

Nepal: Selected Issues and Statistical Appendix

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NEPAL

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

January 3, 2006

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I. POLITICAL INSTABILITY AND GROWTH IN NEPAL¹

A. Introduction

1. **Cross-country experience suggests that political instability is associated with weaker macroeconomic outcomes, including lower economic growth.** Political instability is often associated with changes of economic policies and uncertainty, which delay structural reform implementation. These factors may contribute to lower investment and economic growth. In many cases, it shortens the tenure and horizons of elected officials, creating incentives for fiscal laxity, including overspending. Lax fiscal policies, then, lead to larger government deficits and higher inflation. Several theoretical and empirical studies in political economy investigate the relationship between political instability and macroeconomic performance. Examples of these studies include Barro (1991), Cukierman, Edwards and Tabellini (1992), Alesina and Perrotti (1993), Fosu (2002), Woo (2003), Barro and Sala-i-Martin (2004), Aisen and Veiga (2005), and Aisen and Veiga (forthcoming).

2. **In line with the literature, this chapter examines the effect of political instability on economic growth in Nepal.** It uses publicly available data on political economy variables for 167 countries worldwide (including Nepal and other South Asian countries) from 1970-2004, to estimate the impact of political instability on growth.² In the analysis, Nepal is compared to other South Asian countries (Bangladesh, Bhutan, India, Pakistan, and Sri Lanka). The main findings of the chapter are: (i) Nepal has witnessed higher political instability (measured by the number of cabinet changes) compared to other countries in the region; (ii) the average growth rate in Nepal has been around 1–1½ percentage points lower than the region for the sample period; (iii) political instability can account for roughly ¾ percentage point of the difference in average growth rates; and (iv) political instability in Nepal does not seem to have led to higher public deficits and inflation.

3. **The remainder of the chapter is structured as follows.** Section B presents the salient features of political instability and growth for Nepal and other South Asian countries. Section C provides econometric estimates of growth regressions to measure the effect of political instability on economic growth.

B. Political Instability and Growth in Nepal

4. **Socio-political instability can be measured using a range of variables.** Variables such as cabinet changes (number of times in a year that a new prime minister is named and/or 50 percent of the cabinet posts are occupied by new ministers) can be used to measure political instability while strikes, riots, and anti-government demonstrations help measure

¹ Prepared by Ari Aisen.

² The principal data sources are Cross National Time Series Archive and Polity IV.

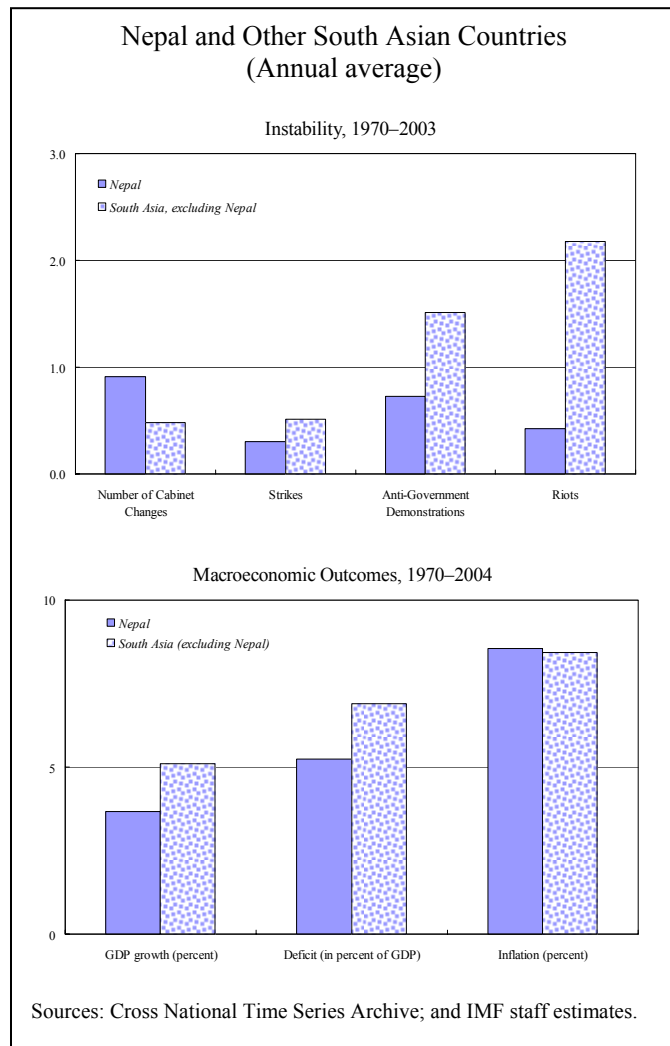
social instability. Compared to other countries in the region, Nepal has witnessed more frequent cabinet changes, while other manifestations of instability have been less frequent.

5. **While growth in Nepal has been lower than the average of other South Asian countries, deficits have also been lower and inflation has been at similar levels.** For the entire sample period, Nepal had an average growth rate of 3¾ percent, while average annual growth in the rest of South Asia was a little over 5 percent. A part of this difference is attributable to greater political instability in Nepal; this is further examined in Section C.

However, instability in Nepal appears to have had only a moderate impact on deficits and inflation. Nepal maintained deficits lower than the regional average, while inflation remained broadly in line with the regional average. To some extent, the potential negative effect of political instability on inflation may have been avoided by the exchange rate peg with the Indian rupee.

6. **Frequent shifts in government appear to have slowed the pace of reforms, although the direction of policies has remained broadly unchanged.** Overall, macroeconomic policies have remained stable. Fiscal policies have been prudent. The exchange rate peg has helped to import stable monetary conditions and keep inflation in line with price developments in India.

Nepal also undertook a significant trade liberalization in the 1990s (see Chapter III). Since 2003, the Poverty Reduction Strategy Paper (PRSP) has provided an overall framework for policies and reforms. Since the PRSP was prepared by a series of governments, with extensive consultation with stakeholders, the overall direction of reforms has been constant. Nevertheless, political instability and the insurgency have impeded the pace at which it has been possible to undertake structural reforms, with adverse consequences for growth.



C. Econometric Analysis

7. **To examine the impact of political instability on growth, growth regressions were estimated using annual panel data for 167 countries applying an instrumental variable approach.** Since political instability, measured by cabinet changes, does not only affect, but can also be affected by growth, an instrumental variable two-stage least squares (2SLS) approach is appropriate. In particular, the average of the previous five years of cabinet changes is used as an instrument for contemporaneous cabinet changes.³ In addition, the model uses random effects to control for unobserved heterogeneity. The random effects specification is appropriate given the presence of several explanatory variables which vary across countries but do not vary across time. Moreover, the estimation incorporates regional dummies to account for idiosyncratic characteristics that may affect growth but are not explicitly incorporated as explanatory variables. The regional dummies also reduce the probability of omitted variable biases in the estimated coefficients and augment their robustness.

8. **The estimation method proceeds from a simple regression model specification to multivariate estimation.** The following table presents five model specifications. Model 1 starts with cabinet changes and regional dummies as the explanatory variables. Regional dummies are included for OECD, Latin America, Africa, and South Asia. The successive models proceed along the lines of the growth and political economy literatures. Thus, Model 2 includes the convergence term, i.e., initial GDP levels. Model 3 introduces the investment-to-GDP ratio as a regressor. Models 4 and 5 introduce a series of variables considered to affect growth, such as human capital (primary education), trade (openness and terms of trade), government finances, and political economy variables (rule of law and democracy).

9. **Cabinet changes is a significant explanatory variable across all specifications.** The coefficient estimates are negative and broadly centered around 2, implying a robust effect of political instability on growth across the different model specifications. In Model 2, the expected negative sign for the convergence term receives empirical support. An interesting result from Model 3 is that the effect of cabinet changes on growth is reduced by the introduction of investment, but it is still statistically significant and quantitatively important. This suggests that only a small part of the effect of political instability on growth occurs through its negative effect on investment. The major effect seems to be independent of investment and may suggest that frequent cabinet changes delay the implementation of growth-enhancing structural reforms. Most of the coefficients of the explanatory variables in Models 4 and 5 are statistically significant and have the expected signs with the exception of fertility growth (population growth is used as a proxy), democracy, openness, and growth of terms of trade, which were not statistically significant at standard levels.⁴

³ The F-test in the first stage of the 2SLS estimation indicates that the instrument is relevant.

⁴ Data for rule of law is taken from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997).

10. **The panel data estimates can be used to obtain information on the impact of political stability in Nepal.** While Model 4 indicates that an additional cabinet change per year reduces the average growth rate by 2.31 percentage points, Model 5 provides an estimate of the marginal effect of an additional cabinet change a year on growth in South Asia using an interaction variable (cabinet changes * South Asia). The total marginal effect of a cabinet change in the region would be the sum of the coefficients from the variables cabinet changes and its interaction with the South Asian dummy. Since the interaction variable is not statistically significant, the marginal effect of an additional cabinet change in a year is equal to -2.12. An application of the model is to compare the average cabinet changes per year in Nepal (0.91) with the average cabinet changes per year in South Asia including Nepal (0.56). With a difference of 0.35, the model suggests that relatively more political instability in Nepal has cost the country $\frac{3}{4}$ percentage points of GDP growth on average per year (0.35×2.12). This result explains roughly half of the difference in the average growth Nepal has experienced relative to its neighbors in South Asia over the sample period.

Cross Country Growth Regressions : 1970–2000

Dependent variable : Real GDP growth

	(1)	(2)	(3)	(4)	(5)
Cabinet changes	-2.628 (0.871) ***	-2.598 (0.669) ***	-1.803 (0.753) **	-2.305 (1.323) *	-2.116 (1.089) *
Lagged log (real GDP)		-0.277 (0.130) ***	-0.528 (0.139) ***	-0.75 (0.281) ***	-0.679 (0.255) ***
Investment/GDP			0.163 (0.014) ***	0.14 (0.025) ***	0.142 (0.024) ***
Enrollment in primary school				0.026 (0.008) ***	0.025 (0.008) ***
Fertility				0.624 (0.453)	0.658 (0.435)
Government expenditures/GDP				-0.102 (0.023) ***	-0.094 (0.022) ***
Rule of law				1.246 (0.410) ***	1.257 (0.365) ***
Democracy				-0.021 (0.029)	-0.03 (0.027)
Openness				0.001 (0.007)	-0.001 (0.006)
Terms of trade growth				0.009 (0.011)	0.008 (0.011)
Inflation				-0.01 (0.004) ***	-0.01 (0.004) ***
OECD	-0.827 (0.405) **	-0.312 (0.410)	0.245 (0.435)	0.842 (1.074)	0.732 (0.965)
Latin America	-0.992 (0.484) **	-1.01 (0.374) ***	-0.371 (0.405)	-0.017 (0.580)	-0.043 (0.520)
Africa	-0.242 (0.368)	-0.722 (0.331) **	-0.661 (0.352) *	-0.52 (0.598)	-0.554 (0.550)
South Asia	1.749 (0.757) **	1.189 (0.620) *	0.697 (0.654)	1.242 (1.025)	1.864 (3.023)
Number of cabinet changes * South Asia					-0.717 (3.582)
Observations	3,276	3,276	3,143	830	830
R-squared	0.05	0.05	0.11	0.18	0.18
Number of countries	167	167	161	77	77

Regressions include constant and year dummies.

Robust standard errors in parentheses.

* significant at 10 percent; ** significant at 5 percent; *** significant at 1 percent.

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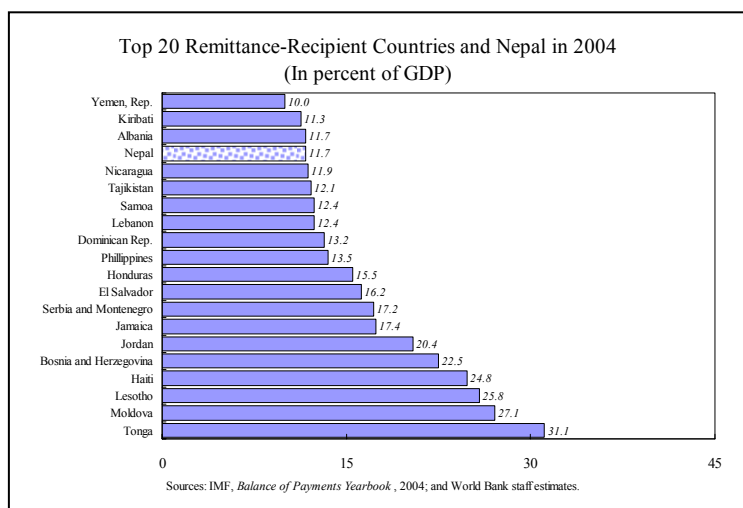
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II. REMITTANCES AND THE NEPALESE ECONOMY¹

A. Introduction

1. **Remittances have become a mainstay of the Nepalese economy, reflecting a global trend among developing countries.** With an estimated US\$908 million in remittances in 2004/05 (12 percent of GDP), Nepal ranks among the top 20 recipients in the world. Developing countries received an estimated US\$126 billion in remittances in 2004 (Maimbo et. al., 2005), an increase of over 45 percent from 2001.² For this group of countries, remittances exceeded official development assistance for most of the 1990s.



2. **Recent studies suggest that remittances have a generally positive impact on the recipient countries.** The impact of remittances is both macroeconomic and microeconomic in nature. Recent studies have shown that remittances increase the income of the receiving households, help smooth consumption, and reduce the incidence and severity of poverty. Remittances have also generated a steady stream of foreign exchange earnings for recipient countries, can improve a country's creditworthiness for external borrowing, and can expand access to capital and lower borrowing costs through innovative mechanisms such as securitization of remittance flows. Remittances may also have adverse effects, although the evidence is mixed. For example, remittances have sometimes led to exchange rate appreciation and decline in export competitiveness.

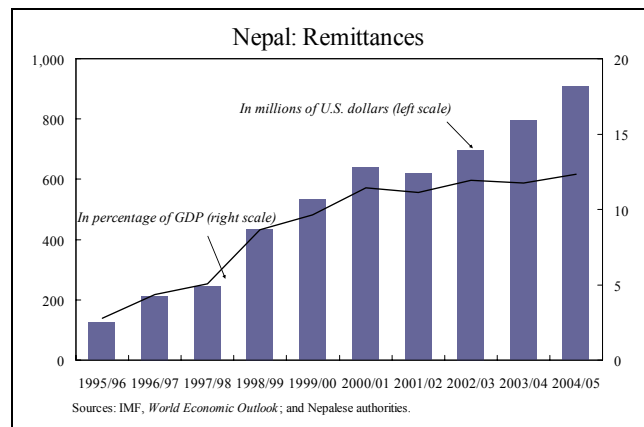
3. **This chapter is organized as follows.** Section B discusses the salient aspects of Nepal's remittance and labor migration flows. Section C examines the contribution of remittances to growth and poverty reduction and highlights selected policy issues.

¹ Prepared by Nombulelo Wandwasi and Sanjay Kalra.

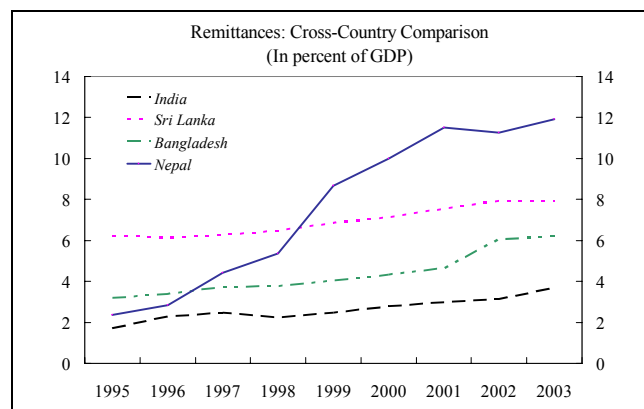
² These estimates are only official figures, and do not capture large informal flows.

B. Salient Aspects of Remittances and Labor Migration

4. **Remittances in Nepal have risen significantly during the last decade.** From an estimated US\$100 million in 1995/96, there has been a nine-fold increase in remittances to US\$908 million in 2004/05. As a share of GDP, the increase over this period was from ½ percent of GDP to 12 percent of GDP. While remittances for other South Asian countries also grew over this period, the growth rate was the highest for Nepal.



5. **For Nepal, remittances are now the single largest source of foreign exchange inflows and are less volatile than other sources.** In 2004/05, remittances were higher than merchandise exports (US\$825 million) and significantly higher than official aid (US\$175 million). These remittances helped offset the bulk of the trade deficit of US\$980 million, and tipped the current account balance (excluding official transfers) into a noticeable surplus of US\$225 million (3 percent of GDP). Remittances have also been a more steady and less volatile source of foreign exchange inflows. Moreover, as in other cases, remittances moderate external debt burden ratios (World Bank, 2005a).



6. **While Nepal has a long tradition of overseas employment, other factors have contributed to an increase in labor migration in recent years.** Starting in the early 19th century, Nepalese have served in various armies in pre-colonial and colonial India. This tradition continues and Nepalese are employed in the Indian and British armed forces. Earnings and pensions from these soldiers constitute a sizeable portion of remittances. However, with rapid population and labor force expansion and inadequate growth, the absorptive capacity of the domestic economy has been stretched. With limited arable land, landlessness is pervasive and the number of landless households has steadily increased in the agricultural sector. In the nonagricultural sector, the slowdown in growth, especially since 2000/01, due to the insurgency and exogenous shocks has further slowed the pace of employment creation. The armed conflict has also created difficult living and security conditions, especially in the rural areas. Khatiwada (2005) also notes an increase in the proportion of indebted households from about 60 percent in 1995/96 to 70 percent in 2003/04. As a result of these factors, push factors for migration have become stronger. Pull

factors have also played a role. These include higher demand from host countries. In particular, Malaysia opened its labor market to Nepalese migrant workers in 2001 and South Korea in 2004.

7. **India has been a traditional destination for Nepalese migrants.** The main reasons for this are geographical proximity, historical and cultural links, and a large and open porous border. The 1950 Treaty of Peace and Friendship between India and Nepal formalized free border movement of people. Given the free mobility across national borders, estimates of Nepalese migrants in India vary widely between ½–1 million.³ The bulk of these migrants are employed in the private, informal sector. These migrants hold semi-skilled and unskilled jobs in restaurants and factories or are employed as domestic workers, security guards, and maids (Thieme, 2003). Average earnings for these workers range between US\$40–80 per month. For 2004/05, estimated remittances from India in the balance of payments were around US\$200 million (around 25 percent of total remittances).

8. **An increasingly larger share of remittances now comes from countries other than India (“third countries”) reflecting changing migration patterns and higher earnings in these locations.** Remittances from third countries were over US\$700 million in 2004/05. Recent estimates place the number of Nepalese migrants in these countries at around ¾ million, of which the largest number (about 400,000) are stated to be in the Middle East (Saudi Arabia, Qatar, United Arab Emirates, Bahrain, Kuwait, and Oman). In recent years, especially since 2001, a substantial number of migrants have gone to countries in South East Asia (Malaysia, Korea, and Hong Kong). The skills composition of the labor flows is different among these destinations. While migrants to the Middle East are employed mostly as security personnel, chauffeurs, and construction workers, the demand from South East Asian countries is more for employment in industrial enterprises. Monthly earnings for these workers are higher than those in India. For example, workers in South Korea could earn US\$500–800 per month.

Migrants' Earnings Per Month	
Monthly Earnings (US\$)	Percent of Workers
Less than 135	50
135–270	20
270–650	15
650–1,000	8
More than 1,000	7

Source: Kiran Nepal in Nepali Times.

9. **Remittance transfers to Nepal take place through formal and informal channels, with varying levels of transactions costs.** The mode of transfer depends on the originating country and other factors, including reliability, speed, convenience and transactions costs of transfer. The bulk of the remittances from India (90 percent) are brought in by the migrants themselves or sent through relatives and friends, as the amount involved are typically small. In contrast, a larger share (55 percent) of the remittances from countries such as Malaysia come in through formal channels (financial institutions or money transfer operators (MTO)). Overall, Khatiwada (2005) notes that 78 percent of total remittances are brought in by

³ Seddon, et. al. 2001.

migrants, 6 percent come through financial institutions, 2 percent through the informal system (*hundi/hawala*), and the remainder through other means. Cross-country estimates suggest that the cost of sending remittances through various channels range between 1½–12 percent of the principal amount for MTOs; ½–6 percent for banks; and 1–2 percent for *hawala* system (World Bank, 2005a).

10. **As regards beneficiaries, remittances have affected a large cross section of the population.** Nepal Living Standards Survey (NLSS) data suggest that the share of

households receiving remittances increased from 23 percent in 1995/96 to 32 percent in 2003/04.⁴ Over this period, the average remittance per household increased by over 150 percent in real terms from Nrs 674 (about US\$12 at Nrs 57/US\$) to Nrs 1,723 (US\$30) over this period.

Quintile	Recipient Households in Quintile (In percent)		Average Remittance (Per person/year, 1995/96 Nrs)	
	1995/96	2003/04	1995/96	2003/04
Poorest	19	29	188	414
Second	22	25	311	729
Third	24	34	413	1,359
Fourth	25	36	687	1,668
Richest	26	34	1,496	3,749
Total	23	32	674	1,723

Source: NLSS, 2003/04.

While all quintiles

experienced higher remittances, the percent increase was larger for the poorer quintiles. The amount of remittances increased in all regions except the rural Eastern Hill region.

11. **Available evidence suggests that remittances have financed mainly an increase in consumption expenditures.** Survey data suggest that the bulk of the remittances are used to finance consumption expenditure, repay loans, buy land, construct or improve housing, and educate children. This pattern is consistent with the behavior of liquidity constrained households, and is similar to the experience of other countries.

C. The Economic Impact of Remittances

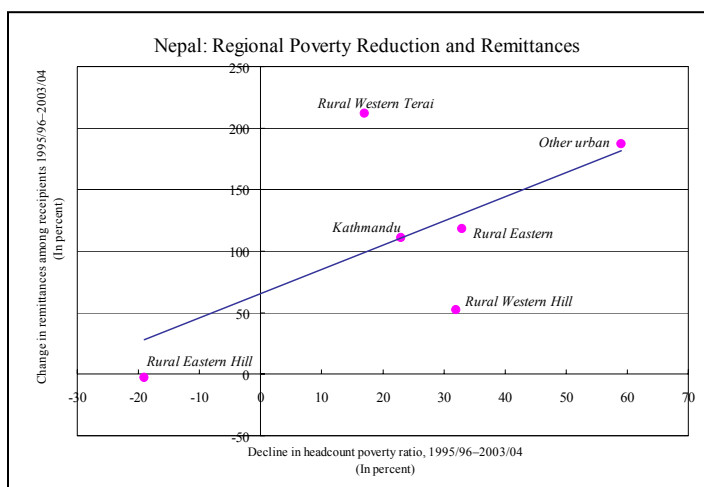
12. **Remittances have helped boost national income and consumption in Nepal.** While real GDP grew by 35 percent between 1995/96 and 2003/04, disposable income and private consumption grew by a larger amount due to strong growth in remittances. While national income accounts data indicate a 12 percent increase in real per capita GDP and per capita private consumption expenditure, household survey data from the NLSS suggest a 42 percent increase in real per capita consumption expenditure.⁵

⁴ *Nepal Living Standards Survey* (1995/96 and 2003/04).

⁵ The national accounts estimate private consumption using households consumption estimated from the 1995/96 NLSS, adjusted upward for various items. The national accounts private consumption estimates for 2003/04 are projected using GDP growth rates and are not
(continued)

13. **Remittances have contributed to a decline in poverty.** World Bank (2005b) attributes the significant decline in poverty between 1995/96 and 2003/04 to higher remittances, and other factors including an increase in wages, urbanization, improved connectivity, and a decline in the dependency ratio. While it is difficult to separate the effect of each of these factors, cross-country estimates provide a rough measure of the impact of remittances on poverty (World Bank, 2005a). Using a cross-country sample of 81 countries, World Bank estimates suggest

that for countries similar to Nepal (i.e., a high ratio of remittances to GDP and a high poverty headcount ratio), the absence of remittances could lead to a 20 percentage point increase in the poverty headcount ratio. Roughly speaking, this would imply that Nepal's poverty rate could be almost 5–6 percentage points higher in the absence of remittances (compared to the current rate of



32 percent). Additional evidence from the NLSS points to the poverty reducing effect of remittances. There appears to be a strong correlation between the growth of remittances and the decline in poverty in Nepal during 1995/96–2003/04 at a regional level. During this period, the amount of remittances received increased in all regions except the rural Eastern Hills region. In other regions, real remittances per person per year among recipients rose by 50–200 percent.

14. **Considerable untapped potential remains to increase and better harness remittances through policy support.** Investments in education, complemented by better vocational training, could serve to raise earnings of Nepalese migrants by inducing demand in higher skill jobs. Government support through streamlined procedures at home and active search for destinations abroad could facilitate larger labor migration. Efforts could also be made to reduce transactions costs for migrants by more effective regulation of manpower agencies and improving access to finance from the formal financial system. The central bank should continue to work with the Nepalese private sector to further develop systems for more efficient collection and repatriation of remittances through formal channels that both reduce risks for migrants and help deepen the financial system. Mechanisms need to be devised to improve the utilization of skills acquired by returning migrants and to put a larger share of the remittances to use for investment and employment creation in Nepal itself.

directly comparable to the survey-based estimates. Leaving out remittances did not affect the 1995/96 estimates of private consumption in the national accounts as much as it did the 2003/04 estimates.

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III. MEETING THE CHALLENGES OF GLOBALIZATION¹

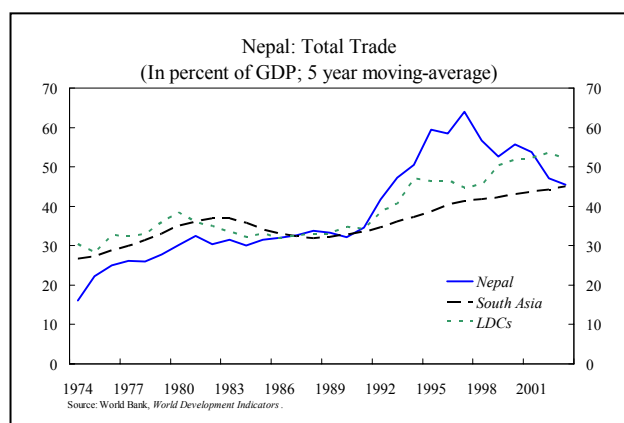
A. Introduction

1. **Globalization has considerable potential to raise living standards in Nepal even as it poses challenges that need to be managed.** Masson (2001) and Berg and Krueger (2003) provide a succinct account of the benefits of openness and globalization. With the trade liberalization of the 1990s and labor migration of the past decade, Nepal is becoming increasingly integrated into the global economy. Nepal's Tenth Plan/Poverty Reduction Strategy Paper (2002–2007) seeks to build on these developments through further reforms to bind the country to the global economic community. Looking forward, the recent accession to the World Trade Organization, further access to dynamic regional markets, mainly China and India, and participation in regional trading agreements offer Nepal considerable opportunities for trade and investment. Similarly, financial integration could help access foreign savings and allow residents to diversify risk. In particular, entry of foreign financial institutions could facilitate knowledge and technology transfers and lead to increased competition and greater efficiency of domestic markets. Nevertheless, globalization also poses challenges for Nepal as for other countries. It may increase exposure to external shocks; raise income, trade, and financial market volatility; lead to losses of revenues; and impose adjustment costs from greater competition in previously protected sectors.

2. **This chapter is organized as follows.** Section B assesses Nepal's trade integration. Section C discusses FDI and financial market integration. Section D provides an overview of Nepal's commitments to global and regional trading arrangements. Section E considers policies to reap benefits from globalization and steps to mitigate risks.

B. Trade Integration

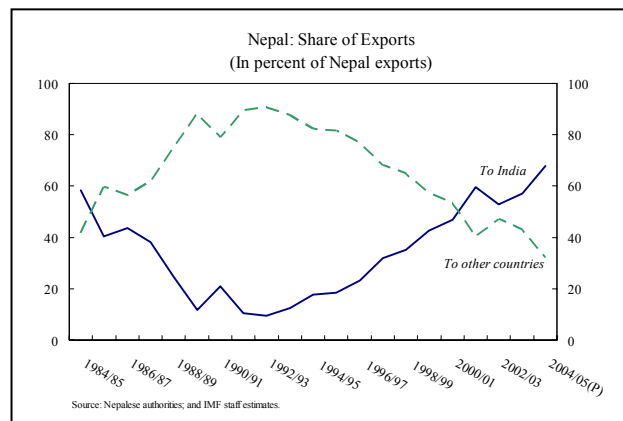
3. **Nepal is one of the most open and trade dependent economies in South Asia.** In the 1990s, a series of market oriented reforms opened up the economy to trade in goods and services, technology and investment. These included a reduction of import duties and elimination of most quantitative restrictions and licensing requirements. The unweighted average tariff fell from about 40 percent in 1990 toward its current level of around 14 percent. Nepal



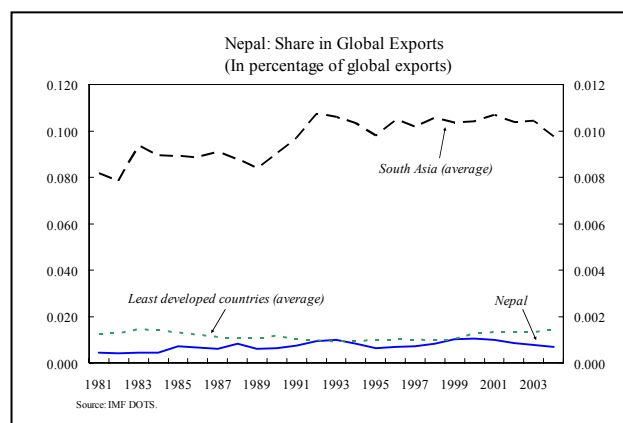
¹ Prepared by Sukhwinder Singh and Christian H. Beedies.

also moved to full convertibility for current account transactions when it accepted Article VIII obligations of the IMF's Articles of Agreement in May 1994. These reforms have contributed to a rise in the trade to GDP ratio to close to 50 percent.

4. **Nepal is closely integrated with India.** Transit and preferential trading treaties have existed between the two countries since 1950. A long porous border permits free movement of labor. The Nepalese rupee is pegged to the Indian rupee. These factors and the proximity emphasized by gravity models of trade, as well as historical and cultural links explain the dominant role of trade with the Indian economy. Over the past decade, this integration has increased as the Indian economy has expanded and Nepal's exports to third country markets have stalled. Trade with India averaged about 28 percent of Nepal's total trade in the first half of the 1990s but doubled to 56 percent since the beginning of this millennium.² India accounts for approximately 40 percent of total foreign investment in Nepal, with a significant share of Nepal's exports related to these investments. Approximately one half of all remittances are from India, including pension payments to ex-servicemen in the Indian army.



5. **However, trade remains highly concentrated and Nepal's share of exports in world markets is still very low.** Manufactured goods account for close to 50 percent of total merchandise exports. Nonetheless, Nepal remains dependent on a few exports and markets, making it vulnerable to external demand and policy shocks. Three exports—garments, pashmina, and carpets—account for 23 percent of total merchandise exports and about



90 percent of exports outside India. Dependence on a small group of markets has been increasing with the United States, Indian, and German markets accounting for 90 percent of

² Based on recorded trade data. If estimates unrecorded trade are also included (at least one-fifth of recorded trade), India's trade share becomes larger. Under the Nepal-India bilateral agreement, third country exports do not meet rules of origin requirement and are traded informally.

its exports. Imports are more diversified, but India still accounts for over half of the total. Moreover, despite doubling over the 1990s, Nepal's share of world exports is less than 0.01 percent.

6. **Exports are subject to high volatility.** Recent data suggest three conclusions (see also IMF, 2002). First,

exports are the least correlated with overall changes in U.S. imports. Second, Nepal's market share is more correlated with its export performance than other developing economies, suggesting there are competing substitutes for its exports. Third,

Nepalese exports are more volatile than other South Asian economies.

	Correlation Between Exports Growth Rate and Growth Rate of Overall U.S. Imports	Correlation Between Exports Growth Rate and Market Share	Volatility (St. Deviation of Exports Growth)
Nepal	0.50	0.61	0.25
Bangladesh	0.77	-0.23	0.18
India	0.67	0.18	0.11
Pakistan	0.73	-0.03	0.16
Sri Lanka	0.53	-0.04	0.11
World	0.06

Source: U.S. Office of Textiles and Apparel (OTEXA), see [http://otexa.ita.doc.gov/ctrynam\\$.htm](http://otexa.ita.doc.gov/ctrynam$.htm).

7. **The end of the Agreement on Textiles and Clothing has been a significant shock for Nepal.** The phasing out of quota-based trade in textiles from the beginning of 2005 has adversely affected garment exports which were concentrated in the U.S. market. In 2005/06, these exports are likely to be only one third of their level in 1999/2000. Production has switched to the more competitive economies of China and India. Similarly, the carpet industry, which is another mainstay of the manufacturing sector, has lost over half its market in recent years due to declining demand, price controls, long order cycles, and greater competition.

8. **A stronger focus is required on Nepal's comparative advantage to increase exports.** Nepal's comparative advantage lies in labor and resource intensive industries, such as hydropower, tourism, carpets, some yarns and textiles, paper products, and agroprocessing (vegetables, spices and herbs, tea, honey, flowers, and leather goods). There may also be opportunities in educational and health services, information technology, and financial services such as those being outsourced to India. Finally, Nepal could serve as a transit point between its growing neighbors, with opportunities for diversification of Nepal's trade, transit fees, and development of transport related services. Interest in transit economy aspects has been prompted by China's plans to complete a rail link to Tibet by 2006 and India's request for overland transit facilities. At present border trade volumes are limited by geographical factors. Even though Nepal has committed to construct and upgrade seven additional North-South highways, a careful cost-benefit analysis compared with alternative modes of transportation is required.

9. **In particular, Nepal has enormous potential in hydropower that could be harnessed to meet domestic and regional energy demands.** Although its estimated generation potential is 43,000 MW, Nepal currently generates around one percent of this and

trades negligible amounts. The challenge is to develop new capacity to meet growing domestic and export demand, including through foreign investment.

- On the supply side, transmission links into the Indian grid could be established. The best approach may be to focus on smaller projects rather than mega-hydro projects given the limited prospects of commercial absorption of these projects and problems with securing private financing (HMGN, 2004).
- A priority is to reform the state owned power utility, Nepal Electricity Authority (NEA), by unbundling generation, transmission and distribution, reducing government intervention, improving financial performance and establishing an independent and effective regulatory body. Part of the solution involves lowering costs by reducing large system losses, including through greater private sector participation in distribution.³
- On the demand side, South Asia—India in particular—has a large energy deficit. The establishment of the Power Trading Corporation in India is an encouraging development, and ratification of the Power Trade Agreement and reactivation of the Power Exchange Committee between India and Nepal would be helpful. Moreover, private sectors participation in power development and trading arrangements is required.
- At a regional level, there is need for trans-regional energy infrastructure and resolution of water-sharing issues.

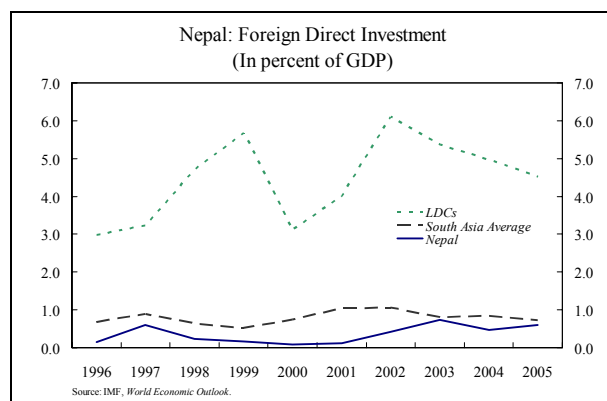
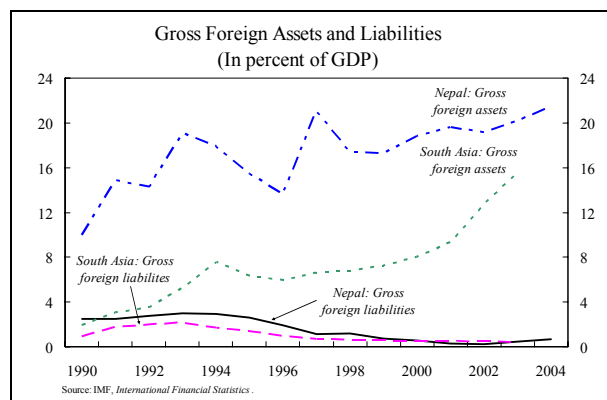
10. **Tourism also offers opportunities.** Exploiting this potential would require better security conditions and an improved institutional framework. Tourism arrivals and earnings appear highly sensitive to the conflict; indeed, following the intensification of the conflict arrivals have dropped by about 25 percent on average since their peak in 1999 and foreign exchange earnings have fallen by about 2 percent of GDP. Per capita tourist receipts are the lowest in the region, and growth in this sector has been low by regional standards. The recent removal of travel agencies and trekking from the negative list for FDI is encouraging. There is a need to diversify trekking activity from the traditional central areas to poorer districts in the east and west and to introduce new tourism products. This will require investments in travel infrastructure and ecotourism training. Moreover, the limited capacity and poor financial condition of the state-owned Royal Nepal Airlines have to be addressed. Other priorities include improving the Nepal Tourism Board's marketing activities and the funding for such promotion, and improving service standards and codes of practice under the Ministry of Tourism as the industry regulator.

³ Relatively high installed capacity contributes to high tariffs. This is especially the case for run-of-river hydropower plants which have low generation capacity in winter season when demand rises and an excess supply in the rainy season.

C. Financial Integration

11. **Nepal's international financial integration is limited.** Nepal is also atypical in that trade and financial integration typically have not gone hand in hand (IMF, 2002a). Measured by the ratio of gross foreign assets and liabilities to GDP (FDI and portfolio flows),

integration has increased but remains well below that of other countries in the region.⁴ Nepal maintains restrictions on capital account transactions.⁵ Only specified borrowers may borrow or invest in international capital markets, and residents are prohibited from outward FDI. Net foreign direct investment in Nepal is negligible, reflecting poor infrastructure, rigid labor markets, and a weak business climate. These flows are typically higher in countries with stronger policy environments and governance. Higher FDI can offer significant benefits to Nepal. These benefits include a relatively less volatile source of finance, “greenfield” investments in subsidiaries which could offer transfer of technology with possible spillovers to domestic firms and serve as conduits for export market access, higher wages and training opportunities for labor, and greater market competition. Nepal needs to undertake a range of reforms, improvements in governance and institutions, and investments in education and infrastructure to attract and retain FDI.



12. **Nepal had made liberal commitments on trade in financial services as part of its WTO accession.**⁶ Fulfilling these commitments would require establishing a level playing

⁴ Financial integration may be understated to the extent there capital controls are bypassed by extensive informal networks between Nepal and India.

⁵ See IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions*.

⁶ In all but one mode of supply, Nepal has committed to having virtually no limitations on market access and national treatment in both insurance services and banking and other financial services, effective 2010 (Maskay et. al., 2005).

field for market participants, strong legal rights for creditors and shareholders, sufficient disclosure standards and high quality information, well-governed institutional investors, and supporting private and public institutions (Claessens et. al., 2000). In that regard, Nepal needs to revise its Banking and Financial Institutions Ordinance so it can meet the Basle Core Principles for Effective Banking Supervision and the Basel II Capital Accord. Higher capital requirements would lead to a smaller number of bigger and stronger banks capable of facing external competition from 2010. Likewise, central bank reforms must be accelerated to ensure effective supervision of more complex financial services transactions.

D. Global and Regional Trading Arrangements

13. **As part of its WTO accession in April 2004, Nepal has made extensive commitments in trade liberalization.** In return for the rights associated with WTO membership, such as non-discrimination by other WTO members and use of the WTO's dispute settlement procedure, Nepal has made far-reaching commitments on the rules and regulations governing its trade regime and market access. On the trade regime, Nepal has agreed to ensure all its laws relating to trade are in conformity with WTO obligations. Nontariff barriers and other duties and charges are to be eliminated and there would be full implementation of the Agreement on Customs Valuation, Agreement on Technical Barriers to Trade, Agreement on Sanitary and Phyto-Sanitary Measures, Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), and the Agreement on Rules of Origin. On goods market access, Nepal has bound almost all its tariff rates, with most bindings at or above current applied rates. Nepal accepted an average tariff binding of 42 percent in agricultural products and around 24 percent in industrial goods, whereas the majority of the import items fall in the customs duty range of 10 percent to 20 percent. Of about 160 services sub-sectors, Nepal has made commitments in 70 sub-sectors of which half are in the area of financial and telecommunications services.

14. **Nepal is party to bilateral and regional preferential trading agreements.** The net benefits from regional integration under SAFTA for Nepal depend on scale economies from access to a larger market offsetting any trade diversion and loss of customs revenues. Given that it already has significantly higher intraregional trade by virtue of ties with India, particularly important for Nepal would be whether and how the PTA with India is integrated into SAFTA. The impact on tariff free market access to the Indian market as well as a reduction in nontariff barriers will be crucial. However, as trade gains might be limited by similar production structures and factor endowments, appropriate focus would be required on trade facilitation (border controls, transit agreements, lowering trade related costs through better customs procedures and harmonizing standards). The benefits of SAFTA will also depend on restrictiveness of safeguard measures i.e., the need for transparent rules of origin and broad product coverage through limited sensitive lists, mechanisms to compensate

revenue losses, better infrastructure and regional connectivity, and extending SAFTA to cover services.⁷

Main Bilateral and Regional Trading Agreements

Nepal-India Preferential Trading Agreement (PTA): This was renewed most recently in 2002. It allows for (i) exemption of primary products from import duties and quantitative restrictions on a reciprocal basis; (ii) duty free access for some Nepalese manufactures to India largely without quantitative restrictions, except for some sensitive items; and (iii) preferential access for Indian manufacturing exports without quantitative restrictions. The 2002 treaty introduced more stringent rules of origin, tariff rate quotas, and safeguard clauses. India imposes a countervailing duty to make the prices of Nepalese exports comparable to Indian counterparts.

SAFTA: Members include Nepal, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Members are committed to a ten-year phase out of tariffs beginning 2006, with least developed countries such as Nepal having a more back loaded reduction schedule. Nepal will face a maximum tariff of 5 percent in Non-Least Developed Members by 2009 and in Least Developed Members by 2015. Nepal is committed to tariffs no greater than 5 percent by 2015. The SAFTA agreement does not incorporate trade in services, cross border investment or movement of labor and no timeframe has been set for eliminating nontariff barriers and other duties and charges. The SAFTA agreement mentions addressing trade facilitation issues, it does not specify mechanisms. However, a number of technical issues were recently resolved prior to the agreement coming into force from January 1, 2006. In particular, agreement was recently reached on safeguard measures—sensitive lists and rule of origin—as well as a revenue compensation mechanism.

BIMSTEC: Nepal is also signatory to the free trade agreement of the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation, with six countries (Bangladesh, Bhutan, India, Myanmar, Sri Lanka and Thailand). The agreement aims for broad economic integration in goods, services and investment, with a trade accord to be launched from July 2006 and that for services and investment promotion in 2007.

⁷ Following the 13th SAARC Summit in November 2005, agreement was reached on some outstanding issues to render SAFTA effective from January 2006, including negative lists (to be within 20 percent of the total tariff lines of member countries); rules of origin (at least 40 percent value addition); and revenue compensation mechanism for the least developed country members for loss of customs duty (to be in place for four years).

E. Policies to Benefit from Global Integration and Manage Risks

15. **Nepal can gain from global integration by raising competitiveness, maintaining macroeconomic stability and strengthening institutions.** While wage costs are low in Nepal, productivity is also low, resulting in high unit labor costs (HMGN, 2004).⁸ Key factors constraining productivity include labor market rigidities, the lack of technology transfer mechanisms such as firm training and FDI, high infrastructure and transactions costs (transport and electricity), an unpredictable business climate, and low human capital levels.⁹ Strengthening investment in human capital—education and health—is a central element in Nepal’s poverty reduction strategy. Such investments are key for raising productivity. Macroeconomic stability—particularly low and stable inflation and a prudent fiscal position—has been a key achievement during the 1990s and in recent years.

16. **Significant investments in infrastructure—particularly transport and power—are required to reduce costs and raise competitiveness.** Historically, along with technological change and falling communication costs, lower transport costs have played a crucial role in fuelling globalization. Pre-shipment transport costs in Nepal are estimated to be twice those of competitors in the region. Some of this reflects Nepal’s difficult geography and landlocked position. However, reductions in the cost of shipment from Kolkata port and improvements in the internal road network are crucial for improving competitiveness, and supporting trade expansion. The establishment of an Internal Container Depot (ICD) at Birgunj that will accommodate containerized rail transport has the potential to reduce costs significantly (by 30 percent). Key issues in the domestic road system include more effective and timely maintenance as well as strategic expansion of the national road network. A second crucial area is the power sector, where electricity costs are significantly above other Asian competitors. This is attributable to inefficiencies at the NEA, high transmission losses, piecemeal expansion of the grid, and the high cost of power purchase agreements. The required reforms include an unbundling of NEA by separating generation, transmission, and settlement and allowing for increased private sector participation in the sector.

17. **Improvements in the business climate are key to attract FDI.** Firm level surveys in Nepal reveal that poor reform implementation, bureaucratic burden, and continued political and policy uncertainty are important constraints on doing business (Biggs et. al.,

⁸ Available data suggest that in 1999, value added per worker in Nepal was the lowest among nine selected Asian countries (*Nepal Trade and Competitiveness Study*, 2004).

⁹ Estimates of total factor productivity based on firm level data show that average levels of productivity in Nepal are lower than in other developing countries (Biggs et. al., 2000). The average level of firm productivity (using a total factor productivity index) in Nepal’s manufacturing sector was estimated at 53 percent (measured against the most efficient benchmark) compared with a mean level of productivity in other developing countries ranging from 60–70 percent.

2000). It costs around 70 percent of income per capita to start a business (World Bank, 2005a). Red tape, delays in the provision of government services, and corruption impose costs. Business support services are not readily available, constraining the private sector's information on new markets and technologies. In addition, weak enforcement of property and creditor rights has impeded the recovery of nonperforming loans and credit allocation to more productive uses (World Bank, 2005b). Bankruptcy and foreclosure procedures have traditionally been weak, although the new Insolvency Ordinance, if implemented effectively, would be a step forward. Regulation of business, investment promotion and trade facilitation has been diffused across many institutions with weak coordination.

18. **More flexible labor markets would also facilitate investment.** Nepal has rigid labor regulations which lower competitiveness. Restrictive anti-dismissal rules reduce labor efficiency by reducing the cost of nonperformance, and discourage firm expansion and investment in training. Minimum wage provisions, the mandatory payment of a percentage of profits to employee welfare funds, and union resistance to performance related pay undermine performance incentives. Greater flexibility is needed to adjust the labor force to market conditions, while adhering to core labor standards. This could be done through increased flexibility in hiring and firing by revising the 1992 Labor Act, as is being contemplated at present. Given the political challenges of labor market reform and limited regulatory capacity, such flexibility could be introduced in clearly defined special economic zones—with careful attention to fiscal implications—targeted at export-oriented industries.

19. **Further reforms are required to facilitate trade through customs modernization.** Donor technical assistance has identified a wide-ranging agenda for customs reform, including for compliance with WTO commitments on trade facilitation. The current three-year customs modernization plan has effected some improvements in the adoption of transactions values and computerization of some functions, although problems remain. These include a poor infrastructure and facilities, complicated procedures and excessive documentation which are poorly harmonized with neighboring economies, and weak governance and human resource management. Critical short-term measures required include improved customs valuation, introduction of risk based clearance procedures, computerization, development of a value database, more effective use of ASYCUDA, better training in customs valuation, and rationalization of exemptions.

20. **Globalization poses some risks which can be mitigated.**

- Greater trade integration would increase exposure to external shocks. Increased openness since the early 1990s has led to export volatility as well as vulnerabilities to shifts in trading partners' policies. However, simulations suggest that impact of MFN tariff reductions would be relatively modest (2½ percent of total exports). Moreover, Nepal enjoys a preference margin of about 10 percent in Quad markets (United States, EU, Japan, and Canada), and is yet to fully reap the benefits of this preferential treatment, particularly in the EU and Canadian markets.

- Greater volatility in financial markets can be mitigated by overall macroeconomic stability, particularly through prudent fiscal and suitable exchange rate policies and enhanced financial sector supervision.
- Trade taxes account for about one-quarter of Nepal's total revenues. MFN tariff reduction and the commitments to eliminate other duties and charges are likely to lead to a reduction in trade tax revenues. These revenue losses could be offset by better revenue administration, especially in customs.
- Globalization will produce winners and losers, especially over the short term. While those able to take advantage of new opportunities and with access to cheaper inputs have the potential to secure significant benefits, others with poor endowments and limited access could be left behind. The appropriate response is more openness and higher growth. This growth can be accompanied by reforms which ensure that growth is pro-poor, including through better governance and social service delivery. Improved skills and an appropriate social safety net are key to ensuring that the benefits of globalization are widely shared.

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Table 1. Nepal: Nominal Gross Domestic Product by Sector, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In billions of Nepalese rupees, at current prices)						
Agriculture, fisheries, and forestry	132.4	145.1	151.1	160.1	171.1	183.4
Mining and quarrying	1.7	1.8	1.9	2.1	2.2	2.4
Manufacturing	30.3	33.6	35.5	32.8	34.3	36.6
Electricity and water	4.6	5.9	7.4	8.6	10.9	11.3
Construction	33.3	37.4	39.6	42.2	45.1	49.0
Trade, restaurants, and hotels	39.3	42.9	44.6	40.7	44.0	49.3
Transport and communication	24.6	29.3	33.3	34.7	38.3	43.7
Financial sector and real estate	33.2	36.9	41.6	43.9	47.7	51.4
Community and social services	30.6	33.3	39.1	40.9	44.0	47.0
GDP at factor cost	330.0	366.3	394.1	406.1	437.5	474.1
Agricultural GDP	132.4	145.1	151.1	160.1	171.1	183.4
Nonagricultural GDP	197.6	221.1	243.0	245.9	266.4	290.8
Net indirect taxes	21.5	23.9	29.1	29.3	33.0	36.6
Less: Value of imputed banking services	9.4	10.7	11.9	12.6	13.9	15.1
GDP at market prices	342.0	379.5	411.3	422.8	456.7	495.6
(Percentage share in nominal GDP at factor cost)						
Agriculture, fisheries, and forestry	40.1	39.6	38.3	39.4	39.1	38.7
Mining and quarrying	0.5	0.5	0.5	0.5	0.5	0.5
Manufacturing	9.2	9.2	9.0	8.1	7.8	7.7
Electricity and water	1.4	1.6	1.9	2.1	2.5	2.4
Construction	10.1	10.2	10.0	10.4	10.3	10.3
Trade, restaurants, and hotels	11.9	11.7	11.3	10.0	10.1	10.4
Transport and communication	7.5	8.0	8.4	8.6	8.8	9.2
Financial sector and real estate	10.1	10.1	10.6	10.8	10.9	10.8
Community and social services	9.3	9.1	9.9	10.1	10.0	9.9
Agricultural GDP at factor cost	40.1	39.6	38.3	39.4	39.1	38.7
Nonagricultural GDP at factor cost	59.9	60.4	61.7	60.6	60.9	61.3
(Annual percentage change)						
Memorandum items:						
Deflator for GDP at market prices	8.8	4.6	2.6	3.4	4.5	4.9
Agriculture-sector deflator	14.4	4.5	-1.3	3.7	4.2	3.2
Nonagriculture-sector deflator	5.5	4.7	5.2	3.2	4.7	6.1

Sources: The Central Bureau of Statistics; Nepal Rastra Bank; and Fund staff estimates.

Table 2. Nepal: Real Gross Domestic Product by Sector, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In billions of Nepalese rupees, at 1994/95 prices)						
Agriculture, fisheries, and forestry	96.2	100.9	106.4	108.8	111.5	115.8
Mining and quarrying	1.4	1.5	1.5	1.6	1.6	1.6
Manufacturing	24.9	26.6	27.6	24.9	25.4	25.8
Electricity and water	3.5	4.0	4.4	5.2	6.4	6.6
Construction	28.8	31.6	31.8	32.2	32.8	32.8
Trade, restaurants, and hotels	29.1	31.0	31.5	28.3	29.3	31.0
Transport and communication	18.4	19.6	20.9	21.2	22.1	23.3
Financial sector and real estate	25.7	27.0	27.5	28.4	29.3	30.0
Community and social services	23.9	24.8	28.1	28.6	29.5	30.4
GDP at factor cost	251.8	267.1	279.7	279.2	287.9	297.3
Agricultural GDP	96.2	100.9	106.4	108.8	111.5	115.8
Nonagricultural GDP	155.6	166.2	173.3	170.4	176.4	181.5
Net indirect taxes	16.2	17.5	20.7	20.1	21.7	22.9
Less: Value of imputed banking services	6.6	7.2	7.8	8.1	8.5	9.0
GDP at market prices	261.4	277.4	292.5	291.2	301.1	311.2
(Annual percentage change)						
Agriculture, fisheries, and forestry	2.9	4.9	5.4	2.3	2.5	3.9
Mining and quarrying	3.7	4.5	4.5	1.0	0.0	0.0
Manufacturing	5.3	7.2	3.8	-10.0	2.0	1.6
Electricity and water	5.7	14.3	9.6	1.7	23.1	3.1
Construction	6.8	9.6	0.9	1.7	1.9	0.0
Trade, restaurants, and hotels	3.9	6.8	1.6	-10.4	3.5	5.8
Transport and communication	6.8	7.0	6.2	1.9	4.2	5.4
Financial sector and real estate	5.0	5.1	1.7	3.3	3.2	2.4
Community and social services	6.6	4.0	13.1	1.7	3.1	3.1
GDP at factor cost	4.6	6.1	4.7	-0.5	3.1	3.3
Agricultural GDP	2.8	4.9	5.5	2.2	2.5	3.9
Nonagricultural GDP	5.6	6.8	4.3	-2.1	3.5	2.9
Value of imputed banking services	6.9	9.4	8.3	0.1	8.0	5.5
Net indirect taxes	4.5	7.8	6.4	-0.6	4.9	5.9
GDP at market prices	4.5	6.1	5.5	-0.6	3.4	3.4

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

Table 3. Nepal: Nominal Gross Domestic Product by Expenditure Components, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In billions of Nepalese rupees, at current prices)						
GDP at market prices	342.0	379.5	411.3	422.8	456.7	495.6
Consumption	295.5	321.9	349.3	371.5	401.9	434.4
Public	30.5	34.0	40.2	42.3	46.4	50.4
Private	264.9	287.9	309.1	329.2	355.5	384.0
Gross domestic investment	70.1	92.2	99.3	102.2	119.0	134.8
Gross fixed investment	65.3	73.3	78.1	81.6	87.0	95.1
Public	23.9	26.4	31.3	32.0	31.2	32.5
Private	41.4	46.9	46.8	49.6	55.8	62.6
Change in stocks	4.8	18.9	21.3	20.6	32.0	39.7
Net exports	-23.5	-34.7	-37.3	-50.9	-64.3	-73.6
Exports	78.2	88.4	91.8	77.1	73.1	83.4
Imports	101.6	123.1	129.1	128.0	137.4	157.0
(Percentage share in nominal GDP)						
Consumption	86.4	84.8	84.9	87.9	88.0	87.6
Public	8.9	8.9	9.8	10.0	10.2	10.2
Private	77.5	75.9	75.2	77.9	77.8	77.5
Gross domestic investment	20.5	24.3	24.2	24.2	26.1	27.2
Gross fixed investment	19.1	19.3	19.0	19.3	19.1	19.2
Public	7.0	7.0	7.6	7.6	6.8	6.6
Private	12.1	12.4	11.4	11.7	12.2	12.6
Change in stocks	1.4	5.0	5.2	4.9	7.0	8.0
Net exports	-6.9	-9.1	-9.1	-12.0	-14.1	-14.8
Exports	22.9	23.3	22.3	18.2	16.0	16.8
Imports	29.7	32.4	31.4	30.3	30.1	31.7

Sources: The Central Bureau of Statistics; Nepal Rastra Bank; and Fund staff estimates.

Table 4. Nepal: Saving and Investment, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In billions of Nepalese rupees, at current prices)						
GDP at market prices	342.0	379.5	411.3	422.8	456.7	495.6
Gross national savings	57.4	70.7	78.2	69.7	71.0	74.2
Public sector	3.1	4.3	1.0	0.9	4.1	5.0
Private sector	54.4	66.4	77.2	68.8	66.9	69.2
Gross domestic investment	70.1	92.3	99.3	102.2	119.0	134.8
Gross fixed investment	65.3	73.3	78.0	81.6	87.0	95.1
Public sector	23.9	26.4	31.3	32.0	31.2	32.5
Private sector	41.4	46.9	46.8	49.6	55.8	62.6
Change in stocks	4.8	18.9	21.3	20.6	32.0	39.7
Saving-investment gap	-12.6	-21.6	-21.1	-32.5	-48.1	-60.6
Public sector	-20.8	-22.1	-30.3	-31.1	-27.1	-27.6
Private sector	8.2	0.5	9.2	-1.4	-21.0	-33.0
(In percent of nominal GDP)						
Gross national savings	16.8	18.6	19.0	16.5	15.5	15.0
Public sector 1/	0.9	1.1	0.2	0.2	0.9	1.0
Private sector	15.9	17.5	18.8	16.3	14.6	14.0
Gross domestic investment	20.5	24.3	24.1	24.2	26.1	27.2
Gross fixed investment	19.1	19.3	19.0	19.3	19.1	19.2
Public sector	7.0	7.0	7.6	7.6	6.8	6.6
Private sector	12.1	12.4	11.4	11.7	12.2	12.6
Change in stocks	1.4	5.0	5.2	4.9	7.0	8.0
Saving-investment gap	-3.7	-5.7	-5.1	-7.7	-10.5	-12.2
Public sector	-6.1	-5.8	-7.4	-7.4	-5.9	-5.6
Private sector	2.4	0.1	2.2	-0.3	-4.6	-6.7

Sources: The Central Bureau of Statistics; Nepal Rastra Bank; and Fund staff estimates.

Table 5. Nepal: Agricultural Production and Yields, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	(In thousands of metric tons)						(Percentage change)					
Production by major crops												
Foodgrains	6,465	6,985	7,172	7,247	7,360	7,746	1.7	8.0	2.7	1.1	1.6	5.2
Paddy	3,710	4,030	4,216	4,165	4,133	4,456	1.9	8.6	4.6	-1.2	-0.8	7.8
Wheat	1,086	1,184	1,158	1,258	1,344	1,387	5.4	9.0	-2.2	8.6	6.8	3.2
Maize	1,346	1,445	1,484	1,511	1,569	1,590	-1.5	7.4	2.7	1.8	3.9	1.3
Millet	291	295	283	283	283	283	2.2	1.2	-4.1	-0.1	0.2	0.0
Barley	32	31	30	31	32	30	-14.1	-2.5	-1.7	2.4	2.5	-6.3
Cash crops	3,201	3,428	3,678	3,875	4,020	4,102	11.7	7.1	7.3	5.4	2.1	2.0
Sugarcane	1,972	2,103	2,212	2,248	2,343	2,305	11.8	6.7	5.2	1.6	2.1	-1.6
Jute	15	15	16	16	17	17	-6.3	0.0	9.3	3.7	-11.8	0.0
Oilseeds	120	123	132	135	125	133	8.8	2.8	7.6	2.0	-7.4	6.4
Potato	1,091	1,183	1,314	1,473	1,531	1,643	12.3	8.4	11.0	12.1	3.1	7.3
Tobacco	4	4	4	4	3	3	-2.5	2.6	-0.7	-6.0	7.1	0.0
Distribution of fertilizer 1/	157	148	146	141	174	157	44.0	-5.7	-1.4	-3.4	23.4	-9.8
Area under cultivation 2/												
Foodgrains	3,253	3,321	3,314	3,296	3,348	3,344	0.3	2.1	-0.2	-0.5	1.6	-0.1
Paddy	1,514	1,551	1,560	1,517	1,545	1,559	0.5	2.4	0.6	-2.8	1.8	0.9
Wheat	641	660	641	667	680	665	0.2	3.0	-2.9	4.1	1.9	-2.3
Maize	802	819	825	826	836	834	0.4	2.1	0.7	0.1	1.2	-0.2
Millet	264	263	260	258	259	259	0.8	-0.4	-1.1	-0.8	0.4	-0.2
Barley	32	28	28	28	28	28	-11.1	-12.5	0.0	0.0	0.0	-1.8
Cash crops	378	390	391	398	406	404	4.7	3.2	0.3	1.8	2.0	-0.5
Sugarcane	54	58	59	59	60	59	10.2	7.4	1.7	0.0	1.7	-1.0
Jute	12	15	11	12	13	12	0.0	25.0	-26.7	9.1	8.3	-9.2
Oilseeds	190	190	188	188	189	187	6.1	0.0	-1.1	0.0	0.5	-1.2
Potato	118	123	129	135	140	143	1.7	4.2	4.9	4.7	3.7	2.1
Tobacco	4	4	4	4	4	3	-20.0	0.0	0.0	0.0	0.0	-15.0
	(In metric tons/hectare)						(Percentage change)					
Yields												
Foodgrains	2.0	2.1	2.2	2.2	2.2	2.3	1.3	5.8	2.9	1.6	-1.2	5.9
Paddy	2.5	2.6	2.7	2.7	2.7	2.9	1.4	6.0	4.0	1.6	-3.3	9.2
Wheat	1.7	1.8	1.8	1.9	1.9	2.0	5.3	5.9	0.7	4.4	0.2	5.8
Maize	1.7	1.8	1.8	1.8	1.9	1.9	-1.9	5.1	2.0	1.7	2.0	1.9
Millet	1.1	1.1	1.1	1.1	1.1	1.1	1.4	1.6	-3.0	0.7	4.0	-3.4
Barley	1.0	1.1	1.1	1.1	1.1	1.1	-3.3	11.4	-1.7	2.4	-0.7	-0.6
Cash crops	8.5	8.8	9.4	9.7	10.0	10.1	6.7	3.8	7.0	3.5	0.1	1.0
Sugarcane	36.5	36.3	37.5	38.1	38.3	38.8	1.5	-0.7	3.4	1.6	0.4	1.4
Jute	1.3	1.0	1.5	1.4	1.4	1.4	-6.3	-20.0	49.0	-4.9	-18.6	0.0
Oilseed	0.6	0.6	0.7	0.7	0.7	0.7	2.5	2.8	8.7	2.0	-7.9	5.8
Potato	9.2	9.6	10.2	10.9	10.8	11.5	10.4	4.0	5.9	7.1	-0.6	6.1
Tobacco	1.0	1.0	1.0	0.9	1.0	1.0	21.9	2.6	-0.7	-6.0	7.1	0.0

Source: The Central Bureau of Statistics.

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, 1998/99–2003/04

	Weights 1/	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
		(Indices 1996/97 = 100)						(Percentage change)					
Overall production	100.0	108.9	116.1	120.1	112.2	114.9	117.3	5.3	6.6	3.5	-6.6	2.4	2.1
Food	26.2	118.1	127.3	134.5	127.3	134.7	137.3	5.9	7.8	5.7	-5.4	5.8	2.0
<i>Of which:</i>													
Sugar	3.5	110.2	142.7	119.4	95.6	115.7	111.1	6.0	29.4	-16.3	-19.9	21.0	-4.0
Vegetable ghee	1.5	111.5	118.9	153.1	188.5	141.4	137.1	-3.6	6.7	28.8	23.1	-25.0	-3.0
Rice	2.0	131.4	131.5	131.0	148.3	132.0	145.2	6.0	0.0	-0.4	13.2	-11.0	10.0
Soybean oil	0.8	131.1	133.5	146.3	165.3	191.8	211.0	14.0	1.8	9.6	13.0	16.0	10.0
Processed milk	3.0	111.2	114.5	124.1	135.8	142.6	151.2	3.0	2.9	8.4	9.4	5.0	6.0
Beverage	10.5	120.2	131.1	139.8	117.5	128.8	129.3	7.8	9.0	6.7	-16.0	9.6	0.4
Tobacco	13.8	98.8	108.0	113.9	112.1	107.6	107.6	7.2	9.4	5.4	-1.6	-4.0	0.0
Textile	22.4	107.0	107.1	99.1	71.5	68.1	71.2	3.6	0.1	-7.5	-27.9	-4.8	4.6
<i>Of which:</i>													
Cotton cloth	1.5	79.9	70.6	65.9	59.0	59.0	60.7	-15.0	-11.7	-6.6	-10.5	-0.1	3.0
Synthetic cloth	3.0	93.3	99.6	101.5	103.8	100.7	106.7	-12.0	6.8	1.9	2.3	-3.0	6.0
Woolen carpet	16.7	111.2	109.7	99.3	61.9	58.8	61.7	8.1	-1.3	-9.5	-37.7	-5.0	5.0
Jute goods	1.2	116.3	135.1	130.9	139.6	125.7	125.7	2.0	16.2	-3.1	6.6	-10.0	0.0
Readymade garments	7.2	103.7	123.5	122.1	88.7	118.9	115.3	8.0	19.1	-1.1	-27.4	34.1	-3.0
Processed leather	1.0	111.2	108.1	134.6	121.8	120.6	118.2	2.0	-2.7	24.5	-9.5	-1.0	-2.0
Wood products	1.2	95.6	93.3	91.4	99.0	113.7	114.9	-3.4	-2.4	-2.1	8.3	14.9	1.0
Paper	1.9	103.0	111.3	125.5	123.6	129.8	125.9	2.0	8.1	12.7	-1.5	5.0	-3.0
Other chemical products	6.8	105.5	114.5	130.7	148.6	145.6	144.2	6.9	8.5	14.2	13.7	-2.0	-1.0
Rubber products	1.5	98.0	96.5	96.6	101.2	90.1	88.3	2.2	-1.5	0.1	4.8	-11.0	-2.0
Plastic products	1.9	111.3	110.6	148.6	178.6	153.6	150.6	6.0	-0.7	34.4	20.2	-14.0	-2.0
Nonmetallic mineral products	8.2	114.5	120.6	117.9	124.5	129.5	135.6	9.4	5.3	-2.2	5.6	4.0	4.7
<i>Of which:</i>													
Bricks	3.9	96.5	96.3	96.5	100.9	104.9	106.0	16.3	-0.2	0.2	4.6	4.0	1.0
Cement	4.3	130.6	142.4	137.1	145.8	151.6	162.2	5.3	9.0	-3.7	6.3	4.0	7.0
Iron and steel basic industries	5.1	107.4	120.4	134.1	139.7	140.8	151.0	-0.5	12.1	11.4	4.2	0.8	7.3
Electrical industrial machinery apparatus, appliances, etc.	1.8	116.4	121.0	146.4	151.5	157.6	154.4	3.0	4.0	21.0	3.5	4.0	-2.0
Others	0.5	89.3	98.9	92.6	101.7	84.4	81.0	-4.0	10.8	-6.4	9.8	-17.0	-4.0

Source: The Central Bureau of Statistics.

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

Table 7. Nepal: Energy Consumption, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In thousands of tons of coal equivalent)						
Traditional	6,540	6,681	6,824	7,066	7,240	7,397
<i>Of which:</i>						
Fuelwood	5,816	5,941	6,068	6,315	6,451	6,591
Commercial	811	1,044	1,016	1,029	1,015	1,059
Petroleum	661	709	734	758	799	747
Coal	61	246	174	152	134	171
Electricity	89	99	108	119	128	141
Total	7,376	7,754	7,869	8,128	8,294	8,501
(Annual percentage change)						
Traditional	2.1	2.2	2.1	3.5	2.5	2.2
<i>Of which:</i>						
Fuelwood	2.1	2.1	2.1	4.1	2.2	2.2
Commercial	5.6	28.7	-2.7	1.3	-1.4	4.3
Petroleum	5.8	7.3	3.5	3.3	5.4	-6.5
Coal	0.0	303.3	-29.3	-12.6	-11.8	27.6
Electricity	7.2	11.2	9.1	10.2	7.6	10.2
Total	2.6	5.1	1.5	3.3	2.0	2.5

Source: Data provided by the Nepalese authorities.

Table 8. Nepal: Tourism Indicators, 1998–2004

	1998	1999	2000	2001	2002	2003	2004
Tourist arrivals (in thousands)	463.7	491.5	463.0	362.0	275.5	338.1	385.3
(Percentage change)	9.9	6.0	-5.8	-21.8	-23.7	22.7	13.9
<i>Of which:</i>							
Europe	157.8	171.6	166.3	137.8	93.2	101.6	124.2
India 1/	143.2	140.7	95.9	64.3	66.8	86.4	90.2
Japan	37.3	38.8	41.0	28.9	23.2	27.4	24.2
United States and Canada	43.0	46.9	49.0	39.1	21.3	23.0	25.5
Average days of stay	10.8	12.8	12.0	12.0	7.9	9.6	13.5
Per capita expenditure							
(In Nepalese rupees) 2/	31,282	32,550	32,163	34,345	39,936	57,251	45,211
(In U.S. dollars) 2/	476	479	454	467	512	766	610
(Percentage change)	18.4	0.6	-5.2	2.9	8.4	49.6	-20.4
Hotel-bed capacity	28,878	32,214	34,958	36,163	37,616	38,270	39,107
(Percentage change)	4.6	11.6	8.5	3.4	4.0	1.7	2.2

Source: Data provided by the Nepalese authorities.

1/ By air only.

2/ Excluding Indian tourists.

Table 9. Nepal: Consumer Price Index, 1998/99–2003/04 1/
(Average annual percentage change)

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Overall national index	11.4	3.4	2.4	2.9	4.7	4.0
By commodity						
Food and beverages	16.2	0.4	-2.3	3.7	4.4	3.3
Foodgrains	18.7	8.6	-13.7	2.1	8.2	1.2
Milk and milk products	9.5	3.6	5.7	1.2	1.0	1.8
Oil and fats	29.0	-22.6	-4.7	8.3	19.6	12.3
Beverages	8.7	3.7	2.0	5.0	6.9	0.3
Vegetables and fruits	19.9	-16.9	4.1	7.5	0.5	3.4
Other goods and services	5.8	7.1	8.1	2.1	5.0	4.7
Cloth, clothing, and sewing services	6.0	4.7	2.2	2.5	1.4	1.8
Fuel, light, and water	2.8	13.3	22.3	-0.9	8.3	10.0
Regional indices						
Kathmandu	8.1	3.7	3.2	2.0	3.8	5.9
Terai	13.3	3.1	1.1	3.4	5.7	3.1
Hills	11.5	3.7	5.2	2.5	3.8	3.2

Source: Nepal Rastra Bank.

1/ Base year is 1995/1996.

Table 10. Nepal: Monthly Wages in Major Sectors, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In Nepalese rupees)						
Agriculture						
Kathmandu	3,000	3,000	3,000	3,000	3,225	3,400
Birgunj	1,500	1,625	2,425	2,550	2,550	3,500
Biratnagar	1,500	1,500	1,500	1,500	2,000	2,400
Industry 1/						
Skilled	1,960	2,276	2,276	2,276	2,720	2,620
Unskilled	1,800	2,116	2,116	2,116	2,560	2,560
Construction 2/						
Skilled						
Kathmandu	5,700	5,700	6,000	6,300	8,375	9,500
Birgunj	3,900	4,050	4,313	4,500	5,150	5,625
Biratnagar	4,470	4,500	4,575	4,800	5,650	5,700
Semiskilled						
Kathmandu	4,950	4,950	5,050	5,550	7,250	7,250
Biratnagar	3,870	3,900	3,975	4,200	4,900	4,900
Unskilled (labourer)						
Kathmandu	3,000	3,000	3,112	3,450	4,250	4,250
Biratnagar	2,370	2,400	2,400	2,400	2,800	2,900
(In U.S. dollars)						
Agriculture						
Kathmandu	43.8	42.2	40.6	39.0	41.3	45.5
Birgunj	21.9	22.9	32.8	33.2	32.7	46.8
Biratnagar	21.9	21.1	20.3	19.5	25.6	32.1
Industry 1/						
Skilled	28.6	32.0	30.8	29.6	34.9	35.1
Unskilled	26.3	29.8	28.7	27.5	32.8	34.2
Construction 2/						
Skilled						
Kathmandu	83.2	80.2	81.3	81.9	107.4	127.1
Birgunj	56.9	57.0	58.4	58.5	66.0	75.3
Biratnagar	65.3	63.3	62.0	62.4	72.4	76.3
Semiskilled						
Kathmandu	72.3	69.6	68.4	72.2	92.9	97.0
Biratnagar	56.5	54.9	53.8	54.6	62.8	65.6
Unskilled (labourer)						
Kathmandu	43.8	42.2	42.2	44.9	54.5	56.9
Biratnagar	34.6	33.8	32.5	31.2	35.9	38.8

Sources: Data provided by the Nepalese authorities; and Nepal Rastra Bank.

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

2/ Carpenters and masons.

Table 11. Nepal: Summary of Government Operations, 1998/99–2003/04 1/

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	(In billions of Nepalese rupees)					
Total revenue and grants	39.3	46.4	53.6	54.4	64.3	71.8
Total revenue	35.0	40.7	46.8	48.6	54.7	60.5
Tax revenue	28.8	33.2	38.9	39.3	42.6	48.2
Nontax revenue	6.3	7.6	8.0	9.2	12.1	12.3
Grants	4.3	5.7	6.8	5.8	9.6	11.3
Total expenditure	52.8	58.9	72.2	71.7	72.9	76.8
Current	32.0	35.6	45.9	48.8	52.1	55.6
Capital and net lending	20.8	23.3	26.3	22.9	20.8	21.2
Overall balance before grants	-17.8	-18.2	-25.4	-23.1	-18.2	-16.3
Overall balance after grants	-13.4	-12.5	-18.6	-17.3	-8.7	-5.0
Financing	13.4	12.5	18.5	17.3	8.7	5.0
Net foreign loans	8.7	8.1	7.5	6.0	3.1	1.9
Gross disbursements	11.9	11.8	12.0	10.8	8.6	7.6
Amortization	3.2	3.7	4.5	4.8	5.5	5.8
Net domestic financing	4.7	4.3	11.0	11.3	5.6	3.2
Net NRB	-0.1	-2.1	3.0	6.3	-7.1	-5.4
Net commercial banks	2.4	5.5	7.2	4.0	10.2	4.3
Net nonbank	2.4	0.9	0.7	1.0	2.5	4.3
	(In percent of GDP)					
Total revenue	10.2	10.7	11.4	11.5	12.0	12.2
Tax revenue	8.4	8.7	9.4	9.3	9.3	9.7
Nontax revenue	1.8	2.0	1.9	2.2	2.7	2.5
Grants	1.3	1.5	1.6	1.4	2.1	2.3
Total expenditure	15.4	15.5	17.6	17.0	16.0	15.5
Current	9.4	9.4	11.2	11.5	11.4	11.2
Capital and net lending	6.1	6.1	6.4	5.4	4.6	4.3
Overall balance before grants	-5.2	-4.8	-6.2	-5.5	-4.0	-3.3
Overall balance after grants	-3.9	-3.3	-4.5	-4.1	-1.9	-1.0
Financing	3.9	3.3	4.5	4.1	1.9	1.0
Net foreign loans	2.5	2.1	1.8	1.4	0.7	0.4
Gross disbursements	3.5	3.1	2.9	2.6	1.9	1.5
Amortization	0.9	1.0	1.1	1.1	1.2	1.2
Net domestic financing	1.4	1.1	2.7	2.7	1.2	0.6
Net NRB	0.0	-0.6	0.7	1.5	-1.6	-1.1
Net commercial banks	0.7	1.5	1.8	0.9	2.2	0.9
Net nonbank	0.7	0.2	0.2	0.2	0.6	0.9
Memorandum items:						
Nominal GDP (billions of Nrs)	342.0	379.5	411.3	422.8	456.7	495.6

Sources: Data provided by Ministry of Finance; Nepal Rastra Bank; and Fund staff estimates.

1/ Fiscal years start in mid-July. Table confined to central government operations as contained in the budget.

Table 12. Nepal: Central Government Revenue, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	(In millions of Nepalese rupees)					
Total revenue 1/	35,010	40,711	46,836	48,556	54,690	60,480
Tax revenue	28,753	33,152	38,865	39,331	42,587	48,173
Taxes on income and profits	6,170	7,421	9,114	8,920	8,132	9,515
Taxes on property	1,126	1,134	616	1,134	1,414	1,698
House and land registration	1,002	1,011	608	1,131	1,414	1,698
Taxes on goods and services	11,939	13,784	16,583	16,618	18,804	21,406
Value-added tax	7,882	9,855	12,048	11,948	13,460	14,479
Excise taxes	2,953	-123	3,771	3,807	4,785	6,227
Other	1,103	801	764	863	560	701
Taxes on international trade	9,518	10,813	12,552	12,659	14,236	15,555
Import taxes	7,920	-924	10,569	10,012	10,568	10,667
Indian excise refund	1,206	1,332	1,456	1,701	2,371	3,883
Export taxes	378	433	493	917	856	522
Other	14	40	34	28	443	483
Nontax revenue 1/	6,257	7,559	7,971	9,226	12,103	12,307
Charges, fees, fines, etc.	1,446	1,747	1,931	1,987	2,368	3,377
Sales of goods and services	1,036	1,068	1,184	1,143	1,274	1,322
Dividends	1,783	2,508	2,336	2,513	2,498	2,661
Royalty and fixed asset sales	202	563	950	724	1,946	1,465
Interest receipts	1,686	1,568	1,440	1,220	925	1,657
Miscellaneous	103	105	131	1,639	3,093	1,825
	(In percent of GDP)					
Total revenue	10.2	10.7	11.4	11.5	12.0	12.2
Tax revenue	8.4	8.7	9.4	9.3	9.3	9.7
Taxes on income and profits	1.8	2.0	2.2	2.1	1.8	1.9
Taxes on property	0.3	0.3	0.1	0.3	0.3	0.3
Taxes on goods and services	3.5	3.6	4.0	3.9	4.1	4.3
Value-added tax	2.3	2.6	2.9	2.8	2.9	2.9
Excise taxes	0.9	0.0	0.9	0.9	1.0	1.3
Other	0.3	0.2	0.2	0.2	0.1	0.1
Taxes on international trade	2.8	2.8	3.1	3.0	3.1	3.1
Nontax revenue	1.8	2.0	1.9	2.2	2.7	2.5

Sources: Data provided by Ministry of Finance; Nepal Rastra Bank; and Fund staff estimates.

1/ Excludes principal repayments from corporations.

Table 13. Nepal: Central Government Expenditure by Economic Classification, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	(In millions of Nepalese rupees)					
Total expenditure	52,831	58,877	72,169	71,650	72,907	76,798
Current expenditure	32,012	35,579	45,919	48,766	52,091	55,553
Goods and services	23,726	25,670	35,404	36,992	39,900	42,147
Wages, salaries, and benefits	18,142	19,824	28,506	29,044	29,418	30,576
Core civil service	7,124	7,637	9,509	9,093	9,423	9,650
Police salaries	2,578	2,842	5,314	5,937	5,255	5,260
Defense salaries	2,459	2,984	4,145	4,466	5,206	5,739
Teacher salaries	5,982	6,360	9,537	9,548	9,534	9,927
Retirement facilities	1,189	1,314	2,054	2,759	3,063	3,274
Other goods and services	4,395	4,533	4,844	5,189	7,419	8,298
Interest payments	4,080	4,820	4,698	5,770	6,622	6,544
Domestic	2,531	3,180	2,997	49	4,600	4,402
Foreign	1,549	1,640	1,701	23	2,022	2,142
Subsidies and transfers	4,207	5,089	5,818	6,004	5,569	6,861
Capital expenditure	19,017	19,358	21,188	21,188	21,188	21,188
Acquisition of fixed assets	13,288	13,130	14,447	30,736	12,141	11,483
Purchase of stocks	1,556	1,315	1,109	1,049	1,701	595
Capital transfers (grants)	4,173	4,913	5,632	5,627	3,730	5,681
Lending minus repayments	1,802	3,940	5,062	-30,736	-12,141	3,486
Investment in loans	4,044	6,123	7,119	4,089	4,784	5,337
Less: Repayment of loans	2,242	2,183	2,057	1,889	1,540	1,851
Total expenditure	15.4	15.5	17.5	16.9	16.0	15.5
Current expenditure	9.4	9.4	11.2	11.5	11.4	11.2
Goods and services	6.9	6.8	8.6	8.7	8.7	8.5
Wages, salaries, and benefits	5.3	5.2	6.9	6.9	6.4	6.2
Retirement facilities	0.3	0.3	0.5	0.7	0.7	0.7
Other goods and services	1.3	1.2	1.2	1.2	1.6	1.7
Interest payments	1.2	1.3	1.1	1.4	1.5	1.3
Domestic debt	0.7	0.8	0.7	0.0	1.0	0.9
Foreign debt	0.5	0.4	0.4	0.0	0.4	0.4
Subsidies and transfers	1.2	1.3	1.4	1.4	1.2	1.4
Capital expenditure	5.6	5.1	5.2	5.0	4.6	4.3
Acquisition of fixed assets	3.9	3.5	3.5	7.3	2.7	2.3
Purchase of stocks	0.5	0.3	0.3	0.2	0.4	0.1
Capital transfers (grants)	1.2	1.3	1.4	1.3	0.8	1.1
Lending minus repayments	0.5	1.0	1.2	-7.3	-2.7	0.7
Investment in loans	1.2	1.6	1.7	1.0	1.0	1.1
Less: Repayment of loans	0.7	0.6	0.5	0.4	0.3	0.4

Sources: Data provided by Ministry of Finance; FCGO; and Fund staff estimates.

Table 14. Nepal: Central Government Expenditure by Functional Classification, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In millions of Nepalese rupees)						
Total expenditure	52,832	58,877	72,169	71,650	72,907	76,797
Regular expenditure 1/	26,474	29,311	37,160	42,155	45,414	47,657
Social services	7,876	8,328	10,692	13,070	13,459	14,038
Education	6,004	6,717	8,226	10,258	10,440	10,921
Health	1,137	1,325	1,547	1,980	2,032	2,121
Other	735	286	919	832	987	996
Economic services	2,321	2,411	2,534	2,948	3,097	3,238
Agriculture related	431	469	523	508	678	679
Forestry	732	791	829	1,008	1,021	1,171
Infrastructure	863	834	938	1,121	1,127	1,118
Communications	631	659	742	866	883	876
Transportation	233	175	196	49	244	243
Other	295	318	243	23	271	270
Defense	2,995	3,482	3,813	5,860	7,381	8,520
Interest payments	4,080	4,820	4,698	5,770	6,622	6,544
General administration	4,532	5,076	7,283	7,283	7,283	7,283
Other	4,669	5,194	8,140	7,224	5,806	6,235
Development expenditure 2/	26,358	29,566	35,009	29,495	27,493	29,140
Social services	9,668	10,223	10,816	9,410	10,501	11,507
Education	1,641	2,574	2,784	2,755	2,730	3,396
Health	1,677	2,127	1,972	1,877	1,620	1,847
Drinking water	1,900	2,423	2,407	1,904	2,139	2,569
Other	4,450	3,100	3,653	2,874	4,012	3,695
Economic services	19,343	19,343	24,193	20,085	16,992	17,633
Agriculture related	4,905	5,398	6,624	6,132	4,188	4,352
Infrastructure	11,398	10,098	12,413	9,338	9,446	9,413
Other	3,040	3,847	5,155	4,615	3,358	3,868
(In percent of GDP)						
Total expenditure	15.4	15.5	17.5	16.9	16.0	15.5
Social services	5.1	4.9	5.2	5.3	5.2	5.2
<i>Of which:</i>						
Education	2.2	2.4	2.7	3.1	2.9	2.9
Health	0.8	0.9	0.9	0.9	0.8	0.8
Drinking water	0.6	0.6	0.6	0.5	0.5	0.5
Economic services	5.6	5.7	6.5	5.4	4.4	4.2
<i>Of which:</i>						
Agriculture related	1.6	1.5	1.7	1.6	1.1	1.0
Infrastructure	3.6	2.9	3.2	2.5	2.3	2.1
Defense	0.9	0.9	0.9	1.4	1.6	1.7
Interest payments	1.2	1.3	1.1	1.4	1.5	1.3
General administration	1.3	1.3	1.8	1.7	1.6	1.5
Other	1.4	1.4	2.0	1.7	1.3	1.3
(In percent of total expenditure)						
Social services	33.2	31.5	29.8	31.4	32.9	33.3
<i>Of which:</i>						
Education	14.5	15.8	15.3	18.2	18.1	18.6
Health	5.3	5.9	4.9	5.4	5.0	5.2
Drinking water	3.6	4.1	3.3	2.7	2.9	3.3
Economic services	36.0	36.9	37.0	32.1	27.6	27.2
<i>Of which:</i>						
Agriculture related	10.1	10.0	9.9	9.3	6.7	6.6
Infrastructure	23.2	18.6	18.5	14.6	14.5	13.7
Defense	5.7	5.9	5.3	8.2	10.1	11.1
Interest payments	7.7	8.2	6.5	8.1	9.1	8.5
General administration	8.6	8.6	10.1	10.2	10.0	9.5
Other	8.8	8.8	11.3	10.1	8.0	8.1

Sources: Data provided by Ministry of Finance; FCGO; and Fund staff estimates.

1/ Excluding amortization payments on domestic and foreign loans.

2/ Including net lending and excluding principal repayment from corporations.

Table 15. Nepal: Monetary Survey, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In millions of Nepalese rupees, end of period)						
Net foreign assets	65,028	80,468	87,798	88,419	91,407	108,477
Assets	77,611	94,856	106,191	106,996	109,306	131,039
Liabilities	12,583	14,388	18,393	18,577	17,899	22,562
Net domestic assets	87,772	105,653	126,656	135,569	154,504	168,728
Domestic credit	130,973	154,352	183,434	200,310	224,273	245,196
Public sector	32,625	36,401	46,993	58,596	61,487	59,824
Government (net)	31,058	34,593	44,770	55,520	58,653	57,591
Nonfinancial public enterprises	1,567	1,808	2,223	3,076	2,833	2,233
Private sector 1/	98,348	117,950	136,441	141,714	162,786	185,372
Other items (net)	-43,200	-48,698	-56,778	-64,741	-69,768	-76,468
Broad money	152,800	186,121	214,454	223,988	245,911	277,205
Narrow money	51,062	60,980	70,577	77,156	83,754	93,970
Quasi-money	101,738	125,141	143,877	146,832	162,157	183,236
(Annual percentage change)						
Net domestic assets	23.8	20.4	19.9	7.0	14.0	9.2
Domestic credit	16.1	17.8	18.8	9.2	12.0	9.3
Public sector	9.4	11.6	29.1	24.7	4.9	-2.7
Private sector 1/	18.5	19.9	15.7	3.9	14.9	13.9
Broad money	20.8	21.8	15.2	4.4	9.8	12.7
Narrow money	13.1	19.4	15.7	9.3	8.6	12.2
Quasi-money	25.1	23.0	15.0	2.1	10.4	13.0
(12-month change in percent of broad money)						
Net foreign assets	7.5	10.1	3.9	0.3	1.3	6.9
Net domestic assets	13.3	11.7	11.3	4.2	8.5	5.8
Domestic credit	14.4	15.3	15.6	7.9	10.7	8.5
Public sector	2.2	2.5	5.7	5.4	1.3	-0.7
Private sector 1/	12.1	12.8	9.9	2.5	9.4	9.2

Sources: Data provided by Nepal Rastra Bank; and Fund staff estimates.

1/ Includes credit to public financial enterprises.

Table 16. Nepal: Assets and Liabilities of Nepal Rastra Bank, 1998/99–2003/04

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(In millions of Nepalese rupees, end of period)						
Net foreign assets	52,608	65,285	74,965	81,094	87,666	108,212
Assets	54,139	66,648	76,144	81,795	88,043	109,077
Liabilities	1,531	1,363	1,178	700	377	865
Net domestic assets	-382	-4,281	-4,399	-2,125	-6,687	-13,796
Claims on public sector	18,407	16,423	19,384	26,269	19,653	14,556
Government (net)	18,399	16,416	19,377	26,261	19,646	14,548
Nonfinancial public enterprises	8	8	8	8	8	8
Claims on private sector 1/	3,011	3,724	5,014	4,858	4,344	5,244
Claims on commercial banks	6	45	6	1,044	947	478
Other items (net)	-21,805	-24,473	-28,802	-34,295	-31,631	-34,074
Reserve money	52,225	61,004	70,567	78,970	80,979	94,415
Currency outside banks	34,984	42,143	48,295	55,658	56,886	63,219
Currency held by banks	3,310	3,507	4,117	4,909	4,723	4,284
Bankers' deposits	11,858	12,881	15,985	16,152	15,690	24,227
Private sector deposits	2,073	2,473	2,170	2,250	3,680	2,686
(12-month change in percent of reserve money at start of period)						
Net foreign assets	13.6	24.3	15.9	8.7	8.3	25.4
Net domestic assets	-0.1	-7.5	-0.2	3.2	-5.8	-8.8
Reserve money	13.5	16.8	15.7	11.9	2.5	16.6

Sources: Data provided by Nepal Rastra Bank; and Fund staff estimates.

1/ Includes claims on public financial enterprises.

Table 17. Nepal: Assets and Liabilities of Commercial Banks, 1998/99–2003/04
(In millions of Nepalese rupees, end of period)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Assets	148,196	178,800	209,185	218,255	242,324	277,980
Reserves	15,168	16,388	20,102	21,061	20,414	28,511
Foreign assets	23,473	28,208	30,047	25,202	21,263	22,289
Claims on government	12,659	18,177	25,393	29,144	39,469	43,796
Claims on nonfinancial public enterprises	1,559	1,801	2,216	3,069	2,826	2,907
Claims on financial public enterprises 1/	598	1,045	1,372	4,084	1,069	1,308
Claims on business and individual	94,739	113,182	130,056	135,697	157,283	179,168
Liabilities	148,196	178,800	209,185	218,256	242,324	277,980
Demand deposits	14,005	16,364	20,112	19,248	23,188	28,065
Savings deposits	48,114	63,364	77,602	79,984	92,889	107,497
Fixed deposits	51,612	59,774	64,178	65,060	67,418	73,676
Margin deposits	2,011	2,003	2,098	1,788	1,850	2,163
Foreign currency deposit	11,052	13,025	17,214	17,877	17,523	21,696
Borrowing from the central bank	5	45	6	1,044	947	478
Other items (net)	21,397	24,225	27,976	33,255	38,508	44,404

Sources: Data provided by Nepal Rastra Bank; and Fund staff estimates.

1/ Excludes loanable fund of the Agricultural Development Bank of Nepal.

Table 18. Nepal: Assets and Liabilities of Finance Companies, 1998/99–2003/04
(End of period)

	1998/99		1999/00		2000/01		2001/02		2002/03		2003/04	
	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent	Nrs millions	Percent
Assets	10,633	100.0	13,050	100.0	15,797	100.0	18,452	100.0	22,117	100.0	27,199	100.0
Cash	110	1.0	96	0.7	140	0.9	170	0.9	109	0.5	132	0.5
Bank balance	1,023	9.6	1,633	12.6	1,909	12.1	2,692	14.6	2,565	11.6	4,338	15.9
Investment	1,262	11.9	1,129	8.6	1,268	8.0	1,623	8.8	2,392	10.8	2,511	9.2
<i>Of which : government securit</i>	932	8.8	843	6.5	837	5.3	1,120	6.1	702	3.2	1,270	4.7
Loans and advances	7,219	67.9	9,063	69.4	10,865	68.8	11,950	64.8	14,474	65.4	17,541	64.5
Term loans	3,105	29.2	4,240	32.4	4,704	29.8	5,293	28.7	6,807	30.8	7,955	29.2
Housing loans	2,004	18.8	2,340	18.0	2,965	18.8	3,144	17.0	4,211	19.0	5,287	19.4
Hire purchases	1,304	12.3	1,640	12.6	2,152	13.6	2,436	13.2	2,478	11.2	3,050	11.2
Fixed deposit receipt loans	498	4.7	475	3.6	464	2.9	479	2.6	586	2.7	713	2.6
Leasing	260	2.4	235	1.8	278	1.8	364	2.0	149	0.7	138	0.5
Other	48	0.5	133	1.0	302	1.9	234	1.3	244	1.1	398	1.5
Other	1,019	9.6	1,229	8.7	1,615	10.2	2,017	10.9	2,576	11.6	2,678	9.8
Liabilities	10,633	100.0	13,050	100.0	15,797	100.0	18,452	100.0	22,117	100.0	27,199	100.0
Deposits	8,037	75.6	9,749	74.6	11,654	73.8	13,454	72.9	16,510	74.7	19,392	71.3
Paid-up capital	838	7.9	945	7.2	1,221	7.7	1,523	8.3	1,947	8.8	2,156	7.9
Borrowings	83	0.8	176	1.3	215	1.4	245	1.3	134	0.6	1,307	4.8
Reserves 1/	336	3.2	544	3.8	708	4.5	1,139	6.2	1,258	5.7	1,498	5.5
Other	1,339	12.6	1,636	13.1	1,999	12.7	2,091	11.3	2,267	10.2	2,847	10.5
Memorandum items:												
Number of finance companies		45		46		48		54		57		59

Source: Data provided by Nepal Rastra Bank.

1/ Including loan loss provision.

Table 19. Nepal: Gross International Reserves, 2000/01–2003/04

	2000/01	2001/02	2002/03	2003/04
(In millions of U.S. dollars, end of period)				
Gross foreign assets of NRB	1,020	1,048	1,178	1,471
Foreign exchange reserves of NRB	1,007	1,035	1,163	1,456
Convertible	710	727	1,027	1,298
Nonconvertible	297	308	137	158
Other gross foreign assets of NRB	14	14	14	15
Gold 1/	6	6	6	6
Reserve tranche position	7	8	8	8
Foreign exchange reserves of commercial banks	402	323	284	301
Convertible	364	303	271	280
Nonconvertible	38	20	14	21

Source: Data provided by the Nepalese authorities.

Table 20. Nepal: Structure of Interest Rates, 1998/99–2003/04
(Annual percentage rates, end of period)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Refinancing facilities of Nepal						
Rastra Bank to commercial banks						
Export bills	9.0	6.5	6.5	2.0-4.5	2.0-4.5	2.0-4.5
Industrial sector	9.0	7.5	7.5	3.0-5.5	3.0-5.5	5.5
Agricultural sector	9.0	6.5	6.5	4.5-5.5	4.5-5.5	5.5
Service sector	9.0	7.5	7.5	3.0-5.5	3.0-5.5	5.5
Commercial banks						
Savings deposits	5.75-8.0	4.0-6.5	3.0-6.5	2.5-6.25	2.5-6.25	2.0-5.0
Time deposits						
3 months	4.0-7.5	4.0-6.0	2.5-6.0	2.0-5.25	2.0-5.25	2.0-4.0
6 months	6.0-8.0	5.0-6.75	3.5-6.75	2.5-6.0	2.5-6.0	2.0-4.5
1 year	7.25-9.5	6.0-7.75	4.5-7.75	3.5-7.0	3.5-7.0	2.75-5.75
2 years	7.25-10.25	5.75-8.5	4.25-8.5	3.25-8.0	3.25-8.0	3.0-6.0
Loans						
Industry	11.5-17.0	10.5-15.5	9.5-15.0	7.0-14.5	7.0-14.5	8.5-13.5
Agriculture	14.0-15.5	12.0-14.5	12.5-14.5	12.0-14	12.0-14.5	10.5-13
Services	18.0	7.5-17.0	7.5-16.0	7.0-15.5	6.5-12.0	4.0-11.5
Export bills	7.5-15.0	7.5-15.0	7.5-12.5	6.5-12.5	7.0-15.5	9-14.5
Commercial loans and overdrafts	10.0-19.0	9.0-18.0	9.0-18.0	7.0-17.0	7.0-17.0	10.0-16.0
Agricultural Development Bank of Nepal						
To cooperatives	13.0-16.0	11.0-12.0	11.0-12.0	10.0-12.0	10.0-12.0	10.0-12.1
To others	15.0-18.0	12.0-16.0	12.0-16.0	10.0-16.0	10.0-16.0	10.0-16.1
Nepal Industrial Development Corporation						
	15.5-18.0	15.5-18.0	15.5-18.0	13.5-14.5	12.5-13.5	12.5-13.6
Government securities						
National savings certificates	9.0-13.25	8.5-13.25	8.5-13.25	8.5-13.25	8.5-13.25	6.5-13.0
Treasury bills (3 month) 1/	2.3	4.6	4.9	3.8	4.1	1.5
Treasury bills (1 year) 1/	5.7	6.2	5.3	5.2	4.9	3.8
Development bonds	3.0-12.0	3.0-10.5	3.0-10.5	3.0-8.0	3.0-8.0	3.0-8.0
25-year special bonds	3.0
20-year special bonds	5.0	5.0	5.0	5.1	5.1	...
Special loan	1.0-9.5	1.0-9.5	1.0-9.5	1.0-9.0	1.0-9.0	...

Source: Nepal Rastra Bank.

1/ Annual weighted average.

Table 21. Nepal: Balance of Payments, 2000/01–2003/04
(In millions of U.S. dollars)

	2000/01			2001/02			2002/03			2003/04		
	India	Third countries	Total	India	Third countries	Total	India	Third countries	Total	India	Third countries	Total
Trade balance	-210	-555	-765	-242	-452	-694	-569	-334	-904	-651	-402	-1,053
Exports, f.o.b.	547	398	945	508	246	754	351	301	653	430	319	748
Oil	187	0	187	136	0	136	0	0	0	0	0	0
Other	360	398	758	372	246	618	351	301	653	430	319	748
Imports, f.o.b.	-757	-953	-1,710	-750	-698	-1,448	-921	-636	-1,556	-1,081	-721	-1,801
Services (net)	35	88	123	5	60	64	-10	103	93	-13	138	125
Receipts	123	281	404	96	223	319	92	249	341	138	327	465
Payments	-88	-193	-281	-92	-163	-255	-102	-146	-248	-151	-189	-340
Income (net)	11	12	23	14	-22	-8	12	-22	-10	6	-29	-23
Receipts	11	63	74	15	41	56	13	45	58	7	45	52
Payments	0	-51	-51	-1	-63	-64	-1	-67	-68	-1	-74	-75
Transfers (net)	204	684	888	179	708	887	255	716	971	271	879	1,150
Receipts	222	686	908	203	709	913	283	717	1,000	328	880	1,208
<i>Of which:</i>												
Remittances	160	480	640	134	484	618	199	498	697	176	618	794
Official grants	2	106	108	0	143	143	0	135	135	45	96	141
Payments	-17	-2	-19	-24	-1	-26	-28	-1	-29	-57	-1	-58
Current account balance	40	229	270	-44	294	249	-312	462	150	-387	586	200
Current account balance (excludin	39	123	162	-44	151	106	-312	327	15	-432	491	59
Official capital grants and loans (n	0	161	161	0	87	87	0	82	82	0	57	57
Grants	0	58	58	0	48	48	0	42	42	0	20	20
Loans (net)	0	103	103	0	39	39	0	40	40	0	37	37
Loans	0	164	164	0	105	105	0	111	111	0	116	116
Amortization	0	61	61	0	66	66	0	71	71	0	79	79
Other investment, net and errors ai	-6	-387	-393	-55	-320	-375	-23	-116	-139	207	-229	-22
Overall balance	34	4	38	-100	61	-39	-335	428	93	-180	415	235

Source: Data provided by the Nepalese authorities.

Table 22. Nepal: Composition of Foreign Trade, 2000/01–2003/04 1/
(In millions of U.S. dollars)

	2000/01			2001/02			2002/03			2003/04		
	India	Third countries	Total	India	Third countries	Total	India	Third countries	Total	India	Third countries	Total
Exports, f.o.b.												
Merchandise exports	547	398	945	509	246	754	351	301	652	429	319	749
Food and live animals	352	401	754	365	246	611	340	302	642	417	314	731
Tobacco and beverages	54	11	65	59	7	66	60	18	78	62	23	85
Crude materials and inedibles	1	0	1	2	0	2	1	0	2	1	0	1
Animal and vegetable oil and fats	10	1	10	7	1	8	9	2	10	8	2	10
Chemicals and drugs	53	2	56	94	3	97	52	3	55	43	3	46
Manufactured goods, classified	54	1	55	42	1	43	41	1	42	49	3	52
Machinery and transport equipment	121	135	256	130	97	226	146	82	229	220	100	320
Miscellaneous manufactured articles	3	2	5	4	1	5	2	1	3	3	5	8
Commodities and transactions, n.i.e.	57	250	307	27	137	164	29	194	222	31	178	209
Re-exports	0	0	0	0	0	0	0	0	1	0	0	0
Coverage adjustment	187	0	187	136	0	136	0	0	0	0	0	0
Less freight and insurance	7	6	13	8.2	5.3	14	12	6	17	13	12	25
	0	-9	-9	0	-5.8	-6	0	-7	-7	0	-7	-7
Imports, f.o.b.	757	953	1,710	750	699	1,448	921	636	1,556	1,081	721	1,801
Imports, c.i.f.	745	1,026	1,772	737	767	1,504	912	687	1,599	1,067	780	1,847
Food and live animals	60	21	81	65	17	82	85	36	120	86	30	116
Tobacco and beverages	9	4	12	8	1	9	8	2	10	10	4	14
Crude materials and inedibles	32	70	102	39	48	87	55	54	109	63	80	143
Minerals, fuel and lubricants	151	206	357	192	113	305	252	4	256	293	4	297
Animal and vegetable oil and fats	6	70	76	0	102	102	1	99	100	1	116	117
Chemicals and drugs	90	85	175	67	94	161	87	97	184	110	115	224
Manufactured goods, classified	245	313	558	244	184	428	289	159	448	309	186	495
Machinery and transport equipment	118	194	312	98	156	254	109	158	266	162	187	348
Miscellaneous manufactured articles	35	62	98	23	51	74	26	58	85	29	40	69
Commodities and transactions n.i.e.	1	0	1	1	0	1	0	20	20	5	19	24
Coverage adjustment	12	17	29	13	8	21	9	11	20	14	15	28
Less freight and insurance	0	-91	-91	0	-77	-77	0	-63	-63	0	-74	-74

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 23. Nepal: Exports of Major Commodities, 1998/99–2003/04

(In thousands of U.S. dollars)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Carpets	144,253	142,495	116,378	80,775	68,389	76,941
Pashmina	...	90,004	92,777	24,463	20,995	20,218
Ready-made garments	142,780	201,859	177,769	101,786	152,849	129,421
Hides and skins	6,637	4,934	9,602	8,029	6,116	8,691
Jute goods	12,818	15,982	17,529	21,203	24,412	25,513
Pulses	17,614	15,300	16,451	15,804	14,080	11,652
Handicrafts	3,238	3,666	3,564	3,150	5,102	8,860
Cardamon	3,435	3,229	4,039	4,650	6,037	6,112
Catechu	1,726	2,885	2,032	2,287	1,869	2,202
Ghee	577	544	6,375	780	702	1,037
Mustard and linseed	283	424	513	133	600	510
Raw jute	1	0	1,539	103	0	12
Dried ginger	605	861	826	1,047	1,393	1,057
Herbs	603	1,105	1,319	1,237	1,867	1,895
Other exports	190,708	238,365	307,129	352,807	348,123	454,331
<i>Of which</i> : vegetable ghee	46,305	39,713	48,223	92,110	49,008	40,100
Total merchandise exports 1/	525,278	721,653	757,842	618,254	652,535	748,452
Memorandum items: 2/						
Carpets (thousands of square meters)	2,575	2,624	2,210	1,668	1,607	1,649
Ready-made garments (thousand pieces)	37,747	46,836	43,431	32,528	45,855	38,994
Pulses (metric tonnes)	28,509	2,365	15,094	6,022	5,429	7,590

Source: Data provided by the Nepalese authorities.

1/ excluding re-exports.

2/ Includes exports to third countries only.

Table 24. Nepal: Average Customs Duty by Main Categories of Goods, 2001/02–2002/03 1/

Chapter Numbers	Main Category of Goods	2001/02	2002/03
1–10	Live animals	10.5	10.5
11–20	Grains, vegetable extracts, sugars	16.7	16.7
21–30	Beverages, tobacco, mineral fuels, pharmaceuticals	13.6	11.0
31–40	Fertilizers, cosmetics, soaps, chemicals, plastics	20.6	16.5
41–50	Rawhides, skins, wood, paper, silk	11.7	12.2
51–60	Wool, cotton, man-made fibres, carpets	11.2	11.6
61–70	Clothing, footwear, ceramics, glassware, stoneware	20.1	21.3
71–80	Iron, steel, copper, nickel, aluminium, lead, zinc, tin	12.9	13.0
81–90	Tools, machinery, vehicles, aircrafts	11.9	11.8
91–97	Clocks, musical instruments, arms, furniture, art	21.1	21.6
	Total number of items	5,321	5,346
	Average customs duty	14.4	13.7

Source: Ministry of Finance.

1/ Harmonized System classification; average of customs duties for all items in each category.

Table 25. Nepal: Services, Income and Current Transfers, 2000/01–2003/04

(In millions of U.S. dollars)

	2000/01			2001/02			2002/03			2003/04		
	India	Others	Total	India	Others	Total	India	Others	Total	India	Others	Total
Services, income and current transfers (net)	250	787	1037	198	732	930	257	796	1053	264	986	1251
Services (net)	35	91	126	5	47	51	-10	100	91	-13	136	123
Services: credit	123	281	404	96	210	306	92	249	341	138	327	465
Transportation	10	47	56	6	27	33	6	31	37	7	29	36
Passenger services	8	41	49	5	23	28	6	27	33	7	27	33
Other	1	5	7	0	4	4	0	4	4	0	2	3
Travel	47	112	159	37	75	113	38	113	151	65	181	246
Communication services	0	12	12	0	0	0	1	14	16	0	27	27
Insurance services	0	0	0	0	0	0	1	0	1	0	0	0
Government services	37	66	103	30	86	116	16	69	85	36	61	97
Other services	29	45	74	23	21	45	30	22	51	30	29	59
Services: debit	-88	-190	-278	-92	-163	-255	-102	-149	-250	-151	-191	-342
Transportation	-23	-103	-126	-26	-89	-115	-30	-81	-111	-35	-92	-127
Passenger services	-3	-23	-26	-3	-30	-33	-3	-36	-39	-4	-41	-45
Freight	-18	-63	-81	-16	-51	-67	-15	-40	-55	-18	-46	-64
Other	-2	-17	-20	-7	-8	-15	-11	-6	-17	-13	-5	-18
Travel	-31	-43	-75	-34	-41	-75	-44	-35	-79	-82	-54	-136
Communication services	0	-1	-1	0	0	0	0	-4	-4	0	-6	-6
Insurance services	-6	-8	-14	-6	-10	-16	-6	-11	-17	-8	-9	-16
Government services	-3	-6	-9	0	-7	-7	0	-6	-6	0	-8	-8
Other services	-25	-28	-53	-25	-16	-41	-20	-12	-33	-26	-22	-48
Income (net)	11	12	23	14	-22	-8	12	-20	-9	6	-29	-23
Income: credit	11	63	74	15	41	56	13	45	58	7	45	52
Compensation of employees	2	12	15	1	15	17	5	25	30	3	24	27
Investment income	9	51	59	13	26	39	8	20	28	3	22	25
Other	9	51	59	13	26	39	8	20	28	3	22	25
Income: debit	0	-51	-51	-1	-63	-64	-1	-65	-66	-1	-74	-75
Compensation of employees	0	0	0	-1	0	-1	-1	0	-1	0	0	0
Investment income	0	-51	-51	0	-63	-63	0	-65	-65	0	-74	-74
Direct investment	0	-27	-27	0	-39	-39	0	-39	-39	0	-44	-44
Income on equity	0	-27	-27	0	-39	-39	0	-39	-39	0	-44	-44
Dividends and undistributed profits	0	-27	-27	0	-39	-39	0	-39	-39	0	-44	-44
Other	0	-24	-24	0	-24	-24	0	-26	-26	0	-30	-30
Current transfers (net)	204	684	888	179	708	887	255	716	971	271	879	1150
Current transfers : credit	222	686	908	203	709	913	283	717	1000	328	880	1208
General government	22	87	108	22	121	143	31	103	135	64	76	141
Grant	2	87	88	0	121	121	0	103	104	22	76	99
Indian excise refund	20	0	20	22	0	22	31	0	31	42	0	42
Other sectors	200	599	800	181	588	769	252	613	865	264	804	1068
Worker's remittances	160	480	640	134	484	618	199	498	697	176	618	794
Institutional	32	97	130	36	129	165	67	167	234	78	303	381
Other	127	382	510	98	355	453	132	331	463	98	316	413
Other transfers	40	120	160	47	104	151	53	115	168	88	185	274
Pensions	40	45	85	47	61	108	53	41	94	65	42	107
Other	0	75	75	0	43	43	0	74	74	23	143	167
Current transfers: debit	-17	-2	-19	-24	-1	-26	-28	-1	-29	-57	-1	-58
General government	0	0	0	0	0	0	0	0	0	0	0	0
Other sectors	-17	-2	-19	-24	-1	-26	-28	-1	-29	-57	-1	-58

Source: Nepal Rastra Bank.

Table 26. Nepal: Composition of Imports and Import Duties, 1998/99–2003/04

(In millions of Nepalese rupees)

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Imports from India	42,660	49,421	54,561	58,682	72,624	73,803
<i>Of which</i> : dutiable imports	25,462	27,587	44,738	49,878	58,860	59,650
Import duties from India	3,430	4,218	4,967	5,794	6,382	7,135
As a percent of dutiable imports	13.5	15.3	11.1	11.6	10.8	12.0
As a percent of total imports	8.0	8.5	9.1	9.9	8.8	9.7
Imports from third countries	49,156	60,471	60,101	50,591	64,395	62,245
<i>Of which</i> : dutiable imports	31,334	38,567	50,002	35,052	44,291	39,964
Import duties from third countries	4,479	4,913	5,419	5,573	4,640	4,794
As a percent of dutiable imports	14.3	12.7	10.8	11.0	10.5	12.0
As a percent of total imports	9.1	8.1	9.0	15.9	7.2	7.7
Total imports	91,816	109,892	114,662	109,273	137,020	133,035
Dutiable imports	56,796	66,154	94,740	83,219	103,172	99,614
Aid-related imports	35,020	43,738	19,922	26,054	33,847	36,434
Total import duties	7,909	9,131	10,387	11,367	11,023	11,929
As a percent of dutiable imports	13.9	13.8	11.0	13.7	10.7	12.0
As a percent of total imports	8.6	8.3	9.1	10.4	8.0	9.0

Sources: Department of Customs, Ministry of Finance.