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To: Members of the Executive Board
From: The Secretary
Subject: Nepal - Recent Economic Developments

This paper provides background information to the staff report on the 1985 Article IV consultation discussions with Nepal and its request for a stand-by arrangement which was circulated as EBS/85/264 on December 3, 1985 and has been tentatively scheduled for Executive Board discussion on Monday, December 23, 1985.

Mr. Paban (ext. 7316) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

NEPAL

Recent Economic Developments

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Approved by the Asian Department

December 9, 1985

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NEPAL

Basic Data 1/

Area: 140,797 square kilometers
 Population (mid-1984 est.): 16.2 million
 Population growth rate (1978-83): 3.4 percent
 GDP per capita (1983/84): SDR 145

	1980/81	1981/82	1982/83	1983/84	1984/85 (Prei.)
<u>(Changes in percent)</u>					
<u>GDP and prices</u>					
Real GDP	8.3	3.8	-1.4	7.4	2.8
Of which: agriculture	10.4	3.5	-2.5	8.7	1.7
nonagriculture	5.5	4.2	0.4	5.5	4.5
Nominal GDP	16.9	10.8	11.1	13.6	9.3
Implicit GDP deflator	7.9	6.8	12.6	5.7	6.3
Consumer prices (annual average)	13.4	10.4	14.2	6.2	4.1
<u>Central Government</u>					
Revenue and grants	23.4	11.9	6.4	8.2	17.1
Of which: revenue	30.2	11.0	5.2	19.0	15.0
Expenditures	19.2	31.5	30.6	5.2	15.0
Current	(19.8)	(20.5)	(24.8)	(10.9)	(33.7)
Development	(18.3)	(36.5)	(33.7)	(3.7)	(7.0)
<u>Money and credit 2/</u>					
Domestic credit	19.9	17.1	40.5	15.7	24.9
Public sector	12.7	31.4	80.1	14.5	26.8
Government, net	(0.3)	(63.7)	(98.4)	(23.0)	(27.9)
Other	(14.8)	(-11.2)	(35.4)	(-16.1)	(20.7)
Private sector	25.8	6.4	3.9	17.7	22.0
Broad money	19.3	18.2	23.6	13.4	16.8
Income velocity of money (absolute number)	4.71	4.40	4.76	3.89	3.71
<u>External sector</u> (in SDR terms)					
Exports, f.o.b.	46.8	-6.6	-24.9	40.3	47.0
Imports, c.i.f.	30.7	12.1	26.7	-3.8	10.6
<u>(In millions of SDRs)</u>					
<u>Balance of payments</u>					
Exports, f.o.b.	198.2	191.1	76.0	196.7	156.9
Imports, c.i.f.	-298.2	-134.3	-423.7	-407.6	-450.2
Services and private transfers (net)	112.4	128.5	147.9	131.0	124.0
Current account balance	-77.6	-104.7	-199.8	-179.9	-169.3
Official capital (net) and grants	100.3	130.5	149.8	161.3	162.5
Overall balance	13.0	33.9	-65.2	-7.9	-47.1
<u>External public debt</u>					
Total outstanding (including Fund credit) 2/	199.1	237.4	279.5	396.1	407.7
Debt service ratio 3/	1.9	2.9	4.9	5.5	4.7
<u>(In months of nonoil imports)</u>					
<u>Gross international reserves 2/</u>					
Official	7.4	9.2	5.3	4.7	2.5
Total	10.5	12.2	7.5	7.2	4.8
<u>(In percent)</u>					
<u>Ratios to GDP</u>					
Investment	17.6	16.4	20.2	19.4	19.1
Domestic saving	10.9	9.5	9.1	10.4	11.5
Government revenue	4.8	4.8	4.1	4.8	4.2
Government expenditure	14.6	17.3	20.4	18.9	19.4
Overall fiscal deficit	2.6	5.7	4.9	7.6	4.1
Domestic bank financing of fiscal deficit	-	2.6	6.0	7.5	4.4
Exports	5.9	4.9	3.5	4.5	5.6
Imports	16.3	16.3	18.4	17.1	19.1
Current account deficit	4.2	5.1	4.9	7.1	7.1
External public debt 2/	10.1	13.3	17.2	17.1	15.6

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

1/ Data relate to fiscal years ending mid-July, unless otherwise indicated.

2/ End of period.

3/ Percent of exports of goods and nonfactor services and private remittances.

4/ Includes exports of ready-made garments amounting to 3.7 percent of GDP.

I. Introduction and Summary

Nepal is landlocked, poorly endowed with natural resources, and faced with severe transportation and communication difficulties. It shares an open border with India, which accounts for about half of Nepal's international trade. The agricultural sector accounts for about 60 percent of GDP, about 75 percent of exports, and about 90 percent of employment. Its importance is, in fact, greater than these figures indicate as the industrial sector is mostly agro-based. With irrigation facilities covering about one eighth of total arable land, agricultural output is highly vulnerable to recurring droughts.

The Sixth Plan (1980/81-1984/85) ^{1/} aimed at achieving a rate of real growth significantly higher than the rate of population growth. It provided for a marked increase in development expenditure directed mainly towards expanding directly productive sectors, such as agriculture and export-oriented cottage industries, and on further increasing the supply of electricity. Although real GDP grew at an average annual rate of 4.1 percent per annum, compared with the 2.3 percent rate realized during the Fifth Plan period, the growth rate fluctuated widely. Real output declined in 1982/83, owing to a severe drought, and its growth slowed in 1984/85, again as a result of a drought. Throughout the Sixth Plan period, the ratio of domestic savings to GDP fluctuated narrowly around an average of 10 percent. In contrast, the ratio of foreign saving to GDP rose to a peak of 11 percent in 1982/83 and remained at about 9 percent thereafter, mainly reflecting movements in public fixed investment.

Inflation was fueled by external price shocks early in the Sixth Plan period and by domestic supply shortages in 1982/83. After rising to a peak of 14 percent in 1982/83, average annual inflation (as measured by the consumer price index) decelerated markedly to 6 percent in 1983/84 and eased further to 4 percent in 1984/85. The deceleration in inflation in both years was attributable mainly to the adequacy of foodgrain supplies.

Nepal's external position, which had been traditionally in surplus, deteriorated sharply in the last three years. The overall balance of payments recorded a cumulative deficit of SDR 100 million, of which SDR 47 million was incurred in 1984/85. Financing was provided by a drawdown in international reserves, leading total gross reserves to decline from the equivalent of about 12 months of non-aid imports in mid-1982 to about 5 months in mid-1985.

^{1/} The fiscal year ends on July 15.

The adverse pressures on the balance of payments owed partly to the expansionary financial policies pursued by the Government. Reflecting mainly increases in budgetary expenditure, the overall fiscal deficit grew rapidly to almost 9 percent of GDP in 1982/83, and remained at around 8 percent of GDP in 1983/84 and 1984/85. Despite a significant increase in foreign financing, the Government resorted to substantial borrowing from the domestic banking system in all but the first year of the Plan period. Domestic bank financing of the budget deficit peaked at 6 percent of GDP in 1982/83, and declined to about 3 percent of GDP in the next two years. In general, monetary policy had been conducted to accommodate not only the large credit demands by the public sector, but also the increase in private sector credit demand. The resulting relatively high rates of growth in total domestic credit were associated with substantial reductions in net foreign assets during the last three years, mirroring the external deficits noted above. Changes in the level and structure of administered bank deposit rates were negligible during the Sixth Plan period; with the easing of inflation in 1983/84-1984/85, these rates became significantly positive in real terms.

To alleviate the adverse balance of payments pressures and increase the external competitiveness of the traded goods sector, the Government changed on November 30, 1985 the exchange rate of the Nepalese rupee from NRs 1.451 to NRs 1.70 per Indian rupee and from NRs 17.5 to NRs 20.5 per U.S. dollar. The exchange arrangement introduced in June 1983, under which the Nepalese rupee is pegged to a trade-weighted basket, has been continued.

Most of Nepal's external public debt has been contracted on highly concessional terms. While the ratio of the debt to GDP and the ratio of debt service payments to exports of goods and nonfactor services and private remittances remain relatively low, both have progressively increased. During the five-year period ending 1984/85, the debt to GDP ratio rose by 7.5 percentage points to 17.6 percent, while the debt service ratio rose by 2.8 percentage points to 4.7 percent.

The World Bank Group's loans to Nepal have been extended almost entirely through IDA. About 45 percent of these loans has been directed to the building of infrastructure, principally in the transportation, communications, and power and energy sectors. A further 35 percent has been allocated to agriculture. Two projects in agriculture and one project in industry are currently under consideration. In addition to loans, the World Bank Group has provided technical assistance in the fields of rural development, industrial finance, and cottage industry development.

II. Domestic Economic Developments

1. Aggregate supply and demand

During the Sixth Plan period, real GDP grew at an average annual rate of 4.1 percent per annum, compared with 2.3 percent during the Fifth Plan period. Output in the agricultural sector increased at an average annual rate of 4.3 percent, while output in the nonagricultural sector increased at an average annual rate of 4 percent. Real GDP growth fluctuated mainly as a result of weather conditions, reflecting the importance of the agricultural sector. Unfavorable weather led to a decline in output in 1982/83 and to a slowdown in economic growth in 1984/85 to 2.8 percent, from a recovery rate of 7.4 percent in 1983/84 (Table 1).

Throughout the Sixth Plan period, total domestic demand continued to exceed total domestic supply (Appendix Table I). Relative to GDP, net imports of goods and nonfactor service rose to a peak of 11 percent in 1982/83, declining thereafter to about 9 percent. These fluctuations in foreign saving largely reflected movements in gross fixed investment, as the share of consumption in GDP fluctuated narrowly about an average of 90 percent. In turn, as the ratios of private fixed investment and changes in stocks to GDP also fluctuated within narrow ranges, movements in gross fixed investment were determined mainly by changes in public fixed investment.

The development effort launched by the Government early in the Sixth Plan period is more clearly evident in the rate of change of public fixed investment in real terms. In 1980/81-1982/83, such investment grew at annual rates in the range of 15-28 percent (Appendix Table II). In contrast, reflecting the subsequent restraint on budgetary development expenditures, public fixed investment declined in 1983/84 and increased negligibly in 1984/85.

2. Agriculture

a. Background

The agricultural sector (which includes forestry, fishing, livestock raising, and horticulture) is the most important sector of the economy. Agricultural endowments and productivity vary widely among the regions of Nepal. The Terai plains bordering India account for about two thirds of arable land and produce a surplus which is exported to other parts of the country and abroad. In the Hills, where arable land is scarce and agricultural productivity lower, the major activity is livestock cultivation.

The productivity of foodgrain production, which accounts for about two-thirds of cultivated land, has remained stagnant or declined over

Table 1. Nepal: Gross Domestic Product by Sectoral Origin,
1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 (Est.)
(In millions of Nepalese rupees)					
Nominal GDP	27,307	30,265	33,621	38,184	41,738
Agriculture	15,679	16,975	17,942	20,487	21,673
Nonagriculture	11,628	13,290	15,679	17,697	20,065
Real GDP	20,158	20,926	20,642	22,172	22,800
Agriculture	12,066	12,492	12,175	13,240	13,466
Nonagriculture	8,092	8,434	8,467	8,932	9,334
GDP deflator	135.5	144.6	162.9	172.2	183.1
Agriculture	129.9	135.9	147.4	154.7	161.0
Nonagriculture	143.7	157.6	185.2	198.1	215.0
Per capita CDP (US\$)	152	149	146	143	141
(Percentage change)					
Nominal GDP	16.9	10.8	11.1	13.6	9.3
Agriculture	14.6	8.3	5.7	14.2	5.8
Nonagriculture	20.3	14.3	18.0	12.9	13.4
Real GDP	8.3	3.8	-1.4	7.4	2.8
Agriculture	10.4	3.5	-2.5	8.7	1.7
Nonagriculture	5.5	4.2	0.4	5.5	4.5
GDP deflator	7.9	6.8	12.6	5.7	6.3
Agriculture	3.8	4.6	8.4	5.0	4.1
Nonagriculture	14.1	9.7	17.5	7.0	8.5

Source: Central Bureau of Statistics.

time. As a result, increases in output have been due mainly to an expansion of the area under cultivation. The major factors contributing to stagnation in agricultural productivity include: the vulnerability of agriculture to recurring droughts; declining soil fertility because of insufficient replenishment of soil nutrients; and extension of cultivation to marginal lands to accommodate the rapid population growth.

b. Recent developments

In recent years, the outturn in foodgrain production reflected a variety of factors, including adverse weather, the expansion of acreage under cultivation, prices, and government incentives. While the severe drought in 1982/83 caused the output of paddy to decline by 28 percent, a milder drought in 1984/85 caused only a 2 percent decline from the bumper crop level achieved in 1983/84 (Table 2). Thus, in 1983/84 and 1984/85, paddy supplies exceeded domestic requirements and the surpluses were exported. The production of maize, which is the principal rainfed crop in the Hills, increased by 8 percent in 1984/85, largely due to a 15 percent increase in the area under cultivation. Of the total increase in acreage under maize cultivation during the Sixth Plan period, more than one-half took place in 1984/85. In response to a concerted effort by the Government to distribute improved seeds and fertilizers, wheat production increased rapidly in the first three years of the Sixth Plan, and reached a peak in 1982/83 despite the severe drought. Since then, wheat output has declined significantly, in response to declining prices and reduced government incentives. At the margin, land previously devoted to the production of wheat were switched to the production of paddy and oilseeds. In 1984/85, the output of millet increased by 8 percent to about the annual level recorded during 1980/81-1982/83.

The performance of cash crops (principally sugarcane, jute, oilseeds and potatoes) has also been varied. The production of sugarcane continued to decline in 1984/85, partly because of difficulties encountered by farmers in having their produce milled on time. In response to higher prices, the production of jute recovered in 1984/85, though to a level lower than those recorded in 1980/81-1982/83. Mainly as a result of a larger area of cultivation, both oilseed and potato output continued to grow in 1984/85.

c. Institutions and policies

Present agricultural policies include the fixing of minimum support prices of most foodgrains and cash crops, the procurement of certain agricultural products through official agencies, the distribution of improved seeds and chemical fertilizers, the expansion of irrigation facilities, and the provision of access to credit to small farmers.

Table 2. Nepal: Agricultural Production and Yields, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 (Est.)
<u>(Percentage change)</u>					
Weighted indices of production (1976/77 = 100)					
Foodgrains	18.3	4.2	-10.2	20.2	-2.9
Cash crops	4.9	2.9	4.6	-3.7	9.2
<u>(In thousands of metric tons)</u>					
Production by major crops					
Foodgrains					
Of which: Paddy	2,464	2,560	1,833	2,757	2,709
Wheat	477	526	657	634	520
Maize	743	752	718	761	820
Millet	122	122	121	115	124
Cash crops					
Of which: Sugarcane	483	590	617	509	457
Jute	59	43	39	25	33
Oilseeds	77	78	69	73	83
Potatoes	275	320	373	383	422
<u>(In thousands of hectares)</u>					
Area under cultivation					
Foodgrains					
Of which: Paddy	1,276	1,297	1,265	1,334	1,377
Wheat	392	400	484	472	459
Maize	457	475	511	504	579
Millet	122	122	129	124	134
Cash crops					
Of which: Sugarcane	24	25	25	23	20
Jute	52	35	24	24	27
Oilseeds	122	114	110	110	124
Potatoes	50	52	59	59	66
<u>(In metric tons per hectare)</u>					
Yields					
Foodgrains					
Paddy	1.93	1.97	1.45	2.09	1.96
Wheat	1.22	1.32	1.36	1.34	1.16
Maize	1.62	1.58	1.41	1.51	1.42
Millet	0.98	1.00	0.94	0.93	0.94
Cash crops					
Sugarcane	20.13	23.60	24.68	22.13	22.85
Jute	1.13	1.23	1.63	1.04	1.12
Oilseeds	0.63	0.69	0.63	0.66	0.67
Potatoes	5.50	6.15	6.32	6.49	6.39

Source: Department of Food and Agricultural Marketing Services.

The Government's support prices for most foodgrains and cash crops are determined on the basis of production costs, farmers' profit margins, market prices prevailing in India, and official Indian support prices. Prior to 1983/84, minimum support prices, especially for foodgrains, had little effect on production because they tended to be announced after the relevant planting seasons. In contrast, in 1983/84 and 1984/85, support prices for paddy and wheat were announced before the planting season. In 1985/86, there were delays in announcing support prices while the authorities awaited the announcement of prices in India. Because of the open border with India, a misalignment of Nepalese support prices with those in India could result in large flows across the border.

The Nepal Food Corporation (NFC) procures foodgrains in the surplus regions and sells them in deficit areas, mainly in the Hills. Low quality coarse rice accounts for about 85-90 percent of foodgrains procured. Rice has been procured directly from farmers and indirectly from millers who are required, under a levy, to provide 25 percent of their rice output at administered prices below the prevailing market prices. Similarly, wheat has been procured either directly from farmers or indirectly from cooperatives. The volume of foodgrains procured declined in 1984/85 by 18 percent to 30,500 tons, equivalent to about 2 percent of total foodgrain sales (Appendix Table III). The volume of domestic sales of foodgrains by the NFC declined by 25 percent to 33,600 tons in 1984/85, reflecting the adequacy of private stocks. Because the rice sales by the NFC amount to only a small portion of total sales and consist of low quality rice, such rice sales function less as a constraint on market prices for high quality rice than as a device to ensure rice availability to low income sectors. In July 1985, the NFC decided to expand its direct procurement program to maize. In the same month, the NFC also began to procure foodgrains from surplus areas to deficit areas within the Hills, so as to reduce transportation subsidies.

In the light of the wide fluctuations in foodgrain production in Nepal, the Government initiated a rice buffer stock scheme in 1983/84. At the end of 1984/85, the NFC held about 16,000 tons of rice in stocks. For 1985/86, the NFC has a stock target of 20,000 tons, equivalent to six months of sales. In order to carry out its foodgrain operations more effectively, the Government is in the process of expanding the storage capacity of the NFC to 100,000 tons, under a project financed by the World Bank.

The Jute Development and Trading Corporation (JDTC) promotes jute production and exports through the guaranteeing of prices, arranging loans to farmers and providing storage facilities. Its procurement program is designed mainly to ensure a minimum price for raw jute to growers. While the JDTC exports some jute, most exports of jute and

jute goods are handled by private traders. Data on domestic production and sales of raw jute by the JDTC for 1984/85 are not yet available.

The Agricultural Inputs Corporation (AIC) distributes improved seeds and chemical fertilizers to farmers. The use of improved seeds is mainly confined to wheat, rice, and maize production. During 1983/84 and 1984/85, the distribution of improved seeds declined and reached only one third and one fourth, respectively, of the annual targets (Table 3). The reduced role of the AIC in seed distribution largely reflects the convenience of access to the seed market in India and the growing self-sufficiency of farmers in high yielding seeds.

The AIC also distributes chemical fertilizers, the prices of which have been altered only at long intervals. The last price increases took place in April 1983, when prices of a few chemical fertilizers were raised by about 13-17 percent. The AIC currently sells fertilizers at about 40 percent lower than the cost price. The operating losses of the AIC have been covered by the sales of fertilizers received under foreign aid, government subsidies, and loans from the Agricultural Development Bank of Nepal (ADBN).

Fertilizer use increased steadily over the Sixth Plan period, and the achievement rate in attaining the target for distribution improved significantly. During the Fifth Plan, less than 50 percent of the target for the distribution of chemical fertilizer was achieved. During the Sixth Plan, the achievement rate rose to 73 percent. Despite the increased use of fertilizer in the 1980s, the overall rate of fertilizer application in Nepal is estimated at only 10 kg. per hectare, one of the lowest in Asia. 1/ Fertilizer use is largely confined to areas with reliable irrigation and to crops such as wheat, rice, sugarcane, and potatoes.

About 10 percent (2 million hectares) of the cultivable land in Nepal is technically considered suitable for irrigation. During the Sixth Plan period, the area under publicly provided irrigation facilities rose by about 85,000 hectares. This was equivalent to 83 percent of the official target for the period and to 3 percent of land devoted to the cultivation of principal crops.

3. Livestock, forestry, and fishery production

Livestock production accounts for about a third of agricultural GDP. During the Sixth Plan period, the production index for this sector increased at an average annual rate of 5.6 percent. Cattle increased from 3.9 million in 1980 to an estimated 4.1 million in 1985. The

1/ For a more detailed discussion, see AsDB, Nepal Agricultural Sector Strategy Study, Volume 1, December 1982.

Table 3. Nepal: Agricultural Facilities and Inputs, 1980/81-1984/85

	1980/81-1981/82			1982/83			1983/84			1984/85		
	Targets (A)	Actuals (B)	In per- cent (B/A)	Annual target (A)	Actual (B)	In per- cent (B/A)	Annual target (A)	Actual (B)	In per- cent (B/A)	Annual target (A)	Actual (B)	In per- cent (B/A)
Added area under irrigation (in hectares)	28,031	21,763	84.8	25,960	20,645	79.5	25,000	17,715	70.9	24,457	23,228	95.0
Distribution of improved seeds (in tons)	9,810	4,399	44.8	6,010	3,688	61.4	8,515	3,012	35.4	8,775	2,414	27.5
Distribution of fertilizer (in tons)	63,256	46,281	73.2	40,000	31,279	78.2	55,000	37,299	67.8	57,200	42,763	74.7

Sources: Ministry of Agriculture; and Agricultural Inputs Corporation.

production of milk increased sharply from 12.6 million liters in 1980/81 to 20.9 million liters in 1983/84, the latest year for which data are available.

Forestry in Nepal provides virtually all of the rural energy requirements and all of the domestic timber demand. At present, the total forested area is estimated at about 4 million hectares. In recent years, excessive derorestation has led to serious soil erosion. As a result, forest protection and reafforestation are major elements of the current forest development program. At present, 40 forest projects are in operation in various parts of the country. During the Sixth Plan period, reafforestation covered 40,293 hectares, or 94 percent of the total Plan target.

Nepal has sufficient water resources to make sizable fish production possible. During the Sixth Plan period, the fisheries production index increased at an average annual rate of 11 percent. The growth rate accelerated in 1983/84 and 1984/85; in these two years, the production index increased by 23 percent and 17 percent, respectively.

4. Industrial sector

a. Background and recent developments

Nepal's industrial sector, which contributes around 5 percent of GDP, consists primarily of agro-based industries, such as jute and sugar processing, cigarette manufacturing, and rice and wheat milling. A number of import-substituting industries, including cotton textile mills, a cement factory, beverage bottling plants, furniture manufacturing, and agricultural tool-making plants were established with the help of foreign aid. Export-oriented cottage industries produce carpets, handicrafts, and ready-made garments. About one third of industrial output is produced by the organized sector, with public sector enterprises accounting for about three fourths of this share. The remaining two thirds is produced by the unorganized private sector, consisting of small-scale cottage industries.

During the first four years of the Sixth Plan, industrial production increased at an average annual rate of 10.9 percent, ^{1/} reflecting the improved availability of inputs and an increase in the amount and reliability of electricity supply. During 1984/85, the production situation was mixed. Output of jute goods, sugar, cement, and bricks and tiles declined (Table 4). The decline in sugar production, for the second year in a row, reflected the decline in sugarcane production. The production of jute goods declined in 1984/85 because some of the raw jute production was diverted to the export

^{1/} The index involved is based on a 1974/75 basket which does not include the production of new industries.

Table 4. Nepal: Industrial Production and Capacity Utilization, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 Estimates
Jute goods ('000 tons)	16.3	15.5	19.6	21.3	19.2
Sugar ('000 tons)	12.0	20.7	22.4	17.5	11.0
Cigarettes (bn. sticks)	1.8	2.8	3.2	3.7	4.3
Cotton textiles ('000 m.)	5,317	6,862	7,966	10,240	10,350
Cement ('000 tons)	32.3	30.4	37.0	39.2	31.4
Bricks and tiles (mn. pcs.) <u>1/</u>	25.6	20.9	30.7	29.8	25.0
Shoes ('000 pairs)	81.8	61.5	88.1	72.7	79.9
<u>(In percent)</u>					
Capacity utilization of major industries					
Jute goods	72	69	87	94	85
Sugar	48	84	90	71	44
Cigarettes	44	68	78	90	105
Cotton textiles	28	36	42	53	54
Cement	67	63	77	82	65
Bricks and tiles	57	46	68	66	56
Shoes	73	55	78	65	71

Source: Nepal Rastra Bank.

1/ Public sector production.

market following a sharp increase in its international price. The decline in cement output was attributable to mechanical difficulties in one of the cement factories. Cement output is, however, expected to rise sharply in 1985/86 with the commencement of operations of the Hetauda Cement Factory, which will have a daily production capacity of 800 metric tons. The production of cotton textiles, the bulk of which are exported, continued to increase.

b. Industrial policy

To encourage private sector and foreign investment in the industrial sector in Nepal, the Government introduced incentives under the Industrial Enterprises Act (1982) and the Foreign Investment and Technology Act (1982). To facilitate the processing of applications under these Acts, the Government set up a Foreign Investment Promotion Division in the Ministry of Industry in 1983/84. So far, licenses have been issued to five foreign investors: a Hungarian company manufacturing electric lamps; a U.S. company producing soybean drinks; and three Indian firms involved with wood products, dairy and dairy products, and arc furnace processing. Letters of intent have been signed by 22 other foreign investors. To date, 56 joint venture firms have been registered. The total authorized capital of firms registered in 1983/84 was NRs 441 million, and of those registered in 1984/85 was NRs 167 million. The share of foreign investors in these joint venture firms ranged from 25 percent to 90 percent of the authorized capital. The joint venture firms are involved in activities associated with the automobile industry, engineering works, ayurvedic medicines, iron goods, ready-made garments, and batteries.

In July 1985, several amendments were made to the Industrial Enterprises Act. In issuing new licenses, the Government will favor industries based on indigenous raw materials. To encourage re-investment in industries, an exemption of 50 percent of income taxes payable will be granted, provided additional investment is made for expanding existing installed capacity by 50 percent. Financial penalties will be levied on firms that close at the end of tax holidays or that attempt to extend such holidays by re-registering under different corporate names or under different ownership. The length of tax holidays will be related to the degree of domestic value added. Furthermore, tax holidays will no longer be granted to firms in all industries. The Government has so far declared investments in 16 product lines as ineligible for tax holiday benefits.

The Government has continued its efforts to encourage the development of small cottage industries under the Cottage and Small Industry Project (CSI) and the Intensive Banking Program (IBP). The CSI has been in operation for the last three years, aiding small entrepreneurs engaged in dairy production, carpet-making, and metal works. The IBP, a collaborative effort between the Nepal Rastra Bank and commercial banks, has provided loans to small cottage industries with lenient collateral

requirements. In 1985/86, the Government tightened the definition of cottage industries for purposes of financial and tax benefits; an annual turnover of NRs 2.5 million has been fixed as the cutoff point for registering cottage industries. Earlier, cottage industries were defined in terms of the maximum value of machinery (NRs 0.2 million) and fixed assets (NRs 0.8 million).

5. Tourism

Tourism accounts for about 2 percent of GDP and about one fourth of total export earnings from goods and services. During the period 1980 to 1984, tourist arrivals grew at an average annual rate of only 2 percent per annum, compared with 12 percent in the preceding five years. In 1984, the inflow of tourists declined, mainly reflecting fewer arrivals from Europe and Japan. The inflow of tourists from India increased by 17 percent in 1984, partially offsetting the decline in arrival from other countries (Appendix Table IV). The recent slowdown in tourism growth in Nepal reflected the impact of the world recession and the rising cost of a visit to Nepal when computed in convertible currencies. The average duration of stay of tourists declined in 1983 and 1984 after attaining a peak of 13.3 days in 1982, but estimated per capita expenditure in rupees of non-Indian tourists increased substantially, partly reflecting exchange rate developments (Appendix Table V). To promote tourism, the Government has continued to develop new areas for mountaineering and trekking as well as tourist centers in various districts. In addition, during the period 1980/81 to 1984/85 it has provided training to 661 persons in areas relating to hotel management, travel booking and trekking.

6. Energy

Fuelwood continues to be the main source of domestic energy, providing an estimated 84 percent of Nepal's energy consumption; in the case of rural households, fuelwood is virtually the sole source of energy. During the Sixth Plan period, fuelwood consumption is estimated to have grown at an average rate of 3.3 percent per annum. Partly as a result of the heavy dependence on fuelwood, Nepal's forested area has shrunk from 6.4 million hectares in the 1960s to 4 million hectares in the 1980s.

The growth in the consumption of petroleum products accelerated in the first four years of the Sixth Plan period to a peak of 15 percent in 1983/84, but decelerated to 7 percent in 1984/85; for the Sixth Plan period as a whole, the growth rate averaged 8.4 percent per annum (Appendix Table VI). The deceleration in the growth rate of consumption in 1984/85 was attributable to domestic price increases. After remaining unchanged during 1980/81-1983/84, the prices of gasoline, diesel, and kerosene were raised by 17 percent, 33 percent, and 20 percent, respectively, in October 1984 (Appendix Table VII).

The volume of oil stocks of the Nepal Oil Corporation (NOC) more than doubled to 14,846 metric tons in 1984/85. The stocks in 1984/85 utilized about four fifths of the storage capacity of the NOC. Lacking processing facilities, the NOC maintains an arrangement whereby crude oil purchased by NOC is refined and transformed by the Indian Oil Corporation. The NOC then purchases from the Indian Oil Corporation various petroleum products, at prices reflecting fees for processing, storage, and transportation.

Only a small fraction of Nepal's vast hydroelectric power potential has been exploited. Total installed electricity generating capacity doubled during the Sixth Plan period to 158 megawatts in 1984/85 (Table 5), and about 80 percent of the total power generating capacity is based on hydropower. The reliability of the supply of electricity has vastly improved since the 60 megawatt Kulekhani hydroelectric generating station was commissioned in December 1982. The Devighat project with an installed capacity of 14.1 megawatts came on stream in 1983/84. The Kulekhani II project, with a capacity of 32 megawatts, is scheduled to be completed in 1986/87. The Marsyangdi project, which has a potential capacity of 66 megawatts, has been subject to delays and was not completed within the Sixth Plan period as scheduled.

No data on electricity consumption are available for 1984/85. In the preceding four years, consumption of electricity grew at an average rate of 14 percent per annum. Electricity losses, associated with engineering difficulties and unbilled consumption, amounted to 40 percent of production. To improve the financial position of the Nepal Electricity Corporation, electricity prices were raised by an average of 35 percent in March 1985, and by an average of 22 percent in August 1985.

Table 5. Nepal: Installed Electricity, 1980/81-1984/85

(In kilowatts)

	Hydroelectric Plants	Diesel-powered Plants	Total
1980/81	52,684	25,758	78,442
1981/82	113,198	25,758	138,956
1982/83	113,533	29,247	142,780
1983/84	127,713	29,247	156,960
1984/85	129,213	29,247	158,460

Source: Nepal Electricity Corporation.

7. Population, employment, and wages

The population of Nepal has increased by an annual average rate of about 2.7 percent since 1971, compared with about 2.2 percent during the 1960s. This acceleration reflects primarily a decline in the infant mortality rate (from about 3.3 percent in 1960 to 2.3 percent in 1980) and to an increase in average life expectancy at birth (from about 37 years in the 1960s to about 50 years at present). Persons of working age (15-54 years) are estimated to amount to about 68 percent of the population. According to the 1981 Census, about 91 percent of the labor force is in the agricultural sector, 2 percent in industry, and 7 percent in services.

The Government plays an important role in setting wages and salaries, with wage rates in private organized businesses and in public enterprises being generally guided by those in the civil service. Public sector wage increases have been granted every other year during the Sixth Plan period. In July 1984, the basic pay scales of civil servants were increased by 57 percent to 94 percent. ^{1/} At the same time, however, the 20 percent cost-of-living allowance of basic pay provided in the previous fiscal year was abolished, such that the net increases were in the range of 37-71 percent. The public corporations and banks increased the basic pay scales of their employees in the same proportions. In February 1985, the salaries of teachers were increased by an average of 30 percent.

Minimum wages for industrial workers were revised in 1984/85, for the first time in three years. Wages for unskilled workers in both industry and construction were raised by 25 percent. In contrast, wages for skilled workers were raised by 20 percent in industry and 13 percent in construction (Table 6).

In the unorganized private sector, the wage rates for all categories of workers have increased in most years during the Sixth Plan. While wage rates in unorganized private businesses are set independently, they are influenced by public sector wage developments. Wages differ significantly according to region, with the highest rates in the Kathmandu valley and the lowest in the southern border towns, such as Birgunj (Appendix Table VIII).

8. Prices

Prices of tradable goods in Nepal generally follow prices in India, reflecting extensive trading through the open border. Normally, price developments in India would be felt within a short time in the Terai plains along the Indian border and with longer time lags in other parts

^{1/} The last public wage increase, which amounted to 20 percent of basic pay scales, was adopted in October 1982.

Table 6. Nepal: Monthly Wages in Major Sectors,
1980/81-1984/85 1/
(In Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85
Industry <u>2/</u>					
Skilled	290 (--)	377 (30.0)	377 (--)	377 (--)	452 (19.9)
Unskilled	200 (--)	260 (30.0)	260 (--)	260 (--)	325 (25.0)
Agriculture (Kathmandu)	375 (4.2)	385 (2.7)	518 (34.5)	525 (1.4)	600 (14.3)
Construction <u>3/</u> (Kathmandu)					
Skilled	790 (5.3)	923 (16.8)	1,050 (13.8)	1,200 (14.3)	1,350 (12.5)
Semiskilled	740 (2.8)	863 (16.6)	990 (14.7)	1,140 (15.2)	1,200 (5.3)
Unskilled	... (...)	458 (...)	540 (17.9)	600 (11.1)	750 (25.0)

Source: Nepal Rastra Bank.

1/ Figures in parentheses are percentage changes.

2/ Minimum monthly wage which excludes allowances.

3/ Carpenters and masons.

of Nepal. Also, excess demand pressures on goods and services tend to have different effects on prices, depending on market location. In the Terai plains, excess demand pressures lead largely to increased imports rather than to higher inflation, while in the Hills they are likely to lead to higher prices. Reflecting these geographical differences, divergences between the regional rates of inflation in Nepal have been observed (Appendix Table IX).

Inflation was fueled by external price shocks early in the Sixth Plan period and by domestic supply shortages in 1982/83. After reaching a peak of 14 percent in 1982/83, average annual inflation (as measured by the consumer price index) decelerated markedly to 6 percent in 1983/84 and eased further to 4 percent in 1984/85. The deceleration in inflation in both years was attributable mainly to a decline in foodgrain prices (Table 7 and Appendix Table X). The marginal decline in foodgrain production in 1984/85 from a relatively high level had no adverse impact on foodgrain prices. Prices of oils and fats as well as vegetables and fruits also increased more slowly than in the previous year, but prices of beverages increased at a faster pace owing to a rise in the prices of tea imports from India.

The rate of increase of nonfood prices accelerated in 1984/85, mainly on the strength of a 17 percent increase in the index for fuel, power, and light. In October 1984, prices of petroleum products were increased by a range of 17-33 percent. At the same time, transportation fares were raised by 10 percent. In March 1985, electricity tariffs were raised by an average of 35 percent, and prices of fuelwood were increased by a range of 20-55 percent. In addition to these items, certain other administered prices were raised in 1984/85: cigarettes, 5 percent; bricks, 50 percent; cement, 24 percent; iron rods, 14-17 percent; timber, 53 percent; and sugar, 16 percent. ^{1/}

III. Development Planning

During the last two and a half decades, Nepal has achieved notable progress in some areas. While infant mortality declined, life expectancy at birth increased substantially. The improvement in medical care is reflected in the decline in the number of persons per physician. Significant progress was made in education. The ratio of children attending school to all those of primary school age rose markedly, as

^{1/} In early 1985/86, further increases in administered prices were announced. In August 1985, electricity tariffs were raised by 22 percent. In September 1985, urban public transportation fares were raised by about 40 percent and the price of milk was raised by 27 percent.

Table 7. Nepal: Changes in the Urban Consumer Price Index,
1980/81-1984/85

(Average annual percentage changes)

	1980/81	1981/82	1982/83	1983/84	1984/85
Overall national index	<u>13.4</u>	<u>10.4</u>	<u>14.2</u>	<u>6.2</u>	<u>4.1</u>
By commodity					
Food and beverages	<u>13.5</u>	<u>11.0</u>	<u>16.0</u>	<u>5.2</u>	<u>1.3</u>
Foodgrains	6.7	12.4	33.3	-1.4	-6.3
Oils and fats	26.2	2.9	-0.9	20.2	14.4
Beverages	10.1	4.7	16.9	14.0	16.9
Vegetables and fruits	7.7	18.9	1.4	16.3	1.1
Other consumer goods	<u>13.3</u>	<u>9.4</u>	<u>10.6</u>	<u>8.5</u>	<u>9.9</u>
Cloth and clothing	6.1	11.0	6.6	7.9	5.3
Fuel, power, and light	19.6	11.0	18.6	10.1	16.6
Regional indices					
Terai	12.9	10.9	15.1	6.3	3.1
Hills	12.9	10.2	14.8	6.5	9.2
Kathmandu	14.6	10.6	12.3	5.4	3.8
Of which: Domestic	15.6	11.2	14.4	5.9	2.6
Imported	11.0	8.4	4.4	3.0	8.7

Source: Nepal Rastra Bank.

did the adult literacy rate. Per capita income, however, has increased relatively slowly, as the rate of population growth has nearly kept pace with GDP growth (Table 8).

The basic objective of the Sixth Plan was to achieve a growth in real GDP of 4.3 percent per annum, compared with a 2.3 percent growth achieved during the Fifth Plan period. In line with the growth target, total development expenditure was targeted to increase by about 145 percent to NRs 21.8 billion (in 1979/80 prices) during the Plan period, with a shift in investment strategy away from infrastructure to more directly productive sectors. About 30 percent of the targeted total outlay was allocated for the agricultural sector, including irrigation and forestry (Table 9). The share of industry, mining, and energy was also targeted to increase sharply over the level achieved during the Fifth Plan, mostly reflecting the need to develop the energy sector. The Sixth Plan envisaged a greater reliance on external aid than did the Fifth Plan; 60 percent of total expenditure was to be financed through foreign grants and loans, compared with 47 percent during the Fifth Plan period. Of the domestic resources, it was expected that three-fourths would come from budgetary savings.

The growth target for the Sixth Plan period was nearly achieved, as real GDP grew at an average annual rate of 4.1 percent. The agricultural sector grew at an average annual rate of 4.2 percent, exceeding the target of 3.2 percent by a substantial margin, but the 4 percent average annual growth of the nonagricultural sector fell short of the target rate of 5.6 percent. In view of implementation difficulties in aid-financed projects, actual development expenditure amounted to only 80 percent of the Plan target and expenditure shortfalls were experienced in all sectors, except social services. Reliance on borrowed domestic resources was considerably higher than targeted under the Plan. About 27 percent of the total expenditure during the Sixth Plan was financed through domestic borrowing, compared with a target of 10 percent, and with 17 percent during the Fifth Plan.

The Seventh Development Plan (1985/86-1989/90) aims at an annual average increase of about 4.5 percent in real GDP. In order to achieve the growth target, the Plan envisages a total outlay of NRs 27 billion (at 1984/85 prices). The investment strategy emphasizes completion of ongoing priority projects, consolidation and maximum utilization of past investments, and adoption of largely quick-yielding new projects. In the agricultural sector, efforts will be directed towards improving the utilization of existing irrigation facilities and enhancing productivity in the Hill areas through improved control over soil erosion. In the industrial sector, priority will be given to cottage and small-size industries.

The composition of financing targeted under the Seventh Plan differs substantially from experience under the Fifth and Sixth Plans. External resources are planned to provide 71 percent of total financing.

Table 8. Nepal: Indicators of Development,
1960, 1970, 1980, 1983-84

	1960	1980 <u>1/</u>	1983 <u>1/</u>	1984 <u>1/</u>
Life expectancy at birth (years)	37	45	46	51
Child death rate (aged 1-4) (in percent)	3.3	2.3
Population per physician	73,000	35,000	24,000	21,700
Number enrolled in primary school (percent of aggregate)	10	66	73	76
Adult literacy (in percent)	9	19	26	28
Land under irrigation (1,000 ha)	51	198	243	261
Electricity (1,000 kwh)	6	89	139	154
Highway (km)	907	4,940	5,452	5,717
Per capita GDP (SDRs)	49	110	138	145
	<u>1960</u>	<u>1970</u>	<u>1983</u>	<u>1984</u>
Population growth (in percent)	2.0	2.2	2.7	2.7
Real GDP growth (in percent)	2.4	2.3	-1.4	7.4
Incremental capital output ratio	1.7	3.5	8.5	8.5
Investment GDP ratio (in percent)	4.3	18.3	20.2	19.4

Source: Central Bureau of Statistics.

1/ Mid-July.

Table 9. Nepal: Public Development Expenditures Under the Fifth, Sixth, and Seventh Development Plans, 1975/76-1989/90

	Fifth Plan (1975/76- 1979/80)	Sixth Plan (1980/81-1984/85)		Seventh Plan (1985/86-1989/90)	
	Outcome	Plan targets	Outcome	Plan targets	Targets
(In millions of Nepalese rupees)					
Total expenditures	8,871	21,754	17,156		27,000
Agriculture	2,350	6,600	4,919		8,380
Industry, mining, and energy	1,679	5,600	3,720		7,040
Transport and communication	2,381	4,230	3,112		5,130
Social services	2,461	5,324	5,405		6,450
(Percentage shares)					
Agriculture	26.5	30.4	28.7		31.0
Industry, mining, and energy	18.9	25.8	21.7		26.1
Transport and communication	26.8	19.4	18.1		19.0
Social services	27.8	24.4	31.5		23.9
(In percent)					
Financing resources					
Domestic resources	53	40	51.6		29.4
Budget	36	30	24.7		10.7
Borrowing	17	10	26.9		18.7
External resources	47	60	48.4		70.6
Grants	29	24	22.3		35.9
Loans	18	36	26.1		34.7

Source: National Planning Commission.

1/ At 1979/80 constant prices.

2/ At 1984/85 constant prices.

Under the previous two Plans, actual inflows of external resources fell short of targets and amounted to about 47-48 percent of financing requirements.

IV. Public Finance

1. Overview

During the period of the Sixth Plan, the Government pursued an expansionary fiscal policy. Mainly reflecting movements in development expenditure, the ratio of the budget deficit to GDP rose rapidly to nearly 9 percent in 1982/83, and remained at about 8 percent in 1983/84 and 1984/85 (Chart 1 and Table 10). ^{1/} As foreign financing did not increase commensurately with the overall deficit, the Government became a large borrower from the domestic banking system in all of the last four years of the Plan period. To lower the size of such borrowing, the Government issued national savings certificates in 1983/84 and 1984/85, which were mainly absorbed by the National Provident Fund.

The tax structure continues to be characterized by a low elasticity and a high dependence on taxes on imports. Despite the adoption of discretionary measures during the Sixth Plan period, the ratio of tax revenue to GDP had steadily declined from 7.5 percent in 1980/81 to 7.2 percent in 1983/84. The increase in this ratio to 7.6 percent in 1984/85, owed mainly to tax administration measures and the rapid expansion of imports.

In 1984/85, the Government adopted measures to improve the financial performance of public enterprises. In line with a more flexible administered pricing policy, most administered prices were increased substantially. To increase the responsiveness of public enterprises to market considerations and augment budgetary resources, government-held shares in some enterprises has been offered for sale to the public. Moreover, the assessment of managerial performance was made partly dependent on the financial performance of the enterprise involved.

2. Budgetary developments in 1984/85

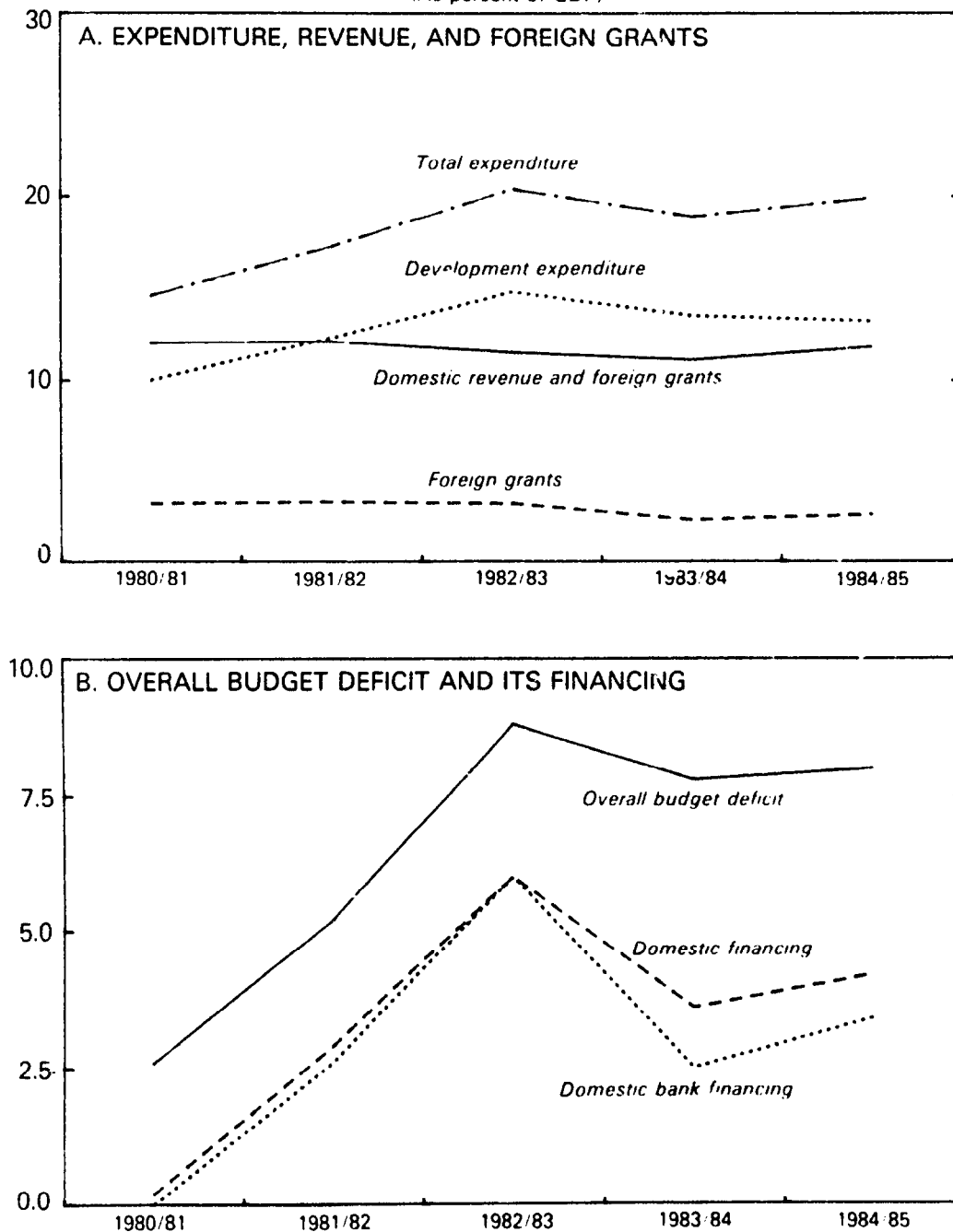
The overall fiscal stance remained expansionary in 1984/85, with the overall deficit relative to GDP increasing slightly to 8 percent. ^{2/} Moreover, the pattern of financing of the overall budget deficit shifted away from foreign financing to domestic financing in 1984/85. In relation to GDP, foreign financing declined by

^{1/} The ratio of the overall fiscal deficit excluding grants followed essentially the same pattern.

^{2/} The overall deficit, excluding grants rose by 0.5 percentage point to 10.6 percent in 1984/85.

CHART 1
NEPAL
BUDGETARY INDICATORS, 1980/81-1984/85

(As percent of GDP)



Source: Table 10

Table 10. Nepal: Government Budget, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 (Prelim.)
(In millions of Nepalese rupees)					
Revenue and grants	3,272	3,661	3,898	4,219	4,939
Revenue	(2,403)	2,668	2,808	3,342	3,842
Tax	(2,042)	(2,219)	(2,430)	(2,751)	(3,159)
Nontax	(361)	(449)	(378)	(591)	(683)
Foreign grants	869	993	1,090	877	1,097
Expenditure	3,850	5,246	6,851	7,204	8,287
Regular	1,264	1,523	1,900	2,107	2,816
Development	2,731	3,727	4,982	5,164	5,528
Domestically financed	(1,169)	(1,668)	(2,907)	(2,590)	(2,729)
Foreign financed	(1,562)	(2,059)	(2,075)	(2,574)	(2,799)
Net lending	-5	-4	-31	-67	-57
Overall balance	-718	-1,585	-2,953	-2,985	-3,348
Foreign financing (net)	662	694	938	1,604	1,604
Domestic financing (net)	55	891	2,015	1,381	1,744
Banking system	(4)	(799)	(2,028)	(939)	(1,405)
Nonbank sector	(51)	(92)	(-13)	(442)	(339)
(Percentage change from previous year)					
Revenue and grants	23.4	11.9	6.4	8.2	17.1
Revenue	30.2	11.0	5.2	19.0	15.0
Tax revenue	33.2	8.7	9.5	13.2	14.8
Expenditure	19.2	31.5	30.6	5.2	15.0
Regular	19.8	20.5	24.8	10.9	33.7
Development ^{1/}	18.3	36.5	33.7	3.7	7.0
(As percent of GDP)					
Revenue and grants	12.0	12.1	11.6	11.1	11.8
Revenue	8.8	8.8	8.3	8.8	9.2
Tax revenue	7.5	7.3	7.2	7.2	7.6
Expenditure	14.6	17.3	20.4	18.9	19.9
Regular	4.6	5.0	5.7	5.5	6.7
Development ^{1/}	10.0	12.3	14.8	13.5	13.2
Overall balance	-2.6	-5.2	-8.8	-7.8	-8.0
Foreign financing (net)	2.4	2.3	2.8	4.2	3.8
Domestic financing (net)	0.2	2.9	6.0	3.6	4.2
Banking system	--	2.6	6.0	2.5	3.4
Memorandum item:					
Overall balance excluding grants (percent of GDP)	-5.8	-8.5	-12.0	-10.1	-10.6

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

^{1/} Excluding net lending.

0.4 percentage point to 3.8 percent, while domestic financing rose by 0.6 percentage point to 4.2 percent. With lower sales of government securities to the nonbank public, the ratio of government borrowing from the banking system to GDP rose by 0.9 percentage point to 3.4 percent.

a. Revenue and grants

In contrast with previous years, tax policy in 1984/85 focused on revenue collection procedures, while minor adjustments were made in existing tax rates. The computerization of trade data was initiated, with the aim of improving the information base for the assessment of import duties, sales taxes, excise taxes, and income taxes. The collection point of the sales tax payable on imports, one of the largest sources of tax revenue, was shifted from the customs point to the factory gate. The assessment base was also changed from import value to ex-factory prices, thereby including local value-added in the sales tax base. In order to increase the proportion of imports passing through customs, import duties on a number of goods imported from India (such as textiles, blended yarn, sanitary wares, spare parts for motor vehicles, and raw rubber) were reduced. However, import duties on goods such as jam, noodles, spices, certain paper, insulated wire, toothpaste, synthetic gum and matches were increased. A number of specific excise taxes were converted to ad valorem rates. The mode of collecting road and maintenance taxes was changed from user taxes to a tax of 10 paisa per liter on petrol and diesel. Furthermore, Nepal held talks with India to improve the procedures relating to the refund to Nepal of excise taxes paid on goods imported from India.

Tax revenue grew slightly faster in 1984/85 than in the previous year, and its ratio to GDP rose by 0.4 percentage point to 7.6 percent. Substantial changes in the composition of tax revenue were observed. Import duties rose sharply, reflecting the rapid growth of imports and a standstill in the ratio of import duties to imports, which had previously followed a declining trend (Table 11 and Appendix Table XI). The shares of import duties to total tax revenue increased by 2 percentage points to 29 percent. Despite the increase in imports and the inclusion of value added in the sales tax base, the share of sales taxes in tax revenue declined by 1 percentage point to 27 percent. The shift in the point of sales tax collection from customs to factory gate resulted in foregone revenue as taxable imports destined to small firms not covered by the network of sales tax offices escaped taxation. ^{1/} The share of receipts from excise taxes in tax revenue decreased slightly, partly as a result of lower real growth. Indian excise refunds doubled in absolute value to NRs 100 million, because of

^{1/} In 1985/86, the authorities introduced a dual-point collection system. Sales taxes were reimposed at the customs point and payments could be credited to sales taxes due at the factory gate.

Table 11. Nepal: Composition of Tax Revenue, 1980/81-1984/85

(In percent) 1/

	1980/81	1981/82	1982/83	1983/84	1984/85 (Prel.)
Taxes on income and profits	7.8	8.8	10.3	10.9	9.9
Taxes on property	9.5	8.2	7.5	8.2	7.2
Taxes on goods and services	42.9	45.8	50.8	50.9	49.2
Of which:					
Sales taxes	(26.3)	(26.9)	(29.2)	(28.0)	(26.7)
Excise taxes	(11.9)	(13.8)	(15.1)	(15.7)	(15.3)
Taxes on international trade	40.0	37.2	31.3	30.0	33.6
Of which:					
Import duties	(33.5)	(33.4)	(29.4)	(27.1)	(28.7)
Export taxes	(3.4)	(1.9)	(1.0)	(1.1)	(1.8)
Tax revenue	100.0	100.0	100.0	100.0	100.0
<u>Memorandum items:</u>					
Tax revenue/current revenue	85.0	83.1	86.5	82.4	82.2
Taxes on income and profits/GDP	0.6	0.6	0.7	0.8	0.7
Taxes on property/GDP	0.7	0.6	0.5	0.6	0.5
Taxes on goods and services/GDP	3.2	3.4	3.7	3.7	3.7
Import duties/imports	15.4	15.0	11.3	11.4	11.4
Import duties/nonaid imports	17.8	18.9	14.2	14.7	14.4
Export taxes/ exports	4.3	2.8	2.2	1.8	2.0
Tax revenue/GDP	7.5	7.3	7.2	7.2	7.6
Current revenue/GDP	8.8	8.8	8.3	8.7	9.2

Source: Appendix Table XI.

1/ Totals may not add to 100 due to rounding.

the settlement of most arrears due to Nepal. The share of receipts from taxes on income and profits to tax revenue declined, partly as a result of administrative difficulties. 1/ Largely for the same reason, arrears on income taxes increased by 25 percent to NRs 415 million.

Nontax revenues increased in 1984/85 by 16 percent, roughly the same rate of increase recorded by tax revenues. The increase in the former was mainly accounted for by increases in import license fees and forest royalties. Investment income declined, reflecting lower interest earnings on official reserves. The surpluses of departmental enterprises remained at the same level, after increasing substantially in the previous year.

In view of the adequacy of domestic food supplies in 1983/84 and 1984/85, foreign grants in these years related mainly to nonfood aid. Foreign grants, which declined in 1983/84, rose by 25 percent in 1984/85 partly reflecting some lumpiness in the phasing of grant-related projects and the depreciation of the Nepalese rupee vis-a-vis convertible currencies. Relative to GDP, such grants rose by 0.3 percentage point to 2.6 percent.

b. Expenditure

In 1984/85, total expenditure rose by 15 percent, three times the exceptionally moderate growth of the previous year; the ratio of total expenditure to GDP rose by 1 percentage point to about 20 percent. Regular expenditure, which composes about a third of total expenditure, increased by 34 percent, triple the rate recorded in the previous year. The rapid growth in regular expenditure reflected increases in civil service salaries in the range of 37-71 percent in July 1984 (which was mainly responsible for the 42 percent increase in the wage bill under the regular budget), 2/ and a 30 percent increase in teachers' salaries in February 1985 3/ (Table 12). Another contributing factor was a 52 percent increase in interest payments, mainly due to the substantial increases in the domestic borrowing requirement in the last four years. During the five-year period ending 1984/85, the share of interest payments in regular expenditure nearly doubled to 18 percent.

Development expenditure rose by 7 percent in 1984/85, marking the second year in a row that a relatively moderate rate of increase was

1/ In the last two months of the fiscal year, access to government offices was restricted for security reasons.

2/ Civil service salary scales were raised by 57-91 percent, but a cost-of-living allowance of 20 percent of basic salaries was withdrawn at the same time.

3/ In Nepal, expenditures on primary, post-middle, and technical education are classified under development expenditure, while that on middle school level education is classified as regular expenditure.

Table 12. Nepal: Government Expenditure by Economic Category, 1980/81-1984/85

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84 (Est.)	1984/85 (Est.)
Regular expenditure	<u>1,264</u>	<u>1,523</u>	<u>1,900</u>	<u>2,107</u>	<u>2,816</u>
Purchase of goods and services	994	1,202	1,506	1,526	2,001
Of which: Wages and salaries	(426)	(525)	(770)	(863)	(1,222)
Other goods and services	(568)	(677)	(736)	(663)	(789)
Interest	130	153	213	331	502
Capital expenditure	30	47	37	30	47
Transfers	110	121	144	220	256
Development expenditure <u>1/</u>	<u>2,731</u>	<u>3,727</u>	<u>4,982</u>	<u>5,164</u>	<u>5,528</u>
Purchase of goods and services	479	891	840	1,200	1,614
Of which: Wages and salaries	(241)	(257)	(384)	(550)	(814)
Other goods and services	(238)	(634)	(456)	(650)	(800)
Capital expenditure	1,719	1,994	2,661	2,750	2,892
Transfers	533	842	1,481	1,214	1,022

Sources: Ministry of Finance; and staff estimates.

1/ Excluding net lending.

recorded. Relative to GDP, development expenditures declined slightly to 13.2 percent. Nearly three quarters of the increase in 1984/85 was accounted for by the 48 percent increase in the development wage bill (related mainly to development project employees and non-middle school teachers). Actual capital expenditure increased by 5 percent (3 percent in 1983/84), implying a negligible increase in real terms.

In 1984/85, the share of economic services in total expenditure declined substantially (Table 13). While the share of social services declined slightly, the share of general public services and defense remained roughly the same. In contrast, the share of the residual category increased, mainly reflecting increases in interest payments and the special allocation for teachers' wages.

Table 13. Nepal: Functional Composition of Expenditure,
1980/81-1984/85

(As percent of total expenditure) 1/

	1980/81	1981/82	1982/83	1983/84	1984/85
General public services	11.3	10.8	10.5	10.6	10.8
Defense	6.5	5.4	5.7	6.3	6.3
Social services	14.9	17.1	17.9	17.0	16.5
Economic services	57.3	53.4	54.0	55.3	48.0
Other	10.0	13.3	11.9	10.8	18.4
Memorandum item:					
Development expenditure <u>1/</u>	68.3	71.0	72.3	70.8	66.0

Sources: Appendix Tables XII and XIII.

1/ Including net lending.

c. Financing

Foreign financing, virtually all in the form of concessional loans, has provided substantial budgetary support throughout the Sixth Plan period. Relative to GDP, foreign financing rose from 2.6 percent in 1980/81, covering virtually all of the overall fiscal deficit, to a peak of 4.2 percent in 1983/84, covering 54 percent of the overall deficit. In 1984/85, with the absolute amount of foreign financing remaining the same, its ratio to GDP declined to 3.8 percent.

In view of the need for budgetary resources beyond the level provided by foreign financing, the Government resorted to substantial borrowing from the banking system since 1981/82. Relative to GDP, such borrowing peaked at 6 percent in 1982/83. In an effort to minimize the amount of bank financing of the budget, the Government began to issue national savings certificates in 1983/84. In the absence of a broad market for government securities, most of these certificates were absorbed by the Employees Provident Fund. While the ratio of government bank borrowing to GDP declined to 2.5 percent in 1983/84, the virtual stagnation of the absolute values of both foreign financing and sales of national savings certificates in 1984/85 led to an increase in the ratio of government bank borrowing to GDP to 3.4 percent.

3. Nonfinancial public enterprises

The nonfinancial public sector consists of 37 enterprises covering public utilities, transportation, communications, construction, manufacturing, and commerce. Together, their activities account for about 3 percent of nonagricultural GDP. Flows from the Government to public enterprises take the form of share capital, loan capital, operating and transport subsidies, and capital subsidies. Flows from public enterprises to the Government take the form of indirect taxes, income taxes, dividends, and debt service payments. In 1983/84, the latest year for which data on the flow of funds are available, the net outflow from the Government increased by 14 percent to NRs 416 million, equivalent to about 8 percent of regular and domestically financed development expenditures (Appendix Table XIV).

To improve the financial situation of public enterprises and in accordance with a more flexible policy on administered prices adopted in 1983/84, certain administered prices were raised in the course of 1984/85. Partly as a result of these price increases, nine public enterprises (three public utilities, four manufacturing firms, and two trading firms) recorded operating profits in 1984/85. In particular, the Nepal Oil Corporation, which had registered losses consistently in recent years, posted a profit of about NRs 45 million in 1984/85. This development resulted mainly from increases in the prices of petroleum products announced in October 1984 and an easing of oil import prices.

The Nepal Food Corporation (NFC) and the Agricultural Inputs Corporation (AIC) continue to incur operating losses. The main target beneficiaries of these agencies' distribution of foodgrain, fertilizer, and seeds are the Hill districts, which incur foodgrain deficits and where arable land is less fertile. While both the NFC and AIC finance part of their operations by the sale of foodgrain and fertilizer acquired under aid, both require subsidies from the Government. In 1984/85, the NFC received a transport subsidy of NRs 20 million, while the AIC received subsidies amounting to NRs 28.5 million (NRs 18.5 million as transport subsidy and the remainder as operating subsidy). Total direct subsidies extended by the Government to public enterprises in 1984/85 amounted to NRs 53 million, thereby maintaining the ratio of such subsidies to regular and domestically financed development expenditures at 1 percent.

In late 1984/85, government-held shares in certain public enterprises were offered for sale through the Securities Exchange Center to private individuals and institutions. While a majority interest in public enterprises would be retained by the Government, the authorities believed that private shareholdings would increase the responsiveness of the management of these enterprises to market and profit considerations. Moreover, these sales have provided a significant, though temporary, means for reducing net lending through the budget.

V. Monetary and Credit Developments

1. Institutional framework

The financial system in Nepal comprises the Nepal Rastra Bank (NRB), three commercial banks, the Agricultural Development Bank of Nepal (ADBN), the Nepal Industrial Development Corporation (NIDC), credit cooperatives, postal savings offices, the Employees Provident Fund (EPF) and a number of smaller provident funds, four insurance companies, and the Securities Exchange Center (SEC). In September 1985, a bill was passed authorizing the establishment of finance companies. The monetary instruments of the NRB are summarized in Appendix Table XV.

Two of the three commercial banks are locally owned. The Government owns 52 percent of the Nepal Bank, Ltd. (NBL) and 100 percent of the Rastriya Baniijya Bank, Ltd. (RBB). The other commercial bank, the Nepal Arab Bank, Ltd. (NABIL), is a joint venture between the Dubai Bank, Ltd., and Nepalese individuals and financial institutions.

The ADBN is a specialized development bank with some private sector participation. Its portfolio consists mainly of loans to the agricultural and rural sectors. The resources of the ADBN consist of its own capital funds, deposits from the public, resources provided by international agencies (mainly the AsDB, IDA, and IFAD), and funds borrowed through debentures, most of which are subscribed to by the NRB.

The NIDC, which is wholly owned by the public sector (the Government and the NRB), promotes the expansion of the private industrial sector. The NIDC makes loans, underwrites new issues, and invests in equity. In addition, it may establish industrial companies. To promote active trading in stocks, the NIDC collaborates closely with the SEC.

Credit cooperatives and postal savings offices are most active in rural areas. Among credit cooperatives, which number about 700, the farmers' cooperatives (sajhas), are the most numerous and cover 68 out of 75 districts. Sajhas are under the control of the ADBN, which provides the bulk of their borrowed funds. Postal savings facilities are currently offered by post offices in all 75 districts. However, the amount of deposits attracted by them thus far has been negligible.

As the largest provident fund in Nepal, the EPF covers most public sector employees (the civil service, the police force, and the army) on a mandatory basis. Private sector companies may enlist their employees with the EPF on a voluntary basis. The portfolio of the EPF consists mainly of time deposits with banks, government securities, and loans extended to members mainly for residential mortgages, medical care, and educational expenses. The Government underwrites the EPF's capital and guarantees a minimum return of 3 percent per annum to members.

Of the four insurance companies, two are locally owned, namely the National Insurance Corporation (NIC) and the Nepal Insurance and Transport Co., Ltd. Both local companies are public sector institutions with private sector participation. The NIC accounts for about three fourths of nonlife insurance policies and all of life insurance policies underwritten in Nepal. The two foreign companies are subsidiaries of Indian insurance companies.

The SEC was established by the Securities Marketing Act of 1983. In April 1984, it replaced the Securities Marketing Center (SMC) which had operated since 1976. Like the SMC, the SEC is wholly owned by the Government, the NRB, and the NIDC. The SEC has been given wider functions than the SMC. In addition to underwriting and managing new capital issues, and selling government bonds, it has been empowered to provide a secondary market for shares in public companies and to promote a system of professional brokers.

2. Recent policy measures

In the last two years, policy measures were taken in three categories. First, the institutional structure of the financial system continued to be strengthened. Second, some flexibility in the interest rate structure was introduced. Third, in the course of 1984/85, further steps were taken to ease the terms of credit selectively and to expand the credit allocation for certain sectors.

To increase competition in the commercial banking system and the role of the private sector in financial intermediation, the establishment of commercial banks with foreign participation was recently authorized. The first joint-venture bank (NABIL) started operations in July 1984 with 50 percent participation by the Dubai Bank, Ltd., 30 percent by private Nepalese individuals, and 20 percent by Nepalese financial institutions (the NIC, the NIDC, and the SEC). Negotiations for the establishment of two other joint venture banks, namely the Grindlay's-Nepal Bank and Banque Indosuez-Nepal, are continuing.

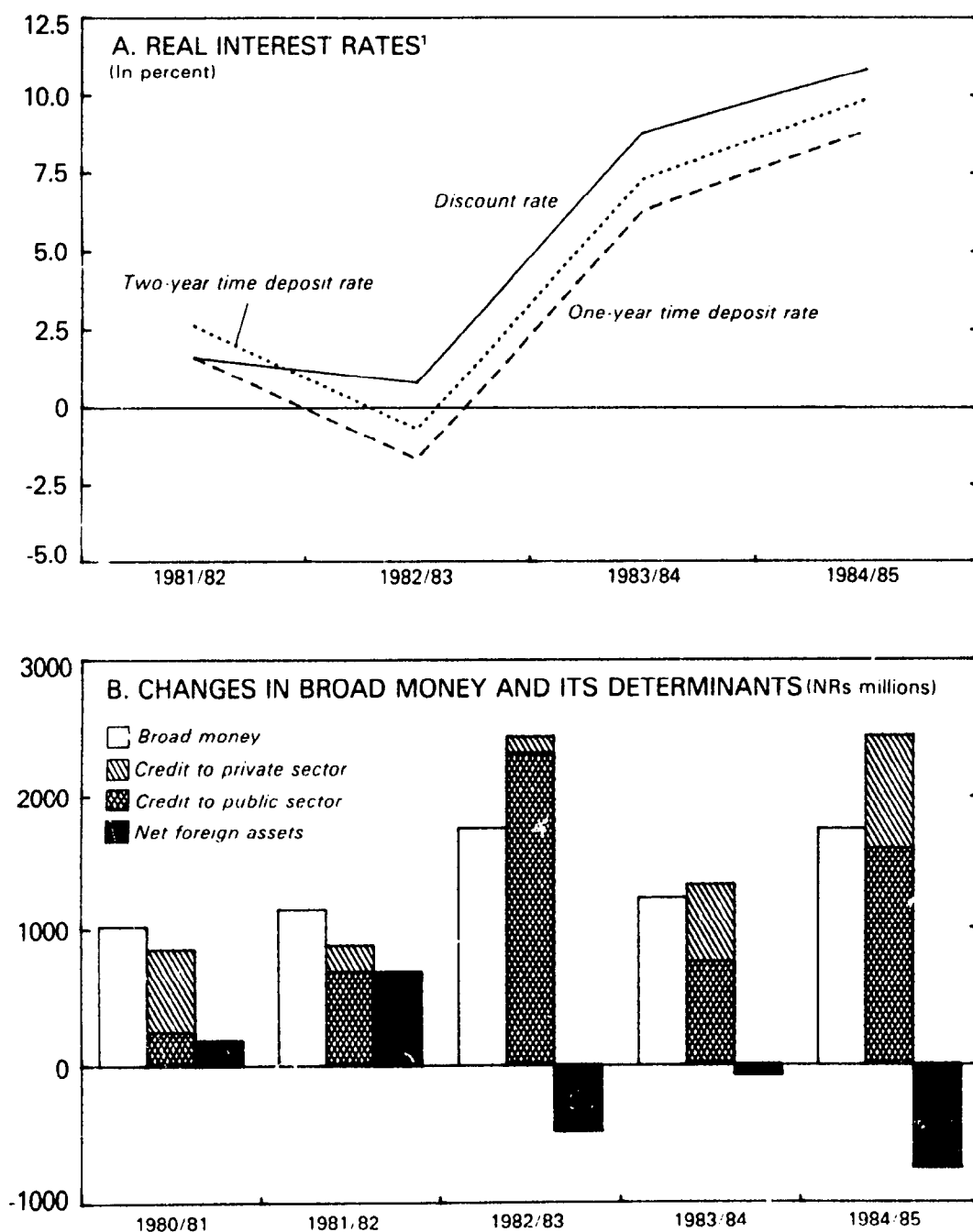
To further increase competition in the banking system, the ADBN was authorized in July 1984 to accept deposits in urban areas on the same basis as commercial banks. This measure was also aimed at channeling more urban savings to rural areas and at reducing the reliance of the ADBN on the NRB for financial resources. To increase further the resources of the ADBN, it was authorized in August 1985 to issue NRs 50 million worth of agricultural savings certificates. These certificates would have denominations of NRs 25 to NRs 1,000, maturities of six and nine months, and a tax-free yield of 10 percent.

The NRB has continued to provide incentives to encourage commercial banks to establish branches in rural areas. During the five-year period ending 1984/85, 140 new branches were established, raising the total number of branches to 381, or one branch per 41,000 persons. This compares with the official target of one bank branch per 30,000 persons.

Up to November 1984, the interest rate structure of the banking system was totally administered by the NRB and changes were made infrequently. As a step toward a more flexible interest rate policy, the NRB declared the bank deposit rates prevailing in that month as minima and authorized commercial banks to raise savings deposit rates by up to 1.5 percentage points and term deposit rates by up to 1 percentage point (Appendix Table XVI). Subsequently, the commercial banks have offered depositors varying rates within the band, depending mainly on the amount of deposits maintained as compensating balances. Even in the absence of the introduction of interest rate flexibility, deposit rates would have remained substantially positive in real terms, in view of the easing of domestic inflation (Chart 2).

In the course of 1984/85, steps were taken to encourage the allocation of bank credit to certain sectors and to ease the terms of credit selectively. At the outset of 1984/85, the NRB instructed commercial banks to raise credit disbursements to "priority" sectors to 8 percent of total credit and to "productive" sectors (which include the

CHART 2
NEPAL
MONETARY INDICATORS, 1980/81-1984/85



Sources: Table 7 and Appendix Tables XVI and XVII.

¹ Average annual nominal interest rates less the average annual inflation in Nepal, 1981.

"priority" sectors) to 25 percent of total credit. 1/ This instruction had the force of moral suasion because the NRB did not enforce its regulation to the effect that the equivalent of shortfalls from these targets had to be deposited in noninterest bearing accounts with the NRB. 2/ In November 1984, the NRB instructed the commercial banks to liberalize credit to operators of public transportation, with a view to cushioning the impact of the 17-33 percent increase in the administered prices for petroleum products in the previous month. Also in November 1984, the NRB reduced the deposit margin on import letters of credit from 100 percent for a wide variety of goods to 30, 40, and 50 percent (Appendix Table XVII). The lowest rate, which applied to imports under World Bank programs, was reduced further to 10 percent in January 1985. Also in the same month, the NRB instructed commercial banks to extend loans of up to NRs 25,000 per individual to "unemployed educated persons" for investments in cottage industry, fishery, bookkeeping, livestock raising, and horticulture. Subsequently, in May 1985, the NRB reduced by 2 percentage points the minimum lending rate of commercial banks for industrial and agricultural sectors (to 9 percent) and the minimum lending rates of the ADBN for cooperatives and village committees (to 8 percent). At the same time, the NRB lowered its refinance rates for the loans involved by 2 percentage points so as to maintain commercial bank spreads at 4 percentage points; in case these loans are not refinanced, the NRB would extend a subsidy of 2 percentage points to the commercial banks to compensate for the decline in the relevant loan rates.

3. Recent developments

a. Overall banking system

Monetary expansion in Nepal has been essentially demand determined, given the openness of Nepal's economy vis-a-vis India and the maintenance of a fixed relationship between the Nepalese rupee and the Indian rupee. As Nepal's inflation rate tends to move with the Indian inflation rate, disequilibria in the financial market tends to be adjusted mainly through trade or capital flows. In this setting, the recent rapid increases in banking system credit expansion were associated with substantial reductions in net foreign assets. In recent years, the income velocity of broad money has been consistently

1/ "Priority" sectors consist of agriculture, cottage industries, and certain service industries, while the "productive" sectors additionally consist of export industries. In 1982/83 and 1983/84, the target for priority sector credit disbursements was 10 percent of total deposits. During this period, actual credit disbursed to priority sectors averaged about 4 percent of total deposits.

2/ Actual credit disbursed to priority sectors during the first 9 months of 1984/85 (mid-July 1984 to mid-April 1985) amounted to about 5 percent of total credit outstanding.

declining at a diminishing rate. The decline in income velocity, even in years of relatively high inflation, mainly reflected the continued monetization of the economy. The diminishing rate of decline of income velocity has been attributable to a narrowing of the scope for further monetization as the banking system expands into the rural sector and the increasing availability of financial instruments other than bank deposits.

As a result of the expansionary monetary policy pursued in 1984/85, the growth of total domestic credit of the banking system accelerated to 25 percent (16 percent in 1983/84) (Table 14 and Appendix Table XVIII). For the fourth year in a row, the Government was a large borrower from the banking system; net claims on the Government rose by 28 percent, after increasing by 23 percent in 1983/84. Net credit to the nonfinancial public enterprises, which declined in 1983/84, rose by 21 percent in 1984/85, mainly reflecting increases in credit to the Hetauda Cement Factory. Despite the decline in domestic inflation, the rate of growth of credit to the private sector accelerated by 4 percentage points to 22 percent, largely reflecting the substantial increase in external trade. Though net foreign assets declined substantially, the growth of broad money accelerated to 17 percent (13 percent in 1983/84).

At the close of 1984/85, the NRB tightened credit policy, in view of the rapid growth of credit and the mounting pressures on the balance of payments. In June 1985, the NRB limited bank overdrafts to the mid-April level. In the same month, the interest rate on certain commercial loans was raised from 17 percent to 19 percent and the deposit margin on import letters of credit for luxury goods was raised from 50 percent to 75 percent. Moreover, in early July 1985, the NRB required banks to lower their total credit outstanding from 81 percent to 75 percent of total deposit liabilities.

The expansionary stance of monetary policy in 1984/85 is reflected mainly by a 25 percent increase in NRB claims on the Government, which constitute the predominant portion of NRB assets (Appendix Table XIX). With an easing of refinancing policy, claims on commercial banks also rose markedly. Despite the large increase in total NRB credit, the growth of total assets remained at 12 percent, in view of the sharp decline in net foreign assets. The counterpart of the increase in asset on the liability side was an increase in currency outside banks, which accounts for the bulk of reserve money.

Movements in the balance sheet of the commercial banks in 1984/85 display a different pattern (Appendix Table XX). The growth of assets accelerated to 24 percent (14 percent in 1983/84), as the marked increases in claims on Government and claims on businesses and individuals were accompanied by a slight increase in foreign assets. In effect, the adverse impact of rapid credit growth on foreign asset holdings of the banking system was borne entirely by the NRB. The

Table 14. Nepal: Factors Affecting Changes in
Broad Money, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 <u>1/</u>
(In millions of Nepalese rupees)					
Changes in:					
Net foreign assets	183	683	-486	-72	-759
Net domestic assets	839	468	2,251	1,304	2,517
Domestic credit	855	882	2,448	1,333	2,450
Claims on public sector	249	692	2,325	755	1,603
Claims on Government, net	(4)	(799)	(2,028)	(939)	(1,405)
Claims on public enterprises	(245)	(-107)	(297)	(-184)	(198)
Claims on private sector	606	190	123	578	847
Other items net (increase -)	-16	-414	-197	-29	67
Broad money	<u>1,022</u>	<u>1,151</u>	<u>1,764</u>	<u>1,233</u>	<u>1,757</u>
Money	377	404	737	583	589
Quasi-money	645	747	1,027	650	1,168
(Annual percentage changes)					
Net foreign assets	8.2	28.3	-15.7	-2.8	-29.9
Domestic credit	19.9	17.1	40.5	15.7	24.9
Claims on public sector	12.7	31.3	80.1	14.5	26.8
Claims on Government, net	0.3	63.3	98.4	23.0	27.9
Claims on public enterprises	34.9	-11.3	35.4	-16.1	20.7
Claims on private sector	25.8	6.4	3.9	17.7	22.0
Broad money	19.3	18.2	23.7	13.4	16.8
Money	13.3	12.6	20.4	13.4	11.9
Quasi-money	26.3	24.1	26.7	13.3	21.1
Memorandum items:					
Income velocity of money (absolute number)	4.71	4.40	4.06	3.89	3.71
Change in reserve money (percent)	9.6	24.7	18.9	15.2	11.4
Money multiplier (absolute number) <u>2/</u>	2.33	2.21	2.30	2.26	2.37

Source: Data provided by the Nepal Rastra Bank.

1/ Provisional.

2/ Ratio of broad money to reserve money.

increase in total liabilities was mainly accounted for by a 21 percent increase in time and savings deposits, the recent growth of which has outpaced the growth of demand deposits. The share of time and savings deposits in total deposits has steadily increased from 75 percent in mid-1981 to 81 percent in mid-1985. This tendency was reinforced by the increase in real interest yields in the last two years and by the increase in the liquidity of savings deposits resulting from a rise in the daily withdrawal limit from NRs 2,000 to NRs 3,000 effective July 1984.

Data for the first 9 months of 1984/85 indicates that the bulk of the increase in commercial bank credit was extended to the commercial sector. Mainly reflecting the substantial increase in external trade, credit to this sector rose by 37 percent over the year ending April 1985 (minus 4 percent over the year ending April 1984) (Appendix Table XXI). Though smaller in scale, credit to the industrial sector continued to increase at high rates, 153 percent over the year ending April 1984 and 41 percent over the year ending April 1985.

The commercial banks have maintained reserves in excess of the primary reserve ratio of 9 percent and the liquid reserve ratio of 25 percent (Appendix Table XXII). 1/ The average annual primary reserve ratio varied within a narrow range of 9-12 percent during the last five years. In contrast, the average annual liquid reserve ratio was maintained at a substantially higher range during 1982/83-1984/85 (39-44 percent) than during 1980/81-1981/82 (31-33 percent). This development largely reflects the absorption by commercial banks of government security issues which, besides being eligible to satisfy the liquid reserve ratio, provided attractive tax-free and risk-free yields.

The Intensive Banking Program (IBP), under which commercial banks are encouraged to lend to priority sectors with lenient collateral requirements, was subject to several changes in 1984/85. 2/ The scope of the IBP was extended to two more districts bringing the coverage to 65 districts out of a total of 75. Moreover, the official target for credit disbursements to priority sectors under the IBP was changed from 10 percent of total deposits to 8 percent of total credit. The actual proportion in 1983/84 was only about 4 percent of total deposits or about 5 percent of total credit. As noted in the previous section, the NRB has not penalized commercial banks for failing to meet the target. In January 1984, the IBP was extended to include loans not exceeding

1/ Primary reserves consist of cash on hand and deposits at the NRB, for which the required minima are 4 percent and 5 percent, respectively, of total deposits. Liquid reserves include primary reserves plus foreign currency, foreign balances, and unpledged holdings of government securities.

2/ The IBP, which was founded in 1981, superseded the priority sector credit program started in 1974.

NRs 25,000 to "educated unemployed persons" for certain investments and a target of 0.5 percent of total credit was set for mid-July 1985.

b. Operations of the ADBN and the NIDC

The ADBN's portfolio has increased rapidly in the last four years. In 1984/85, total loans outstanding rose by 21 percent to NRs 1,126 million, virtually double the 1981/82 level. Loans disbursed in 1984/85 increased by 12 percent to NRs 531 million (against the target of NRs 551 million) (Appendix Table XXIII). Of the total disbursements in 1984/85, about 39 percent were for farm mechanization and irrigation, 29 percent for agricultural production, 29 percent for agro-industry marketing and warehousing, and the rest (3 percent) mainly for fruit and tea cultivation. In 1984/85, repayments made to the ADBN increased by a third to NRs 334 million, equal to 83 percent of the target (81 percent in 1983/84).

The NIDC's loan portfolio has increased at substantially lower rates than that of the ADBN. In 1984/85, the NIDC's loans outstanding increased by 15 percent to NRs 390 million. Loan disbursements during 1984/85 increased by 85 percent to NRs 76 million (against a target of NRs 130 million) (Appendix Table XXIV). The manufacturing sector accounted for 51 percent of total disbursements. Reflecting the sluggish growth of tourism, the hotel industry's share of total disbursements remained at about 16 percent. Loan repayments in 1984/85 increased by 29 percent to NRs 25 million, against a target of NRs 80 million.

VI. External Developments

1. Overview

Nepal's balance of payments has been structurally weak. Exports have been concentrated on a narrow range of agricultural commodities and have increased at a rate substantially lower than imports. As a result, during the decade ending 1984/85, the ratio of exports to imports declined from 49 percent to 35 percent. Given Nepal's limited capacity to earn foreign exchange, external assistance in the form of grants and concessional loans has financed a substantial portion of imports of goods and services. Adverse weather has frequently weakened the balance of payments through reduced exports and increased food imports. Transactions with India have been facilitated by the convertibility in Nepal between the Nepalese rupee and the Indian rupee and by the open border between the two countries. In contrast, a number of restrictions have been imposed on imports of goods and services from "third" countries (i.e., countries other than India) to help contain the demand for foreign exchange to available resources. These restrictions contributed to the achievement of overall balance of payments surpluses until 1981/82.

Reflecting the adverse pressures on Nepal's external position during the Sixth Plan period, the ratio of the external current deficit to GDP rose markedly to a peak of 8.9 percent in 1982/83, and remained at a still high rate of 7.1 percent in both 1983/84 and 1984/85 (Chart 3 and Table 15). As the current account deficits in these latter three years were not fully covered by net capital inflows. The overall balance of payments recorded a cumulative deficit of SDR 100 million. Of this amount, SDR 47 million was incurred in 1984/85. With financing provided by a drawdown in international reserves, total gross international reserves declined from the equivalent of 12.2 months of nonaid imports in mid-1982 to 4.8 months in mid-1985 (Appendix Table XXV). 1/

In 1984/85, the current account deficit was virtually equal to the 1983/84 level, as the slight decline in the trade deficit was offset by the decline in the net surpluses of the services and private transfers accounts. With net inflows of external assistance in the form of grants and loans also remaining at about the same level, most of the deterioration in the balance of payments was attributable to a net outflow of SDR 40 million recorded under miscellaneous capital and errors and omissions. The NRB estimated that about half of this outflow was associated with the rapid growth of the ready-made garments industry, which is discussed further below. The remainder is attributable to a combination of unrecorded border trade, misvaluation of imports and exports, and capital transfers.

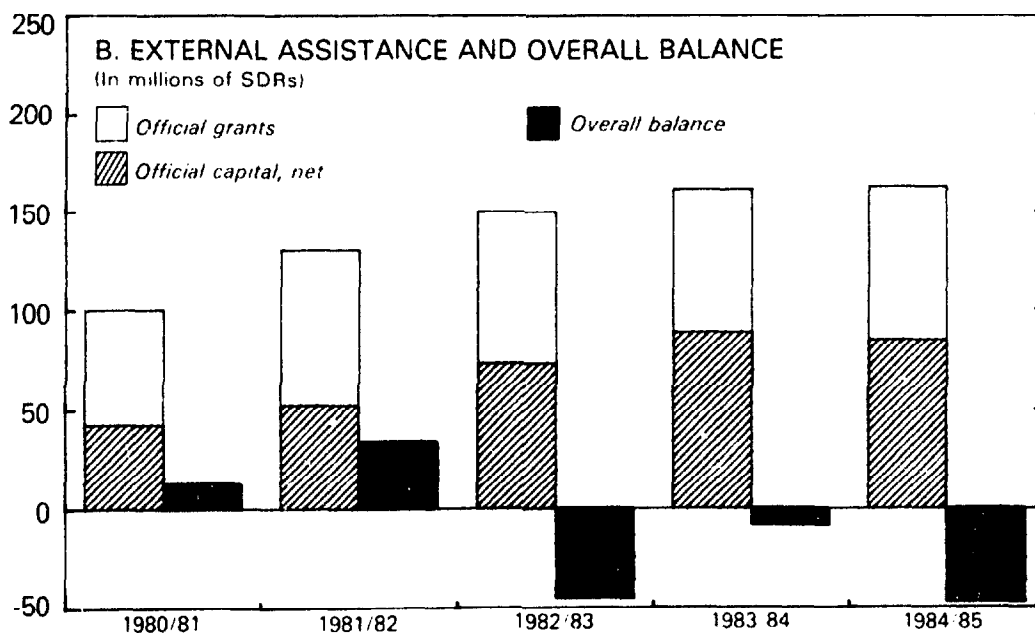
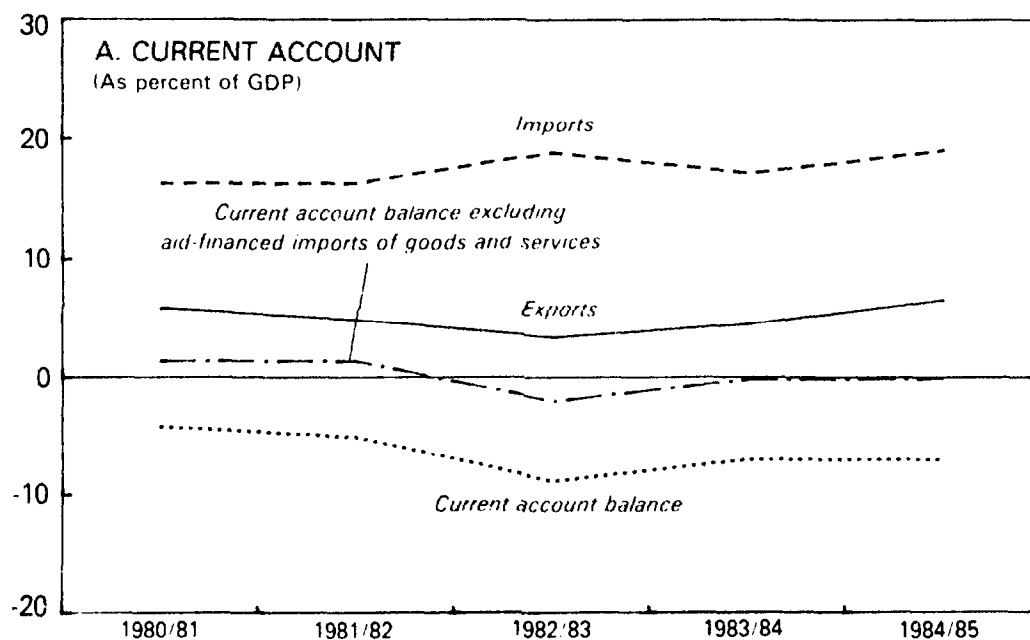
With the aim of alleviating adverse balance of payments pressures and improving the external competitiveness of the traded goods sector, the Government depreciated the exchange rate of Nepalese rupee by 14.6 percent 2/ on November 30, 1985. Prior to this action, the real effective exchange rate (REER) index indicated virtually no change in the external competitiveness of the tradable sector over the position of five years ago, while other indices indicate a substantial deterioration in export competitiveness over the same period. The trade-weighted REER index has depreciated significantly in the last two years, reflecting the abatement of domestic inflation and nominal depreciations vis-a-vis convertible currencies (Chart 4). 3/ However, this movement has served

1/ In the first three months of 1985/86, gross international reserves declined further by an estimated SDR 20 million.

2/ This figure refers to the depreciation rate in terms of foreign currency units per Nepalese rupee. The analogous figure in terms of Nepalese rupees per unit of foreign currency is 17.2 percent.

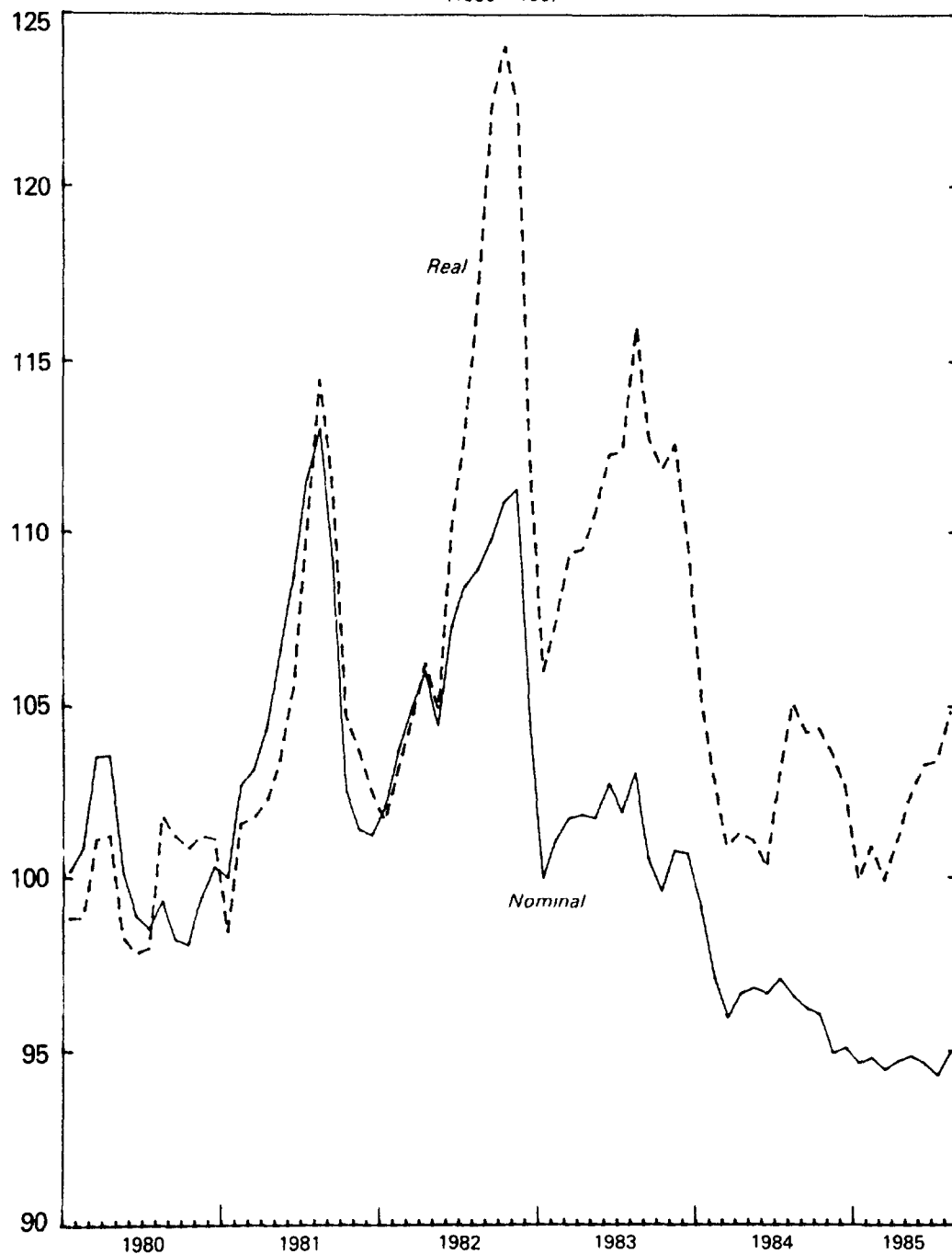
3/ The use of Nepal's consumer price index in the calculation of the REER index makes the latter highly sensitive to movements in foodgrain prices and, thus, to weather conditions. For this and other reasons, the REER index should be treated as only one of several indicators of external competitiveness.

CHART 3
NEPAL
BALANCE OF PAYMENTS INDICATORS,
1980/81-1984/85



Source: Table 15

CHART 4
NEPAL
EFFECTIVE EXCHANGE RATE INDICES¹, 1980-85
(1980 = 100)



Source: IMF Data Fund

¹Indices are weighted by trade shares of Nepal's main trading partners.

Table 15. Nepal: Summary Balance of Payments,
1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 Est.
(In millions of SDRs)					
Trade balance	-190.0	-233.2	-347.7	-301.0	-293.2
Exports, f.o.b.	108.2	101.1	76.0	106.7	156.9
Imports, c.i.f.	298.2	334.3	423.7	407.6	450.2
Services, net	75.0	93.1	109.4	87.8	81.8
Receipts	138.9	154.9	168.7	161.0	157.2
Payments	64.0	61.8	59.3	73.2	75.4
Private transfers, net	37.4	35.4	38.5	43.2	42.2
Receipts	38.6	37.0	40.7	45.6	43.6
Payments	1.2	1.6	2.2	2.4	1.5
Current account balance	-77.6	-104.7	-199.8	-170.0	-169.3
Official grants	57.8	78.2	77.0	72.6	77.8
Official capital, net	42.5	52.3	72.8	88.7	84.7
Miscellaneous capital and errors and omissions	-9.7	8.1	4.8	0.9	-40.4
Overall balance	13.0	33.9	-45.2	-7.9	-47.3
Monetary movements					
Assets (increase -)	-48.8	-42.9	58.9	19.9	46.2
Liabilities	15.7	4.0	-14.6	-1.5	5.4
Valuation adjustment	20.1	5.0	0.9	-10.5	-4.3
(As percent of GDP)					
Memorandum items:					
Exports, f.o.b.	5.9	4.9	3.4	4.5	6.6
Imports, c.i.f.	16.3	16.3	18.8	17.1	19.0
Current account balance	-4.2	-5.1	-8.9	-7.1	-7.1
Current account balance excluding aid-financed imports of goods and services	1.4	1.4	-2.1	-0.2	-0.1
Grants and loans	5.5	6.4	6.7	6.8	6.9
(Changes in percent)					
Exports					
Value <u>1/</u>	46.8	-6.5	-24.8	40.4	47.0
Volume <u>2/</u>	22.8	-9.7	-28.7	42.5	24.0
Unit value <u>1/3/</u>	19.5	3.5	5.4	-1.5	18.5
Imports					
Value <u>1/</u>	30.7	12.1	26.7	-3.8	10.5
Volume <u>2/</u>	11.6	8.6	24.7	-6.8	12.0
Unit value <u>1/4/</u>	17.1	3.2	1.6	3.2	-1.3

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

1/ In SDRs.

2/ Calculated as a residual.

3/ Based on an index of unit values of selected exports.

4/ Based on an index of wholesale prices of major trading partners.

only to compensate for the appreciation observed from mid-1980 to mid-1983. In contrast, movements in an index of the ratio of average export unit values to nontradable prices indicate a deterioration of export competitiveness of about 20 percent during 1980/81-1983/84. If the period is extended to include 1984/85, this figure declines to 8 percent because of the apparently transitory boom in jute goods prices. Analogous indices for important exports show a wide range of losses in competitiveness over the last five years: rice (21 percent); ghee (5 percent); jute goods (35 percent during the four years ending 1983/84 and 11 percent during the five years ending 1984/85); hides and skins (46 percent); and carpets (8 percent). These developments appear to have been important contributing factors to the slow secular growth of overall export volume.

Nepal's public and publicly-guaranteed external debt consists almost entirely of concessional loans. The ratios of the debt to GDP and of debt service payments to exports of goods and nonfactor services and private remittances have steadily increased in recent years. However, both ratios remain relatively low.

2. Trade

The NRB has estimated that the proliferation of export-oriented and import-intensive ready-made garments firms in 1984/85 accounted for a loss in international reserves of about SDR 20 million. These firms have prepaid for imports with loans from the banking system and have repatriated export receipts with some delay, in conformity with Nepalese regulations which permit a lag of up to six months from the date of exportation. No new licenses for ready-made garments firms are being issued in 1985/86, pending completion of an official study on the operations of these firms.

The expansion of the ready-made garments industry raised the scale of both exports and imports. In terms of SDRs, exports rose by 47 percent, reflecting a 24 percent increase in volume which, in turn, mainly reflected the emergence of ready-made garments as an important export (Table 16). ^{1/} Similarly, imports rose by 10 percent, about a third of which was attributable to inputs destined for the ready-made garment industry. Relative to GDP, exports and imports both rose by 2 percentage points, to about 7 percent and 19 percent, respectively. As a result, the ratio of the trade deficit to GDP remained at roughly 12.5 percent.

Reflecting the adequacy of domestic supplies, the volumes of certain important exports also increased substantially. Large gains

^{1/} The value of these exports rose from SDR 1.3 million in 1983/84 to SDR 26.8 million in 1984/85.

Table 16. Nepal: Values and Percentage Changes in Value and Volume of Exports of Major Commodities, 1980/81-1984/85

(Values in millions of SDRs)

	1980/81	1981/82	1982/83	1983/84	1984/85 (Prel.)
Total exports, f.o.b.	108.2	101.1	76.0	106.7	156.9
Changes in: Value	(46.8)	(-6.6)	(-24.8)	(40.4)	(47.0)
Volume ^{1/}	(22.8)	(-9.7)	(-28.7)	(42.5)	(24.0)
Rice	13.7	9.2	0.8	4.7	13.4
Changes in: Value	(5,850.0)	(-32.8)	(-91.3)	(487.5)	(185.1)
Volume	(5,484.4)	(-26.0)	(-93.1)	(564.4)	(215.5)
Ghee (purified butter)	3.6	1.8	2.5	2.9	1.6
Changes in: Value	(167.4)	(-51.2)	(39.1)	(16.0)	(-44.4)
Volume	(155.2)	(-65.4)	(40.5)	(23.7)	(-47.4)
Raw jute	9.5	7.1	6.6	2.3	2.5
Changes in: Value	(1,087.5)	(-25.3)	(-7.0)	(-65.2)	(9.4)
Volume	(1,122.7)	(-21.0)	(-27.8)	(-70.6)	(-37.0)
Jute goods	2.6	5.6	12.0	13.2	14.4
Changes in: Value	(420.0)	(115.4)	(119.7)	(10.1)	(8.9)
Volume	(617.8)	(169.8)	(70.0)	(-23.9)	(-20.6)
Hides and skins	9.2	6.3	6.4	9.7	13.8
Changes in: Value	(-8.0)	(-31.7)	(1.0)	(52.6)	(41.8)
Volume	(...)	(-7.8)	(25.7)	(64.3)	(18.7)
Timber	15.2	5.9	1.9	0.5	0.5
Changes in: Value	(74.5)	(-61.2)	(-67.3)	(-74.4)	(-1.0)
Volume	(29.6)	(-67.1)	(-66.7)	(-72.7)	(6.3)
Carpets	4.4	5.7	9.2	16.6	14.2
Changes in: Value	(51.7)	(30.1)	(62.5)	(79.6)	(-14.5)
Volume	(...)	(24.0)	(52.5)	(74.5)	(-13.6)
Garments	0.9	0.9	0.7	1.3	26.8
Changes in: Value	(...)	(6.5)	(-28.2)	(91.1)	(1,997.0)
Others	49.1	58.6	35.9	55.5	69.7
Changes in: Value	(...)	(19.3)	(-38.7)	(54.6)	(25.6)

Sources: Appendix Table XXVI; and staff estimates.

^{1/} Calculated as a residual of the percentage change in the value of exports and the percentage change in an index of unit values of major exports.

in volumes were recorded for rice (216 percent in tonnage), hides and skins (19 percent in number of pieces), pulses (1,783 percent in tonnage), and maize (2,840 percent in tonnage) (Appendix Table XXVI). 1/ In response to weak prices in 1983/84, the volume of exports of raw jute and jute goods declined by 37 percent and 21 percent, respectively, in 1984/85; nevertheless, export values increased in view of the recovery in jute prices during the year. Owing to weaker external demand, carpet exports declined in value, reflecting an almost commensurate decrease in export volume. These and other export developments are reflected in the composition of exports by broad categories (Appendix Table XXVII). For 1984/85, substantial increases were recorded in the values of exports of food and live animals, crude materials, manufactured goods (mainly carpets and jute goods), and miscellaneous manufactures (mainly ready-made garments).

Import demand strengthened in 1984/85, partly in response to expansionary financial policies. After declining by 4 percent in the previous year, total imports rose by 10 percent in SDR terms, reflecting an estimated real increase of 12 percent. The composition of imports changed significantly. With an absolute decline in food imports, their share in total imports declined by 2 percentage points to 9 percent (Appendix Table XXVII). In contrast, the share of manufactured goods increased by 4 percentage points to 32 percent, mainly on account of the increase in imports of inputs for the ready-made garments industry. Partly reflecting the slowdown in capital expenditures under the budget, the share of machinery and transport declined by 2 percentage points to 23 percent. Despite a 16 percent increase in volume, the share of petroleum products declined by 1 percentage point to 10 percent (Appendix Table XXVIII). Reflecting a marked increase in chemical fertilizer imports, their share increased to 6 percent (4 percent in 1983/84) (Appendix Table XXIX).

During the last five years, imports under aid have formed a fairly stable proportion of total imports. Such proportion, which ranged from 20 to 22 percent, amounted to 21 percent in 1984/85 (Table 17). During the same period, the ratio of imports under aid to total external grants and loan disbursements has also been stable. It fluctuated within the range of 55-57 percent, and amounted to 55 percent in 1984/85.

The measures adopted in 1983/84 to divert import demand to India, in view of a perceived imbalance in reserves favoring Indian rupees,

1/ Relative to volumes in 1981/82, a normal agricultural year, the 1984/85 gains in volumes were: rice (44 percent) and pulses (53 percent). In contrast, the export volume for maize in 1984/85 was only about half of the 1981/82 volume.

continued to have an effect in 1984/85. 1/ The share of India in total imports increased by 4 percentage points to 51 percent; about 1.4 percentage points of the increase was accounted for by imports destined to the ready-made garments industry (Appendix Table XXX). Data on the shares of other countries in total 1984/85 imports are not available. Data for 1983/84 indicate that, after India, the next largest shares were those of Japan (11 percent), the U.S.S.R. (8 percent), and the Federal Republic of Germany (3 percent) (Appendix Table XXXI).

Table 17. Nepal: Imports Under Aid, 1980/81-1984/85

(In millions of SDRs)

	1980/81	1981/82	1982/83	1983/84	1984/85 <u>1/</u>
Imports under aid					
in kind <u>2/</u>	26.9	32.4	42.3	48.5	49.0
Food aid	(--)	(--)	(22.0)	(2.6)	(...)
Others	(26.9)	(32.4)	(20.3)	(46.00)	(...)
Loan-financed imports	13.3	37.5	43.9	42.8	43.3
Total aid imports	40.2	69.8	86.3	91.3	92.3
<u>Memorandum items:</u>					
Total imports, c.i.f.	298.2	334.3	423.7	407.6	450.2
Total grants and loan disbursements	102.4	132.7	152.5	165.7	167.4

Source: Nepal Rastra Bank.

1/ Estimate.

2/ Custom-based data.

1/ These measures, which were directed against imports from third countries, included more stringent import licensing, selective quotas, and the widening of the range of import license fees from 5-15 percent to 1-25 percent.

The recovery of agricultural exports, mainly destined for India, and the sharp increase in exports of ready-made garments to third countries were the major (and opposing) factors influencing the destination of exports. The impact on the destination of exports of measures taken in 1983/84 to encourage exports to third countries is uncertain. ^{1/} In the event, the share of India in total exports declined by 9 percentage points, to 59 percent in 1984/85. Data on the shares of other countries in total 1984/85 exports are not yet available. In 1983/84, the Federal Republic of Germany, the United Kingdom, and the U.S.S.R. were the other major buyers of Nepal's exports; their shares amounted to 10 percent, 5 percent, and 3 percent, respectively.

3. Services and transfers

The net surplus in the services account declined by SDR 6 million to SDR 82 million in 1984/85 (Table 18). Services receipts continued to decline, partly reflecting lower expenditures by foreign diplomatic missions (included in Government n.i.e.) and lower interest earnings from international reserves. Some increases were recorded in freight and other transportation receipts, attributable mainly to the expansion of the operations of the national airline, and in tourism receipts, largely owing to an increase in the per capita expenditure of visitors. The 1984/85 level of receipts from tourism remained well below annual earnings in 1980/81-1982/83. Service payments increased moderately, mainly reflecting increases in payments on transportation and travel.

The net surplus in the transfers account declined slightly to SDR 42 million in 1984/85. Private remittances (mainly from Gurkha soldiers) declined. Indian excise refunds increased markedly, as most of the cumulated Nepalese claims was settled.

4. Capital account and external debt

In 1984/85, the increase in official grants just exceeded the decline in net official loan inflows such that the total aid inflows increased by 1 percent, compared with 7 percent in 1983/84. In the absence of emergency food aid, the pattern of inflows of official capital has been mainly determined by the rate of aid utilization, which also reflects the lumpiness of project phases. The limited progress achieved by efforts of both Nepal and donor agencies to increase the

^{1/} These measures taken in November 1983 included a reduction of export duties, an export receipt retention scheme, and the introduction of an export subsidy of 10 percent of f.o.b. value. Export subsidies under this scheme amounted to NRs 27 million in 1983/84; these subsidies were suspended in 1984/85, and abolished in November 1985.

Table 18. Nepal: Services and Transfers, 1980/81-1984/85

(In millions of SDRs) 1/

	1980/81	1981/82	1982/83	1983/84	1984/85 2/
Services, net	<u>75.0</u>	<u>93.1</u>	<u>109.4</u>	<u>87.8</u>	<u>81.8</u>
Receipts	138.9	154.9	168.7	161.0	157.2
Freight and other transportation	(8.1)	(8.3)	(10.0)	(8.7)	(10.8)
Travel	(51.9)	(56.8)	(56.5)	(35.0)	(40.6)
Investment income	(10.7)	(13.3)	(13.6)	(5.9)	(5.1)
Government, n.i.e.	(30.1)	(34.1)	(42.5)	(70.9)	(65.5)
Other services	(37.0)	(42.3)	(46.2)	(40.5)	(35.2)
Payments	64.0	61.8	59.3	73.2	75.4
Freight and other transportation 3/	(10.8)	(11.6)	(8.7)	(8.2)	(15.4)
Travel	(18.7)	(19.3)	(22.1)	(20.3)	(24.1)
Investment income	(3.6)	(4.0)	(6.0)	(6.4)	(8.1)
Government, n.i.e.	(3.1)	(4.0)	(4.6)	(6.4)	(4.9)
Other services	(27.8)	(23.0)	(18.1)	(32.0)	(23.0)
Private transfers, net	<u>37.4</u>	<u>35.4</u>	<u>38.5</u>	<u>43.2</u>	<u>42.2</u>
Receipts	38.6	37.0	40.7	45.6	43.6
Private remittances	(32.5)	(32.2)	(36.8)	(38.3)	(35.6)
Indian excise refund	(3.8)	(2.7)	(0.6)	(3.7)	(6.1)
Other	(2.2)	(2.1)	(3.4)	(3.5)	(2.0)
Payments	1.2	1.6	2.2	2.4	1.5

Source: Data provided by the Nepalese authorities.

1/ Totals may not add up due to rounding.

2/ Provisional.

3/ Excludes freight on imports.

economy's aid absorption capacity is underscored by the undisbursed grants and concessional loans of nearly US\$1 billion.

In the four years prior to 1984/85, the net flows under miscellaneous capital and errors and omissions fluctuated in the range of minus SDR 10 million to plus SDR 8 million. The unexplained outflow in 1984/85 of SDR 20 million (SDR 40 million less the adjustment for the outflow associated with the growth of the ready-made garments industry) lies substantially outside this range. Factors that may account for this outflow include the increase in the scope for misvaluation of imports and exports as the scale of trade rose, the increase in travelers' imports which tend to be undervalued at the airport, and capital transfers facilitated by the convertibility of the Nepalese rupee with the Indian rupee and the possibility of converting the latter to convertible currencies in Asian money markets.

In the last five years ending 1984/85, Nepal's outstanding external public debt doubled to SDR 408 million, thereby raising the ratio of such debt to GDP by 8 percentage points to 18 percent (Table 19). As the debt consists almost entirely of concessional loans, the ratio of debt service payments to exports of goods and nonfactor services and private remittances has remained relatively low. Nevertheless, as service payments have come on stream, the debt service ratio has increased steadily from 1.9 percent in 1980/81 to 4.7 percent in 1984/85. The limited amount of commercial external public debt relates mainly to suppliers' credits for equipment purchases under certain aid-financed projects. Short-term borrowing has been limited mainly to the revolving loans traditionally required in the normal operations of the Nepal Oil Corporation.

5. International reserves

Nepal has maintained a relatively high level of reserves, mainly in view of the vulnerability of the external position to agricultural performance. The decline in reserves as a result of balance of payments deficits during the last three years has led total gross reserves in terms of non-aid imports to decline from 12.2 months as of mid-1982 to 4.8 months by mid-1985. In terms of total imports, total gross reserves declined from 9.5 months to 3.9 months over the same period. ^{1/}

The import diversion measures adopted in 1983/84 led to substantial changes in the composition of reserves. The ratio of Indian rupee reserves to gross official reserves, which stood at a peak of 52 percent in mid-1983, declined to 17 percent by mid-1985. As a result, Indian rupees became as scarce as other currencies held in reserves.

^{1/} Gross official reserves, declined from the equivalent of 9.2 months of nonaid imports in mid-1982 to 2.5 months in mid-July 1985.

Table 19. Nepal: External Public Debt and Debt Service,
1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85
	<u>(In millions of SDRs)</u>				
Debt outstanding 1/ Of which: to IMF	199.1 (32.7)	237.6 (30.1)	279.5 (25.1)	396.1 (19.2)	407.7 (12.2)
Amortization Of which: to IMF	2.6 (0.5)	4.8 (2.6)	8.1 (4.8)	8.5 (5.1)	9.1 (5.2)
Interest Of which: to IMF	2.6 (0.7)	3.2 (1.2)	5.1 (1.0)	5.1 (0.7)	7.2 (0.4)
Total debt service Of which: to IMF	5.2 (1.2)	8.0 (3.8)	13.2 (5.8)	13.6 (5.8)	16.3 (5.6)
	<u>(In percent)</u>				
Debt service ratio 2/ Of which: to IMF	1.9 (0.4)	2.9 (1.3)	4.9 (2.0)	4.5 (1.9)	4.7 (1.6)
Outstanding debt/GDP Of which: to IMF	10.1 (1.7)	11.3 (1.4)	12.9 (1.2)	17.5 (0.9)	17.6 (0.5)

Sources: Data provided by the Nepalese authorities; IMF Treasurer's Department; and staff estimates.

1/ End of period.

2/ In relation to exports of goods and nonfactor services and receipts from private remittances.

During the close of 1984/85, the NRB began selling convertible currency reserves in order to maintain adequate balances in Indian rupees.

VII. The Exchange and Trade System

1. Introduction

The currency of Nepal is the Nepalese rupee, which is freely convertible in Nepal to the Indian rupee. In June 1983, the NRB adopted a trade-weighted basket of currencies to which the Nepalese rupee has been pegged, with the U.S. dollar as the intervention currency. ^{1/} While the exchange rate between the Nepalese rupee and the Indian rupee had been maintained at NRs 1.451 per Indian rupee from March 1978 until end-November 1985, frequent changes in the exchange rate of the Nepalese rupee vis-a-vis the U.S. dollar since June 1983 have prevented the re-emergence of broken cross rates. On November 30, 1985, the exchange rate of the Nepalese rupee was changed from NRs 17.50 to NRs 20.50 per U.S. dollar and from NRs 1.451 to NRs 1.70 per Indian rupee.

During 1983/84-1984/85, the trade-weighted real effective exchange rate index generally depreciated, reflecting a declining rate of domestic inflation and depreciations of the nominal exchange rates vis-a-vis convertible currencies. However, this depreciation has only served to reverse the appreciation observed during the period July 1980-July 1983. The index of the real effective exchange rate stood at 102.9 in July 1985 compared with 100.0 in July 1980 (Appendix Table XXXII).

2. Main features of the exchange and trade system ^{2/}

a. Prescription of currency

No prescription of currency requirements apply to outgoing payments to countries with which no payments agreement is in force, and these may

^{1/} From March 1978 to September 1981, Nepal had a dual exchange rate system applying to transactions with countries other than India. This system comprised two different exchange rates: one rate (NRs 16 per US\$1, changed to NRs 14 per US\$1 in February 1980) applied to merchandise trade except imports of petroleum products, cement, and chemical fertilizers; and another rate (NRs 12 per US\$1) applied to other transactions. In September 1981, the dual exchange rates for transactions with countries other than India were unified at the rate of NRs 13.2 per US\$1; this rate was depreciated by 8 percent to NRs 14.3 per US\$1 in December 1982. During this period, all transactions with India were conducted at the fixed exchange rate of NRs 1.451 per Indian rupee.

^{2/} A more detailed description of the exchange and trade system may be found in the Annual Report on Exchange Arrangements and Exchange Restrictions, 1985.

be made in foreign currency supplied by the NRB. 1/ Payments to, and receipts from, member countries of the Asian Clearing Union (ACU) other than India (i.e., Bangladesh, Burma, the Islamic Republic of Iran, Pakistan, and Sri Lanka) in respect of current transactions (except for those relating to petroleum, natural gas, and their products, and government transactions) should be effected through the ACU. Payments for imports from India are normally settled in Indian rupees, but the NRB sometimes makes convertible currencies available for such payments on the recommendation of the Ministry of Finance. The proceeds of exports to India may be obtained in Indian rupees, while proceeds from other countries must be received in any of the quoted convertible currencies. 2/

b. Imports and import payments

Imports from India do not require import licenses. All other imports of goods require import licenses. Imports of certain items require special permission of the Government and imports of certain other items are banned. Under the Trade and Transit Treaties, Nepal and India have agreed to freedom of trade between themselves in Nepalese and Indian goods. Thus, Indian goods may, in principle, be imported freely (although some are subject to a permit system in order to prevent their re-exportation, and certain other goods are subject to export ceilings in India). The Government of India reimburses the Government of Nepal for the Indian excise duties applied on goods imported directly from India. Imports of certain commodities (e.g., fertilizers, cement, petrol, diesel fuel, bitumen, jute patching oil, raw wool, cotton, industrial machinery, stainless steel, wrist watches, synthetic yarn, radios, pocket calculators, video sets, photographic equipment, and other specified goods) from countries other than India are subject to quantitative restrictions.

License fees are imposed as follows: imports of certain items subject to quotas (including fertilizers, cement, certain petroleum products, raw wool, cotton, and industrial machinery) are subject to a fee of 1 percent of the import license value. License fees also apply to other industrial and construction materials (5 percent), essential consumer goods (10 percent), and luxury items (25 percent).

Margin deposits are required on import letters of credit for commercial imports. The deposit requirements are as follows: 10 percent for industrial raw materials, machinery, and spare parts imported

1/ Nepal has bilateral payments agreements with Bulgaria, Poland, Romania, and the U.S.S.R.; payments for transactions under the agreement with Poland must be made through special accounts.

2/ Australian dollars, Canadian dollars, deutsche mark, French francs, Japanese yen, Netherlands guilders, pounds sterling, Swiss francs, Singapore dollars, and Asian Monetary Units (AMUs).

under the World Bank loan programs; 1/ 30 percent for imports of development and construction materials such as cement, corrugated sheet, and iron and iron rods; 40 percent for imports of dairy products, writing paper or newsprint, agricultural goods, and educational and scientific materials; 50 percent for other goods except luxury goods; and 75 percent for luxury goods.

Nepalese citizens returning from abroad, who have spent at least seven nights out of the country, are allowed to bring in goods worth NRs 2,000, free of customs duties and sales taxes. In addition, they can import, without license but subject to customs duties and taxes, goods worth NRs 15,000 twice a year. For those who have official sources of foreign exchange earnings and have stayed more than one month abroad, additional imports are allowed.

c. Exports and export proceeds

Exports of items having archaeological and religious importance, and other exports including old coins, gold and silver, coins and jewelry made of these metals, wild animals, logs and sawn woods, and other specified items are prohibited. The re-export to India of non-Nepalese goods is not permitted, and the re-export to any destination of goods imported from India is prohibited. With specified exceptions, goods of Nepalese origin may be exported freely to India. All exports to other destinations, except handicrafts, woolen goods other than carpets, hessians, jute bags, dry ginger, cardamom, cheese, catechu, rice bran cake, medicinal herbs, and processed skins require export licenses. The exchange proceeds from exports, except Indian rupees, must be surrendered to the NRB or to an authorized bank within six months of the date when the goods crossed the customs frontier.

A 10 percent cash subsidy on f.o.b. border customs value was provided for exports to countries other than India, except for leather or leather goods, for which the cash subsidy ranges between 10 percent and 20 percent. Under this measure, export subsidies amounting to NRs 27 million were paid out in 1983/84. The application of this measure was suspended and no subsidy payments on exports were made in 1984/85; it was abolished on November 30, 1985.

Foreign or Nepalese tourists may take out, without permission, goods not exceeding NRs 15,000 in value, which are not otherwise restricted.

1/ On the basis of the importer's creditworthiness, the bank can demand an additional margin in the form of any guarantee acceptable to the bank.

d. Invisibles

Payments. Payments to India may be made freely in Indian rupees, but for amounts of NRs 500 or over, the purpose of the payment must be declared.

For travel for medical treatment, to countries other than India for medical treatment, foreign exchange is allowed as recommended by a panel of doctors; students studying at their own expense in these countries are allowed up to US\$2,160 a year for board and lodging, while payments for tuition fees are allowed as required. Foreign exchange is made available for certain business trips but is restricted for tourist travel abroad. Payments for other invisibles depend on the essentiality of the transactions and the availability of foreign exchange. Nepalese and Indian currencies may be taken out freely to India but only by Nepalese and Indian nationals; the export of these currencies to countries other than India is prohibited. Foreign bank notes, other than Indian bank notes, may not be taken out by residents without permission. Nonresidents may take out the unchanged amount of any foreign bank notes they brought in; however, nonresidents, other than Indian nationals, may not take out Nepalese or Indian bank notes.

Proceeds. With the exception of Indian rupees, foreign exchange proceeds derived from transactions in invisibles must be surrendered to the Nepal Rastra Bank or an authorized bank at the official rate of exchange. Nepalese and Indian currencies may be brought in from India only, and by Nepalese and Indian nationals only; the import of these currencies from countries other than India is prohibited. When extending their visas, tourists are required to produce evidence that they have converted a minimum of US\$5 at the official rate of exchange for each day's stay. Nonresidents other than Indian nationals are not allowed to bring in Nepalese or Indian bank notes. Other foreign bank notes may be brought in freely by residents and nonresidents, but residents and Indian nationals must declare any foreign bank notes they bring in.

e. Capital

No conditions are specified concerning receipts and remittances in respect of capital transactions, but official exchange is not normally provided for capital remittances by Nepalese nationals. Nepalese citizens, whether resident in Nepal or not, are prohibited from making any type of investment in foreign countries, except investment specifically exempted by government notice; the exemptions include the purchase and sale of insurance policies abroad, investments abroad by any banking or financial institution incorporated in Nepal, and the purchase of shares of foreign companies under a rights issue.

Foreign investors who have obtained an investment guarantee are eligible for outward remittances in respect of the following items: all

or part of the sales proceeds of investment, dividends, interest or principal repayment, amounts arising from the transfer of technology, and compensations on acquired assets. In cases of proceeds of investment sales and dividends, remittances may be subject to installments fixed by the Government.

3. Changes in the exchange and trade system
since the last consultation report

Changes during 1984

March 10. The Government introduced changes in import licensing procedures with regard to Nepalese citizens returning from abroad. According to these changes, import licenses would not be issued to returning citizens during their stay abroad nor on the basis of their foreign exchange earnings while abroad (i.e., returning citizens would be allocated import licenses on the same basis as residents).

June 8. India agreed to include 12 additional Nepalese products in the list of commodities to be provided preferential treatment in the Indian market. With the inclusion of these 12 items, Nepal could now have a basic tax-free entry for 47 items into the Indian market. Of these 47 Nepalese exports, 19 items would be allowed into India without a "pro forma formality." Earlier, only 15 items were entitled to enjoy such status. Considering the transit problems of Nepal, the time allowed for lifting the Nepalese cargo at Narayanpur Anand in India was extended from one day to three days for a period of one year.

August 9. The Government decided to issue export licenses to rice dealers and rice mill owners. However, the exporters were required to pay a levy of 25 percent of the total exports to the Nepal Food Corporation (NFC). Accordingly, licenses would also be issued to export rice to businessmen who purchase rice from the local market and pay a 25 percent levy to the NFC or to those who produce certificates of rice purchased from persons who have paid the levy already. Similarly, the Government also decided to permit the export of wheat millet and flour.

August 30. The Government defined certain goods as personal belongings of Nepalese citizens returning from abroad. These goods would be exempted from import duty, sales taxes, and miscellaneous taxes subject to the prevailing limits of NRs 3,000-13,000 depending on the duration of stay of Nepalese travelers abroad. These personal belongings included clothing, bedding, and household effects. They also included 3 tolas of gold or 150 tolas of silver ornaments or any other ornaments whose value did not exceed NRs 8,000. Oil, clarified butter, tea, dry fruits, sweets, pickles, medicines, shoes, dolls, tobacco, hand machine pressing irons, calculators, etc. were also considered as personal belongings. The facility also covered portable typewriters, electric fans, thermos bottles, transistor radios, freezers, vacuum cleaners, air conditioners, washing machines, motor parts and other

household goods. Goods for daily use exempted from taxes were fountain pens, ball pens, pencil sets, and watches. Professional equipment, such as carpentry and masonry tools, medical goods, etc. were also exempted from taxes. However, taxes would be levied on motor vehicles, motor-cycles, and such other means of transport.

September 12. In addition to three existing trade routes, Nepal and China agreed to open three more routes. The newly opened routes are Olangchunggola of Taplejung, Kimathanka of Sankhuwasabha, and Tinker of Darhcula district. Nepal and China also agreed to the export from Nepal to Tibet of a specified amount of rice, flour, cement, iron goods, light industrial products, cloth, beverages (e.g. beer and coca-cola), and to the import to Nepal from Tibet of wool, sheep, goats, light industrial products, and handicrafts during the period 1985-87.

October 17. The Industrial Services Center directed garment manufacturers to have the value added in their export products certified by the Center on a compulsory basis. Such certificates would be issued only for goods produced after September 20, 1984, while goods produced before that date could be exported with the recommendation of the appropriate government department.

November 28. The Nepal Rastra Bank changed the rates of deposit margins on import letters of credit from 100 percent to 40 percent on imports of dairy products, writing paper or news print, agricultural goods, and educational and scientific materials, and from 100 percent to 50 percent on imports of other goods except that for imports of machinery, raw material, and spare parts by industrial units and institutions associated with World Bank loan programs, the margin was reduced to 30 percent and that the 30 percent margin required to open letters of credit for imports of development and construction materials such as cement, corrugated sheet, iron and iron rods remained unchanged. Government bonds and receipts on fixed deposits could also be taken as securities instead of cash for the purpose (Appendix Table XVII).

Changes during 1985

January 9. The deposit margin rate on import letters of credit opened by registered industries and business firms related to cottage industries and small industrial projects under the World Bank loan programs, was reduced from 30 percent to 10 percent cash for imports of industrial raw materials, machinery, and their spare parts. However, if a bank considered it necessary to impose a higher margin on the basis of the importer's creditworthiness, an additional margin in the form of noncash collateral may have been requested by the bank involved (Appendix Table XVII).

January 9. The Nepal Rastra Bank required the opening of letters of credit for exports of jute and jute products, rice, pulses, turmeric

powder, foodgrains, processed and semi-processed leather, catechu, woolen carpets, ready-made garments and other goods exceeding the value of US\$1,000. However, goods exported on the basis of barter trade were exempted from this provision.

March 15. The National Insurance Company of India decided to charge a uniform insurance fee of 0.25 percent of f.o.b. value on all kinds of third country goods transported to Nepal via India effective April 1, 1985. Previously, fees varied by product.

March 22. The existing Indo-Nepal transit treaty, which was due to expire on March 24, was extended on an ad hoc basis for a period of six months.

April 20. The Governments of India and Nepal agreed to extend India's quota system on exports to Nepal through 1985.

June 11. The Nepal Rastra Bank instructed the commercial banks to charge 19 percent interest on import loans in lieu of the prevailing rate of 17 percent. Moreover, it raised the margin on the letters of credit for imports of luxury goods from 50 percent to 75 percent.

July 9. The Ministry of Finance imposed revenue stamp duties on personal purchases of foreign exchange at the rates of NRe 0.15 per 10 Indian rupees, and NRs 3 per U.S. dollar (or the equivalent in other currencies). The revenue stamp duty on purchases of Indian rupees was not implemented.

July 15. The Ministry of Finance announced certain changes in baggage facilities. Accordingly, any Nepalese traveler who had spent at least seven nights abroad was entitled to bring goods worth NRs 2,000, free of customs duty and sales tax. Furthermore, such a traveler was entitled to the import of goods worth NRs 15,000 without license, but subject to custom duty and tax. 1/ These facilities were given twice a year. However, from the third time, persons going abroad on government business were entitled to exemption from customs duty and sales tax of up to NRs 850 and NRs 150, respectively. Additional facilities were given to those who had official sources of foreign exchange earnings abroad, but one should have stayed abroad more than one month to be entitled to such facilities. Regarding the import of radios and tape recorders, only medium wave radios (excluding radios bearing the name, brand, and model manufactured in Nepal) would be free of customs duty under the baggage rule.

1/ Previously, Nepalese citizens returning from abroad were allowed to import without license personal effects valued from NRs 3,000 to NRs 13,000, depending on the duration of their stay abroad. Customs duties worth NRs 1,000-3,000 and sales taxes worth NRs 400-1,200 were exempted on such goods.

August 9. The Nepal Rastra Bank authorized the commercial banks to accept deposits denominated in U.S. dollars and pounds sterling and to fix the interest rate on such deposits. Interest would accrue in the currency of the deposit. The following would qualify to open such accounts: (1) Nepalese citizens who earned convertible foreign currency by working in international organizations or agencies or embassies; (2) Nepalese citizens who earned foreign currencies by working abroad or pursuing any vocation there (except in India and Bhutan) for more than six months; (3) international organizations and foreign nationals; and (4) Indian and Bhutanese citizens residing in countries other than Nepal, India, or Bhutan could open these accounts. Qualified persons or organizations could open current and fixed deposit accounts. Time deposits could be made for periods of three months, six months, nine months, or one year. Though accounts could be opened only in U.S. dollars or pounds sterling, for deposit purposes, four other currencies--Swiss francs, the French francs, Japanese yen, and deutsche mark could be exchanged for either of the above two currencies at the prevailing official rates of exchange. Current accounts could be opened with a minimum of US\$1,000 or the equivalent and time deposits with a minimum of US\$5,000 or the equivalent. Account holders could withdraw up to 70 percent of their deposits in foreign currency. Thirty percent of withdrawals would have to be made in Nepalese rupees at the prevailing rates of exchange. An exchange restriction arises because the contractual terms and conditions prevent the withdrawal by nonresidents of foreign currency deposits at their full foreign exchange value, and the scheme contains features that discriminate among currencies of Fund members.

November 30. The exchange rate of the Nepalese rupee was changed from 17.50 to 20.50 per U.S. dollar and from 1.451 to 1.70 per Indian rupee. Moreover, the 10 percent export subsidy introduced in November 1983 (and suspended since 1984/85) was abolished. Also, the revenue stamp duties on purchases of foreign currency introduced in July 1985 was abolished.

Table I. Nepal: Gross Domestic Product, 1980/81-1984/85 1/

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85 (Est.)
Total consumption	24,333 (89.1)	27,403 (90.5)	30,563 (90.9)	34,201 (89.6)	37,341 (89.5)
Gross domestic investment	4,808 (17.6)	5,098 (16.8)	6,799 (20.2)	7,402 (19.4)	7,936 (19.0)
Fixed capital formation	4,299 (15.7)	5,249 (17.3)	6,747 (20.1)	6,958 (18.2)	7,448 (17.8)
Public	1,823 (6.7)	2,487 (8.2)	3,306 (9.8)	3,340 (8.7)	3,575 (8.6)
Private	2,476 (9.1)	2,762 (9.1)	3,441 (10.2)	3,618 (9.5)	3,873 (9.3)
Change in stocks	509 (1.9)	-151 (-0.5)	52 (0.2)	444 (1.2)	488 (1.2)
Net exports	-1,834 (-6.7)	-2,236 (-7.4)	-3,741 (-11.1)	-3,419 (-9.0)	-3,539 (-8.5)
Exports of goods and services <u>2/</u>	3,523 (12.9)	3,592 (11.9)	3,455 (10.3)	4,187 (11.0)	5,130 (12.3)
Imports of goods and services <u>3/</u>	-5,357 (-19.6)	-5,828 (-19.3)	-7,196 (-21.4)	-7,606 (-19.9)	-8,669 (-20.8)
Nominal GDP	27,307	30,265	33,621	38,184	41,738
(Percentage change)	(16.9)	(10.8)	(11.1)	(13.6)	(9.3)
Memorandum items:					
Domestic saving <u>4/</u>	2,974 (10.9)	2,862 (9.5)	3,058 (9.1)	3,983 (10.4)	4,397 (10.5)
Foreign saving <u>5/</u>	1,834 (6.7)	2,236 (7.4)	3,741 (11.1)	3,419 (9.0)	3,539 (8.5)
Gross saving	4,808 (17.6)	5,096 (16.8)	6,799 (20.2)	7,402 (19.4)	7,936 (19.0)
Total domestic demand <u>6/</u>	29,141 (106.7)	32,501 (107.4)	37,362 (111.1)	41,603 (109.0)	45,277 (108.5)

Sources: Central Bureau of Statistics; and Nepal Rastra Bank.

1/ Figures in parentheses are percent of GDP.

2/ Sum of exports (f.o.b.) and service receipts less receipts of investment income.

3/ Sum of imports (c.i.f.) and service payments less payment of investment income.

4/ GDP less consumption.

5/ Net exports.

6/ Total consumption plus investment.

Table II. Nepal: Changes in Real GDP 1/, 1980/81-1984/85

(In percent)

	1980/81	1981/82	1982/83	1983/84	1984/85 (Est.)
Consumption	8.6	5.4	-1.0	5.8	2.7
Investment <u>2/</u>	4.3	-0.7	18.4	3.0	0.9
Public fixed investment	15.2	27.7	16.4	-4.4	0.7
Private fixed investment	3.5	4.4	9.1	-0.5	0.7
Total domestic demand	7.8	4.4	2.1	5.3	2.4
GDP	8.3	3.8	-1.4	7.4	2.8

Sources: Table 1 and Appendix Table I.

1/ On the basis of nominal values divided by GDP deflator.

2/ Includes change in stocks.

Table III. Nepal: Operations in Foodgrains of Nepal Food Corporation,
1980/81-1984/85

(Volume in thousands of metric tons; value in NRs million)

	1980/81	1981/82	1982/83	1983/84	1984/85 (Est.)
Procurement					
Volume	62.0	26.7	57.2	37.0	30.5
Value	177.9	84.1	290.7	130.7	121.1
Domestic sales					
Volume	50.0	28.6	49.1	44.7	33.6
Value	220.0	125.8	259.8	236.5	201.2
Export					
Volume	8.0	--	--	--	--
Value	25.2	--	--	--	--
Beginning stock					
Volume	17.2	21.2	19.3	27.4	19.7
Value	54.2	60.8	60.8	139.2	69.6
Ending stock					
Volume	21.2	19.3	27.4	19.7	16.6
Value	60.8	60.8	139.2	69.6	65.9

Source: Nepal Rastra Bank.

Table IV. Nepal: Tourist Arrivals by Nationality,
1980-84

	1980	1981	1982	1983	1984
United States and Canada	17,817	17,082	20,012	22,134	21,565
Europe	71,959	65,032	70,110	68,548	61,462
India	40,692	48,975	54,201	50,102	58,717
Japan	11,684	10,025	9,488	10,561	7,439
Other	20,745	20,555	21,637	28,060	27,451
Total tourist arrivals	<u>162,897</u>	<u>161,669</u>	<u>175,448</u>	<u>179,405</u>	<u>176,634</u>
Annual percentage change	0.4	-0.8	8.5	2.3	-1.5

Sources: Department of Tourism; and Nepal Rastra Bank.

Table V. Nepal: Tourism Indicators, 1980-84

	1980	1981	1982	1983	1984 <u>1/</u>
Tourist arrivals (in thousands of persons)	162.9	161.7	175.4	179.4	176.6
Annual percentage change	(0.4)	(-0.8)	(8.5)	(2.3)	(-1.5)
Average duration of stay (in days)	11.2	10.5	13.3	11.3	10.6
Per capita expenditure (in NRs) <u>2/</u>	4,240	4,813	3,601	3,940	5,916
Hotel bed capacity	5,109	5,505	5,642	6,819	6,819
Hotel capacity utilization (in percent)	38	34	32	31	36

Sources: Department of Tourism; and Nepal Rastra Bank.

1/ Except for tourist arrivals, other data are estimates.

2/ Excluding Indian tourists.

Table VI. Nepal: Consumption and Stocks of Major
Petroleum Products, 1980/81-1984/85

(In metric tons)

	1980/81	1981/82	1982/83	1983/84	1984/85 Estimates
Consumption:					
Petrol	8,788	9,461	10,944	12,006	12,500
Diesel	43,954	44,001	51,260	55,661	60,000
Kerosene	26,013	27,009	27,718	35,932	39,000
Light diesel oil	7,742	6,973	5,623	5,724	6,000
Aviation turbine fuel	<u>12,447</u>	<u>14,679</u>	<u>15,342</u>	<u>18,637</u>	<u>19,000</u>
Total	98,944	102,123	110,887	127,960	136,500
Year-end stocks:					
Petrol	196	481	621	678	884
Diesel	3,409	5,005	5,931	3,312	6,546
Kerosene	3,379	2,479	2,952	1,415	5,075
Light diesel oil	1,072	886	551	678	782
Aviation turbine fuel	<u>555</u>	<u>1,010</u>	<u>1,485</u>	<u>473</u>	<u>1,559</u>
Total	8,611	7,861	11,540	6,556	14,846

Sources: Nepal Oil Corporation; and Nepal Rastra Bank.

Table VII. Nepal: Retail Prices of Petroleum Products
in Kathmandu, 1980/81-1984/85

(In Nepalese rupees per liter and at end-period)

	1980/81	1981/82	1982/83	1983/84	1984/85
Gasoline	9.30	9.30	9.30	9.30	10.90
High-speed diesel	5.65	5.65	5.65	5.65	7.50
Kerosene oil	5.15	4.90	4.90	4.90	5.90

Source: Nepal Oil Corporation.

Table VIII. Nepal: Wages in the Unorganized Private Sector, 1983/84-1984/85 1/

(Nepalese rupees per day)

Occupation	Biratnagar		Bhairahawa		Nepalgunj		Kathmandu	
	1983/84	1984/85	1983/84	1984/85	1983/84	1984/85	1983/84	1984/85
Carpenter	27.42	30.00	34.17	37.75	28.00	30.00	40.00	45.00
Skilled	(15.1)	(9.4)	(4.9)	(10.5)	(2.8)	(7.1)	(14.3)	(12.5)
Semiskilled	23.50	25.00	29.92	35.00	25.42	28.00	38.00	40.00
	(13.7)	(6.4)	(13.2)	(17.0)	(3.8)	(10.1)	(15.2)	(5.3)
Masons	27.42	30.00	31.17	34.75	28.00	30.00	40.00	45.00
Skilled	(15.1)	(9.4)	(5.4)	(11.5)	(2.8)	(7.1)	(14.3)	(12.5)
Semiskilled	23.92	25.00	27.92	31.83	25.42	28.00	38.00	40.00
	(20.6)	(4.5)	(13.6)	(14.0)	(3.8)	(10.1)	(15.2)	(5.3)
Industrial laborers	12.56	13.93	12.56	14.23	13.80	14.72	12.56	15.06
Skilled	(0.5)	(10.9)	(--)	(13.3)	(9.9)	(6.7)	(--)	(19.9)
Unskilled	8.66	9.85	8.66	10.11	10.50	10.63	8.66	10.83
	(--)	(13.7)	(--)	(16.7)	(1.0)	(1.2)	(--)	(25.1)
Agricultural laborers	12.00	12.00	12.50	12.50	14.83	16.00	20.00	22.00
Male	(2.8)	(--)	(4.6)	(--)	(8.8)	(7.9)	(2.6)	(10.0)
Female	12.00	12.00	10.50	11.00	12.41	13.00	15.00	18.00
	(4.3)	(--)	(8.6)	(4.8)	(6.3)	(4.8)	(3.4)	(20.0)

Source: Nepal Rastra Bank.

1/ Provisional data for 1984/85; figures in parentheses are percentage changes from the previous year.

Table IX. Nepal: Changes in Urban Consumer Prices by
Region, 1973/74-1984/85

(In percent)

	National	Kathmandu	Hills	Terai
1973/74	18.2	14.6	14.6	22.5
1974/75	16.8	16.9	14.0	17.1
1975/76	-0.7	5.3	2.9	-5.8
1976/77	2.7	0.3	3.7	4.1
1977/78	11.2	10.2	10.7	11.2
1978/79	3.5	3.3	3.5	3.6
1979/80	9.8	12.2	9.8	8.1
1980/81	13.4	14.6	12.9	12.9
1981/82	10.4	10.6	10.2	10.9
1982/83	14.2	12.3	14.8	15.1
1983/84	6.2	5.4	6.5	6.3
1984/85	4.1	3.8	9.2	3.1

Source: Nepal Rastra Bank, Quarterly Economic Bulletin.

Table X. Nepal: Wholesale Prices of Major Agricultural Products, 1980/81-1984/85

(In Nepalese rupees per quintal) 1/

	1980/81	1981/82	1982/83	1983/84	1984/85
Foodgrains					
Paddy (coarse)	171.9	202.1	270.2	240.0	223.5
Maize	190.5	216.3	281.5	220.6	241.2
Wheat	240.7	271.4	342.6	266.8	252.7
Cash crops					
Sugarcane	29.7	31.3	29.4	30.1	31.7
Raw jute	191.7	239.6	328.1	476.9	885.4
Oilseeds	718.2	659.0	686.0	879.9	808.2
Tobacco					
Virginia (C grade)	1,330.0	1,330.0	1,550.0	1,550.0	1,550.0
Natu (C grade)	700.0	700.0	850.0	850.0	850.0

Source: Nepal Rastra Bank.

1/ 1 quintal = 100 kilograms.

Table XI. Nepal: Government Revenue, 1980/81-1984/85 1/

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85 Revised est.
Tax revenue	<u>2,042</u>	<u>2,218</u>	<u>2,430</u>	<u>2,752</u>	<u>3,159</u>
Taxes on income and profits <u>2/</u>	159	196	251	299	312
Taxes on property	193	182	183	227	229
Land revenue	(109)	(84)	(67)	(77)	(76)
House and land	(7)	(9)	(11)	(14)	(12)
Registration	(78)	(88)	(105)	(135)	(141)
Taxes on goods and services	875	1,016	1,235	1,400	1,554
Sales tax	(538)	(597)	(709)	(771)	(844)
Excise tax	(242)	(306)	(366)	(432)	(483)
Taxes on services <u>3/</u>	(50)	(60)	(70)	(88)	(94)
Others	(45)	(52)	(91)	(109)	(133)
Taxes on international trade	816	825	761	826	1,063
Import taxes	(743)	(780)	(735)	(795)	(1,006)
Customs duties	(685)	(740)	(715)	(746)	(906)
Indian excise refunds <u>4/</u>	(58)	(40)	(20)	(49)	(100)
Export taxes	(70)	(42)	(25)	(30)	(56)
Others	(3)	(3)	(1)	(--)	(1)
Nontax revenue	<u>361</u>	<u>449</u>	<u>377</u>	<u>591</u>	<u>683</u>
Surpluses from departmental enterprises	56	48	64	100	98
Investment income	101	124	133	159	120
Forest revenue	91	114	54	61	91
Royalties	3	4	4	5	18
Administrative charges and miscellaneous	111	159	123	267	357
Current revenue	<u>2,403</u>	<u>2,668</u>	<u>2,808</u>	<u>3,341</u>	<u>3,842</u>
Foreign grants	<u>869</u>	<u>993</u>	<u>1,090</u>	<u>877</u>	<u>1,097</u>
Current revenue and grants	<u>3,272</u>	<u>3,661</u>	<u>3,898</u>	<u>4,219</u>	<u>4,939</u>

Sources: Ministry of Finance, Budget Speech (various issues); and data provided by the Nepalese authorities.

1/ The sum of components may not equal subtotals because of rounding.

2/ Includes taxes on loans and interest.

3/ Includes entertainment tax, road maintenance tax, hotel tax, and airflight tax.

4/ Government of India refunds of excise duties levied on goods exported to Nepal.

Table XII. Nepal: Development Expenditure, 1980/81-1984/85 1/

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85 Revised est.
General public service	<u>31</u>	<u>17</u>	<u>28</u>	<u>28</u>	<u>18</u>
Social services	<u>410</u>	<u>682</u>	<u>963</u>	<u>939</u>	<u>1,023</u>
Education	286	412	605	679	672
Health	98	153	216	200	284
Other social and community services	26	117	142	60	67
Economic services	<u>2,173</u>	<u>2,664</u>	<u>3,529</u>	<u>3,803</u>	<u>3,765</u>
Agriculture and forestry	676	1,067	1,451	1,394	1,749
Irrigation	(288)	(360)	(487)	(545)	(683)
Land reform	(12)	(16)	(21)	(21)	(17)
Cadastral survey	(30)	(38)	(46)	(46)	(41)
Other agriculture	(257)	(468)	(669)	(547)	(742)
Forestry	(89)	(185)	(228)	(235)	(266)
Mining and manufacturing	123	267	373	651	459
Electricity and water	726	490	685	974	820
Electricity	(653)	(382)	(443)	(653)	(518)
Water supply	(73)	(108)	(242)	(221)	(202)
Transport and communications	632	793	876	844	799
Transport and public works	(601)	(744)	(802)	(747)	(694)
Of which: Roads and bridges	(527)	(600)	(668)	(657)	(603)
Communications	(31)	(49)	(74)	(97)	(105)
Other economic services	16	47	144	40	39
Unallocable	<u>112</u>	<u>360</u>	<u>431</u>	<u>327</u>	<u>665</u>
Transfers to local governments	90	270	335	335	344
Miscellaneous	27	94	127	59	378
Net lending	-5	-4	-31	-67	-57
Loan payments	(11)	(8)	(3)	(--)	(11)
Loan repayments	(16)	(12)	(34)	(67)	(68)
Development expenditure and net lending	<u>2,726</u>	<u>3,723</u>	<u>4,952</u>	<u>5,097</u>	<u>5,471</u>

Sources: Ministry of Finance, Budget Speech (various issues); and data provided by the Nepalese authorities.

1/ The sum of components may not equal subtotals due to rounding.

Table XIII. Nepal: Regular Expenditure, 1980/81-1984/85 ^{1/}

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85 Revised est.
General public services	418	549	693	738	874
General administration	(238)	(343)	(422)	(437)	(515)
Public order and safety	(180)	(206)	(271)	(301)	(359)
Defense	259	283	392	454	523
Social services	184	214	262	289	343
Education	(99)	(107)	(129)	(137)	(167)
Health	(65)	(81)	(102)	(118)	(147)
Other social and community services	(20)	(26)	(31)	(34)	(29)
Economic services	114	135	172	181	214
Agriculture and forestry	28	34	41	45	46
Irrigation	(3)	(4)	(5)	(5)	(6)
Land reform	(13)	(16)	(18)	(19)	(17)
Cadastral survey	(4)	(5)	(7)	(7)	(8)
Other agriculture	(3)	(4)	(5)	(5)	(6)
Forestry	(5)	(5)	(7)	(8)	(9)
Mining and manufacturing	3	3	4	4	5
Electricity and water	8	10	14	14	17
Electricity	(5)	(6)	(8)	(8)	(8)
Water supply	(3)	(4)	(6)	(6)	(9)
Transport and communications	73	85	109	115	142
Transport	(37)	(40)	(51)	(55)	(63)
Communications	(36)	(45)	(58)	(60)	(79)
Other economic services	2	3	3	3	3
Unallocable	289	342	381	446	863
Interest on public debt	(130)	(153)	(213)	(331)	(502)
Transfers to local governments	(23)	(32)	(52)	(65)	(70)
Miscellaneous	(136)	(158)	(116)	(50)	(291)
Total current expenditure ^{2/}	1,264	1,523	1,900	2,107	2,816

Sources: Ministry of Finance, Budget Speech (various issues); and data provided by the Nepalese authorities.

^{1/} The sum of components may not equal subtotals due to rounding.

^{2/} Loans and investment and repayment of principal are netted out to arrive at this total.

Table XIV. Nepal: Flow of Funds Between the Government
and Nonfinancial Public Enterprises, 1980/81-1984/85

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85
<hr/>					
A. From Government to public enterprises					
Share capital	64.8	203.8	290.3	199.6	...
Loan capital	93.6	271.9	514.3	705.3	...
Operating/transport subsidy	12.7	85.4	149.3	59.3	53.3
Capital subsidy	28.5	31.0	10.0	31.0	...
Total	<u>199.6</u>	<u>592.1</u>	<u>963.9</u>	<u>995.2</u>	<u>...</u>
B. From public enterprises to Government					
Indirect taxes	421.3	400.7	483.9	453.3	...
Income tax	46.0	47.6	60.8	66.2	...
Dividend	2.8	9.0	9.4	10.4	...
Interest	11.7	16.2	12.2	32.9	...
Principal	16.0	11.4	33.7	16.3	...
Total	<u>497.8</u>	<u>484.9</u>	<u>600.0</u>	<u>579.1</u>	<u>...</u>
Net flow (B-A)	298.2	-107.2	-363.9	-416.1	...

Source: Data provided by the Nepalese authorities.

Table XV. Nepal: Nepal Rastra Bank--Monetary Instruments

Instrument	Effective June 1982		Effective November 1984		Effective May 1985	
	Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Interest Rate (Percent per annum)	
<u>Refinance Facilities</u>						
A. For commercial banks						
Export bills	100	12-13		12-13		12-13
Industrial sector	80	7-13		7-13		5-13
Agricultural sector	80	6-11		6-11		4-11
Service sector	80	11		11		11
Development bonds	90	1.5 percent over development bond rates		1.5 percent over development bond rates		1.5 percent over development bond rates
B. For financial insti- tutions in agriculture sector						
Cooperatives and village committees		7		7		5
Others		6-13		6-13		4-13
Reserve ratio for com- mercial banks						
Cash reserve with Nepal Rastra Bank equivalent to 5 percent of total deposit liabilities and cash reserve in their vault equivalent to 4 percent of total deposit liabilities						
Liquidity ratio						
25 percent of total deposit liabilities						

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Table XV. Nepal: Nepal Rastra Bank--Monetary Instruments (continued)

Instrument	Coverage	Effective June 1982		Effective November 1984		Effective May 1985	
		Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Interest Rate (Percent per annum)	
Ratio of bank loans to capital and reserves	3:1						
Margin rates for loans extended by commercial banks:							
	Effective January 9, 1985:						
	A minimum of 10 percent for industries; 30 percent for the import of cement, iron rods and corrugated sheets; 40 percent for milk products, agricultural, scientific and educational materials; and a minimum of 50 percent for all other products, minimum 75 percent for specified luxury items						
Commercial bank deposit rates							
	Current	--	--	--	--	--	--
	Saving	8.5	8.5	3.5 - 10.0	8.5 - 10.0	8.5 - 10.0	
	Fixed term: 3 months	4.5	4.5	4.5 - 5.5	4.5 - 5.5	4.5 - 5.5	
	6 months	9.5	9.5	9.5 - 10.5	9.5 - 10.5	9.5 - 10.5	
	1 year	12.5	12.5	12.5 - 13.4	12.5 - 13.4	12.5 - 13.4	
	2 years and above	13.5	13.5	13.5 - 14.5	13.5 - 14.5	13.5 - 14.5	
Commercial bank lending rates							
	Industrial sector	11.0 - 17.0	11.0 - 17.0	11.0 - 17.0	11.0 - 17.0	9.6 - 17.0	
	Services sector	15.0	15.0	15.0	15.0	15.0	
	Export bills	13.0 - 14.0	13.0 - 14.0	8.0 - 14.0	8.0 - 14.0	8.0 - 14.0	
	Pre-export credit	--	--	14.0	14.0	14.0	
	Others (minimum)	--	--	--	--	17.0 & 19.0	

Table IV. Nepal: Nepal Rastra Bank--Monetary Instruments (concluded)

Instrument	Coverage	Effective June 1982		Effective November 1984		Effective May 14, 1985	
		Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Amount of refinancing (Percent)	Interest Rate (Percent per annum)	Amount of refinancing (Percent)	Interest Rate (Percent per annum)
Lending rates of Agricultural Development Bank	To cooperatives and village committees		6.0 - 11.0		6.0 - 11.0		4.0 - 11.0
	Other		10.0 - 15.0		10.0 - 15.0		8.0 - 15.0
Lending rates of the Nepal Industrial Development Corporation	According to type of industry		11.0 - 17.0		11.0		11.0 - 17.0
Government securities	Treasury bills		5.0		5.0		5.0
	Development bonds		10.5		10.5		10.5
	National Savings Certificates 1/		--		13.0		13.0

Source: Nepal Rastra Bank.

1/ First issued in March 1984.

Table XVI. Nepal: Structure of Interest Rates, 1981-85 ^{1/}

(In percent)

	June 1981	June 1982	November 1984	June 1985
Commerical banks				
Deposits				
Savings ¹	8.0	8.5	8.5-10.0	8.5-10.0
Time deposits (3 months)	4.0	4.5	4.5-5.5	4.5-5.5
Time deposits (6 months)	9.0	9.5	9.5-10.5	9.5-10.5
Time deposits (1 year)	12.0	12.5	12.5-13.5	12.5-13.5
Time deposits (2 years)	13.0	13.5	13.5-14.5	13.5-14.5
Loans				
Industry (priority purposes)	10.0-16.0	11.0-17.0	11.0-17.0	9.0-17.0 ^{2/}
Agricultural (priority purposes)	8.0-14.0	10.0-15.0	10.0-15.0	8.0-15.0 ^{2/}
Commercial loans and overdrafts	16.0+	17.0+	17.0+	17.0 & 19.0 ^{3/}
Agricultural Development Bank				
Cooperatives and Sajhas	4.0-10.0	6.0-11.0	6.0-11.0	4.0-11.6
Others	6.0-14.0	10.0-15.0	10.0-15.0	8.0-15.0
Nepal Industrial Development Corporation				
According to type of industry	11.0-16.0	11.0-17.0	12.0-17.0	12.0-17.0
Government				
Treasury bills	5.0	5.0	5.0	5.0
Development bonds	10.0	10.5	10.5	10.5
National Savings Certificates	13.0 ^{4/}	13.0

Source: Nepal Rastra Bank.

^{1/} As per date of changes.^{2/} Banks are required to charge 2 percent less interest on loans to cottage industry and agricultural sectors of 18 remote districts effective May 14, 1985.^{3/} Effective June 11, 1985, interest on 29 items of luxury goods has been fixed at minimum of 19 percent.^{4/} National Savings Certificates were first issued in March 1984.

Table XVII. Nepal: Changes in Margin Rate Requirements on Import Letters of Credit, 1983-85

	Oct. 27, 1983	Nov. 28, 1984	Jan. 14, 1985	June 11, 1985
1. Cement, corrugated sheets, and iron rods	30	30	30	30
2. Machinery and spare parts, raw materials and supplementary items imported by industries and the specified companies engaged in the World Bank loan programs	100	30 <u>1/</u>	10 <u>2/</u>	10
3. Milk products, writing and printing papers, agricultural, educational, and scientific materials	100	40	40	40
4. Luxury goods <u>3/</u>	100	50	50	75
5. Other goods	100	50	50	50

Source: Data provided by the Nepalese authorities.

1/ The bank can take the 30 percent margin either in cash or in the form of the government bonds or fixed deposit receipts.

2/ If a bank considers it necessary to impose a higher margin on the basis of the importer's creditworthiness, an additional margin in the form of noncash collateral may be requested by the bank involved.

3/ Includes liquor, cigarettes, cosmetic goods, precious as well as semi-precious stones, jewelry works, televisions, video and tape recorders, record players, cars, motorcycles, refrigerators, synthetic clothes, etc.

Table XVIII. Nepal: Monetary Survey, 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84	1984/85 (Prel.)
(Mid-July levels; in millions of Nepalese rupees) 1/					
Net foreign assets	2,415	3,097	2,611	2,540	1,781
Assets	3,135	3,911	3,252	3,214	2,599
Liabilities	720	814	640	674	818
Domestic credit	5,161	6,043	8,491	9,825	12,274
Public sector	2,209	2,901	5,227	5,982	7,584
Government, net	(1,263)	(2,062)	(4,090)	(5,029)	(6,433)
Other nonfinancial	(946)	(840)	(1,137)	(953)	(1,151)
Private sector	2,952	3,142	3,264	3,842	4,689
Private	(2,498)	(2,638)	(2,699)	(3,174)	(3,879)
Financial public	(454)	(504)	(565)	(668)	(811)
Broad money	6,308	7,458	9,222	10,455	12,212
Narrow money	3,208	3,612	4,349	4,932	5,521
Quasi-money	3,100	3,847	4,874	5,524	6,692
Other items net	1,268	1,683	1,880	1,909	1,843
Memorandum items:					
Average broad money	5,796	6,872	8,281	9,805	11,265
Velocity (absolute number)	4.71	4.40	4.06	3.89	3.71
Government domestic bank borrowing (as percent of GDP)	--	2.6	6.0	2.5	3.4
(Percentage change from previous year)					
Domestic credit	19.9	17.1	40.5	15.7	24.9
Public sector	12.7	31.3	80.1	14.5	26.8
Government, net	0.3	63.3	98.4	23.0	27.9
Other nonfinancial	34.9	-11.3	35.4	-16.1	20.7
Private sector	25.8	6.4	3.9	17.7	22.0
Private	30.3	5.6	2.3	17.6	22.2
Financial public	5.8	10.9	12.3	18.2	21.3
Broad money	19.3	18.2	23.7	13.4	16.8
Narrow money	13.3	12.6	20.4	13.4	11.9
Quasi-money	26.3	24.1	26.7	13.3	21.1

Source: Nepal Rastra Bank.

1/ Figures may not add up to totals due to rounding.

Table XIX. Nepal: Assets and Liabilities of the
Nepal Rastra Bank, 1981-85

(In millions of Nepalese rupees)

	1981	1982	Mid-July 1983	1984	1985 <u>1/</u>
Foreign assets	2,335.9	3,050.9	2,349.7	2,006.2	1,323.7
Claims on Government	1,009.5	1,419.7	2,928.6	3,545.8	4,415.0
Claims on nonfinancial public enterprises	5.0	5.0	5.0	5.0	5.0
Claims on businesses and individuals	58.8	61.9	64.3	94.8	157.5
Claims on other financial institutions	393.7	444.8	484.1	571.4	655.4
Claims on commercial banks	468.1	137.8	74.0	152.1	388.0
Other assets	336.4	306.2	312.6	558.3	800.8
Assets = Liabilities	<u>4,607.4</u>	<u>5,426.3</u>	<u>6,218.3</u>	<u>6,933.6</u>	<u>7,745.4</u>
Foreign liabilities	599.8	660.0	448.3	463.5	457.1
Reserve money	2,706.2	3,375.6	4,012.6	4,624.1	5,149.0
Of which: Currency outside banks	(2,065.7)	(2,436.7)	(2,752.0)	(3,273.4)	(3,760.7)
Private sector deposits	(210.8)	(225.0)	(343.8)	(325.1)	(308.9)
Government deposits	71.6	--	--	--	--
Capital and reserves	694.8	893.4	1,149.6	1,266.4	1,322.5
Other liabilities	535.0	497.3	607.8	579.6	816.8

Source: Nepal Rastra Bank.

1/ Provisional.

Table XX. Nepal: Assets and Liabilities of
Commercial Banks, 1981-85

(In millions of Nepalese rupees)

	Mid-July				
	1981	1982	1983	1984	1985 ^{1/}
Foreign assets	799.0	860.3	902.0	1,207.4	1,275.3
Reserves	717.5	545.3	706.2	731.9	1,018.7
Cash	(148.2)	(180.8)	(211.2)	(280.9)	(281.5)
Balances with Nepal Rastra Bank	(569.3)	(364.5)	(495.0)	(451.0)	(737.2)
Claims on Government	324.8	641.8	1,161.0	1,482.9	2,018.3
Claims on nonfinancial public enterprises	663.2	669.4	966.8	783.3	980.9
Claims on businesses and individuals ^{2/}	2,717.5	2,741.7	2,799.9	3,244.3	3,886.2
Claims on other financial institutions	60.5	58.8	81.2	97.0	155.2
Assets = Liabilities	<u>5,282.5</u>	<u>5,517.3</u>	<u>6,617.1</u>	<u>7,546.8</u>	<u>9,334.6</u>
Foreign liabilities	120.6	153.8	192.0	210.3	360.7
and deposits	931.3	949.8	1,253.1	1,333.0	1,451.0
Time and savings deposits	2,921.3	3,640.4	4,452.6	5,210.0	6,288.5
Government deposits	--	--	--	--	--
Credit from Nepal Rastra Bank	468.1	137.8	74.0	152.1	388.0
Other liabilities (net) ^{3/}	841.2	635.5	645.4	641.4	846.4

Source: Nepal Rastra Bank.

^{1/} Provisional.

^{2/} Includes rice export companies.

^{3/} Includes Exchange Equalization Fund.

Table XXI. Nepal: Sectoral Classification of Commercial Banks
Loans and Advances, 1980-85 1/

(In millions of Nepalese rupees)

	Total	Agri- cultural Sector	Indus- trial Sector	Commercial Sector	Services Sector	Other <u>2/</u>
1980						
Mid-July	2,772.6	25.4	331.6	1,724.1	70.0	621.5
1981						
Mid-July	3,578.7	31.5	613.0	2,001.1	81.8	851.3
1982						
Mid-July	3,268.5	57.6	313.2	1,794.9	25.0	1,077.8
1983						
Mid-January	3,284.3	77.6	321.6	1,683.5	25.3	1,176.3
Mid-April	3,326.9	69.5	325.4	1,703.8	22.9	1,205.3
Mid-July	3,383.6	74.5	568.5	1,529.0	22.7	1,188.9
Mid-October	3,411.1	93.0	601.7	1,491.7	16.7	1,208.0
1984						
Mid-January	3,576.8	115.0	589.4	1,597.7	11.9	1,262.8
Mid-April	3,589.0	118.6	529.2	1,633.0	14.5	1,293.7
Mid-July	3,526.0	119.8	475.1	1,652.4	24.6	1,254.1
Mid-October <u>3/</u>	3,560.0	117.3	540.4	1,625.5	28.8	1,248.0
1985						
Mid-January <u>3/</u>	3,895.7	122.6	624.6	1,783.6	34.2	1,330.7
Mid-April <u>3/</u>	4,597.5	130.2	748.5	2,245.0	119.5	1,354.3

Source: Nepal Rastra Bank.

1/ Figures are outstanding amounts at the end of the period.

2/ Loans for general use and social purposes.

3/ Provisional.

Table XXII. Nepal: Commercial Banks' Credit and Reserve Ratios, 1/ 1980/81-1984/85

(In percent)

	Primary Reserve Ratio 2/	Liquid Reserve Ratio 3/	Credit to Deposit Ratio 4/
1980/81	9.7	31.1	85.1
Q I	11.3	33.9	80.8
Q II	8.4	31.9	83.6
Q III	7.2	29.5	87.2
Q IV	11.8	28.9	88.8
1981/82	11.5	33.0	81.0
Q I	12.3	32.0	84.7
Q II	10.9	31.1	84.2
Q III	10.2	32.6	79.9
Q IV	12.6	36.3	75.2
1982/83	11.9	38.9	67.5
Q I	13.2	38.6	67.5
Q II	12.3	39.5	68.8
Q III	10.2	35.5	69.2
Q IV	12.0	41.8	64.5
1983/84	9.2	43.8	62.0
Q I	8.2	43.2	61.9
Q II	9.4	45.7	61.8
Q III	10.0	43.3	62.7
Q IV	9.2	42.8	61.7
1984/85	10.2	42.5	63.3
Q I	11.1	46.0	60.2
Q II	8.9	42.1	61.9
Q III	9.3	42.0	65.8
Q IV	11.4	39.9	65.1

Source: Nepal Rastra Bank.

1/ Annual ratios are averages of quarterly ratios, which in turn are averages of mid-month ratios.

2/ Primary reserves include cash on hand and balances with the Nepal Rastra Bank.

3/ Liquid reserves include primary reserves plus foreign currency on hand, foreign balances, and holdings of government securities other than those pledged with the Nepal Rastra Bank.

4/ Loans and advances to the nongovernment sectors to deposits including foreign deposits but excluding government and interbank deposits.

Table XXIII. Nepal: Agricultural Development Bank
Loan Disbursements, 1980/81-1984/85

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85 <u>1/</u>
Total disbursements (gross)	<u>134</u>	<u>256</u>	<u>346</u>	<u>476</u>	<u>531</u>
Agricultural production	39	60	102	133	156
Farm mechanization and irrigation <u>2/</u>	40	65	126	159	207
Agro-industry	45	121	104	176	154
Other	10	10	14	8	14
Loans outstanding (at end of period)	<u>475</u>	<u>566</u>	<u>702</u>	<u>929</u>	<u>1,126</u>
(Percentage change from previous year)	(3.6)	(19.3)	(24.0)	(32.2)	(21.2)

Source: Nepal Rastra Bank.

1/ Provisional.

2/ Including agro-business.

Table XXIV. Nepal: Industrial Development Corporation
Loan Disbursements, 1980/81-1984/85

(In millions of Nepalese rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85
Total disbursements (gross)	<u>45</u>	<u>31</u>	<u>47</u>	<u>41</u>	<u>76</u>
Manufacturing	11	10	32	16	39
Hotel	30	17	7	7	12
Other	4	4	8	18	25
Loans outstanding (end of period)	<u>282</u>	<u>299</u>	<u>316</u>	<u>338</u>	<u>390</u>
(Percentage change from previous year)	(12.2)	(6.2)	(5.5)	(7.0)	(15.2)

Source: Nepal Rastra Bank.

Table XXV. Nepal: International Reserves, 1981-85

(In millions of SDRs)

	1981	1982	Mid-July 1983	1984	1985
Gross reserves, total <u>1/</u>	225.9	268.8	209.9	190.0	143.8
Official	158.2	202.3	148.4	125.0	73.1
Of which: Indian rupees	(47.2)	(63.2)	(77.8)	(40.9)	(12.1)
Commercial banks	67.7	66.5	61.5	65.0	70.7
Net reserves, total <u>2/</u>	174.0	212.9	168.6	150.2	98.6
Official	125.7	165.8	122.7	91.2	47.7
Commercial banks	48.3	47.1	45.9	59.0	50.9
<u>Memorandum items:</u>					
In months of nonaid imports					
Gross reserves, total	10.5	12.2	7.5	7.2	4.8
Gross official reserves	7.4	9.2	5.3	4.7	2.5
Net reserves, total	8.1	9.7	6.0	5.7	3.3

Sources: IMF, International Financial Statistics (various issues); and data provided by the Nepalese authorities.

1/ Gross reserves in this table include foreign exchange, reserve position in the Fund, and holdings of SDRs; they exclude gold (national valuation).

2/ Net reserves equal gross reserves less foreign liabilities.

Table XXVI. Nepal: Exports of Major Commodities, 1981/82-1984/85

(Value in millions of Nepalese rupees; quantity in metric tons)

	1981/82		1982/83		1983/84		1984/85 1/	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Exports to India		440.3		372.8		500.5		653.6
Rice	36,503	136.5	2,509	11.3	16,670	75.7	52,586	236.3
Timber 2/	1,573	87.2	524	28.8	143	7.9	152	8.6
Maize	15,988	26.1	214	0.3	201	0.4	7,718	10.7
Mustard and linseeds	--	--	--	--	10,939	75.8	3,657	18.8
Herbs	2,764	6.4	1,867	5.9	1,128	8.0	906	25.0
Ghee (clarified butter)	615	26.2	877	36.8	1,085	45.8	571	28.0
Dried ginger	1,067	15.3	808	19.3	879	37.1	742	28.3
Raw jute	13,581	43.4	19,864	85.5	7,009	36.5	4,416	43.9
Jute cuttings	8,388	18.2	1,465	5.2	452	1.2	--	--
Jute goods	13,219	81.0	22,749	179.7	17,314	212.1	13,751	254.0
Hessian	(3,081)	(27.1)	(7,430)	(79.1)	(5,730)	(91.7)	(5,037)	(117.1)
Sacking	(9,408)	(49.8)	(13,531)	(88.0)	(8,670)	(89.9)	(5,470)	(85.6)
Twine	(730)	(4.1)	(1,788)	(12.6)	(2,914)	(30.5)	(3,244)	(51.3)
I. Exports to third countries		418.3		274.8		446.6		1089.7
Rice (husked)	17,061	86.1	--	--	--	--	--	--
Raw jute	19,488	62.6	4,011	13.7	--	--	--	--
Jute cuttings	--	--	--	--	--	--	--	--
Jute goods	164	1.5	--	--	--	--	--	--
Hessian	(164)	(1.5)	(--)	(--)	(--)	(--)	(--)	(--)
Sacking	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Twine	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Hide and skins 3/	1,953	93.3	2,454	95.1	4,034	155.6	4,786	242.7
Carpets 4/	99	84.0	151	137.8	263	265.4	227	249.4
Handicrafts	--	12.2	--	9.4	--	12.6	--	12.7
Pulses	7,901	58.2	509	3.0	678	6.0	12,089	97.6
Large cardamom	305	7.4	260	5.8	260	6.5	250	14.6
Ready-made garments	--	13.0	--	10.0	--	20.5	--	472.7
II. Total (I + II)	...	858.6	...	647.6	...	967.1	...	1,743.3
7. Total exports, f.o.b.	...	1,491.0	...	1,132.0	...	1,703.9	...	2,759.8

Sources: Nepal Rastra Bank, Quarterly Economic Bulletin; and data provided by the Nepalese authorities.

1/ Provisional.

2/ Quantity in thousands of cubic feet.

3/ Quantity in thousands of pieces.

4/ Quantity in thousands of square meters.

Table XXVII. Nepal: Composition of Foreign Trade, 1982/83-1984/85

(In millions of Nepalese rupees)

	1982/83			1983/84			1984/85 1/		
	India	Other	Total	India	Other	Total	India	Other	Total
Exports, f.o.b.	847.0	288.7	1,135.7	1,160.7	543.2	1,703.9	1,612.5	1,147.3	2,759.8
Food and live animals	317.4	10.3	327.7	561.2	23.0	584.1	822.4	116.3	938.7
Tobacco and beverages	12.5	0.8	13.3	4.5	0.8	5.3	0.7	0.4	1.1
Crude materials, inedibles, except fuels	264.9	71.5	336.4	265.9	105.8	372.7	341.7	150.9	492.6
Mineral fuel and lubricants	0.7	--	0.7	3.3	--	3.3	1.1	--	1.1
Animal and vegetable oil and fats	42.2	--	42.2	67.6	--	67.6	67.0	--	67.0
Chemicals and drugs	0.9	0.8	1.7	1.8	4.5	6.3	0.9	0.1	1.0
Manufactured goods classified chiefly by materials	191.8	165.5	357.3	237.4	354.3	581.6	330.2	364.4	694.6
Machinery and transport equipment	7.2	0.7	7.9	22.4	2.0	24.4	37.8	1.1	38.9
Miscellaneous manufacturing	5.6	39.0	44.6	4.8	53.3	57.7	9.5	514.3	523.8
Unclassified transactions	3.8	0.1	3.9	0.8	--	0.8	1.2	--	1.2
Imports, c.i.f.	2,518.4	3,672.9	6,191.3	3,058.0	3,456.3	6,514.3	4,035.1	3,873.7	7,908.8
Food and live animals	564.4	218.9	783.3	552.7	175.7	728.4	599.9	108.2	708.1
Tobacco and beverages	46.8	15.7	62.5	69.7	2.0	70.8	41.3	4.9	46.2
Crude materials, inedibles, except fuel	89.2	117.1	206.3	134.3	131.8	266.4	200.2	217.1	417.3
Mineral fuel and lubricants	64.9	636.9	701.8	95.2	654.0	749.2	112.0	792.2	904.2
Animal and vegetable oil and fats	26.4	39.9	66.3	47.2	31.4	78.5	70.3	61.9	132.0
Chemicals and drugs	376.3	269.7	646.0	410.6	287.8	698.4	572.1	378.9	951.0
Manufactured goods classified chiefly by materials	763.4	1,173.4	1,936.8	940.9	861.0	1,801.9	1,402.1	1,087.1	2,489.2
Machinery and transport equipment	410.4	770.5	1,181.9	648.9	1,002.3	1,651.2	787.7	997.6	1,785.3
Miscellaneous manufacturing	157.4	426.9	584.3	157.4	309.0	466.3	246.2	221.6	467.8
Unclassified transactions	19.1	4.0	23.3	1.1	1.3	2.4	3.3	4.2	7.5

Source: Nepal Rastra Bank.

1/ Provisional.

Table XXVIII. Nepal: Imports of Chemical Fertilizer, 1981/82-1984/85 1/

(Quantity in thousands of tons; value in millions of Nepalese rupees)

	1981/82		1982/83		1983/84		1984/85 2/	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Ammonia sulphate	5,675	15.7	--	--	6,300	21.6	--	--
Urea	34,875	125.2	49,950	167.5	30,000	114.6	45,100	199.2
Complex	28,144	103.4	28,650	98.4	36,930	133.0	53,200	239.5
Dia-ammonia phosphate	7,000	27.4	--	--	--	--	--	--
TSP	--	--	--	--	--	--	2,000	7.1
Total	75,694	271.7	78,600	265.9	78,230	291.0	100,300	445.8
Of which:								
Cash purchase	22,175	60.7	41,000	141.6	55,730	220.0	15,000	62.5

Source: Agricultural Inputs Corporation.

1/ C.i.f., Nepal border price.

2/ Provisional.

Table XXIX. Nepal: Imports of Petroleum Products, 1981/82-1984/85

(Quantity in thousands of barrels; value in millions of Nepalese rupees)

	1981/82		1982/83		1983/84		1984/85	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Gasoline	86.5	48.8	96.5	58.0	110.0	64.8	115.7	68.2
Diesel oil	331.8	180.7	387.6	245.4	416.1	261.4	476.4	300.1
Kerosene	211.0	118.0	222.6	136.3	290.8	180.9	359.3	222.7
Aviation fuel	122.6	70.0	123.5	77.9	147.9	95.5	160.2	104.1
Other	41.2	50.3	41.2	25.8	159.5	94.7	96.6	110.1
Total	793.1	467.8	871.4	543.2	1,134.3	697.3	1,308.2	805.2
Memorandum item: Oil imports/total imports (in per- cent)		9.5		8.8		10.7		10.2

Sources: Nepal Oil Corporation and Nepal Rastra Bank.

Table XXX. Nepal: Balance of Payments by Area, 1982/83-1984/85
(In millions of Nepalese rupees)

	1982/83			1983/84			1984/85 1/		
	India	Third countries	Total	India	Third countries	Total	India	Third countries	Total
Trade balance	1,671.4	-3,525.6	-5,197.0	-1,910.6	-2,913.0	-4,823.6	-2,441.7	-2,726.3	-5,168.0
Exports, f.o.b.	867.0	288.8	1,155.8	1,166.7	543.2	1,709.9	1,616.5	1,147.3	2,763.8
Imports, c.i.f.	2,518.4	3,814.4	6,332.8	3,077.3	3,456.2	6,533.5	4,060.2	3,873.6	7,933.8
Services, net	749.9	885.0	1,634.9	660.2	746.6	1,406.8	461.3	979.7	1,441.0
Receipts	1,166.3	1,355.5	2,521.8	1,011.5	1,568.9	2,580.4	930.4	1,839.6	2,770.0
Travel	(455.3)	(388.9)	(844.2)	(174.0)	(387.0)	(561.0)	(225.2)	(489.8)	(715.0)
Investment income	(12.4)	(190.6)	(203.0)	(37.7)	(56.9)	(94.6)	(17.5)	(72.5)	(90.0)
Other	(698.6)	776.0	(1,474.6)	(799.8)	(1,125.0)	(1,924.8)	(687.7)	(1,277.3)	(1,965.0)
Payments	416.4	470.5	886.9	351.3	822.3	1,173.6	469.1	859.9	1,329.0
Private transfers, net	192.9	382.8	575.7	284.0	408.2	692.2	352.8	390.4	743.2
Receipts	226.0	382.8	608.8	320.9	409.2	730.1	378.8	390.4	769.2
Private remittances	(204.6)	(345.1)	(549.7)	(224.1)	(390.0)	(614.1)	(270.2)	(356.8)	(627.0)
Indian excise refund	(8.6)	(--)	(8.6)	(59.5)	(--)	(59.5)	(106.8)	(--)	(106.8)
Other	(12.8)	(37.7)	(50.5)	(37.3)	(19.2)	(56.5)	(1.8)	(33.6)	(35.4)
Payments	33.1	--	33.1	36.9	1.0	37.9	26.0	--	26.0
Current account balance	-728.6	-2,257.8	-2,986.4	-966.4	-1,758.2	-2,724.6	-1,627.6	-1,356.2	-2,983.8
Official grants	252.6	1,062.4	1,315.0	372.0	1,009.2	1,381.2	296.0	1,254.0	1,550.0
Official capital, net	109.0	818.7	927.7	--	1,203.5	1,203.5	--	1,313.0	1,313.0
Foreign loans	109.0	(834.9)	(935.9)	(--)	(1,274.3)	(1,274.3)	(--)	(1,400.0)	(1,400.0)
Amortization	--	(-36.2)	(-36.2)	(--)	(-70.8)	(-70.8)	(--)	(-87.0)	(-87.0)
Miscellaneous capital items, net	573.4	-504.7	68.7	240.7	-226.8	13.9	161.4	-873.4	-712.0
(including errors and omissions)									
Overall balance	206.4	-881.4	-675.0	-353.7	227.7	-126.0	-1,170.2	337.4	-832.8

Source: Nepal Rastra Bank.

1/ Provisional.

Table XXXI. Nepal: Direction of Trade, 1980/81-1983/84 1/

(In percent)

	1980/81	1981/82	1982/83	1983/84
Total exports, f.o.b.	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Germany, Fed. Rep. of	3.6	4.5	7.9	10.3
U.S.S.R.	3.1	1.6	2.3	2.9
United Kingdom	3.0	2.8	4.9	5.3
Rest of Europe	5.2	4.0	5.5	5.5
Hong Kong <u>2/</u>	5.8	0.3	0.4	0.3
India	61.8	66.8	74.6	68.2
Japan	2.0	1.0	1.0	0.5
Singapore	4.1	2.3	0.7	0.9
Rest of Asia	10.2	11.6	2.4	0.1
United States	2.2	1.6	1.6	1.7
Rest of the world <u>3/</u>	-1.0	3.6	-1.3	4.2
Total imports, c.i.f.	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Germany, Fed. Rep. of	1.6	3.1	1.7	3.2
U.S.S.R.	3.7	7.7	4.4	8.2
United Kingdom	1.5	1.4	0.9	1.4
Rest of Europe	5.4	2.5	4.6	4.3
Hong Kong <u>2/</u>	2.1	1.3	1.7	1.8
India	49.4	46.5	40.7	47.1
Japan	12.9	11.7	11.7	10.8
Singapore	2.6	2.5	3.0	2.4
Rest of Asia	21.1	16.4	26.6	16.9
United States	2.1	3.5	2.2	2.2
Rest of the world <u>3/</u>	-2.4	3.6	2.5	1.7

Sources: Trade Promotion Center; data based on customs returns except for data on India, which were provided by the Nepal Rastra Bank.

1/ Figures may not add up to total due to rounding.

2/ It should be noted that the term "country" used in this report does not in all cases refer to a territorial entity that is a state as understood by international law and practice. The term also covers some territorial entities that are not states but for which statistical data are maintained and provided internationally on a separate and independent basis.

3/ Includes unclassified exports and imports, and discrepancies with summary balance of payments data.

Table XXXII. Nepal: Indices of Effective Exchange Rate, 1980-85

(1980 = 100)

	Nominal Effective Exchange Rate 1/	Real Effective Exchange Rate 1/	Relative Price Index 2/
1980			
July	98.50	97.98	99.47
Annual average	100.00	100.00	100.00
1981			
July	111.61	110.10	98.65
Annual average	105.37	104.97	99.63
1982			
January	102.05	101.67	99.62
April	105.99	106.22	100.21
July	108.45	112.81	104.02
October	110.87	124.07	111.90
Annual average	106.85	111.76	104.49
1983			
January	99.99	105.99	106.01
April	101.84	109.51	107.53
July	101.93	112.37	110.25
October	99.62	111.85	112.29
Annual average	101.31	110.87	109.44
1984			
January	99.11	105.34	106.29
February	97.11	102.89	105.95
March	95.98	100.88	105.10
April	96.66	101.33	104.83
May	96.81	101.06	104.39
June	96.67	100.28	103.74
July	97.09	103.05	106.15
August	96.59	105.11	108.83
September	96.23	104.25	108.34
October	96.08	104.34	108.61
November	94.95	103.64	109.15
December	95.09	102.59	107.89
Annual average	96.53	102.90	106.61
1985			
January	94.65	99.90	105.55
February	94.81	100.89	106.42
March	94.47	99.92	105.77
April	94.71	101.06	106.71
May	94.86	102.42	107.96
June	94.65	103.31	109.15
July	94.31	102.91	109.12
August	94.98	104.52	110.04
September	94.39	104.30	110.50
October	92.02	102.12	110.98

Source: IMF Data Fund.

1/ Indices are period averages and are weighted by the trade shares of Nepal's major trading partners.

2/ Index of the ratio of Nepal's consumer price index (CPI) to a weighted index of the consumer price indices of its major trading partners.

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