



UNDER EMBARGO UNTIL 12.00 HRS., BANGKOK TIME, THURSDAY, 28 APRIL 2016

NEPAL

GDP (current US\$, billions):	\$19.77	Population (thousands):	28,175
Share of GDP in developing Asia-Pacific:	0.1%	GDP per capita (current US\$):	\$701.68
Share of GDP in South and South-West Asia:	0.4%	Average inflation (2015)	7.2%

- Economic growth in Nepal fell from 5.4% in 2014 to 3.4% in 2015. Catastrophic earthquakes in April 2015, causing losses estimated at one third of GDP, and a subpar monsoon season that resulted in weak agricultural output mainly accounted for the slowdown.
- Continued political unrest over the new constitution resulted in strikes and disruptions of trade routes in certain parts of the country. The unrest pushed up prices of fuel and other essential commodities and widened the difference in inflation rates between Nepal and India, a situation which could undermine the country's competitiveness in view of the exchange rate peg to the Indian rupee.
- The unrest also limited the supply of construction materials and held back the implementation of public projects on post-earthquake reconstruction. As a result, government expenditure declined in the second half of 2015.
- Growth in output is expected to soften further to 2.2% in 2016, before rebounding to 4.5% in 2017. Consumer spending may be constrained by relatively high inflation and weak agricultural production.
- In the medium term, a trade agreement with the United States, which grants duty-free treatment to certain textile and apparel articles from Nepal, should help to attract greater investment flows. Similarly, an agreement with India to develop two large-scale hydropower projects could help exploit Nepal's immense hydropower potential and address the issue of power shortages.
- To strengthen the role of fiscal policy in supporting social and economic development, there is a need to address persistent under disbursement of allocated budgets, which is mainly due to poor project management and bureaucratic hurdles. Similarly, tax administration and compliance could be improved. In this regard, the Government announced the issuance of a reconstruction bond to enhance the ownership and participation of the general public in the reconstruction works.
- Official estimate suggests that the April 2015 earthquake may have pushed at least 700,000 more people into poverty in 2016, undermining the country's target of reducing the poverty rate to 18% by 2016 from 25% in 2011.