

December 16, 1982 - 82/230

The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with Nepal
Executive Board Meeting 82/159, December 13, 1982

Executive Directors noted that Nepal's economic recovery, which started in 1980/81, continued in 1981/82. However, they observed that the economy remained critically dependent on the monsoon rainfalls, which were delayed this summer, thereby adversely affecting the prospects for growth in 1982/83.

Commenting on financial policies, Directors said that Nepal was beginning to face serious resource constraints which could exacerbate the existing inflationary pressures and have unsettling effects on the balance of payments. In this context, they supported the intention of the authorities to phase out certain budget subsidies and rationalize the financial operations of the public enterprises. They considered that the authorities should take additional measures, such as broadening the tax base and streamlining expenditures, for instance, by reducing remaining subsidies, in order to reduce the budget deficit. Several Directors also considered that a tightening of credit and a more flexible interest rate policy would be appropriate. The importance of further monetization of the economy, including the expansion of branches of commercial banks, was noted in relation to the need to mobilize domestic savings.

Directors supported the authorities' objective of strengthening the weak underlying structure of the balance of payments by stimulating the production of traded goods through fiscal incentives, rationalization of the tariff structure, and use of modern technology. Steps should also be taken to develop further the tourist sector, which has a considerable potential for growth.

Directors welcomed the simplification of the exchange system and expressed the intention of the authorities to eliminate the broken cross rates. They hoped that the authorities would review their exchange rate policy with a view to achieving an appropriate level of the exchange rate.

The recent and projected rapid growth of foreign debt was noted with some concern.