

Executive Summary

1. The world economy, which grew by 3.0 percent in 2008, is estimated to turn negative by 0.6 in 2009. The economic growth rates in all the groups of advanced economies, emerging and developing economies, developing Asia, Middle East and North Africa, Central and Eastern Europe and newly Industrialized Asian economies are estimated to remain lower in 2009 compared to that of 2008 and in 2008 as against that of 2007. Advanced economies, Central and Eastern Europe and newly industrialized Asian economies are expected to have negative economic growth rates in 2009. The economic growth rates are expected to be negative due to the contraction in both export and import after the global financial crisis reflected in the decline in their gross domestic demand. The projections of such growth rates at 4.2 percent for the year 2010 and at 4.6 percent for the year 2011 indicate that the impact of American Financial Crisis started from the early 2007 has started slowing down signaling further improvements in the time to come.
2. Most of the developed and developing countries have adopted flexible monetary and fiscal policies to recover their economies from recession and to contain the deepening impact of such recession. The need for continuing such policy relief measures for some further time has caused demand to rise and price to increase. The rate of inflation based on consumer price is estimated to go up even in 2010. Inflation rate is expected to remain high in Middle East and North Africa, emerging and developing economies, Central and Eastern Europe and developing Asia compared to that of advanced economies.
3. The impact of economic growth rate and inflation reflects in gross real domestic demand and adverse impact on income due to low employment opportunities causing decline in demand for internal and external goods and services for both consumption as well as investment purpose.
4. Nepal's two neighbors, China and India achieved 9.6 and 7.3 percent respective economic growth rates in 2008, with estimates of such growth rates limited to 8.7 percent and 5.7 percent respectively in 2009.
5. Nepal's economic growth rate in the current FY 2009/10 is estimated to decline. In comparison to 4.0 percent GDP growth achieved at producers' prices in FY2008/09, is estimated to grow in this fiscal year only by 3.5 percent.
6. Major factors attributable to slower growth in GDP are the decline in production mainly of monsoon (summer) crops due to adverse weather

situation and the expansion of economic activities under non-agriculture sector remaining not so favorable. Such performance of the economy below the expectation is mainly attributable to *bandhs*, strikes, labor problem, electricity supply problem and contraction in external market.

7. Non-agriculture sectors of the economy that recorded expansion in FY2009/10 in comparison to the previous fiscal year have been, mining and quarrying (from 0.7 percent to 4.2 percent); industry (from -1.0 percent to 2.6 percent); electricity, gas and water (from -0.9 percent to 0.5 percent); construction (from 0.9 percent to 6.6 percent); hotel and restaurant (from 3.0 percent to 8.5 percent); financial intermediation (from 1.5 percent to 1.6 percent); and real estate, rent, professional services (1.7 percent to 4.8 percent).
8. Other sectors except those mentioned above recorded lower growth in FY2009/10 in comparison to FY2008/09. These sectors are: agriculture and forestry (from 3.0 to 1.1 percent); fisheries (from 5.7 percent to 5.3 percent); Wholesale and retail trade (from 5.9 percent to 5.6 percent); transport, communication and warehousing (from 7.6 percent to 6.5 percent); public administration and defense (from 7.3 percent to 4.2 percent); education (from 11.3 percent to 6.5 percent); health and social works (from 11.2 to 5.6 percent); and other community, social and personal services (from 13.0 percent to 6.1 percent).
9. Observation of the sector-wise structure of GDP according to the ISIC classification shows, the shares of different sectors are, agriculture and forestry 33.0 percent, fisheries 0.5 percent, wholesale and retail trade 14.0 percent, transport, communication, and warehousing 9.8 percent, real estate and professional services 8.3 percent, education 6.7 percent, construction 6.6 percent and industry 6.3 percent. Likewise, the shares of the other remaining sectors to total GDP are, financial intermediation 4.1 percent, other community, social and personal services 3.7 percent, public administration and defense 2.0 percent, hotel and restaurant 1.7 percent, electricity, gas and water 1.5 percent, health and social works 1.5 percent and , mines and explorations 0.5 percent.
10. In recent years, there has been a steady growth in the tertiary sector with its increasing contribution to the Nepalese economy. This sector, which contributed 51.6 percent to the GDP in FY 2008/09, is not expected to change much with a share of 51.5 percent in FY2009/10. Likewise, primary sector in FY2009/10 is estimated to contribute 34.1 percent to total GDP compared to that of 33.2 percent in the previous year and secondary sector with a 15.2 percent share in the previous year is expected to be contained 14.4 percent. Tertiary sector, primary sector, and secondary sector are

expected to grow by 5.5, 1.2, and 3.9 percent respectively in FY2009/10. In the last fiscal year 2008/09, tertiary sector increased by 6.3 percent and primary sector by 3.0 percent whereas secondary sector recorded a negative growth rate of 0.3 percent.

11. The ratio of domestic savings to GDP at current prices, which stood at 9.7 percent in FY2008/09, slightly declined to 9.4 percent in FY2009/10 as compared to 11.2 percent in FY2007/08. Similarly, the ratio of national saving decelerated from 36.1 percent in FY2008/09 to 34.4 percent in FY 2009/10. The ratio of investment to GDP is expected to be 38.2 percent in FY 2009/10 as against that of 31.9 percent in the previous year. Ratio of net exports of goods and services to GDP, which remained negative by 18.9 percent in the previous year, is estimated to be excessively negative by 28.4 percent during this period.
12. Revenue mobilization increased by 33.3 percent in FY2008/09. Such growth was 22.7 percent in the corresponding period of its preceding year. Due to encouraging increase in revenue mobilization, the ratio of revenue mobilization to GDP is expected to stand at 15.1 percent in the current year. Such ratio was 14.5 percent in FY2008/09.
13. Both the domestic and foreign debts are increasing due to widening gap between the expenditure and income. Though, the ratio of outstanding debt to GDP has declined in the review period. The total outstanding debt, which stood at 37.4 percent during the first eight months of FY2008/09, has come down to 33.8 percent during the same period of FY2009/10. Both the external as well as domestic debt to total GDP ratios declined in this period. The ratio of foreign debt declined from 25.3 percent in the previous year to 23.3 this year and domestic debt to total GDP ratio remained at 10.5 percent in the review period as compared to 12.1 percent last year. In terms of outstanding debt in amount, it was 370.697 billion in mid-March 2009, comprising of Rs. 250.71 billion foreign and Rs. 119.98 billion internal, which grew by 7.8 percent (9.8 percent foreign and 3.7 percent domestic) totaling Rs. 399.75 billion comprising of Rs. 275.30 billion foreign and Rs. 124.45 billion domestic.
14. The Government of Nepal has invested total amount of Rs. 160.73 billion comprising of Rs. 86.13 billion as share investment and Rs. 74.60 billion as loans in 36 public enterprises by the end of 2008/09. By FY2007/08, it totaled to Rs.165.61 billion comprising of Rs.81.92 billion as shares and Rs. 73.69 billion as loans. In FY 2008/09 the Government of Nepal received Rs. 3.47 billion as dividend from public enterprises, which accounts for 4.0 percent of the total share investment. In FY 2007/08 the total amount received as dividend by the Government of Nepal was Rs. 1.51 billion.

15. Inflation rate in the current fiscal year has remained very high. The point-to-point based CPI, which rose by 13.1 percent in mid-March 2009, recorded a growth rate of 11.2 percent by mid-March 2010. During the same period, the wholesale price index, which grew by 12.3 percent last year, remained more or less at the same level of 12.3 percent this year. The GDP deflator price index, which went up by 15.8 percent in FY 2008/09, recorded a rise of 14.0 percent in FY2009/10.
16. In the current FY 2009/10 the growth rate of deposits of the banking system has been declining. The 14.3 percent growth in deposit mobilization observed in the first eight months of FY2008/09 grew only by 4.2 percent in the first eight months of FY2009/10.
17. Exports, which increased by 16.2 percent during the first eight months of FY2008/09 has deteriorated by 8.0 percent during the corresponding period of FY2009/10. Imports followed the rising trend with 43.9 percent growth in the review period of this fiscal year as compared to 26.3 percent growth recorded during the same period of the previous fiscal year. Likewise, remittance, which increased by 58.9 percent to Rs. 131.0 billion in the first eight months of the previous fiscal year, has gone up by 9.9 percent to Rs. 143.96 billion during the review period of this fiscal year.
18. The volume of trade deficit has been widening due to heavy increase in imports and decline in export. Due to heavy trade deficit, the balance of payment recorded a deficit of Rs 23.53 billion in the first eight months of FY 2009/10. However, import coverage of current level of foreign exchange reserve remains satisfactory. Obstacles in movements, deterioration in industrial relation, and uncertainty in the energy supply are the factors that have not been helpful for export promotion.
19. In comparison to 5.0 percent decrease in the number of visitors to Nepal in the calendar year 2008, the number of visitors grew though nominally in 2009 by 1.9 percent. In the numerical term, 500,277 tourists had visited Nepal during last year while the number reached to 509,752 in 2009. Average stay of tourist has marginally decreased from 11.78 days to 11.60 days in this period. This sector earned foreign exchange worth Rs. 27.96 billion in the first eight months of the current fiscal year, which stood at Rs. 16.82 billion during the review period of the preceding fiscal year.
20. Efficiency of the overall economic management has become questionable on the backdrop of adverse impact on living standards caused by deteriorating purchasing power with double-digit inflation and adversely affected economic development process due to low economic growth rate. There is an urgent need for wider reform initiatives on development

efforts, investments, and regulatory areas for the expansion of the economy on one hand and the economy has been facing undesired serious adverse supply shocks due to frequent closures (*Bandhs*,) strikes, *chakka* jams, energy crisis, labour problems etc on the other. Hence, it becomes important as well as urgent to formulate sufficient legal and administrative arrangements for complete ban on *Bandhs* and strikes for ever, especially movement of goods and people and effective enforcement of the same thereby saving people from ever looming uncertainty.

21. As development of social sector remains a major priority sector of the Government of Nepal, it has been raising the level of investment in this sector helping this sector to expand relatively satisfactorily. The overall literacy rate is increasing due to literacy campaign program conducted by the Government. In addition to government, investment and participation of the private sector is also expanding. The contribution made by Government and the private sector from primary to higher-level education has been encouraging. Consequently, the number of primary, lower secondary and secondary schools that stood at 30,924; 10,636; and 6,516 respectively in the academic year 2008/09 has gone up to 31,655; 11,341; and 6,928 respectively in the academic year of 2009/10. Similarly, in the previous academic year the total number of students was 6,994,000, which reached to 7,295,000 in this academic year. In addition to this, universities in Nepal are actively involved in producing highly qualified general and technical human resource of international standard. As a result, the number of students enrolling in different subjects and faculties at the universities in Nepal has been gradually increasing.
22. Under the basic health service, the Ministry of Health and Population and other entities under the Ministry along with the support from donor agencies conducted different programs for ensuring easy access of the people to health services. Different health related indicators and programs like decline in child mortality rate to 14 (per thousand live births), maternal mortality rate to 281 (per 100 thousand), providing free health treatment to tuberculosis patients, increase in the number of contraceptive prevalence rate to 41.6 percent, notable progress achieved in vaccine including polio, adopting controllable measures for the prevention from highly transmitted diseases, awareness program for the prevention from HIV/AIDS, conducting training programs for the capacity enhancement of health workers and increased people's access to Ayurvedic health service indicate positive achievement in health sector.
23. Development activities of smaller scales such as local roads, suspension bridges, drinking water, irrigation and physical infrastructure plans are

taking place in coordination with concerned agencies as per the requirement, demand and capacity of the people at the local level. Besides, programs creating public awareness are continuing. The Ministry of Women, Children and Social Welfare has been implementing various programs to protect and enhance the welfare of women, children, disables and senior citizens and to make every entity of the State accessible for them through skill development programs. The Ministry of Labor and Transport Management is conducting a number of programs for the available labor force in the country to make them skilled in the technical profession through training provisions and provide secured employment opportunity to those going for foreign employment thereby contributing to the economy through inward remittance.

24. Government of agencies and authorities concerned with carrying out activities related to social security programs for backward communities, disables, senior citizens, urban development, drinking water, and sanitation are engaged towards achieving the goal of poverty reduction as envisaged in the Interim Three-year plan.

Macro Economic Indicators

Description	Unit	Fiscal Year								
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 *
Economic Activities										
<i>Real GDP</i> in Basic prices including Financial Intermediation	Annual % Change	0.2	3.8	4.4	3.2	3.7	2.8	5.8	4.0	3.5
**Agriculture	Annual % Change	3.1	3.3	4.7	3.5	1.9	1.0	5.8	3.0	1.2
**Industry	Annual % Change	0.7	3.1	1.5	2.9	4.4	4.0	1.6	-0.3	3.9
**Services	Annual % Change	-1.8	3.7	6.8	3.3	5.6	4.5	7.3	6.3	5.5
<i>Real GDP</i> at Producers' Prices	Annual % Change	0.1	3.9	4.7	3.5	3.4	3.4	6.1	4.9	4.6
<i>Real Percapita GDP</i>	Annual % Change	-2.0	1.6	2.5	1.5	1.5	1.4	3.8	1.5	2.3
<i>Per capita Gross National Income (at constant prices)</i>	Annual % Change	-2.5	1.6	2.3	2.1	1.9	1.7	3.8	2.9	2.2
<i>Gross Domestic Products (at Current Prices)</i>	Annual % Change	4.1	7.1	9.0	9.8	11.0	11.3	12.1	21.5	19.3
<i>Gross National Income (at Current Prices)</i>	Annual % Change	3.5	7.1	8.9	10.5	11.5	11.6	12.0	21.8	19.1
<i>Gross National Disposable Income (at Current Prices)</i>	Annual % Change	3.6	7.6	9.3	11.1	14.0	10.1	16.5	24.5	18.1
<i>Per capita GDP</i>	US Dollar	255	261	293	328	350	390	464	467	562
<i>Per capita GNI</i>	US Dollar	254	261	292	329	352	394	469	472	568
<i>Per capita GNDI</i>	US Dollar	292	301	339	383	420	464	573	589	703
<i>Real GDP</i> in Basic prices including financial intermediation	billion Rs.	427.40	442.13	464.83	480.34	499.54	515.13	545.30	567.61	588.53
**Agriculture	billion Rs.	162.40	167.80	175.77	181.98	185.36	187.18	198.07	204.03	206.39
**Industry	billion Rs.	72.22	74.45	75.56	77.76	81.15	84.41	85.79	85.56	88.87
**Services	billion Rs.	192.78	199.87	213.50	220.61	233.03	243.54	261.44	278.02	293.27
<i>Real GDP</i> at Producers' Prices	billion Rs.	442.05	459.49	481.00	497.74	514.49	532.04	564.52	591.93	619.03
<i>Real Percapita GDP</i>	Rs.	18682	18990	19467	19754	20043	20332	21108	21416	21905
<i>Per capita Gross National Income (at constant prices)</i>	Rs.	18658	18964	19406	19809	20194	20540	21313	21924	22417
<i>Gross Domestic Products (at Current Prices)</i>	billion Rs.	459.44	492.23	536.75	589.41	654.08	727.83	815.66	991.32	1,183
<i>Gross National Income (at Current Prices)</i>	billion Rs.	458.8	491.6	535.1	591.0	659.0	735.3	823.6	1003.1	1195.1
<i>Gross National Disposable Income (at Current Prices)</i>	billion Rs.	527.0	567.1	620.0	688.8	785.2	864.3	1006.4	1252.6	1479.1
<i>Per capita GDP</i>	Rs.	19410	20340	21694	23300	25290	27525	30171	35865	41851
<i>Per capita GNI</i>	Rs.	19385	20312	21626	23365	25482	27806	30465	36290	42291
<i>Per capita GNDI</i>	Rs.	22265	23433	25056	27227	30359	32684	37227	45316	52340

Description	Unit	Fiscal Year								
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 *
<i>Gross Consumption/GDP</i>	%	90.5	91.4	88.3	88.4	91.0	90.2	90.2	90.3	90.6
<i>Gross Domestic saving/GDP</i>	%	9.5	8.6	11.7	11.6	9.0	9.8	9.8	9.7	9.4
<i>Gross National Savings/GDP</i>	%	24.2	23.8	27.3	28.4	29.0	28.6	33.2	36.1	34.4
<i>Gross Fixed Capital Investment /GDP</i>	%	19.6	19.9	20.3	19.9	20.7	21.1	21.9	21.3	21.3
*Government/GDP	%	3.7	2.9	2.6	2.7	2.6	3.2	3.6	3.7	4.1
*Private/GDP	%	15.5	16.3	16.3	15.7	17.2	16.9	15.7	14.7	14.6
<i>Gross Investment /GDP</i>	%	20.2	21.4	24.5	26.5	26.9	28.7	30.3	31.9	38.2
Gap between Gross Domestic Saving and Gross Investment/GDP	%	-10.8	-12.8	-12.8	-14.9	-17.9	-18.9	-20.5	-22.2	-28.8
Net exports of goods and Services (Export-Import)/GDP	%	-10.9	-11.3	-11.1	-13.1	-14.7	-15.2	-16.5	-18.9	-28.4
*Imports /GDP	%	28.5	28.5	29.5	29.5	31.3	31.7	33.3	34.6	38.1
*Exports/GDP	%	17.7	15.7	16.7	14.6	13.4	12.9	12.8	12.4	9.2
<i>Total Population</i>	Million	23.7	24.2	24.7	25.3	25.9	26.4	27.0	27.6	28.3
Price										
<i>Consumer Price Index*</i>	% change	2.9	4.8	4	4.5	8	6.4	7.7	13.2	10.7
<i>GDP Price Deflator</i>	% change	3.9	3.1	4	5.9	6.9	7.3	5.6	15.8	14.0
*Primary	% change	3.6	0.7	2.8	3.5	4.4	6.1	3.3	20.3	20.0
*Secondary	% change	4.8	4.1	5.4	5.5	3.6	5.7	11.0	13.3	7.5
*Tertiary	% change	3.8	4.7	4.5	7.8	9.9	8.3	5.3	13.6	11.9
*Wholesale Price Index@	% change	4.9	3.8	4.1	7.3	8.9	9.0	9.1	12.8	13.3
<i>Salary and Wages Rate Index&</i>	% change					3.9	9.8	9.7	15.4	13.9
*Salary	% change					0.3	6.3	10.9	10.5	13.8
*Wages	% change					5.3	10.9	9.4	16.9	14.0
Public Finance										
<i>Revenues</i>	% change	3.2	11.5	10.9	12.5	3.1	21.3	22.7	33.3	24.6
<i>Total Government Expenditures</i>	% change	0.3	4.9	6.5	14.7	8.1	20.5	20.8	36.1	20.9
*Recurrent Expenditure	% change	6.6	6.6	6.6	11.0	8.6	15.1	18.6	39.7	25.1

Description	Unit	Fiscal Year								
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 *
*Capital Expenditure	% change	-12.5	-9.8	3.3	18.4	8.1	34.2	34.7	36.6	19.4
*Principle Payments	% change	13.1	48.6	12.9	25.4	5.4	17.4	-2.2	14.9	-1.9
<i>Debt Servicing (Principal & Interest)</i>	% change	17.5	32.6	7.1	13.9	3.4	12.2	-0.7	18.6	5.5
<i>Revenue/GDP</i>	%	11	11.4	11.6	11.9	11.1	12.1	13.2	14.5	15.1
*Tax Revenue/GDP	%	8.6	8.7	9.0	9.2	8.8	9.8	10.4	11.8	13.3
*Non-Tax Revenue/GDP	%	2.4	2.8	2.6	2.7	2.3	2.3	2.8	2.7	1.7
<i>Total Government Expenditure/GDP</i>	%	17.4	17.1	16.7	17.4	17.0	18.4	19.8	22.2	22.5
*Recurrent Expenditure/GDP	%	10.6	10.6	10.3	10.5	10.2	10.6	11.2	12.9	13.5
*Capital Expenditure/GDP	%	5.4	4.5	4.3	4.6	4.5	5.5	6.6	7.4	7.4
*Principal Payment/GDP	%	1.4	1.9	2.0	2.3	2.2	2.3	2.0	1.9	1.6
<i>Debt Servicing (Principal & Interests)/GDP</i>	%	2.7	3.3	3.2	3.4	3.1	3.1	2.8	2.7	1.6
<i>Foreign Grants/GDP</i>	%	1.4	2.3	2.1	2.4	2.1	2.2	2.5	2.7	3.4
<i>Budget Deficit/GDP</i>	%	5.0	3.3	2.9	3.1	3.8	4.1	4.1	5.0	3.9
<i>Foreign Loan/GDP</i>	%	1.7	0.9	1.4	1.6	1.3	1.4	1.0	1.0	1.1
<i>Domestic Loan/GDP</i>	%	1.7	1.8	1.0	1.5	1.8	2.5	2.5	1.9	2.6
<i>Grants and Loans Received/GDP</i>	%	3.1	3.2	3.5	4.0	3.4	3.6	3.6	3.7	4.5
<i>Total Outstanding Debt</i>	billion Rs.	293.8	308.1	318.9	307.2	328.7	320.4	366.0	399.8	386.8
*Outstanding Domestic Loan	billion Rs.	73.6	84.7	86.1	87.6	94.7	103.8	116.0	122.8	140.7
*Outstanding Foreign Loan	billion Rs.	220.1	223.4	232.8	219.6	234.0	216.6	250.0	277.0	246.0
<i>Outstanding Debt per capita</i>	Rs.	12395	12731	12911	12142	12708.4	12117.0	12331.3	13505.0	13686.7
<i>Total Outstanding Debt/GDP</i>	%	63.9	62.6	59.4	52.1	50.3	44.0	44.9	40.3	32.7
*Outstanding Domestic Debt/GDP	%	16.0	17.2	16.0	14.9	14.5	14.3	14.2	12.4	11.9
*Outstanding Foreign Debt/GDP	%	47.9	45.4	43.4	37.3	35.8	29.8	30.6	27.9	20.8
<i>Outstanding Foreign Debt/Revenue</i>	%	436.4	397.4	373.5	313.2	323.7	247.0	232.3	193.1	137.6
<i>Outstanding Foreign debt/Export</i>	%	468.9	447.5	431.8	374.1	388.4	364.8	421.8	409.2	402.5
<i>Debt Service (Principal and Interest)</i>	%	25	31.1	31.2	32.0	30.5	29.7	24.9	21.1	17.8

Description	Unit	Fiscal Year								
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 *
<i>Payments)/Recurrent Expenditure</i>										
<i>Outstanding Foreign Debt/Foreign Exchange Reserve</i>	%	207.9	206.4	178.8	169.1	141.8	131.2	117.6	98.9	97.1
Money and Banking										
<i>Domestic Credit</i>	% change	10.4	10.4	9.9	13.8	7.8	16.7	20.4	25.7	17.3
*Private Sector	% change	5.2	13.2	14.3	14.2	14.4	12.3	24.3	28.3	18.3
*Net Government Credit	% change	22.4	5.9	1.8	11.3	10.4	10.4	11.2	20.4	13.7
<i>Share of the Private sector in the Banking Sector credit</i>	%	65.7	67.4	70.1	70.3	75.5	75.8	77.7	78.8	79.4
<i>Narrow Money Supply (M1)</i>	% change	9.3	8.6	12.2	6.6	14.2	12.2	21.6	27.3	12.3
*Currency	% change	15.2	2.2	11.1	8.8	13.3	7.4	19.9	25.5	18.1
*Current Deposits	% change	-3.5	25	14.4	2.2	16	22.8	25	30.5	2.1
<i>Broad Money Supply(M2)</i>	% change	4.4	9.8	12.8	8.3	15.6	14	25.2	27.7	12.4
*Time Deposits	% change	2.1	10.4	13.1	9.2	16.4	14.9	27	27.9	12.5
<i>Total Deposit (Commercial Banks)</i>	% change	1.4	10.3	14.7	7.7	15.8	15.3	26.0	30.4	9.6
<i>Total Deposits/GDP</i>	%	40.0	41.2	43.3	42.5	44.3	46.0	51.7	55.5	51.0
<i>Total Domestic Credit/GDP</i>	%	44.2	45.5	45.9	47.5	49.3	49.5	53.6	55.8	54.9
*Private Sector Credit/GDP	%	29	30.7	32.1	33.4	37.2	37.6	41.7	44.0	43.6
*Net Government Credit/GDP	%	13	11.9	10.7	10.8	10.9	11.2	11.2	10.6	7.2
<i>Narrow Money Supply/GDP</i>	%	16.8	17	17.5	17	17.3	17.4	18.9	19.8	18.7
*Currency/GDP	%	12.1	11.6	11.8	11.7	11.9	11.5	12.3	12.7	12.6
*Current Deposit/GDP	%	4.7	5.5	5.7	5.3	5.4	6.0	6.6	7.1	6.1
<i>Broad Money Supply/GDP</i>	%	48.8	50	51.7	51	53.0	54.3	60.7	63.8	60.2
*Time Deposit/GDP	%	32	32.9	34.2	34	35.7	36.9	41.8	44.0	41.5
External Sector										
<i>Export (Goods)</i>	% change	-15.6	6.4	8	8.9	2.6	0.9	12.0	14.2	-9.7
<i>Import (Goods)</i>	% change	-7.2	15.8	9.6	9.7	16.3	10.3	23.9	28.2	28.9
<i>Export/Import Ratio</i>	% change	43.7	40.2	39.6	39.3	34.7	30.5	26.7	23.8	16.7
<i>Trade Deficit</i>	% change	0.7	23.1	10.7	10.2	25.1	19.2	20.2	33.3	41.0
<i>Income from Tourism</i>	% change	-26.1	35.7	54.5	-43.3	8.7	6	84.2	49.9	-0.3

Description	Unit	Fiscal Year								
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 *
<i>Expenditure on Tourism</i>	% change	3.8	7.7	62.4	-3.3	23.4	32	32.2	50.5	8.0
<i>Remittance Income</i>	billion Rs.	47.22	47.54	54.20	58.59	65.54	97.69	142.68	209.70	224.29
<i>Remittance Income</i>	% change	0.7	14	8.1	11.9	49	2.5	42.5	47.0	7.0
<i>Current Accounts Balance</i>	billion Rs.	18.16	11.62	14.60	11.55	14.23	-0.90	23.68	41.44	-27.60
<i>Export/GDP</i>	%	10.2	10.1	10	10	9.2	8.2	7.3	6.8	5.2
<i>Import/GDP</i>	%	23.4	25.3	25.4	25.4	26.6	26.8	27.2	28.7	31.0
<i>Trade Deficit</i>	%	-13.2	-15.1	-15.3	-15.4	-17.4	-18.6	-19.9	-21.9	-25.8
<i>Income from Tourism/GDP</i>	%	1.9	2.4	3.4	1.8	1.5	1.4	2.3	2.8	2.4
<i>Expenditure on Tourism/GDP</i>	%	1.2	1.3	1.9	1.6	1.8	2.2	2.6	3.2	2.9
<i>Remittance Income/GDP</i>	%	10.3	11	10.9	11.1	14.9	13.8	17.5	21.2	19.0
<i>Current Accounts Balance/GDP</i>	%	4	2.4	2.7	2	2.2	-0.1	2.9	4.2	-2.3
<i>Balance of Payments</i>	Billion Rs.	-3.34	4.36	16.01	5.74	25.60	5.90	29.68	41.28	-19.57
<i>Foreign Exchange Reserves</i>	Billion Rs.	105.90	108.23	130.21	129.90	165.03	165.13	212.62	279.99	253.36
<i>Foreign Exchange Reserves</i>	% change	0.7	2.2	20.3	-0.2	27	0.1	28.8	31.7	-9.5
<i>Capacity of Reserves to Import</i> *Goods	Equivalen Months	11.6	10.4	11.5	10.4	11.4	10.2	11.5	11.8	8.4
*Goods and Services	Equivalen Months	9.8	9	9.7	8.8	9.6	8.4	9.3	9.7	7.3
<i>Exchange Rate**</i>	USD = Rs.	76.88	77.79	73.79	72.06	72.32	70.49	65.02	76.88	74.19

* Annual Preliminary Estimates (Based on 8 month data)

Base Year 1995/96 = 100

@ Base Year 2001/02 = 100

& Base Year 2004/05 = 100

% Change = Annual change in percentage

** Annual Average of buying and selling rates, 11 months average of the current fiscal year.

Note: Ratio of GDP is calculated at the current producers' Prices. Some figures are updated accordingly as they are updated by the sources themselves.

Major Challenges of the Economy

1. Economic Activities

- 1.1 Low economic growth rate has remained a major challenge in the economic development process of Nepal. Economic growth rate of 5.5 percent as envisaged by the three-year interim plan and targeted accordingly in FY2009/10 budget has been difficult to achieve due to a number of factors. Such major factors are frequent closures (*bandh*), strikes, labor problem, shortage of energy supply, and contraction in external market. Agriculture sector has been the major contributor in the Nepalese economy from production, employment, and livelihood aspects. Nepalese economy having background of planned development process for the last five decades, overcoming the weakness in irrigation system, a major contributor to agricultural development, is a major challenge in the agriculture sector.
- 1.2 Investment-friendly environment is an imperative condition for investment promotion. Persistent energy shortage, labour problem, and uncertainties came in the way of creating appropriate investment climate necessary to facilitate businesses, manufacturing industry and service sector to flourish. As a result, growth rate in the non-agriculture sector as targeted in the interim plan and current fiscal year has been difficult to achieve.
- 1.3 Consumption is increasing even amidst low economic growth rate thereby causing contraction in domestic saving. Therefore, another challenge of the economy is to create encouraging environment for saving.
- 1.4 Millions of Nepalese youths are going overseas for employment due to very low employment opportunities in the country. They are sending remarkable amount of remittances for the livelihood of their relatives in the country, which comes out to almost 21 percent of GDP. The large chunk of such remittance, however, is spent in consumption of imported consumer goods and real-estate purchases. As such, the inward remittance could not be mobilized as financial savings.
- 1.5 Economic activities could not be expanded to the extent as desired in absence of sustainable utilization of physical infrastructures created in the past through planned development efforts by carrying out their timely repair and maintenance on the one hand and making the best use of human resource developed so far on the other. It is a challenge for

creating productive employment opportunities for the local labor force, and those returned from foreign employment as well for the expansion of basic economic activities through optimum utilization of these resources.

- 1.6 Judicious and equitable distribution of means and resources is imperative for maintaining social harmony and peace. Promoting balanced and broad-based economic activities is the top necessity to face up to the challenge of gradually widening income disparity.
- 1.7 The country has enormous potential for raising GDP through maximum utilization of opportunities available in the areas of agro-processing and high-value herbs processing industries; tourism and hydropower; and education and health. Mobilization of domestic and foreign investments becomes very much necessary for enhancing the use of available exclusive natural wealth. Amidst the current uneasy atmosphere to attract investments, attention of all concerned needs to be drawn towards this reality. It is a challenging responsibility of creating interest of all concerned towards the fact that investments in such industries can make solid contribution towards reducing unemployment and poverty.
- 1.8 Relative importance of agriculture in Nepal's economy is expected to grow more in the days ahead. This sector occupies one-third share of GDP while its contribution especially to rural employment has been very high. The strong role agriculture plays in the national economy is evident from the fact that the country's more than 80 percent population live in rural areas with their dependence on agriculture as major source of income. Taking into consideration the current global food crisis, giving prime importance to adoption of improved agriculture system is necessary for attaining self-sufficiency in the agriculture sector. Return from agriculture sector to the extent desired has not been possible despite the priority accorded to ensure irrigation facility, organic fertilizer, warehousing, improved seeds, agriculture extension service, and construction of agricultural roads.
- 1.9 There is no doubt about economic activities to gain momentum if competitiveness could be enhanced by containing the cost the economy by easing movements and transport (of goods and services) by discouraging the present trend of creating frequent obstructions on roads transport. In addition, it is a challenge of expanding industrial and trading, and other commercial activities by bringing appropriate improvement in industrial labor relations.

2. Public Finance

- 2.1 In FY 2009/10, the main characteristics of public finance sector observed are, encouraging revenue mobilization, comparatively satisfactory capital expenditure, and low budget deficit. It has been a challenging task making the revenue mobilization process dynamic, better, efficient and productive in a sustainable manner for the growth of revenue surplus. Ensuring the maximum flow of resource to the capital investment is necessary for creating a sustainable base for attaining the objective of economic growth. Controlling non-prioritized and unproductive expenses has been a challenge towards achieving this objective.
- 2.2 On one hand, there is need to keep Government fiscal deficit within the desirable limit for maintaining economic balance, and on the other, it is necessary to increase public expenditure to materialize the commitments of the Government towards fulfilling limitless aspirations of the people. It has been a big challenge to maintain a balance between these two situations, and to make the transformation process of developing the economy of a country like Nepal more dynamic.
- 2.3 From the point of view of excessively heavy reliance on foreign aid for the Government executed development and construction works, there is the possibility of negative impact on the country's economic structure in the long-term and its overall economic equilibrium, with added potential risk to the health, sustainability, and strength of development efforts. Hence, it is necessary to make efforts to increase revenue, grant component in foreign aid, optimum utilization of resources through effective project management, improve recurrent expenditure management, and pay attention to the expansion of capital expenditure.
- 2.4 The widening gap between the Gross Domestic Savings Ratio and Investment will hinder regular development activities on one hand, while making resource management and foreign debt services more complex on the other. Therefore, it is necessary to give special attention to increase Gross Domestic Savings Ratio, control unproductive recurrent expenditure and increase productive utilization of development funds by maintaining foreign debts and services at a controllable level for sustainable Government finance and overall economic development of the country.
- 2.5 In recent years, the trend of revenue mobilization has remained encouraging to make the revenue mobilization more dynamic. To maintain this, there is a challenge to control tax leakages after identifying the possible leakage areas, and increase the revenue mobilization specially the VAT and income tax, which are the major instruments of tax revenue. Since, there is a need to enhance work efficiency, effectiveness

and professionalism of revenue administration, a strong challenge has been there to make necessary arrangements for achieving desired results.

- 2.6 It has been challenging to institutionalize the progress made in revenue mobilization in the recent past. For this, the concept of establishment of Central Revenue Board could not be formalized yet.

3. Price and Supply

- 3.1 Food and Beverage Index with greater weight in the Consumer Price Index (CPI) is increasing by two digits since last year. The rise in food prices in the world and India, decreased food production this year, high population growth rate and supply hurdles are the main reasons for the surge in the prices. It is challenging to enhance the market monitoring system to facilitate market price determination system, and to control activities against the interest of consumers like, creating artificial shortages, changing prices drastically without any logical reason, and cartelling in sales and distribution of goods.
- 3.2 The country is facing the tragic co-occurrence of having two digits price increase in the backdrop of stagnant pace of development process with low economic growth rate. Adverse impact on purchasing capacity in the living standard of the people has posed a big question mark in the overall macroeconomic management efficiency. Therefore, there is an urgent need for wider reform initiatives on development efforts, investment, and regulatory areas for the expansion of the economy; and at the same time the economy is experiencing undesired serious adverse supply shock due to frequent *bandhs*, strikes, *chakka jams*, energy crisis, labour problems etc.
- 3.3 Fluctuation in the POL prices in international market has its effect on the Nepalese price situation. There is no other better alternative than to adopt automatic price adjustment system to avoid the problem of resorting to sudden price hike measures like in the past.
- 3.4 The steep price rise of sugar and sugar products has also been one of the factors of inflation. Although import of sugar is the solution to ensure adequate supply of sugar in the short-term, the only long-term solution is raising the domestic production. For this, there is a need of consolidated effort of both on the part of Government and private sector. Ensuring regular operation of sugar factories expansion of sugarcane farming remains a challenge.
- 3.5 There is a need to improve the existing warehousing capacity to avoid the domestic food crisis emanating from the global food-crisis situation as experienced in the past. Likewise, due to open border, farmers store their agricultural produces across border in India creating dual pressure on

prices of certain commodities. It is a challenge of maintaining buffer stock of commodities such as salt, oil, sugar, pulses and food grains at different buffer zones with the involvement of the Government and private sector for getting rid of the problem to ensure smooth and regular supply of these commodities when needed.

- 3.6 Monetary expansion aggravates inflation necessitating continuous monitoring. Since stability is the major objective of monetary policy, one cannot argue on the importance of effective monetary management for maintaining its stability. Hence, there is a challenge to make the Open Market Operations (OMO) capable and robust, an important tool for the implementation of monetary policy towards maintaining price stability through better monetary management.
- 3.7 At present, there is a difficulty in the supply of necessities like food grains, salt, oil, sugar, and lentils (pulses) in some remote areas of Nepal. For this, it is necessary to create the situation of eased supply of necessities through the establishment of various storage centers with the consolidated involvement of the Government and private sector. It is also necessary to make provisions of air-conditioned vehicles for transportation of perishable agro-products like vegetables, fruits etc.
- 3.8 Proper mobilization of cooperatives that are scattered all over the country would smoothen the supply system so that price of goods and services could be closely monitored against the possibility of creating artificial shortages with unreasonable price hike. Therefore, it is a challenge to bring effectiveness in the supply of goods and services and their sales and distribution through the development and management of cooperative organizations.

4. Money and Banking

- 4.1. The financial system of the country is further deepening with the increased number of establishment and operation of banks and financial institutions. With nature of the banking business operating at high-risk environment, the degree of risk grows in proportion of business expansion. Hence, building wider and effective regulatory and supervisory mechanism to monitor the steadily escalating risk has become a challenge. It is also essential to make corporate governance and self-regulation aspects effective.
- 4.2. Since last few years, Nepal Bank Limited and Rastriya Banijya Bank Limited, having largest market shares in the Nepalese banking system, are under restructuring process under the Financial Sector Reform Program for improving the situation of these two banks. Though, some

improvements have been achieved through restructuring, both these banks still have negative capital base. Adequate capitalization of these two banks remains a big challenge.

- 4.3. Prompt implementation of deposit insurance scheme is required for the economic development of the country by encouraging savings mobilization, utilizing savings for capital formation, promoting credibility of banks and financial institutions, protecting depositors' interest, and adopting best practices emerged in the international financial spectrum. It is equally important to be cautious of moral hazard in the financial sector with such scheme. There is a need of formulating and implementing deposit insurance/guarantee Act to cover as many as individuals and communities.
- 4.4. Establishment of a second tier institution (STI) through the enactment of umbrella Act for micro-finance has become essential to regulate, inspect and supervise institutions involved in micro-finance such as micro-credit development banks, saving and credit cooperatives and non-government organizations (NGOs).
- 4.5. There is a an immediate need of framing and executing the required laws, rules, manuals and programs for the effective implementation of Microfinance Policy 2008. It has become a challenge to ensure a sustainable financial source for Rural Self-Reliance Fund for providing access to financial resources and services through micro-financial institutions and cooperatives to remote rural and deprived sector. Also, continuity of the policy of encouraging the establishment of development banks and micro-finance in the remote and hills requires continuity.
- 4.6. It emerges as a challenge for making necessary arrangements to establish Asset Management Company and to strengthen Debt Recovery Tribunal as measures of reducing the level of non-performing loans (NPLs).
- 4.7. In line with the spirit and the urgency of Secured Transactions Act, operation of Secured Transaction Registry Office requires materialization.
- 4.8. The program related to automation and mechanization of the Credit Information Centre Limited (CICL) under the Financial Sector Reform Program needs to be prioritized and finalized within the specified time.
- 4.9. Establishment of a Credit Rating Agency has become a most for evaluating the achievements of financial institutions and for ensuring transparency in various aspects of their transactions. Such type of institution helps all the stakeholders benefit through the evaluation of achievements of banks and financial institutions as well as other corporate entities. Besides, such an arrangement makes financial market

more competitive by controlling through the market process, helps in maintaining financial stability, and therefore, a Credit Rating Agency in the country in joint venture with renowned foreign institution will be appropriate to establish.

- 4.10. It is noticed that some institutions, in addition to rendering deposit, are mobilizing resources from the people going for foreign employment in the name of network marketing, in insurance, shares, and health related transactions without obtaining approval from financial intermediaries. Necessary action is needed to be in place to stop such activities with joint efforts of all the concerned stakeholders.

5. Capital Market

- 5.1 Absence of access to reliable advice and suggestion to investors on stock and market opportunities has increased risk on investment in stock market. There is a need to increase the confidence of public investors by making the stock market more efficient and competitive with inducting new brokers in the market.
- 5.2 Emphasis should be given to enhance the institutional capacity of Security Board of Nepal by upgrading physical facilities, autonomy in financial matters, strengthening legal aspects, provision of adequate numbers of capable and technical human resources and improvement in internal governance system to enable the board to act as a competent regulatory body for regulating the stock market.
- 5.3 The secondary market for the Government Development Bond is not vibrant due to excessive (more than 99 percent) participation of organized institutions in the primary issuance; and the ignorance of the general investors about issuance of Development Bonds, and lack of facilities available in the secondary market transactions. Hence, there is the necessity of generating interest of the general investors through the promotion of extension services like training and coaching for encouraging them to participate in the primary market and making them aware of risks and benefits of secondary market as well.
- 5.4 It is necessary to accumulate the capital fund by issuing debentures in order to avoid the scarcity of investment instruments for institutional investors and to provide these instruments to them through Stock Exchange Market by making specific regulatory arrangement of Group and Unit Plans. In addition, institutions like Citizen Investment Fund and Employee Provident Fund, which mobilizes large amount of long-term saving needed to introduce modern financial management system to

manage its fund, so that the fund with these institutions can be utilized in long-term profitable and productive sector through capital market.

- 5.5 In the backdrop of the development of concept of international securitization and transaction in South Asia, a autonomous and competitive Central Depository System of stocks is needed to make recently introduced electronic transaction system reliable, faster ownership transfer and introducing easier way of identifying investors involved in transactions. Further, there are challenges on opening such facilities to Non-resident Nepalese and Foreign Institutional Investors and expanding the services both at national and international level.
- 5.6 In view of the private sector involvement in most of industries/ businesses and in the absence of proper institutional culture among public companies, there is a need to develop and effectively implement the institutional governance principles and values to support the emergence and growth of the credible and reliable private sector.
- 5.7 It is challenging to make listed institutions transparent and responsible by introducing International Financial Reporting Standards (IFRS) to discourage the practices i.e. not completing the audit of their financial transactions in time, lack of comparability of audited financial statements, disclosing sensitive information in a favorable manner.
- 5.8 Centralized deposit system requires immediate implementation to address the ever-increasing complications in the financial system and support the development potentials of the capital market. Similarly, legal and regulatory barriers for merger and acquisition of small companies needs to minimized to strengthen the capital fund of banks and financial institutions.
- 5.9 Lack of regulation and legal mechanism on trustee operation is adversely affecting the development of stock market, because, trustee is needed to protect the interest of clients participating in the institutional debentures, collective investment fund and depository services. Therefore, urgent enactment of trustee related Act is urgent.
- 5.10 In the present context of expanding commodity and future market, there is a need to devise a policy and legal system for regular monitoring and analysis by bringing into existing legal provisions and regulatory mechanism.
- 5.11 Absence of the Book Building Process in determining the share price has resulted excess pressure on share trading (offerings) at quoted price in the primary market, while share price in the secondary market is highly fluctuating. Stability and credibility of the stock market has been affected

due to high share of stock in capital market, limited use and transaction of alternative forms of stocks and bonds, absence of Option, Future, Hedge Fund, etc. There is also the lack of integrated debenture market, low participation, or absence of institutional investors in stock market operation, lack of basic infrastructure in the capital market including rating agencies, lack of opportunities to choose secondary market operators, weakness in the flow of market information and institutional governance. Lack of access to knowledge and information related to stock market operation among small investors, and low capacity of regulator to monitor and supervise stock market operation are other shortcomings felt in this area. These shortcomings related to capital market operation needs to be addressed in order to develop stock market as one of the important capital mobilization tools.

External Sector

- 6.1 In the current situation facing deficit in the overall balance of payment with negative growth rate of export and substantial increment in import, attention needs to be focused on export promotion through improving policy, institutional and structural aspects. Nepal, on the one side, has to diversify market as well as product through identifying export potential products, seeking appropriate market for such products and enhancing competitive capacity and import substitution is needed by increasing domestic production of agro-based products including rice, milk, fruits and vegetables and construction materials including cement on the other hand.
- 6.2 Readymade garment processing zone will be appropriate to establish nearby dry port so as to cut down the cost to some extent in the context of highly competitive international market of Nepal's major exportable items-ready-made garment, *pashmina* and carpet. In addition to this, appropriate strategy needs to be in place to promote export to the European market and India of major exportable items especially ready-made garment, carpet and other potential items. Export of ready-made garment, which is taking place even in India in the recent years, is affected with additional duties levied from time-to time by the Government of India and effective initiations are to be taken to remove such trade barriers.
- 6.3 Export promotion is to be focused with major trading partner countries on bilateral prudential Agreement/negotiation basis as it will be easier to

obtain favourable trade facilities and terms in bilateral arrangement compared to collective arrangement. Step needs to be taken to utilize facilities not only by being affiliated in the trading arrangement and groups of under-developed countries but also by forming the group of land-locked countries.

- 6.4 The Government needs to approve branding of items like tea and coffee as early as possible as branding has become increasingly important for the promotion of exportable commodities in the international market. It is necessary to establish an international-standard laboratory in participation of the government and the private sector to test and certify the quality of metals used in handicrafts. A provision is needed to certify the quality, the use of organic fertilizer and bio-pesticides in producing Nepalese products (production) especially tea and coffee by an authorized agency. Export trade needs to be simplified by establishing internationally-recognized quarantine points to certify the quality of exportable agricultural products of Nepal.
- 6.5 There is high demand of flower and cut flower in Delhi, India currently met from far off Indian States. Nepal can take this advantage of this market. There is, however, a lack of policy and program to provide required technical and financial support for extensive expansion of floriculture in far western region.
- 6.6 The Government of Nepal has decided to celebrate the year 2011 as Nepal Tourism Year with the objective of establishing as a unique tourist destination through introducing Nepal as a Separate Tourism Brand in the international community. In this context, a number of efforts far short of the need such as tourism promotion, tourism infrastructure development, diversification of tourism industry, extensive publicity need to be addressed. In addition, increasing the number of tourist arrivals in Nepal through disseminating adequate and fair information about Nepal to tourists in the international community, discouraging unnecessary rumours about Nepal, stretching average length of tourist stay and encouraging quality tourism are some other steps necessary in that direction.
- 6.7 There is lack of policy on issues like extension of road transport and air services, concessional entry or visa fees for tourists from neighbour countries and package tourism to increase the number of Chinese and Indian tourist arrivals.

- 6.8 In the present context of outflow of billions of rupees through education and health service sector, enhancement of quality and capacity of these sectors has not developed.
- 6.9 New foreign airlines are expanding their services to Kathmandu because of passengers' inflow and outflow. The tendency of frequent travelling to and from abroad for foreign employment and study reason is growing. The growth rate of foreign currency has been declining due to continuous deterioration in the capacity of the only national flag carrier of Nepal.
- 6.10 Gravel, boulders, chips, and sand are the major items exported from Nepal. Export of such items earns foreign currency through trading of wastage items on the one side, while haphazard exploration on the other adversely affects the environment. Export with necessary regulation is required in order to sustain its long-term utilization and environmental protection.
- 6.11 Remittance, the major source of foreign currency, requires policy, institutional, and structural improvements for making it sustainable and mobilizing the same in investable activities. A conducive environment is lagging with regard to foreign employment especially the enforcement of labour agreement, permission to only semi-skilled and skilled work force as far as possible, provision of special passport for foreign employment and accordingly arranging exchange, interest rate and custom facilities for them.
- 6.12 Necessity of formation of a high-level mechanism is felt for taking comparative advantages from international trade by designing appropriate strategy and for addressing obstacles that might occur in the course of executing government policies and rules. The challenge is such that it will have to act as a centre for design and development of exportable items through studying, conducting research and analyzing changes in international customers' interests.

7 Poverty Alleviation and Employment

- 7.1 In the present context of the nation's restructuring and transformation process, challenge lies in moving ahead through adoption of the policies and programs aimed at ensuring people's rights, access and equity so that the people and regions entrapped in the abject poverty besides being suppressed, weakened and sidelined for ages could be brought into the center-stage. There is a dire need for reassessing and restructuring the existing State structure and the related household, social, cultural, religious, and legal systems to equally benefit the poor and deprived

gender, class and region. The nation currently faces a strenuous task of creating a feeling of expanded people's access and self-inclusiveness built on directly pro-poor, equitable, and effective measures in the process of redefining the structures of nation-state, power relations, and the governance.

- 7.2 The challenges lie in addressing urban poverty-related problems fostered through increased spatial mobility arising from the situations of conflict, its enhanced forms, and post conflict-stages, with the pressures of such mobility centered on cities and locations offering more facilities and improved security conditions.
- 7.3 It is a challenging task to provide continuity to policies and programs on poverty reduction while narrowing down the gap between the rich and the poor in a situation whereby opportunities for productive employment have weakened, industrial sector has contracted, reliance on external resources has widened due to the remittances, and the problem of the landless has remained unabated.
- 7.4 In order to ameliorate the conditions of the deprived group, region, gender, castes, ethnicities and people with different physical traits, the need for specialized, effective policy and program that is interventionist and transfer-oriented is utmost necessary. Besides, lack of an institutional structure for coordination, facilitation, and monitoring at the district-level is direly felt.
- 7.5 The workforce of 400,000 entering annually in the labour market is compelled to seek foreign employment due to lack of employment opportunities amidst imbalance between the demand and supply of skill labour again in the country. The need of the day is to promote employment opportunities at domestic and foreign markets by equipping domestic workforce with new technology, qualitative knowledge, and skills.
- 7.6 It is essential to make Nepalese workforce skilled and competitive so as to make the foreign employment dignified, secured and systematic. Labor agreements should be signed by identifying new destinations for foreign employment. The resources and capacities of the diplomatic missions should be upgraded and safe houses should be constructed and operated. There is also the need to review the wage of Nepalese workers abroad and service promotion fees, update the data. Similarly the need is to study and formulate an appropriate policy on foreign employment.

8. Agriculture, Industry and Tourism

- 8.1. After the policy implementation for delivery of agriculture extension service with the involvement of the private sector, the organizational structure of the Ministry of Agriculture and Cooperatives has been changed with a view to deliver such services through the private sector thereby reducing the numbers of service center/sub-centers. But, the private sector could not be attracted to deliver extension services as expected.
- 8.2. Lack of scientific and technical human resource, inadequacy of lab facility and equipment and dilapidated laboratory infrastructure for agricultural research has adversely affected research and testing functions.
- 8.3. Due to absence of the flow of formal information and coordination on the programs of NGO/INGO, the resources provided to the district are unknown causing the duplication of the program and misuse of resources.
- 8.4. Due to the geographical location of districts, project cost differs (for example small irrigation projects) from district to district for the same type of program. It has created difficulties in comparing the performance against the grant amount provided among districts.
- 8.5. Supply of chemical fertilizers is inadequate as compared to the demand. The excessive rise in the international market price has affected import of this commodity. The government has introduced a policy to provide fertilizers on the basis of cost participation. But, more than 80 percent of small and marginalized farmers could not access to fertilizer supply as per their demands. Though the farmers have not experienced the shortage of fertilizers due to availability through informal channels, there have been complaints of poor quality fertilizers getting imported in absence of quality monitoring leaving open the question of the possibility of soil quality degradation in the future.
- 8.6. Lack of adequate legal provision and dispute in land acquisition has caused delay in establishing Special Economic Zones (SEZ).
- 8.7. Slow pace of internal tourism development, lack of integrated system of immigration, customs, and tourism information center at border entry points and lack of adequate and trained human resource and resources in Tourism Offices are major challenges in the development of tourism.

9. Public Enterprises

- 9.1 In FY 2008/09, out of 36 public enterprises with full ownership of Government of Nepal, 18 Public Enterprises are running in loss and number of public enterprises has negative net worth. Unfunded liabilities such as gratuity, pensions, provident fund etc. are being piled up. A

tendency of more and more dependency on the Government is growing among the loss-making PEs. On the contrary, profit-making PE's are enjoying and demanding more facilities than necessary. Most PE's have not made their mandatory annual auditing while some others have not made it for many consecutive years. This has resulted in the decreased public confidence, which may negatively affect the process of reforming these PEs. Most PEs lack the access to appropriate and new technology, and operating capital, which is a great challenge for their progress and sustainability.

- 9.2 Overhead cost of public enterprises is increasing since they are not rightsizing the number of employees. Realization and commitments is necessary on part of the concerned Ministries and Public enterprises of bearing responsibilities for their implementation (for cutting costs and bringing efficiency) as per the need of time. Lack of skilled human resources and hiring unnecessary unskilled work force in most PEs is another challenge.
- 9.3 The overall progress of the PEs does not seem satisfactory towards achieving the goals. With every change in Government, there is a change in the Board of Directors and Chief Executive Officers thereby decelerating the management and operation efficiency. There is a question of existence with some PEs finding no freedom in deciding their product's prices as per the market rate. The lack of coherent policy and mechanism for monitoring and follow-up of these PE's is another problem.
- 9.4 Implementation aspect of privatization of public enterprises is also challenging. There are problems of reconciliation of accounts and adjustments in already privatized enterprises and asset management of some liquidated and closed enterprises. The process of privatizing commercially unsustainable enterprises has remained stalled since some time. The task of privatization of public enterprises is challenging due to number of other problems including employee organizations.

10. Energy and Forestry

- 10.1 Lack of expected investment-friendly environment and human as well as physical facilities matching with the passage of time, the development of electricity generation continues to be adversely affected. Moreover, the lack of peace and security, political instability and national commitment has added more challenges to the development of this sector.
- 10.2 The lack of eco-physical resources, problems in the construction and implementation process and inability to move according to the PPP

concept are the major challenges for the development of renewal energy technology.

- 10.3 Forest management has been marred with number of problems like lack of enough resources for the development and preservation of forest, encroachments, less priority, illegal deforestation, and landslides.
- 10.4 Physical destructions of district, and area forest offices and range posts during the conflict period have been causing difficulty in program operations. Difficulty in controlling poaching activities, inability in checking encroachments in some national parks and reserves and buffer zones, and inability in containing damages caused by uncontrolled fire are also some more challenges.

11. Transport and Communication

- 11.1 Maintaining the flight security in line with international standard by Nepal as an ICAO member country has been its major responsibility. It is therefore necessary to take initiative for the retention of current skilled employees and development of skilled human resource and experts including enough resources.
- 11.2 High-skilled human resource at professional level is required to operate technically more advanced aviation security related instruments but there has been no separate wing of skilled manpower in Nepal to operate such instrument and Nepal police have been carrying out functions as such with their ordinary skills. Therefore, necessary arrangements have to be made in order to develop human resource in this regard.
- 11.3 Due to Nepal's complex geographical structure, the only international airport in Nepal is facing difficulty to extend its operation. Hence arrangement for appropriate financial and technical resources is the need of time for installation of modern navigational and other instruments necessary for efficient and safe air service to attract maximum number of international airlines to Nepal.
- 11.4 Lack of appropriate human resource management in postal service and diversification of its services as required; inability to extend rural telecommunication services as per the commitment made by license holding telecommunication service providing companies; deterioration in quality of mobile telephone services due to inadequate supply of electricity; failure to extend the transmission signals of Radio Nepal and Nepal Television as expected; and difficulty in collecting Motion Picture Development fee have been other major challenges in this sector.

6. Social Sector

- 12.1 Informal education and child development programs have not been effective due to lack of inter-ministerial coordination and lack of ownership among local bodies. Likewise, lack of clarity in function and responsibility between Ministry of Education and local bodies, lack of support from politicians in program operations, and lack of information management and reporting system in education sector at lower units are some of the major challenges.
- 12.2 There are problems in timely printing of textbooks due to delay in receiving authority and basis for spending the annual budgetary allocation, and lack of regular electricity supply. In the same way, education sector is badly affected due to geographical remoteness, natural calamities and general strikes etc. There are difficulties in delivery of food items, maintaining its quality, its storage, and regular distribution under Food for Education Programme. Additional problems and challenges this sector is facing are non-presence of VDC secretaries, the main operators of literacy campaign, at their posting stations; non-fulfillment of the positions of District Education Officers in Terai districts and lack of integrated monitoring system.
- 12.3 The problems under Council of Higher Secondary Education include non-fixation of the qualified teachers, their service quality, and their number. Besides, absence of practical curricula, problem in conducting fair and quality examination, lack of equitable access in granting affiliation approval, and lack of consistency between education regulation and higher education regulations are other problems in this sub-sector.
- 12.4 Excessive pressure to admit number of students and lack of financial resources in Tribhuvan University has remained a challenge. In the similar fashion, education program and examination results of Purvanchal University are adversely affected due to strike, *bandh* and padlockings. Likewise, problems in Nepal Sanskrit University are encroachment and capture of its land, lack of resources to provide Ayurved education and prepare textbooks in different languages.
- 12.5 Despite the positive achievements in major indicators of health sector by organizing number of programs to provide access health services to the people by recognizing basic health services as their fundamental rights, it has remained a challenge to provide health services in villages and remote areas. Major challenges confronted are the low level of awareness, difficult geographical topography, weak economic condition, lack of sufficient qualified doctors, lack of health information system, and analytical capability.

- 12.6 There are number of problems and challenges in development work of local bodies due to absence of elected representatives, lack of VDC secretaries and technical staff, timely formulation of legal arrangements, encroachment in public land, and weak security. Reimbursements against expenditures made on projects have not materialized due to failure in timely submission of appropriate documents to the donor agencies. Lack of coordination and duplication by I/NGOs with local bodies in organizing programs according to the demand and need of the locals have caused ineffectiveness in the achievements of the programs. The budget, expenditure, and achievements of these I/NGOs are not available in integrated manner to the local bodies and the public. The provisions of ILO 169 are understood (and interpreted) differently at local levels, which have created problems in mobilizing local resources.
- 12.7 Establishing rights in the area of social security only through legal provisions without changing deep-rooted conservative norms and values in society has remained challenging. It has not taken expected momentum in economic, social and cultural transformation due to lack of awareness, unable to transform the work of women into income generation activities, unable to fulfill the commitments made in international forums on women and child rights and their expectations through limited means and resources. There were not enough programs to utilize the knowledge and skills of aged and handicapped, so that they can feel that they are not burden to the society. The I/NGOs still run their programs without consulting and coordinating with stakeholders about demands and requirements of local beneficiaries.