

1. Global and National Macroeconomic Developments

Global Macroeconomic Developments

- 1.1. In 2006, the global economy expanded by 5.4 percent as against the rise of 4.9 percent in 2005. The growth effects of the rise in the petroleum prices in the early-half of 2006 and the sharp downturn in the US housing market were more than offset by the declines in the petroleum prices since August 2006, improvement in domestic demand in the advanced economies, gradual improvement in the Japanese economy, remarkably high growth rate in China and India, favorable financial market conditions, and adoption of sound economic policies, leading to the global economic expansion at a higher rate. According to the current projections by the International Monetary Fund (IMF), the world economy is projected to grow by 4.9 percent in both 2007 and 2008, 0.5 percentage point less compared to the growth achieved in 2006.
- 1.2. In 2006, in addition to the satisfactory level of growth achieved by the advanced economies (3.1 percent), the growth rate of the emerging and developing economies (7.9 percent) contributed to the expansion of the world economy. In 2006, the growth rate of developing Asia (including China, India and ASEAN-4) was 9.4 percent and that of emerging Asia (developing Asia and newly industrialized Asian economies) 8.9 percent. Among developing Asian economies, the economic growth rate of ASEAN-4 was 5.4 percent and that of South Asia 8.7 percent. Among the high-growth emerging Asian economies, the growth rates of China, India and Singapore in 2006 were 10.7 percent, 9.2 percent and 7.9 percent respectively.
- 1.3. Though the IMF has projected that the advanced economies would grow by relatively lesser rates in 2007 and 2008, 2.5 percent in 2007 and 2.7 percent in 2008, the projection of satisfactory level of growth in developing and oil-exporting middle-east economies would contribute to the global economic expansion of 4.9 percent in both 2007 and 2008, as mentioned above. According to the IMF, in 2007, developing Asia's growth is projected at 8.8 percent while the growth of African economies will be 6.2 percent. Similarly, it is projected that neighboring India and China will achieve growth rates of 8.4 percent and 10.0 percent respectively.

Table 1(A): World Economic Growth
(annual percentage change)

Categories	2004	2005	2006	Projections	
				2007	2008
World output	5.3.	4.9	5.4	4.9	4.9
Advanced Economies	3.3	2.5	3.1	2.5	2.7
Selected Advanced Economies¹	3.1	2.3	2.8	2.2	2.5
Other Advanced Economies	4.6♥	3.9	4.3	3.8	3.8
Emerging and Developing Economies	7.7	7.5	7.9	7.5	7.1
Developing Asia	8.7	9.2	9.4	8.8	8.4
Emerging European Economies	6.6	5.5	6.0	5.5	5.4
African Economies	5.8	5.6	5.5	6.2	5.8
Middle-East Economies	5.6	5.4	5.7	5.5	5.5
Oil-Exporting Economies²	5.8♥	5.7	5.5	5.3	5.2
Emerging Asia³	8.5	8.7	8.9	8.4	8.0
Newly Industrialized Asian Economies⁴	5.8	4.7	5.3	4.6	4.6

Categories	2004	2005	2006	Projections	
				2007	2008
ASEAN-4 ⁵	5.8♥	5.2	5.4	5.5	5.8
China	10.1	10.4	10.7	10.0	9.5
South Asia ⁶	7.8♥	8.7	8.7	8.1	7.5
Afghanistan	8.0	14.0	8.0	12.2	10.8
Bangladesh	6.1	6.3	6.7	6.6	6.5
Bhutan	6.8	6.5	13.7	15.2	8.6
India	7.8	9.2	9.2	8.4	7.8
Maldives	9.5	-4.5	16.1	4.0	3.0
Nepal	3.8	2.7	1.9	3.5	4.5
Pakistan	7.4	8.0	6.2	6.5	6.5
Sri Lanka	5.4	6.0	7.5	7.0	7.0

¹United States of America, Japan, Germany, France, United Kingdom, Italy and Canada

²Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen

³Developing Asia, Newly Industrialized Asian Economies and Mongolia

⁴Korea, Taiwan, Hong Kong, and Singapore

⁵Indonesia, Malaysia, Philippines, and Thailand

⁶Bangladesh, India, Maldives, Nepal, Pakistan, and Sri Lanka

Source: World Economic Outlook, International Monetary Fund, Washington, D.C., April 2007, pp 2,49,61,69,75,211,212,217,218 and 220

♥World Economic Outlook, International Monetary Fund, Washington, D.C., September 2006, pp. 2,50,59,71

- 1.4. The volume of world trade in goods and services recorded a high growth of 9.2 percent in 2006 compared to the growth of 7.4 percent in 2005. The volume of goods and services imports and exports of the advanced economies in 2006 grew by 7.4 percent and 8.4 percent respectively as against the respective growth rates of 6.1 percent and 5.6 percent in 2005. The volume of goods and services imports and exports of the emerging and developing economies in 2006 grew by 15.0 percent and 10.6 percent respectively as against the respective growth rates of 12.1 percent and 11.2 percent in 2005. Such increase in trade volume in 2006 is basically associated with the higher economic expansion in both the advanced and the emerging and developing economies in 2006 as compared to that in 2005. The IMF has projected the global trade volume to increase by 7.0 percent in 2007 and 7.4 percent in 2008. Category-wise, import growth of advanced and emerging and developing economies in 2007 will decelerate to 4.7 percent and 12.5 percent respectively. In 2007, the export growth of advanced and emerging and developing economies will decelerate to 5.5 percent and 10.4 percent respectively.

Table 1 (B): World Trade (annual percent change)

Categories	2004	2005	2006	Projection	
				2007	2008
World Trade Volume (Goods and Services Imports)	10.6	7.4	9.2	7.0	7.4
Advanced Economies	9.1	6.1	7.4	4.7	5.7
Emerging and Developing Economies	16.4	12.1	15.0	12.5	12.2
Exports					
Advanced Economies	8.8	5.6	8.4	5.5	5.8
Emerging and Developing Economies	14.6	11.2	10.6	10.4	9.9

Source: World Economic Outlook, International Monetary Fund, Washington, D.C., September 2006, p.2 and April 2007, p.2

- 1.5. The price of petroleum products increased phenomenally by 41.3 percent in 2005 due to rising demand, volatility observed in some petroleum-exporting economies and the supply disturbances caused by the hurricane Katrina. Situation gradually improved since August 2006, resulting in the decelerated rise (20.5 percent) in the petroleum prices in 2006. Among the commodity prices, the non-fuel commodities (average based on world commodity export weights) prices increased by 28.4 percent in 2006 compared to the rise of 10.3 percent in 2005 despite the decline in the rate of petroleum prices in 2006. The IMF projects the petroleum price decline of 5.5 percent in 2007, with the expected improvement in supply situation, followed by an upward move of 6.6 percent in 2008. Similarly, the prices of the non-fuel commodities will rise by 4.2 percent in 2007, followed by the decline of 8.8 percent in 2008. The inflationary impact of the petroleum price rise is expected to ease in 2007 following the gradual decline in the petroleum price.
- 1.6. In the advanced economies, consumer prices on the annual average basis increased by 2.3 percent both in 2005 and 2006. The projection of such price rise in 2007 is 1.8 percent. In the emerging and developing economies, consumer prices rose by 5.4 percent in 2005 and 5.3 percent in 2006. These economies are projected to experience a price rise of 5.4 percent in 2007. Prices in 2006 rose by 9.5 percent in the African economies, 8.9 percent in the petroleum-exporting economies, 7.9 percent in the middle-east economies, 8.2 percent in the ASEAN-4 economies, and 1.6 percent in the newly-industrialized Asian economies. In South Asia, consumer prices rose by 5.0 percent in 2005 and 6.4 percent in 2006. According to the IMF projections, South Asia will see a price rise of 6.4 percent in 2007. Neighboring countries-India and China-experienced price rise of 6.1 percent and 1.5 percent respectively. The projections of the price rise in these two countries for 2007 are 6.2 percent and 2.2 percent respectively. Hence, the overall inflationary pressure is expected to be mild following the decline in the petroleum prices since August 2006.

Table 1 (C): World Price Situation
(annual percent change)

Items/Economies	2004	2005	2006	Projection	
				2007	2008
Oil¹	30.7▲	41.3	20.5	-5.5	6.6
Non-fuel Products	18.5▲	10.3	28.4	4.2	-8.8
Consumer Prices					
Advanced Economies	2.0	2.3	2.3	1.8	2.1
Emerging and Developing Economies	5.6	5.4	5.3	5.4	4.9
Developing Asia	4.1	3.6	4.0	3.9	3.4
Emerging European Economies	6.3▲	4.9	5.1	4.8	3.7
African Economies	7.9	8.4	9.5	10.7	10.4
Middle-East Economies	7.2	7.1	7.9	10.6	8.7
Petroleum Product Exporting Economies	7.3▲	6.8	8.9	10.4	8.5
Emerging Asia²	3.9	3.5	3.7	3.7	3.2
Newly-Industrialized Asian Economies²	2.4	2.3	2.6	2.1	2.1
ASEAN-4²	4.6▲	7.3	8.2	4.3	4.0
China	3.9	1.8	1.5	2.2	2.3
South Asia²	4.2▲	5.0	6.4	6.4	4.6
Afghanistan	24.2	13.2	12.3	5.5	5.9
Bangladesh	6.1	7.0	6.3	6.4	5.4
Bhutan	4.6	5.3	5.2	5.5	5.3

Items/Economies	2004	2005	2006	Projection	
				2007	2008
India	3.8	4.2	6.1	6.2	4.3
Maldives	6.3	3.3	3.5	7.0	6.0
Nepal	4.0	4.5	8.0	7.0	6.1
Pakistan	4.6	9.3	7.9	6.5	6.0
Sri Lanka	7.9	10.6	9.5	14.0	6.5

¹ Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$ 64.27 in 2006; the assumed price is \$60.75 in 2007 and \$ 64.75 in 2008.

² Categories of economies as shown in Table 1(A).

Source: *Ibid*, 2007, pp 2,61,69,77,225,226 and 228, *Ibid*, September 2006, pp. 2,50,59,71

National Economic Performance

- 1.7. The Central Bureau of Statistics (CBS) estimates and publishes national accounts statistics including the related macro-economic indicators. As changes take place in the structure of the economy, so do the economic activities. National accounts data should mirror such changes. It is the standard practice, therefore, to produce new series based on the new benchmark year, which again is determined by the studies and surveys with the broader perspective in a defined period of time. Accordingly, Nepal has produced new series of national accounts data since FY 2006/2007, taking FY 2000/2001 as the benchmark year. These data are in line with the System of National Accounts, 1993. After the methodological update, the national accounts data and the related macro-economic indicators have been accordingly revised since FY 2000/2001. In the past, all economic activities were covered under nine major sectors and the economic indicators were prepared accordingly. Since FY 2006/2007, economic activities have been classified under 15 sectors and the economic indicators have been prepared accordingly. Preliminary estimates for FY 2006/2007 are based on the data available for the first six-to-nine months.

Box 1(A): National Accounts New Series

The Central Bureau of Statistics has continued to publish annually updated national accounts data of the country's production, income, consumption, saving, investment (capital formation), etc. Every year such data include preliminary estimates for the current year, revised estimates for the previous year and the final estimates for the preceding two years. And these data are being used for the economic analysis that helps present the economic situation of the country in the broader perspective. Data are useful for depicting the emerging composition, structure, movement and the volume of the economy. Eventually, such data become instrumental in evaluating the past economic activities with a view to assessing the opportunities in the years to come that give content to the policy and program formulation to be put in place.

Quality of the national accounts data determines the reliability of the plan and policies. Planning, monitoring and evaluation have little meaning without such data. Frequently, the national accounts data of Nepal have faced doubts in the past, some of which are listed below:

1. Nepal's national accounts data are not prepared as per the international standard and method;
2. Such data do not comprehend the changes in the economic activities observed in the past years;
3. Availability of data of various sectors are not timely and regular;
4. National accounts system lacks capability to register changes in input-output links due

to technological change in economic production;

5. Data obtained from several sectors lack standard the use of which in the national accounts lead to doubts;
6. Available indices necessary for the economic analyses and policy monitoring are not adequate and that the national accounts estimates are limited; etc

It is a standard practice to produce new series based on the change in benchmark year as an outcome of the comprehensive survey and study conducted at regular time intervals to capture effects of the new economic activities.

Accordingly, taking FY 2000/01 as the base year, a new series for national accounts statistics has been prepared. Since major censuses of Nepal like Population, Agriculture and Industrial were conducted around the year 2000/01, new series of national accounts data have been developed and the macro-economic indicators have been presented taking 2000/01 as the base year. In addition, the year was found to be more compatible for comparison with the international data. Nepal's national accounts data series in the past were based on succeeding benchmark years, namely, FY 1964/65, FY 1974/75, FY 1984/85 and FY 1994/95.

The need for a new series arose in order to reorient the national accounts preparation method, introduced new concepts and definitions and respond to the need for reclassification. Nepal had continued to base its national accounts system on that of the 1968 system. Almost all the countries of the world had abandoned this system 10 years ago by adopting the System of National Accounts (SNA) 1993. It was necessary for Nepal also to follow the suit. It is indeed a step forward in defining the macro-economic variables like production, consumption, investment, etc. All economic activities in previous years were classified into nine major sectors. The new classification includes 15 sectors under which the production, intermediate consumption and estimates of value additions are also shown leading to departure from the previous classification of nine sectors. The International Standards Industrial Classification, Revision 3 categorized the entire economic activities in to 17 numbers. In Nepal's case, however, economic contribution of workers in the private households, activities of foreign missions, and INGO's to the Gross Domestic Product is found negligible. Such data therefore have been included in the Other Community, Social and Individual Services category.

New series also includes many activities not included in the previous series. Such activities include micro-bus, cable car services under Transport category; PCO, mobile telephone, internet, cable television and renting are covered under the Communication; services of employment agencies, cooperatives, consultants, computer and photography, private postal services, private sector education services, community forest products, etc. are also included in the new series. To provide national accounts on sound footing, 30 new surveys and studies were conducted.

Improvement is also made in the national accounts survey-frame and estimation methods. Changes in technology, for example, have led to changes in the production cost ratio of many service sectors that have also been revised. Attempt has been made to make the national accounts data user-friendly by providing reliable estimates of saving, disposable income, value added, consumption, capital formation and saving by institutional sectors such as Government, academies, households and non-profit organizations in addition to the conventional estimates of the GDP, GNI and consumption. With the improved national accounts system in line with the SNA 1993 put in place, production of internationally comparable data will be possible.

Source: Central Bureau of Statistics

- 1.8. The preliminary estimate of economic growth in FY 2006/07 as computed on the basis of the six to nine months' data shows modest rate of economic growth. Gross Domestic Product (GDP) at current prices, however, is estimated to have increased by 11.3 percent, the highest during the last five years. It would be relevant to note that the implicit GDP price deflator is used to transform the nominal GDP into the base-year prices. In other words, such price deflator works as the link between the nominal GDP and the constant GDP. According to the new national data, FY 2000/01 has been taken as the base year and the GDP price deflator in FY 2006/07 is estimated to have risen by 8.3 percent as compared to the growth of 6.7 percent in FY 2005/06. The consumer price index (CPI) for the first nine months of the current fiscal year as per the Nepal Rastra Bank (NRB) estimate increased by an average of 7.0 percent as compared to the rise of 7.7 percent during the same period in FY 2005/06. The wholesale price index (WPI) during the first nine months of the current fiscal year rose by an average of 9.8 percent as compared to the rise of 9.0 percent during the same period in the previous year. The average annual growth rate of CPI during the current year has been estimated at 6.6 percent while such growth estimate for the WPI has been 9.0 percent. Last year, the CPI had increased by 8.0 percent and the WPI by 8.9 percent.
- 1.9. Agriculture continues to occupy a major share in the GDP. Its contribution this year is estimated to be minimal due to a large decline in the production of paddy caused by adverse weather during the current fiscal year. The non-agriculture GDP is also estimated to slide down due to disturbances like the ones in the Terai, management-labor tensions in industries, load-shading, supply irregularities in POL products, and frequent strikes.

Table 1 (D): GDP Growth Rate by Industrial Classification
(at constant prices)

Industrial Classification	Fiscal Years					
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Agriculture and Forest	3.01	3.32	4.72	3.45	0.99	0.62
Fisheries	8.71	4.00	12.23	7.13	9.91	3.00
Mining and Excavation	8.79	3.20	-0.43	6.80	7.58	6.00
Industry	-5.32	0.04	2.15	2.62	2.00	2.16
Electricity, Gas and Water	11.37	19.04	4.07	3.07	3.64	3.22
Construction	6.41	2.10	-0.35	2.90	7.30	1.50
Hotel and Restaurant	-18.23	2.01	12.74	-5.41	6.00	2.81
Wholesale and Retail Trade	-11.57	2.26	10.81	-6.24	3.66	-2.60
Transport, Communication and Storage	8.37	5.20	7.49	1.98	4.35	8.11
Financial Intermediaries	3.82	1.66	6.19	24.30	16.53	8.56
Real Estate, Rent and Professional Services	-4.89	-3.97	-2.09	10.03	1.07	8.65
Public Administration and Defense	36.85	22.52	-0.64	6.64	6.89	3.60
Education	21.05	13.71	5.12	9.82	2.68	5.59
Health and Social Works	7.38	15.26	6.11	11.33	7.04	5.15
Other Community, Social and Individual Services	-8.62	4.40	13.43	-3.38	7.47	4.99
Gross Value Addition (including financial	0.46	3.45	5.13	2.97	3.29	2.50

Industrial Classification	Fiscal Years					
	2001/02	2002/03	2003/04	2004/05	2005/06 ♣	2006/07 ♣♣
intermediation services valued indirectly)						
Financial Intermediation Services indirectly measured	10.67	-6.62	30.13	6.23	7.28	8.04
GDP (at Basic Prices)	0.16	3.77	4.41	2.85	3.14	2.29
Goods and Services net tax	-0.47	6.55	8.60	6.88	-1.78	5.49
GDP (at Producer Prices)	0.12	3.95	4.68	3.12	2.80	2.50

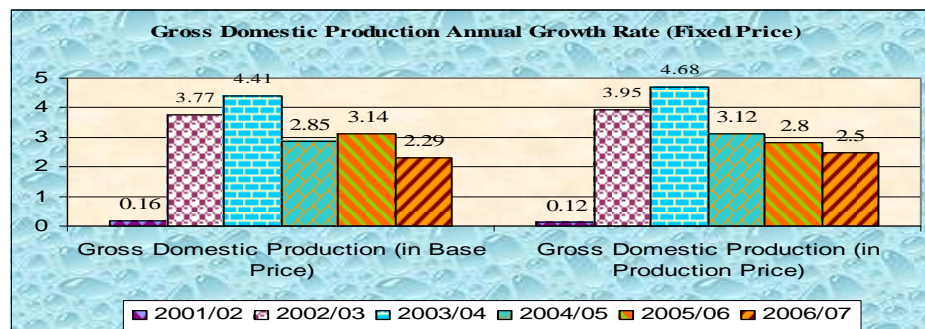
♣ Revised

♣♣ Preliminary

Source: Central Bureau of Statistics

GDP at Current Prices

- 1.10. In FY 2006/07, GDP at current prices rose by 11.29 percent to Rs. 719 billion 477 million. In FY 2005/06, such GDP had risen by 9.68 percent to Rs. 646 billion 471 million. At the current basic price, GDP increased by 11.08 percent to Rs. 670 billion 589 million. Such GDP had increased by 10.06 percent in FY 2005/06.



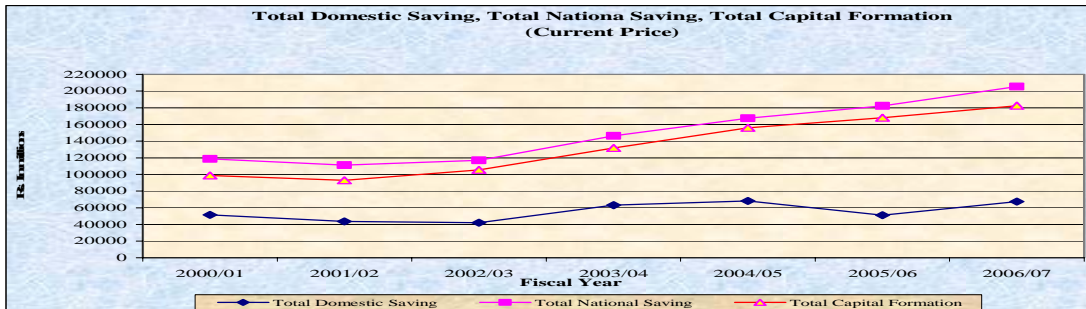
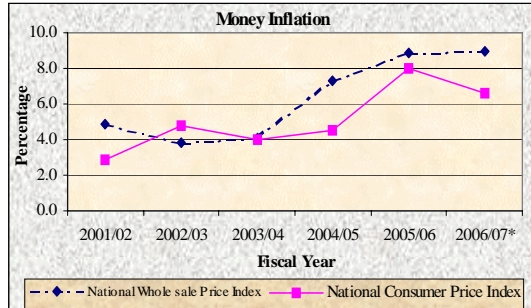
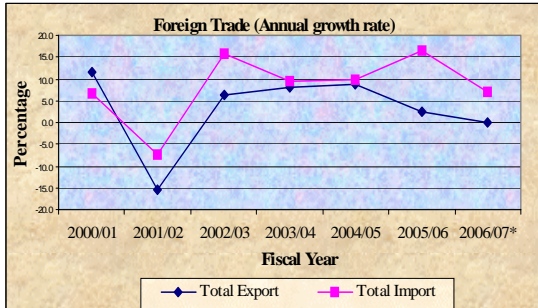
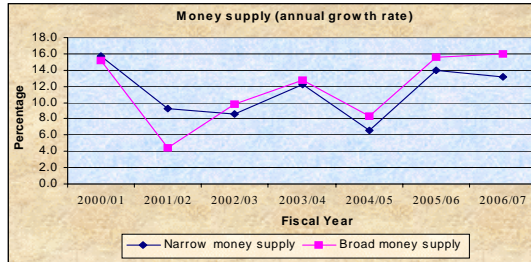
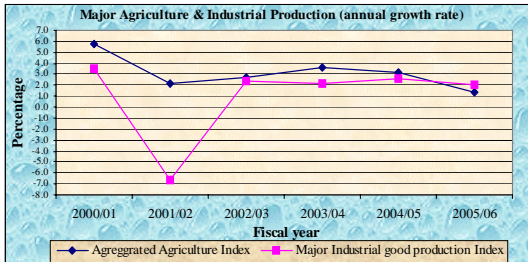
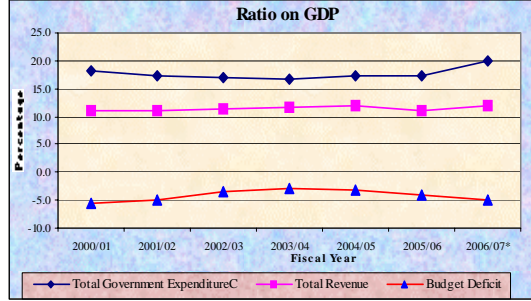
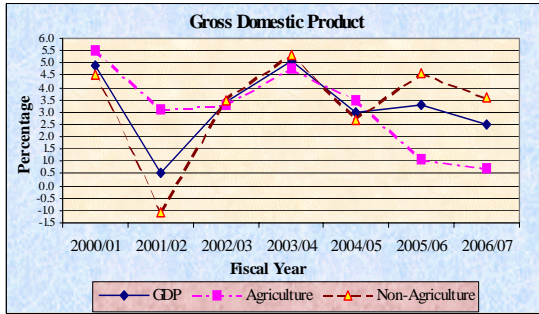
Real GDP

- 1.11. Preliminary estimate of real GDP growth (base year 2000/01) at producer prices in current FY 2006/07 as compared to the growth of 2.80 percent in FY 2005/06 is 2.50 percent. GDP growth at the basic prices this year is estimated to be 2.29 percent compared to the 3.14 percent growth last year. Economic growth on the whole remained modest due partly to the lower agriculture production growth (0.70 percent) as paddy production received big setback due to inadequate rain at peak sowing time while non-agriculture production is expected to increase by 3.60 percent.
- 1.12. The contribution of the agriculture and the non-agriculture sectors in terms of constant price GDP in FY 2006/07 has been 36.1 percent and 63.9 percent respectively as compared to the respective contributions of 36.8 percent and 63.2 percent during the previous year, thereby reflecting a decline of 0.7 percentage-point in the contribution of the agriculture and the same percentage-point rise in the contribution of the non-agriculture during the current year.
- 1.13. Agriculture and forest production at constant price, which had increased by 0.99 percent last year, is estimated to increase by 0.62 percent this year. Food crop production index indicates

a minimal growth this year compared to that of last year. Fisheries production, which increased by 9.91 percent last year, is estimated to have decelerated to 3.00 percent this year.

- 1.14. Production of mining and quarrying sector in FY 2005/06 increased by 7.58 percent and is estimated to grow by 6.00 percent this year. Production of mining declined but that of quarrying performed better which, therefore, is expected to help realize the above-mentioned growth. Industry sector production, which had increased by 2.00 percent last year, is estimated to scale up by 2.16 percent this year. Comparison of production index of this year's first six months with that of the same period last year indicates positive move in food processing, dairy, textile and paper production while ready-made garment and woolen carpet production witnessed declines. As a result, the overall growth of industry sector is expected to remain modest.
- 1.15. Electricity, gas and water sector production, which had increased by 3.64 percent last year, is estimated to rise by 3.22 percent this year. Construction sector production, which had increased by a high rate of 7.30 percent last year, is estimated to have risen by 1.50 percent this year, mainly due to low internal production though the import of construction materials increased.
- 1.16. Wholesale and retail trade sector production is estimated to be negative by 2.60 percent this year compared to the 3.66 percent growth last year. Contributing to this negative growth is the minimal growth in the agriculture and the industry sectors coupled with the uneasy situation in the trade intermediation leading to adverse situation in the internal trading activities. The growth of the hotel and restaurant sector production is also estimated to decelerate to 2.81 percent this year compared to the growth of 6.00 percent last year.
- 1.17. Transport, communications and storage sector production is estimated to accelerate to 8.11 percent this year compared to the growth of 4.35 percent last year, attributed to the sizable contribution of the communications sub-sector. Financial intermediation sector production, which had increased by 16.53 percent last year, is estimated to increase at a reduced rate of 8.56 percent this year. The rise in this sector is attributed to the contribution of the increased financial intermediary transactions.

Chart 1(A): Major Macroeconomic Indicators



* Estimate

Table 1 (E): Major Macroeconomic Indicators©

Indicators	Unit	Fiscal Years					
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07*
Real GDP (at producer price)	Annual % change	0.1	3.9	4.7	3.1	2.8	2.5
Real GDP (at basic price)	..	0.2	3.8	4.4	2.9	3.1	2.3
GDP ¹	..	0.5	3.4	5.1	3.0	3.3	2.5
Agriculture	..	3.1	3.3	4.8	3.5	1.1	0.7
Non-Agriculture	..	-1.1	3.5	5.3	2.8	4.6	3.6
GDP (at current producer price)	..	4.1	7.1	9.0	9.8	9.7	11.3
GDP ²	..	4.4	6.6	9.4	9.4	10.0	11.0
Agriculture	..	6.7	4.0	7.7	7.1	5.8	8.4
Non-Agriculture	..	3.0	8.2	10.3	10.6	12.2	12.3
GNP (at current price)	..	3.5	7.1	8.8	10.5	10.2	11.1
Overall Agriculture Index	..	2.4	3.7	3.2	2.8	1.1	0.4
Food and other crops	..	2.3	2.0	3.4	1.5	0.0	-3.3
Animal production	..	2.5	3.2	3.4	2.1	3.0	2.6
Vegetable & horticulture	..	5.1	3.6	5.0	9.3	5.7	6.7
Forestry production	..	1.9	1.9	1.0	0.2	-2.5	1.7
Major Industrial Production Index	..	-6.6	2.4	2.1	2.6	1.9	2.1
GDP Price Index ³	..	3.9	3.1	4.0	6.3	6.4	8.3
- Agriculture	..	3.5	0.7	2.8	3.5	4.7	7.7
-Non-Agriculture	..	4.1	4.5	4.8	7.8	7.3	8.5
National Urban Consumer Price Index, annual average change (1995/96=100)	..	2.9	4.8	4.0	4.5	8.0	6.6
Gross National Saving/GNP ratio	%	24.2	23.8	27.3	28.3	28.0	28.4
Ratio with GDP (at current producer price) :							
-Gross Domestic Saving	%	9.5	8.6	11.8	11.6	7.9	9.4
-Gross Investment	%	20.2	21.4	24.5	26.5	26.0	25.3
-Difference between Domestic Saving and Investment	%	-10.7	-12.8	-12.8	-14.9	-18.1	-16.0
-Total Consumption	%	90.5	91.4	88.3	88.4	92.1	90.6
-Total Government Expenditure	%	17.4	17.1	16.7	17.4	17.3	18.8
-Current Expenditure	%	10.6	10.6	10.3	10.5	10.7	11.2
-Capital Expenditure	%	5.4	4.5	4.3	4.6	4.5	5.1
-Principal (Debt) Repayment	%	1.4	1.9	2.0	2.3	2.2	2.6
Debt Service (Principal & Interest Payment)	%	2.7	3.3	3.2	3.4	3.2	3.4
-Total Revenue	%	11.0	11.4	11.6	11.9	11.2	12.0
-Tax Revenue	%	8.6	8.7	9.0	9.2	8.9	9.7
-Non-Tax Revenue	%	2.4	2.8	2.6	2.7	2.3	2.3
-Budget Deficit	%	5.0	3.3	2.9	3.1	4.0	4.6
-Foreign Debt received	%	1.7	0.9	1.4	1.6	1.5	1.4
-Foreign Loan and Grants received	%	3.1	3.2	3.5	4.0	3.6	3.7
-Total Outstanding Domestic Debt	%	15.1	16.4	15.2	14.1	13.9	13.6
-Total Outstanding Foreign Debt	%	47.9	45.4	43.4	37.3	36.2	32.6
-Total Outstanding Debt	%	63.0	61.8	58.5	41.3	50.1	46.2

Indicators	Unit	Fiscal Years					
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07*
-Total Exports (Goods)	%	10.2	10.1	10.0	10.0	9.3	8.4
-Total Imports (Goods)	%	23.4	25.3	25.4	25.4	26.9	25.8
--Trade Deficit	%	13.2	15.1	15.3	15.4	17.6	17.5
-Current Account Surplus	%	4.0	2.4	2.7	2.0	2.2	1.1
Total Outstanding Foreign Debt/Total Government Revenue	%	436.4	397.4	373.5	313.2	323.7	271.9
Total Outstanding Foreign Debt/Total Exports	%	468.9	447.5	431.8	374.1	388.4	389.8
Total Government Revenue	% Change	3.2	11.5	10.0	12.5	3.1	19.5
Current Expenditure	..	6.6	6.6	6.6	11.0	12.0	19.9
Capital Expenditure	..	-12.5	-9.8	3.3	18.4	5.3	22.9
Principal Repayment	..	13.1	48.6	12.9	25.4	5.4	32.1
Total Government Expenditure	..	0.3	4.9	6.5	14.7	9.3	22.2
Debt Service (Principal and Interest Payment)	%	17.5	32.6	7.1	13.9	3.4	20.9
Debt Service (Principal and Interest Payment/Current Expenditure)	%	25.0	31.1	31.2	32.0	30.5	30.7
Narrow Money Supply (M1)	% Change	9.3	8.6	12.2	6.6	14.0	13.1
Broad Money Supply (M2)	..	4.4	9.8	12.8	8.3	15.6	16.0
Private Sector Share in the Total Loan Outstanding of the Banking Sector	%	64.3	66.1	68.7	69.1	69.8	75.3
Total Exports	% Change	-15.6	6.4	8.0	8.9	2.6	0.0
Total Imports	..	-7.2	15.8	9.6	9.7	16.3	7.0
Export/Import Ratio	%	43.7	40.2	39.6	39.3	34.7	32.4
Current Account Surplus	Rs. m	18160.0	11620.0	14598.0	11545.0	14225.0	8244.0
Balance of Payments ⁴	Rs. m	-3343.0	4364.0	16005.0	5742.0	25699.0	9000.0
Foreign Exchange Reserve	Rs. billion	105.90	108.23	130.21	129.90	165.13	171.37
Foreign Exchange Rate ⁵	US\$ 1=Rs	78.3	75.0	74.4	70.6	74.4	70.9
Population	m	23.7	24.2	24.7	25.3	25.9	26.4

© Some of the data included in the table have been updated as per information received from concerned sources which, therefore, may differ from the data presented in previous issues of Economic Survey. Beginning FY 2000/01, GDP new series has been prepared as per SNA 1993. Growth rates since FY 2001/02 are shown accordingly.

*Annual preliminary estimates (first 8 month)

1. At constant price, total value added including financial intermediation indirectly measured.

2. At current price, total value added including financial intermediation indirectly measured.

3. Base year changed

4. Since FY 2000/01, estimates of remittance income have been presented in the new format of the Balance of Payments (BOP).

5. Average of mid-July buying and selling rates; for the current fiscal year, the rates are as in mid-March 2007.

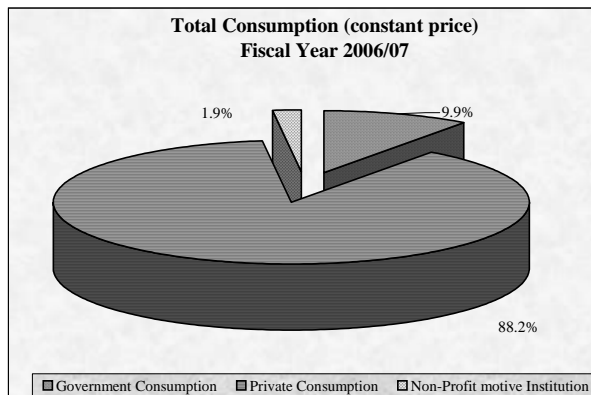
- 1.18. Production of the real estate and professional services is estimated to increase by a high rate of 8.65 percent this year as compared to the 1.07 percent rise last year. This optimism is based on the positive change observed in professional services and the increased transactions in real estate. Public administration and defense sector's production, which had registered 6.89 percent growth last year, is estimated to grow by 3.60 percent this year. Such estimate is based on the expenditures of central government in these two heads.
- 1.19. The education is estimated to record a 5.59 percent growth in the current fiscal year as compared to the growth of 2.68 percent last year. The current year's estimate is based on the changes observed in educational activities of the public and private sectors. In health, production increase this year is estimated at 5.15 percent over a growth of 7.04 percent last

year mainly due to the increased health service activities in the private sector. Other community, social and personal services sector is estimated to increase by 4.99 percent this year compared to the last year's increase of 7.47 percent. This sector includes community and various other social and professional services being provided by the government sector.

- 1.20. While looking at the GDP performance by grouping economic activities into three major groups, namely, Primary (Agriculture and Forest, Fisheries, and Mining and Quarrying), Secondary (Industry, Electricity, Gas, Water and Construction), and Tertiary (rest of the services sectors), the estimates of the increases are 0.72 percent in the Primary sector, 2.06 percent in the Secondary sector and 4.09 percent in the Tertiary sector in FY 2006/07. In FY 2005/06, the increases were 1.19 percent in the Primary sector, 4.18 percent in the Secondary sector and 4.72 percent in the Tertiary sector. The contributions of these sectors to GDP are estimated at 36.6 percent, 16.3 percent and 47.1 percent respectively for the current fiscal year. Such contributions last year were 37.2 percent, 16.4 percent and 46.4 percent respectively. Hence, the contribution of the Tertiary sector is estimated to rise this year by 0.7 percentage point.
- 1.21. According to the Central Bureau of Statistics, the per capita GDP at current price is estimated to increase by 8.85 percent to Rs. 27 thousand 209. Such rise last year was 7.28 percent to Rs 24 thousand 996. At constant price, per capita GDP is estimated to increase by 0.53 percent this year as compared to the rise of 0.76 percent last year. In US dollar terms, per capita GDP at current price is estimated to be \$383 this year, a rise of US\$ 33 from last year's level.
- 1.22. In terms of GDP structure at constant price, the contribution of major sectors like agriculture is estimated at 36.1 percent, Wholesale and Retail Trade 13.1 percent, Transport, Communications and Storage 8.7 percent, Real estate and professional service 7.5 percent, Industry 7.8 percent, Construction 6.1 percent and Education 5.9 percent.

Consumption, Saving and Capital Formation

- 1.23. Consumption at constant price this year is estimated to increase by 2.00 percent to Rs 482 billion 350 million. It had increased by 5.8 percent to Rs. 472 billion 970 million last year. The ratio of Total Consumption to GDP was 92.8 percent last year. The ratio is estimated at 92.3 percent this year. Of the Total Consumption, government and private sectors occupied 10.0 percent and 88.2 percent respectively in FY 2005/06.



This year, corresponding shares are estimated to be 9.9 percent and 88.2 percent. Private sector's consumption had increased by 6.4 percent last year and is estimated to increase by 1.9 percent this year. The consumption of the government sector is estimated to increase by 0.46 percent this year over the growth of 0.80 percent last year.

- 1.24. National Disposable Income at current price had increased by 12.9 percent to Rs 777 billion 570 million last year. Such income is estimated to increase by 10.3 percent to Rs 857 billion 620 million this year.
- 1.25. Gross Domestic Saving at the constant price had fallen by a high rate of 24.7 percent to Rs 36 billion 940 million last year. In the current fiscal year, it is estimated to go up by 9.1 percent to Rs 40 billion 320 million. The ratio of Gross Domestic Saving to GDP, which stood at 7.2 percent last year, is estimated at 7.7 percent this year.
- 1.26. Gross Capital Formation at constant price is estimated to decrease by 6.1 percent to total Rs 106 billion 520 million compared to the reduction of 0.8 percent to total Rs 113 billion 490 million last year. The ratio of Gross Capital Formation to GDP stood at 22.3 percent last year. Such ratio is estimated at 20.4 percent this year.
- 1.27. Import of goods and services at constant price in FY 2005/06 had increased by 6.45 percent. in FY 2006/07, which is estimated to decrease by 8.64 percent. Export under this heading had decreased by 2.40 percent last year while it is estimated to decrease by 3.82 percent this year. Net export under this heading had increased by 17.2 percent to total of negative amount of Rs 76 billion 550 million in FY 2005/06. In contrast, such net export this year is estimated to decrease by 13.5 percent to total a negative amount of Rs 66 billion 200 million. The ratio of export of goods and services to GDP had stood at 15.18 percent last year. For FY 2006/07, it is estimated to stand at 14.24 percent. The ratio of import to GDP had stood at 30.19 percent last year. For this year, the ratio is estimated at 26.91 percent. The ratio of net export of goods and services to GDP last year was negative 15.0 percent. For this year, it is estimated to be negative 12.7 percent. Export to Import ratio in FY 2005/06 had been 50.28 percent. Such ratio this year is estimated to increase to 52.93 percent.

Challenges

- 1.28. According to the IMF, major challenges facing the global economy are slowdown in housing sector in the United States, possibility of instability in financial market, likely pressure on inflation due to possible price hike of petroleum products, and the increasing global imbalances.
- 1.29. Productivity gain in agriculture is very important for the overall economic development of the country. Nepal's agriculture continues to be locked in conventional method and monsoon rain dependency. This sector needs to be modern technology-oriented and to set on a course of commercial scale farming, which will thereby help develop industrial base. Development of these twin approaches is highly desirable also to reduce poverty, which stands as the major challenge today. Enabling real farmers access to cultivable land by compatible distribution, more productive use of land, and operations of minor irrigation systems catering to the needs of the local level are among the preconditions of farming modernization. So are the prompt access to the agriculture credit and regular supply of quality agriculture inputs. Private sector investment in development and construction of agriculture infrastructure is equally desirable for the promotion of commercial farming. Agricultural research-based development of crops is another area to be emphasized. Modernization of agriculture continues to lag due to inadequate irrigation facilities. Hence, minor irrigation needs to be promoted. In sum, if agriculture production is to increase, policies and programs need to be geared towards addressing these challenges.
- 1.30. Industrial production has suffered a lot due to continued unfavorable situation faced by this sector during the past years. Serious disturbances like frequent strikes, lock-outs, donation menace, load shedding, carteling by truckers, raw material supply disturbances, recurring cases of misunderstanding between management and labor, lack of industrial security, etc., were at work to disturb industrial production. As a result, the emerged situation remains

unfriendly to private sector investment promotion. So much so that the investors in the field are discouraged and pessimistic. Capital flight threat is looming large. All these pose a daunting challenge to the industry sector demanding improvement measures from political, administrative, policy and process-based perspectives.

- 1.31. Nepal has emerged as one of the major tourist destinations of the world and holds ample opportunities for further developing this sector. Benefits are numerous: enhancement of foreign exchange earning, creation of additional employment opportunities, promotion of cottage and handicraft industry, broadening of country focus, enhancement of awareness, and promotion of Nepalese art and culture. Eventually, the government will also benefit from increased revenue, people's living standards will be expected to improve; and regional imbalance may also be corrected. The task, therefore, of taking measures for developing and expanding tourism sector lies ahead.
- 1.32. With the end of the long internal conflict, the nation has now started to move fast along the trajectory of sustainable peace. In this context, there is the need to expedite the implementation of various development projects that were affected due to the disturbed peace and security environment in the past. Equally important is the task of reconstructing the projects that were destroyed. To give priority to the effective implementation of the projects in roads, bridges, drinking water, electricity, irrigation, etc., and facilitate apace the development process that was disrupted in the past due to the conflict have become urgent.
- 1.33. Poverty reduction has become the national priority as well as the challenge. Many cottage and handicraft industries that were based on the locally available resources but could not strengthen their position due to the emerging global competitive environment have faced constraints in the given context, while the rural agricultural situation is also weak. As a result, self-employment opportunities that could be promoted at the local level have been reduced. This, in consequence, has created problem in the process of attaining the national objective of poverty reduction. Taking this into account, there is the need to improve the conditions of cottage industries and the agricultural activities at the local level, which would pave the way for the creation of self-employment opportunities as the major instrument for the poverty reduction in the rural areas. For such an arrangement to be made effective, the challenge lies in formulating and running smoothly programmes like "rural self-employment for the poverty reduction" and "modern agricultural system for the upliftment of the rural sector."
- 1.34. Poverty alleviation remains as a national challenge. Cottage and handicraft-based industries which came into operation in economic liberalization policy environment are in the course of closures while rural agriculture is not performing well. Potent sources of self-employment opportunities at local level are, therefore, in jeopardy. Taking quick initiatives towards designing and implementing programs of rural self-employment and modern technology-oriented agriculture practices in the rural areas have become the order of the day to address poverty alleviation issues.