

This is a brief summary of analysis on impact of the COVID-19 outbreak on Nepalese Economy. It obvious that various channels through which economies will be affected. Quantifying the likely magnitudes of the effects under a range of scenarios is a real challenge. Analyst need to be explicit about the scenario assumptions, and the methods used to calculate the impact. The COVID-9 is likely to impact Nepalese fiscal numbers in FY 2019/20. COVID-19 will have an impact on GDP though Trade, Hotels, Transport, Manufacturing, construction and supply chain disruptions this will have pressure on BOP. Though Government of Nepal has already take plethora of steps to prevent the spread of COVID-9, all eyes are now on the rise in active cases in current week and week as this determine the extent of our preparedness.

Importantly, the brief provides estimates not only of the overall economic impact, but also granular details on how different formal sector of Nepalese economy—and sectors within economies—will be affected, including under an illustrative worst-case scenario for an economy that experiences a significant outbreak. Channels through which economies will be affected are listed below:

- a. A sharp but temporary decline in domestic consumption, resulting from behavioral and/or policy changes—people staying home as a precaution,
- b. Sharp drop in international and domestic tourism
- c. Substantial production disruptions as a result of forced business closures and the inability of workers to get to work,
- d. Substantial reduction on agriculture and farming activities,
- e. Disruptions to trade and business as a result of border closures, travel bans, and other restrictions on the movement of goods, people, and capital,
- f. Sharp decline in capital expenditure of government.

As the financial year comes to a close and fiscal pressures mount on the government, the direct tax collections expected to fall as a result of COVID-19 and the indirect tax will also witness sharp fall as the result of decline in domestic demand and supply chain disruption. Tax collections as of today stand at Rs 522 billion from Mid July 2019 till 1st April 2020 as against the target of Rs 1,009 billion. Out of total expected revenue of Rs 1,112 billion the government has received corporate and other taxes around 51.41% till April 2020.

Amid the Covid-19 outbreak, a combination of monetary policy, entailing the maintenance of a proactive liquidity regime and facilitating stability in financial markets, and fiscal policy involving the provision of relief to people at the lower strata, who will lose income because of the shutdown of commercial activity, will be the best option. Further NRB also need to consider a degree of prudential forbearance in specific sectors such as hotels, aviation, transport, metals, auto components, manufacturing, agriculture, construction, wholesaler and Retailers. Furthermore, given the risk of using currency notes in times of pandemic, incentivizing digital payments further could be an effective solution.

However, extraordinary times all for extraordinary measures and out of box thinking! Thus strong recommendation to government is to create domestic demand by supporting people at bottom of pyramid who are already facing the brunt of loss of jobs and strong fiscal support to stimulate economy. Additionally, NRB should come out with a comprehensive forbearance scheme for sectors that are being negatively impacted like Tourism, Automobiles, construction, Food Processing and entertainment etc.!

Sectorwise impact is given below.

COVID-19 - Impact on Exposure of Banking Sector Updated on 5th April 2020							
Heading	Feb-20	Before COVID-19		After COVID-19		(Rs. in million)	
		Interest Income	LLP	Interest Income	LLP	Revenue	LLP
1. Agriculture*	214,465.16	27,021.02	2,144.65	23,238.20	4,106.63	(3,782.83)	(1,961.98)
1.1 Farming /Farming Service	34,234.70	4,022.58	342.35	3,533.91	587.55	(488.67)	(245.21)
1.2 Tea	3,970.19	456.57	39.70	401.11	67.69	(55.47)	(27.99)
1.3 Animals Farming/Service	79,555.25	9,944.41	795.55	8,574.47	1,480.61	(1,369.93)	(685.06)
1.4 Forest, Fish Farming, and Slaughter	2,581.56	361.42	25.82	310.85	51.09	(50.57)	(25.27)
1.5 Other Agriculture and Agricultural Services	94,123.45	12,236.05	941.23	10,417.86	1,919.68	(1,818.19)	(978.45)
2. Mines	6,917.45	828.56	69.17	735.99	127.62	(92.57)	(58.45)
2.1 Metals (Iron, Lead, etc.)	3,942.48	473.10	39.42	420.24	72.78	(52.86)	(33.36)
2.2 Charcoal	213.55	25.63	2.14	22.76	3.94	(2.86)	(1.81)
2.3 Graphite	950.58	114.07	9.51	101.33	17.55	(12.74)	(8.04)
2.4 Magnesite	24.68	2.96	0.25	2.63	0.46	(0.33)	(0.21)
2.5 Chalks	59.13	7.10	0.59	6.30	1.09	(0.79)	(0.50)
2.6 Oil and Gas Extraction	307.36	35.35	3.07	31.40	5.59	(3.95)	(2.52)
2.7 About Mines Others	1,419.65	170.36	14.20	151.33	26.21	(19.03)	(12.01)
3. Productions	527,876.05	61,834.95	5,278.76	55,869.48	10,193.12	(5,965.47)	(4,914.36)
3.1 Food Production (Packing and Processing)	62,741.17	8,156.35	627.41	7,192.09	1,209.02	(964.26)	(581.61)
3.2 Agriculture and Forest Production	25,368.37	3,044.20	253.68	2,677.66	484.26	(366.54)	(230.58)
3.3 Drinking Materials (Bear, Alcohol, Soda, etc.)	24,934.03	3,044.20	249.34	2,768.72	462.20	(275.49)	(212.86)
3.4 Tobacco	658.83	74.12	6.59	65.84	11.79	(8.28)	(5.20)
3.5 Handicrafts	10,430.63	1,355.98	104.31	1,160.42	215.72	(195.56)	(111.41)
3.6 Sunpat	-	-	-	-	-	-	-
3.7 Textile Production and Ready Made Clothings	19,514.87	2,439.36	195.15	2,209.07	505.94	(230.29)	(310.79)
3.8 Log and Timber Production / Furniture	21,752.10	2,664.63	217.52	2,381.42	405.99	(283.22)	(188.47)
3.9 Paper	10,554.22	1,266.51	105.54	1,136.01	194.27	(130.50)	(88.73)
3.10 Printing and Publishing	10,440.50	1,226.76	104.41	1,071.05	196.36	(155.71)	(91.95)
3.11 Industrial and Agricultural	-	-	-	-	-	-	-
3.12 Medicine	18,751.11	2,250.13	187.51	2,106.06	320.56	(144.07)	(133.05)
3.13 Processed Oil and Charcoal Production	3,654.56	475.09	36.55	447.00	63.03	(28.10)	(26.49)
3.14 Rasin and Tarpin	1,352.13	175.78	13.52	165.38	23.32	(10.40)	(9.80)
3.15 Rubber Tyre	973.74	121.72	9.74	114.65	16.59	(7.07)	(6.85)
3.16 Leather	1,205.23	144.63	12.05	136.58	19.74	(8.04)	(7.69)
3.17 Plastic	24,942.24	2,793.53	249.42	2,572.17	462.36	(221.36)	(212.93)
3.18 Cement	102,111.06	11,232.22	1,021.11	10,256.26	1,933.11	(975.95)	(912.00)
3.19 Stone, Soil and Lead Production	16,562.17	1,987.46	165.62	1,814.77	323.30	(172.69)	(157.68)
3.20 Metals - Basic Iron and Steel Plants	106,738.95	11,741.28	1,067.39	10,631.30	2,074.69	(1,109.99)	(1,007.30)
3.21 Metals - Other Plants	7,539.93	867.09	75.40	785.12	148.90	(81.97)	(73.50)
3.22 Miscellaneous Productions	57,650.20	6,773.90	576.50	6,177.92	1,121.96	(595.98)	(545.46)
4. Construction	341,029.56	38,573.90	3,410.30	35,150.07	6,692.53	(3,423.83)	(3,282.24)
4.1 Residential	274,412.66	30,871.42	2,744.13	28,191.61	5,329.43	(2,679.81)	(2,585.32)
4.2 Non Residential	16,611.79	1,951.88	166.12	1,782.45	327.70	(169.43)	(161.58)
4.3 Heavy Constructions (Highway, Bridges, etc.)	50,005.11	5,750.59	500.05	5,176.01	1,035.38	(574.58)	(535.33)
5. Metal Productions, Machinery, and Electrical Tools and fi	40,525.41	4,762.48	405.25	4,435.56	790.60	(326.92)	(385.34)
5.1 Fabricated Metal Equipments	8,908.76	1,046.78	89.09	969.55	173.38	(77.23)	(84.29)
5.2 Machine Tools	299.46	35.94	2.99	33.28	5.87	(2.65)	(2.88)
5.3 Machinery - Agricultural	3,961.86	465.52	39.62	435.71	77.10	(29.81)	(37.49)
5.4 Machinery - Construction, Oil, and Mines	2,088.49	245.40	20.88	230.09	40.09	(15.31)	(19.21)
5.5 Machinery - Office and Computing	1,043.72	122.64	10.44	114.25	20.35	(8.39)	(9.91)
5.6 Machinery - Others	2,920.38	343.14	29.20	318.92	58.49	(24.22)	(29.28)
5.7 Electrical Equipments	6,876.91	808.04	68.77	751.00	137.73	(57.03)	(68.96)
5.8 Home Equipments	5,321.51	625.28	53.22	579.09	108.46	(46.18)	(55.24)
5.9 Communications Equipments	2,855.73	335.55	28.56	314.06	53.05	(21.48)	(24.49)
5.10 Electronic Parts	4,580.50	538.21	45.80	505.50	85.09	(32.71)	(39.29)
5.11 Medical Equipments	1,409.35	165.60	14.09	155.53	26.18	(10.06)	(12.09)
5.12 Generators	251.98	29.61	2.52	27.81	4.68	(1.80)	(2.16)
5.13 Turbines	6.78	0.80	0.07	0.76	0.12	(0.04)	(0.05)
6. Transportation Equipment Production and Fitting	47,164.88	5,942.35	471.65	5,479.80	1,023.32	(462.55)	(551.67)
6.1 Vehicles and Vehicle Parts	33,711.28	4,382.47	337.11	4,116.23	629.68	(266.23)	(292.57)
6.2 Jet Boat/Water Transportation	27.05	3.18	0.27	2.99	0.49	(0.19)	(0.22)
6.3 Aircraft and Aircraft Parts	7,264.25	817.23	72.64	703.76	251.83	(113.47)	(179.18)
6.4 Other Parts about Transportation	6,162.30	739.48	61.62	656.82	141.32	(82.66)	(79.70)
7. Transportation, Communications and Public Services	194,775.90	23,373.11	1,947.76	21,683.33	4,194.49	(1,689.78)	(2,246.73)
7.1 Railways and Passengers Vehicles	16,560.02	1,987.20	165.60	1,765.08	379.78	(222.13)	(214.18)
7.2 Truck Services and Store Arrangements	15,396.03	1,847.52	153.96	1,629.00	386.27	(218.52)	(232.31)
7.3 Pipe Lines Except Natural Gas	-	-	-	-	-	-	-
7.4 Communications	-	-	-	-	-	-	-
7.5 Electricity	139,225.99	16,707.12	1,392.26	15,628.19	2,942.82	(1,078.92)	(1,550.56)
7.6 Gas and Gas Pipe Line Services	6,478.81	777.46	64.79	729.80	134.62	(47.66)	(69.83)
7.7 Other Services	17,115.05	2,053.81	171.15	1,931.25	351.00	(122.55)	(179.85)
8. Wholesaler and Retailers	659,230.85	73,728.22	6,592.31	67,409.28	16,138.37	(6,318.94)	(9,546.06)
8.1 Wholesale Business - Durable Commodities	122,594.28	14,711.31	1,225.94	13,624.52	2,679.37	(1,086.80)	(1,453.42)
8.2 Wholesale Business - Non Durable Commodities	92,281.72	10,150.99	922.82	9,285.48	2,198.01	(865.51)	(1,275.20)
8.3 Automotive Dealer/ Franchise	69,294.01	7,622.34	692.94	6,881.39	1,778.93	(740.96)	(1,085.99)
8.4 Other Retail Business	295,212.35	32,473.36	2,952.12	29,671.48	7,379.76	(2,801.88)	(4,427.64)
8.5 Import Business	78,536.86	8,639.05	785.37	7,827.58	2,069.16	(811.47)	(1,283.79)
8.6 Export Business	1,311.63	131.16	13.12	118.84	33.14	(12.32)	(20.03)
9. Finance, Insurance, and Fixed Assets	248,554.99	16,052.31	1,291.40	14,850.88	2,518.42	(1,201.43)	(1,227.02)
9.1 Real Estates	111,107.20	13,888.40	1,111.07	12,802.92	2,180.99	(1,085.48)	(1,069.92)
9.12 Other Investment Institutions	18,032.60	2,163.91	180.33	2,047.96	337.43	(115.95)	(157.10)
10. Service Industries	273,953.64	32,545.74	2,739.54	29,096.33	7,678.01	(3,449.41)	(4,938.47)
10.1 Tourism (Treking, Mountaining, Resort, Rafting, Camping, etc.)	26,736.48	3,342.06	267.36	2,979.01	693.17	(363.05)	(425.80)
10.2 Hotel	103,901.61	11,688.93	1,039.02	10,204.00	3,139.18	(1,484.93)	(2,100.16)
10.3 Advertising Agency	2,355.27	276.74	23.55	250.32	58.54	(26.43)	(34.99)
10.4 Automotive Services	3,311.68	389.12	33.12	345.19	99.88	(43.93)	(66.77)
10.5 Hospitals, Clinic, etc./Health Service	34,216.39	4,020.43	342.16	3,671.32	886.77	(349.11)	(544.61)
10.6 Educational Services	46,516.54	5,814.57	465.17	5,284.26	1,326.58	(530.31)	(861.42)
10.7 Entertainment, Recreation, Films	8,045.88	905.16	80.46	790.17	243.09	(114.99)	(162.63)
10.8 Other Service Companies	48,869.79	6,108.72	488.70	5,572.06	1,230.79	(536.66)	(742.10)
11. Consumable Loan	91,016.72	10,011.84	910.17	8,947.80	2,566.67	(1,064.04)	(1,656.50)
12. Local Government	1,564.30	179.89	15.64	169.55	30.89	(10.35)	(15.25)
13. Others	535,005.56	66,875.69	5,350.06	59,402.96	15,653.87	(7,472.74)	(10,303.81)
Total (1 to 13)	3,182,080.48	361,730.07	30,626.65	326,469.23	71,714.53	(35,260.84)	(41,087.88)
Net Impact		11.37%	0.96%	10.26%	2.25%	-1.11%	-1.29%
Net Impact on Profitability of Bank	(76,348.72)						

Impact on economic if Lockdown continue for four month:-

COVID-19 Impact on Banking Sector					
		Amount in billion			
Particulars		Lockdown Period			Average
		One Months	Two Months	Four Months	
Interest Income	Income	336.60	322.92	316.87	
	Gain/(Loss)	(25.13)	(38.81)	(44.86)	(36.27)
Interest Expenses	Expeses	229.31	243.64	260.15	
	Gain/(Loss)	(1.12)	(15.46)	(43.38)	(19.99)
LLP	Provision	(57.30)	(68.37)	(88.96)	
	Gain/(Loss)	(26.67)	(37.74)	(58.33)	(40.91)
Impact on Profitablity		(52.93)	(92.01)	(146.57)	(97.17)