

**EXECUTIVE
BOARD
MEETING**

SM/15/268
Correction 1

November 11, 2015

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Nepal—Staff Report for the 2015 Article IV Consultation**

Board Action:

The attached corrections to SM/15/268 (11/2/15) have been provided by the staff:

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

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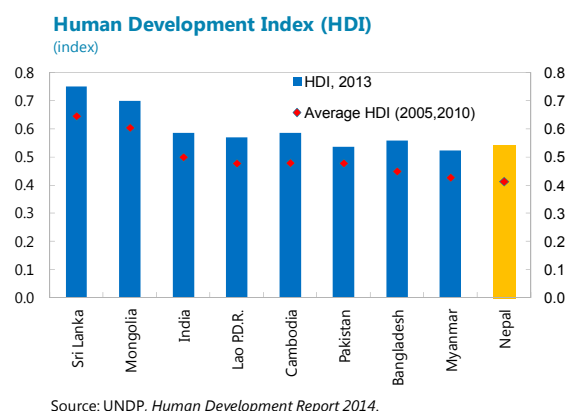
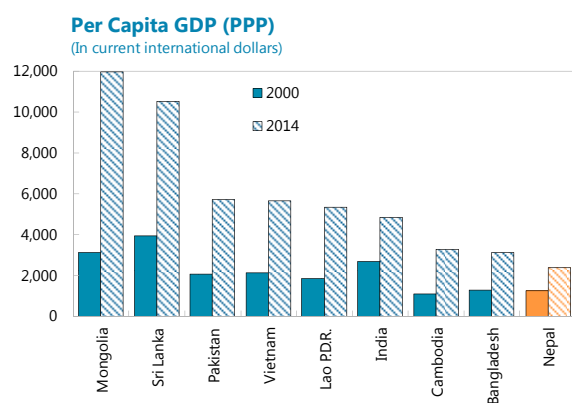
Questions:

Mr. Almekinders, APD (ext. 34281)
Ms. Wong, APD (ext. 34153)

INTRODUCTION

1. Nepal has been trapped in a low-investment, low-growth equilibrium and remains Asia's poorest country, despite progress with poverty reduction:

- After a decade-long civil war and the subsequent abolition of the monarchy in 2008, the country has been undergoing a gradual transition to a federal democratic state. Macroeconomic management has been broadly satisfactory. However, partly because of successive governments' preoccupation with internal power rivalries, infrastructure investment has been inadequate and the business climate unsupportive of growth. Due to lack of opportunities at home, Nepalis have been moving abroad in large numbers, mostly to Persian Gulf countries and Malaysia.
- Poverty has been declining, from over 50 percent of the population in 2003/04 to just under 25 percent in 2010/11, thanks in part to rising remittances, which currently amount to about 29 percent of GDP. Nevertheless, output per capita remains the lowest in the region, and further efforts are needed to improve human development indicators (Table 9).



2. Nepal was hit by two massive earthquakes, in April and May. Over 8,800 lives were lost and damages and losses are estimated at US\$7 billion or nearly one third of GDP. In the context of a June 25 international donor conference, multilateral and bilateral donors pledged more than US\$4 billion worth of grants and concessional loans to be disbursed over five years. The Nepalese authorities requested the equivalent of SDR35.65 million (50 percent of quota) under the Fund's Rapid Credit Facility. The funds were disbursed as direct budget support.

3. The September 20 promulgation of the constitution triggered unrest, a fuel crisis, and a change in government. After the earthquakes, the main political parties settled on a federal model of parliamentary government with seven provinces. However, fearing that the proposed provincial boundaries-federal structure will perpetuate their disenfranchisement-political marginalization, ethnic-minority groups in the south of the country mounted protests. The resulting disruptions to economic activity and transportation and trade routes to and from the southern border caused shortages of fuel and other imported goods. Parliament voted out the Prime Minister. His party moved to the opposition and a new Prime Minister and Cabinet were inaugurated in mid-October.