Macroeconomic Situation of Nepal

(During the First Seven Months of FY 2003/04)

Nepal Rastra Bank

March 2004

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

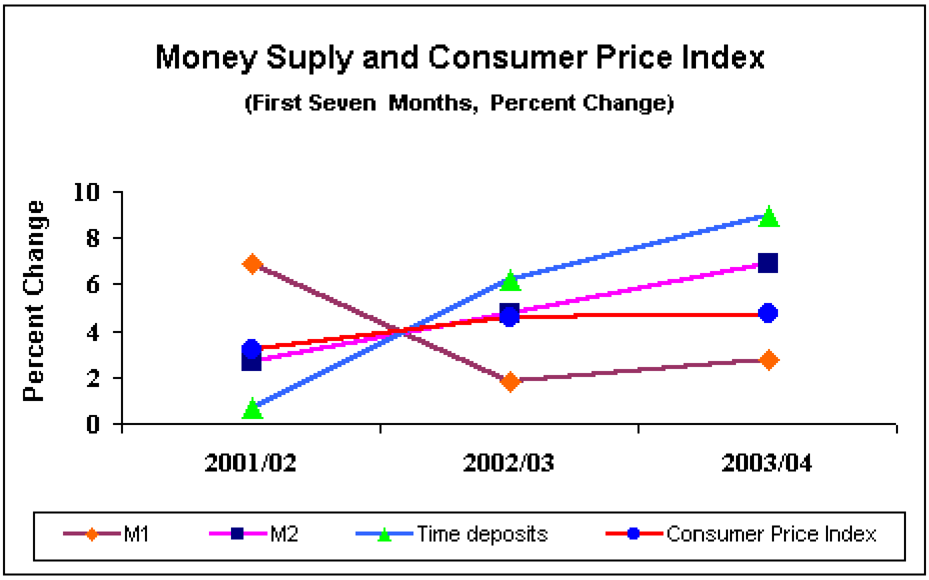
(*During the First Seven Months of FY 2003/04)*

Major Points

- FY 2003/04 saw rise both in narrow and broad money.
- The net claims on government decreased significantly.
- The weighted average treasury bills rates declined.
- The stock exchange transactions increased while the NEPSE index decreased.
- Total government expenditure, on cash basis, increased moderately.
- 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 went up at a rate 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.122.7 billion, enough to cover merchandise imports of 11.2 months and merchandise and service imports of 9.5 months.

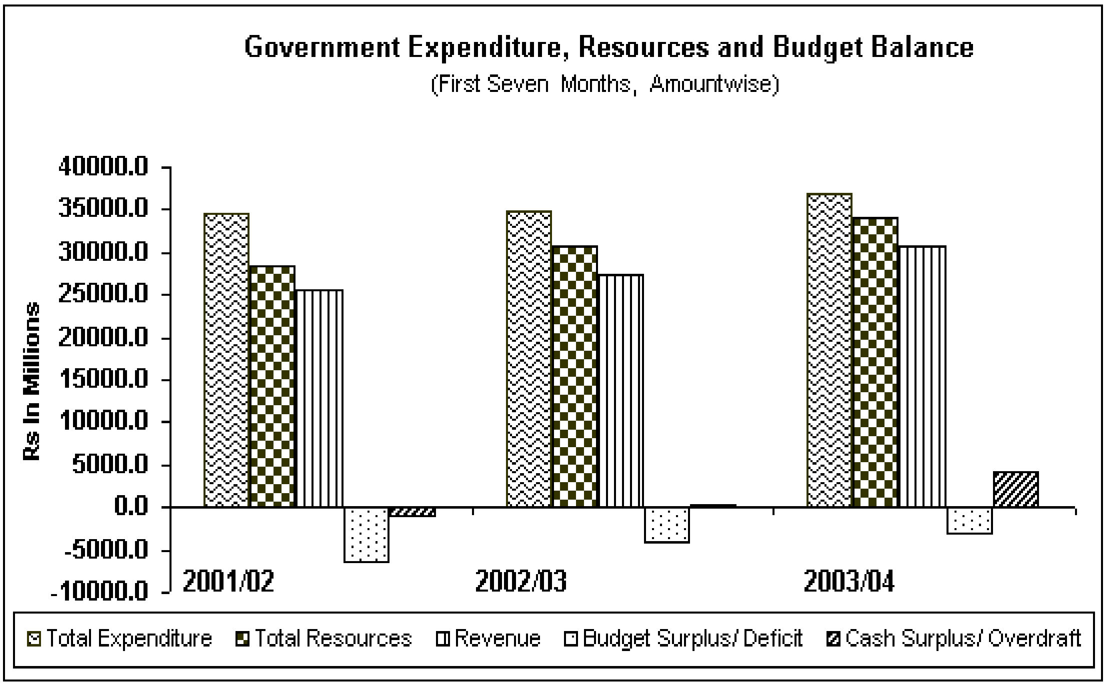
Monetary Situation

During the first seven months of FY 2003/04, broad money grew by 6.9 percent to Rs. 262.8 billion. Narrow money, a component of broad money, increased by 2.8 percent to Rs. 86.1 billion in comparison to the rise of 1.8 percent during the same period last year. Time deposits, the other component of broad money, went up by 9.0 percent to Rs. 176.7 billion compared to the rise of 6.2 percent last year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) surged by 12.4 percent as compared to the increment of 1.3 percent in the previous year. Domestic credit of the banking system increased marginally by 1.3 percent to Rs. 231.3 billion compared to a growth of 5.4 percent a year earlier. Credit to the private sector posted a growth of 6.0 percent to Rs. 160.0 billion. The share of net claims on government in banking sector's total domestic credit declined significantly from 28.5 percent in mid-February 2003 to 23.6 percent in mid-February 2004. Accordingly, the share of claims on the private sector rose from 65.0 percent in mid-February 2003 to 69.2 percent in mid-February 2004. The 91-day average treasury bills rate decreased to 3.94 percent in mid-February 2004 from 4.01 percent in mid-February 2003.



Government Budgetary Operation

Based on the cash flow data, the total expenditure increased by 5.9 percent to Rs. 37.0 billion as against the marginal rise of 0.8 percent last year. Of the total expenditure, regular expenditure increased by 2.5 percent to Rs. 29.2 billion compared to an increase of 12.7 percent last year. The development expenditure went up satisfactorily by 20.2 percent to Rs. 6.3 billion in contrast to a sharp decline of 34.3 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 10.6 percent to Rs. 34.1 billion compared to a rise of 8.7 percent last year. Revenue, the major source of the government resources, went up by 12.6 percent to Rs. 30.8 billion compared to a slower growth of 6.6 percent last year. The rate of revenue mobilization improved mainly due to the rise in imports. Foreign grants went up substantially to Rs. 2.2 billion as against just Rs. 777.8 million received last year. However, the non-budgetary receipts (net) declined by 65.0 percent to Rs. 0.8 billion. The higher growth of non-debt resources compared to that of the total expenditure resulted in the decline in the budget deficit by 29.3 percent to Rs. 2.9 billion compared to the decline in the budget deficit by 34.5 percent last year. HMG mobilized foreign cash loan amounting to Rs. 6.9 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. 4.1 billion in mid-February 2004 as compared to a surplus of Rs. 215.8 million last year.

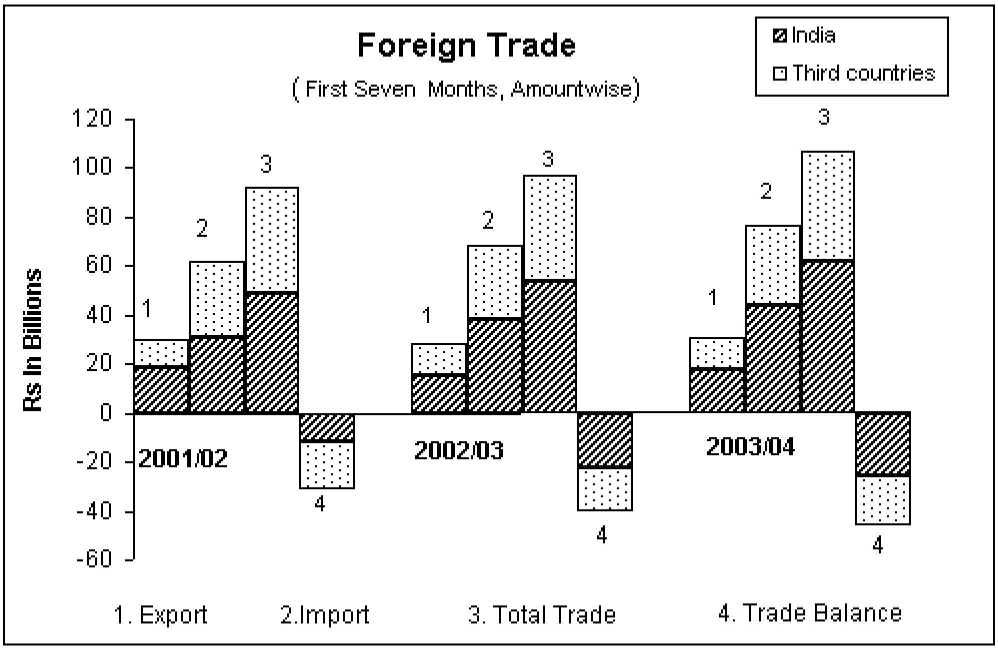
Price Situation

The National Urban Consumer Price Index, on point-to-point basis, increased by 4.7 percent in mid-February 2004 compared to the rise of 4.6 percent during the same period last year. The index of food and beverages group increased by 4.0 percent compared to the rise of 5.2 percent last year. The rise in the indices occurred, especially for oil and ghee (12.5 percent), vegetables and fruits (7.8 percent), meat, fish and eggs (6.3 percent), spices (6.2 percent), restaurant meals (5.1 percent), pulses (4.0 percent), milk and milk products (1.8 percent) and grains and cereals products (1.3 percent) while there has been decline, especially in the indices for sugar and related products (5.5 percent) and beverages (0.7 percent). The index of non-food and services group surged by 5.7 percent compared to an incerase of 3.8 percent last year. The rise in the prices of transportation and communication (11.0 percent), housing (8.7 percent), education, reading and recreation (4.8 percent) as well as medical and personal care (4.1 percent) exerted an upward pressure on the index of non-food and services group,which rose by 5.7 percent. Regionwise, the price indices for the Hills, Terai and Kathmandu Valley rose by 3.8 percent, 3.9 percent and 6.8 percent respectively compared to the coresponding rise of 3.9 percent, 5.6 percent and 3.2 percent last year.The National Wholesale Price Index, on point-to-point basis, increased by 5.2 percent compared to an increase of 3.5 percent last year. The indices for imported, domestic manufactured and agricultural goods increased by 7.8 percent, 6.3 percent and 3.0 percent respectively. The consumer prices and the wholesale prices for the seven months of the current fiscal year rose on an average by 5.2 percent and 4.4 percent respectively. Such increments during the same period last year were 3.3 percent respectively.

Foreign Trade

Total exports increased by 7.7 percent to Rs. 30.6 billion in contrast to the decline of 5.7 percent last year. Exports to India, witnessing a reversal, increased by 17.1 percent to Rs. 18.0 billion in contrast to the decline of 17.5 percent last year. Exports to other countries, which had gone up by 13.4 percent last year, declined by 3.3 percent to Rs. 12.6 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 11.0 percent to Rs. 76.4 billion compared to the rise of 11.4 percent last year. Imports from India increased by 15.2 percent compared to the rise of 24.4 percent last year, while imports from the other countries went up by 5.8 percent in contrast to the decline of 1.3 percent last year. Imports of rice, electrical equipment, 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.



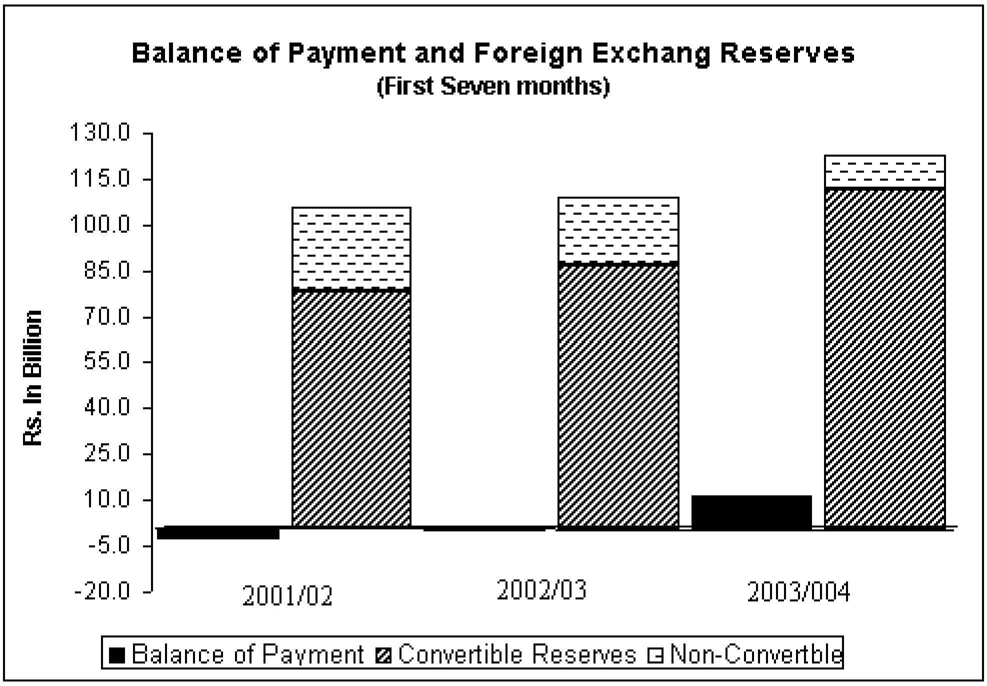
The higher growth of imports relative to that of the exports resulted in the trade deficit of Rs. 45.8 billion compared to Rs. 40.4 billion last year. Trade deficit with India increased by 13.9 percent compared to the substantial rise of the deficit by 89.5 percent last year. Trade deficit with the other countries widened by 12.6 percent in contrast to the decline of the deficit by 9.9 percent last year. The overall export/import ratio, which was 41.3 percent last year, came down to 40.0 percent this year. The export/import ratios for India and other countries which stood at 40.3 percent and 42.4 percent respectively last year, changed to 41.0 percent and 38.7 percent respectively this year.

Balance of Payments

Based on the available BOP statistics for the first five months of FY 2003/04, trade deficit expanded by 21.1 percent to Rs. 31.8 billion due to the higher growth of imports vis-à-vis 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. 28.9 billion. The income net was unfavourable by Rs 1.1 billion. Current account recorded a surplus of Rs. 13.2 billion due to the increased inflow of remittances. Despite a substaintial deficit in the financial account, the BOP remained favorable by Rs. 606.2 million on account of the surplus in the current account as well as in the residual items. The BOP had recorded a deficit of Rs. 2.7 billion during the same period last year. On the basis of the monetary statistics for the first seven months, the BOP recorded a surplus of a Rs. 11.3 billion in comparison to a surplus of Rs. 1.1 billion during the same period last year.

Foreign Exchange Reserve

The gross foreign exchange reserve in mid-February 2004 reached Rs.122.7 billion. The convertible reserve increased by 27.9 percent to Rs.111.4 billion whereas the non-convertible reserve (Indian currency) declined by 48.6 percent to Rs. 11.3 billion. The share of convertible reserve in the total reserve reached 90.8 percent this year from 79.8 percent last year, resulting in a corresponding decline in the share of non-convertible reserve to 9.2 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 11.2 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 11.9 percent to Rs. 39.1 billion. However, the NEPSE index declined from the mid-February 2003 level of 213.31 by 2.0 index points (0.9 percent) to 211.31 in mid- February 2004.

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