

Nepal: Recent Economic Developments

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NEPAL

Recent Economic Developments

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Approved by the Asia and Pacific Department

August 15, 2001

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I. INTRODUCTION AND SUMMARY

1. **During the past decade, Nepal has grappled with formidable economic and social challenges.** Poverty is deep rooted, with nine out of every ten Nepalese living in rural areas and depending on subsistence farming, and two fifth of the population living below the poverty line. Growth has been disappointing, and has been hampered by weak infrastructure and low saving and investment rates, fiscal constraints, and a lack of absorptive capacity that have limited the scope for boosting needed public investment. These problems have been compounded by an unstable political environment and emerging security concerns.

2. **Nonetheless, macroeconomic developments during the past two years have been broadly satisfactory.** Nepal benefited from a surge in external demand and favorable agricultural conditions to post a robust growth of 6½ percent in 1999/2000, and while growth is estimated to have slowed to 5–5½ percent in 2000/01, this still exceeded the recent five-year average growth rate by nearly 1 percentage point. With abundant food supplies offsetting the effects of higher energy prices, inflation remained below 4 percent to July 2001, and while the current account surplus narrowed marginally in 2000/01, donor inflows for hydropower and other investments were robust and gross official reserves were maintained at 5¼ months of imports.

3. **Fiscal performance also has been generally favorable.** During 1999/2000, although there were significant shortfalls in development spending and continued problems with tax administration, revenues were close to the budget target and continued foreign financing kept the burden of domestic borrowing at a low level. In 2000/01, the overall deficit (before grants) widened to 6¾ percent of GDP, but was contained to within the original budget targets and the revenue/GDP ratio was improved.

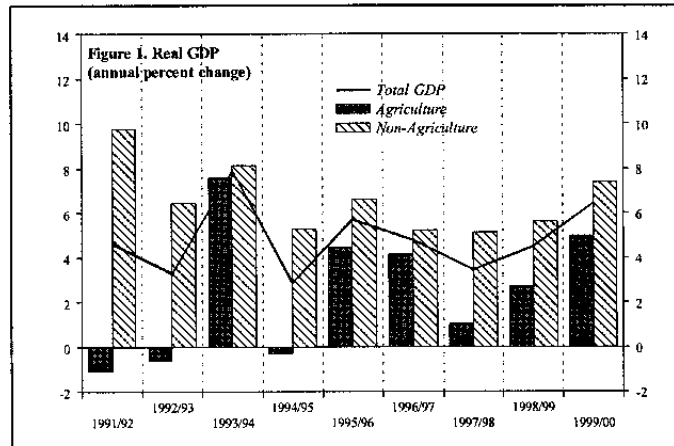
4. **However, progress in the area of structural reform was less encouraging.** Privatization of public enterprises barely progressed during the year, and the financial performance of public sector entities continued to be highly disappointing. Developments in the financial sector were overshadowed by the uncertainties surrounding two large ailing banks. However, progress was made in preparing several pieces of financial sector legislation, most of which are expected to be ratified by the parliament in 2001.

5. **Developments in most of these areas are described in the following chapters.** Chapter II provides a broad overview of recent macroeconomic developments, and is followed by a discussion of poverty and environmental issues in Chapter III. External and monetary developments are reviewed in Chapters IV and V, while the fiscal situation and structural issues are detailed in Chapters VI and VII.

II. OUTPUT AND PRICES¹

A. Overall Developments

6. In the past two years, the Nepalese economy generally performed well, led by above average agricultural performance and strong exports. Real GDP growth (at factor cost) reached 6½ percent in 1999/2000 and is estimated to have eased to 5–5½ percent last year—still exceeding the previous five-year average growth rate of 4¼ percent. Key factors were a rebound in agricultural output in 1999/2000, mainly



reflecting improved weather conditions, strong demand for Nepalese pashmina, and substantial progress on large-scale power projects. However, economic activity in 2000/01 was dampened by the effect of higher oil prices, slow tourism activity due to domestic disturbances, as well as by frequent work disruptions related to strikes and power shortages. Since July 1999, inflation has fallen and remained below 4 percent, as the effect of abundant food supplies offset the increase in energy prices in response to higher world oil prices.

B. Sectoral Developments

Agriculture

7. The agricultural sector experienced a strong growth of 5 percent in 1999/2000, following a weak performance during the previous two years. Output of food grains and cash crops increased by 8 percent and 7 percent, respectively. The area under cultivation increased by about 2 percent, and the supply of fertilizer rose by 23½ percent. The improved performance of the agricultural sector reflected the timely supply of seeds and fertilizer, the expansion of the dairy industry, and the improvements in irrigation facilities, as well as favorable weather.

8. Policy reform in the areas of irrigation and fertilizer subsidy continued under the Agriculture Perspective Plan (APP). The fertilizer subsidy was eliminated and the market was deregulated in late 1999. Although there was little private sector interest in entering the market initially, greater private sector participation in the supply of chemical

¹ For supporting data, see Tables 1–10 in the Appendix.

fertilizer was observed during 2000/01. Irrigation development continued with the involvement of local consumers in the selection and management of projects.

9. **Preliminary estimates indicate that agricultural sector growth remained robust in 2000/01**, with agricultural production increasing by 4 percent during the period. The growth rate of food crops production is projected to have slowed down to 2¾ percent, while cash crop output growth is estimated to have increased to 7¼ percent. In contrast to the previous year, the area under cultivation is projected to have decreased for selected food grain crops, reflecting a possible supply-side response to lower market prices.

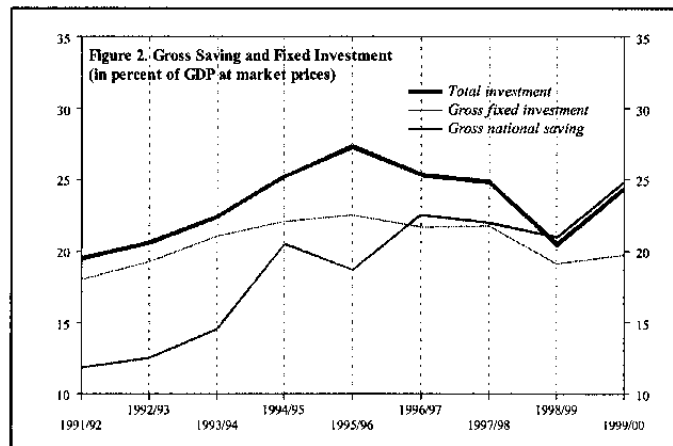
Nonagriculture

10. **Nonagricultural sector growth accelerated to 7½ percent in 1999/2000**, with strong growth in the manufacturing and utilities sectors which offset the weak performance of tourism. The success of pashmina, continued demand for textile and apparel products, and the reduction in power cuts due to the completion of several power stations contributed to a 13 percent increase in manufacturing production. Growth in the utilities sector reached 15½ percent, following the start of production by two hydroelectric plants. The Khimti and Puwa Khola hydroelectric projects began generating electricity during the year, increasing Nepal's power production capacity by 25 percent. Weakness in the tourist industry was partly in response to effects of the December 1999 hijacking at Kathmandu airport of an Indian Airlines plane. During 2000, the total number of tourists visiting Nepal decreased by 9 percent, and the number of Indian tourists arriving by air declined by 32 percent.

11. **Preliminary data suggest that nonagricultural sector growth slowed in 2000/01**, owing to deceleration in manufacturing and continued weakness of tourism. Manufacturing sector growth is projected to have declined to 6½ percent due to capacity constraints, higher oil prices, and frequent disruptions of the production process. The tourism sector remained weak during the first half of 2000/01, and is estimated to have suffered late in the year owing to political instability.

C. Savings and Investment²

12. **Gross domestic investment and gross national saving rebounded.** The investment rate reached 24¼ percent of GDP in

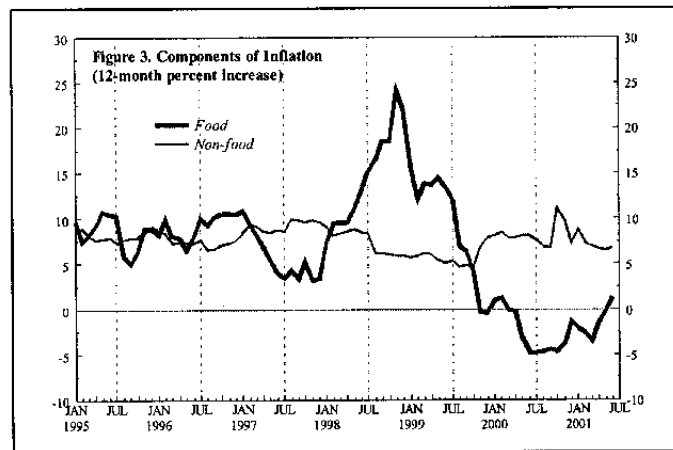


² The analysis here is based on the official national accounts data. However, private investment is estimated from limited information and private savings are calculated as a residual. Therefore, the data ought to be interpreted with caution.

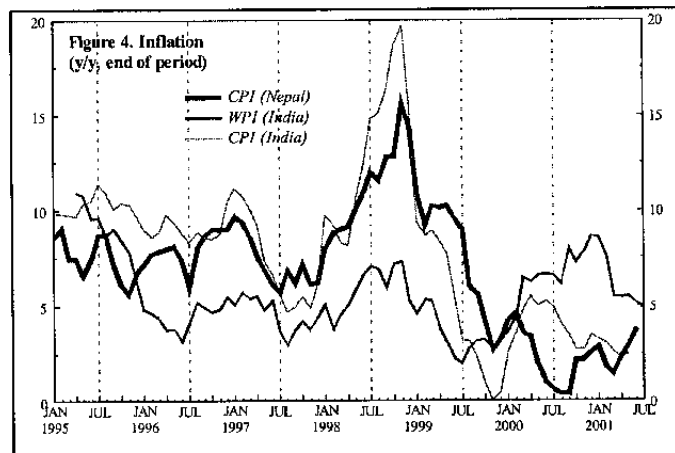
1999/2000 and an estimated 25¾ percent of GDP in 2000/01. This increase in the gross investment rate, however, can be attributed mostly to unexplained changes in stock accumulation. The rise in private sector investment as a percent of GDP also contributed to a small increase in the gross fixed investment rate. The gross national saving rate has risen to 24¾ percent in 1999/2000 and an estimated 26 percent in 2000/01. This mainly reflected a recovery in the private saving rate in response to the acceleration of output growth, and an increase in net transfers from abroad.

D. Inflation

13. **Consumer price inflation fell to under 1 percent (on a 12-month basis) in mid-2000 and remained below 4 percent during the following year.** The reason was the improved supply of food products, which more than offset the effect of energy price hikes (Figure 3). In particular, sharp decline in the price of rice kept food inflation negative during most of the period. The administered prices of fuel products (petrol, diesel, kerosene, and liquid petroleum gas) and transportation were raised in late 2000, following the increase in world oil prices, but these price hikes were partially reversed in early 2000. Although nonfood inflation experienced a moderate increase during the period, the negative impact of world oil prices on domestic inflation was limited because of the relatively low weight of fuel and transportation in the consumption basket, the short duration of the price hikes, and lower food inflation.



14. **Inflation differed widely across the three main regions in Nepal.** During the first eleven months of 2000/01, average consumer price inflation was only ¾ percent in the Terai region. By contrast, the price level in the Kathmandu valley increased by 3 percent, and the inflation rate in the Hills region approached 5 percent. These differences can be attributed to regional variations in the price of rice, driven by local supply conditions and insufficient infrastructure.



III. POVERTY AND ENVIRONMENT

A. Poverty and Social Issues

15. **Nepal's greatest challenge is overcoming widespread and deep-rooted poverty.** According to latest World Bank data, 90 percent of the Nepalese depend on subsistence farming, and 42 percent of the population lives below absolute poverty. Virtually all of Nepal's social indicators are lower than the average of low-income countries, with very low levels of literacy, access to clean water, electricity, and basic medicine (Table 11). It is clear that the target set in the Ninth Plan to bring down the percentage of people below absolute poverty to 32 percent by 2001/02 will remain far from achieved. Preliminary government estimates suggest that the percent of population living in poverty has declined to 38 percent in 2000/01.

16. **The authorities have begun to prepare a Poverty Reduction Strategy Paper (PRSP),** recognizing that a significant reduction in poverty can only be achieved through higher economic growth and significantly better absorptive capacity with respect to foreign aid. An interim draft was published in July 2001, and the main elements of the strategy are to (i) improve agriculture productivity, (ii) upgrade infrastructure to facilitate public and private sector economic activity, (iii) provide expanded coverage and better access to health and education, and (iv) promote decentralization and increasing community participation in the poverty alleviation efforts. A series of programs in the areas of drinking water, skill development, credit facility, population control, women's empowerment, rural transportation and electrification, health, and education are to be coordinated within the framework of the PRSP, which would become the basis for the government's Tenth National Plan.

B. Environmental Issues

17. **Nepal's major environmental concerns include deforestation, soil erosion, solid waste management, and air and water pollution, particularly in the urban areas.** Environmental issues have been traditionally addressed on a project-to-project basis, instead of at broader policy making levels. However, there have been increased efforts recently to coordinate the overall environmental program with the ministries of agriculture, forest, transportation, and rural development.

18. **Air pollution,** mostly localized in the Kathmandu valley area, remains an important concern, and efforts to reduce the emission of vehicles have not led to a visible improvement in air quality. Solid waste management was another major issue affecting the urban areas, and in response the government allocated Nrs 120 million in 2000/01 to develop three dumping sites and to expand composting/recycling facilities with the participation of the private sector.

19. In response to donor and NGO concerns for **potential environmental damage out of large-scale power projects,** as well as issues relating to resettlement benefits for the people affected by construction of dams, the Nepalese authorities are reassessing the cost of such

undertakings, and are increasingly inclined toward relatively smaller projects with limited environmental impact.

IV. EXTERNAL DEVELOPMENTS³

20. **The external position was generally favorable in both 1999/2000 and 2000/01, with the current account close to balance and a steady increase in reserves achieved.** The current account (excluding grants) registered a small surplus of around ½ percent of GDP in both years as strong growth in remittances compensated for the lackluster performance in tourism and deterioration in the trade deficit. Although merchandise exports performed extremely well in 1999/2000, the trade deficit widened as imports increased sharply. In 2000/01, the trade deficit is estimated to have worsened further, as merchandise exports growth slowed considerably. However, the overall balance remained strong, despite declines in capital transfers and foreign direct investment (FDI), and gross official international reserves reached over 5 months of imports in both years. Total external debt increased slightly as a percent of GDP, but the debt service burden stayed small at around 5 percent of current receipts due to the heavily concessional nature of the borrowing.

A. Exports

21. **In 1999/2000, benefiting from a strong global economy and led by readymade garments and pashmina products, merchandise exports grew by 37 percent.**⁴ However, export growth in 2000/01 is projected to be a more modest 8 percent, reflecting capacity constraints and weaker demand for readymade garments and woolen carpets. Moreover, in recent years the marketing of lower-grade carpets by other exporters has adversely affected confidence in the quality of Nepali carpets.

22. **Nepal continued to experience solid growth in exports to India,** following the 1996 preferential trade treaty that allows access of Nepalese products to India free of customs duties and quantitative restrictions. Exports to India grew by 32 percent in 1999/2000, compared with a 22 percent growth of exports to third countries. Vegetable ghee exports declined, due to a saturation of markets in the northern Indian plains and stricter nontariff controls (food product testing) imposed by India. However, exports of manufactured articles by Indian joint ventures, such as toothpaste, soap and jute products, more than compensated

³ See Appendix Tables 12–19. Analysis of 2000/01 external sector developments is based on preliminary data for the first 9 months and estimates for the last 3 months. However, in the absence of detailed data for several categories, Tables 12–19 only report data for the first 6 months of 2000/01.

⁴ Nepal's exports remain concentrated in terms of products and markets. Readymade garments, woolen carpets and pashmina products account for almost 60 percent of total exports, and India, the United States, and Germany represent over 75 percent of Nepal's market abroad. Re-exports are not included in this comparison.

for this decline. Exclusive of re-exports, merchandise exports to India grew at an even faster rate—37 percent—as gold re-exports declined, following the Nepalese government’s new policy aimed at curbing smuggling.⁵ Exports growth to India remained strong in 2000/01, and preliminary data for the first nine months (excluding gold re-exports) showed an increase of 26 percent compared with the same period in 1999/2000.

B. Imports

23. **Imports recorded a strong 23 percent growth in 1999/2000, after falling by 10 percent in 1998/99.** Growth was led by imports of industrial raw materials, chemical fertilizers, transportation equipment, other machinery, and inputs for export products, such as thread and textiles. In the first nine months of 2000/01, non-oil imports did not grow as *bandhs* and activities of insurgents impeded domestic production, development expenditure remained sluggish, and increased oil prices raised transportation costs. By contrast, as international prices increased sharply, the value of oil imports grew by about 50 percent.

24. **In 1999/2000, imports from India grew by 16 percent, compared with 28 percent growth of imports from other countries.** Increases were recorded mainly in the importation of fuels, rice, and thread. Trade data for the first nine months of 2000/01 show an increase of 11 percent in imports compared with the same period in 1999/2000, driven by fuel and nonfuel materials.

C. Services, Income, and Transfers

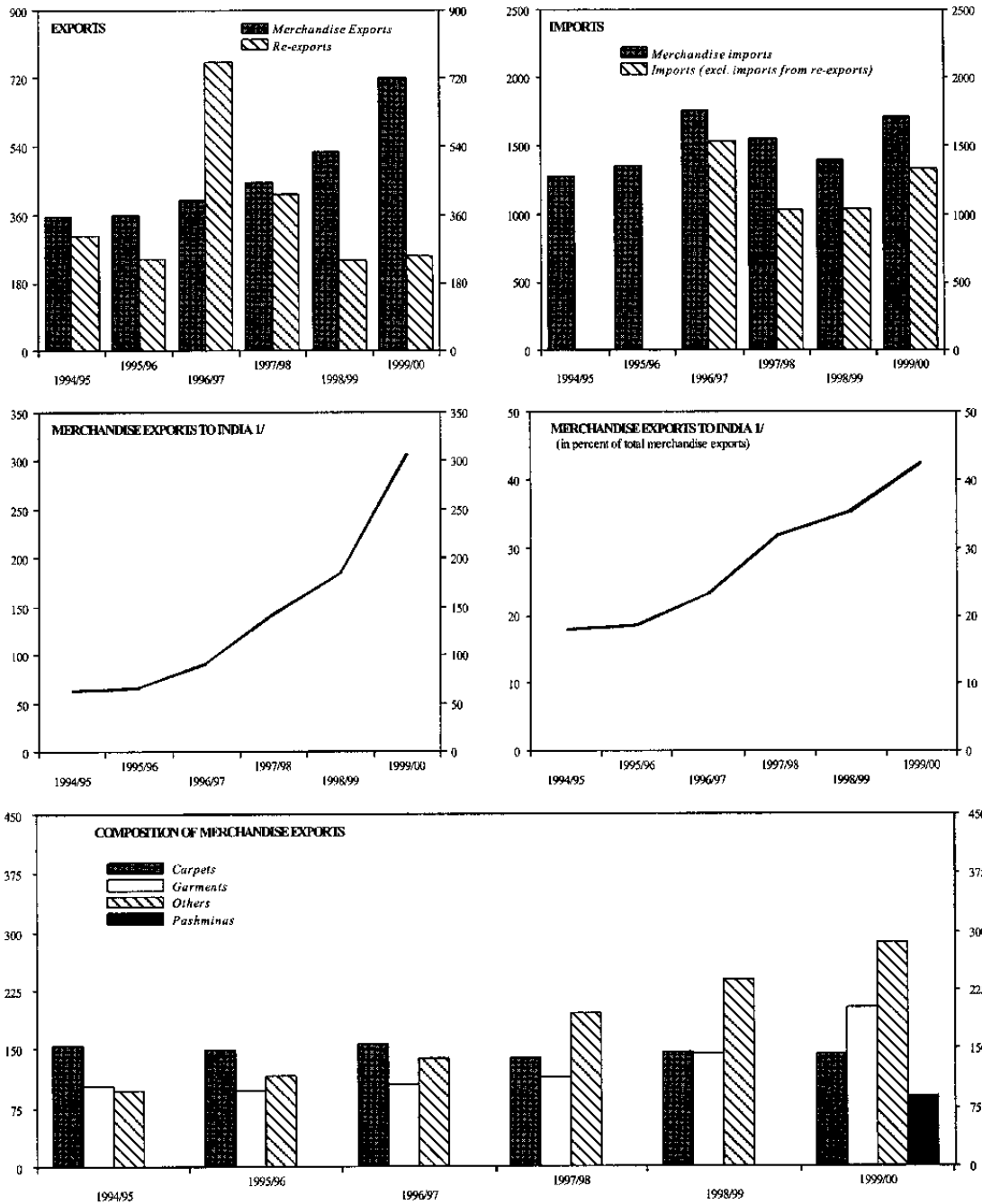
25. **Continued weaknesses in the tourism industry have caused the services and income account surplus to decline from 6¼ percent of GDP in 1998/99 to 5 percent in 1999/2000 and to 4 percent in 2000/01.** The slump in tourism was triggered by the hijacking of the Indian Airline plane in December 1999, which caused the cancellation of all Indian Airlines flights to Nepal for six months.⁶ Factors contributing to the failure of the industry to recover included prolonged political instability, stepped-up Maoist insurgency, hotel closures due to strikes by labor unions, and concerns regarding pollution in the Kathmandu valley. The surplus on the income account also fell in 1999/2000, owing to a 33 percent decline in government receipts in 1999/2000, related to declining expenditure of foreign diplomatic missions and international organizations in Nepal.

⁵ Under this new policy, Nepalese traveling abroad are permitted to import 10 kg of gold only if they can produce proof of both foreign-exchange earnings and residence abroad for 6 months. Earlier, Nepalese could import 10 kg of gold by remaining abroad for 6 months, as long as they paid a 5 percent import duty. Together with the loosening of restrictions on gold import by India in January 1999, this made smuggling of gold much less profitable.

⁶ Approximately, one third of the tourists visiting Nepal come from India and over 85 percent of tourists arrive via air.

Figure 5. Nepal: External Trade Developments, 1994/95-1999/2000

(in millions of U.S. dollars; unless otherwise noted)

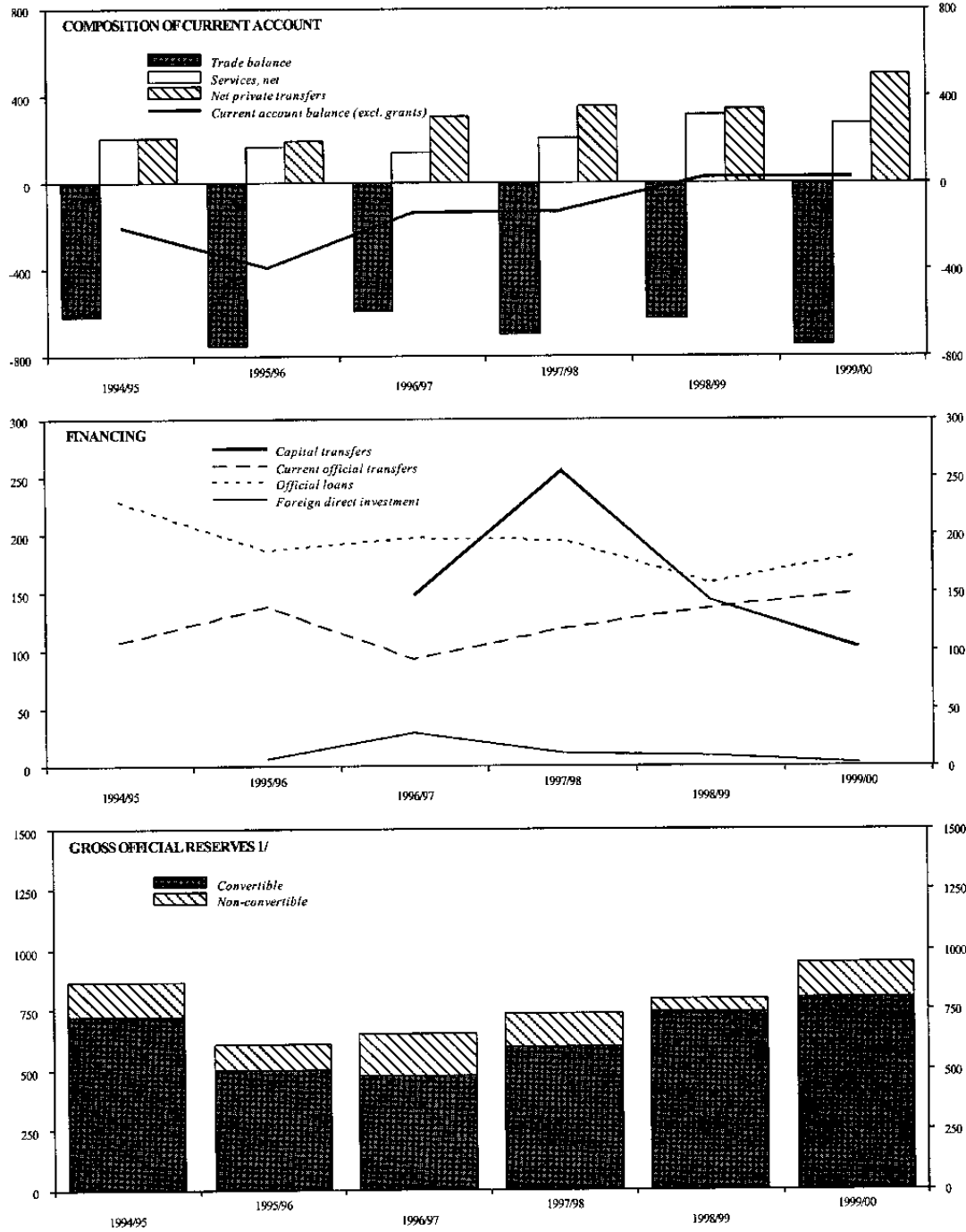


Source: Data provided by the Nepalese authorities.

1/ Excluding re-exports.

Figure 6. Nepal: Current Account, Financing, and International Reserves, 1994/95-1999/2000

(In millions of U.S. dollars)



Source: Data provided by the Nepalese authorities.

1/ Including gold, SDR holdings, and the reserve tranche position.

26. **By contrast, in 1999/2000 net private transfers registered a surplus equivalent to 9 percent of GDP.** The increase was largely driven by remittance receipts, which rose by 48 percent in 1999/2000, led by an 81 percent increase in estimated remittances. Official grants also increased by 9 percent to \$150 million. On the basis of data for the first six months of 2000/01, net private transfers are expected to be buoyant for the year as a whole—possibly reaching 11 percent of GDP—but official grants may weaken to \$105 million.

D. Capital and Financial Account

27. **The overall capital and financial account surplus declined considerably in 1999/2000.** This reflected a continued decline in capital transfers and private sector disbursements, which dropped by 28 percent and 65 percent from their respective 1998/99 levels. Net FDI flows also only reached \$3 million.⁷ Official disbursements, however, increased by 15 percent, reaching \$182 million on account of large, AsDB-financed hydropower projects. These trends are expected to continue in 2000/01. Analysis of the capital and financial account continued to be hampered by the still large errors and omissions and unexplained capital flows captured in other net investment in the balance of payments.

E. International Reserves and External Debt

28. **Supported by strong exports and remittances receipts, gross foreign assets of the banking system increased by 18 percent in 1999/2000 reaching \$1,347 million.** In particular, the gross foreign assets of Nepal Rastra Bank increased by 19 percent to \$946 million, or 5½ months of imports. However, the share of Indian rupees in total foreign exchange reserves increased from about 10 percent to 14 percent in 1999/2000, bringing it to about one month of imports. This increase reflected increased trade with India,⁸ some of which is to circumvent Indian import duties levied on goods from other countries, as well as the increased amount of Nepalese workers remittances channeled via the *hundi* system.⁹ This trend continued in 2000/01, as the share of rupee reserves reached almost 30 percent of total reserves. This trend continued in 2000/01, as the share of rupee reserves reached almost 30 percent of NRB's total reserves.

⁷ Low levels of recorded FDI also reflect incomplete investment data, especially from India.

⁸ While exports to India are always settled in Indian rupee, which circulates widely in Nepal, imports from India for certain large items, especially oil and oil products are settled in U.S. dollars.

⁹ In the *hundi* system, a Nepali overseas worker sends his foreign-currency earnings to a Nepali trader, who then instructs an agent in Nepal to issue Nepali rupees (at a better exchange rate than that offered by banks) to the worker's family. Meanwhile, the trader uses the foreign exchange to finance shipments of goods—often gold—to Nepal.

29. **Total external debt rose by 24 percent to \$3.4 billion, equivalent to about 62 percent of GDP in 1999/2000.** The share of multilateral debt in that total remained stable at about 80 percent, with IDA being the major creditor followed by the AsDB. The stock of short-term debt, which consists mainly of trade credits, increased by about 37 percent to \$269 million. Despite an increase in the debt stock, debt service as a ratio of exports of goods and services and private transfers declined to 4¼ percent in 1999/2000 from almost 6 percent the previous year, due to the exceptional export performance and the highly concessional nature of the borrowing.

F. Exchange and Trade System

30. **The exchange rate of the Nepalese rupee remains pegged to the Indian currency at the rate of Nrs 1.6 per Indian rupee.** The Nepalese rupee broadly remained stable in real and nominal effective terms during 2000/01, depreciating by only about 2½ percent in real effective terms during the 12 months ending in June 2001, mainly owing to the depreciation of the Indian rupee against the dollar and a favorable inflation differential against India.

31. **Nepal maintains an exchange system that is relatively free of restrictions.** The only nontariff barriers in place are for religious, health, and security purposes (e.g., beef, poppy seeds, and communication equipment). Imports of **salt** can only be conducted by the public enterprise Salt Trading Corporation on the grounds that only they have facilities to test the iodine levels in the salt. This monopoly is in place until the end of 2002 after which any private sector agencies with these facilities are expected to qualify as importers. There also are restrictions on the exportation of **raw leather** and **unprocessed wool**. On leather, the government allows only about 15 percent of total production to be exported in raw form. This restriction is viewed as a strategy for increasing “value added” as part of Nepal’s industrialization process. Similarly, wool exportation is restricted in order to ensure sufficient supplies for carpets, one of Nepal’s major export industries.

32. **There is an export tax levied on 23 specific items, while a service charge of ½ percent is levied on all other exports on the basis of f.o.b. prices.** The service charge does not represent a tax on exports for fiscal purposes; rather it is levied to cover the cost of services rendered to exporters by the custom authorities and other related government agencies.

33. **The tariff structure of Nepal includes five basic standard rates (5, 10, 15, 25, and 40 percent), with a simple average tariff rate of around 13 percent.** In 2000, in a move to simplify the tax system, the authorities replaced excise duties on vehicles with two exceptional tariff bands, 80 and 130 percent. In the medium term, the government has stipulated in the reform program its intention to reduce the number of tariff bands in addition to lowering their levels.

34. **The Nepal-India Trade Agreement, signed in December 1996, is anticipated to be automatically renewed in December 2001, as the agreement has proved beneficial to both sides.** Under this agreement, India provides, on a nonreciprocal basis, duty-free access,

without quantitative restrictions, to the Indian market for all Nepalese manufactured articles, excluding alcohol, tobacco, and cosmetics, provided there is a certification of origin. However, imports from Nepal remain subject to Indian countervailing duties, and in recent years, the treaty has faced opposition from Indian industrialists that accuse Nepal of being a re-export center, channeling products to India that are produced elsewhere with minimum value added in Nepal. Nepal and India are currently reviewing ways to address this issue by defining the appropriate level of manufacturing value added. On the Nepali side, the outstanding issues are recognition by India of Nepal Standard mark as a proof of quality and India's occasional imposition of quarantine checks on Nepali agro-products. The Nepal-India Transit Agreement, which has simplified procedures to expedite the transportation of cargo to Nepal from Indian ports, was renewed in January 1999 for seven years, and now includes an automatic renewal provision. Nepal's traffic in transit through Indian territory is exempt from Indian customs duties, all transit duties and other charges except for transportation.

V. MONETARY AND FINANCIAL SYSTEM DEVELOPMENTS¹⁰

A. Monetary Policy Framework

35. **In its conduct of monetary policy, the Nepal Rastra Bank (NRB) has aimed at maintaining price stability while simultaneously supporting output growth through adequate credit expansion.** The NRB has a limited number of policy instruments at its disposal, namely the cash reserve ratio (CRR), the refinancing rate, and open market operations using treasury bills and repurchase agreements.¹¹ The NRB currently does not have a discount window system, and the NRB typically affects the level of reserve money by adjusting the amount of Treasury bills it takes at the weekly auctions.

36. **In recent years, the NRB has sought to reduce lending rates to support private sector activity.** To this end, in 1998/99, the NRB introduced a requirement that all commercial banks keep the spread between lending and deposit rates below 5 percentage points in order to encourage the desired reduction in interest rates. However, this measure appears to have been relatively ineffective, partly due to the lack of a clearly specified method for calculating interest rate spreads or monitoring bank practices. In order to foster bank lending, the NRB also lowered its refinancing rates from 9 percent in 1998/99 to 6.5–7.5 percent.

¹⁰ See Appendix Tables 20–27.

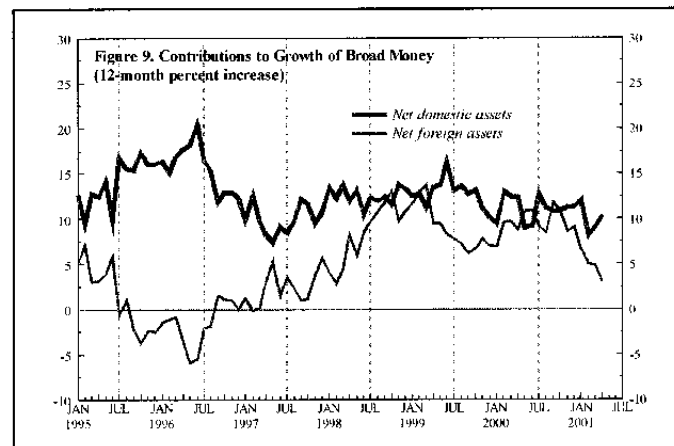
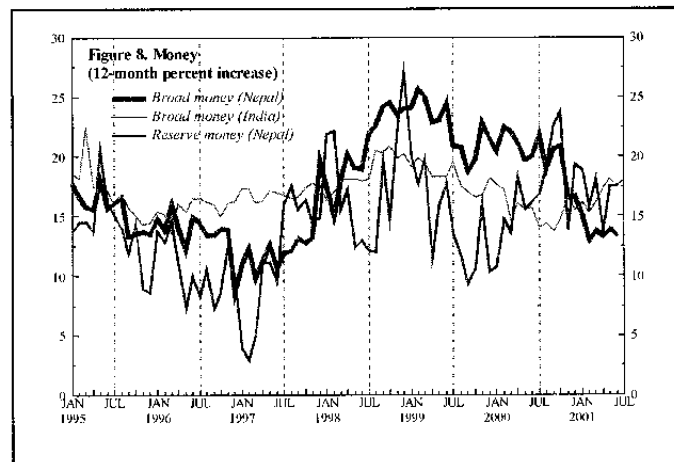
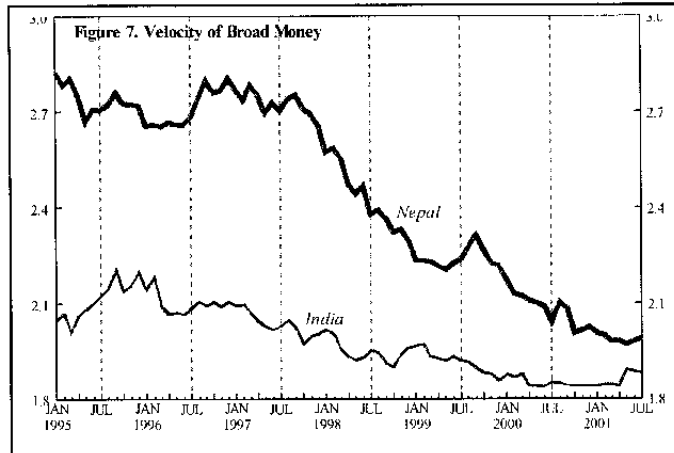
¹¹ The market for debt securities is not very deep—longer-term government securities were introduced only in 1997, and while the NRB can issue its own debt instruments, this option is rarely used.

B. Monetary and Interest Rate Developments in 1999/2000 and 2000/01

37. In the past two years, the NRB has targeted annual broad money growth at around 15 percent. This target was considered to be consistent with nominal GDP growth of 12 percent, a continued modest decline in velocity, and banking sector financing of the government in the amount of Nrs 3 billion.

38. In the event, broad money grew by nearly 22 percent in 1999/2000, before decelerating to just over 13 percent in the 12 months to April 2001. The strong growth in 1999/2000 reflected both the continued robust expansion of credit to the private sector as well as a build up of net foreign assets, related to the boom in exports and the overall payments surplus. The subsequent easing of broad money growth occurred against the background of a slackening of credit demand and a somewhat weaker balance of payments position, which also contributed to a slowdown in the growth of reserve money.

39. Interest rates generally declined during 1999/2000 and 2000/01. The NRB's refinancing rate was lowered from 9 percent to 6½–7½ percent in 1999/2000, while the prime lending rate has fallen by roughly 2 percentage points to 9½ over the past two years (Table 20). However, while deposit rates also declined, spreads between lending and deposit rates remained high, at around 5 percent, reflecting the continued problems of the two largest banks (see below) and the limited ability and willingness of banks to lend despite a buildup of significant excess reserves. Yields on



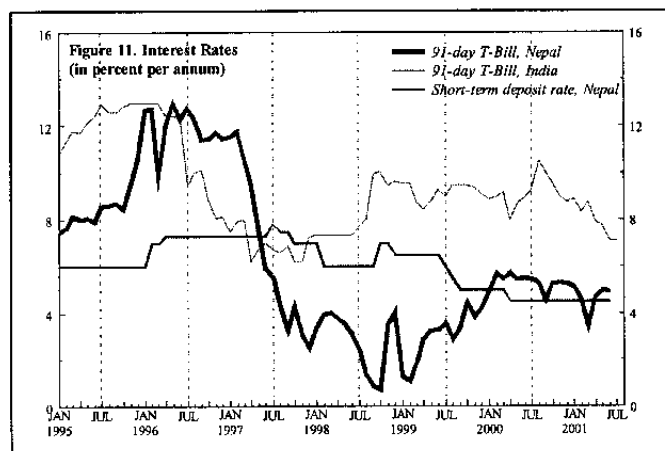
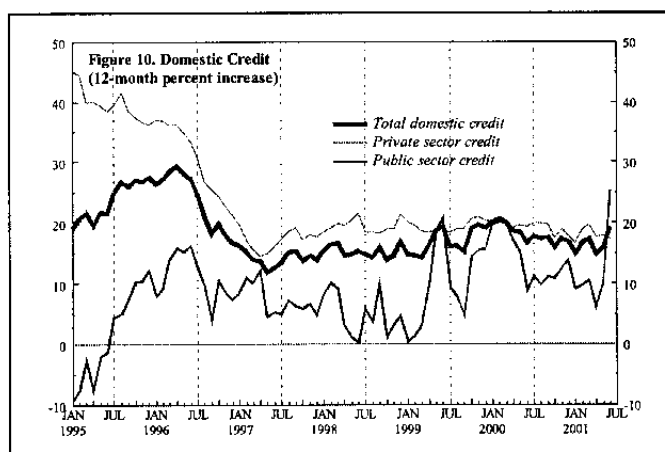
3-month treasury bills in the primary market rose from under 3 percent in July 1999 to 5¼ percent by July 2000, but they eased to 4¼ percent by mid-2001.

C. Financial System Developments

40. **The financial sector in Nepal is highly segmented.** The system has evolved from a system comprising only two state-owned commercial banks at the beginning of the decade, to one that includes 15 commercial banks, 12 development banks, five regional development banks, one postal savings bank providing services through 116 post offices, 48 finance companies, 34 nongovernmental cooperative societies, and 15 nongovernmental micro credit institutions. This segmentation has partly resulted from a legislative framework that limits the scope for mergers and acquisitions between categories. Two major banks—the Nepal Bank Limited (NBL) and the Rastriya Banijya Bank (RBB)—continue to dominate the commercial banking sector, and together account for 83 percent of commercial bank branches. Recently, however, their combined share in total lending and deposits declined to 48 percent and 43 percent, respectively.

41. **The government and the NRB retain considerable equity participation and representation in financial sector institutions.** As well as the RBB, the government owns the Agricultural Development Bank of Nepal (ADB), has a majority share in the Nepal Industrial Development Corporation (NIDC), and owns a large share of the majority privately owned NBL. Moreover, the NRB has sizeable equity participation in a number of regional development banks and micro-finance institutions.

42. **Although there are a significant number of commercial banks with some majority foreign-ownership, their activities are also constrained.** Nine of the remaining eleven commercial banks are joint ventures with 50 percent foreign shareholding. These joint-venture banks have tended to specialize in trade finance but have also, since the mid-1990s, expanded their activities into the industrial, tourism, and transport sectors. Joint-venture banks are subject to restrictions on their daily operations, including in the number of



expatriate managerial staff that the foreign bank can employ in their operations in Nepal. In July 2001, the authorities increased the limit on foreign ownership of banks from 49 percent to 66 percent.

D. Financial Conditions of Banks and Broader Reform Issues

43. **The two largest banks continue to suffer from significant balance sheet weaknesses.** A preliminary assessment by international consultants KPMG based on the 1998 accounts found the two banks deficient in their financial and administrative operations and indicated that they suffered from massive nonperforming assets (NPAs). Of RBB's assets—which represented more than 30 percent of the banking system total—roughly 25 percent were estimated to be nonperforming. Its main Kathmandu branch was identified as the major source of problems of bad loans and poor accounting. The ratio for the NBL—which accounts for another 30 percent of the system's assets—is believed to be somewhat lower owing to its greater success at loan recovery. Although the government decided in March 2000 to recruit management teams for the two banks, the recruiting process has proceeded very slowly. In the absence of adequate accounting systems or official review of mid-1999 and mid-2000 accounts, NPAs may have increased further.

44. **Weaknesses also exist elsewhere in the banking system.** Whereas private domestic commercial banks as a group are in generally better financial shape than the two largest institutions, some smaller banks face balance sheet difficulties and recent inspections have identified lapses in meeting prudential guidelines in two smaller banks.

45. **Several factors help to explain the weaknesses in the banking system.**

- **Directed lending.** Commercial banks are required to direct 12 percent of their loans to “priority sector” small-scale borrowers, and these loans tend to be at lower-than-market rates, given that the banks compete with development finance institutions that are able to provide subsidized credits. The priority lending requirement imposes a heavier burden on the smaller private banks that do not have a network of regional branches or a large operating staff.
- **The regulatory system.** Despite recent progress, weaknesses continue in the regulatory environment and in the capacity of the NRB to effectively supervise the banking system. For example, provisioning requirements are not up to international standards, and supervision has tended to concentrate on credit risk, ignoring important market risks, including those related to foreign exchange exposure and maturity mismatches. Efforts to address this situation include an ongoing BSD survey of banks' foreign exchange exposure, in preparation of setting appropriate limits,

proposed amendments to the Banking Act that would strengthen the NRB's authority to deal with errant institutions, and new prudential guidelines.¹²

- **The supervisory system.** The capacity of the Banking Supervision Department to supervise the banking sector has been constrained by an inadequate number of qualified bank supervisors, and a lack of computer systems that would enable effective data processing and analysis.
- **Disclosure.** Banks are not obliged to publish half-yearly financial accounts and audited annual accounts by means of newspaper advertisements, and the two large banks have not yet completed their perfunctory account audits.

E. The Government's Financial Sector Reform Strategy

46. **The government published in December 2000 its Financial Sector Strategy Statement (FSSS) following broad consultations within government and with stakeholders.** The main elements of this strategy include:

- Implementing restructuring plans for the two large commercial banks—the RBB and NBL.
- Identifying restructuring strategies for the two development banks, ADBN and NIDC.
- Strengthening banking sector regulation and accounting and auditing standards.
- Strengthening the NRB's supervisory capacities and its ability to enforce compliance with prudential regulations.
- Improving the regulation and supervision on nonbank deposit taking institutions.
- Modernizing the legislative framework with a view to reducing legislative overlap and the segmentation and fragmentation of institutions.

¹² New guidelines came into force in July 2001 that consider only loans that are fully current as *performing*; classify loans that are 0–89 days past due as *good*, subject to a 1 percent provisioning requirement; loans that are 90–179 days past due as *sub-standard*, with a 25 percent provisioning requirement; loans that are 180–359 days past due as *doubtful*, with a 50 percent provisioning requirement; and loans over 360 days past due as *loss*, with a 100 percent provisioning requirement. Previously, loans that were past due for up to 89 days were classified as *performing*; loans that were 90–179 days past due were classified as *nonperforming*, but no provisions were required; loans that were 180–359 days past due were *sub-standard*, with a 20 percent provisioning requirement; loans 360–540 days past due were classed as *doubtful*, with a 50 percent provisioning requirement; and loans more than 540 days past due were classed as *loss*, and were to be fully provisioned.

- Strengthening corporate governance and the framework for loan recovery.
- Phasing out the role of NRB and commercial banks in providing directed credit.

47. **In the past year, some progress has been achieved in moving ahead this reform agenda.** With respect to restructuring of RBB and NBL, the government has decided to hire outside management teams for the two institutions. The management teams would be in charge of preparing and implementing a restructuring plan over two years, including the establishment of internal mechanisms of control. Only after successful restructuring would the government inject new capital into the two banks. The two management teams are expected to be in place by end-2001.

48. **The NRB has issued a draft set of prudential regulations covering loan classification, loan loss provisioning, capital adequacy, and a code of ethics.** These regulations—intended to bring Nepal into conformity with international standards—have so far been discussed within the government and in an open forum with bankers, businessmen, and academics. The new regulations came into effect as of July 16, 2001. It is expected that, in addition to the two large banks, one of the smaller private banks will not be able to meet the new capital adequacy requirements.

49. **The NRB is currently preparing a manual for banking supervisors.** A foreign advisor has provided advice and training since late 1999, and has assisted in preparing revised regulations. In the past year, BSD initiated 10 offsite and six onsite bank supervisions and completed six and three reports, respectively. Given the large number of institutions NRB must now cover, consideration is being given to establishment of a two-tier supervision structure whereby micro-institutions and cooperatives would be supervised by a specialized institution.

50. **The NRB carried out a study of the system directed lending in Nepal in November 2000 with a view to determining its costs and benefits.** The costs to the public sector include those related to the provision of subsidized credits by the central bank to the commercial banks and development banks in order to promote their lending to priority sectors.¹³ However, most of these and the related costs were not explicitly addressed by the

¹³ The regional development banks have incurred large losses due to the high transaction cost of micro finance. The NRB continues to hold equity shares in development finance institutions, including a 10 percent stake in the Nepal Cottage and Small Industries Development Bank Limited that was established in June 2001. This reflects an earlier commitment by NRB and a condition that the NRB shares are to be divested within 3 years. The AsDB's rural micro financing project has been established with the aim of stemming the growing losses of the regional development banks and establishing an efficient mechanism for the distribution of micro credit.

study, and the 2001/02 budget introduced a number of new subsidized credit facilities without a clear budgetary allocation for the interest subsidies.

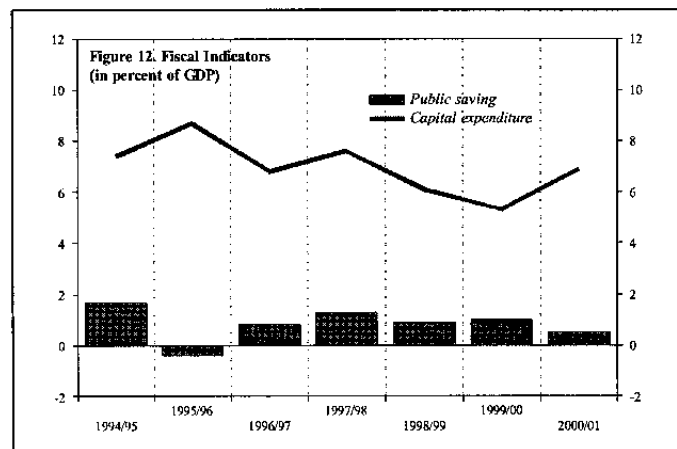
51. **Steady improvements are being made in the NRB's supervision and enforcement practices, although public disclosure of banking sector performance remains weak.** RBB has not so far produced audited reports of its accounts for the years ending July 1999 and July 2000. Moreover, errors and lags in reporting of commercial bank operations lead to frequent and substantial data revisions and impede the NRB's ability to make an accurate assessment of monetary developments and introduce timely corrections.

52. **The NRB is seeking to strengthen its capacities in the area of monetary policy, financial regulation, and banking supervision.** The authorities plan to introduce new financial reporting standards for banks that would take effect with their 2001/02 accounts. The new format would provide greater information on the banks' risk profile, profitability, and available capital; and would highlight movements in loan loss provisions, the volume of loans on which interest is suspended, and sectoral concentration of credit risks.

53. **Several draft financial laws have been tabled in the current parliamentary session.** Building on World Bank and MAE/LEG technical assistance, a revised central bank law has been proposed, which would increase the NRB's independence and more clearly define its role in the area of monetary policy. New legislation governing deposit-taking institutions would also replace existing overlapping laws, and clarifying and streamlining regulations and reporting requirements. The AsDB has provided assistance in preparing a new Insolvency and Secured Transactions Act, which would address the weaknesses in the legal enforcement mechanism and judicial capacity, and the Debt Recovery Act, which would help establish debt recovery tribunals to facilitate loan recoveries by banks.

VI. FISCAL DEVELOPMENTS¹⁴

54. **After showing a mild improvement in 1999/2000, the fiscal deficit is projected to have widened in 2000/01.** The overall deficit (before grants) increased to 6¾ percent of GDP in 2000/01 from 4¾ percent of GDP in the previous year. Although domestic revenue remained close to the budget target and capital expenditure showed a sizeable under spending, significant overrun in the current expenditure resulted in the deterioration of the fiscal



¹⁴See Appendix Tables 28–32.

position. With slower-than-anticipated disbursement of foreign grants and concessional loans, net domestic financing rose from ½ percent of GDP in 1999/2000 to 2 percent of GDP in 2000/01.

A. Central Government Operations in 1999/2000

55. Fiscal performance improved in 1999/2000 as the ambitious revenue targets were nearly achieved and current expenditures contained. The overall deficit (before grants) declined to 4¾ percent of GDP, which was lower than the budgeted level by 2¼ percent. Total revenue was close to the budgeted target, but slow project implementation caused a continued shortfall in the capital expenditure. Public savings remained at 1 percent of GDP as the revenue increase was offset by the increase in the current expenditures, most notably wages and salaries for the civil service employees.

Revenue Developments

56. Strong collection efforts at the end of the year contributed to the near achievement of the revenue target in 1999/2000. Tax collection increased to 8¾ percent of GDP, which had been the level maintained throughout the mid-1990's. Nontax revenue reached the budget target, owing mainly to a sharp increase in the dividend receipts from the NRB. Nevertheless, total revenue still remained below 11 percent of GDP, a low level when compared to other Asian countries (Table IV.1).

57. Despite a small shortfall, VAT collection showed a significant improvement, increasing by 25 percent compared to the previous year. This strong growth reflected favorable business performance and improved VAT administration. In particular, VAT registration almost doubled during the year (from 9,082 to 17,628) and business compliance improved.

58. Revenue from trade taxes increased moderately, and remained below budget. Import taxes increased by 13¾ percent, lower than the 22 percent growth of imports. The lack of buoyancy was likely due to the increase of the nondeductible imports and the undervaluation of dutiable imports. Despite efforts to introduce the invoice valuation system at the customs point, poor governance and inadequate enforcement hampered the effectiveness of the system.

59. Taxes on income and profits, however, exceeded the budget target and reached 2 percent of GDP. Revenues from this source benefited from the impact of a number of policy measures, including a move to assessments based on current year's income and the introduction of a presumptive tax for taxpayers below a limit of Nrs 10 million. However, taxes on property fell short of budgeted targets, reflecting continued slackness in the real estate activity.

Table VI.1. Nepal: Revenue Comparisons

	Nepal				SAF/ESAF Countries Latest year available	
	Average	Actual	Estimate	Estimate	Asian	Median
	90/91-92/93	1998/99	1999/00	2000/01	Countries 1/	Revenue
	(In percent of GDP)					
Total revenue	8.6	10.2	10.7	11.5	14.2	16.9
Tax revenue	6.7	8.4	8.7	9.5	11.4	14.2
On income, profits, property and capital gains	1.1	1.8	2.0	2.3	2.3	3.6
On domestic goods and services	3.2	3.8	3.9	4.2	5.2	5.0
On international trade	2.4	2.8	2.8	3.0	3.9	5.1
Nontax revenue	1.3	1.8	2.0	2.0	2.8	2.7
	(In percent of total revenue)					
Tax revenue	78.3	82.1	81.4	82.3	79.3	84.0
On income, profits, property and capital gains	13.2	17.6	18.2	21.7	15.9	21.3
On domestic goods and services	37.8	37.3	36.6	28.9	36.2	29.6
On international trade	27.3	27.2	26.6	31.7	27.2	30.2
Nontax revenue	15.7	17.9	18.6	17.7	20.7	16.0

1/ Bangladesh, Cambodia, Laos, Pakistan, Sri Lanka and Vietnam.

Expenditure Developments

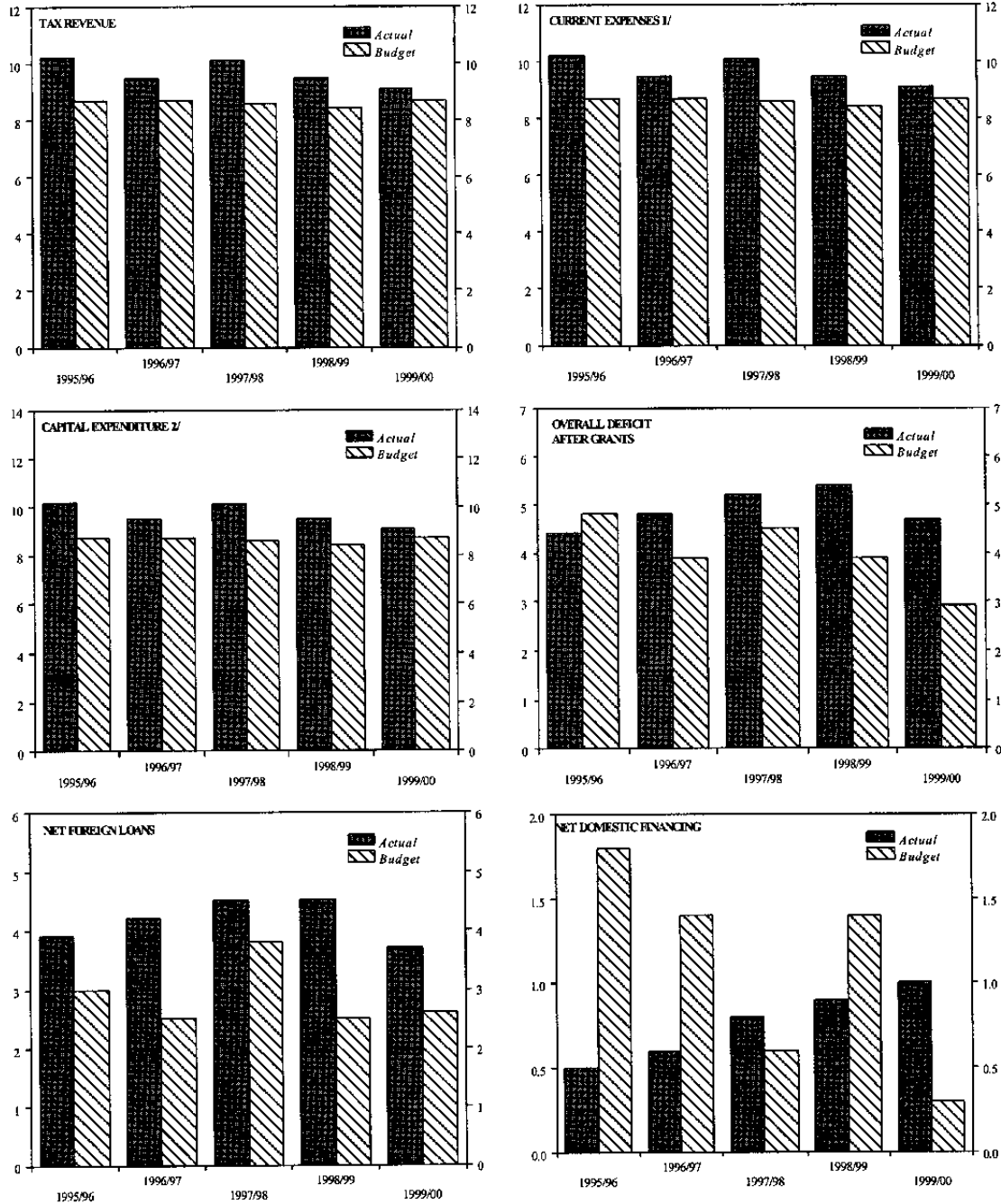
60. As in the previous years, total expenditure fell short of budget projections by **2½ percent of GDP, reflecting sizeable shortfalls in capital spending.**¹⁵ Current expenditure increased to 9½ percent of GDP due mainly to the pay increase for civil service employees allotted at the beginning of the year. The overrun in wages and salaries was partly offset by lower-than-budgeted interest payments.¹⁶

¹⁵ 1999/2000 was the first year that the Nepalese budget distinguished between “current” and “capital expenditures,” in addition to using the traditional “regular” and “development” classification.

¹⁶ Interest payments, especially for foreign debts, had been consistently below budgeted amounts by a wide margin, which appeared to reflect (i) incomplete and conflicting data associated with in-kind payments, and (ii) unrealistic expectations regarding the availability of the foreign financing associated with the development projects.

Figure 13. Nepal: Fiscal Developments: Comparison of Budget Outturn, 1995/96-1999/2000

(in percent of GDP)



Source: Data provided by the Nepalese authorities.

1/ Based on regular expenditure until 1996/97.

2/ Based on development expenditure until 1996/97.

61. **Capital expenditure (including net lending) remained at 6 percent of GDP in 1999/2000, thus falling short of the budget target by 1¾ percent of GDP.** The large shortfall was caused by weak project implementation, coupled with start-up delays related to late budget formulation. The shortfall had a particularly adverse impact on outlays for social services (Table IV.2).

	Nepal				SAF/ESAF Countries Latest year available	
	Average	Actual	Estimate	Estimate	Asian	Median
	90/91-92/93	1998/99	1999/00	2000/01	Countries 1/	Expenditure
	(In percent of GDP)					
General government expenditures 2/	15.3	15.4	15.5	18.2	19.8	23.9
Current expenditure	5.7	9.3	9.4	11.8	13.1	15.9
Capital expenditure	9.6	6.1	6.1	6.4	6.7	7.9
By functional classification						
Defense	1.0	1.0	0.9	1.0	3.8	2.3
Education	2.4	2.2	2.4	3.0	1.7	4.3
Health	0.6	0.8	0.9	0.9	0.8	1.9
Other	11.3	11.5	11.3	13.3	12.7	15.3
	(In percent of total expenditure)					
General government expenditures 2/						
Current expenditure	50.6	60.5	60.4	64.7	65.1	66.5
Capital expenditure	49.4	39.5	39.6	35.3	34.9	33.5
By functional classification						
Defense	6.5	5.7	5.9	5.4	20.7	9.6
Education	15.7	14.5	15.8	16.2	9.7	18.1
Health	3.9	5.3	5.9	5.0	4.8	8.1
Other	73.9	74.5	72.4	73.4	64.8	64.2

1/ Bangladesh, Cambodia, Laos, Pakistan, Sri Lanka and Vietnam.
2/ Central government data for Nepal and Sri Lanka.

Financing

62. **The government's deficit in 1999/2000 was largely financed by foreign loans obtained on highly concessional terms.** Together with foreign grants, external financing accounted for 85 percent of total financing. However, delays in project implementation caused underutilization of the concessional foreign loans.

63. **The government's recourse to domestic financing was limited to ½ percent of GDP.** Net government claims from the NRB declined, reflecting drops in holdings of treasury bills and National Saving Bonds, and overdraft lending. However, commercial banks increased their holdings of government securities, which was the main source of bank financing.

B. Central Government Budget for 2000/01

64. **The 2000/01 Budget, announced on May 30, 2000, targeted a fiscal deficit (before grants) of 7½ percent of GDP, an increase of 3¼ percentage points of GDP relative to the outturn for 1999/2000.** Although revenue was expected to increase on account of an expanded tax net and more effective implementation of the income tax and VAT, this was to be more than offset by pressures on increasing civil service payments and capital spending.

65. **The budget proposed an ambitious revenue target for 2000/01.** Collections were to increase by 23¼ percent, reaching 12 percent of GDP based on measures that included:

- Effective implementation of the VAT, by improving the paper trail of transactions and limiting unrecorded mark-ups.
- Expansion of the tax base by including transactions of commercial agricultural farming, export business, nonagricultural business of cooperative institutions, and dividend and interest from foreign direct investment.
- Initiation of the merger of the Departments of Taxation and VAT into an Inland Revenue Department.
- Re-enforcement of the transaction-value based customs valuation system, requiring imports to be handled through the banking system and to receive a 5 percent duty rebate.

66. **On the expenditure side, the budget envisioned significant increases in outlays.**

- Current expenditure was budgeted to increase by 1½ percent of GDP, reflecting the costs of civil service reform, including increases in wages and salaries in the amount of ½ percent of GDP.¹⁷
- Capital expenditure (including net lending) was budgeted at 8¼ percent of GDP, an increase of 3 percent of GDP compared to the outturn for 1999/2000. About 32½ percent of capital expenditure was allocated to the power sector including the Kaligandaki project (Nrs 5.4 billion).

67. The budget also outlined some elements of the **government's reform policies**, including:

- The establishment of the Public Expenditure Review Commission (PERC) to provide recommendations to the government on project management, with particular

¹⁷ See Section VII.A for more details on the civil service reform.

emphasis placed on performance-based funding within multi-year rolling budgets, and on a broad-based civil service reform (Box VI.1).

- Presentation to parliament of bills for reforms to the Loan Recovery Act and the Deposit Taking Institutions Act and of the NRB.
- Strengthening the management and restructuring of the two large commercial banks and two large development banks—RBB and NBL, and ADBN and NIDC.
- Establishment of an Asset Restructuring Company as a joint venture of the NRB and the private sector.
- Gradual withdrawal of government from commercial activity and greater private sector involvement in infrastructure development through a Build, Operate and Transfer (BOT) system.
- Initiation of a program for training 10,000 primary school and 3,000 lower secondary school teachers.

C. Central Government Operations in 2000/01 and 2001/02 Budget

68. **Judging from the preliminary data for the first nine months and the estimates presented in the 2001/02 Budget Speech, the fiscal deficit is expected to have widened to 6¾ percent in 2000/01.** The revenue collections increased by 15½ percent, but were more than offset by a 29½ percent increase in the expenditure, particularly for current expenditures associated with the pay increases for the civil servants. Moreover, lower-than-anticipated disbursements of foreign loans and grants forced the government to depend more heavily on domestic financing, particularly for the overdraft facility with the central bank.

69. **Tax collections in 2000/01 are projected to have increased by 17 percent, Nrs 3¾ billion short of the budget target.** For the first nine months of 2000/01, tax revenue increased by 26½ percent. However, during the crucial year-end period, collection efforts were hampered by the large number of lost working days following the deaths of the royal family. Shortfalls in VAT receipts suggest weakness in the system's administration, which suffers from the continued reluctance of retailers in issuing registered bills and low valuation of imported goods. Customs revenues also have grown more slowly than import values, in part reflecting weak collections from trade along the border with Tibet.¹⁸

70. **Current expenditures are expected to have exceeded the budget targets by almost ½ percent of GDP in 2000/01.** Despite smaller interest payments on domestic debts due partly to the low interest rates, sizable increases in the wage bill and pension payments,

¹⁸ From April 2001, army troops now patrol the borders to reduce illegal trade.

coupled with slow progress on key civil service reform steps, resulted in substantial overrun in the budget spending targets.

71. **Capital spending is projected to have increased by 30½ percent in 2000/01, but was still below the target.** Notwithstanding the early preparation of the 2000/01 Budget, weak project implementation by the authorities and delays in the donor funding kept spending well short of the budget target.

72. **The 2001/02 Budget was presented to parliament on July 9, 2001, six weeks later than in the previous year, amidst an intensification of Maoist attacks.** While emphasizing revenue mobilization for enhanced social sector spending, the budget envisaged a need for increased defense expenditures in view of the worsening internal security situations. The budget targeted to reach public savings at 1 percent of GDP, with total revenue increasing to 12¾ percent and current expenditure remaining at 11¼ percent of GDP. For more details, see Box VI.3.

D. Local Government Activities in 1998/99–2000/01

73. **Nepal has pursued fiscal decentralization since the 1991 transition to democracy,** but it was not until recent years that substantial efforts toward transfer of fiscal power to local governments were made. The Ninth Five Year Plan (1997–2002) envisioned passing to local authorities the responsibility for the implementation of the poverty alleviation projects, and the Local Self-Governance Act in 1991 provided the necessary legal and institutional framework for local governments.

74. **Currently, there are three levels of local governments:** 75 District Development Committees (DDCs), 58 municipalities, and 3,913 Village Development Committees (VDCs). Nonetheless, the institutional capacity of local governments to perform their tasks effectively is limited. The central government has budgeted less than 4 percent of total expenditures to the local governments in the past three years (Table VI.3).

	1998/99		1999/00		2000/01	
	Budget	Share (in percent)	Budget	Share (in percent)	Budget	Share (in percent)
Total expenditure	69,693	100.0	77,238	100.0	91,621	100.0
Local governments	2,755	4.0	2,810	3.6	2,707	3.0
DDCs	650	0.9	700	0.9	700	0.8
Municipalities	145	0.2	150	0.2	50	0.1
VDCs	1,960	2.8	1,960	2.5	1,957	2.1

1/ Based on the definition of the authorities' expenditure classification.

75. **The source of revenue varies across local governments**, depending on various factors such as population, level of development, capacity of mobilizing resources, and necessity of financial resources (Box VI.2). The main revenue item for the DDCs has been transfers—in the form of administrative and program support grant—from the central government, which amounted to approximately Nrs 2 billion in 1999/2000. Municipalities raised about 60 percent of their revenues from local tax and fees, which in 1999/2000 amounted to Nrs 1.6 billion. VDCs were also authorized to collect local taxes including house and land tax and business tax, but the collected amounts were believed to be relatively small.

Box VI.1. Nepal: Public Expenditure Review Commission

As outlined in the 2000/01 Budget, a five-member Public Expenditure Review Commission (PERC) was constituted with the aim of increasing efficiency on the public expenditure management, focusing mainly on reforming civil services and streamlining low priority projects. The Commission started its work in September 2000, and has provided a final report with recommendations on various aspects of the public expenditure management.

The main features of the recommendations include:

Improvement in the government organization

- The report defines the role of the government agencies, and specifies the areas that each level of government be involved.
- The report provides guidelines on how to implement a decentralized and efficient government system.

Privatization of development projects

- The report establishes three sets of criteria (general, technical, and area-specific) for evaluating new projects, according to a detailed rating system.
- The report establishes a cut-off rate of return (15 percent) for initiating a project financed by foreign loans.
- The report reviews 700 projects and makes recommendations for cuts, cancellations, or rationalization.

Efficient expenditure management

- The report suggests (i) no increases in the civil service salary, except for the regular grade increment, and (ii) containment of expenditures for internal security and defense to 7 percent of revenue.
- The report recommends reforming pension scheme so that pension expenditures would be sustainable in the future, including by extending the minimum retirement service years for the police from 16 years to 20 years.
- The report's recommendations for reforming civil service include: (i) reduce the number of staff by 21,000 from the current 65,000 for the sample of 4 ministries (with the number of staff verifiable); (ii) consolidate the government function between central and local governments for the overlapping parts; (iii) maintain hiring freeze for the coming five years; and (iv) contract out some of civil services provided by low ranking staffs.

Box VI.2. Nepal: Revenue Base in the Local Governments

Nepal's local governments can raise revenues from several sources—grants from central government and upper-tier local governments, local taxation and service fees, sales of natural resources, and revenue sharing.

Grants

- DDCs and municipalities receive special development support grant from the Ministry of Local Development (MLD), with the amount depending on the size of the projects.
- DDCs receive matching grant from the MLD for development projects, typically 60 percent of their own fund-raising and 40 percent grant from the MLD. Municipalities that can raise more than Nrs 1 million do not qualify for this grant.
- VDCs receive a block grant of Nrs 500,000 annually.

Taxation and Service Fees

- Local governments are authorized to collect a number of taxes and fees. Among these, DDCs have least access to direct taxation, while municipalities and VDCs have greater authority of direct taxation.
- In lieu of previously collected octroi tax, the central government collects the Local Development Fee at the customs point, and allocates it to all municipalities.

Sales of Natural Resources

- DDCs and VDCs can sell sand, gravels, soil, wood swept by river, and other natural resources, except those prohibited by prevailing laws.

Revenue Sharing

- DDCs transfer 35 percent to 50 percent of the proceeds of the sales of natural resources to the concerned municipalities and VDCs.
- VDCs transfer 25 percent of the land revenue fee and house and land tax to DDCs.

Box VI.3. Nepal: The 2001/02 Budget

The 2001/02 budget speech announced an overall fiscal deficit target (before grants) of 7 percent of GDP, a ¼ percent increase from last year. Improved tax administration measures, coupled with a special fee for strengthening security are expected to increase total revenue by 1¼ percent of GDP. Current expenditures are projected to remain around 11¼ percent of GDP, whereas the budget provides an increase of 1¼ percent of GDP in capital expenditures to 8 percent of GDP.

Revenue measures

- Merger of VAT and Taxation Departments and creation of Inland Revenue Department.
- Introduction of 10 percent capital gains tax.
- Broadening of VAT.
- Extension of the Automated System for Customs Data to more customs posts.
- Increased import tariffs on milk, oil, and video equipment.
- Increased export taxes on vegetable ghee, plastic products, and copper wire.
- Special fee of 1 percent on customs duties and income tax payments for funding the Internal Security and Development Plan (ISDP).
- Increased excise taxes on cigarettes and liquor.

Expenditure measures

- Implementation of the recommendations of the Public Expenditure Review Commission for expenditure management, including civil service reform, pension system reform, and prioritization of development projects.
- Establishment of Poverty Alleviation Fund to bring various scattered poverty programs into a unified framework for efficient monitoring and evaluation of programs.
- Security spending increased to 2½ percent of GDP to cope with the worsening security situation.
- Health and education spending budgeted to reach 4½ percent of GDP.
- Spending on power sector to increase by 17½ percent over the estimated spending in 2000/01, including the completion of the Kaligandaki "A" hydroelectricity project (Nrs 2.9 billion).

Low interest credit facilities

- **Agriculture sector:** interest rates lowered by (i) 1 percent for exportable farming and cash crops, (ii) 2 percent on credit extended by the Agricultural Development Bank to tea plantation areas, and (iii) 2 percent on credit for horticulture farming in areas receiving ISDP funding.
- **Industry:** a refinancing scheme at 7.5 percent interest for troubled, but qualified industries to be financed by a provision of Nrs 1.0 billion as source funds from the NRB.
- **Export promotion:** interest rates on export credits lowered by 1.5 percent in convertible foreign currency and by 1 percent in Nepalese currency.

Foreign investment & trade promotion

- Simplification of the licensing process, permitting foreign-based Nepalis to investment and repatriate profits, and allowing private sector participation in the forthcoming Special Industrial Zone.
- Simplification of the duty drawback scheme for exporters, including facilities to exporters whose duty drawback is overdue for several years.

Civil service reforms

- The minimum service period for volunteer retirement for army and police personnel will be extended from 16 years to 20 years and the minimum age of eligibility extended from 40 years to 45 years.
- Certain services, such as cleaning, gardening, and maintenance will be contracted out.

VII. PUBLIC SECTOR PERFORMANCE, REORGANIZATION, AND PRIVATIZATION¹⁹

A. Civil Service Reform

76. The government embarked on a civil service reform initiative in early-2000. This reform encompassed several elements, including a substantial pay increase, staff and organizational restructuring, and a voluntary early retirement scheme, many of which were carried forward as part of the 2000/01 Budget.

New Organizational Structure

77. On the recommendation of the Administrative Reforms Commission, the government made significant changes to its organizational structure. An Inland Revenue Department was established by integrating the Department of Tax and the Department of Value-Added Tax (VAT), and a Revenue Monitoring Division was formed at the Ministry of Finance, together with a secretariat for a permanent revenue board. Similarly, a Department of Land Reforms and Management was created, integrating the Department of Land Reforms and the Department of Land Revenue, and a separate Women's Development Department was set up under the Ministry of Women, Children, and Social Welfare.²⁰ Efforts were also undertaken to streamline the ministries, which were reduced in number from 26 to 21, toward the elimination of duplication of functions, the reduction of employees and the amalgamation of a number of offices.

Record Update and Civil Service Census

78. An AsDB-sponsored civil service census was carried out in 2000 to revamp the personnel records for the civil service. As a result, progress was made in resolving the chronic discrepancy between the centralized personnel records (Kitab Khana) and the payroll information of respective agencies. However, the concerned ministries recognized the need for a system for regularly updating these data. Project assistance in this regard was sought from the AsDB, and a MOU was signed to begin work soon after the completion of the civil service census.

Pay Increase

79. Pay increases were introduced in 2000/01 that ranged from 50 percent to 100 percent, and are expected to increase employee productivity and attract better-quality applicants for

¹⁹ See Appendix Tables 33–35.

²⁰ During late-2000, the Expenditure Reform Commissions Report recommended the elimination of three ministries (General Administration, Population and Environment, and Women, Children, and Social Welfare).

civil service employment.²¹ The wage bill was expected to increase by 30–35 percent as a result, but the fiscal impact was expected to be offset partially by substantial cut in allowances and a comprehensive streamlining of the work force.

Workforce Streamlining

80. In July 2000, about 1,100 temporary workers from various rural development projects were laid off. The vacancies were then gradually filled by existing permanent employees, mostly from urban areas. In addition, about 5,000 temporary workers were laid off from other development projects.

Voluntary Early Retirement Scheme (VERS)

81. As part of the civil service reform initiative, a VERS scheme was offered to the government employees in July 2000, with a lump-sum advance of 84 months of salary (under the new pay scale). By December, about 4,000 employees had applied for VERS, but many did not qualify due to stringent eligibility requirements. The funding for the scheme is expected to come from the donors, but in case of delays in disbursement, the authorities have pledged to commence the program with internal financing.

Pension Payments

82. Under the new pay scale, all existing pension holders received an increment equal to two-thirds of the pay increase for their respective pay levels. The budget line item for retirement facilities increased by 10.5 percent in 1999/2000, and the 2000/01 Budget allocated a further 7 percent increase. There are about 76,500 pensioners, from civil service (32,000), teachers (4,500), police (15,000), and armed forces (25,000).

B. Public Enterprise Reform

83. According to their 1999/2000 balance sheets, **the performance of nonfinancial public enterprises improved from the previous year.** After incurring losses in 1998/99, Agricultural Input Corporation, Janakpur Cement Factory, and Royal Nepal Airline Corporation posted small profits in 1999/2000. However, despite increases in tariffs for electricity and fuel products due to escalating costs, the profits of Nepal Telecommunication Corporation and Nepal Oil Company (NOC) declined.

84. **Preliminary estimates indicate that the performance of nonfinancial public enterprises deteriorated significantly in 2000/01.** Total net profits of the 32 nonfinancial public enterprises declined from Nrs 3.5 billion in 1999/2000 to less than Nrs 0.3 billion in

²¹ The pay increases included Nrs 2,000 to Nrs 3,000 a month for basic salaries at the low end of the salary scale, and from Nrs 7,000 to Nrs 14,000 a month for Secretaries at the high end.

2000/01. Excluding Nepal Telecommunication, the remaining companies posted a loss of Nrs 1.5 billion, or ½ percent of GDP. This loss can be attributed mostly to the worsened balance sheets of Royal Nepal Airlines and Nepal Oil Company.

C. Privatization

85. **The privatization process made very little progress in 1999/2000, with no successful transfer of targeted enterprises to the private sector.** A summary of developments with regard to some of the key entities to be privatized is provided below:

- **Bhaktapur Brick Factory:** The process of identifying liabilities and valuation continued throughout the year.
- **Himal Cement Factory:** Labor problems and environmental concerns slowed progress toward the privatization of Himal.
- **Butwal Power Company:** The deadline for the two-envelope bidding process (one containing the financial bid, and the other containing the technical aspects) was extended repeatedly through 2000/01. By the end of the year, there were indications that 4 to 5 international companies would bid for Butwal power, which had been valued at around \$13 million.
- **Salt Trading Corporation Ltd.:** The transformation process was stalled as only one bid was submitted for the firm, and the government considered it unacceptable.
- **Nepal Telecommunications Corporation:** The Ministry of Communication gave its consent to prepare for NTC's privatization, which is expected to be a complex and lengthy process. A recent study by DANIDA will be used as a guideline for valuation and transformation.

Table 1. Nepal: Nominal Gross Domestic Product by Sector, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In billions of Nepalese rupees, at current prices)					
Agriculture, fisheries, and forestry	96.9	108.8	112.5	132.4	142.9
Mining and quarrying	1.3	1.5	1.6	1.7	1.8
Manufacturing	22.5	24.8	27.0	30.3	35.4
Electricity and water	3.6	4.5	4.4	4.6	5.9
Construction	26.1	29.3	30.5	33.3	36.1
Trade, restaurants, and hotels	28.3	30.6	33.7	39.3	43.1
Transport and communications	15.9	19.3	22.6	24.6	29.3
Financial and real estate	23.5	27.2	29.8	33.2	36.9
Community and social services	21.3	23.7	27.8	30.6	34.0
GDP at factor cost	239.4	269.6	289.8	330.0	365.5
Agricultural GDP	96.9	108.8	112.5	132.4	142.9
Non-agricultural GDP	142.5	160.8	177.3	197.6	222.6
Value of imputed banking services	5.9	7.0	7.9	9.4	10.7
Net indirect taxes	15.5	18.0	18.9	21.5	24.9
GDP at market prices	248.9	280.5	300.8	342.0	379.7
(Percentage share in nominal GDP)					
Agriculture, fisheries, and forestry	40.5	40.4	38.8	40.1	39.1
Mining and quarrying	0.6	0.6	0.5	0.5	0.5
Manufacturing	9.4	9.2	9.3	9.2	9.7
Electricity and water	1.5	1.7	1.5	1.4	1.6
Construction	10.9	10.9	10.5	10.1	9.9
Trade, restaurants, and hotels	11.8	11.3	11.6	11.9	11.8
Transport and communications	6.6	7.2	7.8	7.5	8.0
Financial and real estate	9.8	10.1	10.3	10.1	10.1
Community and social services	8.9	8.8	9.6	9.3	9.3
Agricultural GDP at factor cost	40.5	40.4	38.8	40.1	39.1
Nonagricultural GDP at factor cost	59.5	59.6	61.2	59.9	60.9
(Annual percentage change)					
Memorandum items:					
Deflator for GDP at market prices	7.8	7.3	4.1	8.9	4.3
Agriculture-sector deflator	8.4	7.8	2.3	14.6	2.8
Nonagriculture-sectors deflator	7.4	7.2	4.9	5.5	4.9

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

Table 2. Nepal: Real Gross Domestic Product by Sector, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In billions of Nepalese rupees, at 1984/85 prices)					
Agriculture, fisheries, and forestry	31.2	32.5	32.9	33.8	35.4
Mining and quarrying	0.4	0.4	0.4	0.4	0.4
Manufacturing	6.6	7.0	7.3	7.7	8.7
Electricity and water	0.6	0.6	0.6	0.7	0.8
Construction	7.5	7.9	8.1	8.6	9.1
Trade, restaurants, and hotels	8.4	8.8	9.2	9.6	10.2
Transport and communications	5.8	6.3	6.7	7.2	7.7
Financial and real estate	7.5	7.9	8.3	8.8	9.2
Community and social services	7.7	8.0	8.6	9.1	9.8
GDP at factor cost	75.8	79.4	82.1	85.8	91.3
Agricultural GDP	31.2	32.5	32.9	33.8	35.4
Non-agricultural GDP	44.5	46.9	49.2	52.0	55.9
Value of imputed banking services	2.0	2.1	2.2	2.4	2.6
Net indirect taxes	5.2	5.6	5.6	5.8	6.3
GDP at market prices	79.0	83.0	85.5	89.3	95.0
(Annual percentage change)					
Agriculture, fisheries, and forestry	4.4	4.1	1.0	2.7	5.0
Mining and quarrying	13.1	6.7	1.3	3.7	4.6
Manufacturing	9.0	7.1	3.4	5.3	13.0
Electricity and water	19.4	1.7	-4.2	6.5	15.5
Construction	6.6	6.1	1.9	6.7	5.4
Trade, restaurants, and hotels	4.2	3.7	5.5	4.0	6.0
Transport and communications	5.5	7.7	7.5	6.7	7.5
Financial and real estate	7.6	4.7	5.9	5.0	5.2
Community and social services	6.0	3.3	7.6	6.5	7.6
GDP at factor cost	5.7	4.8	3.4	4.5	6.4
Agricultural GDP	4.4	4.1	1.0	2.7	5.0
Nonagricultural GDP	6.6	5.2	5.1	5.6	7.4
Value of imputed banking services	11.0	1.5	8.4	6.9	9.4
Net indirect taxes	2.1	7.7	-0.9	4.5	7.8
GDP at market prices	5.3	5.0	3.0	4.4	6.5

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

Table 3. Nepal: Gross Domestic Product by Expenditure Components, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In billions of Nepalese rupees, at current prices)					
GDP at market prices	248.9	280.5	300.8	342.0	379.7
Consumption	216.5	211.2	231.7	267.0	291.9
Public	23.0	25.6	27.8	31.9	35.5
Private	193.4	185.6	204.0	235.0	256.3
Gross domestic investment	68.0	71.1	74.7	70.0	92.4
Gross fixed investment	56.1	60.8	65.4	65.3	74.9
Public	17.6	19.4	19.0	19.0	19.4
Private	38.5	41.4	46.4	46.3	55.6
Change in stocks	11.9	10.3	9.4	4.7	17.4
Net exports ^{1/}	-35.6	-1.8	-5.6	5.0	-4.6
Exports	56.8	85.9	77.6	85.4	98.9
Imports	-92.4	-87.7	-83.2	-80.4	-103.5
(Percentage share in nominal GDP)					
Consumption	87.0	75.3	77.0	78.1	76.9
Public	9.2	9.1	9.2	9.3	9.4
Private	77.7	66.2	67.8	68.7	67.5
Gross domestic investment	27.3	25.3	24.8	20.5	24.3
Gross fixed investment	22.5	21.7	21.7	19.1	19.7
Public	7.1	6.9	6.3	5.6	5.1
Private	15.4	14.8	15.4	13.5	14.6
Change in stocks	4.8	3.7	3.1	1.4	4.6
Net exports	-14.3	-0.6	-1.9	1.5	-1.2
Exports	22.8	30.6	25.8	25.0	26.1
Imports	-37.1	-31.3	-27.6	-23.5	-27.3

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

^{1/} Exports and imports of goods and services reflect the revised coverage of the balance of payments.

Table 4. Nepal: Saving and Investment, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In billions of Nepalese rupees, at current prices)					
Gross national savings	46.5	63.1	66.2	71.8	94.1
Public sector 1/	3.8	3.8	3.9	3.1	5.2
Private sector	42.7	59.3	62.3	68.7	89.0
Gross domestic investment	68.0	71.1	74.7	70.0	92.4
Gross fixed investment	56.1	60.8	65.4	65.3	74.9
Public sector	17.6	19.4	19.0	19.0	19.4
Private sector	38.5	41.4	46.4	46.3	55.6
Change in stocks	11.9	10.3	9.4	4.7	17.4
Saving-investment gap	-21.5	-7.9	-8.5	1.8	1.8
Public sector	-13.8	-15.6	-15.0	-16.0	-14.2
Private sector	-7.7	7.6	6.5	17.8	15.9
(In percent of nominal GDP)					
Gross national savings	18.7	22.5	22.0	21.0	24.8
Public sector 1/	1.5	1.4	1.3	0.9	1.4
Private sector	17.2	21.2	20.7	20.1	23.4
Gross domestic investment	27.3	25.3	24.8	20.5	24.3
Gross fixed investment	22.5	21.7	21.7	19.1	19.7
Public sector	7.1	6.9	6.3	5.6	5.1
Private sector	15.4	14.8	15.4	13.5	14.6
Change in stocks	4.8	3.7	3.1	1.4	4.6
Saving-investment gap	-8.6	-2.8	-2.8	0.5	0.5
Public sector	-5.6	-5.6	-5.0	-4.7	-3.7
Private sector	-3.1	2.7	2.2	5.2	4.2

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

1/ Defined as revenue less regular expenditure and estimated recurrent costs of development expenditure until 1997/98.

Table 5. Nepal: Agricultural Production and Yields, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00	1996/97	1997/98	1998/99	1999/00
	(In thousands of metric tons)					(Percentage change)			
Production by major crops									
Foodgrains	6,247	6,395	6,331	6,465	6,985	2.4	-1.0	2.1	8.0
Paddy	3,579	3,699	3,641	3,710	4,030	3.4	-1.6	1.9	8.6
Wheat	1,013	1,056	1,001	1,086	1,184	4.2	-5.2	8.6	8.9
Maize	1,331	1,312	1,367	1,346	1,445	-1.4	4.2	-1.6	7.4
Millet	282	289	285	291	295	2.3	-1.3	2.2	1.4
Barley	41	39	37	32	31	-6.3	-4.4	-14.1	-3.1
Cash crops	2,604	2,721	2,782	3,202	3,428	4.5	2.2	15.1	7.0
Sugarcane	1,569	1,622	1,718	1,972	2,103	3.4	5.9	14.8	6.7
Jute	15	14	15	16	15	-6.7	10.0	1.9	-3.2
Oilseeds	116	119	109	120	123	2.7	-8.2	9.5	2.5
Potato	898	962	935	1,091	1,183	7.0	-2.8	16.7	8.4
Tobacco	6	5	5	4	4	-7.3	-9.8	-15.0	-2.6
Distribution of fertilizer 1/	133	122	109	182	225	-8.3	-10.7	67.0	23.6
Area under cultivation 2/									
Foodgrains	3,242	3,267	3,243	3,253	3,321	0.8	-0.7	0.3	2.1
Paddy	1,497	1,511	1,506	1,514	1,551	0.9	-0.3	0.5	2.4
Wheat	654	667	640	641	660	2.0	-4.0	0.2	3.0
Maize	792	794	799	802	819	0.3	0.6	0.4	2.1
Millet	260	260	262	264	263	0.0	0.8	0.8	-0.4
Barley	39	35	36	32	28	-10.3	2.9	-11.1	-12.5
Cash crops	353	356	361	379	390	0.8	1.4	5.0	2.9
Sugarcane	45	46	49	54	58	2.2	6.5	10.2	7.4
Jute	11	11	12	12	15	0.0	9.1	0.0	22.5
Oilseeds	185	182	179	190	190	-1.6	-1.6	6.1	0.0
Potato	106	111	116	118	123	4.7	4.5	1.7	4.2
Tobacco	6	6	5	5	4	0.0	-16.7	0.0	-14.0
Yields									
Foodgrains	1.9	2.0	2.0	2.0	2.1	1.6	-0.3	1.8	5.2
Paddy	2.4	2.4	2.4	2.5	2.6	2.4	-1.2	1.4	3.6
Wheat	1.5	1.6	1.6	1.7	1.8	2.2	-1.2	8.4	5.3
Maize	1.7	1.7	1.7	1.7	1.8	-1.7	3.5	-1.9	3.5
Millet	1.1	1.1	1.1	1.1	1.1	2.3	-2.1	1.4	1.8
Barley	1.1	1.1	1.0	1.0	1.1	4.4	-7.0	-3.3	10.0
Cash crops	7.4	7.6	7.7	8.4	8.8	3.6	0.8	9.6	4.6
Sugarcane	34.9	35.3	35.1	36.5	36.3	1.1	-0.6	4.2	-0.5
Jute	1.4	1.3	1.3	1.3	1.0	-6.7	0.8	1.9	-20.8
Oilseed	0.6	0.7	0.6	0.6	0.7	4.4	-6.7	3.2	8.3
Potato	8.5	8.7	8.1	9.2	9.6	2.2	-7.0	14.7	4.6
Tobacco	0.9	0.9	0.9	0.8	0.9	-7.3	8.2	-15.2	10.0

Source: The Central Bureau of Statistics in Nepal.

1/ Private sector has participated in fertilizer trading activity since November 1997.

2/ Areas cultivated with more than one crop are included under each crop.

Table 6. Nepal: Manufacturing Production Indices, 1997/98–1999/2000

	Weights	1997/98	1998/99	1999/00	1997/98	1998/99	1999/00
		(Indices 1996/97 = 100)			(Percentage change)		
Overall production	100.0	103.4	108.9	116.1	3.4	5.3	6.6
Food	26.2	111.6	118.1	127.3	11.6	5.9	7.8
<i>Of which:</i>							
Sugar	3.5	104.0	110.2	142.7	4.0	6.0	29.4
Vegetable ghee	1.5	115.6	111.5	118.9	15.6	-3.6	6.7
Rice	2.0	124.0	131.4	125.7	24.0	6.0	-4.4
Soybean oil	0.8	115.0	131.1	133.5	15.0	14.0	1.8
Processed milk	3.0	108.0	111.2	114.5	8.0	3.0	2.9
Beverage	10.5	111.4	120.2	131.1	11.4	7.8	9.0
Tobacco	13.8	92.2	98.8	108.0	-7.8	7.2	9.4
Textile	22.4	103.3	107.0	107.1	3.3	3.6	0.1
<i>Of which:</i>							
Cotton cloth	1.5	94.0	79.9	70.6	-6.0	-15.0	-11.7
Synthetic cloth	3.0	106.0	93.3	99.6	6.0	-12.0	6.8
Woolen carpet	16.7	102.9	111.2	109.7	2.9	8.1	-1.3
Jute goods	1.2	114.0	116.3	135.1	14.0	2.0	16.2
Readymade garments	7.2	96.0	103.7	123.5	-4.0	8.0	19.1
Processed leather	1.0	109.0	111.2	108.1	9.0	2.0	-2.7
Wood products	1.2	99.0	95.6	93.3	-1.0	-3.4	-2.4
Paper	1.9	101.0	103.0	111.3	1.0	2.0	8.1
Other chemical products	6.8	98.6	105.5	114.5	-1.4	6.9	8.5
Rubber products	1.5	96.0	98.0	96.5	-4.1	2.2	-1.5
Plastic products	1.9	105.0	111.3	110.6	5.0	6.0	-0.7
Nonmetallic mineral products	8.2	104.7	114.5	120.6	4.7	9.4	5.3
<i>Of which:</i>							
Bricks	3.9	83.0	96.5	96.3	-17.0	16.3	-0.2
Cement	4.3	124.1	130.6	142.4	24.1	5.3	9.0
Iron and steel basic industries	5.1	107.9	107.4	120.4	7.9	-0.5	12.1
Electrical industrial machinery							
apparatus, appliances, etc.	1.8	113.0	116.4	121.0	13.0	3.0	4.0
Others	0.5	93.1	89.3	98.9	-6.9	-4.0	10.8

Source: The Central Bureau of Statistics in Nepal.

1/ Weights are based on the Census of Manufacturing Establishments (1996/97).

Table 7. Nepal: Energy Consumption, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In thousands of tons of coal equivalent)					
Traditional	8,995	9,191	9,392	9,596	9,788
<i>Of which</i> : Fuelwood	8,035	8,210	8,389	8,572	8,743
Commercial	986	1,151	1,298	1,399	1,409
Petroleum	777	806	924	995	1,000
Coal	105	233	253	275	280
Hydropower	104	112	121	129	129
Total	9,982	10,342	10,689	10,995	11,244
Traditional	2.2	2.2	2.2	2.2	2.0
<i>Of which</i> : Fuelwood	2.2	2.2	2.2	2.2	2.0
Commercial	23.4	16.7	12.8	7.8	1.0
Petroleum	28.3	3.8	14.6	7.7	1.0
Coal	8.6	121.0	8.7	8.7	2.0
Hydropower	8.0	7.1	8.1	7.0	0.0
Total	3.9	3.6	3.4	2.9	2.0

Source: Data provided by the Nepalese authorities.

Table 8. Nepal: Tourism Indicators, 1995–2000

	1995	1996	1997	1998	1999	2000 1/
Tourist arrivals (in thousands)	363.4	393.6	421.9	463.7	491.5	447.0
(Percentage change)	11.3	8.3	7.2	9.9	6.0	-9.1
<i>Of which:</i>						
Europe	137.7	138.9	143.4	157.8	171.6	169.7
India 2/	117.3	122.5	133.4	143.2	140.7	95.9
Japan	25.4	28.9	35.0	37.3	38.8	33.9
United States and Canada	29.7	30.6	36.3	43.0	46.9	49.0
Average days of stay	11.3	13.5	10.5	10.8	12.8	12.0
Per capita expenditure						
(In Nrs) 3/	24,617	24,344	23,226	31,282	32,550	...
(In U.S. dollars) 3/	474	430	402	476	479	...
(Percentage change)	20.3	-9.3	-6.5	18.4	0.6	...
Hotel-bed capacity	21,807	25,638	27,612	28,878	32,214	34,958
(Percentage change)	23.0	17.6	7.7	4.6	11.6	8.5

Source: Data provided by the Nepalese authorities.

1/ Estimated.

2/ By air only.

3/ Excluding Indian tourists.

Table 9. Nepal: Changes in the Consumer Price Index, 1996/97–2000/01 1/
(Annual percentage change)

	1996/97	1997/98	1998/99	1999/00	First Eleven Months	
					1999/00	2000/01
Overall national index	8.1	8.3	11.4	3.4	3.7	2.1
By commodity						
Food and beverages	8.2	7.8	16.2	0.4	0.9	-2.5
Foodgrains	9.1	3.2	18.6	8.6	10.7	-13.9
Milk and milk products	12.0	7.7	9.5	3.7	3.9	5.6
Oil and fats	2.5	8.3	29.0	-22.6	-23.2	-5.4
Beverages	9.2	14.8	8.7	3.7	3.9	1.5
Vegetables and fruits	3.7	16.6	19.9	-16.9	-17.7	4.0
Other goods and services	8.0	9.0	5.8	7.1	7.0	7.6
Cloth, clothing, and sewing services	7.8	6.9	6.0	4.7	4.8	2.2
Fuel, light, and water	11.2	7.5	2.8	13.2	12.7	24.1
Regional indices						
Kathmandu	7.8	7.3	8.2	3.7	3.8	3.0
Terai	8.1	9.0	13.3	3.1	3.4	0.7
Hills	8.6	8.0	11.6	3.7	3.9	4.7

Source: The Central Bureau of Statistics in Nepal.

1/ Base year is 1995/1996.

Table 10. Nepal: Monthly Wages in Major Sectors, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
(In Nepalese rupees)					
Agriculture					
Kathmandu	2,800	3,000	3,000	3,000	3,000
Birgunj	1,500	1,500	1,500	1,500	1,620
Biratnagar	1,350	1,350	1,350	1,500	1,500
Industry 1/ ^{1/}					
Skilled	1,610	1,610	1,960	1,960	2,276
Unskilled	1,450	1,450	1,800	1,800	2,116
Construction 2/ ^{2/}					
Skilled					
Kathmandu	5,350	5,550	5,700	5,700	5,700
Birgunj	3,300	3,300	3,390	3,900	4,050
Biratnagar	3,600	3,600	3,850	4,470	4,500
Semi-skilled					
Kathmandu	4,625	4,675	4,950	4,950	4,950
Biratnagar	3,000	3,000	3,150	3,870	3,900
Unskilled					
Kathmandu	2,950	3,000	3,000	3,000	3,000
Biratnagar	1,800	1,800	1,920	2,370	2,400
(In U.S. dollars)					
Agriculture					
Kathmandu	50.7	52.6	48.5	43.8	42.2
Birgunj	27.2	26.3	24.3	21.9	22.8
Biratnagar	24.4	23.7	21.8	21.9	21.1
Industry 1/ ^{1/}					
Skilled	29.2	28.2	31.7	28.6	32.0
Unskilled	26.3	25.4	29.1	26.3	29.8
Construction 2/ ^{2/}					
Skilled					
Kathmandu	96.9	97.3	92.2	83.2	80.2
Birgunj	59.8	57.9	54.8	56.9	57.0
Biratnagar	65.2	63.1	62.2	65.3	63.3
Semi-skilled					
Kathmandu	83.7	82.0	80.0	72.3	69.6
Biratnagar	54.3	52.6	50.9	56.5	54.9
Unskilled					
Kathmandu	53.4	52.6	48.5	43.8	42.2
Biratnagar	32.6	31.6	31.0	34.6	33.8

Source: Data provided by the Nepalese authorities.

1/ Minimum monthly wage, including allowances, which are the same in Kathmandu, Birgunj, and Biratnagar.

2/ Carpenters and masons.

Table 11. Nepal: Social Indicators

	Latest Single Year			Same Region/Income Group		
	1970-75	1980-85	1993-98	India	South Asia	Low Income
Total population, mid-year (millions)	12.8	16.5	22.9	979.7	1,304.6	3,536.4
Growth rate (percent annual average)	2.4	2.6	2.0	1.4	1.5	1.4
Urban population (percent of population)	5.0	7.8	11.3	27.8	27.7	30.5
Total fertility rate (births per woman)	6.3	6.1	4.4	3.2	3.4	3.1
Total labor force (millions)	...	7	11	439	585	1,085
Females in labor force (percent)	...	39	40	32	33	38
Labor force participation rate	...	48	48	43	43	50
Poverty						
National headcount index	...	...	42	35	...	...
Urban headcount index	...	...	23	31	...	...
Rural headcount index	...	...	44	37	...	...
Income						
GNP per capita (U.S. dollars)	120	170	210	440	430	520
Consumer price index (1995=100)	17	35	125	132	131	136
Food price index (1995=100)	...	33	113	132	...	...
Income/consumption distribution						
Gini index	...	...	36.7	37.8	...	...
Lowest quintile (percent of income or consumption)	...	...	7.6	8.1	...	...
Highest quintile (percent of income or consumption)	...	...	44.8	46.1	...	...
Public expenditure						
Health (percent of GDP)	...	...	1.3	0.6	0.8	1.3
Education (percent of GNP)	1.5	2.6	3.2	3.2	3.1	3.2
Social security and welfare (percent of GDP)	0.1	0.1	0.3	...	...	...
Net primary school enrollment rate (percent of age group)						
Total	...	60	78	77	77	86
Male	...	80	93	83	83	89
Female	...	37	63	71	70	82
Gross secondary school enrollment						
Total	12	27	32	49	...	...
Male	19	39	45	59	...	...
Female	4	14	18	39	...	...
Adult literacy (percent)	...	22	33	55	53	60
Female literacy	...	...	22	43	41	51
Access to safe water (percent of population)						
Total	8	24	59	81	77	69
Urban	85	78	61	85	83	80
Rural	5	20	59	79	70	66
Access to electricity (percent)	...	...	15	54	...	...
Population per physician	...	30,221	13,617	2,459	2,500	...
Population per hospital bed	...	5,719	4,308	1,503	1,429	1,152
Immunization rate (percent under 12 months)						
Measles	...	34	85	81	81	80
DPT	...	32	78	90	87	82
Child malnutrition (percent under 5 years)	69	...	57	53	53	...
Life expectancy at birth (in years)						
Total	43	49	58	63	62	63
Male	44	50	58	62	62	62
Female	43	48	58	64	63	64
Mortality						
Infant (per thousand live births)	160	125	77	70	75	68
Under 5 (per thousand live births)	234	180	107	83	89	92
Adult (15-59)						
Male (per 1,000 population)	482	376	273	215	220	235
Female (per 1,000 population)	476	395	309	204	213	208
Maternal (per 100,000 live births)	...	...	540	410	...	...

Sources: Staff reports; EDSS; World Bank 2000 World Development Indicators CD-ROM.

Table 12. Nepal: Balance of Payments by Area, 1997/98–2000/01

(In millions of U.S. dollars)

	1997/98			1998/99			1999/00			2000/01 (Six Months)		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Trade balance	-34	-661	-695	-173	-454	-627	-136	-606	-742	-95	-269	-365
Exports, f.o.b.	553	303	856	423	340	763	557	414	971	282	215	497
Merchandise exports	142	303	445	185	340	525	307	414	721	177	215	392
Re-exports	411	0	411	238	0	238	250	0	250	105	0	105
Imports, c.i.f.	587	964	1,551	596	794	1,390	693	1,020	1,713	377	484	862
Services (net)	18	187	205	39	274	313	46	227	273	24	82	106
Receipts	108	328	436	140	405	545	142	371	513	63	158	221
Payments	90	141	231	101	131	232	96	144	240	39	76	115
Private transfers (net)	89	266	355	108	230	338	135	362	497	80	279	360
Receipts	113	270	383	122	232	354	153	371	524	88	280	368
Recorded private transfers	49	89	138	66	122	188	74	150	224	34	83	117
Estimated remittances	64	181	245	56	110	166	79	221	300	54	197	251
Payments	24	4	28	14	2	16	18	9	27	7	1	8
Current account balance (excluding grants)	72	-207	-135	-26	50	24	45	-17	28	9	92	100
Official grants	23	96	119	19	118	137	24	125	149	8	47	55
Current account balance (including grants)	95	-111	-16	-7	168	161	69	108	177	17	139	155
Official capital grants and loans (net)	1	360	361	2	214	216	3	196	199	1	83	84
Official capital grants	1	215	216	2	109	111	3	73	76	1	29	30
Official capital (net)	0	145	145	0	105	105	0	123	123	0	54	54
Loans	0	195	195	0	158	158	0	182	182	0	85	85
Amortization	0	51	51	0	53	53	0	59	59	0	31	31
Private capital grants	0	39	39	0	32	32	0	26	26	0	10	10
Other investment, net and errors and omissions	-57	-151	-207	-66	-198	-264	13	-206	-193	65	-268	-202
Overall balance	40	137	177	-71	216	145	85	124	209	84	-36	48
Memorandum item:												
Current account balance (percent of GDP)	1.5	-4.3	-3	-0.5	1.0	0.5	0.8	-0.3	0.5	0.2	1.7	1.8

Source: Data provided by the Nepalese authorities.

Table 13. Nepal: Composition of Foreign Trade, 1997/98–2000/01

(In millions of U.S. dollars)

	1997/98			1998/99			1999/00			2000/01 (Six Months)		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Exports, f.o.b.	553	303	856	423	340	763	557	414	971	282	215	497
Merchandise exports	142	303	445	185	340	525	307	414	721	177	215	392
Food and live animals	28	23	51	30	25	55	54	7	61	25	8	32
Tobacco and beverages	0	0	0	1	0	1	1	0	1	0	0	1
Crude materials and inedibles	5	3	8	5	2	7	7	1	8	4	0	5
Animal and vegetable oil and fats	32	3	35	50	3	53	42	4	46	30	2	32
Chemicals and drugs	31	0	31	41	0	41	56	1	57	28	0	28
Manufactured goods, classified	41	147	188	48	151	199	81	149	230	52	69	121
Machinery and transport equipment	0	1	1	0	1	1	3	3	6	1	1	2
Miscellaneous manufactured articles	4	126	130	10	158	168	63	249	312	38	134	172
Commodities and transactions n.i.e. 1/	1	0	1	0	0	0	0	0	0	0	0	0
Re-exports	411	0	411	238	0	238	250	0	250	105	0	105
Imports, c.i.f.	587	964	1,551	596	794	1,390	693	1,020	1,713	377	484	862
Food and live animals	54	25	79	81	31	112	101	56	157	39	13	52
Tobacco and beverages	11	2	13	10	3	13	9	4	13	5	3	8
Crude materials and inedibles	16	96	112	20	72	92	22	79	101	14	33	47
Minerals, fuel and lubricants	153	114	267	128	99	227	129	144	273	67	95	162
Animal and vegetable oil and fats	0	33	33	1	48	49	1	63	64	3	32	35
Chemicals and drugs	85	94	179	81	103	184	91	119	210	48	44	91
Manufactured goods, classified	160	366	526	154	223	377	203	295	498	120	139	259
Machinery and transport equipment	83	187	270	98	168	266	101	196	297	65	101	166
Miscellaneous manufactured articles	22	42	64	20	43	63	34	63	97	16	25	41
Commodities and transactions n.i.e. 1/	3	5	8	3	4	7	2	1	3	1	0	1
Memorandum items:												
Trade balance (percent of GDP)	-0.7	-13.6	-14.3	-3.4	-9.0	-12.5	-2.5	-11.0	-13.5	-1.7	-4.8	-6.5
Exports	11.4	6.2	17.6	8.4	6.8	15.2	10.1	7.5	17.7	5.1	3.9	8.9
Imports	12.1	19.9	31.9	11.8	15.8	27.6	12.6	18.6	31.2	6.8	8.7	15.5

Source: Data provided by the Nepalese authorities.

1/ Includes unclassified exports and imports, and adjustments to reconcile figures with summary balance of payments data.

Table 14. Nepal: Exports of Major Commodities, 1996/97–2000/01

(In thousands of U.S. dollars)

	1996/97	1997/98	1998/99	1999/00	2000/01 (Six Months)
Carpets	155,708	136,970	144,253	142,495	61,114
Pashmina	0	0	0	90,004	74,596
Ready-made garments	104,419	113,243	142,780	201,859	81,845
Hides and skins	8,071	9,921	6,637	4,934	4,092
Jute goods	9,909	11,626	12,818	15,982	8,495
Pulses	18,218	17,064	17,614	15,300	8,637
Handicrafts	2,492	2,573	3,238	3,666	1,670
Cardamon	3,658	3,676	3,435	3,229	1,690
Catechu	971	1,125	1,726	2,885	1,132
Ghee and vegetable ghee	1,578	2,696	577	544	81
Mustard and linseed	617	153	283	424	283
Raw jute	56	81	1	0	0
Dried ginger	815	670	605	861	343
Herbs	1,238	1,052	603	1,105	348
Total	307,750	300,850	334,570	483,288	244,326
Other exports	89,639	143,706	190,708	238,365	148,458
<i>Of which : vegetable ghee</i>	0	25,504	46,305	39,713	22,510
Total merchandise exports	397,389	444,556	525,278	721,653	392,784
Memorandum items:					
Carpets					
(thousands of square meters)	2,891	2,447	2,575	2624	...
Ready-made garments					
(thousands of pieces)	29,954	34,951	37,747	46836	...
Pulses (metric tonnes)	15,443	30,567	28,509	2365	...
Exc. rate (annual average mid-rate)	57.03	61.95	67.95	69.07	73.24

Source: Data provided by the Nepalese authorities.

Table 15. Nepal: Services and Current Transfers, 1997/98–2000/01

(In millions of U.S. dollars)

	1997/98			1998/99			1999/00			2000/01 (Six Months)		
	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total	India	Third Countries	Total
Services and current transfers (net)	130	549	679	166	622	788	205	714	919	112	408	520
Services (net)	18	187	205	39	274	313	46	227	273	24	82	106
Receipts	108	328	436	140	405	545	142	371	513	63	158	221
Freight and insurance	0	0	0	0	0	0	0	0	0	0	0	0
Transportation	10	57	67	11	45	56	16	48	64	4	22	26
Travel	56	104	160	53	126	179	55	120	175	22	50	72
Investment income	1	29	30	2	36	38	2	49	51	4	20	24
Compensation of Employee	3	5	8	2	11	13	2	14	16	0	6	6
Government, n.i.e.	0	99	99	47	144	191	35	93	128	21	25	46
Other	38	34	72	25	43	68	32	47	79	12	36	48
Payments	90	141	231	101	131	232	96	144	240	39	76	115
Freight and insurance	23	2	25	26	3	29	27	2	29	12	2	14
Transportation	2	32	34	2	34	36	5	38	43	2	16	18
Travel	37	48	85	43	34	77	33	36	69	15	23	38
Investment income	0	23	23	0	26	26	0	31	31	0	18	18
Compensation of Employee	0	1	1	1	0	1	0	0	0	0	0	0
Government, n.i.e.	0	8	8	0	9	9	0	9	9	0	3	3
Other	28	27	55	29	25	54	31	28	59	10	14	24
Private current transfers (net)	89	266	355	108	230	338	135	362	497	80	279	360
Receipts	113	270	383	122	232	354	153	371	524	88	280	368
Private remittances	49	89	138	66	122	188	74	150	224	34	83	117
Other estimated remittances	64	181	245	56	110	166	79	221	300	54	197	251
Payments	24	4	28	14	2	16	18	9	27	7.3	0.9	8
Official current transfers (net)	23	96	119	19	118	137	24	125	149	8	47	55
Receipts	23	96	119	19	118	137	24	125	149	8	47	55
Payments	0	0	0	0	0	0	0	0	0	0	0	0

Source: Data provided by the Nepalese authorities.

Table 16. Nepal: External Debt and Debt Service, 1995/96–1999/2000

	1995/96	1996/97	1997/98	1998/99	1999/00
	(In millions of U.S. dollars)				
Debt outstanding 1/	2,370	2,483	2,612	2,729	3,381
Total medium and long term	2,320	2,361	2,415	2,533	3,112
Multilateral	1,940	1,983	2,090	2,169	2,642
AsDB	757	802	910	948	1,216
EEC	9	8	8	7	8
IDA	1,052	1,059	1,080	1,107	1,297
IFAD	57	57	44	58	68
IMF 2/	43	34	25	21	15
NDF	11	16	18	20	23
OPEC	10	7	6	9	15
UNCDF	0	0	0	0	0
Bilateral	380	378	325	363	470
Austria	6	5	5	4	5
Belgium	8	7	6	6	10
Finland	0	6	6	6	7
France	53	51	52	48	53
Korea	0	0	2	10	9
Kuwait	15	13	12	11	10
OECD (Japan)	291	286	229	264	344
Russia	0	0	0	0	0
Saudi Fund	7	10	13	14	26
U.S.A.	0	0	0	0	0
Australia	0	0	0	0	6
Short-term debt 2/	50	121	197	197	269
Total debt service	83	83	85	84	83
Amortization 4/	60	55	62	59	57
Of which : To IMF 3/	8	7	7	5	5
Interest 4/	23	27	23	25	26
Of which : To IMF	0.2	0.2	0.2	0.1	0.1
	(In percent)				
Debt-service ratio 5/	6.7	5.0	6.7	5.9	4.7
Of which : To IMF	0.6	0.5	0.6	0.4	0.3
Outstanding debt/GDP	52.4	50.5	53.8	54.2	61.5
Of which : To IMF	1.0	0.7	0.5	0.4	0.3

Source: Data provided by the Nepalese authorities (Loan Management Section-MOF&NRB).

1/ Consists primarily of medium- and long-term public and publicly guaranteed debt, excluding foreign liabilities of the banking system other than liabilities to the IMF.

2/ Excluding IMF Trust Fund.

3/ Outstanding trade credits.

4/ Includes principal and interest repayments of public enterprises and some private entities, as well as the central government.

5/ In relation to exports of goods and services and private transfers.

Table 17. Nepal: Gross International Reserves, 1995/96–2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01 (Six Months)
	(In millions of U.S. dollars, end of period)					
Foreign exchange reserves						
Nepal Rastra Bank (NRB)	594	636	702	781	932	967
Convertible	488	475	533	709	772	730
Nonconvertible	106	161	169	72	160	237
Commercial banks	197	219	262	345	401	431
Convertible	187	203	246	304	369	401
Nonconvertible	10	16	16	41	32	30
Total	791	855	964	1,126	1,333	1,398
Convertible	675	678	779	1,013	1,141	1,131
Nonconvertible	116	177	185	113	192	267
Other gross foreign assets of NRB	15	15	14	14	14	14
SDR holdings	0	0	0	0	0	0
Gold 2/	6	6	6	6	6	6
Reserve tranche position	8	8	8	8	8	7
Total gross foreign assets of NRB	609	651	716	795	946	981
	(In months of imports of goods and services)					
Nepal Rastra Bank						
Gross foreign assets	3.7	4.4	5.3	4.9	5.5	5.1
Foreign exchange reserves	3.6	4.3	5.2	4.8	5.4	5.0
Of which: convertible reserves	2.9	3.2	3.9	4.4	4.5	3.8

Source: Data provided by the Nepalese authorities.

1/ Totals differ from monetary sector figures owing to valuation effects.

2/ Valued at historical prices.

Table 18. Nepal: Average Customs Duty by Main Category of Goods, 1999/2000 1/

Chapter Numbers	Main Category of Goods	Average Customs Duty 2/ (In percent)
1-10	Live animals	5.0
11-20	Grains, vegetable extracts, sugars	15.6
21-30	Beverages, tobacco, mineral fuels, pharmaceuticals	11.7
31-40	Fertilizers, cosmetics, soaps, chemicals, plastics	15.3
41-50	Rawhides, skins, wood, paper, silk	10.9
51-60	Wool, cotton, man-made fibres, carpets	13.2
61-70	Clothing, footwear, ceramics, glassware, stoneware	21.1
71-80	Iron, steel, copper, nickel, aluminium, lead, zinc, tin	12.9
81-90	Tools, machinery, vehicles, aircrafts	11.9
91-97	Clocks, musical instruments, arms, furniture, art	20.6
	Total number of items: 5,198	
	Sum of duties: 68,310	
	Average customs duty	13.14

Source: HMGN, Ministry of Finance and Department of Customs, Kathmandu, Nepal (1999).

1/ Harmonized System classification.

2/ Average of customs duties for all items in each chapter.

Table 19. Nepal: Composition of Imports and Import Duties, 1995/96–1999/2000

(In millions of Nepalese rupees)

	1995/96	1996/97	1997/98	1998/99	1999/00
Imports from India	24,518	29,941	34,518	42,660	49,421
<i>Of which</i> : Dutiable imports	19,369	23,774	27,282	25,462	27,587
Import duties from India	2,059	2,359	2,707	3,430	4,218
As a percent of dutiable imports	10.6	9.9	9.9	13.5	15.3
As a percent of total imports	8.4	7.9	7.8	8.0	8.5
Imports from third countries	50,029	71,516	61,812	49,156	60,471
<i>Of which</i> : Dutiable imports	34,349	50,701	52,770	31,334	38,567
Import duties from third countries	4,195	4,748	4,523	4,479	4,913
As a percent of dutiable imports	12.2	9.4	8.6	14.3	12.7
As a percent of total imports	8.4	6.6	7.3	9.1	8.1
Total imports	74,547	101,456	96,330	91,816	109,892
<i>Of which</i> : Dutiable imports	53,718	74,475	80,052	56,796	66,154
Aid-related imports	6,096	7,825	11,720	35,021	43,738
Total import duties	6,254	7,107	7,230	7,909	9,131
As a percent of dutiable imports	11.6	9.5	9.0	13.9	13.8
As a percent of total imports	8.4	7.0	7.5	8.6	8.3

Source: Department of Customs, Ministry of Finance.

Table 20. Nepal: Structure of Interest Rates, 1995/96–2000/01

(Annual percentage rates, end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00	Apr. 2001
Refinancing facilities of Nepal						
Rastra Bank to commercial banks						
Export bills	11.0	11.0	9.0	9.0	6.5	6.5
Industrial sector	11.0	11.0	9.0	9.0	7.5	7.5
Agricultural sector	11.0	11.0	9.0	9.0	6.5	6.5
Service sector	11.0	11.0	9.0	9.0	7.5	7.5
Commercial banks						
Savings deposits	7.5-8.0	7.5-8.0	6.5-8.0	5.75-8.0	4.0-6.5	3.0-6.5
Time deposits						
3 months	6.75-8.0	6.75-9.0	5.0-8.0	4.0-7.5	4.0-6.0	2.5-6.0
6 months	7.25-9.0	7.25-9.0	6.0-8.5	6.0-8.0	5.0-6.75	3.5-6.75
1 year	9.5-11.0	9.5-11.0	9.0-10.5	7.25-9.5	6.0-7.75	4.5-7.75
2 years	negotiable	negotiable	9.5-12.0	7.25-10.25	5.75-8.5	4.25-8.5
3 years	negotiable	negotiable	...	...	...	...
4 years	negotiable	negotiable	...	...	...	...
5 years	negotiable	negotiable	...	...	...	...
Loans						
Industry	15.0-17.5	15.0-17.5	13.5-17.0	11.5-17.0	10.5-15.5	9.5-15.0
Agriculture	14.5-16.0	14.5-16.0	14.5-15.5	14.0-15.5	12.0-14.5	12.5-14.5
Services	18.0	18.0	18.0	18.0	7.5-17.0	7.5-16.0
Export bills	13.0-16.0	14.5-16.5	12.5-16.0	7.5-15.0	7.5-15.0	7.5-12.5
Commercial loans and overdrafts	14.5-20.0	14.5-20.0	13.5-20.0	10.0-19.0	9.0-18.0	9.0-18.0
Agricultural Development Bank of Nepal						
To cooperatives	12.0-15.0	12.0-15.0	13.0-16.0	13.0-16.0	11.0-12.0	11.0-12.0
To others	14.0-17.0	14.0-17.0	15.0-18.0	15.0-18.0	12.0-16.0	12.0-16.0
Nepal Industrial Development Corporation						
	15.0-16.0	15.5-18.0	15.5-18.0	15.5-18.0	15.5-18.0	15.5-18.0
Government securities						
National savings certificates	9.0-15.5	9.0-13.25	9.0-13.25	9.0-13.25	8.5-13.25	8.5-13.25
Treasury bills (3 month) 1/	10.9	10.2	3.5	2.3	5.3	4.3
Treasury bills (1 year)	...	9.0-12.0	5.9-7.3	4.7-7.0	5.5-7.3	5.1
Development bonds	3.0-12.0	3.0-12.0	3.0-12.0	3.0-12.0	3.0-10.5	3.0-10.5
25-year special bonds	3.0	3.0	3.0	3.0	...	...
20-year special bonds	5.0	5.0	5.0	5.0	5.0	5.0
Special loan	1.0-13.0	1.0-13.0	1.0-13.0	1.0-9.5	1.0-9.5	1.0-9.5

Source: Data provided by the Nepalese authorities.

1/ Annual weighted average.

Table 21. Nepal: Monetary Survey, 1995/96–2000/01

	1995/96	1996/97	1997/98	1998/99	1999/00	Apr. 2001
(In millions of Nepalese rupees, end of period)						
Net foreign assets	37,703	40,191	55,573	65,028	80,453	87,120
Assets	45,270	49,367	66,114	77,611	94,842	103,888
Liabilities	7,567	9,176	10,542	12,583	66,634	16,768
Net domestic assets	54,953	63,530	70,890	87,772	105,668	114,676
Domestic credit	86,623	98,272	112,820	130,973	154,350	170,917
Public sector	26,845	28,182	29,819	32,625	36,400	39,296
Government (net)	24,887	26,584	28,761	31,058	34,592	37,604
Nonfinancial public enterprises	1,958	1,598	1,059	1,567	1,808	1,692
Private sector 1/	59,778	70,090	83,001	98,348	117,950	131,621
Other items (net)	-31,670	-34,742	-41,930	-43,200	-48,682	-56,241
Broad money	92,656	103,720	126,463	152,800	186,121	201,796
Narrow money	36,498	38,460	45,164	51,062	60,980	67,807
Quasi-money	56,158	65,260	81,299	101,738	125,141	133,989
(Annual percentage change)						
Net domestic assets	25.2	15.6	11.6	23.8	20.4	14.4
Domestic credit	24.5	13.4	14.8	16.1	17.8	14.8
Public sector	12.6	5.0	5.8	9.4	11.6	6.2
Private sector 1/	30.6	17.3	18.4	18.5	19.9	17.7
Broad money	14.4	11.9	21.9	20.8	21.8	13.3
Narrow money	10.6	5.4	17.4	13.1	19.4	15.4
Quasi-money	17.0	16.2	24.6	25.1	23.0	12.2
(12-month change in percent of broad money at start of period)						
Net foreign assets	0.8	2.7	9.7	7.5	10.1	14.5
Net domestic assets	13.6	9.3	12.3	13.3	11.7	17.6
Domestic credit	21.0	12.6	14.0	14.4	15.3	26.1
Public sector	3.7	1.4	1.6	2.2	2.5	4.4
Private sector 1/	17.3	11.1	12.4	12.1	12.8	21.8
Memorandum items:						
Velocity (GDP/M2)	2.69	2.70	2.38	2.24	2.04	1.99
Money multiplier	2.62	2.53	2.75	2.93	3.05	3.00

Source: Data provided by the Nepalese authorities.

1/ Includes credit to financial public enterprises.

Table 22. Nepal: Assets and Liabilities of Nepal Rastra Bank, 1995/96–2000/01

	1995/96	1996/97	1997/98	1998/99	1999/00	Apr. 2001
(In millions of Nepalese rupees, end of period)						
Net foreign assets	31,464	34,474	46,354	52,608	65,270	74,129
Assets	34,231	36,910	48,393	54,139	66,634	75,122
Liabilities	2,767	2,436	2,040	1,531	1,363	993
Net domestic assets	3,926	6,554	-358	-382	-4,267	-6,797
Claims on public sector	17,346	18,846	18,487	18,407	16,423	17,797
Government (net)	17,339	18,838	18,480	18,399	16,415	17,790
Claims 1/	17,339	18,838	18,480	18,399	16,415	17,790
Deposits	...	...	...	...	...	...
Nonfinancial public enterprises	8	8	8	8	8	8
Claims on private sector 2/	2,082	2,977	2,801	3,011	3,723	4,143
Claims on commercial banks	365	7	6	6	45	57
Other items (net)	-15,867	-15,275	-21,651	-21,805	-24,246	-28,795
Reserve money	35,390	41,027	45,996	52,225	61,003	67,332
Currency outside banks	25,046	27,334	30,893	34,984	42,299	46,059
Currency held by banks	2,446	2,837	2,890	3,310	3,351	3,943
Bankers' deposits	6,699	9,273	10,543	11,858	12,187	14,187
Private sector deposits	1,198	1,584	1,670	2,073	2,473	3,143
(12-month change in percent of reserve money at start of period)						
Net foreign assets	-2.7	8.5	29.0	13.6	24.1	28.4
Net domestic assets	10.9	7.4	-16.8	-0.1	-7.4	-13.1
Reserve money	8.3	15.9	12.1	13.5	16.8	13.8
Memorandum items:						
Currency/deposits ratio 3/	37.0	35.8	32.3	29.7	30.2	29.7
Reserves/deposits ratio 3/	13.8	16.2	14.3	13.1	11.3	10.3

Source: Data provided by the Nepalese authorities.

1/ Includes Treasury IMF account.

2/ Includes claims on financial public enterprises.

3/ Based on estimated deposits adjusted for bias in estimates.

Table 23. Nepal: Assets and Liabilities of Commercial Banks, 1995/96–2000/01

(In millions of Nepalese rupees, end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00	Apr. 2001
Reserves	9,145	12,110	13,433	15,168	16,283	18,130
Foreign assets	11,039	12,457	17,721	23,473	28,208	28,766
Claims on Government	7,548	7,746	10,281	12,659	18,177	19,814
Claims on nonfinancial public enterprises	1,951	1,590	1,051	1,559	1,801	1,685
Claims on financial public enterprises 1/	3,109	3,944	4,556	5,904	6,884	6,549
Claims on business and individual	54,585	63,170	75,644	89,433	107,343	115,605
Assets = Liabilities	87,378	101,016	122,686	148,196	178,695	190,549
Demand deposits	10,253	9,543	12,601	14,005	16,364	18,605
Savings deposits	25,097	28,857	35,470	48,114	63,364	70,638
Fixed deposits	29,108	34,536	44,022	51,612	59,774	60,328
Margin deposits	1,949	1,867	1,807	2,011	2,003	3,023
Foreign liabilities 2/	4,800	6,739	8,502	11,052	13,025	15,775
Borrowing from the central bank	365	7	6	5	45	57
Other items (net)	15,805	19,467	20,278	21,395	24,119	22,123
Memorandum item:						
Priority sector lending in percent of total domestic credit	14.3	12.0	12.1	13.2	13.0	...

Source: Data provided by the Nepalese authorities.

1/Includes loanable fund of ADBN.

2/ Includes foreign currency deposits.

Table 24. Nepal: Assets and Liabilities of Finance Companies, 1997/98–1999/2000

(End of Period)

	1997/98		1998/99		1999/00	
	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent
Cash	39	0.5	110	1.0	95	0.7
Bank balance	406	4.8	1,023	9.6	1,640	12.6
Investment	2,065	24.6	1,262	11.9	1,129	8.6
<i>Of which</i> : government securities	1,750	20.8	932	8.8	843	6.5
Loans and advances	5,391	64.1	7,219	67.9	9,058	69.4
Term loans	2,177	25.9	3,105	29.2	4,234	32.4
Housing loans	1,567	18.6	2,004	18.8	2,342	18.0
Hire purchases	953	11.3	1,304	12.3	1,639	12.6
Fixed deposit receipt loans	225	2.7	498	4.7	475	3.6
Leasing	310	3.7	260	2.4	235	1.8
Other	159	1.9	47	0.4	133	1.0
Other	503	6.0	1,019	9.6	1,133	8.7
Assets = Liabilities	8,404	100.0	10,633	100.0	13,055	100.0
Deposits	6,275	74.7	8,033	75.5	9,744	74.6
Paid-up capital	727	8.7	838	7.9	945	7.2
Borrowings	228	2.7	83	0.8	176	1.3
Reserve	227	2.7	305	2.9	497	3.8
Other	947	11.3	1,374	12.9	1,693	13.1
Memorandum items:						
Capital adequacy ratio (in percent)	15.2		14.2		17.7	
Loan/deposit ratio (in percent)	85.9		89.9		93.0	
Number of finance companies	44		45		46	

Source: Nepal Rastra Bank.

Table 25. Nepal: Income Statements of Rastriya Banijya Bank
and Nepal Bank Limited, 1995/96–1999/2000

(In millions of Nepalese rupees)

	1995/96	1996/97	1997/98	1998/99	1999/00
Rastriya Banijya Bank					
Interest income 1/	1,945	3,090	2,963	3,333	3,251
Less: interest payments	1,518	1,830	2,112	2,579	2,725
Net interest income	427	1,260	851	754	526
Overhead expenses 2/	479	639	700	753	891
Provision	1,156	503	480	225	1,081
Total	1,635	1,142	1,180	978	1,971
Operating profit	-1,208	118	-329	-224	-1,446
Other income 3/	338	297	406	351	369
Net profit	-870	415	77	127	-1,077
Nepal Bank Limited					
Interest income 1/	2,013	2,426	2,693	2,221	2,516
Less: interest payments	1,263	1,515	1,907	2,286	2,022
Net interest income	750	911	786	-65	493
Overhead expenses 2/	618	788	944	808	1,095
Provision	326	254	400	936	1,325
Total	944	1,042	1,344	1,744	2,420
Operating profit	-194	-131	-558	-1,809	-1,927
Other income 3/	313	260	574	383	383
Net profit	119	129	16	-1,426	-1,543

Sources: Rastriya Banijya Bank; and Nepal Bank Limited.

1/ Interest income from loan and investments.

2/ Provision for staff bonus and taxes and other expenditure.

3/ Other service charges and incomes.

Table 26. Nepal: Outstanding Bank Credit
to Major Public Enterprises, 1995/96–1999/2000

(In millions of Nepalese rupees, end of period)

	1995/96	1996/97	1997/98	1998/99	1999/00
Principal	5,448	6,603	7,008	8,815	9,947
Financial institutions	4,249	5,430	6,169	7,544	8,497
Agricultural Development Bank	2,993	3,751	4,295	5,588	6,538
Nepal Industrial Development Corporation	895	1,184	1,263	1,197	1,110
Rural Development Banks	317	408	521	632	679
Other	44	87	90	127	169
Nonfinancial public enterprises	1,199	1,173	839	1,271	1,451
Agricultural Input Corporation	383	320	16	242	0
Agricultural Tools Factory	97	182	176	150	232
Janak Educational Material Center	45	8	30	58	93
Cottage Industrial and Handicraft Emporium	85	17	10	5	6
Himal Cement Company	17	19	25	27	27
Janakpur Cigarette Factory	134	146	145	121	123
Nepal Food Corporation	195	317	266	427	485
Raghupati Jute Mill	40	10	0	0	0
Royal Nepal Airline Corporation	1	8	3	86	117
Hetauda Leather Factory	29	2	3	3	2
Tobacco Development Corporation	51	0	0	0	0
Nepal Coal Limited	34	5	0	0	1
Other	88	139	165	152	365
Overdue interest	761	426	221	301	365
Financial institutions	2	2	2	4	6
Nonfinancial public enterprises	759	424	219	297	359
Total outstanding credit	6,209	7,029	7,229	9,116	10,312

Source: Data provided by the Nepalese authorities.

Table 27. Nepal: Nonperforming Bank Loans of Public Enterprises, 1997/98–1999/2000

(In millions of Nepalese rupees, end of period)

	1997/98			1998/99			1999/00		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Nepal Food Corporation	10	4	14	7	4	11	7	5	12
Nepal Transportation Corporation	19	20	39	20	28	48	19	27	46
Himal Cement Company	0	0	0	2	0	2	0	0	0
Bhaktapur Tile and Brick Corporation	3	2	5	3	2	5	2	3	5
Rice Exporting Companies	13	90	102	3	32	35	3	32	35
Cottage Industrial and Handicraft Emporium	93	87	180	0	136	136	0	136	136
National Trading Ltd.	0	0	0	0	0	0	0	0	1
Agricultural Tools Factory	0	0	0	0	0	0	137	8	145
Hetadua Leather Factory	2	19	21	3	25	28	2	28	30
Hetadua Clothes Factory	0	0	0	30	2	32	37	8	45
Total	140	222	361	68	229	297	207	247	454

Source: Data provided by the Nepalese authorities.

Table 28. Nepal: Summary of Central Government Operations, 1996/97–2001/02 1/

	1996/97	1997/98	1998/99	1999/00	2000/01		2001/02
					Budget Estimate 2/	Budget 2/	
(In billions of Nepalese rupees)							
Total revenue and grants	35.5	37.1	39.3	46.4	62.3	55.1	72.2
Total revenue	29.5	31.7	35.0	40.7	50.4	47.1	58.1
Tax revenue	24.4	25.9	28.8	33.2	42.5	38.8	47.2
Nontax revenue	5.1	5.8	6.3	7.6	7.9	8.3	10.9
Grants	6.0	5.4	4.3	5.7	11.8	8.0	14.1
Total expenditure	46.4	50.5	52.8	58.8	82.4	74.6	90.1
Current 3/	...	27.7	31.9	35.5	47.7	48.3	53.0
Capital and net lending 3/	...	22.9	20.8	23.3	34.7	26.3	37.1
Overall balance before grants	-16.9	-18.8	-17.7	-18.1	-32.0	-27.5	-32.0
Overall balance after grants	-10.9	-13.4	-13.4	-12.4	-20.1	-19.5	-17.9
Financing	10.9	13.4	13.4	12.4	20.1	19.5	17.9
Net foreign loans	6.9	11.5	8.7	10.0	14.5	11.0	10.6
Gross disbursements	9.0	14.2	11.9	13.7	19.8	15.9	16.4
Amortization	2.1	2.7	3.2	3.7	5.3	4.9	5.8
Net domestic financing	4.0	1.9	4.7	2.4	5.6	8.5	7.3
Bank financing	2.0	2.7	2.4	3.4	2.3	9.2	...
Nonbank financing	2.0	-0.8	2.4	-1.0	3.4	-0.7	...
(In percent of GDP)							
Total revenue	10.5	10.5	10.2	10.7	12.0	11.5	12.8
Tax revenue	8.7	8.6	8.4	8.7	10.1	9.5	10.4
Nontax revenue	1.8	1.9	1.8	2.0	1.9	2.0	2.4
Grants	2.1	1.8	1.3	1.5	2.8	2.0	3.1
Total expenditure	16.5	16.8	15.4	15.5	19.5	18.2	19.8
Current 3/	...	9.2	9.3	9.4	11.3	11.8	11.6
Capital and net lending 3/	...	7.6	6.1	6.1	8.2	6.4	8.1
Overall balance before grants	-6.0	-6.2	-5.2	-4.8	-7.6	-6.7	-7.0
Overall balance after grants	-3.9	-4.5	-3.9	-3.3	-4.8	-4.8	-3.9
Financing	3.9	4.5	3.9	3.3	4.8	4.8	3.9
Net foreign loans	2.5	3.8	2.5	2.6	3.4	2.7	2.3
Gross disbursements	3.2	4.7	3.5	3.6	4.7	3.9	3.6
Amortization	0.7	0.9	0.9	1.0	1.3	1.2	1.3
Net domestic financing	1.4	0.6	1.4	0.6	1.3	2.1	1.6
Bank financing	0.7	0.9	0.7	0.9	0.5	2.2	...
Nonbank financing	0.7	-0.3	0.7	-0.3	0.8	-0.2	...
Memorandum items:							
Regular expenditure 3/	7.4	7.8	7.7	7.7	8.7	9.1	9.2
Development expenditure 3/	9.1	9.0	7.7	7.8	10.8	9.1	10.6
Nominal GDP (billions of Nrs)	280.5	300.8	342.0	379.7	421.6	409.3	455.5

Source: Data provided by the Nepalese authorities.

1/ Fiscal years start on July 16.

2/ Based on the Budget Speech 2001/02 presented to parliament on July 9, 2001.

3/ Current and capital and net lending expenditures are based on new economic classification provided by the authorities and staff estimates. The traditional presentation is in terms of regular and development expenditures.

Table 29. Nepal: Central Government Revenue, 1997/98–2001/02

	1997/98	1998/99	1999/00	2000/01		2001/02
				Budget	Estimate 1/	Budget 1/
(In millions of Nepalese rupees)						
Total revenue (HMG format)	32,935	37,148	42,894	52,988	49,607	60,251
Less principal repayment of loans	1,248	2,141	2,183	2,560	2,521	2,153
Total revenue 2/	31,687	35,008	40,710	50,428	47,086	58,099
Tax revenue	25,937	28,751	33,152	42,482	38,771	47,170
Taxes on income and profits	4,898	6,170	7,421	9,983	9,230	11,140
Taxes on property	1,112	1,125	1,134	1,289	982	1,300
Registration and land revenue	1,001	1,002	1,011	1,250	981	1,300
Other property taxes	111	123	123	39	1	0
Taxes on goods and services	11,425	11,938	13,784	17,930	16,281	20,300
Value-added tax 3/	7,123	7,882	9,855	13,500	11,850	14,750
Excise taxes	2,886	2,953	3,128	3,750	3,700	4,880
Others 4/	1,416	1,103	801	680	731	670
Taxes on international trade	8,502	9,518	10,813	13,280	12,278	14,430
Import taxes	7,174	7,920	9,009	11,321	10,309	12,034
Indian excise refund	1,102	1,206	1,332	1,450	1,470	1,780
Export taxes	217	378	432	486	486	601
Other	10	14	40	23	13	15
Nontax revenue 2/	5,750	6,257	7,559	7,946	8,315	10,929
Charges, fees, fines, etc.	1,246	1,446	1,747	1,798	1,949	2,157
Sales of goods and services	1,339	1,036	1,068	1,064	1,157	1,414
Dividends	1,311	1,783	2,507	2,844	2,770	3,405
Royalty and fixed asset sales	565	202	563	194	671	1,114
Interest receipts	1,213	1,686	1,568	1,935	1,658	1,639
Miscellaneous	76	103	104	111	111	1,200
(In percent of GDP)						
Total revenue	10.5	10.2	10.7	12.0	11.5	12.8
Tax revenue	8.6	8.4	8.7	10.1	9.5	10.4
Taxes on income and profits	1.6	1.8	2.0	2.4	2.3	2.4
Taxes on property	0.4	0.3	0.3	0.3	0.2	0.3
Taxes on goods and services	3.8	3.5	3.6	4.3	4.0	4.5
Value-added tax 3/	2.4	2.3	2.6	3.2	2.9	3.2
Excise taxes	1.0	0.9	0.8	0.9	0.9	1.1
Others 4/	0.5	0.3	0.2	0.2	0.2	0.1
Taxes on international trade	2.8	2.8	2.8	3.1	3.0	3.2
Nontax revenue	1.9	1.8	2.0	1.9	2.0	2.4
Memorandum item:						
Nominal GDP (billions of Nrs.)	300.8	342.0	379.7	421.6	409.3	455.5

Source: Data provided by the Nepalese authorities.

1/ Based on the Budget Speech 2001/02 presented to parliament on July 9, 2001.

2/ Adjusted by taking out of nontax revenue the principal repayments from corporations (classified as negative capital spending).

3/ Sales tax prior to 1997/98.

4/ Includes taxes on entertainment, hotel, contracts, and air flight.

Table 30. Nepal: Central Government Expenditure by Economic Classification, 1997/98–2001/02

	1997/98	1998/99	1999/00	2000/01		2001/02
				Budget	stimate 1/	Budget 1/
(In millions of Nepalese rupees)						
Total expenditure	49,920	52,763	58,828	82,402	74,590	90,123
Current expenditure	27,753	31,944	35,531	47,748	48,274	53,013
Goods and services	20,843	23,726	26,234	36,675	36,838	40,614
Wages, salaries, and benefits	16,532	18,142	19,775	23,714	26,981	28,305
Core civil service	6,937	7,124	7,701	9,731	10,449	10,274
Police salaries	2,320	2,578	2,842	3,137	3,450	4,293
Defense salaries	2,083	2,459	2,872	3,036	3,350	3,619
Teacher salaries	5,192	5,982	6,360	7,811	9,732	10,120
Retirement facilities	957	1,189	1,314	1,408	2,100	2,418
Other goods and services	3,354	4,395	5,145	11,554	7,757	9,892
Of which : contingency	87	84	929	6,722	3,055	3,862
Interest payments	3,752	4,080	4,820	6,103	5,739	6,597
Domestic debt	2,435	2,531	3,180	3,607	3,607	3,671
Foreign debt	1,317	1,549	1,640	2,496	2,132	2,926
Subsidies and transfers	3,158	4,138	4,477	4,969	5,697	5,802
Capital expenditure	18,974	19,017	19,358	25,529	21,191	29,953
Acquisition of fixed assets	12,496	13,288	13,130	16,048	11,900	18,768
Purchase of stocks	1,914	1,556	1,315	1,189	1,189	2,284
Capital transfers (grants)	4,564	4,173	4,913	8,293	8,103	8,901
Lending minus repayments	3,193	1,802	3,940	9,125	5,124	7,156
Investment in loans	4,441	4,044	6,123	11,684	7,484	9,309
Less repayment of loans (income)	1,248	2,242	2,183	2,560	2,360	2,153
(In percent of GDP)						
Total expenditure	16.6	15.4	15.5	19.5	18.2	19.8
Current expenditure	9.2	9.3	9.4	11.3	11.8	11.6
Goods and services	6.9	6.9	6.9	8.7	9.0	8.9
Wages, salaries, and benefits	5.5	5.3	5.2	5.6	6.6	6.2
Teacher salaries	1.7	1.7	1.7	1.9	2.4	2.2
Defense salaries	0.7	0.7	0.8	0.7	0.8	0.8
Retirement facilities	0.3	0.3	0.3	0.3	0.5	0.5
Other goods and services	1.1	1.3	1.4	2.7	1.9	2.2
Of which : contingency	0.0	0.0	0.2	1.6	0.7	0.8
Interest payments	1.2	1.2	1.3	1.4	1.4	1.4
Domestic debt	0.8	0.7	0.8	0.9	0.9	0.8
Foreign debt	0.4	0.5	0.4	0.6	0.5	0.6
Subsidies and transfers	1.0	1.2	1.2	1.2	1.4	1.3
Capital Expenditure	6.3	5.6	5.1	6.1	5.2	6.6
Acquisition of fixed assets	4.2	3.9	3.5	3.8	2.9	4.1
Purchase of stocks	0.6	0.5	0.3	0.3	0.3	0.5
Capital transfers (grants)	1.5	1.2	1.3	2.0	2.0	2.0
Lending minus repayments	1.1	0.5	1.0	2.2	1.3	1.6
Investment in loans	1.5	1.2	1.6	2.8	1.8	2.0
Less repayment of loans (income)	0.4	0.7	0.6	0.6	0.6	0.5
Memorandum items:						
Regular expenditure (millions of Nrs) 2/	23,242	26,473	29,311	36,853	37,186	41,805
Development expenditure (millions of Nrs) 3	26,679	26,290	29,518	45,549	37,404	48,318
Nominal GDP (billions of Nrs.)	300.8	342.0	379.7	421.6	409.3	455.5

Source: Data provided by the Nepalese authorities.

1/ Based on the Budget Speech 2001/02 presented to parliament on July 9, 2001.

2/ Regular expenditure adjusted by subtracting payment of amortization on domestic and foreign loans.

3/ Development expenditure adjusted by adding net lending (or subtracting the payment of principal from corporations).

Table 31. Nepal: Central Government Expenditure by Functional Classification, 1997/98–2001/02

	1997/98	1998/99	1999/00	2000/01		2001/02
				Budget	Estimate 1/	Budget 1/
(In millions of Nepalese rupees)						
Total expenditure	49,920	52,763	58,828	82,402	74,590	90,123
Regular expenditure	23,242	26,473	29,311	36,853	37,186	41,805
Social services	7,066	7,876	8,881	10,892	11,782	13,534
Education	5,731	6,004	6,717	8,203	9,157	10,429
Health	1,049	1,137	1,325	1,663	1,670	2,228
Other	286	735	839	1,026	954	877
Economic services	2,036	2,321	2,411	2,658	2,721	3,111
Agriculture related	388	431	469	544	554	662
Forestry	540	732	791	862	892	940
Infrastructure	808	863	891	968	974	1,195
Other	300	295	260	284	301	314
Defense	2,583	2,995	3,482	3,897	4,011	4,521
Interest payments	3,752	4,080	4,820	6,103	5,739	5,393
General administration	3,930	4,532	5,454	7,664	7,462	8,774
Other	3,875	4,668	4,262	5,640	5,472	6,471
Development expenditure	26,679	26,290	29,518	45,549	37,404	48,318
Social services	10,730	9,668	12,202	16,796	13,673	18,757
Education	2,362	1,641	2,574	3,421	2,949	3,503
Health	2,712	1,677	2,127	3,021	2,072	3,007
Drinking water	1,683	1,900	2,423	3,838	2,971	3,993
Other	3,973	4,450	5,079	6,516	5,682	8,254
Economic services	15,949	16,622	17,315	28,753	23,731	29,561
Agriculture related	4,830	4,905	5,653	8,778	7,736	9,188
Infrastructure	10,809	11,398	11,350	17,728	14,332	17,039
Other	310	319	312	2,247	1,663	3,334
(In percent of GDP)						
Total expenditure	16.6	15.4	15.5	19.5	18.2	19.8
Social services	5.9	5.1	5.6	6.6	6.2	7.1
<i>Of which</i> : Education	2.7	2.2	2.4	2.8	3.0	3.1
Current expenditure	1.9	1.8	1.8	1.9	2.2	2.3
Capital expenditure	0.8	0.5	0.7	0.8	0.7	0.8
Health	1.3	0.8	0.9	1.1	0.9	1.1
Drinking water	0.6	0.6	0.6	0.9	0.7	0.9
Economic services	6.0	5.5	5.2	7.5	6.5	7.2
<i>Of which</i> : Agriculture related	1.7	1.6	1.6	2.2	2.0	2.2
Infrastructure	3.9	3.6	3.2	4.4	3.7	4.0
Defense	0.9	0.9	0.9	0.9	1.0	1.0
Interest payments	1.2	1.2	1.3	1.4	1.4	1.2
General administration	1.3	1.3	1.4	1.8	1.8	1.9
Other	1.3	1.4	1.1	1.3	1.3	1.4
(In percent of total expenditure)						
Social services	35.6	33.3	35.8	33.6	34.1	35.8
<i>Of which</i> : Education	16.2	14.5	15.8	14.1	16.2	15.5
Health	7.5	5.3	5.9	5.7	5.0	5.8
Drinking water	3.4	3.6	4.1	4.7	4.0	4.4
Economic services	36.0	35.9	33.5	38.1	35.5	36.3
<i>Of which</i> : Agriculture related	10.5	10.1	10.4	11.3	11.1	10.9
Infrastructure	23.3	23.2	20.8	22.7	20.5	20.2
Defense	5.2	5.7	5.9	4.7	5.4	5.0
Interest payments	7.5	7.7	8.2	7.4	7.7	6.0
General administration	7.9	8.6	9.3	9.3	10.0	9.7
Other	7.8	8.8	7.2	6.8	7.3	7.2

Source: Data provided by the Nepalese authorities.

1/ Based on the Budget Speech 2001/02 presented to parliament on July 9, 2001.

Table 32. Nepal: Summary of the Tax System

(As of July 16, 2001)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates						
I. Taxes on net income and profits									
1.1 <i>Taxes on business income</i>	Levied on net income from public, private, and joint-venture enterprises in December, April, and July.	<p>Exemptions: Income from cottage industries, agricultural production, other than corporate agricultural income, fisheries, forestry, community and social services.</p> <p>Industrial enterprises with tax holidays. Starting in 1997/98, tax holidays to industrial enterprises were suspended, except to cottage industries.¹ Existing tax holidays remained in force for their duration (up to seven years).²</p> <p>Deductions: Since 1997/98, deductions of 50 percent for activities in the "National Priority" list,³ of 10 percent to enterprises using 80 percent of local raw materials and Nepali citizens (except tobacco and liquor), and 20–30 percent for those established in underdeveloped areas.</p> <p>Expenses incurred in earning income in the year of assessment are wholly deductible. Provident funds deposited in financial institutions. Losses, not previously offset against income, may be carried forward to be deducted against future income for a maximum of three years. Depreciation allowances are based on a straight line or diminishing balance method with the rate of write-off depending on a particular asset; concessions on the rate of depreciation are contained in the Industrial Enterprise Act. A deduction of up to 50 percent of the cost of new investment is permitted.</p>	<p><i>Tax rates (In percent)</i></p> <table> <tr> <td>Industrial enterprises</td> <td>20</td> </tr> <tr> <td>Other enterprises</td> <td>25</td> </tr> <tr> <td>Financial institutions</td> <td>30</td> </tr> </table>	Industrial enterprises	20	Other enterprises	25	Financial institutions	30
Industrial enterprises	20								
Other enterprises	25								
Financial institutions	30								
1.2 <i>Tax on income from individuals, sole proprietorships, partnerships, and private limited companies</i>	Levied on income accruing to individuals from any trade, business, profession, or employment.	<p>The exemption for a single taxpayer is Nrs 55,000 and for a married taxpayer Nrs 75,000.</p> <p>Deductible in determining taxable income are:</p> <ol style="list-style-type: none"> National Provident Fund contributions to 10 percent of gross salary. Life insurance premium up to 7 percent of the insured amount or the actual premium, whichever is less. Philanthropic contributions equal to 5 percent or Nrs 100,000, whichever is less. 	<table> <tr> <td><i>Income bracket</i></td> <td><i>Tax rates (In percent)</i></td> </tr> <tr> <td>Initial Nrs 75,000</td> <td>15</td> </tr> <tr> <td>Above Nrs 75,000</td> <td>25</td> </tr> </table>	<i>Income bracket</i>	<i>Tax rates (In percent)</i>	Initial Nrs 75,000	15	Above Nrs 75,000	25
<i>Income bracket</i>	<i>Tax rates (In percent)</i>								
Initial Nrs 75,000	15								
Above Nrs 75,000	25								

Table 32. Nepal: Summary of the Tax System

(As of July 16, 2001)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
		<p>d. Investments in Citizens Investment Trust up to 10 percent of gross salary for those setting annual salary up to Nrs 100,000.</p> <p>Partnerships and nonresidents are given no exemptions.</p> <p>Individual and household income from house and land rent is taxed separately (i.e., not added to total income assessed) at a flat rate of 15 percent on gross rental receipts; no deductions are allowed. Nevertheless, rental income is effectively not taxed—due to pervasive tax evasion.</p>		
1.3 Interest tax	Tax payable on interest income from deposits.	Interest income up to Nrs 1,000.	6 percent	
2. Taxes on property				
2.1 Tax on rural land	Levied on the size of an individual's land holdings. The tax rates vary with the location and type of the soil.	There is full or partial remission of the land revenue tax in the presence of a drought or other natural calamity.	For holdings of less than 1 hectare, Nrs 0.6 to 10 per hectare. For larger holdings, Nrs 2.6 to 105 per hectare.	
2.2 Taxes on urban houses and land	Levied on the property value.	Property values of up to Nrs 1 million are exempted.	<i>Property value</i> Next 1 million Next 3 millions Next 5 millions Next 10 millions Remaining	<i>Marginal tax rates</i> Nrs 300 0.05 percent 0.25 percent 0.50 percent 1.50 percent
2.3 Registration fees	Levied on the value of property at the time of sale, gifts, or on partition.		<p style="text-align: center;">Urban Areas</p> <p style="text-align: center;">Sales deeds</p> Gifts within third generation 2 percent Gifts out of third generation 10 percent Sales 6 percent	
			<p style="text-align: center;">Non-urban Areas</p> Gifts within third generation 1 percent Gifts out of third generation 5 percent Sales 3 percent	
			<p style="text-align: center;">Partition Deeds</p> <p style="text-align: center;"><i>Value of property</i> <i>Tax</i></p>	

Table 32. Nepal: Summary of the Tax System

(As of July 16, 2001)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates																		
			0-50,000 Nil																		
			50,001-200,000 Nrs 200																		
			200,001-500,000 Nrs 1,000																		
			500,001-1,000,000 Nrs 3,000																		
			1,000,001-5,000,000 0.25 percent																		
			5,000,001-10,000,000 0.50 percent																		
			Above 10,000,001 0.75 percent																		
3. Taxes on goods and services																					
3.1 <i>Value-added tax</i>	Levied on goods and services at all stages of production and distribution.	<p>Exemption threshold: Nrs 2 million</p> <p>Exemptions: Exports, inputs used in the production of exports, and foreign aid projects.</p> <p>Equipment for agricultural, fishery, and industrial activities; domestically produced cotton fabric, cotton textiles, and other textiles; cotton thread; woolen yarn; carpets; jute products; gold ornaments; unprocessed mustard oil; aluminum, copper, and bronze circles and sheets; aero planes, helicopters, fire fighters, and ambulances; battery operated three-wheeler; printed material; vaccines; food and medicine for animals; equipment for processing waste and for investment in alternative energy sources.</p> <p>Additional goods exempted from VAT in the 2000/01 budget were sarees made of cotton and artificial fibres; aluminum, copper, and bronze utensils; organic tea.</p>	10 percent																		
3.2 <i>Excise taxes</i>	Levied on some goods; the high-yielding are those on cigarettes and liquor.	Liquor industries based on fruits receive a five-year exemption, with an additional three-year extension, for locating in a remote area.	<p>Specific taxes</p> <p><i>Cigarettes</i></p> <table> <tr> <td>Nonfiltered cigarettes</td> <td>Per 1,000 cigarettes</td> </tr> <tr> <td></td> <td>Nrs 110</td> </tr> <tr> <td>Filtered cigarettes by length</td> <td></td> </tr> <tr> <td> Short</td> <td>Nrs 285</td> </tr> <tr> <td> Medium (70 mm to 75 mm)</td> <td>Nrs 360</td> </tr> <tr> <td> Medium (75 mm to 85 mm)</td> <td>Nrs 500</td> </tr> <tr> <td> Long (above 85 mm)</td> <td>Nrs 675</td> </tr> </table> <p><i>Liquor types</i></p> <table> <tr> <td>Whisky</td> <td>Per L.P. liter</td> </tr> <tr> <td></td> <td>Nrs 260</td> </tr> </table>	Nonfiltered cigarettes	Per 1,000 cigarettes		Nrs 110	Filtered cigarettes by length		Short	Nrs 285	Medium (70 mm to 75 mm)	Nrs 360	Medium (75 mm to 85 mm)	Nrs 500	Long (above 85 mm)	Nrs 675	Whisky	Per L.P. liter		Nrs 260
Nonfiltered cigarettes	Per 1,000 cigarettes																				
	Nrs 110																				
Filtered cigarettes by length																					
Short	Nrs 285																				
Medium (70 mm to 75 mm)	Nrs 360																				
Medium (75 mm to 85 mm)	Nrs 500																				
Long (above 85 mm)	Nrs 675																				
Whisky	Per L.P. liter																				
	Nrs 260																				

Table 32. Nepal: Summary of the Tax System

(As of July 16, 2001)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates	
			Vodka	Nrs 150
			Low-quality liquor	Nrs 44
			Beer	Nrs 46
			<i>Ad valorem taxes</i>	
			Pick-ups	15 percent
3.3 <i>Tourism fee</i>	Levied on tourism services.		2 percent	
3.4 <i>Motor vehicle tax</i>	An annual tax based on the size of the vehicle and whether it is for own use or rented.		<i>Annual tax rates</i>	
			<i>Size of vehicle</i>	<i>For gasoline- fueled vehicles</i>
				<i>For diesel engine vehicles</i>
			Cars, jeeps, and vans up to 1,300 cc	Nrs 6,500
			1,301 cc to 2,000 cc	Nrs 8,500
			2,001 cc to 2,900 cc	Nrs 10,000
			2,901 cc to 4,000 cc	Nrs 12,300
			Above 4,001 cc	Nrs 15,000
				Nrs 10,000
				Nrs 13,750
				Nrs 17,500
				Nrs 23,000
				Nrs 28,000
3.5 <i>Air flight tax</i>	Payable by all travelers		<i>International</i>	<i>Tax rate per traveler</i>
			SAARC citizens	Nrs 500
			Other citizens	Nrs 900
			Surcharge for non-Nepalis	Nrs 100
			<i>Domestic</i>	
			Depending on the origination of the flight	Nrs 30 or Nrs 100
			Helicopter	Nrs 150
3.6 <i>Contract tax</i>			Replaced by 10 percent VAT in 1998/99.	
4. Taxes on international trade				
4.1 <i>Import duties</i>	Levied on c.i.f. import values.	Exemptions: Imports by the government, educational institutions, and foreign aid projects. Equipment for agricultural and fishery activities, food and medicine for animals, inputs for the textile industry and for computers, medicine from India.	<i>Commodity Groups</i>	<i>Basic Duty Rates (In percent)</i>
			Roughly:	
			Raw material and machinery	2.5-15 ⁴
			Semi-processed materials	15-25
			Fully processed materials	15-25
			Consumer items	10 and 40
			Luxury items	80 and 130

Table 32. Nepal: Summary of the Tax System

(As of July 16, 2001)

Tax	Nature of Tax	Exemptions and Deductions	Tax Rates
		Deductions: 50 percent on industrial machinery, 80 percent on aluminum, copper, and brass in block or plates. Rebates of 10–20 percent on imports from India and Tibet and, 5 percent on imports from most favored countries.	Development tax that replaced the octroi 1.5
4.2 <i>Export duties</i>	Levied on a limited range of exports	Half percent service duty on exports	A combination of ad valorem and specific tax rates apply.

¹Defined as those based on traditional skills and using local raw materials. Include carpet and handicraft manufacturing, textiles and clothing, leather and pottery wares, semi-precious and precious metal objects and jewelry.

²Five-year tax holidays and two-year extensions were provided by the Industrial Enterprise Act of 1992 to industries in manufacturing, mining, energy, forestry, agriculture, tourism, services, and construction.

³National priority includes hospitals, traditional medicines, transport, infrastructure, fuel saving, and pollution control.

⁴Slab rates of 1 and 2 percent are created by exemptions.

Table 33. Nepal: Profits and Losses of Selected Nonfinancial Public Enterprises,
1995/96–2000/01 1/

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01 2/
(In millions of Nepalese rupees, end of period)						
Agricultural Input Corporation	-454	-217	-71	-266	14	5
Nepal Drinking Water Corporation	23	39	24	-24	-48	-110
Hetauda Cement Company	14	11	0	17	-27	-28
Janakpur Cigarette Factory	-44	-71	-34	-3	20	40
Nepal Electricity Authority	629	26	356	356	817	1011
Nepal Food Corporation	1	0	-12	42	26	1
Nepal Oil Corporation	-64	-520	-295	1,055	1014	-1232
Nepal Telecommunication Corporation (NTC)	951	1,177	1,857	2,045	2,028	1635
Royal Nepal Airline Corporation	32	-121	9	-55	14	-620
Others	...	-1,468	-586	-1003	-400	-475
Total excluding NTC	138	-2,322	-609	121	1,430	-1,408
Total including NTC	1,088	-1,145	1,248	2,166	3,458	227
(In percent of GDP)						
Agricultural Input Corporation	-0.2	-0.1	0.0	-0.1	0.0	0.0
Nepal Drinking Water Corporation	0.0	0.0	0.0	0.0	0.0	0.0
Hetauda Cement Industry Ltd.	0.0	0.0	0.0	0.0	0.0	0.0
Janakpur Cigarette Factory Ltd.	0.0	0.0	0.0	0.0	0.0	0.0
Nepal Electricity Authority	0.3	0.0	0.1	0.1	0.2	0.3
Nepal Food Corporation	0.0	0.0	0.0	0.0	0.0	0.0
Nepal Oil Corporation	0.0	-0.2	-0.1	0.3	0.3	-0.3
Nepal Telecommunication Corporation (NTC)	0.4	0.4	0.6	0.6	0.6	0.4
Royal Nepal Airline Corporation	0.0	0.0	0.0	0.0	0.0	-0.2
Others	...	-0.5	-0.2	-0.3	-0.1	-0.1
Total excluding NTC	0.1	-0.9	-0.2	0.0	0.4	-0.4
Total including NTC	0.5	-0.4	0.4	0.7	0.9	0.1
Memorandum items:						
Number of profit-making enterprises	28	19	15	14	20	16
Number of loss-making enterprises	16	16	20	21	15	16
Total number of employees 3/	59,455	36,295	32,693	35,578	36,609	...

Source: Data provided by the Nepalese authorities.

1/ Profits before income taxes.

2/ From Targets and Performances of Public Enterprises, MoF, 2001. Data for 2000/01 are preliminary.

3/ Includes contractual, temporary, and part-time employees.

Table 34. Nepal: Interest and Dividend Payments of Public Enterprises to Government, 1995/96–1999/2000

(In millions of Nepalese rupees)

	1995/96			1996/97			1997/98			1998/99			1999/00		
	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total	Interest	Dividend	Total
Agricultural Development Bank	23	0	23	30	0	30	29	0	29	34	0	34	29	0	29
Agricultural Inputs Corporation	0	0	0	0	0	0	0	0	0	0	0	0	...	...	...
Cottage Handicraft Emporium	0	0	0	0	0	0	0	0	0	0	0	0	...	...	...
Credit Guarantee Corporation	0	1	1	0	1	1	0	1	1	0	1	1	0	1	1
Hetauda Cement Factory	56	0	56	35	0	35	57	0	57	38	0	38	20	0	20
National Insurance Co.	0	8	8	...	...	...	...	...	...	...	...	...	...	...	...
Nepal Drinking Water Corporation	5	0	5	...	...	...	6	0	6	...	...	...	...	...	...
Nepal Electricity Authority	1,362	0	1,362	933	0	933	424	0	424	70	0	70	481	0	481
Nepal Industrial Development Corporation	29	5	34	56	0	56	...	...	...	0	20	20	133	0	133
Nepal Rastra Bank	5	1,250	1,255	7	1,100	1,107	10	1,300	1,310	...	1,300	1,300	...	...	...
Nepal Transport Corporation	0	0	0	0	0	0	0	0	0	0	0	0	...	...	...
Royal Nepal Airlines	0	0	0	0	0	0	0	0	0	0	0	0	...	...	...
Salt Trading Corp.	0	1	1	...	...	...	0	1	1	...	...	...	...	...	...
Securities Exchange Centre	0	0	0	0	0	0	0	0	0	0	0	0	...	...	...
Others	260	93	353	305	33	339	331	4	335	278	148	426	...	...	...
Total	1,740	1,358	3,098	1,366	1,134	2,501	857	1,306	2,163	420	1,469	1,889	663	1	664

Source: Targets and Performances of Public Enterprises, MoF, 2000.

Table 35. Nepal: Summary of the Privatization Process

Enterprise Name	Value in Millions of U.S. Dollars	Number of employees	Form of Privatization	Date of Privatization
<i>I. Privatized enterprises</i>				
1. Bhrikuti Pulp and Paper Factory	3.4	1,321	Share sale	October 1992
2. Harisiddhi Bricks and Tiles Factory	3.2	595	Share sale	October 1992
3. Leatherage Bansbari Tannery and Shoes Factory	0.4	55	Share sale	November 1992
4. Nepal Film Development Company	1.0	99	Share sale	November 1993
5. Balaju Textiles Industry Ltd.	0.3	165	Share sale	December 1993
6. Raw Hide Collection and Development Company	0.1	...	Share sale	December 1993
7. Nepal Jute Development and Trading Company	...	...	Liquidated in 1993	
8. Nepal Lube Oil Limited	0.5	101	Share sale	June 1994
9. Bitumen and Barrel Industries Ltd.	0.2	58	Share sale	June 1994
10. Tobacco Development Company	...	...	Liquidated in 1994	
11. Nepal Foundry Industry	0.2	65	Share sale	March 1996
12. Ragupati Jute Mills	1.2	114	Share sale	August 1996
13. Biratnagar Jute Mills	...	2,000	Leased	December 1996
14. Agriculture Tools Factory Ltd.	1.4	287	Share sale: 5 percent to employees, 65 percent to one private-sector party, and 30 percent retained.	May 1997
15. Bhaktapur Brick Factory Ltd. 7/	3.0	...	Leased	August 1997 1/
16. Nepal Bank Ltd. 2/	3.3	...	Government share reduced to 41 percent.	February 1997
<i>II. Public sector enterprises being privatized</i>				
1. Nepal Tea Development Corporation 3/	4	2,000	Share sale: 5 percent to employees, 30 percent to general public, and 65 percent to one private-sector party.	March 1998, completion delayed
2. Himal Cement Company 4/	1.5–2	905	Share sale	May 1998, completion delayed
3. Butwal Power Company	25–30	300	Share sale: 2–3 percent to employees, 2–3 percent to United Mission to Nepal, 75 percent to one private-sector party, and 20 percent retained.	Jan. 10, 1999 completion delayed

Table 35. Nepal: Summary of the Privatization Process (Continued)

Enterprise Name	Value in millions of U.S. dollars	Number of employees	Form of Privatization	Date of Privatization
III. <i>Public sector enterprises to be privatized</i> 5/				
<i>Financial institutions</i>				
	9.7	6,299		
1. Rastriya Banijya Bank 6/	3.9	5,914		
2. Rastriya Beema Sansthan (insurance company)	5.1	368		
3. Nepal Housing and Finance Company	0.7	17		
<i>Nonfinancial Institutions</i>				
	85.7	14,052		
4. Nepal Telecommunication Corporation	153.6	4,516		
5. Royal Nepal Airline Corporation	-4.8	1,818		
6. Dairy Development Corporation (Pokhara Unit) 7/	6.0	1,158		
7. Nepal Rosin and Turpentine 7/	0.8	1,011		
8. Lumbini Sugar Factory 7/	3.6	861		
9. Janakpur Cigarette	1.8	1,907		
10. Nepal Transport Corporation	0.6	865		
11. Industrial District Management Ltd.	1.9	283		
12. Agriculture Lime Industry	0.1	86		
13. Agriculture Project Service Center	-0.4	171		
14. Herbs Production and Processing Center 7/	-0.2	185		
15. Hetauda Textile Industry 7/	-0.6	934		
16. Morang Sugar Mills	...	...
17. Birendra International Conference Center	...	...
18. Nepal Orind Magnesite Industry	-34.8	320		
19. Butwal Spinning Mills	...	...
20. Udayapur Cement Factory	-44.7	720		
21. Hetauda Cement Factory 7/	2.8	934		
22. Cotton Development Board	...	...

Not yet decided.

Source: Ministry of Finance.

1/ The government repossessed the company, as the lessee failed to operate the company satisfactorily. A legal settlement is pending.

2/ A sale of 10 percent of the shares reduced government participation to 41 percent in February 1997.

3/ Offers received in 1999, and associated payments, were not considered satisfactory. A proposal for privatization is being considered by MoF and MoI.

4/ The preferred bidder could not meet financial commitment and negotiations to be finalized with second preferred bidder in February pending compromise on severance pay awards to administrative staff that are to be made redundant.

5/ Net worth estimates for end-1998/99, as reported in *Targets and Performances of Public Enterprises FY 1997/98-1999/2000* published by the Ministry of Finance in July 1999. The conversion from Nepalese rupees to U.S. dollars was done at the rate of Nrs 68.5=US\$1.

6/ A share issue is planned through brokers in 2000. Selection of broker and percentage to be determined.

7/ Under review in privatization cell.