

Impact of COVID-19 on Nepal's Economy

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Summary

Due to the COVID-19 pandemic, Nepal's economy is facing a slowdown. Various countries and international institutions have come forward to help the country in its revival. The Nepal government has also announced a slew of measures. The efficacies of these efforts have to be observed.

Introduction

Nepal's economy is largely driven by agriculture which contributed about 26.98 per cent to the country's gross domestic product (GDP) in 2019, a decline from 27.59 per cent in the previous fiscal year.¹ After agriculture, it is remittances which contribute substantially to the country's economy. According to a report by Nepal Rastra Bank, in fiscal year 2018-19, remittances contributed to nearly 25 per cent of its GDP.² Tourism is another significant sector of its economy. All these sectors are now facing an acute crisis due to the COVID-19 pandemic. It is now estimated that Nepal could record a real GDP at basic prices of around two per cent or lower.³ This will severely affect a country where nearly 18 per cent of its population lives below the poverty line.⁴ This paper looks at the economic condition of Nepal before the COVID-19 spread, impact of the pandemic on its economy and measures taken to deal with the situation.

Nepal's Economic Health before COVID-19

Nepal's total economy is around US\$32 billion (S\$44.73 billion) annually. Since 2016, the country has been rebuilding its economy. During this rebuilding phase, it recorded a six per cent plus economic growth rate,⁵ and touched 7.1 per cent in 2019.⁶ Riding on such a consistent growth rate, Prime Minister K P Oli's government had been focusing on Nepal's

¹ Sangam Prasain, 'Agriculture's share in gross domestic product shrinks to 26.98 percent: Survey', *The Kathmandu Post*, 28 May 2020, <https://kathmandupost.com/money/2019/05/28/agricultures-share-in-gross-domestic-product-shrinks-to-2698-percent-survey>. Accessed on 28 May 2020.

² 'Over 50 Per Cent Of Remittance To Nepal Comes From Gulf Countries', *The Rising Nepal*, 28 January 2020, <https://risingnepaldaily.com/mustread/over-50-per-cent-of-remittance-to-nepal-comes-from-gulf-countries>. Accessed on 12 May 2020.

³ National Planning Commission, Government of Nepal 'Kendriya Tathyanka Vibhag (National Statistics Department)', <https://cbs.gov.np/wp-content/uploads/2020/04/CBS-GDP-Press-Release-2077-1-17-new.pdf>, p 2. Accessed on 1 June 2020.

⁴ Nepal Planning Commission, Government of Nepal '15th Plan', https://npc.gov.np/images/category/15th_Plan_Final1.pdf. Accessed on 12 June 2020.

⁵ Arun Budhathoki, 'COVID-19 Imperils Nepal's High Economic Ambitions', *The Diplomat*, 15 April 2020, <https://thediplomat.com/2020/04/covid-19-imperils-nepals-high-economic-ambitions/>. Accessed on 14 June 2020.

⁶ The World Bank 'Nepal Development Update', <https://www.worldbank.org/en/country/nepal/publication/nepaldevelopmentupdate>. Accessed on 8 June 2020.

graduation from the 'Least Developed Country' status to the league of developing countries by 2022.⁷ In 2020, it had hoped to achieve a growth rate of 8.5 per cent.⁸

However, the high growth did not generate much employment. The Nepal Labour Force Survey of 2019 revealed that 20.7 million out of the total 29 million people (2019) are of working age. However, only 7.1 million people are employed. This works out to an unemployment rate of around 11.4 per cent. Moreover, female unemployment percentage is higher than the national average at 13.1 per cent.⁹

Due to a shortage of jobs near their homes, a large number of its citizens migrate to the other parts of Nepal or other countries. It is estimated that about 10.5 million or 36.2 per cent of Nepalese are lifetime migrants.¹⁰ Internal migration in Nepal is much higher than the number of people who migrate overseas. Among foreign destinations, Nepali migrants are highly concentrated in the Gulf Cooperation Council countries and Malaysia.¹¹ India is also a favourite destination for many Nepali migrant workers. In terms of remittances, in 2019, Nepal received NRs128.5 billion (\$1.48 billion) from India and NRs750 billion (\$8.62 billion) from other countries.¹²

Tourism is one of the thriving industries in Nepal. In 2018, about 1.17 million tourists visited Nepal.¹³ According to the World Travel and Tourism Council (WTTC), the travel and tourism sector pumped around NRs73 billion (\$2.89 billion) into Nepal's economy and supported over 1.05 million jobs. The WTTC stated that tourism accounted for 7.9 per cent of Nepal's GDP in 2018, up by 3.6 per cent from 2017.¹⁴

Nepal has a small number of manufacturing units which fulfill local demands, export goods and provide employment to a number of Nepali citizens. According to the Economic Survey of Nepal 2018/2019, gross value added by manufacturing sector in 2020 was estimated to be 5.8 per cent. For the last five years, annual average contribution of industrial production to GDP has been 5.5 per cent.¹⁵

⁷ 'Govt's prime focus will be to graduate Nepal from LDC status by 2022', *The Himalayan*, 22 April 2018, <https://thehimalayantimes.com/business/government-prime-focus-will-be-to-graduate-nepal-from-least-developed-country-status-by-2022/>. Accessed on 14 June 2020.

⁸ 'World Bank projects Nepal's GDP growth rate to average at 6.5%', *My Republica*, 14 October 2019, <https://myrepublica.nagariknetwork.com/news/world-bank-projects-nepal-s-gdp-growth-rate-to-average-at-6-5/>. Accessed on 18 May 2020.

⁹ Nepal Planning Commission, Government of Nepal 'Nepal Labour Force Survey, 2017/2018', https://cbs.gov.np/wp-content/uploads/2019/04/NLFS-III_Final-Report.pdf, p XI. Accessed on 12 June 2020.

¹⁰ Ibid, p 55.

¹¹ Ministry of Labour, Employment and Social Security Ministry, Government of Nepal, 'Nepal Labour Migration Report, 2020', <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf>, p 13. Accessed on 11 June 2020.

¹² 'Over 50 Per Cent Of Remittance To Nepal Comes From Gulf Countries', op cit.

¹³ Sangam Prasain, 'Nepal tourism generated Rs 240b and supported 1m jobs last year: Report', *The Kathmandu Post*, 26 May 2020, <https://kathmandupost.com/money/2019/05/26/nepal-tourism-generated-rs240b-and-supported-1m-jobs-last-year-report>. Accessed on 30 May 2020.

¹⁴ Ibid.

¹⁵ Ministry of Finance, Government of Nepal 'Nepal Economic Survey, 2019', https://mof.gov.np/uploads/document/file/compiled%20economic%20Survey%20english%207-25_20191111101758.pdf. Accessed on 28 May 2020.

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Almost all the sectors of Nepal's economy have been badly hit by COVID-19. During the federal budget speech on 28 May 2020, Finance Minister, Dr Yuba Raj Khatriwada, lowered the country's growth forecast to 2.3 per cent due to COVID 19.¹⁶ This is much below Nepal's growth rate in 2018 and 2019.¹⁷ A study conducted by Ganesh Man Singh Academy has estimated that due to COVID-19 and the subsequent lockdown, Nepal has been losing NRs10 billion (S\$11.58 million) per day.¹⁸

As a result of this pandemic, between 500,000 and 600,000 migrant workers are expected to return to Nepal.¹⁹ It is also estimated that between 10 and 30 per cent of the jobs held by Nepalese in the Gulf countries and Malaysia have been lost.²⁰ This will affect remittances which, as projected by the Central Bureau of Statistics, may decline to around 19.01 per cent of the country's GDP.²¹

A slump in the economy affects employment. According to a study by the National Planning Commission, it is estimated that more than six million people will be unemployed because of the pandemic.²² Another report by the International Labour Organization (ILO) predicts that 3.7 million Nepalese are facing employment issues due to the pandemic. The ILO report further states that the current pandemic has led to an immediate disruption of around 1.6 million to two million jobs in Nepal, where there is either complete unemployment or reduced working hours and salaries.²³

According to Nepal Tourism Board (NTB), the number of incoming tourists has decreased from 81,273 in January 2019 to 79,686 in January 2020, down by two per cent.²⁴ Since March 2020, tourist arrivals have been almost stopped. The preliminary findings from a

¹⁶ 'Nepal Focuses on health spending to fight COVID 19 in annual budget', *The Financial Express Online*, 29 May 2020, <https://thefinancialexpress.com.bd/economy/nepal-focuses-on-health-spending-to-fight-covid-19-in-annual-budget-1590736417>. Accessed on 30 May 2020.

¹⁷ Ministry of Finance, Government of Nepal 'Nepal Economic Survey, 2019', op cit.

¹⁸ '(Lockdownle 10 arabkshati, 2 kharboke aarthik package aawashyak (Lockdown requires Rs 10 billion daily loss, Rs 2 trillion financial package)', *Setopati Online News*, 24 May 2020, <https://www.setopati.com/kinmel/others/205809>. Accessed on 29 May 2020.

¹⁹ Chandan Kumar Mandal, 'At least 500,000 migrant workers want to return home at the earliest, says report', *The Kathmandu Post*, 21 May 2020, <https://kathmandupost.com/national/2020/05/21/at-least-500-000-migrant-workers-want-to-return-home-at-the-earliest-says-report>. Accessed on 14 June 2020.

²⁰ Ibid.

²¹ 'Nepal's economic growth set to slump to 2.7 percent' *South Asia Monitor*, 30 April 2020, <https://southasia.monitor.org/development/nepals-economic-growth-set-slump-227-percent>. Accessed on 10 June 2020.

²² Deepak Bhatt, 'Lockdown karan khosiyo 60 lakh Nepaliko Rojgar (6 million Nepali will lose job due to lockdown)', *Nepalkhabar Online Paper*, 5 May 2020, <https://nepalkhabar.com/economy/27448-2020-05-19-16-36-46> Accessed on 30 May 2020.

²³ Gajendra Budhathoki, 'Gharbandi ka karan 37 lakh nepali rojgar sankat ma (37 lakh Nepali face employment crisis due to lockdown)', *News Karobar Online*, 9 May 2020, <https://www.newskarobar.com/news/157643.html> Accessed on 10 May 2020.

²⁴ 'Nepal sees slight decline in tourists in January, India remains its top source', *Business Standard*, 11 February 2020, https://www.business-standard.com/article/pti-stories/nepal-sees-slight-decline-in-tourists-in-january-india-remains-its-top-source-120021101224_1.html. Accessed on 12 May 2020; and 'NTB Lobbies for Relief Package to Sustain the Economy', Nepal Tourism Board (17 May 2020), <https://trade.welcomenepal.com/ntb-lobbies-for-relief-package-to-sustain-the-industry/>. Accessed on 30 May 2020.

study undertaken by the NTB highlighted that Nepal's tourism sector has already lost about NRs25 billion (S\$29 million) in earnings and around 272,000 people engaged in this sector have lost their jobs.²⁵ In addition, the pandemic crisis has closed down 2,600 trekking agencies, forced about 20,000 tour and trekking guides to stay inside their homes, compelled 73 rafting agencies to put their boats in stand and the airlines have grounded all their 58 planes and 33 helicopters.²⁶

Handicrafts, a small scale but revenue generating industry, has faced a loss of about NRs200 million (S\$2.3 million). The exports of these items fell by 95 per cent during the last two months.²⁷ This sector provides direct and indirect employment to more than 1.1 million people and contributes NRs20 billion (S\$23 million) to the national economy through exports and domestic sales.²⁸

The decline in the economy has affected the government's revenue collection. On 14 June 2020, Khatiwada said that the country is facing deficit in current revenue collection to meet the liabilities of the government, "We spend around NRs40 billion (S\$46 million) a month to meet basic liabilities. But we have been collecting only around NRs15 billion (S\$17 million) a month from the customs and a few billion rupees from other internal revenues."²⁹

Assistance to Fight against COVID-19

In the midst the current global health emergency, a number of countries and international institutions have come forward to help Nepal. Assistance received by Nepal is mentioned in Table 1.

Table 1: Support Grated by foreign governments and entities to fight COVID-19

Date	Country/Institution	Nature and Quantity of Support	Value	Remarks
13/4/20	Department for International Development, United Kingdom		NRs1.2 billion (S\$14 million)	Grant
13/4/20	Xi'an Municipality, Shaanxi, China	30,000 medical masks, 1,000 N95 masks, 500 personal protective units, 100 goggles, 30 forehead thermometers, 1 ventilator	NRs10.8 million (S\$0.12 million)	Butwal Sub Metropolitan City
16/4/20	G20	Suspended debt service payments for		G20 finance

²⁵ 'Parytanma 25 Arab Khsati (25 Billion loss in Tourism),' *Kantipur Daily News*, 6 May 2020, <https://ekantipur.com/business/2020/05/06/158872950580586857.html>. Accessed on 28 May 2020.

²⁶ Ibid.

²⁷ Krishana Parsain, 'Lockdown wipes out handicraft trade as exports to drop', *The Kathmandu Post*, 29 April 2020, <https://kathmandupost.com/money/2020/04/29/lockdown-wipes-out-handicraft-trade-as-exports-drop-to-zilch>. Accessed on 15 May 2020.

²⁸ Ibid.

²⁹ Prithvi Man Shrestha, 'Finance minister shows bleak revenue situation as court halts revenue collection', *The Kathmandu Post*, 14 June 2020, <https://kathmandupost.com/national/2020/06/14/finance-minister-shows-bleak-revenue-situation-as-court-halts-revenue-collection>. Accessed on 14 June 2020.

		world's poorest countries through the end of the year		ministers' meeting
20/4/20	United Nations Population Fund	1200 PPE	NRs30.48 million (S\$0.36 million)	
22/4/20	Xizang AR. China	10000 N95 masks, 10000 PPE, 1000 infrared thermometers, 2000 testing kits, 20000 VTMs, 50 boxes wet wipes		Through Tatopani
22/4/20	India	825,000 dosages of essentials medicine, 320,000 dosages of paracetamol, 250,000 dosages of hydroxychloroquine		
25/4/20	Temasek Foundation, Singapore	10,000 Fortitude Kit 2.0		
27/4/20	European Union		NRs9.8 million (S\$0.11 million)	NRs7.2 billion (S\$1 million reorientation of existing funds/res new commitment)
29/4/20	Qatar	725,000 PPE		Qatar Fund for Development
30/4/20	Buddhist Association Hainan, China	200,000 medical masks, 10,000 N95 masks		Hingfa temple in Shenzhen city and Chinese temple in Lumbini
30/4/20	United Arab Emirates	7 tons of medical supplies		
2/5/20	Germany	3,000 PCR test kits		
9/5/20	International Monetary Fund	S\$300 million		Rapid credit facility (100 per cent of quota)
11/5/20	China	40,000 units of diagnostic kits, 10,000 units of disposable coverall, 40,000 units of medical goggles, 200,000 units of N95 masks and 800,000 units of Surgical masks		Chinese Embassy in Kathmandu
1/6/2020	Asian Development Bank	US\$214 million (S\$98 million)		
1/6/2020	Tibet (China)	US\$650,00 (S\$900,000)		PCR, ventilator and X-ray portable machine for Province 1
7/4/2020	World Bank	US\$29 million (S\$40.4 million)		Soft loan

Source: Compiled by Keshav Bashyal from various news reports, Ministry of Finance, Government of Nepal (2020) and the World Bank.³⁰

³⁰ The World Bank, 'The government of Nepal and the World Bank sign \$ 29 million financing Agreement for Nepal's COVID-19 Response', 7 April 2020. <https://www.worldbank.org/en/news/press-release/2020/04/03/world-bank-fast-tracks-29-million-for-nepal-covid-19-coronavirus-response>. Accessed on 20 May 2020.

Measures to Revive Nepal's Economy

Initially, on 29 March 2020, the Nepal government announced several measures to tackle COVID-19 related economic challenges.³¹ It extended the deadline for affected borrowers to repay the interest and capital amount to banks and financial institutions. To reduce the impact on the country's foreign exchange reserves, quota for gold import has been reduced from 20 kilogrammes per day to 10 kilogrammes per day. The import of vehicles above US\$50,000 (S\$69,481) and agricultural goods such as dates, betel nuts, garden peas and black pepper have been stopped.³²

In May 2020, during his budget speech, Khatiwada announced a relief package of NRs70 billion (S\$978 million) to revive the economy. This package included refinancing facility to businesses amounting to NRs20 billion (S\$23 million).³³ The government has also decided to mobilise around NRs14 billion (S\$16 million) to subsidise the interest of business loans. The 2020/21 budget has also provided business loans at five per cent interest rate. There will be also tax discount amounting to about NRs6.5 billion (S\$7.5 million) to benefit the business community.³⁴ Demand charges on electricity for industries have been waived. Water supply and irrigation facilities will receive electricity at a 50 per cent discounted rate.³⁵ The electricity bill for individual households has been discounted as well.³⁶

Conclusion

The COVID-19 pandemic has greatly affected the Nepal economy. To address the challenges, the government announced certain measures, while several countries and international institutions have provided some assistance. All of these efforts may reduce the impact of the pandemic and improve the country's economic situation. However, the extent of recovery has to be empirically observed.

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³¹ Ministry of Finance, Government of Nepal, 'Council of Ministers Decision Implementation Action Plan, 2076 to provide relief facilities for the areas affected by COVID 19', <https://mof.gov.np/en/2020/03/31/news/news/2120/>. Accessed on 20 May 2020.

³² Ibid.

³³ 'Full Budget Speech and Aarthik Bidheyak of FY 2077/78 as unveiled by FM Mr. Yuba Raj Khatiwada', Share Sansar, 29 May 2020, <https://www.sharesansar.com/newsdetail/full-budget-speech-and-aarthik-bidheyak-of-fy-207778-as-unveiled-by-fm-mr-yuba-raj-khatiwada>, Accessed on 30 May 2020.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid.