Macroeconomic Situation of Nepal

(*During the First Six Months of FY 2003/04)*

Nepal Rastra Bank

March 2004

Press Communiqué of Nepal Rastra Bank on Current Macroeconomic Situation of Nepal

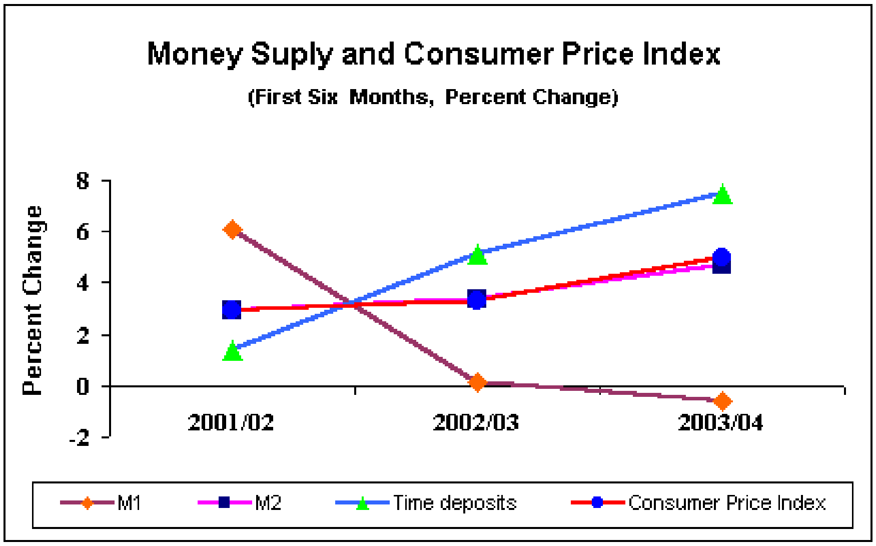
(*During the First Six Months of FY 2003/04)*

Major Points

- FY 2003/04 saw a rise in broad money but fall in narrow money.
- The share of net claims on government in banking sector's total domestic credit declined significantly, resulting in the corresponding increment in the share of the claims on the private sector.
- The weighted average treasury bills rates declined.
- The stock exchange transactions and the NEPSE index increased.
- Total government expenditure, on cash basis, increased.
- The resource mobilization increased much faster than the total expenditure, resulting in the decline in the budget deficit.
- Price situation, on the average as well as on the point-to-point basis, rose.
- Imports rose at a rate much faster than the exports, resulting in the widened trade deficit.
- The sharp rise in the private remittances resulted in the current account surplus.
- Due to substantial surplus in the current account, the overall balance of payments (BOP) stood favorable.
- The gross foreign exchange reserve reached Rs.122.2 billion, enough to cover merchandise imports of 11.3 months and merchandise and service imports of 9.5 months.

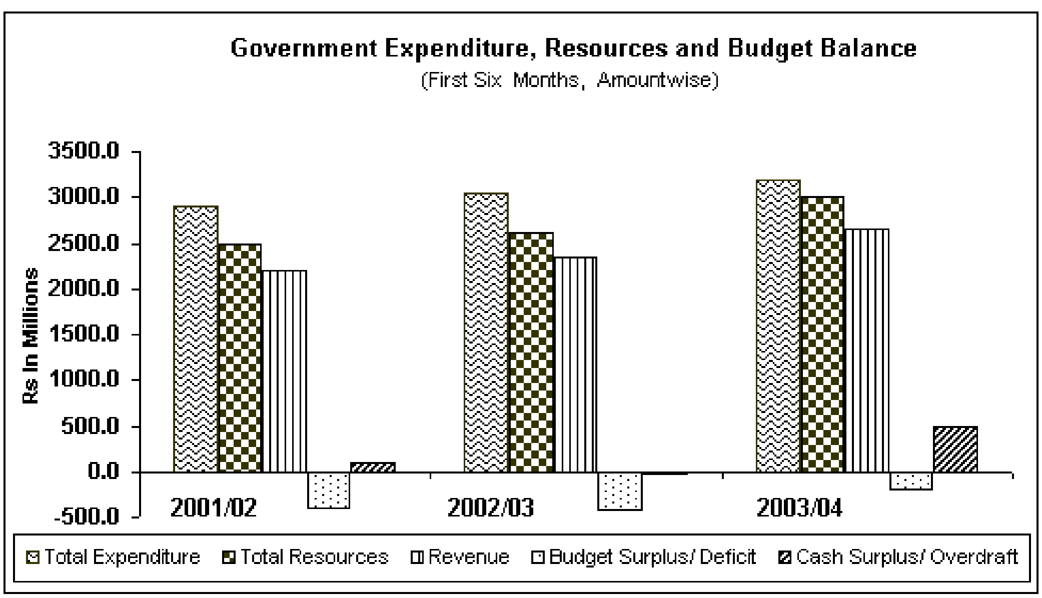
Monetary Situation

During the first six months of FY 2003/04, broad money grew by 4.7 percent to Rs. 257.5 billion. Narrow money, a component of broad money, declined by 0.6 percent to Rs. 83.2 billion in contrast to the marginal rise 0.1 percent last year. Time deposits, the other component of broad money, went up by 7.5 percent to Rs. 174.3 billion compared to the rise of 5.1 percent in the previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) rose by 9.4 percent as against the decline of 1.7 percent in the previous year. Domestic credit of the banking system increased marginally to Rs. 229.3 billion compared to a growth of 5.5 percent a year earlier. Credit to the private sector posted a growth of 5.4 percent to Rs. 159.1 billion. The share of net claims on government in banking sector's total domestic credit declined significantly, resulting in the corresponding increment in the share of the claims on the private. The 91-day average treasury bills rate declined to 3.95 percent in mid-January 2004 from 4.10 percent in mid-January 2003.



Government Budgetary Operation

Based on the cash flow data, the total expenditure increased by 5.2 percent to Rs. 32.0 billion as against the rise of 4.8 percent last year. Of the total expenditure, regular expenditure increased by 3.9 percent to Rs. 25.5 billion compared to an increase of 14.0 percent last year. The development expenditure went up by 7.3 percent to Rs. 4.8 billion in contrast to a sharp decline of 24.4 percent last year. The freeze account, marked an increment of 22.1 percent to Rs. 1.6 billion this year as against the decline of 12.7 percent last year.



Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 14.7 percent to Rs. 30.0 billion compared to a rise of 5.0 percent last year. Revenue, the major source of the government resources, went up by 13.6 percent to Rs. 26.6 billion compared to a slower growth of 6.0 percent last year. The revenue mobilization improved mainly due to the rise in imports. Foreign grants went up substantially to Rs. 2.1 billion as against just Rs. 747.8 million mobized last year. However, the non-budgetary receipts (net) declined by 34.5 percent to Rs. 1.0 billion. The higher growth of non-debt resources compared to the total expenditure growth resulted in the decline in the budget deficit by 53.8 percent to Rs. 1.9 billion in contrast to its rise of 3.6 percent last year. HMG mobilized foreign cash loan amounting to Rs. 6.7 billion and domestic loan amounting to Rs. 1.3 billion this year. After adjusting Rs. 1.1 billion in the other headings of HMG account, HMG's cash transactions resulted in a surplus of Rs. 4.9 billion in mid-January 2004 as compared to an overdraft of Rs. 287.9 million last year.

Price Situation

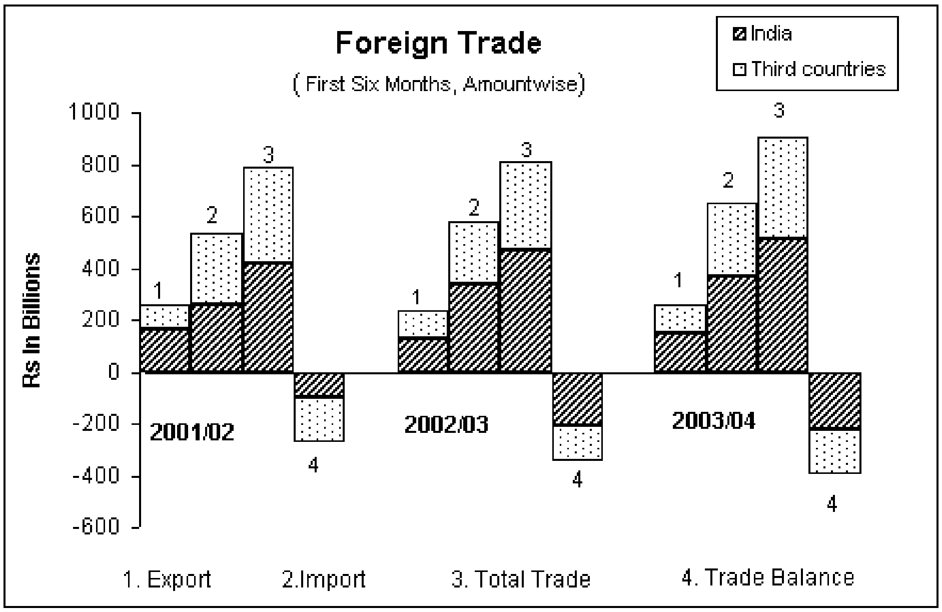
The National Urban Consumer Price Index, on the point-to-point basis, increased by 5.0 percent compared to the rise of 3.3 percent last year. On point-to-point basis, the index of food and beverages group increased by 4.1 percent compared to the rise of 2.7 percent last year. Despite the decline in the prices of sugar and related products, the rise in the prices of vegetables and fruits (15.4 percent), oil and ghee (10.3 percent), meat, fish and eggs (6.0 percent) and restaurant meals (6.0 percent) exerted upward pressure in the index of the food and beverages group by 4.1 percent. The index of non-food and services group went up by 5.9 percent compared to an increase of 3.8 percent last year. Regionwise, the price indices of the Terai, Hills and Kathmandu Valley rose by 4.1 percent, 4.4 percent and 6.9 percent respectively as compared to the corresponding rise of 4.5 percent, 2.8 and 1.5 percent last year. Similarly, on an average basis, the consumer prices increased by 5.3 percent compared to the rise of 3.1 percent last year. The National Wholesale Price Index, on point-to-point basis, increased by 7.0 percent compared to a negative growth of 0.9 percent last year. The indices for agricultural, imported and domestic manufactured goods increased by 8.2 percent, 7.6 percent and 3.5 percent respectively. The wholesale price increased by an average of 4.5 percent compared to the average increase of 1.3 percent last year.

Foreign Trade

Total exports increased by 8.6 percent to Rs. 25.5 billion in contrast to the decline of 9.4 percent last year. Exports to India, witnessing a reversal, increased by 13.5 percent to Rs. 14.7 billion in contrast to the decline of 19.2 percent last year. Exports to other countries, which had gone up by 6.6 percent last year, rose slowly by 2.5 percent to Rs. 10.8 billion. The exports of woollen carpets, pulses, jewellery, handicrafts and tanned skin to other countries increased while that of the Pashmina and readymade garments declined.

Total imports increased by 12.0 percent to Rs. 64.8 billion compared to the rise of 8.9 percent last year. Imports from India rose by 9.9 percent compared to the rise of 28.5

percent last year, while imports from the other countries went up by 14.8 percent in contrast to the decline of 10.1 percent last year. Imports of rice, electrical equipments, tire, tube, M.S. billet, fruit, vegetables, salt, pulses, wheat, tobacco, vehicles and spare parts, industrial chemicals, M.S. wire rod, cold rolled sheets and other machinery parts from India and that of edible oil, cardamom, nut, yarn, zinc ingot, steel sheet, copper wire and sheet, crude soybean oil, tire and tube, electrical equipment, cloths, readymade garments, cosmetics, other machinery parts, raw wool, plastic granules, chemical fertilizers, pesticide as well as agricultureral equipment from the other countries went up this year.



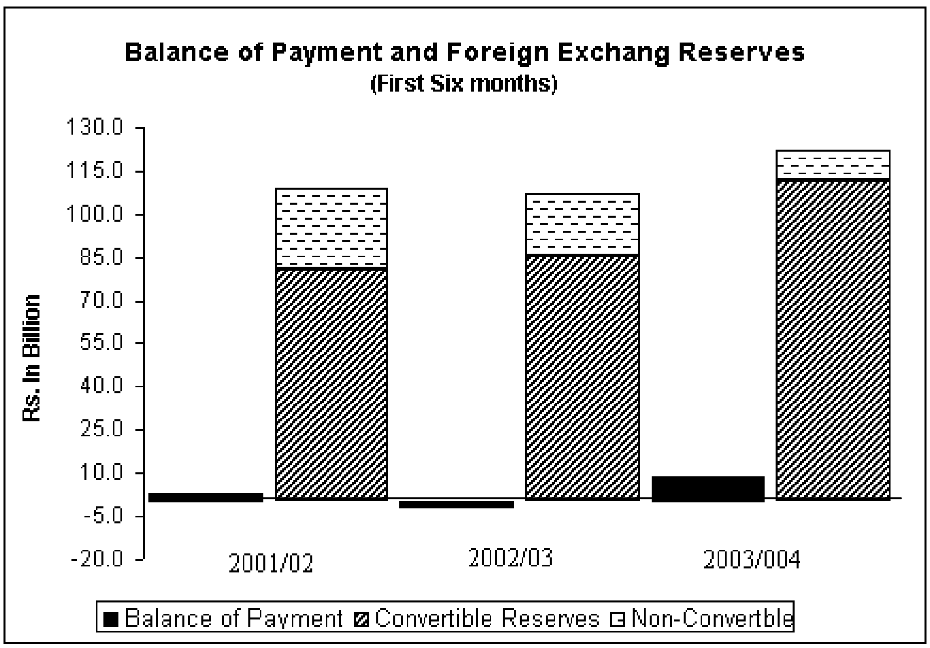
The higher growth of imports relative to that of the exports widened the trade gap by 14.3 percent to Rs.39.3 billion compared to the growth of 26.3 percent last year. Trade deficit with India increased by 7.6 percent compared to the substantial rise of 104.4 percent last year. Trade gap with the other countries widened by 24.3 percent in contrast to the decline of 19.7 percent last year. The overall export/import ratio, which was 40.6 percent last year, came down to 39.4 percent this year. The export/import ratios for India and other countries stood at 39.9 percent and 38.8 percent this year as compared with 38.6 percent and 43.5 percent respectively last year.

Balance of Payments

Based on the available BOP statistics for the first four months of FY 2003/04, trade deficit expanded by 21.6 percent to Rs. 25.9 billion due to the higher growth of imports vis-à-vis that of the exports. Service receipts increased at a rate higher than that of payments, resulting in the surplus in the service sector. Despite the surplus in the service sector, the goods and services accounts remained in deficit by Rs. 24.1 billion. Both the investment income receipts and payments declined by 21.5 percent and 7.4 percent respectively. Current account recorded a surplus of Rs. 12.8 billion due to the increased inflow of remittances. Despite a substaintial deficit in the financial account, the BOP remained favorable by Rs. 1.0 billion on account of the surplus in the current account as well as the residual items. The BOP had recorded a deficit of Rs. 3.1 billion during the same period last year. On the basis of the monetary statistics for the first six months, the BOP recorded a surplus of a Rs. 8.6 billion in comparison to a deficit of Rs. 1.5 billion during the same period last year.

Foreign Exchange Reserve

The gross foreign exchange reserve in mid-January 2004 reached Rs.122.2 billion. The convertible reserve increased by 30.5 percent to Rs.111.8 billion whereas the non-convertible reserve (Indian currency) declined by 51.1 percent to Rs. 10.4 billion. The share of convertible reserve in the total reserve reached 91.5 percent this year from 80.1 percent last year, resulting in a corresponding decline in the share of non-convertible reserve to 8.5 percent. The rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances. Despite the sharp decline in the non-convertible reserve, the overall reserve position of the country is quite comfortable as it is sufficient to finance merchandise imports of 11.3 months and merchandise and service imports of 9.5 months.



Share Market Transactions

Major indicators of the stock market showed a rising trend. Both the number of share transactions and their value increased. The market capitalization of the listed companies rose by 13.2 percent to Rs. 36.3 billion. As a result, the NEPSE index grew from the mid-January 2003 level of 200.8 by 1.15 index points (0.6 percent) to 201.95 in mid- January 2004.

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