SOUTH ASIA AS A DYNAMIC PARTNER
NEPAL - PROBLEMS AND PROSPECTS

Dr. Bhekh B. Thapa

INSTITUTE FOR INTEGRATED DEVELOPMENT STUDIES
P.O. BOX-2254
KATHMANDU, NEPAL

SOUTH ASIA AS A DYNAMIC PARTNER :

NEPAL - PROBLEMS AND PROSPECTS

DR. BHEKH B. THAPA

INSTITUTE FOR INTEGRATED DEVELOPMENT STUDIES

P.O. BOX 2254

KATHMANDU, NEPAL

JULY, 1992

TABLE OF CONTENTS

FOREWORD

This publication is part of a Joint Research and Policy project entitled, "South Asia as a Dynamic Partner: Prospects for the Future" that brought together scholars and policy makers from south Asian countries for a dialogue on economic development in South Asia through the 1990s. This project was sponsored by the International Center for Economic Growth (ICEG) and the Indian Council for Research on International Economic Relations (ICRIER) with research and coordination efforts from the East-West Center. These institutes are grateful to the Asian Development Bank and the United States Agency for International Development (AID) for their support for this project.

The core of this eighteen month multi-country, multi-institute project is a two-part research effort. Seven institutes collaborated on this project to analyze how South Asia's recent growth has been affected by policy reform and how development prospects in the region are linked to further policy evolution as well as to increased regional integration and cooperation.[1]

One component of the project is research and publication of five country papers, such as this one, that describe the recent economic history and prospects of each of the major South Asian countries, with particular attention to past and present liberalization efforts, obstacles and results. Issue papers that complement the country papers are being edited for a book volume, addressing broader question of significance for the region. Topics include: (1) macroeconomic dimensions of accelerating trade, output, and employment growth; (2) the role of mutilateral development banks in stimulation growth and external linkages; (3) an analysis of Japan's potential role in South Asia's trade and investment; (4) regional cooperation, both within and beyond the South Asian Association for Regional Cooperation (SAARC); and (5) the political dimensions of growth and economic reform.

With the research element complete, the remaining task is to maximize the policy impact of the project. Most of the research work was done by and for South Asians, so that findings may help to sustain the policy reform effort in the South Asian countries. The project's participants are reaching out to the private sector and local governments to encourage consolidation and extension of reforms so that the countries of South Asia can surmount obstacles to higher economic growth. A major conferences was held in India to

---

1 The participating institutes were Bureau of Economic Research, University of Dhaka, Bangladish; Centre for Policy Research, India; School of International Studies, Jawharlal Nehru University, India; India Council for Research on International Economic Relations(ICRIER); Kobe University, Japan; Institute for Integrated Development Studies, Nepal; Islamabad Council of World Affairs, Pakistan; Pakistan; Pakistan Institute of Development Economics; and Marga Institute, Sri Lanka.

help disseminate the research results. In his letter to Dr. K.B. Lall, the prime Minister of India observed "winds of change are evident in each of our countries with thorough-going economic reforms opening up new vistas for accelerated development. Along with these changes, South Asia is also opening out to the global market and sooner rather late will become an integral part of this market." The conference, held May 25-27, 1992 in New Delhi, India was attended by over 100 people. Highlights of this conference were the opening remarks by Eduardo Falero, the Indian Minster of State for external affairs. He was followed by William R.Thompson, Vice President of the Asian Development Bank who spoke of the challenges and opportunities for South Asia in the 1990s.

All of the papers presented at this meeting will be published. The full volume, containing all country and issue papers, will be available soon. The proceedings and summary of the Conference will be widely disseminated among academics and policy makers within and outside the region. They will be available from: International Center for Economic Growth (ICEG), 243 Kearny Street, San Francisco, California, 94108, U.S.A. and India Council for Research on International Economic Relations, 40 Lodi Estate, New Delhi, India 11 003.

We (Project Coordinators) are grateful to Institute for Integrated Development Studies, Nepal for undertaking to publish this country paper. This publication is expected to speed the process of Liberalization and strengthen the process of dynamic cooperation. It is hoped that the participating Institutes will continue to cooperate with one another in stimulating economic growth and fostering mutual cooperation.

Nicolas Ardito Barletta
General Director
International Center for Economic Growth

K.B. Lall
Founder Chairman
ICRIER
New Delhi

PREFACE

This piece of work is the Nepal Country Paper for a regional study of economic development in South Asia through the nineties. The focus of the regional study titled "South Asia as a Dynamic Partner: Problems and Prospects" is to initiate a policy dialogue on the future of the South Asian economies through a detailed analyses of how recent growth has been influenced by policy reforms, including liberalisation, and how development prospects in the region are linked to further policy evolution and closer regional co-operation.

The regional study on South Asia as a Dynamic Partner is co- ordinated by the Indian Council for Research on International Economic Relations (ICRIER), New Delhi and the Institute for Economic Policy and Development (IEPD) of the East West Center, Hawaii. Funding has been provided by the International Center for Economic Growth (ICEG), San Francisco. This project has commissioned five country papers (Bangladesh, India, Nepal, Pakistan, and Sri Lanka) and several other issues papers.

IIDS is grateful to the project-coordinators and to ICEG for the opportunity to participate in the study and prepare the Nepal Country Paper. The Nepal Country Paper has been prepared by Dr. Bhekh B. Thapa with the assistance of Ms. Roza Upadhaya, Mr. Prem J. Thapa, and Mr. Suresh Satyal. Dr. Kishore K. Gurugharana was also briefly involved in this study and Mr. Ashwasthama Pokhrel was throughly involved in computer typing and printing works.

An initial draft of this Nepal Country Paper was reviewed at a workshop in Kuala Lumpur, Malaysia in November 1990 and also at a second workshop in Honululu in July 1991. The helpful comments and suggestions for revisions received from the participants in both of these workshops on the Nepal Country Paper are gratefully acknowledged. In addition, special thanks go to Dr. K.B. Lal, Dr. S.P. Gupta and Dr. V.G. Bhatia of ICRIER and to Dr. Seiji Naya and Dr. William James of the East West Center. IDS also gratefully acknowledges the financial support from the International Centre for Economic Growth as well as the project support provided by Frieda Martin and Kata Brownell of ICEG and by Ms. Vandana Verma of ICRIER.

Kathmandu
July 1992

SUMMARY

Bordering India in the east, west and south and China in the North, Nepal's physical environment has been characterized by its land locked position, an extreme ruggedness of topography and a very wide diversity of physiographic and ecological features. The country, moreover, was deliberately denied any interactions with the rest of the world for over a century during the period of the Ranas (1846-1950). A mass uprising in 1951 and the consequent changes in political order enabled Nepal to initiate a belated bid to join the committee of nations for socio-economic development. However a glaring absence of human resources and physical and institutional infrastructure, and frequent changes in government made it difficult to identify and implement development priorities. The partyless panchayat system of government from 1962-1990 failed to deliver developmental benefits generally associated with political stability. A popular movement for democracy in 1990, has finally brought about a multiparty system of parliamentary democracy and a popularly elected government in 1991.

The experiences of other developing countries in the South Asian region and elsewhere led Nepal to undertake experiments in planning with the introduction of the first five year plan in 1956. Lack of political commitment to design or enforce the instrumentalities required to meet the plan objectives led to sluggish growth and exacerbated some of the basic problems instead of resolving them. The economy trudged along the lines of a `mixed economy'. But the envisioned complementarities between the private and public sectors seldom materialized while contradictions became more pronounced.

Despite a marked improvement in the economic growth in the last decade (1980-90) when the real GDP increased at an annual average rate of 4.5 percent compared to less than 3 percent earlier, the country continues to be one of the poorest in the world possessing all the problems and characteristics of a least developed economy rendered more complicated and intractable by the country's unique features. Being poor in resource endowment, Nepal has had to rely excessively on external assistance. But excessive dependence and lack of careful coordination among donors has tended to limit the effectiveness of external aid.

Nepal had taken some hesitant steps towards liberalizing economic reforms under the World Bank and IMF supported structural adjustment programme undertaken between 1985 and 1990.

The profligacy of the government in the early 1980s while contributing to higher growth brought about a severe crisis in the balance of payments. Consequently the government had to embark on a stabilization program supported by a sixteen month stand-by credit with the IMF. This was followed by a three-year Structural Adjustment Program (SAP) with Fund/IBRD assistance to address long-term constraints to growth. Deregulation of

commercial bank interest rates, import liberalization, financial sector reform, better monitoring and control of public enterprises were the major features of the SAP.

The results of the adjustment measures undertaken with the IMF/World Bank initiative can be described only as a limited success. There were many deviations in achieving the fiscal and monetary targets during this period, some of which was due to Indo-Nepal trade and transit impasse of 1988/89 and 1989/90. The dispute with India required the government to adopt a more liberal stance on public expenditures in order to tide over the adverse impact of the impasse with India.

The fiscal and monetary discipline imposed by SAP, already affected by the Indo-Nepal trade and transit impasse, were further interrupted by the political agitations of 1990 and the subsequent demands for pay increases in the public sector under the new democratic structure. Major public sector wage increases were granted in July 1990 and now again in April 1992. The present government faces a fiscal crisis which is just as, if not more severe, than in 1985/86 before the structural adjustment program was initiated. Thus there haven't been any dramatic lasting gains in the public finance sector which can be attributed to SAP. Yet SAP is important because it started the process of reforms in Nepal towards a more liberal economic order and a more open-minded and flexible approach to policy making.

A more liberal and market oriented policy including divestiture of public sector enterprises to the private sector has been very much on the government's agenda for action. But progress over the years has been slow and erratic. A resource poor landlocked country like Nepal can be a dynamic partner only in the context of dynamism of the region as a whole and particularly that of India.

The reform momentum has greatly increased following the recent change in the political system of Nepal and the establishment of a democratically elected government. The current government formed after the May 1991 parliamentary elections has recently announced new industrial, commercial/trade and foreign investment policies. That places the private sector in the forefront of the development process. The new policy package is in line with the global economic liberalization trend and particularly consistent with the initiatives of other regional countries, notably India.

The major recent policy initiatives have been : a) the new Industrial Policy which greatly reduces the regulatory mechanism and administrative controls on private sector business activities; b) special incentives for promoting direct foreign investment; c) liberalization of foreign trade and foreign exchange regulations, including partial convertibility of the Nepalese rupee; d) commitment to privatize public enterprises; and e) a more 'market-friendly' approach to development planning adopted in the recently formulated Eighth Plan (1992-1997).

Among the SAARC countries, Nepal's dependence on foreign aid is second only to Bhutan in recent years according to the share of foreign aid in gross national income (13.0 percent in 1988). External resources financed nearly 70 percent of development expenditure in the seventh plan (1985-90).

The authorities are not averse to selective privatization. However, lack of well developed capital market, and poor financial position and performance of public enterprises has hindered the process of divestiture of government owned enterprises.

Unemployment and under employment is a big problem. Although unemployment rate was assumed to be 3.2 percent (NRB survey 1984/85), underemployment was believed to be as high as 46.4 percent in the rural area and slightly less than 37 percent in the urban area.

Before the advent of the multiparty democracy, trade union organizations were non-existent. Since then no new labour act has been formulated. Any new regulations related to sensible matters like an exit policy would most probably have a tough passage in the parliament given the strength of parliamentary opposition.

The past decade has witnessed a world wide move towards a more liberal economic system based on market reforms. The economic policy now in vogue signals a shift from the traditional narrow focus of self reliance to a greater participation in the global market. Liberalization both in the regional and international context and identification and promotion of specific and general areas of regional cooperation is likely to be the <u>sine qua non</u> not only for faster development but also for survival of individual economies in the not too distant future.

The dynamism inherent in the private sector and the need to promote its role in developmental endeavors has dutifully been acknowledged by almost all the governments in the developing world over the years. However, actual translation of this appreciation to well-thought-out measures have been sorely lagging. The nature of the economy and the range of options and alternatives available, built-in resistance in the bureaucracy and the government and the lack of a proper perspective and commitment may, in all probability, have some bearings on the glaring gap.

A vast scope exists to strengthen regional cooperation among the SAARC countries. Tourism, consultancy and design computer softwares are the areas with potential. The main area where Nepal can play a major role in the region lies in the exploitation and management of its water resources. Environmental protection is another area where Nepal's contribution, especially to the low land countries, could be significant.

Nepal shares an unique relationship with India guided by the social, cultural and religious affinity in addition to geographical proximity. Open border and free movement of capital and labour and the special regime of trade and payments with India and the transit rights for Nepal explains the unique policy framework within which Nepal has to operate. Hence the initiation of a policy reversal in India from license, permit and subsidy system to a more open and competitive environment cannot but have salutary effects on Nepal's prospects on liberalization. A close monitoring of the developments in the Indian economy may be needed to synchronize Nepalese policy initiatives with those undertaken in India. In a true sense, the success or otherwise of policy measures announced recently in India is likely to influence the economic directions not only of Nepal but of the region as a whole.

Regarding future prospects, in the immediate and intermediate future Nepal's attempt to make more judicious and efficient use of available resources and seek growth in such sectors as the agriculture and agro-based industries on the one hand and promote tourism and related industries on the other appears appropriate. Such a strategy of course will have to be pursued simultaneously with appropriate level of investment in human resources and necessary infra-structure.

In the long-run, however, Nepal must aim for a strategy that puts its human resources at the cornerstone of its future development to be supplemented by the exploration of natural resources, notably water and natural beauty. Nepal's potential as a tourist centre has only partially been exploited and provides vast scope for expansion from within the region and globally.

Nepal's vast water resources, which has barely been tapped, has immense potential to fuel not only Nepal's own development but also the region's. This will however require a region that is forward looking and more accommodating than it has been these past four decades.

Regional cooperation within a broad framework mutually agreed by member countries is a recent phenomenon in South Asia. SAARC since its inception eight years ago has yet to prove that the organization can provide such a basis for cooperation due to existing and potential bilateral conflicts between member countries. The fact that SAARC does exist is a proof of recognition by countries in South Asia of the imperative of regional cooperation. Though the results thus far however have been modest and erratic.

While the framework that is clearly discernible today in South Asia and worldwide can be seen as a new window of opportunity, this alone will not guarantee progress. Judging from the history of the recent past South Asian countries in general are not known for bold and appropriate initiatives or consistent actions and effective implementation. Nepal will achieve progress only if the region as a whole moves forward and provides scope for it.

Indications from various studies and projections show that Nepal will continue to progress only marginally better than it did in the previous decade. In a recently published policy paper the National Planning Commission has stated Nepal's aim to alleviate widespread poverty through a program of sustainable growth with a greater role for private sector participation. Sound as such an approach may be Nepal's future lies not only in correcting the internal inadequacies and imbalances of the past but also in becoming a partner within a broader framework of cooperation in the region and beyond.

CHAPTER I

INTRODUCING ELEMENTS OF DYNAMISM IN A LEAST-DEVELOPED AND LAND-LOCKED COUNTRY: PROBLEMS AND PROSPECTS FOR NEPAL

INTRODUCTION AND OVERVIEW

Bordering India in the east, west and south, and China in the north, Nepal's physical environment has been characterized by its land-locked position, an extreme ruggedness of the topography and a very wide diversity of physiographic and ecological features. These features in conjunction with migration of peoples from adjoining countries over the centuries led to the growth of settlements which are highly scattered geographically. These settlements relied on agricultural and pastoral activities for sustenance and maintained a variegated cultural, ethnic and linguistic characteristics. No effective interventions were designed or implemented to mitigate the effects of a highly fragmented society by the Rana regime which ruled the country for over a century (1946-1950). In addition, the regime deliberately denied the country any interactions with the rest of the world during what, in retrospect, can be said to be the most formative period of Nepal's development history. On the whole, different factors and forces coalesced to maintain the economy in a state of almost primitive autarky till the first half of the twentieth century.

It was with the change of the existing political order in 1951, brought about by a mass uprising, that Nepal initiated a belated bid to join the comity of nations aspiring for socio- economic development. The prevailing objective conditions, however, were far from being amenable to easy developmental designs and approaches. A glaring and conspicuous absence of human resources in addition to both physical and institutional infrastructure and the frequent changes in the government made identification and implementation of development priorities similar to a groping in the dark type of exercise. It was in this background that an assortment of isolated, tentative, and more often than not mutually contradictory policies and programmes was introduced in the form of a first five year development plan in 1956. This effort to initiate development planning in Nepal was based on the experiences of other countries in the region, notably India. Since then Nepal has gone through seven development plan periods and the Eighth Plan will be operative from the 1992/93 fiscal year.

Nepal's past economic achievements have been quite modest despite almost four decades of massive inflows of foreign aid centered around a public-sector oriented development planning effort. The growth in per capita income has averaged less than 1 percent per annum over the 1975-90 period. Nepal also lags behind considerably on broad socio-economic indicators of development (e.g. in infantmortality, literacy, etc.) even by South Asian standards. Fundamental economic reforms towards greater liberalization and the adoption of a "market friendly" approaches are now being perceived as vital for the re-suscitation of Nepal's development efforts.

One of the basic characteristics found in all the developing countries and more pronounced in this region has been that the governments tend to act as the supreme purveyors and regulators of both developmental needs and efforts and the market forces. This role-model has, in all probability, created more problems than has been solved. The case of Nepal succinctly and eloquently testifies to this state of affairs. This paper attempts to examine the process and prospects of liberalization and of promoting regional cooperation as the main instruments of imparting a dynamism to an economy more or less stagnant over the years.

1.1 The Present Setting

Nepal entered the last decade of this century in a rather dramatic manner. The partyless Panchayat system ruled the political roost since 1962 but failed to deliver the developmental benefits generally associated with political stability. Towards the end of the eighties, people's discontent with this political structure and its tinkering with partial freedom and marginal changes in welfare became very pronounced. The movement that gained momentum as the new decade began ended with the uprooting of the system. Bowing to popular demand and pressures from both within and outside the nation, King Birendra assumed the role of a constitutional monarch and lifted the ban on political parties and curbs on fundamental rights in the spring of 1990. The interim government that was in power for approximately fourteen months subsequently fulfilled its mandate of adopting a new constitution and holding general elections for the new parliament. Following elections, a new government has been constituted by the Nepali Congress party. A second round of elections for local administrative bodies were held in may 1992 in which also the Nepali Congress won a majority of the seats. Thus as of early June 1992, the process of political change to a democratic system can be said to be complete.

Hesitant steps are being taken for a similar transformation of the economic system of Nepal which to date has emphasized a public sector centered approach to development planning. Initial successes of a planned economy as exemplified by the Soviet and later, with some variations, Indian experience led Nepal to undertake experiments in planning, as did other developing countries in the region. That the planning process, to be a reasonable success, required certain preconditions and a relatively strong political commitment was, however, largely ignored. On the one hand, with the government broadly defining the desired directions in the economy but not being able to design or enforce the instrumentalities to bring this about and with the private sector more or less trying to follow the market signals and forces on its own on the other, the economy started to trudge along the lines of a `mixed' one. Envisioned complementarities seldom materialized while contradictions became more pronounced. A gargantuan bureaucracy created its own empire with the initiatives and growth of the private sector being stumped in the process. The resultant lopsided economy and the sluggish rate of growth accompanying it, in fact, exacerbated some of the basic problems instead of resolving them.

The Nepalese economy, however, experienced some marked improvements in the decade of the eighties compared to earlier decades. During the 1979/80 - 1990/91 period, the gross domestic product increased at an annual rate of 4.5 percent in real terms compared to a growth rate of 2.6 percent per annum during the 1974/75 - 1979/80 period. In fiscal year 1990/91, the GDP is estimated to increase by 4.01 percent in real terms. However, 61.7 percent of the real GDP is still derived from the agriculture sector which is also the main source of sustenance, income and employment for more than 90 percent of the population. Production of cereals, which account for more than three-fourths of the total agricultural production, despite some highly erratic trends during the 1974/75 - 1982/83 period, has shown a steady incremental trend since the latter half of the decade thanks mainly to the benevolence of the monsoon. Production of cash crops has also followed this incremental trend during the same period. The overall industrial production index increased by over 45 percent during the 1987/88 - 1990/91 period.

The government had, upto the fiscal year 1989/90, invested a total amount of Rs.4.32 billion as share participation in sixty - two public enterprises operating in the country. The role of tourism, despite its susceptibility to the international political climate and fluctuations thereby, has been highly enhanced as a major source of foreign exchange earnings, especially in the face of declining export earnings from the limited range of primary products, during the past decade. In basic infrastructures, the installed hydro-electricity generating capacity has reached 238.8 megawatts and the road network exceed 7,300 kilometres.

In communications, telephone lines exceeding 60,000 have been installed to cover forty town areas. Television and radio services have also seen some expansion. In social services, the number of primary, lower secondary and secondary schools have respectively reached over seventeen thousand, four thousand and nineteen hundred. There are presently one hundred and twelve hospitals operating in the country.

Impressive as these achievements have been, they, however, fail to hide the fact that the country continues to be one of the poorest in the world possessing all the problems and characteristics of a least developed economy rendered more complicated and intractable by the country's unique physical handicaps.

Covering the 1956-1990 period, Nepal has seen the formulation and implementation of seven periodic plans. Seen in the background of the tremendous odds against which the development process was initiated, the periodic plans, in their cumulative effect, have brought the economy a long way in terms of developing at least a minimum of institutional, infrastructural and human resource base. Building on these foundations, giving a new thrust and momentum to the economy need not be that difficult or painful a process. However, to what extent the political and administrative forces commit themselves on a realignment of the economic forces remains the most important issue.

1.2 Past Development Efforts

Nepal is one of the least developed economy in the World as shown by the fact that its per capita GNP was only US $170 in 1990, life expectancy at birth was 56 years, illiteracy rate was 74% of the population with a substantially higher illiteracy rate for women. Similarly, infant mortality rate was 120 per thousand live birth, population per physician was about 30 thousand and energy consumption per capita was only 23 kg of oil equivalent in 1988. All these basic indicators are even worse than those for low income economies as a whole or low income economies excluding India and China.

Despite almost four decades of planned development efforts, economic growth of Nepal has been of a modest rate because of its landlocked situation, extremely difficult topography, poor natural resource endowment and less than optimal use of inflow of foreign aid and loans. Rapid population growth (about 2.5% per year) and heavy dependence on agriculture (over 90% of total labor force and contribution of about 58% to real GDP) have further aggravated the situation. The current estimate of irrigated area is 526,754 hectares which is only about 17 percent of total arable land (approximately 3100 thousand hectares). As a result, agricultural production is still heavily dependent on the vagaries of the monsoon. Non agricultural sectors, especially the manufacturing sector, have stagnated due to the small and fragmented domestic markets, persistent input supply problems, and lack of supporting infrastructural facilities, and excessive governmental controls and regulations over economic activities.

During the period of the first five development plans (1956/57 - 1979/80), investment was primarily directed at building social and economic infrastructure. However, a strong desire to accelerate output growth to keep pace with population growth, led the government to abandon its earlier emphasis on infrastructure building and conservative fiscal policies. The sixth plan (1980/81 - 1984/85) was very expansionary with investments targeted to directly productive activities in order to substantially increase the rate of growth. A similar expansionary approach was followed in the early years of the seventh plan also. The rate of growth of the Nepalese economy increased substantially in the 1980s averaging more then 4% real growth per annum. But the relatively higher average growth rate of over 4% in the 1980s could only be achieved at the cost of both increasing deficits financed largely through borrowing from the banking sector and increasing external dependence, especially in the form of external debt. Expansionary fiscal policy while contributing to higher growth also reduced international reserves, and deteriorated, the balance of payments due to increased imports and increased debt servicing burden. Such a worsening situation forced the government to implement a stabilization program in 1985/86 supported by IMF stand-by arrangement. The program was designed primarily to alleviate the immediate BOP pressures, contain inflation and strengthen growth performance. In order to fulfill the growth objective the government embarked on a structural adjustment program (SAP) from 1987 which sought to promote sustained growth by strengthening macro-economic balances and by implementing sectoral development policies to improve public sector investments and institutions. The priorities of the program were to increase domestic resource mobilization, increase the size and efficiency of investment and financial reforms aimed at improving monetary control and resources allocation. These measures were complemented by sectoral policy reforms to promote agricultural production through improved supply of inputs including irrigation and development of the industrial sector by liberalizing industrial and trade policies.

The government's macro-economic objective of sustained GDP growth rate in the range of 4-5% per annum under the SAP seems to have been met although on the lower side. In contrast, the objective of curbing inflation has been hard hit by the inflationary pressures brought about by supply constraints and higher transportation costs, especially as a result of the trade and transit impasse with India in 1989. The third objective of strengthening the BOP situation appears to have been successful in the sense that the import bearing capacity of foreign exchange reserves has increased from less than 3 months' to over 9 months' import requirement between 1984/85 to mid April 1990/91. Yet this relatively comfortable reserve position does not reflect a structurally sound balance of payments situation. The BOP has been in surplus solely on account of capital inflow, mainly as foreign grants and loans.

1.3 Sectoral Performance and Basic Indicators

1.3.1 Income and Output Growth

The growth in per capita income has registered an increase of less then 1 percent in the last quarter - century, though the growth rate has been slightly favourable in the more recent past. Real GDP growth, which barely kept pace with population growth in the 1970s, rose to an annual average rate of about 4.5 percent in the latest - i.e. seventh plan (1986-90) period where the growth in per capita income was a modest 2% annually. The growth in real GDP reached a high point of 7.25% in 1987/88 but declined to less than 4% in the subsequent two years due mainly to the difficulties created by the Indo-Nepal trade and transit impasse.

Over the 15 year period from 1975 to 1990, the average real rate of growth of the agricultural sector has been about 3.5%, with very large variations in the specific periods (including negative growth in the 1976-80 period). Favourable weather condition in the past three years (up to 1989/90) has contributed to an average growth in agricultural production of over 7 percent.

The non-agricultural sector's performance has been rather erratic. From 1983/84 to 1987/88 this sector recorded an average growth of nearly 8 percent. However GDP from this sector is estimated to have declined by 1.2 percent in real terms in 1988/89 followed by a further decline of 2% in 1989/90 due to the difficulties caused by the trade and transit impasse with India.

The trade and transit impasse with India has had particularly adverse effect on the industrial and service (especially tourism) sectors.

Output growth in recent years has been associated with strong domestic demand. Domestic demand in nominal terms has risen by around 14 percent on average between 1979/80 - 1988/89, with the maximum growth of 22.5 percent recorded in 1987/88. But a strong consumption pattern has influenced domestic demand. The share of consumption in GDP has risen from 88 percent in 1979/80 to around 93 percent in 1988/89.

Gross domestic savings has averaged around 10 percent GDP for the decade ending in 1988/89, while gross investment averaged about 19 percent for the decade. The inability of domestic savings and net factor incomes from abroad to finance increased investment has meant a widening deficit in the current account. External current account deficit in relation to GDP has widened from 1.5 percent in 1979/80 to an estimated 11.9 percent in 1990/91. Similarly, excess of domestic demand over supply has caused a heavy reliance on external finance.

1.3.2 Agriculture: Food Grains and Cash Crops Production

Developments in the agricultural sector, which accounts for 58 percent of GDP and 90 percent of employment, has been far from encouraging. Agricultural production has increased by just over 4 percent on average from 1979/80 to 1988/89. Output of foodgrains and cash crops, which account for about 60 percent of total agricultural production have mainly increased not due to any improvement in productivity but rather due to increase in cultivable land. The Index of agricultural production of food crops (1974/75 - 100) rose to 154.3 in 1990/91 while the index of food crops yield increased to only 108.9 during the same period.

Low productivity, especially with regards to foodgrains (constituting about 75 percent of total crops) is attributable mainly to inadequate supply of irrigation and agricultural inputs. Not only the percentage of irrigated land is low, but also the level of fertilizer use at 19 kg per hectare is the lowest in the region.

In addition to dependence on erratic weather, agricultural output has been impeded by rapid population growth, increasing deforestation and the accompanying soil erosion, small fragmentation of land holdings and the cultivation of marginal lands in the hills.

1.3.3 Non - Agricultural Sector

The industrial sector accounts for just over 5 percent of GDP and consists primarily of agro-based industries such as sugar, jute, rice milling, cigarettes etc. About 95 percent of all manufacturing establishments are cottage industries accounting for nearly 90 percent of industrial employment but only about 20 percent of industrial output. In recent years export oriented industries such as woolen carpets and readymade garments have emerged as important sources of growth.

The manufacturing sector in Nepal is characterized by low capacity utilization, reliance on foreign inputs and a relative bias towards import-substituting industries. Small and fragmented markets and poor infrastructure, by limiting economies of scale, have reduced the choice of industries in Nepal. Low purchasing power of the people, lack of proper managerial and entrepreneurial talent, underdeveloped capital markets and the general bias towards mercantile trade on the part of potential investors have further inhibited industrial growth.

The manufacturing sector in Nepal also consists of several large state-controlled public enterprises. Public enterprises also dominate the financial sector. The economic performance of most public enterprises has been very poor. The public enterprises have incurred increasing aggregate losses for the last three years.

The services sub-sectors (construction, trade, transportation, finance and real estate, other private and community services) account for about 31% of GDP (at factor cost). This share has been increasing due to the relatively higher rate of growth in these sectors. The public utilities sub-sector (electricity, gas and water) has also experienced relatively high growth rates due to increasing government investments, especially in hydro-power generation.

1.3.4 Public Finance

Budgetary policies have been characterized by rapidly growing expenditure and inadequate revenue mobilization. The government, in an effort to accelerate economic growth, pursued an expansionary fiscal policy in the early 1980s, while revenue mobilization has been stagnant. The total budgetary expenditures (regular and development) in 1990/91 amounted to almost 25% of total GDP. The growth rate in government consumption expenditures has been very high.

Revenue to GDP ratio has averaged around 10 percent in the past five years. Tax revenue to GDP ratio was 8.1 percent in 1988/89 and an average of 7.6 percent during FY 1984/85 - 1988/89. The tax structure is characterized by a low elasticity and high dependence on indirect taxes, especially on international trade. About three-fourths of tax revenues are derived from indirect taxes. Import tax contributed 34 percent of total tax revenue in 1988/89 and an average 31 percent in the past five years. Sales tax (around half of which is import related) and excise duties are the other main contributors to tax receipts.

The overall budget deficit (after including foreign grants) increased from about 3 percent of GDP in 1980/81 to more than 8 percent in 1985/86. In FY 1990/91 the deficit/GDP ratio has gone up to over 11 percent again despite the restrictive conditions of the structural adjustment program Nepal adopted in the late 1980s.

The low elasticity of tax revenue reflects a narrow tax base resulting from the exemption of agricultural income from income tax, tax exemption status of many other sectors, specific rather than ad valorem taxes and a weak tax administration. There has been a virtual erosion of revenue from taxation of agricultural land. Land revenue which contributed about 25 percent of tax revenue in 1965/66 now accounts for about 1 percent. The agricultural sector which accounts for over 58 percent of GDP is virtually untaxed as it is paying only 0.1 percent of GDP in tax.

The government has had to initiate substantial new revenue measures each year in the recent period in order to obtain desired increase in revenue receipts, as the inelastic tax structure has necessitated an increasing recourse to discretionary measures. Similarly the relatively high proportion of taxes on international trade has rendered tax revenue highly susceptible to changes in demand as well as prices of imports.

The main problem with regard to development spending is that it is spread too thinly over too many projects. Weak project management, lack of proper monitoring and control, delays in procurement decisions, insufficient financial resources allocated to operations and maintenance are some of the other problems related to development expenditure.

1.3.5 Non-Financial Public Enterprises

Provision of subsidies as well as capital transfer to various non-financial public enterprises has become a considerable drain on the budget. Public enterprises have generally performed poorly and many of them have accumulated substantial indebtedness to the banking system and are in arrears.

Since FY 1987/88 the government has initiated a privatization plan to reduce the size of the public sector by attempting to sell shares of non-financial public enterprise to the public. However, these efforts have not been successful owing to various factors such as narrow capital market, technical and administrative problems, including difficulties with valuation.

1.3.6 The Banking Sector

In Nepal, the banking sector plays a modest role as a financial intermediary as is evident from the relatively low monetization ratio. The ratio of M2 to GDP, although increasing from 19 percent in 1979/80 to 36 percent in 1991/92 is still low as compared to a ratio above 60 percent in industrial countries (and close to 100 percent in Japan).

The banking system consists of the Nepal Rastra Bank(NRB), the central bank and five commercial banks. Nepal Bank Limited (NBL) and Rastriya Banijya Bank (RBB), the two biggest banks, are domestically owned. The government owns the RBB and has 51 percent equity in the NBL. These two banks account for more than 90 percent of commercial bank assets and deposits and almost 70 percent of the total financial system's assets. The other commercial banks are joint ventures with 50 percent foreign and 50 percent combined private and public sector ownership. These three joint venture banks were established after 1984 following relaxation in the procedures for entry of foreign banks in Nepal.

The commercial banks have to keep cash reserve of 12 % at a minimum and are required to invest at least 25 percent of their loans and advances on productive sector, including a minimum of 8 percent on priority sector lending. Commercial banks would have to deposit any shortfall in such lending in a special non-interest bearing account with the NRB. Effective mid-July, 1990, commercial banks are directed to raise their credit to this sector to 40 percent (inclusive of a minimum of 12 percent on priority sector) of their total outstanding loans and advances. Banks, especially the joint venture ones, however, have not been able to fulfill this obligation. The system of fixing the range of interest rates by the central bank was discarded since August, 1989.

To encourage the monetization of the economy and to promote savings, the NRB has provided incentives to encourage banks to open branches, particularly in remote areas. The NRB subsidies some of the losses incurred by certain newly established branches which were opened at its behest for upto three years. Commercial bank branches in the country numbered more than 430 at the end of FY 1989/90.

The banks have been suffering from excess liquidity in the past few years. While deposit mobilization has been quite satisfactory, the problem is mainly with lending. Total deposits of the commercial banks have increased by about 22 percent, on average, between 1984/85 - 1988/89. The credit deposit ratio has averaged below 70 percent in the past five years. Excess liquidity with the banks have forced them to invest in government securities. If claims on government is included in total loans and advances, the credit deposit ratio would reach more than 90 percent.

The two largest commercial banks, the NBL and RBB, have been facing a number of problems in recent years including a large amount of non-performing loans and inadequate capitalization. Weak bank supervision, growing borrowers' default, poor accounting practices and the creation of excessive number of branches even at non-viable locations all over the country have also helped undermine the financial viability of these institutions.

The main problem, however,is structural: inefficient capitalization and inadequate provisioning for bad debts. As against the Basle capital accord which sets capital fund or core capital at a minimum of 4 percent of total assets, the existing capital fund in mid-July, 1989 was just over 1 percent for NBL and below 1 percent for RBB. Based on the mid-July, 1989 figures, fresh capital of over Rs.560 million would have to be injected into these banks so as to maintain the core capital ratio at 4 percent of total assets. Recently the government has made a special budgetary allocation to these two commercial banks to increase their capitalization ratio and cover bad loans, many of which were sanctioned with the financial guarantee of the government.

Another major problem is the large amount of non-performing loans which have been growing persistently for several years. By the end of FY 1988/89 the share of non-performing loans in total loans outstanding for the two banks was around 22 percent. The main reason for the increase in overdue loans has been the practice of frequently extending loans not on the basis of sound appraisal but on political pressure. The problem of non- performing loans has also been accentuated by inadequate supervision. Penalties for violations of regulations or borrower default have not been strictly enforced. A significant proportion of non-performing loans are to the public enterprises for which the banks have received government guarantee. Recently the government has adopted a policy of paying back the overdue government guaranteed loans of the public enterprises by 1991/92.

The NRB has recently issued guidelines to the banks to make provision for bad debts. There has also been some understanding that in view of the acute nature of the problem a single recovery agency may have to be established to deal solely with the recovery of overdue loans of the two banks. The recent establishment of the Credit Information Bureau (CIB) to disseminate information to member banks about defaulters has been a step in the right direction.

Joint Venture Banks

The three joint venture banks have confined their activities in the urban area, mainly in Kathmandu. They have consistently failed to meet the obligation of providing loans to the priority sector. The purpose of allowing foreign banks into Nepal had been to increase the efficiency of the banking system through increase in competition and also to facilitate transfer of modern technological innovations to the domestic banks. However, these objectives have been largely unfulfilled. These banks have been functioning only in the capital, their cost of operations is significantly low as compared to the domestic banks, who have branches spread all over the country. Loans and advances form a relatively small part of the banks' portfolios, while a significant part of their earnings is from agency works. The domestic banks will never be able to compete with these banks as authorities have not been able, so far, to enforce banking regulations (opening of branches in the rural sector) on the foreign banks. Similarly, instead of an increase in deposit rates due to increased competition, the entry of foreign banks has had the effect of reducing interest rates on certain deposits.

1.3.7 Prices

Demand pressures related to the expansionary fiscal and monetary stances have influenced prices in recent years. In addition, consumer prices in Nepal have broadly followed price developments in India because of the long and open border between these two countries. Increases in the administered prices of various goods and services (e.g. milk, sugar, electricity tariff) have also influenced prices.

Average annual inflation was about 12% between 1979/80 and 1982/83. After sharply decreasing during 1983/84 to 1984/85, the average inflation rate (measured by the national urban consumer price index) rose to nearly 16 percent in 1985/86 owing mainly due to the impact of the November 1985 devaluation of Nepalese rupee. As price adjustment to the devaluation subsided, inflation declined steadily to 8.1 percent in 1988/89 before rising to 11.5 percent in 1989/90. Supply constraints associated with the trade and transit impasse, rapid monetary expansion (average increase in M1 of 23 percent) and higher inflation in India have influenced the price level in Nepal.

The steady depreciation of the Nepalese rupee against major currencies in recent years (including the substantial devaluations in 1991 and 1992) has also affected domestic prices. Recently there have also been hefty increases in administered prices of milk, sugar, electricity tariff, telephones, drinking water, etc. Inflation rate in 1991/92 is estimated at 21.1 percent.

1.3.8 The External Sector

Nepal's balance of payments has improved in recent years and the reserve position at the end of FY 1990/91 was sufficient to finance more than eight months of imports. However, this is not indicative of a structurally sound external position. The current account has continued to deteriorate in line with the ever widening trade deficit. The BOP has been in surplus solely on account of capital inflows. Substantial increase in official capital upto FY 1988/89 has since decreased and a worrisome aspect for the past two years has been the inflow of unofficial capital which is of volatile nature. Trade deficit was 15.5 percent of GDP in 1989/90 and an estimated 16.5 percent in 1990/91. Surpluses in the services and transfer accounts which met 86 percent of trade deficit in 1979 /90 could finance just 38 percent in 1990/91 and 42 percent in 1989/90.

The increase in Nepal's total exports (from Rs. 889.5 million in 1974/75 to Rs. 7619.5 million in 1990/91) and in particular the increase in overseas exports (from Rs. 142.9 in 1974/75 to Rs. 5902.5 in 1990/91) is one of the few favourable indicators of Nepal's economic performance in recent decades.

Nevertheless, Nepal still has a very small export base. The merchandise export to GDP ratio is only about 7% which is a very low ratio for a small country like Nepal. Total merchandise exports in 1990/91 is equivalent to about only US$ 180 million.

A major objective of Nepal's trade policy since the early 1960s has been to diversify trade away from India. This objective has clearly been successful. India's share in Nepal's export has fallen from 84% in 1974/75 to about only 22% in 1990/91. The import share of India has also declined from 82% in 1974/75 to 32% in 1990/91. Nepal's trade has been increasingly oriented towards overseas countries; but structural deficits occur with respect to both trade with India as well as overseas countries.

Composition of exports has changed remarkably over the years. A decline in agricultural surplus and a rapid rise in the exports of ready made garments and woollen carpet has been reflected in the share of food and live animals in total exports declining to less than one-fifth in 1989/90 from over two-third in 1975/76. Ready-made garments (destined mainly to the USA) and woollen carpets (mainly to Germany) accounted for over 66 percent of total exports and around 86 percent of exports to overseas countries. Such product as well as country concentration renders exports highly vulnerable to external shocks, besides both these products have a relatively high import content. Bilateral trade with India has always been in favour of India and the trade deficit with that country has continued to widen to necessitate selling of convertible foreign currencies for Indian rupee from time to time.

Foreign exchange reserve position has remained comfortable. Although the current account deficit to GDP ratio increased from 8.7 percent in 1989/90 to 10.2 percent, gross foreign reserve was sufficient to finance 9 months of imports at the end of FY 1990/91. The BOP position in 1990/91 improved significantly to a surplus of Rs.4781 million as compared to a surplus of Rs.2649 million in 1989/90. The servicing of external debt is expected to remain manageable mainly because there is virtually no commercial borrowing.

CHAPTER II

THE NATURE OF ECONOMIC REFORM AND THEIR IMPACT ON PERFORMANCE

2.1 The Structural Adjustment Programme

The roots of Nepal's current economic reforms go as far back as the mid 1980s when it entered into agreements with the IMF and World Bank for a structural adjustment programme. Nepal experienced a severe fiscal and balance of payments crisis in the mid 1980s following a particularly profligate period of expansionary public spending in the early 1980s. The budget deficit increased dramatically from 3% of GDP in fiscal 1980/81 to above 8% in 1985/86. The balance of payments, which normally is in surplus due to foreign aid inflows, showed a deficit for three consecutive years since 1982/83. In this deteriorating context, a stand-by arrangement was negotiated with the IMF in December 1985 for undertaking a stabilization program.

Stabilization gains were quickly recorded after the stand-by arrangement with the Fund. Encouraged by these favorable developments, a three year structural adjustment facility (SAF) programme was negotiated with the Fund (October 1987 to Oct. 1990) to address structural constraints to growth and to improve the external current account position. The key elements of the SAF program were: a) increased domestic resource mobilization, b) strengthening of public enterprise management, and c) improvements in project implementation and investment efficiency. The total credit provided was SDR 44.7 million under both the stand-by and SAF arrangements.

Simultaneously with SAF, the Nepal government negotiated a structural adjustment credit of SDR 50 million with the World Bank in 1987 to undertake more medium and long term structural adjustment measures. This was followed by a second agreement (SAC-II) for SDR 60 million in June 1989. The main elements of the Bank supported SAC program were the liberalization of the financial sector, trade liberalization and maintenance of realistic exchange rates, and gradual elimination of subsidies. Two out of the three planned disbursements of the SAC II credit have been received by Nepal. The third tranche was not released on schedule in 1991 because key conditionalities could not be met during the period of political changes in 1990 and 1991. The SAC II agreement thus currently stands suspended.

The key conditions imposed under the SAP and SAC were to reduce the domestic financing of the budget deficit from over 2% of GDP in 1986/87 to 0.4% in 1991/92, to increase revenue mobilization by 0.4% of GDP annually, to limit banking sector credit to the government and to the public sector, to increase the tax revenue to GDP ratio by improving the efficiency of the tax system. The SAP also emphasized strengthening the financial position of public enterprises, reforming the financial sector and liberalizing the industrial and trade policies.

Although the current economic reform efforts in Nepal are based on the SAP program of the late 1980s, at the moment there are two other very distinct compulsions behind the current reform effort. The first of these is the change in the political system to a multi-party democracy which embodies the increasing economic aspirations of the Nepalese people; and the second is the ongoing liberalization effort in India. The open nature of Indo-Nepal trade and other economic relationships, including the unrestricted convertibility in Nepal of the Indian rupee, make it mandatory for Nepal to adjust various economic policies quickly in response to changes made in India.

2.2 Liberalization of External Trade and Payments

The scope for an exchange and trade policy different from that of India is limited because of the close integration of the two economics (open border, free labour and capital movement etc.) on the one hand, and the trade and transit treaty obligations on the other (provisions of the Indo-Nepal trade and transit treaty preclude actions by Nepal that would cause re-exports of third country goods to India). It is interesting to observe that Nepal's import liberalization measures undertaken in recent years were initiated during the trade and transit impasse with India.

Quantitative restriction on imports has been sought to be eased through the introduction of the open general license (OGL) system for various important import items. The government has liberalized imports of important raw materials through the expansion of the passbook and OGL scheme. Under the pass book system, introduced in August 1986, industrialists are given an annual entitlement for specified imported inputs based on the previous year's production program. The entitlement and actual utilization are recorded for future entitlement. The passbook system covers about 100 industrial inputs.

An auction system has been initiated to allocate commercial licenses more efficiently. The premium for each good or category of goods was determined by taking a weighted average of the bid prices above a threshold (to discourage spurious bids). All bids above this average are given a license. The bid prices reflect a combination of foreign exchange premium, quantitative restrictions (foreign exchange allocated for each category of goods) and potential profitability for smuggling to India. Foreign exchange allocated for import license auction was increased from Rs.1.0 billion in 1987/88 to 1.5 billion in 1988/89, 2.0 billion in 1989/90 and 3.0 billion in 1990/91. The importable goods under the auction system have been classified under two categories. Industrial raw materials, medicine, baby food and other essential goods come under category A. All other consumption and luxury goods come under B. Raw wool, cotton yarn, petroleum products, fertilizer and newsprint are imported under the OGL and do not attract any premium.

Export promotion measure includes a duty drawback/exemption system for exports of ready-made garments and woollen carpets. Bonded warehouse facilities have been provided for garment exports. Custom duties for exports is fixed at a nominal 0.5 percent ad valorem. Exporters are entitled to income tax concession. Licensing requirements for exporting goods of Nepalese origin was removed.

Like the trade policy, exchange rate policy is also closely linked with that of India. Officially the exchange rate policy pursued since May 1986 is determined through a basket peg in which the Indian rupee has a large weight. However, in reality, the Nepalese rupee has been fully pegged to the Indian rupee. Variations in the exchange rate vis-a-vis third country currencies reflect the changes in the exchange rate of Indian rupee vis-a-vis these currencies. The pegging to Indian rupee is a necessity to avoid cross rates as the exchange rate between the Nepalese and Indian currencies has remained more or less fixed since 1985 (at Indian rupees 1=Nepalese rupee 1.6).

The Nepalese rupee underwent a two stage devaluation against the U.S. dollar in July 1991 in line with the devaluation of the Indian rupee against major currencies on July 1 and 3. The Nepalese rupee was revalued by 1.79 percent against the Indian rupee and devalued by 20.9 percent against the American dollar. The nominal effective exchange rate of the rupee had continued to depreciate in line with the movement of the Indian rupee even before the devaluation in the first week of July.

The Nepalese government effected some changes in the foreign exchange management system effective March 4, 1992. A partial convertibility system for the Nepalese rupee has been adopted on the basis of a similar system announced by India before the Indian 1992 budget. The new procedures basically reflect the authorities move towards convertibility of the Nepalese rupee for all transactions in the current account. The exchange system would involve a dual exchange rate regime: the official rate as determined by the NRB on the basis of the value of the Nepalese rupee in terms of a basket of currencies being applicable to all government transactions and import of some essential items like fertilizers and POL products; and the market determined exchange rate applicable to all other transactions. As a step towards convertibility of the rupee, 65 percent of the foreign exchange earned from exports of goods and services including remittances can be sold to the commercial banks at open market rate and 35 percent of the foreign exchange earned would have to be sold to the NRB at the official rate. The proportion of foreign exchange earnings eligible to be sold at market rate was increased to 75 percent effective July 12, 1992.

2.3 Foreign Private Investment and Foreign Assistance

The level of foreign direct investment, in Nepal is very low despite various efforts of the government to maintain an open door policy, especially under joint venture schemes, to facilitate transfer of technology, inflows of capital and increase in productivity. Provision to permit 100 percent foreign ownership on the condition of a Nepali counterpart not being found has also been in effect. A five year tax holiday, an additional depreciation charge of 25 percent, a minimum protective tariff of 30 percent and an even higher level of protection for priority industries, full remittances of dividends, repatriation of capital, sale or liquidation at the rate of 20 to 25 percent per year and full compensation within 3 years in case of nationalization were some of the provisions made to attract foreign investment.

As of April 1991, a total of 117 joint venture industries were registered with the Department of Industry with a total authorized capital investment of only about Rs. 5.5 billion. Most of these are in the manufacturing sector (86) followed by the tourism sector (14). Almost half of these joint ventures are with Indian interests.

At present, Nepal's foreign aid donors include 17 bilateral and 21 multilateral agencies. Multilateral agencies, with the exception of the World Bank, ADB, IFAD and OPEC Fund, also provide grant assistance. Following the UNCTAD resolution of 1978, most of the developed countries have converted their previous bilateral loans into grants. In case of Japanese loan, it recycles the loan serviced in the form of grant to relieve the debt. From 1956 to 1987/88 Nepal has received Official Development Assistance (ODA) of Rs.30,081 million, of which loans contributed Rs.15,621 million or 51.9 percent.

External resources financed the entire development expenditure of the First Plan (1956-61). This share has consistently declined to 45 percent during the Fourth Plan (1970-75) but again increased to 70 percent in the Seventh Plan (1985-90).

Among the SAARC countries, Nepal's dependence on foreign aid is second only to Bhutan in recent years according to the share of foreign aid in gross national income. (This is 13.0 percent, 8.2 percent, 14.0 percent, 0.8 percent, 3.7 percent and 8.5 percent respectively for Nepal, Bangladesh, Bhutan, India, Pakistan, and Sri Lanka for the year 1988). In 1984 Nepal was third in following Bangladesh and Bhutan (7.9 percent, 9.3 percent and 8 percent of GNP, respectively). The increasing portion of this foreign aid is in terms of loans, the bulk of which is on highly concessional terms. Even then Nepal's debt service problem is increasing steadily, although it is still the lowest among SAARC countries. Though the debt ratio increased from 0.3 percent of GNP and 3.2 percent of exports in 1970 to 1.2 percent and 8.5 percent, respectively, in 1988 for Nepal, this ratio is still far below that of Bangladesh (1.6 percent and 20.5 percent), India (1.5 percent and 21.8 percent), Pakistan (3.4 percent and 23.5 percent), and Sri Lanka (4.7 and 17.2 percent).

An increasing proportion of this foreign aid is in terms of loans, the bulk of which is on highly concessional terms. Even though Nepal's debt service problem is increasing steadily, it is still the lowest among SAARC countries. Nepal's total external debt as of June 1990 was 1.35 billion dollars. The debt service ratio has increased to about 12%.

Recently, foreign aid has involved a lot of controversies. Its critics charge that it serves the interest of urban middle class elites and socio-politically dominant groups in rural areas. It has been said that "... foreign aid has played a predominant role in the rise of a new class of comprador (bureaucrats) who influence the government from outside, threatens those who come into confrontation ... and recommends those who support them for the more lucrative deals ... the rural poor have remained untouched by the spectacular growth in foreign aid..."[1] . However, internal resource mobilization is grossly inadequate for the development needs of the country despite the Structural Adjustment Programme (SAP) since 1986/87. Foreign aid has always been (and will remain so in the foreseeable future), an important resource to Nepal's development endeavor, though the increased flow of external resources from the donors ultimately depends on Nepal's own absorptive capacity, which, unfortunately, is extremely low at present.

2.4 Sectoral Policy Reforms

2.4.1 Industrial Investment Policy

A new Industrial Enterprise Act was introduced in October 1987 with a view to significantly relax the industrial licensing requirements. Licenses were waived for cottage industries and for industries producing basic goods like footwear,textile, etc. An automatic licensing system for other small and medium scale industries was introduced. Specific approval was required only for industries whose annual imports in convertible currencies exceeded forty percent of the cost of total inputs. The Act also provided for tax incentives including a five year tax holiday to small industries requiring convertible foreign exchange equivalent to less than 10 percent of total inputs.

More recently, a new Industrial Policy has been announced in May 1992 which substantially de-regulates and de-licenses the operation of industrial and service sector enterprises. (See section 3.1 in Chapter III for a fuller discussion).

2.4.2 Privatization

Nepal endorsed privatization as early as the 1970s, but hesitantly. Isolated attempts at selective partial divestiture without a clearly defined government policy on privatization and transparent procedures led to little progress.

---

1 Shrestha, B.R., 1990. Managing External Assistance in Nepal, Kathmandu, p.111.

In 1991 during the period of the Interim government, the Ministry of Finance made institutional arrangements for a comprehensive and practical policies on privatization. This policy will aim at minimizing government interference in production, distribution and pricing. Under this institutional arrangement, two committees were formed : the High Level Privatization Commission chaired by Minister of Finance, and the Technical Committee chaired by the Chief of Corporation Coordination Division within the Ministry of Finance. The High Level Privatization Commission will set up priorities and will design the scope and pace of the privatization program. The Technical committee will identify and prioritized those enterprises that will be privatized.

The basic policy of privatization has also been re-affirmed by the present government. The key objectives as spelled out in the recent privatization policy document is to reduce the financial burden and administrative responsibility of the government, thus releasing funds for alternative uses. By doing so, HMG expects to enhance the role of the private sector in stimulating economic growth, and also to improve the operational efficiency of the public enterprises resulting in higher productivity and growth.

In the privatization policy HMG/N highlights five points. Legal protective measures will be taken to avoid possible distortion and monopoly in production and prices after privatization. A feasibility study for prioritizing public enterprises from economic and operational standpoint will be undertaken so that those units with comparative market advantage will be recommended for privatization. HMG/N also proposes to obtain appraisals (analytical review of financial statements) of PEs to assess the impacts of PEs on consumers, workers and investors. Proposals from the private sector relating to the transfer of management and/or equities will be invited. Priority will be given to those private sector proposals offering greater public equity participation. Personal integrity, financial strength and management competence will be carefully reviewed before transfer of the PEs.

HMG/N will also give priority to proposals that can absorb the existing labor force. If not, the contending party will have to provide the surplus labor 50% of their current wages during a layoff period not exceeding one year or until the laborers get rehired or whichever comes first. Arrangements will also be made to provide credit facilities to those laid off workers willing to be self-employed.

However, in view of political and administrative constraints, and the limited absorptive capacity of the domestic capital market, progress in divesting public enterprises are expected to be slow. The government's policy is to prevent monopoly purchase of shares by a single or limited number of investors. Lack of a well developed capital market has hindered public participation in the purchase of shares through the stock exchange. The biggest hurdle to privatization is the issue of labor redundancy in most public enterprises and the poor financial position and performance of the units whose shares are to be divested.

As a first step in the current privatization initiative, HMG has recently announced that three PEs have been selected for privatization. Operational procedures for the divestiture of these units as well as discussions with interested potential private sector buyers are underway.

2.4.3 Employment, Labour Regulations and Related Policies

Employment policy got priority for the first time in the Fifth plan (1970-80). Adoption of labour intensive techniques of production, improvement of the productivity of indigenous labour through skill oriented training programmes, restriction in the entry of foreign nationals competing with local workforce (7th Plan), expansion and development of small labour intensive industries and priority to employment oriented investment programmes have been the main aspects of employment policy. However, unemployment and underemployment is rampant. The Nepal Rastra Bank Household Budget Survey of 1984/85 puts total labour force unemployed at 3.1 percent. However the rate of underemployment is assumed to be very high, as much as 46.4 percent in rural Nepal and 33.6 percent in urban areas.

Before the advent of multiparty democracy in 1989 trade union organizations were non-existent at the enterprise level. The Factory and Factory Workers Act, 1959 laid down the legal framework and the basis for rules and regulations and guidance on minimum wages, working hours, settlement of disputes, safety and health of workers and other issues relating to employment. So far no new labour act has been formulated though several drafts are under discussion.

2.4.4 Monetary Policy

Growth with stability has been the main objective of monetary and credit policy. The policy aim is to maintain external balance while contributing to reduction in inflation and providing support to economic growth. Reserve requirements and credit controls have been the major monetary instruments to influence money supply until about FY 1987/88. In recent years, the instruments and modalities of monetary management have been sought to be improved mainly through greater use of open market operations. So far, interest rate has played a very limited role in monetary management.

Since the money multiplier (K) has remained stable at around 2.3 over the decade, movement in reserve money (RM) has been the main factor influencing the growth in broad money. However, the elements constituting RM have remained largely outside the purview of the monetary authorities. Among the components of reserve money, changes in net foreign assets reflect the balance of payments position and is dependent on the development in the real sector, the fiscal stance of the government as well as external factors. Similarly, changes in net domestic assets are also difficult to regulate as the central bank, can at the most, apply moral suasion to the government to limit the monetization of its budget deficit. That leaves only credit to the private sector which however cannot be curtailed significantly without jeopardizing economic growth.

The pursuance of monetary policy objectives mainly through open market operations and the liberalization of interest rates have been the main elements of policy reforms in recent years. Most of the reform measures have been undertaken during FY 1987/88 - 1989/90 coinciding with the period when Nepal was implementing the Structural Adjustment Programme with IMF/World Bank support.

In the early and mid 1980 no major policy changes are discernible apart from changes in margin rates on commercial bank loans. However, the expansionary fiscal and monetary stance in the early 1980s leading to internal and external imbalances resulted in Nepal undergoing a stabilization program with IMF stand-by arrangement. A significant tightening of domestic credit expansion (with quantitative benchmarks for domestic credit) and interest rate reform comprising partial liberalization of commercial bank interest rates were undertaken under the programme.

In FY 1988/89, initial steps to improve monetary management were undertaken. These included the introduction of regular auctions of treasury bills and the broadening of maturity structure of government securities. In view of the fact that claims on government has constituted nearly 50 percent of total domestic credit of the banking system, and that holding of government securities has been mainly confined to the banking sector, a proper coordination of domestic debt management and monetary programming has assumed added significance. In FY 1989/90, a comprehensive package of reforms was formulated to ensure a better coordination of monetary policy with domestic debt management. In this connection, an IMF advisory mission as well as an IMF expert on government securities markets have extended their assistance.

Open Market Operations

Prior to FY 1988/89, open market operations could not be used as a tool of monetary policy due to the absence of wider market for government securities. Regular auctions of 91 day and 182 day Treasury Bills was introduced in January, 1989 with a view to improve the ability of Nepal Rastra Bank to control liquidity. A sizable open market sales of government securities, mainly treasury bills out of NRB portfolio could be achieved. NRB's holding of treasury bills which constituted 93 percent of total outstanding treasury bills in July 1988, declined to 27 percent of the total in July 1989. The initiation of auction system of treasury bills has meant that interest rate on these bills are now market determined. Interest rate on treasury bills have ranged between 5.0 to 9.66 percent as compared to 5.0 percent before the auction system. However, the auction system has not been effective in attracting a large private sector participation.

Besides regular auctions of treasury bills, a wide range of new government securities were offered to the public in order to introduce greater flexibility in the interest rate structure and to strengthen monetary and government debt management from FY 1990/91. NRB has also initiated periodic auctioning of NRB securities mainly to mop up excess liquidity. A maximum of 15 percent interest is now offered on special government bonds (3 yr., 5 yr. and 7 yr. National Saving certificates). These reforms in the market for government securities are also expected to mobilize domestic savings. All sales of government securities are now being conducted in the context of a comprehensive short-term monetary programming framework. Consequently, the amounts terms and maturity composition of auctions of treasury bills and the issue schedule of other government securities during the fiscal year are now determined by the NRB on the basis of broad monetary policy considerations. Earlier they reflected purely budgetary concerns.

Rediscount Facilities

NRB's rediscount facilities have been revamped to foster incentives for inter-bank trading in government securities. Rediscount facilities have been redesigned in the form of three windows viz., basic, selective and lender of the last resort. The basic window is for rediscounting of government securities with a view to assist open market operations. The basic rate has been fixed at 11 percent and is applicable for rediscounting the government securities with a maturity of 45 days or less. NRB's refinancing against the holdings of development bonds are to be phased out. Selective rate has been kept at par with basic rate which is applicable to export and pre-export credit and priority sector credit. The lender of the last resort rate will be equal to the maximum lending rates of the commercial banks (currently 21 percent). The discount rates and refinance limits are set by the NRB and adjusted periodically in accordance with market conditions and monetary policy objectives.

Interest Rate Reforms

Upto FY 1985/86, no significant changes had been formulated in the interest rate policy following the widespread reform in interest rates in FY 1975/76, wherein a significant increase in commercial bank deposit rates had been instrumental in accelerating deposit mobilization. Interest rate was directly controlled and regulated by NRB. However, under the stabilization programme (FY 1985/86 - 86/87) an interest rate reform was undertaken in May 28, 1986, allowing banks to set interest rates freely with the exception that deposit rates were subject to certain minimal levels and maximum lending rate was also set for most loans to priority sectors. Interest rate on 3-month time deposit increased significantly while other rates remained more or less the same following the reform measure.

With a view to create a competitive environment in the financial system, effective August 31, 1989, interest rates of commercial banks and financial institutions have been completely liberalized. The overall impact of interest rate reform in August, 1989 is that the commercial banks have lowered their term or fixed deposit rates without changing the lending rates. There has been marginal variation in the rates offered by different banks. Such activities on the part of banks have led to growing suspicion that the banks have formed some sort of cartel and have exploited market imperfections to perpetuate low deposit rates while increasing the interest spread between loan and deposit rates. The cost of capital has remained low but savers have been penalised.

Reserve Requirements

With a view to pursue monetary policy objectives through indirect instruments, the monetary authorities raised cash reserve requirements for the commercial banks by 3 percentage points to 12 percent of deposit liabilities in September, 1989 to mop up excess liquidity. The statutory liquidity ratio (SLR) is currently at 24 percent.

The authorities expect that these reforms will enable them to manage domestic liquidity without recourse to direct credit controls. However NRB has imposed ceiling on net credit to the government, non-financial public enterprises and net domestic assets in both FY 1988/89 and 1989/90 under the SAP and has monitored them regularly with a view to keep the monetary changes within desired limits.

2.4.5 Financial Sector Reforms

Widespread reforms in the financial sector have been initiated under the Structural Adjustment Program (SAP) mainly with three objectives: to strengthen ailing financial institutions; to reinforce the regulatory and supervisory capability of NRB; and to improve the instruments and modalities of monetary management. With regard to the second objective, banking legislation was amended at the beginning of FY 1989/90 to allow the NRB to enforce strict compliance with its directives and monetary policy decisions. Prudent supervision would be exercised in the future primarily through off-site inspection of banks balance sheets (rather than on-site inspection of all individual branches). Currently off-site supervision system is integrated with an on-site inspection of all bank headquarters.

The first objective, i.e., strengthening of ailing financial institutions is being supported with resources under the Second Structural Adjustment Credit (SAL II) extended by the World Bank.

The interim government took steps to reform the banking sector along the lines of the recommendations made by the Commercial Banks Problems Analyses and Strategy Study (CBPASS) financed by the UNDP. Specific budgetary outlays were set aside for recapitalization of the two domestic banks and for provision against bad debt under the supplementary budget presented in March, 1991. Recapitalization would be effected through the issue of government guaranteed bonds.

2.4.6 Fiscal Policy Reforms

A restrictive policy on regular expenditure through a freeze on the number of civil servants and on government consumption items was pursued. An improvement in project implementation was sought through the adoption of a core investment program with IBRO assistance to improve the efficiency of public investment. For the first two years of the programme no general salary increase was granted to the civil servants. On the revenue front, some efforts were made to improve tax administration.

All subsidies to public enterprise were reflected in and financed through explicit budgetary provisions rather than through government guaranteed bank credits as was the case earlier. Fertilizer subsidies were greatly reduced and private traders were allowed to compete with the cooperatives in the distribution and sale of fertilizers at the district level. Sale of subsidized foodgrains in Kathmandu valley was eliminated (but has been subsequently re-started) with only transportation cost for foodgrains in the hills being subsidized. The government also sought to reduce the arrears of the public enterprises to the banking sector.

The budget for FY 1990-91 presented by the interim government spelt-out four major objectives, namely, (a) to minimize the economic hardships faced by the people at large, (b) formulation and implementation of more realistic and productive development programs designed directly to benefit the poor and the deprived, (c) rationalization of the role of the private sector and of the facilities to be provided by the government and (d) initiating a process of repaying the accumulated financial liabilities of the government. Within this broad framework of objectives, discontinuation of previous tendency of formulating an oversized budget, better management of foreign assistance and allocation of development expenditure on the twin criteria of implementation capacity and basic necessity was envisaged. In rationalizing the role of the private sector, the main area of focus was to be agriculture and industry. To mobilize internal resources, a `Citizen Investment Fund' was created and a `wealth tax' was introduced. To ameliorate the general hardships confronting the public at large, especial emphasis was accorded on price control measures with price monitoring and control committees being established. The interim government also took steps to reform the banking sector along the lines of the recommendations made by the CBPASS. The reform of the banking sector, however, was one of the conditions for SAL II loan from the World Bank. The interim government also passed a supplementary budget of Rs.5826.4 million to finance the expenditure on general elections and to provide additional resources for some development projects.

The present elected government's economic manifesto, which was also reflected in the budget speech for fiscal year 1991/92, included (a) the objectives of involving the general mass into the mainstream of national development, (b) delivering the gains of developmental efforts to the poor, (c) mitigation of the general economic hardships of the common people, (d) making the economy more dynamic and liberal through restraints in the growth of non- productive expenditures, (e) maintaining a rational balance between investment and administrative expenses through better management of resources and (f) increased and effective mobilisation of domestic resources. Development of transportation facilities, especially rural roads, has been identified as the key element in expansion and integration of domestic market and in the distribution of developmental gains. People's participation is envisaged in significant measure in this attempt. A number of measures including better utilization of the command area of irrigation facilities have been proposed to increase agricultural productivity. Administrative measures including the development of an adequate supply system and adjustments in macro-economic front have been identified to stabilize the price situation. The government intends to retain public utility enterprises but divest other enterprises to the private sector. To this end, a privatization program is to be finalized within the year. Permission is also to be granted to the private sector to establish and operate financial concerns including commercial banks. Nepalese citizens are to be entitled to open and operate foreign exchange accounts without any restrictions from foreign exchange earned from commercial transactions and other authorized sources. In addition, steps to enhance exports, easier import and industrial licensing and a better management of foreign exchange have been proposed. A comprehensive review is to be undertaken to curtail unproductive overhead expenses and the budget itself has limited the size of the budget deficit and internal borrowing to 9.2 percent and 1.8 percent respectively of the GDP after reducing non-essential public expenditures. An one-window system to attract foreign investors to Nepal is expected to operate within the fiscal year after the finalization of the necessary administrative and legal arrangements.

CHAPTER III

PROSPECTS FOR LIBERALIZATION AND REGIONAL COOPERATION

The traditional development theory that gave rise and acceptance to the mixed economy is on the retreat. This type of economy has not been the combination of cohesive and well- articulated policies and programmes defining the role of the state and the private sector. It was intended to be but rather a sum total of arbitrary and sporadic initiatives taken individually by each sector. The predominant role of the state propounded on the basis of promoting social justice and economic equity has collapsed in the face of reality. Marxian wisdom appears to be yielding to Smithonian pragmatism.

The dynamism inherent in the private sector and the need to promote its role in developmental endeavors has dutifully been acknowledged by almost all the governments in the developing world over the years. However, actual translation of this appreciation to well-thought-out measures have been sorely lagging. The nature of the economy and the range of options and alternatives available, built-in resistance in the bureaucracy and the government and the lack of a proper perspective and commitment may, in all probability, have some bearings on the glaring gap between policy prescriptions and actual achievements.

In the Nepalese context, a number of measures have, over the years, been identified to reform and liberalize the economy. Increasing the productivity of public investment, divesting public sector enterprises to the private sector, better monitoring and control of public enterprises, promoting industrial investment in the private sector and liberalization of trade have been very much on the government's agenda for action. But progress over the years have been slow and erratic.

The results of the structural adjustment measure undertaken with the IMF/World Bank initiative can be described only as a limited success. There were many deviations in achieving the fiscal and monetary targets during this period, some of which was due to the Indo-Nepal trade and transit impasse of 1988/89 and 1989/90. The dispute with India required the government to adopt a more liberal stance on public expenditures in order to tide over the adverse impact of the impasse with India. The overall deficit, which had improved to 6.8 percent of GDP in 1987/88 from 8 percent in 1985/86, soared again to a level of 10.9 percent in 1988/89. Similarly, the target of reducing the net domestic financing of the deficit to 0.2 percent of GDP by 1991/92 also was not met. The target of increasing revenue collection by 0.4 percentage point every year also remained unfulfilled with the revenue/GDP ratio stagnating at an average of 10 percent during the last three years.

Problems associated with proper utilization of public resources in the allocation of development projects have been over-commitment of government budget, lack of prioritization of expenditures, excessive overheads, lack of adequate funds for operations and maintenance and a weak public administration system. In domestic resource mobilization, both tax assessment and enforcement procedures have been relatively weak. Excessive dependence on indirect taxation has also been a problem. The main objective of public enterprises reform has been to strengthen their financial performance in order to reduce their reliance on budgetary support and to enhance their contribution to economic development. But various problems have been encountered in implementing these reforms. All the public enterprises are endemically overstaffed and reducing operational costs has proved to be a near impossible task. Setting realistic prices has proved to be an equally difficult proposition as has been reducing the number of public enterprises. In view of the administrative and political constraints and the limited absorptive capacity of the capital market, progress in divesting public enterprises has been negligible. Not much progress was recorded in the structural reforms of the public sector enterprises. No decisive action has been taken on matters of empowering the public enterprises with full autonomy regarding price determination, investment programme and employment. The issue of divesting some of the public sector enterprises is being seriously considered by a Committee recently formed by the government. No shares of the public enterprises have been offered for sale to the public as yet.

The question of phasing out subsidies has also remained bogged down. The price of some of the commodities produced by public enterprises and public utilities (e.g,. electricity and water rates) has recently been raised. Fertilizer prices were raised following the Indian government's decision to reduce subsidies to fertilizers in the 1991 budget. But fertilizers in Nepal are still being sold at prices 20 - 40 percent lower than cost. Popular expectations of government intervention in favour of price controls make it difficult for the government to refrain from such intervention.

The fiscal and monetary discipline imposed by SAP, already affected by the Indo-Nepal trade and transit impasse, were further interrupted by the political agitations of 1990 and the subsequent demands for pay increases in the public sector under the new democratic structure. Major public sector wage increases were granted in July 1990 and now again in April 1992. The present government faces a fiscal crisis which is just as, if not more severe, than in 1985/86 before the SAF programme. Thus there aren't any dramatic lasting gains which can already be attributed to the SAF and SAC programmes. Yet SAF and SAC are important because they started the process of reforms in Nepal towards a more liberal economic order and a more open-minded and flexible approach to policy making.

3.1 Current Policy Initiatives

The ultimate objectives of the structural reforms supported by SAP and SAC by imposing various restrictive fiscal and monetary targets and sectoral reform conditionalities was, of course, to create an enabling environment for stimulating economic growth primarily through private sector initiatives. The present government appears committed to furthering this objective of providing a greater role for the private sector in national development by undertaking rapid economic liberalization.

The major recent policy changes in this direction have been:

a. the new Industrial Policy that reduces the regulatory mechanism and administrative controls on private business activities.

b. special incentives for promoting direct foreign investment, including 100% foreign equity ownership and a single window application/registration framework.

c. a new commercial policy which greatly liberalizes foreign trade. Nepal also quickly adopted a partial convertibility system for the Nepalese rupee, following the adoption by India of a similar system in March 1992.

d. commitment to privatize public enterprises

e. adoption of a more 'market-friendly' approach to development planning in the forthcoming Eight Plan which seeks to increase the role of the private sector in providing even basic goods and services which had previously been preempted by the public enterprises.

3.1.1 New Industrial Policy

The main objective of the new industrial policy is to create a conducive atmosphere for the private sector to assume a more dominant role in n the development of the Nepalese economy . The basic policy initiative is geared towards de-licensing, simplification of procedures and greater transparency. The main elements of the policy include: automatic registration for new industries in most sectors, establishment of an Industrial Promotion Board to facilitate better coordination between the policy making and implementing units; a single window system to extend all facilities; non-intervention in pricing mechanism except to prevent monopolistic cartel; closing down of sick public sector industries which are incapable of being run on profit; wages to be linked to labour productivity; and establishment of an export processing zone. Tax concessions include a five year tax holiday to most industries and a seven year tax holiday to priority industries including agro-based industries, hotels, power generation, roads, ropeways etc. Export income and dividend income are free from income tax. Except for cottage and small scale (fixed asset up to Rs. 10 million) industries, foreign investment would be permitted in all other sectors, including liberal provisions for 100% foreign equity. Protection to domestic industries through tariff would be gradually phased out.

3.1.2 New Trade Policy

Liberalization of external trade and greater encouragement to the private sector to participate in internal and external trade are the main constituents of the new trade policy. To facilitate greater openness, licensing requirements for both exports and imports have been greatly eased. Exports of all items except some banned and quantitatively restricted items (mainly foodgrains) do not require licenses. Except for certain specified items which are sensitive to trade deflection to India, all other imports from third countries have been placed under OGL. Related reforms in fiscal, monetary and foreign exchange policies include the partial convertibility of the nepalese rupee effected on March 4, 1992 and related tariff measures.

It is of course too early to judge the impact of the ongoing policy reform process in Nepal. The initiatives adopted by the present government, however, mark a fundamental break with the past policy framework, and should be expected to provide a new and urgently needed stimulus to Nepal's economic development.

One of the key constraints to Nepalese development , especially in promoting modern industries and service sector growth, has been excessive government regulation and controls which inhibited the private sector and created inefficient public sector enterprises. Though many of the sector-specific policies - e.g. in industry, in the tourism and hotel industry - have given various incentives to private sector investments, the overall economic orientation and policy framework based on a highly regulated, closed and protected economy has not been conducive to overall and private sector growth.

The systemic bureaucratic regulations and controls - i.e. on investments, foreign trade, foreign exchange, etc - had often been adopted in an ad hoc manner, were not always transparent, and had been subject to frequent changes. All of these factors greatly increased the costs of doing business in Nepal and also affected the confidence of potential investors.

An even greater cost of the regulatory 'licence raj' is that it gave rise to many distortions which channelled private sector investments in activities that may have yielded quick and high profits to the individual private entrepreneurs but which were not necessarily beneficial to the country. The prime example of this type of "wasteful" use of resources is the drain on Nepal's foreign exchange and entrepreneurial skills through the deflected trade in foreign consumer goods and raw materials from overseas countries to India via Nepal.

3.2 Constraints to and Prospects for Growth

A more liberal and open economic policy framework, even when accompanied by an open and dynamic Indian economy in the near future, may not prove to be a sufficient condition for achieving rapid growth in Nepal.

There are many other important constraints to rapid economic development of Nepal. The basic question in essence is structural transformation of the economy itself : how to move from an economic structure still dominated by subsistence agriculture to a modern structure based on the manufacturing and service sectors.

The agriculture sector still accounts for about 60% of GDP and 90% of total employment - these are some of the highest ratios even among the least developed countries of the world. Modern manufacturing which accounts for a minuscule 5% GDP consists essentially of agro-processing units (primarily grain and oil). The over-burdening of the agricultural sector which is now increasingly threatened environmentally produces a massive scale of rural poverty in Nepal. Over 40% of the total population is estimated to live under a minimally estimated poverty line.

These structural issues get further compounded in Nepal due to certain other special handicaps : the difficult topography, the land-locked nature, and an open border with a large neighbor, very heavy dependance on foreign aid inflows for investment outlays, etc. Some of the chief growth constraints are poorly developed infra-structural facilities in transportation and communication , a small domestic market which is further regionally fragmented by poor transportation, a poor physical resource endowment, including an unskilled and uneducated labor force, an undeveloped formal capital market, etc., as well as institutional constraints arising from an inadequate legal and administrative structures.

A major consequence of the limited development of infra- structural facilities is that Nepal cannot compete effectively with Indian manufactures and other industrial goods which are currently being imported to Nepal. The poor transportation facilities in Nepal further limit an already small domestic market size. It adds considerably to the costs of transportation of raw materials and finished goods. Thus we see that the import of fresh fruits and vegetables from India (from as far away as Maharastra in southern India) to Kathmandu being feasible while transportation of fruits from hill area districts within Nepal to Kathmandu have prohibitive costs. Economic progress under these conditions will inevitably be slow.

The combination of these various factors along with the regulatory policy framework of the past has produced a very poor economic record. The growth in per capita income has registered an increase of less than 1 percent in the last thirty years, though the growth rate has been slightly favourable in the more recent past. Real GDP grew by 4.4% in the Seventh Plan period (1985-90) and the growth in per capita income was a modest 2% annually.

The forthcoming Eight Plan (1992-97) is being prepared with a targeted growth rate of 5.1% per annum. Substantially higher growth rates (sustained periods of 8 to 9% growth) will be required ultimately to make a significant dent on poverty alleviation in Nepal and on the structural transformation of the economy. The modest target set for the Eight Plan appears prudent at the moment, given that the current reform process will require a period of adjustment and re-structuring of the economy, and changes in the planning philosophy itself. Higher growth may be feasible only in subsequent plan periods following the consolidation of the recent political as well as economic liberalization process ongoing in Nepal. The targeted rate of growth in the Eighth Plan is still substantially higher than what has occurred in the past, and it would be a heartening pre- cursor of better things if a 5.1% annual rate of growth could be achieved in the Eighth Plan period.

Nepal's geophysical position, the state of its industrialization, and a scarcity of skilled manpower would limit its capacity to embark on an export led growth in the near future. Thus, while the government seems to understand the global trend towards liberalization and openness, it would take some time for it to fit into the scheme of things and extract maximum benefits from the new direction. In the trade front, Nepal's limited capacity to produce internationally traded goods could mean that open market access could be a one way traffic for some time. However, liberal trade policy would have positive impacts on import substituting industries supply situation and possibly price levels.

Various institutional and economic factors limit Nepal's capacity to produce industrial goods which can be traded internationally. Nepal would need to concentrate on certain specific items for potential export. There is some scope for exporting agro-based products to the neighbouring countries. For overseas exports, apart from woollen carpets and ready-made garments, medical herbs, tea, orchids and leather products offer some prospects for promotion. The topographical diversity of the country and the variation in climate from the alpine to the tropical would suggest potentiality to grow diverse agricultural products. However, there has been a lack of sustained efforts towards the identification of potential export products to date.

The main market for agro-based products would be confined to the SAARC region in the near future. Export of fruits and fruit products, for example, could be promoted through joint ventures in processing plants. Fishery development is a potential area for cooperation. There is a good prospect to export fish to India. In view of the perennial shortage of lentils and vegetable oil in India, Nepal could concentrate on producing these items for exports. Due to various factors, Nepal cannot compete successfully in the price front on its exports to overseas countries. What it has to concentrate on is to promote unique products which can attract overseas buyers. The success of Nepalese woollen carpets can be cited as an example. Nepalese carpet exports are doing exceedingly well despite intense competition from other exporters. This is due to the unique design and quality of Nepalese carpets. Handicrafts, bamboo products, exotic Himalayan orchids, uniquely designed silver and gold jewellery could be other possible items for specific promotion.

Potentials to develop the tourism sector holds good promise. Natural beauty, culture, arts, and the friendly nature of the people could contribute in presenting Nepal as a centre of attraction to foreign tourists. Even now, foreign exchange earning from tourism constitute nearly 20 percent of total visible and invisible exports and nearly 40 percent of merchandise exports. Development of this sector would also help create employment opportunities. However, one problem is the relatively high import content in this sector, which is estimated at more than 60 percent inclusive of direct, indirect and induced effects. Local value added in the tourism sector is only about 38 percent. Proper training of manpower to replace foreign nationals working in the sector and domestic supply of basic food, beverages, flooring and furnishing, toiletries of adequate quality could reduce import content considerably. In view of increasing significance of global tourism as a source of foreign exchange earnings, there is plenty of scope to promote tourism to Nepal. Potential to attract tourists from the SAARC region could be exploited fully if accommodation facilities at reasonable rates, better transportation and communication networks could be developed.

In the near future, Nepal would have to concentrate on maintaining a reasonable macro-economic balance and undertake specific liberalization measures to improve the structural framework of the economy. Since Nepal's desire and ability to open up its economy will largely be guided by the success of liberalization in India, the authorities in Nepal will be well advised to ensure sound domestic policies and be in a state of preparedness to harmonize exchange and trade practices with that of India.

3.3 Nepal-India Economic Relation & Cooperation

The history of economic cooperation between Nepal and India is long and extensive. The two countries have sought to pursue economic policies within a harmonious framework approaching the objectives of a common market. The primary instruments of enforcing these objectives has remained the 1950 Treaty of Friendship which provides for unrestricted labour and capital movements through a provision for equal treatment of each others citizens and the periodic treaties on trade and transit.

Nepal has benefitted greatly from the provisions for Nepali migrant employment in India as well as from the limited Indian foreign investments in Nepal. On the trade issue, notwithstanding some liberal provisions and concession made bilaterally, Nepal's ever growing trade gap with India and Nepal's poor economic performance in general indicates that the existing framework of co-operation of the past has not benefitted Nepal significantly.

Specifically, the preferential trading arrangement Nepal has traditionally had with India has not been of much benefit in promoting industrial development in Nepal. Nepal in the 1990s still continues to export to India only primary agricultural products (pulses, ginger, ricebran, jute, hides and skins, etc.) as it did in the 1960s. The growth of manufacturing and industrial exports to India were limited partly by the very restrictive domestic content regulations required to obtain duty concessions on exports from Nepal to India.

The limited advantages to Nepal offered by the preferential trade arrangements with India is also reflected in the changing direction of Nepal's exports. The share of India in Nepal's export has fallen from 84% in 1974/75 to about only 25% in 1990/91. The import share of India has also declined from 82% in 1974/75 to 31% in 1990/91. Nepal's overseas exports have boomed from Rs 142.9 million in 1974/75 to Rs 5902 million in 1990/91.[2] These developments, however, must also be viewed from the perspective that a major objective of Nepal's trade policy since the early 1960s has been to diversify trade away from India. The objective was to avoid over-dependence on a single country which also happened to be a large neighbour often exhibiting a politically domineering attitude. But this objective also made economic sense given that India had an economy which was highly distorted in comparison to the world markets.

Nepal's main wealth is its water resources. Despite a huge hydro-power potential, lack of financial resources and reluctance on the part of potential users have impeded progress in exploiting water resources. For Nepal to benefit fully from its water resources, efforts not only to share hydro-power but also to mitigate periodic flooding have to be undertaken with a great degree of trust and understanding from both India and Bangladesh. Significant potentials for cooperation and mutual benefit for India and Nepal notwithstanding the development so far indicates a history of less than a fruitful framework of bilateral co- operation. Recent attempts to alter the course by both the countries signals a more positive approach, but that too is not without rough weather on the horizon. A bold and positive projection of a Indo-Nepal type of bilateral co-operation contributing to a dynamic South Asian region may thus be premature.

---

2 This boom is centered on two items only - woolen carpets and ready made garments. Nepal's garment industry has basically been set up by Indian interests in order to get around the quota limits imposed on Indian exports of garments in major markets abroad. Thus the entire viability of garment industry in Nepal is critically dependent on there quota limits. Nepal is also taking increasing competition in carpet exports from china and also India.

Nevertheless Nepal's relations with India and the direction of the Indian economy are likely to be the major factors guiding the effectiveness of the reform measures undertaken by Nepal. The radical changes in macro-economic policies and, more specifically, the major structural changes which have been announced in quick succession in India are likely to need some time to be fully digested by Nepal. However, their implications on the Nepalese economy need not be undermined. For all practical purposes, Nepal interacts economically with and through India which is likely to be the pattern for the foreseeable future.

The regime of trade and payment with India and the transit rights for Nepal explains the unique policy framework within which Nepal has to operate. Hence, the initiation of a policy reversal in India from the license, permit and subsidy system to a more open and competitive environment cannot but have salutary effects on Nepal's own prospects for higher growth through liberalization. Nepalese investors who have been accustomed to take undue advantage of the inward looking policies in India would be compelled to switch their investments from trade to more productive sectors. The government also will be forced to take some bold and concrete steps to make the Nepalese economy more competitive and self-sustaining. Additionally, a close monitoring of the developments in the Indian economy may be needed to synchronize Nepalese policy initiatives with those undertaken in India. In a true sense, the success or otherwise of the policy measures announced recently by India is likely to influence the economic directions not only of Nepal but of the region as a whole.

CHAPTER IV

CONCLUSIONS

South Asia as a region in spite of its size and the population has failed to be a major and dynamic partner in the global economic scene. During the past decade South Asia registered only modest economic progress while at the same time its social and political setting was marked by conflict and instability.

Nepal continued to progress but at a rate more modest than that of the rest of the region. This scenario is likely to continue unless one envisions a forward looking and more dynamic growth pattern for the region as a whole. The United Nations Committee on Development and Planning has forecasted for South Asia a rate of change in the coming decade slightly above that of the past decade. There are however indications that this region will make a dramatic departure from the past and shake the dominance of public sector and the rigidities of the past policy framework. As this region enters the last decade of the century, a new awareness of ways to harness the region's vast potential in the right direction seems to have arisen. This is particularly clear in the recent policy direction pursued by India, the dominant partner in the region.

Since the mid eighties, Nepal has adopted the Structural Adjustment Programme, and pursued a more liberal and market oriented policy. Because of this, Nepal was able to keep its economic house in order, even though the rate of economic growth has remained modest. What this indicates is that a land locked and a resource poor nation like Nepal can be a dynamic partner only in the context of dynamism of the region as a whole and particularly that of India.

In the immediate and intermediate future Nepal's attempt to make more judicious and efficient use of available resources and seek growth in such sectors as Agriculture and Agro-based industries on the one hand and promote tourism and related industries on the other appears appropriate. Such a strategy, of course, will have to be pursued simultaneously with appropriate level of investment in human resource and necessary infrastructure.

In the long run however Nepal must aim for a strategy that puts its human resource at the cornerstone of its future development to be supplemented by the exploration of natural resource notably water and natural beauty. Nepal's potential as a tourist centre has only partially been exploited and provides vast scope for expansion from within the region and globally.

Nepal's vast water resource, which has barely been tapped, has immense potential to fuel not only Nepal's own development process but also of the region. This will however require a region that is forward looking and more accommodating than it has been over the past decades.

Modest as it may be in size and in its role within this region, Nepal has come a long way since its liberation to build on its nationhood and to become a full and responsible partner in the community of nations. A new framework of global economic cooperation appears to be in the offing as the world at large is taking renewed interest in the concept of The New World Economic Order. With recent changes in its political structure Nepal finds itself at the threshold of a new and promising beginning. While the framework that is clearly discernible today in South Asia and indeed worldwide can be seen as a new window of opportunity, this alone will not guarantee progress. The environment today may appear conducive to change but the challenge to move along the right path will by no means be easy or automatic. Judging from the history of the recent past South Asian countries in general are not known for bold and appropriate initiatives or consistent actions and effective implementation.

Regional cooperation within a broad framework mutually agreed by member countries is a recent phenomenon in South Asia. SAARC since its inception eight years ago has yet to prove that the organization can provide such a basis for cooperation due to existing and potential bilateral conflicts between member countries. The fact that SAARC does exist is a proof of recognition by countries in South Asia of the imperative of regional cooperation. The results thus far however have been modest and erratic.

Indications from various studies and projections show that Nepal, a land locked resource poor country, will continue to progress only marginally better than it did in the previous decade. In a recently published policy paper by the National Planning Commission it is stated that Nepal will aim in the next five years to alleviate widespread poverty through a programme of sustainable economic growth in which greater role is envisaged to the private sector. Sound as such an approach may be Nepal's future lies not only in correcting the internal inadequacies and imbalances of the past but also in becoming a partner within a broader framework of cooperation in the region and beyond. It is only in the context of an expanding and accommodating region that Nepal can achieve reasonable rate of economic growth and social change.

ANNEX TABLES

LIST OF ANNEX TABLES

Table - 1

Selected Indicators of Growth (1956-1990)

Plan Periods		Real GDP* Rs. Million	Annual Growth Rates in %		
			Real GDP	Population	GDP per capita
First	(1956-61)	-	-	-	-
Second	(1962-65)	13,326	-	-	-
Third	(1966-70)	15,146	2.6	2.1	0.5
Fourth	(1971-75)	16,571	1.8	2.4	-0.6
Fifth	(1976-80)	18,607	2.4	2.6	-0.2
Sixth	(1981-85)	23,630	5.0	2.6	2.4
Seventh	(1986-90)	29,560	4.5	2.5	2.0
Memorandum Item		1965	1975	1990	Average annual growth (%)
Real Per Capita GDP (in 1974/75 prices)		Rs. 1300	1350	1560	0.9 (1965-90)

* *Real GDP in 1974/75 prices in the closing year of the indicated plan period.*

Source: Independent calculation from CBS, Statistical Yearbook, 1991.

Table - 2

Trend in Gross Domestic Production (GDP)

	(Rs. Million)				Annual Growth Rate (%)		
	Nominal GDP	Real GDP+	Real Agri. GDP	Real Non-Agri. GDP	Real GDP	Real Agri. GDP	Real Non-Agri. GDP
1980/81	27,307	20,158	12,066	8,092	8.34	10.36	5.46
1981/82	30,988	20,920	12,616	8,304	3.78	4.56	2.62
1982/83	33,761	20,297	12,478	7,819	-2.98	-1.09	-5.87
1983/84	39,390	22,262	13,668	8,594	9.68	9.54	9.91
1984/85	44,417	23,630	13,990	9,640	6.15	2.36	12.17
1985/86	50,428	24,645	14,705	9,940	4.30	5.11	3.11
1986/87	59,246	25,617	14,789	10,828	3.94	0.57	8.93
1987/88	68,858	27,475	15,993	11,482	7.25	8.14	6.04
1988/89	78,259	28,536	17,194	11,342	3.86	7.51	-1.22
1989/90*	88,711	29,560	18,444	11,116	3.59	7.27	-1.99
1990/91**	100,628	30,745	18,998	11,747	4.01	3.00	5.68

+ *In 1974/75 prices*

* *Revised preliminary estimates.*

** *Preliminary estimates.*

Source: Central Bureau of Statistics.

Table - 3

Sub-sectoral Growth Rates (percent)

Sub-sectors	Average Annual Growth in Real Output**			
	1976-80*	1981-85*	1986-90*	1975-90*
Agriculture	-1.08	5.19	5.80	3.49
Mining	9.31	15.13	-15.64	2.24
Manufacturing	2.30	5.34	5.69	4.98
Electricity, etc.	7.06	14.93	16.55	13.70
Construction	17.65	7.33	1.67	6.10
Trade, etc.	5.65	4.88	4.68	5.23
Transport, etc.	12.28	1.74	-3.15	2.84
Finance, etc.	6.12	2.43	3.71	3.53
Other Services	5.77	8.35	2.59	5.40
Total GDP at factor cost	1.84	5.07	4.52	3.89
Non-agri. GDP (factor cost)	8.07	4.99	2.41	4.94

** Real output is nominal sectoral GDP deflated by the agricultural deflator for the agricultural sector and by the non-agricultural deflator for all other sectors.

* Growth rates for 1976-80, 1981-85, 1986-90 are the average of the annual growth rates for the years in each period. Growth rates for the 1975-90 period are estimated by fitting a time trend regression line.

Note: These growth rates of value added at factor cost differ from the GDP growth rates reported in Table 1 and 2 above. Total GDP includes indirect taxes which, though a small component of total GDP, has been growing at very high rates to cause a significant difference in the growth rates of total GDP and value added at factor cost.

Source: Independent calculations based on data in CBS (1991), op.cit.

Table - 4

Sectoral Distribution of Gross Domestic Production

(In percentage)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Agriculture	56.8	57.17	56.52	57.3	53.87	52.66	51.39	51.37	53.41	56.03
Mining & Quarrying	0.21	0.21	0.25	0.28	0.32	0.24	0.17	0.16	0.14	0.11
Manufacturing	3.84	4.01	4.32	4.61	4.50	5.20	5.17	5.24	5.05	4.87
a) Modern	(2.61)	(2.75)	(3.02)	(3.41)	(3.37)	(4.02)	(4.06)	(4.26)	(4.11)	(4.05)
b) Cottage	(1.23)	(1.26)	(1.3)	(1.2)	(1.13)	(1.18)	(1.11)	(0.98)	(0.94)	(0.82)
Electricity, Gas & water	0.24	0.26	0.38	0.40	0.44	0.68	0.70	0.76	0.66	0.78
Construction	7.23	7.56	7.04	6.54	8.07	7.91	8.51	8.59	6.95	7.21
Trade, Restaurant & Hotels	3.49	3.45	3.55	3.86	4.14	4.38	4.90	4.78	4.79	4.24
Transport, Communication & storage	6.92	6.42	6.30	6.27	6.22	6.19	6.07	6.15	5.18	4.34
Financial & Real Estate	7.61	7.64	7.68	7.46	7.70	7.82	7.96	7.84	7.79	7.64
Private & social Services	6.92	6.98	7.67	7.23	8.31	8.26	8.57	7.66	8.06	7.80
GDP at Factor cost	93.26	93.7	93.73	93.94	93.56	93.33	93.44	92.55	92.04	92.96
Indirect Taxes	6.74	6.30	6.27	6.06	6.44	6.67	6.56	7.45	7.96	7.04
Agriculture	(0.62)	(0.61)	(0.59)	(0.51)	(0.55)	(0.52)	(0.52)	(0.47)	(0.41)	(0.37)
Others	(6.12)	(5.69)	(5.68)	(5.55)	(5.89)	(6.15)	(6.04)	(6.99)	(7.56)	(6.67)
GDP at Market Price	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* 1 1988/89 -Revised preliminary estimate.

* 2 1989/90 -Preliminary estimate.

Note: As the figures have been rounded off, total percentage may not tally with their component units.

Source: Central Bureau of Statistics.

Table - 5

Index of Agricultural Production, Area and Yield

Year	Food Crops*			Cash Crops**		
	Area	Production	Yield	Area	Production	Yield
1974/75	100	100	100	100	100	100
1980/81	106.16	101.35	95.47	115.38	134.63	116.68
1981/82	108.36	105.43	97.3	105.43	115.07	109.14
1982/83	112.65	88.67	78.71	105.43	164.93	158.44
1983/84	114.8	113.53	98.89	102.26	148.81	145.52
1984/85	119.98	111.48	92.9	111.76	141.94	127.0
1985/86	124.6	117.44	94.25	129.86	158.21	121.83
1986/87	124.93	108.63	97.73	144.15	178.54	123.58
1987/88	134.83	127.16	94.32	127.15	222.99	175.58
1988/89	139.26	142.80	102.54	130.32	248.66	190.81
1989/90	140.57	150.82	107.29	131.22	265.67	202.46
1990/91	141.68	154.31	108.91	131.67	293.34	222.78

* *Composite index of paddy, maize, wheat, barley and millet in food crops.*

** *Composite index of sugarcane, oilseeds, tobacco, potato and jute in cash crops.*

Source: Dept. of Food and Agricultural Marketing Services.

Table - 6

Index of Manufacturing Production

(Base Year 1986/87 = 100)

		1987/88	1988/89	1989/90	1990/1991+
1.	Food	111.73	95.88	164.90	176.31
2.	Beverage	148.31	142.34	158.94	191.90
3.	Tobacco	106.71	99.85	108.65	111.89
4.	Textile	96.81	86.52	77.05	98.81
5.	Other Chemical Product	99.18	110.51	102.02	127.35
6.	Iron Steel	74.17	100.83	105.18	123.10
7.	Tools & Utensils	91.66	57.43	47.19	64.02
	Overall*	107.39	102.07	106.60	127.13

\+ *Provisional Estimates*

* *Overall index includes some other product categories than listed above*

Source: Central Bureau of Statistics

Table - 7

Some Important Macro-Economic Indicators

(% GDP)

Financial year	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92*
Investment and Savings Gross Domestic investment	21.0	21.8	20.5	19.5	20.7	N.A.	N.A.
Gross Domestic savings	11.7	12.6	10.8	7.2	8.0	N.A.	N.A.
Government Budget Domestic Revenue	9.2	10.1	10.6	9.9	10.5	10.6	10.1
Total Expenditure	19.4	19.4	20.5	23.0	22.2	24.5	21.4
Regular	(7.1)	(7.0)	(6.8)	(7.3)	(7.5)	(8.0)	(7.8)
Development	(12.3)	(12.4)	(13.7)	(15.7)	(14.7) (16.5)	(16.5)	(13.6)
Overall Deficit after grants	-8.0	-7.2	-6.8	-10.9	-9.5	-11.3	-8.5
Domestic Deficit financing	2.8	2.8	1.6	1.7	2.4	4.8	1.7
External Sector Current Account Balance	-5.0	-4.9	-6.7	-8.0	-8.7	-11.9	N.A.
External Debt	31.0	36.1	39.8	47.6	48.6	N.A.	N.A.
Debt Service Ratio (in terms of exports of goods & services & private transfers)	9.6	9.4	10.1	17.2	19.1	N.A.	N.A.
Gross Reserves in months of Imports	4.8	4.9	6.4	6.4	7.9	9.0	N.A.

** Budgetary Estimates*

Source: Economic Survey 1990/91, and Nepal Rastra Bank data sheets.

Table - 8

Exports and Imports of Nepal in Relation to GDP

(In million Rs.)

Year	GDP = Y	X	M	X as % of Y	M as % of Y	growth of Y (%)	growth of X (%)	growth of M (%)
1974/75	16571	889.6	1814.6	5.4	11.0	-	-	-
75/76	17394	1185.8	1981.7	6.8	11.4	5.0	33.3	9.2
76/77	17280	1164.7	2008.0	6.7	11.6	-.7	-1.7	1.3
77/78	19732	1046.2	2469.6	5.3	12.5	14.2	-10.2	23.0
78/79	22215	1296.8	2884.7	5.8	13.0	12.6	24.0	16.8
79/80	23351	1150.5	3480.1	4.9	14.9	5.1	-11.3	20.6
80/81	27307	1608.7	4428.2	5.9	16.2	16.9	39.8	27.2
81/82	30988	1491.5	4930.3	4.8	15.9	13.5	-7.3	11.3
82/83	33761	1132.0	6314.0	3.4	18.7	9.0	-24.1	28.1
83/84	39390	1703.9	6514.3	4.3	16.5	16.7	50.5	3.2
84/85	44417	2740.6	7742.1	6.2	17.4	12.8	60.8	18.9
85/86	50428	3078.0	9341.2	6.1	18.5	13.5	12.3	20.7
86/87	59246	2991.4	10905.2	5.1	18.4	17.5	-2.8	16.7
87/88	68858	4114.6	13869.6	6.0	20.1	16.2	37.6	27.2
88/89	78259	4195.3	16263.7	5.4	20.8	13.6	2.0	17.3
*89/90	88711	5235.5	18401.5	5.9	20.7	13.3	24.8	13.2
**90/91	100628	7603.7	24197.9	7.6	24.0	13.4	45.2	31.5

X = Exports; M = Imports; GDP, Y = Gross Domestic Product
Y, X, M = Annual percentage rate of growth in Y, X and M respectively
* = Revised Preliminary Estimate
** = Preliminary Estimate

Table - 9

Changing Direction of Nepal's Trade

(In percentage)

Year	% Share of India in Total Export	% Share of India in Total Import	% Share of India in Total Trade	Total Trade Deficit (Rs. Million)	Total Trade Deficit as (% of GDP)	% Share of India in Trade Deficit	Annual Growth Rate of Trade Deficit
1974/75	83.9	81.3	82.2	925.0	5.6	78.8	-
1975/76	75.4	61.9	67.0	795.9	4.6	41.9	-14.0
1976/77	66.9	66.9	66.9	843.3	4.9	66.8	6.0
1977/78	47.6	62.1	57.8	1423.4	7.2	72.8	68.8
1978/79	50.1	54.8	53.4	1587.9	7.2	58.7	11.6
1979/80	45.3	51.3	49.8	2329.6	10.0	54.3	46.7
1980/81	61.7	49.2	52.5	2819.5	10.3	42.1	21.0
1981/82	66.7	46.3	51.0	3438.8	11.1	37.4	22.0
1982/83	74.5	39.6	44.9	5182.0	15.4	32.0	50.7
1983/84	68.1	46.9	51.3	4810.0	12.2	39.4	-7.2
1984/85	58.4	50.3	52.4	5001.5	11.3	45.9	4.0
1985/86	40.3	42.5	42.0	6263.2	12.4	43.6	25.2
1986/87	43.5	39.1	40.0	7913.8	13.4	37.4	26.4
1987/88	38.1	33.1	34.3	9755.0	14.0	31.0	23.3
1988/89	24.7	26.1	25.8	12068.4	15.6	26.6	23.7
1989/90	12.0	25.2	23.0	13166.0	15.5	30.2	9.1

Table - 10

Trade Balance with India and Overseas Countries

(In million Rs.)

	1988/89	1989/90	1990/91 +
India			
Exports	1034.9	666.6	1701.2
Imports	4238.7	4646.3	7772.4
Trade Balance	-3238.8	-3979.7	-6071.2
Overseas			
Exports	3160.4	4568.9	5902.5
Imports	12025.0	13755.2	16425.5
Trade Balance	-8864.6	-9186.3	-10523.0
Overall Trade Balance	-12068.4	-13166.0	-16594.2

+ *Preliminary Estimates*
Source: Nepal Rastra Bank

Table - 11

Changing Composition of Exports and Imports of Nepal

(All ratios expressed in percentage)

Year	XM	XP	XHS	XCR	XRG	XHC	MFD	MR	MP	MC	MI	MFU
	X	X	X	X	X	X	M	M	M	M	M	M
1974/75	10.0	90.0	.7	.9	.2	2.0	15.8	3.8	19.5	53.9	15.9	10.7
1975/76	12.3	87.7	2.1	.8	.2	1.1	17.2	4.5	21.7	46.8	20.9	10.7
1976/77	14.1	85.9	4.7	2.4	.3	1.8	13.8	1.8	15.7	53.3	18.7	12.4
1977/78	17.3	82.7	7.3	2.3	.5	3.3	16.1	2.2	18.3	52.2	19.6	10.1
1978/79	22.0	78.0	9.9	3.5	.7	3.2	12.1	2.1	14.3	57.8	19.9	8.1
1979/80	30.5	69.6	18.4	4.8	.7	3.7	13.4	2.9	16.3	51.3	20.7	11.7
1980/81	25.0	75.0	8.5	4.0	.8	6.2	16.2	2.6	18.8	49.9	18.1	13.2
1981/82	19.7	80.3	6.3	5.6	.9	.8	14.6	2.9	17.5	52.7	18.1	11.8
1982/83	36.4	63.6	8.4	12.2	.9	.8	16.7	3.3	20.0	50.2	18.7	11.1
1983/84	39.3	60.7	9.1	15.6	1.2	.7	13.5	4.1	17.6	45.6	25.4	11.5
1984/85	43.7	56.3	8.1	9.1	17.2	.5	12.7	5.5	18.2	48.3	21.6	11.9
1985/86	57.4	42.6	7.6	12.2	26.1	.6	12.7	4.2	16.9	49.0	22.9	11.3
1986/87	56.0	44.0	5.4	21.0	20.4	1.1	12.4	6.0	18.4	47.6	25.5	8.5
1987/88	63.5	36.5	4.0	29.7	22.3	1.3	14.8	7.5	22.3	40.3	29.9	7.6
1988/89	80.2	19.8	3.8	39.0	26.6	2.2	11.5	7.3	18.7	44.6	29.8	6.9
1989/90	82.5	17.5	6.1	44.3	26.7	1.0	12.4	8.0	20.4	50.6	20.7	8.3

Note: XM = Export of Manufactured goods including Chemicals and Drugs
XP = Export of Primary Products
XHS = Export of Hides and Skins
XCR = Export of Carpets (Handknotted woollen)
XHC = Export of Handicrafts
XRG = Export of ready-made Garments
MFD = Import of Foods and Related Goods
MR = Import of raw Materials, inedibles
MP = Import of Primary Products = MFD + MR
MC = Import of nonfood consumption Goods Except Fuel
MI = Import of investment goods - Machinery and Transport
MFU = Import of Fuels and Lubricants

Table - 12

Balance of Payments Summary

(In million Rs.)

Year	Trade Balance	Services Net	Transfers Net	Current Account Balance	Official Capital			Misce-llaneous	Change Reserve
					Net	Foreign Loans	Amorti-zation		
1974/75	-925.0	280.8	523.9	-80.3	86.7	104.0	-17.3	-388.8	422.4
1975/76	-812.9	284.3	588.6	+60.0	145.8	163.7	-17.9	152.4	358.2
1976/77	-856.4	493.2	617.9	+254.7	214.8	233.4	-18.6	-158.7	310.8
1977/78	-1450.6	571.6	587.5	-291.5	291.4	310.7	-18.8	10.4	10.8
1978/79	-1608.8	778.6	869.5	+39.3	428.6	447.7	-19.1	115.5	583.4
1979/80	-2403.3	873.2	1188.2	-341.6	577.3	598.0	-20.7	-209.3	26.4
1980/81	-2830.2	1117.0	1417.3	-295.9	633.8	664.9	-31.1	-143.8	194.1
1981/82	-3452.0	1378.0	1681.7	-392.3	744.1	806.5	-32.4	-119.7	501.5
1982/83	-5197.0	1634.9	1890.7	-1671.4	924.4	963.9	-39.5	72.0	-675.0
1983/84	-4823.6	1406.8	2073.4	-1343.4	1203.5	1274.3	-70.8	13.9	-126.0
1984/85	-5022.2	1079.5	2093.7	-1849.0	1270.2	1362.5	-92.3	-287.2	-866.0
1985/86	-6266.3	1574.5	2240.9	-2470.9	1811.5	2005.1	-193.6	1220.4	561.0
1986/87	-7924.1	2327.4	2692.3	-2904.4	1888.3	2097.9	209.6	1392.6	376.5
1987/88	-9765.5	2211.7	2931.0	-4622.8	4368.0	4675.4	307.4	2527.8	2273.0
1988/89	-12086.0	3047.9	2717.9	-6320.2	5921.9	6302.0	380.1	474.2	75.9
1989/90	-13183.5	2613.2	2818.9	-7751.4	4977.5	5706.3	728.8	5420.4	2646.6

Source : Nepal Rastra Bank

Table - 13

Foreign Exchange Reserve Position *

(In million Rs.)

Period	Convertible Currency	Inconvertible Currency	Total Foreign Exchange	Import Coverage (Months)
July 1975	1022.90	272.70	1295.60	8.6
1976	1434.00	336.80	1770.80	10.7
1977	1862.80	270.90	2133.70	12.8
1978	1681.00	355.50	2036.50	9.9
1979	2090.60	572.70	2663.30	11.1
1980	2217.90	421.90	2639.80	9.1
1981	1998.70	967.90	2966.60	8.0
1982	2429.60	1306.00	3735.60	9.1
1983	1548.90	1512.40	3061.30	5.8
1984	1854.80	1158.70	3013.50	5.6
1985	1878.90	504.50	2383.40	3.7
1986	2658.90	804.40	3463.30	4.4
1987	3108.20	1068.00	4176.20	4.7
1988	6071.90	992.90	7064.80	6.1
1989	7537.00	773.80	8310.80	6.1
1990	9471.70	2118.10	11589.80	7.6

* Excluding Gold, SDRs and IMF Reserve Tranche

Table - 14

Foreign Aid Financing of Development Expenditure

(In million Rs.)

Period	Expenditure	Foreign Aid Gross	Foreign Aid as % of Development Expenditure
First Plan (1956-61)	382.9	382.9	100.0
No Plan Year (1961-62)	86.2	70.6	81.9
Second Plan (1962-65)	614.7	478.3	77.8
Third Plan (1965-70)	1639.1	919.2	56.1
Fourth Plan (1970-75)	3356.9	1509.1	45.0
Fifth Plan (1975-80)	8832.5	4240.8	48.0
Sixth Plan (1980-85)	22090.1	10585.2	47.9
Seventh Plan (1985-90)	29000.0	20480.0	70.6

Source: 1. The Seventh Plan (1985-90)
2. Economic Survey (1989-90).

Table - 15

Government Finance (FY 1980/81 - 1990/91)

(In million Rs.)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91*
Expenditure	4092.3	5361.3	6979.2	7437.3	8394.8	9797.1	11513.2	14105.0	18005.0	19669.3	24478.9
Regular	1361.2	1634.4	1997.1	2273.5	2906.1	3584.0	4135.2	4677.0	5676.2	6671.8	7927.9
Development	2731.1	3726.9	4982.1	5163.8	5488.7	6213.1	7378.0	9428.0	12328.8	12997.5	16551.0
Receipts	3288.1	3672.8	3931.7	4285.9	4840.0	5817.4	7260.2	9427.2	9457.5	11262.9	13093.0
Revenue	2419.2	2679.5	2841.6	3709.3	3916.6	4644.5	5975.1	7350.4	7776.9	9287.6	10698.3
Foreign grants	868.9	993.3	1090.1	876.6	923.4	1172.9	1285.1	2076.8	1680.6	1975.3	2394.7
Overall Surplus (+) or deficit (-)	-804.2	-1688.5	-3047.5	-3151.4	-3554.8	-3979.7	-4253.0	-4677.8	-8547.5	-8406.4	-11385.9
Foreign loans	693.3	729.9	985.8	1670.9	1754.9	2501.1	2705.8	3815.8	5666.4	5959.6	6280.9
Internal loan	250.0	500.0	1000.0	1576.8	1799.9	1403.4	1644.7	1130.0	1330.0	2150.0	4887.6
i) Banking system	1076.8	1299.9	903.4	1116.3	790.6	1320.0	1450.0	3937.6			
ii) Others		500.0	500.0	500.0	528.4	339.4	10.0	700.0	950.0		
Cash balance Surplus (-)		-139.1	458.6	1061.7	-96.3	75.2	-97.5	-268.0	1551.1	296.8	-217.5

* Revised Estimates.

Source: Economic Survey, FY 1990 -91; Ministry of Finance, Nepal.

Table - 16

Growth of Public Expenditure and Its Share in GDP

(In million Rs.)

Year	REG	DEG	TEG	REG as % of GDP	DEG as % of GDP	TEG as % of GDP	Growth Rate of TEG	Growth Rate of GDP
1974/75	546.5	967.2	1513.7	3.3	5.8	9.1	-	-
1975/76	674.5	1238.8	1913.3	3.9	7.1	11.0	26.4	5.0
1976/77	832.1	1498.3	2330.4	4.8	8.7	13.5	21.8	-.7
1977/78	866.9	1808.0	2674.9	4.4	9.2	13.6	14.8	14.2
1978/79	1041.7	1978.8	3020.5	4.7	8.9	13.9	12.9	12.6
1979/80	1162.1	2308.6	3470.7	5.0	9.9	14.9	14.9	5.1
1980/81	1361.2	2731.1	4092.3	5.0	10.0	15.0	17.9	16.9
1981/82	1634.4	3726.9	5361.3	5.3	12.0	17.3	31.0	13.5
1982/83	1997.1	4982.1	6979.2	5.9	14.8	20.7	30.2	9.0
1983/84	2273.5	5163.8	7437.3	5.8	13.1	18.9	6.6	16.7
1984/85	2906.1	5488.7	8394.8	6.5	12.4	18.9	12.9	12.8
1985/86	3584.0	6213.1	9797.1	7.1	12.3	19.4	16.7	13.5
1986/87	4135.2	7378.0	11513.2	7.0	12.5	19.4	17.5	17.6
1987/88	4677.1	9428.0	14105.1	6.7	13.6	20.3	22.5	17.2
1988/89	5676.2	12328.7	18004.9	7.3	15.9	23.3	27.7	11.4
1989/90	6671.8	12997.5	19660.3	7.9	15.3	22.0	4.2	9.5

REG = Regular Expenditure of Gvt.
DEG = Development Expenditure of Gvt.
TEG = Total Expenditure of Gvt. = REG + DEG.

Table - 17

Sources of Financing Public Expenditure in Nepal

(In million Rs.)

Year	TEG	TRG	TRG as % of TEG	INLG	INLG as % of TEG	FOG	FOG as % of TEG	FOL	FOL as % of TEG	Cash Balance Deficit	Cash Deficit as of TEG	Internal sowers as % of TEG	External sources as % of TEG
1974/75	1513.7	1008.4	66.6	100.0	6.6	282.8	18.7	104.0	6.9	+18.5	+ 1.2	73.2	25.4
1975/76	1913.3	1115.6	58.3	200.0	10.5	359.7	18.8	145.9	7.6	+92.1	+ 4.8	68.8	26.4
1976/77	2330.4	1322.9	56.8	300.0	12.9	392.6	16.9	164.3	7.1	+ 150.6	+ 6.5	69.7	24.0
1977/78	2674.9	1582.0	59.1	240.0	9.0	466.6	17.4	381.8	14.3	+ 4.5	+ .2	68.1	31.7
1978/79	3020.5	1811.9	60.0	200.0	6.6	599.2	19.8	390.2	12.9	+ 19.2	+ .6	66.6	32.7
1979/80	3470.7	1880.0	54.2	180.0	5.2	805.6	23.2	534.9	15.4	+ 70.2	+ 2.0	59.4	38.6
1980/81	4092.3	2419.2	59.1	250.0	6.1	868.9	21.2	693.3	16.9	+139.1	- 3.4	65.2	38.1
1981/82	5361.3	2679.5	50.0	500.0	9.3	993.3	18.5	729.9	13.6	+ 458.6	+ 8.6	59.3	32.1
1982/83	6979.2	2841.6	40.7	1000.0	14.3	1090.1	15.6	985.8	14.1	+1061.7	+15.2	55.0	29.7
1983/84	7437.3	3409.3	45.8	1576.8	21.2	876.6	11.8	1670.9	22.5	- 96.3	- 1.3	67.0	24.3
1984/85	8394.8	3916.6	46.7	1799.9	21.4	923.4	11.0	1754.9	20.9	-	-	68.1	31.9
1985/86	9797.1	4644.5	47.5	1403.4	14.3	1172.9	12.0	2501.1	25.5	+ 75.2	.8	61.7	37.5
1986/87	11513.2	5975.1	51.9	1644.7	14.3	1285.1	11.2	2705.8	23.5	- 97.5	.8	66.2	34.7
1987/88	14105.1	7350.4	52.1	1130.0	8.0	2076.8	14.7	3815.8	27.1	-268.0	- 1.9	60.1	41.8
1988/89	18004.9	7776.8	43.2	1330.0	7.4	1680.6	9.3	5666.4	31.5	+1551.1	+ 8.6	50.6	40.8
Agerage	-	-	92.4	-	52.8	-	16.0	-	17.3	-	-	63.9	33.3

Note: TEG = Total Expenditure of Gvt.
TRG = Total Revenue of Gvt.
INLG = Internal Loan of Gvt.
FOG = Foreign Grants
FOL = Foreign Loans

Table - 18

Percentage Share of Different Categories of Public Expenditure

Year	General Services	Defence	Social Services	Economic Services						Loans and Investment	Payment & Principal	Internal Payment	Pension & Grants
				Total	Agri.	Ind.	T. & Com	Elect.	Others				
1974/75	14.6	6.4	23.0	52.2	15.2	5.8	26.9	2.8	1.4	0.1	1.0	2.2	0.6
1975/76	14.5	7.0	24.2	50.1	20.4	6.0	20.2	2.5	1.0	0.2	0.8	2.5	0.7
1976/77	15.9	7.0	23.8	48.2	17.7	6.5	20.8	2.4	0.6	0.4	1.7	2.4	0.6
1977/78	13.2	6.3	22.9	52.0	17.6	14.4	20.1	9.3	0.6	0.3	1.7	3.0	0.6
1978/79	14.8	6.4	23.5	49.7	18.7	2.5	18.7	8.8	0.9	0.1	1.9	3.3	0.5
1979/80	13.1	6.4	18.1	55.3	15.8	3.3	21.3	14.4	0.5	0.3	2.7	3.5	0.5
1980/81	14.4	6.3	19.1	54.0	17.2	3.1	17.2	16.1	0.4	0.3	2.1	3.2	0.5
1981/82	14.8	5.3	24.4	50.1	20.5	5.0	16.4	7.2	0.9	0.1	1.9	2.9	0.4
1982/83	13.2	5.6	26.7	49.5	21.4	5.4	14.1	6.5	2.1	0.1	1.3	3.1	0.6
1983/84	11.2	6.1	24.9	50.5	19.3	8.8	12.9	8.9	0.6	(-)	2.2	4.4	0.6
1984/85	16.8	6.1	22.8	45.5	20.9	4.2	13.7	6.1	0.6	0.1	2.1	6.0	0.7
1985/86	12.5	6.2	22.4	47.4	22.3	4.1	9.9	10.6	0.5	0.1	3.5	6.9	1.0
1986/87	12.9	6.2	22.1	47.4	18.1	3.3	11.6	10.8	3.7	0.1	3.0	7.3	1.0
1987/88	12.2	5.4	21.2	49.9	17.0	4.4	13.7	13.6	1.2	-	2.8	7.8	0.7
1988/89	15.2	5.0	21.9	47.7	18.8	3.2	13.8	11.1	0.9	-	3.0	6.6	0.6

Table - 19

Share of Revenue in Government Expenditure and GDP, and Growth Rates for Selected Years

Year	TRG as % of TEG	TRG as % of GDP	Growth Rate of TRG	Growth Rate of TEG/year	Growth Rate of GDP/year
1974/75	66.6	6.1	10.6	26.4	5.0
1980/81	59.1	8.9	28.7	17.9	16.9
1982/83	40.7	8.4	6.0	30.2	9.0
1984/85	46.7	8.8	14.9	12.9	12.8
1985/86	47.4	9.2	18.6	16.7	13.5
1986/87	51.9	10.1	28.6	17.5	17.6
1987/88	52.1	10.6	23.0	22.5	17.2
1988/89	43.2	10.1	5.8	27.7	11.4

Note: Growth rates for 1974/75 calculated between 1974/75 and 1975/76. For other years growth rates are over previous years.

TRG = Total Revenue of Gvt.
TEG = Total Expenditure of Gvt.

Table - 20

Percentage Composition of Government Revenue for Selected Years

Year	1974/75	1980/81	1982/83	1984/85	1985/86	1986/87	1987/88	1988/89
A. **Total Revenue**	**1008.4**	**2419.2**	**2841.6**	**3916.8**	**4644.5**	**5975.1**	**7375.1**	**7776.8**
(in Rs. millon)								
Total Tax Revenue (%)	83.5	84.1	85.2	80.5	78.8	73.2	78.3	80.8
1. **Direct Taxes (%)**	**18.3**	**14.6**	**15.7**	**14.3**	**14.2**	**12.9**	**13.7**	**17.1**
1.1 Income Tax	4.7	6.0	8.4	7.8	7.9	7.3	7.9	11.1
1.2 Land Tax	9.0	4.2	2.3	2.0	1.6	1.2	1.1	1.0
1.3 Registration	3.6	3.2	3.7	3.6	3.7	3.5	3.9	4.1
1.4 Others	1.1	1.3	1.2	0.9	1.1	0.8	0.9	0.9
2. **Indirect Taxes (%)**	**65.2**	**69.5**	**69.5**	**66.2**	**64.5**	**60.3**	**64.5**	**63.7**
2.1 Customs	32.6	33.7	26.8	27.2	26.5	25.2	30.1	29.4
2.2 Sales	18.9	22.2	25.0	21.6	21.2	19.1	17.7	17.7
2.3 Excise	11.9	10.0	12.9	12.4	12.0	11.4	11.2	11.3
2.4 Others	1.8	3.6	4.9	5.0	4.8	4.6	1.2	5.2
3. **Non Tax Revenue (%)**	**16.5**	**15.9**	**14.8**	**19.5**	**21.2**	**26.8**	**21.7**	**19.2**
3.1 Forest	4.5	3.7	1.9	2.3	2.5	2.2	1.4	1.0
3.2 Dividend	0.0	3.6	4.2	2.2	2.4	1.8	1.6	2.6
3.3 Principal & Interest	7.6	1.2	1.7	2.6	7.0	5.0	4.9	4.4
3.4 Charge, Fees, Fines	1.8	2.0	2.5	7.2	4.3	14.2	9.2	7.1
3.5 Others	2.7	5.2	4.5	5.2	5.0	3.6	4.7	4.1

Source: Calculated from Economic Survey (1989/90), p.p. 55-56 Tables 8.2 and 8.3.

Table - 21

Elasticity and Buoyancy of Major Taxes in Nepal

Tax Head	Elasticity		Buoyancy	
	1974/75-1983/84	1974/75-1988/89	1974/75-1983/84	1974/75-1988/89
1. Total Revenue	0.4951	0.5866	1.3652	1.2814
2. Customs	0.4951	0.5886	1.1199	1.1688
2.1 Import	0.3612	0.4098	1.1595	1.2814
2.2 Export	-2.1343	-1.2057	-0.6494	1.4379
3. Indian Exc. Refund	-2.2314	-	-1.5052	0.1470
4. Excise	0.4225	0.7560	1.4183	1.2916
5. Income Tax	0.6497	0.5500	1.5101	1.4705
6. Sales Tax	1.0531	0.7600	1.8444	1.3480
7. Contract Tax	1.8983	1.6189	2.7948	2.1917
8. Hotel Tax	0.7835	0.7128	2.8140	2.0711
9. Entertainment Tax	-0.7306	0.1163	1.3563	1.0869
10. Land Revenue	-1.0134	-0.4213	-0.2389	0.0686

Source: Economic Survey (1989/90), p. 112.

Table - 22

Percentage Contribution of Discretionary Measures between 1974/75 to 1983/84 and 1974/75 to 1988/89

	Tax Head	Pecentage Contribution of Discretionary Measures	
		1974/75 to 1983/84	1974/75 to 1988/89
1	Total Revenue	63.7	54.2
2	Customs	55.8	49.6
	2.1 Import	68.8	68.0
	2.2 Export	-	-
3.	Indian exc. Refund	-	-
4.	Excise	70.2	41.5
5.	Income Tax	57.0	62.6
6.	Sales Tax	42.9	43.6
7.	Contract Tax	32.1	26.1
8.	Hotel Tax	72.2	65.6
9.	Entertainment Tax	-	-
10.	Land Revenue	-	-

Source: Calculated from Economic Survey (1989/90), pg. 112.

Table - 23

Total Public Debt

(In million Rs.)

Year	Internal Debt	Internal Debt as % of GDP	External Debt	External Debt as % of GDP	Total Public Debt	Total Debt as % of GDP	GDP
1974/75	515.0	3.1	346.1	2.1	861.1	5.2	16571
1975/76	657.6	3.8	477.2	2.7	1134.8	6.5	17394
1976/77	937.5	5.4	629.4	3.6	1566.9	9.1	17280
1977/78	1157.5	5.9	972.3	4.9	2129.8	10.8	19732
1978/79	1327.5	6.0	1320.9	5.9	2648.4	7.4	22215
1979/80	1457.5	6.2	1807.3	7.7	3264.8	14.0	23351
1980/81	1407.5	5.2	2451.3	9.0	3858.8	14.1	27307
1981/82	1857.5	6.0	3177.8	10.3	5035.3	16.2	30988
1982/83	2807.5	8.3	4717.6	14.0	7525.1	22.3	33761
1983/84	4277.5	10.9	6321.1	16.0	10598.6	26.9	39390
1984/85	5977.5	13.5	9203.2	20.7	15180.7	34.2	44417
1985/86	7007.5	13.9	10330.2	20.5	17337.7	34.4	50428
1986/87	8507.5	14.4	15171.9	25.6	23679.4	40.0	59246
1987/88	11075.7	15.9	20826.0	29.9	31901.7	45.9	69513
1988/89	13772.0	17.8	26216.9	33.9	39988.9	51.7	77414
Average		9.1		13.8		22.6	

Note: Per capita external debt is Rs. 1380 for 1988/89.

Table - 24

Trend of Gross Domestic and National Savings

(In million Rs.)

Year	Gross Domestic Saving (GDS)	Gross National Saving (GNS)	GDS as % of GDP	GNS as % of GNP
1974/75	1662	2283	10.4	13.6
1975/76	2040	2692	12.3	15.2
1976/77	2332	3023	14.3	17.2
1977/78	2540	3216	13.8	16.1
1978/79	2585	3554	12.4	15.7
1979/80	2591	3929	11.8	16.5
1980/81	2974	4512	11.7	16.2
1981/82	3088	4931	10.6	15.6
1982/83	2887	4957	9.1	14.4
1983/84	3886	6009	10.5	15.0
1984/85	6239	8336	15.0	18.5
1985/86	5887	8128	12.5	15.9
1986/87*	7456	10125	13.5	16.8
1987/88*	7529	10539	11.7	14.8
1988/89**	5594	8672	7.9	11.0

* Revised Preliminary Estimate

** Preliminary Estimate

Table - 25

Trend of Private and Public Saving and Investment

(Amount in million Rs. and share in percentage)

Year	Share of Private Sector Saving	Share of Public Sector Saving	Total GDS Rs. Million	Share of Private Sector Investment	Share of Public Sector Investment	Total Investment Rs.millon	Share of GDS in GDP	Share of Total Investment in GDP
1974/75	117.1	-17.1	1662	77.3	22.7	2402	10.0	14.5
1975/76	108.9	- 8.9	2040	74.1	25.9	2632	11.7	15.1
1976/77	110.0	-10.0	2332	73.3	26.7	2768	13.5	16.0
1977/78	95.1	4.9	2540	66.2	33.8	3507	12.9	17.8
1978/79	93.4	6.6	2585	65.1	34.9	3514	11.6	15.8
1979/80	101.7	-1.7	2591	60.2	39.8	4270	11.1	18.3
1980/81	98.6	1.4	2974	57.6	42.4	4808	10.9	17.6
1981/82	124.0	-24.0	3088	54.5	45.5	5314	10.0	17.1
1982/83	226.2	-126.2	2887	55.3	44.7	6628	8.6	19.6
1983/84	150.6	-50.6	3886	54.6	45.4	7351	9.9	18.7
1984/85	142.0	-42.0	6239	61.3	38.7	10184	14.0	22.9
1985/86	99.4	+0.6	5887	58.0	42.0	10599	11.7	21.0
1986/87	92.2	+7.8	7456	60.0	40.0	12888	12.6	21.8
1987/88	107.1	-7.1	7529	56.8	43.2	14246	10.8	20.5
1988/89	160.5	-60.5	5594	44.2	55.8	15072	7.2	19.5

Note: The percentage shares of public and private savings estimated on the basis of data supplied by CBS, Ministry of Finance and Auditor General's Office. Shares in investment calculated from data in Economic Survey (1989/90).

Table - 26

Underemployment Rate per Annum by Sex and Region in NPC Survey (1977) and NRB Survey (1984/85)

(In pecentage)

Regions	NPC Survey (1977) [a]			NRB Survey (1984/85) [b]		
	Male	Female	Total	Male	Female	Total
Rural Nepal	57.88	68.69	63.07	41.80	51.70	46.40
- Terai	54.13	71.89	61.90	41.00	55.60	46.80
- Hills	62.05	67.88	65.04	44.40	51.40	48.20
- Mountains	57.04	65.70	61.45	37.50	45.30	41.50
Urban Nepal						
- Terai	NA	NA	44.71	23.80	46.60	33.60
- Hills	NA	NA	NA	23.20	53.10	33.90
- Mountains	NA	NA	NA	25.00	41.60	33.30

Source: a. NPC Survey (1983), Tables 6.6 and 6.7, pp. 58-59

b. NRB Survey (1988), Table XV, p. 76