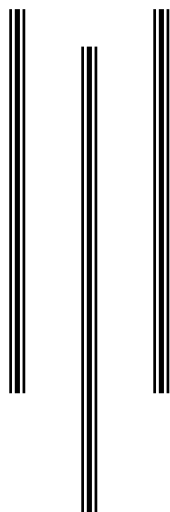
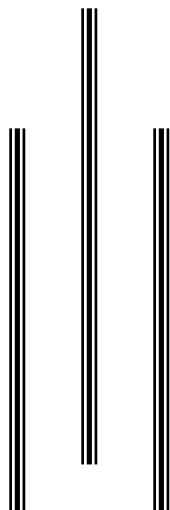


Macroeconomic Situation of Nepal

(Based on the Annual Data for FY 2003/04)



Nepal Rastra Bank

September 2004

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

(Based on the Annual Data for FY 2003/04)

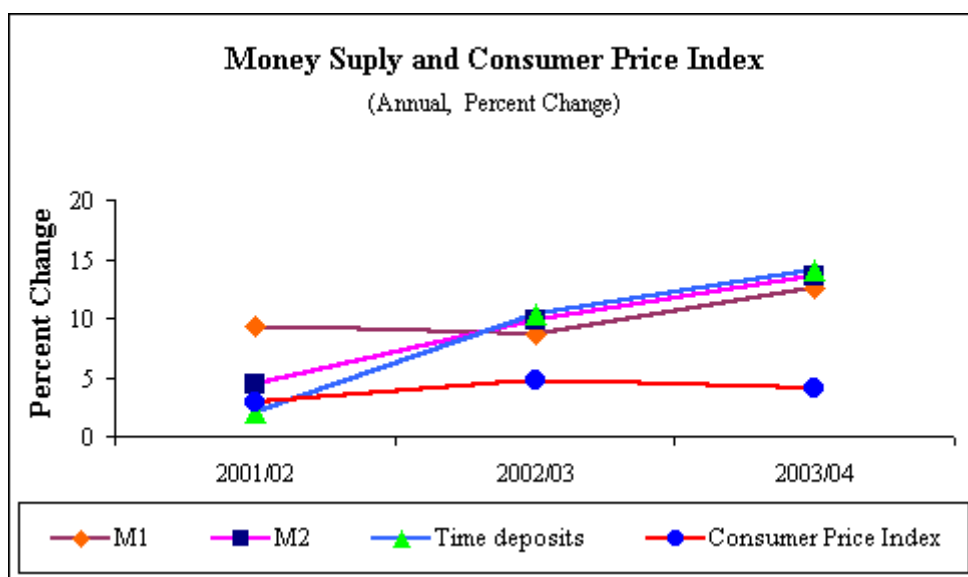
Major Points

- FY 2003/04 saw acceleration in narrow money and broad money.
- Net claims on government declined.
- Weighted average treasury bills rates declined.
- Stock exchange transactions increased resulting in the rise in the NEPSE index.
- Total government expenditure, on cash basis, increased.
- Resource mobilization increased at a rate much faster than the total expenditure, resulting in the decline in the budget deficit.
- Price rise decelerated.
- Trade deficit decelerated mainly due to the lower increase in imports.
- Sharp rise in the grants and increase in the services resulted in the large current account surplus.
- Overall balance of payments (BOP) stood favorable due to larger current account surplus, inflow of loan and miscellaneous income.
- Gross foreign exchange reserve reached Rs. 129.9 billion, enough to cover 11.2 months merchandise imports and of 9.2 months merchandise and service imports.

Monetary Situation

During FY 2003/04, broad money increased by 13.5 percent to Rs. 279.1 billion. Narrow money, a component of broad money, rose by 12.6 percent to Rs. 94.3 billion compared to the rise of 8.6 percent in the previous year. Time deposits, the other component of broad money, went up by 14.0 percent to Rs. 184.8 billion compared to the rise of 10.4 percent in the previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) surged by 18.1 percent as compared to the rise of 4.9 percent in the previous year. Domestic credit of the banking system rose by 8.8 percent to Rs. 248.5 billion compared to the rise of 10.2 percent in the previous year. Credit to the private sector posted a growth of 13.3 percent to Rs. 171.1 billion compared to the rise of 13.2 percent in the previous year. However, credit to the government decelerated by 3.1 percent as against the rise of 5.5 percent in the previous year. As a result, the share of the net claims on the government in the banking sector's total domestic credit declined from 27.5 percent in mid-July 2003 to 24.5 percent in mid-July 2004. Accordingly, the share of the claims

on the private sector rose from 66.1 percent in mid-July 2003 to 68.8 percent in mid-July 2004.

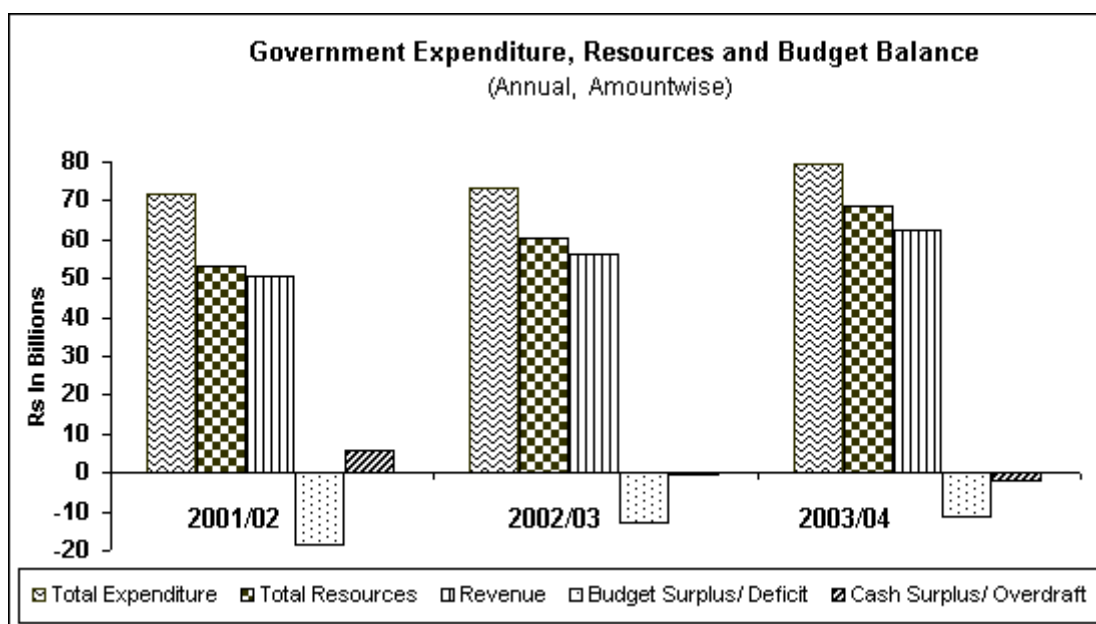


The 91- days' average treasury bills rate decreased from 2.98 percent in mid-July 2003 to 1.47 percent in mid-July 2004.

Government Budgetary Operation

Based on the cash flow data, the total government expenditure increased by 9.1 percent to Rs. 79.7 billion, as against a lower growth of 2.0 percent in the previous year due mainly to the large increment in development as well as freeze expenditure. Regular expenditure rose marginally by 4.9 percent to Rs. 57.4 billion as compared to the increase of 13.4 percent in the previous year. Development expenditure went up by 21.9 percent to Rs. 20.7 billion in contrast to a sharp decline of 22.1 percent in the previous year. The freeze account marked an increment of 18.3 percent to Rs. 1.6 billion as against the decline of 12.5 percent in the previous year.

Total non-debt resources (revenue, non-budgetary and other receipts as well as foreign grants) increased by 13.2 percent to Rs. 68.5 billion compared to the rise of 13.6 percent in the previous year. Revenue, that represented 90.9 percent of the government resources, went up by 10.7 percent to Rs. 62.3 billion compared to the rise of 11.5 percent in the previous year. Revenue mobilization increased mainly due to the rise in the collection of income tax and excise duties as well as the non-tax revenue mainly the passport fees. Foreign grants surged by 106.3 percent to Rs. 5.2 billion as against the receipt of Rs. 2.5 billion in the previous year. However, the non-budgetary receipts (net) declined by 47.4 percent. The decline in the total expenditure and the rise in the non-debt resources resulted in the 10.7 percent decline in the budget deficit to Rs. 11.2 billion as compared to the decline of 31.4 percent in FY 2002/03. To finance the deficit, HMG mobilized domestic loan amounting to Rs. 5.6 billion and foreign cash loan amounting to Rs. 7.7 billion. After meeting the deficit and adjusting Rs. 0.3 billion in the other headings of accounts, HMG's cash transactions resulted in a surplus of Rs. 1.7 billion in mid-July 2004 as against a surplus of 0.5 billion in mid-July 2003.



Price Situation

The annual inflation rate during FY 2003/04, as measured by the National Urban Consumer Price Index, registered a rise of 4.0 percent compared to an increase of 4.8 percent in FY 2002/03. The indices for food and beverages group and non-food and services group increased by 3.3 percent and 4.7 percent respectively.

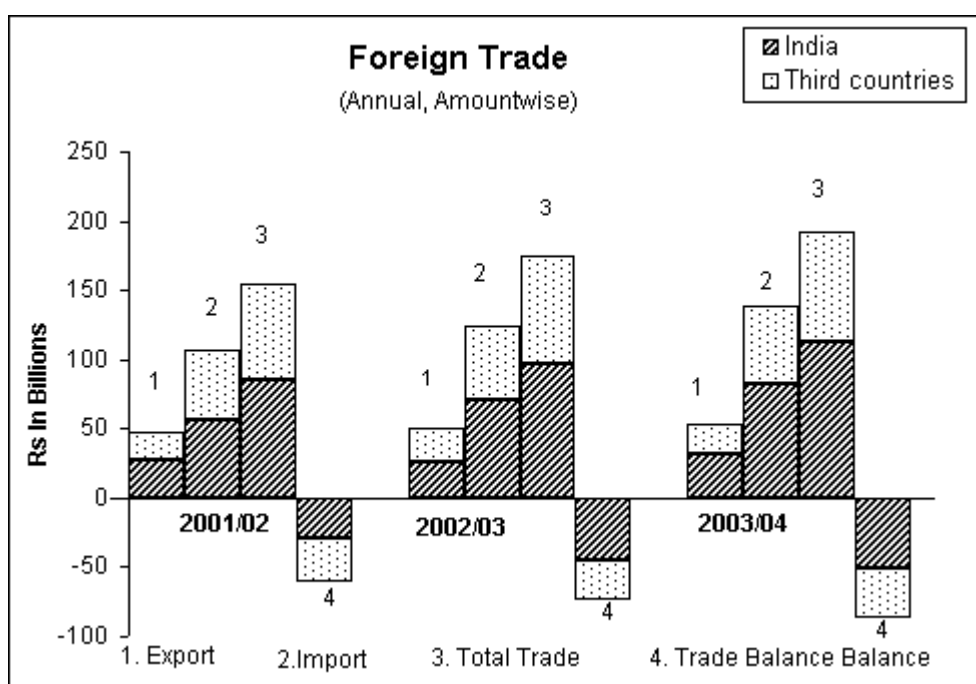
The National Urban Consumer Price Index, on point-to-point basis, increased by 2.0 percent in mid-July 2004 compared to the rise of 6.1 percent in the previous year. The slow growth in the price index in the review period is mainly attributable to the strong supply situation of foodgrains. On point-to-point basis, the index of food and beverages group increased by 1.9 percent compared to the rise of 5.2 percent in previous year. The indices went up for sugar and related products (by 20.3 percent), meat, fish and eggs (by 9.4 percent), vegetables and fruits (by 7.2 percent), spices (by 4.1 percent), oil and ghee (by 2.6 percent), pulses (by 2.3 percent), restaurant meals (by 1.8 percent) and milk and milk products (by 0.9 percent) while the indices declined for grains and cereal products (by 3.3 percent) and beverages (by 1.0 percent). The index of non-food and services group increased by 2.3 percent compared to an increase of 6.9 percent in the previous year. The indices increased for education, reading and recreation (by 4.8 percent), medical and personal care (by 3.5 percent), cloth, clothing and sewing services (by 2.4 percent), housing goods and services (by 1.7 percent) and tobacco and related products (by 1.3 percent) while the indices declined for transport and communication (by 1.6 percent) and footwear (by 0.3 percent). Regionwise, the price index rose by 4.6 percent in the Kathmandu Valley and 1.0 percent each in the Terai and the Hills. Such indices had increased by 5.2 percent, 6.8 percent and 5.4 percent respectively in the previous year.

The National Wholesale Price Index, on an annual average basis, registered an increase of 4.1 percent compared to the rise of 3.8 percent in FY 2002/03. The National Wholesale Price Index, on point-to-point annual basis, increased by 4.8

percent in mid-July 2004 compared to an increase of 6.1 percent in the previous year. The indices for domestic manufactured, agricultural and imported commodities increased by 7.9 percent, 4.1 percent and 3.8 percent respectively.

Foreign Trade

Total exports increased by 5.6 percent to Rs 52.7 billion compared to the rise of 6.4 percent in the previous year. Exports to India increased by 18.2 percent to Rs. 31.2 billion in contrast to the decline of 5.5 percent in the previous year. Exports to other countries, which had gone up by 23.8 percent in the previous year, declined by 8.6 percent to Rs. 21.5 billion. The exports of woollen carpets, tanned skin and jewellery to other countries increased while that of the readymade garments and Pashmina declined.



Total imports increased by 11.9 percent to Rs. 139.1 billion compared to the rise of 15.8 percent in the previous year. Imports from India increased by 15.1 percent compared to the rise of 25.3 percent in the previous year, while imports from other countries went up by 7.6 percent as against the lower growth of 5.2 percent in the previous year. Imports of M.S. billet, pulses, wheat, vehicles and spare parts, industrial chemicals, chemical fertilizers, petroleum products, medicine, M.S. wire rod, cold-rolled sheets and other machinery parts from India and that of edible oil, nut, yarn, zinc ingot, steel sheet, copper wire and sheet, crude soybean oil, crude palm oil, aircraft spare parts, tire and tube, cosmetics, other machinery parts, raw wool, plastic granules, chemical fertilizers as well as agriculture equipment from other countries went up during FY 2003/04.

The higher growth of imports relative to that of the exports widened the trade deficit by 16.1 percent to Rs. 86.4 billion compared to the rise of 23.1 percent in the previous year. Trade deficit with India, which had recorded a substantial rise of 55.2 percent in FY 2002/03, further widened by 13.3 percent in FY 2003/04. Trade deficit

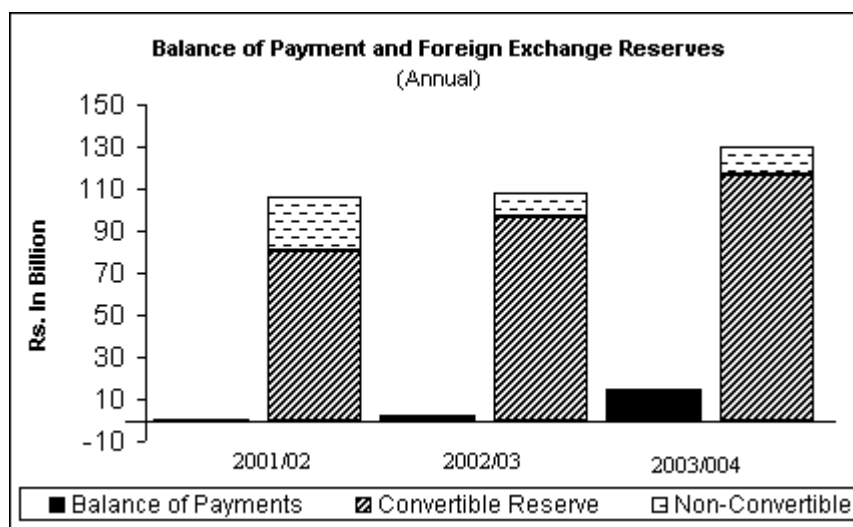
with other countries increased by 20.3 percent as against the decline of 5.8 percent in the previous year. The overall export/import ratio, which was 40.2 percent in FY 2002/03, came down to 37.9 percent in FY 2003/04. The export/import ratios for India and other countries stood at 38.3 percent and 37.4 percent respectively in FY 2003/04 compared to 37.3 percent and 44.0 percent respectively in FY 2002/03.

Balance of Payments

According to the BOP statistics for the first 11 months of FY 2003/04, trade deficit expanded by 13.1 percent to Rs. 71.5 billion due to the higher growth of imports vis-à-vis the exports. Despite the surplus in the service sector, the goods and services accounts remained in deficit by Rs. 63.6 billion due to the huge deficit in the goods account. The income (net) was also unfavourable by Rs 2.1 billion. However, the current account recorded a surplus of Rs. 16.0 billion due to the substantial inflow on current transfer. Despite a marked deficit in the financial account, the BOP recorded a surplus of Rs. 14.8 billion on account of the surplus in the current account, higher inflow of foreign loans and residual items (net errors and omissions). The BOP had witnessed a surplus of Rs. 2.5 billion during the same period in the previous year. On the basis of the monetary statistics for FY 2003/04, the BOP recorded a large surplus at Rs. 16.5 billion as compared to the surplus of Rs. 4.4 billion in FY 2002/03.

Foreign Exchange Reserve

The gross foreign exchange reserve in mid-July 2004 reached Rs.129.9 billion. The convertible reserve increased by 20.2 percent to Rs.116.6 billion and the non-convertible reserve (Indian currency) rose by 17.9 percent to Rs. 13.2 billion. The share of convertible reserve in the total reserve reached 89.8 percent in mid-July 2004 from 89.6 percent in mid-July 2003, resulting in the corresponding decline in the share of non-convertible reserve to 10.2 percent. The increased inflow of foreign grants, loans, private remittances and the payment of petroleum products in the non-convertible currency were the main reasons for the increase in the share of the convertible reserve.



The overall reserve position is at a comfortable level as it is sufficient to finance merchandise imports of 11.2 months and merchandise and service imports of 9.2 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 increased by 17.6 percent to Rs. 41.4 billion. Likewise, the NEPSE index rose by 17.18 index points (8.4 percent), from 204.86 in mid-July 2003 to 222.04 in mid- July 2004.
