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Nepal's Alcohol Taxation: Evidence-based Recommendations for Public Health and Fiscal Reform

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1 Introduction

Alcohol consumption in Nepal is rising rapidly. Between 2013 and 2019, the share of men who drink rose from 28% to 34.4%, while rates of heavy episodic drinking nearly tripled among men — from 11.1% to 32.2%. Alcohol is a leading risk factor for noncommunicable diseases (NCDs), poor mental health, and injury.

The WHO "win-win-win" case

Alcohol excise taxation simultaneously reduces health harm, generates government revenue, and advances health equity — because lower-income households, who bear the greatest share of alcohol-related harm, respond most strongly to price increases.

2 Objective

This initiative advocates that Nepal should significantly increase specific volumetric excise rates across all beverage categories and enact statutory Consumer Price Index (CPI) indexation — so that the real value of the tax is maintained year-on-year without requiring a discretionary political decision at each budget cycle.

This works within Nepal's existing, well-designed specific excise framework. It requires no structural overhaul, no new administrative capacity, and no transition costs. It is the most direct path to meeting the WHO "3 by 35" target — a 50% real price increase by 2035.

3 Key Findings

REVENUE IS GROWING, BUT REAL TAX VALUE IS ERODING

Excise revenue from alcohol has grown 266% over nine years in nominal terms, from Rs. 96.3 billion (FY 2014/15) to Rs. 352.9 billion (FY 2022/23). Beer has overtaken spirits as the largest revenue driver. Yet this nominal growth conceals a structural problem.

Table 1: Excise Revenue Collection from Alcohol and Beer — Nepal

Values in Rs. 10 million units (e.g., 35,298.33 = Rs. 352.98 billion) | Source: Economic Survey 2023/24

Fiscal Year	Excise — Alcohol (Production)	Excise — Beer (Production)	Total Internal Revenue	YoY Change (Total)
2014/15	5,353.82	4,282.52	9,636.34	—
2015/16	6,577.64	4,945.50	11,523.14	19.6%
2016/17	8,480.55	7,273.61	15,754.16	36.7%
2017/18	10,257.92	9,676.32	19,934.24	26.5%
2018/19	12,185.35	6,432.13	18,617.48	(6.6%)
2019/20	10,392.77	7,610.61	18,003.38	(3.3%)
2020/21	13,781.05	10,750.53	24,531.58	36.3%
2021/22	16,677.77	13,100.03	29,777.80	21.4%
2022/23	14,306.45	20,991.88	35,298.33	18.5%
2023/24*	11,138.89	13,350.92	24,489.81	(30.6%)
10-Year Total	**109,152.21**	**98,414.05**	**207,566.26**	—

** Provisional figure up to mid-March 2024. YoY = Year-on-Year. Values are in Rs. 10 million units.*

When tax hikes fall far below inflation, alcohol becomes progressively more affordable relative to income directly undermining the public health purpose of the tax.

The Tax–Inflation Disparity: FY 2022/23

Comparing alcohol market inflation, general CPI, and the government excise tax hike on beer

Category	Growth Rate	What It Tells Us
Alcohol Inflation	8.8%	High — the market is pushing alcohol prices up quickly, driven by production costs and supply factors.
Overall CPI Inflation	7.7%	Medium — the general cost of living is rising, but more slowly than alcohol prices.
Government Excise Tax Hike (Beer)	2.1%	Very Low — the tax increase is far below both inflation rates, reducing its real-world deterrent effect.

Source: Economic Survey 2023/24 (Annex 3.4) and Finance Bill 2081. Alcohol inflation and overall CPI figures are for FY 2022/23. The 2.1% excise tax hike refers specifically to beer (malt-based, all strengths) as per the Finance Bill 2081-82.

THE SPECIFIC VOLUMETRIC STRUCTURE IS ALREADY THE RIGHT MODEL

Nepal's system is already de facto content-sensitive, different per-litre rates apply across ABV bands, achieving the progressive logic of an alcohol-content-based tax without requiring a structural overhaul.

WHO evidence confirms volumetric taxes are associated with lower price variability than ad valorem taxes, reducing consumer incentives to trade down to cheaper brands (WHO, 2023).

Volumetric taxes may be more effective than other types at preventing or delaying drinking initiation, particularly among young people, by raising the price floor on low-cost, low-strength products (WHO, 2023).

REGIONAL EVIDENCE CONFIRMS BOLD ACTION WORKS

THAILAND

Action: 11 excise increases over 25 years.

-0.5L

Result: Reduced per capita consumption by 0.5 litres annually. Proved that managing a large informal sector alongside formal tax hikes is possible.

PHILIPPINES

Action: 2012 Sin Tax Reform (shifted to specific taxation).

+86%

Result: Increased alcohol excise revenue by 86% in a single year, funding vast public health expansions.

SRI LANKA

Action: 20% excise increase in 2023.

-64%

Result: Triggered a 64% drop in self-reported consumption, proving **price works aggressively as a behavioral lever** in South Asia.

4 Conclusion

Nepal has a well-designed excise framework and a strong revenue base. What it lacks is rate level and a structural mechanism to maintain real prices over time.

Raising specific volumetric rates substantially and locking in real value through statutory CPI indexation is the single most effective action available.

It requires no new infrastructure, no transition period, no external support only a decision in the next budget cycle.

It will generate more revenue, reduce consumption, protect public health, and align Nepal with its WHO SAFER commitments.

WHO "3 by 35" target

The WHO Global Report on Alcohol Taxes (2025) recommends tax increases sufficient to raise the real price of alcohol by at least 50% by 2035. Statutory CPI indexation combined with an immediate step-change increase is the path to meeting this target.

5 Recommendations

CORE ECOMMENDATION

Substantially raise volume-based excise duties and introduce automatic annual inflation adjustment

No fundamental restructuring needed – action should be taken in the upcoming Finance Bill.

PART A — RAISE RATES

A meaningful uplift across all beverage types

Focus efforts on beer and lower-alcohol drinks – they account for the largest share of revenue and are the most common starting point for new consumers. The existing tiered structure, where stronger products carry higher rates, should be preserved.

PART B — INDEX TO CPI

Built-in annual adjustment

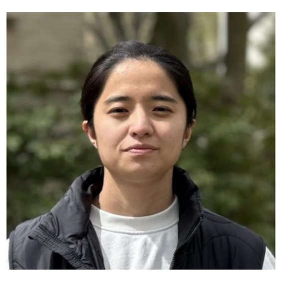
Rates would rise each year by at least the previous year's rate of inflation. Additional increases beyond this baseline would still be permitted. This removes the recurring problem of rates being held artificially low for political reasons.

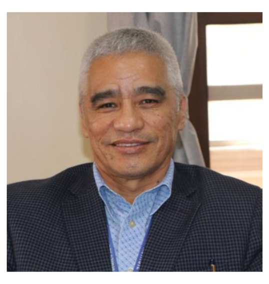
Secondary Option:

A modest ad valorem levy of 25–50% on spirits only domestic and imported, could capture premium revenue a flat specific rate misses.

Nepal already has a 2% luxury tax on imported alcohol and complex import duties. This is most useful after core rate increases are in place, and should not dilute the primary recommendation.

Key References: WHO technical manual on alcohol tax policy and administration. Geneva: WHO; 2023. Licence: CC BY-NC-SA 3.0 IGO. ISBN 978-92-4-008279-3 - - - WHO Global Report on the Use of Alcohol Taxes, 2025 - Ministry of Finance, Government of Nepal. Economic Survey 2023/24 - STEPS Surveys Nepal 2013 & 2019, Nepal Health Research Council - Sornpaisarn et al. (2017). Resource tool on alcohol taxation and pricing policies. WHO.





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