

IMPACT OF COVID-19 ON ECONOMY OF NEPAL

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Abstract

This paper reviews the economic impact on various industries of Nepal due to Covid-19 pandemic which forced the Government of Nepal to enforce strict lockdown bringing the entire population and businesses to a halt. With worldwide travel coming to halt due to the pandemic, Nepal's economy highly dependent on revenue from tourism took a massive hit. This paper looks at the consequences of pandemic on various businesses, household economy and nation's financial outlook. This paper looks at GDP contribution by the tourism sector and how it is intertwined with several other businesses. This paper also analyzes the response by the Government of Nepal to handle the pandemic and how the country can recover from this severe downturn in the economy of almost all businesses in Nepal.

Keywords: Covid-19, Coronavirus, Business, Tourism, Health & Public Safety.

1. Introduction

The Covid-19 pandemic, declared by the World Health Organization in March 2020, disrupted social, economic, and health structures worldwide. Its effects were particularly detrimental in developing nations, among which Nepal stands as a significant case study. With a population largely reliant on informal labour, tourism, and remittances from abroad, Nepal's economy was uniquely vulnerable to the lockdowns, travel restrictions, and broader global economic fallout instigated by the pandemic (Rasul, Nepal, Hussain, Maharjan, Joshi, Lama, & Sharma, 2021). The resultant economic crisis in Nepal offers crucial insights into the intersecting vulnerabilities of developing economies in the face of global pandemics. It also illuminates potential avenues for resilience and recovery. This paper will investigate the health, economic, and social impacts of the Covid-19 pandemic in Nepal, with a particular emphasis on the economic dimensions of the crisis.

2. Objective of the Study

The study aimed to analyse the Impact of Covid-19 on Economy of Nepal.

3. Research Methods and Processes

This study used a qualitative phenomenology method. It incorporated Impact of Covid-19 on Economy of Nepal. Secondary data was used to collect data related to Impact of Covid-19 on Economy of Nepal.

This study followed qualitative research design. In this design I adopted document study method. Articles were identified through internet and library searches. Key word and phrase related articles used. In this study I have utilized secondary sources of data by using related literature from internet source. Trustworthiness of the tools was maintained through consultation with experts. Thematic interpretation and analyses were interwoven from various datasets for triangulation. The ethical issues related to the research process were informed and consent was taken.

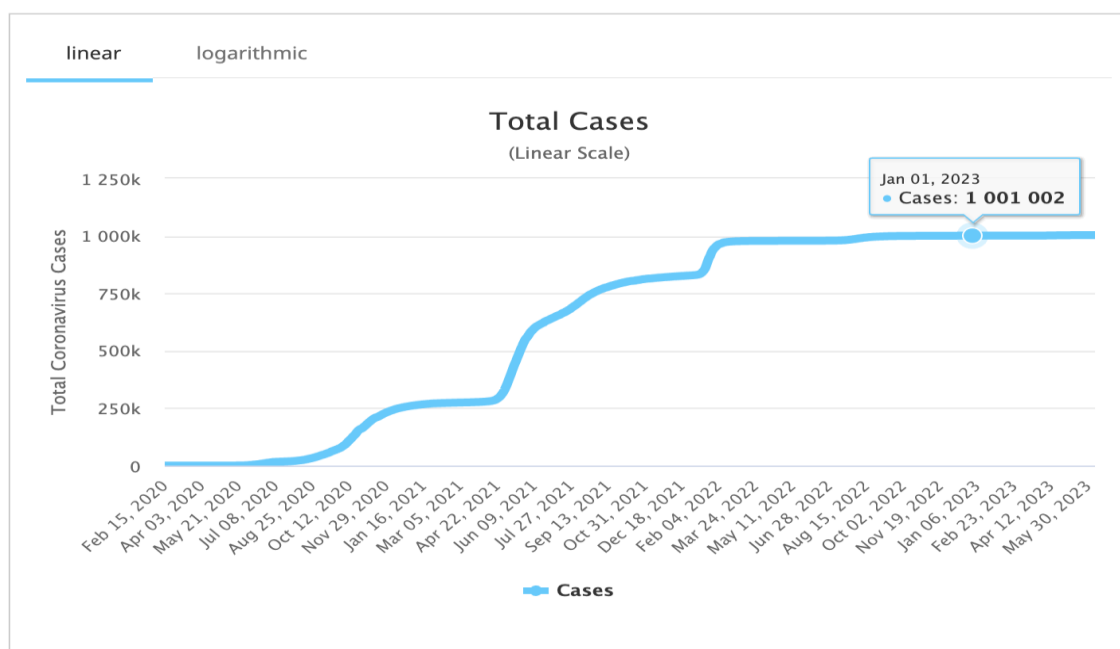
4. Discussion

Covid-19 Outbreak in Nepal

The Covid-19 outbreak in Nepal has brought significant challenges to the country's healthcare systems, economy, and social structure. The first case was reported in early 2020, and since then, the pandemic has strained Nepal's already under-resourced healthcare infrastructure, leading to high case numbers and fatality rates. By the end of 2022, there were just over 1 Million cases of Covid-19 infections resulting in over 12,000 deaths.

Figure 1

Cases of Covid-19



(Source: www.worldometer.com)

The pandemic has dealt a severe blow to Nepal's economy, heavily dependent on tourism, remittances, and agriculture. Travel restrictions halted tourism, leading to significant revenue and job losses. Reductions in remittances from abroad due to global economic contraction further aggravated financial hardships for many Nepali households.

On a social level, the crisis exacerbated existing inequalities, disproportionately affecting marginalized communities. Prolonged school closures disrupted education, especially in rural areas, and cases of domestic violence increased during lockdown periods. However, despite these adversities, the resilience and adaptability of the Nepalese people have been prominent, underlining the critical need for strengthening the nation's healthcare infrastructure, economic diversification, and social protections in the face of future crises.

Impact of Covid-19 on Business

There were several restrictions around the world to curb the spread of pandemic like travel restrictions, flights suspensions, and lockdowns which was already affecting the tourism industry of Nepal (Ulak, 2020). And after seeing community transmission and local spread of coronavirus, Nepal took following measures to curb the spread of the virus in the country.

On March 7, 2020, The Govt of Nepal announced suspension of Visa-on-arrival for China, South Korea, Japan, Italy and Iran who were severely affected by the pandemic.

On March 14, 2020, the suspension of Visa-on-arrival was extended to all countries and visas were issued only for diplomats and officials.

On March 22, 2020, all flights were suspended to and from the only international airport of Nepal.

On March 23, 2020, all land borders with India and China were also closed. On the same day, Nepal Tourism board announced the suspension of issuance of trekking permits.

On March 24, 2020, The Govt of Nepal enforced a nation-wide lockdown halting operation of thousands of businesses and livelihood of millions of individuals.

On July 21, 2020, The Govt of Nepal announced end of the full lockdown that started on March 2020 ([Source](#))

On January 27, 2021, First Covid-19 vaccine was available in Nepal with over 11 million people fully vaccinated by end of 2022

Table 1

Major Events During the Covid-19 Pandemic in Nepal

MAJOR EVENTS DURING THE Covid-19 PANDEMIC IN NEPAL	
Date	Events
23 January	First Confirmed Case, In a Wuhan returnee
22 March	Suspension of international flights and the visit Nepal 2020 campaign
24 March	Beginning of a nation-wise lockdown
4 April	First locally transmitted case, confirmed in kailali
14 May	First death of a woman from Sindhupalchowk
28 May	1000 Confirmed cases.

8 June	100000 RT-PCR tests.
23 June	10000 Confirmed cases.
13 July	10000 Recoveries.
21 July	End of the nation-wide lockdown
15 August	100 Deaths.
3 November	1000 Deaths.

(Source: Wikipedia 2021)

The travel restrictions had an immense impact on business sectors like hotels, camping sites, travel agencies and several other types of accommodations as well as businesses like restaurants and museums often visited by tourists and citizens alike. The lockdown measures caused further impact in business as well as public services (Khanal, 2020). Several non-essential businesses shut down temporarily, while government offices, schools, and colleges were also impacted by the lockdown. The pandemic had a lasting effect on travel businesses and the tourism industry while other businesses recovered swiftly in a post pandemic world. The “Visit Nepal 2020” campaign, officially introduced on Jan 1st, 2020, aimed to attract over 2 Million tourists to generate over \$2 Billion in revenue and thousands of jobs was also cancelled due to the pandemic. As the Covid-19 case numbers in Nepal diminish, there is a gradual revival in the tourism industry (Anup, 2021). The Nepal Tourism Board (NTB) has reported an influx of over 600,000 tourists in 2022, a significant increase compared to the 230,085 visitors recorded in 2020. This suggests a positive trend in tourist arrivals in 2022, following almost two years of downturn triggered by the Covid-19 pandemic.

Economic impact

The year 2022 marked the beginning of economic recovery for Nepal after the severe blow from the Covid-19 pandemic. The recovery, however, varied across different sectors and was influenced by a mix of domestic and global factors.

Consumer spending by households saw a rise of 1.1%, and there was a 3.2% increase in private investments in the fiscal year 2022, compared to the preceding year. This was largely due to considerable savings accumulated by households during the pandemic and the effect of low interest rates. In addition, public sector spending saw an uptick of 5.5% in FY22, fueled by factors such as civil servant salary increases, expenses related to local elections, and the import of vaccines.

With increased consumption demand, the service sector saw growth of 5.9%, almost reaching its level prior to the pandemic. The industrial sector also saw expansion, with a growth rate of 10.2% compared to 4.5% in FY21. This was primarily attributable to an addition of 738.6 MW of power to the national grid, inclusive of the 456 MW from the Upper Tamakoshi Hydropower Project. (Source: World Bank, 2020, south Asia Economic Focus

While there was robust demand for consumer goods, agricultural output experienced a drop from 2.8% in the fiscal year 2021 to 2.3% in FY22, primarily due to irregular rainfall patterns in October 2021.

While the economic rebound from the Covid-19 crisis has been quick, job market recovery has been slow and inconsistent. Of the 22% of individuals who were unemployed in 2020, only 14% secured new jobs by the end of 2021. Additionally, 48% are now earning less than their pre-pandemic wages. In terms of job loss recovery, women have regained 69% of lost jobs, while men have recovered 83%, thereby exacerbating the employment gender gap that existed before the pandemic. Adding to these challenges, escalating inflation is undermining earnings gains for many, particularly those in vulnerable and low-income groups. Inflation is on the rise due to factors such as the cost of transport, edible oils, and housing. It stood at 6.3% in FY22, a significant increase from 3.6% the previous year. Global fuel price hikes have resulted in the steepest inflation rate in a decade in Nepal, with a 16.1% surge in transportation sector prices.

(Source: World Bank, Nepal Development Update 2022)

Macroeconomic impact

GDP growth is a major indicator of the macroeconomic impact for a national economy. For Nepal, Covid-19 pandemic has caused a major strain in the health sector that has severe implications on government resource allocation as the government has to prioritize resources in the public health sector to respond effectively to the pandemic and contain the spread of the virus (UNDP, 2020). The government must also focus on several economic relief measures to address the needs of all the sectors that have been affected by the lockdown. Nepal Labour Force survey (2017/18) shows that 85 percent of the labour force are informally employed in the country that includes all working in the informal sector as well as those in the formal sector not receiving minimum basic benefits (CBS, 2017). As a result, employees of business communities, specifically small-scale industries and tourism are severely affected. Economic development and other significant macroeconomic variables would be adversely affected by this implication of resource allocation and restricted economic activities due to the lockdown. The ratio of gross fixed capital formation to GDP and gross national savings to GDP have declined in the year 2019/20. The consumer price inflation (CPI) and the salary and wage rate index have also declined. This may be because the overall consumer spending has declined (e.g., restaurants and travels) and this has weakened the price rises. This was despite rising food prices due to disruptions in food supply chains and hoarding behaviour of the consumers. In the same vein, the decline in economic participation and pay cuts due to lockdown measures and self-isolation have put downward pressure on salary and wage rate index. This was also substantiated by the growing evidence of the earning losses due to Covid-19 in other economies. This suggests that the Covid-19 pandemic was a global recession.

As the intensity of the pandemic started to decline, and with the commencement of vaccination campaigns, the economy began to bounce back from the downturn instigated by Covid-19. It is projected that the economy experienced growth of 5.8%

in 2022, an improvement from 4.2% in 2021. This increase was primarily driven by a robust resurgence in domestic consumption and investments.

Despite a challenging climate, the service sector saw a growth of 5.9%, nearly returning to pre-pandemic levels, and the industrial sector witnessed substantial expansion with a growth rate of 10.2%. Nonetheless, some sectors such as agriculture saw a slight decline, and job recovery remained slow and uneven, indicating that the effects of the pandemic were still being felt.

Table 2

Real GDP Growth at Constant Market Price

Country Fiscal Year		Real GDP growths at constant market prices(%)				Revision to forecast from October 2022 (% point)	
Calendar year basis		2021	2022	2023	2024(f)	2023(f)	2024(f)
South Asia region (excluding Afghanistan)		8.2	5.9	5.6	5.9	-0.5	0.0
Maldives	January to December	41.7	12.3	6.6	5.3	-1.6	-2.8
Sri Lanka	January to December	3.5	-7.8	4.3	1.2	-0.1	0.2
Fiscal year basis		FY21/22	FY22/23(e)	FY23/24(f)	FY24/25(f)	FY23/24(f)	FY24/25(f)
India	April to March	9.1	6.9	6.3	6.4	-0.7	0.3
Bangladesh	July to June	FY20/21	FY21/22	FY22/23(e)	FY23/24(f)	FY24/25(f)	FY23/24(f)
Bhutan	July to June	-3.3	4.3	4.5	3.1	0.4	-0.6
Nepal	Mid July to Mid July	4.2	5.8	4.1	4.9	-1.0	0.0
Pakistan	July to June	5.7	6.0	0.4	2.0	-0.6	-1.2

(Source: World Bank, Nepal Development Update 2022)

5. Conclusion

This study explores the economic repercussions of Covid-19 and the subsequent lockdowns enforced by the Nepalese government to mitigate virus transmission. It also looks at the long term impacts of such lockdowns and the rebounding of the

economy on the post-pandemic world. The findings indicate that the pandemic has adversely affected nearly all macroeconomic indicators, which have either slowed down or turned negative. In response, the Nepalese government has initiated numerous fiscal and monetary measures to contain the virus's spread and preserve livelihoods. For instance, substantial funding has been allocated towards enhancing the healthcare system, and a variety of relief and support packages have been introduced to aid citizens and businesses severely impacted by the pandemic and lockdowns. Given the government's constrained fiscal capabilities due to sluggish revenue growth and domestic borrowing limitations, prudent spending is essential. This can be achieved by reallocating resources towards priority sectors and dismantling outdated structures across all government levels. Therefore, Nepal must embrace a policy mix capable of managing both the health crisis and livelihood issues. The government needs to be well-prepared to handle potential food and energy crises, alongside healthcare system enhancements.

This research looks at the economic impact of Covid-19 and the subsequent lockdown imposed by the Government of Nepal to curb the spread of the virus. The analysis shows that almost all macroeconomic indicators have either decelerated or become negative, implying that Covid-19 has had an adverse impact on the Nepalese economy. As a result, the Government of Nepal has introduced various fiscal and monetary steps to curb the spread of the virus and keep people's livelihoods intact. The government, for example, has provided vast sums of funds to improve the health system and has also launched numerous aid and assistance packages to support citizens and businesses hit hard by the pandemic and the lockdown. Given that the government's fiscal room has been restricted by weak revenue growth and domestic borrowing constraints, it is necessary for the government to control its spending properly. This can also be accomplished through the reallocation of resources to the priority sectors and the dismantling of obsolete structures established at all three levels of government. It is therefore necessary for Nepal to adopt a policy-mix capable of managing both the health and livelihood crisis. The government should be well-equipped/prepared to handle the food and energy crisis, in addition to improving the health system. Government may implement the following recommendations to manage the crisis created by Covid-19 pandemic and move towards the solid economic recovery.

The government should give more emphasis on improving the health sector that that sick patients can be taken cared of in timely manner while keeping health care workers safe. Focus on more health-care related education and proper distribution of health-care workers across all communities will help manage the pandemic much more effectively.

The government should work on identifying poor and marginalized communities across the nation where relief and aids can be provided in timely and effective manner to prevent the pandemic from severely damaging these communities.

Development of infrastructure in school, colleges, and universities to promote online learning activities during the period of pandemic to curb the spread of the virus. Since majority of students around the country still lack necessary services to participate in

online learning, the government must provide subsidies at local level to help students in poor and marginalized families.

The government should be swift in passing relief packages to the people suffering from lockdowns. Businesses that were shut down due to lockdowns, as well as due to travel restrictions (like tourism) should be provided with necessary aid to help them get through the pandemic as these businesses are the primary contributors to nation's economy and saving them from shutting down will help the country recover more quickly post pandemic.

The current budget of Nepal is not able to tackle the long-term effects of the pandemic. The government should prepare of comprehensive action plan for short term, mid-term and long-term economic recovery. The plan should be devised to focus on sectors that are heavily impacted by Covid-19 like tourism, travel, hotel, and non-essential businesses.

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