BALANCE OF PAYMENTS SITUATION WITH INDIA: A MEDIUM TERM PROPOSAL FOR ITS CORRECTION*

1. Introduction

The deterioration in Nepal's balance of payments with India has now reached a serious proportion which calls for equally serious policy measures. Before embarking on any policy measures it is necessary to diagnose the ailment and analyze the major factors which caused the ailment.

Current account deficit with India had started to narrow down steadily since the devaluation of Nepalese rupee in November 1985 from Rs 1,186.6 million to Rs 696.6 million in 1988/89. It is noteworthy that this improvement in current account deficit is the result not of any improvement in merchandise trade deficit but of significant increases in receipts from services and transfers. In fact, trade deficit widened due to very slow growth of exports compared to fast growth of imports. On the contrary, receipts from services and transfers responded favorably and increased by 72.0 percent and 47.0 percent, respectively, from 1985/86 to 1988/89. The deadlock in Nepal-India trade and transit treaties which started since March 1989 did not have any adverse effect on the services and transfer sector although it had unfavorable impact on merchandise trade with India. On the capital account, there were some signs of moderate amount of capital inflow from 1985/86 to 1987/88, while in 1988/89 there was a substantial outflow of capital. In spite of improvement in current account deficit and some inflow of private capital, Indian currency reserve continued to be under pressure, thus compelling the Central Bank to purchase Indian currency worth Rs 715.8 million, Rs 1,025.3 million, and Rs 2,204.0 million in 1985/86, 1986/87, and 1988/89, respectively. Hence, even after devaluation the strain on overall balance of payments with India did not show any sign of recovery.

The years 1989/90 to 1991/92 proved to be far more strenuous for Nepal's balance of payments with India. The 1989/90 deadlock in trade and transit treaties with India dislocated the flow of goods to and from India and third countries and virtually placed all the economic activities to a standstill. Hence, Nepal's exports to India suffered a heavy setback, while imports registered a marginal growth of about 10 percent. Receipts from services declined slightly by 4.6 percent, while receipts from transfer went up by 15.8 percent. Hence, current account deficit shot up tremendously from Rs 696.6 million in 1988/89 to Rs 1,780.9 million in 1989/90 - an increase by 2.6 times. But, in spite of widening current account deficit, the overall balance of payments turned out to be favorable mainly due to remarkable inflow of private capital and purchase of Indian currency by the Nepal Rastra Bank. In fact, if IC purchase worth Rs 1,709.7 million were netted out, actual payments position would have turned negative.

Soon after the settlement of the deadlock by the end of the fiscal year 1989/90, the Nepalese economy was hit, although moderately, by gulf crisis which again created some disturbances in the supply situation, particularly of petroleum products. However, despite this, during the fiscal year

* A study conducted by Institute for Sustainable Development for Nepal Rastra Bank. Its summarized version appears here. The views and opinions expressed are the responsibility of the Institute itself.

1990/91, Nepal's exports to India rose by 179 percent to Rs 1,717.0 million, while at the same time, imports also went up steeply by 66 percent resulting in an increase in trade deficit by 50 percent. The enlarged trade deficit could not be financed moderate increase in receipts from services and transfers and hence the current account deficit also increased by 83 percent to Rs 3,251.0 million. But the huge current account deficit was almost wholly financed by inflow of private capital which resulted in a slight increase in reserve by Rs 134.1 million. The inflow of capital amounting to Rs 3,385.1 million, however, includes purchase of Indian currency worth Rs 254.5 million. Toward the end of the fiscal year 1990/91, India devalued its currency against US dollar by a total of 21.8 percent. Following this Nepal also devalued its currency by 21.0 percent against US dollar and revalued by 1.79 percent against Indian currency. In March 1991 India decided to make its currency partially convertible in current account under which 40 percent of foreign exchange earnings is converted at official rate and 60 percent at market-determined rate. Nepal also immediately declared Nepalese currency partially convertible against US dollar, the ratio being 35 and 65 percent. While the official rate was maintained at Rs 42.80, the market rate fluctuated around Rs 48 per dollar. Hence Nepalese currency was further depreciated against dollar for almost all current account transactions. But the exchange rate with Indian currency remained unchanged at Rs 1.65 per Re 1.00 IC. On account of exchange rate difference alone, Nepalese exports to third country became more competitive than to India, while imports from India became cheaper than from third countries. This explains why trade deficit widened tremendously in 1991/92 mainly due to decline in exports and acceleration of imports from India.

Another remarkable feature of the balance of payments with India in 1991/92 is decline in net receipts from services by 25.9 percent which is not due to decline in receipts (according to 11 months' BOP data) but due to increase in payments by 56.8 percent. Net receipts from transfer, however, increased by 48.1 percent in 1991/92. Consequently, the current account deficit showed a tremendous upsurge to Rs 6.7 billion which could not be met by capital inflow and purchase of Indian currency which together amounted to about Rs 5 billion resulting in the heavy down-fall in the Indian currency reserve during 1991/92.

In fact, Nepal Rastra Bank has entered into an agreement with Reserve Bank of India for standby loans of varying amounts - the latest being Rs 350 million. Nepal has utilized the stand-by loans very often during the last 17 years specially to tide over short term need of Indian currency. As Nepal's deficit of Indian currency is of perpetual nature, it has become necessary to meet it by selling convertible currency as well. During the last 17 years, Nepal Rastra Bank has sold varying amounts of convertible currency to buy Indian currency. Since 1984/85 a large part of current account deficit has been financed by buying Indian currency. It shows the extent of seriousness of the problem of Nepal's balance of payments with India and indicates the need to find a long term solution.

The brief analysis of Nepal's balance of payments with India thus shows that the main culprit for the problem of chronic payment deficit with India is growing trade deficit mainly due to very week export performance and increasing import requirement. Nepal's exports to India have traditionally been limited largely to primary products and the pattern of export has so far remained almost unchanged. Nepal used to export sizeable volume of rice and timber during the 1970's. Both of these items have been phased out particularly since 1985/86. At present, jute and jute goods, rice-bran oil, salseed oil, oil cakes, pulses, oilseed, cardamom, ginger, and ghee are some of the major items exported to India.

On the import side, although Nepal imports a bulk of manufactured products from India, there exists the possibility of substituting imports of such goods as medicines, textiles, paper etc. by domestic production. Furthermore, Nepal also imports from India some primary products like fruits, vegetables, live animals, dairy products, etc., which could also be effectively substituted by domestic products.

2. Exchange Rate Regime

Although Nepal introduced currency basket system in the early 1980s to allow flexibility in the exchange rate of the Nepalese currency (NC), the exchange rate vis-a-vis the Indian currency (IC) has, in practice, been administered by the government. As a result, there have been imbalanced movements in the exchange rate of NC against the convertible currencies and the IC. The nominal exchange rate indices of the NC against the IC and the US dollar declined to 87.9 and 42.1, respectively, from the base value of 1984/85 (=100). This shows depreciation of the NC against IC by 12 percent and against the dollar by 58 percent during 1984/85 through 1991/92. The real exchange rate indices, however, exhibited more divergent movements. The real exchange rate index of NC against the dollar depreciated by 26 percent in 1991/92 from the level of 1984/85, whereas the index against IC appreciated by 17 percent during the same period.

Empirical analysis of the impact of relative real exchange rate movements of NC against IC and convertible currencies (represented by the US dollar) indicates no significant effect of such movement on the export performance of the country. Neither the higher premium in dollar in relation to IC arising out of heavy depreciations of NC against the convertible currencies has been found instrumental in diverting Nepal's exports from India to third countries. As Nepal's exports to India consist mainly of primary products which are less sensitive to prices and not easily diverted to third countries, export of such products is supposed to be determined mainly by the availability of exportable surplus in the country. Exchange rate depreciation (or appreciation) of NC is not likely to improve (or deteriorate) significantly the real export supply to India. However, for a more precise assessment of the nature and extent of trade diversion on account of a higher premium in dollar due to higher depreciation of NC against dollar than that against IC, a more elaborate study of Nepal's export by commodities and by destination in relation to relative exchange rate variation of NC against IC and dollar may be necessary.*

However, the empirical analysis of the impact of relative real exchange rate movements of NC against IC and the dollar shows that such movements have significant bearing on real imports demand from India. The effect is the same even if only the relative nominal exchange rate movements are considered. The empirical result shows that each 10 percent change in the ratio of nominal exchange rate indices of NC against IC and the dollar (RERI/RER$) causes a 4.4 percent change in real imports from India. Depreciation of NC against IC will neither reduce the total volume of imports or divert the source of imports from India toward third countries (given that the exchange rate against convertible currencies remains the same). In either case, the result will be a

* Although the empirical analysis based on actual data has indicated no significant effect on exports to India due to relative exchange rate variation of NC against IC and dollar, the actual exports to India during the period of review may have been affected both by the provisions of Nepal-India trade treaty and the non-tariff and non-formal trade barriers irrespective of changes in relative exchange rate of NC against IC and dollar.

positive effect on trade and payments position with India. As the empirical result signals that the discriminatory exchange rate adjustment policy (keeping NC overvalued against IC in the wake of substantial depreciation with convertible currencies) has been partly responsible for a deteriorating trade and payments position of Nepal with India, it seems that NC-IC exchange rate should be readjusted at a more realistic level which is consistent with the NC-dollar exchange rate movement.

However, so long as free and unlimited convertibility of NC against IC is maintained, NC-dollar exchange rate in Nepal must correspond to IC-dollar exchange rate in India to minimize the cross-rate differences and discourage unauthorized inflow and outflow of dollar. Depreciation of NC against IC will, therefore, result in corresponding depreciation of NC-dollar exchange rate as well irrespective of favorable balance of payments position in dollar accounts. This will have adverse effects on domestic price structure and costs of imported inputs affecting the competitiveness of export industries as well. In the context of full convertibility of Nepalese currency, the existing system of free convertibility of NC against IC at officially fixed exchange rate appears anomalous and needs to be considered for its discontinuation. Adjustment of NC-IC exchange rate to a realistic level in line with the NC-dollar exchange rate movement, however desirable, may have to be considered only within the constraints imposed by the existing system of free convertibility of NC against IC.

Looking at the problem from the export side, it is evident that the exchange rate movement, in general, has no bearing on expansion or contraction of real exports. It is, therefore, recommended to expand exports through supply management which means essentially the expansion of exportable surplus in the economy.

Regarding an appropriate exchange regime, although the present study has found that the existing conditions justify continuation of the present system of fixed but adjusted NC-IC exchange rate regime, it is, however, appropriate to undertake a more through-going study on the implications of a floating exchange rate regime vis-a-vis the fixed exchange rate regime. Such study is all the more justified, considering the fact that the existing free convertibility of NC against IC is anomalous in the context of full convertibility of Nepalese currency.

3. Tariff Structure

In order to narrow down the existing tariff differences with the objective of easing payment situation with India, it is not advisable to increase the tariff on imports from India for the simple reason that such measure would be counter-productive. The high tariff rates will only encourage the unauthorized trade across the long and open border. Experience has shown that high tariff on luxury, textiles and similar goods, and even on durable consumer goods has little impact either on revenue or on consumption. It would be, therefore, more prudent and pragmatic to rationalize the tariff on Indian goods to the level where unauthorized trade across the open border becomes less lucrative or even unremunerative. At the same time, it is also advisable that the additional duty, which is not applicable to imports from India, be gradually phased out to reduce bias against the third country imports. As already indicated in this study, the government has already initiated such process by scaling down the additional duty rates to a considerable extent. Additional duty on third country imports has been adjusted in the basic customs duty itself from FY 1993/94. Such process is also quite in line with the trade liberalization policy of the government as well.

Secondly, the diversion of substitutable imports from India to third countries through tariff measures could be a zero-sum-game with gain in IC reserves counterbalanced by drain on convertible currencies. It is, therefore, worthwhile to ascertain the relative advantages to the economy from procurement of selective Indian goods by paying convertible currencies and getting therefrom some price benefits rather than buying Indian currency with convertible currencies to finance Indian imports. Selection of such commodities should be based on some well-considered criteria. For consideration, the following may be suggested:

i) assessment of price-advantages;
ii) non-substitutable commodities from third countries;
iii) bulky commodities with heavy transport cost; and
iv) selected high value-adding raw materials (this will make the concerned final products eligible for Indian tariff preferences).

Thirdly, the rationalization of tariff structure in future should not be limited to gradual elimination of bias against third country imports. It should also consider the need for import substitution of a few selected commodities which are imported from India in large quantities and in which Nepal already has experience and know-how and could, therefore, be competitive with similar goods from India. Trade deficit, which is the primary cause of overall BOP deficit with India, can be reduced only when the supply situation of the economy can be improved and expanded through establishment and/or expansion of a few selected import substituting industries with reasonable tariff protection just enough to offset comparative disadvantages.

4. Wage, Price and Interest and Money Supply

Wage, price, and interest rate differentials create differences in relative costs of production of goods and services and, consequently, in comparative advantages in trade. This ultimately creates imbalance in trade and payments between countries. However, in the analysis of balance of payments deficit with India, the existence of such differences need not be given much significance because the existing situation of high mobility of labor, capital, and commodities across the open border tends to equilibrate their returns (wages, interest, and prices).

The analysis of the wage structure in unorganized sectors of the two countries indicates that wages in Nepal are not so much different from wages in the border areas in India. Intra-country variations in wages are often greater than inter-country variations. As job opportunities appear to be a major determinant of labor mobility, wage differences are not likely to exert significant impact on the flow of labor force to and from Nepal. Also the impact of such flow on the balance of payments through wage remittances could not be estimated on account of deficiency in reliable information.

The interest rate structure of commercial bank deposits in Nepal and India reveals that the nominal rates of interest are higher in Nepal than those in India. If the real rates of interest are taken into account, the scenario does not give any consistent pattern and differences in the interest rate structure. Looking at the erratic movements in the real rates (sometimes Nepal and sometimes India having edge over the other) in the wake of the persistent balance of payments deficit with India, there is little scope to generalize that interest rate differential has caused capital outflow and, hence, balance of payments deficit with India.

The movement of price both in Nepal and India is not so divergent. The coefficient of correlation between Nepal's CPI and India's WPI is found to be 0.991 and the the coefficient of correlation between GDP deflators of the two countries is even higher (0.996). To examine whether relative prices differences (in India and Nepal) have effected export supply and import demand of Nepal, the Keynesian-type of export supply and import demand functions were estimated and the result shows that the relative prices have no significant effects on them. This shows that the price difference is also not a major factor affecting trade and payments deficit with India.

A monetary analysis of the balance of payments problem with India, however, reveals that the problem is basically monetary in nature. The empirical analysis shows that excess supply of money compared to its desired level generates additional demand for goods and services in the economy. As the supply response of the domestic economy is very weak (due to structural rigidities in production), the additional demand is to be met through imports. Given that India is in close proximity with open border and free convertibility of the NC into IC and vice versa, a large chunk of the import demand is likely to be met through imports from India. This is evident from the regression of balance of payments with India against net domestic assets (credit) of the banking system along with other explanatory variables. The result shows that one rupee increase in net domestic assets of the banking system in proportion to money supply causes a proportional deficit in the balance of payments with India. From this, it can be inferred that controlling domestic component of money supply would be of immense help for correcting payments deficit with India. Controlling domestic credit of the banking system is, therefore, a "must" for a favorable balance of payments situation.

5. Liberalization, Landlockedness, and Open Border

Both Nepal and India are now committed to open and liberal economic policies and are, at present, passing through the different stages of the liberalization process. This will certainly minimize the room for divergence and maximize the scope for convergence of economic policies between Nepal and India. It is in this changing context that the implications of landlockedness and open border for Nepal should be considered and related to the existing problem of BOP position with India.

On the whole, it appears that truck and rail freight and other charges together account for at least 8 to 10 percent of CIF and FOB value of Nepalese imports and exports. This should have serious implications for Nepal on account of the corresponding erosion of competitiveness of Nepalese exports based on both indigenous and imported materials with consequent adverse effects on trade account. But IC demand for payment of freight charges may be reduced considerably with improved and expanded capabilities of Nepal Transport Corporation and Nepal Transit and Warehousing Company and also with proper incentives to private sector transport companies. It is, therefore, recommended to expand national capabilities in transport sector gradually to replace Indian rail and truck services.

The various liberalization measures in India will considerably reduce the possibilities of deflection of the third country goods into India and as such there is much scope and justification for simplification of both import and export procedures designed largely to control and prevent trade deflection and diversion. Such simplification can reduce the costs of goods in transit and, at the same time, the demand for IC as well.

With further economic liberalization in India, as the scope for deflection of third country goods into India across the open border is likely to be reduced, the IC earnings on this account will also dry up, but the corresponding amount of convertible currencies will be saved.

Unless there is full-proof border seal or full scale harmonization of Nepalese and Indian economies, which are both unlikely, the problem of unauthorized trade across the open border will continue even on a larger scale from the Indian side, as the process of liberalization is pushed further in India, compelling the Nepalese industries to face fierce competition with Indian products even in the Nepalese domestic market. While no adequate and reliable information is readily available, it is suspected that the unauthorized trade in Indian goods across the open border is taking place on a substantial scale.

Because of raw materials and labor-content conditionality and pro forma requirement, export of Nepalese industrial goods to India under tariff preferences has been limited. Reduction of raw materials content from 55 to 50 percent inclusive of Nepalese labor as well as replacement of pro forma system by the certificate of origin will certainly make a few more Nepalese industrial products eligible for access to Indian market under tariff preferences. However, in order to reduce trade deficit and improve the balance of payments position with India on a medium term basis, it is recommended to concentrate on (i) export of a few selected traditional primary products which already have free and unconditional access to vast Indian market, (ii) import-substitution of a few selected industrial commodities which are imported from India on a large scale and for which Nepal can create necessary competitive advantages or in which Nepal could be competitive, and (iii) tourism promotion efforts directed to Indian market to the extent justified by the huge market and geographical proximity.

6. Overall

The foregoing analysis makes it clear that the BOP problem with India is largely the result of huge trade deficit with India. While efforts should be made to increase earnings from invisible sources, the emphasis should be largely on measures for effective and appropriate economic management from both the supply and the demand sides. In order words, there is need for some concrete strategy to expand, on the one hand, the supply situation of the economy for expansion of exports to India on a selective basis and, on the other, to reduce imports from India through import-demand compression and import-substitution on a selective basis.

Table 1: Summary Balance of Payments with India
1975/76 - 1990/91
(In Million Rupees)

Heading	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91P
A. Trade Balance	-356.5	-579.5	-1062.5	-952.4	-1338.9	-1200.2	-1299.6	-1671.4	-1910.6	-2314.8	-2753.1	-2969.8	-3038.9	-3221.0	-4089.5	-6084.6
1. Exports, f.o.b.	910.6	801.3	517.1	656.9	536.7	996.5	999.0	847.0	1166.7	1607.5	1248.7	1314.1	1581.0	1050.7	615.8	1717.0
2. Imports, c.i.f.	1267.1	1380.8	1579.6	1609.3	1875.6	2196.7	2298.6	2518.4	3077.3	3922.3	4001.8	4283.9	4619.9	4271.7	4705.3	7801.6
B. Services, net	110.3	207.1	197.9	318.8	257.5	603.5	734.9	749.9	660.2	318.8	900.5	1024.3	1237.3	1548.3	1278.7	1556.3
1. Receipts	411.7	492.6	534.7	686.8	718.8	967.8	1150.6	1166.3	1011.5	926.9	1525.9	1840.5	2124.6	2783.5	2656.6	3149.5
1.1 Freight on Merchandise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.2 Other Transportation	12.4	11.0	14.0	17.3	13.7	7.0	14.7	0.0	0.5	0.0	4.1	7.0	17.4	5.7	15.7	14.1
1.3 Travel	79.0	98.8	95.5	181.3	206.4	320.2	513.4	455.3	174.0	235.8	417.2	737.8	749.8	1495.3	1457.3	1642.2
1.4 Investment Income	1.6	5.1	0.7	2.7	1.2	0.5	5.8	12.4	37.7	14.7	1.8	12.9	10.5	8.0	2.0	15.1
1.5 Government, n.i.e.	43.2	53.2	72.4	85.9	99.3	154.5	33.9	76.8	205.2	114.8	357.1	161.1	88.7	36.3	5.7	8.8
1.6 Other Service	275.5	324.5	352.1	399.6	398.2	485.6	583.0	621.8	596.1	561.6	745.7	921.7	1258.2	1237.4	1175.9	1469.3
C. Payments	301.4	285.5	336.8	368.0	461.3	364.3	415.9	416.4	351.3	608.1	625.4	816.2	887.3	1235.2	1377.9	1593.2
2.1 Freight on Merchandise	39.3	41.7	49.2	62.9	65.3	2.2	43.6	13.2	16.6	36.9	55.7	40.0	32.9	36.9	81.0	172.9
2.2 Other Transportation	1.4	1.2	2.7	2.5	3.1	6.4	7.7	4.4	1.0	1.1	64.6	42.8	88.3	3.5	3.1	7.9
2.3 Travel	141.6	149.9	176.6	188.7	253.4	212.8	204.1	236.7	149.2	306.5	231.9	341.9	359.4	559.5	678.4	614.9
2.4 Investment Income	7.3	1.7	0.0	0.0	0.0	0.0	0.1	0.0	2.4	14.4	11.0	5.3	2.7	21.2	0.8	1.0
2.5 Government, n.i.e.	1.9	2.2	3.0	4.4	2.7	5.0	6.2	6.0	5.6	27.0	6.8	5.6	14.5	24.0	28.3	149.2
2.6 Other Service	109.9	88.8	105.3	109.5	136.8	137.9	154.2	156.1	173.5	222.2	255.4	380.6	389.5	550.1	586.3	647.3
C. Unrequitted Transfers, net	299.9	394.6	280.4	387.7	458.3	576.5	564.2	445.5	656.0	630.0	666.0	910.6	996.5	976.1	1029.9	1277.3
1. Private	96.0	134.9	92.0	111.3	139.2	166.1	220.7	171.5	187.2	267.7	289.7	578.2	212.3	681.6	833.9	900.3
1.1 Inward Transfers	113.2	157.5	106.6	124.1	152.3	166.1	244.2	204.6	224.1	301.1	388.6	642.2	785.3	849.2	895.5	968.7
1.2 Outward Transfers	17.2	22.6	14.6	12.8	13.1	0.0	23.5	33.1	36.9	33.4	98.9	64.0	73.0	167.6	61.6	68.4
2. Central Government	203.9	259.7	188.4	276.4	319.1	410.4	343.5	274.0	468.8	362.3	376.3	332.4	284.2	294.5	196.0	377.0
2.1 Grants	91.7	142.3	104.9	226.8	282.2	349.1	299.3	252.6	372.0	288.8	296.1	215.0	169.5	203.6	187.2	189.0
2.2 Indian Excise Refund	112.2	117.4	82.7	35.9	36.9	57.3	40.3	8.6	59.5	71.8	77.4	116.1	112.8	87.2	0.2	188.0
2.3 Other Transfer Receipts	0.0	0.0	0.8	13.7	0.0	4.0	3.9	12.8	37.3	1.7	2.8	1.3	1.9	3.7	8.6	0.0
2.4 Transfer Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Current Account Balance	53.7	22.2	-584.2	-245.9	-623.1	-20.2	-0.5	-476.0	-594.4	-1366.0	-1186.6	-1034.9	-805.1	-696.6	-1780.9	-3251.0
E. Official Capital, Net	2.6	2.6	0.1	0.0	0.0	0.0	-0.9	109.0	0.0	0.0	-1.1	-1.2	0.0	0.0	0.0	0.0
1. Foreign Loans	3.1	2.6	0.1	0.0	0.0	0.0	0.0	109.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Amortization	-0.5	0.0	0.0	0.0	0.0	0.0	-0.9	0.0	0.0	0.0	-1.1	-1.2	0.0	0.0	0.0	0.0
F. Miscellaneous Capital Items, Net	64.0	-59.7	-109.1	-50.1	-511.2	-48.9	363.7	573.4	240.7	148.4	1487.6	1297.1	732.6	477.6	3125.1	3385.1
8. Change in Reserve, Net* (-increase)	-120.3	34.9	693.2	296.0	1134.3	69.1	-362.3	-206.4	333.7	1217.6	-299.9	-261.0	72.5	219.0	-1344.2	-134.1
Purchase of LC	41.5	10.7	769.5		983.5	615.1				563.4	715.8	1025.3	-	2204.2	1709.7	254.5
Position of LC not purchased					2117.8	684.2				1781.0	415.9	764.3		2423.2	365.5	120.4

P = Provisional
* = Purchase of IC has been adjusted.

Table 2: Export of Major Commodities to India
(In Million Rupees)

		1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92
A.	Major Items	512.5	668.1	548.3	258.2	273.8	213.7	524.0	440.3	372.8	500.2	722.2	757.1	798.2	1,250.0	872.1	547.8	1,179.8	1,057.9
1.	Maize	0.0	0.0	1.4	4.7	4.9	2.7	24.5	26.1	0.3	0.4	10.9	0.0	0.0	0.0	1.3	0.1	5.6	0.0
2.	Rice (husked)	116.7	495.4	343.0	46.5	13.3	2.9	117.6	136.5	11.3	75.7	250.0	93.2	14.4	0.0	0.0	0.0	0.0	0.0
3.	Herbs	2.2	2.8	6.3	6.5	5.2	13.5	16.5	6.4	5.9	8.0	27.9	16.6	8.1	16.4	13.7	6.9	12.2	13.2
4.	Ghee (clarified)	52.0	60.5	35.8	33.2	46.0	21.2	54.0	26.2	36.8	45.8	39.4	47.1	46.6	46.7	49.9	18.7	11.5	13.2
5.	Dried Ginger	29.0	15.0	27.3	16.1	14.2	8.6	10.8	15.3	19.3	37.1	28.7	30.3	35.2	37.3	30.3	17.6	20.8	16.2
6.	Timber	283.2	54.1	103.4	146.7	176.7	136.1	226.2	87.2	28.8	7.9	25.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7.	Mustard and Linseeds	29.4	40.3	31.1	4.5	0.0	0.0	0.0	0.0	0.0	75.5	25.7	58.2	103.1	141.3	50.8	11.2	44.7	61.0
8.	Raw Jute	0.0	0.0	0.0	0.0	2.1	12.9	46.4	43.4	85.5	36.5	43.9	2.3	14.5	44.1	36.5	133.7	5.4	0.0
9.	Jute Goods	0.0	0.0	0.0	0.0	8.2	8.3	10.3	81.0	179.7	212.1	280.0	167.4	164.0	188.7	134.0	11.2	272.3	191.4
	(a) Hessian	0.0	0.0	0.0	0.0	6.2	6.5	3.6	27.1	79.1	91.7	117.1	78.2	91.0	84.9	58.5	2.2	105.2	72.2
	(b) Sackings	0.0	0.0	0.0	0.0	1.0	0.3	5.9	49.8	88.0	89.9	85.6	57.9	40.6	68.4	46.6	4.0	78.0	29.5
	(c) Twines	0.0	0.0	0.0	0.0	1.0	1.5	0.8	4.1	12.6	30.5	57.3	31.3	32.4	35.4	28.9	5.0	89.1	89.7
10.	Wheat	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11.	Pulses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.1	34.3	123.1	51.8	4.4	74.4	14.3
12.	Flour	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.8	1.1	0.2	0.1	0.2	4.4	1.7
13.	Live Animals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	103.8	116.2	162.5	126.1	128.9	60.9	58.0
14.	Catechu	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.2	108.7	105.4	43.6	12.1	87.5	98.2
15.	Ginger	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.0	22.3	34.1	30.5	43.2	61.4	67.7
16.	Oil Cakes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51.1	57.6	57.5	49.0	34.8	71.4	58.6
17.	Kachha	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	83.6	11.2	9.0	3.3	0.0	5.8	10.1
18.	Ricebran Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.9	44.0	79.0	53.2	11.2	136.4	94.0
19.	Salseeds Oil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.5	16.9	56.9	35.8	0.0	33.9	0.0
20.	Stone and Sand	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.3	4.7	0.1	15.9	21.4
21.	Fresh Fish	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	2.7	1.0	0.1	0.0
22.	Biscuits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.3	7.7	0.0	5.9	6.3
23.	Potato	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.9	0.6	0.0	0.1
24.	Cardamom	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.8	35.1	30.9	75.9	99.0
25.	Rosin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	70.4	54.7	0.9	53.0	110.8
26.	Skin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.1	12.5	37.9	52.5	53.2
27.	Fruits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.0	1.4	3.5	0.7	1.6
28.	Noodles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.2	6.9	9.3
29.	Brans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.0	37.3	53.8	51.7
30.	Cinnamon	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.5	4.2	5.7
31.	Turmeric	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.1	0.1	0.7
32.	Iron Scrapes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.4	0.6	2.2	0.0
33.	Jute Cuttings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.6	10.5	0.0	0.0	0.5
B.	Others	234.2	225.6	231.3	239.9	376.3	307.2	468.4	554.1	470.4	660.5	879.5	484.0	504.3	317.8	162.7	54.7	521.4	511.0
	Total (A+B)	746.7	893.7	779.6	498.1	650.1	520.9	992.4	994.4	843.2	1,160.7	1,601.7	1,241.1	1,302.5	1,567.8	1,034.8	602.5	1,701.2	1,568.9
Percentage of A Over Total		68.6	74.8	70.3	51.8	42.1	41.0	52.8	44.3	44.2	43.1	45.1	61.0	61.3	79.7	84.3	90.9	69.4	67.4

Table 3: Import of Major Commodities from India

(In Million Rupees)

		1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92*
A.	Major Items	2,447.0	2,643.0	2,735.6	3,015.9	3,400.5	4,547.1	7,219.5
1.	Live Animals	146.2	192.4	317.5	242.8	319.4	26.8	41.6
2.	Cotton Fabrics	632.6	603.8	406.7	505.0	398.4	573.9	1,068.6
3.	Readymade Garments	57.0	53.9	72.2	68.9	32.5	59.5	148.7
4.	Raw Cotton	15.3	32.7	15.6	9.0	18.4	7.1	94.0
5.	Thread	111.4	100.0	101.3	130.8	153.1	191.1	288.8
6.	Vegetables	65.6	62.6	76.1	69.9	62.9	73.5	106.2
7.	Fruits	33.1	37.4	46.2	36.9	51.1	52.2	50.7
8.	Pipe and Pipe Fittings Equipments	75.9	62.8	39.1	45.4	72.2	42.6	139.8
9.	Cement	59.5	65.2	7.2	89.8	283.7	371.9	468.5
10.	Medicine	371.0	444.3	473.1	436.9	667.9	821.2	1,036.1
11.	Transportation Equipment and Spare Parts	195.5	217.6	280.6	329.1	138.0	588.3	1,155.7
12.	Machinery Equipment and Appliances	297.7	345.2	360.1	365.5	318.4	749.9	805.0
13.	Electrical Equipment	110.8	110.7	78.1	79.3	209.8	185.2	124.6
14.	Tobacco	92.0	125.1	129.3	179.1	198.7	135.1	114.1
15.	Tea	42.3	25.6	24.8	35.0	40.0	56.6	69.2
16.	Cuminseeds and Peppers	36.0	43.0	37.4	65.5	55.0	82.7	94.7
17.	Paper	46.5	34.7	11.1	21.2	48.3	75.6	104.8
18.	Coal	55.4	84.2	67.5	75.7	23.0	155.7	219.2
19.	Iron Rods	3.2	1.8	1.1	0.0	0.0	0.0	0.0
20.	Eggs	0.0	0.0	10.3	10.7	7.6	18.6	31.8
21.	Horlicks and Other Milk Products	0.0	0.0	56.0	77.2	72.3	104.0	179.5
22.	Salt	0.0	0.0	23.7	20.3	20.1	41.0	28.0
23.	Dried Chilly	0.0	0.0	14.8	19.1	18.8	2.8	15.3
24.	Bidi Leaves	0.0	0.0	16.6	14.5	6.9	4.9	5.8
25.	Books and Magazines	0.0	0.0	49.1	48.6	76.9	93.4	108.9
26.	Cosmetic Goods	0.0	0.0	6.4	6.0	101.5	2.6	8.7
27.	LPG Gas	0.0	0.0	13.7	9.5	0.1	0.0	0.0
28.	Enamel Paints and Other Paints	0.0	0.0	0.0	8.4	3.5	6.8	17.9
29.	Glass Sheet and Glass Wares	0.0	0.0	0.0	15.8	2.0	24.1	54.7
30.	Chemical Fertilizer	0.0	0.0	0.0	9.0	0.0	0.0	253.7
31.	Rice	0.0	0.0	0.0	0.0	0.0	0.0	206.5
32.	Wheat	0.0	0.0	0.0	0.0	0.0	0.0	178.4
B.	Others	1,523.9	1,619.1	1,860.2	1,222.7	1,274.0	3,225.3	4,596.4
Total (A+B)		3,970.9	4,262.1	4,595.8	4,247.6	4,674.5	7,772.4	11,815.9
Percentage of A Over Total		61.6	62.0	59.5	71.0	72.7	58.5	61.1

* First Eleven Months.

Table 4: Nominal and Real Exchange Rates of NC Against IC and US dollar

OBS	NERI	RERI	NER$	RER$
1975	104.32	99.28	168.72	169.17
1976	104.32	102.47	148.33	137.98
1977	104.32	99.32	142.40	128.42
1978	102.84	106.65	146.74	138.02
1979	100.00	104.61	148.33	131.96
1980	100.00	95.40	148.33	127.74
1981	100.00	92.64	148.33	129.83
1982	100.00	96.68	140.16	124.67
1983	100.00	105.73	133.83	130.34
1984	100.00	102.91	116.34	116.15
1985	100.00	100.00	100.00	100.00
1986	90.46	99.90	90.82	102.27
1987	86.31	102.11	82.41	102.88
1988	86.31	104.94	80.54	107.26
1989	86.31	105.54	70.36	96.81
1990	86.31	106.54	62.46	89.96
1991	86.31	105.10	57.05	85.58
1992	87.88	117.11	42.08	74.18

NERI = Nominal Exchange Rate Index of NC vis-a-vis IC.
RERI = Real Exchange Rate Index of NC vis-a-vis IC.
NER$ = Nominal Exchange Rate Index of NC vis-a-vis US dollar.
RER$ = Real Exchange Rate Index of vis-a-vis US dollar.

Table 5: Basic Import Duty and Additional Duty on Imports from India and Third Countries

	Name of Goods	India Import Duty 1985/86	India Import Duty 1990/91	India Import Duty 1992/93	Third Country Import Duty 1985/86	Third Country Import Duty 1990/91	Third Country Import Duty 1992/93	Third Country Additional Duty 1990/91	Third Country Additional Duty 1992/93
1.	Cotton fabrics	8-40	5-20	5-20	43-126	5-20	5-20	Free	5-15
2.	Readymade garments	10-30	20-30	5-30	45-138	20-30	5-30	35-45	5-15
3.	Thread	1-2	5	10-15	1-2	5	10-15	25	10
4.	Medicine	0-1	0-1	0-5	0-1	0-1	0-5	Free	5
5.	Vehicle and spare parts	1-285	5-100	5-100	5-285	5-100	5-100	25-55	5-20
6.	Machinery and equipment	0-100	5-100	5-100	0-128	5-100	5-100	25-55	5-20
7.	Billet	1	5	5	Rs 420.70 per M.T.	5	5	25	5
8.	Coal	Free	Free	Free	1-16	Free	Free	Free	Free
9.	Milk product (Horlicks)	5	5	5-10	5	5	5-10	Free	5
10.	Chemical fertilizers	Free	Free	Free	Free	Free	Free	Free	Free
11.	Paper	0-15	0-15	5-30	0-15	0-15	5-30	Free	5-15
12.	Edible oil	6	10-25	10-15	6	10-25	10-15	25	10
13.	Raw wool	0-6	5	0-5	0-12	5	0-5	Free	5
14.	Iron and Steel (Rod) etc.	15	5-25	5-15	18	5-25	5-15	Free	5-10
15.	Electrical goods	1-50	10-50	5-50	1-60	10-50	5-50	Free	5-20
16.	Telecommunication goods	5-85	15-70	15-50	5-115	15-70	15-50	25-55	10-20
17.	Petroleum products	Rs 42.50- Rs. 3680 Per K.L.	Rs 160- Rs 5880 Per K.L.	Rs 240- Rs 5880 Per K.L.	Rs 487.65- Rs 3700 Per K.L.	Rs 160- Rs 5880 Per K.L.	Rs 240- Rs 5880 Per K.L.		
18.	Polythene granules	10	10	5-10	30	10	5-10	Free	5
19.	Cement	32	35	Rs 550 Per M.T.	32	35	Rs 1075 Per M.T.		

Table 6: Effective Tariff Rates on Imports fromIndia and Third Countries*

		1991/92		1992/93	
		India	Third Countries	India	Third Countries
1.	Synthetic clothes	74.00	110.00	68.00	86.00
2.	Synthetic readymade garments	80.00	128.00	80.00	98.00
3.	Synthetic yarn	15.50	31.25	20.75	26.00
4.	Acrylic yarn	15.50	31.25	10.25	10.25
5.	Electric yarn	40.30	74.80	41.45	58.70
6.	Sugar	15.50	15.50	15.50	15.50
7.	Vegetable ghee	23.90	34.65	23.90	29.15
8.	Iron rods	23.20	39.70	29.80	40.00
9.	G.I. pipe	30.35	63.35	30.90	41.90
10.	G.I. seats wire	30.53	65.03	36.85	48.30
11.	Radio transistor	80.30	143.80	63.30	80.54
12.	Television (colour)	112.75	170.25	89.75	112.75
13.	Television (B/W)	109.30	166.80	63.30	80.54
14.	Video deck	170.00	230.00	98.00	122.00
15.	Woolen yarn	22.10	38.60	15.50	20.75
16.	Watch	59.60	107.60	59.60	77.60
17.	Plastic goods	33.65	66.62	40.30	57.55
18.	Type tubes	33.10	66.10	38.60	55.10
19.	Polythene pipe	34.20	67.20	40.88	58.13
20.	Paints	42.60	77.10	42.60	59.85

* Effective rate is calculated as the product of basic custom duty, additional duty, countervailing duty and sales tax on imported goods.

Table 7: Customs Duty on Imports from India and Third Countries

(Rates in Percent)

Major Commodities	Basic Duty 1990/91	Basic Duty 1992/93	Additional Duty 1990/91	Additional Duty 1992/93	Effective Tariff* India 1990/91	Effective Tariff* India 1992/93	Effective Tariff* Third Countries 1990/91	Effective Tariff* Third Countries 1992/93
1. Cotton fabrics	5-20	5-20	Free	5-15	5-20	5-20	5-20	10-35
2. Readymade garments	20-30	5-30	35-45	5-15	20-30	5-30	55-75	10-45
3. Thread	5	10-15	25	10	5	10-15	30	20-25
4. Medicine	0-1	0-5	Free	5	0-1	0-5	0-1	5-10
5. Vehicle and spare parts	5-100	5-100	25-55	5-20	5-100	5-100	30-155	10-120
6. Machinery and equipment	5-100	5-100	25-55	5-20	5-100	5-100	30-155	10-120
7. Billet	5	5	25	5	5	5	30	10
8. Milk product	5	5-10	Free	5	5	5-20	5	10-15
9. Paper	0-15	5-30	Free	5-15	0-15	5-30	0-15	10-45
10. Edible oil	10-25	10-15	25	10	10-25	10-15	35-50	10-25
11. Raw wool	5	0-5	Free	5	5	0-5	5	5-10
12. Iron and steel	5-25	5-15	Free	5-10	5-25	5-15	5-25	10-25
13. Electrical goods	10-50	5-50	Free	5-20	10-50	5-50	10-50	10-70
14. Polythene granules	10	5-10	Free	5	10	5-10	10	10-15
15. Cement	32	Rs 550 per M.T.	Free	-	32	Rs 550 Per M.T.	32	Rs 1075 Per M.T.
16. Telecommunication goods	15-70	15-50	25-55	10-20	15-70	15-50	40-125	25-70
17. Coal	Free	Free	Free	Free	Free	Free	Free	Free
18. Chemical fertilizer	Free	Free	Free	Free	Free	Free	Free	Free

* Includes only basic customs and additional duties.

Table 8: Nominal and Real Interest Rates in Nepal and India

	Rate of Inflation		Saving Deposit Rates				Fixed Deposit Rates			
			Nominal		Real		Nominal		Real	
Year	Nepal	India	Nepal	India	Nepal	India	Nepal	India	Nepal	India
1980	9.7	20.2	8.0	NA	-1.7	NA	12.0 to 13.0	7.5 to 8.5	2.3 to 3.3	-12.7 to -11.7
1985	4.1	7.1	8.5	NA	4.4	NA	12.5 to 13.5	8.5 to 9.0	8.4 to 9.4	1.4 to 1.9
1986	15.8	4.9	8.5	NA	-7.3	NA	12.5 to 13.5	8.5 to 9.0	-3.3 to -2.3	3.6 to 4.1
1987	13.2	5.7	8.5	NA	-4.7	NA	12.5 to 13.5	8.5 to 9.0	-0.7 to 0.3	2.8 to 3.3
1988	11.1	6.1	8.5	NA	-2.6	NA	12.5 to 13.5	9.0 to 10.0	1.4 to 2.4	2.9 to 3.9
1989	8.1	7.5	8.5	NA	-4.0	NA	12.5 to 13.5	9.0 to 10.0	4.4 to 5.4	1.5 to 2.5
1990	9.7	8.6	8.5 to 9.5	5.0	-1.2 to 0.7	-3.6	11.5 to 13.0	9.0 to 10.0	1.8 to 3.3	0.4 to 1.4
1991	9.8	11.4	8.5 to 9.0	5.0	-1.3 to -0.8	-6.4	11.5 to 13.0	9.0 to 10.0	1.7 to 3.2	-2.4 to -1.4
1992	21.1	10.7	8.5 to 10.0	6.0	-12.6 to -12.1	-4.7	11.5 to 13.5	10.0 to 12.0	-11.1 to -9.1	-0.7 to 1.3

Note: Real rates of interest are derived by deducting from nominal rates of interest, the inflation rates. Inflation in Nepal is measured by changes in CPI and that by changes in WPI in India.

Source: NRB Quarterly Economic Bulletin and RBI Bulletin (various issues).

Table 9: Imports of Selected Commodities in India (1990/91, April-March)

	Commodities	Value in IC '000
1.	Live Animals	17,690
2.	Edible vegetables & certain roots & tubers	5416,348
3.	Linseed whether or not broken (w/n)	21,599
4.	Castor oilseeds w/n broken	107
5.	Seasamum seeds w/n broken	680
6.	Other oilseeds & olegnus fruits w/n broken	27,361
7.	Vegetable seeds used for sowing (cabbage, cauliflower, radish, fruit seeds etc.)	50,632
8.	Ayurvedic & Unani Herbs	41,208
9.	Soybeen oil & its factus w/n, refined but not chemically modified	383,763
10.	Rape colza/mustard oil & its factus w/n refined but not chemically modified	30,351
11.	Sal oil	7,156
12.	Rice bran oil	28,414
13.	Rice bran raw	5,350
14.	Other by-products from the working of rice	678
15.	Oil cake etc.	673
16.	Other oil cakes	8,029
17.	Hides & skins of buffalo including buffalo calf	13,862
18.	Hides & skins, leather products, fur-skins & articles thereof	1951,266
19.	Wood & articles of wood, wood charcoal	4548,512

Source: Monthly Statistics of the Foreign Trade of India (Annual Number for 1990/91), Vol. II), Imports, March 1991, Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Government of India, Calcutta.

Table 10: Export to India of Nepalese Industrial Products

(Total of Five Years from 1982/83 to 1986/87)

(Value in NC Rs '000)

Products without Proforma Submission	Value	Products on the basis of Proforma Submission	Value
1. Refined ghee	35,534	1. Barley	1,917
2. Strawboard	4,613	2. Biscuits	10,129
3. Magnasite	4,822	3. Fruits, jam, jelly, marmalade	3,841
4. Wooden articles and furnitures	28,760	4. Squash and juice	7,620
5. Katha and cutch	307,354	5. Sugar confectionery	18
6. Wheat bran	71,373	6. Cattle & poultry feed	12,832
7. Chuni and Bhusi	47,249	7. Tomato sauce & ketchup	11,695
8. Rice bran	13,058	8. Bricks	146
9. Oil cakes	238,198	9. Bristle (pigs, hogs, boars)	9,778
10. Sugar	439	10. Resin	1,059
11. Noodle & spaghetti	9,594	11. Rosin	107,725
12. Hides & skins (Processed & semi-processed)	43,254	12. Fixed veg. oil N.E.S.	57,005
13. Redried tobacco	9,815	13. Rice-bran oil	124,738
		14. Turpentine	59,683
		15. Mustard oil	524
		16. Linseed oil	26,440
		17. Jute manufactures	524,839
		18. Plywood veneers	5,417
		19. Pan Masala	112
		20. Loaves, cakes & others	13,733
		21. Dairy products	8,487
		22. Pharmaceuticals	1,309
Sub-total	814,063		1089,047

Source: Ministry of Finance, HMG, Nepal.