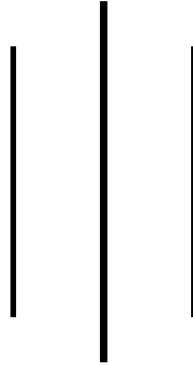
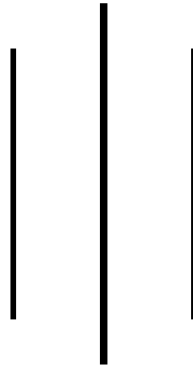


ECONOMIC SURVEY



FISCAL YEAR 2007/08



**GOVERNMENT OF NEPAL
MINISTRY OF FINANCE
July 2008**

Foreword

Nepal formally became a republic on May 28, 2008. Along with the change in the political spectrum, the prospects and challenges in the realm of economic development have started to be realigned in a sharper focus. In conjunction with the change in the political outlook, the challenge of making the economic transformation process dynamic and raising, on a sustained basis, the standards of living of the people in general through fully capitalizing on the available strengths and opportunities constitutes the priority agenda of the national economic management exercise. This would call for the objective analysis, assessment and knowledge as to the economy's current trend, structure, outcomes, potentialities and challenges for steering the necessary policy directions and management responsibilities, facilitating the development process, and institutionalizing the visions of the future development strategies.

In the above perspective, I feel pleased to present to this respected Legislative-Parliament the Economic Survey for fiscal year 2007/08, incorporating statistical updates and analytical reviews of the important achievements and changes that the various sectors of the economy of Nepal witnessed during the first eight months of the current fiscal year. The Survey reviews the achievements and highlights the problems and challenges in the national accounts, public finance, financial and external sectors, and other areas of socio-economic development including the developments with respect to the process of structural reforms in the economy. The information on agriculture, industry, tourism, education, health and other sectors of production has been updated to the extent of the availability while also attempting to make the presentation more organized and simpler.

I believe that the Survey would be useful for the representatives of the people and all other stakeholders to facilitate analysis and assessment of the development policies and other relevant dimensions of the development endeavors as a ground-work for effecting improvements toward attaining satisfactory outcomes in the goals of inclusive development based on institutionalizing a regime of broader, higher and sustainable economic growth.

I would like to express heartfelt thanks to the Ministry of Finance officials, especially those in the Economic Affairs and Policy Analysis Division, and the designated Nepal Rastra Bank officials, who were involved in the preparation of the Survey. I am also thankful to the concerned Ministries and other agencies for their enthusiastic support in making available the necessary data, information and details for the Survey.

July 2008

Dr. Ram Sharan Mahat
Finance Minister

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Acronyms

| | |
|--------------------|---|
| ABBS | - Any Branch Banking System |
| ACU | - Asian Clearing Union |
| ADB | - Asian Development Bank |
| ADBL | - Agricultural Development Bank Limited |
| ADS-B | - Automatic Dependent Surveillance Broadcast |
| Advanced Economies | - United States, Euro Area, Japan, United Kingdom, Canada, Other Advanced Economies |
| AFIS | - Aeronautical Flight Information System |
| AIDS | - Acquired Immune Deficiency Syndrome |
| AIG | - Accord Implementation Group for Basel-II |
| AIP | - Aeronautical Information Publication |
| AMHS | - ATS Message Handling System |
| AMT | - Aircraft Maintenance Technician |
| ANC | - Antenatal Care |
| AOC | - Air Operation Certificate |
| API | - Annual Parasite Incidence |
| APP | - Agriculture Perspective Plan |
| ARI | - Acute Respiratory Infection |
| ART | - Antiretroviral Therapy |
| AS | - Academic Session |
| ASEAN-5 | - Indonesia, Thailand, Philippines, Malaysia, Vietnam |
| ATS | - Air Traffic Services |
| AVSEC | - Aviation Security |
| BCG | - Bacille Calmette-Guérin |
| BDS | - Bachelor of Dental Science |
| BIMSTEC | - Bay of Bengal Initiative for Multi- Sectoral Technical and Economic Cooperation |
| BOP | - Balance of Payments |
| BSP | - Bio-gas Support Program |
| CAAC | - Civil Aviation Authority of China |
| CB-IMCI | - Community-Based Integrated Management for Child Illness |
| CBR | - Community-Based Reform |
| CDC | - Curriculum Development Center |
| CDCF | - Community Development Carbon Fund |
| CDM | - Clean Development Mechanism |
| CDMA | - Code Division Multiple Access |
| CDS | - Central Depository System |
| CEO | - Chief Executive Officer |
| CER | - Certified Emission Reduction |
| CFIT | - Control Flight into Terrain |
| CIB | - Credit Information Bureau |
| CIT | - Citizen Investment Trust |

| | |
|-----------------------------------|---|
| COSCAP-SA | - Cooperative Development of Operational Safety and Continuing Airworthiness Program – South Asia |
| CPR | - Current Prevalence Rate |
| CRR | - Cash Reserve Ratio |
| CTEVT | - Council for Technical Education and Vocational Training |
| CUTE | - Common User Terminal Equipment |
| CYP | - Couple Year of Protection |
| DAG | - Disadvantaged Group |
| DCGC | - Deposit and Credit Guarantee Corporation |
| DCP | - Designated Check Pilot |
| DDC | - Dairy Development Corporation |
| DDC(s) | - District Development Committee(s) |
| DFID | - Department for International Development, UK |
| DOTs | - Direct Observation Treatments |
| DPMAS | - District Poverty Monitoring and Analysis System |
| DPPR | - Disaster Preparedness Program Review |
| DPR | - Detailed Project Report |
| DPT | - Diphtheria, Pertussis and Tetanus |
| DRF | - Debt Relief Fund |
| ECD | - Early Childhood Development |
| EDV | - Electronic Diversity Visa |
| EIA | - Environment Impact Assessment |
| Emerging and Developing Economies | - Africa, Central and Eastern Europe, Common Wealth of Independent States, Developing Asia, Middle East, Western Hemisphere |
| ENT | - Ear, Nose and Throat |
| EPF | - Employees Provident Fund |
| EPZ | - Export Processing Zone |
| EU | - European Union |
| EWARS | - Early Warning Reporting System |
| FCGO | - Financial Comptroller General Office |
| FII | - Foreign Institutional Investors |
| FINNIDA | - Finnish International Development Agency |
| FISIM | - Financial Intermediation Services Indirectly Measured |
| FNCCI | - Federation of Nepalese Chambers of Commerce and Industry |
| FSRP | - Financial Sector Reform Program |
| FY | - Fiscal Year |
| GCF | - Gross Capital Formation |
| GDP | - Gross Domestic Product |
| GDS | - Gross Domestic Saving |
| GFATM | - Global Fund for AIDS Tuberculosis Management |
| GFCF | - Gross Fixed Capital Formation |
| GHC | - Grievance Hearing Cell |
| GITF | - Guangzhou International Travel Fair |

| | |
|--------------------------|--|
| GMPCS | - Global Mobile Personal Communication System |
| GNI | - Gross National Income |
| GNS | - Gross National Saving |
| GON | - Government of Nepal |
| GPS | - Global Positioning System |
| GSM | - Global System for Mobile Communications |
| GW | - Giga Watt |
| GWH | - Giga Watt Hours |
| ha | - hectare |
| HIV | - Human Immunodeficiency Virus |
| HIV/AIDS | - Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome |
| HSEB | - Higher Secondary Education Board |
| ICAO | - International Civil Aviation Organization |
| ICT | - Information and Communication Technology |
| IDA/PRSC | - International Development Association/Poverty Reduction Strategy Credit |
| IEC | - Information, Education, and Communication |
| IFIDS | - International Financial Information Dissemination System |
| IFRS | - International Financial Reporting Standards |
| ILS | - Instrument Landing System |
| IMCI | - Integrated Management and Child Illness |
| IMF | - International Monetary Fund |
| IRs | - Indian Rupees |
| ISDN | - Integrated Services Digital Network |
| ISIC | - International Standard Industrial Classification |
| ITU | - International Telecommunication Union |
| IUD | - Intrauterine Device |
| IUSOAP | - ICAO Universal Safety Oversight Audit Program |
| KG | - Kilo Gram |
| km | - kilo meter |
| KU | - Kathmandu University |
| KV | - Kilo Volt |
| KW | - Kilo Watt |
| LDCs | - Least Developed Countries |
| LDO | - Light Diesel Oil |
| LDTA | - Local Development Training Academy |
| LMFF | - Liquidity Monitoring and Forecasting Framework |
| LOA | - Letter of Agreement |
| LP gas | - Liquefied Petroleum gas |
| Major Advanced Economies | - United States, Japan, Germany, United Kingdom, France, Italy, Canada, Spain |
| MBBS | - Medicinae Baccalaureus et Baccalaureus Chirurgiae (Latin), (Bachelor of Medicine, Bachelor of Surgery) |

| | |
|---------------|--|
| MD | - Doctor of Medicine |
| MDA | - Mass Drugs Administration |
| MFDR | - Operationalization of Managing for Development Results |
| MOF | - Ministry of Finance |
| M1 | - Narrow Money |
| MPhil | - Master of Philosophy |
| MS | - Master of Science |
| MT | - Metric Ton |
| MTEF | - Mid-Term Expenditure Framework |
| MTO | - Mineral Turpentine Oil |
| M2 | - Broad Money |
| MUAN | - Municipalities Association of Nepal |
| NARC | - Nepal Agriculture Research Council |
| NASC | - Nepal Administrative Staff Collage |
| NATTA | - Nepal Association of Tour and Travel Agents |
| NBCC | - National Building Construction Code |
| NBL | - Nepal Bank Limited |
| NCASTP | - National Civil Aviation Security Training Program |
| NDHS | - Nepal Demographic and Health Survey |
| NEA | - Nepal Electricity Authority |
| NEFT System | - National Electronic Fund Transfer System |
| NFC | - Nepal Food Corporation |
| Nepal Telecom | - Nepal Telecommunication Company Limited |
| NEPSE | - Nepal Stock Exchange Limited |
| NFHP | - National Family Health Program |
| NIDC | - Nepal Industrial Development Corporation |
| NLSS | - Nepal Living Standard Survey |
| NMC | - Nepal Medical Council |
| NMT | - Nutrients MT |
| NOC | - Nepal Oil Corporation |
| NPL | - Non-Performing Loan |
| NRB | - Nepal Rastra Bank |
| NRN | - Non-Resident Nepalese |
| NSIC | - Nepal Standard Industrial Classification |
| NSU | - Nepal Sanskrit University |
| NTA | - Nepal Telecommunication Authority |
| NTL | - National Trading Limited |
| OPD | - Out Patient Department |
| PABX System | - Public Telephone Exchange System |
| PBM | - Performance-Based Monitoring |
| PCF | - Per Capita Funding |
| PCL | - Proficiency Certificate Level |
| PCO | - Public Call Operator |

| | |
|---------|---|
| PEs | - Public Enterprises |
| PG | - Post Graduate |
| PGDP | - Population Gender and Development Program |
| PHC | - Public Health Center |
| PhD | - Doctor of Philosophy |
| PM | - Prime Minister |
| PMAS | - Poverty Monitoring and Analysis System |
| PMEU | - Program Monitoring and Evaluation Unit |
| PMM | - Participatory Monitoring Mechanism |
| PMTCT | - Prevention of Mother to Child Transmission |
| PNC | - Postnatal Care |
| P1 | - Priority One |
| PPP | - Public-Private Partnership |
| PRSP | - Poverty Reduction Strategy Paper |
| PSC | - Public Service Commission |
| PSI | - Population Service International |
| PSTN | - Public Subscriber Telephone Network |
| RBB | - Rastriya Banijya Bank |
| RBB sys | - Rastriya Banijya Bank System |
| RCAG | - Remote Center Air/Ground |
| RSRF | - Rural Self Reliance Fund |
| RUPP | - Rural-Urban Partnership Program |
| RWRMP | - Rural Water Resource Management Project |
| SAFTA | - South Asian Free Trade Area |
| SAPTA | - SAARC Preferential Trading Arrangement |
| SBA | - Skilled Birth Attendant |
| SEBON | - Securities Board of Nepal |
| SEZ | - Special Economic Zone |
| SFDB | - Small Farmers Development Bank |
| SITC | - Standards International Trade Classification |
| SMD | - Strengthening Maintenance and Development Process |
| SNA | - System of National Accounts (1993) |
| STI | - Second-Tier Institution |
| TB | - Tuberculosis |
| TIA | - Tribhuvan International Airport |
| TITV | - Thai International Television |
| TMO | - Transport Management Office |
| TOE | - Tons of Oil Equivalent |
| TOR | - Terms of Reference |
| TRADE | - Tariff Relief Assistance for Developing Economies |
| TT | - Tetanus Toxoid |
| TU | - Tribhuvan University |
| TYIP | - Three-Year Interim Plan |

| | |
|------------|---|
| UAE | - United Arab Emirates |
| UDLE | - Urban Development through Local Efforts |
| UDLE/RUPP | - UDLE/Rural-Urban Partnership Program |
| UK | - United Kingdom |
| UMN | - United Mission to Nepal |
| UN | - United Nations |
| UNDP | - United Nations Development Program |
| UN-HABITAT | - United Nations Human Settlement Program |
| UPU | - Universal Postal Union |
| UNSECAP | - UN Social and Economic Commission for Asia and the Pacific |
| USA | - United States of America |
| USAP | - Universal Security Audit Program |
| USOAP | - Universal Safety Oversight Audit Program |
| Valley | - Kathmandu valley |
| VCT | - Voluntary Counseling and Testing for HIV |
| VDC | - Village Development Committee |
| VHF | - Very High Frequency |
| VOR/DME | - Very High Frequency Omni Range / Distance Measuring Equipment |
| VRS | - Voluntary Retirement Scheme |
| VSAT | - Very Small Aperture Terminal |
| WHO | - World Health Organization |
| WLL | - Wireless Loop |
| WTO | - World Trade Organization |

Executive Summary

1. Characterized by economic slowdown and inflationary outlook, the year 2008 would not be faring well for the global economy. It is projected that the global output will contract by 1.2 percentage point in 2008. The global slowdown is attributed to the impacts of the sub-prime mortgage crisis-triggered financial turbulence in the USA and the trade and financial spill-over in the other advanced economies, rising inflationary expectations in association with the oil price escalation, and existing structural problems of the global economy.
2. The world output growth in 2007 was 4.9 percent, with the advanced economies rising by 2.7 percent and the emerging and developing economies recording a growth of 7.9 percent. The world output growth in 2008 is projected at 3.7 percent, with the growth rates of the advanced economies at 1.3 percent and that of the emerging and developing economies at 6.7 percent. Consumer prices that rose by 2.2 percent in the advanced economies and 6.4 percent in the emerging and developing economies in 2007 are projected to rise by 2.6 percent in the former and 7.4 percent in the latter in 2008.
3. Nepal's neighbors China and India grew respectively by 11.4 percent and 9.2 percent in 2007 and are projected to record respective growth rates of 9.3 percent and 7.9 percent in 2008. South Asia, which attained a growth rate of 8.6 percent in 2007, is expected to rise by 7.5 percent in 2008.
4. Nepal registered noticeable acceleration in the economic growth rate during FY 2007/08. GDP at the basic prices expanded by 5.56 percent, the highest during the last seven years. Favorable monsoon and good policy impact contributed to raise the growth rates both in agriculture and the non-agriculture, which expanded by 5.65 percent and 5.57 percent respectively, compared to the previous year's growth estimates of 0.9 percent and 4.1 percent respectively.
5. The sectors in the non-agriculture that witnessed growth higher in FY 2007/08 over that in FY 2006/07 have been the financial intermediation (13.8 percent against 11.4 percent), hotels and restaurants (7.6 percent against 3.5 percent), health and social work (7.4 percent against 6.7 percent), fishing (7.1 percent against 3.0 percent), transport, storage and communications (6.6 percent against 4.5 percent), wholesale and retail trade (6.4 percent against minus 4.5 percent), public administration and

defense (5.7 percent against 1.4 percent), construction (3.1 percent against 2.5 percent), and mining and quarrying (2.8 percent against 1.5 percent).

6. The sectors that experienced growth lower in FY 2007/08 over that in FY 2006/07 have been the other community, social and individual services (11.1 percent against 11.8 percent), education (4.6 percent against 6.2 percent), real estate, renting and business services (4.4 percent against 11.8 percent), electricity, gas and water (3.4 percent against 13.0 percent), and manufacturing (0.2 percent against 2.6 percent).
7. Regarding the share components of the major sectors in the GDP at current prices in FY 2007/08, the agriculture occupied 32.1 percent followed by wholesale and retail trade at 13.6 percent, real estate, renting and business services at 9.9 percent, transport, storage and communications at 9.3 percent, manufacturing at 7.1 percent, construction at 6.4 percent, education at 6.0 percent, financial intermediation at 4.8 percent, electricity, gas and water at 2.0 percent, public administration and defense at 1.9 percent, and hotels and restaurants as well as the health and social work at 1.4 percent each.
8. The significance of the tertiary sector in the economy has been rising in accordance with the evolving nature of the economic development process. The tertiary sector, which rose by 4.2 percent in FY 2006/07, is estimated to have risen by 6.9 percent in FY 2007/08. Its share in the GDP in FY 2007/08 reached 51.4 percent, a 0.5 percentage point rise from the 50.9 percent level of FY 2006/07. The primary sector also posted a respectable growth of 5.6 percent in FY 2007/08 in comparison to the 1.0 percent growth in FY 2006/07, with its share in the GDP rising marginally to 33.1 percent from 33.0 percent in FY 2006/07. The growth rate of the secondary sector, however, slowed to 1.8 percent in FY 2007/08 in comparison to the 4.0 percent rise in FY 2006/07, as reflected in its reduced share in GDP, from 16.1 percent in FY 2006/07 to 15.5 percent in FY 2007/08.
9. As ratios of GDP, the gross domestic saving rose from 9.7 percent in FY 2006/07 to 11.5 percent in FY 2007/08 while the gross national saving reached 32.0 percent in FY 2007/08 from 28.5 percent in FY 2006/07. Gross capital formation as percent of GDP accelerated to 32.0 percent in FY 2007/08 from 28.0 percent in FY 2006/07. Hence, the surplus of gross national saving over gross capital formation as a ratio of GDP declined from 0.5 percent in FY 2006/07 to almost nil in FY 2007/08. As percent of GDP, the rise in the gross capital formation by 4.0

percentage points and the gross national saving by 3.5 percentage points between FY 2006/07 and FY 2007/08 characterizes rising investment level in the economy as supported by equally rising level of the national saving.

10. Accelerating the faster pace of revenue growth has remained the major feature of the economy in FY 2007/08. Revenue mobilization, that picked up in FY 2006/07 by posting a growth of 21.3 percent and pushing the revenue/GDP ratio to 12.1, scaled a growth of 26.8 percent during the first eight months of the current fiscal year in comparison to the growth of 17.8 percent registered during the same period in FY 2006/07. The fiscal deficit remains under control, though its ratio in terms of GDP rose to 4.1 percent in FY 2006/07 from a ratio of 3.8 percent in FY 2006/07. The treasury position of the government shows a balanced position as there were cash surpluses of Rs. 3.12 billion in mid-July 2007 and Rs. 4.34 billion in mid-March 2008 in comparison to the overdraft of Rs. 1.07 billion in mid-July 2006.
11. As a ratio of GDP, the government's total outstanding debt (domestic and external) came down from 50.3 percent (domestic 14.5 percent and external 35.8 percent) in mid-July 2006 to 44.1 percent (domestic 14.3 percent and external 29.8 percent) in mid-July 2007. This ratio further fell to 39.5 percent (domestic 13.1 percent and external 26.4 percent) in mid-March 2008.
12. The Government of Nepal's share capital in 36 public enterprises as at the end of FY 2006/07 amounted to Rs. 75.8 billion though the networth was reduced to Rs. 39.0 billion. Some public enterprises still need to update their audits. There is also the need for reconciling the records between the government and the public enterprises with respect to the amounts of the former's share and loan investments in the latter.
13. The consumer prices on the annual point-wise basis rose by 5.1 percent in mid-July 2007 and by 7.2 percent in mid-March 2008. Such rise in the wholesale price index was 8.5 percent in mid-July 2007 and 6.6 percent in mid-March 2008. The GDP deflator, which increased by 7.4 percent in FY 2006/07, is estimated to have increased by 7.7 percent in FY 2007/08.
14. Deposits in the banking sector during the first eight months of the current fiscal year rose by 13.3 percent. Deposits during the equivalent period in the previous year had gone up by 12.8 percent. Deposits as percent of GDP in mid-March 2008 reached 43.1 percent, up from 41.8 percent in mid-March 2007. The share of outstanding private sector

credit in the total banking sector credit took an upturn, from 76.9 percent in mid-March 2007 to 78.4 percent in mid-March 2008. As percent of GDP, narrow money increased to 17.2 percent in mid-March 2008 from 16.4 percent in mid-March 2007. This ratio for the broad money reached 54.7 percent in mid-March 2008 from 53.1 percent in mid-March 2007. So, as percentage points of the GDP, the narrow money and broad money in mid-March 2008 as compared to that in mid-March 2007 increased by 0.8 and 1.6 respectively, reflecting progress in financial intermediation.

15. Exports, which had increased by 0.9 percent during FY 2006/07, declined by 2.6 percent during the first eight months of FY 2007/08 over the similar period in the previous year. Imports, which had risen by 10.3 percent during FY 2006/07, accelerated by 23.6 percent during the first eight months of FY 2007/08 over the similar period in the previous year. Remittance inflows, which had amounted to Rs. 1.14 billion during FY 2006/07, rose by 28.1 percent to Rs. 82.42 billion during the first eight months of FY 2007/08 over the similar period in the previous year. The balance of payments witnessed a surplus of Rs. 13.27 billion during the first eight months of FY 2007/08 in comparison to the surplus of Rs. 5.90 billion during FY 2006/07. Consequently, total foreign exchange reserve increased by 10.2 percent, from Rs. 165.13 billion in mid-July 2007 to Rs. 181.98 billion in mid-March 2008 (US\$ 2.82 billion). At the prevailing imports trend, this reserve level would be sufficient to finance merchandise imports for 11.3 months and merchandise and services imports for 8.9 months.
16. The number of tourists during the calendar year 2007 increased by 33.5 percent to 526,000. During the calendar year 2006, the number of tourists had increased by 4.9 percent to 393,950. Travel receipts during FY 2006/07 had amounted to Rs. 10.12 billion. Such receipts during the first eight months of the current fiscal year as compared to the corresponding period in the previous year increased by 7.6 percent to Rs. 10.89 billion.
17. On the road transport sector, the total network of the blacktopped, graveled and fair-weather roads till mid-March 2008 reached 17,982 km. The length of the roads till mid-March 2007 was 17,782 km.
18. The number of hospitals increased from 87 in mid-March 2007 to 94 in mid-March 2008. Among the skilled personnel in the health sector, the number of doctors increased from 1,361 in mid-March 2007 to 1,457 in mid-March 2008.

19. The number of primary, lower secondary and secondary schools in the government and the private sectors during the academic session 2007/08 reached 44,853. During this session, the number of students was 6,533,410 and that of the teachers 165,423. Of the total number of the schools, the share components of the primary, lower secondary and secondary schools were 65.2 percent, 21.7 percent and 13.1 percent respectively. Of the total number of the students, the share components of the primary, lower secondary and secondary students were 67.6 percent, 22.1 percent and 10.3 percent respectively. Of the total number of the teachers, the share components of the primary, lower secondary and secondary teachers were 70.6 percent, 16.9 percent and 12.5 percent respectively. Among the 165,423 teachers, 64.5 percent are trained, with the respective percentages of the trained teachers in the primary, lower secondary and secondary levels remaining at 66.4 percent, 52.3 percent and 70.0 percent.

In conclusion, this year's major achievement lies in the success attained in maintaining the macroeconomic situation and structure of the economy at a favorable position. Acceleration in economic growth, notable expansion in the revenue mobilization, rise in the agreed foreign assistance, surplus in the balance of payments and the record level of the foreign exchange reserve in association with the rise in the remittance inflows, record level of the tourist arrivals, expansion in the banking deposits and the credit extended to the private sector, rise in the overall saving and investment levels, etc., have remained the important positive features of the economy in the current year. There are also some problems like the pressure on the price situation due to the price rise in the food category and difficulties in the supply management, slowdown in the exports, persistent need for controlling the recurrent expenditure and expanding the capital outlays, etc. The task of expediting the economic growth process through allocating the increasing levels of the resources mobilized for the utilization in enhancing the domestic production and productivity also needs to be prioritized.