

March 1999

IMF Staff Country Report No. 99/18

Nepal: Recent Economic Developments

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NEPAL

Recent Economic Developments

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Approved by the Asia and Pacific Department

January 26, 1999

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I. INTRODUCTION

1. **After the transition to democracy in 1991, the government in Nepal launched a reform program to promote a modern market-oriented economy, while maintaining sound macroeconomic policies.** A number of measures have been taken to liberalize the trade, investment, and financial system to foster private sector development. However, continuing political instability, with a series of short-lived coalition governments, has created a difficult environment for implementing strong reforms.

2. **Nepal's growth potential continues to be limited by an underdeveloped physical infrastructure, unskilled human resources, and poor institutional capacity.** Economic growth has been insufficient to raise living standards and per capita income remains at \$200. Almost 90 percent of the Nepali population live in rural areas and their incomes depend on subsistence farming. With low increases in productivity, agriculture growth, however, has averaged only 2 percent in the past decade while non-agricultural growth averaged almost 7 percent. With population growth outpacing agricultural growth, the absolute number of people in poverty has increased further and environmental concerns have increased.¹ **Inflation** continues to be strongly influenced by price developments in India, as the Nepalese rupee is pegged to the Indian rupee and there are very strong supply links (Table 1).

3. **During the past two years, the authorities have maintained broad macroeconomic stability and there has been an improvement in the external position.** However, real GDP growth slowed to below 2 percent in 1997/98 (fiscal year ending July 15) and, after remaining in single digits over the last several years, the 12-month inflation rate recently accelerated, as food prices jumped owing to temporary agricultural supply factors.

4. **External developments have been favorable, with the balance of payments maintaining an overall surplus.** In addition, trade with Nepal's South Asian neighbors has expanded, following agreements reached with India on trade and transit. Aided by the strong exports in the region and continued generous donor financing, gross official reserves increased in 1997/98 to over \$700 million. Pegged to the Indian rupee, the Nepalese rupee depreciated against the U.S. dollar by 16 percent in 1997/98, but the real effective exchange rate has remained broadly unchanged.

5. **Monetary policy accommodated an expansion in private credit and monetary aggregates in 1998.** Liquidity in the banking system increased, reflecting a buildup in net foreign assets and a reduction in reserve requirements for commercial banks. Interest rates generally declined, with both lending and deposit rates falling by 1-2 percentage points, and private sector credit expanded by 16 percent.

6. **Budget performance has reflected the prevailing weaknesses in overall fiscal policy implementation.** The budget outturn in 1997/98 continued to reflect low revenue and development spending, resulting in domestic borrowing in excess of budget targets. A major

¹A 1996 World Bank study estimated about half the population was below the poverty line.

Table 1. Nepal: Selected Economic Indicators, 1993/94-1997/98 1/

Nominal GDP (1997/98): US\$4.8 billion
Population (1997/98): 23 million (est.)

GDP per capita (1997/98): US\$208
Quota: SDR 52 million

	1993/94	1994/95	1995/96	1996/97	Est. 1997/98
Growth (percent change)					
Real GDP at market prices	8.2	3.5	5.3	4.0	1.9
Savings and investment (percent of GDP)					
Gross investment	22.4	25.2	27.3	25.1	24.6
National savings	20.0	20.5	19.0	20.7	20.5
Prices (percent change)					
Consumer prices (end-period)	9.1	8.7	9.2	1.7	10.1
GDP deflator	7.4	6.3	7.8	8.3	2.7
Government budget (percent of GDP)					
Domestic revenue	9.5	10.7	10.8	10.5	10.8
Total expenditure	15.3	16.0	17.6	16.5	17.9
Regular expenditure	4.7	6.9	7.5	7.4	8.1
Development expenditure	10.6	9.0	10.0	9.2	9.8
Overall deficit after grants	4.6	3.5	4.8	3.9	5.0
Domestic financing (net)	0.7	1.0	1.8	1.4	1.6
Money and credit (percent change; end of period)					
Broad money	19.6	16.1	14.4	11.9	17.8
Domestic credit	17.8	25.1	23.5	14.3	13.0
Interest rates					
91-day T-bill (end of period)	6.2	8.6	12.7	5.6	2.4
Central bank refinancing	13.0	11.0	11.0	11.0	9.0
Loans to industry	13-17	14-18	15-17½	15-17½	13½-17
External trade (percent change)					
Export value 2/	3.4	-9.7	1.9	10.2	11.7
Import value 3/	-0.5	17.6	13.1	7.8	6.0
Balance of payments (US\$ million)					
Current account balance (excluding grants)	-98	-205	-374	-218	-191
(in percent of GDP)	-2.4	-4.7	-8.3	-4.4	-4.0
Official grants and loans (net)	284	283	271	365	400
Overall balance	160	1	-41	60	110
External indicators					
Gross reserves (US\$ million; end of period)	715	699	606	647	712
In months of imports of goods and services	5.5	5.1	3.9	4.7	5.3
Debt service 4/	6.5	6.8	7.5	4.8	6.6
National currency per U.S. dollar (end of period)	49.4	50.5	56.0	57.0	67.9
Real effective exchange rate (end of period; percent change) 5/	-0.2	-3.7	1.9	5.9	-1.2
Nominal effective exchange rate (end of period; percent change) 5/	-3.9	-8.2	-3.6	6.8	-8.0
Fund operations (outstanding loans at end of period; SDR mn)					
SAF	22.8	18.3	13.1	7.9	3.4
ESAF	16.8	16.8	16.8	16.8	16.2

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ The fiscal year starts on July 16.

2/ Excluding re-exports.

3/ Excluding gold.

4/ In percent of exports of goods, services, and private transfers; including debt service to the Fund.

5/ Minus sign indicates depreciation of the Nepalese rupee.

structural reform was initiated with the introduction of the VAT in November 1997, but the tax has met stiff resistance from the business community.

7. **Some progress has also been made in the areas of privatization, expenditure management, and the financial sector.** On the reform of the banking sector, steps have been taken to divest the government holdings in Nepal Bank Limited (NBL) and to improve the operations of Rastriya Banijya Bank (RBB). However, the lending capacity of the two banks remains impaired by a high proportion of non-performing assets. Work continues on hydropower projects to boost domestic supply, but projects to develop major electricity export capacity have experienced delays.

II. OUTPUT, PRICES, AND SOCIAL ISSUES ²

A. Overview

8. **Although the effect of the East Asia crisis on Nepal was relatively small, real GDP growth slowed to below 2 percent in 1997/98, the lowest in a decade.³** This was partly because of bad weather conditions causing a decline in crop production, but also because of a slowdown in manufacturing—due to reduced demand—and a decline in construction activities as public sector projects were delayed and private sector construction was limited. Domestic savings remained stagnant, limiting resources for investment and requiring continued reliance on foreign aid and private remittances from abroad (Chart 1). Inflation slowed to 4 percent on average in 1997/98, the lowest rate since 1980, from 7¾ percent in 1996/97, before accelerating in the first months of 1998/99 as food prices soared because of supply problems.

B. Sectoral Developments

Agriculture, forestry, and fishery

9. **Output of agriculture, forestry, and fishery grew by only 1 percent in 1997/98,** following average growth of 4 percent in the previous two years. The slowdown was brought about by a slight decline in crop production, which accounts for 60 percent of total sectoral production, and stagnation in forestry output (9 percent of production), while livestock output grew by almost 4 percent (33 percent of production) and fishery by 7 percent (only ½ percent of production).

10. **Crop production declined slightly in 1997/98 because of adverse weather conditions and serious fertilizer shortages.** The adverse weather affected paddy and maize, accounting for 52 percent of total crop production, in July–October 1997 and paddy and winter crops of wheat, potatoes, barley, and oilseeds in February–April 1998. The supply of

²See Appendix Tables 1–11.

³The fiscal year starts on July 16.

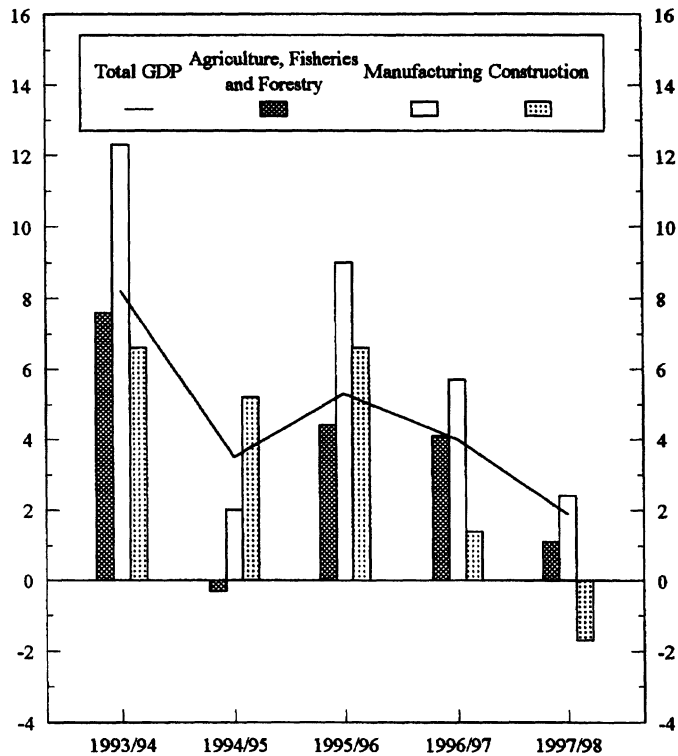
CHART 1

NEPAL

REAL SECTOR DEVELOPMENTS, 1993/94 - 1997/98

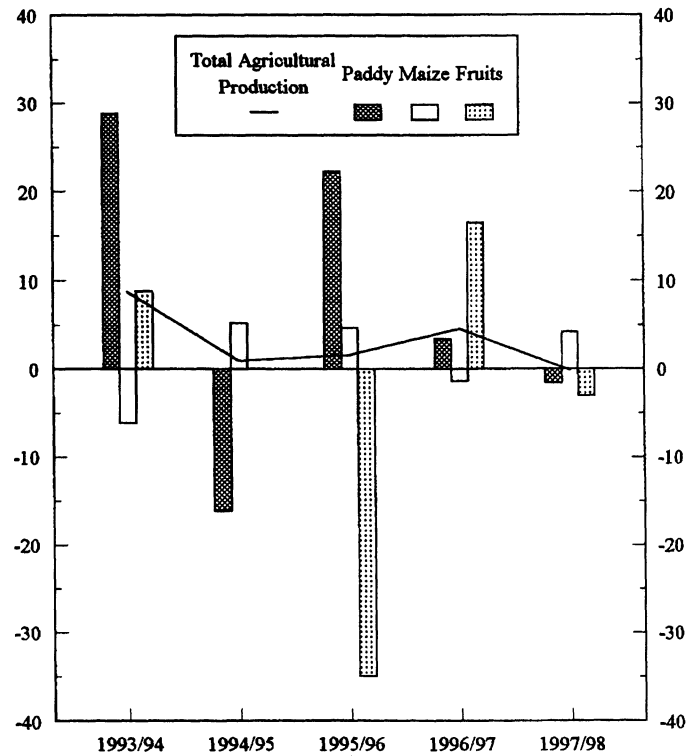
REAL GDP

(Annual percentage change)



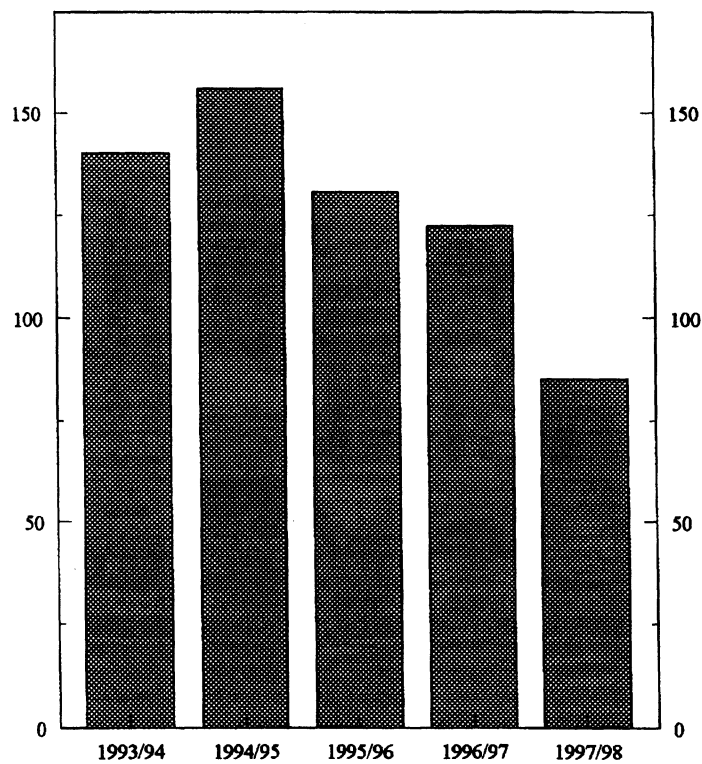
AGRICULTURAL PRODUCTION INDICES

(Annual percentage change)



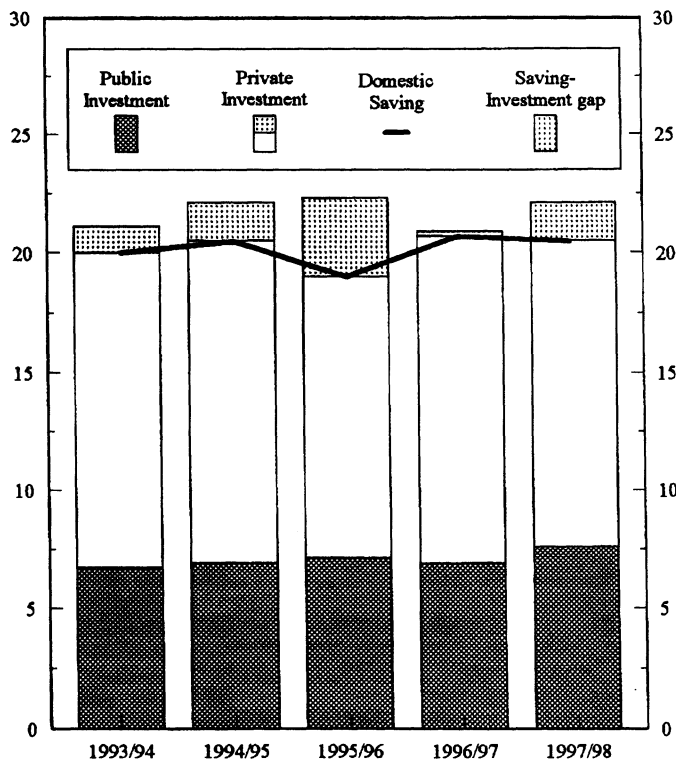
FERTILIZER DISTRIBUTION

(Thousands of metric tons)



SAVING AND INVESTMENT

(Percent of GDP)



Source: Data provided by the Nepalese authorities.

fertilizer was inadequate—declining by 30 percent in 1997/98. Shortages and poor distribution of fertilizers have been chronic in Nepal; only half of farmers's requirements have been met in the past because of inefficient procurement and distribution systems of the Agriculture Input Corporation (AIC) and restrictions on private sector fertilizer trading prior to November 1997 (see Chapter VI).

11. **Although Nepal used to be self-sufficient in food grains (paddy, wheat, maize, and millet), the country has experienced shortages and imported food since the 1980s.** This reflects mainly low yields, which stand at 10–30 percent below those of other South Asian countries—yields used to be among the highest in the region in the 1960s; food grains production occupy more than 80 percent of the total cultivated area. The relatively poor performance of agriculture is explained by structural, institutional, and policy constraints that have influenced sectoral performance. Nepal's hilly and difficult topography—about 30 percent of the land area is unfit for agriculture or forestry—and a lack of sufficient road capacity complicates production, transportation, and marketing; most agricultural production takes place in the southern Terai region and fertile valleys in the central hills. Crop production is heavily dependent on favorable climatic conditions because of inadequate provision of key inputs to farmers—only 20 percent of cultivable land is perennially irrigated, despite long-standing irrigation projects. Intensive cropping together with insufficient use of fertilizers and poor cultivation techniques has also degraded soil nutrients, while excessive public regulations and participation in the economy have discouraged private initiatives and constrained agricultural growth.

12. **To promote sustainable economic growth and achieve poverty reduction through agricultural sector growth, the government is committed to implementing the Agricultural Perspective Plan (APP),** developed with assistance from the Asian Development Bank (AsDB) under the Second Agriculture Program signed in January 1998. Key components include (i) deregulating trading and pricing of fertilizers, (ii) reorganizing the AIC, (iii) using water resources efficiently, (iv) promoting competitive agricultural markets, (v) developing rural infrastructure, and (vi) strengthening the institutional and legal framework.

Manufacturing

13. **Growth in manufacturing production has been severely constrained** by the small size of the domestic market, the landlocked position of the country, Indian competition, poor physical infrastructure, and lack of capital and human resources. Thus, despite measures aimed at encouraging domestic and foreign investment in the early 1990s, sectoral contribution to GDP has remained at 9 percent. Most enterprises are small, manufacture light consumer goods, and are located in the Kathmandu valley and the lowland eastern Terai region. The Industrial Enterprise Act of 1992 encouraged private investment and promoted exports by simplifying industrial registration procedures and providing tax incentives; domestic investors reacted positively. The Foreign Investment Act of 1992 allowed investment in most economic sectors and permitted foreign investors to hold 100 percent equity in medium- and large-scale industries. As a result, 250 foreign investment projects, mainly manufacturing, were started between 1992 and 1997 providing employment to

100,000 people, compared with only 150 projects during 1976–1991. Companies from India, Japan, and the United States were the main investors.

14. **During 1996/97–1997/98, manufacturing growth slowed significantly** because of lower production of woolen threads and carpets, garments, bricks, and tobacco, which together account for 55 percent of production. Demand in key export markets for Nepalese carpets has declined in the wake of stories of child labor use and health hazards. External demand for garments declined following the Uruguay Round's removal of earlier incentives for shifting production from India to Nepal and competition from Southeast Asian producers (see Chapter III)—more than a dozen textile enterprises closed in the eastern region. The decline of brick production in 1997/98 was due to operational problems in the Bhaktapur Brick Factory, while increased consumption of imported cigarettes, including smuggled goods, affected sales of local tobacco products.

Construction

15. **The construction industry is relatively underdeveloped** despite ongoing public sector projects and the surge in building construction in urban centers that occurred in recent years. Notwithstanding high demand, domestic production of basic materials remained inadequate, as the three main cement factories meet only about half of domestic demand. In recent years, private industries started manufacturing steel bars, galvanized sheets and angle irons, but they depend entirely on raw materials from India.

16. **Construction growth declined by almost 2 percent in 1997/98**, reflecting input constraints and a sharp slowdown in investment. Construction had already decelerated substantially in 1996/97, following an average growth of 6 percent during 1993/94–1995/96. Public sector investment was low because of delayed development spending. Private sector investment declined in real terms in reaction to the overbuilding of hotels and offices in past years, combined with low business confidence.

Electricity and water

17. **After rapid growth in previous years, overall sectoral production slowed down in 1996/97 and declined by 3 percent in 1997/98**, reflecting the closure of the water plant Jhimruk Power House for some time and closure of various hydropower stations—the Marshyangdi station for capital maintenance, the Puwa Khola project for heavy damage, and temporary closure of the Trishuli and Devighat stations.

18. **Sectoral contribution to GDP has remained at below 2 percent, despite enormous hydropower potential.** To develop Nepal's potential, the 1992 Hydropower Development Policy encouraged private domestic and foreign investment in all power sector areas, including biogas and solar. In spite of this and the large hydroelectric potential of Nepal's rivers—estimated at 43,000 MW—the current production capacity is only 300 MW and only 15 percent of the population has access to electricity; the energy supply generated by hydropower has barely increased since 1995/96. Nepal's virtually untapped water resources could provide significant irrigation benefits and improve water services. Such services are underdeveloped with only 48 percent of the population having access to safe

water, compared with 83 percent in Bangladesh and 63 percent in India. The World Bank's Rural Water Supply Project has successfully pioneered user-group managed water supply schemes, greatly reducing the time spent collecting water.

19. **Seven projects are being implemented that together will double Nepal's hydropower production capacity** by adding another 285 MW; three are public sector projects and four are private projects. The \$450 million Kali Gandaki project, initiated in March 1997, is the largest at 150 MW and is about 30 percent completed; the project suffered from construction delays in 1997/98. The Mahakali Treaty with India for water-sharing and joint power development in the Mahakali basin was signed in 1996, but the project has been postponed because of an initial disagreement on the size of the plant and controversy over rights to use the river. A number of power generation projects would permit power export, but India's state electricity boards—the only viable customers—have financial problems.⁴

Tourism

20. **Despite abundant resources, the tourism sector accounts for only 4 percent of nominal GDP.** Factors inhibiting tourism include limited and infrequent air access options, underdeveloped airport facilities, environmental degradation in the Kathmandu valley, inadequate tourism infrastructure for upscale tourists outside Kathmandu, and deficient service quality of tourism operators. The difficulties in serving major airline routes reflect financial and management problems of the national airline carrier—the Royal Nepal Airline Corporation (RNAC)—as well as limited growth among international carriers serving Kathmandu. Since the sector was opened to private participation in the early 1990s, Nepalese private airlines have accounted for a rising share of domestic air travel. Recognizing the constraints to tourism expansion, the government set up the Nepal Tourism Board (NTB) to undertake longer-term promotion and regulation of the industry. NTB was scheduled to start operations in early 1999, at which time the Department of Tourism was to be dismantled. NTB will comprise five government and five private sector representatives. An independent and autonomous civil aviation authority will also be established.

21. **The tourism sector recovered somewhat during 1998, as tourist arrivals increased in response to a promotion program.** Visit Nepal 1998 resulted in an increase of 12 percent in tourist arrivals during January–October 1998, compared with the same period in 1997, and contributed to an increase in travel earnings (see Chapter III). Nevertheless, the estimated number of high-income tourists remained small and competition among tourism businesses was fierce, bringing down hotel and service prices.

C. Investment and Saving

22. **The savings–investment gap halved to an annual average of 4 percent of GDP in 1996/97–1997/98, from 8 percent in 1995/96,** reflecting lower investment and a higher

⁴For more details see recent economic developments paper for the 1997 Article IV consultation (SM/97/118).

saving ratio, but reliance on external savings remained high.⁵ The share of gross domestic investment in GDP declined to an annual average of 25 percent in 1996/97–1997/98, down from 27 percent in 1995/96. Public investment was adversely affected by binding capacity constraints and the slow implementation of the development budget, while private investment was stagnant with the decline in construction activities. Gross national savings increased to an annual average of 20½ percent of GDP in 1996/97–1997/98, up from 19 percent in 1995/96, because of larger private transfers from abroad and increased private savings that offset the decline in public sector savings.

D. Prices and Wages

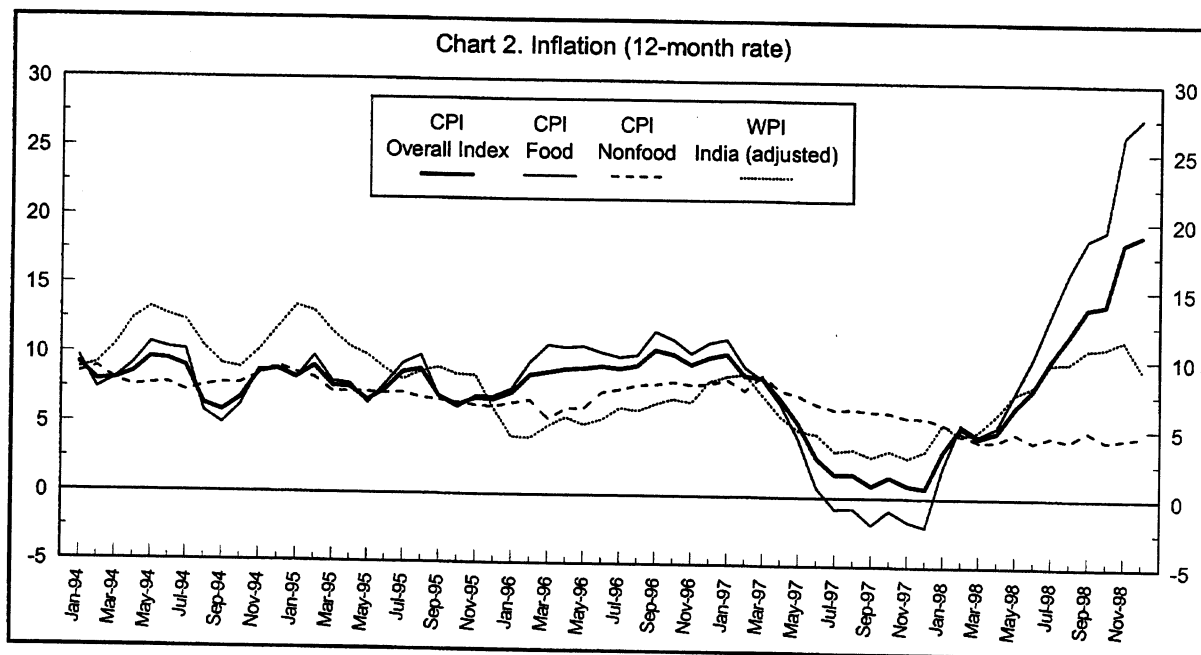
23. **Inflation in Nepal slowed to 4 percent on average in 1997/98** because of a decline of the price of food grains, little increase in administered prices in the wake of decreasing international prices, and subdued inflationary pressures in India. **However, this trend was reversed in the second half of 1997/98 as the price of food picked up sharply**, pushing inflation to over 10 percent at the end of 1997/98 and further to 19 percent (12-month rate) by December 1998, while the price of non-food has continued to increase at only a modest annual rate of 4½ percent despite some rises in administered prices.

24. **The price of food and beverages increased by 28 percent in the 12 months to December 1998**, led by very sharp rises in vegetable and fruit prices, due primarily to temporary supply shortages in Nepal and India. In particular, the price of onions, used extensively in Nepalese cooking, soared in recent months following developments in India, where the price of onions quadrupled from April to October. The increase in inflation also partly reflected the gradual depreciation of the Nepalese rupee and short-term supply disruptions associated with prolonged rains and floods, anti-VAT strikes by importers, traders and some manufacturers (Chart 2).⁶ In response to the supply problems, Nepal and India made efforts to import onions from China, Iran and Germany. Inflation in India came down in December with food prices easing, and a similar trend is expected in Nepal with a small lag.

25. **Administered prices** are generally determined on a cost recovery basis, although for some basic commodities, such as chemical fertilizers, petroleum products, and electricity, the government provides subsidies. Among fertilizers, the prices of urea and DAP increased by 10 percent in November 1997 to reduce (urea) or eliminate (DAP) the subsidy. Among petroleum products, prices were raised in June 1997 (petrol by 15 percent; diesel, 11 percent; kerosene, 10½ percent; and LPG, 30 percent) and a further 3 percent on average in September

⁵Developments in savings and investment should be interpreted cautiously, as the data are estimated. Private sector savings are calculated residually and are affected by external account measurement problems (see Chapter III). Also, Nepal's budget data classify spending into regular and development spending, and the latter is estimated to include 30 percent of recurrent spending. Moreover, private investment data are unreliable.

⁶To facilitate comparison between India and Nepal, wholesale price inflation in India is adjusted using the Nepalese weights for food and non-food products.



1998. Despite the increases, the prices of fertilizers and petroleum products still remain below the level of international prices. Electricity tariffs have remained the same since 1996/97.

26. Although only limited information on actual **wages and salaries** is available, indications suggest that wages and salaries in the agriculture and construction sectors have roughly kept pace with inflation, while minimum monthly wages in industry have been increased only with a lag of 1 or 2 years. However, the actual wage level of industry is generally higher than that of agriculture and construction sectors. Salary scales have been compressed in the public sector, and as a result, wages and salaries are generally much higher in the private sector for higher skilled jobs.⁷ The levels of wages and salaries in agriculture and construction differ by region. Most wage workers reportedly earn a monthly income far below the poverty line, but a recent report on employment noted that the wage differential between males and females is not significant, less than 15 percent.⁸

27. **Minimum wages**—which apply to only the industrial sector and vary with respect to degree of skill—were increased by about 20 percent in early 1998 after no change in 3 years, and are currently in the range of Nrs 1,800 to 2,000 per month, including cost of living increases. Although minimum wage requirements apply to both public and private sector

⁷For example, the basic salary for a government employee at the Director or Secretary level is only about Nrs 6,000 per month, as compared with Nrs 40,000–50,000 per month in the private sector for a comparable position.

⁸*Enhancing Job Opportunities for People*, National Planning Commission Secretariat, March 1998.

workers, they are not strongly enforced among smaller private enterprises. Hence, minimum wage requirements have not been regarded as an important impediment to employment growth.

E. Environment and Social Issues

28. **Rapid deforestation continues to be a major problem in Nepal.** The Himalaya range is one of the most fragile ecosystems on earth: steep slopes, poor soil, and heavy monsoon rains make its mountains vulnerable to erosion. According to a World Bank report, deforestation continued at an annual rate of 1½ percent during 1979–91 and resulted in 99,000 hectares of forest area turned into barren land.⁹ Forests have been cut for firewood, timber smuggling, and livestock fodder and deforestation has accelerated with the high population growth rate and rapid migration from the hills to the terai. Whereas in 1964 forest cover was estimated to be about 6½ million hectares or 45 percent of the total land, it had been reduced to 5½ million hectares or 37 percent by 1994.¹⁰ With the aim of reversing the deforestation trend, the World Bank's Hill Community Forestry Project has helped forestry user groups to convert denuded or deteriorating areas into productive and sustainable forest. Also, the Department of Forestry has a plan for four districts in the Terai region to be implemented during 1998/99, which aims at maintaining forest land.

29. **Water pollution is the most serious concern in the urban areas** as the capacity of sewage treatment and water purification is far short of appropriate levels and industries pour untreated wastes directly into rivers. In addition, the close location of water and sewage pipes is likely to leave water dangerously contaminated by the time it reaches homes. Air pollution in the Kathmandu valley has also been aggravated by rapidly increasing vehicle and industrial emissions. Lack of a proper waste disposal system and insufficient capacity for collecting and carrying garbage is a newly growing environmental concern in urban areas. Nepal needs to establish a solid legal and institutional environmental framework to monitor water quality, waste disposal, sewage treatment, and air pollution and enforce existing regulations.¹¹

⁹More recent satellite data suggest that the trend has continued since 1991.

¹⁰*A Compendium on the Environmental Statistics of Nepal: Issues and Facts*, Central Bureau of Statistics, 1994.

¹¹To tackle environmental problems, the Ministry of Population and Environment (MPE) was established in September 1995 with an aim of integrating the environmental aspects through institutional arrangement. The Environment Protection Act (1996), and Environment Protection Rules (1997) have been enforced since June 1997. The Ninth Five-Year Plan (1997/98–2001/02) included the adoption of environment-friendly technologies and conservation of important historical and religious places. For details, see *State of the Environment Nepal*, Ministry of Population and Environment, June 1998 and *Environment and the People*, National Planning Commission Secretariat, March 1998.

30. The Nepal Living Standard Measurement Survey in 1996 indicated that 40–50 percent of the population was below the **poverty** line, most of them in the rural areas, and the number of poor people is still increasing, as the population has grown faster than the country's capacity to generate additional income. To tackle this problem, the government has adopted poverty alleviation through agricultural development as a top priority in the Ninth Plan and also plans to establish a Poverty Alleviation Fund. In the Ninth Plan period, the target is to reduce by 10 percent the population below the poverty line to a level of 32 percent. The International Labour Organization (ILO) estimated **child labor** to be about 10 percent of the total labor force of 12 million and to be about 27 percent of all 5–14 year old children. Children mainly work in the agricultural sector as part of the family workforce. They also work as wage earners in carpet and garment factories, hotels and restaurants. However, the carpet and garment manufacturers are now cooperating with international organizations, such as the ILO, and are working toward eliminating this practice.

III. EXTERNAL DEVELOPMENTS¹²

31. **Nepal achieved substantial balance of payments surpluses in the early 1990s** with international reserves increasing to the equivalent of 5¼ months of imports of goods and services. Trade expanded rapidly during these years with both import and export shares increasing relative to GDP, and current account deficits were financed by inflows of official grants and concessional aid, as well as unrecorded inflows.¹³

32. **The external position weakened in 1994/95 and 1995/96** as the export of carpets and garments (the two major merchandise exports) declined, while rapid credit growth encouraged continued growth in imports. As a result, the current account deficit widened, and in conjunction with a widening of the interest rate differential between India and Nepal that encouraged private capital outflows, the balance of payments went into deficit and gross official reserves declined to \$588 million in July 1996, equivalent to less than 4 months of imports of goods and services.

33. **Since 1995/96, the external position has improved considerably.** Garment exports increased about 8 percent annually during 1996/97 and 1997/98, but carpet exports continued to perform poorly. In contrast, other exports have increased rapidly, particularly for regional trade. At the same time, the increase in non-gold imports slowed considerably following some tightening of credit conditions in 1996/97 and sluggish economic growth in 1997/98. Accordingly, the trade deficit declined and the external current account deficit narrowed

¹²See Appendix Tables 12–17.

¹³Nepal's balance of payments statistics have historically shown very large and volatile inflows as errors and omissions. The tables included here are based on a new presentation that incorporates recent Fund technical assistance directed at improving the coverage and classification of balance of payments statistics (see Box 1). Where necessary, IMF staff estimates have been made to provide a consistent picture of developments during the period 1994/95–1997/98.

Box 1: Revised Coverage of the Balance of Payments Statistics

Nepal's balance of payments statistics have historically shown very large and volatile estimates for net errors and omissions that in some years reached 5 percent of GDP. This large unidentified component of the balance of payments gave an incomplete picture of external transactions and rendered the balance of payments statistics of limited use for analytical purposes.

The Nepal Rastra Bank (NRB) received short-term technical assistance in balance of payments statistics from the Fund's Statistics Department (STA) in 1992 and 1995. Following the recommendations of these missions, a long-term resident advisor in balance of payments statistics was assigned to the NRB for a period of six months beginning in November 1997. The advisor focused on improving the coverage of the balance of payments compilation system through the use of new sources of data such as an improved International Transaction Reporting System (ITRS) and surveys. Recommendations for improving the compilation system were also based on concepts and classifications contained in the fifth edition of the Balance of Payments Manual (BPM5).

These recommendations were completed in June 1998 and the new presentation of the balance of payments is presented for the first time in the Fund's reports for the 1998 Article IV consultation. The revised estimates have considerably reduced net errors and omissions, as well as the estimated trade and current account deficits (Table 2). The main improvements in the coverage of balance of payments transactions were made in the following areas:

Re-exports. Because of its geographic location, Nepal has carried out an entrepot trade with other countries in the region. The most important commodity in this trade has been nonmonetary gold. Previously, imports of gold were recorded in the import statistics, but the resulting unofficial exports were only captured by partial estimates and recorded as "other service receipts". On the basis of official data for imports, and estimates of domestic consumption of gold derived from a household expenditure survey conducted by the NRB in 1995-96, the exportable surplus of gold was calculated and is now shown under re-exports in the trade account. A profit margin of 14 percent for this re-export trade was assumed for 1994/95-1996/97, but was lowered to 8 percent in 1997/98 following the liberalization of gold imports in the region. Beginning in 1996/97 the new presentation also reflects a more comprehensive treatment of oil transactions. Oil consignments from abroad do not enter Nepal directly but pass through India partly for processing and partly for storage in a large number of depots along the India-Nepal border. Nepal then acquires oil directly from these Indian depots. In general, the entire amount of oil imported by Nepal that is re-exported to India is again imported into Nepal in the course of a fiscal year, within a 10 percent differential. Under the old coverage, oil imports from third countries were entered directly into the balance of payments without accounting for the intermediate transactions with India.

Private transfers. Worker remittances had been seriously underestimated because many of the remittances do not pass through the domestic banking system. Revised estimates were calculated based on estimates of the number of Nepalese workers abroad obtained from the Nepal Department of Labor.

Official transfers. Previously, a large portion of official grants was not captured by the banking system (e.g. transfers through international NGOs) and thus was not being recorded in the balance of payments statistics. Several sources of information were synthesized to improve coverage including the ITRS, customs data, and information from the UNDP (including a more comprehensive coverage of donors).

Capital and financial account. An attempt was also made to improve the recording of private sector capital flows. Estimates have been incorporated for increases in balances held abroad associated with the re-export trade (a debit entry), and estimates of outstanding trade credits were improved on the basis of outstanding import letters of credit and export bills. A direct investment survey was also conducted by distributing a simplified questionnaire to 74 joint venture enterprises that account for three-quarters of approved investment projects. However, the response rate was very poor and the results could not be used. In the future, a follow-up by NRB staff could produce improved estimates of foreign direct investment flows.

considerably from more than 8 percent of GDP in 1995/96 to 4 percent of GDP in 1997/98 (Table 2).

A. Exports

34. Total **merchandise exports** have remained at about 9–10 percent of GDP, but the composition has shifted substantially. After years of complete dependence on carpets and garments, Nepal's exports have started to diversify spurred by a rapid increase in regional trade. Other merchandise exports increased their share of the total from less than 20 percent in 1993/94 to 44 percent in 1997/98 (Chart 3). Total merchandise exports increased by 12 percent in U.S. dollar terms in 1997/98 and are expected to increase by 16 percent in 1998/99.¹⁴

35. **The diversification into nontraditional areas has been facilitated by the trade and transit agreements with India** (see below). Exports to India have increased at an average annual rate of 31 percent since 1993/94 and have increased as a share of total merchandise exports from 12 percent to 33 percent during the same period. These exports comprise a mix of agricultural items such as pulses and cardamon, and light manufactured goods such as vegetable ghee, soap, polyester yarn, and toothpaste. Because of its geographic location, Nepal has also benefitted from an unofficial entrepot trade with neighboring India. The major component of these unofficial re-exports has been gold, which is imported into Nepal from third sources and re-exported to the protected Indian market. In some years, this trade has been substantial and peaked at over \$600 million in 1996/97—more than the value of all other exports combined. However, following the liberalization of gold imports in India price differentials between the two markets have declined and this trade has fallen significantly. Total re-exports of gold were estimated at less than \$300 million in 1997/98 and are expected to decline further in 1998/99. Beginning in 1996/97, the export figures also include re-exports of oil products to India amounting to about \$90–100 million. Other regional trade, for example to Bangladesh, has also started to grow rapidly, but is still at a relatively low level.

36. **Garment and carpet exports both peaked in the early 1990s before declining considerably.** Carpet exports fell substantially from \$193 million in 1993/94 to \$137 million in 1997/98. This decline reflected saturation of the primary export market (about 80 percent of carpets are sold to Germany) in conjunction with several problems that have adversely affected the integrity of the industry, including accusations of child labor and counterfeiting by other manufacturers. These problems have been addressed through improved quality control, including the use of "child-free" certificates on Nepalese carpets. Efforts have also been made to reach other large export markets that have considerable future potential (e.g., the United States). As a result, carpet exports have good prospects for some recovery. During the first four months of 1998/99 carpet exports increased by 4 percent in dollar terms compared to the previous year and exports are expected to increase by about 8 percent for the year as a whole.

¹⁴ Separate volume and price indicators are not available in Nepal for trade statistics.

Table 2. Nepal: Balance of Payments, 1995/96-1997/98
(In millions of U.S. dollars, unless otherwise indicated)

	Old Coverage			New Coverage 1/		
	1995/96	1996/97	1997/98 Est.	1995/96	1996/97	1997/98 Est.
Exports, f.o.b.	361	397	444	602	1,113	840
Merchandise exports, f.o.b.	361	397	444	361	397	444
Export of oil	...	...	...	0	88	117
Other re-exports 2/	...	...	...	242	628	280
Imports, c.i.f.	1,350	1,642	1,436	1,350	1,778	1,559
Aid-related	110	137	190	110	137	190
Non-aid	1,240	1,505	1,246	1,240	1,641	1,370
Of which: Gold and silver	212	551	259	212	551	259
Trade balance	-990	-1,245	-992	-748	-665	-719
Services and Income, net	379	690	470	167	139	211
Receipts	673	933	702	461	382	443
Of which: Gold and silver related	212	551	259	...	...	...
Payments	294	242	232	294	242	232
Private transfers, net	84	95	103	208	307	318
Recorded private transfers	94	116	132	94	116	132
Estimated private remittances	...	...	...	125	213	215
Payments	10	21	29	10	21	29
Current account balance (excl. official transfers)	-528	-460	-420	-374	-218	-191
Official transfers 3/	137	171	176	50	93	107
Current account balance (incl. official transfers)	-390	-289	-243	-324	-125	-84
Capital and financial account	350	349	353	283	185	193
Capital Transfers 3/	...	...	...	87	147	148
Official capital (net)	134	147	167	134	124	145
Disbursements	186	197	230	186	163	196
Amortization	52	50	62	52	39	51
Foreign direct investment	7	28	11	7	28	11
Other investment, net	...	...	...	-15	-150	-113
Errors and Omissions (net)	209	174	174	70	35	2
Overall balance	-41	60	110	-41	60	110
Financing	41	-60	-110	41	-60	-110
Change in reserves (- increase) 4/	35	-87	-145	35	-87	-145
IMF purchases (net)	-8	-7	-7	-8	-7	-7
Other liabilities (net) 4/ 5/	13	35	43	13	35	43
Memorandum items:						
In percent of GDP						
Current account balance (excl. off. transfers)	-11.7	-9.4	-8.8	-8.3	-4.4	-4.0
Current account balance (incl. off. transfers)	-8.7	-5.9	-5.1	-7.2	-2.5	-1.8
Trade balance	-22.0	-25.3	-20.9	-16.6	-13.5	-15.1
Errors and Omissions	4.6	3.5	3.7	1.5	0.7	0.0

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ The new presentation is based on the recommendations of the IMF resident advisor in balance of payments statistics (see Box 3).

2/ Includes unrecorded re-exports of gold.

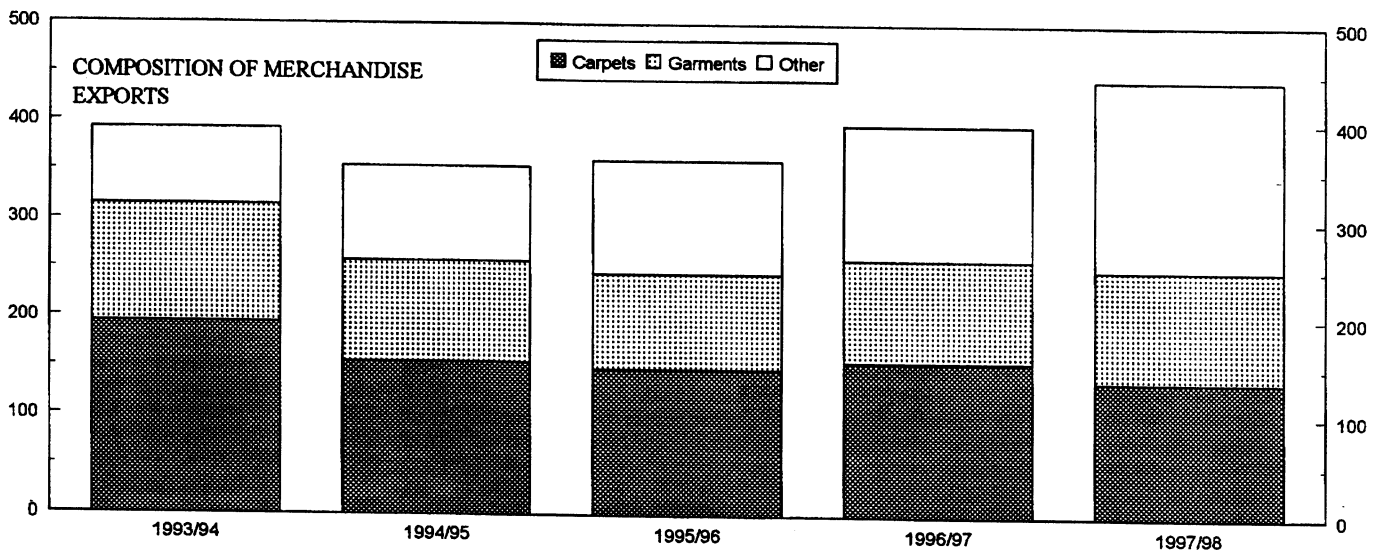
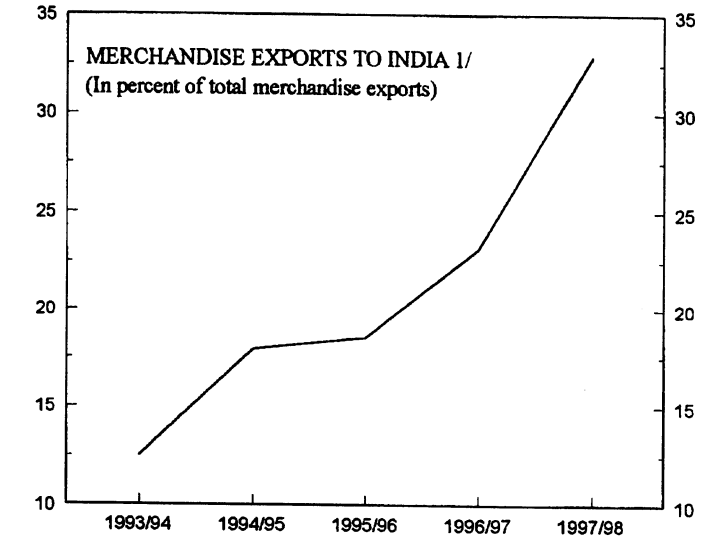
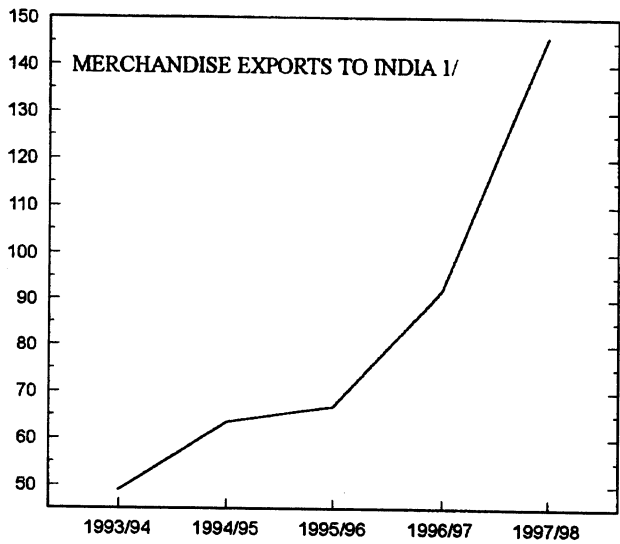
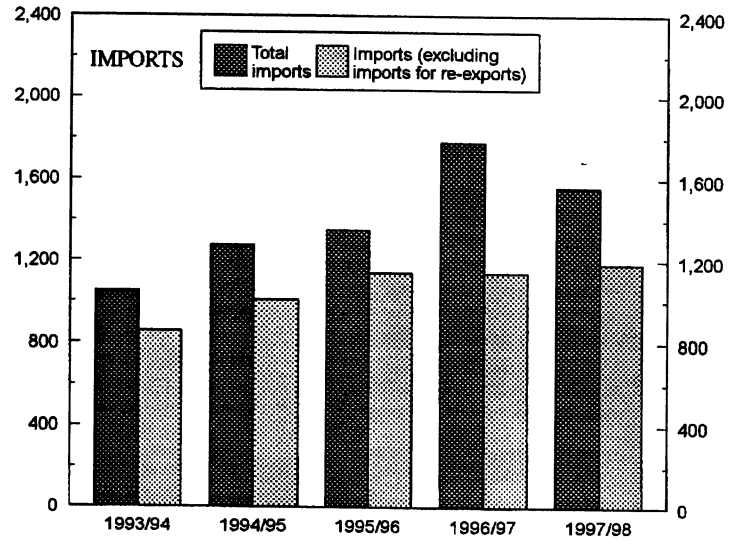
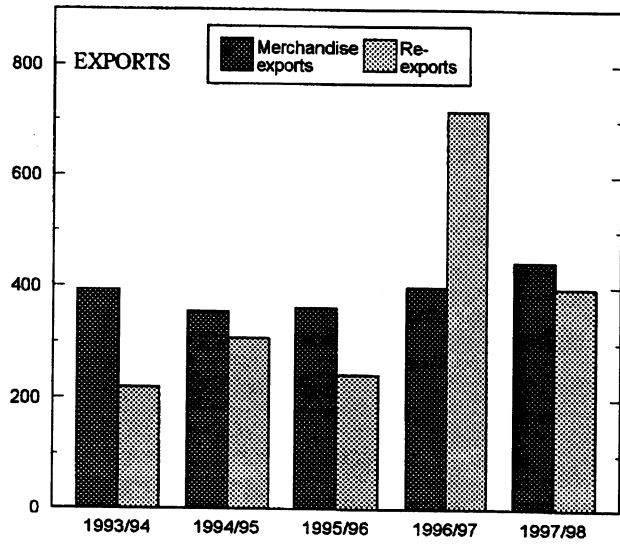
3/ In the old coverage official transfers included current and capital transfers.

4/ Changes in NRB assets and liabilities are calculated at constant exchange rates.

5/ Includes changes in foreign assets and liabilities of commercial banks.

EXTERNAL TRADE DEVELOPMENTS, 1993/94 - 1997/98

(In millions of US dollars; unless otherwise noted)



Source: Data provided by the Nepalese authorities.

1/ Excluding re-exports.

37. **The garment industry** in Nepal began in the late 1970s and was driven by investment from Indian producers to by-pass U.S. textile quotas on India and to produce low-cost garments for export to avoid the Indian floor-price system.¹⁵ After developing rapidly in the 1980s and early 1990s, exports declined considerably from \$121 million in 1993/94 to \$97 million in 1995/96, primarily reflecting adverse effects from the liberalization of textile trade during the Uruguay round and increasing competition from third countries. Although during the last two years garment exports have increased by about 8 percent per annum with the value of exports recovering to \$113 million in 1997/98, the industry continues to be plagued by low productivity and high transportation costs. Notwithstanding these problems, the industry is optimistic about the future as producers estimate value added at 40 percent and believe they have found a market niche for certain types of casual wear. Growth is expected to reach 11 percent in 1998/99 as exports under quotas (about 50 percent of total exports) will grow by 6 percent and there has been success in diversifying production to reach other markets. In the first three months of 1998/99 garment exports increased by 20 percent compared to 1997/98.

B. Imports

38. After adjusting for fluctuations in the gold trade, **import growth has gradually slowed** from 18 percent in 1994/95 and 13 percent in 1995/96 to 6 percent in 1997/98 reflecting slow implementation of development projects, a tightening in monetary conditions in 1996/97, and a substantial slowing in the pace of overall economic activity. Near the end of 1997/98 and in the first part of 1998/99, dissatisfaction in the business community over the imposition of the VAT, as well as long-standing opposition to the distortionary "octroi" tax, led to widespread business protests including delays in clearing goods through customs and boycotts on opening new letters of credit. As a result, imports declined dramatically. For the first four months of 1998/99 non-gold imports declined by 17 percent relative to the year before.

39. The **composition of imports** is heavily weighted toward manufactured goods, machinery, and transport equipment. Food and medical products are a significant component of imports from India, while minerals and raw materials are imported from third countries. Gold imports declined considerably in the second half of 1997/98 (Box 2).

C. Services and Transfers

40. Changes in service receipts are largely determined by trends in tourism earnings. After increasing by 32 percent in calendar year 1995, gross tourism receipts declined marginally in 1996 and 1997, primarily due to a change in the composition of arrivals toward more budget tourists. In response, the government initiated a major promotion in the form of Visit Nepal 1998. While tourist arrivals in 1998 are likely to fall slightly short of the official

¹⁵India has historically imposed a minimum value per piece on garment exports to ensure high export value-added and the wide availability of low-cost garments for domestic consumption.

Box 2: The Gold Trade

Gold imports have traditionally been more heavily regulated in India than in Nepal, leading to a significant price differential between the two markets. Recorded gold imports into Nepal surged in 1993/94 when the authorities allowed imports of gold up to 10 kilograms by those who stayed abroad for more than one month and had an official source of foreign earnings—the similar length of stay requirement in India was six months. The trade peaked in 1996/97, with annual imports of gold and silver increasing to \$551 million, virtually all of which for re-export to the Indian market.

However, gold imports in India were liberalized in October 1977 when eleven nominated agencies were authorized by the Reserve Bank of India to import gold and silver for sale in the domestic market without limit. The import duty for gold was set at Rs 22 per gram of gold. As a result, the price differential between the two markets narrowed considerably and gold being transported through Nepal to the Indian market declined. Total monthly imports of gold peaked at \$50–60 million from December 1996 to August 1997. Gold imports then began to decline in anticipation of the liberalization in India, and dropped substantially following the announcement. By the end of 1997/98 imports were running at a rate of \$5–10 million per month. However, an increase in the Indian import duty on gold to Rs 40 per gram on January 5, 1999 may lead to a rebound in this trade in the future.

target of 500,000 they have increased by 12 percent for the year ending October 1998 despite problems in the operations of RNAC. This has contributed to an increase in earnings from travel by 7 percent to \$159 million in 1997/98 and a similar increase is expected for 1998/99.

41. Total **worker remittances** are estimated to have increased by 5 percent in 1997/98 to \$347 million. Unofficial estimates by the Labor Department indicate that the number of Nepalese workers abroad (excluding those in India) was about 150,000 as of July 1997. It is widely believed that only a fraction of workers' remittances pass through the banking system, so banking records are augmented by estimates of funds remitted by other means (calculated by using the number of workers abroad and their estimated earnings). No figures are available for the number of Nepalese workers in India, but banking records on remittances from India are adjusted upward by a similar proportion.

D. Capital and Financial Account

42. Data on capital and financial account transactions have traditionally been very weak. Recent efforts at upgrading balance of payments and external debt statistics have started the process of improving estimates of official loans, private sector foreign direct investment, and trade credits, but available figures are still very limited.

43. Estimates of **official grants and loans** (including current transfers) have increased to \$400 million (8½ percent of GDP) in 1997/98 partly reflecting improved coverage of grant

inflows to nongovernmental organizations. Within this total, current and capital transfers have been affected by the slow implementation of development projects, but still amounted to \$255 million in 1997/98. As a result, grants now represent a greater proportion (about two-thirds) of official financing than was estimated in the early 1990s. In contrast, official loans (net) increased in dollar terms to \$145 million in 1997/98 but have remained about 2½ percent of GDP, substantially lower than 4½ percent of GDP achieved in the early 1990s.

44. Inward **foreign direct investment** requires the prior approval of the Department of Industry and is not permitted in cottage, small-scale, or defense-related industries. Foreign investors are permitted to hold 100 percent equity in large and medium-scale industries. While some successful efforts have been made to attract private investors in the electricity and telecommunications sectors, this has been primarily through the use of generous fiscal incentives. More needs to be done to promote private investment in other infrastructure sectors (e.g., transport, water) and to develop an overall strategy to incorporate private financing into the development strategy.¹⁶ Reflecting the ongoing hydro-power projects, recorded foreign direct investment inflows increased to \$39 million during 1996/97–1997/98.

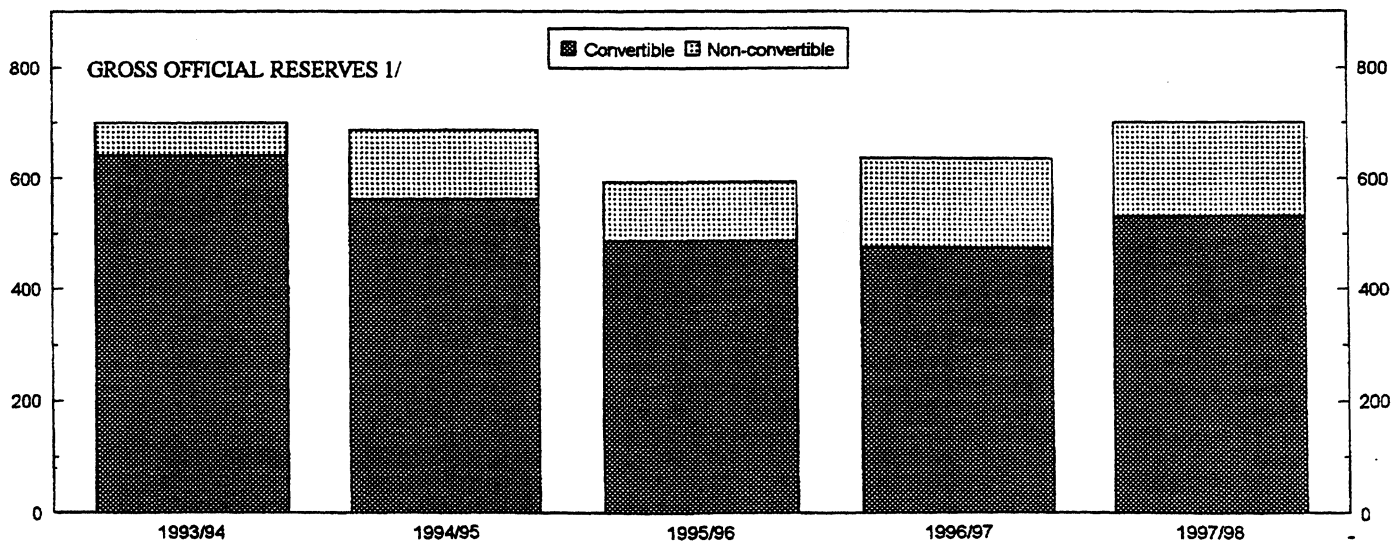
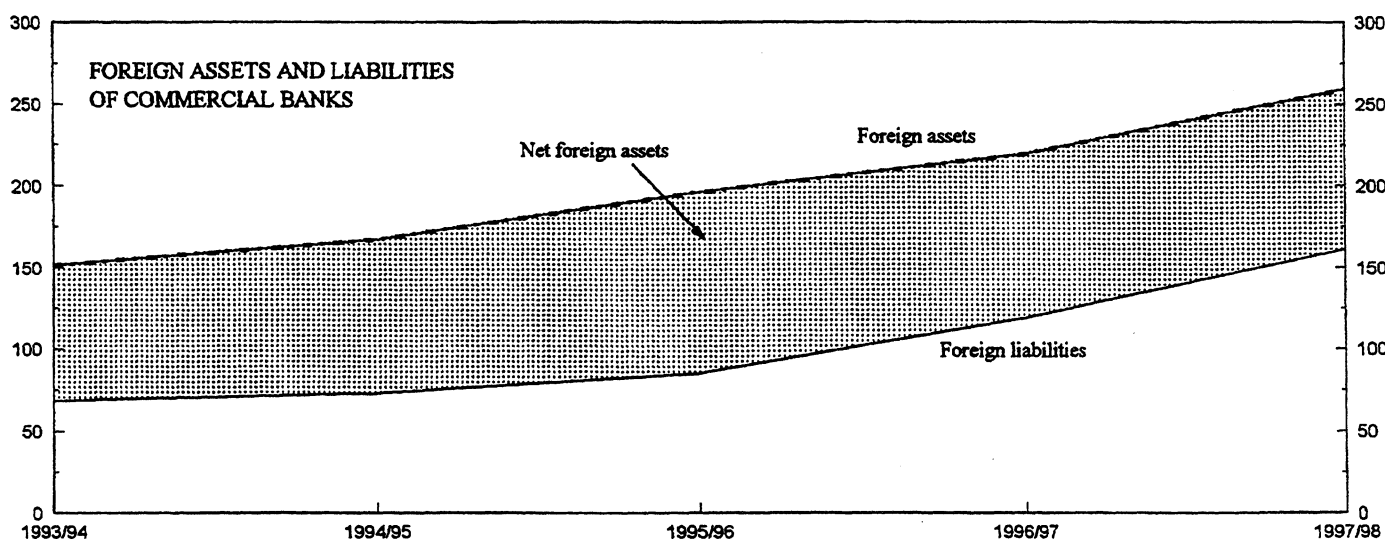
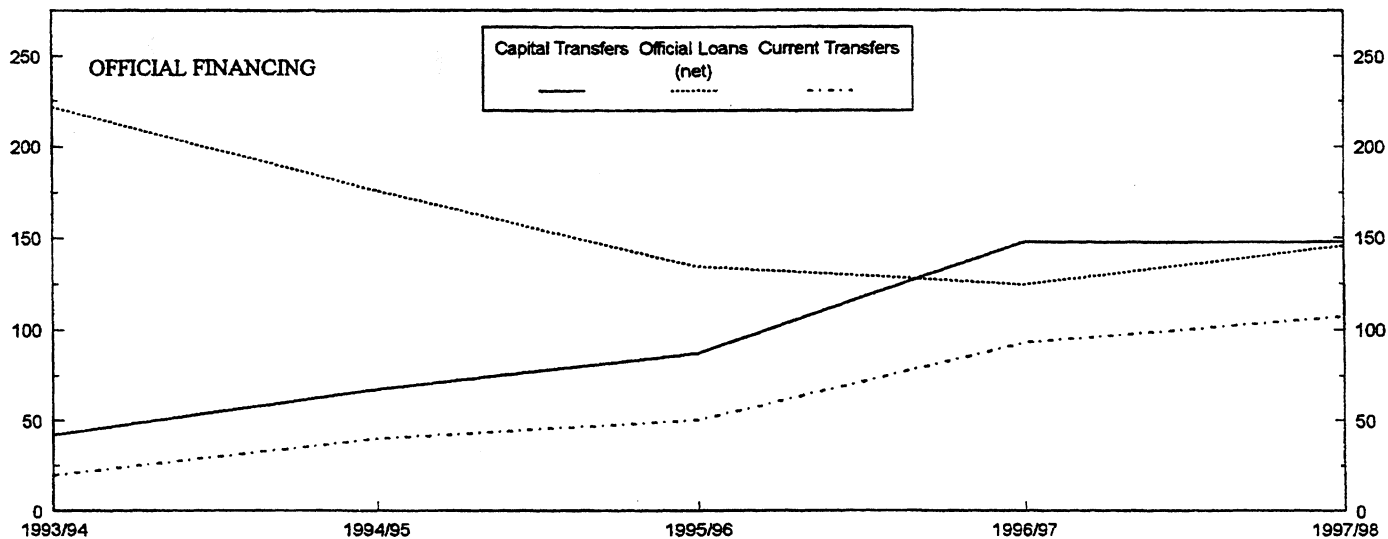
E. International Reserves and External Debt

45. Reflecting the balance of payments surpluses recorded in the last two fiscal years, **the gross foreign assets of the banking system increased to \$970 million at end-1997/98**. Of this amount, official reserves of the NRB increased to \$712 million, equivalent to 5¼ months of imports of goods and services. The first five months of 1998/99 saw the recent trend of overall balance of payments surpluses continue with gross official reserves increasing to \$761 million. The NRB has typically held 20–30 percent of international reserves in Indian rupees although these holdings have declined to below 15 percent during the first half of 1998/99. Total official reserves in convertible currencies at end-December 1998 amounted to \$655 million equivalent to 4¾ months of imports of goods and services (Chart 4).

46. **External debt statistics** are compiled by the office of the Financial Comptroller General, Ministry of Finance (FCGO). Nepal is presently receiving technical assistance from the United Kingdom to computerize the external debt data base. When the project is completed (probably by end-1999), detailed information would be available more promptly. Based on available data, total medium- and long-term external debt (including the IMF) was estimated at \$2½ billion at end-1997/98 (52 percent of GDP), compared to \$2 billion (52½ percent of GDP) in 1993/94. Of this total about 85 percent is to multilateral institutions led by the World Bank and the AsDB. Japan is the largest bilateral creditor, accounting for about 9½ percent of total external debt. Reflecting the concessional nature of external debt, the debt service burden in 1997/98 was estimated at 6½ percent of current account receipts.

¹⁶For more information see "Attracting Foreign Direct Investment to Nepal's Infrastructure," Foreign Investment Advisory Service, July 1998.

CHART 4
NEPAL
OFFICIAL FINANCING AND INTERNATIONAL RESERVES, 1993/94 - 1997/98
(In millions of US dollars)



Source: Data provided by the Nepalese authorities.

1/ Including gold, SDR holdings, and the reserve tranche position.

F. Exchange and Trade System

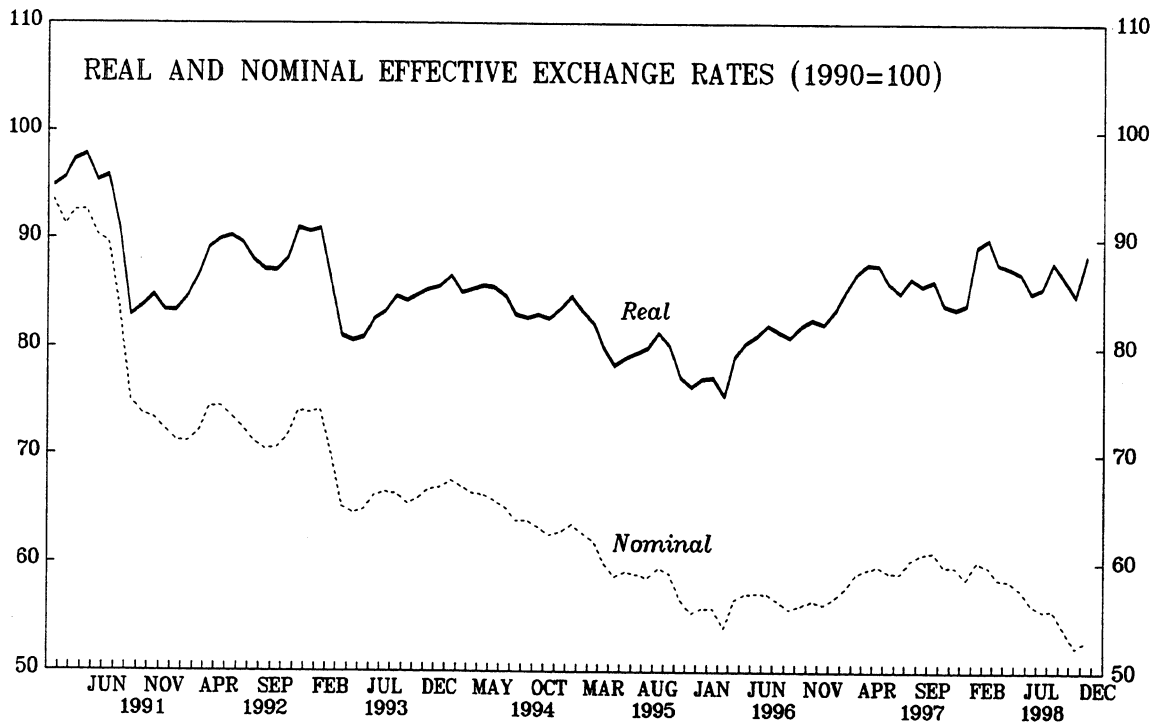
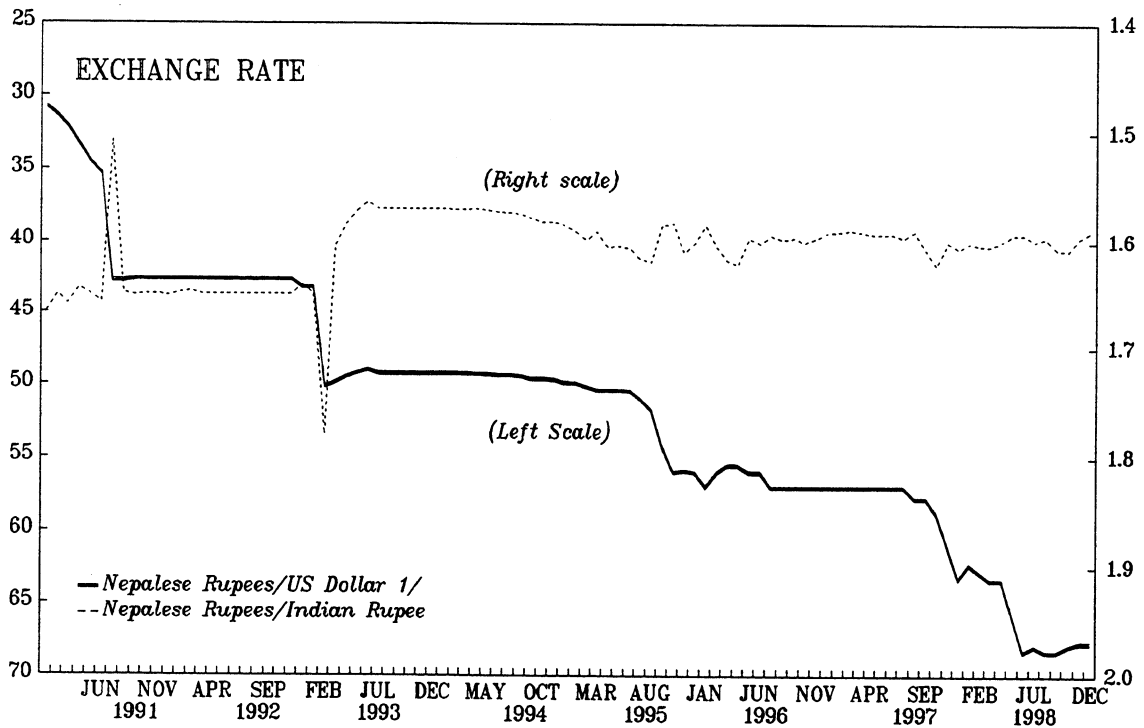
47. **The Nepalese rupee has been pegged to the Indian rupee at the rate of Nrs 1.6 per Indian rupee since February 1993**, and movements in the value of the Nepalese rupee reflect movements in the Indian rupee against third currencies. Commercial banks are free to set their own rates and NRB intervention policy is based on residual buy/sell requests of the commercial banks. To minimize daily volatility, the NRB often keeps the Nepalese rupee/US\$ exchange rate constant in the face of minor fluctuations in the Indian rupee/US\$ rate thus producing temporary and small deviations vis-à-vis the Indian rupee (Chart 5).

48. **The Nepalese rupee depreciated sharply along with the Indian rupee against the U.S. dollar in 1997/98**. The rupee/dollar rate depreciated by 16 percent while the nominal effective exchange rate depreciated by 8 percent and the real effective exchange rate by one percent. Since July 1998, the exchange rate has been broadly stable vis-à-vis the U.S. dollar leading to a further small depreciation of the nominal effective exchange rate through November 1998 reflecting the depreciation of the U.S. dollar against other currencies.

49. **Nepal formally accepted the obligations of Article VIII in 1994** and continues to maintain an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Payments for travel are subject to indicative limits and prior approval is required for some payments for other invisible transactions and current transfers (e.g., education and medical costs) but all bona fide requests continue to be met. Capital transactions are closely regulated. Borrowing abroad by private companies or financial institutions can only be undertaken with specific permission of the central bank under approval policy guidelines. Recently, the central bank has started approving external borrowing under the following conditions: (i) borrowing can only be undertaken by companies that have exports in convertible currencies, have a detailed plan for repaying the debt, and are otherwise deemed eligible by the central bank; (ii) all borrowing must be at no more than LIBOR plus 5 percentage points; (iii) borrowing must be for a minimum term of at least two years (i.e. cannot be short-term borrowing); and (iv) the amount borrowed cannot exceed two times the companies paid up capital. As of November 1998, outstanding external borrowing by private companies amounted to about \$15 million (0.3 percent of GDP).

50. **Nepal's trade regime was significantly liberalized between 1991/92 and 1993/94** when the tariff structure was simplified, and the number of bands reduced. Nontariff barriers were liberalized by eliminating quantitative restrictions with a few exceptions and all imports were brought under an open general license system. In response, exports and imports rose rapidly relative to GDP in the first half of the 1990s. The current trade regime is open, especially compared with other South Asian countries. On the IMF's internal ranking of trade restrictiveness from 1 (most liberal) to 10 (most restrictive) Nepal is rated a 2, much lower than other countries in the region. The number of trade bands has been lowered to 5 (5, 10, 20, 30, and 80 percent) with an average tariff rate of 14 percent. The effective tariff rate is only 7½ percent because of low valuations used to calculate duties (see Chapter V). There are no significant nontariff barriers and quantitative restrictions are very limited. Effective August 1997, Nepal removed quantitative restrictions imposed on the exports of grains such as rice, maize, wheat, pulses, and oilseeds, but in October 1998, issued a notice imposing quantitative restrictions on importing poppyseed. A quantitative restriction on rice exports

EXCHANGE RATE DEVELOPMENTS, 1991-1998



Source: International Financial Statistics; and IMF, Information Notice System.

1/ End of period.

was also introduced in December 1998 following projections of a shortage in domestic production. Nepal has recently initiated the formal process of joining the WTO by submitting the initiating memorandum and other necessary materials.

51. **An important development in Nepal's trade relations has been the signing of trade and transit treaties with India in December 1996.** The Nepal-India Trade Treaty provided greater duty free access to the Indian market for Nepalese producers on a reciprocal basis for some products and on a non-reciprocal basis for others, while also lowering duties applied to Indian goods in Nepal. The treaty is renewed automatically every five years and, in addition to expanding trade, has contributed to increased Indian direct investment in Nepal. The transit treaty has simplified procedures to expedite the transportation of cargo arriving in Calcutta and other Indian ports that are destined for Nepal.¹⁷ No automatic renewal provisions were provided in the original transit agreement, but in January 1999 Nepalese and Indian authorities agreed to some modifications and extended the agreement for seven years with an automatic renewal provision. The agreement also further improved transit procedures by (i) expanding the types of eligible transport to include open trucks and marine containers, as well as rail wagons; (ii) providing for additional storage facilities at the Calcutta port; (iii) simplifying administrative and customs procedures; and (iv) reconfirming the continued use of transit routes through India for the movement of Nepal's trade to and through Bangladesh.

IV. MONETARY AND FINANCIAL SYSTEM DEVELOPMENTS¹⁸

A. Monetary Developments

52. **With Nepal's exchange rate pegged to the Indian Rupee, inflation is largely determined by developments in India;** thus, the main objective of the Nepal Rastra Bank (NRB) is to ensure that the growth of domestic credit is consistent with maintaining international reserves at a comfortable level and with anticipated money demand. The **monetary policy instruments** available to the NRB are the cash reserve requirement ratio, bank refinancing rate, and open market-type operations through treasury bills and repurchase agreements. The NRB has issued longer-term bonds in the past. However, no such bonds have been issued recently and the last bonds were redeemed on April 1, 1997. The NRB has no discount window system. In practice, the NRB's instruments offer only limited leverage as government securities markets are thin and the range of debt instruments narrow. However, the introduction of longer term government securities in 1996/97 and lower public sector borrowing requirements enabled the NRB to have more influence over credit developments.

¹⁷For more details of the specific provision of the original trade and transit treaties, see SM/97/118.

¹⁸See Appendix Tables 18-25.

53. After falling in 1996/97 to 12 percent, **the growth in broad money significantly increased during 1997/98 to 18 percent**, reflecting increases in both foreign and domestic assets of the banking sector (Table 3 and Chart 6). The increase in broad money was far higher than the targeted level of 14 percent, while narrow money growth also accelerated to 14 percent from 5½ percent in 1996/97 and compared to a target of 13 percent. The rapid expansion in broad money relative to the low nominal GDP growth (4½ percent) in 1997/98 resulted in a decline in the velocity of money (a significant increase in the demand for money), that may have been caused by high real deposit rates and low returns on alternative assets such as stocks. In the first four months of 1998/99, broad and narrow money growth accelerated further to 22 and 17 percent, respectively, as net foreign assets increased further.

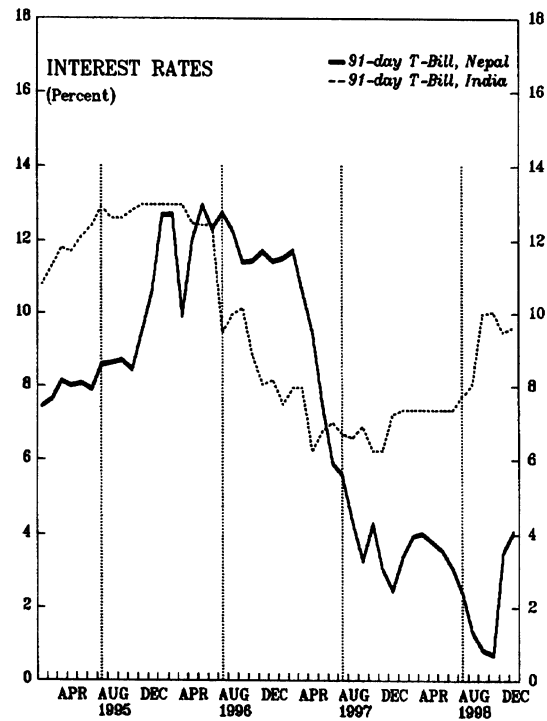
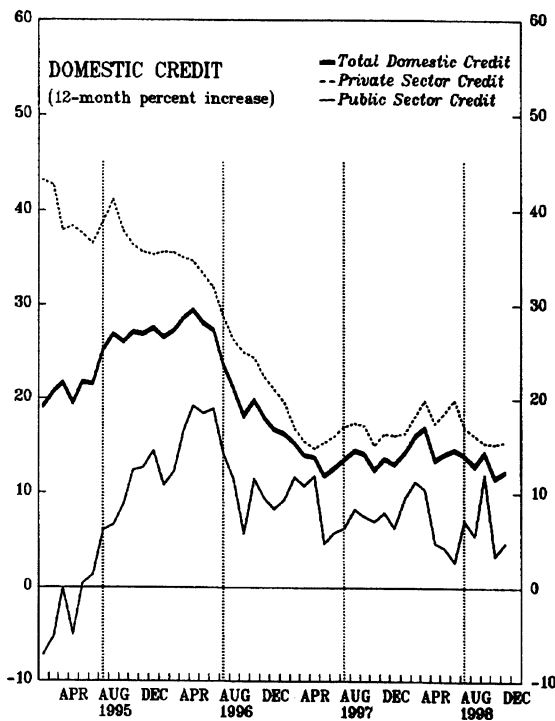
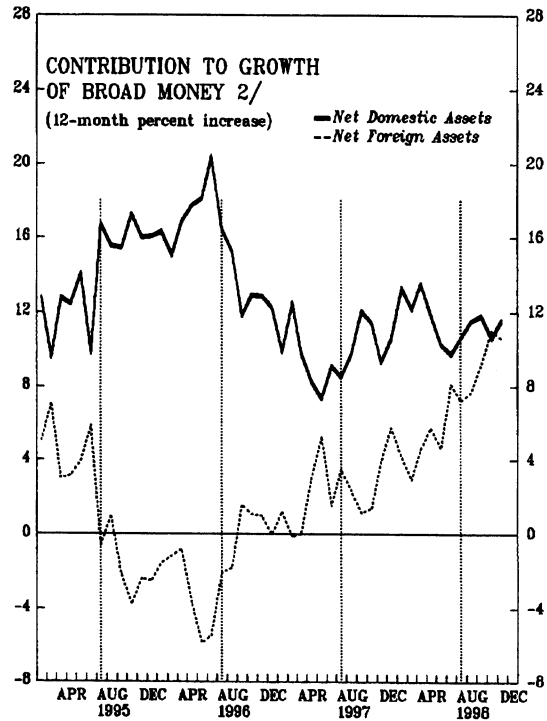
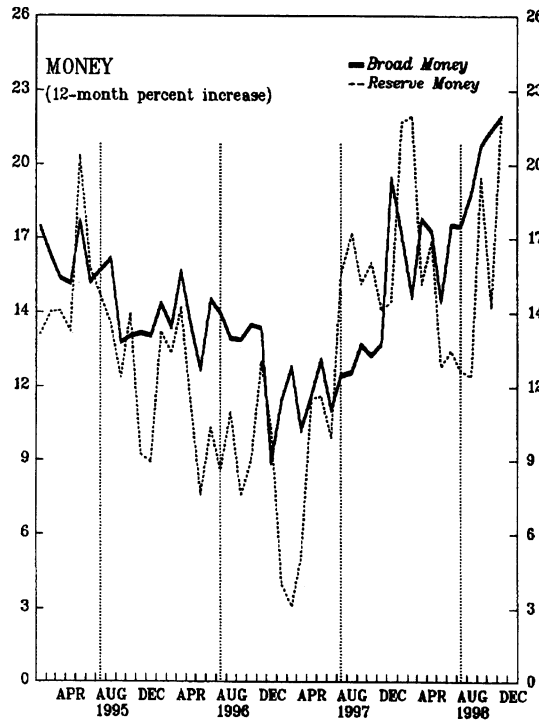
Table 3. Nepal: Monetary Accounts, 1994–1998

	1994	1995	1996	1997	1998		
	July	July	July	July	Jan.	July	Nov.
Monetary authorities	(12 month change in percent of reserve money at start of period)						
Net foreign assets, excl. ex. val. 1/	23.4	-3.5	-7.8	10.7	10.9	18.2	20.9
Net domestic assets, excl. ex. val. 1/	-7.2	18.5	16.1	5.2	10.3	-6.0	1.3
Reserve money	16.2	15.1	8.3	15.9	21.2	12.1	22.2
Monetary survey	(Annual percentage change)						
Domestic credit	17.8	25.1	23.5	14.3	14.2	13.0	12.2
Public sector	0.4	4.5	12.6	5.0	8.3	5.3	2.7
Government	0.2	6.1	10.1	6.8	10.7	7.4	4.6
Private sector	34.0	39.4	29.2	18.6	16.6	16.1	15.9
Broad money	19.6	16.1	14.4	11.9	17.5	17.8	22.1
Narrow money	19.6	15.7	10.7	5.4	13.4	14.3	16.7
Quasi money	19.6	16.3	17.0	16.2	20.0	19.8	25.1
	(12 month change in percent of broad money at start of period)						
Net foreign assets, excl. ex. val. 1/	12.1	-0.7	-2.1	3.5	4.2	7.2	10.6
Net domestic assets, excl. ex. val. 1/	7.5	16.7	16.5	8.5	13.3	10.6	11.5
Domestic credit	14.4	20.0	20.2	13.3	14.3	12.3	11.4
Public sector	0.2	1.5	3.7	1.4	2.2	1.4	0.7
Private sector	14.3	18.5	16.5	11.8	12.1	10.9	10.7

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/Adjusted for the impact of exchange rate changes on the value of net foreign assets and other items, net.

SELECTED FINANCIAL INDICATORS, 1995-98 1/



Sources: Data provided by the Nepalese authorities; and staff estimates.

1/ Beginning of fiscal year is indicated by a dotted line.

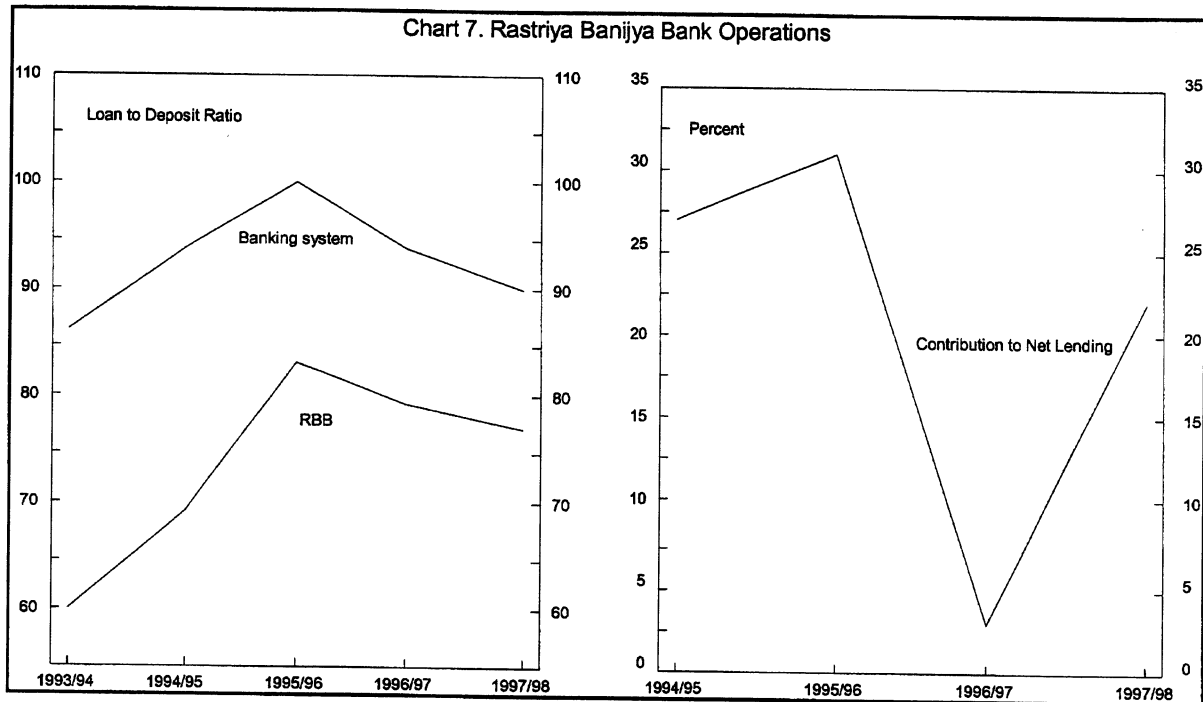
2/ Adjusted for valuation effects of exchange rate changes; in percent of broad money at beginning of period.

54. **Credit growth slowed significantly to 13–14 percent during 1996/97–1997/98.** The deceleration was particularly striking for private sector credit growth, which declined from 29 percent in 1995/96 to 17 percent during 1996/97–1997/98. In addition to weak economic conditions, this also reflected a more cautious lending attitude by banks, limited investment opportunities in the private sector, and the increasingly limited capacity of the whole banking system to lend. The aggregate loan–deposit ratio (including claims on government) approached 100 percent in 1995/96, but it has declined somewhat over the past two years (Chart 7). State–owned banks such as the Rastriya Banijya Bank (RBB), Nepal Bank Limited (NBL) and Agricultural Development Bank of Nepal (ADBN) accounted for 80 percent of bank credit extended to the private sector in 1997/98. Loans extended by the RBB increased only modestly during 1996/97–1997/98 because of an emphasis on loan recovery. During the first four months of 1998/99, total credit growth decelerated further to 12 percent reflecting the sluggish economy, as well as the NRB’s efforts to absorb excess liquidity in the banking system. Despite these efforts, substantial excess liquidity in the banking system continues to exist.

55. Following high rates of growth in the early 1990s, the increase in **reserve money** declined to 8 percent in 1995/96 before increasing to 16 and 12 percent in 1996/97 and 1997/98, respectively. Whereas during 1996/97, the reserve base was supplied about equally from foreign and domestic assets, during 1997/98 the domestic sector absorbed excess liquidity that was supplied mainly through the foreign sector. Net domestic assets, excluding valuation adjustment, declined by Nrs 2½ billion, while net foreign assets (also excluding valuation adjustment) increased by Nrs 7½ billion. Most significantly, the NRB reduced its claims on the public sector by Nrs ½ billion in 1997/98, resulting from a sharp shift by the government to domestic non–bank financing. During the first four months of 1998/99, the growth rate of reserve money increased to 22 percent on account of a further increase in foreign assets and a rise in the credit to the government.

56. **In response to the sluggish economy, interest rates declined during 1997/98.** The NRB reduced its refinance rate from 11 to 9 percent in December 1997 and the cash reserve requirement ratio from 12 to 10 percent on average in March 1998. The aim was to induce a decrease in bank lending rates and to enhance the supply of private sector credit. As a result, loan rates and savings and time deposit rates dropped by 0.5–1.75 percentage points during 1997/98. Moreover, reflecting high liquidity in the banking sector and a slow demand for bank credit, 91–day treasury bill rates declined from early 1997 to around 2½ percent at the end of 1997/98. Purchases of treasury bills have been largely by state–owned banks such as the RBB and ADBN, and the NBL, which is 41 percent government owned. As a result, Nepalese t–bill rates in 1997/98 moved in the opposite direction of Indian rates.¹⁹ However, the downward trend of t–bill rates reversed in November 1998 after falling to less than 1 percent in October and rose to 4 percent in December, reducing the difference in rates

¹⁹ Although capital mobility is incomplete, avenues for movement of capital between Nepal and India exist and such movements can become significant when interest rate differentials widen beyond a threshold. For example, in early 1995/96 repatriation of export proceeds were delayed, while evidence pointed to increased Nepalese holdings of deposits in Indian banks, earning higher returns.



between Nepal and India. Despite the drop in the overall interest rate structure, the spread between lending and deposit rates still remained over 7 percentage points reflecting overall inefficiencies in the banking sector. In an attempt to regulate spreads, the NRB introduced in early 1998/99 a maximum interest rate spread of 5 percentage points for commercial banks based on the average of interest bearing assets and liabilities. It is too early to see how this regulation will be monitored or enforced.

B. Financial System Developments

57. **Nepal's financial system has rapidly expanded since liberalization in the early 1990s.** The number of financial institutions including co-operative societies, rural development banks, commercial banks, and finance companies has increased from 19 in July 1994 to 83 in November 1998. However, the overall structure of the financial system has remained fragile. The banking system in Nepal is dominated by state-owned banks, which have been strongly influenced by government policies that emphasized development objectives ahead of commercial viability. Accordingly, the profitability of these banks has been poor and nonperforming assets have mounted. Some joint-venture banks also have problems of over-exposure. Despite reform measures to address these issues since the early 1990s, very serious problems remain, particularly with the RBB and NBL. Growing nonperforming assets and a slow loan recovery rate have impaired their lending capacity and driven up lending rates to the private sector (Box 3).

58. The **RBB**, the largest commercial bank, has sought to recover overdue loans and limit further credit extension beyond prior commitments. As a result, Nrs 5 billion and 3 billion in principal and interest were recovered in 1996/97 and 1997/98, respectively, and the loan-deposit ratio declined to 77 percent in 1997/98 from 83 percent in 1995/96 (Chart 7).

Box 3: Problems in the Banking System

The government has a major role in the Nepal financial system with full or partial ownership of the largest commercial banks, the rural development banks, the insurance industry, and other institutions. It also influences the operations of the joint venture banks. Despite financial sector reform introduced over the past ten years very serious problems remain, particularly with the two state banks, **Rastriya Banijya Bank (RBB)** and **Nepal Bank Limited (NBL)**. Together these two banks represent more than 60 percent of total bank deposits. Their loan to deposit ratios substantially exceed corresponding ratios in the joint venture banks. Financial sector weaknesses also extend, albeit to a lesser extent, to private banks and other financial institutions reflecting weaknesses in the entire regulatory and supervisory framework.

For decades, government policies emphasized development and social objectives ahead of commercial viability. Extensive branch networks were set up for the two banks, without adequate central supervision. As a result, liquidity problems linked to growing nonperforming assets and slow loan recovery have impaired the banks' lending capacity and driven up all lending rates to the private sector. Although there are no recent properly audited accounts, estimates of nonperforming loans range from 18 to over 30 percent of assets.

In the early 1990s, both banks underwent a program of institutional strengthening and restructuring with the support of the World Bank with limited success. Performance improved considerably for the NBL as private representation on the bank's board helped improve management and loan recovery. The NBL is now majority privately-owned following the sale of shares to employees and the public. However, the government retains 40 percent of the shares (attempts to sell more shares have proven unsuccessful) and the management of the NBL is still strongly influenced by the government. Nonperforming loans at the NBL stood at 25 percent at the end of 1996/97, although there has reportedly been some improvement in loan recovery since then. Many of these nonperforming loans carry government guarantees—which if paid would greatly improve NBL's position—but no budgetary provisions to pay off these loans have been made. Similar financial problems have occurred at the state-owned **Agricultural Development Bank-Nepal** (9 percent of total deposits) which is being restructured with the support of the AsDB.

The situation at the RBB is even more serious. While some improvements in loan recovery have taken place since the establishment of a loan recovery committee in 1996, substantial problems remain as many loans continue to be made for social and political reasons. Nonperforming loans may currently be as high as 25–30 percent and even new loans are recording a nonperforming ratio of nearly 20 percent. Meanwhile, weaknesses in financial management remain, with continuing cases of mismanagement and debility of assets. Recently, there has been further evidence of fraud, relating particularly to misuse of export credit lines.

Nepal Rastra Bank, the central bank, falls under the authority of the Ministry of Finance, and lacks autonomy, especially in its dealings with RBB. The regulatory capacity is weak and insufficient to effectively regulate and supervise the banking institutions, much less the larger number of financial and leasing companies. While the legal framework is, in principle, adequate, government mandates in the form of priority sector lending, conditions on private banks opening new branches, and restrictions on the entry of foreign banks contribute to the inefficiency of the system.

The World Bank is currently discussing with the government a program of assistance that would focus on: (i) helping the government restructure and prepare for the privatization of the RBB and NBL—this will likely require the government's assumption of nonperforming loans and an injection of capital to fill any solvency gap; (ii) supporting the central bank's regulatory and supervisory department; and (iii) creating a simple and uniform legal framework for the operations of Nepal's financial system.

The structure of the RBB, in particular, still remains poor; nonperforming loans, excluding unpaid interest, were officially recorded at 28 percent as of mid-July 1996 (based on the last fully audited accounts). The NBL, minority government owned but still strongly influenced by the government, also continues to be a fragile institution with 25 percent of its loans nonperforming in 1996/97 and registering a loss in both 1996/97 and 1997/98. The ADBN's financial and operational situation is also poor with a blurred distinction between social and commercial objectives.

59. **The joint-venture banks** have increased competition in the banking system while concentrating their business on trade finance, and lending to foreign direct investment companies and other large private enterprises. The NRB plans to allow foreign partner shares in joint-venture banks to rise above the current limit of 50 percent in order to further enhance competition in the banking system.

60. The number of **finance companies** has increased to 44 since the sector was opened in the early 1990s. This expansion has helped boost competition for funds, as finance companies have spurred innovation, offering new and more flexible investment options (including transferable investment certificates) to the public. Finance companies are allowed to raise term deposits with maturities from 90 days to six years, but are not allowed to raise current and savings deposits. However, some finance companies are currently exploring offering certificates of deposit. Although total finance company deposits are still small (about 6 percent of total bank and finance company deposits), they have grown by almost 4 times over the past two years. On the asset side, finance company activity includes hire purchase, housing loans, term loans, and to a lesser extent, leasing. Term loans, which have taken the biggest share of the total loans and advances since 1995/96, have grown rapidly over the past two years, partly because such needs are not being met fully in the banking system.

61. **In principle, the NRB is the sole organization in Nepal responsible for supervision of both bank and nonbank financial institutions.**²⁰ In practice, staffing shortages and political interference with respect to the state-owned banks have severely constrained effective supervision. With the rapid expansion in the financial sector, the NRB is taking steps to strengthen supervision but much more work remains to be done. The current framework of the NRB's financial supervision is based on the core principles set by the Basle Committee on banking supervision. The staff of the bank inspection department has been increased (currently 70 supervisors in 5 divisions) and the number of bank branches and finance companies covered by on-site supervision expanded and off site inspection has been made more regular. Through off-site examinations, the NRB monitored liquidity conditions and whether priority sector lending by the banks met prescribed levels (12 percent of total loans and advances to the priority sector and 3 percent to 16 deprived sectors).²¹ The NRB made efforts to improve the methodology and procedures of off-site examinations of finance companies and introduced new methodology and procedures for cooperative financial

²⁰The NRB has no power to control or supervise co-operatives, which are currently supervised by the Ministry of Agriculture.

²¹The penalty for not complying is 1 percent of their highest return portfolio.

institutions. The minimum required capital adequacy ratio of banks is currently 8 percent following BIS recommendations and the NRB is planning to increase this ratio to 10 percent. In 1997/98, only the RBB and a few small banks failed to comply with the ratio. The NRB also plans to revise the format of financial statements and the loan classification system to follow international standards, reducing the number of categories.²² Moreover, recognizing the need to increase the level of staff expertise, the NRB is working with the World Bank to provide training, to enhance off-site supervision, and to strengthen its Inspection and Supervision Department.

62. The structure of the **stock market** consists of the Securities Board as the primary capital market regulator, and the Nepal Stock Exchange as the operating and trading center for stocks. As of end 1997/98 there were 29 brokers, 3 market makers, 11 primary market dealers and 3 secondary market dealers. The government has taken measures to strengthen the regulatory framework of capital markets, while opening them to foreign investment by establishing the relevant legal framework.²³ However, since specific rules for foreign investment have not been prepared, there has been no foreign portfolio investment in the stock market. As for the **securities market**, both primary and secondary markets exist for government securities. The NRB introduced a repo facility for 1 to 7 days in treasury bills in March 1997. The interest rate for repo trading is now determined by adding one percentage point to the weighted average discount rate of the last 91-day treasury bill auction. The Nepal Industrial Development Corporation (NIDC) encourages long term loans to the private industrial sector. The share ownership of the government and the NRB in NIDC will be raised by Nrs 100 million in 1998/99.

V. FISCAL SECTOR DEVELOPMENTS²⁴

A. Overview

63. **In recent years, fiscal policy has been characterized by low and stagnant revenue-to-GDP ratios, increasing regular expenditure, underspending of development expenditure, and overall deficits of 6-7 percent of GDP (before grants).** These deficits have been financed to a large extent with foreign grants and concessional loans. The

²²Under the current proposals, loans are treated as **good** if the maturity date is not exceeded; **acceptable** if overdue up to one month; **indicative of substandard** if overdue from 1 to 6 months; **substandard** if overdue 6 months to one year; **doubtful** if overdue 1 year to 5 years; and **bad** if overdue above 5 years.

²³Under the foreign exchange law passed in August 1996, foreign portfolio investment is allowed on the Nepal Stock Exchange, subject to an investment limit of 25 percent of a company's paid up capital. Moreover, foreign securities firms are now permitted to hold up to 40 percent of the equity in joint venture brokerage firms.

²⁴See Appendix Tables 26-30.

performance of the fiscal sector reflects largely failures to improve tax administration, simplify the tax system, increase the transparency and effectiveness of budgetary procedures, or to improve the efficiency, prioritization, and control of expenditure.

64. **During the past three years, tax collection has remained at less than nine percent of GDP, consistently below budget targets** (Chart 8). Tax revenue-to-GDP ratios have been low—even compared with countries at a similar level of development (see Box 4)—because the general tax base continues to be eroded as much of the increase in economic activity remains untaxed, tax administration is weak, and numerous tax exemptions are being

Box 4. Comparison of Fiscal Revenue

Revenue-to-GDP ratios and, in particular, tax revenue ratios have been quite low in Nepal, even when compared with ratios in other SAF/ESAF countries. The low tax ratio reflects the continued erosion of the tax base as a result of :

- pervasive exemptions and deductions on income tax, VAT, and custom duties
- undervaluation of dutiable imports and the import-component base of VAT
- presence of informal economic activities that escape taxation
- extensive tax evasion facilitated by a weakened tax administration
- limited political support to adequately broaden the tax base.

Comparative Country Data

	Nepal 1997/98	SAF/ESAF Countries ¹ Asian Countries ²	Total
Total revenue (in percent of GDP)	10.8	15.4	18.1
Tax revenue (in percent of GDP)	8.8	13.0	15.4

¹ Last available year, from Fiscal Reforms in Low-Income countries, Occasional Paper 160, March 1998

² Bangladesh, Cambodia, Laos, Pakistan, Sri Lanka, and Vietnam.

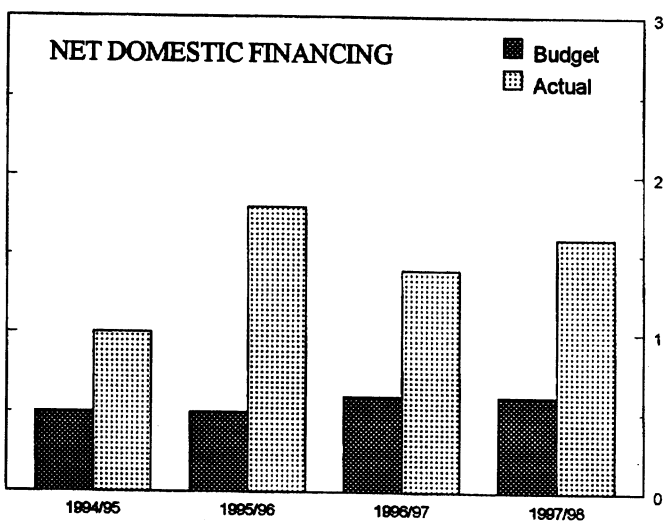
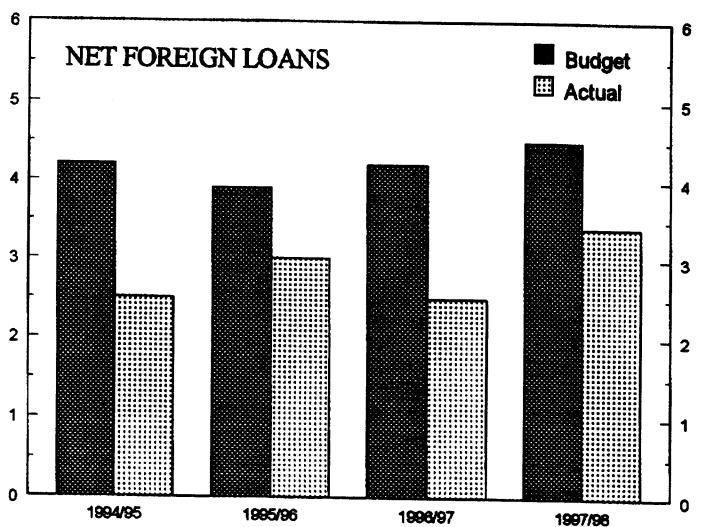
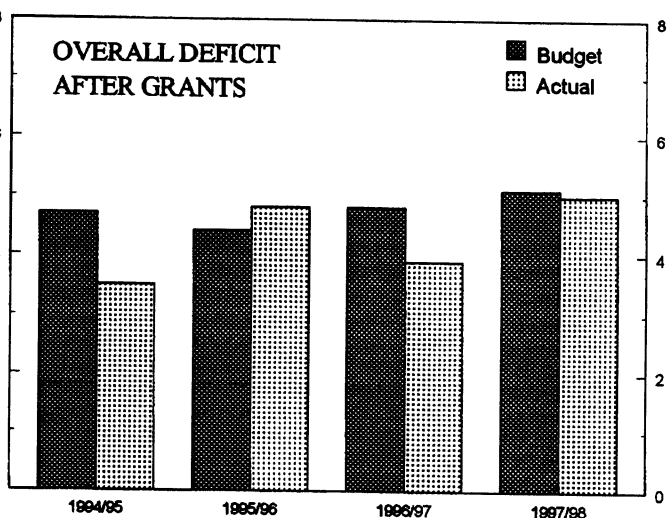
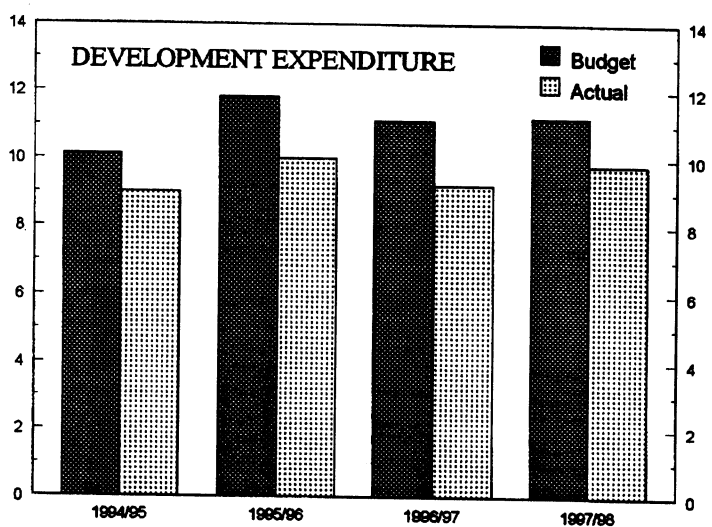
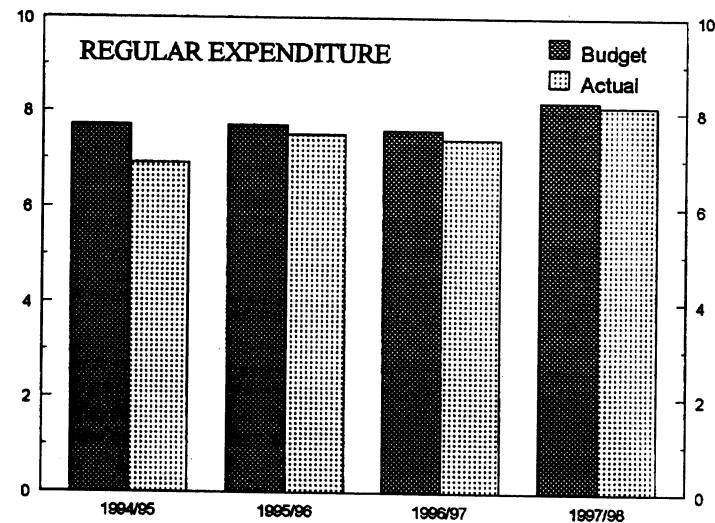
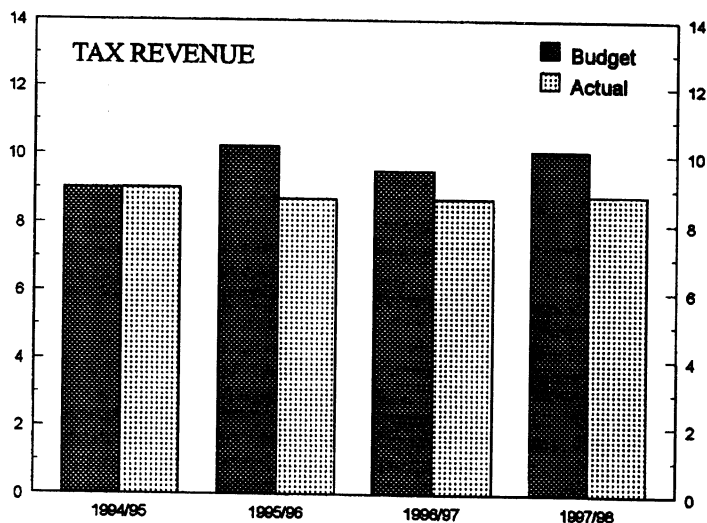
provided to domestic and foreign investors. The complexity of the tax system—numerous tax rates, brackets, exemptions, and special cases—has resulted in heavy administration and compliance costs. At the same time, administrative weaknesses have depressed tax collection, blurred transparency of the tax system, and enabled rent-seeking activities.

65. **The share of regular spending in total expenditure has increased** reflecting an expanding wage bill, which accounted for one third of total expenditure in 1997/98—interest payments have remained at 1½ percent of GDP and defense expenditure at 1 percent of GDP. In contrast, development spending has been consistently below budget targets, reflecting a weak capacity to administer, implement, and monitor projects.

66. **Concessional foreign loans have been underutilized** because of delays in the implementation of development projects. Nonetheless, net foreign loans have financed 60–70 percent of overall fiscal deficits after grants in recent years. **In contrast, net domestic**

CHART 8

NEPAL
FISCAL DEVELOPMENTS, 1994/95 - 1997/98
(In percent of GDP)



Source: Data provided by the Nepalese authorities.

financing has been higher than budgeted, reflecting lower-than-targeted revenue ratios and higher regular spending.

B. Central Government Operations in 1997/98

67. **After declining by 1 percent of GDP in 1996/97, the central government deficit (after grants) increased back to 5 percent of GDP in 1997/98.** Although this outturn was similar to that targeted in the 1997/98 budget, it was achieved at the expense of lower-than-budgeted development expenditure that offset the revenue shortfall. Regular spending was higher than in 1996/97, but was lower-than-budgeted because of a decline in fertilizer subsidies following partial deregulation initiated in November 1997. Public savings declined to ¼ percent of GDP in 1997/98, down from 1½ percent in 1996/97.²⁵ Net domestic borrowing exceeded budget targets by 1 percent of GDP, while net foreign financing was lower than estimated in the budget by 1 percent of GDP, as a result of undisbursed foreign loans associated with delays in project implementation.

68. **Some progress was made in important areas of structural reform in 1997/98,** including the partial introduction of a value-added tax (VAT) in November 1997—replacing sales, contract, and hotel taxes—in the face of widespread business opposition, limited progress in the privatization program, and reductions in fertilizer subsidies. In addition, for the first time the authorities undertook a mid-term budget review in January 1998.

Revenue

69. **Total revenue increased slightly to 10¾ percent of GDP in 1997/98 but was less than the 12¼ percent envisaged in the budget** as a result of inability to increase tax revenue to over 10 percent of GDP. Thus, while the nontax revenue ratio increased slightly, the tax revenue ratio remained stagnant for the third year in a row. Foreign grants have been stable at 2 percent of GDP during the past several years.

70. **The shortfall in tax revenue was brought about mainly by lower VAT and import tax revenues.** As envisaged, VAT was intended to be revenue neutral at a rate of 15 percent. VAT introduction, however, met stiff resistance from the business community despite government efforts to smooth the transition to VAT. In this regard, although the government reduced the sales tax from 15 to 10 percent in August 1997, businesses went on strike to protest the upcoming introduction of VAT. This led the government to delay the introduction of the new tax to November 16, 1997 and to set the rate at 10 percent. Nevertheless, business protests continued during 1998, leading the government to extend further tax concessions and weaken VAT enforcement.

71. **VAT compliance has remained very low and registration far below expectations.** Registrants were expected to increase from 2,000 entities—previously registered in the sales tax—to at least 8,000, but only 5,600 had registered by end-1997/98 out of a possible

²⁵Public savings are defined as revenue *less* regular expenditure and estimated recurrent costs of development expenditure.

13,000–17,000. In addition, revenue losses resulted from the shift from a partial credit system under the sales tax regime to a full credit system under VAT; full credit for existing stocks was extended in November 1997 and credit carried forward on these stocks was still high at Nrs 500 million (¼ percent of GDP) in September 1998.

72. **The shortfall in import taxes in 1997/98 is explained by low import volume growth and the undervaluation of dutiable imports.** The budget had assumed a move to an invoice-based system since the beginning of 1997/98 and the Customs Act had been amended accordingly. However, import duties continued to be based on very low valuations that have not been comprehensively revised since 1995/96. Other factors that contributed to lower-than-budgeted import taxes were the sharp reduction in gold imports, a shift in the composition of non-gold imports toward Indian goods that attract lower tariffs, and the reduction in the highest custom-duty rates. The structure of import duties has been simplified in recent years, including through a reduction in the number of rates and lower average rates. Tariff rates of 110 and 40 percent, applied to luxury goods, were lowered to 80 and 30 percent, respectively, at the beginning of 1997/98; with a revenue loss estimated at ½ percent of GDP. The large number of exemptions and rate deductions resulted in effective-tariff rates that are almost half that of the average-nominal rates; in 1997/98 the effective rate was 7½ percent while the average rate was 14 percent.

73. **The shortfall in tax revenue in 1997/98 compared with the budget occurred despite substantial increases in income and excise taxes.** The buoyancy of income taxes was largely on account of personal taxes that rose by 51 percent in nominal terms (¼ percent of GDP) in 1997/98. The increase in personal taxes followed significant changes in the income tax system, which included increased tax withholding at the source, self-assessed tax returns, improved administration that brought more taxpayers into the net, an increase in tax-exemption limits by Nrs 5,000 (US\$80), and a reduction in tax rates (Annex I). Excise taxes increased by 25 percent (¼ percent of GDP) compared with 1996/97, as a result of higher collection on cigarettes and liquor, which account for 97 percent of total excise taxes. Collection on cigarettes increased by 34 percent because of increases of over 50 percent in revenue from tax on the highest-selling brands of nonfiltered and filtered cigarettes. Collection on liquor increased by 21 percent because the contract system for domestically produced liquor was replaced by a structure of specific taxes in 1996/97 and specific taxes on all liquor types increased substantially in 1997/98.

Expenditure

74. **Total expenditure increased in 1997/98 to 18 percent of GDP** reflecting higher regular and development expenditure, but was below budget projections by 1½ percent of GDP due to shortfalls in development spending.²⁶ Regular expenditure increased to over

²⁶The Nepalese budget classifies expenditures as “regular” and “development” rather than “current” and “capital”. Development spending incorporates an estimated 35 percent of recurrent costs including wages. In addition, expenditure data are not compiled following an economic classification and monitored data are highly aggregated, both of which hinder the

(continued...)

8 percent of GDP in 1997/98 because of the new salary scale for civil service employees in effect since the beginning of 1997/98 that resulted in significant salary increases ranging from 20 percent for high-ranking employees to 43 percent for low-ranking employees. Consequently, the wage bill increased by 1 percent of GDP in 1997/98 and accounted for 76 percent of regular expenditure.²⁷ Currently, civil service employees are estimated at 400,000 comprising 100,000 in government agencies, 100,000 teachers, 50,000 health workers, and 150,000 in the armed forces and police.

75. **The increase in the wage bill in 1997/98 was somewhat offset by lower subsidies on fertilizers.** Fertilizer subsidies on diammonium phosphate (DAP) and potash were eliminated in November 1997 and urea subsidies declined, because of a retail price increase of 10 percent and a sharp fall in international prices. Hence, the “nonwage” component of regular expenditure, including fertilizer subsidies, subsidies for the transportation of rice to remote areas, and agricultural loan subsidies declined.²⁸ Taken together, wages, benefits, and interest payments accounted for 94 percent of regular spending in 1997/98, leaving little room for outlays on operations and maintenance (Chart 9).

76. **As in previous years, development expenditure fell short of budget targets in 1997/98 by 1½ percent of GDP** reflecting weak project implementation, but increased slightly to 10 percent of GDP compared to 1996/97, because of accelerated spending in the final months of 1997/98. The weak implementation of development projects is a result of procurement delays, frequent changes in project managers that hinder the decision-making process, excessive bureaucratic requirements, lack of raw materials, weak infrastructure, and administrative weaknesses in monitoring project progress. In addition, failure to increase the revenue ratio while regular spending expanded have resulted in insufficient domestic counterpart funding, because of compression aimed at meeting the borrowing limits set in the budget. Thus, cuts were often made without adequate prioritization. As a result, agriculture and social services had their allocations cut disproportionately.

77. **As indicated in Table 4 below, the shortfall in development expenditure in 1997/98 was mainly due to delays in power projects.** About half of the increase in development spending in the budget was accounted for by the Kali Gandaki project, the largest hydropower project at 150 MW initiated in March 1997, and the Mahakali Treaty project, which started being implemented in 1997. The Kali Gandaki project suffered from construction delays and the Mahakali Treaty with India—for water-sharing and joint power

²⁶(...continued)

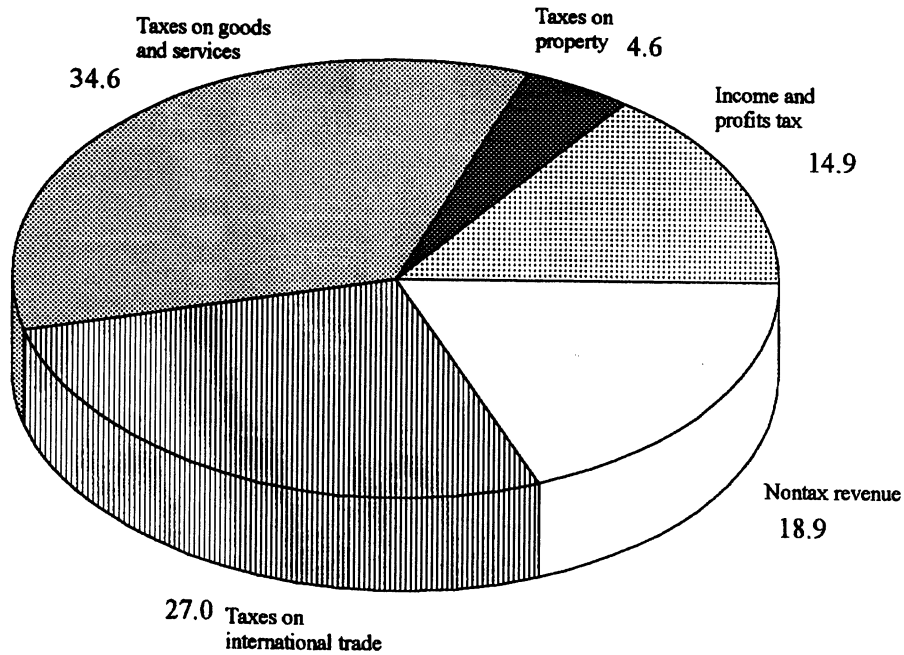
analysis of fiscal developments and the possibility of taking timely remedial actions.

²⁷Based on total budgeted provisions for wages and employee benefits—which are recorded in various budget accounts and are not easily identifiable—since actual expenditure are not separately monitored. Furthermore, wages are understated to the extent that some benefits are provided in the form of free or below-market-price goods and services.

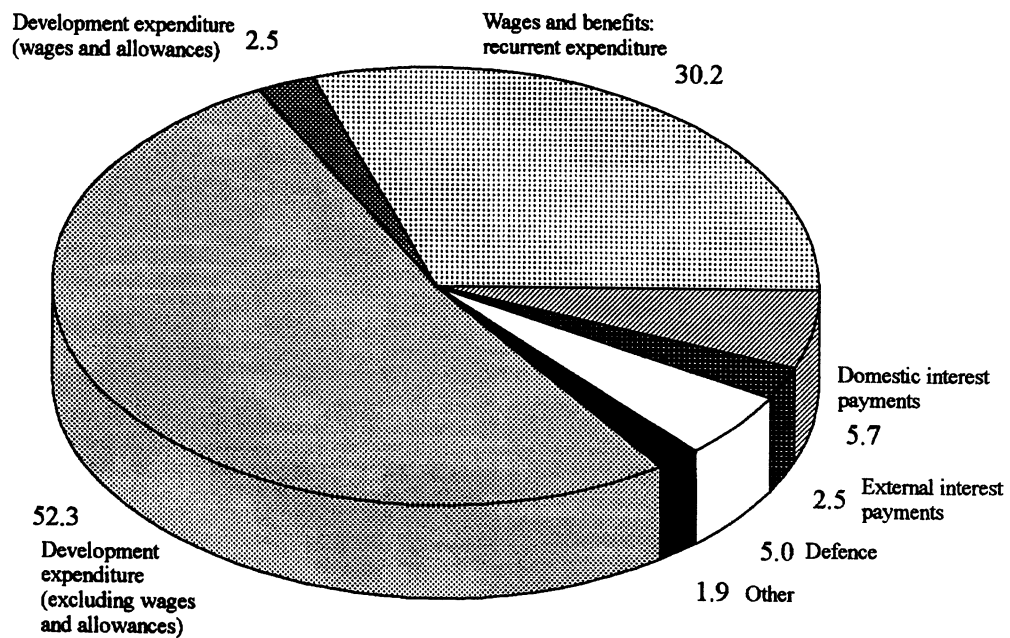
²⁸Under the Second Agriculture Program Loan with the AsDB, the subsidy on urea is to be eliminated by July 1999 (Chapter VI provides more information).

CHART 9
NEPAL
COMPOSITION OF REVENUE AND EXPENDITURE, 1997/98
(In percent)

TOTAL REVENUE



TOTAL EXPENDITURE



Source: Data provided by the Nepalese authorities.

development in the Mahakali basin—has been postponed because of disagreement on the size of the plant and over rights to use the river. In addition, the implementation of drinking water and agriculture projects was poor. The share of agriculture in developing spending has declined over time, despite its importance in the Nepalese economy and the priority given to implementing the Agricultural Perspective Plan.

Table 4. Nepal: Development Expenditure by Functional Classification, 1993/94–1998/99
(In percent of GDP)

	1993/94	1994/95	1995/96	1996/97	1997/98	Budget 1997/98	Budget 1998/99
Total expenditure	10.6	9.0	10.0	9.2	9.8	11.2	11.3
Social services	3.6	2.8	3.0	3.0	3.6	3.9	3.7
Education	1.9	0.7	0.7	0.8	0.8	0.9	0.7
Health	0.3	0.4	0.4	0.6	0.9	0.9	0.8
Drinking water	0.5	0.5	0.4	0.5	0.6	0.8	0.8
Other	0.8	1.3	1.6	1.1	1.3	1.3	1.4
Economic services	7.0	6.2	7.0	6.2	6.2	7.3	7.6
Agriculture related	2.8	2.5	2.2	1.8	1.6	2.0	1.9
Agriculture	1.2	1.2	0.9	0.7	0.7	0.8	0.7
Irrigation	1.6	1.2	1.2	1.0	0.8	1.1	1.1
Land reform	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Forestry	0.5	0.2	0.1	0.2	0.1	0.2	0.2
Infrastructure	3.1	2.9	4.2	3.9	3.8	4.5	4.8
Power	1.2	0.8	1.3	1.6	1.8	2.4	2.5
Communications	0.2	0.7	0.5	0.4	0.5	0.3	0.3
Transportation	1.7	1.4	2.4	1.9	1.6	1.8	2.0
Other	0.6	0.6	0.5	0.4	0.7	0.6	0.7

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

78. **Total spending on education and health was 4 percent of GDP in 1997/98.** Gains achieved in related indicators—adult literacy, life expectancy, and population per physician—have been modest, although total spending allocated to these services has increased somewhat overtime. Education and health indicators have not improved, because of the composition and low productivity of spending. For instance, wages accounted for 94 percent of current education spending in 1997/98, leaving little left for teaching materials.

Financing

79. **Nepal relies heavily on foreign loans obtained on highly concessional terms to finance infrastructure and social development projects.** Net foreign loans financed 70 percent of the deficit after grants in 1997/98 and reached 3½ percent of GDP in 1997/98, 1 percent of GDP less than had been budgeted owing to the weaknesses in project

implementation referred to above. Nepal receives foreign loans in the form of cash payments under program and project loans, direct payments to producers in third countries to pay for materials and equipment, and commodities.

80. **Net domestic financing has been consistently higher than budgeted.** The government's financing requirements have been met through: (i) 91-day treasury bills, (ii) National Saving Bonds with a maturity of up to 15 years, (iii) Development Bonds with a maturity range of 10–20 years, and (iv) overdraft financing from the Nepal Rastra Bank. Annual budgets specify a global limit on net domestic borrowing that includes net new issuance of treasury bills, National Saving Bonds, and Development Bonds. However, recourse to overdrafts from the Nepal Rastra Bank and its subsequent conversion into "special bonds" are excluded for the purpose of meeting the ceiling. Hence, larger-than-budgeted domestic financing has been accommodated, while complying with the statutory limit on government paper issues. Although an informal agreement limits the cumulative annual overdraft amount to Nrs 1 billion, this limit has been frequently exceeded.

81. **Net domestic financing amounted to 1½ percent of GDP in 1997/98—1 percent of GDP higher than budgeted.** Thus, the budget target of virtually eliminating bank financing was missed and bank financing remained at ¾ percent of GDP. In contrast to past trends, however, Nepal Rastra Bank was not the main source of bank financing in 1997/98, as its net claims on the government declined—reflecting a drop in holding of treasury bills and National Saving Bonds (Nrs 2½ billion) that offset the increase in overdraft lending (Nrs 2 billion). At the same time, commercial banks acquired government securities with excess liquidity brought about by a reduction in reserve requirements together with lack of investment opportunities. Non-bank financing—comprising government securities sold to enterprises and financial institutions not covered by the monetary survey—was 1 percent of GDP, slightly higher than budgeted in 1997/98.

82. **Total domestic debt is relatively low at Nrs 35½ billion, amounting to 12 percent of GDP at end-1997/98.** Total domestic debt comprised Nrs 13 billion of "special bonds", Nrs 10 billion of National Saving Bonds, Nrs 9¼ billion of treasury bills, and Nrs 3¼ billion of Development Bonds. NRB held most of the "special bonds" and half of the Development Bonds. "Special bonds" are not available for secondary transactions, as they are nonmarketable, while their yield is considerably below the rate on treasury bills.

C. Central Government Budget for 1998/99

83. **The 1998/99 budget announced in July 1998 specified three key objectives:** (i) strengthening the fiscal position by increasing revenue mobilization and productivity of public investment, (ii) expanding economic growth by encouraging private sector investment—including continued privatization efforts—and reforming the financial sector, and (iii) prioritizing agricultural development and employment generation to alleviate poverty.

84. **The fiscal position was to be strengthened and net domestic borrowing reduced to 1 percent of GDP in 1998/99.** To this end, revenues were targeted to rise by 1 percent of GDP. Development expenditure was projected to increase by 1½ percent of GDP financed by higher concessional foreign loans. The overall fiscal deficit, after grants, was projected to

increase to 5½ percent of GDP. The projected revenue increase in 1998/99 was to come mainly from an increased VAT base, but also from changes in the income tax system and higher tariff and excise rates. The key revenue measures introduced were:

- Full implementation of VAT (Box 5).
- Changing customs valuation procedures to an invoice-based system, updating the reference prices in the customs-valuation book, and extending the Automated System of Customs Data (ASYCUDA) to more entry points. Transactions values to be honored on the basis of reference values listed in the valuation book.
- Raising the tariff rates on some goods from 30 to 40 percent—to boost revenue and equalize tariff rates with India—and imposing an import surcharge of 10 percent on luxury cars and of ½ percent on some other imports.
- Widening the income tax base by (i) levying a 1–2 percent charge at customs as advanced tax payment, (ii) changing the basis for levying income taxes to current year income from previous year income, (iii) imposing a surcharge of 10 percent on Nepali residents, (iv) increasing the surcharge on non-Nepali residents, and (v) bringing in new taxpayers into the tax net through an intensified taxpayer identification program.
- Increasing excise taxes on cigarettes, vodka, and low quality liquor by Nrs 5.
- Introducing a 2 percent tourism service fee, the proceeds of which are to be transferred to the Nepal Tourism Board—expected to start operations in early 1999.

Box 5. Changes in VAT Regulations Introduced with the 1998/99 Budget

- The VAT exemption threshold was increased from Nrs 2 million to Nrs 3 million of annual sales.
- Government purchases exceeding Nrs 25,000 made only from VAT registered businesses; previously, this requirement was for purchases exceeding Nrs 10,000.
- All commercial importers, other than cottage industries, need to register for VAT.
- Certain exporters allowed to import without paying VAT.
- The contract tax to remain effective for contracts signed before the introduction of VAT.
- The penalty rate for late tax returns reduced from 100 percent to 0.1 percent a day.
- Interest and penalties imposed in 1997/98 waived under certain conditions.
- Taxpayers claim 75 percent of collected VAT as input tax credit on stocks.
- Certain businesses can claim an input tax credit for VAT paid on imported machinery.
- Businesses must issue serially numbered invoices with their names and addresses and can be penalized if the accounting books are not maintained properly.
- Additional goods were exempted from VAT (see Annex I).

- Abolishing the octroi (local transit tax) after approval of the Local Governance Bill, to be replaced by a development tax of 1½ percent levied on imports.

The budget also included the following measures to strengthen tax administration:

- Establishment of an integrated information system to cross-check information provided by taxpayers on income taxes, VAT, and custom duties, and initiation of the computerization of major tax offices.
- Encouragement of a speedier resolution of cases under litigation related to income tax arrears by forgiving penalties when 75 percent of arrears are paid.
- Improvements in the structure and procedures of the Revenue Investigation Department, including arrangements for patrolling border areas.
- Creation of a high-level-government unit—the Permanent Revenue Board—to monitor, evaluate, and propose actions on the tax system, including aspects related to enforcement and transparency, and organization of revenue offices under the Ministry of Finance.
- Development of a Code of Conduct for revenue employees and regular monitoring of their property statements.
- Publication and dissemination of a code of taxpayers' rights.

85. **On the expenditure side, the overall thrust of the budget was moderately expansionary and emphasized the completion of ongoing projects.** The main elements were:

- Regular expenditure was budgeted to increase due mainly to an increase of over ½ percent of GDP in contingency expenses; much of this increase was earmarked for the upcoming elections. Total expenditure on direct subsidies on fertilizers, transportation of rice to remote locations, and lending to priority sectors was projected at less than ½ percent of GDP, contained by a further reduction in fertilizer subsidies.
- The Civil Service Act was to be amended to prevent (i) staff transfers to a new position prior to two–three years in their current position and (ii) the creation of new government positions.
- Development expenditure was budgeted at 11¼ percent of GDP, the same target set in the 1997/98 budget. About half of the increase was to be sustained by higher spending on power projects and the rest by increased spending in transportation and agriculture; development spending on social sectors was budgeted to remain at 3¾ percent of GDP.
- Several new projects related to the upcoming elections were included in the development budget, but the allocation was limited to 2 percent of total expenditure.

D. Latest Developments

86. **Preliminary data for the first five months of 1998/99 show that the fiscal deficit was lower than in the same period of 1997/98 due to lower development spending. Tax collection was lower than required to meet the annual budget target** as a result of (i) a two-week strike in August 1998 that led to the negotiation of a 39-step package with concessions on VAT and other taxes—the package, which sought to improve VAT compliance, had still not been put into effect by January 1999, (ii) resistance of large traders to register under VAT, (iii) delays in improving customs valuation procedures by introducing an invoice-based system and updating the customs-valuation book, (iv) staff disruption in the VAT department—reflecting the transfer of 68 experienced staff to other government offices—that further weakened tax administration and the ability to undertake tax audits, and (v) lower excise taxes due largely to heavy rainfall that impeded transportation of cigarettes and liquor.

87. **Regular expenditure has increased significantly**—higher law and order costs, debt service, election expenses—while development spending has been below the previous year level. Domestic bank financing declined as a result of large inflows of foreign grants and loans that have not yet been matched by development spending.

VI. PUBLIC SECTOR ENTERPRISES AND PRIVATIZATION PROGRESS²⁹

A. Introduction

88. **There are 42 public sector enterprises in Nepal employing 50,000 workers.** Eight are financial institutions and 34 are enterprises engaged in commercial activities in almost all sectors of the economy. Out of the 34 nonfinancial public enterprises, 12 operate in the manufacturing sector, 6 in the trading sector, 11 in the service sector, and 5 in the social sector. Most public enterprises in Nepal were set up in the 1960s and 1970s. Since then, the financial performance of the majority of the enterprises has been poor with aggregate losses usually at over 1 percent of GDP, though losses have been less in recent years. According to some estimates, public enterprises account for 6 percent of GDP.

89. **The privatization process initiated in 1992 has been slow.** The reform program, aimed to privatize 51 out of 62 public enterprises existing at the time. So far, 13 enterprises have been fully privatized (8 during 1992–94 and 5 during 1996–97), two were liquidated, and three are in the process of being privatized. A USAID study showed that many of the privatized enterprises embarked on ambitious investment programs, improved managerial efficiency, created employment—despite the initial retrenchment—and had a favorable fiscal impact, as increased output levels and enhanced efficiency resulted in relatively higher tax revenues. As a result, the government has decided to speed up the privatization process and plans to formulate a strategy to privatize an additional 22 public enterprises.

²⁹See Appendix Tables 31–32.

90. **A consolidated public sector position is, however, difficult to measure** as accounts are unreliable or not compiled for some public enterprises and government units, and financial pooling arrangements between the government and public enterprises lack transparency. In this regard, the extent of government subsidies as well as the extent of cross-subsidization among enterprises has been masked and, therefore, hinder measurement of the true financial position of the central government vis-à-vis the public enterprises. However, available data indicate that public enterprises have been a drain on the budget.

B. Public Sector Enterprises

91. **The net income position of nonfinancial public enterprises deteriorated to ¼ percent of GDP in 1997/98.** Furthermore, if profits of the Nepal Telecommunication Corporation are excluded, the overall position of the nonfinancial enterprises recorded losses in the last two years. More than 60 percent of a total of 34 nonfinancial public enterprises has been making losses: ten out of 12 in the manufacturing sector, five out of six in the trading sector, five out of 11 in the service sector, and one out of five in the social sector. To cover these losses and provide capital requirements, budgetary transfers of over Nrs 2 billion a year—equivalent to 6–9 percent of government revenues—have been required in past years.

92. **Overall losses in the public enterprise sector result to a large extent from the following deep-seated problems related to the administration of the enterprises.** *First*, enterprises are administered by government appointed boards of directors; managers lack operational autonomy to conduct business at market prices, make investment decisions, or determine production targets, employment, and wages. *Second*, with the liberalization of private sector activities, public sector enterprises face greater competition from domestic manufacturers and imports. *Third*, public enterprises lack accountability and financial autonomy.

Developments in key enterprises

93. **During past years, the Agricultural Input Corporation (AIC) has suffered increasing losses because of highly subsidized prices for fertilizers.** AIC was set up to supply fertilizers to farmers at low prices, for which subsidies totaling Nrs 600 million a year have been budgeted in past years. This amount, however, has been insufficient to cover AIC's costs. In November 1997, as part of the AsDB program of US\$50 million to support the agricultural sector, the government started (i) deregulating the fertilizer trade by allowing the private sector to import and distribute fertilizers and receive government subsidies on urea; and (ii) deregulating fertilizer prices by reducing the subsidy on urea through a price increase of 10 percent, eliminating subsidies for other fertilizers, and allowing the private sector to set retail prices for all fertilizers. As a result of these measures and lower international prices for urea, fertilizer subsidies were lower-than-budgeted in 1997/98, and the supply of fertilizers has improved. Private sector competitiveness, however, has been hindered by heavily subsidized prices in India (Table 5). Under the AsDB program, the government committed itself to eliminate subsidies on urea by July 1999 and to reorganize and downsize AIC; retrenchment packages have been established but no progress has yet been achieved.

Table 5. Comparison of Fertilizer and Petroleum Product Prices 1/

	International	Nepal	India
Fertilizers (\$ per MT)			
Urea	155 2/	109	89
DAP	209	274	182
Petroleum products (\$ per liter)			
Petrol	1.00 3/	0.59	0.61
Diesel	0.61 3/	0.24	0.24
Kerosene	0.22 4/	0.15	0.07

Sources: AIC, NOC, Bloomberg Commodities Service; and Fund staff estimates.

1/ As of July 1998.

2/ Import cost of fertilizer purchased by AIC.

3/ Average retail price in European OECD countries.

4/ Wholesale cost of kerosene purchased by the NOC from vessels on the open seas.

94. **The Nepal Oil Corporation (NOC) registered losses of ¼ percent of GDP in 1996/97–1997/98, after recording modest profits in previous years.** Domestic prices in Nepal are set by the government and remained lower than international prices despite price increases of 15 percent on petrol, 11 percent on diesel, and 10½ percent on kerosene in June 1997. In 1998/99, further price increases of 2½ percent on petrol and 6½ percent on diesel have resulted in operating profits on these products, used for cross-subsidizing kerosene. The government is reluctant to increase further the price of kerosene because of the heavily subsidized price in India, which has encouraged smuggled imports from India. NOC imports petroleum products from world markets and re-exports them immediately thereafter for storage and processing to the Indian Oil Corporation (IOC); subsequently, NOC imports a range of petroleum products from IOC. Import prices charged by IOC, which are set semi-annually in October and April, are linked to NOC's purchase costs plus a margin for IOC's storage and delivery costs.

95. **The Nepal Telecommunication Corporation (NTC) has been the most profitable public enterprise, with net profits equivalent to ½ percent of GDP during 1993/94–1997/98.** This reflects an expansion in the telephone network infrastructure that has sustained increased operating revenues, despite unchanged tariff rates since 1991. International call rates, however, remain high, accounting for almost 60 percent of total revenue in 1997/98. The expansion of the telephone infrastructure was achieved through the Fifth Phase Telecom Project that was undertaken during 1992–1997. Although the number of telephone lines increased from 67,000 in 1992 to 260,000 in mid-1998, demand remains unfulfilled, with a waiting list of 255,000 lines. The Sixth Phase Telecom Project (1997–2002) aims at increasing the telephone density and providing on-demand telephone services.

96. **NTC's projects have been funded by concessional loans that the government on-lends in US dollars to NTC at LIBOR plus 3½ percent; NTC assumes the exchange rate risk.** Some of the loans require a counterpart fund in national currency, which is provided by NTC. NTC's contribution to the government revenue comprise: (i) interest payments on loans, which in 1996/97 and 1997/98 amounted to over Nrs 300 million; (ii) income tax payments that accounted for 10 percent of the total in 1997/98; and (iii) dividends of five percent on government equity, which totaled only Nrs 13 million in 1997/98. Finally, the NTC Board has decided to bring NTC under the Private Company Act—NTC is currently under the Communications Corporation Act—to gain operational autonomy and set the stage for selling shares to the private sector in the future.

C. Privatization Progress

97. **The privatization process has been revived since 1996, after a delay of two years.** The privatization program was held back because the incoming government of 1994 had different perceptions regarding the role of public sector enterprises in the economy and reservations about the privatization experience up to that time. The privatization unit in the Ministry of Finance and the technical assistance program were re-established in 1996. Technical capacity within the Ministry of Finance has been rebuilt with new assistance from the U.K. Department for International Development and USAID.

98. **Five nonfinancial enterprises were privatized in 1996–1997** and the government share holding in Nepal Bank Limited was reduced to 41 percent by selling 5 percent of shares to employees in August 1996 and 5 percent to the public in February 1997. In addition, the authorities are currently processing the sale of the Nepal Tea Development Corporation, evaluating purchase bids for the Himal Cement Company, and have invited bids for 75 percent of the shares of Butwal Power Company by early January 1999. The government is currently formulating plans to privatize 22 enterprises, including two large ones—NTC and RNAC—and four financial institutions.

99. **So far, two privatization modalities have been followed: (i) leasing by awarding concession contracts to the private sector for 5–10 years and (ii) selling government shares;** the latter comprised earlier cases in which private investors purchased all the government shares and more recent cases in which only 65–75 percent of the shares were purchased by private investors while 5 percent were purchased by employees, 20–30 percent were retained by the government, and the remainder were purchased by the general public.

100. **Privatization proceeds are kept in a fund separate from treasury accounts and are used for settling liabilities of enterprises being privatized;** left-over proceeds are transferred to the treasury and recorded under nontax revenue. Out of Nrs 750 million in total privatization proceeds since the program was initiated in 1992, Nrs 650 million have been used for settling liabilities.

Table 1. Nepal: Nominal Gross Domestic Product by Sector, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98
(In billions of Nepalese rupees, at current prices)					
Agriculture, fisheries, and forestry	80.6	85.6	96.9	108.8	110.8
Manufacturing	17.9	19.6	22.5	24.5	26.4
Construction	19.6	23.1	26.1	27.8	27.4
Electricity and water	2.2	2.9	3.6	4.5	4.4
Mining and quarrying	1.0	1.1	1.3	1.5	1.6
Financial and real estate	18.1	20.5	23.5	26.9	29.6
Community and social services	17.1	18.9	21.3	24.0	26.1
Trade, restaurants, and hotels	22.5	24.3	28.3	31.6	34.3
Transport and communications	12.6	14.0	15.9	19.8	22.5
GDP at factor cost	191.6	210.0	239.4	269.4	283.2
Agricultural GDP	80.6	85.6	96.9	108.8	110.8
Non-agricultural GDP	111.0	124.4	142.5	160.6	172.4
Value of imputed banking services	4.5	5.1	5.9	6.8	7.7
Net indirect taxes	12.1	14.3	15.5	18.0	18.0
GDP at market prices	199.3	219.2	248.9	280.6	293.5
(Percentage share in nominal GDP)					
Agriculture, fisheries, and forestry	42.1	40.8	40.5	40.4	39.1
Manufacturing	9.3	9.3	9.4	9.1	9.3
Construction	10.2	11.0	10.9	10.3	9.7
Electricity and water	1.1	1.4	1.5	1.7	1.6
Mining and quarrying	0.5	0.5	0.6	0.6	0.6
Financial and real estate	9.5	9.8	9.8	10.0	10.5
Community and social services	8.9	9.0	8.9	8.9	9.2
Trade, restaurants, and hotels	11.7	11.6	11.8	11.7	12.1
Transport and communications	6.6	6.7	6.6	7.3	7.9
Agricultural GDP at factor cost	42.1	40.8	40.5	40.4	39.1
Non-agricultural GDP at factor cost	57.9	59.2	59.5	59.6	60.9
(Annual percentage change)					
Memorandum items:					
Deflator for GDP at market prices	7.4	6.3	7.8	8.3	2.7
Agriculture-sector deflator	6.8	6.5	8.4	7.8	0.8
Nonagriculture-sectors deflator	7.9	6.4	7.4	8.6	4.1

Source: The Central Bureau of Statistics in Nepal.

Table 2. Nepal: Real Gross Domestic Product by Sector, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98
(In billions of Nepalese rupees at 1984/85 prices)					
Agriculture, fisheries, and forestry	30.0	29.9	31.2	32.5	32.9
Manufacturing	5.9	6.0	6.6	7.0	7.1
Construction	6.7	7.0	7.5	7.6	7.4
Electricity and water	0.5	0.5	0.6	0.7	0.6
Mining and quarrying	0.3	0.3	0.4	0.4	0.4
Financial and real estate	6.7	7.0	7.5	7.9	8.3
Community and social services	6.9	7.3	7.7	7.9	8.4
Trade, restaurants, and hotels	7.7	8.1	8.4	8.8	9.1
Transport and communications	5.0	5.5	5.8	6.0	6.3
GDP at factor cost	69.7	71.7	75.8	78.8	80.6
Agricultural GDP	30.0	29.9	31.2	32.5	32.9
Non-agricultural GDP	39.7	41.8	44.5	46.2	47.7
Value of imputed banking services	1.6	1.8	2.0	2.2	2.4
Net indirect taxes	4.4	5.1	5.2	5.6	5.6
GDP at market prices	72.5	75.0	79.0	82.2	83.7
(Annual percentage change)					
Agriculture, fisheries, and forestry	7.6	-0.3	4.4	4.1	1.1
Manufacturing	12.3	2.0	9.0	5.7	2.4
Construction	6.6	5.2	6.6	1.4	-1.7
Electricity and water	6.3	12.0	19.4	4.1	-2.9
Mining and quarrying	6.0	3.5	13.1	8.1	2.2
Financial and real estate	6.3	4.3	7.6	4.8	5.3
Community and social services	7.8	4.8	6.0	2.7	6.2
Trade, restaurants, and hotels	8.5	5.5	4.2	4.3	3.3
Transport and communications	8.0	10.6	5.5	4.0	3.4
GDP at factor cost	7.9	2.9	5.7	3.9	2.3
Agricultural GDP	7.6	-0.3	4.4	4.1	1.1
Non-agricultural GDP	8.1	5.3	6.6	3.8	3.1
Value of imputed banking services	16.1	12.0	11.0	10.0	9.7
Net indirect taxes	16.6	16.1	2.1	7.7	-0.9
GDP at market prices	8.2	3.5	5.3	4.0	1.9

Source: The Central Bureau of Statistics in Nepal.

Table 3. Nepal: Gross Domestic Product by Expenditure Components, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	Est. 1997/98
(In billions of Nepalese rupees, at current prices)					
GDP at market prices	199.3	219.2	248.9	280.6	293.5
Consumption	171.0	188.4	216.5	243.8	256.8
Public	16.0	20.3	23.0	25.6	31.3
Private	155.0	168.1	193.5	218.3	225.4
Gross domestic investment	44.6	55.2	68.0	70.4	72.0
Gross fixed investment	42.0	48.4	55.4	58.7	64.9
Public	13.4	15.1	17.6	19.4	22.4
Private	28.7	33.3	37.7	39.3	42.4
Change in stocks	2.6	6.9	12.7	11.7	7.2
Net exports 1/	-16.3	-24.4	-35.6	-33.6	-35.3
Exports	48.7	54.7	57.0	83.3	76.9
Imports	-65.0	-79.2	-92.6	-116.9	-112.3
(Percentage share in nominal GDP)					
Consumption	85.8	85.9	87.0	86.9	87.5
Public	8.0	9.2	9.2	9.1	10.7
Private	77.8	76.7	77.7	77.8	76.8
Gross domestic investment	22.4	25.2	27.3	25.1	24.6
Gross fixed investment	21.1	22.1	22.2	20.9	22.1
Public	6.7	6.9	7.1	6.9	7.6
Private	14.4	15.2	15.2	14.0	14.5
Change in stocks	1.3	3.1	5.1	4.2	2.5
Net exports 1/	-8.2	-11.1	-14.3	-12.0	-12.0
Exports	24.4	25.0	22.9	29.7	26.2
Imports	-32.6	-36.1	-37.2	-41.7	-38.3

Sources: The Central Bureau of Statistics in Nepal; and Fund staff estimates.

1/ Exports and imports of goods and services reflect the revised coverage of the balance of payments statistics.

Table 4. Nepal: Saving and Investment, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	Est. 1997/98
(In billions of Nepalese rupees at current prices)					
Gross national savings	39.9	45.0	47.4	58.0	60.3
Public sector 1/	3.0	3.1	3.8	3.9	0.4
Private sector	36.9	41.9	43.6	54.1	59.9
Gross domestic investment	44.6	55.2	68.0	70.4	72.0
Gross fixed investment	42.0	48.4	55.4	58.7	64.9
Public sector	13.4	15.1	17.6	19.4	22.4
Private sector	28.7	33.3	37.7	39.3	42.4
Change in stocks	2.6	6.9	12.7	11.7	7.2
Saving-investment gap	-4.8	-10.2	-20.6	-12.4	-11.7
Public sector	-11.2	-14.1	-17.9	-19.3	-24.5
Private sector	6.5	3.9	-2.8	6.9	12.7
(In percent of nominal GDP)					
Gross national savings	20.0	20.5	19.0	20.7	20.5
Public sector 1/	1.5	1.4	1.5	1.4	0.2
Private sector	18.5	19.1	17.5	19.3	20.4
Gross domestic investment	22.4	25.2	27.3	25.1	24.6
Gross fixed investment	21.1	22.1	22.2	20.9	22.1
Public sector	6.7	6.9	7.1	6.9	7.6
Private sector	14.4	15.2	15.2	14.0	14.5
Change in stocks	1.3	3.1	5.1	4.2	2.5
Saving-investment gap	-2.4	-4.7	-8.3	-4.4	-4.0
Public sector	-5.6	-6.4	-7.2	-6.9	-8.3
Private sector	3.2	1.8	-1.1	2.5	4.3

Sources: The Central Bureau of Statistics in Nepal; and Fund staff estimates.

1/ Defined as revenue less regular expenditure and estimated recurrent costs of development expenditure.

Table 5. Nepal: Agricultural Production and Yields, 1993/94-1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98	1994/95	1995/96	1996/97	1997/98
	(In thousands of metric tons)					(Percentage change)			
Production by major crops									
Foodgrains	5,879	5,413	6,246	6,395	6,360	-7.9	15.4	2.4	-0.5
Paddy	3,493	2,928	3,579	3,699	3,641	-16.2	22.2	3.4	-1.6
Wheat	873	914	1,013	1,056	1,030	4.7	10.8	4.2	-2.5
Maize	1,210	1,273	1,331	1,312	1,367	5.2	4.6	-1.4	4.2
Millet	274	268	282	289	285	-2.2	5.2	2.5	-1.4
Barley	29	30	41	39	37	3.4	36.7	-4.9	-5.1
Cash crops	2,326	2,461	2,604	2,721	2,865	5.8	5.8	4.5	5.3
Sugarcane	1,431	1,501	1,569	1,622	1,763	4.9	4.5	3.4	8.7
Jute	11	11	15	14	16	0.0	36.4	-6.7	14.3
Oilseeds	98	102	116	119	110	4.1	13.7	2.6	-7.6
Potato	780	840	898	961	972	7.7	6.9	7.0	1.1
Tobacco	6	7	6	5	4	16.7	-14.3	-16.7	-20.0
Distribution of fertilizer	140	156	131	122	85	11.4	-16.3	-6.4	-30.4
	(In thousands of hectares)					(Percentage change)			
Area under cultivation 1/									
Foodgrains	3,115	3,107	3,242	3,267	3,243	-0.3	4.3	0.8	-0.7
Paddy	1,454	1,421	1,497	1,511	1,506	-2.3	5.3	0.9	-0.3
Wheat	620	634	654	667	640	2.3	3.2	2.0	-4.0
Maize	757	771	792	794	799	1.8	2.7	0.3	0.6
Millet	254	250	260	260	262	-1.6	4.0	0.0	0.8
Barley	30	31	39	35	36	3.3	25.8	-10.3	2.9
Cash crops	311	325	353	356	361	4.5	8.6	0.8	1.4
Sugarcane	40	42	45	46	49	5.0	7.1	2.2	6.5
Jute	9	9	11	11	12	0.0	22.2	0.0	9.1
Oilseeds	166	170	185	182	179	2.4	8.8	-1.6	-1.6
Potato	89	97	106	111	116	9.0	9.3	4.7	4.5
Tobacco	7	7	6	6	5	0.0	-14.3	0.0	-16.7
	(In metric tons/hectare)					(Percentage change)			
Yields									
Foodgrains	1.9	1.7	1.9	2.0	2.0	-7.7	10.6	1.6	0.2
Paddy	2.4	2.1	2.4	2.4	2.4	-14.2	16.0	2.4	-1.2
Wheat	1.4	1.4	1.5	1.6	1.6	2.4	7.4	2.2	1.7
Maize	1.6	1.7	1.7	1.7	1.7	3.3	1.8	-1.7	3.5
Millet	1.1	1.1	1.1	1.1	1.1	-0.6	1.2	2.5	-2.1
Barley	1.0	1.0	1.1	1.1	1.0	0.1	8.6	6.0	-7.8
Cash crops	7.5	7.6	7.4	7.6	7.9	1.2	-2.6	3.6	3.8
Sugarcane	35.8	35.7	34.9	35.3	36.0	-0.1	-2.4	1.1	2.0
Jute	1.2	1.2	1.4	1.3	1.3	0.0	11.6	-6.7	4.8
Oilseed	0.6	0.6	0.6	0.7	0.6	1.6	4.5	4.3	-6.0
Potato	8.8	8.7	8.5	8.7	8.4	-1.2	-2.2	2.2	-3.2
Tobacco	0.9	1.0	1.0	0.8	0.8	16.7	0.0	-16.7	-4.0

Source: The Central Bureau of Statistics in Nepal.

1/ Areas cultivated with more than one crop are included under each crop.

Table 6. Nepal: Manufacturing Production Indices, 1994/95-1997/98

	Weights 1/	1994/95	1995/96	1996/97	1997/98	1995/96	1996/97	1997/98
		(Indices 1991/92=100)				(Percentage change)		
Overall production	100.0	132	144	153	156	9.0	5.7	2.4
Food	16.1	207	219	238	276	6.0	8.8	15.7
<i>Of which:</i> Sugar	1.9	203	262	302	320	29.1	15.0	6.1
Vegetable ghee	1.7	134	127	112	129	-5.3	-12.0	15.6
Rice	3.4	380	396	413	514	4.2	4.4	24.5
Soybean oil	2.3	115	135	214	246	17.7	58.0	15.1
Processed milk	2.4	161	163	169	183	1.4	3.3	8.4
Beverage	3.9	144	172	193	213	19.6	12.2	10.3
Tobacco	4.8	107	116	119	95	7.8	2.8	-20.4
Textile	35.8	102	109	108	101	6.8	-1.0	-6.3
<i>Of which:</i> Synthetic clothes	3.2	196	242	291	308	24.0	20.0	5.7
Woolen carpet	25.1	82	82	84	75	0.3	2.1	-10.0
Woolen thread	4.7	127	128	94	70	0.9	-26.7	-25.4
Readymade garments	10.5	144	159	154	148	10.3	-3.3	-3.9
Processed leather	0.9	113	66	47	51	-42.0	-29.0	8.8
Footwear manufacturing	0.3	76	67	36	40	-12.3	-46.7	13.1
Wood products	2.0	109	120	182	180	10.5	51.1	-1.0
Paper	0.8	328	338	359	362	2.9	6.3	0.8
Other chemical products	3.9	127	141	215	203	10.9	52.2	-5.4
Rubber products	0.3	101	138	132	131	36.8	-4.9	-0.6
Plastic products	1.3	115	119	130	118	3.5	9.5	-9.3
Nonmetallic mineral products	13.3	126	140	151	166	11.5	7.8	9.8
<i>Of which:</i> Bricks	7.7	103	127	146	121	23.0	14.9	-16.9
Cement	5.6	156	158	158	227	1.0	0.0	43.8
Iron and steel basic industries	2.2	120	131	149	136	8.9	14.3	-9.1
Cutlery and handtools	2.6	125	172	218	219	38.3	26.8	0.2
Electrical industrial machinery apparatus, appliances, etc.	1.1	103	153	138	149	47.6	-9.4	7.5

Source: The Central Bureau of Statistics in Nepal.

1/ Weights are based on the Census of Manufacturing Establishments (1991/92).

Table 7. Nepal: Energy Consumption, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98
(In thousands of tons of coal equivalent)					
Traditional	8,737	8,950	8,916	9,102	9,293
<i>Of which:</i> Fuelwood	6,550	6,696	7,975	8,141	8,313
Commercial	740	795	963	1,081	1,120
Petroleum	566	602	743	749	779
Coal	89	97	103	233	241
Hydropower	86	96	97	99	99
Total	9,477	9,745	9,879	10,183	10,413
(Percentage change)					
Traditional	4.0	2.4	-0.4	2.1	2.1
<i>Of which:</i> Fuelwood	4.4	2.2	19.1	2.1	2.1
Commercial	-12.3	7.4	21.1	12.3	3.6
Petroleum	-15.0	6.4	23.4	0.8	4.0
Coal	-6.3	9.0	6.2	126.2	3.4
Hydropower	3.6	11.6	1.0	2.1	0.0
Total	2.5	2.8	1.4	3.1	2.3

Source: Data provided by the Nepalese authorities.

Table 8. Nepal: Tourism Indicators, 1993-98

	1993	1994	1995	1996	1997	January-October	
						1997	1998
Tourist arrivals (in thousands)	293.6	326.5	363.4	393.6	407.3	286.8	320.9
(Percentage change)	-12.2	11.2	11.3	8.3	3.5	...	11.9
Of which: Europe	125.1	135.2	137.7	138.8	144.7	...	...
India 1/	83.4	102.5	117.3	122.5	129.7	108.2	120.9
Japan	17.8	19.6	25.4	28.9	...	...	...
United States and Canada	25.3	26.1	29.7	30.6	31.9	...	...
Average days of stay	11.9	10.0	11.3	13.5	14.0	...	...
Per capita expenditure							
(In NRs) 2/	16,331	26,479	24,608	25,737	...	...	...
(In U.S. dollars) 2/	337	536	469	458	...	...	...
(Percentage change)	25.3	59.1	-12.5	-2.3	...	...	...
Hotel-bed capacity	12,547	17,730	21,807	25,638	27,612	...	...
(Percentage change)	6.6	41.3	23.0	17.6	7.7	...	...

Source: Data provided by the Nepalese authorities.

1/ By air only.

2/ Excluding Indian tourists.

Table 9. Nepal: Changes in the Consumer Price Index, 1993/94–1997/98
(Annual percentage change, unless otherwise indicated)

	1993/94	1994/95	1995/96	1996/97	1997/98
Overall national index	9.0	7.6	8.1	7.8	4.0
By commodity					
Food and beverages	9.1	7.3	8.9	7.8	8.3
Foodgrains	4.2	7.9	8.5	10.3	-0.4
Milk and milk products	10.3	1.3	10.8	10.7	6.0
Oil and fats	1.3	11.1	13.2	-0.2	6.8
Beverages	9.9	3.9	6.9	0.4	16.2
Vegetables and fruits	24.2	5.0	3.7	0.0	9.0
Other goods and services	8.9	8.1	6.7	7.7	5.2
Cloth, clothing, and sewing services	8.3	10.1	7.2	5.8	4.7
Fuel, light, and water	8.5	3.2	3.8	10.2	2.8
Regional indices					
Terai	6.6	7.4	9.5	8.5	3.5
Hills	6.4	7.8	9.5	8.6	3.8
Kathmandu	12.8	8.0	6.0	6.6	4.7
Domestic goods	14.3	8.7	5.9	6.6	4.3
Imported goods	3.8	4.3	5.8	6.7	7.1

Source: The Central Bureau of Statistics in Nepal.

Table 10. Nepal: Monthly Wages in Major Sectors, 1993/94–1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98
(In Nepalese rupees)					
Agriculture					
Kathmandu	2,100	2,550	2,800	3,000	3,000
Birgunj	1,200	1,350	1,500	1,500	1,500
Biratnagar	1,350	1,350	1,350	1,350	1,350
Industry 1/					
Skilled	1,310	1,610	1,610	1,610	1,960
Unskilled	1,150	1,450	1,450	1,450	1,800
Construction 2/					
Skilled					
Kathmandu	5,100	5,100	5,350	5,550	5,550
Birgunj	2,700	2,820	3,300	3,300	3,375
Biratnagar	3,450	3,600	3,600	3,600	3,850
Semi-skilled					
Kathmandu	4,500	4,500	4,625	4,675	4,950
Biratnagar	2,925	3,000	3,000	3,000	3,250
Unskilled					
Kathmandu	2,475	2,700	2,950	3,000	3,000
Biratnagar	1,620	1,800	1,800	1,800	1,925
(In US dollars)					
Agriculture					
Kathmandu	42.9	51.2	50.7	52.6	48.5
Birgunj	24.5	27.1	27.2	26.3	24.3
Biratnagar	27.6	27.1	24.4	23.7	21.8
Industry 1/					
Skilled	26.7	32.3	29.2	28.2	31.7
Unskilled	23.5	29.1	26.3	25.4	29.1
Construction 2/					
Skilled					
Kathmandu	104.1	102.4	96.9	97.3	89.8
Birgunj	55.1	56.6	59.8	57.9	54.6
Biratnagar	70.4	72.3	65.2	63.1	62.3
Semi-skilled					
Kathmandu	91.8	90.4	83.8	82.0	80.1
Biratnagar	59.7	60.2	54.3	52.6	52.6
Unskilled					
Kathmandu	50.5	54.2	53.4	52.6	48.5
Biratnagar	33.1	36.1	32.6	31.6	31.1

Source: Data provided by the Nepalese authorities.

1/ Minimum monthly wage, including allowances, which are the same in Kathmandu, Birgunj and Biratnagar.

2/ Carpenters and masons.

Table 11. Nepal: Social Indicators

Categories	Units	Nepal		India Most Recent	South Asia 1/ Most Recent
		15-20 Years Ago	Most Recent		
General					
GNP per capita	U.S. dollars	160	206	340	380
Access to electricity	percent	...	15	54	...
Access to safe water	percent	11	48	63	78
Population					
Population	million	17	23	945	1,266
Population density (on arable land)	per sq. km	311	493	456	589
Rate of growth	% per annum	2.6	2.7	1.7	1.9
Life expectancy at birth	years	48	57	63	62
Urban population	percent	7	11	27	27
Poverty					
Urban	percent	...	23	31	...
Rural	percent	...	44	37	...
Total	percent	...	42	35	...
Labor force					
Total labor force	million	8	12	400	546
Females in labor force	percent	39	40	32	33
Labor force participation rate	percent	48	48	43	43
Health					
Population	per physician	30,221	13,617	2,459	2,500
Population	per hospital bed	5,719	4,308	1,371	1,429
Infant mortality	per 1000 live births	132	79	65	73
Education					
Adult literacy	percent	22	27	52	51
Primary school gross enrollment	% of school age population	75	107	100	99

Sources: World Bank, World Development Report, 1998/99; World Bank, World Development Indicators, 1998; and staff estimates.

1/ Comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Table 12. Nepal: Balance of Payments by Area, 1994/95-1997/98

	1994/95			1995/96			1996/97			1997/98		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
	(In millions of US dollars)											
Trade balance	-25	-590	-615	-136	-613	-748	283	-948	-665	-16	-703	-719
Exports, f.o.b.	370	291	660	308	294	602	808	305	1,113	542	298	840
Merchandise exports	63	291	354	67	294	361	92	305	397	146	298	444
Re-exports	306	0	306	242	0	242	716	0	716	396	0	396
Imports, c.i.f.	394	881	1,275	444	906	1,350	525	1,253	1,778	559	1,001	1,559
Services (net)	119	84	203	68	99	167	33	106	139	18	193	211
Receipts	206	275	481	163	298	461	118	263	382	108	334	443
Payments	87	192	279	95	199	294	85	157	242	90	142	232
Transfers (net)	68	140	208	75	133	208	87	220	307	108	210	318
Receipts	77	141	218	83	135	218	96	233	329	132	215	347
Recorded private transfers	52	66	118	52	42	94	50	66	116	68	64	132
Estimated remittances	25	75	100	31	94	125	46	167	213	64	151	215
Payments	9	1	10	8	2	10	9	12	21	24	5	29
Current account balance	162	-367	-205	7	-381	-374	403	-622	-218	110	-301	-191
Official grants and loans (net)	1	282	283	3	268	271	2	363	365	5	395	400
Official grants	1	106	107	3	134	137	2	238	240	5	250	255
Official capital (net)	0	176	176	0	134	134	0	124	124	0	145	145
Loans	0	228	228	0	186	186	0	163	163	0	196	196
Amortization	0	52	52	0	52	52	0	39	39	0	51	51
Private capital and errors and omissions	-102	25	-77	-18	80	62	-343	257	-86	-75	-25	-100
Overall balance	61	-60	1	-8	-33	-41	62	-2	60	40	70	110
Memorandum item:	(In percent of GDP)											
Current account balance	3.7	-8.3	-4.7	0.2	-8.5	-8.3	8.2	-12.6	-4.4	2.3	-6.3	-4.0

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

Table 13. Nepal: Composition of Foreign Trade, 1994/95-1997/98

	1994/95			1995/96			1996/97			1997/98		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
(In millions of U.S. dollars)												
Exports, f.o.b.	370	291	660	308	294	602	808	305	1,113	542	298	840
Merchandise exports	63	291	354	67	294	361	92	305	397	146	298	444
Food and live animals	26	5	31	23	12	35	31	16	47	32	19	51
Tobacco and beverages	0	0	0	0	0	0	0	0	0	0	0	0
Crude materials and inedibles	8	2	10	6	8	14	7	5	12	6	3	9
Animal and vegetable oil & fats	4	0	4	2	2	4	3	3	6	30	1	31
Chemicals and drugs	5	1	6	11	0	11	23	0	23	31	3	34
Manufactured goods, classified	18	167	186	22	167	189	27	167	194	42	144	186
Machinery and transport equipment	0	1	1	0	0	0	0	1	1	0	1	1
Misc. manufactured articles	1	115	116	1	104	105	1	113	114	4	126	130
Commodities & transactions n.i.e. 1/	1	0	0	1	1	2	0	0	0	1	1	2
Re-exports	306	0	306	242	0	242	716	0	716	396	0	396
Imports, c.i.f.	394	881	1,275	444	906	1,350	525	1,253	1,778	559	1,001	1,559
Food and live animals	57	33	89	59	28	87	64	31	95	60	26	86
Tobacco and beverages	9	1	10	8	1	9	9	1	10	10	2	12
Crude materials and inedibles	13	54	67	16	72	88	12	84	96	17	95	112
Minerals, fuel and lubricants	8	87	95	8	93	101	9	117	126	8	146	154
Animal and vegetable oil & fats	0	41	41	1	50	51	2	39	41	0	33	33
Chemicals and drugs	58	86	144	64	93	157	71	78	149	76	95	171
Manufactured goods, classified	148	359	507	172	338	510	157	627	784	161	362	523
Machinery & transport equipment	85	176	261	96	181	277	89	153	242	85	187	272
Misc. manufactured articles	16	45	61	18	51	69	22	48	70	22	44	66
Commodities & transactions n.i.e. 1/	1	-1	0	2	0	2	90	75	165	120	11	131
(In percent of GDP)												
Memorandum items:												
Trade balance	-0.6	-13.4	-14.0	-3.0	-13.6	-16.6	5.8	-19.3	-13.5	-0.3	-14.8	-15.1
Exports	8.4	6.6	15.0	6.8	6.5	13.4	16.4	6.2	22.6	11.4	6.3	17.7
Imports	9.0	20.0	29.0	9.8	20.1	30.0	10.7	25.5	36.1	11.8	21.1	32.8

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Includes unclassified exports and imports, and adjustments to reconcile figures with summary balance of payments data.

Table 14. Nepal: Exports of Major Commodities, 1993/94-1997/98

(In thousands of U.S. dollars)

	1993/94	1994/95	1995/96	1996/97	1997/98
Carpets	193,584	154,545	147,845	155,708	136,965
Ready-made garments	120,670	102,903	97,338	104,419	113,091
Hides and skins	8,589	11,534	10,739	8,066	8,781
Jute goods	4,914	4,626	8,204	9,907	11,622
Pulses	7,046	9,151	12,007	18,218	16,965
Handicrafts	1,868	2,903	1,485	2,490	2,002
Cardamon	2,985	2,763	3,531	3,665	3,132
Catechu	102	140	489	964	1,114
Ghee	934	1,001	616	1,578	355
Mustard and linseed	1,848	1,302	869	824	161
Raw jute	812	1,722	598	53	81
Dried ginger	467	1,542	851	824	581
Herbs	650	981	887	1,245	904
Other exports	47,267	58,091	74,574	88,970	147,636
Total merchandise exports 1/	391,736	353,204	360,033	396,931	443,390
Memorandum item:					
Carpets (thousands of sq. meters)	3,325	2,896	2,618	2,891	2,447
Ready-made garments (thousands of pieces)	40,967	33,505	27,970	29,954	34,951

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Totals do not precisely correspond with total merchandise exports in tables 12 and 13 because of differences in coverage.

Table 15. Nepal: Services and Transfers, 1994/95-1997/98

(In millions of U.S. dollars)

	1994/95			1995/96			1996/97			1997/98		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Services and transfers (net)	187	223	410	143	232	375	120	326	447	126	402	528
Services (net)	119	84	203	68	99	167	33	106	139	18	193	211
Receipts	206	275	481	163	298	461	118	263	382	108	334	443
Freight and insurance	0	0	0	0	0	0	0	0	0	0	0	0
Transportation	9	38	47	12	52	64	11	49	60	10	56	66
Travel	110	70	180	98	74	172	61.7	88	149	55.7	104	159
Investment income	0	42	42	3	28	31	3	32	35	5	33	38
Government, n.i.e.	2	69	71	1	87	88	1	69	70	0	99	99
Other	85	57	142	49	57	106	41.7	26	68	37.7	42	80
Payments	87	192	279	95	199	294	85	157	242	90	142	232
Freight and insurance	22	2	24	22	3	25	23	2	25	23	2	25
Transportation	1	26	27	3	31	34	3	24	27	2	32	34
Travel	35	87	122	43	103	146	35	70	105	37	48	85
Investment income	0	36	36	2	31	33	1	29	30	0	25	25
Government, n.i.e.	1	8	9	0	7	7	0	8	8	0	7	7
Other	28	33	61	25	25	50	23	25	48	28	27	55
Transfers (net)	68	140	208	75	133	208	87	220	307	108	210	318
Receipts	77	141	218	83	135	218	96	233	329	132	215	347
Private remittances	36	66	102	36	42	78	32	66	98	49	64	113
Indian excise refund	16	0	16	16	0	16	18	0	18	19	0	19
Other estimated remittances	25	75	100	31	94	125	46	167	213	64	151	215
Payments	9	1	10	8	2	10	9	12	21	24	5	29

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

Table 16. Nepal: External Debt and Debt Service, 1993/94-1997/98

	1993/94	1994/95	1995/96	1996/97	1997/98
(In millions of U.S. dollars, end of period)					
Debt outstanding 1/	2,120	2,295	2,320	2,405	2,491
Multilateral	1,713	1,842	1,940	1,983	2,090
AsDB	640	698	757	802	910
EEC	53	10	9	8	8
IDA	896	1,002	1,052	1,059	1,080
IFAD	56	58	57	57	44
IMF 2/	54	55	43	34	25
NDF	0	8	11	16	18
OPEC	14	12	10	7	6
UNCDF	0	0	0	0	0
Bilateral	407	453	380	378	325
Austria	0	0	6	5	5
Belgium	8	9	8	7	6
Finland	0	0	0	6	6
France	47	51	53	51	52
Korea	0	0	0	0	2
Kuwait	18	16	15	13	12
OECF	325	370	291	286	229
Saudi Fund	9	8	7	10	13
Short-term debt 3/	...	...	...	44	76
Total debt service	70	82	84	69	83
Amortization 4/	49	59	60	46	58
Of which: To IMF 2/	4	7	8	7	7
Interest	21	23	24	22	25
Of which: To IMF	1	1	1	1	1
(In percent)					
Debt service ratio 5/	6.5	6.8	7.5	4.8	6.6
Of which: To IMF	0.4	0.7	0.8	0.6	0.6
Outstanding debt/GDP	52.1	52.1	51.5	48.9	52.4
Of which: To IMF	1.3	1.3	1.0	0.7	0.5

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Consists primarily of medium- and long-term public and publicly guaranteed debt, excluding foreign liabilities of the banking system other than liabilities to the IMF.

2/ Excluding IMF Trust Fund.

3/ Short-term debt in the form of outstanding trade credits.

4/ Includes principal repayments of public enterprises and some private entities, as well as the central government.

5/ In relation to exports of goods and services and private transfers, excluding Indian excise refund.

Table 17. Nepal: International Reserves, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Dec. Est.
(In millions of U.S. dollars, end of period)						
Foreign Exchange Reserves						
Nepal Rastra Bank	700	683	591	633	698	747
Convertible	640	560	485	473	530	641
Nonconvertible	60	124	106	160	168	106
Commercial banks	152	167	195	218	258	277
Convertible	133	153	186	202	242	258
Nonconvertible	19	13	10	16	16	19
Total	851	850	786	851	956	1,023
Convertible	773	713	671	675	772	899
Nonconvertible	79	137	115	176	184	125
Other foreign assets of NRB						
SDR holdings	0.1	0.1	0.2	0.1	0.1	0.0
Gold 1/	6.4	6.4	6.5	6.5	6.5	6.5
Reserve Tranche Position	8.4	8.9	8.2	8.0	7.6	7.9
Total foreign assets of NRB	715	699	606	647	712	761
(In months of imports of goods and services)						
Nepal Rastra Bank						
Gross foreign assets	5.5	5.1	3.9	4.7	5.3	5.7
Foreign exchange reserves	5.4	5.0	3.8	4.6	5.2	5.6
of which: convertible reserves	4.9	4.1	3.1	3.4	3.9	4.8

Source: Data provided by the Nepalese authorities.

1/ Valued at historical prices.

Table 18. Nepal: Structure of Interest Rates, 1993/94-1997/98

(Annual percentage rates, end of period)

	1993/94	1994/95	1995/96	1996/97	1997/98
Refinancing facilities of Nepal					
Rastra Bank to commercial banks					
Export bills	13.0	11.0	11.0	11.0	9.0
Industrial sector	13.0	11.0	11.0	11.0	9.0
Agricultural sector	13.0	11.0	11.0	11.0	9.0
Service sector	13.0	11.0	11.0	11.0	9.0
Commercial banks					
Savings deposits	7.0 - 7.5	7.0 - 8.0	7.5 - 8.0	7.5 - 8.0	6.5-8.0
Time deposits					
3 months	5.0 - 6.5	5.0 - 7.5	6.75 - 8.0	6.75 - 9.0	5.0-8.0
6 months	6.0 - 7.5	6.0 - 8.0	7.25 - 9.0	7.25 - 9.0	6.0-8.5
9 months	6.0 - 7.5	...	...	...	...
1 year	8.5 - 9.0	8.0 - 9.25	9.5 - 11.0	9.5 - 11.0	9.0-10.5
2 years	8.5 - 9.0	negotiable	negotiable	negotiable	9.5-12.0
3 years	8.5 - 9.0	negotiable	negotiable	negotiable	negotiable
4 years	8.5 - 9.0	negotiable	negotiable	negotiable	negotiable
5 years	8.5 - 9.0	negotiable	negotiable	negotiable	negotiable
Loans					
Industry	13.0 - 17.0	14.0 - 18.0	15.0 - 17.5	15.0 - 17.5	13.5-17.0
Agriculture	13.0 - 15.0	13.0 - 15.5	14.5 - 16.0	14.5 - 16.0	14.5-15.5
Services	17.0 - 18.0	17.0 - 18.0	18.0	18.0	18.0
Export bills	12.0 - 14.0	12.0 - 16.0	13.0 - 16.0	14.5 - 16.5	12.5-16.0
Commercial loans and overdrafts	13.5 - 18.0	12.0 - 19.0	14.5 -20.0	14.5 -20.0	13.5-20.0
Agricultural Development Bank of Nepal					
To cooperatives	14.0 - 16.0	12.0 - 15.0	12.0 - 15.0	12.0 - 15.0	13.0-16.0
To others	16.0 - 18.0	14.0 - 17.0	14.0 - 17.0	14.0 - 17.0	15.0-18.0
Nepal Industrial Development Corporation					
	15.0 - 16.0	15.0 - 16.0	15.0 - 16.0	15.5 - 18.0	15.5-18.0
Government securities					
National savings certificates					
Treasury bills (3 month) 1/	9.0 - 15.5	9.0 - 15.5	9.0 - 15.5	9.0 - 13.25	9.0 - 13.25
Treasury bills (1 year)	6.5	7.4	10.9	10.2	3.5
Development bonds	...	...	...	9.0-12.0	5.9-7.3
25-year special bonds	3.0 - 10.5	3.0 - 10.5	3.0 - 10.5	3.0 - 10.5	3.0-10.5
20-year special bonds	3.0	3.0	3.0	3.0	3.0
Special loan	5.0	5.0	5.0	5.0	5.0
	1.0 - 14.0	1.0 - 14.0	1.0 - 13.0	1.0 - 13.0	1.0-13.0

Source: Data provided by the Nepalese authorities.

1/ Annual weighted average.

Table 19. Nepal: Monetary Survey, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Nov.
(In millions of Nepalese rupees, end of period)						
Net foreign assets	36,218	37,086	37,704	40,191	52,980	57,944
Assets	42,748	43,863	45,270	49,367	65,916	69,615
Liabilities	6,530	6,777	7,566	9,176	12,936	11,671
Net domestic assets	33,559	43,899	54,953	63,529	69,190	72,695
Domestic credit	55,651	69,598	85,961	98,271	111,053	112,442
Public sector	22,817	23,833	26,845	28,181	29,672	29,151
Government (net)	21,304	22,604	24,887	26,584	28,563	28,133
Nonfinancial public enterprises	1,513	1,229	1,958	1,597	1,109	1,018
Private sector 1/	32,834	45,765	59,116	70,090	81,381	83,291
Other items (net)	-22,092	-25,699	-31,008	-34,742	-41,863	-39,747
Broad money	69,777	80,985	92,657	103,720	122,170	130,639
Narrow money	28,510	32,985	36,498	38,460	43,976	45,005
Quasi-money	41,267	48,000	56,159	65,260	78,194	85,634
Memorandum items						
Net foreign assets, excl. ex. val. 2/	28,714	28,253	26,581	29,810	37,264	41,489
Net domestic assets, excl. ex. val. 2/	41,063	52,732	66,076	73,911	84,906	89,150
(Annual percentage change)						
Net domestic assets	14.9	30.8	25.2	15.6	8.9	11.1
Domestic credit	17.8	25.1	23.5	14.3	13.0	12.2
Public sector	0.4	4.5	12.6	5.0	5.3	2.7
Private sector 1/	34.0	39.4	29.2	18.6	16.1	15.9
Broad money	19.6	16.1	14.4	11.9	17.8	22.1
Narrow money	19.6	15.7	10.7	5.4	14.3	16.7
Quasi-money	19.6	16.3	17.0	16.2	19.8	25.1
(12 month change in percent of broad money at start of period)						
Net foreign assets	12.2	1.2	0.8	2.7	12.3	15.3
Net domestic assets	7.5	14.8	13.6	9.3	5.5	6.8
Domestic credit	14.4	20.0	20.2	13.3	12.3	11.4
Public sector	0.2	1.5	3.7	1.4	1.4	0.7
Private sector 1/	14.3	18.5	16.5	11.8	10.9	10.7
Memorandum items						
Net foreign assets, excl. ex. val. 2/	12.1	-0.7	-2.1	3.5	7.2	10.6
Net domestic assets, excl. ex. val. 2/	7.5	16.7	16.5	8.5	10.6	11.5
Velocity (GDP/M2)	2.9	2.7	2.7	2.7	2.5	...
Money multiplier	2.5	2.5	2.6	2.5	2.7	2.7

Sources: Data provided by the Nepal Rastra Bank; and Fund staff estimates.

1/ Includes credit to financial public enterprises.

2/ Adjusted for the impact of exchange rate changes on the value of net foreign assets and other items, net.

Table 20. Nepal: Assets and Liabilities of Nepal Rastra Bank, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Nov.
(In millions of Nepalese rupees, end of period)						
Net foreign assets	32,104	32,338	31,464	34,474	46,343	48,125
Assets	35,261	35,423	34,231	36,910	48,382	50,065
Liabilities	3,157	3,085	2,767	2,436	2,039	1,940
Net domestic assets	-3,699	348	3,925	6,554	-333	1,066
Claims on public sector	12,418	14,414	17,346	18,846	18,290	18,909
Government (net)	12,410	14,406	17,338	18,838	18,282	18,901
Claims 1/	12,410	14,406	17,338	18,838	18,282	18,901
Deposits	--	--	--	--	--	--
Nonfinancial public enterprises	8.0	8.0	7.5	7.5	7.5	7.5
Claims on private sector 2/	1,027	1,358	2,082	2,977	2,801	2,897
Claims on commercial banks	29	15	365	7	6	6
Other items (net)	-17,173	-15,439	-15,867	-15,275	-21,429	-20,745
Reserve money	28,405	32,686	35,389	41,028	46,010	49,190
Currency outside banks	19,660	22,494	25,046	27,334	31,446	31,842
Currency held by banks	1,859	2,038	2,446	2,837	2,534	2,673
Bankers' deposits	5,565	7,017	6,699	9,273	10,360	12,875
Private sector deposits	1,321	1,138	1,198	1,584	1,670	1,800
Memorandum items						
Net domestic assets, excl. ex. val. 3/	3,798	9,062	14,330	16,171	13,689	15,879
(12 month change in percent of reserve money at start of period)						
Net foreign assets	23.4	0.8	-2.7	8.5	28.9	31.5
Net domestic assets	-7.2	14.2	10.9	7.4	-16.8	-9.3
Reserve money	16.2	15.1	8.3	15.9	12.1	22.2
Memorandum items						
Net foreign assets, excl. ex. val. 3/	23.4	-3.5	-7.8	10.7	18.2	20.9
Net domestic assets, excl. ex. val. 3/	-7.2	18.5	16.1	5.2	-6.0	1.3
Currency/deposits ratio	39.2	38.5	37.0	35.8	34.7	32.2
Reserves/deposits ratio	15.2	15.8	13.8	16.2	14.5	16.0

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Includes Treasury IMF account.

2/ Includes claims on financial public enterprises.

3/ Adjusted for the impact of exchange rate changes on the value of net foreign assets and other items, net.

Table 21. Nepal: Assets and Liabilities of Commercial Banks, 1993/94-1998/99

(In millions of Nepalese rupees, end of period)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Nov.
Reserves	7,739	9,502	9,175	12,184	11,402	13,791
Foreign assets	7,487	8,440	11,039	12,457	17,534	19,550
Claims on Government	8,894	8,198	7,548	7,746	10,281	9,232
Claims on nonfinancial public enterprises	1,505	1,221	1,951	1,590	1,102	1,011
Claims on financial public enterprises	29	176	238	305	799	875
Claims on business and individual	31,778	44,231	56,796	66,808	77,782	79,518
Assets = Liabilities	57,432	71,768	86,747	101,090	118,900	123,977
Demand deposits	7,530	9,353	10,253	12,917	15,306	15,696
Savings deposits	17,136	22,226	25,099	29,783	36,637	39,861
Fixed deposits	22,939	24,320	29,110	36,975	45,791	49,237
Margin deposits	1,192	1,453	1,949	1,867	2,216	1,934
Foreign liabilities 1/	3,373	3,693	4,800	6,739	10,897	9,731
Borrowing from the central bank	29	15	365	7	6	6
Other items (net)	5,233	10,707	15,170	12,802	8,047	7,512
Memorandum item						
Priority sector lending in percent of total domestic credit	7.3	8.6	9.1	7.9	...	...

Source: Data provided by the Nepalese authorities.

1/ Includes foreign currency deposits.

Table 22. Nepal: Assets and Liabilities of Finance Companies, 1996-98

	Mid-July 1996		Mid-July 1997		Mid-July 1998	
	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent
Cash	27	1.0	42	0.8	45	0.5
Bank balance	99	3.9	281	5.4	525	6.3
Investment	291	11.5	771	14.8	1,637	19.6
Government securities	125	4.9	480	9.2	1,400	16.8
Loans and advances	1,840	72.6	3,623	69.8	5,290	63.4
Term loans	597	23.5	1,520	29.3	2,158	25.8
Housing loans	518	20.4	1,018	19.6	1,593	19.1
Hire purchases	546	21.5	682	13.1	969	11.6
Fixed deposit receipt loans	77	3.0	179	3.4	241	2.9
Leasing	50	2.0	153	2.9	118	1.4
Other	52	2.1	71	1.4	211	2.5
Other	280	11.0	476	9.2	853	10.2
Assets = Liabilities	2,536	100.0	5,192	100.0	8,349	100.0
Deposits	1,727	68.1	3,694	71.1	6,387	76.5
Paid-up capital	485	19.1	630	12.1	733	8.8
Current liabilities	120	4.7	265	5.1	559	6.7
Borrowings	47	1.9	245	4.7	122	1.5
Reserve	9	0.4	38	0.7	73	0.9
Other	148	5.8	320	6.2	475	5.7
Memorandum items						
Capital adequacy ratio (%)	25.3		18.6		16.6	
Loan/deposit ratio (%)	106.5		98.1		82.8	
Number of finance companies	21		41		44	

Source: Nepal Rastra Bank.

Table 23. Nepal: Income Statements of Rastriya Banijya Bank and Nepal Bank Limited,
1993/94-1997/98

(In millions of Nepalese rupees)

	1993/94	1994/95	1995/96	1996/97	1997/98
Rastriya Banijya Bank					
Interest income 1/	1,500	1,727	1,945	3,091	...
Less: interest payments	1,348	1,294	1,518	1,831	...
Net interest income	152	433	427	1,260	...
Overhead expenses	331	370	479	739	...
Provision	0	296	828	503	...
Total	331	666	1,307	1,242	...
Operating profit	-179	-233	-880	18	...
Other income	340	258	338	297	...
Net profit	161	25	-542	315	...
Nepal Bank Limited					
Interest income 1/	1,710	1,887	2,013	2,098	2,195
Less: interest payments	1,380	1,204	1,263	1,511	1,906
Net interest income	330	683	750	587	289
Overhead expenses	395	654	618	644	723
Provision	31	199	326	489	189
Total	426	853	944	1,133	912
Operating profit	-96	-170	-194	-546	-623
Other income 2/	260	249	313	270	560
Net profit	164	79	119	-276	-63

Sources: Rastriya Banijya Bank and Nepal Bank Limited.

1/ Includes interest income from loan and investments.

2/ Includes other service charges.

Table 24. Nepal: Outstanding Bank Credit to Major Public Enterprises, 1993/94-1997/98

(In millions of Nepalese rupees, end of period)

	1993/94	1994/95	1995/96	1996/97	1997/98
Principal	1,336	1,496	2,565	2,964	3,074
Financial institutions	515	899	1,379	1,791	2,022
Agricultural Development Bank	33	64	121	112	213
Nepal Industrial Development Corp.	444	521	895	1,184	1,202
Rural Development Banks	...	270	318	408	518
Other	38	44	45	87	90
Nonfinancial public enterprises	821	597	1,186	1,173	1,051
Agricultural Input Corporation	242	20	383	320	135
Agricultural Tools Factory	39	65	97	182	171
Janak Educational Material Center	...	24	45	8	26
Cottage Industrial and Handicraft Emporium	85	72	85	17	18
Himal Cement Company	25	20	17	19	25
Janakpur Cigarette Factory	...	78	134	146	163
Nepal Food Corporation	117	103	195	317	335
Raghupati Jute Mill	39	39	40	10	0
Royal Nepal Airline Corporation	75	5	1	8	0
Hetauda Leather Factory	...	2	29	2	3
Tobacco Development Corporation	52	52	51	0	0
Nepal Coal Limited	...	31	34	5	0
Other	147	86	75	127	163
Overdue interest	584	620	760	426	282
Financial institutions	1	1	1	2	4
Nonfinancial public enterprises	583	619	759	424	278
Total outstanding credit	1,920	2,116	3,325	3,390	3,355

Source: Data provided by the Nepalese authorities.

Table 25. Nepal: Nonperforming Bank Loans of Public Enterprises, 1995/96-1997/98

(In millions of Nepalese rupees, end of period)

	1995/96			1996/97			1997/98		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Nepal Food Corporation	0	0	0	0	0	0	10	4	14
Tobacco Development Corp.	50	63	113	0	0	0	0	0	0
Nepal Transportation Corp.	19	9	28	19	13	32	19	20	39
Himal Cement Company	0	0	0	2	0	2	0	0	0
Agricultural Input Corp.	0	0	0	0	0	0	0	0	0
Bhaktapur Tile & Brick Corp.	3	1	4	3	2	4	3	2	4
Raghupati Jute Mill	39	382	421	10	137	147	0	0	0
Bansbari Shoe Factory	0	0	0	0	0	0	0	0	0
Nepal Coal Limited	29	0	29	0	0	0	0	0	0
Rice Exporting Companies	13	84	97	13	100	112	13	90	102
Cottage Industrial and Handicraft Emporium	53	81	134	93	87	179	93	87	179
National Trading Ltd.	0	0	0	0	0	0	0	0	0
Agricultural Tools Factory	38	38	76	0	31	31	0	0	0
Adarsh Press	0	0	0	0	0	0	0	0	0
Hetadua Leather Factory	2	15	17	2	18	19	2	19	20
Total	246	672	918	140	387	527	138	220	358

Source: Data provided by the Nepalese authorities.

Table 26. Nepal: Summary of Central Government Operations, 1993/94–1998/99 1/

	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99
					Budget	Actual	
(In billions of Nepalese rupees)							
Total revenue and grants	21.4	27.3	31.6	35.5	41.8	37.8	46.1
Total revenue	19.0	23.4	26.8	29.5	35.7	31.8	38.3
Tax revenue	15.4	19.7	21.7	24.4	29.6	25.8	30.9
Nontax revenue	3.6	3.7	5.1	5.1	6.1	6.0	7.4
Grants	2.4	3.9	4.8	6.0	6.0	6.0	7.8
Total expenditure	30.5	35.0	43.7	46.4	56.9	52.6	63.7
Regular expenditure	9.3	15.2	18.7	20.7	24.2	23.8	27.1
Development expenditure	21.2	19.8	25.0	25.7	32.7	28.8	36.6
Overall balance before grants	-11.5	-11.6	-16.9	-16.9	-21.1	-20.7	-25.4
Overall balance after grants	-9.1	-7.7	-12.1	-10.9	-15.1	-14.7	-17.6
Financing	9.1	7.7	12.1	10.9	15.1	14.7	17.6
Net foreign loans	7.7	5.5	7.5	6.9	13.1	10.0	14.3
Gross disbursements	9.2	7.3	9.5	9.0	15.5	12.7	17.7
Amortization	1.5	1.8	2.0	2.1	2.5	2.7	3.4
Net domestic financing	1.4	2.2	4.6	4.0	2.0	4.7	3.3
Bank financing	0.1	1.3	2.3	1.7	0.2	2.0	1.5
Non-bank financing	1.3	0.9	2.3	2.2	1.8	2.7	1.8
(In percent of GDP)							
Total revenue	9.5	10.7	10.8	10.5	12.2	10.8	11.8
Tax revenue	7.7	9.0	8.7	8.7	10.1	8.8	9.5
Nontax revenue	1.8	1.7	2.1	1.8	2.1	2.0	2.3
Grants	1.2	1.8	1.9	2.1	2.1	2.0	2.4
Total expenditure	15.3	16.0	17.6	16.5	19.4	17.9	19.6
Regular expenditure	4.7	6.9	7.5	7.4	8.2	8.1	8.3
Development expenditure	10.6	9.0	10.0	9.2	11.2	9.8	11.3
Overall balance before grants	-5.8	-5.3	-6.8	-6.0	-7.2	-7.1	-7.8
Overall balance after grants	-4.6	-3.5	-4.8	-3.9	-5.1	-5.0	-5.4
Financing	4.6	3.5	4.8	3.9	5.1	5.0	5.4
Net foreign loans	3.9	2.5	3.0	2.5	4.5	3.4	4.4
Gross disbursements	4.6	3.3	3.8	3.2	5.3	4.3	5.4
Amortization	0.8	0.8	0.8	0.7	0.8	0.9	1.0
Net domestic financing	0.7	1.0	1.8	1.4	0.7	1.6	1.0
Bank financing	0.1	0.6	0.9	0.6	0.1	0.7	0.4
Non-bank financing	0.7	0.4	0.9	0.8	0.6	0.9	0.6
Memorandum item							
Nominal GDP (Billions Nrs)	199.3	219.2	248.9	280.6	293.5	293.5	325.1

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Fiscal years start on July 16.

Table 27. Nepal: Central Government Revenue, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99
					Budget	Actual	
(In millions of Nepalese rupees)							
Total revenue	18,974	23,364	26,811	29,511	35,741	31,834	38,322
Tax revenue	15,371	19,661	21,680	24,425	29,595	25,822	30,892
Income and profit tax	1,922	2,752	3,326	3,983	4,600	4,733	5,530
Taxes on property	934	1,099	1,344	1,356	1,650	1,462	1,797
Registration and land revenue	833	938	1,080	1,015	1,150	992	1,207
House and land	42	73	106	140	150	185	250
Other property taxes	59	88	158	201	350	285	340
Taxes on goods and services	7,261	8,793	9,684	10,776	13,645	11,030	13,545
VAT/Sales tax	4,693	6,032	6,431	7,127	9,440	7,028	9,420
Excise taxes	1,592	1,657	1,944	2,298	3,100	2,870	3,258
Others 1/	976	1,104	1,309	1,351	1,105	1,132	867
Taxes on international trade	5,255	7,018	7,327	8,309	9,700	8,598	10,020
Import taxes	4,356	5,840	6,254	7,107	8,390	7,230	8,528
Indian excise refund	460	838	900	1,009	1,100	1,158	1,160
Export taxes	427	333	150	168	190	200	320
Other	12	8	23	25	20	10	12
Nontax revenue	3,603	3,703	5,131	5,086	6,146	6,011	7,431
Charges, fees, fines, etc.	248	765	942	1,074	1,394	1,269	1,625
Sales of goods and services	1,270	829	1,017	996	1,105	1,178	1,508
Dividends	776	1,060	1,363	1,134	1,327	1,345	1,716
Royalty and fixed asset sales	90	197	68	448	440	556	764
Interest payments	1,205	843	1,725	1,358	1,600	1,575	1,704
Miscellaneous	14	9	16	76	280	89	114
(In percent of GDP)							
Total revenue	9.5	10.7	10.8	10.5	12.2	10.8	11.8
Tax revenue	7.7	9.0	8.7	8.7	10.1	8.8	9.5
Taxes on income and profits	1.0	1.3	1.3	1.4	1.6	1.6	1.7
Taxes on property	0.5	0.5	0.5	0.5	0.6	0.5	0.6
Taxes on goods and services	3.6	4.0	3.9	3.8	4.6	3.8	4.2
VAT/Sales tax	2.4	2.8	2.6	2.5	3.2	2.4	2.9
Excise taxes	0.8	0.8	0.8	0.8	1.1	1.0	1.0
Others 1/	0.5	0.5	0.5	0.5	0.4	0.4	0.3
Taxes on international trade	2.6	3.2	2.9	3.0	3.3	2.9	3.1
Nontax revenue	1.8	1.7	2.1	1.8	2.1	2.0	2.3
(In percent of total revenue)							
Tax revenue	81.0	84.2	80.9	82.8	82.8	81.1	80.6
Taxes on income and profits	10.1	11.8	12.4	13.5	12.9	14.9	14.4
Taxes on property	4.9	4.7	5.0	4.6	4.6	4.6	4.7
Taxes on goods and services	38.3	37.6	36.1	36.5	38.2	34.6	35.3
VAT/Sales tax	24.7	25.8	24.0	24.1	26.4	22.1	24.6
Excise taxes	8.4	7.1	7.3	7.8	8.7	9.0	8.5
Others 1/	5.1	4.7	4.9	4.6	3.1	3.6	2.3
Taxes on international trade	27.7	30.0	27.3	28.2	27.1	27.0	26.1

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Includes taxes on entertainment, hotel, contracts, and air flight.

Table 28. Nepal: Composition of Imports and Import Duties, 1993/94-1997/98

(In millions of Nepalese rupees)

	1993/94	1994/95	1995/96	1996/97	1997/98
Imports from India	16,949	19,621	24,518	29,941	34,518
<i>Of which:</i> Dutiable imports	15,028	18,117	19,369	23,774	27,282
Import duties from India	1,466	1,854	2,059	2,359	2,707
As a percent of dutiable imports	9.8	10.2	10.6	9.9	9.9
As a percent of total imports	8.6	9.4	8.4	7.9	7.8
Imports from third countries	34,418	43,874	50,029	71,516	61,812
<i>Of which:</i> Dutiable imports	6,844	19,602	34,349	50,701	52,770
Import duties from third countries	2,890	3,986	4,195	4,748	4,523
As a percent of dutiable imports	42.2	20.3	12.2	9.4	8.6
As a percent of total imports	8.4	9.1	8.4	6.6	7.3
Total imports	51,367	63,495	74,547	101,456	96,330
<i>Of which:</i> Dutiable imports	21,872	37,719	53,718	74,475	80,052
Aid-related imports	9,289	6,285	6,096	7,825	11,720
Total import duties	4,356	5,840	6,254	7,107	7,230
As a percent of dutiable imports	19.9	15.5	11.6	9.5	9.0
As a percent of total imports	8.5	9.2	8.4	7.0	7.5

Source: Department of Customs, Ministry of Finance.

Table 29. Nepal: Central Government Expenditure by
Economic Classification, 1993/94–1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99 Budget
					Budget	Actual	
(In millions of Nepalese rupees)							
Total expenditure	30,481	34,985	43,693	46,407	56,884	52,555	63,726
Regular expenditure	9,292	15,191	18,714	20,728	24,156	23,763	27,142
Wages and benefits 1/	5,201	9,462	12,691	14,334	17,947	17,947	19,265
Wages and salaries	3,143	3,662	4,105	4,724	6,379	6,379	7,339
Allowances	1,219	1,421	1,594	1,397	1,405	1,405	880
Employee facilities	76	80	125	545	1,630	1,630	1,170
Retirement facilities	464	489	742	750	871	871	1,038
Social security	30	21	315	337	369	369	458
Teachers	...	3,622	4,122	4,710	5,211	5,211	5,980
Defense	1,488	1,588	1,688	1,871	2,083	2,083	2,401
Defense	389	415	440	489	546	535	627
Interest payments	2,957	3,431	3,868	4,074	4,343	4,301	4,299
Domestic debt	1,936	2,274	2,551	2,827	2,842	2,984	2,709
Foreign debt	1,021	1,157	1,317	1,247	1,501	1,317	1,590
Other	745	1,883	1,715	1,832	1,320	980	2,951
Development expenditure	21,189	19,794	24,979	25,679	32,728	28,792	36,584
Wages and allowances 1/	1,200	807	1,242	1,202	1,289	1,289	1,321
Wages and salaries	1,200	807	958	866	963	963	1,042
Allowances	...	...	284	336	326	326	279
Other	19,989	18,987	23,453	24,141	31,113	27,177	34,984
(In percent of GDP)							
Total	15.3	16.0	17.6	16.5	19.4	17.9	19.6
Regular expenditure	4.7	6.9	7.5	7.4	8.2	8.1	8.3
Wages and benefits 1/	2.6	4.3	5.1	5.1	6.1	6.1	5.9
Wages and salaries	1.6	1.7	1.6	1.7	2.2	2.2	2.3
Allowances	0.6	0.6	0.6	0.5	0.5	0.5	0.3
Employee facilities	0.0	0.0	0.1	0.2	0.6	0.6	0.4
Retirement facilities	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Social security	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Teachers	...	1.7	1.7	1.7	1.8	1.8	1.8
Defense	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Defense	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Interest payments	1.5	1.6	1.6	1.5	1.5	1.5	1.3
Domestic debt	1.0	1.0	1.0	1.0	1.0	1.0	0.8
Foreign debt	0.5	0.5	0.5	0.4	0.5	0.4	0.5
Other	0.4	0.9	0.7	0.7	0.4	0.3	0.9
Development expenditure	10.6	9.0	10.0	9.2	11.2	9.8	11.3
Wages and allowances 1/	0.6	0.4	0.5	0.4	0.4	0.4	0.4
Other	10.0	8.7	9.4	8.6	10.6	9.3	10.8
(In percent of total expenditure)							
Regular expenditure	30.5	43.4	42.8	44.7	42.5	45.2	42.6
Wages and benefits 1/	17.1	27.0	29.0	30.9	31.6	34.1	30.2
Interest on domestic debt	6.4	6.5	5.8	6.1	5.0	5.7	4.3
Development expenditure	69.5	56.6	57.2	55.3	57.5	54.8	57.4

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

1/ Budgeted data because actual expenditure are not monitored and recorded. Allowances for 1993/94 and 1994/95 are estimates.

Table 30. Nepal: Central Government Expenditure by
Functional Classification, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98		1998/99 Budget
					Budget	Actual	
(In millions of Nepalese rupees)							
Total expenditure	30,481	34,985	43,693	46,407	56,884	52,555	63,726
Regular expenditure	9,292	15,191	18,714	20,728	24,156	23,763	27,142
Social services	1,353	4,442	5,316	5,909	6,785	6,845	7,900
Education	742	3,612	4,306	4,813	5,445	5,571	6,392
Health	505	637	799	885	1,127	1,061	1,256
Other	106	193	211	211	213	213	252
Economic services	605	1,359	1,730	1,889	2,132	2,045	2,501
Agriculture related	102	237	365	371	415	391	453
Forestry	23	382	481	499	557	541	803
Infrastructure	443	521	645	717	852	810	934
Other	37	219	239	302	308	303	311
Defense	1,877	2,003	2,128	2,360	2,629	2,618	3,028
Interest payments	2,957	3,431	3,868	4,074	4,343	4,301	4,299
General administration	1,592	2,969	3,141	3,532	4,083	4,007	4,723
Other	908	987	2,531	2,964	4,184	3,947	4,691
Development expenditure	21,189	19,794	24,979	25,679	32,728	28,792	36,584
Social services	7,105	6,225	7,586	8,308	11,497	10,558	12,149
Education	3,822	1,454	1,698	2,356	2,659	2,362	2,301
Health	561	859	916	1,621	2,714	2,712	2,716
Drinking water	1,074	1,102	1,112	1,327	2,224	1,683	2,656
Other	1,648	2,810	3,860	3,004	3,900	3,801	4,476
Economic services	14,084	13,569	17,393	17,371	21,231	18,234	24,435
Agriculture related	5,536	5,390	5,401	4,954	5,514	4,830	6,083
Infrastructure	6,113	6,308	10,384	10,904	13,190	11,279	15,491
Other	2,435	1,871	1,608	1,513	2,527	2,125	2,861
(In percent of GDP)							
Total expenditure	15.3	16.0	17.6	16.5	19.4	17.9	19.6
Social services	4.2	4.9	5.2	5.1	6.2	5.9	6.2
<i>Of which:</i> Education	2.3	2.3	2.4	2.6	2.8	2.7	2.7
Current expenditure	0.4	1.6	1.7	1.7	1.9	1.9	2.0
Capital expenditure	1.9	0.7	0.7	0.8	0.9	0.8	0.7
Health	0.5	0.7	0.7	0.9	1.3	1.3	1.2
Drinking water	0.5	0.5	0.4	0.5	0.8	0.6	0.8
Economic services	7.2	6.5	7.5	6.8	7.9	6.8	8.2
<i>Of which:</i> Agriculture related	2.8	2.6	2.3	1.9	2.1	1.8	2.0
Infrastructure	3.3	3.1	4.4	4.1	4.8	4.1	5.1
Defense	0.9	0.9	0.9	0.8	0.9	0.9	0.9
Interest payments	1.5	1.6	1.6	1.5	1.5	1.5	1.3
General administration	0.8	1.4	1.3	1.3	1.4	1.4	1.5
Other	0.6	0.8	1.2	1.1	1.5	1.5	1.5
(In percent of total expenditure)							
Social services	27.7	30.5	29.5	30.6	32.1	33.1	31.5
<i>Of which:</i> Education	15.0	14.5	13.7	15.4	14.2	15.1	13.6
Health	3.5	4.3	3.9	5.4	6.8	7.2	6.2
Drinking water	3.5	3.1	2.5	2.9	3.9	3.2	4.2
Economic services	47.4	40.7	42.9	41.1	40.5	37.8	41.8
<i>Of which:</i> Agriculture related	18.5	16.1	13.2	11.5	10.8	9.9	10.3
Infrastructure	21.5	19.5	25.2	25.1	24.7	23.0	25.8
Defense	6.2	5.7	4.9	5.1	4.6	5.0	4.8
Interest payments	9.7	9.8	8.9	8.8	7.6	8.2	6.7
General administration	5.2	8.5	7.2	7.6	7.2	7.6	7.4
Other	3.8	4.8	6.6	6.8	7.9	8.3	7.9

Sources: Data provided by the Nepalese authorities; and Fund staff estimates.

Table 31. Nepal: Profits and Losses of Nonfinancial Public Enterprises, 1993/94–1997/98 1/

	1993/94	1994/95	1995/96	1996/97	1997/98
(In millions of Nepalese rupees)					
Agricultural Input Corporation	-322	-166	-524	-714	-646
Nepal Drinking Water Corporation	31	5	23	39	9
Hetauda Cement Company	-40	-57	10	5	2
Janakpur Cigarette Factory	-50	-41	-51	-105	-7
Nepal Electricity Authority	-741	623	642	690	135
Nepal Food Corporation	2	0	1	-257	-389
Nepal Oil Corporation	66	144	277	-685	-651
Nepal Telecommunication Corporation (NTC)	1,034	1,362	1,245	1,537	1,580
Royal Nepal Airline Corporation	-40	-45	307	-121	9
Others	1,014	141	-167	213	608
Total excluding NTC	-80	604	518	-935	-930
Total including NTC	954	1,966	1,763	602	650
(In percent of GDP)					
Agricultural Input Corporation	-0.2	-0.1	-0.2	-0.3	-0.2
Nepal Drinking Water Corporation	--	--	--	--	--
Hetauda Cement Industry Ltd.	--	--	--	--	--
Janakpur Cigarette Factory Ltd.	--	--	--	--	--
Nepal Electricity Authority	-0.4	0.3	0.3	0.2	0.0
Nepal Food Corporation	--	--	--	-0.1	-0.1
Nepal Oil Corporation	--	0.1	0.1	-0.2	-0.2
Nepal Telecommunication Corporation (NTC)	0.5	0.6	0.5	0.5	0.5
Royal Nepal Airline Corporation	--	--	0.1	--	--
Others	0.5	0.1	-0.1	0.1	0.2
Total excluding NTC	0.0	0.3	0.2	-0.3	-0.3
Total including NTC	0.5	0.9	0.7	0.2	0.2
Memorandum items:					
Number of profit-making enterprises	29	23	28	21	23
Number of loss-making enterprises	19	21	16	21	19
Total number of employees 2/	52,026	53,854	59,455	47,548	44,721

Source: Data provided by the Nepalese authorities.

1/ Profits before income taxes.

2/ Includes contractual, temporary, and part-time employees.

Table 32. Nepal: Summary of the Privatization Process

Enterprise Name	Value in millions of U.S. dollars	Number of employees	Form of Privatization	Date of Privatization
I. Privatized enterprises				
1. Bhrikuti Pulp and Paper Factory	3.4	1,321	Share sale	October 1992
2. Harisiddhi Bricks and Tiles Factory	3.2	595	Share sale	October 1992
3. Leatherge Bansbari Tannery and Shoes Factory	0.4	55	Share sale	November 1992
4. Nepal Film Development Company	1.0	99	Share sale	November 1993
5. Balaju Textiles Industry Ltd.	0.3	165	Share sale	December 1993
6. Raw Hide Collection and Dev. Company	0.1	...	Share sale	December 1993
7. Nepal Jute Development and Trading Company	...	...	Liquidated in 1993	
8. Nepal Lube Oil Limited	0.5	101	Share sale	June 1994
9. Bitumen and Barrel Industries Ltd.	0.2	58	Share sale	June 1994
10. Tobacco Development Company	...	...	Liquidated in 1994	
11. Nepal Foundry Industry	0.2	65	Share sale	March 1996
12. Ragupati Jute Mills	1.2	114	Share sale	August 1996
13. Biratnagar Jute Mills	...	2,000	Leased	December 1996
14. Agriculture Tools Factory Ltd.	1.4	287	Share sale: 5 percent to employees, 65 percent to one private-sector party, and 30 percent retained by the government	May 1997
15. Bhaktapur Brick Factory Ltd.	3.0	...	Leased	August 1997

Table 32. Nepal: Summary of the Privatization Process (...cont.)

Enterprise Name	Value in millions of U.S. dollars	Number of employees	Form of Privatization	Closing date for bids
II. Public sector enterprises being privatized				
1. Nepal Tea Development Corporation	4	2,000	Share sale: 5 percent to employees, 30 percent to general public, and 65 percent to one private-sector party	March 1998
2. Himal Cement Company	1.5 - 2	700	Share sale	May 1998
3. Butwal Power Company	25 - 30	300	Share sale: 2-3 percent to employees, 2-3 percent to United Mission to Nepal, 75 percent to one private-sector party, and 20 percent retained by the government	January 10, 1999
III. Public sector enterprises to be privatized 1/				
<i>Financial institutions</i>				
1. Nepal Bank Ltd. 2/	3.3	...		
2. Rastriya Banijya Bank 3/	1.0	6,143		
3. Rastriya Beema Sansthan (insurance company)	37.6	186		
4. Nepal Housing and Finance Company	0.7	17		
<i>Nonfinancial institutions</i>				
5. Nepal Telecommunication Corporation	130.0	3,739		
6. Royal Nepal Airline Corporation	-0.6	2,031		
7. Dairy Development Corporation (Pokhara Unit)	7.8	1,463		

Table 32. Nepal: Summary of the Privatization Process (...cont.)

Enterprise Name	Value in millions of U.S. dollars	Number of employees	Form of Privatization	Closing date for bids
8. Nepal Rosin and Turpentine	1	420		
9. Lumbini Sugar Factory	4.6	1,210		
10. Janakpur Cigarette	2.4	1,972		
11. Nepal Transport Corporation	0.7	890		
12. Industrial District Management Ltd.	2.2	299		
13. Agriculture Lime Industry	0.04	136		
14. Agriculture Project Service Center	-0.1	207		
15. Herbs Production and Processing Center	0.05	133		
16. Hetauda Textile Industry	0.8	213		
17. Morang Sugar Mills	...	...
18. Birendra International Conference Center	...	...
19. Nepal Orind Magnesite Industry	5.5	170		
20. Butwal Spinning Mills	...	...
21. Udayapur Cement Factory	48.6	452		
22. Hetauda Cement Factory	2.8	940		

1/ Net worth data for end-1997/98, as reported in *Targets and Performances of Public Enterprises FY 1996/97-1998/99* published by the Ministry of Finance in July 1998. The conversion from Nepalese rupees to U.S. dollars was done at the rate of Nrs 68=US\$1.

2/ A sale of 10 percent of the shares reduced government participation to 41 percent in February 1997.

3/ 10 percent of shares are to be sold to employees in 1999.

Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates												
1. Taxes on net income and profits															
1.1 <i>Taxes on business income</i>	Levied on net income from public, private, and joint-venture enterprises in December, April, and July.	<p>Exemptions: Income from cottage industries, agricultural production, fisheries, forestry, community and social services.</p> <p>Industrial enterprises with tax holidays. Starting in 1997/98, tax holidays to industrial enterprises were suspended, except to cottage industries.¹ Existing tax holidays remained in force for their duration (up to seven years).²</p> <p>Exports are also exempted.</p> <p>Deductions: Since 1997/98, deductions of 50 percent for activities in the "National Priority" list,³ of 10 percent to enterprises using 80 percent of local raw materials and Nepali citizens (except tobacco and liquor), and 20-30 percent for those established in underdeveloped areas.</p> <p>Expenses incurred in earning income in the year of assessment are wholly deductible. Provident funds deposited in financial institutions. Losses, not previously offset against income, may be carried forward to be deducted against future income for a maximum of three years. Depreciation allowances are based on a straight line or diminishing balance method with the rate of write-off depending on a particular asset; concessions on the rate of depreciation are contained in the Industrial Enterprise Act. A deduction of up to 50 percent of the cost of new investment is permitted.</p>	<p><i>Tax rates (In percent)</i></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding-left: 20px;">Industrial enterprises</td> <td style="text-align: right;">20</td> </tr> <tr> <td style="padding-left: 20px;">Other enterprises</td> <td style="text-align: right;">25</td> </tr> <tr> <td style="padding-left: 20px;">Financial institutions</td> <td style="text-align: right;">30</td> </tr> <tr> <td colspan="2">Surcharges</td> </tr> <tr> <td style="padding-left: 20px;">Nepali residents</td> <td style="text-align: right;">10</td> </tr> <tr> <td style="padding-left: 20px;">Non-Nepali residents</td> <td style="text-align: right;">30</td> </tr> </table>	Industrial enterprises	20	Other enterprises	25	Financial institutions	30	Surcharges		Nepali residents	10	Non-Nepali residents	30
Industrial enterprises	20														
Other enterprises	25														
Financial institutions	30														
Surcharges															
Nepali residents	10														
Non-Nepali residents	30														

Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
1.2 <i>Tax on income from individuals, sole proprietorships, partnerships, and private limited companies</i>	Levied on income accruing to individuals from any trade, business, profession, or employment.	<p>The exemption for a single taxpayer is Nrs 40,000 and for a married taxpayer Nrs 50,000.</p> <p>Deductible in determining taxable income are:</p> <p>a. 15 percent or Nrs 7,500, whichever is less from the total remuneration after deducting the contribution made to the Provident Fund.</p> <p>b. National Provident Fund contributions to 10 percent of gross salary.</p> <p>c. Life insurance premium up to 7 percent of the policy or the actual premium, whichever is less.</p> <p>d. Philanthropic contributions equal to 5 percent or Nrs 100,000, whichever is less.</p> <p>Partnerships and nonresidents are given no exemptions.</p> <p>Individual and household income from house and land rent is taxed separately (i.e., not added to total income assessed) at a flat rate of 15 percent on gross rental receipts; no deductions are allowed. In the case of corporate rental income, the following deductions are allowed: 10 percent for maintenance, one-month rent commission, and insurance premiums. Nevertheless, rental income is effectively not taxed.</p>	<p><i>Income bracket</i></p> <p>Initial Nrs 75,000 15</p> <p>Above Nrs 75,000 25</p> <p><i>Surcharges</i></p> <p>Nepali residents 10</p> <p>Non-Nepali residents 30</p>	
			1.3 <i>Interest tax</i>	Tax payable on interest income from deposits.	6 percent
2. Taxes on property				
2.1 <i>Tax on rural land</i>	Levied on the size of an individual's land holdings. The tax rates vary with the location and type of the soil.	There is full or partial remission of the land revenue tax in the presence of a drought or other natural calamity.	For holdings of less than 1 hectare, Nrs 1 per hectare. For larger holdings, Nrs 20 to Nrs 75 per hectare.	
2.2 <i>Taxes on urban houses and land</i>	Levied on the property value	Property values of up to Nrs 1 million are exempted	<p><i>Property value</i></p> <p>Nrs 1-2 million</p> <p>Nrs 25 million</p> <p>Nrs 5-10 million</p> <p>Nrs 10-20 million</p> <p>Above Nrs 20 million</p>	<p><i>Marginal tax rates</i></p> <p>Nrs 300</p> <p>0.05 percent</p> <p>0.25 percent</p> <p>0.50 percent</p> <p>1.50 percent</p>

Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates		
<i>2.3 Registration fees</i>	Levied on the value of property at the time of sale, gifts, or on partition.		Urban Areas		
			Sales deeds		<i>Gifts</i>
			<i>out- Value of Third property Generation</i>	<i>Fees by:</i>	
				<i>Buyer</i>	<i>Seller</i>
			0-2,000	Nrs 75	Nrs 75
			2,000-10,000	Nrs 125	Nrs 125
			Above 10,000	6 percent	10 percent
			<i>Value of property generations</i>		<i>Gift within three generations</i>
			0-5,000		Nrs 100
			5,000-50,000		2 percent
			Above 50,000		5 percent
			Non-urban Areas		
			<i>Value of property Generation</i>	<i>Sales</i>	<i>Gift outside Third</i>
			0-2,000	Nrs 75	Nrs 150
			2,000-10,000	Nrs 150	Nrs 400
			Above 10,000	6 percent	10 percent
			Partition Deeds		
			<i>Value of property</i>	<i>Tax</i>	
			0-50,000	Nrs 50	
			50,000-500,000	Nrs 500	
			500,000-1,000,000	Nrs 1,000	
			1,000,000-2,000,000	Nrs 2,000	
			Above 2,000,000	Nrs 3,000	

Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates												
3. Taxes on goods and services															
3.1 <i>Value added tax</i>	Levied on goods and services at all stages of production and distribution.	<p>Exemption threshold: Nrs 3 million</p> <p>Exemptions: Exports, inputs used in the production of exports, and foreign aid projects.</p> <p>Equipment for agricultural, fishery, and industrial activities; domestically produced cotton fabric, cotton textiles, and other textiles; cotton thread; woolen yarn; carpets; jute products; gold ornaments; unprocessed mustard oil; aluminum, copper, and bronze circles and sheets; aero-planes, helicopters, fire fighters, and ambulances; battery operated three-wheeler; printed material; vaccines; food and medicine for animals; equipment for processing waste and for investment in alternative energy sources.</p> <p>Additional goods exempted from VAT in the 1998/99 budget were agricultural equipment; some industrial machinery; plant and main equipment required for producing energy from bio-gas, solar power, and air; airplanes, helicopters, fire fighters, and ambulances; cotton thread; cotton textiles; woolen yarn to be used in handmade sweaters; jute goods; weaving, carding, and washing of carpets; printings and publications; feed for birds and animals; and vaccines.</p>	10 percent												
3.2 <i>Excise taxes</i>	Levied on some goods; the high-yielding are those on cigarettes and liquor.	Production of items by enterprises that are classified as new products are exempted for three years under the Industrial Enterprise Act. Industries receive a three-year exemption, with an additional five-year extension, for locating in a remote area.	<p>Specific taxes</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 70%;"><i>Cigarettes</i></td> <td style="text-align: right;"><i>Per 1,000 cigarettes</i></td> </tr> <tr> <td>Non-filtered cigarettes</td> <td style="text-align: right;">Nrs 90</td> </tr> <tr> <td>Filtered cigarettes by length</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Short</td> <td style="text-align: right;">Nrs 260</td> </tr> <tr> <td style="padding-left: 20px;">Medium</td> <td style="text-align: right;">Nrs 330</td> </tr> <tr> <td style="padding-left: 20px;">Long</td> <td style="text-align: right;">Nrs 600</td> </tr> </table>	<i>Cigarettes</i>	<i>Per 1,000 cigarettes</i>	Non-filtered cigarettes	Nrs 90	Filtered cigarettes by length		Short	Nrs 260	Medium	Nrs 330	Long	Nrs 600
<i>Cigarettes</i>	<i>Per 1,000 cigarettes</i>														
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Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
		Rebate on the sale of goods for which the current year's production is higher than that of the previous year.	<i>Liquor types</i>	<i>Per L.P. liter</i>
			Whisky	Nrs 225
			Vodka	Nrs 115
			Low-quality liquor	Nrs 40
			Beer	Nrs 31
			<i>Ad valorem taxes</i>	
			Light vehicles	40 percent
			Pick-ups	15 percent
3.3	<i>Tourism fee</i>	Levied on tourism services.	2 percent	
3.4	<i>Motor vehicle tax</i>	An annual tax based on the size of the vehicle and whether it is for own use or rented.	<i>Size of vehicle</i>	<i>Annual tax rates</i> <i>For gasoline- For diesel</i> <i>fueled vehicles engine</i> <i>vehicles</i>
			Cars, jeeps, and vans	
			up to 1,300 cc	Nrs 5,000 Nrs 8,000
			1,301 cc to 2,000 cc	Nrs 6,600 Nrs 11,000
			2,001 cc to 2,900 cc	Nrs 7,900 Nrs 14,000
			2,901 cc to 4,000 cc	Nrs 9,800 Nrs 18,600
			Above 4,001 cc	Nrs 12,000 Nrs 22,000
3.5	<i>Air flight tax</i>	Payable by all travelers	<i>International</i>	<i>Tax rate per traveler</i>
			SAARC citizens	Nrs 500
			Other citizens	Nrs 900
			Surcharge for non-Nepalis	Nrs 100
			<i>Domestic</i>	
			Depending on the origination of the flight	Nrs 30 or Nrs 100
			Helicopter	Nrs 150

Nepal: Summary of the Tax System

(As of December 31, 1998)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates																	
3.6 <i>Contract tax</i>	Levied on the value of old contracts for the provision of services and valid through the end of the contract period; it included construction, transport, and consultancy services. New contracts will be subject to VAT.	Foreign aid contracts are exempted. In practice, all nongovernment contracts are exempted. Basically all contracts under Nrs 200,000 are exempted.	5 percent of value of contract in excess of Nrs 50,000.																	
4. Taxes on international trade																				
4.1 <i>Import duties</i>	Levied on c.i.f. import values.	<p>Exemptions: Imports by the government, educational institutions, and foreign aid projects. Equipment for agricultural and fishery activities, food and medicine for animals, inputs for the textile industry and for computers, medicine from India.</p> <p>Deductions: 50 percent on industrial machinery, 80 percent on aluminum, copper, and brass in block or plates. Rebates of 10–20 percent on imports from India and Tibet and 10 percent on imports from SAARC member countries.</p>	<p><i>Commodity Groups</i></p> <p>Roughly:</p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;">Raw material and machinery</td> <td style="text-align: right;">5⁴</td> </tr> <tr> <td style="padding-left: 20px;">Semi-processed materials</td> <td style="text-align: right;">10</td> </tr> <tr> <td style="padding-left: 20px;">Fully processed materials</td> <td style="text-align: right;">20</td> </tr> <tr> <td style="padding-left: 20px;">Consumer items</td> <td style="text-align: right;">30 and 40</td> </tr> <tr> <td style="padding-left: 20px;">Luxury items</td> <td style="text-align: right;">80</td> </tr> </table> <p>Luxury surcharge</p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;">Cars over 1,300 cc</td> <td style="text-align: right;">10</td> </tr> <tr> <td style="padding-left: 20px;">Jeeps over 2,700 cc</td> <td style="text-align: right;">10</td> </tr> </table> <p>Development tax that replaced the octroi</p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;"></td> <td style="text-align: right;">1.5</td> </tr> </table>	Raw material and machinery	5 ⁴	Semi-processed materials	10	Fully processed materials	20	Consumer items	30 and 40	Luxury items	80	Cars over 1,300 cc	10	Jeeps over 2,700 cc	10		1.5	<p><i>Basic Duty Rates</i> (In percent)</p>
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	1.5																			
4.2 <i>Export duties</i>	Levied on a limited range of exports	Half percent service duty on exports	A combination of ad valorem and specific tax rates apply. Electricity: 2.5–10 percent																	

¹Defined as those based on traditional skills and using local raw materials. Include carpet and handicraft manufacturing, textiles and clothing, leather and pottery wares, semi-precious and precious metal objects and jewelry.

²Five-year tax holidays and two-year extensions were provided by the Industrial Enterprise Act of 1992 to industries in manufacturing, mining, energy, forestry, agriculture, tourism, services, and construction.

³National priority includes hospitals, traditional medicines, transport, infrastructure, fuel saving, and pollution control.

⁴Slab rates of 1 and 2 percent are created by exemptions.