

Economic and Policy Measures in Response to COVID-19

Introduction

The Government of Nepal (“GON”), vide an Order dated March 23, 2020 enforced a countrywide lockdown from March 24, 2020 to contain the possible outbreak of Coronavirus (“COVID-19”) in Nepal. The lockdown has been extended most recently for the seventh time which shall be in force till June 14, 2020. The GON has also suspended all cross-border movements and international flights to Nepal till June 30, 2020.

While the GON eased the lockdown conditions by allowing some relaxation in economic activities such as agriculture and livestock services, health services, publication and transport services, development projects, public services such as banks and financial institutions (“BFIs”), insurance companies, securities business, cooperatives and industrial productions at a limited capacity, however, rest of other commercial activities remain suspended.

Amid the widespread cessation of economic activities due to the ongoing lockdown in the country and the global economic impact triggered by the pandemic, Nepal’s growth in Fiscal Year 2076/77 (2019/20) decreased to 2.3 percent from 7.1 percent in Fiscal Year 2075/76(2018/19). This Briefing summarizes key economic and policy responses and other reliefs announced by the GON as of June 4, 2020 including policies proposed in the federal budget for Fiscal Year 2077/78 (2020/21).

Tax Measures

Extension of Deadline

The Inland Revenue Department has made a decision to extend the date to file tax returns and to deposit taxes under the provision of Income Tax Act 2058 (2002) (“ITA”), Value Added Tax Act 2052 (1996) (“VAT Act”), Excise Duty Act 2058 (“2002”) (“Excise Act”) and Customs Act

2064 (2007) (“Customs Act”), till **June 21, 2020**, details of which are as follows:

- monthly VAT returns for the month of *Falgun* (February 13 - March 12, 2020), *Chaitra* (March 13 - April 12, 2020) and *Baishakh* (April 13 - May 13, 2020), bimonthly VAT returns of *Magh* (January 15 - February 12, 2020) - *Falgun* and *Chaitra* - *Baishakh*; and quarterly VAT returns of *Mangsir* - *Falgun* (November 17, 2019 - March 12, 2020) and the date of submission of VAT.
- VAT refund application expiring during the lockdown period.
- excise returns for the month of *Falgun*, *Chaitra* and *Baishakh*.
- withholding tax returns and related TDS deposit for the month of *Falgun*, *Chaitra* and *Baishakh*.
- educational service fees, telecommunication services fees for the month of *Falgun*, *Chaitra* and *Baishakh*.

Further, the due date to deposit the second installment of advance tax and to file the revised estimated tax returns for the month of *Chaitra* has been extended till **June 29, 2020**.

Tax Exemption

The GON has granted tax exemption, namely:

- COVID-19 affected industries with annual turnover up to NPR 2 million, NPR 5 million, and NPR 10 million shall be provided 75 percent, 50 percent and 25 percent exemption respectively on tax payable for Fiscal Year 2076/77 (2019/20). Tax exemption of 20 percent shall be provided to hotel, travel, trekking, transport

and airline industries with annual turnover above NPR 10 million.

- VAT exemption shall be provided on import of raw materials by pharmaceuticals companies. Further, excise duty shall be exempted on import of personal protective equipment or Ethanol for manufacturing sanitizers.
- Temporary customs duty exemption for import of medicines, medical supplies and equipment approved and notified by the Ministry of Health and Population (“MOHP”) for prevention, control, and treatment of COVID-19, face masks, surgical gloves and hand sanitizers, and induction stoves, provided that such items must have reached at the customs points by April 27, 2020 and hand sanitizers and gloves are sold at a price not exceeding MRP declared by the MOHP.
- Contributions made by taxpayers to COVID-19 Treatment Fund established by the GON shall be deemed to be deductible expenses for the concerned financial year.

Measures Relating to Employees in Formal and Informal Sector

Formal sector refers to economic activities operated by legally established enterprises which are regulated by government agencies whereas informal sector refers to economic activities which are not operated by legally established enterprises and are not abided by labor regulations.

Measures for Employees in Informal Sector

- The GON has made a decision to provide an amount equivalent to one-fourth of the minimum wage to employees in informal sector who are affected by COVID-19 and not associated with food for employment program of the GON.
- The GON is planning to employ daily wage and informal sector workers in projects administered by local, provincial and federal governments. Such workers will be remunerated either in cash or in kind such as foodstuff.

Measures for Employees in Formal Sector

- The GON, vide a notification in the Nepal Gazette dated April 27, 2020, ordered head of governmental offices, agencies and industries to treat lockdown period as public holidays and to pay remuneration and allowances to their employees.
- The GON has directed employers in formal sectors to make arrangements for payment of 50 percent remuneration for the month of *Baisakh* (April 13, 2020 - May 13, 2020) while remaining 50 percent shall have to be paid after resumption of business activities. Further, tourism related enterprises that remain completely closed during the lockdown period shall pay 50 percent remuneration due up to May 13, 2020.
- The GON has made a decision to establish a separate fund of NPR 50 billion through Nepal Rastra Bank (“NRB”), the central bank in order to provide loan at a concessional interest rate of 5 percent to micro, small or medium enterprise or tourism industries for payment of remuneration to its employees and to run their business.
- The GON shall make contribution to Social Security Fund (“SSF”) on behalf of employers and employees for those enterprises which are registered with SSF for the lockdown period. Such entities may also obtain advance from SSF in order to provide remuneration to their employees which must be repaid to SSF once the business resumes normal.

Administrative and Regulatory Measures

- Deadline to submit returns and statements before the Office of the Company Registrar has been extended till **June 14, 2020**.
- Deadline to renew private firms, partnership firms or firms registered with the Department of Commerce fell during the period of lockdown, has been extended till **July 15, 2020** and fees, taxes, etc. to be submitted till that date have also been waived.
- Settlement of pending securities transactions and submission of documents by listed companies under Securities Act 2063 (2007) have been extended till **July 15, 2020**.
- Dates for renewal of driving licenses, vehicle registrations, pollution control certificates or

route permits have been extended till **June 14, 2020**.

- Date for collection of premium on life insurance has been extended till **June 14, 2020** without additional interest. Further, insurance policies expiring during the lockdown period may be renewed electronically within 15 days from the date the lockdown is lifted.

Measures Relating to Food Import, Utilities and Other Services

The GON has directed service providers such as Nepal Doorsanchar Company Limited (“NTC”), Nepal Electricity Authority (“NEA”) and private companies through their regulating agencies to provide following concessions, namely:

- NTC and other private internet service providers shall provide 25 percent discounts on internet and data package charges during the lockdown period.
- NEA shall provide full exemption on electricity charges to residential users consuming less than 10 units per month and provide 25 percent and 15 percent rebate to those users consuming 150 units and 250 units per month respectively. Further, NEA shall provide full exemption on demand charges to manufacturing industries affected by COVID-19 and 50 percent rebate on electricity charges during low consumption period.
- Late fees shall not be charged on payment of electricity, water, telephone and internet charges for the months of *Falgun* to *Jestha* (February 15, 2020 - June 13, 2020) provided that such charges are paid by *Ashadh* 31, 2076 (July 15, 2020).
- Nepal Food Corporation and Salt Trading Corporation shall provide foodstuff such as rice, flour, lentils, sugar, oil, etc., at 10 percent discount on the prevailing market rates.

Measures by Nepal Rastra Bank

Monitory and Macro-Financial Measures

The NRB has introduced several monitory and micro-financial measures, primarily to provide liquidity to financial sectors, namely:

- Cash reserve ratio has been lowered to 3 percent against the prevailing 4 percent.
- Bank rate for lending BFIs has been lowered from 6 percent to 5 percent.
- Standing liquidity facility has been fixed to 5 percent, repo rate at 3.5 percent and the rate of collection of deposit at 2 percent against the existing 6 percent, 4.5 percent and 3 percent respectively.
- Loans provided by BFIs to private health service providers to make COVID-19 treatment facilities have been considered as a priority sector lending.
- Contribution made by BFIs to COVID-19 treatment fund established by the GON can be claimed as an expense under corporate social responsibility.
- NRB has temporarily relaxed compliance to regulatory requirements and reporting norms by BFIs which were due as of April 12, 2020.

Measures Relating to Loan and Loan Moratorium

NRB has issued several relief packages to borrower affected by COVID-19, which are as follows:

- NRB has directed BFIs to provide 10 percent discount to borrowers affected by COVID -19 on payment of monthly or quarterly installments which were due as of April 12, 2020 provided that such interest after discount shall not be lower than the base rate.
- NRB has directed BFIs to reduce the interest rate on the loans for the fourth quarter of the Fiscal Year 2076/77 (2019/2020) by two percent from the prevailing rates during the end of *Chaitra*. Further, licensed class ‘D’ micro credit financial institutions dealing in retail loan shall reduce the interest loan by three percent. However, such relief shall not be provided to borrowers engaged in food processing and trading business; manufacture, distribution and sales of gas, soaps and chemicals, medicines; internet, telecom and television service providers; tobacco and alcohol producing industries and hydroelectricity projects. Further, the rate of reduction shall not be below the base rate.

- NRB has directed BFIs to allow moratorium on payment of monthly and quarterly installments of loan for the months of *Chaitra, Baisakh* and *Jestha* till **July 15, 2020**.
- Payment of principal and interest of short term loan of working capital nature to BFIs under Class ‘A’, ‘B’ and ‘C’ shall be extended by additional sixty days.
- BFIs may provide working capital loan of additional 10 percent in addition to the sanctioned loan to hotels, restaurants, resorts, tour and travels and other tourism and transport industries, airlines, small and medium scale industries, export related industries, entertainment industries, hospitals, poultry industries, etc. which are affected by COVID-19.
- NRB has amended Unified Directive 2076 (2019) clarifying that loans and advances not renewed during the lockdown period shall not be categorized as watch list loan on account of delay.
- Importers importing COVID-19 related medical supplies from third countries apart from India at the recommendation of the Department of Health Services (“DOHS”) may make a payment for up to US\$ 100,000 through Draft/T.T. against a single invoice. In cases where the amount exceeds US\$ 100,000, approval of NRB shall be required.
- NRB has waived the requirement to deposit 10 percent of the letter of credit (“LC”) value while importing through an LC of any medical supplies recommended by the DOHS.
- Import of areca nuts, dates, peas, alcoholic beverages, and vehicles amounting to more than US\$ 50,000 shall not be provided foreign exchange facility.

Measures by Supreme Court

On May 29, 2020, the Supreme Court of Nepal, in Writ Petition (Civil) No. 076-WO-0944, ruled that the period from March 22, 2020 till the date the ongoing lockdown is lifted shall be treated as a ‘zero period’. Accordingly, litigants whose deadline to file petitions, applications, suits, appeals, and all other pleadings before courts or tribunals fell during the zero period shall be provided additional 30 days plus the time of travel after the ongoing lockdown is lifted to file pleadings.

The Supreme Court earlier on March 21, 2020 made a decision to suspend all court services except for hearing on matters pertaining to individual liberty and other essential matters from March 22, 2020.

Besides, in Budget speech for Fiscal Year 2077/78 (2020/20), the GON announced that NRB shall provide refinance facility to commercial banks up to NPR 100 billion to issue concessional loan at interest rate of 5 percent to COVID-19 affected MSME, agriculture, hotel, and tourism industries.

Measures Relating Exchange Control

NRB has introduced several relaxations as well as restrictions on exchange control facilities for importers of foreign goods, namely:

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