March 2000

IMF Staff Country Report No. 00/47

Nepal: Recent Economic Developments

This Recent Economic Development report on Nepal was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Nepal or the Executive Board of the IMF.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201
Telex (RCA): 248331 IMF UR
E-mail: publications@imf.org
Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

NEPAL

Recent Economic Developments

Prepared by Wafa Abdelati, Takashi Nagaoka, Eric Sidgwick (all APD), Åke Lönnberg (MAE), and Joseph Zveglich (Asian Development Bank)

Approved by the Asia and Pacific Department

February 4, 2000

Contents | Page

Boxes

Figures

Tables

Appendix Tables

Table 1. Nepal: Selected Economic Indicators, 1994/95–1998/99 1/

Nominal GDP (1998/99): US$4,590 million
Population (1998/99): 22 million

GNP per capita (1998/99): US$220
Quota: SDR 71.3 million

	1994/95	1995/96	1996/97	1997/98	1998/99
Growth (percent change)					
Real GDP at market prices	3.5	5.3	5.0	2.3	3.4
Savings and investment (percent of GDP)					
Gross investment	25.2	27.3	25.3	20.7	16.8
National savings	20.5	18.7	22.5	17.2	19.4
Of which: Public savings	1.4	-0.4	0.8	0.4	0.1
Prices (percent change)					
Consumer prices (end of period)	8.7	9.2	1.7	10.2	9.5
GDP deflator	6.3	7.8	7.3	3.3	12.5
Government budget (percent of GDP)					
Domestic revenue	10.4	10.8	10.5	10.7	10.1
Total expenditure	16.0	17.6	16.5	17.4	16.4
Regular expenditure	6.9	7.5	7.4	7.8	7.9
Development expenditure	9.0	10.0	9.2	9.6	8.6
Overall deficit after grants	3.7	4.8	3.9	4.9	4.6
Overall deficit before grants	5.5	6.8	6.0	6.7	6.3
Domestic financing (net)	1.3	2.0	1.4	1.9	1.3
Money and credit (percent change; end of period)					
Broad money	16.1	14.4	11.9	21.9	20.9
Domestic credit	25.1	24.5	13.4	14.8	16.6
Interest rates					
91-day treasury bill (end of period)	8.6	12.7	5.6	2.4	3.1
Central bank refinancing	11	11	11	9	9
Loans to industry	14-18	15–17½	15–17½	13½–17	11½–17
External trade (percent change)					
Export value 2/	-9.9	1.9	10.4	11.9	20.3
Import value 3/	17.8	12.9	5.3	9.7	-3.1
Balance of payments (U.S. dollars million)					
Current account balance (excluding grants)	-207	-390	-142	-168	131
(in percent of GDP)	-4.7	-8.6	-2.9	-3.5	2.6
Official grants and loans (net)	283	271	241	294	247
Overall balance	1	-40	59	177	144
Other external indicators					
Gross official reserves (U.S. dollars million; end of period)	702	609	650	716	791
In months of imports of goods and services 4/	5.4	4.4	4.3	5.2	4.7
Of which: In convertible currencies	4.4	3.6	3.1	4.3	4.3
Public and public guaranteed debt/GDP (in percent)	52.1	51.3	48.0	50.5	49.9
Debt service 5/	6.3	6.8	5.0	5.7	5.2
National currency per U.S. dollar (end of period)	50.5	56.3	56.8	67.6	68.5
Real effective exchange rate (end of period; percent change) 6/	-3.7	1.9	5.9	0.2	7.2
Nominal effective exchange rate (end of period; percent change) 6/	-8.2	-3.6	6.8	-7.8	-1.5
Fund operations (outstanding loans at end of period; SDR million)					
SAF/ESAF	35.1	29.8	24.6	19.6	14.7

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

1/ The fiscal year starts on July 16.
2/ Cumulative, excluding re-exports.
3/ Cumulative, excluding gold.
4/ Ratio is in terms of projected imports of goods and services.
5/ In percent of exports of goods, services, and private transfers; including debt service to the Fund.
6/ Minus sign indicates depreciation of the Nepalese rupee.

I. Introduction and Summary

1. **Since the 1991 transition to democracy, the government in Nepal has pursued policies intended to promote a modern market-oriented economy with the purpose of improving growth performance and prospects.** However, Nepal's growth has been insufficient to raise living standards and annual per capita income remains one of the lowest, at US$220. Almost 90 percent of the population live in rural areas and are dependent on subsistence farming. The absolute number of people living in poverty may have increased in recent years as population has outpaced agricultural growth. Environmental concerns, closely linked to rural development, have increased. Nepal's growth potential remains limited by its underdeveloped infrastructure, unskilled human resources and poor institutional capacity. Growth has averaged 3½ percent over the past three years, mainly driven by exports of manufactured goods, and growth of transport and communications.

2. **Inflation continues to be strongly influenced by supply shocks, and price developments in India** as the Nepalese rupee is pegged to the Indian rupee and supply and trade links are very strong. Following a sharp increase in inflation in fiscal year 1998/99 due to food supply shortages, inflation has declined in the first half of 1999/2000 reaching 2 percent (12-month increase) in December 1999, as food prices stabilized.[1] There were similar price developments in India.

3. **During the past three years, there have been improvements in the external position with continued reserve accumulation.** Trade with India has expanded markedly following agreements reached on trade and transit. Aided by continued donor financing, gross official reserves, has continued to increase, reaching US$850 million in mid-January 2000.

4. The Nepalese rupee has steadily depreciated against the dollar since 1990, but **the real effective exchange rate has remained stable since the early nineties.** Competitiveness appears to be intact as exports, remittances and official reserves have all steadily increased over the period.

5. **Monetary policy accommodated an expansion in monetary aggregates in 1999 and higher domestic financing of government operations.** Liquidity in the banking system increased, partly reflecting a buildup in net foreign assets. Interest rates generally declined, with both lending and deposit rates falling by 1–2 percentage points.

6. **Although the fiscal deficit remains sustainable, financed primarily by foreign aid, budget performance has reflected the prevailing weaknesses in overall fiscal policy implementation.** The budget outturn in 1998/99 continued to reflect low revenue and development spending, resulting in domestic borrowing in excess of budget targets. Problems with the implementation of the VAT continue, including inadequate staffing.

---

[1]The fiscal year ends July 15.

7. **Some progress has been made in the areas of price reform, privatization, and financial sector reform**. Petroleum and fertilizer prices were raised in October 1999 and fertilizer subsidies eliminated in December 1999. The government has elaborated a financial sector reform strategy and foreign consultants have begun to evaluate the two large banks. The lending capacity of the two banks remains impaired by a high proportion of nonperforming assets. The three public enterprises that were targeted for sale in 1998/99 are now in the final stages of privatization, several others are preparing privatization programs and some enterprises have initiated restructuring programs. However, weaknesses in the legislative framework, limited skilled labor, and inadequate basic infrastructure, continue to impede private sectoral development.

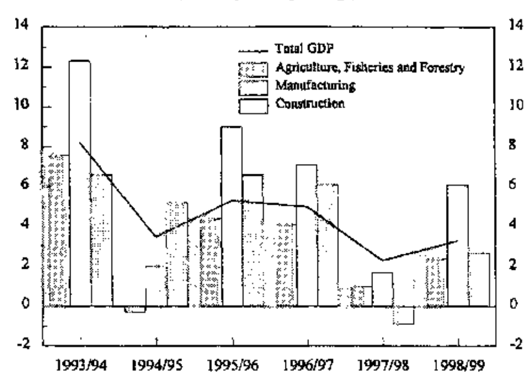
II. OUTPUT AND PRICES [2]

8. **Real GDP growth reached 3½ percent in 1998/99**. While this exceeds the population growth rate of 2½ percent, it is still considerably less than the 6 percent projected under the Ninth Five-Year Plan (1997–2002). As in the previous year, performance was constrained by limited agricultural growth (due to adverse weather and fertilizer supply problems) and by low investment. Domestic savings remained stagnant, limiting resources for investment and requiring continued reliance on foreign aid and remittances from abroad. Fueled by temporary food supply problems, inflation initially accelerated to 19 percent in November 1998 before slowing to 2 percent by December 1999, the lowest rate since 1980. Limited information suggest that real wages may have declined in most sectors in 1998/99.

A. Sectoral Developments and Outlook

9. **The higher overall growth was led by rising industrial output** (manufacturing, electricity and construction), which grew by 4½ percent compared with the 1¼ percent growth in 1997/98. Adverse weather and an unstable political environment constrained growth, particularly in agriculture, services, and sectors driven by domestic investment and demand considerations. With low productivity growth, agricultural growth has averaged 2 percent in the last decade, while non-agricultural growth averaged 7 percent. Nevertheless, the sectoral shares of manufacturing and services have increased only modestly over the 1990's (Figure 1).The share of manufacturing remains below 10 percent of GDP, and although the share of agriculture declined to 40 percent of GDP, it still accounts for 94 percent of total

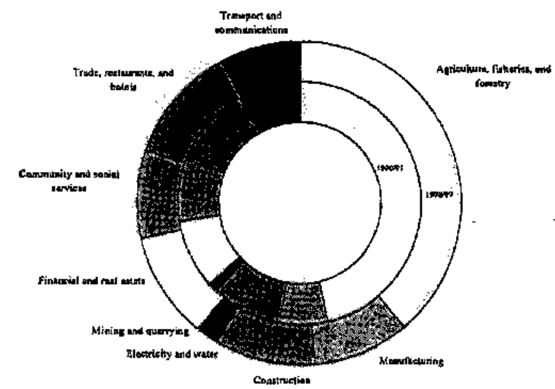
Figure 1: Real GDP
(Annual percentage change)



[2]See Appendix Tables 1–10

employment (Figure 2).

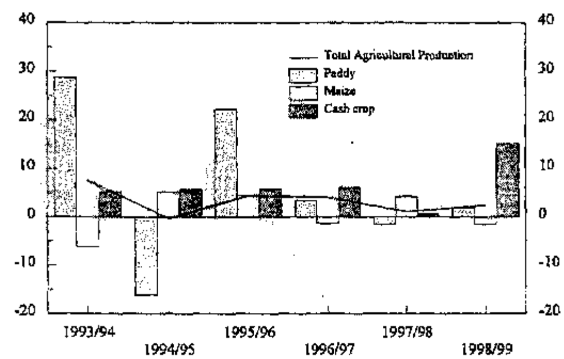
Figure 2: Gross Domestic Product by Sector: 1990/91 vs. 1998/99



Agriculture

10. **Growth in agriculture was only 2½ percent in 1998/99**, an improvement from the previous year, but barely sufficient to meet the growing rural population and well below potential. Agricultural growth was brought about by a 15 percent expansion in cash crop production (sugarcane, oilseeds and potato) on account of increases in cultivated area and yields (Figure 3). Growth of the principal cereal crops which account for 37 percent of total agricultural GDP remained modest, growing by 2 percent on average. Production of rice, maize and barley was adversely affected by the weather conditions. Livestock production, accounting for one third of agricultural production, grew by 2½ percent. Vegetable production declined by 11 percent contributing to the sharp price increases.

Figure 3: Agricultural Production Indices
(Annual percentage change)



11. **To promote sustainable rural growth and reduce poverty**, the government initiated the Agricultural Perspective Plan (APP), assisted by the Asian Development Bank (AsDB) under the Second Agricultural Program signed in January 1998. As part of this project, progress has been made to reorganize fertilizer distribution (see Box 1).

Nonagricultural Output

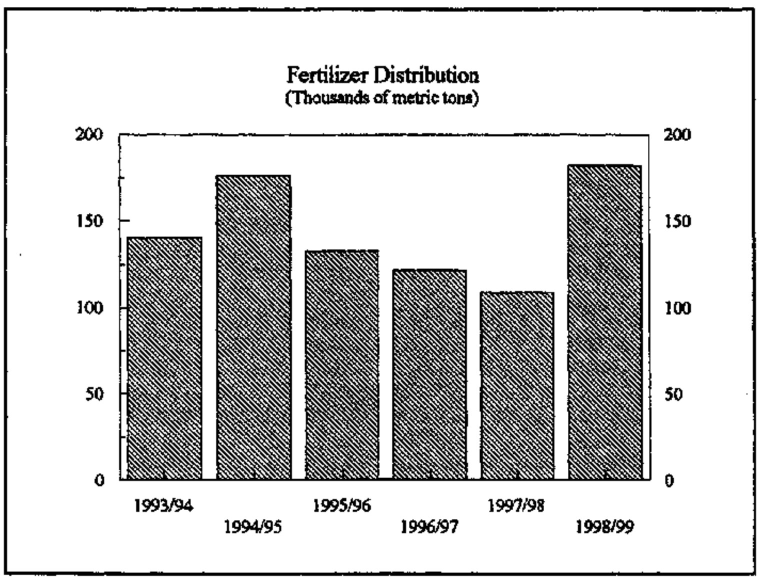
12. **Manufacturing, and transport and communications, recorded growth rates in excess of 6 percent**. Production of the major exportable items, namely ready-made garments and woolen carpets, picked up markedly in 1998/99. Production of these two items, which account for one third of manufacturing output, increased by 8 and 24 percent respectively, as export markets to Europe expanded (see Section IV below).[3] Telecommunications services

[3]Whereas the value of exports is similar for garments and carpets, the carpet industry's value added is considerably higher, employing over 200,000 (the largest single employer) compared with only 30,000 in the garment sector. Both are eligible for tax benefits and financing facilities as part of the incentives given to priority cottage industries.

Box 1. Liberalization of Fertilizer Trade and its Role in the Agricultural Strategy

The Government's 20-year Agriculture Perspective Plan (APP) aims to eliminate the structural constraints related to the dominance of state monopolies and to overcome the physical constraints stemming from the rugged infertile terrain, fragmented land ownership, and inadequate road network. The APP focuses on improving the delivery of four inputs: fertilizer, irrigation, road and power, and extension services. Fertilizer use in Nepal (35 kilos per hectare) is considerably lower than in neighbouring countries (88 and 148 kilos per hectare in India and Bangladesh, respectively) and is one of the main reasons for low agricultural productivity.

The strategy pursued to improve fertilizer distribution hinged on removing budgetary subsidies, liberalizing the import of fertilizer trade and leveling the playing field for private sector participation. Previously, the state-owned Agricultural Inputs Corporation (AIC) had a monopoly on the import and distribution of chemical fertilizers. Inefficiencies in AIC's operations, however, often led to fertilizer shortages during critical times in the crop cycle. In 1997, subsidies were removed on all types of fertilizer except urea, importation was liberalized (under an AsDB project), and all traders—both private companies and the AIC—were allowed to avail themselves of the subsidy on urea. In the last year, significant progress has been made in improving the delivery of fertilizer. However, traders complained that AIC continued to have preferential access to the subsidy due to administrative difficulties. Moreover, AIC's prices failed to cover the cost of procurement and distribution, with the budget covering its losses. In late 1999, the government removed the subsidy on urea. With its monopoly gone, the AIC is undergoing restructuring.



The policy changes have already resulted in increased fertilizer usage, but quality is now a problem. Poor quality and cheaper fertilizer, often adulterated, has been coming in from India where it is heavily subsidized. The Government combated the problem of fraud in the fertilizer trade by adding fertilizer to the Essential Commodities Act, but enforcement continues to be a problem along the open border with India.

Source: Asian Development Bank.

increased in response to expansion of a program to connect all rural communities to the network and the introduction of cellular services.

13. **Construction** growth picked up slightly to nearly 3 percent, after negative growth in 1997/98, but this was still less than half the average 6 percent growth over the previous four years. Public investment was low because of delayed development spending. Private sector investment declined in reaction to the overbuilding of hotels and offices in past years and low business confidence.

14. **Electricity and water supply**—accounting for less than 2 percent of GDP—picked up from the slump in the previous two years but remains constrained by the availability of financing. In spite of 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 hardly increased since 1995/96. Several projects are being implemented that together would double Nepal's hydropower capacity by 2004.[4] Nepal's virtually untapped water resources could provide significant irrigation benefits and improve water services. Such services are underdeveloped with only 59 percent of the population having access to safe water, compared with 79 percent in Bangladesh and 81 percent in India.

15. Of the **three service sectors**, the highest growth rate was recorded in **financial and real estate services (5 percent)**, reflecting the expansion of nonbanking institutions. Growth rates in the trade and hotel services and in community and social services slowed considerably relative to the average for the decade. For the latter, this suggests that the 5 percent expansion in civil service employment was partially offset by a contraction in the nongovernment services sector.

16. **Tourism arrivals continued to increase but at a slower pace than in previous years, reflecting infrastructure constraints and infrequent air access**. Accounting for only 4 percent of GDP, the tourism sector is operating well below its potential though hotel capacity is being increased in Kathmandu. Financial and management problems of Royal Nepal Airlines Corporation (RNAC) have limited the ability to expand major routes and "Visit Nepal 1998" was not as successful as hoped. Recognizing the constraints to tourism expansion, the government dismantled the Department of Tourism and set up the Nepal Tourism Board (NTB), comprising five government and private sector representatives, to

---

[4]Three are public sector projects and four private sector projects. The US$450 million Kali Gandaki project, initiated in March 1997, is the largest with a capacity of 150 MW and is less than 50 percent completed due to construction delays. 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 initial disagreement on the size of the plant and controversy over rights to use the river. Greater investment in the sector would permit power exports, but India's state electricity boards—the only likely customers—have financial problems and progress has been slow in initiating any major projects.

undertake long-term promotion. Funding is principally provided by earmarking the airport fees charged passengers.

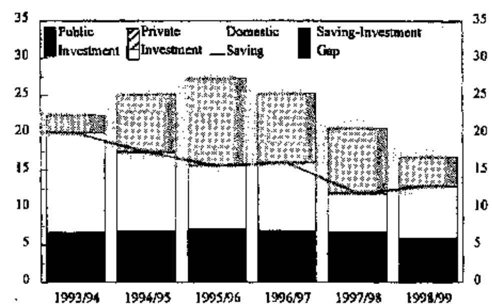
Outlook for 1999/2000

17. **Recent indicators suggest that real GDP growth accelerated in the first half of 1999/2000. The government is projecting 6 percent growth for the year predicated on improved weather conditions and greater political stability.** The favorable monsoon, additional irrigation facilities, timely supply of chemical fertilizer, and increased area under paddy cultivation are expected to raise agricultural output by over 4 percent. In the utilities sector, the expected completion of the 14 MW Modhi Khola and 6 MW Puwa Khola hydropower projects, as well as some smaller projects and increased transmission coverage, will raise the output of this sector by 11 percent. Strong growth in the country's major industrial products, driven in part by stable trade relations with India and rising demand for carpets and garments from third countries, is boosting manufacturing output.

B. Savings and Investment

18. The saving-investment gap halved to under 4 percent of GDP, reflecting a small increase in the savings ratio and a large drop in investment (Figure 4).[5] The share of gross domestic investment in GDP declined to 16¾ percent of GDP in 1998/99, down from 27 percent in 1995/96 due entirely to a consistent decline in private investment. Gross national savings rebounded somewhat from the sharp decline in 1997/98 as large private transfers offset the declines in public savings (Section VI).

Figure 4: Saving and Investment
(Percent of GDP)



C. Prices

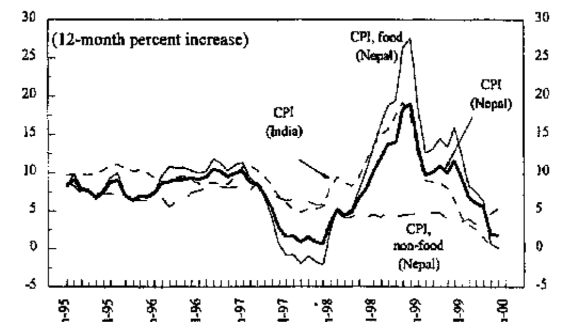
19. **Inflation, as measured by the consumer price index (CPI), has recently subsided following the earlier acceleration in 1998 brought about by food supply shortages in Nepal and India.** Average inflation increased from 4 percent to 12¾ percent in 1998/99 driven by higher food prices. End-period inflation peaked at 19 percent in December 1998 as food prices rose due to poor monsoon conditions throughout the region. In India, inflation, as

[5]Savings and investment data should be interpreted cautiously as the national accounts data are rudimentary. Private savings are calculated residually and are affected by external account measurement problems (see Section IV). Public sector savings are estimated by adjusting for the recurrent component of development spending, estimated at about 25 percent.

measured by the CPI, followed a similar path. However, from that peak inflation initially declined faster than in Nepal (Figure 5).

20. **Prices of food and beverages—with over 60 percent of the total weight in the CPI—were nearly 30 percent higher in December 1998 than one year earlier.** While the sharp increase in the prices of vegetables and fruits and subsided in the second half of the year, the price of food grains (especially rice paddy) rose in the summer. Exports of rice also altered the monthly path of prices such that the usual downturn after the main harvest did not materialize. Poor weather condition in the region increased the demand for rice exports to Bangladesh and India in the first quarter, and caused shortages of essential products including edible oils, potatoes, onions and spices, in Nepal and India. Some traders, angered by the newly implemented VAT, used the opportunity to add to the general price hike.

Figure 5: Inflation, 1995-2000 1/



1/ The India CPI index is recalculated as two-period moving averages to correspond with the Nepalese month.

21. **In contrast, inflation from nonfood items was moderate.** This reflected the fact that key components in the CPI were administratively held constant in the face of increases in the overall price level and international prices. The key administered prices, which were later adjusted, include fertilizer, electricity, kerosene, and diesel.

22. **Inflation continued to decelerate in the first half of 1999/2000.** In the first five months of the year, inflation fell to 2 percent (12-month period), reflecting a good monsoon which reduced the prices of major crops. Rice prices declined in November/December, and wheat and wheat flour prices are expected to fall in early 2000, reflecting the respective timing of harvest. Meanwhile, the government increased some administered prices to narrow the gap with international prices and help cover costs and losses of the public enterprises. Kerosene and diesel prices were raised by 24 and 48 percent, respectively, in October/November; electricity prices by 30 percent for residential uses in November/December; and fertilizer prices by 10 percent in September.[6] Fertilizer and kerosene prices are now much higher than in neighboring India where they are heavily subsidized (see Table 2). These price adjustments will feed through to the CPI to counter the expected impact of lower food prices in the early months of 2000.

[6]The price increases met with substantial resistance and extended parliamentary debate.

Table 2. Comparison of Fertilizer, Electricity and Petroleum Product Prices

	International		Nepal		India
			As of July/98	As of Oct/99	As of Oct/99 1/
Fertilizers ($/MT)					
Urea	149	2/	109	127	98
DAP	215		274	308	155
Electricity					
Average tariff ($/Mwh)	...		73	93 3/	40
Breakeven price ($/Mwh)	...		89	...	...
Petroleum products ($/liter)					
Petrol	1.40	4/	0.59	0.58	0.61
Diesel	0.85	4/	0.24	0.34	0.34
Kerosene	0.22	5/	0.15	0.19	0.07

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

1/ Prices of diesel were increased in October 1999.
2/ Import cost of fertilizer purchased by AIC, November 1999.
3/ As of December 1999.
4/ Estimates of average retail price in European OECD countries.
5/ Wholesale cost of kerosene purchased by the NOC from vessels on the open seas, November 1999.

D. Wages

23. **Despite the large increase in the CPI in 1998/99, wage developments remained fairly steady overall with some variation across sectors, regions, and skill levels.** Wages in agriculture and industry remained unchanged in the last two years, with the exception of a small increase in the Biratnagar region.[7] Industrial wages may, however, adjust upward next year as inflation is generally reflected in industrial wage increases with a 1–2 year lag. Construction wages increased in the southern regions (in the range of 16–23 percent) but remained stable in the Kathmandu valley. To reduce the decline in real wages in the public sector, the government increased allowances to all civil servants by Nrs 300 per month in August 1999. After the increase, the average take home pay (including allowances) of a public sector employee is about US$47 per month. The public sector pay scale is very compressed.[8]

24. **Accordingly, real wages and wages expressed in U.S. dollar terms have been on the decline since 1995/96.** In the Kathmandu region, agriculture and construction wages are about 15 percent lower in real terms than three years earlier. Real wages in the industrial

[7]Industry wage data are based on information provided on minimum wage developments as actual average wage data are not available.

[8]Senior officials reportedly receive a lower salary than junior associates in private commercial banks.

sector declined in 1998/99, reversing the increases of the previous year, and are now slightly below their level of three years earlier.

25. **The government recently approved a minimum wage of Nrs 70 (US$1) per day for the agricultural sector in Kathmandu.** It is expected that this will become a benchmark for minimum wages in other sectors and regions. Actual wages in the private sector would be negotiated based on such minimum wages. However, the lack of strong enforcement of minimum wages, even in the public sector, casts doubts on the implementation of such requirements in the private sector, especially in small enterprises and among unorganized workers.

III. POVERTY AND ENVIRONMENTAL ISSUES

A. Poverty and Social Issues

26. **Overcoming widespread and deep-rooted poverty is Nepal's greatest challenge.** Growth has averaged less than 4 percent while population growth has exceeded 2 percent over the past 25 years and employment has grown at a slower pace than the labor force. Recent estimates suggest that the proportion of the population living below the nutrition-based poverty line (defined at somewhat less than US$1 per day in purchasing power parity terms) is 42 percent, and that 70 percent have incomes less than US$1½ per day. Although there have been significant improvements, virtually all of Nepal's social indicators are lower than other low-income countries (see Appendix Table 11). For example, the adult literacy rate is half that of India, and access to safe water and to electricity are three quarters and one quarter the level in India, respectively.

27. **Poverty is more acute and pervasive in rural areas.** Around 80 percent of the poor farm small and dispersed plots of low-quality land. Many must seek scarce low-wage agricultural employment to supplement their income. Limited work opportunities have maintained underemployment at around 50 percent. Many poor work as bonded laborers to pay off debts and the caste system constrains prospects for labor mobility. Health services are less accessible and more costly in rural areas.

28. **Public spending on social and poverty alleviation programs is constrained by the low level of public revenues and its composition is determined by donor assistance programs.** Nepal cannot afford to significantly expand the social safety net through domestic resources. Although social expenditure has increased from 3½ percent of GDP in the mid-1980s to nearly 6 percent of GDP, the allocation remains inadequate, particularly with respect to funding of priority areas.

29. **The Ninth Plan focussed on promoting rural working opportunities and improved services.** The Plan targeted reducing the number living in poverty to 32 percent by 2002. A number of programs have been initiated, and a Poverty Alleviation Fund has been established to direct and coordinate donor efforts. However, the poverty target will probably not be achieved due to the slow rate of economic growth relative to the growth of the population. To improve the effectiveness of poverty related policies, a new strategy is being developed. Several poverty assessments were recently carried out by local and international

NGOs (e.g., Action Aid Nepal, Plan International Nepal, and New Era), based on the 1995/96 Nepal Living Standard Survey (NLSS). A National Workshop on Poverty was hosted by the National Planning Commission (NPC) in January 1998. Government initiatives on poverty reduction are widely discussed in committees and public debate.

30. **Efforts to improve project effectiveness include initiatives to promote decentralization and increased community participation**. Projects with successful community participation include community forestry, farmer managed irrigation and the Food for Work program in the Churia region, as well as a number of UNDP and GTZ sponsored projects. However, it is doubtful that community mobilization efforts can be effectively replicated in more remote areas. Also decentralization and revenue sharing arrangements could weaken overall resource mobilization and budgetary control.

31. The International Labour Organization estimates **child labor** at 10 percent of the total labor force of 12 million, or 42 percent of all 5–14 year old children. Children work mainly in the agricultural sector, and in the carpet and garment factories. The carpet and garment manufacturers have been cooperating with international organizations to eliminate this practice and the incidence of child labor appears to be on the decline.

B. Environmental Issues

32. **There is a close link between poverty and environmental degradation.** Environmental degradation in the form of soil erosion and landslides stems from the encroachment onto ever-steeper slopes and into forests in search of firewood and fodder. This in turn has left the poor more vulnerable to recurring natural disasters such as floods and droughts. Air and water pollution are on the rise. In urban areas, sewage and garbage disposal are immediate concerns, with particularly severe implications for the poor in the Kathmandu Valley. To address rising air pollution in Kathmandu, the government recently abolished the use of diesel operated three-wheelers and provided tax incentives to encourage the use of electric-operated microbuses.

IV. EXTERNAL DEVELOPMENTS [9]

33. **Based on available data, the external position remained strong in 1998/99 and early 1999/2000**. However, despite some improvements in coverage made during the last year, the analysis of external sector developments remains hampered by weak data. In particular, the capital account includes large unrecorded capital outflows (captured in large negative errors and omissions), suggesting that imports are under-recorded, perhaps by a significant amount. Bearing these caveats in mind, buoyed by robust growth in exports of goods, services and private transfers, and a decline in imports, the current account (excluding grants) recorded a surplus in 1998/99 of US$130 million (about 2½ percent of GDP). However, contrary to the previous two years, the current account balance with India reverted

[9] See Appendix Tables 12–19.

back to a (small) deficit, following a sharp decline in the gold trade. The overall balance remained strong, with both India and third countries, and gross official international reserves were stable at just under 4¾ months of import coverage. Total external debt declined slightly, and the debt service burden remained manageable.

A. Exports

34. **Merchandise exports continued to perform well in 1998/99, buoyed by greater diversification and continued growth in exports of ready-made garments and carpets.** Exports, f.o.b., including re-exports of oil but excluding re-exports of gold, were up 13 percent in U.S. dollar terms in 1998/99.[10] Exports of carpets and ready-made garments continued to account for the largest share, comprising just under 55 percent of total merchandise exports (Figure 6). Exports of carpets (mostly to Germany and increasingly to the USA) rose by over 5 percent, despite declining U.S. dollar prices, reflecting a rise in export volume to 2½ million square meters. Exports of ready-made garments jumped by 26 percent, filling the available quotas on exports of men's shirts, shorts and trousers, and women's blouses. Exporters of ready-made garments were the beneficiaries of restrictions placed on Indian exports of garments following the Indian nuclear tests, as many of the Indian exporters were able to quickly switch production to Nepal, and the addition of big buyers from the U.S.[11] Other exports which performed well in 1998/99 included handicrafts, tea, silverware and jewelry, leather goods, and paper products. With regard to the direction of trade, merchandise exports to India, excluding oil, rose by 36 percent, with strong growth in exports of vegetable ghee, jute goods, pulses, thread, and other products included in the Trade and Transit Agreements with India (see below).

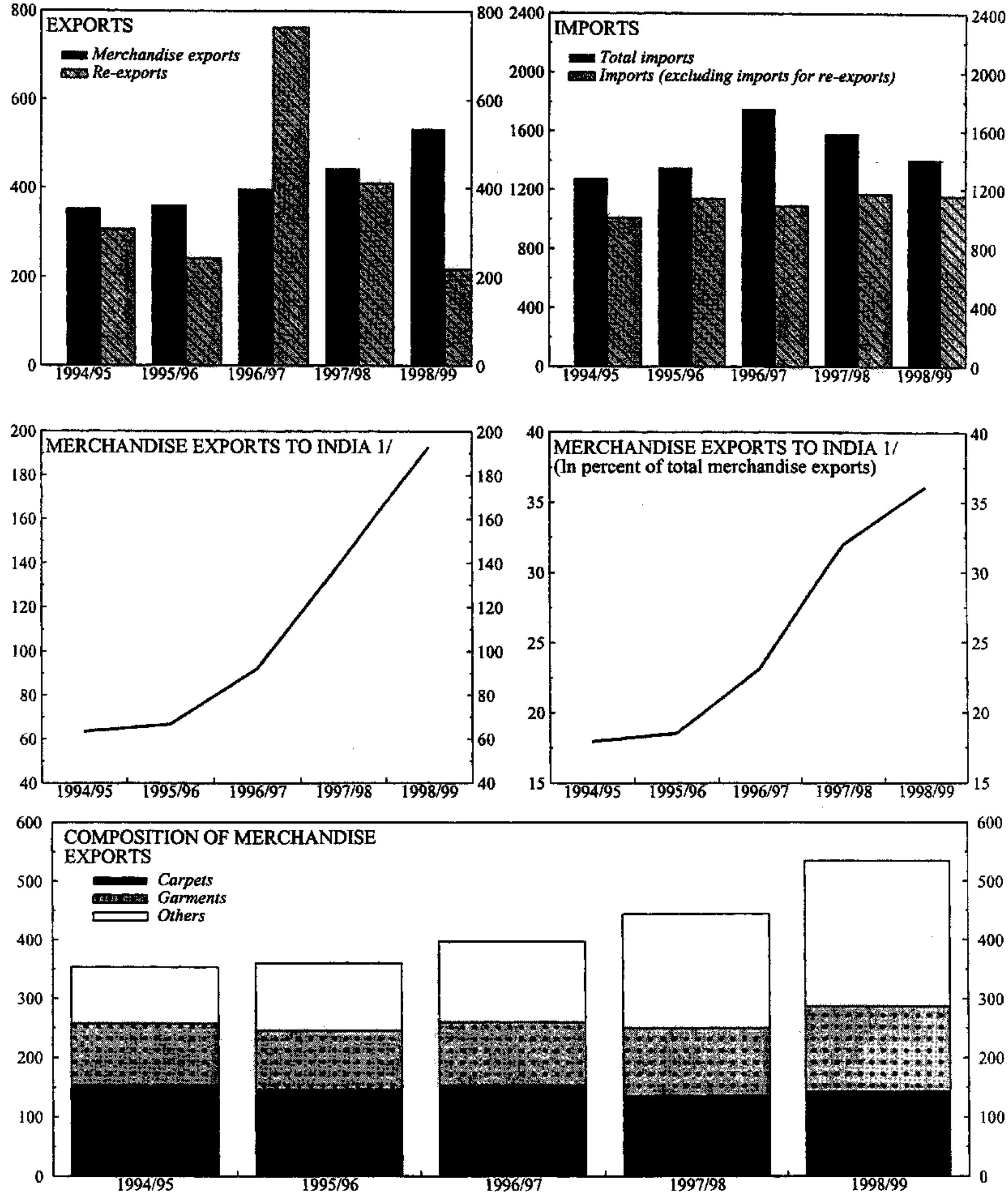
35. **In the first quarter of 1999/2000, total merchandise exports surged by over 40 percent, spurred by strong growth of exports of ready-made garments and carpets.** In contrast, exports of vegetable ghee to India dropped off sharply as the Indian authorities tightened hygiene standards in response to pressure from local producers.

---

[10]In response to STA technical assistance, the authorities have revised their compilation of the balance of payments, from 1996/97 onward (see IMF Staff Country Report No. 99/18; March 1999; p. 14–20). However, the re-exports of gold (to India) are not explicitly included, although a counter-entry to the imported value of gold imports is included in the financial account under "other assets." Some of the counter-entry to the importation of gold also appears in workers' remittances under private current transfers. In the staff's presentation of the balance of payments, re-exports of gold are included in total exports.

[11]Carpet exporters already benefit from the Generalized System of Preferences (GSP) of the European Union, and are not subject to any local value-added requirements. Exporters of ready-made garments are to enjoy similar benefits effective January 1, 2000.

Figure 6: External Trade Developments, 1994/95-1998/99
(In millions of U.S. dollars; unless otherwise noted)



Source: Data provided by the Nepalese authorities.

1/ Excluding re-exports.

B. Imports

36. **Import growth was negative in 1998/99**. Imports, including oil, declined 11 percent in U.S. dollar terms to US$1,405 million.[12] The composition of imports remained unchanged from previous years, with the bulk of imports consisting of manufactured goods and capital equipment. Imports of food and medical supplies originate mostly from India, while minerals and raw materials come predominantly from third countries. An increase in imports from India (to US$600 million), mostly on account of higher imports of food (especially rice) and live animals, cotton fabrics, medicines, and some capital equipment, was more than offset by lower imports from third countries, which fell by 19 percent to US$800 million. The largest decline was in imports of gold (around 50 percent), following the reduction in the tariff on gold in India and the related decline in transit gold trade through Nepal to India. In addition, consistent with lower development expenditures, declines were also recorded in imports of crude materials (raw wool from New Zealand and Tibet), petroleum products, and capital equipment (transport goods).

37. **In the first quarter of 1999/2000,** total merchandise imports surged by 37½ percent on an annual basis resulting from a significant increase in imports of gold. Imports of thread and cotton, for the garment industry, and fertilizer and cement, also rose sharply.

C. Services, Income, and Transfers

38. **Total gross service and income receipts increased by 26 percent to US$546 million in 1998/99**. Receipts from tourism, which represents the largest share of service receipts, rose by 12 percent to US$179 million due to an increase in average expenditure-per-tourist (to over US$470); the total number of tourists visiting Nepal increased only marginally, to just under 465,000. Service receipts from India increased by 30 percent following the first time inclusion of expenditures by the Indian embassy (about US$45 million), and higher expenditures by resident diplomatic missions and aid agencies. Total service payments remained constant at US$232 million.

---

[12]Oil products are bought by the Nepal Oil Corporation (NOC) in U.S. dollars from oil exporting countries and shipped to India for storage at various ports. Since there is a change in ownership (from oil exporters to the NOC), the transaction is recorded as an import in the balance of payments, although the oil does not physically cross the border into Nepal. Nepal "re-exports" oil to India (to the Indian Oil Corporation (IOC)) for storage purposes and the IOC pays for the oil in Indian rupees. Reflecting the further change of ownership of the oil, the transaction is recorded as a "re-export" in the balance of payments. Finally, oil products (petrol, diesel, kerosene, and aviation fuel) are imported back into Nepal as and when required. This final change in ownership is again recorded as an import in the balance of payments. Because payments by NOC to IOC for the oil (in Indian rupees) include all associated transport and storage fees, and duties, the import bill is higher by a margin of between 20–25 percent than the receipt from the "re-export."

39. **Recorded private current transfers rose 24½ percent to US$172 million.** Remittances of pension payments, from retired Nepalese soldiers in the Indian and Ghurka armies, increased by 44 percent to US$80 million, following increases in pensions for retired army personnel from both armies.[13] Non-recorded private remittances from Nepalese workers working abroad (mostly in the Middle and Far East, and India) are estimated to have risen by 29 percent to US$315 million.[14] **Official grants declined by 10 percent to US$107 million.** Official cash grants from bilateral donors, other than India, rose 16 percent to US$43 million, while grants from India fell to US$19 million and grants-in-kind declined by more than half to only US$7½ million. Other grants declined by US$6 million to US$38½ million.

D. Capital and Financial Account

40. **Though it remained strong, the overall balance surplus declined by US$33 million to US$144 million.** Private and official capital transfers declined significantly to under US$30 million, and US$110 million, respectively, in line with the decline in capital expenditures. Direct investment, which remains very limited consisting of only equity investment, fell marginally to US$9 million. Disbursements declined by US$35 million to US$195 million, about half the rate of decline in development expenditures, while amortization payments remained constant. Trade credits (net) declined to close to zero in 1998/99, from a level of about US$70 million, in line with the decline in the prepayments of outstanding letters of credit and export bill purchases.

E. International Reserves and External Debt

41. **Reflecting the strong balance of payments, gross foreign assets of the banking system continued to increase in 1998/99, to US$1.1 billion.** Gross foreign assets of the Nepal Rastra Bank (NRB) rose to US$800 million, including US$780 million in foreign exchange reserves, equivalent to 4½ months of import coverage. During the year, the share of Indian rupees in total foreign exchange reserves of the NRB declined sharply from 24 percent to 9 percent, reflecting the combination of lower re-exports of gold to India and the NRB's policy of gradually reducing its holdings of Indian currency (Figure 7). Reserve accumulation by the NRB continued in 1999/2000, reaching US$857 million by mid-January 2000.

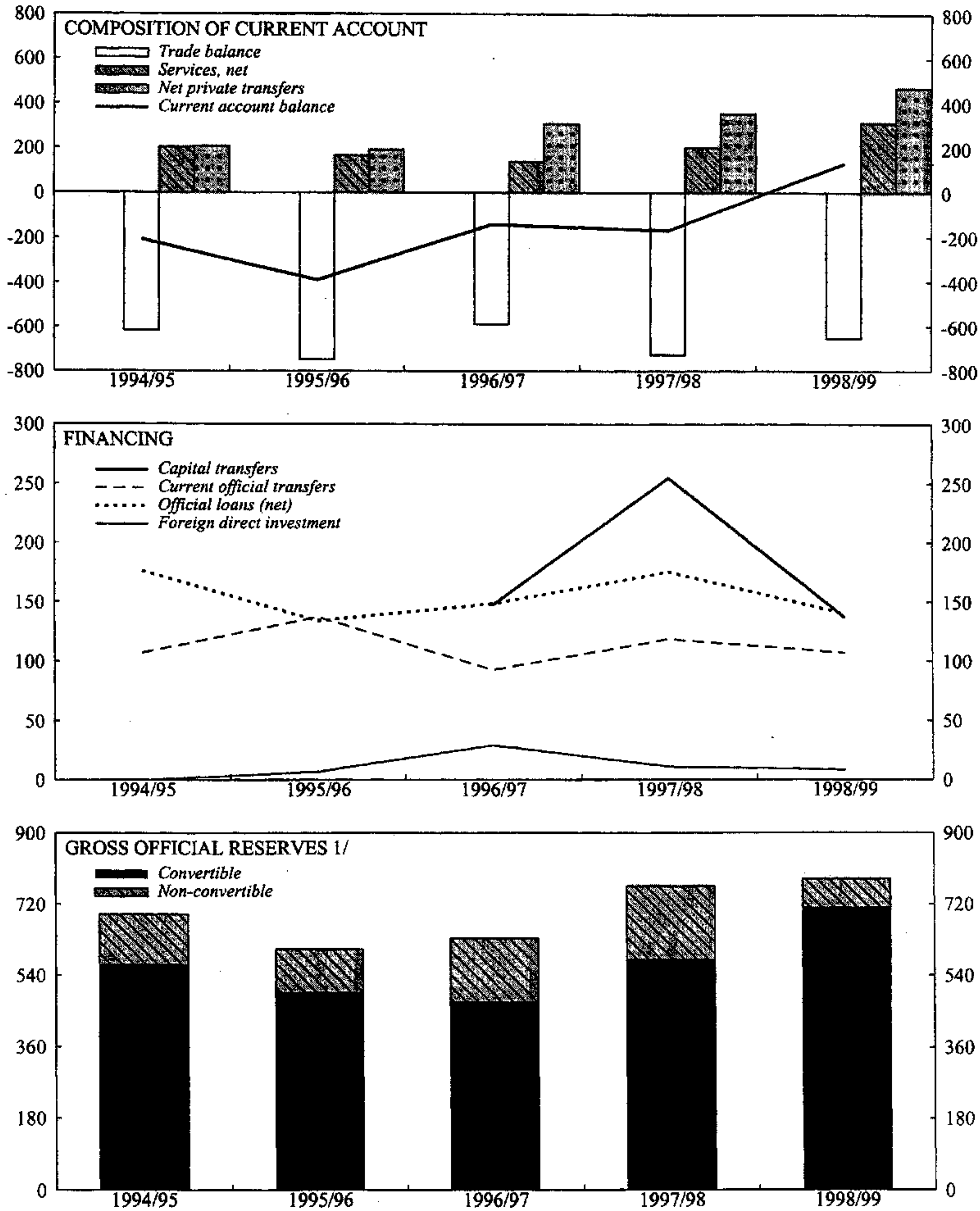
42. **Total external debt rose slightly to US$2.7 billion by the end of 1998/99 but declined in terms of GDP, to just under 54 percent.** The share of multilateral debt remained stable at 80 percent, while that of short-term non-concessional debt, consisting

---

[13] As reported in the exchange record of commercial banks.

[14] A recent in-depth study, sponsored by the U.K. Department for International Development (DFID) suggested that unrecorded workers' remittances were significantly larger than currently estimated. If true, this would indicate some under-recording of outflows elsewhere in the balance of payments.

Figure 7: Current Account, Financing, and International Reserves, 1994/95-1998/99
(In millions of U.S. dollars)



Source: Data provided by the Nepalese authorities.

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

mostly of trade credits, remained small (under 8 percent). The debt service ratio declined to just over 5 percent.

F. Exchange and Trade System

43. **The exchange rate of the Nepalese rupee remains pegged to the Indian currency at the rate of Nrs 1.6 per Indian rupee.** The Nepalese rupee broadly maintained its nominal exchange rate against the U.S. dollar, appreciating in real effective terms by about 7 percent in the year to mid-July 1999. This appreciation reflected the increase in CPI inflation and the widening inflation differential with India. However, this appreciation was reversed in the first half of 1999/2000, in line with the improvement in inflation performance, and there is no evidence to suggest that this resulted in any loss in competitiveness (see Box 2).

44. **Though Nepal maintains an exchange system that is free of restrictions, some minor controls were imposed in 1998/99 and 1999/2000.**[15] In late 1998, temporary quantitative restrictions were imposed on the import of poppy seed and the export of rice (for the latter, in response to a shortage in domestic production). In early 1999, cotton yarn, raw materials used for manufacturing toothpaste, and detergent were added to the list of items imported from India which have to be paid in foreign exchange, to discourage exporters from hoarding foreign exchange. In addition, to protect local producers, the import duty on sugar imports was raised to 40 percent in January 2000. Concomitant with the adoption of a transaction-based customs valuation system (see Section VI), the tariff rates of 20 and 30 percent were eliminated, and the tariff structure now includes five standard rates (5, 10, 15, 25, and 40 percent), plus two special rates of 80 and 130 percent, applicable to arms and ammunitions, and certain motor vehicles, respectively. Notwithstanding the changes, the average effective tariff rate remains at around 8 percent.[16]

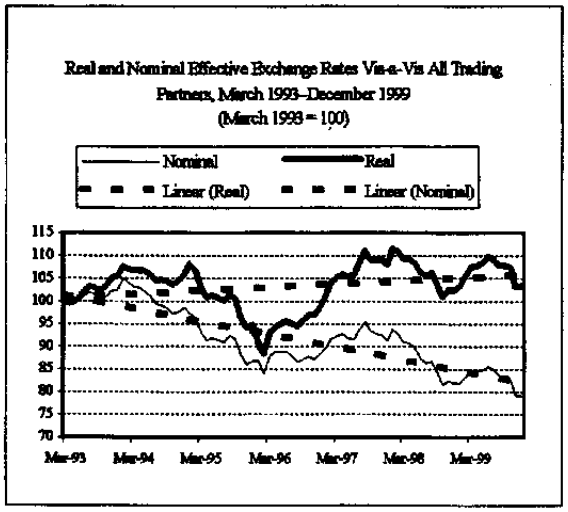
---

[15]See Annual Report on Exchange Arrangement and Exchange Restrictions, 1999.

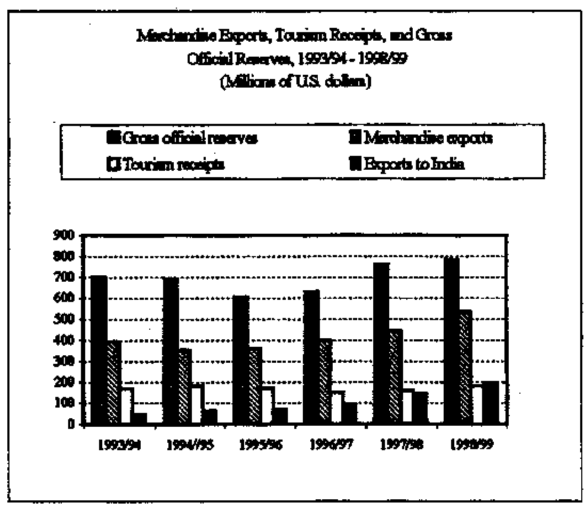
[16]Average customs duty rates by main categories of goods and the overall simple average custom duty rate are shown in Appendix Table 18.

Box 2. Nepal: Indicators of Competitiveness

In Nepal, it is not possible to derive a unique yet comprehensive measure of competitiveness. In theory, assessment of a country's international competitiveness is based on measuring the costs of domestically producing tradable goods and services, or equivalently, relative prices or the real exchange rate (RER). The higher the domestic cost of producing tradable goods and services (i.e., the more appreciated the RER), the lower the country's degree of competitiveness. One common method of assessing competitiveness is to evaluate how far the current RER is from its equilibrium value, defined as the relative price of tradables to nontradables at which income and expenditure, and the supply and demand of tradables and nontradables, respectively, are equal. In Nepal, as in many developing countries, the application of such an analytical framework is difficult, partly because of the lack of necessary data, but more importantly, because the equilibrium exchange rate is constantly changing in response to the structural shifts in the economy.



Therefore, as an alternative, the staff looked at three available indicators to assess competitiveness. First, Nepal's real effective exchange rate (REER), defined as trade-weighted nominal exchange rates deflated by relative CPIs, has remained broadly stable since being pegged to the Indian rupee in early 1993, except for a brief period centered around 1996. This indicates that ***domestic costs do not appear to have eroded competitiveness***. Second, in support of this assessment, since the beginning of 1998/99, average wages have not increased in either of the main export sectors (carpets and ready-made garments). In fact, though reliable data on wages are not readily available for all export sectors, ***real average wages in the export sector may have fallen over the period***. Finally, total merchandise exports, including to India, and gross official international reserves have all increased over the period. ***Thus, persistent increases in foreign exchange inflows do not indicate a widespread loss of competitiveness***.



Available indicators do not suggest that Nepal's competitiveness has been eroded in recent years. However, there is a clear need to develop better indicators to enable not only a more accurate assessment of competitiveness, but also closer monitoring. In particular, the recent increase in energy costs and the prospect of higher water rates (an important input for producing carpets) could lead to a decline in competitiveness, especially in the non-garment export sectors where the absence of quotas renders competition more intense. In addition, some readily available indicators, such as advanced export orders and hotel reservations, should be monitored as these can serve as early-warning signals of potential problems.

45. Nepal had submitted its application to the **World Trade Organization (WTO)** along with the initiating memorandum on its foreign trade regime. With the assistance of the UNDP, work has begun on drafting the "initial offers" document, and assessing the revenue impact of potential tariff reductions. The "initial offers" will include proposals to open up the service sector, including banking, insurance, and telecommunications. The First Working Party meeting is to be held in the first quarter of 2000.

46. The **Nepal-India Trade Agreement** signed in December 1996, is anticipated to be automatically renewed in December 2001, as the agreement has proved beneficial to both sides. Under the trade agreement, Nepal can export all manufacturing goods to India duty free on the basis of a certificate of origin. The only exceptions are alcoholic beverages, tobacco and cigarettes, and perfume and cosmetics, which are subject to Indian customs duties. As explained above, since the signing of the agreement, trade has shown an increasing trend. The **Nepal-India Transit Agreement**, which has simplified procedures to expedite the transportation of cargo to Nepal from Indian ports, was renewed in January 1999 for seven years, and now includes an automatic renewal provision.

47. The authorities are currently reviewing a draft of the **South Asia Free Trade Agreement (SAFTA)** which is scheduled to take effect in 2001, although the SAFTA is not expected to have a significant effect on Nepalese trade or revenue if the preferential trade agreement with India is maintained. However, SAFTA could have large revenue implications in the event the trade agreement with India is not renewed as trade would be diverted to the free trade area.

V. Monetary and Financial System Developments[17]

A. Monetary Policies

48. **Since mid-1998, the NRB has aimed to simultaneously allow credit expansion to support output growth at the same time as reducing the potential for monetary expansion to fuel inflation**. The NRB conducts its policy via cash reserve ratio (CRR), the refinancing rate, and open market operations using treasury bills and repurchase agreements. The NRB currently does not have a discount window system. With such instruments, the NRB's leverage is still limited in practice, due to the lack of a developed market for government securities and a limited range of debt instruments.[18] To address such constraints, longer-term government securities were introduced in 1997 and efforts made to reduce the NRB's finance to the public sector. Interest rate policy has been conducted primarily through moral suasion to bring lending rates down while discouraging significant upward movement in yields on treasury bills.

---

[17]See Appendix Tables 20–27.

[18]Longer-term NRB bonds have not been issued since September 1996 and the last redemptions were made in April 1997.

49. **For 1998/99, the NRB projected annual broad money growth of 15 percent, consistent with average inflation of 7 percent and a modest decline in velocity, while accommodating private sector activities.**[19] To encourage the desired reduction in lending rates, the NRB issued a requirement that all commercial banks keep their spread between deposit and lending rates to 5 percentage points.[20] To help meet this objective, the bank refinancing rate and CRR were kept unchanged.[21] Though the NRB's conduct of monetary policy was hampered by legal and operational restrictions, it made no attempt to sterilize the increase in net foreign assets (NFA) and accommodated the higher credit to government.[22]

B. Monetary Developments

50. **In the context of the NRB's passive monetary stance, broad money grew by 21 percent in 1998/99, similar to the growth in 1997/98.** This expansion was higher than in India (14 percent during the corresponding period), reflecting the general trend difference in velocity (Figure 8). Narrow money growth slowed to 13 percent from more than 17 percent in the previous year, including a substantial deceleration in the growth of domestic demand deposits. However, there was a significant increase in time deposits, reflecting the lack of other attractive investment avenues and investors' relative confidence in commercial banks. NFA grew significantly, though at a decelerated pace, due to compression of imports, higher exports, and increased foreign capital inflows from donors.

51. **In the first months of 1999/2000, annual broad money growth has remained at about 20 percent.**[23] Growth of net domestic assets exceeded that of NFA growth (both after adjustments for valuation changes), spurred by acceleration in credit to the government.

---

[19]Percentage changes are on 12-month basis unless indicated otherwise.

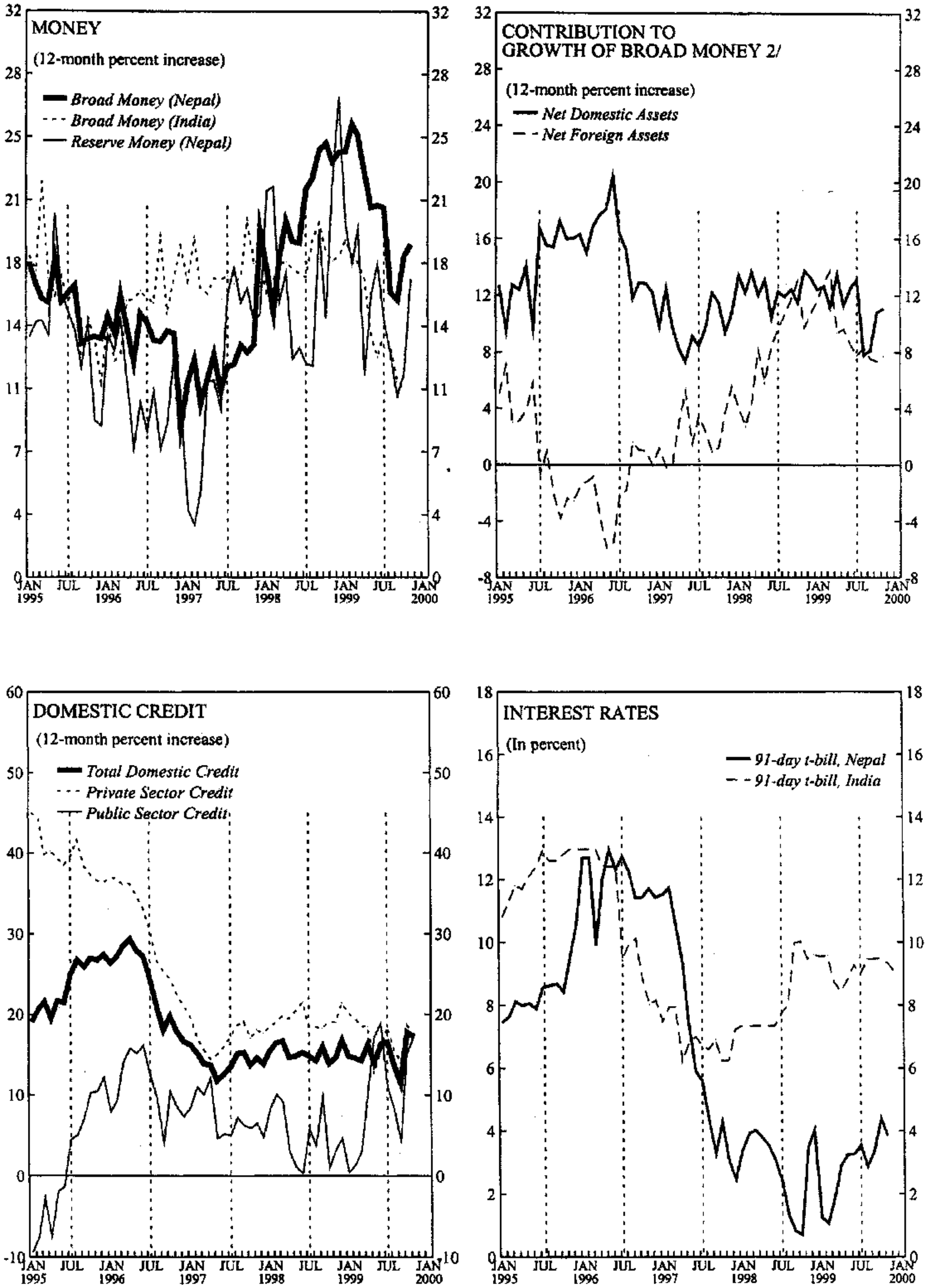
[20]Lack of a clearly defined method for calculating interest rate spreads made it difficult to evaluate individual banks' interest rate settings and thus added to doubts on the effectiveness and appropriateness of the directive.

[21]The bank refinance rate was reduced from 11 to 9 percent in December 1997 and further lowered to 7 percent in July 1998 against loans provided for exports. The CRR was slashed from 12 percent to 10 percent on average (discriminatory by type of deposits) in April 1998.

[22]There are restrictions on selling the bills acquired from converting the overdraft in the primary market and limits on the level of gross sales of treasury bills. These, together with the regulation linking the rate in the secondary market to the average of the preceding three months' primary market rates, limited the NRB's capacity to conduct its open market operations.

[23]As the most recent figures in the monetary survey are based on estimates from a sample of operating branches, they are subject to revisions after 4 months, which usually push up M2 growth figures by 1–2 percentage points. The figures referred to here are adjusted for this bias.

Figure 8: Selected Financial Indicators, 1995-99 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.

Narrow money increased owing to a rise in currency. The extra demand for cash reflected the preparations for the religious festivities that took place in November.

52. **The pace of credit to the private sector increased only marginally to around 18½ percent in 1998/99.** Loan recovery operations led by the 2 largest banks, Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL), and the slowdown of the economy continued to limit the expansion of credit to the private sector. In addition to the lack of viable projects in general, the decline in imports reduced the demand for import credits. Insurgencies in the rural areas also prevented commercial banks from seeking new opportunities in the hills. Credit expansion to the private sector accelerated in early 1999/2000 to 19¼ percent.

53. **There was a substantial acceleration of growth in credit to the public sector in 1998/99, continuing in early 1999/2000.** In an effort to reduce the government's reliance on central bank financing, the NRB converted Nrs 6¼ billion of central government overdraft into treasury bills in March 1999, of which Nrs 3½ billion had been sold in the market by mid-December. However, in the first half of 1999/2000 the government's overdraft from the NRB was generally well above the legal ceiling of Nrs 1 billion set in the Public Debt Realization Act.24 The authorities anticipate that the outstanding converted treasury bills will be rolled over when they mature in March 2000.

54. **Nominal commercial bank interest rates generally continued to fall in 1998/99, leading to sharply negative real rates.** The limited demand for bank credits in the private sector, and NRB's policies, continued to have the effect of bringing down commercial bank interest rates. Though at a slower pace than lending rates, deposit rates followed the declining trend, gradually widening the difference with the corresponding rates in India, raising concerns of capital flight. Consequently, the spread between commercial banks' deposit and lending rates fell during the year.[25] However, the private banks were able to maintain healthy profit margins, because of the high spread required by the two troubled large banks.

55. **Interest rates on treasury bills rebounded to around 4 percent in early 2000 after plunging to ½ percent in October 1998 (91-day bills).** Nevertheless, the difference between rates in India and Nepal continued to be considerable. The increasing excess liquidity and the reluctance on the part of the government to allow a substantial rise in the treasury bill rate, for fear of increasing its debt burden, kept downward pressure on the rates. However, in December 1999, the NRB sold some of its remaining overdraft-converted treasury bills, raising the yields on treasury bills.

---

[24]The limit is only binding at the end of each fiscal year.

[25]A simple calculation using unweighted mid-rates shows the average spread declining from 8 percent to 6½ percent in the course of 1998/99.

C. Financial System Developments

56. **During the 1990's Nepal made significant progress in developing its financial sector.** From a situation with only two state-owned commercial banks at the beginning of the decade, at end-1999 there were 13 commercial banks, two development banks, five regional development banks, one postal savings bank, 45 finance companies, 29 nongovernment cooperative societies involved in limited banking activity, and 30 nongovernment macro-credit institutions.

57. **Although the number of institutions increased dramatically, the financial sector continues to be highly segmented.** This phenomenon is, in part, a consequence of the state of financial sector legislation that has been geared toward fragmentation rather than integration. By legally allowing a large number of different categories of financial institutions, but not allowing mergers and acquisitions between categories, the dynamic elements of increasing competition and corporate restructuring have not materialized. This explains, in part, why the two major banks continue to dominate the commercial banking sector despite the sharp increase in the number of institutions. In mid-1999, RBB and NBL reported a combined share of 86 percent of commercial bank branches; 61 percent of total lending; and 52 percent of total deposits in the banking system.

58. **Most of the remaining 11 commercial banks are majority foreign-owned and subject to somewhat more restrictive regulation.** Nine are joint-venture banks with 50 percent foreign shareholding, and two institutions are privately-owned domestic banks. The local shareholding in joint-venture banks typically consists of local financial institutions, including development banks and the Employers' Provident Fund. The joint-venture banks have generally specialized in trade finance but have also, since the mid-1990s, expanded their activities into the industrial sector, tourism, and transport sectors. These institutions tend to perform well.

59. **The government retains considerable influence over financial sector activities,** including through its ownership of key financial institutions such as RBB, Agricultural Development Bank of Nepal (ADBN), and Nepal Industrial Development Corporation (NIDC), and—until recently—NBL. Special regulations affecting joint-venture banks also provide the NRB and the Ministry of Finance with unusual leeway in influencing banking institutions. Current rules require that the foreign bank enter a so-called "technical service agreement" with the banking supervisors, including imposing a limit on the number of expatriate managerial staff allowed to operate in Nepal.

Key Issues in the Financial Sector

60. **The financial sector remains weak and unable to provide adequate financial intermediation, and its development is held back by the deep-rooted financial difficulties of RBB and NBL.** In mid-1999, RBB accounted for more than 30 percent of

total bank assets, and nonperforming loans amounted to at least 25 percent.[26] In absolute terms, this represented the largest stock of nonperforming assets in Nepal. In some cases, loans have not been serviced for the last 15 years.

61. **Nonperforming loans appear to be on the rise for a number of reasons despite attempts in recent years to improve debt recovery and more cautious lending practices.** One reason is the lack of debt servicing that occurred during the election period early in 1999. Another contributing reason was the fall in property values that has taken place since mid-1999. This has left RBB and NBL as the two largest owners of real estate in Nepal, partially as a result of reclaiming collateral on defaulted loans. Moreover, NPLs increased as a result of more rigorous classification of loan portfolios.

62. **Financial sector weaknesses also stem from deficiencies in the functions of the NRB as supervisor for licensed deposit-taking financial institutions.** Among these, six main areas have been identified as of particular importance: (i) absence of operational independence, (ii) fragmentation of supervisory responsibilities, (iii) internal line-of-authority problems, (iv) difficulties in enforcement of corrective actions, (v) lack of legal immunity for inspectors/supervisors, (vi) incomplete supervision of "fit-and-proper" domestic bank managers.

Financial Sector Reform Strategy

63. **While there has been progress in expanding and developing the financial sector during the 1990s, much remains to be done towards the establishment of an effective financial services sector.** The main objective of the financial sector reform program is to provide a foundation for a sound, market-oriented, competitive system which would underpin macroeconomic stability and private sector-led growth. Discussions on an appropriate strategy for financial sector reform have taken place with the Fund, World Bank, the AsDB, and various other donors and private organizations. The NRB recently drafted a sectoral reform strategy aiming to:

- **Implement restructuring plans for the financially-troubled major banks.** The reform changes to RBB, NBL, ADBN and NIDC could entail replacing management, introducing improved credit control mechanisms, and the closure of unprofitable branches. Both RBB and NBL are making attempts to improve loan recovery.[27]

[26] Based on official reporting. Studies by outside agencies suggest the position is much worse. Of note, the main Kathmandu branch has been identified as the major source of problems of bad loans and poor accounting.

[27] RBB plans to call on government guarantees for defaulted loans, although necessary funds have not yet been allocated in the budget. NBL has already called on some government guarantees.

- **Enhance the legal and regulatory framework covering the financial sector.** Legislation is to be modernized and regulations regarding deposit-taking institutions improved. A general review is to be carried out with a timetable of amendments of current legislation with a view to reducing segmentation and fragmentation.

- **Strengthen NRB and its supervisory function,** and limit its role to central banking In this connection, an on-going analysis of the supervisory and regulatory functions of the NRB by an external consultant financed by the World Bank, aims to lay the foundation for a sounder monitoring of the banking system.[28] Box 3 summarizes the staff's assessment of the key issues.

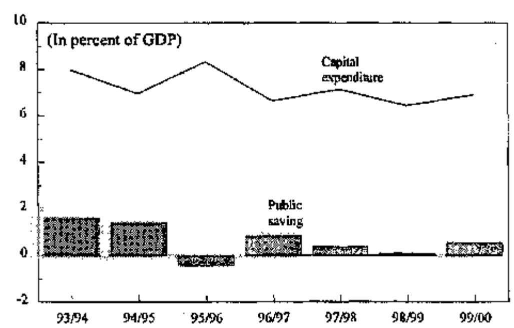
- **Improve regulation of nonbank deposit-taking institutions** in a manner similar to that of banks. Market-based competition would be increased through deregulation. A new banking law based on international best practices is being planned in addition to a new NRB Act, enhancing autonomy and accountability. In addition, a Financial Institutions Insolvency Act will be prepared.

- **Strengthen the legislative and institutional framework for loan recovery.** This includes improving accounting and auditing practices of financial institutions, and completing audits for banks' financial accounts by internationally recognized firms.

VI. Fiscal Developments [29]

64. **In recent years, fiscal performance has been characterized by low and declining revenue to GDP ratios, increasing regular expenditure, and sizeable underspending of development expenditure.** The overall deficit before grants has been maintained within the range of 6–7 percent of GDP and public savings have been negligible, imposing a constraint on capital spending (Figure 9). Foreign grants have financed the deficit by about 2 percent of GDP in recent years, but domestic bank financing has been on the rise. A small, but growing share of government operations is excluded from the budget as specific charges are earmarked to special funds. Local government budgets are not subject to parliamentary scrutiny during the annual budget exercise, except for direct transfers from the central government.

Figure 9: Fiscal Indicators, 1993/94-1999/00



[28]The on-site examinations will provide a more accurate picture of the health of commercial banks and other important deposit taking institutions.

[29]See Appendix Tables 28–32.

Box 3. Banking Supervision: Areas to Be Strengthened at NRB

Weaknesses

Absence of operational independence. NRB's autonomy remains limited, subject to the influence of the Ministry of Finance. This affects the central bank operations in general and particularly with respect to its supervisory operations *vis-à-vis* state-owned commercial and development banks.

Fragmentation of supervisory responsibilities. The traditional functions of a financial supervisory authority—preparation of relevant financial legislation and prudential regulations, licensing and delicensing of institutions, on-site inspections and off-site examinations—are typically managed together. However, these functions are divided between four different departments of the NRB. Such a structure does not promote the high degree of integration necessary for effective supervision.

Internal line-of-authority problems. The existing hierarchical structure, whereby control is concentrated at the level of deputy governors, gives limited authority to inspectors and supervisors. Completed examination reports are often not acted upon at the higher level.

Difficulties in enforcement of corrective actions. If the report is acted upon, further contacts are typically handled at the higher levels with little communication reaching the inspectors/supervisors. This may prevent supervisors from following-up on recommended corrective actions.

Lack of legal immunity for inspectors/supervisors. The threat exists that an examiner can be personally sued in a court of law (and risk personal bankruptcy) by a supervised financial institution. Although no such cases have been reported recently, there have been cases earlier, making examiners cautious.

Incomplete supervision of "fit-and-proper" domestic bank managers. Prospective managers are only vetted, based on normal "fit-and-proper" criteria, when a Nepalese-owned institution is considered for a banking license. Once the license has been awarded, the examiners have no such authority.

Reform measures. Strengthening of NRB's supervisory capacities would entail:

- reorganization to provide for operational autonomy for the supervision function, unified under one deputy governor responsible to the NRB Board;
- an institutional development plan for supervision functions to develop its capabilities for staffing, training, on-site and off-site activities, enforcement action, data processing and disclosure and prudential regulations;
- functional collaboration between the four regulatory/supervisory departments;
- enhancement of its regulatory functions, including prudential regulations, accounting, and auditing practices;
- legal powers to implement the Core Principles;
- improvement in on-site and off-site supervision through staffing and training; and
- expansion of supervision of nonbank financial institutions, especially development banks.

A. Central Government Operations in 1998/99

65. **The overall deficit before grants declined by ½ percent of GDP in 1998/99 partially offsetting the increase in the previous year**. The deficit continued to be financed primarily by foreign aid. Public savings remained close to zero and the decline in the overall deficit mainly reflected a larger than usual shortfall in spending on development projects, as approval of the project portfolio was delayed in the beginning of the year (Figure 10).

Revenue Developments

66. **Although revenue collection has significantly increased since the early 1990's, it remains low even when compared to other Asian countries** (Table 3). Total revenue remains below 11 percent of GDP. Tax collection, which had remained at less than 9 percent of GDP, consistently below budget targets of 9½ –10 percent of GDP, fell further, to 8¾ percent of GDP. Non-tax revenue remained at the same level as in the previous year and fell far short of the budgeted 25 percent increase.

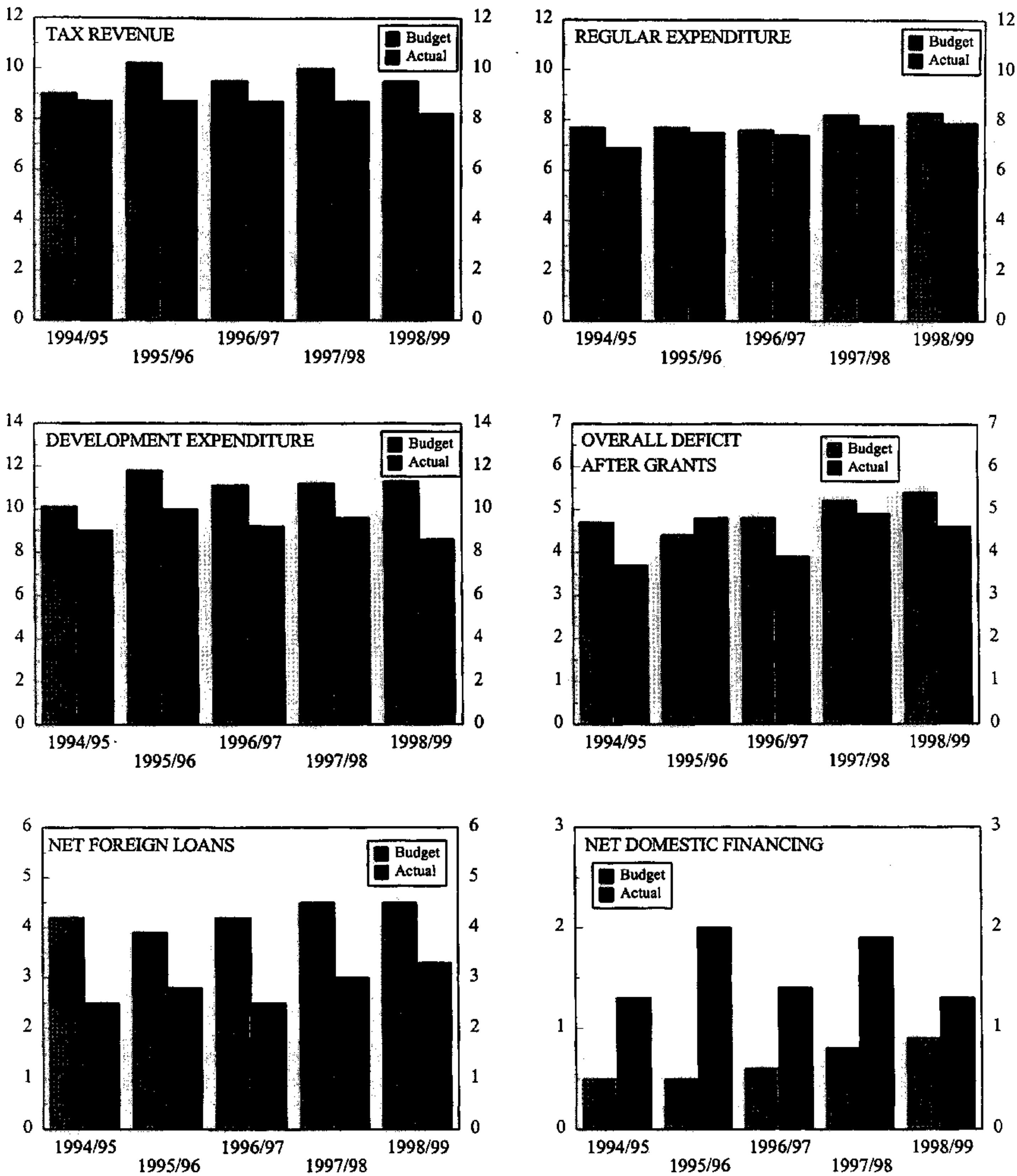
Table 3. Nepal: Revenue Comparisons

	Nepal				SAF/ESAF Countries Latest year available	
	Average 90/91–92/93	Actual 1997/98	Estimate 1998/99	Budget 1999/2000	Asian Countries 1/	Median Revenue
	(In percent of GDP)					
Total revenue	8.6	10.7	10.1	11.1	15.4	16.9
Tax revenue	6.7	8.7	8.2	9.1	12.9	14.2
Of which: On income, profits, and capital gains	1.1	1.7	1.8	1.9	3.0	3.6
On domestic goods and services	3.2	3.9	3.4	3.8	6.5	5.0
On international trade	2.4	2.9	2.7	3.0	3.4	5.1
Nontax revenue	1.3	1.9	1.9	2.0	2.5	2.7
	(In percent of total revenue)					
Tax revenue	78.3	81.9	81.3	82.1	83.8	84.0
Of which: On income, profits, and capital gains	13.2	15.5	17.7	17.5	19.5	21.3
On domestic goods and services	37.8	36.0	33.5	34.4	42.2	29.6
On international trade	27.3	26.8	26.9	27.2	22.1	30.2
Nontax revenue	15.7	18.1	18.7	17.9	16.2	16.0

1/ Bangladesh, Cambodia, Laos, Pakistan, Sri Lanka, and Vietnam.

Figure 10: Fiscal Developments: Comparison of Budget Outturn, 1994/95-1998/99

(In percent of GDP)



Source: Data provided by the Nepalese authorities.

67. **The shortfall in tax revenue was widespread, including VAT, excises, and property taxes**. VAT compliance has remained very low and registration was slow to pick up. The threshold failed to capture many wholesalers and retailers. Continued slackness in real estate activity and weak enforcement of the house and land tax kept property taxes at low levels.

68. **Revenue from trade taxes increased substantially, but remained below budgeted amounts**. Export taxes increased by 74 percent as export grew by 32 percent. Import revenues also increased. Although imports declined in 1998/99, this was partially offset by the introduction of a new import duty rate of 40 percent on a substantial share of imports. The shortfall in import taxes in 1998/99 compared to the budget is explained by lower than projected imports and the undervaluation of dutiable imports.

69. **Taxes on income and profits, however, well-exceeded the budgeted amounts**, and reached 1¾ percent of GDP, partly offsetting the sizeable shortfalls in other categories of taxes. This improvement reflects the impact of a number of policy measures designed to broaden the tax base and control leakage, including raising the tax exemption limit, adjusting the rate for the middle income group; and introducing tax surcharges for non-residents and higher income earners. Higher collections also reflect the strengthening of tax administration under on-going donor-supported projects as outlined in Box 4.

Expenditure Developments

70. **Total expenditure declined to 16½ percent of GDP in 1998/99 reflecting lower development spending compared with 1997/98**. Total spending was below budget projections by 3 percent of GDP due to shortfalls in development spending. The share of regular spending in total expenditure increased reflecting an expanding wage bill, which accounted for over one third of total expenditure in 1998/99, and a number of extraordinary expenditures (Figure 11). The civil service labor force increased by 5 percent in 1998/99 due to employment of a large number in health-related projects. Nevertheless, wage payments were about 5 percent below target due to unfilled positions. Extraordinary expenditures included security- and election-related spending and the cost of South Asian Athletic Federation (SAAF) games. These higher spending items in 1998/99 were partially offset by lower subsidies on fertilizers.

71. **Development expenditure fell short of budget targets in 1998/99 by 1¾ percent of GDP reflecting weak project implementation and start-up delays related to late budget formulation**. Development spending was 1 percent of GDP lower than in the previous year. The shortfall was the greatest in social sectors; total spending on education and health has

Box 4. Recent Tax Reforms and Key Measures to Strengthen Administration

Revenue collections are adversely affected by weaknesses in the tax system and in tax administration. There are frequent changes in the tax system and a large number of exemptions (Apprendix Table 32 provides a tax summary). Administrative problems include insufficient staffing and training, low pay and poor incentives, as well as inadequate transportation and communication infrastructure. Several tax reform and administration measures have been introduced, with substantial donor assistance. Nevertheless, further assistance is needed together with greater government commitment to enforce tax measures.

General

The Ministry of Finance is developing an **integrated and computerized system of taxpayer registration, audit, and research** that is intended to improve the operations of the VAT and income tax administration. The Kathmandu Taxpayer Service Center was established for common registration and to begin a program of joint audit and research. The center will be issuing Permanent Identification Numbers (PINs) that will be jointly used for VAT and income taxation. This is to be expanded to other regions. There is a plan to merge the VAT and Tax Department in the future. Computerization of tax offices has progressed slowly due to financing and implementation problems. When complete, it will facilitate issuance of PINs and establishment of the profiles of tax payers in the 10 offices to be initially computerized.

Customs administration

An invoice valuation system replaced the book-value system in order to improve collections, but there has been little improvement due mainly to the absence of invoices for a large proportion of transactions as well as poor governance, and inadequate enforcement. The growing barter trade with Tibet poses an additional problem in terms of valuation. Enforcement is also complicated by the difficulty of monitoring the long borders with India and Tibet. Post-clearance audits are intended to improve the effectiveness of the valuation system but these have not yet been initiated.

VAT administration

The VAT was first introduced in November 1997, but resistance from the business community caused delays in its implementation until August 1998. Initially, the major problem was non-registration of large wholesalers, high threshold and the valuation system in customs. The 1999/2000 budget introduced a number of changes to address these problems:

- the threshold has been reduced to Nrs 2 million from Nrs 4.5 million.
- the number of registrants has been rising as registration became a requirement for participation in government contracts and to be eligible for exports-related refunds. However, most new registrants are exempt from VAT payment and the surge has strained VAT resources.

At this time staffing and enforcement are the main problems. Because of staffing problems, there has been a growing backlog of unprocessed tax returns. Moreover, staffing shortages have delayed field visits and audits needed to enforce compliance.

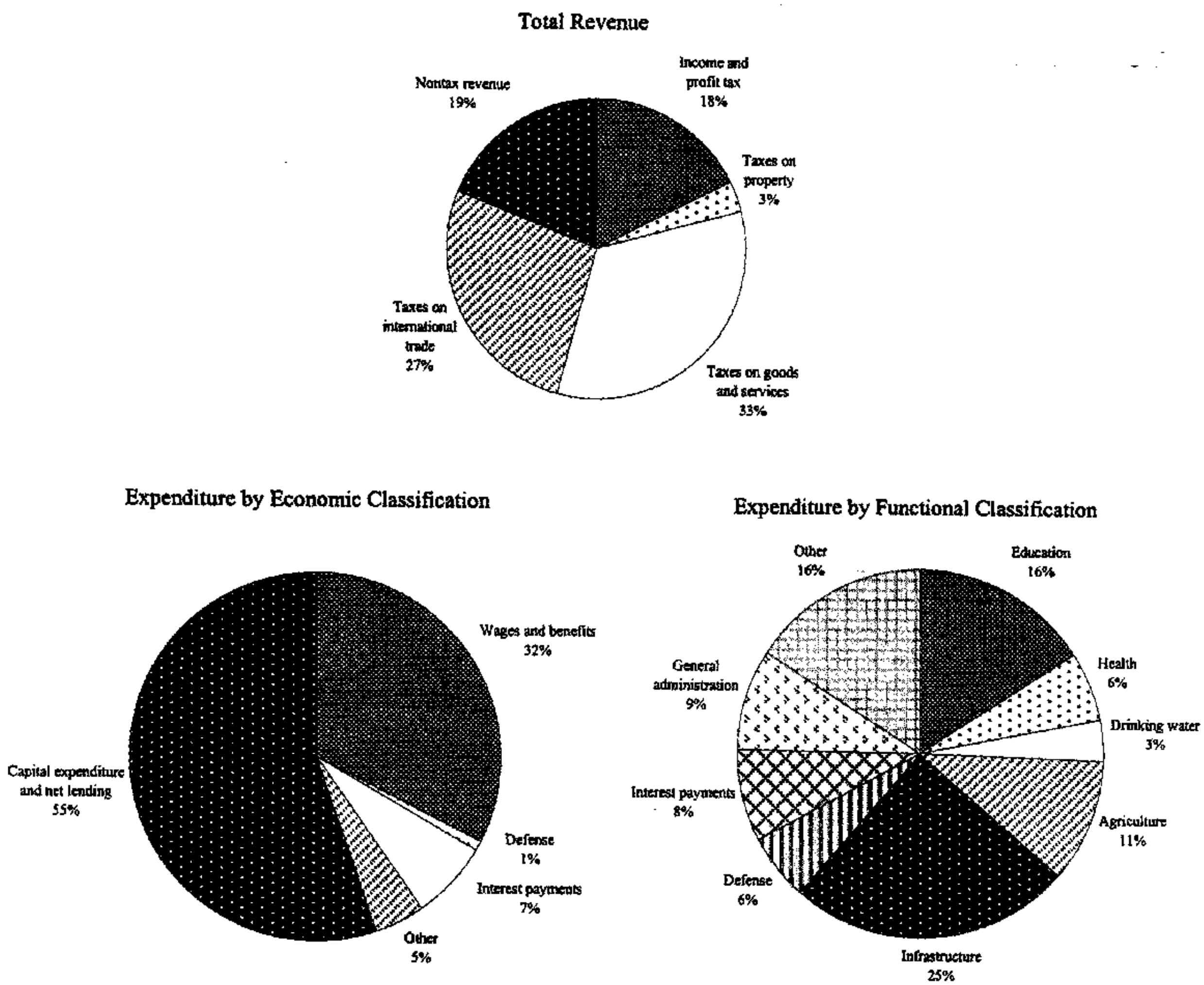
Income tax administration

A number of measures were recently introduced to broaden the tax base and improve income tax collections, including: (i) assessing taxes on current year's income; (ii) presumptive taxation for taxpayers below the limit of Nrs 10 million; (iii) monitoring and review of the tax self assessment scheme.

Other administrative measures comprise:

- Tax related appeals cases are to be resolved within one year.
- Publication of a comprehensive tax manual.
- Conducting a survey intended to bring another 25,000 taxpayers into the tax net.

Figure 11: Composition of Revenue and Expenditure, 1998/99



Source: Data provided by the Nepalese authorities.

averaged less than 4 percent of GDP since 1990, similar to levels in other Asian countries but well below what is needed to improve social indicators (Table 4).

Table 4. Nepal: Expenditure Comparisons

	Nepal				SAF/ESAF Countries Latest year available	
	Average 90/91–92/93	Actual 1997/98	Estimate 1998/99	Budget 1999/2000	Asian Countries 1/	Median Revenue
	(In percent of GDP)					
General Government expenditures 2/	15.3	17.4	16.5	18.1	21.6	23.9
Current expenditure	5.7	7.8	7.9	7.7	14.0	15.9
Capital expenditure	9.6	9.6	8.6	10.4	7.6	7.9
By functional classification						
Defense	1.0	0.9	0.9	0.9	3.7	2.3
Education	2.4	2.7	2.4	2.7	2.2	4.3
Health	0.6	1.3	1.2	1.2	1.1	1.9
Other	11.3	12.5	12.0	13.3	14.6	15.3
	(In percent of total expenditure)					
General Government expenditures 2/						
Current expenditure	37.3	44.6	47.8	42.7	64.8	66.5
Capital expenditure	62.7	55.4	52.2	57.3	35.2	33.1
By functional classification						
Defense	6.5	5.1	5.0	5.1	17.1	9.6
Education	15.7	15.4	14.0	14.8	10.2	18.1
Health	3.9	7.3	5.5	6.4	4.9	8.1
Other	73.9	72.2	75.5	73.7	67.8	64.2

1/ Bangladesh, Cambodia, Laos, Pakistan, Sri Lanka, and Vietnam.
2/ Central government data for Nepal and Sri Lanka.

Financing

72. **Nepal relies heavily on foreign loans obtained on highly concessional terms to finance infrastructure and social development projects.** Concessional foreign loans have been underutilized because of delays in project implementation. Net domestic financing has been consistently higher than budgeted; amounting to 1½ percent of GDP in 1998/99—1 percent of GDP higher than budgeted. The overdraft facility from the central bank has been increasingly used in lieu of issuance of treasury bills to finance budgetary operations. The absence of a borrowing strategy and limits imposed on the gross amount of treasury bills that can be issued within the year have constrained the ability of the Ministry of Finance to issue debt. Total domestic debt is relatively low at Nrs 48 billion, amounting to 14 percent of GDP at end 1998/99. Total external public debt is also relatively low, amounting to about 50 percent of GDP. The debt service is in the range of 5-6 percent of GDP and there has been

no formal debt write-off. Japan, the main bilateral creditor, is providing debt relief by refunding the amount of debt service paid.

B. Central Government Budget for 1999/2000

73. **The 1999/2000 budget announced on July 11, 1999 aimed to increase public savings by ½ percent of GDP and increase tax revenues by nearly 1 percent of GDP relative to the 1998/99 outcome.** The overall deficit (before grants) was to be budgeted to increase by ½ percent of GDP to 7 percent of GDP. Higher taxes were to be achieved mainly through improved VAT implementation and higher import duty collection. The number of VAT registrants was to increase and field visits and audits were expected to improve collections.

74. **The budget also envisaged containment of regular spending to less than the 1999/2000 levels in GDP terms and a substantial increase in development spending**. The increase in development spending, by nearly 2 percent of GDP, was to be financed through a substantial increase in foreign grant receipts—significantly higher than in recent years.

75. **As the fiscal position strengthened, net domestic borrowing was to be reduced to 1 percent of GDP in 1999/2000**. External financing from foreign grants and loans was expected to increase, based on pipeline aid commitments and ongoing discussions with donors.

C. Latest Developments

76. **Preliminary data for the first five months of 1998/99 show that the fiscal deficit was substantially more than in the same period of 1997/98, due to higher development spending**. Moreover, with slower disbursement of foreign loans and grants, there has been a much greater dependence on domestic financing, mainly through the overdraft facility with the central bank.

77. **Tax collections were higher than amounts collected for the same period last year**. Income tax collections were running higher than targeted in the budget, while VAT and import taxes collections appeared on target. However, emerging administrative problems in both these areas pose a threat to the continuation of tax collections at the same pace. Although customs revenues are on target, they have not risen in proportion to the increases in import values. Moreover, the post clearance audits have not yet begun and little is being collected from the reportedly growing trade volumes at the Tibet border, ostensibly due to lack of invoice documentation of barter trade. Also, although total VAT collections are only slightly below targets, this is partly due to one-off factors, including a discounted up front payment of VAT on stocks that will result in lower collections in later months. Moreover, collections of VAT at customs posts is higher than expected, possibly due to higher oil prices and higher than anticipated imports, while domestic VAT collection is lagging well below targets. Although registrations have increased substantially, most are non-VAT payers and reported transactions have not increased as expected. Staff vacancies are the main problem

constraining administration and enforcement efforts. The Ministry of Finance recognizes the need to fill these positions, but appointments have been delayed.

78. **Current expenditures are well above targets and running much higher than the same period last year.** Unbudgeted spending overruns stem from police expenses, protocol expenses, higher utility costs, and the impact of the civil service allowance. These overruns are now estimated at well above the contingency amount of Nrs 350 million.

79. **Development spending is also running much higher than the same period last year although it is still well below target.** In the first five months of 1999/2000, development spending (based on data on the cash-financed component of spending) was higher than in the past year due to a change in regulations that allows disbursement of the local component of project funds prior to disbursement of the foreign grant component. However, the overrun in current spending could lead to some delay in development projects later in the year.

D. Local Government and Off-Budgetary Accounts

80. **The central government accounts do not fully represent the totality of fiscal operations as they do not include the self-financed activities of the local government offices and a small but growing number of earmarked taxes and fees.** Estimates of off-budget activity discussed below are illustrative, and are intended to give a flavor of the overall fiscal picture; and as such, they should be treated with caution.

81. **There are three levels of local government with varying degrees of revenue-raising abilities.** Information on local government finance is not currently compiled and will be facilitated by the establishment of regional offices for the Ministry of Finance and computerization of the regional treasury offices, which is currently at an early stage. There are 75 district development committees (DDCs), 58 municipalities and 3,913 village development committees (VDCs).

Local Government

82. **There have been a number of recent changes in legislation governing local government finance**, but the main changes are still under consideration. In particular, a revenue sharing arrangement of some central government taxes is under consideration which would allow local governments greater independence in their operations.[30] Greater independence is expected to enhance community participation, thereby improving the management and governance of rural human resource and infrastructure projects and contributing to the improvement of social indicators and future income generation.

---

[30]The Ministry of Local Development has been preparing a strategy for local finance and a GTZ-funded project is supporting this effort by documenting the operations of municipalities. No efforts are being made to document the operations of VDCs and DDCs.

83. **Total transfers from the central to local government are estimated at around Nrs 2¾ billion for 1998/99** with the bulk going to the DDCs, as shown in Box 5. Transfers 1999/2000 are expected to rise in 1998/99 by an additional Nrs 100–200 million to cover the expected decline in local government revenue, following the abolition of the octroi tax in 1998/99.[31] In 1996, VDCs were authorized to collect a land tax and retain about 75 percent, while transferring 25 percent to their respective DDCs. While no figures are available on the revenue from the land tax, it is believed to be relatively small, accounting for a small fraction of local government income. In contrast, municipalities raise the bulk of their income from local revenues, which in 1999/2000 amounted to Nrs 1.6 billion.

Off-Budget Accounts

84. **Under the Finance Act, Parliament has recently authorized the collection of a number of taxes, fees and charges that are not deposited into the account of the Treasury nor included in the overall annual budget presented for parliamentary approval.** Information is not available on the size of these accounts, but efforts are being made to improve monitoring of such funds and to compile more comprehensive accounts. Some of these funds were taken out of the budget, thereby contributing to the reduction in tax revenues in 1998/99 and in the current fiscal year. For example, although the hotel tax was replaced by the VAT, a new Tourism Development Fee was introduced to collect income for the Tourism Development Board. The Air Flight Tax was replaced by an Air Flight Service Charge in July 1999, with receipts collected and retained by the Civil Aviation Authority. Other funds have been created for special temporary purposes. For example, the SAAF Games that took place in 1999 were to be primarily funded from a surcharge (on imports at the ports of entry).[32]

VII. Public Sector Enterprises and Privatization [33]

85. **The net income position of non-financial enterprises deteriorated in 1998/99.** If the profits of the Nepal Telecommunications Corporation (NTC) are excluded, the overall position of non-financial enterprises recorded losses, as in the previous two years (Table 35). Fourteen out of the 34 reporting enterprises recorded losses. To cover these losses and provide for capital requirements, budgetary transfers of over Nrs 2 billion (equivalent to 6 percent of government revenue) have been required in the last three years. These large losses reflect deep-seated administrative problems, including the lack of financial and operational autonomy, and increased private sector competition. The three largest loss makers in 1998/99 were the Nepal Food Company (NFC), the AIC and the Udayapur

[31]The octroi was levied by municipalities on the transit passage of goods and vehicles.

[32]Because costs have not yet been covered, this surcharge was still being collected in December 1999.

[33]See Appendix Table 33–35.

Box 5. Constructing Comprehensive Government Accounts

Analysis of the fiscal stance, and of the tax burden and composition of expenditures, is hampered by the timeliness and presentation of fiscal statistics. Currently, the presentation of fiscal accounts does not conform to GFS guidelines in a number of important areas. The government does not produce periodic data on the economic classification of expenditure, and when these are provided, they involve several misclassifications (e.g., teacher salaries are included under subsidies and transfers). Moreover, the accounts are not comprehensive, limited to the central government budget. This is more important as there has been a shift

Estimate of General Government Accounts 1/

(In billions of Nepalese rupees)

	1997/98	1998/99	1999/2000 Budget
1. Central government			
Overall balance after grants	**-14.5**	**-16.0**	**-18.1**
Total revenue and grants	37.1	40.8	50.9
Total revenue	31.7	34.9	42.2
Grants	5.4	5.9	8.7
Total expenditure	51.6	56.7	68.9
Current expenditure	24.3	28.4	31.0
Wages 2/	19.2	20.6	22.5
Capital expenditure	27.3	28.3	37.9
Lending minus repayments	-1.1	-2.1	-2.3
2. Local government balance 3/	*0.4*	*0.1*	*-0.4*
Total revenue	*5.2*	*5.0*	*4.2*
Local government tax receipts	*2.5*	*2.3*	*1.2*
Octroi 4/	*2.0*	*2.0*	*0.4*
Local development tax 4/	0.0	0.0	0.3
Local cigarette tax	0.3	0.1	0.1
Urban house and land revenue	*0.1*	*0.1*	*0.1*
Other tax receipts 5/	*0.1*	*0.1*	*0.3*
Transfers from central government	2.7	2.8	3.0
Transfers to DDCs	1.9	2.0	2.0
Transfers to municipalities	0.1	0.1	0.2
Transfers to VDCs	0.6	0.7	0.7
Transfer to cover shortfall in tax receipts	0.0	0.0	0.2
Direct grants or loans	0.0	0.0	0.0
Total expenditure	*4.8*	*4.9*	*4.6*
3. Extra budgetary funds 3/ 6/			
Estimated balance	*-0.1*	*0.0*	*0.3*
Total revenue	*0.0*	*0.4*	*1.0*
Of which: Earmarked taxes/fees	*0.0*	*0.3*	*0.7*
Transfers from central government	*0.0*	*0.1*	*0.1*
Total expenditure	*0.1*	*0.5*	*0.7*
Total revenue adjusted for transfers	*34.1*	*37.5*	*44.3*
Of which: Off-budget revenue	*2.5*	*2.6*	*2.1*
Total expenditure adjusted for transfers	*53.7*	*59.3*	*71.2*
Of which: Off-budget expenditure	*2.1*	*2.6*	*2.3*
Adjusted total balance after grants	*-14.2*	*-15.9*	*-18.2*
(As percent of GDP)	*-4.8*	*-4.6*	*-4.7*

1/ Only central government data was provided, other estimates (shown in italics) are for illustrative purposes.
2/ From regular and development expenditure and including allowances.
3/ Local government and off-budget funds cannot borrow domestically or externally. Small working balances can be carried over.
4/ Local development tax is 1.5 percent of non-aid imports from 1999/2000. Collections are expected to be lower than octroi receipts. Although the octroi was officially abolished in 1999, some transit fees are reportedly still being collected.
5/ Some taxes formerly collected by central government will be shared/transferred as of 1999/2000.
6/ Includes Fund for Airflight Service Charge, Tourism Development Fees, SAAF Games Fees, and Insurance Board Fees.

toward increased local autonomy for tax collection and expenditure allocation, and a number of special earmarked funds have recently emerged. The authorities could not provide data on the magnitude of these two items and their impact on the overall general government outcome. However, the Ministry of Finance considered the above plausible guesstimates and welcomed technical assistance from the Fund that would improve the coverage of fiscal accounts.

Cement Factory, which together accounted for Nrs 12½ billion in losses (or ½ percent of GDP), despite receiving substantial budget transfers.

A. Public Enterprise Reform

86. **Several large enterprises are preparing restructuring plans and/or privatization strategies to cope with the increased competition and to alleviate the burden on the budget.** Restructuring plans have begun for the AIC(fertilizer and seed transport to rural areas) and NFC (distribution of rice and other commodities in short supply). AIC is being split into a fertilizer and seed company. With the removal of fertilizer subsidies (see section II) and increased private sector participation, the AIC and NFC are reducing their size and concentrating on delivery only to a few remote districts. The oil company (NOC), which had financial difficulties at higher international prices, registered a sizeable profit last year on account of the drop in oil prices relative to domestically set prices. Similar performance is expected in 1999/2000 and there are some discussions on establishing an oil price stabilization fund.

87. **However, progress is slower in a number of other enterprises.** RNAC is in need of new capital and new management, but its restructuring is on hold awaiting the completion of a study evaluating its privatization options. NTC has been a profit maker on account of its monopoly position but the opening of the sector to private sector competition will require it to adopt an aggressive strategic business plan. Company and government officials are discussing the findings of a recent study that evaluated its business activities and market value.

B. Privatization Progress

88. **Having privatized 16 companies to date, the government has identified approximately one half of the 47 public enterprises to be prepared for privatization** (listed in Table 35). These include three out of the eight financial enterprises and 22 out of the 34 nonfinancial public enterprises, mostly in manufacturing and services. The privatization proceeds will, for the most part, be used to cover the enterprises' outstanding liabilities. The remaining 22 enterprises that are not on the privatization list, include the 6 trading companies, the electricity and water utilities and 5 financial institutions.

89. **There was virtually no progress in privatization in 1998/99, although some steps have been taken in recent months.** One of the previously leased companies, the Bhaktapur Brick Factory, was repossessed by the government as the lessee did not satisfactorily perform his management duties and ran the company into financial difficulties. The privatization program for 1998/99 was to focus on the privatization of five companies: Himal Cement, Nepal Tea Development Corporation, Butwal Power Company (BPC), NTC and RNAC. As noted above, privatization strategies are still under discussion for the last two. Offers and terms of bids for the Himal Cement Company were deemed unsatisfactory and the Ministries of Finance and Industry are considering an alternative privatization proposal. Similar problems were encountered with the bids received for the Tea Corporation and for the BPC. The first preferred bid for the Tea Corporation could not meet the financial obligations due to exchange restrictions imposed in India. Negotiations were shifted to the second bidder, and discussions are now focusing on severance pay for administrative staff to be made redundant. All estate workers are to be retained. As for the Butwal Power Company, there has been pressure to repeat the bidding process.

Table 1. Nepal: Nominal Gross Domestic Product by Sector, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	Est. 1998/99
	(In billions of Nepalese rupees, at current prices)				
Agriculture, fisheries, and forestry	85.6	96.9	108.8	112.5	129.6
Manufacturing	19.6	22.5	24.8	26.6	31.8
Construction	23.1	26.1	29.3	29.0	33.5
Electricity and water	2.9	3.6	4.5	4.5	5.3
Mining and quarrying	1.1	1.3	1.5	1.5	1.8
Financial and real estate	20.5	23.5	27.2	29.7	35.1
Community and social services	18.9	21.3	23.7	25.9	29.9
Trade, restaurants, and hotels	24.3	28.3	30.6	33.6	38.7
Transport and communications	14.0	15.9	19.3	22.4	26.8
GDP at factor cost	210.0	239.4	269.6	285.7	332.4
Agricultural GDP	85.6	96.9	108.8	112.5	129.6
Non-agricultural GDP	124.4	142.5	160.8	173.2	202.8
Value of imputed banking services	5.1	5.9	7.0	7.9	9.5
Net indirect taxes	14.3	15.5	18.0	18.7	22.0
GDP at market prices	219.2	248.9	280.5	296.5	344.9
	(Percentage share in nominal GDP)				
Agriculture, fisheries, and forestry	40.8	40.5	40.4	39.4	39.0
Manufacturing	9.3	9.4	9.2	9.3	9.6
Construction	11.0	10.9	10.9	10.2	10.1
Electricity and water	1.4	1.5	1.7	1.6	1.6
Mining and quarrying	0.5	0.6	0.6	0.5	0.5
Financial and real estate	9.8	9.8	10.1	10.4	10.6
Community and social services	9.0	8.9	8.8	9.1	9.0
Trade, restaurants, and hotels	11.6	11.8	11.3	11.8	11.6
Transport and communications	6.7	6.6	7.2	7.8	8.1
Agricultural GDP at factor cost	40.8	40.5	40.4	39.4	39.0
Non-agricultural GDP at factor cost	59.2	59.5	59.6	60.6	61.0
	(Annual percentage change)				
Memorandum items:					
Deflator for GDP at market prices	6.3	7.8	7.3	3.3	12.5
Agriculture-sector deflator	6.5	8.4	7.8	2.3	12.5
Nonagriculture-sectors deflator	6.4	7.4	7.3	3.7	12.5

Sources: The Central Bureau of Statistics in Nepal and Nepal Rastra Bank.

Table 2. Nepal: Real Gross Domestic Product by Sector, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	Est. 1998/99
	(In billions of Nepalese rupees, at 1984/85 prices)				
Agriculture, fisheries, and forestry	29.9	31.2	32.5	32.9	33.6
Manufacturing	6.0	6.6	7.0	7.2	7.6
Construction	7.0	7.5	7.9	7.9	8.1
Electricity and water	0.5	0.6	0.6	0.6	0.7
Mining and quarrying	0.3	0.4	0.4	0.4	0.4
Financial and real estate	7.0	7.5	7.9	8.3	8.7
Community and social services	7.3	7.7	8.0	8.4	8.6
Trade, restaurants, and hotels	8.1	8.4	8.8	9.2	9.5
Transport and communications	5.5	5.8	6.3	6.6	7.1
GDP at factor cost	71.7	75.8	79.4	81.6	84.3
Agricultural GDP	29.9	31.2	32.5	32.9	33.6
Non-agricultural GDP	41.8	44.5	46.9	48.7	50.7
Value of imputed banking services	1.8	2.0	2.1	2.2	2.4
Net indirect taxes	5.1	5.2	5.6	5.6	5.8
GDP at market prices	75.0	79.0	83.0	84.9	87.8
	(Annual percentage change)				
Agriculture, fisheries, and forestry	-0.3	4.4	4.1	1.0	2.4
Manufacturing	2.0	9.0	7.1	1.7	6.2
Construction	5.2	6.6	6.1	-0.9	2.7
Electricity and water	12.0	19.4	1.7	-2.2	5.7
Mining and quarrying	3.5	13.1	6.7	1.3	3.7
Financial and real estate	4.3	7.6	4.7	5.8	5.0
Community and social services	4.8	6.0	3.3	5.9	2.5
Trade, restaurants, and hotels	5.5	4.2	3.7	5.6	2.3
Transport and communications	10.6	5.5	7.7	5.9	6.2
GDP at factor cost	2.9	5.7	4.8	2.7	3.4
Agricultural GDP	-0.3	4.4	4.1	1.0	2.4
Non-agricultural GDP	5.3	6.6	5.2	3.9	4.1
Value of imputed banking services	12.0	11.0	1.5	8.1	6.7
Net indirect taxes	16.1	2.1	7.7	-0.9	4.2
GDP at market prices	3.5	5.3	5.0	2.3	3.4

Sources: The Central Bureau of Statistics in Nepal, and Nepal Rastra Bank.

Table 3. Nepal: Gross Domestic Product by Expenditure Components, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	Est. 1998/99
	(In billions of Nepalese rupees, at current prices)				
GDP at market prices	219.2	248.9	280.5	296.5	344.9
Consumption	186.7	214.5	241.4	268.3	308.5
Public	20.3	23.0	25.0	27.5	33.6
Private	166.4	191.5	216.4	240.8	274.9
Gross domestic investment	55.2	68.0	71.1	61.4	58.0
Gross fixed investment	48.4	56.1	60.8	62.8	67.3
Public	15.1	17.6	19.4	20.0	20.5
Private	33.3	38.5	41.4	42.8	46.8
Change in stocks	6.9	11.9	10.3	-1.4	-9.3
Net exports 1/	-22.5	-33.7	-31.7	-32.5	-21.0
Exports	55.2	57.1	75.8	71.0	82.3
Imports	-77.7	-90.8	-107.5	-103.5	-103.3
	(Percentage share in nominal GDP)				
Consumption	85.2	86.2	86.0	90.5	89.4
Public	9.2	9.2	8.9	9.3	9.7
Private	75.9	76.9	77.1	81.2	79.7
Gross domestic investment	25.2	27.3	25.3	20.7	16.8
Gross fixed investment	22.1	22.5	21.7	21.2	19.5
Public	6.9	7.1	6.9	6.7	5.9
Private	15.2	15.4	14.8	14.4	13.6
Change in stocks	3.1	4.8	3.7	-0.5	-2.7
Net exports	-10.3	-13.5	-11.3	-11.0	-6.1
Exports	25.2	22.9	27.0	23.9	23.9
Imports	-35.5	-36.5	-38.3	-34.9	-30.0

Sources: The Central Bureau of Statistics in Nepal and Nepal Rastra Bank.

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

Table 4. Nepal: Saving and Investment, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	Est. 1998/99
	(In billions of Nepalese rupees, at current prices)				
Gross national savings	38.1	38.9	44.8	35.4	44.3
Public sector 1/	3.1	-1.1	2.4	1.1	0.3
Private sector	35.0	40.0	42.4	34.3	44.0
Gross domestic investment	55.2	68.0	71.1	61.4	58.0
Gross fixed investment	48.4	56.1	60.8	62.8	67.3
Public sector	15.1	17.6	19.4	20.0	20.5
Private sector	33.3	38.5	41.4	42.8	46.8
Change in stocks	6.9	11.9	10.3	-1.4	-9.3
Saving-investment gap	-17.1	-29.1	-26.3	-26.0	-13.6
Public sector	-12.0	-18.7	-17.0	-18.9	-20.2
Private sector	-5.2	-10.4	-9.3	-7.1	6.6
	(In percent of nominal GDP)				
Gross national savings	17.4	15.6	16.0	11.9	12.9
Public sector 1/	1.4	-0.4	0.8	0.4	0.1
Private sector	16.0	16.0	15.2	11.5	12.8
Gross domestic investment	25.2	27.3	25.3	20.7	16.8
Gross fixed investment	22.1	22.5	21.7	21.2	19.5
Public sector	6.9	7.1	6.9	6.7	5.9
Private sector	15.2	15.4	14.8	14.4	13.6
Change in stocks	3.1	4.8	3.7	-0.5	-2.7
Saving-investment gap	-7.8	-11.7	-9.3	-8.8	-3.9
Public sector	-5.5	-7.5	-6.1	-6.3	-5.8
Private sector	-2.3	-4.2	-3.2	-2.5	1.9

Sources: The Central Bureau of Statistics in Nepal and Nepal Rastra Bank.

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

Table 5. Nepal: Agricultural Production and Yields, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	1998/99	1995/96	1996/97	1997/98	1998/99
	(In thousands of metric tons)					(Percentage change)			
Production by major crops									
Foodgrains	5,412	6,247	6,395	6,331	6,465	15.4	2.4	-1.0	2.1
Paddy	2,928	3,579	3,699	3,641	3,710	22.2	3.4	-1.6	1.9
Wheat	914	1,013	1,056	1,001	1,087	10.9	4.2	-5.2	8.6
Maize	1,273	1,331	1,312	1,367	1,346	4.5	-1.4	4.2	-1.6
Millet	268	282	289	285	291	5.6	2.3	-1.3	2.2
Barley	30	41	39	37	32	40.0	-6.3	-4.4	-14.1
Cash crops	2,461	2,604	2,721	2,782	3,202	5.8	4.5	2.2	15.1
Sugarcane	1,501	1,569	1,622	1,718	1,972	4.5	3.4	5.9	14.8
Jute	11	15	14	15	16	31.6	-6.7	10.0	1.9
Oilseeds	102	116	119	109	120	13.6	2.7	-8.2	9.5
Potato	840	898	962	935	1,091	6.9	7.0	-2.8	16.7
Tobacco	7	6	5	5	4	-17.9	-7.3	-9.8	-15.2
Distribution of fertilizer 1/	176	133	122	109	182	-24.4	-8.3	-10.7	67.0
	(In thousands of hectares)					(Percentage change)			
Area under cultivation 2/									
Foodgrains	3,107	3,242	3,267	3,243	3,253	4.3	0.8	-0.7	0.3
Paddy	1,421	1,497	1,511	1,506	1,514	5.3	0.9	-0.3	0.5
Wheat	634	654	667	640	641	3.2	2.0	-4.0	0.2
Maize	771	792	794	799	802	2.7	0.3	0.6	0.4
Millet	250	260	260	262	264	4.0	0.0	0.8	0.8
Barley	31	39	35	36	32	25.8	-10.3	2.9	-11.1
Cash crops	325	353	356	361	379	8.6	0.8	1.4	5.0
Sugarcane	42	45	46	49	54	7.1	2.2	6.5	10.2
Jute	9	11	11	12	12	22.2	0.0	9.1	0.0
Oilseeds	170	185	182	179	190	8.8	-1.6	-1.6	6.1
Potato	97	106	111	116	118	9.3	4.7	4.5	1.7
Tobacco	7	6	6	5	5	-14.3	0.0	-16.7	0.0
	(In metric tons/hectares)					(Percentage change)			
Yields									
Foodgrains	1.7	1.9	2.0	2.0	2.0	10.6	1.6	-0.3	1.8
Paddy	2.1	2.4	2.4	2.4	2.5	16.0	2.4	-1.2	1.4
Wheat	1.4	1.5	1.6	1.6	1.7	7.5	2.2	-1.2	8.4
Maize	1.7	1.7	1.7	1.7	1.7	1.8	-1.7	3.5	-1.9
Millet	1.1	1.1	1.1	1.1	1.1	1.5	2.3	-2.1	1.4
Barley	1.0	1.1	1.1	1.0	1.0	11.3	4.4	-7.0	-3.3
Cash crops	7.6	7.4	7.6	7.7	8.4	-2.6	3.6	0.8	9.6
Sugarcane	35.7	34.9	35.3	35.1	36.5	-2.4	1.1	-0.6	4.2
Jute	1.3	1.4	1.3	1.3	1.3	7.7	-6.7	0.8	1.9
Oilseed	0.6	0.6	0.7	0.6	0.6	4.4	4.4	-6.7	3.2
Potato	8.7	8.5	8.7	8.1	9.2	-2.1	2.2	-7.0	14.7
Tobacco	1.0	0.9	0.9	0.9	0.8	-4.2	-7.3	8.2	-15.2

Source: The Central Bureau of Statistics in Nepal.

1/ Private sector has participated in fertilizer trading activity since November 1997.
2/ Areas cultivated with more than one crop are included under each crop.

Table 6. Nepal: Manufacturing Production Indices, 1995/96–1998/99

	Weights 1/	1995/96	1996/97	1997/98	1998/99	1995/96	1996/97	1997/98	1998/99
		(Indices 1991/92 = 100)				(Percentage change)			
Overall production	100.0	144	155	158	169	9.0	7.1	2.4	6.5
Food	16.1	219	238	276	295	6.0	8.8	15.7	7.0
Of which: Sugar	1.9	262	302	320	338	29.1	15.0	6.1	5.6
Vegetable ghee	1.7	127	112	129	149	-5.3	-12.0	15.6	15.4
Rice	3.4	396	413	514	543	4.2	4.4	24.5	5.6
Soybean oil	2.3	135	214	246	281	17.7	58.0	15.1	14.1
Processed milk	2.4	163	169	183	189	1.4	3.3	8.4	3.1
Beverage	3.9	172	193	213	236	19.6	12.2	10.3	10.9
Tobacco	4.8	116	119	95	108	7.8	2.8	-20.4	14.2
Textile	35.8	109	108	101	116	6.8	-1.0	-6.3	15.1
Of which: Synthetic cloth	3.2	242	291	308	272	24.0	20.0	5.7	-11.7
Woolen carpet	25.1	82	84	75	94	0.3	2.1	-10.0	24.3
Woolen thread	4.7	128	94	70	...	0.9	-26.7	-25.4	...
Readymade garments	10.5	159	154	148	159	10.3	-3.3	-3.9	7.7
Processed leather	0.9	66	47	51	52	-42.0	-29.0	8.8	2.0
Footwear manufacturing	0.3	67	36	40	...	-12.3	-46.7	13.1	...
Wood products	2.0	120	182	180	188	10.5	51.1	-1.0	4.4
Paper	0.8	338	359	362	369	2.9	6.3	0.8	1.7
Other chemical products	3.9	141	215	203	225	10.9	52.2	-5.4	10.7
Rubber products	0.3	138	132	131	...	36.8	-4.9	-0.6	...
Plastic products	1.3	119	130	118	140	3.5	9.5	-9.3	18.4
Nonmetallic mineral products	13.3	140	151	166	170	11.5	7.8	9.8	2.4
Of which: Bricks	7.7	127	146	121	134	23.0	14.9	-16.9	10.1
Cement	5.6	158	158	227	220	1.0	0.0	43.8	-3.3
Iron and steel basic industries	2.2	131	149	136	158	8.9	14.3	-9.1	16.3
Cutlery and handtools	2.6	172	218	219	239	38.3	26.8	0.2	9.2
Electrical industrial machinery apparatus, appliances, etc.	1.1	153	138	149	152	47.6	-9.4	7.5	2.2

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, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	1998/99
			(In thousands of tons of coal equivalent)		
Traditional	8,804	8,995	9,191	9,392	9,596
Of which : Fuelwood	7,864	8,035	8,210	8,389	8,572
Commercial	799	986	1,151	1,298	1,399
Petroleum	606	777	806	924	995
Coal	97	105	233	253	275
Hydropower	97	104	112	121	129
Total	9,603	9,982	10,342	10,689	10,995
			(Percentage change)		
Traditional	2.2	2.2	2.2	2.2	2.2
Of which : Fuelwood	2.2	2.2	2.2	2.2	2.2
Commercial	7.7	23.4	16.7	12.8	7.8
Petroleum	6.8	28.3	3.8	14.6	7.7
Coal	8.9	8.6	121.0	8.7	8.7
Hydropower	12.4	8.0	7.1	8.1	7.0
Total	2.6	3.9	3.6	3.4	2.9

Source: Data provided by the Nepalese authorities.

Table 8. Nepal: Tourism Indicators, 1994–99

	1994	1995	1996	1997	1998	January–October 1998	January–October 1999
Tourist arrivals (in thousands)	326.5	363.4	393.6	421.8	463.6	319.0	345.6
(Percentage change)	11.2	11.3	8.3	7.2	9.9	...	8.3
Of which : Europe	135.2	137.7	138.8	143.4	157.8	...	...
India 1/	102.5	117.3	122.5	133.4	143.2	...	...
Japan	19.6	25.4	28.9	35.0	37.3	...	...
United States and Canada	26.1	29.7	30.6	36.3	43.0	...	...
Average days of stay	10.0	11.3	13.5	10.5	10.8	...	...
Per capita expenditure							
(In Nrs) 2/	14,400	24,617	24,344	23,226	31,282	...	...
(In U.S. dollars) 2/	394	474	430	402	476	...	...
(Percentage change)	16.9	20.5	-9.3	-6.6	18.4	...	...
Hotel-bed capacity	17,730	21,807	25,638	27,612	28,878	...	...
(Percentage change)	41.3	23.0	17.6	7.7	4.6	...	...

Source: Data provided by the Nepalese authorities.

1/ By air only.
2/ Excluding Indian tourists.

Table 9. Nepal: Changes in the Consumer Price Index, 1994/95–1998/99

(Annual percentage change)

	1994/95	1995/96	1996/97	1997/98	1998/99
Overall national index	7.6	8.1	7.8	4.0	12.7
By commodity					
Food and beverages	7.3	8.9	7.8	3.3	17.3
Foodgrains	7.9	8.5	10.3	-0.4	19.7
Milk and milk products	1.3	10.8	10.7	6.0	8.5
Oil and fats	11.1	13.2	-0.2	6.8	30.2
Beverages	3.9	6.9	0.4	16.2	6.7
Vegetables and fruits	5.0	3.7	0.0	9.0	22.8
Other goods and services	8.1	6.7	7.7	5.2	4.3
Cloth, clothing, and sewing services	10.1	7.2	5.8	4.7	4.2
Fuel, light, and water	3.2	3.8	10.2	2.6	1.6
Regional indices					
Terai	7.4	9.5	8.5	3.5	15.2
Hills	7.8	9.5	8.6	3.8	12.5
Kathmandu	8.0	6.0	6.6	4.7	9.6
Domestic goods	8.7	5.9	6.6	4.3	10.3
Imported goods	4.3	5.8	6.7	7.1	5.9

Source: The Central Bureau of Statistics in Nepal.

Table 10. Nepal: Monthly Wages in Major Sectors, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	1998/99
			(In Nepalese rupees)		
Agriculture					
Kathmandu	2,550	2,800	3,000	3,000	3,000
Birgunj	1,350	1,500	1,500	1,500	1,500
Biratnagar	1,350	1,350	1,350	1,350	1,487
Industry 1/					
Skilled	1,610	1,610	1,610	1,960	1,960
Unskilled	1,450	1,450	1,450	1,800	1,800
Construction 2/					
Skilled					
Kathmandu	5,100	5,350	5,550	5,700	5,700
Birgunj	2,820	3,300	3,300	3,375	3,913
Biratnagar	3,600	3,600	3,600	3,850	4,475
Semi-skilled					
Kathmandu	4,500	4,625	4,675	4,950	4,950
Biratnagar	3,000	3,000	3,000	3,250	3,875
Unskilled					
Kathmandu	2,700	2,950	3,000	3,000	3,000
Biratnagar	1,800	1,800	1,800	1,925	2,375
			(In U.S. dollars)		
Agriculture					
Kathmandu	51.2	50.7	52.6	48.5	43.8
Birgunj	27.1	27.2	26.3	24.3	21.9
Biratnagar	27.1	24.4	23.7	21.8	21.7
Industry 1/					
Skilled	32.3	29.2	28.2	31.7	28.6
Unskilled	29.1	26.3	25.4	29.1	26.3
Construction 2/					
Skilled					
Kathmandu	102.4	96.9	97.3	92.2	83.2
Birgunj	56.6	59.8	57.9	54.6	57.1
Biratnagar	72.3	65.2	63.1	62.3	65.3
Semi-skilled					
Kathmandu	90.4	83.8	82.0	80.1	72.2
Biratnagar	60.2	54.3	52.6	52.6	56.5
Unskilled					
Kathmandu	54.2	53.4	52.6	48.5	43.8
Biratnagar	36.1	32.6	31.6	31.1	34.7

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

	Latest single year			Same region/income group		
	1970–75	1980–85	1992–97	India	South Asia	Low income
Total population, mid-year (millions)	12.8	16.5	22.3	945.0	1,281.3	2,035.6
Growth rate (percent annual average)	2.4	2.6	2.0	1.7	1.5	1.7
Urban population (percent of population)	5.0	7.8	10.9	27.0	27.0	28.4
Total fertility rate (births per woman)	6.3	6.1	4.4	2.6	3.5	4.0
Total labor force (millions)	...	8	12	400	546	...
Females in labor force (percent)	...	39	40	32	33	41
Labor force participation rate	...	48	48	43	43	50
Poverty						
National headcount index	...	...	42	35	...	...
Urban headcount index	...	...	23	31	...	...
Rural headcount index	...	...	44	37	...	...
Income						
GNP per capita (U.S. dollars)	120	170	220	340	380	350
Consumer price index (1995=100)	17	35	114	117	117	122
Food price index (1995=100)	...	33	111	...	...	...
Income/consumption distribution						
Gini index	...	...	36.7	29.7	...	...
Lowest quintile (percent of income or consumption)	...	...	7.6	9	...	...
Highest quintile (percent of income or consumption)	...	...	44.8	39	...	...
Public expenditure						
Health (percent of GDP)	...	...	1.2	0.7	0.8	1.0
Education (percent of GNP)	1.5	2.6	2.8	3.5	3.0	5.5
Social security and welfare (percent of GDP)	0.1	0.1	...	...	...	...
Net primary school enrollment rate (percent of age group)						
Total	...	58	...	...	99	95
Male	...	79	...	...	...	...
Female	...	36	...	...	...	...
Gross secondary school enrollment						
Total	12	27	32	49	...	...
Male	19	39	45	59	...	...
Female	4	14	18	39	...	...
Adult literacy (percent)	...	22	27	51	51	54
Female literacy	...	...	20	38	36	35
Access to safe water (percent of population)						
Total	8	24	59	81	81	69
Urban	85	78	61	85	84	80
Rural	5	20	59	79	80	66
Access to electricity (percent)	...	...	15	54	...	...
Population per physician	...	30,221	13,617	2,459	2,500	...
Population per hospital bed	...	5,719	4,308	1,503	1,429	1,152
Immunization rate (percent under 12 months)						
Measles	...	34	85	89	81	74
DPT	...	32	78	92	87	76
Child malnutrition (percent under 5 years)	69	...	47	39	53	...
Life expectancy at birth (in years)						
Total	43	49	57	63	62	59
Male	44	50	58	62	62	58
Female	43	48	57	63	63	60
Mortality						
Infant (per thousand live births)	160	125	83	65	77	82
Under 5 (per thousand live births)	234	180	117	85	100	118
Adult (15–59)						
Male (per 1,000 population)	482	376	274	21.2	219	274
Female (per 1,000 population)	476	395	314	202	212	255
Maternal (per 100,000 live births)	...	...	1,500	437	...	...

Sources: Staff reports, EDSS, World Bank 1999 World Development Indicators CD-ROM.

Table 12. Nepal: Balance of Payments by Area, 1995/96–1998/99

(In millions of U.S. dollars)

	1995/96			1996/97			1997/98			1998/99		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Trade balance	-136	-613	-748	308	-898	-589	-35	-693	-727	-191	-462	-653
Exports, f.o.b.	308	293	602	855	305	1,160	553	302	855	410	342	752
Merchandise exports	67	293	360	92	305	397	142	302	444	193	342	535
Re-exports	242	0	242	763	0	763	411	0	411	217	0	217
Imports, c.i.f.	444	906	1,350	547	1,203	1,750	588	995	1,582	601	804	1,405
Services (net)	68	99	167	33	107	139	18	186	204	38	276	314
Receipts	163	298	461	118	263	381	108	327	435	140	406	546
Payments	95	199	294	85	156	241	90	142	232	102	130	232
Private transfers (net)	59	133	192	69	240	309	89	266	355	108	362	470
Receipts	67	135	202	78	252	330	113	270	384	122	364	486
Recorded private transfers	36	42	78	32	85	117	49	89	138	66	106	172
Estimated remittances	31	94	125	46	168	213	64	182	245	56	259	315
Payments	8	2	10	9	12	21	25	4	29	14	2	17
Current account balance (excluding grants)	**-9**	**-382**	**-390**	**410**	**-551**	**-142**	**72**	**-241**	**-168**	**-45**	**176**	**131**
Official grants	16	121	137	20	73	93	22	96	119	19	88	107
Current account balance (including grants)	**7**	**-260**	**-253**	**429**	**-478**	**-49**	**94**	**-144**	**-50**	**-26**	**264**	**238**
Official capital grants and loans (net)	0	134	134	0	296	296	1	429	430	2	274	277
Official capital grants	0	0	0	0	147	147	1	254	255	2	134	137
Official capital (net)	0	134	134	0	149	149	0	175	175	0	140	140
Loans	0	186	186	0	197	197	0	230	230	0	195	195
Amortization	0	52	52	0	48	48	0	55	55	0	55	55
Private capital and errors and omissions	-15	94	79	-368	179	-188	-55	-148	-203	95	-465	-370
Overall balance	**-8**	**-36**	**-40**	**62**	**8**	**59**	**40**	**137**	**177**	**72**	**73**	**144**
Memorandum item:												
Current account balance (percent of GDP)	-0.2	-8.4	-8.6	8.3	-11.2	-2.9	1.5	-5.0	-3.5	-0.9	3.5	2.6

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

Table 13. Nepal: Composition of Foreign Trade, 1995/96–1998/99

(In millions of U.S. dollars)

	1995/96			1996/97			1997/98			1998/99		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Exports, f.o.b.	**308**	**293**	**602**	**855**	**305**	**1,160**	**553**	**302**	**855**	**410**	**342**	**752**
Merchandise exports	67	293	360	92	305	397	142	302	445	193	342	535
Food and live animals	23	12	35	31	16	47	28	23	51	38	26	64
Tobacco and beverages	0	0	0	0	0	0	0	0	0	1	0	1
Crude materials and inedibles	6	8	14	7	5	12	5	3	8	6	2	8
Animal and vegetable oil and fats	2	2	4	3	3	6	32	3	35	46	3	49
Chemicals and drugs	11	0	11	23	0	23	31	0	31	41	1	42
Manufactured goods, classified	22	167	189	27	167	194	41	147	188	51	152	203
Machinery and transport equipment	0	0	0	0	1	1	0	1	1	0	1	1
Miscellaneous manufactured articles	1	104	105	1	113	114	4	126	130	10	158	168
Commodities and transactions n.i.e. 1/	1	0	1	0	0	0	1	0	1	0	0	0
Re-exports	242	0	242	763	0	763	411	0	411	217	0	217
Imports, c.i.f.	**444**	**906**	**1,350**	**547**	**1,203**	**1,750**	**588**	**995**	**1,582**	**601**	**804**	**1,405**
Food and live animals	59	28	87	64	31	95	54	25	79	82	30	112
Tobacco and beverages	8	1	9	9	1	10	11	2	13	10	3	13
Crude materials and inedibles	16	72	88	12	84	96	16	96	112	20	77	97
Minerals, fuel and lubricants	8	93	101	9	117	126	8	146	154	8	121	129
Animal and vegetable oil and fats	1	50	51	2	39	41	0	33	33	1	48	49
Chemicals and drugs	64	93	157	71	78	149	85	94	179	82	103	185
Manufactured goods, classified	172	338	510	157	627	784	160	366	526	156	220	376
Machinery and transport equipment	96	181	277	89	153	242	83	187	270	98	165	263
Miscellaneous manufactured articles	18	51	69	22	48	70	22	42	64	21	37	58
Commodities and transactions n.i.e. 1/	2	0	2	112	25	137	149	4	153	123	0	123
Memorandum items:												
Trade balance (percent of GDP)	-3.0	-13.6	-16.6	6.3	-18.3	-12.0	-0.7	-14.5	-15.2	-3.8	-9.1	-12.9
Exports	6.8	6.5	13.3	17.4	6.2	23.6	11.5	6.3	17.9	8.1	6.7	14.8
Imports	9.8	20.0	29.9	11.1	24.5	35.6	12.3	20.8	33.1	11.8	15.8	27.7

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, 1994/95–1998/99

(In thousands of U.S. dollars)

	1994/95	1995/96	1996/97	1997/98	1998/99
Carpets	154,545	147,843	155,708	136,970	144,238
Ready-made garments	102,903	97,334	104,419	113,243	142,643
Hides and skins	11,534	10,741	8,071	9,921	6,065
Jute goods	4,626	8,207	9,909	11,648	12,827
Pulses	9,151	12,014	18,218	17,064	17,531
Handicrafts	2,903	1,481	2,492	2,179	2,397
Cardamon	2,763	3,539	3,658	3,676	2,884
Catechu	140	491	971	1,125	1,722
Ghee and vegetable ghee	1,001	641	1,578	28,200	42,857
Mustard and linseed	1,302	869	617	153	281
Raw jute	1,722	598	56	81	0
Dried ginger	1,542	855	815	670	539
Herbs	981	880	1,238	1,052	378
Other exports	58,091	74,542	89,172	118,142	160,241
Total merchandise exports	**353,204**	**360,035**	**396,922**	**444,124**	**534,603**
Memorandum items:					
Carpets					
(thousands of square meters)	2,896	2,618	2,891	2,447	2,575
Ready-made garments					
(thousands of pieces)	33,505	27,970	29,954	34,951	37,747 1/
Pulses (metric tonnes)	14,115	10,936	15443	30,567	28,509

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

1/ Provisional.

Table 15. Nepal: Services and Current Transfers, 1995/96–1998/99

(In millions of U.S. dollars)

	1995/96			1996/97			1997/98			1998/99		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Services and current transfers (net)	**143**	**353**	**496**	**121**	**420**	**541**	**129**	**548**	**677**	**165**	**726**	**891**
Services (net)	**68**	**99**	**167**	**33**	**107**	**139**	**18**	**186**	**204**	**38**	**276**	**314**
Receipts	163	298	461	118	263	381	108	327	435	140	406	546
Freight and insurance	0	0	0	0	0	0	0	0	0	0	0	0
Transportation	12	52	64	11	49	60	10	57	67	11	45	56
Travel	98	74	172	62	88	149	56	104	160	53	126	179
Investment income	3	28	31	3	32	35	5	34	38	4	48	52
Government, n.i.e.	1	87	88	1	69	70	0	99	99	47	144	191
Other	49	57	106	42	25	67	38	34	72	25	43	68
Payments	95	199	294	85	156	241	90	142	232	102	130	232
Freight and insurance	22	3	25	23	2	25	23	2	25	23	2	25
Transportation	3	31	34	3	24	27	2	33	34	5	34	40
Travel	43	103	146	35	70	105	37	48	85	43	34	77
Investment income	2	31	33	1	28	29	1	24	25	1	26	27
Government, n.i.e.	0	7	7	0	8	8	0	8	8	0	9	9
Other	25	25	50	23	25	48	28	27	55	29	25	54
Private current transfers (net)	**59**	**133**	**192**	**69**	**240**	**309**	**89**	**266**	**355**	**108**	**362**	**470**
Receipts	67	135	202	78	252	330	113	270	384	122	364	486
Private remittances	36	42	78	32	85	117	49	89	138	66	106	172
Other estimated remittances	31	94	125	46	168	213	64	182	245	56	259	315
Payments	8	2	10	9	12	21	25	4	29	14	2	17
Official current transfers (net)	**16**	**121**	**137**	**20**	**73**	**93**	**22**	**96**	**119**	**19**	**88**	**107**
Receipts	16	121	137	20	73	93	22	96	119	19	88	107
Payments	0	0	0	0	0	0	0	0	0	0	0	0

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

Table 16. Nepal: External Debt and Debt Service, 1994/95–1998/99

	1994/95	1995/96	1996/97	1997/98	1998/99
			(In millions of U.S. dollars)		
Debt outstanding 1/	**2,295**	**2,370**	**2,483**	**2,612**	**2,729**
Multilateral	**1,842**	**1,940**	**1,983**	**2,090**	**2,169**
AsDB	698	757	802	910	948
EEC	10	9	8	8	7
IDA	1,002	1,052	1,059	1,080	1,107
IFAD	58	57	57	44	58
IMF 2/	55	43	34	25	21
NDF	8	11	16	18	20
OPEC	12	10	7	6	9
Bilateral	**453**	**380**	**378**	**325**	**363**
Austria	0	6	5	5	4
Belgium	9	8	7	6	6
Finland	0	0	6	6	6
France	51	53	51	52	48
Korea	0	0	0	2	10
Kuwait	16	15	13	12	11
OECF	370	291	286	229	264
Saudi Fund	8	7	10	13	14
Short-term debt 3/	**...**	**50**	**121**	**197**	**197**
Total debt service	**82**	**84**	**83**	**87**	**87**
Amortization 4/	59	60	55	62	61
Of which: To IMF 2/	7	8	7	7	7
Interest 4/	23	24	28	24	26
Of which: To IMF	1	1	1	1	1
			(In percent)		
Debt service ratio 5/	**6.3**	**6.8**	**5.0**	**5.7**	**5.2**
Of which: To IMF	0.6	0.7	0.5	0.5	0.4
Outstanding debt/GDP	**52.1**	**52.4**	**50.5**	**54.6**	**53.8**
Of which: To IMF	1.3	1.0	0.7	0.5	0.4

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/ Outstanding trade credits.

4/ Includes principal and interest 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.

Table 17. Nepal: Gross International Reserves, 1994/95–1998/99 1/

	1994/95	1995/96	1996/97	1997/98	1998/99
	(In millions of U.S. dollars, end of period)				
Foreign exchange reserves					
Nepal Rastra Bank (NRB)	**694**	**605**	**633**	**765**	**783**
Convertible	568	497	473	581	711
Nonconvertible	126	108	160	184	72
Commercial banks	**169**	**200**	**218**	**286**	**346**
Convertible	156	190	202	268	305
Nonconvertible	13	10	16	18	41
Total	**863**	**805**	**851**	**1,051**	**1,129**
Convertible	724	687	675	849	1,016
Nonconvertible	139	118	176	202	113
Other gross foreign assets of NRB					
SDR holdings	0.1	0.2	0.1	0.1	0.2
Gold 2/	6.4	6.5	6.5	6.5	6.5
Reserve tranche position	8.9	8.2	8.0	7.6	7.8
Total gross foreign assets of NRB	**709**	**620**	**647**	**779**	**797**
	(In months of imports of goods and services)				
Nepal Rastra Bank					
Gross foreign assets	5.2	3.7	4.4	5.8	4.7
Foreign exchange reserves	5.1	3.6	4.3	5.7	4.6
Of which : Convertible reserves	4.1	3.0	3.2	4.3	4.2

Source: Data provided by the Nepalese authorities.

1/ Totals differ from monetary sector figures owing to valuation effects.
2/ Valued at historical prices.

Table 18. Nepal: Average Customs Duty by Main Category of Goods, 1999/2000 1/

Chapter Numbers	Main Category of Goods	Average Customs Duty 2/ (In percent)
1–10	Live animals	4.0
11–20	Grains, vegetable extracts, sugars	11.5
21–30	Beverages, tobacco, mineral fuels, pharmaceuticals	10.7
31–40	Fertilizers, cosmetics, soaps, chemicals, plastics	14.5
41–50	Raw hides, skins, wood, paper, silk	9.8
51–60	Wool, cotton, man-made fibres, carpets	12.8
61–70	Clothing, footwear, ceramics, glassware, stoneware	18.7
71–80	Iron, steel, copper, nickel, aluminium, lead, zinc, tin	11.6
81–90	Tools, machinery, vehicles, aircrafts	14.5
91–97	Clocks, musical instruments, arms, furniture, art	25.4
	Total number of items: 5,237 Sum of duties: 64,149	
	Average customs duty	12.25

Source: HMGN, Ministry of Finance and Department of Customs, Kathmandu, Nepal (1999).

1/ Harmonized System classification.
2/ Average of customs duties for all items in each chapter.

Table 19. Nepal: Composition of Imports and Import Duties, 1994/95–1998/99

(In millions of Nepalese rupees)

	1994/95	1995/96	1996/97	1997/98	1998/99
Imports from India	19,621	24,518	29,941	34,518	42,660
Of which: Dutiable imports	18,117	19,369	23,774	27,282	25,462
Import duties from India	1,854	2,059	2,359	2,707	3,430
As a percent of dutiable imports	10.2	10.6	9.9	9.9	13.5
As a percent of total imports	9.4	8.4	7.9	7.8	8.0
Imports from third countries	43,874	50,029	71,516	61,812	49,156
Of which: Dutiable imports	19,602	34,349	50,701	52,770	31,334
Import duties from third countries	3,986	4,195	4,748	4,523	4,479
As a percent of dutiable imports	20.3	12.2	9.4	8.6	14.3
As a percent of total imports	9.1	8.4	6.6	7.3	9.1
Total imports	63,495	74,547	101,456	96,330	91,816
Of which: Dutiable imports	37,719	53,718	74,475	80,052	56,796
Aid-related imports	6,285	6,096	7,825	11,720	35,021
Total import duties	5,840	6,254	7,107	7,230	7,909
As a percent of dutiable imports	15.5	11.6	9.5	9.0	13.9
As a percent of total imports	9.2	8.4	7.0	7.5	8.6

Source: Department of Customs, Ministry of Finance.

Table 20. Nepal: Structure of Interest Rates, 1994/95–1998/99

(Annual percentage rates, end of period)

	1994/95	1995/96	1996/97	1997/98	1998/99
Refinancing facilities of Nepal					
Rastra Bank to commercial banks					
Export bills	11.0	11.0	11.0	9.0	9.0
Industrial sector	11.0	11.0	11.0	9.0	9.0
Agricultural sector	11.0	11.0	11.0	9.0	9.0
Service sector	11.0	11.0	11.0	9.0	9.0
Commercial banks					
Savings deposits	7.0–8.0	7.5–8.0	7.5–8.0	6.5–8.0	5.75–8.0
Time deposits					
3 months	5.0–7.5	6.75–8.0	6.75–9.0	5.0–8.0	4.0–7.5
6 months	6.0–8.0	7.25–9.0	7.25–9.0	6.0–8.5	6.0–8.0
9 months	...	...	...	...	...
1 year	8.0–9.25	9.5–11.0	9.5–11.0	9.0–10.5	7.25–9.5
2 years	negotiable	negotiable	negotiable	9.5–12.0	7.25–10.25
3 years	negotiable	negotiable	negotiable	–	–
4 years	negotiable	negotiable	negotiable	–	–
5 years	negotiable	negotiable	negotiable	–	–
Loans					
Industry	14.0–18.0	15.0–17.5	15.0–17.5	13.5–17.0	11.5–17.0
Agriculture	13.0–15.5	14.5–16.0	14.5–16.0	14.5–15.5	14.0–15.5
Services	17.0–18.0	18.0	18.0	18.0	18.0
Export bills	12.0–16.0	13.0–16.0	14.5–16.5	12.5–16.0	7.5–15.0
Commercial loans and overdrafts	12.0–19.0	14.5–20.0	14.5–20.0	13.5–20.0	10.0–19.0
Agricultural Development Bank of Nepal					
To cooperatives	12.0–15.0	12.0–15.0	12.0–15.0	13.0–16.0	13.0–16.0
To others	14.0–17.0	14.0–17.0	14.0–17.0	15.0–18.0	15.0–18.0
Nepal Industrial Development Corporation	15.0–16.0	15.0–16.0	15.5–18.0	15.5–18.0	15.5–18.0
Government securities					
National savings certificates	9.0–15.5	9.0–15.5	9.0–13.25	9.0–13.25	9.0–13.25
Treasury bills (3 month) 1/	7.4	10.9	10.2	3.5	2.3
Treasury bills (1 year)	...	...	9.0–12.0	5.9–7.3	4.7–7.0
Development bonds	3.0–10.5	3.0–12.0	3.0–12.0	3.0–12.0	3.0–12.0
25-year special bonds	3.0	3.0	3.0	3.0	3.0
20-year special bonds	5.0	5.0	5.0	5.0	5.0
Special loan	1.0–14.0	1.0–13.0	1.0–13.0	1.0–13.0	8.0–9.0

Source: Data provided by the Nepalese authorities.

1/ Annual weighted average.

Table 21. Nepal: Monetary Survey, 1994/95–1999/2000

	1994/95	1995/96	1996/97	1997/98	1998/99	November 1999 1/
	(In millions of Nepalese rupees, end of period)					
Net foreign assets	37,085	37,703	40,191	55,573	65,027	66,591
Assets	43,863	45,270	49,367	66,114	77,610	80,242
Liabilities	6,778	7,567	9,176	10,542	12,583	13,651
Net domestic assets	43,899	54,953	63,530	70,890	87,868	93,072
Domestic credit	69,598	86,623	98,272	112,820	131,509	137,498
Public sector	23,833	26,845	28,182	29,819	33,170	34,339
Government (net)	22,604	24,887	26,584	28,761	31,604	32,846
Nonfinancial public enterprises	1,229	1,958	1,598	1,059	1,567	1,493
Private sector 2/	45,765	59,778	70,090	83,001	98,339	103,159
Other items (net)	-25,699	-31,670	-34,742	-41,930	-43,641	-44,426
Broad money	80,984	92,656	103,720	126,463	152,895	159,663
Narrow money	32,985	36,498	38,460	45,164	51,157	54,669
Quasi-money	47,999	56,158	65,260	81,299	101,738	104,994
	(Annual percentage change)					
Net domestic assets	30.8	25.2	15.6	11.6	24.0	23.8
Domestic credit	25.1	24.5	13.4	14.8	16.6	18.7
Public sector	4.5	12.6	5.0	5.8	11.2	17.3
Private sector 2/	39.4	30.6	17.3	18.4	18.5	19.2
Broad money	16.1	14.4	11.9	21.9	20.9	20.8
Narrow money	15.7	10.6	5.4	17.4	13.3	23.6
Quasi-money	16.3	17.0	16.2	24.6	25.1	19.4
	(12 month change in percent of broad money at start of period)					
Net foreign assets	1.2	0.8	2.7	14.8	7.5	7.3
Net domestic assets	14.8	13.6	9.3	7.1	13.4	13.5
Domestic credit	20.0	21.0	12.6	14.0	14.8	16.4
Public sector	1.5	3.7	1.4	1.6	2.6	3.8
Private sector 2/	18.5	17.3	11.1	12.4	12.1	12.6
Memorandum items:						
Net foreign assets, excluding exchange valuation 3/	-0.7	-2.1	3.5	9.7	7.8	6.5
Net domestic assets, excluding exchange valuation 3/	16.7	16.5	8.5	12.3	13.1	14.3
Velocity (GDP/M2)	2.71	2.69	2.70	2.34	2.26	2.32
Money multiplier	2.48	2.62	2.53	2.75	2.90	2.78

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

1/ Estimated figures adjusted for bias in estimates.
2/ Includes credit to financial public enterprises.
3/ Adjusted for the impact of exchange rate changes on the value of net foreign assets and other items, net.

Table 22. Nepal: Assets and Liabilities of Nepal Rastra Bank, 1994/95–1999/2000

	1994/95	1995/96	1996/97	1997/98	1998/99	November 1999
	(In millions of Nepalese rupees, end of period)					
Net foreign assets	32,338	31,464	34,474	46,354	52,607	54,561
Assets	35,423	34,231	36,910	48,393	54,138	56,027
Liabilities	3,085	2,767	2,436	2,040	1,531	1,467
Net domestic assets	348	3,926	6,554	-358	63	2,938
Claims on public sector	14,414	17,346	18,846	18,487	18,852	21,045
Government (net)	14,406	17,339	18,838	18,480	18,844	21,038
Claims 1/	14,406	17,339	18,838	18,480	18,844	21,038
Deposits	--	--	--	--	--	--
Nonfinancial public enterprises	8	8	8	8	8	8
Claims on private sector 2/	1,358	2,082	2,977	2,801	3,002	2,866
Claims on commercial banks	15	365	7	6	6	6
Other items (net)	-15,439	-15,867	-15,275	-21,651	-21,796	-20,978
Reserve money	32,686	35,390	41,027	45,996	52,670	57,498
Currency outside banks	22,494	25,046	27,334	30,893	34,984	37,863
Currency held by banks	2,038	2,446	2,837	2,890	3,310	4,015
Bankers' deposits	7,017	6,699	9,273	10,543	12,208	12,253
Private sector deposits	1,138	1,198	1,584	1,670	2,168	3,368
	(12 month change in percent of reserve money at start of period)					
Net foreign assets	0.8	-2.7	8.5	29.0	13.6	13.1
Net domestic assets	14.2	10.9	7.4	-16.8	0.9	3.8
Reserve money	15.1	8.3	15.9	12.1	14.5	16.9
Memorandum items:						
Net foreign assets, excluding exchange valuation 3/	-3.5	-7.8	10.7	18.3	14.6	14.6
Net domestic assets, excluding exchange valuation 3/	18.5	16.1	5.2	-6.2	0.0	2.2
Currency/deposits ratio 4/	38.5	37.0	35.8	32.3	29.7	31.8
Reserves/deposits ratio 4/	15.8	13.8	16.2	14.3	13.4	14.0

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.
4/ Based on estimated deposits adjusted for bias in estimates.

Table 23. Nepal: Assets and Liabilities of Commercial Banks, 1994/95–1999/2000

(In millions of Nepalese rupees, end of period)

	1994/95	1995/96	1996/97	1997/98	1998/99	November 1999 1/
Reserves	9,502	9,175	12,110	13,433	15,518	16,268
Foreign assets	8,440	11,039	12,457	17,721	23,473	24,215
Claims on Government	8,198	7,548	7,746	10,281	12,759	11,809
Claims on nonfinancial public enterprises	1,221	1,951	1,590	1,051	1,559	1,485
Claims on financial public enterprises	176	238	305	505	598	256
Claims on business and individual	44,231	57,458	66,808	79,695	94,739	98,307
Assets = Liabilities	71,768	87,409	101,016	122,686	148,646	152,339
Demand deposits	9,353	10,253	9,543	12,601	14,005	13,433
Savings deposits	22,226	25,099	28,857	35,470	48,114	50,525
Fixed deposits	24,320	29,110	34,536	44,022	51,612	49,313
Margin deposits	1,453	1,949	1,867	1,807	2,011	2,519
Foreign liabilities 2/	3,693	4,800	6,740	8,502	11,052	12,185
Borrowing from the central bank	15	365	7	6	6	6
Other items (net)	10,707	15,833	19,466	20,278	21,845	24,360
Memorandum item:						
Priority sector lending in percent of total domestic credit	8.2	8.0	8.9	9.3	9.3	...

Source: Data provided by the Nepalese authorities.

1/ Based on unadjusted provisional data from NRB. The totals are not comparable with the total commercial bank aggregates shown in Table 21 and the Staff Report.

2/ Includes foreign currency deposits.

Table 24. Nepal: Assets and Liabilities of Finance Companies, 1996/97–1998/99

(End of Period)

	1996/97		1997/98		1998/99	
	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent
Cash	36	0.7	39	0.5	110	1.0
Bank balance	310	6.3	406	4.8	1,023	9.6
Investment	698	14.3	2,065	24.6	1,262	11.9
Of which: Government securities	374	7.6	1,750	20.8	932	8.8
Loans and advances	3,623	74.0	5,391	64.1	7,219	67.9
Term loans	1,662	33.9	2,177	25.9	3,105	29.2
Housing loans	982	20.1	1,567	18.6	2,004	18.8
Hire purchases	677	13.8	953	11.3	1,304	12.3
Fixed deposit receipt loans	0	0.0	225	2.7	498	4.7
Leasing	187	3.8	310	3.7	260	2.4
Other	115	2.3	159	1.9	47	0.4
Other	229	4.7	503	6.0	1,019	9.6
Assets = Liabilities	4,896	100.0	8,404	100.0	10,633	100.0
Deposits	3,649	74.5	6,275	74.7	8,033	75.5
Paid-up capital	618	12.6	727	8.7	838	7.9
Borrowings	229	4.7	228	2.7	83	0.8
Reserve	36	0.7	59	0.7	177	1.7
Other	364	7.4	1,115	13.3	1,502	14.1
Memorandum items:						
Capital adequacy ratio (in percent)	18.6		14.6		13.5	
Loan/deposit ratio (in percent)	98.1		85.8		81.7	
Number of finance companies	41		44		45	

Source: Nepal Rastra Bank.

Table 25. Nepal: Income Statements of Rastriya Banijya Bank and Nepal Bank Limited, 1994/95–1997/98

(In millions of Nepalese rupees)

	1994/95	1995/96	1996/97	1997/98
		Rastriya Banijya Bank 1/		
Interest income 2/	1,727	1,945	2,630	2,963
Less: interest payments	1,294	1,518	1,865	2,111
Net interest income	433	427	765	852
Overhead expenses	370	479	645	694
Provision	296	1,156	89	180
Total	666	1,635	734	874
Operating profit	-233	-1,208	31	-22
Other income 3/	258	338	294	406
Net profit	25	-870	325	384
		Nepal Bank Limited		
Interest income 2/	1,887	2,013	2,426	2,195
Less: interest payments	1,204	1,263	1,515	1,905
Net interest income	683	750	911	290
Overhead expenses	654	618	703	723
Provision	199	326	339	189
Total	853	944	1,042	912
Operating profit	-170	-194	-131	-622
Other income 3/	249	313	259	559
Net profit	79	119	128	-63

Sources: Rastriya Banijya Bank and Nepal Bank Limited.

1/ 1997/98 figures for RBB are provisional.

2/ Includes interest income from loan and investments.

Table 26. Nepal: Outstanding Bank Credit to Major Public Enterprises, 1994/95–1998/99

(In millions of Nepalese rupees, end of period)

	1994/95	1995/96	1996/97	1997/98	1998/99
Principal	4,430	5,448	6,603	7,008	8,813
Financial institutions	3,820	4,249	5,430	6,169	7,544
Agricultural Development Bank	2,985	2,993	3,751	4,295	5,588
Nepal Industrial Development Corporation	521	895	1,184	1,263	1,197
Rural Development Banks	270	317	408	521	632
Other	44	44	87	90	127
Nonfinancial public enterprises	610	1,199	1,173	839	1,270
Agricultural Input Corporation	20	383	320	16	242
Agricultural Tools Factory	65	97	182	176	150
Janak Educational Material Center	24	45	8	30	58
Cottage Industrial and Handicraft Emporium	72	85	17	10	5
Himal Cement Company	20	17	19	25	27
Janakpur Cigarette Factory	78	134	146	145	121
Nepal Food Corporation	103	195	317	266	427
Raghupati Jute Mill	39	40	10	0	0
Royal Nepal Airline Corporation	5	1	8	3	86
Hetauda Leather Factory	2	29	2	3	3
Tobacco Development Corporation	52	51	0	0	0
Nepal Coal Limited	31	34	5	0	0
Other	99	88	139	165	152
Overdue interest	620	761	426	221	301
Financial institutions	1	2	2	2	4
Nonfinancial public enterprises	619	759	424	219	297
Total outstanding credit	5,050	6,209	7,029	7,229	9,114

Source: Data provided by the Nepalese authorities.

Table 27. Nepal: Nonperforming Bank Loans of Public Enterprises, 1996/97–1998/99

(In millions of Nepalese rupees, end of period)

	1996/97			1997/98			1998/99 1/		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Nepal Food Corporation	0	0	0	10	4	14	7	4	11
Tobacco Development Corporation	0	0	0	0	0	0	0	0	0
Nepal Transportation Corporation	19	13	32	19	20	39	20	28	48
Himal Cement Company	2	0	2	0	0	0	2	0	2
Agricultural Input Corporation	0	0	0	0	0	0	0	0	0
Bhaktapur Tile and Brick Corporation	3	2	4	3	2	4	3	2	5
Raghupati Jute Mill	10	137	147	0	0	0	0	0	0
Bansbari Shoe Factory	0	0	0	0	0	0	0	0	0
Nepal Coal Limited	0	0	0	0	0	0	0	0	0
Rice Exporting Companies	13	100	112	13	90	102	3	32	35
Cottage Industrial and Handicraft Emporium	93	87	179	93	87	179	0	136	136
National Trading Ltd.	0	0	0	0	0	0	0	0	0
Agricultural Tools Factory	0	31	31	0	0	0	0	0	0
Adarsh Press	0	0	0	0	0	0	0	0	0
Hetadua Leather Factory	2	18	19	2	19	20	3	25	28
Total	140	387	527	138	220	358	38	227	265

Source: Data provided by the Nepalese authorities.

1/ Provisional.

Table 28. Nepal: Summary of Central Government Operations, 1994/95–1999/2000 1/

	1994/95	1995/96	1996/97	1997/98		1998/99		1999/2000
				Budget	Actual	Budget	Estimate	Budget
				(In billions of Nepalese rupees)				
Total revenue and grants	26.8	31.6	35.5	41.5	37.1	46.2	40.8	50.9
Total revenue	22.9	26.8	29.5	35.5	31.7	38.4	34.9	42.2
Tax revenue	19.2	21.7	24.4	29.3	25.9	30.9	28.4	34.7
Nontax revenue	3.7	5.1	5.1	6.1	5.7	7.5	6.5	7.5
Grants	3.9	4.8	6.0	6.0	5.4	7.8	5.9	8.7
Total expenditure	35.0	43.7	46.4	56.9	51.6	63.7	56.7	68.9
Regular expenditure	15.2	18.7	20.7	24.2	23.0	27.1	27.1	29.4
Development expenditure	19.8	25.0	25.7	32.7	28.6	36.6	29.6	39.5
Overall balance before grants	-12.1	-16.9	-16.9	-21.4	-20.0	-25.3	-21.8	-26.8
Overall balance after grants	-8.2	-12.0	-10.9	-15.4	-14.6	-17.6	-15.9	-18.1
Financing	8.2	12.0	10.9	15.4	14.6	17.6	15.9	18.1
Net foreign loans	5.4	7.1	6.9	13.1	9.0	14.5	11.4	14.1
Gross disbursements	7.3	9.5	9.0	15.5	11.1	17.7	14.6	18.6
Amortization	1.9	2.4	2.1	2.5	2.1	3.2	3.2	4.4
Net domestic financing	2.8	5.0	4.0	2.3	5.6	3.1	4.5	3.9
Bank financing	1.3	2.2	2.0	0.2	2.2	1.5	2.8	2.5
Nonbank financing	1.5	2.8	2.0	2.1	3.4	1.6	1.7	1.4
				(In percent of GDP)				
Total revenue	10.4	10.8	10.5	12.1	10.7	11.8	10.1	11.1
Tax revenue	8.7	8.7	8.7	10.0	8.7	9.5	8.2	9.1
Nontax revenue	1.7	2.1	1.8	2.1	1.9	2.3	1.9	2.0
Grants	1.8	1.9	2.1	2.1	1.8	2.4	1.7	2.3
Total expenditure	16.0	17.6	16.5	19.4	17.4	19.6	16.4	18.1
Regular expenditure	6.9	7.5	7.4	8.2	7.8	8.3	7.9	7.7
Development expenditure	9.0	10.0	9.2	11.2	9.6	11.3	8.6	10.4
Overall balance before grants	-5.5	-6.8	-6.0	-7.3	-6.7	-7.8	-6.3	-7.0
Overall balance after grants	-3.7	-4.8	-3.9	-5.2	-4.9	-5.4	-4.6	-4.7
Financing	3.7	4.8	3.9	5.2	4.9	5.4	4.6	4.7
Net foreign loans	2.5	2.8	2.5	4.5	3.0	4.5	3.3	3.7
Gross disbursements	3.3	3.8	3.2	5.3	3.7	5.4	4.2	4.9
Amortization	0.9	1.0	0.7	0.8	0.7	1.0	0.9	1.2
Net domestic financing	1.3	2.0	1.4	0.8	1.9	0.9	1.3	1.0
Bank financing	0.6	0.9	0.7	0.1	0.7	0.4	0.8	0.7
Nonbank financing	0.7	1.1	0.7	0.7	1.2	0.5	0.5	0.4
Memorandum item:								
Nominal GDP (Billions Nrs)	219.2	248.9	280.5	293.5	296.5	325.1	344.9	381.4

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

1/ Fiscal years start on July 16.

Table 29. Nepal: Central Government Revenue, 1995/96–1999/2000

	1995/96	1996/97	1997/98		1998/99		1999/2000
			Budget	Actual	Budget	Estimate	Budget
	(In millions of Nepalese rupees)						
Total revenue 1/	26,820	29,511	35,491	31,690	38,385	34,869	42,187
Tax revenue	21,680	24,424	29,345	25,940	30,892	28,351	34,655
Taxes on income and profits	3,326	4,123	4,600	4,898	5,780	6,182	7,369
Taxes on property	1,273	1,110	1,400	1,115	1,312	1,111	1,301
Registration and land revenue	1,080	1,015	1,150	1,004	1,207	991	1,173
House and land rent tax	106	140	150	0	250	...	...
Other property taxes	87	95	100	111	105	120	127
Taxes on goods and services	9,754	10,881	13,645	11,425	13,780	11,688	14,500
VAT/Sales tax 2/	6,431	7,127	9,440	7,123	9,420	7,966	10,460
Excise taxes	1,944	2,298	3,100	2,886	3,258	2,832	3,500
Others 3/	1,379	1,457	1,105	1,416	1,103	890	540
Taxes on international trade	7,327	8,309	9,700	8,502	10,020	9,370	11,485
Import taxes	6,254	7,107	8,390	7,174	8,528	7,779	9,652
Indian excise refund	900	1,009	1,100	1,102	1,160	1,205	1,385
Export taxes	150	168	190	217	320	380	442
Other	23	25	20	10	12	6	6
Nontax revenue 1/	5,140	5,086	6,146	5,750	7,492	6,518	7,532
Charges, fees, fines, etc.	942	1,074	1,394	1,246	1,625	...	1,807
Sales of goods and services	1,017	996	1,105	1,339	1,508	...	1,315
Dividends	1,363	1,134	1,327	1,311	1,716	...	1,840
Royalty and fixed asset sales	68	448	440	565	764	...	159
Interest receipts	1,734	1,358	1,600	1,213	1,766	1,658	2,280
Miscellaneous	16	76	280	76	114	...	130
	(In percent of GDP)						
Total revenue	10.8	10.5	12.1	10.7	11.8	10.1	11.1
Tax revenue	8.7	8.7	10.0	8.7	9.5	8.2	9.1
Taxes on income and profits	1.3	1.5	1.6	1.7	1.8	1.8	1.9
Taxes on property	0.5	0.4	0.5	0.4	0.4	0.3	0.3
Taxes on goods and services	3.9	3.9	4.6	3.9	4.2	3.4	3.8
VAT/Sales tax 2/	2.6	2.5	3.2	2.4	2.9	2.3	2.7
Excise taxes	0.8	0.8	1.1	1.0	1.0	0.8	0.9
Others 3/	0.6	0.5	0.4	0.5	0.3	0.3	0.1
Taxes on international trade	2.9	3.0	3.3	2.9	3.1	2.7	3.0
Nontax revenue	2.1	1.8	2.1	1.9	2.3	1.9	2.0
Memorandum item:							
Nominal GDP (Billions of Nrs.)	248.9	280.5	293.5	296.5	325.1	344.9	381.4

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

1/ Adjusted by taking out of non-tax revenue the principal repayments from corporations (classified as negative capital spending).
2/ Sales tax prior to 1997/98.
3/ Includes taxes on entertainment, hotel, contracts, and air flight. Air flight revenues are now mostly retained by the Civil Aviation Authority.

Table 30. Nepal: Central Government Expenditure by Economic Classification, 1995/96–1999/2000

	1995/96	1996/97	1997/98		1998/99		1999/2000
			Budget	Actual	Budget	Estimate	Budget
	(In millions of Nepalese rupees)						
Total expenditure	43,693	46,407	56,884	51,593	63,726	56,746	68,940
Regular expenditure 1/	18,714	20,728	24,156	23,029	27,142	27,116	29,420
Wages and benefits	12,691	14,334	17,947	...	19,265	...	20,832
Wages and salaries	4,105	4,724	6,379	...	7,339	...	7,000
Allowances	1,594	1,397	1,405	...	880	...	990
Employee facilities	125	545	1,630	...	1,170	...	2,489
Retirement facilities	742	750	871	...	1,038	...	1,258
Social security	315	337	369	...	458	...	351
Teachers	4,122	4,710	5,211	...	5,980	...	6,100
Defense 2/	1,688	1,871	2,083	...	2,401	...	2,644
Defense	440	489	546	...	627	...	867
Interest payments	3,868	4,074	4,343	3,567	4,299	4,197	5,560
Domestic debt	2,551	2,827	2,842	2,331	2,709	2,648	3,385
Foreign debt	1,317	1,247	1,501	1,236	1,590	1,549	2,175
Other	1,715	1,832	1,320	...	2,951	...	2,162
Of which: Subsidies	...	...	...	...	1,187	...	1,433
Subsidy-operation	...	...	...	...	506	...	575
Subsidy-other	...	...	240	636	681	681	858
Other	...	...	...	...	1,764	...	729
Development expenditure 3/	24,979	25,679	32,728	28,564	36,584	29,630	39,520
Wages and allowances	1,242	1,202	1,289	1,289	1,321	...	1,628
Wages and salaries	958	866	963	963	1,042	...	...
Allowances	284	336	326	326	279	...	...
Other	23,453	24,141	31,113	26,949	34,984	...	37,892
	(In percent of GDP)						
Total	17.6	16.5	19.4	17.4	19.6	16.4	18.1
Regular expenditure 1/	7.5	7.4	8.2	7.8	8.3	7.9	7.7
Wages and benefits	5.1	5.1	6.1	...	5.9	...	5.5
Wages and salaries	1.6	1.7	2.2	...	2.3	...	1.8
Allowances	0.6	0.5	0.5	...	0.3	...	0.3
Employee facilities	0.1	0.2	0.6	...	0.4	...	0.7
Retirement facilities	0.3	0.3	0.3	...	0.3	...	0.3
Social security	0.1	0.1	0.1	...	0.1	...	0.1
Teachers	1.7	1.7	1.8	...	1.8	...	1.6
Defense 2/	0.7	0.7	0.7	...	0.7	...	0.7
Defense	0.2	0.2	0.2	...	0.2	...	0.2
Interest payments	1.6	1.5	1.5	1.2	1.3	1.2	1.5
Domestic debt	1.0	1.0	1.0	0.8	0.8	0.8	0.9
Foreign debt	0.5	0.4	0.5	0.4	0.5	0.4	0.6
Other	0.7	0.7	0.4	...	0.9	...	0.6
Of which: Subsidies	...	...	...	...	0.4	...	0.4
Subsidy-operation	...	...	...	...	0.2	...	0.2
Subsidy-other	...	...	...	...	0.2	...	0.2
Other	...	...	...	...	0.5	...	0.2
Development Expenditure 3/	10.0	9.2	11.2	9.6	11.3	8.6	10.4
Wages and allowances	0.5	0.4	0.4	0.4	0.4	...	0.4
Other	9.4	8.6	10.6	9.1	10.8	...	9.9
Memorandum item:							
Nominal GDP (billions of Nrs.)	...	...	...	296.5	325.1	344.9	381.4

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

1/ Regular expenditure adjusted by subtracting payment of amortization on domestic and foreign loans.
2/ Wages for defense are estimated from total defense spending and assuming budgeted defense wages.
3/ Development expenditure adjusted by adding net lending (or subtracting the payment of principal from corporations).

Table 31. Nepal: Central Government Expenditure by Functional Classification, 1995/96–1999/2000

	1995/96	1996/97	1997/98		1998/99		1999/2000
			Budget	Actual	Budget	Actual	Budget
	(In millions of Nepalese rupees)						
Total expenditure	43,693	46,407	56,884	51,593	63,726	56,746	68,940
Regular expenditure	18,714	20,728	24,156	23,029	27,142	27,116	29,421
Social services	5,316	5,909	6,785	6,845	7,900	7,767	8,710
Education	4,306	4,813	5,445	5,571	6,392	6,322	6,870
Health	799	885	1,127	1,061	1,256	1,203	1,545
Other	211	211	213	213	252	242	295
Economic services	1,730	1,889	2,132	2,045	2,501	2,351	2,551
Agriculture related	365	371	415	391	453	436	490
Forestry	481	499	557	541	803	754	870
Infrastructure	645	717	852	810	934	856	865
Other	239	302	308	303	311	305	326
Defense	2,128	2,360	2,629	2,618	3,028	2,975	3,511
Interest payments	3,868	4,074	4,343	3,567	4,299	4,238	5,560
General administration	3,141	3,532	4,083	3,930	4,723	4,580	5,255
Other	2,531	2,964	4,184	4,024	4,691	5,205	3,834
Development expenditure	24,979	25,679	32,728	28,564	36,584	29,630	39,520
Social services	7,586	8,308	11,497	10,330	12,149	9,181	12,966
Education	1,698	2,356	2,659	2,362	2,301	1,928	3,297
Health	916	1,621	2,714	2,712	2,716	2,064	2,852
Drinking water	1,112	1,327	2,224	1,683	2,656	1,838	2,709
Other	3,860	3,004	3,900	3,573	4,476	3,351	4,109
Economic services	17,393	17,371	21,231	18,234	24,435	20,449	26,554
Agriculture related	5,401	4,954	5,514	4,830	6,083	5,224	7,390
Infrastructure	10,384	10,904	13,190	11,279	15,491	12,351	15,038
Other	1,608	1,513	2,527	2,125	2,861	2,874	4,125
	(In percent of GDP)						
Total expenditure	17.6	16.5	19.4	17.4	19.6	16.4	18.1
Social services	5.2	5.1	6.2	5.8	6.2	5.2	5.7
Of which : Education	2.4	2.6	2.8	2.7	2.7	2.4	2.7
Current expenditure	1.7	1.7	1.9	1.9	2.0	1.8	1.8
Capital expenditure	0.7	0.8	0.9	0.8	0.7	0.6	0.9
Health	0.7	0.9	1.3	1.3	1.2	1.2	1.2
Drinking water	0.4	0.5	0.8	0.6	0.8	0.5	0.7
Economic services	7.5	6.8	7.9	6.7	8.2	6.4	8.3
Of which : Agriculture related	2.3	1.9	2.1	1.8	2.0	1.6	2.3
Infrastructure	4.4	4.1	4.8	4.1	5.1	3.8	4.6
Defense	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Interest payments	1.6	1.5	1.5	1.2	1.3	1.2	1.5
General administration	1.3	1.3	1.4	1.3	1.5	1.3	1.4
Other	1.2	1.1	1.5	1.5	1.5	1.4	0.3
	(In percent of total expenditure)						
Social services	29.5	30.6	32.1	33.3	31.5	28.7	31.4
Of which : Education	13.7	15.4	14.2	15.4	13.6	14.0	14.8
Health	3.9	5.4	6.8	7.3	6.2	5.5	6.4
Drinking water	2.5	2.9	3.9	3.3	4.2	3.1	3.9
Economic services	42.9	41.1	40.5	38.5	41.8	37.2	41.5
Of which : Agriculture related	13.2	11.5	10.8	10.1	10.3	9.6	11.4
Infrastructure	25.2	25.1	24.7	23.5	25.8	22.4	23.1
Defense	4.9	5.1	4.6	5.1	4.8	5.0	5.1
Interest payments	8.9	8.8	7.6	6.9	6.7	7.2	8.1
General administration	7.2	7.6	7.2	7.6	7.4	7.8	7.6
Other	6.6	6.8	7.9	8.6	7.9	14.1	6.3

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

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
1. Taxes on net income and profits				
1.1 *Taxes on business income*	Levied on net income from public, private, and joint-venture enterprises in December, April, and July.	**Exemptions:** Income from cottage industries, agricultural production, fisheries, forestry, community and social services. 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] Exports are also exempted. **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. 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.		*Tax rates* *(In percent)*
			Industrial enterprises	20
			Other enterprises	25
			Financial institutions	30
			Surcharges	
			Nepali residents	5
			Non-Nepali residents	30

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
1.2 *Tax on income from individuals, sole proprietorships, partnerships, and private limited companies*	Levied on income accruing to individuals from any trade, business, profession, or employment.	The exemption for a single taxpayer is Nrs 50,000 and for a married taxpayer Nrs 60,000. Deductible in determining taxable income are: a. 15 percent or Nrs 7,500, whichever is less from the total remuneration after deducting the contribution made to the Provident Fund. b. National Provident Fund contributions to 10 percent of gross salary. c. Life insurance premium up to 7 percent of the policy or the actual premium, whichever is less. d. Philanthropic contributions equal to 5 percent or Nrs 100,000, whichever is less. e. Investments in Citizens Investment Trust up to 10 percent of gross salary for those setting annual salary up to Nrs 100,000. Partnerships and nonresidents are given no exemptions. 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—due to pervasive tax evasion.	*Income bracket* Initial Nrs 75,000 Above Nrs 75,000 Surcharges Nepali residents Non-Nepali residents	*Tax rates (In percent)* 15 25 5 30
1.3 *Interest tax*	Tax payable on interest income from deposits.		6 percent	
2. Taxes on property				
2.1 *Tax on rural land*	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 0.6 to 10 per hectare. For larger holdings, Nrs 2.6 to 105 per hectare.	

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

<table>
<tr><th>Tax</th><th>Nature of Tax</th><th>Exemptions and Deductions</th><th>Tax Rates</th></tr>
<tr><td>2.2 Taxes on urban houses and land</td><td>Levied on the property value</td><td>Property values of up to Nrs 1 million are exempted</td><td>
<table>
<tr><th>Property value</th><th>Marginal tax rates</th></tr>
<tr><td>Next 1 million</td><td>Nrs 300</td></tr>
<tr><td>Next 3 millions</td><td>0.05 percent</td></tr>
<tr><td>Next 5 millions</td><td>0.25 percent</td></tr>
<tr><td>Next 10 millions</td><td>0.50 percent</td></tr>
<tr><td>Remaining</td><td>1.50 percent</td></tr>
</table>
</td></tr>
<tr><td>2.3 Registration fees</td><td>Levied on the value of property at the time of sale, gifts, or on partition.</td><td></td><td>
Urban Areas
<table>
<tr><th></th><th>Sales deeds</th><th></th></tr>
<tr><th>Value of property</th><th>Fees by Seller</th><th>Gifts outside Third Generation</th></tr>
<tr><td>up to 10,000</td><td>6 percent</td><td></td></tr>
<tr><td>Above 10,000</td><td>8 percent</td><td>20 percent</td></tr>
</table>
Gift within three generations
3 percent
Non-urban Areas
<table>
<tr><th>Value of property</th><th>Sales</th><th>Gift outside Third Generation</th></tr>
<tr><td>up to 10,000</td><td>4 percent</td><td></td></tr>
<tr><td>Above 10,000</td><td>5 percent</td><td>15 percent</td></tr>
</table>
Partition Deeds
<table>
<tr><th>Value of property</th><th>Tax</th></tr>
<tr><td>0-50,000</td><td>Nrs 200</td></tr>
<tr><td>501,000-2,500,000</td><td>Nrs 1,000</td></tr>
<tr><td>2,500,000-5,000,000</td><td>Nrs 5,000</td></tr>
<tr><td>Above 5,000,000</td><td>Nrs 10,000</td></tr>
</table>
</td></tr>
</table>

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates
3. **Taxes on goods and services**			
3.1 *Value added tax*	Levied on goods and services at all stages of production and distribution.	**Exemption threshold**: Nrs 2 million **Exemptions**: Exports, inputs used in the production of exports, and foreign aid projects. 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. Additional goods exempted from VAT in the 1999/2000 budget were agricultural equipment; some industrial machinery; plant and main equipment required for producing energy from bio-gas, solar power, and air; 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; vaccines, crate, egg-box and iron scrap.	10 percent
3.2 *Excise taxes*	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.	**Specific taxes** *Cigarettes* — *Per 1,000 cigarettes* Non-filtered cigarettes — Nrs 90 Filtered cigarettes by length Short — Nrs 260 Medium (70 mm to 75 mm) — Nrs 335 Medium (75 mm to 85 mm) — Nrs 460 Long (above 85 mm) — Nrs 625

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

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.	*Liquor types*	*Per L.P. liter*	
			Whisky	Nrs 225	
			Vodka	Nrs 115	
			Low-quality liquor	Nrs 40	
			Beer	Nrs 31	
			Ad valorem taxes		
			Pick-ups	15 percent	
3.3 *Tourism fee*	Levied on tourism services.		2 percent		
3.4 *Motor vehicle tax*	An annual tax based on the size of the vehicle and whether it is for own use or rented.			*Annual tax rates*	
			Size of vehicle	*For gasoline-fueled vehicles*	*For diesel engine vehicles*
			Cars, jeeps, and vans		
			up to 1,300 cc	Nrs 5,500	Nrs 8,800
			1,301 cc to 2,000 cc	Nrs 7,260	Nrs 12,100
			2,001 cc to 2,900 cc	Nrs 8,690	Nrs 15,400
			2,901 cc to 4,000 cc	Nrs 10,780	Nrs 20,460
			Above 4,001 cc	Nrs 13,200	Nrs 25,080
3.5 *Air flight tax*	Payable by all travelers		*International traveler*	*Tax rate per*	
			SAARC citizens	Nrs 500	
			Other citizens	Nrs 900	
			Surcharge for non-Nepalis	Nrs 100	
			Domestic		
			Depending on the origination of the flight	Nrs 30 or Nrs 100	
			Helicopter	Nrs 150	
3.6 *Contract tax*			Replaced by 10 percent VAT in 1998/99.		

Table 32. Nepal: Summary of the Tax System

(As of December 31, 1999)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
4. Taxes on international trade				
4.1 *Import duties*	Levied on c.i.f. import values.	**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. **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 5 percent on imports from most favored countries.	*Commodity Groups* Roughly: Raw material and machinery Semi-processed materials Fully processed materials Consumer items Luxury items Development tax that replaced the octroi	*Basic Duty Rates (In percent)* 2.5–15[4] 15–25 15–25 10 and 40 80 and 130 1.5
4.2 *Export duties*	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	

[1]Defined 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.

[2] Five-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.

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

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

Table 33. Nepal: Profits and Losses of Selected Nonfinancial Public Enterprises, 1994/95–1998/99 1/

	1994/95	1995/96	1996/97	1997/98 2/	1998/99 2/
	(In millions of Nepalese rupees)				
Agricultural Input Corporation	-166	-524	-714	-646	-600
Nepal Drinking Water Corporation	5	23	39	9	61
Hetauda Cement Company	-57	10	5	2	9
Janakpur Cigarette Factory	-41	-51	-105	-7	8
Nepal Electricity Authority	623	642	690	135	-80
Nepal Food Corporation	0	1	-257	-389	-243
Nepal Oil Corporation	144	277	-685	-651	990
Nepal Telecommunication Corporation (NTC)	1,362	1,245	1,537	1,580	2,188
Royal Nepal Airline Corporation	-45	307	-121	9	-55
Others	141	-167	213	608	-112
Total excluding NTC	604	518	-935	-930	-22
Total including NTC	1,966	1,763	602	650	2,166
	(In percent of GDP)				
Agricultural Input Corporation	-0.1	-0.2	-0.3	-0.2	-0.2
Nepal Drinking Water Corporation	--	--	--	--	--
Hetauda Cement Industry Ltd.	--	--	--	--	--
Janakpur Cigarette Factory Ltd.	--	--	--	--	--
Nepal Electricity Authority	0.3	0.3	0.2	0.0	0.0
Nepal Food Corporation	--	--	-0.1	-0.1	-0.1
Nepal Oil Corporation	0.1	0.1	-0.2	-0.2	0.3
Nepal Telecommunication Corporation (NTC)	0.6	0.5	0.5	0.5	0.6
Royal Nepal Airline Corporation	--	0.1	--	--	--
Others	0.1	-0.1	0.1	0.2	--
Total excluding NTC	0.3	0.2	-0.3	-0.3	0.0
Total including NTC	0.9	0.7	0.2	0.2	0.6
Memorandum items:					
Number of profit-making enterprises	23	28	21	23	23
Number of loss-making enterprises	21	16	21	19	20
Total number of employees 3/	53,854	59,455	47,548	44,721	46,733

Source: Data provided by the Nepalese authorities.

1/ Profits before income taxes.

2/ From Targets and Performances of Public Enterprises, MoF, 1999.

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

Table 34. Nepal: Interest and Dividend Payments of Public Enterprises to Government, 1994/95–1998/99

(In millions of Nepalese rupees)

	1994/95			1995/96			1996/97			1997/98			1998/99		
	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total
Agricultural Development Bank	85	0	85	17	0	17	21	0	21	22	0	22	...	...	...
Agricultural Inputs Corporation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cottage Handicraft Emporium	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit Guarantee Corporation	0	1	1	0	1	1	0	1	1	0	1	1	...	...	...
Hetauda Cement Factory	25	0	25	56	0	56	35	0	35	57	0	57	41	0	41
National Insurance Co.	0	4	4	0	8	8	...	...	...	...	...	...	...	...	...
Nepal Drinking Water Corporation	...	...	...	5	0	5	...	...	...	6	0	6	...	...	...
Nepal Electricity Authority	659	0	659	1,362	0	1,362	933	0	933	399	0	399	799	0	799
Nepal Industrial Development Corporation	31	9	40	29	5	34	56	0	56	...	...	...	88	0	88
Nepal Rastra Bank	0	1,250	1,250	5	1,250	1,255	7	1,100	1,107	10	1,150	1,160	...	600	600
Nepal Transport Corporation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Royal Nepal Airlines	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Salt Trading Corp.	...	...	...	0	1	1	...	...	...	0	1	1	...	...	...
Securities Exchange Centre	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	289	7	295	260	93	353	305	33	339	331	4	335	278	148	426
Total	1,089	1,271	2,359	1,734	1,358	3,092	1,357	1,134	2,492	825	1,156	1,980	1,206	748	1,954

Sources: Targets and Performances of Public Enterprises (FY 1997/98–1999/00) and Ministry of Finance 1999.

Table 35. 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 Development 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.	May 1997
15. Bhaktapur Brick Factory Ltd.	3.0	...	Leased	August 1997 1/
16. Nepal Bank Ltd. 2/	3.3	...	Government share reduced to 41 percent.	February 1997
II. *Public sector enterprises being privatized*				
1. Nepal Tea Development Corporation 3/	4	2,000	Share sale: 5 percent to employees, 30 percent to general public, and 65 percent to one private-sector party.	March 1998, completion in February 2000
2. Himal Cement Company 4/	1.5–2	905	Share sale	May 1998, completion expected in March 2000
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.	Jan. 10, 1999 completion delayed

Table 35. Nepal: Summary of the Privatization Process (Continued)

Enterprise Name	Value in millions of U.S. dollars	Number of employees	Form of Privatization	Date of Privatization
III. *Public sector enterprises to be privatized* 5/				
Financial institutions	9.7	6,299		
1. Rastriya Banijya Bank 6/	3.9	5,914	Not yet decided.	Not yet decided.
2. Rastriya Beema Sansthan (insurance company)	5.1	368	Not yet decided.	Not yet decided.
3. Nepal Housing and Finance Company	0.7	17	Not yet decided.	Not yet decided.
Nonfinancial Institutions	85.7	14,052		
4. Nepal Telecommunication Corporation	153.6	4,516	Not yet decided.	Not yet decided.
5. Royal Nepal Airline Corporation	-4.8	1,818	Not yet decided.	Not yet decided.
6. Dairy Development Corporation (Pokhara Unit)	6.0	1,158	Not yet decided.	Not yet decided.
7. Nepal Rosin and Turpentine	0.8	1,011	Not yet decided.	Not yet decided.
8. Lumbini Sugar Factory	3.6	861	Not yet decided.	Not yet decided.
9. Janakpur Cigarette	1.8	1,907	Not yet decided.	Not yet decided.
10. Nepal Transport Corporation	0.6	865	Not yet decided.	Not yet decided.
11. Industrial District Management Ltd.	1.9	283	Not yet decided.	Not yet decided.
12. Agriculture Lime Industry	0.1	86	Not yet decided.	Not yet decided.
13. Agriculture Project Service Center	-0.4	171	Not yet decided.	Not yet decided.
14. Herbs Production and Processing Center	-0.2	185	Not yet decided.	Not yet decided.
15. Hetauda Textile Industry	-0.6	934	Not yet decided.	Not yet decided.
16. Morang Sugar Mills	...	...	Not yet decided.	Not yet decided.
17. Birendra International Conference Center	...	...	Not yet decided.	Not yet decided.
18. Nepal Orind Magnesite Industry	-34.8	320	Not yet decided.	Not yet decided.
19. Butwal Spinning Mills	...	...	Not yet decided.	Not yet decided.
20. Udayapur Cement Factory	-44.7	720	Not yet decided.	Not yet decided.
21. Hetauda Cement Factory	2.8	934	Not yet decided.	Not yet decided.
22. Cotton Development Board	...	...	Not yet decided.	Not yet decided.

Source: Ministry of Finance.

1/ The government repossessed the company, as the lessee failed to operate the company satisfactorily. A legal settlement is pending.

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

3/ Offers received in 1999, and associated payments, were not considered satisfactory. A proposal for privatization is being considered by MoF and MoI.

4/ The preferred bidder could not meet financial commitment and negotiations to be finalized with second preferred bidder in February pending compromise on severance pay awards to administrative staff that are to be made redundant.

5/ Net worth estimates for end-1998/99, as reported in *Targets and Performances of Public Enterprises FY 1997/98–1999/2000* published by the Ministry of Finance in July 1999. The conversion from Nepalese rupees to U.S. dollars was done at the rate of Nrs 68.5=US$1.

6/ A share issue is planned through brokers in 2000. Selection of broker and percentage to be determined.