

Table I: Key economic and labour market indicators

	Av. 2005/06 – 2012/13	2013/14
Real GDP (% change y-o-y)	4.0	5.2
Investment (% of GDP)	21.5	23.1
Consumer prices (% change y-o-y)	10.0	9.1
	1998/99	2008
Employment (million)	9.4	11.7
Unemployment (million)	0.17	0.25
Labour force participation rate (%)	85.8	83.4
Male	90.2	87.5
Female	81.9	80.1
Urban	73.3	67.3
Rural	87.7	86.8
Unemployment rate (%)	1.8	2.1
Male	2.0	2.2
Female	1.7	2.0
Urban	7.4	7.5
Rural	1.2	1.2
Share of employment in manufacturing (%)	5.8	6.6
Male	7.7	8.5
Female	3.9	4.9
Share of employment in agriculture & forestry (%)	76.0	73.9
Male	66.8	62.1
Female	85.2	84.3
Share of paid employees in total employment (%)	16.0	16.9
Male	24.3	26.7
Female	7.7	8.3
Youth unemployment rate (%)	2.4	3.5
Urban	7.6	13.0
Rural	1.6	2.1

Note: All labour market indicators are based on the population ages 15 and above except youth unemployment (aged 15-24). Consumer price data reflect 2008/09 to 2013/14.

Source: Nepal Rastra Bank: Current Macroeconomic Situation, http://www.nrb.org.np/ofg/press.php?tp=current_macroeconomic&&vw=1000; Nepal Central Bureau of Statistics: Nepal Labour Force Survey 1998/99 and 2008.

Overview

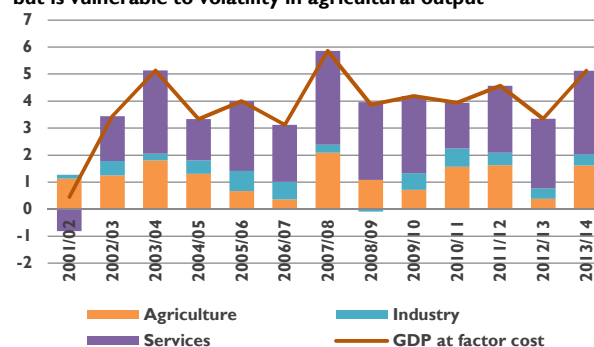
Since the end of the Maoist insurgency, Nepal has made progress towards establishing a new, democratic state.¹ However, delays in reaching a consensus on a new constitution and federal structure have stymied the implementation of Government policies and programmes. Since the successful Constituent Assembly elections in November 2013, the situation has improved, which will hopefully translate into more effective governance, increased investment and growth, leading to the creation of more and better jobs.

The main labour market challenges in Nepal stem from the slow pace of economic development: almost three-quarters of workers continue to earn a living in the agricultural sector. Thus, the vast majority of workers are informally employed. Due to the lack of employment opportunities in the domestic labour market, labour migration is the main option for thousands of young Nepalis entering the labour market every year.

Growth remains subdued but is likely to pick up with improved political stability

Over the last decade, economic growth in Nepal has been relatively low (in comparison to other low-income countries) and highly dependent on services (Figure 1). At the same time, volatility in agricultural output, which still represents 33.7 per cent of GDP (2013/14), translates into variability in aggregate growth rates. From an expenditure perspective, Nepal's economy is dominated by private consumption (fuelled by remittances), which averages at around 90 per cent of GDP (up to 91.1 per cent in 2013/14).

Figure 1: Growth in Nepal is driven mostly by services sector but is vulnerable to volatility in agricultural output



Source: Nepal Central Bureau of Statistics; author's calculations.

Growth slowed down in 2012/13 to 3.5 per cent due to a drop in agricultural output. Moreover, due to a delay in the budget, government consumption shrunk in 2012/13 by 0.8 per cent. Output has grown more strongly in 2013/14, reaching 5.2 per cent, reflecting the better performance of the agricultural sector.

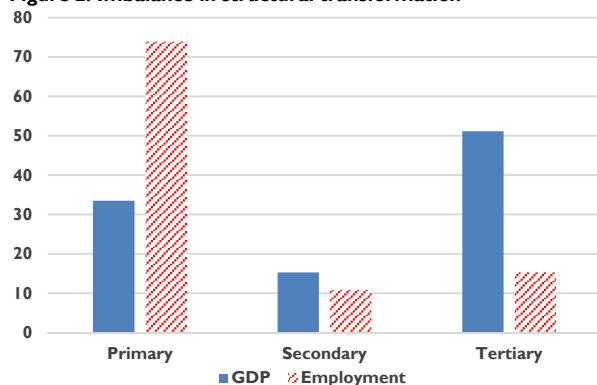
The current account balance, typically a major source of macroeconomic instability for South Asian economies, is pushed into positive territory in Nepal

as a consequence of strong inflow of remittances. Remittances inflows to Nepal reached US\$5.55 billion in 2013 (estimate), representing 28.8 per cent of GDP. In 2003, these inflows amounted to just \$771 million.² The current account balance stood at 3.4 per cent in 2012/13, and is expected to rise slightly over subsequent years.³

Like most countries in the region, a major macroeconomic challenge in Nepal is inflation, which is correlated with inflationary trends in India. Inflation, as measured by the consumer price index (CPI), has persisted at almost 10 per cent in recent years. The annual average CPI increased by 9.1 per cent in 2013/14, down slightly from 9.9 per cent in 2012/13 (and the average over the preceding years).⁴

Continuing dependence on agriculture for employment and premature deindustrialization?

Figure 2: Imbalance in structural transformation



Note: Reflects 2008 figures.

Source: Nepal Central Bureau of Statistics: *Annual GDP Growth Rates 2013-14 Report*; Nepal Central Bureau of Statistics: *Labour Force Survey 2008*.

Though the economy has shifted to being driven by the services sector (and from an expenditure point of view, consumption), agriculture continues to account for a significant share of output. The share of the primary sector in GDP stood at 35.3 per cent in 2013/14, not much lower than the share in 2001/02 (37.9 per cent).⁵ The shares of the other sectors have moved in opposing directions: the share of industry has declined from 17.1 per cent in 2001/02 to 14.4 per cent in 2013/14, while the share of services has increased from 45.1 per cent to 52.2 per cent during the same period. As seen in many other low-income countries, this could be argued to be a case of “premature deindustrialization”.

Moreover, from an employment perspective, the vast majority of Nepalis remain dependent on agriculture for a living. The proportion of workers in the primary sector has fallen slowly from 76.0 per cent in 1998/99 to 73.9 per cent in 2008 (Figure 2).⁶ However, most of the decline is accounted for by changes in the share of male workers: in the case of women, the share has

dropped only marginally from 85.2 per cent to 84.3 per cent. In contrast, the share of employment in manufacturing has risen from just 5.8 per cent in 1998/99 to 6.6 per cent in 2008, while the proportion of workers in the services sector reached 15.3 per cent.

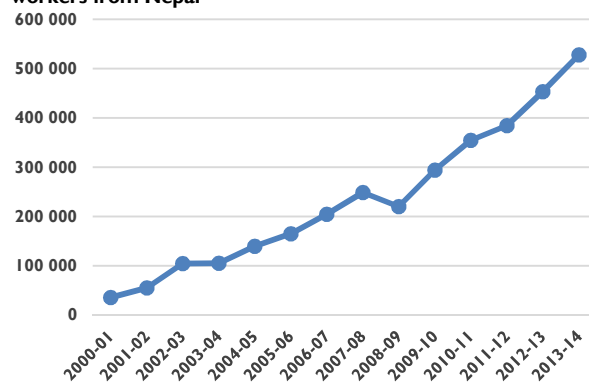
According to the 2008 Labour Force Survey, 2.14 million workers were employed in the non-agricultural informal sector, representing 69.7 per cent of workers outside agriculture (agriculture is almost entirely informal). This figure increases to 86.4 per cent if all informal employment is included.⁷

Overall, there is an imbalance: output has shifted to the services sector, while the vast majority of people continue to rely on agriculture. For agrarian low-income countries like Nepal, improvements in productivity in agriculture and the necessary transition of workers into the secondary and tertiary sectors are critical elements to promoting the creation of more decent work.⁸

Facing few job opportunities and a growing labour force, Nepalis seek employment abroad

Nepal’s population has grown rapidly over recent decades. According to the 2011 Census, Nepal’s population was 26.495 million, up from 23.151 million in 2001. The population is young: the median age was 21.4 in 2011, while around 70 per cent of the population were under the age of 35. The opportunity to reap a demographic dividend will persist into the 2040s. However, the success of this demographic transition depends on the nature of economic growth, structural transformation and job creation in the coming years.

Figure 3: Rapid rise in labour permits issued to migrant workers from Nepal



Note: Reflects annual total figures.

Source: Department of Foreign Employment, Ministry of Labour and Employment, Government of Nepal.

Though the unemployment rate is not the best indicator of the overall situation in the labour market, it does reveal some of the challenges facing young

people in Nepal. In particular, the unemployment rate for youth (aged 15-24) has risen in urban areas, from 7.6 per cent in 1998/99 to 13.0 per cent in 2008 (Table I).

In response to the lack of job opportunities, Nepalis continue to seek employment outside the country, mostly in India, the Gulf Cooperation Council (GCC) countries and more recently, in Malaysia. Estimates indicate that, in 2011, there were approximately 1.92 million international migrants (including labour migrants) from Nepal.⁹ This figure has grown significantly from 762,000 in 2001. The majority of international migrants from Nepal head to India (37.6 per cent), the Middle East (37.6 per cent) and ASEAN countries (13.0 per cent).¹⁰

Looking at records of the Department of Foreign Employment, the number of labour migrants given permits increased from just 35,543 in 2000/01 to 527,814 in 2013/14 (Figure 3). The only year to witness a decrease over the last decade was 2008/09, during the global financial crisis. Based on 2013/14 figures, the top destination countries for labour migrants through the permit system, which excludes India given the visa-free access for Nepalis, are Malaysia (40.6 per cent), Qatar (23.7 per cent), Saudi Arabia (16.4 per cent) and UAE (10.3 per cent).¹¹

Apart from reducing pressures on the labour market in terms of employment and wages, migration plays a critical role in macroeconomic stability, as noted above, and poverty alleviation. Evidence indicates that remittances inflows have been a major factor behind the fall in poverty.¹²

However, remittances have fuelled a substantial rise in imports to cover the rapid growth in consumption: merchandise imports reached Rs. 708.76 billion in 2013/14, up 27.3 per cent from the previous year.¹³ Overall, these inflows have created an imbalance in the economy, as noted above. Thus, the economy needs to be more diversified in terms of capital flows and drivers of GDP growth and job creation.

Despite slow growth, poverty rates have fallen

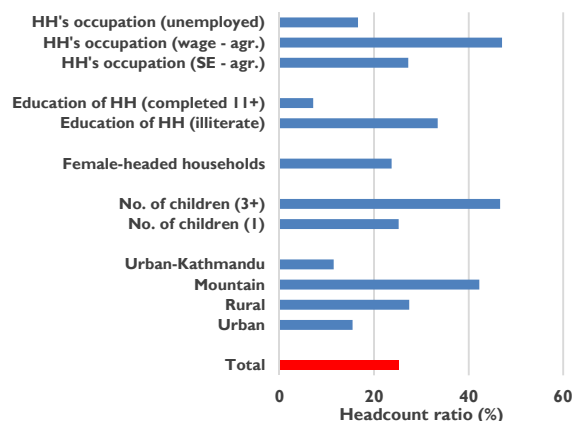
Due in part to the rapid growth in remittances inflows, poverty rates in Nepal have declined since the 1990s, despite slow growth and the intervening years of insurgency.¹⁴ Data from the National Living Standards Survey (NLSS) reveals that the poverty rate has fallen from 41.8 per cent in 1995/96 to 30.8 per cent in 2003/04, before dropping to 25.2 per cent in 2010/11.¹⁵

As expected, there is considerable variation in poverty rates across regions and groups. Poverty is lower in urban areas (15.5 per cent versus 27.4 per cent in

rural areas) (Figure 4). It reaches 42.3 per cent in the Mountains region, while it drops to 8.7 per cent in Urban-Hill and 11.5 per cent in Urban-Kathmandu.

Turning to household characteristics, poverty rates are higher for larger households. The headcount ratio reaches 46.6 per cent for households with three or more children. Unsurprisingly, education plays an important role: the better educated the household head, the lower the poverty rate.

Figure 4: Variation in poverty rates in Nepal, 2010/11



Note: The headcount ratio is based on the national poverty line; HH = household head; wage = wage employment; agr. = agriculture; SE = self-employment.

Source: Nepal Central Bureau of Statistics: *National Living Standards Survey 2010-11*.

In terms of occupation, the highest poverty rate is found among households where the head is working as an agricultural labourer (47.0 per cent), while it is the lowest for those where the head is a professional wage and salaried worker (5.6 per cent). Interestingly, self-employment of the household head is associated with slightly higher rates of poverty (in the case of agriculture with a headcount ratio of 27.2 per cent) or lower rates (for manufacturing, trade and services).

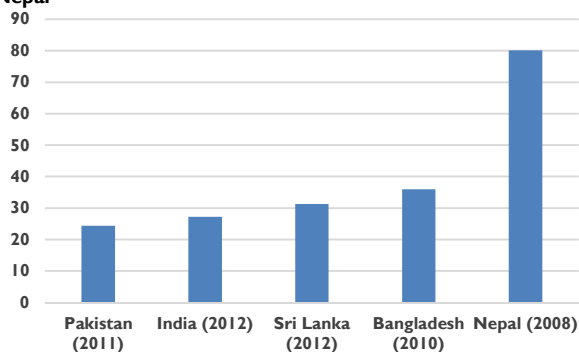
High rates of female labour force participation in Nepal: an outlier in South Asia?

In South Asia, historical gender roles and stereotypes continue to affect outcomes, even in a context of a rapidly changing society. Overall, women in South Asia are far less likely than men to have a job or to be looking for one: the rate of female labour force participation in South Asia was just 30.5 per cent in 2013 (preliminary estimate), while the rate for men was 80.7 per cent. The participation rate for women in South Asia is much lower than the global average (50.3 per cent in 2012).¹⁶

However, Nepal is an outlier among South Asian countries: the female labour force participation rate reached 80.1 per cent in 2008 compared to 87.5 per cent for men. Participation rates for men and women

have fallen from 1998/99 (from 81.9 for women and from 90.2 for men), reflecting increased education enrolment among young Nepalis. 84.3 per cent of working women were engaged in the agricultural sector in 2008, while just 4.9 and 3.9 per cent were active in manufacturing and wholesale and retail trade.

Figure 5: Female labour force participation is much higher in Nepal



Note: Aged 15 and above except Sri Lanka (10 and above); Sri Lanka excludes North and Eastern provinces.

Source: Based on data from labour force and other household surveys of national statistical offices.

Nepal's rate of female labour force participation stands in stark contrast to the figures witnessed in Bangladesh (36.0 per cent in 2010), India (27.2 per cent in 2012), Sri Lanka (32.9 per cent in 2012), and Pakistan (24.4 per cent in 2011) (Figure 5).

There are various factors that drive participation of women such as the level of development, cultural and social norms, and educational attainment. In Nepal's case, the level of participation of women in the labour force is similar to other low-income countries. In these economies, most people, including women, need to work out of necessity and poverty. Finally, differences in definitions and measurement could potentially explain some of the variation in the region. In particular, collection of goods for own consumption (for example, firewood) is included under the

definition of work in Nepal, while this is excluded in the case of India.

Political stability should bring about stronger growth and better labour market outcomes

With the slow improvement in political stability since the 2013 Constituent Assembly elections, the prospects for sustaining higher rates of growth are positive. However, this will depend on the Government's ability to promote investment, which will be a key driver of growth, and to improve agricultural productivity.

The ILO projects that the labour force in Nepal will grow by 4.7 million or 30.1 per cent from 2015 to 2030.¹⁷ Over the longer term, therefore, the creation of more employment and entrepreneurship opportunities is critical. Only then will more Nepalis be able to earn a decent income in their country, further promoting sustainable development and poverty reduction.

Until this is achieved, migration of workers, especially the youth of Nepal, will continue to be the main form of labour market adjustment and contributor to economic growth and poverty reduction.

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² World Bank: Migration and Remittances data, <http://go.worldbank.org/092X1CHHD0>, accessed on 23 September 2014.

³ ADB: *Asian Development Outlook 2014* (Mandaluyong City, 2014).

⁴ Nepal Rastra Bank, <http://www.nrb.org.np/>.

⁵ Nepal Central Bureau of Statistics: *Annual GDP 2013-14 Report* (Kathmandu, 2014).

⁶ Nepal Central Bureau of Statistics: National Labour Force Survey 1998/99 and 2008.

⁷ Nepal Central Bureau of Statistics and National Planning Commission Secretariat, Government of Nepal: *Report on National Labour Force Survey 2008* (Kathmandu, 2009).

⁸ R. Islam: *Nepal: Addressing the employment challenge through the sectoral pattern of growth* (Kathmandu, ILO, 2014).

⁹ S. Sharma, S. Pandey, D. Pathak and B. Sijapati-Basnett: *State of Migration in Nepal, Research Report VI* (Kathmandu: Centre for the Study of Labour and Mobility, 2014).

¹⁰ 2011 Census cited in S. Sharma et al., op. cit.

¹¹ Department of Foreign Employment, Government of Nepal.

¹² C. Sapkota: "Remittances in Nepal: boon or bane?", in *The Journal of Development Studies*, 49:10, 1316-1331 (2014).

¹³ Nepal Rastra Bank: *Current Macroeconomic Situation of Nepal* (2014).

¹⁴ S. Sharma et al., op. cit.

¹⁵ The poverty line is based on the cost of basic needs approach, which provides a level of expenditure required by an individual to fulfill his/her basic needs in terms of both food and non-food items. See Central Bureau of Statistics: *Poverty in Nepal 2010-11* (Kathmandu, 2011).

¹⁶ ILO: *Global Employment Trends Report 2014* (Geneva, 2014).

¹⁷ ILO: Economically Active Population and Projections Database (EAPEP).