

Nepal Country Brief: Economic Overview

Government of Australia

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Source : *Australian Government Department of Foreign Affairs and Trade*

Nepal's GDP grew by 2.5 per cent in 2007, after a 2.8 per cent growth the previous calendar year. This low level of growth is attributed to insurgency-related disruptions adversely affecting the industry and service sectors. Average inflation in 2007 was 6.5 per cent. GDP growth is well below the 6 per cent required to begin reducing Nepal's high levels of poverty. The situation is not helped by an average annual population growth over the past decade of 2.3 per cent.

Nepal is one of the poorest countries in the world, with an estimated per capita income of approximately US\$339. Poverty and malnutrition are widespread and 16 per cent of the population is estimated to be without access to safe water. The incidence of disease is high and while health services have improved over the past 20 years, most people still do not have access to professional medical care. Average life expectancy is relatively low at 63 years and the infant mortality rate of 46 per 1 000 births is high. The literacy rate for those over 15 is estimated at 48 per cent. The United Nations Development Programme (UNDP) Human Development Report (2007) ranks Nepal 142 out of 177 countries in the human development index (HDI) (which measures countries' relative standing in terms of life expectancy, educational attainment and adjusted real income).

Over 80 per cent of the economically active population live in rural areas and support themselves through subsistence agriculture. Despite this, the contribution of agriculture to Nepal's GDP has declined from 72 per cent in 1974 to 36 per cent in 2006-07, because of growth in public utilities, trade and tourism. Agricultural production is hampered by adverse climatic conditions, environmental degradation and structural deficiencies such as inadequate rural infrastructure and land ownership/tenancy problems.

Growth in non-agricultural sectors, despite serious constraints, is more promising in the long term. Governments have taken steps to restructure the economy by introducing measures such as tax reform, privatisation of public enterprises, dismantling trade barriers, liberalising the foreign exchange system and fostering the industrial potential of the country, particularly for export-oriented industries.

Nepal has been a member of the World Trade Organization (WTO) since 23 April 2004, the first least-developed country (LDC) to join the WTO through the full working party process. However, it still has to amend or adopt certain laws and regulations in order to comply fully with WTO requirements.

Insufficient tax revenues make it difficult for the Government to maintain and develop the basic infrastructure and facilities needed to move forward economically. The Asian Development Bank has approved programs to help the Government boost revenue collection, prioritise expenditure and strengthen fiscal sustainability.

Two potential growth areas for Nepal are hydropower and tourism. Changes to legislation have opened up the tourist sector further to foreign investment. The insurgency period saw a fall in tourist numbers, but following the comprehensive peace agreement tourist numbers have begun to increase. Overseas remittances from the large numbers of Nepalese working in the Middle East, Malaysia and South Korea have become an important source of revenue. However, with the global financial downturn the amount of revenue from this source is expected to decline over the coming year.