

**FOR
AGENDA**

EBS/10/83
Supplement 3

May 25, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Nepal—Staff Report for the 2010 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility—Supplementary Information**

The attached supplement to the staff report for the 2010 Article IV consultation with Nepal and its request for disbursement under the Rapid Credit Facility (EBS/10/83, 5/17/10) has been prepared on the basis of additional information and is tentatively scheduled for discussion on **Wednesday, June 16, 2010**. At the time of circulation of this paper to the Board, the authorities of Nepal have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Ms. Papi (ext. 36894) and Mr. Yu (ext. 37089) in APD, and Ms. Rahman-Garrett, SPR (ext. 36686).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the Asian Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

NEPAL

**Staff Report for the 2010 Article IV Consultation and
Request for Disbursement Under the Rapid Credit Facility**

Supplementary Information

Prepared by the Asia and Pacific Department
(In consultation with other departments)

Approved by Kalpana Kochhar and Christian Mumssen

May 25, 2010

1. **Fund staff has determined that Nepal maintains an exchange restriction subject to Article VIII, arising from quantitative limits on the availability of foreign exchange for leisure travel abroad.** On April 2, 2010, to protect the balance of payments position, the Nepal Rastra Bank (NRB) limited the use of the Passport Facility—through which residents can obtain foreign exchange for leisure travels up to US\$ 2000—to no more than two times per year. The limit on the amount of foreign exchange that can be obtained is further reduced to US\$1,000 for travelers to Tibet of China and SAARC countries (excluding India). The current policy of the NRB is not to provide foreign exchange beyond these limits even if the bona fide nature of the request is proved. These limits constitute an exchange restriction inconsistent with Nepal's obligations under Article VIII of the Fund's Articles.
2. **Approval of retention of this restriction is not recommended by the staff.** Since the restriction is discriminatory among Fund members given that there are two different monetary limits, the staff does not recommend approval of this restriction.
3. **Further information is needed to clarify the jurisdictional implications of several other exchange measures.** These measures include the foreign exchange facilities for entrepreneurs and students, and a potential multiple currency practice.