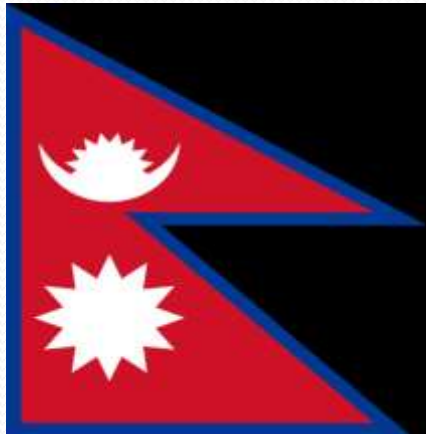


2012 IMF Article IV Consultation with Nepal: Recent Economic Developments and Outlook

Press Briefing
December 20, 2012

Thomas Richardson
Senior IMF Resident Representative
for India and Nepal



Outline of talk

- IMF 2012 Article IV Consultation just concluded



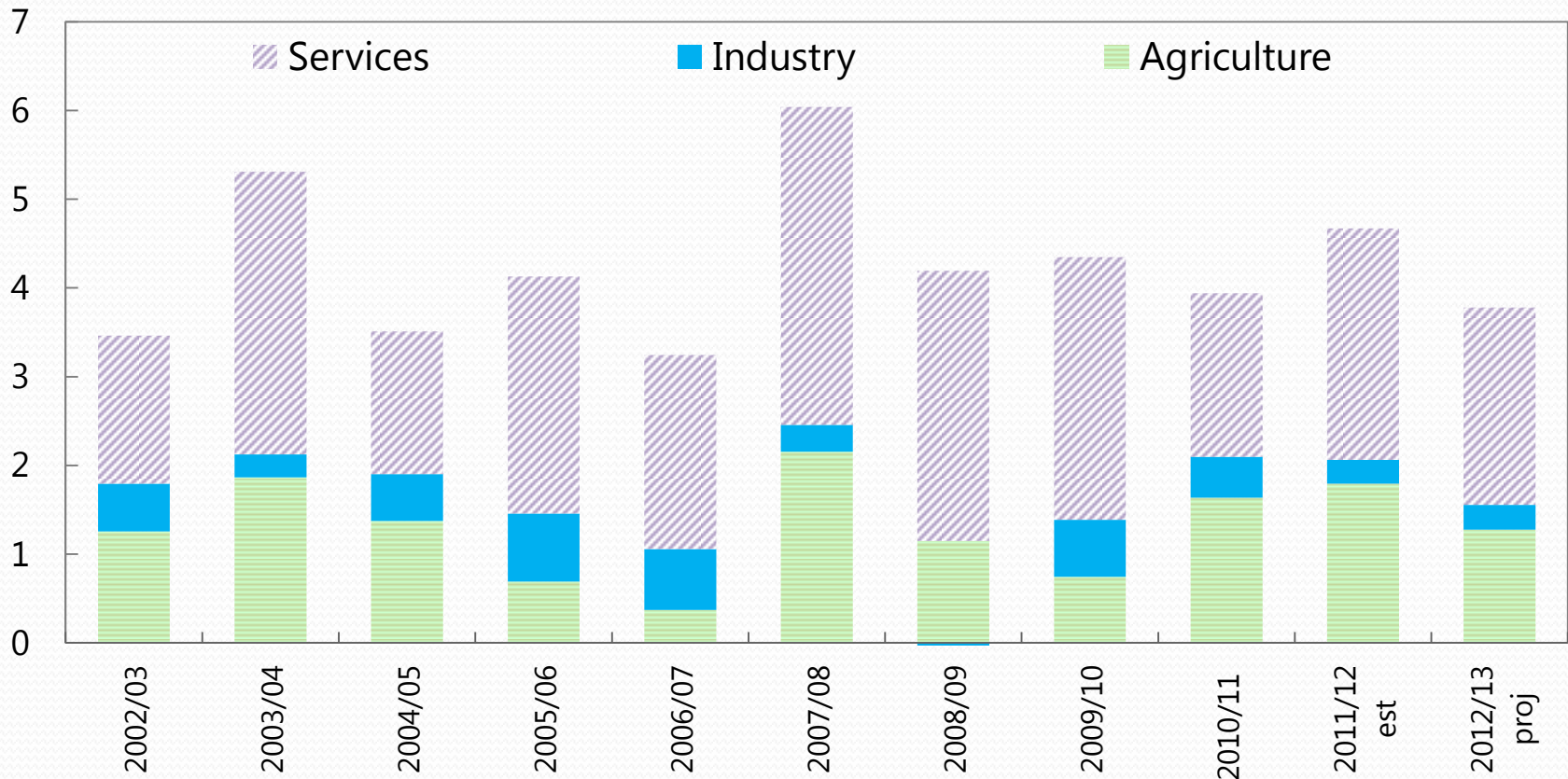
See www.imf.org/nepal

- Snapshot of recent economic developments
- Outlook for 2012/13 and policy messages
- Longer term horizon

Snapshot of recent developments

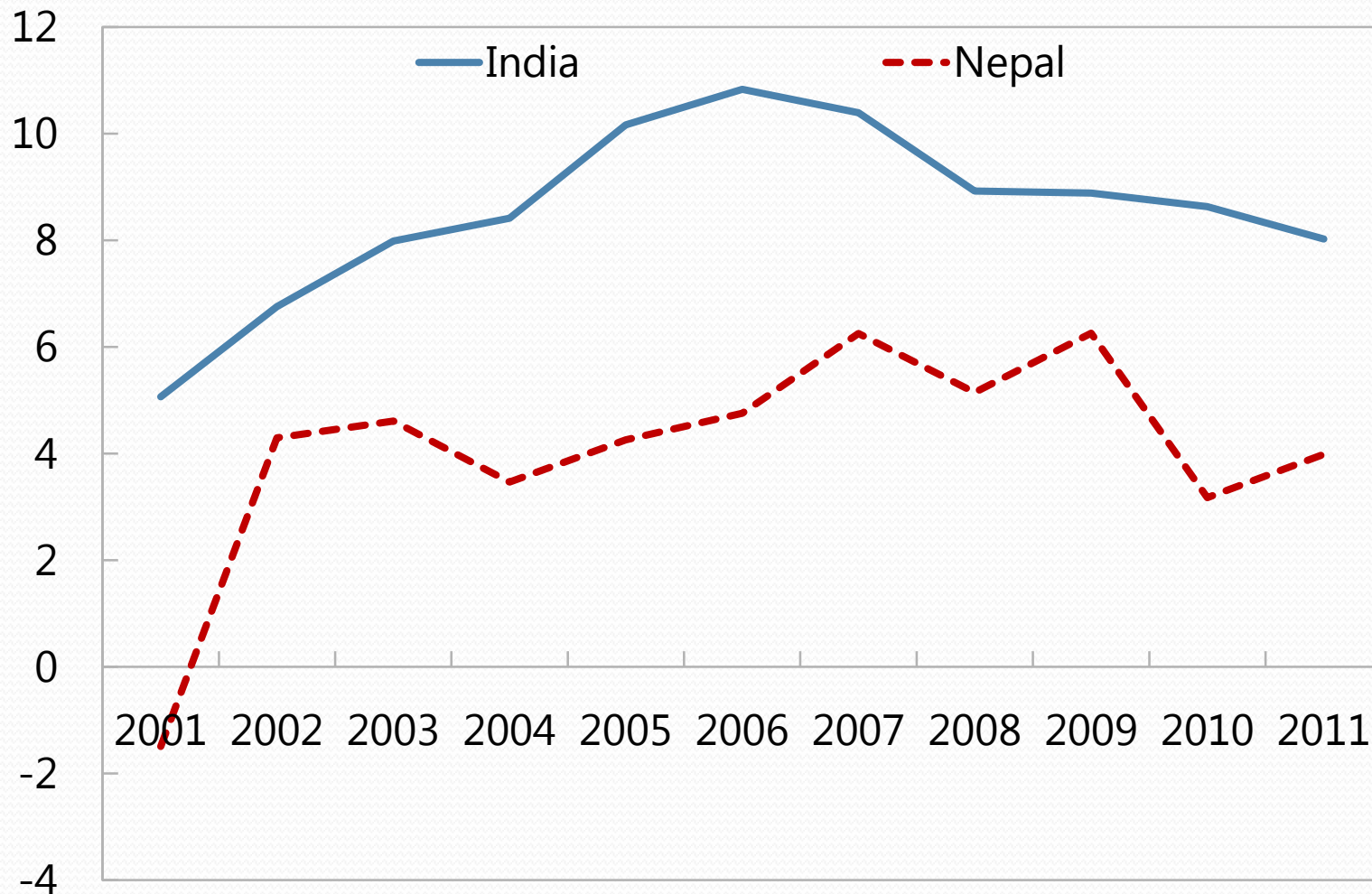
- Growth in 2011/12 was 4.6%

Sectoral Contribution to Growth (in percent)



Growth is linked to (but below) that in India

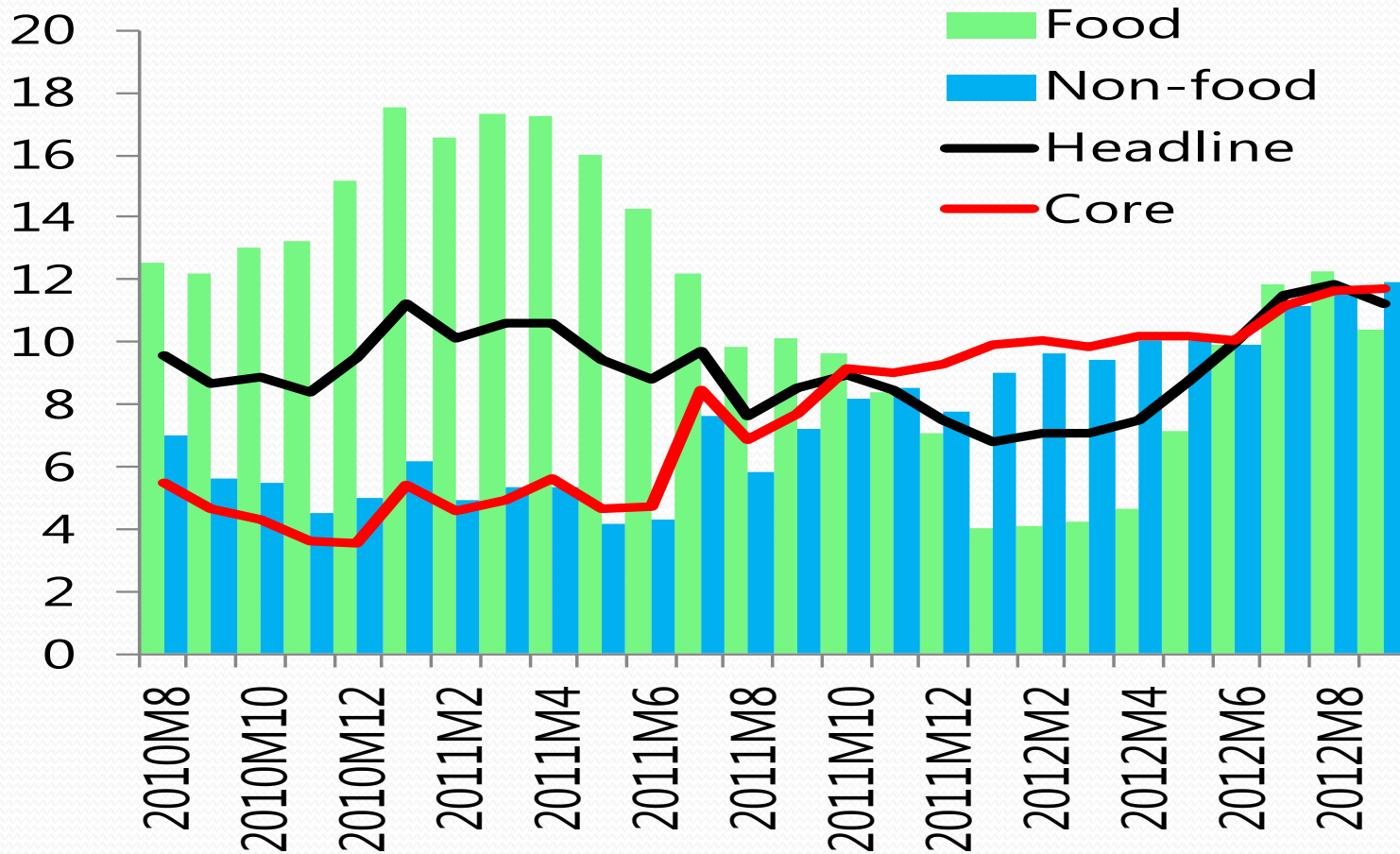
India and Nepal: Nonagricultural GDP Growth (in percent)



Inflation remains a concern

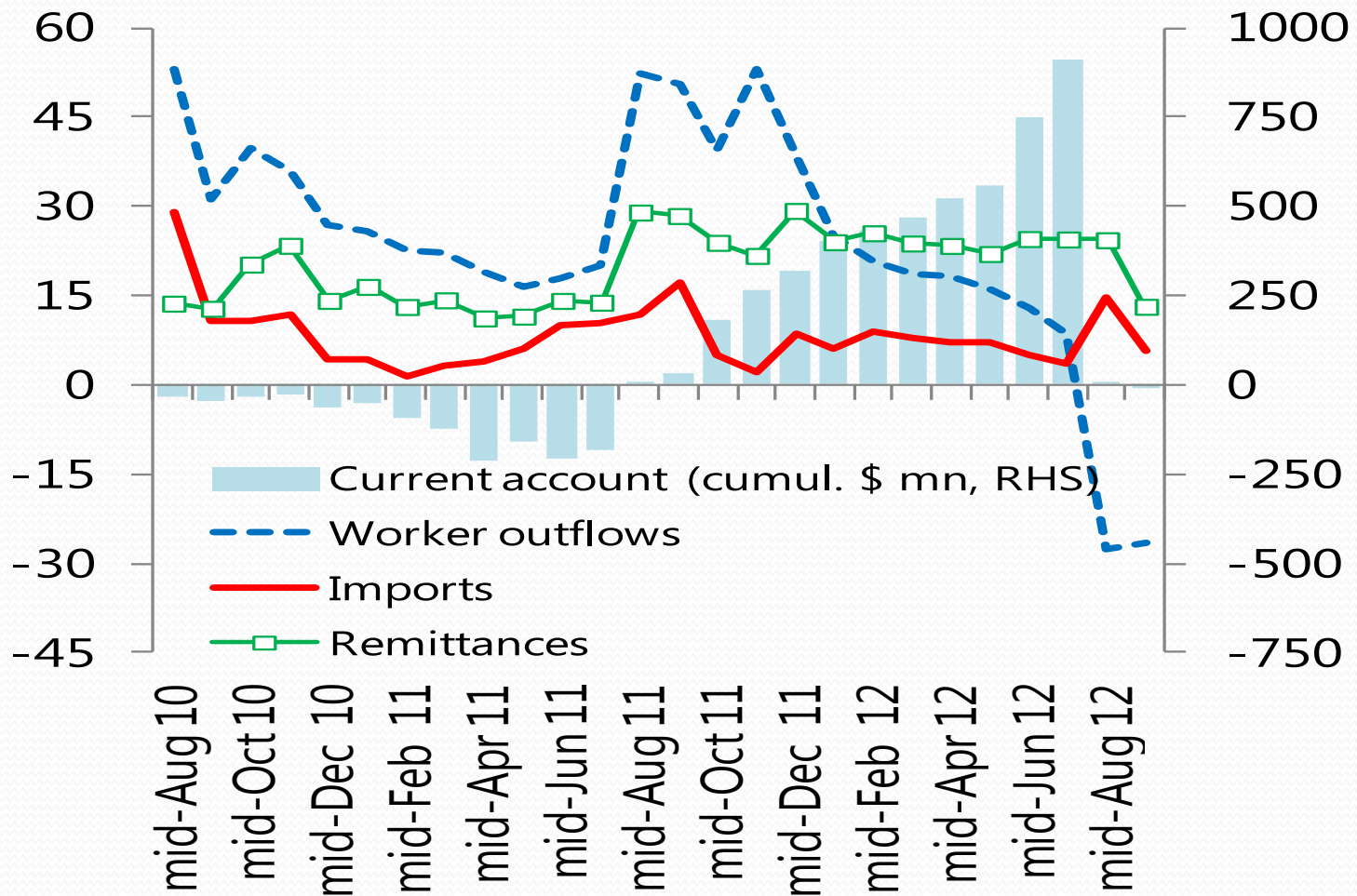
Inflation

(Year-on-year percent change)



Current account improved, but risks have grown

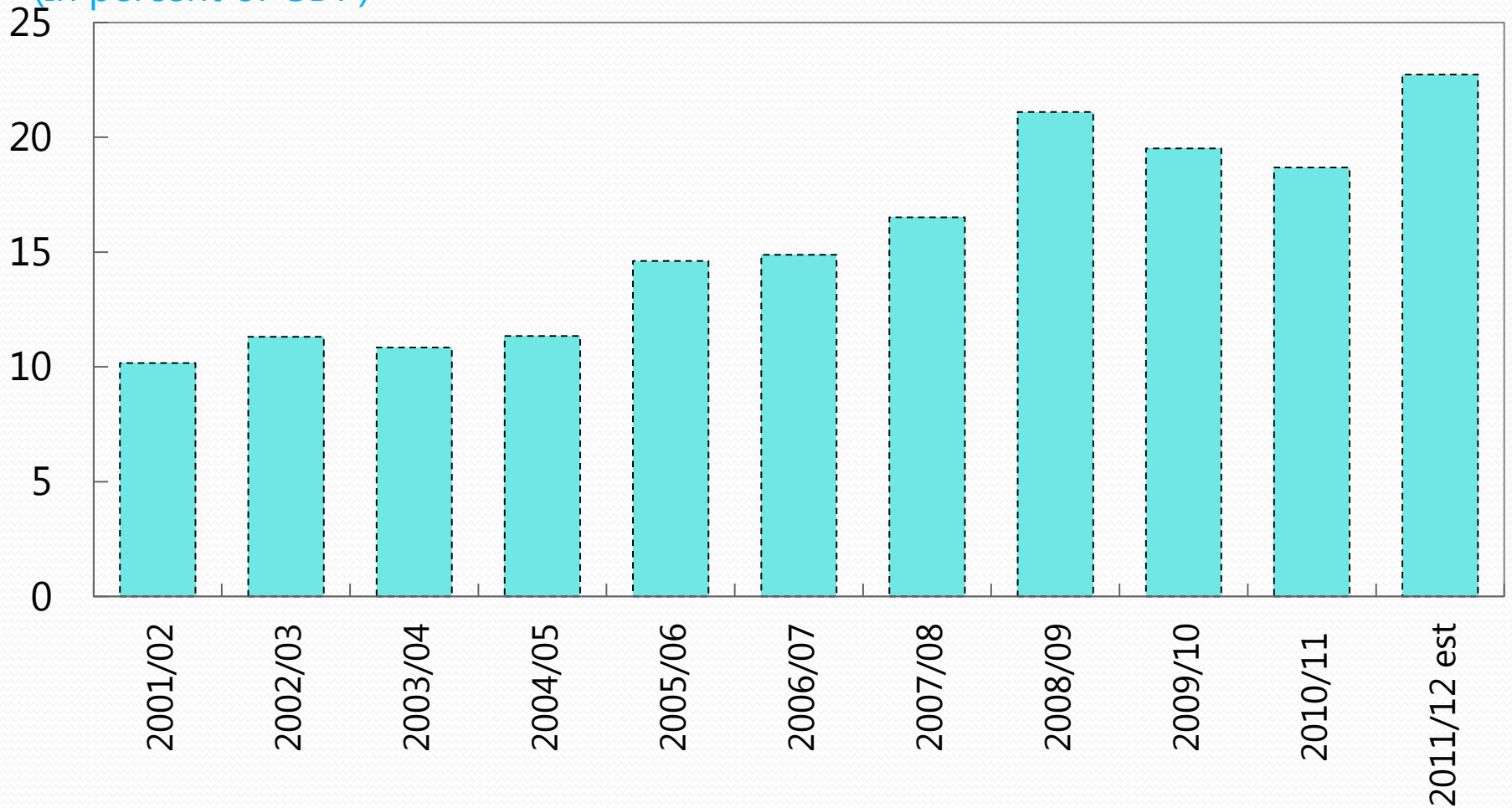
External Sector (Year on year change in cumulative)



Remittances—export of labor—bolsters the BoP

Remittances

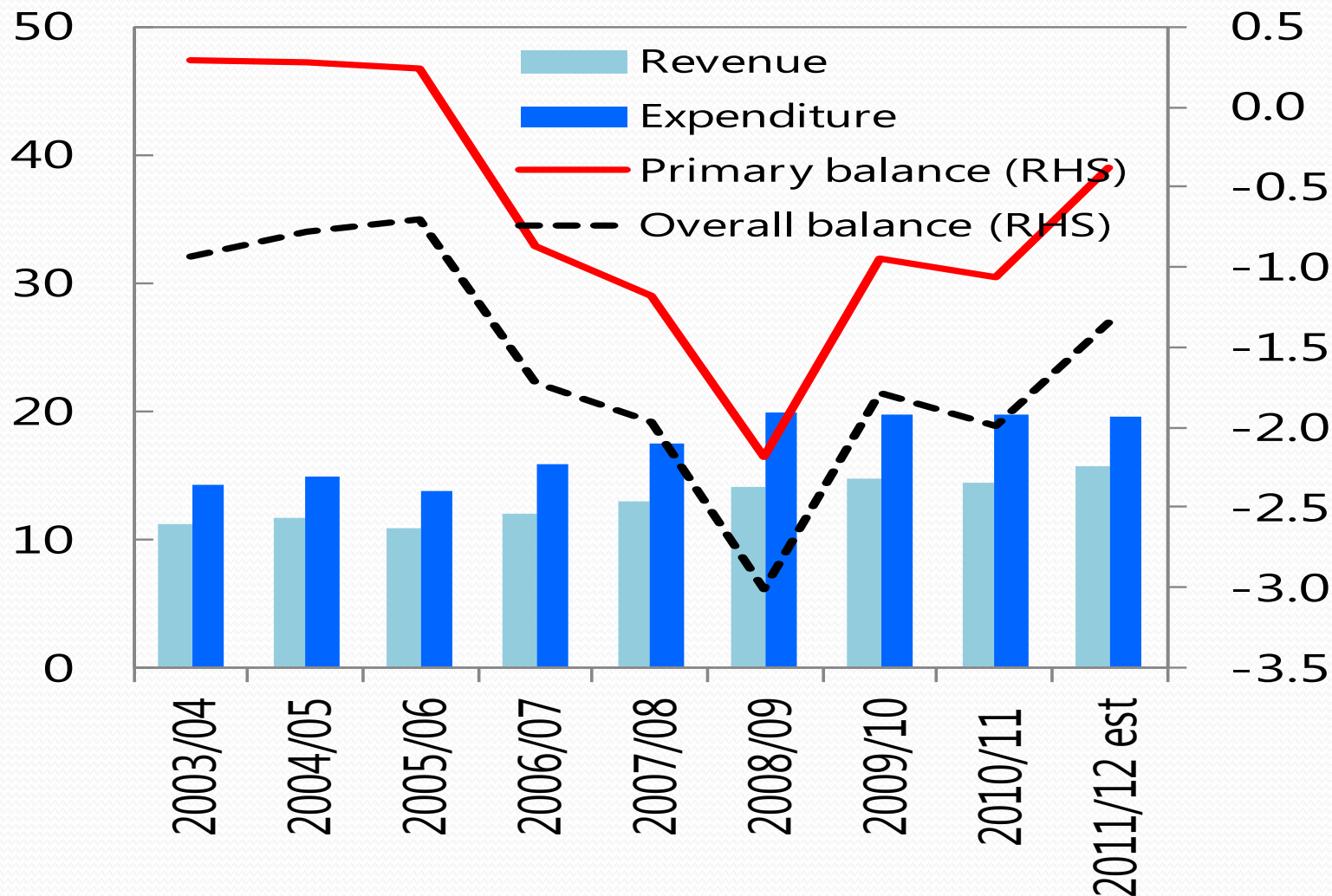
(In percent of GDP)



Fiscal deficit “over-performed” (and it’s a problem)

Revenue and Expenditure

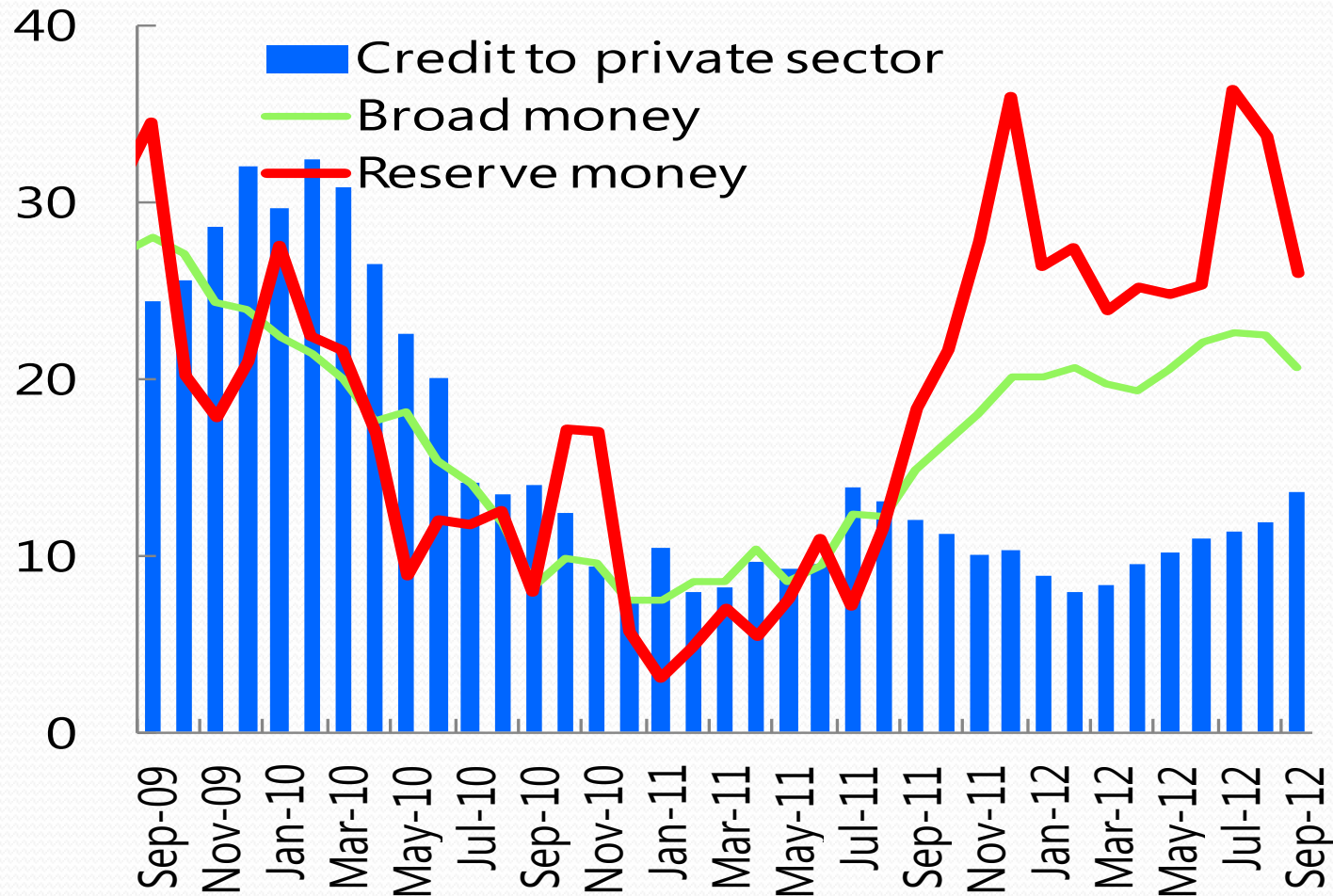
(In percent of GDP)



Liquidity conditions eased in the financial sector

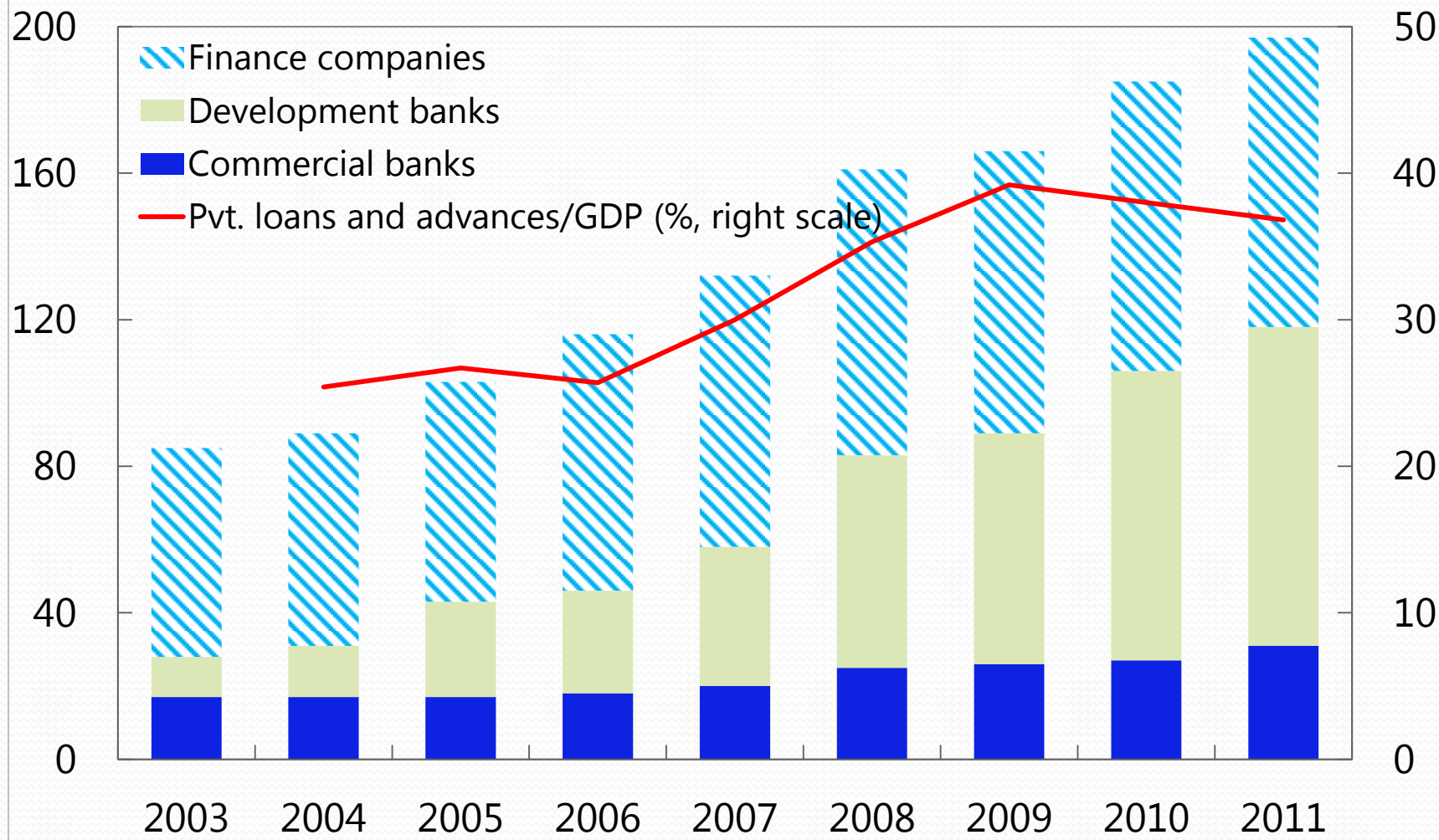
Monetary Aggregates

(Year-on-year percent change)



Financial sector has improved, but risks remain

Growth of Banking Sector in Nepal



Outlook for 2012/13

- **GDP growth is likely to decline—IMF: 3.8%**
 - Agriculture (poor monsoon)
 - Global economic uncertainty
- **Inflation to remain elevated—IMF: 8.3%**
 - Some spillover from India
- **Current account to weaken—still in surplus**
 - Outflow of workers is slowing, so remittances could fall
 - Imports seem to be recovering

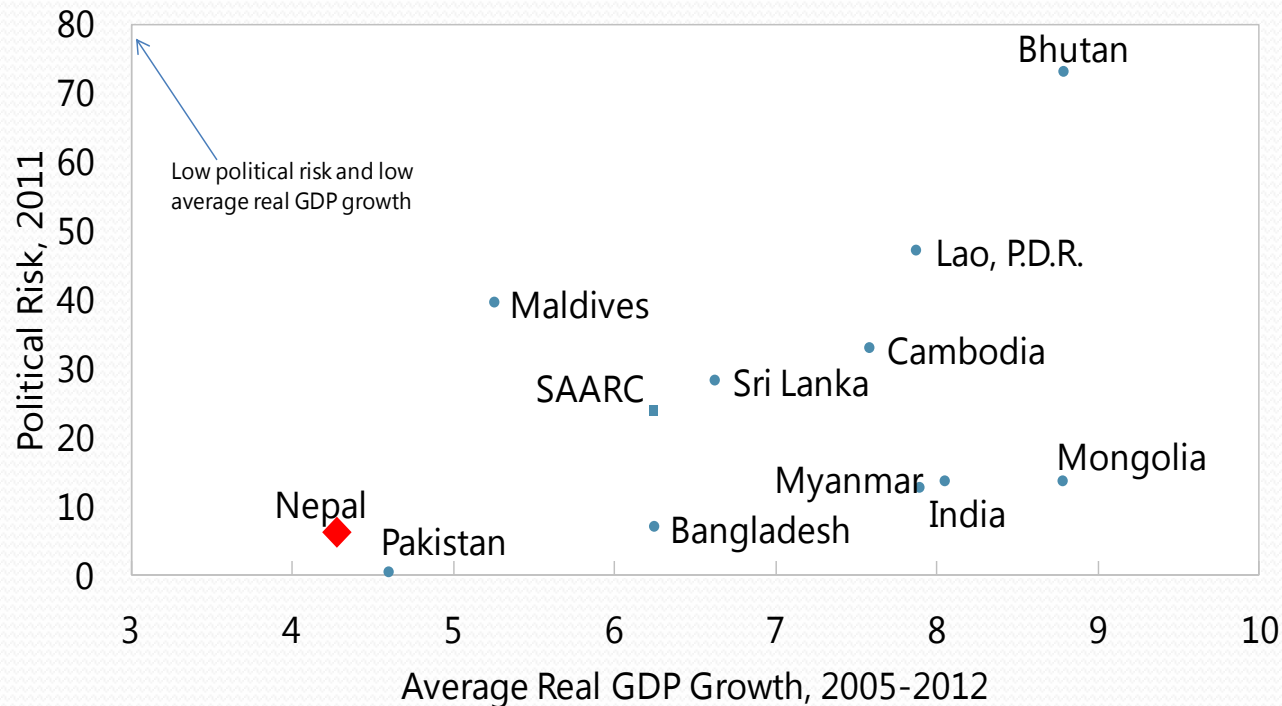
Policy Messages

- Welcome issuance of the full-year budget (avoids Nepal's "fiscal cliff")
- At the same time, there are limits to fiscal space:
 - mounting quasi-fiscal liabilities (NOC)
 - weak capital spending (will need to catch up)
 - interest rate differential with India and rising inflation limit monetary policy
- Addressing financial sector vulnerability with accelerated and well-sequenced reform is key
 - need to strengthen Anti-Money Laundering (AML) regime

Longer Term Perspective

Political stalemate hampers long-term growth potential

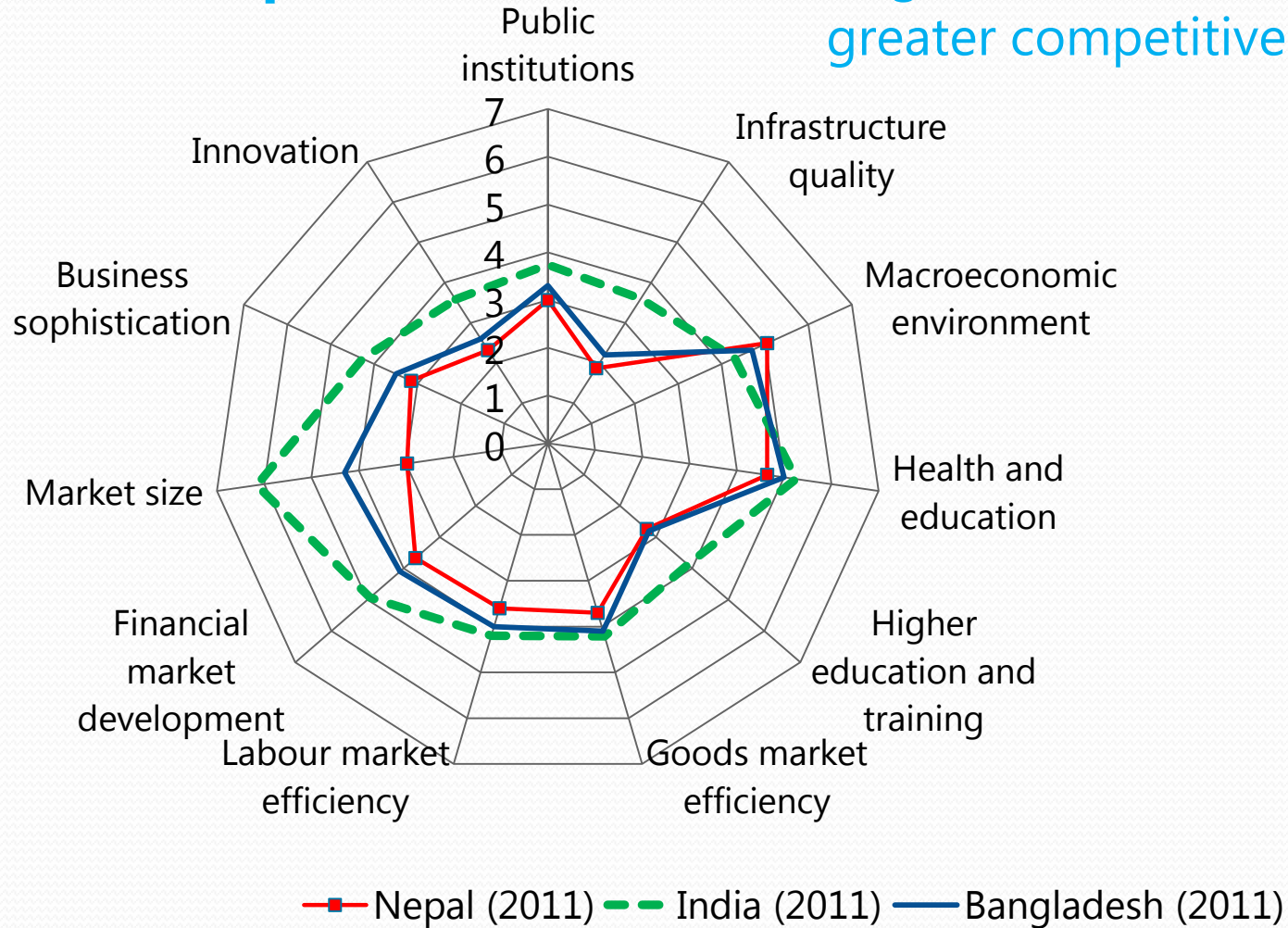
Political Risk and Average Growth 1/



Sources: IMF, *World Economic Outlook*; and World Bank, *Worldwide Governance Indicators*.
1/ Political risk represents the political stability and absence of violence/terrorism ranking from the Worldwide Governance Indicators database. SAARC is calculated as a simple average of data in South Asian Association for Regional Cooperation member countries.

Structural reforms are needed

Global Competitiveness Scores (Higher scores show greater competitiveness)



**Thank
you**

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This presentation will be posted at www.imf.org/kathmandu