent of GDP and weaker capital and financial account surplus of only 4.5 percent of GDP (due to lower direct investments and bilateral loans), compared to the recent Article IV consultation. The wider fiscal deficit of 7.2 percent of GDP would be financed by 2.1 percent of GDP of previously identified (pre-COVID) external financing and 4.1 percent of GDP of domestic financing, leaving a 2.6 percent of GDP financing gap.<sup>4</sup>

**7. Based on the above, an urgent external financing need of 3.0 percent of GDP in FY2019/20 has emerged (Text Table 2).** In parallel, the fiscal financing need is 2.6 percent of GDP. The external gap results from a worsened current account deficit of 7.6 percent of GDP and weaker capital and financial account surplus of only 4.5 percent of GDP (due to lower direct investments and bilateral loans), compared to the recent Article IV consultation. The wider fiscal deficit of 7.2 percent

<sup>3</sup> Lower global oil prices provide some offset to external pressures by lowering Nepal's import bill, but negatively impact remittances received from workers in oil-producing countries.

<sup>4</sup> Financing gap takes into account net acquisition of financial assets (-1.6 percent of GDP).

**Text Table 1. Nepal: Selected Economic Indicators, 2019/20-2020/21 1/**

	2019/20		2020/21	
	2020		2020	
	Article IV		Article IV	
	Baseline	Current	Baseline	Current
	Proj.	Baseline	Proj.	Baseline
<b>Output and prices</b> (annual percent change)				
Real GDP	6.0	1.0	5.7	3.5
Headline CPI (period average)	6.0	6.7	5.9	6.5
Headline CPI (end of period)	5.9	7.5	5.8	6.0
<b>Fiscal Indicators: Central Government</b> (in percent of GDP)				
Total revenue and grants	25.8	24.0	26.0	25.2
of which: Tax revenue	21.9	20.0	21.8	21.0
Expenditure	30.4	31.2	30.4	31.8
Expenses	23.1	25.1	23.1	24.8
Net acquisition of nonfinancial assets	7.3	6.1	7.3	7.0
Operating balance	2.8	-1.1	2.9	0.4
Net lending/borrowing	-4.5	-7.2	-4.4	-6.6
Statistical discrepancy	0.0	0.0	0.0	0.0
Net financial transactions	4.5	7.2	4.4	6.6
Net acquisition of financial assets	1.6	1.6	0.9	0.9
Net incurrence of liabilities	6.1	8.8	5.3	7.5
Foreign 2/	2.4	3.6	1.9	1.5
Domestic	3.7	5.2	3.4	5.9
<b>Money and credit</b> (annual percent change)				
Broad money	13.2	8.6	11.9	11.4
Domestic credit	17.6	16.0	15.7	17.5
Private sector credit	15.0	11.5	13.8	13.3
<b>Saving and Investment</b> (in percent of nominal GDP)				
Gross investment	54.6	51.0	53.4	51.1
Private	25.1	24.2	24.4	23.3
Central government	7.3	6.1	7.3	7.0
Change in Stock	22.2	20.8	21.7	20.8
Gross national saving	49.4	43.5	48.5	44.0
Private	47.8	45.8	47.0	45.0
Central government	1.6	-2.3	1.5	-1.1
<b>Balance of Payments</b>				
Current account (in millions of U.S. dollars)	-1,760	-2,426	-1,832	-2,452
In percent of GDP	-5.2	-7.6	-4.9	-7.1
Trade balance (in millions of U.S. dollars)	-11,658	-9,691	-12,379	-10,455
In percent of GDP	-34.2	-30.2	-33.1	-30.3
Exports of goods (y/y percent change)	1.4	-6.4	9.9	5.0
Imports of goods (y/y percent change)	2.4	-14.1	6.5	7.6
Workers' remittances (in millions of U.S. dollars)	8,402	6,012	8,825	6,572
In percent of GDP	24.7	18.7	23.6	19.1
Gross official reserves (in millions of U.S. dollars)	8,536	8,049	8,419	7,046
In months of prospective imports	6.6	7.2	6.1	6.0
<b>Memorandum items</b>				
Public debt (in percent of GDP)	33.7	38.0	35.7	42.4
Nominal GDP (in billions of U.S. dollars)	34.1	32.1	37.4	34.5
Nominal GDP (in billions of Nepalese Rupees)	3,892	3,735	4,354	4,117
Private Sector Credit (in percent of GDP)	86.0	86.9	87.5	89.3

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

1/ Fiscal year ends mid-July.

2/ Net incurrence of foreign liabilities reflects pre-COVID identified financing and new financing (identified as of April 15) to support the COVID-response, including the IMF-RCF (US\$214 million), Asian Development Bank (US\$250 million), and World Bank (US\$29 million).

Note: 2020 Article IV Baseline is based on data as of end-Jan 2020, while current baseline forecast is as of April 15, 2020.



of GDP would be financed by 2.1 percent of GDP of previously identified (pre-COVID) external financing and 4.1 percent of GDP of domestic financing, leaving a 2.6 percent of GDP financing gap.<sup>5</sup>

**8. Based on the above, an urgent external financing need of 3.0 percent of GDP in FY2019/20 has emerged (Text Table 2).** In parallel, the fiscal financing need is 2.6 percent of GDP. The external gap results from a worsened current account deficit of 7.6 percent of GDP and weaker capital and financial account surplus of only 4.5 percent of GDP (due to lower direct investments and bilateral loans), compared to the recent Article IV consultation. The wider fiscal deficit of 7.2 percent of GDP would be financed by 2.1 percent of GDP of previously identified (pre-COVID) external financing and 4.1 percent of GDP of domestic financing, leaving a 2.6 percent of GDP financing gap.<sup>6</sup>

**9. Fund financing under the RCF will make a substantial contribution to filling the immediate balance of payments needs.** Direct disbursement to the Treasury will allow the authorities to address 26 percent of the fiscal financing needs and 22 percent of the external financing gap in FY2019/20. IMF debt relief provided under the Catastrophe Containment and Relief Trust (CCRT) (SDR2.85 million; US\$3.85 million) will also help to close the financing gap. The authorities are actively seeking additional budget support from development partners and the RCF is expected to play a catalytic role in this effort. So far, the World Bank has approved a \$29 million COVID-19 Emergency Response and Health Systems Preparedness Project and the Asian Development Bank is processing a pandemic response loan under the Countercyclical Support Facility for up to US\$250 million.<sup>7</sup> As part of the G-20 debt relief initiative, the authorities also intend to request debt service reprofiling from official bilateral creditors (including export-import banks) over the period May 1 and December 31, 2020 to address immediate needs, which would free-up resources of up to US\$31 million for social, health or economic spending to respond to the COVID-19 pandemic. In the absence of additional budget support in 2020, the remaining fiscal financing gap will be closed either with additional domestic financing or with rationalization of expenditures. Any remaining external financing gap will be closed with a drawdown of gross official reserves. As a result of the projected weakening in imports, reserve coverage would remain at about 7 months of prospective imports.<sup>8</sup> Nonetheless, given the uncertainty about the duration and intensity of the Covid-19 shock, there is an urgent need for Nepal to preserve its foreign reserves to protect the credibility of the exchange rate peg, to prepare in case of further weakening of remittances, and to maintain buffers in case other possible risks materialize (including natural disasters).

<sup>5</sup> Financing gap takes into account net acquisition of financial assets (-1.6 percent of GDP).

<sup>6</sup> Financing gap takes into account net acquisition of financial assets (-1.6 percent of GDP).

<sup>7</sup> In addition, the World Bank is reviewing its existing project portfolio to identify funds that can flexibly be allocated toward COVID19 response. The World Bank is: (1) re-aligning project design toward COVID19 relief and recovery activities through a Contingent Emergency Response Component embedded in projects as well as funds from partial project cancellations that go toward a stimulus or recovery package, overall estimated to be 15 to 18 percent of uncommitted project funds (or close to US\$300 million); and (2) aligning a series of upcoming Development Policy Credits (including on financial and fiscal policy reforms) to support COVID19 relief, recovery and resilience (US\$200 million).

<sup>8</sup> The IMF's tool for assessing reserve adequacy in credit-constrained economies (ARA-CC) suggests that 4.2 months of prospective imports of goods and services is an adequate level of reserves (see IMF Country Report No. 20/96).

**10. Downside risks to the outlook are substantial.** The depth and duration of the current external shock is highly uncertain. Current projections are based on a global scenario anticipating a sharp contraction in activity in CY2020Q2, and a modest recovery taking hold thereafter. However, there is a significant risk that containment measures could remain in place for longer in Nepal or abroad—for example, through early 2021—in which case disruptions to Nepal’s domestic activity, remittances, and tourism would result in larger and more protracted balance of payments and fiscal financing needs. In addition, if the external and fiscal financing gaps identified in this report cannot be filled, growth would be weaker than in the baseline, as there would be less support to the economy. An abrupt slowdown in deposit growth, emanating from the fall in remittances related to the COVID-19 shock, could create liquidity strain in the banking system and expose loan portfolio weaknesses. The other risks identified in the 2020 Article IV consultation remain relevant, in particular natural disasters (flooding and landslides).

**Text Table 2. Nepal: Projected Financing Gap in FY 2019/20**

External financing need in FY 2019/20			Fiscal financing need in FY 2019/20		
	2020 Article IV	Current Projection		2020 Article IV	Current Projection
	(in percent of GDP)			(in percent of GDP)	
Current account	-5.2	-7.6	Total revenue and grants	25.8	24.0
Trade balance	-34.2	-30.2	o/w COVID response		-0.3
Service	-0.3	-0.8	Recurrent expenditure	23.1	25.1
Tourism	2.1	1.5	o/w COVID response		2.0
Income	1.2	1.2	Net acquisition of nonfinancial assets 4/	7.3	6.1
Current transfer	28.4	22.5	Net lending/borrowing	-4.5	-7.2
Workers' remittances	24.7	18.7	Total financing	4.5	4.6
Capital/Financial account 1/	5.1	4.5	Net acquisition of financial assets	-1.6	-1.6
Overall Balance of payment	0.0	-3.0	Net incurrence of liabilities	6.1	6.2
			Foreign borrowing 5/	2.4	2.1
			Domestic borrowing	3.7	4.1
External financing gap	0.0	3.0	Fiscal financing gap	0.0	2.6
Identified 2/		1.5	Identified		1.5
Unidentified 3/		1.5	Unidentified		1.1

Sources: Nepali authorities; and IMF staff estimates.

1/ IMF-CCRT debt relief (US\$3.9 mil) is included.

2/ IMF-RCF (US\$214 mil), WB (US\$29 mil), and ADB (US\$250 mil).

3/ Financial support from development partners or reserve drawdown. As part of the G-20 Covid-19 debt service relief initiative, the Nepali authorities intend to request debt service reprofiling from official bilateral creditors (including export-import banks) over the period May 1 and December 31, 2020, which would free-up resources of up to US\$31 million (0.1 percent of GDP) for the authorities' Covid-10 response.

4/ A significant reduction in capital expenditures, attributable to construction delays because of pandemic-related circumstances, is projected to reduce the net acquisition of nonfinancial assets in FY2019/20.

5/ Pre-COVID identified borrowing. For FY2019/20, the World Bank is re-aligning project design toward COVID-19 relief and recovery activities through a Contingent Emergency Response Components embedded in projects as well as funds from partial project cancellations that go toward a stimulus or recovery package, overall estimated to be 15 to 18 percent of uncommitted project funds (or close to US\$300 million). Pre-COVID identified financing is lower in the current baseline than in the Article IV baseline because delays in execution of capital expenditure will delay disbursements.

## POLICY DISCUSSIONS

*The authorities' priority is to limit the impact of the pandemic and preserve macroeconomic stability. Over the medium-term, the government remains committed to policies that promote inclusive growth, while containing external pressures, protecting financial stability, and preserving fiscal sustainability.*

**11. In its effort to mitigate the human and economic impact of the pandemic on Nepal, the government is committed to temporarily enact the following measures** (see Text Tables 3 and 4):

- Increasing health spending, including by providing additional incentive pay and insurance coverage to all medical personnel fighting the coronavirus, importing additional medical supplies, and setting up quarantine centers and temporary hospitals.
- Strengthening social assistance by providing those most vulnerable with daily food rations, subsidizing utility bills for low-usage customers, and taking measures to partially compensate those who suffer job loss.
- Enacting an economic recovery support package for FY2020/21, to include support to businesses most affected by the pandemic and related social distancing measures, in particular small- and medium-sized enterprises, as well as additional support to those who suffer job loss.
- Ensuring adequate liquidity in the financial system, by lowering reserve requirements and the interest rate on the standing liquidity facility.
- Supporting borrowers, by facilitating loans to areas with most needs. The size of the refinancing facility has been increased to provide subsidized interest rates to banks willing to lend to priority sectors, including small- and mid-size enterprises affected by the pandemic. The NRB announced that banks will defer loan repayments due in April until mid-July. Staff emphasized that the NRB should encourage prudent loan restructuring based on banks' risk assessments rather than taking a blanket approach. If a case-by-case approach is difficult due to reduced capacity, a category of borrowers or banking products could be targeted. At a minimum, deferment should only be applicable to loans that were performing prior to COVID-19 to avoid moral hazard.
- Supporting the continued supply of credit, by providing temporary regulatory forbearance. The NRB is no longer requiring banks to build up the 2 percent countercyclical capital buffer that was due in July 2020. In addition, the NRB temporarily relaxed reporting norms and announced that banks and financial institutions will not be charged or penalized for their non-compliance with regulatory and supervisory requirements in April. Staff encouraged the NRB to make best efforts to maintain transparency and accuracy of supervisory data. Staff also advised the NRB to clearly communicate that banks are expected to continue to comply with regulatory requirements and, in case of a breach, banks should restore compliance in a timely manner.

- More generally, preserving credibility of the exchange rate peg by maintaining an adequate level of reserves.

Text Table 3. Nepal: COVID-19 Fiscal Policy Response (percent of GDP) 1/		
	Announced Policies (FY19/20)	Prospective Policies to Support Economic Recovery (FY20/21)
<b>Health</b>	<b>1.3</b>	
of which		
treatment of COVID-19 cases	0.7	
medical equipment	0.3	
incentive payments to healthcare workers	0.3	
<b>Social assistance</b>	<b>0.8</b>	<b>0.4</b>
of which		
food support (1.3 million households) 2/	0.5	
utility-payment subsidies for low-usage customers 4/	0.1	
social-security fund contributions	0.0	
income support for those losing formal-sector employment 3/	0.2	0.4
<b>Additional support</b>	<b>0.3</b>	<b>1.2</b>
of which		
support for SMEs		1.2
deferral of tax deadlines and exemption in customs duties for medical supplies	0.3	
<b>Total</b>	<b>2.3</b>	<b>1.7</b>
1/ Based on information provided by authorities. Mix of announced and prospective policy measures. As of April 15, 2020.		
2/ Covers 2 months of food provision		
3/ Details regarding implementation and coverage still to be finalized		
4/ Applies to electricity, internet, and data services		

Text Table 4. Nepal: Monetary and Macro-Financial: COVID-19 Measures	
Objective	Measure
<b>Liquidity provision</b>	<ul style="list-style-type: none"> <li>- Reduce cash reserve ratio from 4 to 3 percent</li> <li>- Reduce the standing liquidity facility rate from 6 to 5 percent and a corresponding shift down to the interest rate corridor</li> </ul>
<b>Support to borrowers</b>	<ul style="list-style-type: none"> <li>- Increase the Refinance Fund limit by Rs. 10 bn to provide subsidized funding to banks willing to lend to priority sector, including SMEs affected by COVID-19</li> <li>- Allow banks to defer loan payments due in April until July without penalty and loan reclassification; In case a regular payment is made, request banks to provide 10 percent waiver on the interest payment</li> <li>- Request banks to make a loan approval decision within 5 days from application for those loans to tourism and transportation sector, as well as for imports and distribution of critical goods and equipment related to COVID-19</li> <li>- Provide subsidized loans with a quick 7-day process to those who were already approved for foreign employment but not able to migrate due to COVID-10 and are willing to establish a domestic enterprise</li> </ul>
<b>Temporary regulatory forbearance</b>	<ul style="list-style-type: none"> <li>- No longer require banks to build up the 2 percent countercyclical capital buffer that was due in July 2020</li> <li>- Relax the BFI's reporting norm temporarily in April</li> <li>- Not charge any penalties for non-compliance of regulatory requirements in April</li> </ul>
Source: The NRB	
Note: Measures announced as of April 15, 2020	

- 12. Beyond the immediate response to the current external shock, the authorities are committed to promoting inclusive growth, while preserving medium-term macroeconomic stability, as outlined in the 2020 Article IV consultation.** They will adjust the macroeconomic policy mix as needed to contain external pressures (including to maintain an adequate level of reserves), protect financial stability, and preserve fiscal sustainability.
- On fiscal policy, the priority remains to protect fiscal sustainability while containing external and domestic pressures. It is also key to continue to make improvements in public financial management practices while carefully managing the transition to fiscal federalism. The authorities have indicated their commitment to maintaining fiscal discipline, by managing expenditure closely to keep the deficit in check. Once the effects of the pandemic have subsided, an enhanced commitment to fiscal consolidation will be needed to protect fiscal sustainability, which would be facilitated by the expiry of the temporary support programs. Revenue collection will continue to be enhanced by upgrades to the tax system, in particular tax administration. Efforts are underway to examine and eliminate duplication of responsibilities and spending across levels of government. Further measures would strengthen capital-spending execution rates and smooth its annual profile.
  - On monetary policy, the central bank will continue to strengthen the monetary policy framework to reduce volatility in short-term interest rates, which will support financial market development and improve policy signaling and transmission. Steps will be taken to improve the autonomy and accountability of the central bank, including by updating human resource management to facilitate staff capacity development.
  - On the financial sector, the NRB will continue to implement macroprudential measures to limit the buildup of systemic risk in the financial sector while taking actions to further strengthen bank supervision and regulation, including close monitoring of the asset quality of banks.
  - The government remains committed to strengthening the investment climate in Nepal. This includes implementing structural reforms that encourage high-quality public- and private-sector investment projects, in particular FDI. This calls for adequate staffing and alignment of incentives across and within government ministries responsible for project approvals, implementation, and subsequent monitoring.
  - Efforts to strengthen governance, increase transparency and accountability, and tackle corruption and related money laundering will continue. In this regard, crisis-mitigation spending will be undertaken in a transparent manner, with quarterly reporting and an ex-post audit of spending from COVID-related external funding. The implementing agency will also publish on its website large public procurement documentation together with ex-post validation of delivery along with the name of awarded companies and the name of their beneficial owner(s). All COVID-19 related expenditures are to be allocated and executed using existing public financial management (PFM) processes and within legislated frameworks. The Ministry of Finance will publish the allocation details on its website.

- The authorities remain committed to continue to disclose all public sector financial commitments on a timely basis to the IMF/World Bank Group, requesting technical assistance as needed to ensure adequate reporting according to GFSM 2014 definitions.

## FUND SUPPORT UNDER THE RAPID CREDIT FACILITY

**13. Financial support under the RCF reflects Nepal's urgent balance of payments need following the COVID-19 pandemic shock.** Nepal faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption. There is also a high degree of uncertainty on the duration and scale of the COVID-19 impact and there are practical difficulties of holding comprehensive discussions with the authorities in the current no-travel/work-from-home environment.

**14. Staff considers access of 100 percent of quota (SDR 156.9 million; US\$214 million) under the "exogenous shock" window of the RCF to be appropriate:**

- The pandemic has created a large balance of payments need of about 3.0 percent of GDP, and Fund financial assistance is critical to cover a significant share of it (22 percent of the external financing gap and 26 percent of the fiscal financing needs). Disbursement as budget support will help to meet pressing fiscal financing needs.
- Outstanding credit would reach 122.7 percent of quota, below allowable limits.<sup>9</sup>
- The authorities remain committed to policies that promote inclusive growth, while containing external pressures, protecting financial stability, and preserving fiscal sustainability. In the current volatile and uncertain environment, staff supports the authorities' focus on immediate response measures and the need to prioritize the health sector and strengthening social assistance.
- Nepal's capacity to repay the Fund remains strong. A disbursement of 100 percent of quota would result in Fund exposure to Nepal of 0.8 percent of GDP. Annual repayments should peak at 0.1 percent of GDP and 0.4 percent of government revenue in 2026.

**15. Nepal continues to be assessed at low risk of debt distress for both the external and overall public debt, unchanged from the assessment in the February 2020 Joint Bank-Fund Debt Sustainability Analysis (DSA).** The DSA was updated using the new baseline incorporating the COVID-19 pandemic. Even under this new baseline and stress tests, all debt and debt service indicators are projected to be well below their indicative threshold values.

<sup>9</sup> In addition to the proposed disbursement of 100 percent of quota, there is outstanding credit equivalent to 22.7 percent of quota, corresponding to the remainder of previous RCF disbursements.

**16. Safeguards are deemed adequate.** In line with IMF safeguards policy, the authorities have committed to undergoing a new safeguards assessment of the NRB, and to provide Fund staff with the NRB's audit reports and authorize its external auditors to hold discussions with staff. The assessment is to be completed before the Board approval of any subsequent arrangement to which the safeguards policy applies. A previous safeguards assessment was conducted in 2016 following the 2015 RCF request, supplemented by a safeguards monitoring report in 2018.

**17. The RCF will be disbursed to the Federal Treasury to support the COVID-19 response.**

Direct budget support is justified because of legal limits on direct central bank lending to the government.<sup>10</sup> The authorities will include in their Letter of Intent their commitment to a Memorandum of Understanding (MOU) between the NRB and Ministry of Finance. The MOU will specify (i) the maintenance of a specific government account at the central bank (as a subaccount of the Federal Treasury) to receive IMF resources; (ii) the requirement that the government should hold foreign exchange balances only with the central bank; and (iii) the establishment of a clear framework agreement between the NRB and the Ministry on the responsibilities for servicing financial obligations to the IMF.

## STAFF APPRAISAL

**18. The COVID-19 pandemic is having a severe impact on Nepal's economy.** COVID-19 is impacting growth mainly through a decline in remittances, a contraction in tourism, a slowdown in construction, as well as the impact on domestic activities because of social distancing measures. Real GDP growth for FY2019/20 is expected to decline to 1 percent, significantly below the pre-COVID-19 estimate of 6 percent. The fiscal deficit is also expected to deteriorate by 2.7 percent of GDP, on account of additional spending and a shortfall in tax revenue. In addition, the depth and duration of the current external shock is highly uncertain, and downside risks to the already-weak baseline outlook are significant.

**19. Based on these developments, the country is facing urgent external and fiscal financing needs.** Estimates point to balance of payments need of 3.0 percent of GDP, and a fiscal financing need of 2.6 percent of GDP.

**20. Staff supports the authorities' immediate priorities to mitigate the impact of the pandemic and preserve macroeconomic stability.** The authorities' immediate efforts are appropriately focused on increasing health spending, strengthening social assistance, ensuring adequate liquidity to the banking system, and supporting access to credit. Beyond this immediate response, the authorities remain committed to promoting inclusive growth, while preserving financial-sector and external stability as well as fiscal sustainability.

**21. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR156.9 million (US\$214 million),**

<sup>10</sup> The Nepal Rastra Bank (NRB) Act states that the overdraft provided by the NRB to the Government of Nepal cannot exceed five percent of the revenue income of the Government of Nepal in the preceding fiscal year.

**equivalent to 100 percent of quota.** Staff's support is based on the urgent balance of payments needs arising from a sudden exogenous shock, and the authorities' existing and prospective policies to address this external shock, including their commitment to seek additional external budget financing from other development partners. While the risks to the outlook are substantial, Nepal continues to be assessed at low risk of external and overall debt distress and its capacity to repay the Fund remains strong.



## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Nepal has requested a purchase in an amount equivalent to SDR156.9 million (100 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of Nepal as set forth in the letter from the Finance Minister and the Governor of the Central Bank of Nepal, dated April 29, 2020, and approves the disbursement in accordance with the request.

Table 1. Selected Social and Economic Indicators, 2017/18–2024/25<sup>1</sup>

	2017/18	2018/19	2019/20		2020/21		2021/22	2022/23	2023/24	2024/25
			2020		2020					
			Article IV	Current	Article IV	Current				
			Baseline	Baseline	Baseline	Baseline				
		Est.	Proj.	Proj.	Proj.	Proj.	Projections			
Output and prices (annual percent change)										
Real GDP	6.7	7.1	6.0	1.0	5.7	3.5	6.5	5.4	5.2	5.2
Headline CPI (period average)	4.1	4.6	6.0	6.7	5.9	6.5	5.8	5.6	5.3	5.3
Headline CPI (end of period)	4.6	6.0	5.9	7.5	5.8	6.0	5.6	5.5	5.3	5.3
Fiscal Indicators: Central Government (in percent of GDP)										
Total revenue and grants	25.3	26.0	25.8	24.0	26.0	25.2	25.2	25.1	25.2	25.2
of which: Tax revenue	21.1	21.9	21.9	20.0	21.8	21.0	21.0	21.0	20.9	21.1
Expenditure	31.9	30.6	30.4	31.2	30.4	31.8	29.9	29.6	29.5	29.4
Expenses	23.0	23.6	23.1	25.1	23.1	24.8	23.1	22.8	22.9	22.9
Net acquisition of nonfinancial assets	8.9	7.0	7.3	6.1	7.3	7.0	6.8	6.8	6.6	6.5
Operating balance	2.3	2.4	2.8	-1.1	2.9	0.4	2.1	2.3	2.3	2.3
Net lending/borrowing	-6.7	-4.6	-4.5	-7.2	-4.4	-6.6	-4.7	-4.5	-4.3	-4.2
Statistical discrepancy	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	3.6	4.6	4.5	7.2	4.4	6.6	4.7	4.5	4.3	4.2
Net acquisition of financial assets	-0.7	1.7	1.6	1.6	0.9	0.9	0.9	0.9	0.9	0.9
Net incurrence of liabilities	2.9	6.3	6.1	8.8	5.3	7.5	5.6	5.4	5.2	5.1
Foreign 2/	2.4	2.1	2.4	3.6	1.9	1.5	1.6	1.6	1.4	1.3
Domestic	0.4	4.2	3.7	5.2	3.4	5.9	4.0	3.7	3.7	3.8
Money and credit (annual percent change)										
Broad money	19.4	15.8	13.2	8.6	11.9	11.4	12.7	11.3	10.8	10.8
Domestic credit	26.1	21.7	17.6	16.0	15.7	17.5	14.6	13.5	13.4	13.2
Private sector credit	22.3	19.1	15.0	11.5	13.8	13.3	12.8	12.2	12.3	12.1
Saving and Investment (in percent of nominal GDP)										
Gross investment	55.2	62.3	54.6	51.0	53.4	51.1	49.1	48.2	47.4	46.6
Private	25.8	30.0	25.1	24.2	24.4	23.3	22.3	21.8	21.5	21.1
Central government	8.9	7.0	7.3	6.1	7.3	7.0	6.8	6.8	6.6	6.5
Change in Stock	20.5	25.3	22.2	20.8	21.7	20.8	20.0	19.6	19.3	18.9
Gross national saving	47.1	54.6	49.4	43.5	48.5	44.0	43.4	43.0	42.6	42.3
Private	46.1	53.3	47.8	45.8	47.0	45.0	42.8	42.1	41.7	41.4
Central government	1.0	1.2	1.6	-2.3	1.5	-1.1	0.6	0.9	0.9	0.9
Balance of Payments										
Current account (in millions of U.S. dollars)	-2,350	-2,369	-1,760	-2,426	-1,832	-2,452	-2,168	-2,101	-2,093	-2,001
In percent of GDP	-8.1	-7.7	-5.2	-7.6	-4.9	-7.1	-5.7	-5.2	-4.8	-4.2
Trade balance (in millions of U.S. dollars)	-10,849	-11,373	-11,658	-9,691	-12,379	-10,455	-10,953	-11,457	-11,995	-12,497
In percent of GDP	-37.4	-37.1	-34.2	-30.2	-33.1	-30.3	-29.0	-28.2	-27.5	-26.5
Exports of goods (y/y percent change)	15.5	12.1	1.4	-6.4	9.9	5.0	10.4	10.4	10.4	10.4
Imports of goods (y/y percent change)	27.4	5.4	2.4	-14.1	6.5	7.6	5.2	5.1	5.2	4.8
Workers' remittances (in millions of U.S. dollars)	7,224	7,769	8,402	6,012	8,825	6,572	6,975	7,368	7,746	8,144
In percent of GDP	24.9	25.3	24.7	18.7	23.6	19.1	18.5	18.1	17.7	17.3
Gross official reserves (in millions of U.S. dollars)	9,304	8,545	8,536	8,049	8,419	7,046	6,469	6,096	5,800	5,691
In months of prospective imports	7.9	8.2	6.6	7.2	6.1	6.0	5.2	4.7	4.2	4.0
Memorandum items										
Public debt (in percent of GDP)	30.2	30.1	33.7	38.0	35.7	42.4	43.8	45.3	46.7	47.8
Nominal GDP (in billions of U.S. dollars)	29.0	30.7	34.1	32.1	37.4	34.5	37.7	40.7	43.7	47.1
Nominal GDP (in billions of Nepalese Rupees)	3,031	3,464	3,892	3,735	4,354	4,117	4,638	5,163	5,721	6,338
Private Sector Credit (in percent of GDP)	80.6	84.0	86.0	86.9	87.5	89.3	89.4	90.1	91.2	92.3
Exchange rate (NPR/US\$; period average)	104.4	112.9	...	...	...	...	...	...	...	...
Real effective exchange rate (average, y/y percent change)	0.2	-1.4	...	...	...	...	...	...	...	...

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

1/ Fiscal year ends mid-July.

2/ Net incurrence of foreign liabilities reflects pre-COVID identified financing and new financing (identified as of April 15) to support the COVID-response, including the IMF-RCF (US\$214 million), Asian Development Bank (US\$250 million), and World Bank (US\$29 million).

Note: 2020 Article IV Baseline is based on data as of end-Jan 2020, while current baseline forecast is as of April 15, 2020.

**Table 2. Balance of Payments, 2017/18–2024/25<sup>1</sup>**

	2017/18	2018/19	2019/20		2020/21		2021/22	2022/23	2023/24	2024/25
			2020		2020					
			Article IV	Current	Article IV	Current				
			Baseline	Baseline	Baseline	Baseline				
		Est.	Proj.	Proj.	Proj.	Proj.	Projections			
(in millions of US dollars)										
Current account	-2,350	-2,369	-1,760	-2,426	-1,832	-2,452	-2,168	-2,101	-2,093	-2,001
Current account (excluding official transfers)	-2,633	-2,667	-2,119	-2,761	-2,281	-2,865	-2,621	-2,590	-2,617	-2,564
Trade balance	-10,849	-11,373	-11,658	-9,691	-12,379	-10,455	-10,953	-11,457	-11,995	-12,497
Exports, f.o.b.	894	1,002	1,016	938	1,117	984	1,086	1,198	1,322	1,459
Imports, f.o.b.	-11,743	-12,375	-12,675	-10,629	-13,496	-11,439	-12,039	-12,655	-13,318	-13,956
Services (net)	18	-147	-118	-269	-104	-257	-38	-6	16	46
Receipts	1,697	1,654	1,844	1,532	2,034	1,678	2,063	2,249	2,427	2,633
Of which : tourism	643	651	729	483	811	551	830	908	987	1,079
Payments	-1,680	-1,801	-1,962	-1,801	-2,138	-1,935	-2,101	-2,255	-2,411	-2,587
Income	210	358	398	374	436	402	440	475	510	550
Credit	660	708	786	740	862	795	870	939	1,008	1,087
Debit	-450	-350	-389	-366	-426	-393	-430	-464	-498	-537
Current transfers	8,271	8,793	9,619	7,159	10,215	7,858	8,383	8,886	9,376	9,899
Credit, of which:	8,327	8,889	9,669	7,206	10,270	7,909	8,438	8,946	9,440	9,968
General government	283	298	359	339	449	419	458	493	529	568
Workers' remittances	7,224	7,769	8,402	6,012	8,825	6,572	6,975	7,368	7,746	8,144
Debit	-56	-96	-50	-47	-55	-51	-55	-60	-64	-69
Capital account	169	137	170	162	192	180	193	206	218	232
Financial account	1,344	689	1,584	1,772	1,533	1,280	1,407	1,533	1,589	1,670
Direct investment	169	115	163	89	179	172	188	203	261	305
Portfolio investment	0	0	0	0	0	0	0	0	0	0
Other investment (net)	1,175	573	1,421	1,683	1,354	1,108	1,219	1,330	1,328	1,365
Of which: Trade credit	556	427	445	379	478	408	443	472	502	533
Official loans	764	546	802	1,140	684	524	583	650	602	580
Errors and omissions	1,086	839	0	0	0	0	0	0	0	0
Overall balance	249	-704	-5	-492	-107	-992	-567	-362	-286	-100
(in percent of GDP)										
Current account	-8.1	-7.7	-5.2	-7.6	-4.9	-7.1	-5.7	-5.2	-4.8	-4.2
Current account (excluding official transfers)	-9.1	-8.7	-6.2	-8.6	-6.1	-8.3	-6.9	-6.4	-6.0	-5.4
Trade balance	-37.4	-37.1	-34.2	-30.2	-33.1	-30.3	-29.0	-28.2	-27.5	-26.5
Exports, f.o.b.	3.1	3.3	3.0	2.9	3.0	2.9	2.9	2.9	3.0	3.1
Imports, f.o.b.	-40.4	-40.3	-37.2	-33.1	-36.1	-33.2	-31.9	-31.1	-30.5	-29.6
Services (net)	0.1	-0.5	-0.3	-0.8	-0.3	-0.7	-0.1	0.0	0.0	0.1
Receipts	5.8	5.4	5.4	4.8	5.4	4.9	5.5	5.5	5.6	5.6
Of which: tourism	2.2	2.1	2.1	1.5	2.2	1.6	2.2	2.2	2.3	2.3
Payments	-5.8	-5.9	-5.8	-5.6	-5.7	-5.6	-5.6	-5.5	-5.5	-5.5
Income	0.7	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Credit	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Debit	-1.5	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Current transfers										
Credit, of which:	28.7	29.0	28.4	22.5	27.5	23.0	22.4	22.0	21.6	21.1
General government	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Workers' remittances	24.9	25.3	24.7	18.7	23.6	19.1	18.5	18.1	17.7	17.3
Debit	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital account	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Financial account	4.6	2.2	4.6	5.5	4.1	3.7	3.7	3.8	3.6	3.5
Direct investment	0.6	0.4	0.5	0.3	0.5	0.5	0.5	0.5	0.6	0.6
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	4.0	1.9	4.2	5.2	3.6	3.2	3.2	3.3	3.0	2.9
Of which: Trade credit	1.9	1.4	1.3	1.2	1.3	1.2	1.2	1.2	1.1	1.1
Official loans 2/	2.6	1.8	2.4	3.6	1.8	1.5	1.5	1.6	1.4	1.2
Errors and omissions	3.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.9	-2.3	0.0	-1.5	-0.3	-2.9	-1.5	-0.9	-0.7	-0.2
Memorandum items										
Imports (y/y percent change)	27.4	5.4	2.4	-14.1	6.5	7.6	5.2	5.1	5.2	4.8
of which Oil imports (y/y percent change)	8.9	8.7	8.4	7.7	8.4	7.7	8.3	8.5	8.6	8.7
Exports of G&S (in percent of GDP)	46.2	46.2	42.9	38.7	41.8	38.8	37.5	36.6	36.0	35.1
Imports of G&S (in percent of GDP)										
Remittances (y/y percent change)	10.2	7.6	8.1	-22.6	5.0	9.3	6.1	5.6	5.1	5.1
Total external debt (in percent of GDP)	17.3	17.0	18.3	20.6	18.6	20.8	20.6	20.7	20.7	20.5
Gross official reserves (in mil U.S. dollars)	9,304	8,545	8,536	8,049	8,419	7,046	6,469	6,096	5,800	5,691
In months of prospective imports	7.9	8.2	6.6	7.2	6.1	6.0	5.2	4.7	4.2	4.0
As a share of broad money (in percent)	33.0	26.2	...	...	...	...	...	...	...	...
Gross foreign exchange reserves (in mil U.S. dollars) 3/	10,056	9,474	...	...	...	...	...	...	...	...
In months of prospective imports	8.5	9.1	...	...	...	...	...	...	...	...
In months of current imports	9.0	8.0	...	...	...	...	...	...	...	...
Nominal GDP (in mil U.S. dollars)	29,040	30,690	34,081	32,084	37,382	34,461	37,720	40,698	43,686	47,139

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

1/ Fiscal year ends in mid-July.

2/ Official loans reflect pre-COVID identified financing and new financing (identified as of April 15) to support the COVID-response, including the IMF-RCF (US\$214 million), Asian Development Bank (US\$250 million), and World Bank (US\$29 million).

3/ The authorities define gross foreign exchange reserves as follows: Gross official reserves -Gold/SDR/IMF reserve position + Bank/financial institutions' reserves.

Note: 2020 Article IV Baseline is based on data as of end-Jan 2020, while current baseline forecast is as of April 15, 2020.

Table 3. Reserve Money and Monetary Survey, 2017/18–2024/25<sup>1</sup>

	2017/18	2018/19	2019/20		2020/21		2021/22	2022/23	2023/24	2024/25	
			2020 Article IV Baseline Proj.	Current Baseline Proj.	2020 Article IV Baseline Proj.	Current Baseline Proj.					
								Projections			
(In billions of Nepalese rupees, end-period)											
Nepal Rastra Bank											
Reserve money	710	699	703	681	710	623	594	584	580	591	
Net domestic assets	-308	-237	-284	-271	-284	-234	-217	-204	-194	-193	
Claims on public sector	-49	-29	-25	-25	-24	-25	-27	-28	-29	-29	
Claims on private sector	5	4	6	6	7	6	6	7	8	9	
Claims on banks & financial institutions	12	23	26	24	27	24	25	25	25	25	
Other items (net)	-277	-234	-290	-275	-293	-239	-221	-208	-198	-197	
Net foreign assets	1,018	936	987	952	994	857	810	788	774	784	
Monetary Survey											
Broad money	3,094	3,582	4,054	3,890	4,536	4,334	4,882	5,435	6,022	6,672	
Narrow money	669	727	807	774	903	863	972	1,082	1,204	1,334	
Quasi-money	2,425	2,855	3,247	3,116	3,633	3,471	3,910	4,353	4,818	5,338	
Net domestic assets	2,040	2,597	3,022	2,894	3,497	3,437	4,034	4,610	5,212	5,851	
Domestic credit	2,719	3,309	3,891	3,839	4,504	4,512	5,172	5,871	6,657	7,533	
Credit to public sector	276	399	545	594	695	836	1,026	1,220	1,437	1,680	
of which : Credit to central government	236	346	484	531	624	762	940	1,123	1,327	1,557	
Credit to private sector	2,443	2,910	3,346	3,245	3,809	3,676	4,146	4,650	5,220	5,852	
Other items(net)	-679	-712	-870	-945	-1,007	-1,075	-1,138	-1,261	-1,445	-1,681	
Net foreign assets	1,054	985	1,032	997	1,039	897	848	825	810	821	
(Twelve-month percent change)											
Reserve money	8.1	-1.5	0.6	-2.6	0.9	-8.5	-4.8	-1.6	-0.7	1.9	
Broad money	19.4	15.8	13.2	8.6	11.9	11.4	12.7	11.3	10.8	10.8	
Net domestic assets	29.4	27.3	16.3	11.4	15.7	18.8	17.4	14.3	13.1	12.3	
Domestic credit	26.1	21.7	17.6	16.0	15.7	17.5	14.6	13.5	13.4	13.2	
Credit to public sector	73.7	44.2	36.7	49.0	27.5	40.8	22.7	19.0	17.7	17.0	
Credit to private sector	22.3	19.1	15.0	11.5	13.8	13.3	12.8	12.2	12.3	12.1	
Net foreign assets	3.9	-6.6	4.8	1.2	0.7	-10.0	-5.4	-2.7	-1.8	1.3	
Memorandum items											
Private credit (in percent of GDP)	80.6	84.0	86.0	86.9	87.5	89.3	89.4	90.1	91.2	92.3	
Net Foreign Assets, NRB (in percent of GDP)	33.6	27.0	24.6	25.5	21.4	20.8	17.5	15.3	13.6	12.4	
Nominal GDP (in billions of Nepalese Rupees)	3,031	3,464	3,892	3,735	4,354	4,117	4,638	5,163	5,721	6,338	

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

1/ Fiscal year ends in mid-July.

Note: 2020 Article IV Baseline is based on data as of end-Jan 2020, while current baseline forecast is as of April 15, 2020.

Table 4. Central Government Operations, 2017/18–2024/25<sup>1</sup>

	2017/18	2018/19	2019/20		2020/21		2021/22	2022/23	2023/24	2024/25	
			2020 Article IV Baseline	Current Baseline	2020 Article IV Baseline	Current Baseline					
		Est.	Budget	Proj.	Proj.	Proj.	Proj.	Projections			
								(In billions of Nepalese rupees)			
<b>Total revenue and grants</b>	766	901	1,170	1,006	895	1,132	1,037	1,169	1,297	1,441	1,598
Total revenue	727	860	1,112	959	850	1,068	976	1,101	1,222	1,360	1,508
Tax revenue	640	759	1,009	851	747	951	864	975	1,082	1,198	1,336
Non-tax revenue	87	101	103	108	104	118	111	126	140	161	172
Grants	39	42	58	47	45	64	61	68	75	82	90
<b>Expenditure</b>	968	1,059	1,496	1,182	1,165	1,322	1,307	1,388	1,528	1,685	1,863
Recurrent expenditure	697	818	1,088	898	938	1,004	1,019	1,073	1,177	1,308	1,451
Of which: Fiscal transfer	212	322	334	327	327	366	360	406	452	501	555
Revenue sharing 2/	...	97	131	124	112	139	127	141	156	173	191
Capital expenditure	271	242	408	284	228	318	288	315	351	378	412
Operating balance	69	84	82	108	-42	128	18	96	120	134	146
Net lending/borrowing	-202	-158	-326	-176	-270	-190	-271	-219	-231	-244	-266
Statistical discrepancy	-92	0	0	0	0	0	0	0	0	0	0
Net financial transactions	109	158	326	176	270	190	271	219	231	244	266
Net acquisition of financial assets	-22	59	99	62	59	39	37	41	46	51	56
Foreign	4	0	0	0	0	0	0	0	0	0	0
Domestic (net)	-26	58	99	62	59	39	36	41	46	51	56
Sale of equity	45	42	63	43	41	26	25	28	31	34	38
Lending minus repayment	19	17	36	19	18	12	12	13	15	16	18
Change in cash/deposit	-89	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	87	217	425	238	329	229	307	261	277	295	322
Foreign 3/	74	71	277	93	135	81	64	73	84	80	80
Domestic	13	146	148	145	194	148	243	188	193	215	242
											(In percent of GDP, unless otherwise indicated)
<b>Total revenue and grants</b>	25.3	26.0	31.3	25.8	24.0	26.0	25.2	25.2	25.1	25.2	25.2
Total revenue	24.0	24.8	29.8	24.6	22.8	24.5	23.7	23.7	23.7	23.8	23.8
Tax revenue	21.1	21.9	27.0	21.9	20.0	21.8	21.0	21.0	21.0	20.9	21.1
Non-tax revenue	2.9	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.8	2.7
Grants	1.3	1.2	1.6	1.2	1.2	1.5	1.5	1.5	1.4	1.4	1.4
<b>Expenditure</b>	31.9	30.6	40.1	30.4	31.2	30.4	31.8	29.9	29.6	29.5	29.4
Recurrent expenditure	23.0	23.6	29.1	23.1	25.1	23.1	24.8	23.1	22.8	22.9	22.9
Of which: Fiscal transfer	7.0	9.3	8.9	8.4	8.8	8.4	8.8	8.8	8.8	8.8	8.8
Revenue sharing	...	2.8	3.5	3.2	3.0	3.2	3.1	3.0	3.0	3.0	3.0
Capital expenditure	8.9	7.0	10.9	7.3	6.1	7.3	7.0	6.8	6.8	6.6	6.5
Operating balance	2.3	2.4	2.2	2.8	-1.1	2.9	0.4	2.1	2.3	2.3	2.3
Net lending/borrowing	-6.7	-4.6	-8.7	-4.5	-7.2	-4.4	-6.6	-4.7	-4.5	-4.3	-4.2
Statistical discrepancy	-3.0	0	0	0	0	0	0	0	0	0	0
Net financial transactions	3.6	4.6	8.7	4.5	7.2	4.4	6.6	4.7	4.5	4.3	4.2
Net acquisition of financial assets	-0.7	1.7	2.7	1.6	1.6	0.9	0.9	0.9	0.9	0.9	0.9
Foreign	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-0.8	1.7	2.7	1.6	1.6	0.9	0.9	0.9	0.9	0.9	0.9
Sale of equity	1.5	1.2	1.7	1.1	1.1	0.6	0.6	0.6	0.6	0.6	0.6
Lending minus repayment	0.6	0.5	1.0	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Change in cash/deposit	-3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.9	6.3	11.4	6.1	8.8	5.3	7.5	5.6	5.4	5.2	5.1
Foreign 3/	2.4	2.1	7.4	2.4	3.6	1.9	1.5	1.6	1.6	1.4	1.3
Domestic	0.4	4.2	4.0	3.7	5.2	3.4	5.9	4.0	3.7	3.7	3.8
<b>Memorandum items</b>											
Primary balance	-6.1	-4.0	-8.0	-3.9	-6.6	-3.7	-5.8	-3.8	-3.5	-3.2	-3.1
Public debt	30.2	30.1	...	33.7	38.0	35.7	42.4	43.8	45.3	46.7	47.8
External	17.3	17.0	...	18.3	20.6	18.6	20.8	20.6	20.7	20.7	20.5
Domestic	12.9	13.1	...	15.4	17.3	17.1	21.6	23.3	24.6	26.0	27.3
Resources for sub-national governments (billions of Nepalese Rupees)	...	420	465	451	439	505	488	547	608	674	746
(in percent of GDP)	...	12.1	12.4	11.6	11.7	11.6	11.8	11.8	11.8	11.8	11.8
Nominal GDP (billions of Nepalese Rupees)	3,031	3,464	3,735	3,892	3,735	4,354	4,117	4,638	5,163	5,721	6,338

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

Note: The size of COVID-19-related measures is 2.3 percent in FY19/20, 1.7 percent in FY20/21.

1/ Fiscal year ends in mid-July.

2/ 30 percent of VAT and domestic excise revenues are shared with sub-national governments.

3/ Net incurrence of foreign liabilities reflects pre-COVID identified financing and new financing (identified as of April 15) to support the COVID-response, including the IMF-RCF (US\$214 million), Asian Development Bank (US\$250 million), and World Bank (US\$29 million).

Note: 2020 Article IV Baseline is based on data as of end-Jan 2020, while current baseline forecast is as of April 15, 2020.

**Table 5. Financial Soundness Indicators, 2013/14–2018/19<sup>1</sup>**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(in percent)					
<b>Capital adequacy</b>						
Capital to risk weighted assets	13.4	12.6	12.2	12.9	14.7	14.1
Tier 1 capital to risk weighted assets	11.8	11.0	10.4	11.4	13.4	12.8
<b>Asset quality</b>						
NPLs to total loans	1.9	2.5	2.1	1.5	1.4	1.3
Loan loss provision to total loans	2.4	2.9	2.7	2.2	2.1	1.9
<b>Earnings and profitability</b>						
Return on equity (ROE)	28.2	26.9	28.0	17.8	18.8	15.0
Return on assets (ROA)	1.7	1.5	1.5	1.8	1.8	1.6
Interest income to gross income	83.4	82.6	78.9	78.7	79.7	84.5
Non-interest expenditures to gross income	18.3	18.9	21.1	19.4	17.9	15.2
Employees expenses to non-interest expenditures	43.1	44.6	45.0	46.4	48.4	50.8
<b>Liquidity</b>						
Liquid assets to total assets	25.3	24.4	24.7	23.0	19.3	18.4
Liquid assets to total deposits	30.4	29.2	29.4	26.9	23.5	22.8
<b>Exposure to real estate</b>						
Share of real estate and housing loans	16.1	15.1	14.9	14.9	14.2	13.4
Share of loans collateralized by land and buildings	50.9	51.7	52.5	59.9	59.1	59.7

Source: Nepali authorities.

<sup>1/</sup> Data for "A" class commercial banks, excluding state owned banks. Data presented as at the end of the fiscal year (i.e. in mid-July for the year indicated).

Table 6. Indicators of Capacity to Repay the Fund, 2020-2034

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Fund obligations based on existing credit (millions of SDRs)															
Principal	2.9	7.1	7.1	7.1	7.1	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.07	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Fund obligations based on existing and prospective credit (millions of SDRs)															
Principal	2.9	7.1	7.1	7.1	7.1	22.8	31.4	31.4	31.4	31.4	15.7	0.0	0.0	0.0	0.0
Charges and interest	0.07	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Total obligations based on existing and prospective credit															
Millions of SDRs	2.9	7.2	7.2	7.2	7.2	22.9	31.4	31.4	31.4	31.4	15.7	0.0	0.0	0.0	0.0
Billions of Nepali Rupees	0.5	1.2	1.2	1.2	1.3	4.2	6.0	6.2	6.4	6.6	3.4	0.0	0.0	0.0	0.0
Percent of exports of goods and services	0.2	0.4	0.3	0.3	0.3	0.8	1.0	0.9	0.8	0.8	0.4	0.0	0.0	0.0	0.0
Percent of debt service	0.6	1.1	0.9	0.7	0.7	1.9	2.2	2.0	1.8	1.7	0.8	0.0	0.0	0.0	0.0
Percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0
Percent of quota	1.9	4.6	4.6	4.6	4.6	14.6	20.0	20.0	20.0	20.0	10.0	0.0	0.0	0.0	0.0
Outstanding IMF credit based on existing and prospective drawings															
Millions of SDRs	192.6	185.4	178.3	171.2	164.0	141.2	109.8	78.5	47.1	15.7	0.0	0.0	0.0	0.0	0.0
Billions of Nepali Rupees	30.0	29.8	29.6	29.3	29.1	25.9	20.9	15.4	9.5	3.3	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	10.8	9.7	7.9	6.9	6.1	4.8	3.5	2.3	1.3	0.4	0.0	0.0	0.0	0.0	0.0
Percent of debt service	36.5	28.0	21.5	17.9	15.1	11.7	7.6	5.0	2.8	0.8	0.0	0.0	0.0	0.0	0.0
Percent of GDP	0.8	0.7	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	3.5	3.1	2.7	2.4	2.1	1.7	1.2	0.8	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Percent of quota	122.7	118.2	113.6	109.1	104.5	90.0	70.0	50.0	30.0	10.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)															
Disbursements	154.1	-7.1	-7.1	-7.1	-7.1	-22.8	-31.4	-31.4	-31.4	-31.4	-15.7	0.0	0.0	0.0	0.0
Repayments and repurchases	156.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	2.9	7.1	7.1	7.1	7.1	22.8	31.4	31.4	31.4	31.4	15.7	0.0	0.0	0.0	0.0
Memorandum items:															
Exports of goods and services (millions of SDRs)	1,788	1,919	2,262	2,469	2,679	2,913	3,164	3,436	3,733	4,056	4,408	4,791	5,207	5,661	6,155
Debt service (billions of NPR)	82.2	106.5	137.3	163.9	192.6	220.4	273.5	309.6	344.0	386.0	431.8	461.4	517.2	579.8	651.0
Nominal GDP (at market prices, billions of NPR)	3,735	4,117	4,638	5,163	5,721	6,338	7,082	7,869	8,743	9,714	10,793	11,992	13,324	14,804	16,448
Government revenue (billions of NPR)	850	976	1,101	1,222	1,360	1,508	1,696	1,885	2,093	2,325	2,582	2,867	3,184	3,539	3,934
Quota (millions of SDRs)	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9

Source: IMF

## Appendix I. Letter of Intent

Kathmandu, Nepal

April 29, 2020

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The Covid-19 pandemic is posing a severe threat to both the lives of the general public and the level of economic activity across the globe.
2. The pandemic is adversely affecting the main sources of Nepal's foreign currency earnings and growth. Remittances are falling as a result of the slowdown of economic activity in destination countries (namely Gulf Cooperation Council countries, India, and Malaysia) and travel restrictions for Nepali workers. Tourism is severely affected by the worldwide collapse in air travel and border closures. Exports have been negatively affected. Supply disruptions and labor shortages are causing delays in infrastructure projects. Domestic activity has also taken a toll amidst social distancing measures.
3. Against this backdrop, the country is experiencing an exceptional balance of payments need. While there is a high degree of uncertainty regarding the duration and scale of the COVID-19 impact, we currently anticipate that real output growth in FY2019/20 will fall short by about 5 percent as per IMF estimates, compared to the pre-COVID outlook. The deterioration in the balance of payments is giving rise to a balance of payments need projected to be in the order 3.0 percent of GDP.
4. Our fiscal situation will be affected by a shortfall in tax revenue as well as emerging spending pressures. The fiscal deficit is estimated to widen by about 2.7 percent of GDP. We will need significant budget resources to address higher spending on health and social assistance. We are facing fiscal financing needs of about 2.6 percent of GDP.



5. To face the immediate external financing needs, the Government of Nepal requests emergency financing from the IMF under the “exogenous shock” window of the Rapid Credit Facility (RCF) in the amount of SDR156.9 million (US\$214 million), equivalent to 100 percent of quota. IMF debt relief provided under the Catastrophe Containment and Relief Trust (CCRT) (SDR 2.85 million; US\$ 3.85 million) will also help to close the financing gap. We are actively seeking additional budget financing from our development partners, and we are confident that IMF support will play a catalytic role. In this regard, The World Bank has approved a fast-track \$29 million COVID-19 Emergency Response and Health Systems Preparedness Project and the Asian Development Bank is processing a pandemic response loan under the Countercyclical Support Facility for up to US\$250 million. We also intend to request debt service reprofiling from official bilateral creditors (including export-import banks) over the period May 1 and December 31, 2020 to address immediate needs, which would free-up resources of up to US\$31 million for social, health or economic spending to respond to the COVID-19 pandemic.

6. We intend to use the RCF disbursement to help fill the projected fiscal financing gap. We request that the RCF disbursement be made directly to the Federal Treasury. We commit to a Memorandum of Understanding (MOU) between the NRB and Ministry of Finance. The MOU will specify (i) the maintenance of a specific government account at the central bank (as a subaccount of the Federal Treasury) to receive IMF resources; (ii) the requirement that the government should hold foreign exchange balances only with the central bank; and (iii) the establishment of a clear framework agreement between the NRB and the Ministry on the responsibilities for servicing financial obligations to the IMF.

7. We recognize the importance of good governance, transparency and accountability, and tackling corruption and related money laundering. We commit to ensure that the funds provided by the IMF will be effectively used to safeguard public health, save lives, support livelihoods, and support the economic recovery. To that effect, we will put in place transparent and accountable reporting mechanisms and controls for public purchases and contracting processes. In this regard, we commit to report quarterly on the spending of these funds and to commission an independent audit by the Office of Auditor General of Nepal of COVID-19 related spending in about a year’s time. We will publish the quarterly reports and audit results on the website of the implementing agencies. We will also publish on the implementing agency website large public procurement documentation together with ex-post validation of delivery along with the name of awarded companies and the

name of their beneficial owner(s). All COVID-19 related expenditures will be allocated and executed using existing public financial management processes and within legislated frameworks. The allocation details will be made public on the Ministry of Finance website.

8. We remain committed to policies that promote inclusive growth, while containing external pressures, protecting financial stability, and preserving fiscal sustainability. On fiscal policy, the priority remains to protect fiscal sustainability while containing external and domestic pressures. We remain committed to maintaining fiscal discipline, by continuing to strengthen the tax system and managing expenditure closely to keep the deficit in check. We will continue to make improvements to our public financial management practices, while carefully managing the transition to fiscal federalism. On monetary policy, we will continue to strengthen the monetary policy framework to support financial market development and improve policy signaling and transmission. On the financial sector policy, we will continue to implement macroprudential measures to limit the buildup of systemic risk in the financial sector while taking actions to further strengthen bank supervision and regulation. We also remain committed to strengthening the investment climate in Nepal, including through structural reforms that encourage high-quality public- and private-sector investment projects, in particular FDI.

9. In line with IMF safeguards policy, we commit to undergoing a new safeguards assessment of the NRB and will continue providing Fund staff with the NRB's audit reports and authorize its external auditors to hold discussions with staff.

10. We do not intend to introduce measures or policies that would exacerbate the current balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

11. We remain committed to continue to disclose all public sector financial commitments on a timely basis to the IMF/World Bank Group. We will request technical assistance from the IMF as needed to ensure adequate reporting according to GFSM 2014 definitions.

12. We are determined to meet the immense challenge we are facing due to the COVID-19 pandemic. Support from the international community will be critical, and we look forward to an early

approval of financial assistance by the IMF. Beyond this much needed immediate financial assistance, we reaffirm our willingness to remain engaged with the IMF and to benefit from its policy advice and its capacity development support.

13. We authorize the IMF to publish this letter and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/

Dr. Yuba Raj Khatiwada  
Finance Minister

/s/

Mr. Maha Prasad Adhikari  
Governor, Nepal Rastra Bank