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Regional Connectivity for Shared Prosperity

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NEPAL

Country briefing notes

Slower economic growth on poor agricultural harvest

- Economic growth in the fiscal year 2013 fell to 3.6% from 4.5% in the previous year. Political uncertainty resulted in weak budget implementation.

- Agricultural activities, which accounted for up to 36% of GDP and were the main provider of employment, slowed due to a poor monsoon harvest and limited access to fertilizers. Domestic production continued to be constrained by electricity shortages, while tourism and retail trade expanded.

- The near-term economic outlook is positive. Steady remittance and tourism incomes should help the country achieve a higher economic growth of 4.5% in 2014.

High inflationary pressure

- Inflation in 2013 stood at a high level of 9.9%. In addition to supply constraints, strong price pressures also came from India, as the country’s currency is pegged to the Indian rupee. Nepal is also heavily reliant on imports from India.

- To contain food inflation, substantial wastage of agricultural produce needs to be minimized by improving the supply chain logistics and setting up cold storage and processing facilities. It is also essential to enhance agricultural productivity by ensuring that small-holder farmers benefit from modern technologies.

Exports remained subdued

- Unlike most other economies in South and South-West Asia where exports rebounded in 2013 amid stronger demand from developed economies, exports from Nepal continued to fall following sluggish economic activity in India.

- Export items are typically low value-added and concentrated in textiles and garments. Limited production capacity has made Nepal highly dependent on imported goods.

- Remittances inflows have been growing in recent years. Although remittances have supported household spending and contributed to a current account surplus in Nepal, they also point to inadequate job opportunities at home. Most migrant workers are also employed in low-skilled sectors.

Macroeconomic policy issues

- Weak budget implementation, which resulted from political uncertainty, turned the fiscal balance from a deficit of 2.2-2.4% of GDP in the fiscal years 2011 and 2012 to a surplus of 0.4% of GDP in 2013.

- The cash reserve ratio was lowered to stimulate domestic demand. But monetary policy effectiveness could be limited as a result of the pegged exchange rate with India.

- Taking into account Nepal's economic structure, ESCAP analysis suggests that tax revenue could be raised by about 6%, based on 2013 data. Among others, policies to enhance domestic resource mobilization include rationalizing the tax system to create a larger tax base, tackling tax evasion and tax fraud, and strengthening tax administration. The government is already addressing some of these issues.