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## **ECONOMIC DEVELOPMENT IN NEPAL**

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### **Abstract**

Economic development in Nepal has been severely hindered by civil war that erupted in the mid 1990s. A decade long war has massively damaged its institution, infrastructure and human capital, leading to slow growth in output, income and exports. Nepal is now regarded as one of the poorest countries in the region. The incidence of poverty is very high (about 40% of its population live below poverty line) and rising, especially in the rural and remote areas. The Nepalese economy is on the verge of collapse as growth in agriculture stagnates and manufacturing and tourism sector experience continuous decline due to deteriorating investment climate. Nepal's development partners can play an important role in bringing the country out of the current crisis and meeting the MDGs through policy-led development assistance and institutional reforms.

**Keywords:** South Asia, Nepal, Civil war, Development assistance, Development strategies

### **I. Introduction**

Nepal is a land-locked country with a population of about 28 million. It lies between India in the East, West and South, and the People's Republic of China in the North. Its landscape can be divided into three geographical regions: (i) the highest mountain region of Himalayas, (ii) valleys and hills, and (iii) the South Terai belt which borders with India. About 70% of land area is covered by hills and high mountains, while the remaining 30% land is found in Terai, which is suitable for commercial agriculture.

Agriculture is the backbone of the economy which presently contributes about 40% to GDP (Appendix 1). The manufacturing sector is still in its infancy and contributes about 10% to GDP employing less than 3% of the workforce (Oczkowski and Sharma, 2005). Services sector-- which is largely based in urban areas-- contribute about 40% to GDP, but only

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employs less than one quarter of the economically active work force. About 87% of Nepal's population live in rural areas and rely on agriculture which is a major source of income and employment for the rural population.

Over the years Nepal has made a good progress in developing some basic physical infrastructure, especially in the urban areas. However, inability to integrate rural-urban area through a well developed road network, together with a bias inherited in import-substitution (IS) policy regime, failed to benefit those living in the rural areas and relying on agriculture, leading to the eruption of civil war in the mid 1990s. A decade long war has significantly destroyed Nepal's institutions, infrastructure and human capital and further slowed down the pace of economic development in the country.

The purpose of this paper is to discuss the recent trends in Nepal's economic development and recommend policy measures in the light of these developments. The paper is organized as follows. Section II documents Nepal's economic development policy, while its recent performance is discussed in Section III. The paper concludes with policy recommendations in Section IV.

## **II. Economic Development Policy in Nepal**

With the introduction of the planned development strategy in 1956, Nepal formally embarked on the import substitution (IS) strategy with a view to creating employment opportunities and improving living standards. To achieve these objectives, restrictions in trade and investment were seen as an effective means which resulted in the establishment of several large import substitution industries in the public sector. To support industrialization, a significant amount of resources was diverted towards infrastructure development, particularly in the urban areas where these industries were located. The bias in favor of urban-based industrialization attracted resources away from agriculture in general and the rural areas in particular. By the early 1980s, the country had developed a large number of IS industries behind the protective tariff wall and the traditional export sector – comprising rice, jute, timber, and hides and skin – was heavily taxed through overvalued exchange rates and direct market interventions. This appears to have contributed to a slow down in agricultural growth. By the mid 1980s, exports of rice and jute fell significantly. Nepal, which had the highest agriculture yield (per hectare) in South Asia in the early 1960s, fell significantly behind other countries by the early 1990s (Sharma, 2006). As mentioned earlier, the bias against agriculture appears to have contributed to lackluster growth in both agricultural output and farm income (APROSC, 1995). By the mid 1980s, GDP growth remained very low (about 3% p.a, against 2.7%

annual growth in population), exports stagnated at about 5% of GDP, imports surged (from about 11% of GDP in 1974/75 to over 17% by 1986/87), and the country experienced a severe macro-economic crisis as the government budget deficit rose sharply (Sharma 2006).

Against this background, the government introduced the structural adjustment programs with the help of IMF and the World Bank in 1986. However, reforms in the labor market and infrastructure sector lagged behind. Despite half-hearted nature of reform, there was some growth in output, exports and foreign exchange earnings brought about by an expansion of the urban-based modern sector, while the growth in agriculture GDP continued to stagnate (Appendix 1)

As agriculture GDP stagnated, the real income of the people relying on agriculture declined significantly. For example, during the 1988 to 1996 period, the nominal income of the people living in urban areas increased by 16% p.a. (from US\$126 to US\$285) as against only 4% for the rural population (from US\$95 to US\$125) (Sharma, 2006). When the average annual rate of inflation is taken into consideration the growth in rural income is in fact negative. This not only increased poverty in the rural areas but also increased the rural-urban inequality. The growing rural-urban inequality (horizontal inequality) was also reflected by the limited access to public goods and services in the rural areas. For example, in urban areas a health post was accessible within a few minutes as opposed to over an hour in the rural areas. Access to market, banking services and reliable road networks was even worse in the rural areas (Table 1).

Table 1: Mean time required to access basic public goods/facilities by urban and rural households in Nepal, 1996

Facilities	Urban	Rural
	Hours and minutes	Hours and minutes
Primary School	0.12	0.25
Health Post	0.21	1.17
Cooperative	0.27	2.38
Agriculture extension office	0.28	2.32
Commercial Banks' branch	0.19	2.58
Nearest market	0.19	3.08
Market place (Bazaar)	0.29	4.51
Paved road	0.09	5.17
Bus stop	0.19	4.04

Source: Central Bureau of Statistics (1996)

As the bias against agriculture in general and the rural sector in particular persisted, the agriculture sector continued to perform poorly (Appendix 1). Dismal agriculture performance even after the policy reform appears to be partly due to inefficient infrastructure to support agriculture development and partly due to lack of finance caused by the security driven lending policy of commercial banks. By the mid 1990s, agricultural products virtually disappeared from the country's export list and no new products based on agriculture emerged despite liberalization in foreign investment policy (Sharma, 1997).

While trade and investment policy reforms attracted some investment to the garment and carpet industries to take advantage of Nepal's quotas under the generalized system of preferences (GSP) and multi-fiber arrangement (MFA), they failed to create much employment opportunities for the rural population as these industries were located in Kathmandu Valley and a few in the Terai belt. Furthermore, despite abundant supply of labor these investments became capital-intensive (US\$14,000 per employment) due to rigidity in the 1992 Labor Act and made little contribution to employment creation for the rapidly growing population (Athukorala and Sharma, 2005).

By the mid 1990s, lackluster agriculture performance, together with slow growth in labor-intensive manufacturing, contributed to high unemployment, poverty and inequalities (both vertical and horizontal). At the national level, unemployment rate reached about 17%, while over 32% of the economically active population were underemployed. This was even higher in the rural and remote areas. Poverty levels rose from 33% in 1976/77 to 42% by 1995/96. When the incidence of poverty was broken down according to the rural-urban classification, it was significantly higher in rural (44%) than in the urban areas (20%) (Table 2). The table also suggests that poverty has been rising more rapidly in rural areas while in urban areas it has marginally declined.

Table 2: Incidence of poverty in Nepal<sup>a</sup>

	1976/7	1995/6	2000/1
Rural areas	33.0	44.0	39.0
Urban areas	22.0	20.0	NA
Nepal	33.0	42.0	NA

Sources: World Bank (1998) and Nepal Agricultural Sector Performance Review (NASPR) (2002) quoted in Karmacharya and Sharma (2003).

<sup>a</sup> Based on minimum caloric requirement per person per day (ie, 2256 calories).

When the incidence of poverty is broken down into geographic region, it is immediately apparent that mountain and hilly regions have higher levels of poverty than the Terai belt. Over 63% of the people in the mountain range are poor, as against 50% in hills and only 37% in the Terai belt (Sharma, 2006). Not only did poverty rise, but also income inequality increased. For example, the income share of the top 10% of the people increased from 21% in the mid 1980s to 35% by the mid 1990s, while the share of the bottom 40% shrank from 24% to 15% (Table 3).

Table 3: Income distribution in Nepal, 1988 and 1996<sup>a</sup>

Ranking	1988	1996
	Nepal (% share of total income)	Nepal (% share of total income)
Bottom 40%	24	15
Middle 50%	55	22
Top 10%	21	35

Source: Sharma (2006).

As Panday (2000, p.75) correctly points out, poverty and inequality in Nepal is the product of three factors: (i) unsatisfactory growth in aggregate output, (ii) inequalities brought about by recent development efforts, and (iii) the historical effect of unequal distribution of assets, and social and economic status.

In the absence of sustained economic growth, development expenditure (as a percentage of GDP) fell from about 13% in 1987/88 to 9% by 1994/95, despite the growing need for such spending to address rising poverty and inequality (Sharma, 2005). Rural areas were the victims of a decline in development expenditure as many planned irrigation, health and education projects were suspended. This made access to public goods increasingly difficult for the rural poor (see Table 1). By the mid 1990s, unemployment remained very high, particularly in the rural areas and there was no alternative source of employment which significantly increased frustration and resentment among youth, leading to the eruption of civil war in the mid 1990s.

### III. Recent Economic Performance

This section begins with a brief comparison of Nepal's performance with that of its South Asian counterparts. This will be followed by a detailed analysis of Nepal's economic performance.

### (a) Nepal's Economic Performance in the Context of other South Asian Countries

As expected Nepal's recent economic performance has not been impressive (Appendix 1). This is largely due to a decade long civil war which has massively damaged its institutions, infrastructure and production facilities, leading to lackluster growth performance. Among the South Asian countries, Nepal has recorded the lowest GDP growth during 2001-06 periods. Its GDP grew at about 2.7% pa as against 7% for India, 5.7% for Bangladesh and 4.6% for Sri Lanka (Table 4).

As shown in Appendix 1 Nepal has failed to sustain its growth and this is especially true after the mid 1990s when the war broke out. During 18 years period (1989-06) Nepal's GDP grew just over 4% pa –marginally higher than the population growth which grew at about 3% pa. During this period agriculture, which is the major source of income and employment, grew only at 3% pa, while industry and services grew at 5.4% and 5% pa respectively. This lackluster growth performance has contributed to lower per capita income and a rise in poverty.

Table 4: Growth Rates of GDP (percent) in South Asian Countries <sup>a</sup>

	2001	2002	2003	2004	2005	2006	Average GDP Growth
Bangladesh	5.3	4.4	5.3	6.3	6.0	6.7	5.7
Bhutan <sup>f</sup>	7.5	9.6	7.6	6.8	6.5	0.0	6.3
India <sup>g</sup>	5.8	3.8	8.5	7.5	8.4	9.4	7.2
Maldives <sup>c</sup>	3.3	6.1	9.2	11.5	-5.1	23.5	8.1
Nepal <sup>g</sup>	4.9	-0.3	3.1	3.6	2.4	2.4	2.7
Sri Lanka <sup>g</sup>	-1.5	4.0	6.0	5.4	6.0	7.4	4.6

a Unless otherwise indicated, figures are based on constant market prices.

c Data for GDP growth are based on constant market prices, while sectoral growth rates are based on constant basic prices.

f Data for GDP growth and sectoral growth rates are based on constant basic prices.

g Data for GDP growth and sectoral growth rates are based on constant factor cost.

Source: Asian Development Bank (ADB) - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

Nepal has not only experienced a slow growth, but also has the lowest gross national income (GNI) in the region (Table 5). It has also experience a decline in social indicators (such as school enrollment, health) compared to other South Asian countries mainly due to

civil war which massively damaged schools, health posts and hospitals in the rural and remote areas.

Table 5: Total and Per Capita Gross National Income (GNI)

	Total GNI (US\$ Million)			Per Capita GNI (US\$)		
	2003	2004	2005	2003	2004	2005
Bangladesh	54947	61302	66686	400	440	470
Bhutan	587	694	798	960	1130	1250
India	568744	680387	804067	530	630	730
Maldives	676	768	762	2160	2390	2320
Nepal	5853	6580	7322	220	250	270
Sri Lanka	17967	19547	22755	930	1000	1160

Source: Asian Development Bank (ADB) - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

### (b) Economic Growth and Performance in Nepal

As stated earlier a decade long civil war has brought about a sharp fall in output and per capita income in Nepal. GDP growth fell from 5.1% pa in the pre-war period (average for 7 years before war i.e, 1987/88-1994/95) to 3.8% pa in the war period (7year average for the war period i.e, 1995/96-2001/02) (Table 6). Non-agriculture GDP, which grew at the rate of 6.6% pa before the war, fell to 3.9% pa during the war period, while agriculture GDP growth stagnated at 3% pa. Non-agriculture GDP fell sharply, primarily due to a fall in transport, commerce, hotel services and manufacturing. Several industries with foreign participation closed down as they were the target of Maoist rebellions. The production of carpet and garments, which contributed about 76% to total exports before the war, fell significantly, particularly after 2000 as unrest grew.

Table 6: Nepal: Growth in real GDP, agriculture and non-agriculture GDP and per capita income before and during war periods

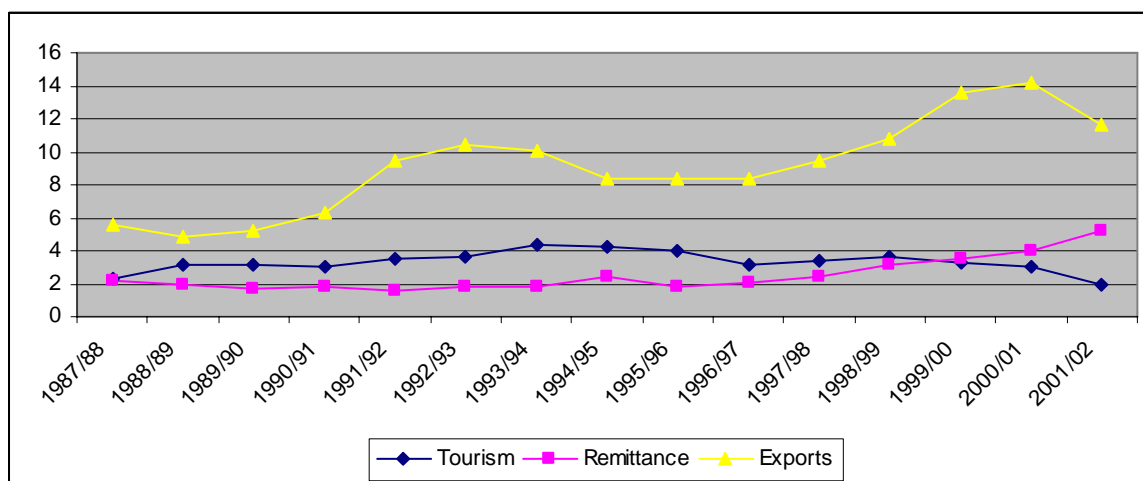
	Pre-war (1987/88-1994/95)	Post-war (1995/96-2001/02)
Growth in Real GDP	5.1	3.8
Growth in Real Agriculture GDP	3.2	3.2
Growth in Real Non-agriculture GDP	6.6	3.9
Real per Capita income (US\$)	232 <sup>a</sup>	162 <sup>b</sup>

a 1991 figure      b 2001 figure

Source: Author's calculation based on HMG/ Ministry of Finance (2003), CBS (1998 and 2003).

The uncertain business environment contributed significantly to a fall in both exports and imports growth. During the period of conflict (1995-2005), the average annual growth in exports was just over 4% pa as against imports which grew by 17% pa during the same period (Appendix 2). Exports, which were growing at the rate of 26% pa before the war, fell to 16% pa during the war period, while growth in imports fell by three times, from about 24% pa in the pre-war period to 8% pa during the war year. This significant decline in imports was not due to foreign exchange shortages but to the shaky business environment. In fact, foreign exchange reserve rose from US\$ 1,030 million in 2001 (equivalent to 11 months' worth of imports) reached US\$1,480 by 2005 (Appendix 3), thanks to strong growth in remittances, which almost doubled between the 1995 to 2001 period. Exports of labor intensive carpet and garments, which together contributed about 75% percent to the total export earnings by the mid 1990s, fell to 50% by 1999 and 35% by 2002 due to a shaky business environment. Earnings from these two major export items declined from Rs 22 billion in 2000 to 12 billion by 2005 (Appendix 2). As exports of labor intensive carpet and garments declined, it further aggravated unemployment in the country.

Figure 1: Foreign exchange earnings from exports, tourism and remittance % of GDP in Nepal



Source: Based on data obtained from HMG/ Ministry of Finance, (2003) and Nepal Rastra Bank (2003b).

As war broke out, tourist arrival and earnings fell. Tourist arrival fell from over 5% pa in the pre-war period to just over 1% pa during the war period, leading to a decline in foreign exchange earnings. Foreign exchange earnings as percentage of GDP fell from about 4% in

1995/96 to just under 2% by 2001/02 (Figure 1)- the lowest since the 1970s. Earnings from tourism fell significantly in the early 2000s as the intensity of civil unrest increased. Lower employment prospects together with growing threats from the Maoists forced many young people to leave the country in search of work in India, Malaysia and Middle East countries. According to the Nepal Living Standard Survey II, 1 out of every 11 Nepali adults is in foreign employment (over 1 million in 2004). This is reflected by the growth in private remittances. Remittances as percentage of GDP rose from about 2% in the mid 1990s to over 5% by 2001/02 (Figure 1).

In the presence of low domestic savings (which is about 13% of GDP during 1989-06 period) and declining foreign aid (which fell from 6% of GDP in the mid-1990s to just over 3% by 2001/02), capital formation has been less than 25% of GDP in Nepal (Appendix 1). According to the National Planning Commission estimates Nepal needs about US\$556 million worth of foreign aid to carry out development programs across the country (Kathmandu Post, March 5, 2004); however, the country has not been able to secure even half of this.

Since poverty and inequality in both political and economic dimensions are the root cause of conflict, they should be addressed. This would mean additional investment in remote areas and development of a strong integration between rural and urban areas through a well-developed transport network. A well-developed transport network is crucial to encourage economic activities, particularly those based on agriculture in rural areas. Despite the importance of investment in rural areas development expenditure percentage of GDP remains very low. Foreign aid in social services and rural infrastructure can significantly mitigate the socio-economic costs of war, particularly in remote areas. However, it should be linked with good governance and commitments by the government to maintain (and gradually increase) public spending on health, education and other social services.

#### **IV. Conclusion**

A decade long civil war has severely hindered Nepal's economic development. War has massively damaged its institution, infrastructure and human capital, leading to slow growth in output, income and exports and further increase in poverty and inequality in the country. Poverty and horizontal and vertical inequity are high and growing. The Nepalese economy is on the verge of collapse as growth in agriculture stagnates and manufacturing and tourism sector experience continuous decline due to deteriorating investment climate. Nepal's development partners can play an important role in bringing the country out of the current

crisis and meeting the MDGs through policy-led development assistance and institutional reforms.

Since poverty and inequality are the root cause of conflict, they should be addressed by channeling more investment into social services and infrastructure, particularly in rural areas. However, government alone can't do this without international assistance which should be linked to the commitments to improve governance and institutional reforms.

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**Appendix 1: Structure of Output, Structure of Demand, Output Growth Rates, and Savings & Investment: Nepal 1989-2006**

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Average
<b>Structure of Output % of GDP at current factor cost</b>																			
Agriculture	49.6	50.6	47.7	45.0	42.4	42.1	40.8	40.5	40.4	38.8	40.1	39.6	38.3	39.4	39.1	38.6	38.2	38.2	41.6
Industry	16.3	15.9	17.5	20.4	20.8	21.2	22.2	22.3	22.3	21.9	21.2	21.5	21.4	21.1	21.1	20.9	21.0	20.3	20.5
Services	34.1	33.5	34.8	34.6	36.8	36.7	37.0	37.2	37.4	39.3	38.7	38.9	40.2	39.4	39.8	40.5	40.8	41.5	37.8
<b>Structure of Demand % GDP at current prices</b>																			
																			Average
Private consumption	78.6	83.5	81.2	81.2	77.7	77.3	75.9	76.9	77.1	76.9	77.5	75.9	75.2	77.9	77.9	77.3	77.4	78.7	78.0
Government consumption	10.0	8.7	9.2	8.0	8.7	8.0	9.2	9.2	8.9	9.3	8.9	8.9	9.8	10.0	10.2	10.1	10.2	10.2	9.3
Gross domestic capital formation	21.7	18.4	20.8	21.2	23.1	22.4	25.2	27.2	25.3	24.8	20.5	24.3	24.1	24.2	25.8	26.4	28.9	30.3	24.2
Exports of goods and services	11.1	10.5	11.8	16.0	18.0	23.9	24.2	22.3	26.3	22.8	22.8	23.3	22.3	18.2	16.9	18.0	16.1	18.6	19.1
Imports of goods and services	21.5	21.1	23.1	26.3	27.7	31.6	34.6	35.8	37.7	33.9	29.7	32.4	31.4	30.3	30.8	31.8	32.6	37.7	30.5
<b>Growth of Output annual change, %</b>																			
																			Average
GDP	5.4	4.7	6.7	4.8	3.0	8.3	2.7	5.7	5.0	3.3	4.6	6.1	4.9	-0.3	3.1	3.6	2.4	2.4	4.2
Agriculture	6.1	5.8	2.3	-1.1	-0.9	8.4	-0.9	3.8	4.4	0.9	2.8	4.9	5.5	2.2	2.5	3.9	3.0	1.7	3.1
Industry	5.2	2.5	12.9	16.4	4.0	8.8	4.6	8.8	6.5	2.3	6.0	8.7	3.2	-2.9	3.3	1.1	1.5	3.5	5.4
Services	4.7	4.4	9.8	6.4	7.3	7.8	5.9	5.9	4.8	6.7	5.4	5.7	5.3	-1.3	3.4	4.8	2.4	2.4	5.1
<b>Savings and Investment % of GDP at current prices</b>																			
																			Average
Gross domestic saving	11.4	7.9	9.6	10.8	13.6	14.7	14.8	13.8	14.0	13.8	13.6	15.2	15.1	12.1	12.0	12.6	12.4	11.1	12.7
Gross national saving	13.1	9.7	11.3	12.7	15.4	16.6	17.0	15.3	15.6	15.8	16.8	18.6	19.0	14.9	15.5	15.2	14.4	13.3	15.0
Gross domestic capital formation	21.7	18.4	20.8	21.2	23.1	22.4	25.2	27.2	25.3	24.8	20.5	24.3	24.1	24.2	25.8	26.4	28.9	30.3	24.2

Source: Asian Development Bank (ADB) - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

**Appendix 2: Structure of Nepal's Foreign Trade**

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<i>External Trade annual change, %</i>																		
Exports	2.0	22.9	43.3	85.5	26.0	11.7	-8.6	12.7	13.9	21.5	29.7	39.7	11.7	-15.6	6.4	8.0	8.9	4.2
Imports	17.3	12.7	26.7	37.5	22.7	31.5	23.5	16.9	25.7	-4.9	-1.7	24.0	6.6	-7.2	15.8	9.6	9.7	17.1
Trade balance	-23.7	-9.1	-20.3	-15.1	-20.3	-47.1	-42.6	-18.5	-29.9	13.3	15.7	-13.2	-2.3	-0.7	-23.1	-10.7	-10.2	-25.5
<i>Exports, by SITC section (Million Rs)</i>																		
Food and live animals	578	616	987	1942	1863	1163	1563	1947	2662	3123	3725	4240	4777	5094	6101	6277	6994	7463
Beverage and tobacco	7	4	11	14	13	13	11	10	15	23	50	117	76	146	139	55	32	29
Crude materials excluding fuels	250	239	312	437	532	432	486	769	664	487	470	561	751	625	800	714	882	1290
Mineral fuels, etc.	-	-	-	-	-	-	-	1	1	21	1	2	1	2	6	15	4	3
Animal, vegetable oil, and fats	100	20	201	160	176	138	214	251	313	2136	3597	3230	4104	7421	4279	3376	5070	4255
Chemicals	26	11	18	20	29	212	302	640	1353	1969	2804	3933	4042	3308	3279	3866	3678	3810
Basic manufactures	1983	2693	4312	7557	10298	10913	9260	10456	11029	11637	13540	15839	18909	17395	17795	23602	28591	28997
Machines, transport equipment	6	0	0	0	1	6	37	35	60	58	98	391	344	365	208	620	208	1206
Miscellaneous manufactured goods	1246	1573	1546	3576	4352	6415	5766	5772	6540	8060	11393	21509	22651	12589	17282	15380	13240	14104
Unclassified goods	-	-	-	-	1	0	0	-	1	-	-	-	-	-	43	7	9	10
<i>Exports, by principal commodity (Millions Rs)</i>																		
1. Carpets	1634	2319	3733	7048	9594	9534	7718	8164	8880	8485	9802	9842	8592	6213	5320	5678	5869	5825
2. Garments	1118	1399	1350	3255	3930	5943	5139	5375	5955	7015	9702	13942	13125	7833	11890	9550	6125	6170
3. Jute goods	134	5	272	191	176	242	231	453	565	720	872	1104	1294	1630	1899	1883	2694	2637
4. Pulses	98	212	247	1159	1049	347	457	664	1039	1057	1197	1057	1215	1222	1095	860	774	828
5. Raw jute and jute cuttings	47	118	6	1	44	40	86	36	7	6	-	-	115	8	-	1	-	1
<i>Imports, by SITC section (Million Rs)</i>																		
Food and live animals	1333	1608	1821	2948	3025	4085	4464	4786	5401	4929	7620	10839	5994	6333	9371	8554	9821	13549
Beverage and tobacco	197	227	257	288	469	368	501	509	591	800	846	907	906	717	792	1027	1016	1261
Crude materials excluding fuels	1183	1571	2013	3416	3977	3122	3348	4866	5487	6976	6247	7012	7560	6734	8479	10551	11207	11180
Mineral fuels, etc.	1117	1516	2278	3645	3834	4837	4717	5549	7160	9537	8738	9098	11269	15201	19944	21904	29927	36457
Animal, vegetable oil, and fats	343	476	742	802	1085	1457	2056	2831	2328	2026	3329	4446	5589	7888	7751	8634	6016	10205
Chemicals	1533	2824	3051	4615	5265	5541	7193	8687	8504	11077	12476	14474	12942	12381	14320	16545	19180	24850
Basic manufactures	4671	5065	5951	8600	11633	19148	25301	28130	44742	32602	25638	34420	41188	32889	34888	36511	37047	42574
Machines, transport equipment	4847	3790	5991	5893	7702	10038	13028	15301	13795	16735	18064	20548	23028	19514	20702	25694	26262	26271
Miscellaneous manufactured goods	1037	1248	1121	1548	2186	2885	3057	3795	4016	3974	4302	6683	7210	5670	6583	5104	7552	8602
Unclassified goods	5	1	2	187	30	91	15	2	1530	347	266	78	1	62	1523	1754	1446	160

**Appendix 3: International Reserve and Foreign Debt Position: Nepal 1989-2006**

<b>Item</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>INTERNATIONAL RESERVES</b> <i>Mn US dollars; as of end of period</i>																		
Total	218.0	301.7	403.4	473.9	646.7	700.1	592.9	577.8	632.7	762.7	851.5	951.9	1044.2	1024.1	1228.9	1468.6	1504.4	...
Gold, national valuation	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	5.4	...
Foreign exchange	203.9	287.0	388.7	459.4	632.3	685.1	577.9	563.1	618.4	748.2	836.9	937.9	1030.4	1009.8	1213.1	1452.5	1490.2	...
Reserve position in the Fund	7.5	8.1	8.2	7.9	7.9	8.4	8.5	8.2	7.7	8.1	7.9	7.5	7.2	7.8	8.6	-	-	-
SDRs	0.2	0.2	0.1	0.2	0.0	0.1	0.0	0.0	0.1	0.0	0.3	0.0	0.1	0.0	0.8	9.7	8.8	9.0
<b>External debt as % of GNI</b>	38.7	45.1	45.2	52.9	54.8	57.1	55.1	53.6	48.5	54.8	59.3	51.7	48.8	54.1	55.7	51.6	44.3	...
Total long-term debt as % of total debt	94.6	95.8	96.4	97.3	96.5	94.9	97.1	97.3	97.6	97.9	98.0	98.5	97.7	98.5	99.2	98.3	97.9	...
Short-term debt as % of total debt	1.5	1.5	1.4	0.3	1.0	2.7	0.9	1.1	1.2	1.2	1.4	1.0	2.0	1.3	0.4	1.0	1.4	...
Debt service as % of exports of goods and services	16.5	15.7	12.2	9.8	8.5	7.7	7.5	6.4	7.2	7.6	7.6	7.0	6.9	6.2	6.0	5.5	4.6	...
<b>Debt service</b> <i>Mn US dollars; transactions during the year</i>																		
Principal repayments on long-term debt	25.3	28.9	30.6	37.0	38.5	42.2	44.9	39.2	63.1	54.2	69.0	67.4	61.1	69.9	78.8	83.6	84.5	92.3
Interest on long-term debt	25.6	25.3	26.7	28.0	27.5	29.5	29.4	29.5	26.2	25.5	29.8	27.5	25.7	27.0	30.2	30.4	30.0	36.1
Interest on short-term debt	1.9	2.1	2.6	0.8	0.7	2.3	2.4	1.4	1.5	1.6	2.4	2.7	2.0	1.0	0.6	0.9	2.1	...

Source: Asian Development Bank (ADB) - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))