

Nepal in the World's Economic Whirlpool

Markus Ruckstuhl
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It's hard to believe, but undoubtedly Nepal's economy currently suffers more from the dramatic energy crisis than from the global economic crisis. For several months the country had to deal with up to 16 hours of load-shedding per day with no real long-term respite in sight, a situation that resulted in numerous shutdowns for many industrial manufacturers.

To add fuel to the fire, the countless *bhandas* (general strikes) in many parts of the country, especially those targeting major highways and industrial towns, heavily affect the struggling economy. Prices of food items and building materials in Kathmandu immediately shoot up when highways are blocked for several days.

Inflation on consumer prices stands at 14 %

Right now, the y-o-y (= year-on-year; comparison to previous year's figure) inflation rate as calculated by the consumer price index rose to 14.1%, Nepal's central bank, the Nepal Rastra Bank (NRB) said in its March 2009 macro economic report.

The inflation was driven both by the significant price rise for food and beverages (+17%) as well as for nonfood and services (+11%). The average price rise in the Kathmandu valley was 16% followed by 13.5% in the hills and 13% in the Terai belt.

Of the items in the food and beverage sector, price indices of sugar and sugar related products increased by a whopping rate of

36% - a sharp contrast to last year's price decrease of 17%. Similarly, the price indices of oil and ghee increased by over 26%, whereas grain and cereal products witnessed a price rise of 18%.

Interestingly, the overall y-o-y salary and wage rate index rose comparably by about 15%.

This of course is of only minor relevance to the myriad of jobless people (estimated unemployment rate >40%).

Revenue collection: the Government is taking the gloves off

During the five months period from July to December 2008, the government budget remained at a surplus of Rs. 2.2 billion in contrast to a deficit of Rs. 9.8 billion in the corresponding period last year. An increase in revenue and foreign cash grants accounted for such a budget surplus.

In the same period, revenue mobilization of the government grew by whopping 33%, after a similar increase of 21% was already witnessed in the same period of the previous year. Such an impressive revenue mobilization was ascribed to the high growth of income tax, VAT revenues, excise tax, vehicle tax and registration fee as well as to a high growth of non-tax revenues.

The impact of the global economic crisis on the Nepalese economy

From July to December last year, it looked like the Nepali economy has awakened – right

before the economic crisis really hit most of the Asian markets: In this period exports rose by almost 31% whereas the total imports went up similarly by about 33%. Exports were seen mostly for readymade garments, shoes and sandals, tooth paste, steel pipes and noodles. On the import side, mainly petroleum products, vehicles, textiles and machinery from India, and gold, steel, electrical goods, machinery and computers from other countries were responsible for the rise in total imports.

How badly will the global crisis hit the Nepali economy? Overall, the impact of the deteriorating world economy on Nepal should be limited as its financial system has limited exposure to the global financial market and products. However, various indirect adverse impacts are likely. The crisis will challenge tourism and remittance growth, two key sources of foreign exchange and private income.

A drop of almost 12% in foreign employment over the last seven months and a fall in tourism this year are threatening indicators.

Recently, the Finance Minister Baburam Bhattarai cushioned the expectations when he publicly doubted that the economy achieves the targeted 7% growth. It is estimated that the average inflation would remain around 11% against the earlier prediction of 7.5%. An unmistakable sign that Nepal has finally reached the Global Market – unfortunately in most inappropriate times!