

## International Monetary Fund

[Nepal](#) and the IMF

**Nepal:** Letter of Intent

**Press Release:**

[IMF Executive Board](#)

[Completes Fifth](#)

[Review Under the](#)

[PRGF Arrangement](#)

[with Nepal and](#)

[Approves US\\$16.9](#)

[Million Disbursement](#)

November 09, 2007

October 31, 2007

[Country's Policy](#)

[Intentions Documents](#)

The following item is a Letter of Intent of the government of Nepal, which describes the policies that Nepal intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Nepal, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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October 31, 2007

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, DC 20431

Dear Mr. de Rato:

The Government of Nepal held discussions with IMF staff during September 19–30, 2007 on the program supported by the Poverty Reduction and Growth Facility (PRGF). The purpose of this letter is to inform you of the progress made in implementing the program, request waivers for the nonobservance of structural performance criteria, and request completion of the fifth (and final) review under the arrangement.

Despite a difficult political situation, Nepal has maintained macroeconomic stability and all quantitative performance criteria for the review were observed. The Government of Nepal has also made a considerable effort to implement measures related to structural reform criteria (SPCs) and benchmarks (SBs).

Of the structural reform measures related to SPCs, three measures were implemented on or before envisaged dates (conduct of comprehensive audits of large taxpayers by the Large Taxpayer Office; streamlining of the customs clearance at the Birgunj customs office; and finalization of the audit of the NRB 2005/06 accounts by an international auditor).

However, given the difficult operating circumstances, there was nonobservance of six SPCs. For four PCs, the delay in implementation was temporary (the establishment of a Wide-Area Network by the Customs Department for headquarters and at least five large customs offices; divestment of all NRB shareholdings in the Non-Life Insurance Division of the Rastriya Beema Sansthan; divestment of all NRB shareholding in at least two rural development banks; and finalization of NOC 2005/06 accounts in accordance with international standards). For one PC, the nonobservance was minor (reduction of VAT nonfilers by the Inland Revenue Department to 12.5 percent or less of registered VAT taxpayers). For the sixth PC (the cabinet approval of a revised Banking and Financial Institutions Act), all technical work has been completed, and the revised act has been submitted for cabinet approval. On this basis, we request waivers for the six structural performance criteria.

Going forward, the Government of Nepal is firmly committed to maintaining macroeconomic stability and furthering structural reforms. A good basis for this has been laid with the

2007/08 budget which is consistent with the medium term objectives of raising resources to finance the peace process, infrastructure, and structural reforms while lowering the public debt-to-GDP ratio. To put these objectives in a medium term perspective, the Government of Nepal has started implementing its three-year interim plan, with an emphasis on rehabilitation, reconstruction, and recovery from the 11-year insurgency. The government is also fully cognizant of the need for further structural reforms in key sector to lay a sound basis for sustained growth and poverty alleviation.

The government intends to make public this letter and the staff report for this review under the PRGF arrangement. Accordingly, the Government of Nepal authorizes the IMF to arrange for these documents to be posted on the Fund's website once the Executive Board has completed the review.

Yours sincerely,

/s/

Ram Sharan Mahat  
Minister of Finance  
Government of Nepal

/s/

Krishna Bahadur Manandhar  
Acting Governor  
Nepal Rastra Bank