A. World Economic Situations and Prospects

New $50 Billion Roadmap to End the Pandemic and Secure a Global Recovery

The IMF, WBG, WHO, and WTO leaders participated in a joint press conference on Tuesday, 1 June to outline the new joint roadmap to ending the pandemic and driving a truly global and fast recovery. Heads of International Monetary Fund, World Bank Group, World Health Organization, World Trade Organization issue extraordinary call for financing actions by government leaders to accelerate end to COVID-19 pandemic. Governments are urged to act on the investment opportunity to boost supplies of vaccines, oxygen, tests and treatment. The IMF, WBG, WHO and WTO leaders issued their joint statement as the World Health Assembly drew to a conclusion and a round of G7 meetings were set to start, beginning with a Finance Ministers convening later this week, and following a Global Health Summit co-hosted by the EU and Italy, which chairs the G20.

IMF, WB, WHO, WTO principals call for $50 billion investment to generate $9 trillion in global economic returns by 2025 and boost manufacturing capacity, supply, trade flows and the equitable distribution of diagnostics, oxygen, treatments, medical supplies and vaccines. Call to action by this quadrilateral grouping comes at a perilous point in the pandemic and as the historic World Health Assembly concludes, a G7 meeting commence, and follows the G20 Global Health Summit.

For more information: Refer Link

Sustainable Energy Will Remain Elusive Without Addressing Inequalities

During the last decade, a greater share of the global population gained access to electricity than ever before, but the number of people without electricity in Sub-Saharan Africa actually increased. Unless efforts are scaled up significantly in countries with the largest deficits the world will still fall short of ensuring universal access to affordable, reliable, sustainable, and modern energy by 2030, according to Tracking SDG 7: The Energy Progress Report. Globally, the number of people without access to electricity declined from 1.2 billion in 2010 to 759 million in 2019. The number of people connected to mini grids has more than doubled between 2010 and 2019, growing from 5 to 11 million people. However, under current and planned policies and further affected by the COVID-19 crisis, an estimated 660 million people would still lack access in 2030, most of them in Sub-Saharan Africa.

According to the report, significant progress has been made since 2010 on various aspects of the Sustainable Development Goal (SDG) 7, but progress has been unequal across regions. While more than one billion people gained access to electricity globally over the last decade, COVID’s financial impact has made basic electricity services unaffordable for 30 million more people, the majority located in Africa. Nigeria, the Democratic Republic of Congo and Ethiopia had the biggest electricity access deficits, with Ethiopia replacing India in the Top 3.

For more information: Refer Link

Emerging inflationary pressures and policy dilemma

Since the beginning of 2021, the world economy has been facing emerging upward inflationary pressures. For several countries, price dynamics became more worrying. By April, central banks in Belarus, Brazil, Georgia, Russian Federation, Turkey and Ukraine hiked policy interest rates, tightening policy stance to contain surging consumer prices. In the United States, policy debates on inflation are back. Some critics argued that the $1.9 trillion stimulus package rolled out in March will intensify inflationary pressures.
While the policymakers in the United States are monitoring inflation closely, global financial markets are already factoring in the prospects of higher inflation. Several factors contribute to emerging inflationary pressures, taking into account the price dynamics in the oil market, grains market, base metal market, semiconductor chip shortage, international shipping, labour market, and monetary factors.

International prices of agricultural commodities are on the rise. The expected magnitude of the hikes is milder than the last global inflation episode during 2007–2008. The overall harvest forecast indicates that there should be sufficient supply to meet the demand globally. Moreover, the magnitude of food price inflation will likely be amplified in several developing countries by currency depreciation. The combined risk of rising agricultural commodity prices and currency depreciation entails higher food inflation which exacerbates poverty levels even further.

For more information: Refer Link

Key Economic Insights:

1. The Finance Ministers and Central Bank Governors of the G7, met virtually on 28 May 2021, and Finance Ministers met in London, joined by the Heads of the International Monetary Fund (IMF), World Bank Group, Organization for Economic Cooperation and Development (OECD), Eurogroup, and (on 28 May) Financial Stability Board (FSB). They welcomed ground-breaking agreement by G7 Finance Ministers on key elements of international tax reform designed to address the tax challenges of the digitalization and the globalization of the economy.

2. According to the World Economic Situation and Prospects (WESP) mid-2021 report, following a sharp contraction of 3.6 per cent in 2020, the global economy is now projected to expand by 5.4 per cent in 2021, reflecting an upward revision from the UN forecasts released in January.

3. The Asia and Pacific region are starting to recover tentatively, but at multiple speeds. Economic activity is expected to grow by 6.9 percent in 2021—0.6 percentage point lower and 0.3 percentage point higher, respectively, than in the June 2020 World Economic Outlook Update.

4. The OECD raised its 2021 global GDP growth forecast but warned that "too many headwinds persist" as not enough Covid vaccines are reaching emerging economies, making the world vulnerable to variants. The world economy will expand by 5.8 percent this year, up from a previous estimate of 5.6 percent, the Paris-based Organization for Economic Co-operation and Development said in a report.

5. Continuing the recovery initiated in the third quarter of 2020, international merchandise trade for the G20 reached record levels in Q1 2021, as measured in seasonally adjusted current US dollars. Compared with the previous quarter, exports and imports have increased by 8.0% and 8.1%, respectively.

B. Nepal Economic Outlook

Key Economic News

1. On 29 May 2021, the government of Nepal unveiled the annual budget for FY 2021/22, with a total budget size of NPR 1,647.57 billion, which is 11.73 percent higher compared to FY 2020/21 budget of NPR 1,474.64 billion

2. The aforementioned amount 41.2 percent has been allocated for recurrent expenditure while 22.7 percent, 12.6 percent and 23.5 percent have been designated for capital expenditure, debt financing and transfer to local to the provinces and local bodies, respectively.

3. Economic growth and inflation are projected at 6.5% for FY 2021/22.
4. Nepal Investment Bank and Himalayan Bank signed a memorandum of understanding to merge, and once complete, the new entity will be the largest commercial bank in Nepal.

5. The Civil Aviation Authority of Nepal has won $20 million in damages from the Spanish contractor it had fired for non-performance after the case went to the Singapore International Arbitration Centre which ruled that it was within its right to do so.

6. The government has ended Salt Trading Corporation’s six-decade-old monopoly over the iodised salt trade. Deregulation has removed the stranglehold of the state-run company on the import, transportation, storage and distribution of the essential flavour enhancer.

7. The International Finance Corporation has decided to invest $10 million in Dolma Impact Fund II to help provide financing to small and medium sized enterprises, in health care, renewable energy, technology, and other critical sectors, vital to the recovery of the pandemic-battered economy.

C. Notice, News and Updates

1. Ministry of Home Affairs (MOHA)

MOHA has published ordinance for COVID-19 pandemic management to unify and manage the task of control, prevention and treatment of COVID 19 on 6 Jestha 2078.

For more information: Refer Link

2. Ministry of Finance (MOF)

MOF has published the Financial Ordinance for the FY 2078/79 for the implementation of the budget presented by the GON on 29 May 2021.

For more information: Refer Link

3. Nepal Rastra Bank (NRB)

i. Issuance of Foreign Investment and Loan Management Bylaw, 2078

NRB has issued Foreign Investment and Loan Management Bylaw, 2078 on June 8 2021. As per the new Bylaw, Investment Accounting has been improved and the arrangements for approval and accounting of foreign loans have been simplified. To get a foreign loan, an entity will have to get the approval of the central bank. Approval will be provided within 15 days. Debt accounting should be done within 6 months.

For more information: Refer Link

ii. Prohibition on Short-Term Share Trading

NRB has issued circular no. 8/077/78 dated 2078.02.11 (25 May 2021) as to tighten the rules for banks and financial institutions (BFIs) to invest in the stock market. BFIs are no longer allowed to buy and sell shares of listed companies in the secondary market for the short term i.e. within a year of buying them. Furthermore, BFIs are not allowed to invest in the shares of “D” class financial institutions, i.e. microfinance companies except for the purpose of calculating “Deprived Sector Loans”. If such shares were purchased before this date, they are required to sell the shares by Poush, 2078 (Mid January 2022).

For more information: Refer Link

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Remittance Inflow

729.02 Billion
16.5% NPR↑
13% USD↑

Foreign Exchange Reserve:

Gross foreign exchange reserves increased 2.2% percent to NPR 1,433.27 billion in mid-March 2021 from NPR 1,401.84 billion in mid-July 2020.

Source: MoF, NRB
4. Securities Board of Nepal (SEBON)

SEBON has directed NEPSE to make the settlement fund operational to implement the settlement guarantee to ensure that the payments for sale transaction is made on a timely basis to investors along with reduction in systematic risk present in the secondary market. The board has instructed NEPSE to increase the funds to contribute NPR 500 million, NPR 300 million and NPR 200 million in FY 2020/21, FY 2021/22 and FY 2022/23 respectively to make the total fund NPR 1 Billion.

For more information: Refer Link

5. Inland Revenue Department

Inland Revenue Department has published amended versions of Income Tax Regulations, 2059 (12th amendment), Value Added Tax Regulations, 2053 (23rd amendment) and Excise Duty Regulations, 2059 (22nd amendment) in line with the provisions mentioned in the Budget presented by the GON.

For more information: Refer Link and Refer Link

D. International Accounting, Auditing and Taxation- News

1. Inheritance, estate and gift taxes could play a stronger role in addressing inequality and improving public finances

The Inheritance taxation can be an important instrument to address inequality, particularly in the current context of persistently high wealth inequality and new pressures on public finances linked to the COVID-19 pandemic, according to a new OECD report. Inheritance Taxation in OECD Countries provides a comparative assessment of inheritance, estate and gift taxes across the 37-member OECD, and explores the potential role these taxes could play in raising revenues, addressing inequalities and improving the efficiency of tax systems in the future. The report highlights the high degree of wealth concentration in OECD countries as well as the unequal distribution of wealth transfers, which further reinforces inequality. On average, the inheritances and gifts reported by the wealthiest households (top 20%) are close to 50 times higher than those reported by the poorest households (bottom 20%).

The report points out that inheritance taxes - particularly those that target relatively high levels of wealth transfers - can reduce wealth concentration and enhance equality of opportunity. It also notes that inheritance taxes have generally been found to generate lower efficiency costs than other taxes on the wealthy, and to be easier to assess and collect than other forms of wealth taxation. A majority of OECD countries currently levy inheritance or estate taxes – 24 in total. However, these taxes typically raise very little revenue. Today, only 0.5% of total tax revenues are sourced from inheritance, estate and gift taxes on average across the countries that levy them.

For more information: Refer Link

2. IESBA revises provisions related to Non-Assurance Service and Fees

Pressure is building upon the Reserve Bank of India (RBI) from the banking and financial services industry (BFSI) to defer the new auditors’ guidelines for a year, which restricts the appointment of auditors for a period of three years and also allows only four banks for audit as against eight previously. This new rule will open up the BFSI audit work for other large auditing firms, though impacting the big four auditing firms, which do both audit and non-audit work for big banks and NBFCs.

After the debacle of banks and NBFCs like Yes Bank, IL&FS, and Dewan Housing where the big four auditors were present, RBI came out with new guidelines last month. The new guidelines cover rules regarding the appointment of auditors and joint auditors, the number of auditors, eligibility criteria, tenure, and compulsory rotation period.

For more information: Refer Link
E. The Future

**Bitcoin will soon be an official currency in El Salvador**

El Salvador has passed a resolution to make Bitcoin a legal currency, which makes it the first country to do so (via The Guardian). According to the law, citizens will be able to use Bitcoin to do everything from paying taxes and paying off debts to buying goods and services. The move was championed by President Nayib Bukele, who says it’s a way to help those who don’t have access to banks, and those who want to send money back to the country from abroad, but critics worry that it will be more show than substantive change.

While Bitcoin will become an official currency for El Salvador in just under three months, it won’t be the only currency — the US dollar, which was previously the country’s only currency, will be sticking around as an option, though according to Cryptonews Bukele said that he wanted the country’s citizens to think about money in terms of Bitcoin, not dollars. The resolution states that citizens should be able to convert between the two currencies at any time, and that US dollars “will be used as the reference currency” for accounting.

**Facebook to allow more employees to work remotely**

Facebook said that it’s giving more employees the option to keep working from home if their jobs can be done remotely. The social media giant, which has more than 60,600 workers, said in 2020 that employees would be eligible to permanently work from home if they’re experienced and have a strong recent job performance. As of June 15, Facebook will open up remote working as an option to all levels of the company, including entry-level employees.

The coronavirus pandemic has fueled a shift to remote work, especially for tech companies, many of which have employees who can do their jobs from home. As cities start to fully reopen, companies are trying to figure out how to offer their workers more flexibility. Twitter is also giving employees the option to work from home permanently. Google has outlined a hybrid work model, with employees typically coming into the office three days a week. And Apple has floated a similar plan, but some Apple workers have pushed back against being required to work on site three days a week starting in September.

F. COVID-19 Information

The Despite its modest population of 29.5 million people, Nepal is now one of the countries with the greatest daily number of cases in absolute terms. While lockdown seems to be controlling the spread of COVID-19 for the time being, they are expected to be having devastating impacts on the lives of socially and economically vulnerable Nepali families. A slight decline of 6.3% in week-on-week cases is observed; however, a 6% increase in week-on-week deaths is also seen. Test positivity has declined to 34.9%, which remains among the highest globally. In the extremely remote Karnali province test positivity is highest, at 43.8%. The cases have been dropping in most of Nepal’s provinces but they have continued to rise in Gandaki province over the last week.

President Bidya Devi Bhandari has communicated with Indian President - Ram Nath Kovind, Russian President Vladimir Putin, American President Joseph R Biden, and Chinese President Xi Jinping to help Nepal get COVID-19 vaccines. As a result, Beijing announced one million doses as a grant. There have been 2,113,080 people who have received the 1st dose of COVID-19 Vaccine and 553,589 people have received 2nd dose of COVID-19 vaccine. Despite calls from experts for the government to speed up vaccinations, the much-hyped immunization effort has fallen short of expectations after the Serum Institute of India (SII) stopped supplying
AstraZeneca vaccines despite getting advance payment. SII, the world’s largest vaccine manufacturer, has halted exports in order to focus on India, which has suffered tens of thousands of deaths in recent months.

In the mid May, the Ministry of Health and Population confirmed it had detected a third COVID variant in the country, B.1.617.2, a variant first detected in India which is considered highly contagious. Meanwhile, Prime Minister Oli has come under fire for prioritizing politics over the country’s pandemic response – dissolving the parliament and dividing political opponents who were trying to remove him from office.

G. Key Economic Indicators

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Unit</th>
<th>As of 1 May 2021</th>
<th>As of 31 May 2021</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>Per Tola</td>
<td>NPR 90,000</td>
<td>NPR 94,200</td>
<td>4.66%</td>
</tr>
<tr>
<td>Silver</td>
<td>Per Tola</td>
<td>NPR 1,295</td>
<td>NPR 1,360</td>
<td>5.01%</td>
</tr>
<tr>
<td>US Dollars</td>
<td>Selling Rate</td>
<td>NPR 119.12</td>
<td>NPR 116.04</td>
<td>(2.58%)</td>
</tr>
<tr>
<td>Brent Crude Oil</td>
<td>Per barrel</td>
<td>USD 67.56</td>
<td>USD 69.32</td>
<td>2.60%</td>
</tr>
<tr>
<td>Bitcoin</td>
<td>Price Per Coin</td>
<td>USD 57,302.65</td>
<td>USD 35,749.66</td>
<td>(37.61%)</td>
</tr>
<tr>
<td>New York Stock Exchange</td>
<td>Index Value</td>
<td>16,325.24</td>
<td>16,555.66</td>
<td>1.41%</td>
</tr>
<tr>
<td>Hongkong Stock Exchange</td>
<td>Index Value</td>
<td>28,257</td>
<td>29,149</td>
<td>3.15%</td>
</tr>
<tr>
<td>NEPSE</td>
<td>Index Value</td>
<td>2,665.11</td>
<td>2,782.69</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

H. Reanda Biz Serve- Activity/Journal

Reanda Biz Serve organized a webinar on the topic “Nepal Budget Highlights: Amendments made by Finance Ordinance 2078” in Zoom platform. The program was hosted by Reanda Nepal’s Tax Advisory wing – Biz Serve Tax Advisory. There were more than 300 participants from different corporates attending the webinar. The program started with opening remarks by Reanda Biz Serve Chairman Mr. Bharat Rijal. The paper on “Nepal Budget Highlights” was presented by Reanda Biz Serve Director Mr. Bishnu Prasad Bhandari and “Amendments Made by Finance Ordinance 2078” was presented by Biz Serve Tax Advisory Chairman Mr. Bhava Nath Dahal. Please refer this link to download the amendments made by Finance Ordinance 2078.

Adhering to the restrictions imposed by the Government, Reanda Biz Serve has adapted to the changing environment and is continuing to provide services to its clients by working from home. Please

In addition to the monthly newsletter, we also actively post various articles based upon new laws and regulations, financial and legal updates, business and technological updates on our website and social media pages. Please visit the “Insights” section of our webpage at https://bizserve.com.np/insights/ to find the latest publications. Further, follow our global network at http://www.reanda-international.com and find us on Facebook and LinkedIn to stay regularly updated.

We would urge everyone to protect themselves and others against COVID-19 by taking some simple precautions, such as physical distancing, wearing a mask, keeping rooms well ventilated, avoiding crowds, cleaning your hands, and coughing into a bent elbow or tissue. Stay Home, Stay Safe.
OUR SERVICES

We provide following Business Advisory and Consulting Services to our clients.

- Foreign Direct Investment (FDI) Support
- Tax Advisory
- Transaction Advisory
- Due Diligence and Business Valuations
- Accounting and Back Office Support
- Financial Reporting Compliance
- Borrower Consulting
- Business Risk Advisory
- Merger and Acquisitions (M&A)
- Revenue Assurance
- Legal & Compliance
- Information Systems Security

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