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

(*During FY 2002/03)*

During the FY 2002/03 compared with the FY 2001/02, broad money registered an accelerated growth whereas narrow money witnessed a deceleration. The weighted average treasury bills rates dropped. The stock exchange transactions in terms of value declined. Due to the sharp decline in development expenditure, on cash basis, the total government expenditure decelerated which, supported by an increase in non-debt resources, narrowed down the budget deficit. Price situation, on point-to-point basis, saw a faster rise but remained moderate on annual average. On the external front, import increased at a rate much faster than the export, resulting in the widened trade deficit. The sharp rise in private remittances made the current account balance positive. Despite the negative balance in financial account, substantial surplus in current account contributed to the overall balance of payment (BOP) to be favorable. Accordingly, the gross foreign exchange reserve of the banking system in mid-July 2003 reached Rs.110.4 billion, enough to cover merchandise imports of 10.6 months and merchandise and service imports of 8.8 months.

Compared with the growth of 4.4 percent during FY 2001/02, broad money increased by 8.1 percent to Rs.242.2 billion due mainly to the increase in net domestic assets (NDA) as well as the net foreign assets (NFA) of the banking system. Of the two components of the broad money, narrow money increased by 5.5 percent to Rs.81.4 billion compared to a rise of 9.3 percent last year. The second component, i.e. the time deposits, registered a growth of 9.5 percent to Rs. 160.8 billion during the review year compared to the rise of 2.1 percent last year. The NFA of the banking system (adjusting the foreign exchange valuation) went up by 5.9 percent to Rs. 92.0 billion as against the decline of 3.8 percent during FY 2001/02. Domestic credit of the banking system registered a growth of 9.0 percent reaching Rs.226.1 billion compared to a growth of 10.4 percent last year. This higher growth in the domestic credit is attributable to the rise in the claims on the private sector by 11.8 percent to Rs. 149.0 billion compared to the growth of 5.2 percent during FY 2001/02. The weighted average treasury bills rate stood at 2.98 percent in mid-July 2003 compared to 3.78 percent in mid-July 2002.

Based on the cash flow data, the total government expenditure grew marginally by 0.9 percent to Rs. 72.2 billion as against a rise of 4.0 percent last year. Of the total expenditure, regular expenditure increased by 12.5 percent to Rs. 54.3 billion compared to an increase of 13.5 percent last year. The development expenditure, however, declined sharply by 24.1 percent to Rs. 16.5 billion compared to a decline of 13.8 percent last year. The freeze account, in contrast to a sharp growth of 47.9 percent during FY 2001/02, marked a reversal, declining by 12.5 percent to Rs.1.4 billion. The difficulties in carrying out development activities due basically to adverse security situation during the first half of the FY 2002/03 coupled with the 3.8 percent decline in the foreign cash loans led to the decline in the development expenditure.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 13.6 percent to Rs. 60.5 billion compared to a marginal growth of 0.6 percent during FY 2001/02. Revenue, the major source of the government resources, went up impressively by 11.5 percent to Rs. 56.2 billion compared to a negligible growth of 3.2 percent during FY 2001/02. The revenue mobilization improved due mainly to the rise in imports. Foreign grants went up by 20.5 percent to Rs. 2.5 billion in contrast to the decline of 27.4 percent last year. However, the net non-budgetary receipts declined marginally by 0.2 percent to Rs. 1.6 billion. The decline in the total expenditure and the rise in the non-debt resources resulted in the decline of the budget deficit by 36.1 percent to Rs. 11.7 billion in comparison to the growth of 15.2 percent during FY 2001/02. In order to finance the deficit, HMG mobilized foreign loans amounting to Rs. 4.3 billion, issued treasury bills worth Rs.1.8 billion and development bonds worth Rs. 6.4 billion, raised Rs. 400.0 million through national saving certificates and Rs. 303.0 million through the citizen saving certificates. After the payment of Rs.144 million to the other headings of the government account, there was a cash surplus of Rs.1.3 billion in mid-July 2003. HMG's overdraft during the same period last year was Rs.5.9 billion.

The National Urban Consumer Price Index, on point-to-point basis, increased by 6.1 percent compared to a slower growth of 3.5 percent during FY 2001/02. The price index, on the annual average basis, increased by 4.8 percent compared to the rise of 2.9 percent during FY 2001/02. On point-to-point basis, the index of food and beverages group increased by 5.2 percent compared to the rise of 4.5 percent during FY 2001/02. Despite the decline in the prices of sugar and related products, pulses as well as vegetables and fruits, the rise in the prices of oil and ghee (by 20.1 percent), grains and cereals products (by 8.6 percent), restaurant meals (by 7.2 percent), beverages, meat, fish and eggs as well as spices raised the food and beverages group index by 5.2 percent. The index of non-food and services group went up by 6.9 percent compared to a growth of 2.4 percent last year. Regionwise, the price indices of the Terai, Hills and Kathmandu Valley rose by 6.8 percent, 5.4 percent and 5.2 percent respectively. The comparable price rises during FY 2001/02 were 4.0 percent, 2.8 and 3.0 percent respectively. The rise in the price of agricultural and related products, edible oils and the price hike of the petroleum products contributed to the overall price rise by 6.1 percent. On point-to-point basis, the wholesale price index increased by 6.1 percent compared to an increase of 1.6 percent during FY 2001/02. On annual average basis, wholesale price index went up by 3.8 percent during FY 2002/03 compared to the rise of 4.9 percent last year.

Total export increased by 4.9 percent to Rs. 49.2 billion in contrast to the decline of 15.6 percent during FY 2001/02. Export to India, witnessing a reversal during FY 2002/03, declined by 3.7 percent to Rs. 26.9 billion as against the increase of 7.4 during the previous year. Export to other countries, which had declined by 35.9 percent during FY 2001/02, increased by 17.6 percent to Rs. 22.3 billion. Exports of readymade garments and jewellery to the countries other than India surged by 51.6 percent and 25.5 percent respectively while that of the woollen carpets, Pashmina and tanned skin declined by 14.6 percent, 7.4 percent and 51.7 percent respectively. The total export to the third countries increased on account of the improved exports of readymade garments and jewellery while the export to India turned negative following the imposition of the quantitative restrictions through the renewed Nepal-India trade treaty.

Total import increased by 16.9 percent to Rs. 125.5 billion as against the decline of 7.2 percent during FY 2001/02. The composition of import from India and other countries during the review year reversed from the position of the previous year. Import from India increased by 27.2 percent in contrast to the decline of 2.4 percent during FY 2001/02 while import from the third countries went up by 9.7 percent as against the decline of 10.2 percent during FY 2001/02. Imports of yarn, textile, rice, agricultural equipment and parts, electrical equipments, petroleum products, M.S. wire, rod, tyre, tube, M.S. billet, medicine, industrial chemicals, other machinery and parts as well as cold and hot rolled sheets from India and raw wool, plastic granules, cotton as well as telecommunications equipment and parts from the third countries went up during FY 2002/03.

With the growth of import substantially exceeding the growth of export, the trade gap widened by 26.2 percent to Rs.76.3 billion compared to the marginal growth of 0.7 percent during FY 2001/02. Trade deficit with India surged by 80.7 percent in contrast to the decline of 15.7 percent during FY 2001/02. Trade deficit with the other countries expanded by 6.3 percent compared to the growth of 8.4 percent during FY 2001/02. The overall export/import ratio, which was 43.7 percent during FY 2001/02, dropped to 39.2 percent during the review year, due mainly to the slow growth in export and the fast rise in import. This ratio with India slipped sharply to 48.0 percent as compared to 63.4 percent last year while the ratio of third countries rose marginally to 32.2 percent from 30.0 percent.

NRB has changed the format of publishing summary BOP beginning from mid-May 2003, with a view to making the BOP more realistic by increasing data coverage and also to have a format compatible with international standard. In the traditional format, imports were expressed in c.i.f. value but in this new format imports are also expressed in f.o.b. value. Similarly, external sales and purchase of electricity and aviation fuel are included in export and import respectively. Traditional format included workers' remittance received only through the formal channel while the new format includes estimated remittances as well. Capital account is segregated into capital account and financial account in the new format. The capital account of the new format includes grants of investment nature while the financial account includes foreign loans, trade credits, foreign direct investment as well as currency and deposits.

Based on the available BOP statistics for the first ten months, trade deficit increased by 38.2 percent to Rs. 57.5 billion in contrast to the decline of 11.2 percent last year due mainly to the rise in import and decline in export. The service receipts increased faster than the payment resulting in the surplus in service sector covering equivalent to 7.8 percent of the trade deficit. Compared to the last year, receipts under investment income increased by 9.2 percent while payments rose by 4.3 percent resulting in the rise in the deficit of goods, services and income by 32.8 percent to Rs. 53.4 billion. Such a deficit rose by 3.7 percent last year. Due to the substantial inflow of remittances, there has been a surplus of Rs. 15.7 billion in current account. Despite the decline in financial account, the BOP became favorable by Rs.4.0 billion due mainly to the sufficient surplus in current account. The BOP had recorded a surplus of Rs.1.2 billion during this period in FY 2001/02. According to the monetary statistics, the BOP surplus during the FY 2002/03 has been Rs. 5.2 billion.

The gross foreign exchange reserve in mid-July 2003 reached Rs. 110.4 billion. The convertible reserve increased by 23.5 percent to Rs. 99.2 billion whereas the inconvertible reserve (Indian currency) declined by 56.1 percent to Rs.11.2 billion. The share of convertible reserve in the total reserve reached 89.8 percent from 75.8 percent of the previous year, resulting in a corresponding decline in the share of inconvertible reserve to 10.2 percent. While the rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances, a sharp rise of 80.7 percent in the trade deficit with India resulted in the substantial decline in the inconvertible reserve during the review year.

Major indicators of the stock market showed mixed performance during FY 2002/03.The turnover in the number of shares increased while the value of transactions declined. The NEPSE index slumped from the mid-July 2002 level by 22.68 points (10.0 percent) to 204.86 in mid–July 2003. However, the market capitalization of the listed companies increased by 1.5 percent to Rs. 35.2 billion.

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