

MASTER FILES

ROOM C-120

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EBD/85/303

December 6, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Nepal - Exchange Arrangements and Exchange System

There is attached for the information of the Executive Directors a paper on a recent change in the exchange arrangements and exchange system of Nepal.

Mr. Quirk (ext. 8520) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Nepal--Exchange Arrangements and Exchange System

Prepared by the Asian
and Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by Douglas A. Scott and Eduard Brau

December 5, 1985

In the attached communication dated December 1, 1985 the Governor of the Nepal Rastra Bank has notified the Fund of a change in the exchange rate of the Nepalese rupee, and the elimination of a foreign exchange tax and subsidy.

With effect from November 30, 1985 the mid-point exchange rate has been changed from NRs 1.45075 per Indian rupee to NRs 1.70075 per Indian rupee and from NRs 17.50 per U.S. dollar to NRs 20.50 per U.S. dollar, representing a devaluation of 14.6 percent. The new official buying and selling rates are NRs 20.40 per U.S. dollar and NRs 20.60 per U.S. dollar, respectively.

With effect also from November 30, 1985 the authorities eliminated a revenue stamp duty on foreign exchange purchases and a cash export subsidy scheme. The revenue stamp duties on purchases of foreign exchange outside the limits provided for under existing rules and regulations (NRs 0.015 per Indian rupee, and NRs 3 per U.S. dollar or the equivalent in other convertible currencies) were introduced in July 1985, but were not applied to purchases of Indian rupees. The revenue stamp duty of 3 rupees per U.S. dollar, equivalent to 17 percent at the previous exchange rate, was applied to travel-related foreign exchange transactions. The 10 percent cash subsidy on exports to third countries was aimed at reducing the cost differential between transport costs on exports to India and those to third countries. The subsidy scheme had resulted in payments of NRs 12 million in 1983/84, but no payments had been made in 1984/85 in view of the Government's decision to remove the administration of this discriminatory subsidy from the banking system. The November 30 changes have eliminated the multiple currency practices involved.

The staff welcomes the actions by the authorities to restore external competitiveness and to remove the export subsidy and revenue stamp duties on certain foreign exchange purchases.

Attachment

ATTACHMENT

INTERFUND
WASHINGTON, D.C.

DECEMBER 1, 1985

IN ORDER TO IMPROVE THE EXTERNAL COMPETITIVENESS OF THE NEPALESE ECONOMY, HIS MAJESTY'S GOVERNMENT OF NEPAL HAS DEVALUED THE EXCHANGE RATE FROM NRS 1.45075 TO NRS 1.70075 PER INDIAN RUPEE. AND FROM NRS 17.50 TO NRS 20.50 PER U.S. DOLLAR EFFECTIVE 30 NOVEMBER, 1985. ON THE SAME DAY THE AUTHORITIES WITHDREW THE CASH EXPORT SUBSIDY SCHEME AND THE STAMP DUTY ON FOREIGN EXCHANGE PURCHASES.

BEST REGARDS

G.B. THAPA
GOVERNOR, NEPAL RASTRA BANK

Received in Cable Room December 1, 1985