

# Drivers of Nepal's Current Account Deficit and its Policy Path



Presented by:

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# Current Account Balance

- Current Account = Trade Balance + Income Balance + Current Transfers Balance
- Measure of macroeconomic stability and economic growth
- Current account imbalances as a major source of macroeconomic vulnerability and a constraint on economic growth

# Objectives of the Study

- i) What are the major drivers of the current account deficit in least developed country like Nepal?
- ii) How can Nepal maximize the impact of current account balance in economy?

# Overview of Current Account Balance of Nepal

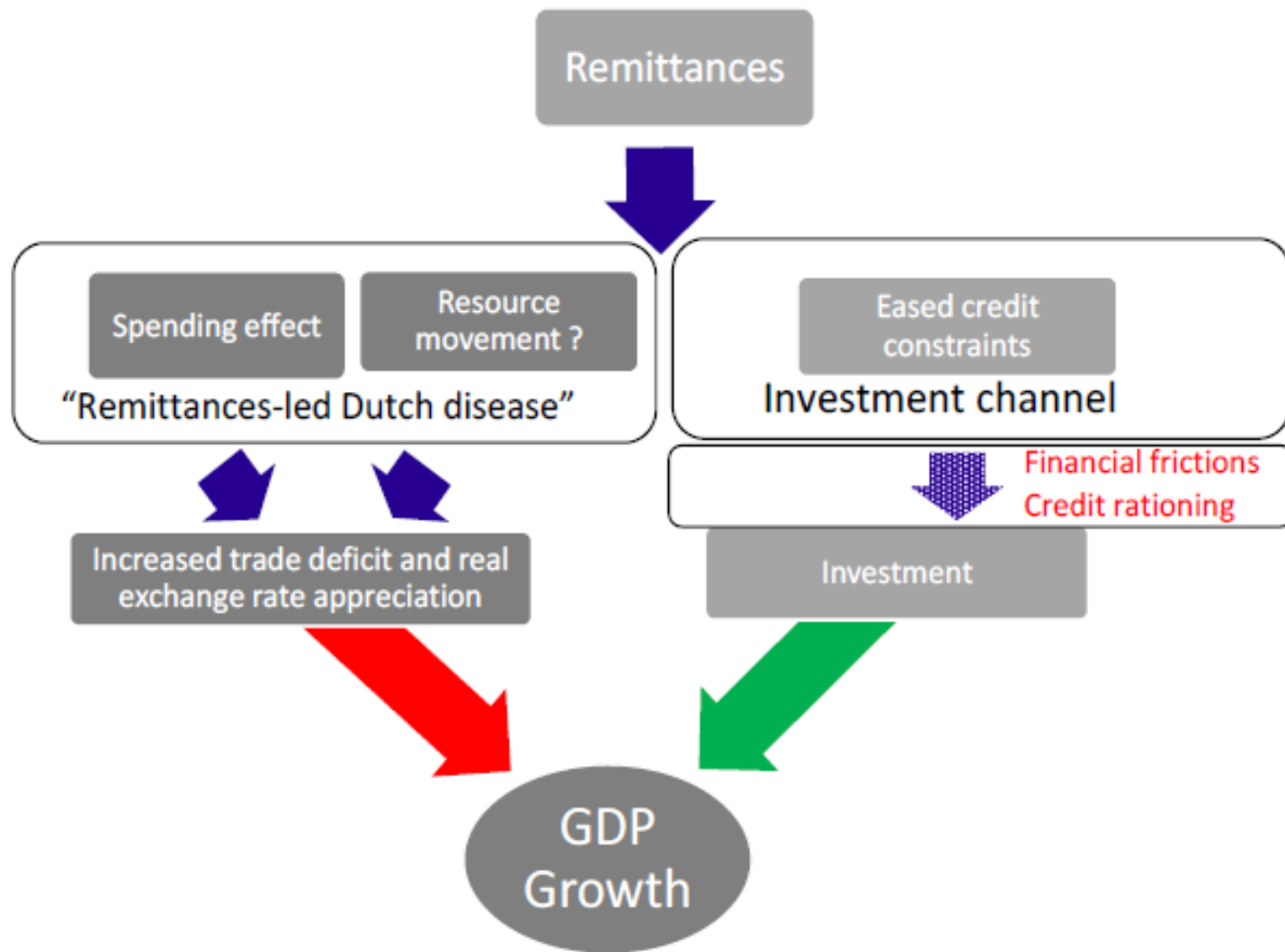
- Fair stability despite of weak export due to large inflows of remittances
- Last year, external situation took a turn which resulted to current account deficit not seen since fiscal year 1995-96
- In fiscal year 2017-18, the current account deficit widened to 8.2 percent of the Gross Domestic Product (GDP)

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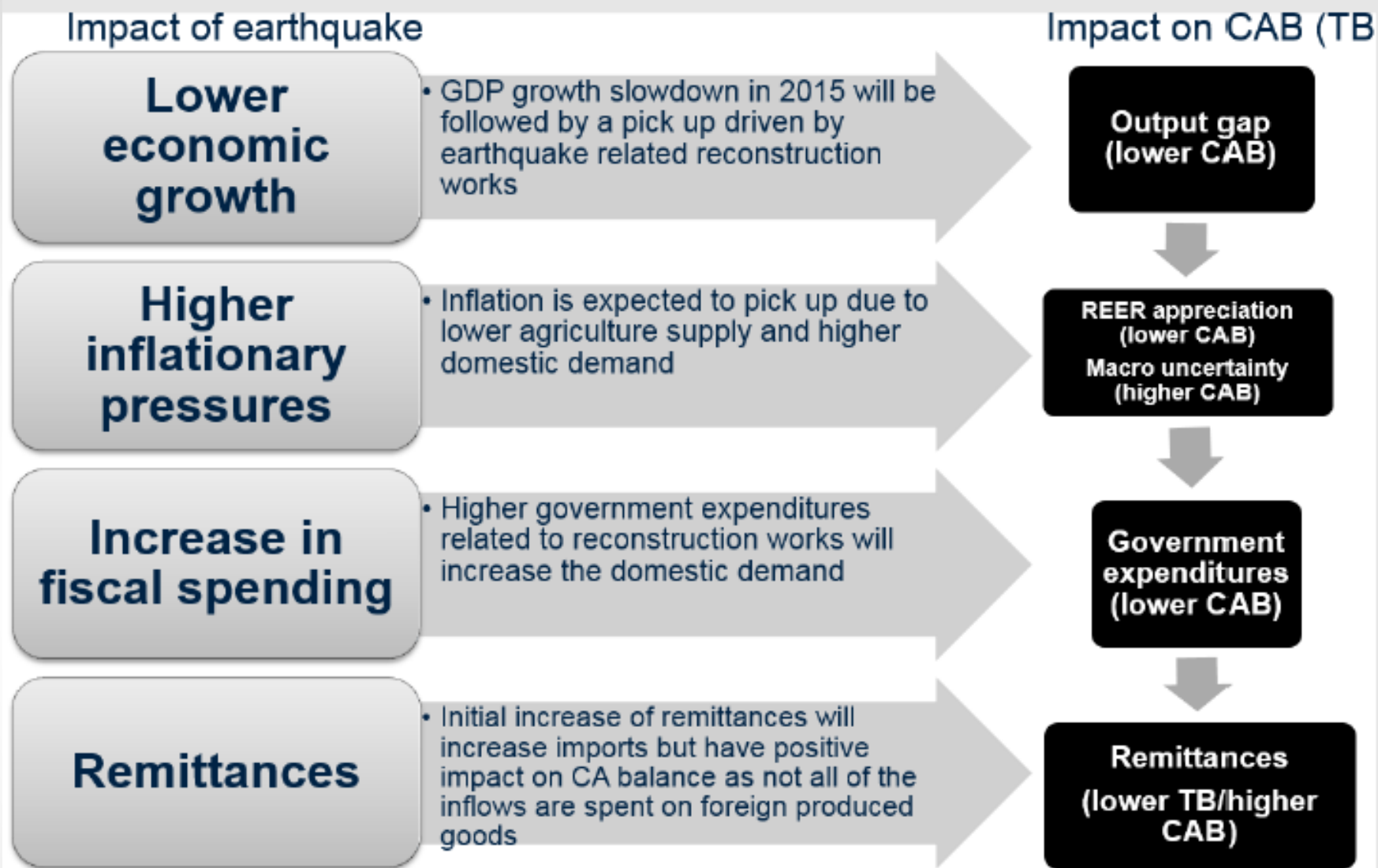
- Around \$2.4 billion, up from a deficit of just 0.4 percent in the preceding year
- Trade deficit reached a record 37.7 percent of GDP (export :3.1 percent of GDP ;imports comprising of 40.8 percent of GDP)

# Major Determinants of Current Account Balance in Nepal

- Pegged Exchange Rate with India
- Trade Deficit
- Remittances and its effect
- Real Effective Exchange Rate (REER)
- Government Expenditures post 2015 Earthquake



**Figure: Impact of remittance inflows in an economy**  
**Source: From evidence to Policy: Supporting Nepal's**  
**Trade Integration Strategy (Portugal & Zildzovic, 2014)**



**Figure: Impact of Earthquake on Current Account Balance**  
**Source: From evidence to Policy: Supporting Nepal's Trade Integration Strategy (Portugal & Zildzovic, 2014)**



# Policy Paths

- Improve Investment Environment
- Update trade and industry related laws, policies
- Address constraints on the supply-side
- Promote Nepalese products through branding / marketing
- Explore on competitive advantage sector
- Control consumption oriented public spending

**Thank You.**