

# MACROECONOMIC UPDATE

SPECIAL ECONOMIC ZONES:  
ISSUES AND CHALLENGES IN NEPAL

VOLUME. 7, NO.2

September 2019



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## **ABBREVIATIONS**

BFI = banks and financial institutions  
FY = fiscal year  
GDP = gross domestic product  
MTEF = medium-term expenditure framework  
MW = megawatt

## **NOTE**

- ii. The fiscal year (FY) of the government ends in mid-July. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ended on 16 July 2018.
- ii. In this report, "\$" refers to US dollars.

## Executive Summary

1. **The economy grew by an estimated 7.1% in FY2019, up from 6.7% a year earlier, underpinned by accelerated post-earthquake reconstruction, favorable monsoon leading to bumper harvest, better management of electricity supply and a stepped-up tourists' arrivals.** Agriculture, which accounts for nearly a third of GDP, grew by 5.0% on a record increase of rice production by 8.3%. Industry, providing 15.2% of GDP, grew by 8.1% on an increased availability of electricity and a conducive socio-political environment. A number of small and medium-sized hydroelectric projects came into operation, raising the installed capacity by 10.1% in FY2019. Average capacity utilization of major industries in the first half of the fiscal year improved to 60.0% from 58.0% in the corresponding period a year earlier. Services, contributing slightly over half of GDP, expanded by 7.3% on higher inflow of remittances supporting retail trade and a buoyant tourists' arrival favoring hotel and restaurant and travel and communication businesses.

2. **On demand side, high consumption induced by remittance growth dominated spending in FY2019, to account for an estimated 80.0% of GDP.** Private investment largely on energy and services grew by 27.0% to account for 29.0% of GDP. By contrast, public investment increased by just 5.5% after rising by 54.2% in FY2018, owing to delays in the construction of national pride projects like Upper Tamakoshi (456 MW) hydroelectric and Melamchi Drinking Water Supply.

3. **Headline inflation averaged 4.6% in FY2019, up from an annual average of 4.2% a year earlier.** Food inflation averaged 3.1%, up from 2.7% in FY2018, reflecting a disruption in delivery channel due to floods and landslides in early July and a delay in food supply owing to strict tests along the Indo-Nepal border over concern about pesticides. Strong demand edged up non-food inflation from an average of 5.3% in FY2018 to 5.9% in FY2019.

4. **Current account deficit moderated to 7.7% of GDP, down from 8.2% in FY2018, on implementation delays of large national pride projects and markedly curbed import growth.** Merchandise export growth exceeded expectations; but with low export base, earnings remained small, widening the merchandise trade deficit by 4.6%. Despite a fall in out-migration by 32.6%, workers' remittances grew healthily at 7.7% on depreciation of Nepali rupee vis-à-vis US dollar, crackdown on informal means of remitting, such as hundi and an increased outmigration to high-income destination countries.

5. **Monsoon in FY2020 has been near normal as projected. However, floods in early July damaged the initially sown paddy saplings, which probably means lower growth in agriculture than in FY2019.** The government is committed to accelerating the implementation of large infrastructure projects. The budget for FY2020, an

estimated 40.0% of GDP, has projected capital expenditures to increase by nearly 50.0% to account for a tenth of GDP. To spur economic activities, the Monetary Policy for FY2020 has cut both bank and floor rates by 50 basis points each. If execution of capital expenditures, including those of sub-national governments, improves substantially and private investment remains strong, then GDP growth will likely expand by 6.3% in FY2020.

**6. Headline inflation will likely rise to 5.5% in FY2020 higher than the 4.6% outturn a year earlier, assuming a somewhat smaller harvest, a marked pickup in government expenditures, and a moderate rise in inflation in India, the main supplier.** The Monetary Policy for FY2020 aims at containing inflation within 6.0% by maintaining broad money supply growth at 18.0% while prioritizing interest rate stability.

**7. The current account deficit is expected to narrow at 7.6% of GDP in FY2020 as import growth restrains with measures taken to curtail the import of non-priority items and an increased generation of hydroelectricity, partially offsetting fossil fuel consumption.** Remittance is expected to grow much robustly with the resumption of labor migration to Malaysia and stepped-up outmigration to high-income destinations like Japan.

**8. Downside risks to outlook in FY2020 center on challenges to the smooth implementation of federalism.** Adequate human resources, mainly technical staff, and capacity in the relatively new sub-national governments coupled with necessary legislative frameworks are required for the smooth implementation of federalism. The accommodative Monetary Policy combined with the expansionary Fiscal Policy for 2020 may build pressure on prices and external stability. And extreme weather events in the form of erratic rainfall pattern, and natural calamities such as landslides and floods could potentially derail Nepal's high economic growth aspirations.

**9. The theme chapter of this edition of Macroeconomic Update sheds light on existing implementation challenges of Special Economic Zones (SEZs) in Nepal and suggests measures to overcome them.** SEZs can play a key role in developing economies like Nepal to expand exports, bridge the huge trade deficit and mitigate pressure on external stability. They provide enabling environment for advancing export of manufactured goods and services through a multitude of facilities namely, liberal tax regime with exemption to varying degrees in income tax, excise duty, value added tax along with 'one-stop-service' for income repatriation, customs clearance, immigration, banking, and foreign workers' employment.

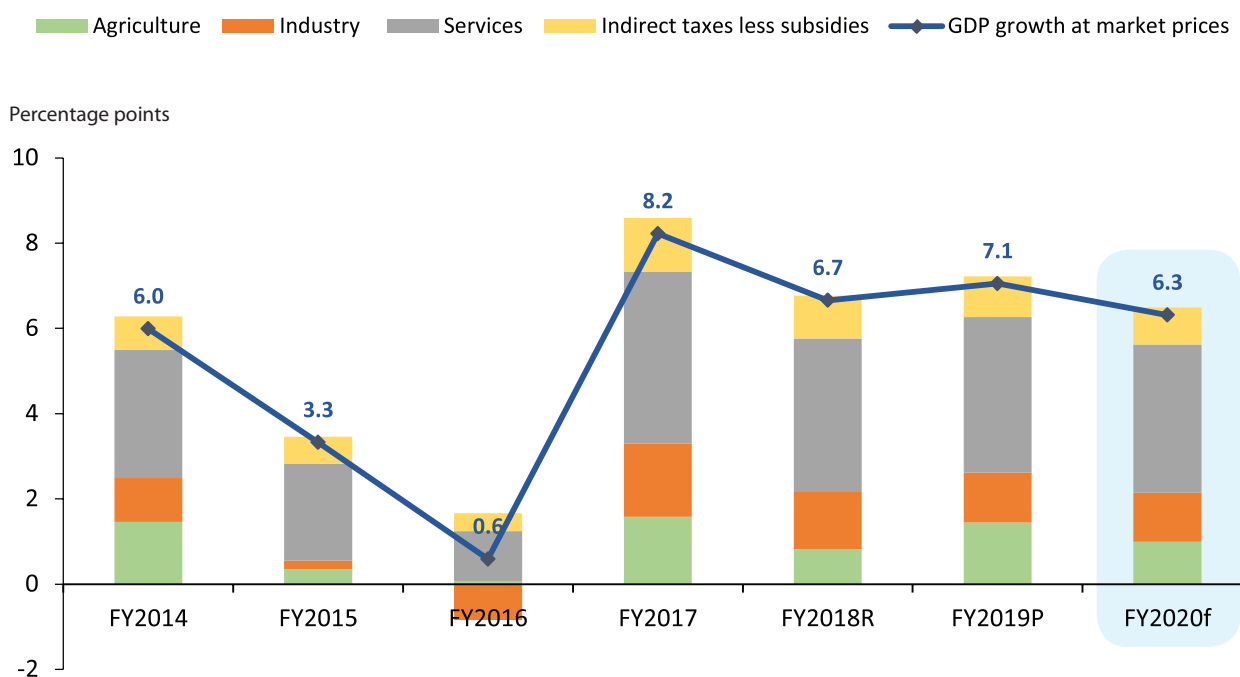


# MACROECONOMIC UPDATE

## A. Economic performance in FY2019

1. Gross domestic product (GDP) grew by an estimated 7.1% in FY2019, up from 6.7% a year earlier, underpinned by accelerated post-earthquake reconstruction, favorable monsoon leading to bumper harvest, better management of electricity supply and stepped-up tourists' arrivals (Figure 1). Agriculture, which accounts for nearly a third of GDP, grew by 5.0% on a record increase of rice production by 8.3%. Vegetable production also increased by 7.8%.<sup>1</sup> Industry, providing 15.2% of GDP, grew by 8.1% on an increased availability of electricity and a conducive socio-political environment. The long power outage faced by industries has ended since May 2018.<sup>2</sup> Consequently, average capacity utilization of major industries in the first half of FY2019 improved to 60.0% from 58.0% in the corresponding period a year earlier.<sup>3</sup> A number of small and medium-sized hydroelectric projects came into operation, raising the installed capacity by 10.1% in FY2019 (Figure 2). Services, contributing slightly over half of GDP, expanded by 7.3% on higher inflow of remittances supporting retail trade and a buoyant tourists' arrival favoring hotel and restaurant and travel and communication businesses.

**Figure 1: Supply-side contributions to growth**



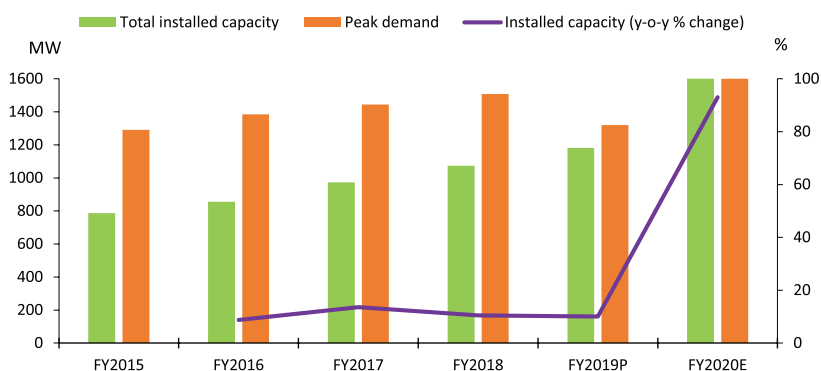
P=provisional; f=forecast  
Source: Central Bureau of Statistics; ADB estimates

<sup>1</sup> Nepal Rastra Bank. June 2019. *Economic Activities Study Report: Half-yearly (2075-76)*. Kathmandu.

<sup>2</sup> Nepal Electricity Authority. 2019. *Annual Report FY2019*. Kathmandu.

<sup>3</sup> Nepal Rastra Bank. June 2019. *Economic Activities Study Report: Half-yearly (2075-76)*. Kathmandu. The average capacity utilization of industries producing pashmina, beer, vegetable ghee, iron rod, processed tea, cooking oil and instant noodles increased the most in the first half of FY2019.

**Figure 2: Electricity demand and supply (MW)<sup>4</sup>**

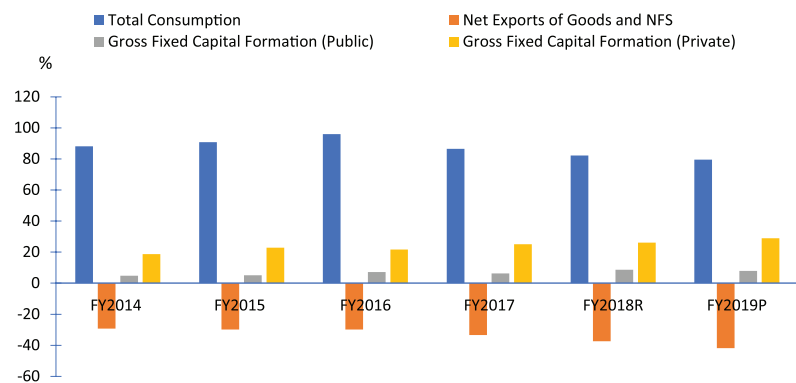


MW=megawatt; P=provisional; E=expected  
Source: Nepal Electricity Authority

2. On demand side, high consumption induced by remittance growth dominated spending in FY2019, to account for an estimated 80.0% of GDP. Private investment largely on energy and services grew by 27.0% to account for 29.0% of GDP. By contrast, public investment increased by just 5.5% after rising by 54.2% in FY2018, owing to delays in the construction of national pride projects like Upper Tamakoshi (456 MW) hydroelectric and Melamchi Drinking Water Supply. Trade deficit in goods and services further widened by 27.8% on higher import of oil and non-oil products (Figure 3).

3. Headline inflation averaged 4.6% in FY2019, up from an annual average of 4.2% a year earlier (Figure 4). Food inflation averaged 3.1%, up from 2.7% in FY2018, reflecting a disruption in delivery channel due to floods and landslides in early July and a delay

**Figure 3: Share of GDP by expenditure**



R= revised; P= provisional  
Source: Central Bureau of Statistics

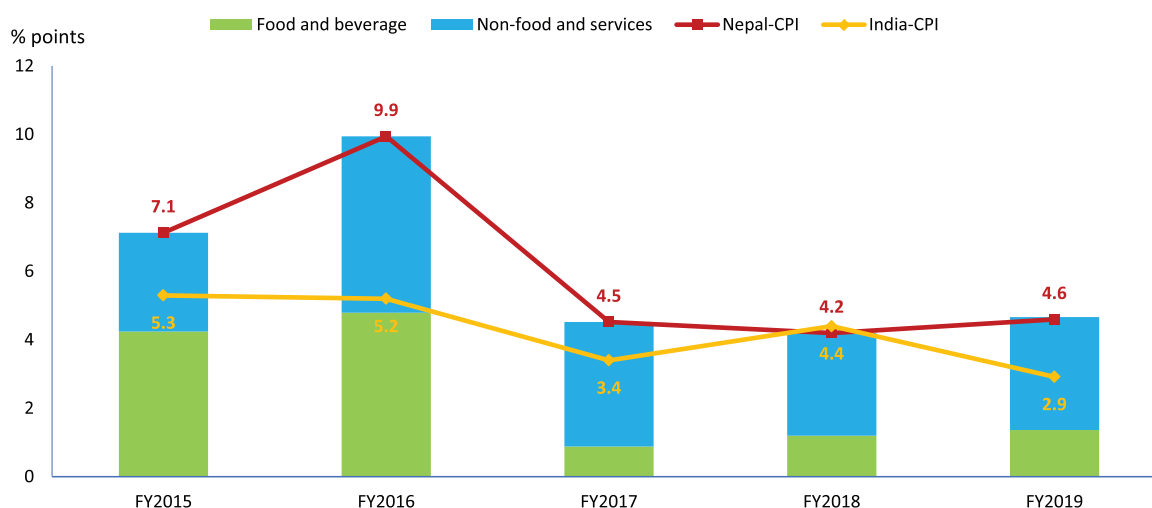
<sup>4</sup> Peak demand includes all areas covered by Integrated System including electricity supply to India. With increased generation of hydroelectricity in recent years, the government has been promoting electric vehicles and urging consumers to use more electric appliances such as induction cookers.

in food supply owing to strict tests along the Indo-Nepal border over concern about pesticides. Non-food inflation averaged 5.9%, up from 5.3% in FY2018, on strong demand for clothes and footwear, housing and utilities, furnishing and household equipment and transportation and education services.

4. Fiscal deficit moderated to 5.1% of GDP in 2019, after rising to 6.7% in 2018, on lower-than-planned capital expenditures (Figure 5). While recurrent expenditures increased by 2.6%, capital expenditures decreased by 12.0% in FY2019. Execution of capital expenditures at 75.9% was less than that of FY2018 at 81.0%. Long-standing challenges tied to project readiness, procurement processes and project management have derailed the smooth implementation, affecting budget execution and limiting public investment. Revenue increased by 7.8% in FY2019 after rising by 19.1% a year earlier. Revenue mobilization has primarily increased on higher import growth and an improvement of the tax system. The Ministry of Finance revoked the provision of direct refund of value added tax (VAT) to registered taxpayers in FY2019. Excise duties were increased on alcohol, cigarette and tobacco related products. The existing individual tax slabs of 15.0% and 25.0% were changed to 10.0%, 20.0% and 30.0%. Reforms to custom valuation and an adoption of risk-based custom clearance and e-payment system helped control revenue leakages.

5. Nepal faces low debt distress given the high level of official concessional borrowing at longer maturity.<sup>5</sup> Total debt to GDP at 30.1% in FY2019 is marginally lower from 30.2% in FY2018 (Figure 6).

**Figure 4: Contribution to headline inflation**



CPI=consumer price index  
Source: Nepal Rastra Bank

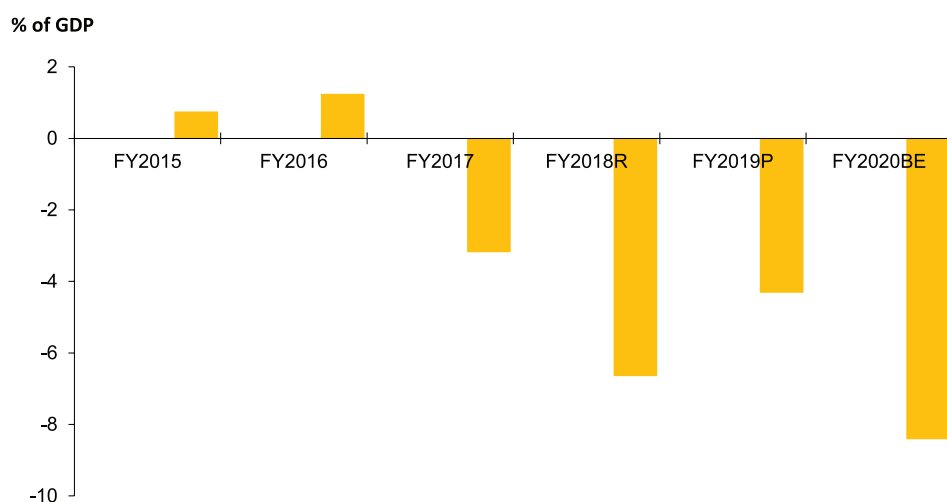
<sup>5</sup> The main lenders to Nepal are the multilateral agencies namely, the World Bank and ADB. The largest bilateral creditors are Japan, the People's Republic of China, South Korea and India.

Total external debt to GDP at 17.0% in FY2019 is also marginally lower from 17.3% a year earlier. With low debt to GDP ratio and debt service payments being relatively well below the threshold indicators, the 2018 International Monetary Fund debt sustainability analysis puts Nepal at low risk of debt distress.<sup>6</sup>

6. Broad money (M2) supply increased by 15.8% in FY2019 after rising by 19.4% a year earlier on the back of dwindling net foreign assets and a slow rise in net domestic assets (Figure 7). Credit growth to private sector slowed at 19.1% after rising by 22.3% in FY2018 owing to higher lending rates and an intermittent liquidity crunch. The significant share of banks and financial institutions' lending went to wholesale and retail trade, production<sup>7</sup> and construction.

7. Current account deficit moderated to 7.7% of GDP, down from 8.2% in FY2018, on implementation delays of large national pride projects and markedly curbed import growth (Figure 8). Merchandise export growth exceeded expectations; but with low export base, earnings remained small, widening the merchandise trade deficit by 4.4%. Despite a fall in out-migration by 32.6%, workers' remittances grew healthily at 7.7% on depreciation of Nepali rupee vis-à-vis US dollar,<sup>8</sup> crackdown on informal means of remitting, such as hundi and an increased outmigration to high-income destination countries. The rising current account deficit was financed primarily by external borrowing and a drawdown of foreign exchange reserves, thus shrinking the reserves by 5.8% to \$9.5 billion, leaving import cover of

**Figure 5: Fiscal balance**



BE=budget estimate from FY2020 Budget Speech  
Source: Financial Comptroller General Office; Ministry of Finance

<sup>6</sup> International Monetary Fund. 2019. Nepal–Staff Report for the 2018 Article IV Consultation. Washington D.C.

<sup>7</sup> Production includes food production, handicrafts, textile and readymade clothing, timber production, plastic, cement, paper, rubber tyres, leather, medicine and metals, among others.

<sup>8</sup> Nominal exchange rate of Nepali rupee vis-a-vis the US dollar depreciated by 7.5% in FY2019 in line with the depreciation of Indian rupee to which the Nepali currency is pegged.

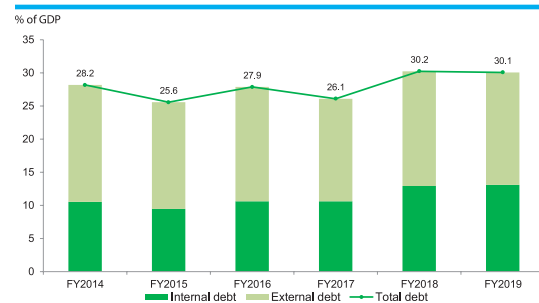
7.8 months in FY2019 (Figure 9). This high deficit and weak financial inflows particularly foreign direct investment led to an overall balance of payment deficit of \$591.0 million, significantly higher than the deficit of \$1.1 million in FY2018.

## B. Economic prospects in FY2020

8. Monsoon in FY2020 has been near normal as projected.<sup>9</sup> However, floods in early July damaged the initially sown paddy saplings, which probably means lower growth in agriculture than in FY2019. The government is committed to accelerating the implementation of large infrastructure projects. The budget for FY2020, an estimated 40.0% of GDP, has projected capital expenditures to increase by almost half to account for a tenth of GDP.<sup>10</sup> To spur economic activities, the Monetary Policy for FY2020 has cut both bank and floor rates by 50 basis points each.

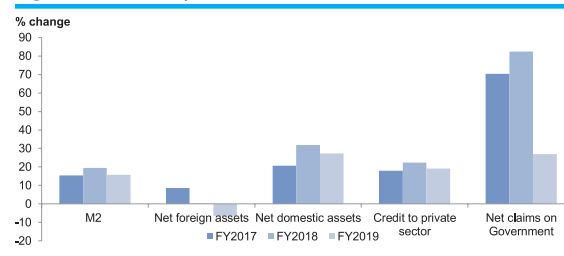
9. New legislations passed in 2019 such as Foreign Investment and Technology Transfer Act 2019, Public-Private Partnership and Investment Act 2019 and first amendment to Special Economic Zone Act 2016 will likely support investor sentiment. Implementation of 'One Window Service' at the Department of Industry and the Investment Board of Nepal is expected to facilitate investment and business environment. The government hopes to complete Upper Tamakoshi hydroelectric Project by the third quarter of FY2020. If this project materializes, then Nepal will be able to export more hydroelectricity to India via 'Energy Banking' modality.<sup>11</sup>

Figure 6: Public debt



Source: Financial Comptroller General Office; Ministry of Finance

Figure 7: Monetary sector



Source: Nepal Rastra Bank

Figure 8: Current account indicators

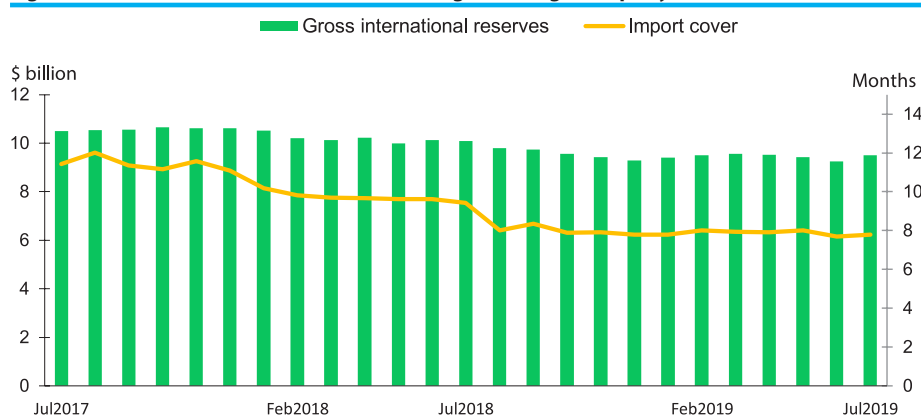


Source: Nepal Rastra Bank

<sup>9</sup> For details, see <<https://public.wmo.int/en/media/news/south-asian-climate-outlook-forum-predicts-normal-monsoon-0>>.

<sup>10</sup> This is based on comparison of the budget estimate for FY2020 vis-à-vis the revised budget estimate for FY2019.

<sup>11</sup> Nepal Electricity Authority (NEA) exported an estimated 110-150 MW of electricity per day to India this monsoon. For details, see <<https://www.newbusinessage.com/Articles/view/11098>>. It is expected that about 1,100 MW of hydroelectricity from NEA and independent power producers will be added to the national grid line by FY2020.

**Figure 9: Gross international reserves and foreign exchange adequacy**

Source: Nepal Rastra Bank

10. Services will likely grow underpinned by an increased arrival of tourists and a steady inflow of remittances. The stalemate in sending migrant workers to Malaysia, one of the top destination countries for Nepali migrant workers, has ended with the government rescinding the temporary ban that was in place since May 2018.<sup>12</sup> This should bolster remittance inflows in the country. To enhance tourism, the government is gearing up to bringing 2 million tourists in 2020 under ‘Visit Nepal 2020’ campaign. To help make this campaign a success, the government intends to complete and operationalize Gautam Buddha International Airport by FY2020. From demand side, an expected rise in investment, buoyant government expenses and a strong domestic consumption will drive growth in FY2020. If execution of public capital expenditures, including at sub-national levels, improves substantially and private investment remains strong, then GDP growth will remain strong in FY2020 (Table 1).

11. Headline inflation will likely rise to 5.5% in FY2020 higher than the 4.6% outturn a year earlier, assuming a somewhat smaller harvest, a marked pickup in government expenditures, and a moderate rise in inflation in India, the main supplier (Table 1). The Monetary Policy for FY2020 aims at containing inflation within 6.0% by maintaining broad money supply growth at 18.0% while prioritizing interest rate stability. The standing liquidity facility (SLF) or the ceiling rate has been reduced by 50 basis points to 6.0% in FY2020, and policy and floor rates too by 50 basis points to 4.5% and 3.0%, respectively, narrowing the interest rate corridor width. The interbank interest rates are expected to hover around 4.5%, maintaining short-term interest rate stability.

<sup>12</sup> The ban was imposed mainly due to exorbitant fees charged to workers by recruitment agencies in Nepal. For details, see: <<https://thehimalayantimes.com/business/nepalis-can-go-to-work-in-malaysia-from-september-15/>>

12. To address an intermittent liquidity crunch, the NRB has allowed banks and financial institutions (BFIs) to access foreign loans (in US dollar and other convertible currencies) from banks and other sources like pension and hedge funds. The interest rate on such loans should not exceed six-month London Inter-bank Offered Rate (LIBOR) plus 4.0% from LIBOR plus 3.0% set a year earlier. The BFIs can also mobilize fixed deposits in foreign currencies for at least two years from foreign institutional depositors and non-resident Nepalis. By the end of FY2020, commercial banks must compulsorily float debt instruments amounting to at least 25.0% of their paid-up capital.

13. The current account deficit is expected to narrow at 7.6% of GDP in FY2020 as import growth restrains with measures taken to curtail the import of non-priority items<sup>13</sup> and an increased generation of hydroelectricity, partially offsetting fossil fuel consumption (Table 1). Remittance is expected to grow much robustly with the resumption of labor migration to Malaysia and stepped-up outmigration to high-income destinations like Japan.

**Table 1: Selected economic indicators (%)**

	FY2019	FY2020E
GDP growth	7.1	6.3
Inflation	4.6	5.5
Current account balance (share of GDP)	-7.7	-7.6

E=estimated  
Source: Central Bureau of Statistics; Nepal Rastra Bank; ADB estimates

## C. Risks and challenges

14. Nepal's transition from a unitary to a federal system of governance in early 2018 has been full of challenges. Inadequate human resources, mainly technical staff, and capacity in the relatively new sub-national governments coupled with incomplete legislative frameworks hampered the smooth implementation of federalism. This is reflected in poor budget execution of sub-national governments. Some of the local-level governments have not even announced their budget statements for FY2020. While there has been a significant progress in passing key legislations, several important ones such as the Federal Civil Service Act are yet to be enacted. To facilitate the smooth transition, further clarities in the mandates of three tiers of governments are to be concluded.

<sup>13</sup> Ministry of Finance has revised custom duties to protect and promote the growth of agriculture and industrial goods and discourage the import of unessential items.

15. In the absence of a realistic medium-term expenditure framework (MTEF), the federal government has been presenting an ambitious budget that is revised down during the mid-year budget review. A realistic MTEF which balances affordability against policy priorities of the government should be adopted for fiscal prudence.<sup>14</sup> Not only the federal government, but sub-national governments should also formulate their fiscal policies based on realistic MTEFs for greater accountability and an improved management of public finances.

16. To facilitate the attainment of high economic growth, the Monetary Policy for FY2020 has targeted gross internal credit growth of 24.0%. If higher credit infusion is absorbed by tradeable sector, this will have a high fiscal multiplier effect. But if more credit is infused in real estate, working capital and overdraft, this will trigger financial risk and instability. The BFIs lending to real estate, working capital and overdraft constituted 41.8% of their total lending, equivalent to 35.2% of GDP in FY2019.<sup>15</sup> This accommodative Monetary Policy combined with the expansionary Fiscal Policy may build pressure on prices and external stability.<sup>16</sup>

17. Given the low export base and limited contribution of tourism to GDP, Nepal's economy heavily relies on remittance for external stability. But a slowdown in demand for Nepali migrant workers in Malaysia, Qatar and Saudi Arabia may potentially lower the remittance inflows, hurting the growth of private sector and domestic consumption.<sup>17</sup>

18. Nepal is highly susceptible to natural hazards given its topography and diverse climatic conditions. The situation is further aggravated by unplanned human settlements.<sup>18</sup> Extreme weather events in the form of erratic rainfall pattern, and natural calamities such as landslides and floods could potentially derail its high economic growth aspirations.

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<sup>14</sup> Silva, Migara De (n.d.). What is MTEF and Why It is Important? A Brief Overview. Available online at: [http://old.cafrad.int/Workshops/Tanger21-23\\_04\\_09/Session4\\_2.pdf](http://old.cafrad.int/Workshops/Tanger21-23_04_09/Session4_2.pdf).

<sup>15</sup> Such lending was 34.7% of GDP in FY2018 and 33.2% of GDP in FY2017.

<sup>16</sup> Rising inflation and widening twin deficits may affect Nepal's macroeconomic stability.

<sup>17</sup> Malaysia, Qatar and Saudi Arabia are among the top five destination countries for Nepali migrant workers.

<sup>18</sup> Asian development Bank. 2018. Macroeconomic Update, Nepal. Vol. 7, No. 2.



## THEME CHAPTER

# Special Economic Zones: Issues and Challenges in Nepal<sup>1</sup>

## A. Introduction

1. Special Economic Zones (SEZs) are advanced forms of Export Processing Zones (EPZs) established with a prime focus to enhance export-oriented manufacturing industries. These are delineated 'geographic areas within a country's national boundary where the business rules pertaining to trade and investment and the regulatory environment are more liberal than those prevailing in the national territory' (Farole, 2011). Such zones existed in industrialized economies before 1970s. From 1970s onwards, East Asian and Latin American economies implemented this model primarily to shift from import-substitution to export-led growth modality. The large-scale SEZs originated in the People's Republic of China (PRC) in the 1980s and became popular subsequently. These are also known as free trade zones and include EPZ industrial parks (Farole & Akinci, 2011). Besides export promotion, the other objectives of SEZs are to: (i) attract foreign direct investment (FDI); (ii) advance competitiveness of export-oriented goods and services; (iii) create employment opportunities; (iv) test the applicability of new policies and approaches, and (iv) enable the development and diversification of exports (FIAS, 2008).

2. SEZs can play a key role in developing economies like Nepal to expand exports, bridge the huge trade deficit<sup>2</sup> and mitigate pressure on external stability. Nepal's exports are 13 times smaller than imports and are mainly primary products with little value addition. The exports suffer from quality issues, low productivity, lack of product diversification and principally structural and institutional deficiencies. One peculiar aspect hindering Nepal's export prospect is poor investment climate, reflected in the World Bank's Doing Business Index. It ranks 110 out of 190 economies due to lengthy processes in initiating a business, dealing with construction permits, getting electricity and paying taxes, among others (World Bank, 2019). Such hurdles have posed as a severe deterrence to attracting foreign investment. SEZs can help mitigate those issues as they

<sup>1</sup> The author would like to thank Mr. Sundar Thapa, Under Secretary and Mr. Bhakta Bhandari of Special Economic Zone Authority, Government of Nepal, for their helpful advice and comments in this paper.

<sup>2</sup> Nepal's annual average merchandise trade deficit was 33.9% of GDP during FY2015–FY2019.



Main entrance to Special Economic Zone Authority, Bhairahawa.

Photo: Manbar S. Khadka



Main office building of Special Economic Zone Authority, Bhairahawa.

Photo: Manbar S. Khadka

provide a multitude of facilities namely, liberal tax regime with varying degrees of exemption in income tax, excise duty and value added tax (VAT) along with 'one-stop-service' for income repatriation, customs clearance, immigration, banking, foreign workers' employment and other related aspects. Further, SEZs will be governed by liberal production-oriented labor law debarring strikes, that are sometimes challenging outside SEZs. Essentially, the SEZ is expected to address significant constraints and bottlenecks faced by both domestic and foreign investors in initiating businesses in Nepal. This paper discusses the existing implementation challenges of SEZs in Nepal and suggests measures to overcome them, while highlighting its importance in bridging the burgeoning trade deficit.

3. Various studies analyzing the impact of free zones on economies suggest mixed results. Some empirical studies suggest that SEZs helped enhance export promotion, increase FDI and employment generation. By contrast, critics argue that SEZs were unsustainable when labor costs increased and failed to extend benefits outside zones or even enhance skills and production base (Kaplinsky, 1993; Farole & Akinci, 2011). Nevertheless, free zones played a crucial role in accelerating the industrial development of East Asian economies. The PRC later employed the same model and was successful in attracting FDI and boosting the country's export volume. Latin American economies like the Dominican Republic, El Salvador and Honduras employed free zones model to capitalize on preferential access to US markets. In sub-Saharan African countries, Mauritius became highly successful in industrializing and diversifying its economy through free zones (Farole & Akinci, 2011). Zones largely became successful in promoting export and attracting foreign investment on the back of an increased globalization of trade and investment since 1970s. Economies were highly integrated via global production value chains in light manufacturing sectors such as electronics, automotive and apparel (Farole & Akinci, 2011). Foreign investment increased particularly in economies with low labor cost that enjoyed duty free access on inputs under the free zone regime and preferential access to industrialized economies (Farole & Akinci, 2011).

4. Among several economies, Bangladesh is one where EPZ helped propel its export, particularly of textile and garment. It was in the early 1980s that the program was launched but gained momentum only in the early 1990s. The EPZ eventually took off once Bangladesh began concentrating on one sector, i.e. garment, on which it had comparative advantage (Shakir & Farole, 2011). Foreign investments emanated from the Republic of Korea and PRC into Bangladesh's textile and garment sector to tap on its low labor cost and preferential access to US markets (Farole & Akinci, 2011). The government of Bangladesh provided necessary infrastructure, efficient regulatory environment and



transparent administrative regime and a host of incentives that helped attract large foreign investments into EPZs. Domestic private investment also increased in the textile and garment sector following the boost in foreign investment. EPZs helped generate employment opportunities for a vast majority of people. They also promoted skill development, skill transfer and labor mobility (ADB, 2015). In recent times, Bangladesh faces tough challenges toward maintaining competitiveness with rising wages, meeting the work conditions and more importantly diversifying its export outside the garment sector. The Economic Zones Act 2010 is focused on addressing those challenges (Farole & Akinci, 2011).

5. India initiated Asia's first SEZ way back in 1965 to overcome its anti-export bias resultant of import substitution policy. Later, six more EPZs were established in 1980s. But success remained far-fetched as the program lacked supportive legislative and administrative frameworks (Aggarwal, 2004; Kundra, 2000). Expectations were simply not met due to rigid policies, unattractive incentives and lack of single window facility within the zone (ADB, 2015). By 2000, SEZs merely accounted for 5% of exports and 0.2% of employment (ADB, 2015). India formulated a comprehensive SEZ Act in 2005 to overcome institutional hurdles and facilitate SEZ investment. The Act encompassed a wide array of fields such as services, manufacturing, trading, re-engineering and re-conditioning (ADB, 2015). This led to a significant push to investment in SEZs. As a result, SEZs accounted for 26% of exports and 4.2% of employment in 2014 (ADB, 2015).

6. Sri Lanka initiated SEZ as an industrial policy with the objective to liberalize trade and investment through fiscal incentives, changes in exchange rate, tariffs and quotas and a relaxed FDI policy (ADB, 2015). It established its first SEZ in 1978 with better investment climate and developed infrastructure (Jayanthakumaran & Weiss, 1997). SEZs have been successful in attracting foreign investment, enhancing exports and generating employment opportunities in Sri Lanka (ADB, 2015).

7. SEZs were instrumental for PRC in attracting foreign investment. Industrial and technological development of zones were set up in 1984 in 14 Chinese coastal cities. Since then, over hundred zones of various types have been established across the country offering tax incentives and world-class infrastructure (Brautigam & Xiaoyang, 2011). PRC has been successful in fostering technological and industrial development via zones (Brautigam & Xiaoyang, 2011). PRC not only became a leading world exporter of manufactured goods but also the principal recipient of FDI through SEZs (Auty, 2011).

8. Honduras is a classic example where zones initially operated by the government in the mid-1970s were stagnant, but later picked up with the amendment of the law that allowed private sector for the development



Limestone processing plant of Shakti Minerals Pvt. Ltd.

and management of zones. The government provided regulatory framework for the private sector to grow, along with critical infrastructure and services such as a high-quality port and road connectivity to zones. The government also provided on-site customs services and enabled efficient import and export of consignments (Engman, 2011). The ability of Honduran free zones to expeditiously meet small orders of textiles and clothing with changing fashion and taste to the US market became the key comparative advantage (Engman, 2011). There is no time limit attached to fiscal incentives in Honduran free zones as opposed to time bound incentives in zones operating in other economies (Engman, 2011). This structure of fiscal incentives, however, discriminated against small and medium sized enterprises and potential exporters operating outside the free zones (Engman, 2011). The growth of private sector, essential for enhancing productivity, generating employment opportunities and uplifting the economy, was affected (Engman, 2011).

9. With the establishment of free zones beginning from 1970s, the Dominican Republic shifted from a commodity-oriented economy to a manufacturing one. The US textile and the garment industry offshored to Dominican Republic to capitalize on cheap labor and its preferential trade agreements. Though the garment sector boomed throughout the 1980s and 1990s, the free zone-based economic model began to falter since the early 2000s. The expiration of multi fiber agreement in 2005



Construction site of one of the industries.

Photo: Manbar S. Khadka



and an increased dominance of Asian economies in the garment sector jeopardized the Dominican Republic's future of free zones (Burgaud & Farole, 2011). The government took corrective measures to revitalize the sector via 'streamlining customs procedures, reducing tariffs and introducing new legislations on government procurement, competition policy and intellectual property rights' (Burgaud & Farole, 2011). It also entered into the free trade agreement with the Central America and the US and the economic partnership agreement with other economies to foster trade and investment (Burgaud & Farole, 2011).

10. The case of Dominican Republic illustrates that there are limitations to zones-based growth model. What if the low labor cost advantage no longer persists? What if the preferential trade agreements expire? The textile and garment sector in the Dominican Republic and other economies initially thrived on those features but suffered a setback once they ceased.<sup>3</sup> So, in short-term, fiscal incentives, preferential trade agreements will provide a substantial boost to export promotion. But in long-term, economies must invest on human capital for productivity enhancement and integrate free zones with the local economy for sustaining growth momentum (Burgaud & Farole, 2011).



Construction site of one of the industries.

Photo: Manbar S. Khadka

<sup>3</sup> Nepal's textile and garment sector once thrived on the back of multi-fiber agreement. But with the expiration of this agreement in 2005, the sector suffered a setback.

11. It is imperative that zones be institutionalized on the basis of commercial viability and not fiscal incentives. The policy and regulatory framework in which zones are expected to operate should be clear and effectively implemented. In case of African economies, where majority of Chinese zones are operating lack national competitiveness, linkages to the global markets and face infrastructure deficiencies like ports, roads and electricity (Brautigam & Xiaoyang, 2011). More importantly, the authority lacks capacity and resources to execute its mandate in terms of developing, promoting and regulating the program (Brautigam & Xiaoyang, 2011).

## B. Genesis of SEZ in Nepal

12. With the objective of attracting both domestic and foreign investment by reducing custom duties and providing more liberal tax regime and a favorable business environment vis-à-vis outside zones, the government of Nepal constituted Special Economic Zone Authority (then Special Economic Zone Development Committee) in 2004. The SEZ Authority under the Ministry of Industry, Commerce and Supplies (MOICS) was commissioned to draft the SEZ Act along with related rules and regulations, conduct feasibility studies for developing SEZs and build necessary infrastructure (MOICS, n.d.).

13. The SEZ Act was promulgated in 2016 and the SEZ Regulation in 2017. In 2019, the first amendment to SEZ Act 2016 was passed by the Parliament. Presently, the SEZ Authority operates Bhairahawa SEZ located in Rupandehi district in the border area adjoining India. The government has identified fourteen places, where one or other forms of zones can be developed and operationalized.<sup>4</sup> There are nine industries in the process of building infrastructure and setting up plants within Bhairahawa SEZ. Out of them, Shakti Minerals, a limestone processing industry has begun producing its final output and currently exports dolomite lumps to India. The following table lists the potential industries and their business nature:

<sup>4</sup> The fourteen places are: Bhairahawa, Simara, Panchkhal, Biratnagar, Kapilvastu, Jumla, Dhangadi, Nuwakot, Nepalgunj, Jhapa, Dhanusha, Rautahat, Siraha and Gorkha. The infrastructure development in Simara SEZ is towards near completion. The SEZ Authority intends to promote garment sector in one of its blocks, the Garment Processing Zone, within the Simara SEZ.

**Table 1: Potential industries in Bhairahawa SEZ**

S.N.	Industries	Nature of business
1	National Organics Pvt. Ltd.	Production of soapberries and essential oils
2	Arihant Agro Processing Industries Pvt. Ltd.	Processing, packaging of walnut, cashew nuts etc.
3	Shakti Minerals Pvt. Ltd.	Processing limestone and producing dolomite lumps
4	Kuraakani Online Pvt. Ltd.	Information Technology company developing software
5	Neer Industry Pvt. Ltd.	Manufacturing plastic granules
6	Gro-well Innovation Pvt. Ltd.	Manufacturing polyethylene pipes
7	Panchakanya PVC Pipes Pvt. Ltd.	Manufacturing PVC pipes
8	Panchakanya Stainless Steel Tank Manufacturing Company	Manufacturing stainless steel tanks
9	Panchakanya CPVC & PPR Pipes and Fittings Pvt. Ltd.	Manufacturing CPVC and PPR pipes
10	Panchakanya HDPE Pipes Manufacturing Company	Manufacturing high density polyethylene pipes
11	Buddha Napkin & Tissue Paper Udyog	Metal processing and production of napkins
12	I.D.S. Electric Pvt. Ltd.	Assembling of electric vehicles
13	YES Plastic Products	Production of plastic sheets, disposable bags
14	Ariba Agricultural Pvt. Ltd.	Producing ginger paste, ginger oil etc.
15	Brilliant Lighting Industry Pvt. Ltd.	LED bulbs assembling
16	Vistar Global Pvt. Ltd.	Manufacturing steel utensils
17	Creations Worldwide Pvt. Ltd.	Manufacturing footwear

Source: SEZ Authority, Ministry of Industry, Commerce and Supplies, Government of Nepal

## C. Issues and challenges<sup>5</sup>

14. Though the government has plans of establishing fourteen SEZs across the country, only Bhairahawa SEZ has come into operation. When Bhairahawa SEZ was initiated, twenty-two prospective industries had applied and received permissions to establish and initiate their business operations. But, four prospective industries have withdrawn, and only nine industries have actually initiated their construction and plant installment work. Out of nine, just one has begun producing the final output. These developments indicate that the prospective investors are still in the ‘wait-and-watch’ mood. There are several elements in the SEZ Act crucial for facilitating business environment and accelerating growth of export-oriented industries. But, several of those elements are still missing on the ground. One central aspect is ‘One-Stop-Service’ envisaged by the SEZ Act. But there is no such service available inside Bhairahawa SEZ. There is no customs desk to facilitate the import and export of goods inside the Bhairahawa SEZ.

15. The other crucial element to facilitating business is the supply of dedicated electricity. Presently, Nepal Electricity Authority (NEA) has supplied 11 kilo volt (kv) of electricity to industries in Bhairahawa SEZ. While this low-volt electricity may be adequate at the initial stage of

<sup>5</sup> The issues and challenges discussed in this paper are based on interactions with the government officials, private sector and field observations in Bhairahawa SEZ.



establishing plants, this will not be sufficient once the industries begin operating at full capacity. Moreover, there are concerns that the supply of electricity often gets interrupted, affecting the plant operations and causing losses. The NEA plans to provide the 33 kv electricity line to Bhairahawa SEZ in near future.

16. Similarly, there is an issue with the availability of water supply to prospective industries inside Bhairahawa SEZ. Though construction of water supply has been completed, it has not been operationalized yet. Industries are currently accessing water via deep boring. This may not be a sustainable solution as water tables across Nepal are gradually depleting owing to its unsustainable extraction.

17. The other pertinent issue raised by stakeholders is the poor coordination among government agencies. The SEZ Act says that the industries can import plants, machinery parts and equipment against the bank guarantee equivalent to prevailing custom duties. Once the SEZ Authority verifies that the imported plants and machineries are installed by industries inside SEZ, the bank guarantee must be released. But investors in Bhairahawa SEZ had to deposit 'refundable amount' equivalent to custom duties on imports of plant and machineries, in a sharp contradiction to SEZ Act. This shows lack of coordination among government agencies and an ignorance to new SEZ Act that provides more liberal tax regime in relation to custom duties for industries operating out of SEZs. Various other facilities such as banks, insurance, medical center etc. are yet to be established inside the Bhairahawa SEZ.

## **D. Policy recommendations**

18. For industries within SEZ to flourish and make an impact on the economy, provisions envisaged under the SEZ Act must be effectively implemented. For instance, Bangladesh Export Processing Zone (BEPZ) Authority provides one of the finest services to prospective industries in obtaining licenses and approvals (Shakir & Farole, 2011). Interestingly, the recommendations put forth by BEPZ Authority to concerned government agencies are considered with high importance. Further, the officials at BEPZ Authority supports industries by guiding them through various channels. In case of Bhairahawa SEZ, there is a lack of coordination among government agencies, leading to procedural hassles for investors. The other reason as to why BEPZ Authority has been efficient is because its reporting line is the Prime Minister's Office. In case of Nepal, SEZ Authority reports to MOICS. Since multiple government agencies need to coordinate and work closely to facilitate trade and investment, the SEZ Authority in Nepal may be placed under the Prime Minister's jurisdiction.

19. The success stories emanating from free zones in Bangladesh, Mauritius and Dominican Republic have revolved around textile and garment sector. Specific blocks say the garment processing zones were established inside such zones that attracted private investment. But Bhairahawa SEZ does not appear to be operated in that fashion. One finds industries of various nature either established or in the process of being established in the same block. There seems to be no clarity as to what types of industries is Nepal promoting for export enhancement. Nepal does not possess comparative advantage in the production of whole array of goods and services. Industries of specific nature which possess potential competitive edge must be promoted through SEZs.

20. Most of the industries that will operate out of Bhairahawa SEZ will import raw materials from outside Nepal. This looks fine if the goal is import substitution. But since the principal goal of SEZ is export promotion, such a strategy will definitely affect competitiveness and sustainability of industries in the long run. Nepal should aim at promoting zones for such industries that will produce goods and services in which Nepal has a competitive edge. For instance, there is a huge internal demand for cement and a few medium to large-scale cement manufacturing industries have been established in Nepal to meet domestic demand and also export excess supplies to neighboring country, India. These industries rely on their own mining in Nepal for producing clinker, the main raw material to manufacture cement.

21. Competitiveness and comparative advantage of an economy on certain goods and services may not be long-lived. For instance, Mauritius once had labor cost advantage in textile and garment sector. But once the textile and garment sector took off in many Asian economies with cheap labor, the labor cost advantage that Mauritius once enjoyed simply eroded, affecting its textile industry. The lessons from such experiences were that the governments should simultaneously invest on human capital and explore other avenues for export diversification. Nepal also needs to invest on human capital by providing better education, technical and vocational trainings, health care facilities to effectively tap on its demographic dividend.

22. As economies were burdened with the costs of establishing and running zones, private sector became increasingly prominent in establishing and operating SEZs (FIAS, 2008). Further, private developers were able to establish and operate SEZs profitably (FIAS, 2008). In the Philippines and Viet Nam, private developers not only built onsite infrastructure facilities but also access roads and utility connections (ADB, 2015). The private sector developed and managed SEZs in Andhra Pradesh of India (ADB, 2015). Whereas, the

## Box 1: Salient features of Special Economic Zone Act 2016

### 1. Income tax concession:

- a. Industries established within SEZs situated in high mountain and other government designated mountain districts will be 100% exempted from income tax for the first ten years of their business operations, following which, they can enjoy 50% tax concession.
- b. Industries established within SEZs other than high mountain and government designated mountain districts will be 100% exempted from income tax for the first five years of their business operations, following which, they can enjoy 50% tax concession.
- c. Dividend tax shall be 100% exempted for the first 5 years of their business operations, following which, 50% exemption will be applicable for another three years.
- d. Foreign investors are entitled to 50% tax concession on income generated from services fees or royalties via transfer and or management of foreign technology in industries established within SEZs.
- e. The above-mentioned income tax relaxations will not be applicable to those industries migrating to SEZs.

### 2. Export requirements:

- a. Industries established within SEZs can sell their entire products in the domestic market during the first year of their business operations. However, the industries will not receive tax exemption as provisioned under the SEZ Act on the amount of goods and services sold domestically.
- b. The industries will have to export at least 60% of goods or services produced within the SEZs from their second year of business operations.

### 3. Establishment and operation of SEZs:

- a. The government of Nepal as per the recommendation of SEZ authority can grant permission to the private sector for establishing, operationalizing, and managing SEZs including the development of necessary infrastructure.
- b. The government can also opt to establish and operationalize SEZs under the Public Private Partnership modality.

### 4. VAT exemption:

- a. A zero percent VAT will be levied on goods and or services exported by industries established within SEZs.
- b. VAT exemption will also hold on raw materials sold to industries within SEZs.
- c. Such facilities will not hold if industries fail to export.

### 5. Customs duties concession:

- a. Industries established within SEZs, that will either export or sell within the domestic market in convertible foreign currencies, can import raw materials including the packaging supplies against the bank guarantee equivalent to import related custom duties and other fees on such raw materials.
- b. The industries can import necessary plant, machinery parts and equipment against the bank guarantee equivalent to import related custom duties and other fees on such materials.
- c. Once the SEZ authority verifies that the imported plant, machinery parts and equipment are installed in the said industry, the bank guarantee imposed as per 5(b) shall be released.
- d. Industries can import one passenger vehicle for the transportation of their workers and staff and two cargo vehicles for goods transportation at 1% custom duties.

### 6. Income repatriation:

- a. Foreign investors can repatriate foreign currencies earned from the sale of either partial or total shares hold in the industry.
- b. Foreign investors can repatriate the dividends generated from their investments in the industries.

### 7. One Window Service to facilitate the following tasks:

- a. Industry registration and industry admin related work;
- b. Approval of foreign investment;
- c. Company registration and other admin related work;
- d. Provision of concession and facilities as envisioned by SEZ Act;
- e. Issuance of Permanent Account Number registration certificate in coordination with Inland Revenue Department;
- f. Issuance of Certificate of Origin;
- g. VISA related work; and
- h. Labor approval work.

Source: (SEZ Act 2016 and First Amendment to SEZ Act)

Bhairahawa SEZ in Nepal is a pilot project built and operated by the SEZ Authority. To ease fiscal burden of establishing and running zones, Nepal should also explore the role of private sector in building and operating SEZs (see Box I).

23. Apart from one-stop-service that mostly addresses administrative hurdles in initiating a business, facilities such as the provision of serviced land, water and electricity supplies, connectivity to major highways and border points are crucial elements to attracting both domestic and foreign investment inside SEZ. The other important aspect is the adequate capacity and resources that SEZ Authority should possess to effectively execute its mandate. In case of Nepal, the SEZ Authority still needs to address some of the crucial foundations like the provision of high voltage electricity and functioning water supplies, among others. More importantly, the Authority needs more resources both human and capital and capacity building with relevant trainings on administering and monitoring such free zones. If these deficiencies take years to be addressed, it will be too late for Nepal's Special Economic Zones to take off.

24. In sum, effective coordination among relevant stakeholders will be crucial for SEZs to succeed in a federal system of Nepal. Though SEZs falls under the pure ambit of central government, several occasions may arise where provincial and local level governments need to be consulted and brought on board for greater consensus. For instance, issues pertaining to availability of raw materials at a reasonable price and abatement of pollution from industries operating out of SEZs will have to be jointly addressed by agencies of the three tiers of governments. Specific mechanisms to address those issues need to be devised for the smooth operationalization of special economic zones.

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## Appendix 1: Country Economic Indicators

Item	Fiscal Year				
	2015	2016	2017	2018R	2019P
<b>A. Income and Growth</b>					
1. GDP per Capita (\$, current)	763.6	745.2	873.5	993.9	1,036.5
2. GDP Growth (% in market prices)	3.3	0.6	8.2	6.7	7.1 <sup>a</sup>
a. Agriculture	1.1	0.2	5.2	2.8	5.0 <sup>a</sup>
b. Industry	1.4	(6.4)	12.4	9.6	8.1 <sup>a</sup>
c. Services	4.6	2.4	8.1	7.2	7.3 <sup>a</sup>
<b>B. Saving and Investment (current and market prices, % of GDP)</b>					
1. Gross Domestic Investment <sup>b</sup>	28.0	28.7	31.4	34.7	36.9
2. Gross National Saving	44.1	40.1	46.4	47.1	52.4
<b>C. Money and Inflation</b>					
1. Consumer Price Index (average annual % change)	7.2	9.9	4.5	4.2	4.6 <sup>c</sup>
2. Total Liquidity (M2) (annual % change)	19.9	19.5	15.5	19.4	15.8 <sup>c</sup>
<b>D. Government Finance (% of GDP)</b>					
1. Revenue and Grants	20.8	23.1	24.0	25.3	22.4 <sup>d</sup>
2. Expenditure and Onlending	20.1	21.9	27.2	31.9	27.5 <sup>d</sup>
3. Overall Fiscal Surplus (Deficit) <sup>e</sup>	0.8	1.3	(3.2)	(6.7)	(5.1) <sup>d</sup>
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	(31.1)	(30.3)	(33.5)	(37.5)	(37.1) <sup>c</sup>
2. Current Account Balance (% of GDP)	5.1	6.2	(0.4)	(8.2)	(7.7) <sup>c</sup>
3. Merchandise Export (\$) Growth (annual % change)	(3.9)	(28.7)	9.8	16.0	11.6 <sup>c</sup>
4. Merchandise Import (\$) Growth (annual % change)	8.0	(7.1)	29.4	27.1	6.7 <sup>c</sup>
5. Remittances (% of GDP)	29.0	29.5	26.0	24.9	25.4 <sup>c</sup>
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (\$ million)	8,147.7	9,736.4	10,494.2	10,084.0	9,500.0 <sup>c</sup>
Months of current year's imports of goods)	11.2	14.1	11.4	9.4	7.8 <sup>c</sup>
2. External Debt Service (% of exports of goods and services)	8.1	9.9	10.8	8.3	8.2 <sup>f</sup>
3. Total External Debt (% of GDP)	16.1	17.3	15.5	17.3	17.0 <sup>f</sup>
<b>G. Memorandum Items</b>					
1. GDP (current prices, NPR billion)	2,130.2	2,253.2	2,674.5	3,031.0	3,464.3 <sup>a</sup>
2. Exchange Rate (NPR/\$, average)	99.5	106.4	106.2	104.4	112.9 <sup>c</sup>
3. Population (million)	28.0	28.4	28.8	29.2	29.6

GDP = gross domestic product; R = revised; P = preliminary  
 Note: FY2019 covers 17 July 2018 to 16 July 2019.

a Based on FY2019 National Accounts Statistics. Central Bureau of Statistics

b Refers to gross fixed investment and does not include change in stocks

c Based on FY2019 annual data. Nepal Rastra Bank

d Based on FY2020 Budget Speech. Ministry of Finance; and FY2019 Income and expenditure provisional data. Financial Comptroller General Office

e Revenue and Grants minus Expenditure

f Based on FY2019 annual data. Financial Comptroller General Office

Sources: Ministry of Finance. FY2020 Budget Speech. Kathmandu; Nepal Rastra Bank. 2019. Macroeconomic Situation. Kathmandu; Central Bureau of Statistics. April 2019. FY2019 National Accounts Statistics. Kathmandu; Central Bureau of Statistics. 2014. National Population and Housing Census 2011 (Population Projection 2011 – 2031). Kathmandu; Financial Comptroller General Office.

## Appendix 2: Country Poverty and Social Indicators

Item	Period					
	1990s		2000s		Latest Year	
<b>A. POPULATION INDICATORS</b>						
1. Population (million)	18.5	(1991)	24.8	(2006)	29.2	(2018)
2. Population growth (annual % change)	2.1		1.2		1.4	(2017)
<b>B. Social Indicators</b>						
1. Fertility rate (births/woman)	5.1	(1996)	3.6	(2004)	2.3	(2016)
2. Maternal mortality ratio (per 100,000 live births)	539.0	(1996)	281	(2006)	239.0	(2018)
3. Infant mortality rate (below 1 year/1,000 live births)	82.0	(1991)	48.0	(2006)	28.4	(2016)
4. Life expectancy at birth (years)	55.0	(1991)	62.0	(2001)	69.7	(2018)
a. Female	54.0	(1991)	63.0	(2001)	72.2	(2017)
b. Male	55.0	(1991)	62.0	(2001)	69.0	(2017)
5. Adult literacy (%)	35.6	(1996)	48.0	(2004)	66.8	(2017)
a. Female	19.4	(1996)	33.8	(2004)	57.2	(2017)
b. Male	53.5	(1996)	64.5	(2004)	77.8	(2017)
6. Primary school gross enrollment (%)	57.0	(1996)	122.0	(2004)	118.5	(2017)
7. Secondary school gross enrollment (%)	43.8	(2001)	54.4	(2004)	79.0	(2016)
8. Child malnutrition (% below 5 years old)	57.0		49.0	(2006)	36.0	(2016)
9. Population below poverty line (international, %)	68.0	(1996)	30.9	(2004)	18.7	(2018)
10. Population with access to safe water (%)	45.9		82.5	(2006)	92.7	(2017)
11. Population with access to sanitation (%)	22.0	(1995)	24.5	(2006)	87.6	(2017)
12. Public education expenditure (% of GDP)	2.0		2.9	(2005)	4.4	(2016)
13. Human development index	0.341		0.429	(2005)	0.574	(2017)
14. Rank/total number of countries	152/173		136/177	(2003)	149/189	(2017)
15. Gender-related development index	0.33	(1995)	0.511	(2003)	0.925	(2017)
16. Rank/total number of countries	148/163	(1995)	106/140	(2003)	149/189	(2017)
<b>C. Poverty Indicators</b>						
1. Poverty incidence	42	(1996)	31	(2004)	25.16	(2011)
2. Proportion of poor to total population						
a. Urban	23.0	(1996)	9.55	(2004)	15.46	(2011)
b. Rural	44.0	(1996)	34.62	(2004)	27.43	(2011)
c. Mountain	57.0	(1996)	32.6	(2004)	42.77	(2011)
d. Hills	40.7	(1996)	34.5	(2004)	24.32	(2011)
e. Terai	40.3	(1996)	27.6	(2004)	23.44	(2011)
3. Poverty gap	11.75	(1996)	7.55	(2004)	5.43	(2011)
4. Poverty severity index	4.67	(1996)	2.7	(2004)	1.81	(2011)
5. Inequality (Theil Index)	...		...		...	
6. Multidimensional poverty index <sup>1</sup>	...		...		0.116	(2015)

... = not available, GDP = gross domestic product,

Sources: Central Bureau of Statistics. 2012. National Population and Housing Census 2011. Kathmandu; Central Bureau of Statistics. 2014. National Population and Housing Census 2011 (Population Projection 2011-2031). Kathmandu; Central Bureau of Statistics. 2017. Annual Household Survey 2016/17. Kathmandu; Ministry of Health. 2017. Nepal Demographic and Health Survey 2016. Kathmandu; United Nations Development Programme. 2018. Human Development Report 2018. New York; Central Bureau of Statistics. 2011. Poverty in Nepal (2010/11). Kathmandu; Ministry of Finance. 2019. Budget Speech of FY2019/20. Kathmandu; World Bank. World Development Indicators database. <https://data.worldbank.org/> (accessed 1 July 2019).

1 UNDP replaced Human Poverty Index with Multidimensional Poverty Index from Human Development Report 2011.







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