Rate of Exchange in Nepal

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THE Indian and the Nepali rupee (more commonly called 'mohur') both circulate in Nepal but of the two, the latter has only a limited circulation, confined within the valley of Kathrnandu and the hilly regions, which together constitute not triore than half of the total area of the country. Indian currency circulates freely in the Tarrai and other parts of Nepal. The Government of Nepal accepts payment of revenue in Indian rupees which probably form the bulk of it as three-fourths of the total revenue is collected from the Tarrai regions where the Indian rupee is in circulation.

The exchange ratio between the Nepali and Indian rupees is, theretore, a matter of vital concern to the people of the country. It affects not only the. renditions of export and import trade but also internal transactions. The history t»f the last few years has, however, been a history of constant exchange fluctuations. Sporadic attempts at control made by the Government in the past have been unsuccessful. The Finance Ministry of the Nepal Government announced on September 20 this year its intention to control the exchange rate and fixed the rate of 128 Nepali rupees lot 100 Indian rupees as the official rate of exchange. It is doubted in Nepal, however, how long this regulation will remain in force and how successful this attempt is likely to be. The question can be discussed only in the light of developments in exchange rates in the last few years.

Prior to the thirties of the present century, there was not much fluctuation in the exchange rate. Ordinarily, too Indian rupees in silver coins exchanged in the market for 1·25 Nepali rupees and too Indian rupees in currency notes lot 128 Nepali rupees. There were no doubt some fluctuations but these were not wide. This relative stability of the exchange rate can be traced to two factors. First, Nepali currency consisted entirely of metallic coins of various denominations, the Government still not having issued any paper notes. Second, the volume of imports from India was limited. Only essential commodities like raw cotton, textiles, salt, kerosene, medicines, etc., were allowed to be imported by private individuals.

This continued till the death of Shri Chandra Shumshere in 1930. During the short premiership of Shri Bhima Shumshere a number of controls, which had so far been enforced vigorously on the people, were relaxed. The ban on import of a number of luxury goods was lifted and in consequence, imports from India increased. There were also heavy imports of arms and ammunition from India on Government account in 1931 in anticipation of war with Tibet. In consequence of this, Nepali currency started depreciating in terms of Indian currency. At the time of Shri Bhima Shumshere's death in 1932, the exchange rate was near 132 Nepali rupees for 100 Indian rupees,

Shri Juddha Shumshero's accession to the premiership was marked by the removal of the ban on the import of a large number of other luxury articles. The articles on which the ban still remained included motor cars, radio sets and alcohol. There was an immediate increase in imports and the demand tor Indian rupees to pay for these imports also increased. The depreciation in the value of the Nepali rupee was further accelerated by the great earthquake of January 1933 which caused tremendous damage in the valley of Kathrnandu, and led to heavy imports of house-building materials from India. This process of depreciation leached its climax in 1939 just before the second world war when money changers frequently paid 145 to 150 Nepali rupees for 100 Indian rupees,

The outbreak of the war had no noticeable influence on the exchange late, as the volume of imports into Nepal remained unaffected. The fall of France, however, caused a panic. There was a loss of confidence in the Indian rupee *and* a rush to convert Indian into Nepali rupees followed. The Nepali rupee naturally appreciated and reached the rate of 126 for 100 Indian rupees. This tremendous disturbance led to the closing of the money market for a week. At this stage, the Government announced the introduction of controls over the exchange rate and fixed the rate at 128 : 100. This was the first attempt by the Government to control the exchange rate but it proved short-lived, lasting for only two months. With the return of normal conditions in the money market, the exchange rate depreciated to 134 : 100. The Government was interested only in preventing the Nepali rupee from being overvalued, as it received its revenues in Indian rupees. Therefore, it withdrew the control over the exchange rate.

Though the fall of France had caused the depreciation of the Indian rupee, there was no appreciable fall in imports from India and other countries like Japan. Consequently the exchange had soon returned to its previous position. With the entry of japan into war, however, the position changed. Japan had been an important supplier of textiles, electric goods, toys and other luxury articles and the sudden stoppage of these imports resulted in a powerful rising tendency in the value of the Nepali rupee. In 1943-44. only Ho Nepali rupees could be exchanged for 100 Indian rupees. An additional fac-or- operating at this time raising the value of the Nepali rupee was the return of Nepali soldiers with Indian rupees in then pockets. Till the end of the war, the exchange rate fluctuated between 80 and 85 Nepali rupees for 100 Indian rupees.*

After the cessation of hostilities, the trend towards the appreciation of the Nepali rupee continued. By the end of 1946, the exchange rate varied between 65, to 70 Nepali rupees for 100 Indian rupees. The large number of Nepali troops returning to Nepal was probably the main factor pushing up the rate of exchange at this time. The Government was anxious to arrest this appreciation of the Nepali rupee, which had become relatively scarce. Currency notes of the denomination of Rs 100, Rs to and Rs 5, (Nepali) were, therefore, issued for the first time with the object of forcing down the exchange rate. The Government itself began to purchase Indian rupees with these newly issued currency notes at rates higher than those current in the market. As a result, the ex-

* The sharp rise in the prior of silver which led to a keen demand for Nepali coins, their eventual disappearance from circulation and export must also have played a part in raising the exchange value at this time.—*Ed.*

change rate came down within a few months to 90 : 100. With the gradual increase of imports, the Neprli rupee continued to decline till the rate of exchange reached 110 to 112 Nepali rupees for 100 Indian rupees by the end of 1950.

After the interim cabinet was set up by King Tribhuvan in February 1951, the exchange rate began *to* suffer from violent fluctuations. Speculation, which had already begun a few years earlier, now became rampant because of the slackening of various restrictions and the growing volume of imports. *There* was a flight of capital from the country because of the atmosphere of lawlessness and disorder which prevailed, particularly in the rural areas. The landowning classes used to receive their income mostly in Indian rupees and their emigration from Nepal caused a shortage of Indian rupees. At the same time, the process of inflating the currency by the issue of notes continued and the budget deficits also shook the confidence of the people in the Nepali currency. The depreciation of the currency, therefore, continued steadily and was marked by almost daily fluctuations. In recent months the rate has varied from 130 to 145 Nepali rupees for 100 Indian rupees. Last year, the Finance Minister had repeatedly expressed the Government's determination to stabilise the exchange rate, but nothing was, in fact, done. It was only on September 20 this year, after the establishment of the Adviser's Regime, that the Finance Ministry announced that it would make available to Nepali importers 100 Indian rupees for 128 Nepali rupees.

It will be seen from this historical sketch that from early times the exchange rate has varied with the volume of imports. More recently, other factors have also begun to operate. Speculation, lor example, has played a large part since the overthrow of the Rana autocracy, though even before, there had been some developments in this direction. Again, the note issue is not subject to any limits as to maximum issue or reserves. Besides, the Nepali currency does not circulate throughout the country, but only in the towns of the valley of Kathmandu and the hilly regions and currency notes are not generally accepted as the people prefer metallic coins. The coins are, however, no longer full-bodied silver coins, as there has been a considerable reduction in their silver content. The Nepali full-bodied silver coins in existence are. being smuggled into India. All these factors have resulted in the people losing their confidence in the Nepali currency. The occasional intervention of the Government has had no real effect on the situation.

It is in this context that the September 20 regulation of the Government must be viewed. It may be repeated here that under this regulation the Government undertakes to supply Indian rupees at the rate of 128 : 100 to importers only. As a Government official pointed out recently, while the availability of Indian Government currency at a fixed rate for importers would tend to curb speculative dealings, it would not amount to total regulation of the exchange value of the Nepali rupee. Exchanges by non-importers would continue to be made through private operators. Again, as a large number of transactions within the country take place in Indian rupees, this means that the control is only partial. Similar attempts in the past have always failed. In the present case also, the fact that the exchange rate has depreciated to about 134 : 100 in the open market, alter the Government regulation was announced, does not indicate that the results will be any better.

There are certain arrangements which must be. made before anv such step can be successful. Since last year there has been talk about the setting up of a State Bank. The then Finance Minister, while speaking on the first budget of the country over the Nepal Radio, had reiterated the decision of the Government to establish such a State Bank for regulating the exchange of the two currencies. Since fluctuations in the value of the Nepali rupee directly affect internal transactions, the need for such a bank is obvious

It is necessary, however, to organise the financial system of the country first on modern lines. The dual currency system within the country must be abolished and the Nepali currency alone should be allowed to circulate throughout the country. For this purpose, the Government should give up its practice of accepting revenue in Indian rupees only. It should be the first duty of the State Bank to establish circulation of the Nepali currency throughout Nepal. Arrangements should also be made for the conversion of Indian into Nepali rupees at all important trading centres. If necessary, exchange banks should be set up for this purpose. The system of note issue must be regulated. The State Bank alone should be given the authority to administer all the controls relating to dealings in coin, bullion, securities and foreign exchange., It is also necessary to cover the budgetary deficit (which is about Rs 2 crores at present) by reducing State expenditure.

It appears that there is no valid reason lot the exchange rate to be fixed as low as 128 : 100 which has been the rate fixed by the Government in its recent regulation. On the contrary, there is ample scope lor the stabilisation of the Nepali rupee at par with the Indian rupee. In any case, ihe tune is opportune for making the necessary changes in currency arrangements which have been suggested above. There have been sweeping changes in the political and administrative spheres. The necessary changes in the euirency system can, therefore. be easily introduced. A stable and well-organised currency system will be an asset to the country.

Income-Tax Commission

The life of the Income-tax Investigation Commission lias been extended for another vear upto December 31, 10,53. The Commission was set up in 1947 to investigate *inter alia* particular cases of tax evasion referred to it by the Central Government and to report on the extent to which the existing law was adequate to prevent evasion of income-tax. The general report suggesting improvements and amendments in the income-tax law was submitted to Government in December 1948 and published early in 1949. Nearly at the same time, the Commission reported on a small group of four cases.

During the following years the Commission disposed of 835 or a little more than half of the tax evasion cases referred to it. The concealed income involved in these decided cases is Rs 38.30 crores and tax thereon Rs 22.70 crores, of which collections up-to-date total about Rs 6 crores.

The 689 cases remaining pending for disposal might involve[1] a total of Rs 15 to 20 crores of incomes on which tax has been evaded.