Macroeconomic Situation of Nepal

(During the first month of FY 203/04)

Nepal Rastra Bank

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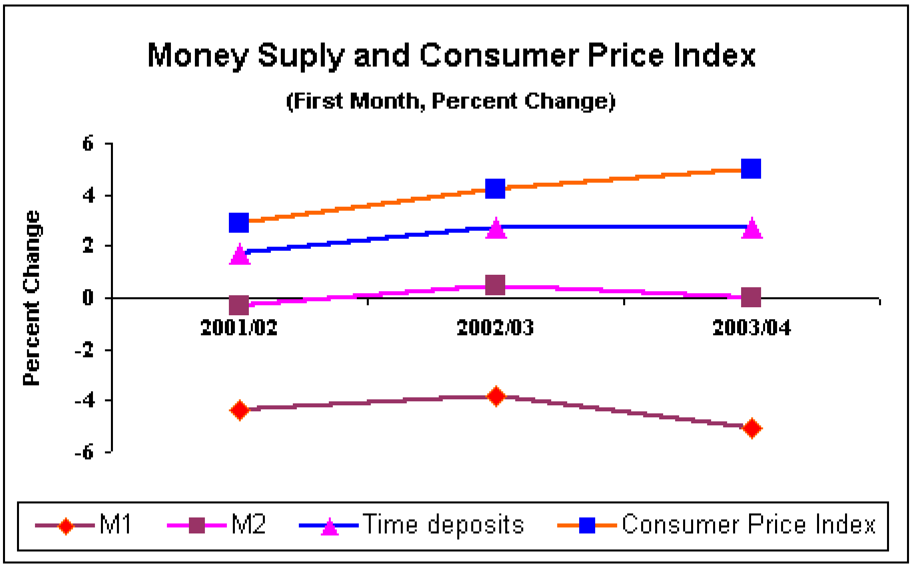
Press Communiqué of Nepal Rastra Bank on
Current Macroeconomic Situation of Nepal

(*During the first month of FY 203/04*)

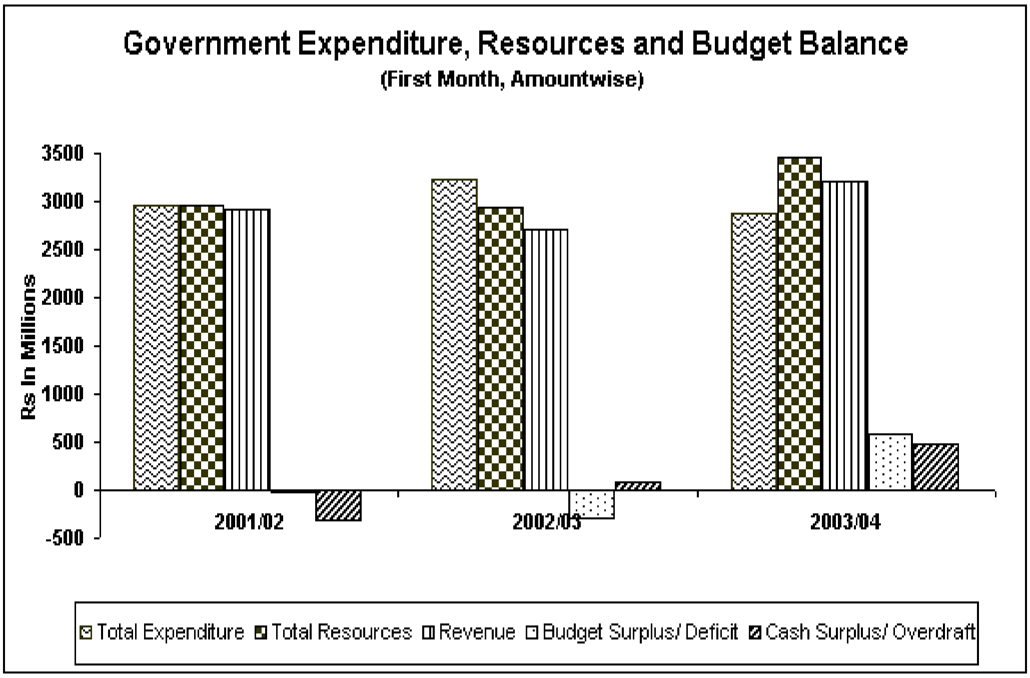
The first month of FY 2003/04 has seen a decline in narriw money and a slight rise in broad money. The weighted average treasury bills rates went up. The stock exchange transaction increased. Due to the sharp decline in regular expenditure, the total government expenditure declined which, supported by an increase in non-debt resources, reduced the budget deficit. Price situation, on point-to-point basis, rose moderately on annual average. On the external front, although export increased at a rate much faster than the import, the trade deficit widened due to the large base of import. The sharp rise in private remittances made the current account balance positive. Despite the negative balance in financial account, substantial surplus in current account as well as that on the capital account contributed to the overall balance of payment (BOP) to be favorable. Accordingly, the gross foreign exchange reserve of the banking system in mid-August 2003 reached Rs.108.8 billion, enough to cover merchandise imports of 11.2 months and merchandise and service imports of 9.1 months.

During the first month of the FY 2003/04, broad money increased marginally by 0.5 percent to Rs.243.5 billion. Of the two components of the broad money, narrow money declined by 3.8 percent to Rs.78.3 billion compared to a fall of 5.1 percent last year. The second component, i.e. the time deposits, registered a growth of 2.7 percent to Rs. 165.2 billion during the review month compared to the similar rise of 2.7percent last year. The NFA of the banking system (adjusting the foreign exchange valuation) stood at par with Rs. 91.8 billion as against the decline of 1.1 percent last year. Domestic credit of the banking system registered a marginal decline of 0.1 percent reaching Rs.226.7 billion compared to a growth of 0.7 percent last year. Credit to the private sector grew by 1.5 percent to Rs.151.0 billion compared to the growth of 0.2 percent last year. The weighted average treasury bills rate stood at 4.03 percent in mid-August 2003 compared to 3.42 percent in mid- August 2002.



Based on the cash flow data, the total government expenditure declined by 11.0 percent to Rs. 2.9 billion as against a rise of 8.7 percent last year. Of the total expenditure, regular expenditure declined by 27.2 percent to Rs. 952 million in contrast to an increase of 38.5 percent last year. The development expenditure increased by 14.6 percent to Rs. 42 million as against a sharp decline of 81.4 percent last year. The freeze account, in contrast to a growth of 2.9 percent marked a marginal decline by 0.2 percent to Rs.1.9 billion, during the review month.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 17.7 percent to Rs. 3.5 billion in contrast to the decline of 0.8 percent last yar. Revenue, the major source of the government resources, went up impressively by 18.1 percent to Rs. 3.2 billion as against the decline of 7.0 percent last year. The revenue mobilization improved due mainly to the surge in imports. Foreign grants went up substaintially to Rs. 84.0 million in contrast to just Rs. 6 milion during first month of FY 2002/03. The net non-budgetary receipts increased by 38.7 percent to Rs. 214 million. The decline in the total expenditure and the rise in the non-debt resources resulted in the budget surplus of Rs. 578 million this month in comparison to the deficit of Rs.293 million last year. HMG mobilized foreign loans amounting to Rs. 157.1 million during this month. Besides the above savings and foreign loan, an over draft amount of Rs.472 million was used to meet the expenses of other headings under government account. HMG's overdraft during the same period last year was Rs.8 million.



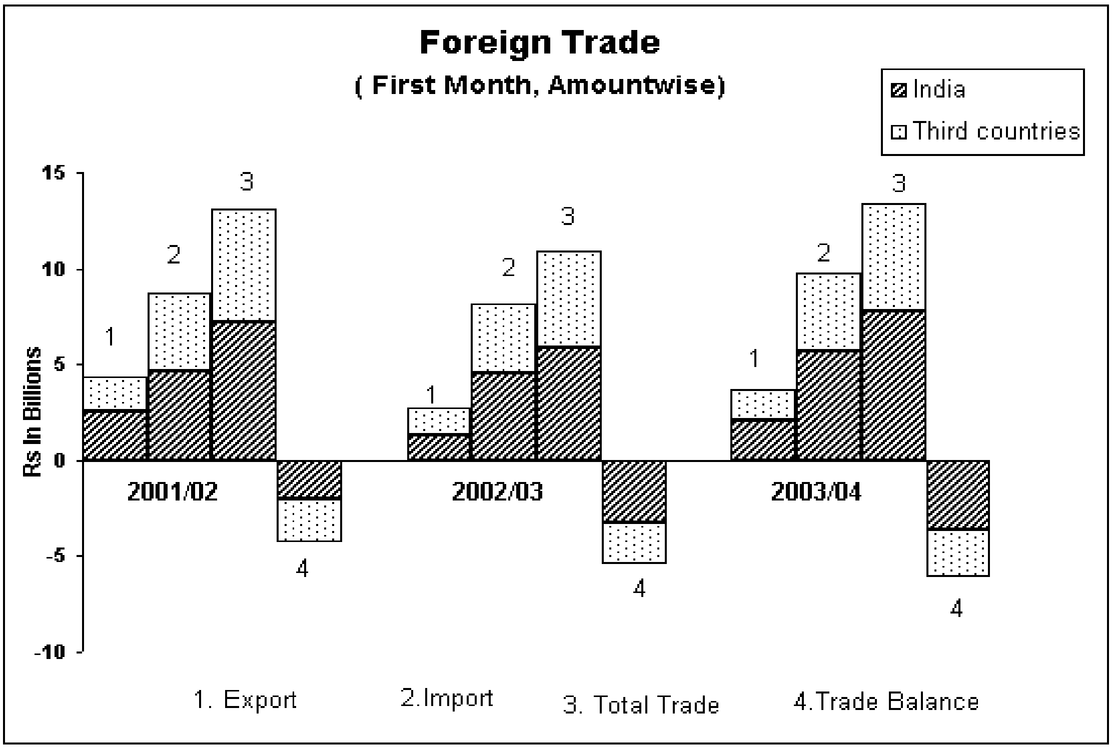
The National Urban Consumer Price Index, on point-to-point basis, increased by 5.0 percent compared to 4.2 percent last year. The price index, on the annual average basis, increased by 4.8 percent compared to the rise of 3.0 percent last year. On point-to-point basis, the index of food and beverages group increased by 4.2 percent compared to the rise of 4.5 percent last year. Despite the decline in the prices of sugar and related products, vegetables and fruits as well as pulses the rise in the prices of oil and ghee (by 18.8 percent), restaurant meals (by 7.0 percent), grains and cereals products (by 6.8

percent), spices, meat, fish and eggs, beverages, as well as milk and milk product raised the food and beverages group index by 4.2 percent. The index of non-food and services group went up by 5.8 percent compared to a growth of 4.0 percent last year. Regionwise, the price indices of the Terai, Hills and Kathmandu Valley rose by 5.5 percent, 4.6 percent and 4.4 percent respectively. The comparable price rises last year were 4.7 percent, 2.9 and 4.5 percent respectively. On point-to-point basis, the wholesale price index increased by 3.1 percent compared to an increase of 2.7 percent lasty year.

Total export increased by 34.9 percent to Rs. 3.7 billion in contrast to the decline of 38.3 percent during the same period last year. Export to India, witnessing a reversal during the first month of FY 2003/04, increased substantaily by 57.9 percent to Rs. 2.0 billion in contrast to the decline of 49.7 percent during the sam period last year. Export to other countries, which had declined by 22.1 percent last year, increased by 13.9 percent to Rs. 1.6 billion. Exports of readymade garments, woollen carpets and tanned skin to the countries other than India surged by 15.9 percent, 3.7 percent and 318.0 percent respectively while that of the Pashmina and jewellery declined by 21.2 percent, and 7.4 percent respectively. The total export to the third countries increased on account of the improved exports of readymade garments, woollen carpets and tanned skin tanned skin.

Total import increased by 19.6 percent to Rs. 9.8 billion in contrast to the decline of 6.0 percent during the same period last year. The import from India and other countries during the review period reversed from the previous year's position. Import from India increased by 24.3 percent in contrast to the decline of 0.1 percent last year while import from the third countries went up by 13.5 percent as against the decline of 12.6 percent during the same period last year. Imports of rice, agricultural equipment and parts, electrical equipments, tire, tube, M.S. billet, medicine, vegetable, salt, pulse, wheat, tobacco, petroleum products, vehicles and spare parts, industrial chemicals, and other machinery parts from India and edible oil, cardamom nut, yarn, zinc ingot, steel sheet, copper wire and sheet, crude soybean oil, tire and tube, electrical equipments, medicine, readymade garments, cosmetics, paper, other machinery parts, row wool, plastic granules as well as telecommunications equipments and parts from the third countries went up during the first month ofFY 2003/04.

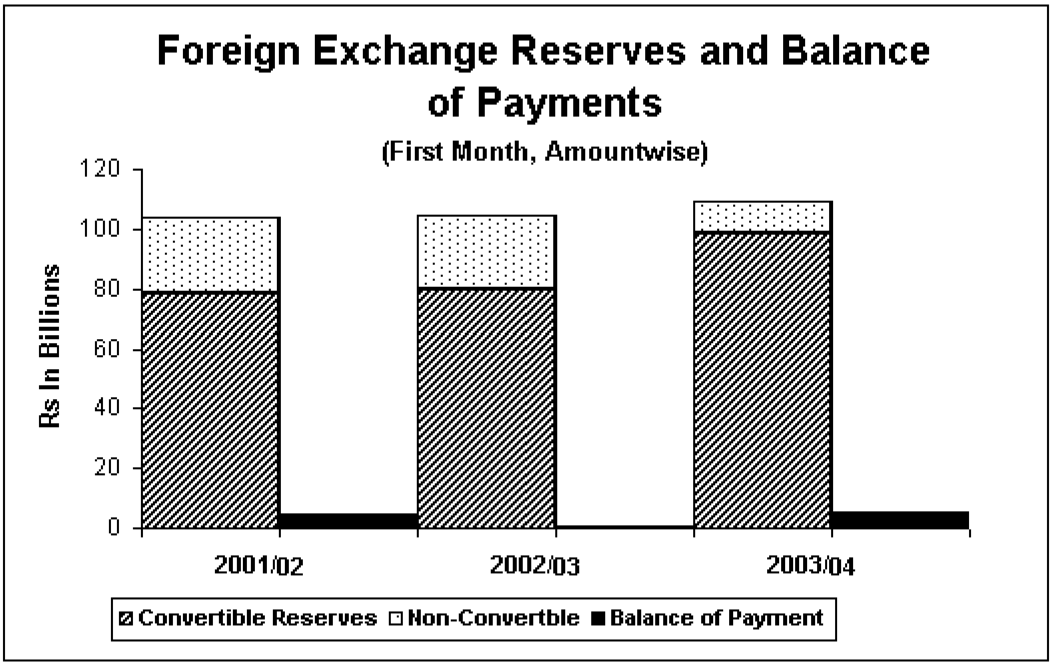
With the higher growth rate of exports compared to that of imports, the trade gap decelerated from 27.3 percent last year to 11.9 percent to Rs.6.1 billion during the first month of the fiscal year. Trade deficit with India increased by 11.1 percent as against the substantial rise of 63.5 percent last year. Trade deficit with the other countries expanded by 13.3 percent in contrast to the decline of 5.0 percent during same period last year. The overall export/import ratio, which was 33.4 percent last year, went up to 37.6 percent during the review period. This ratio with India increased to 35.9 percent from 28.3 percent last year while the ratio of third countries rose marginally to 40.0 percent from 39.9 percent.



NRB has changed the format of summary BOP from mid-May 2003, with a view to making the BOP more realistic by increasing data coverage and 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 from the informal channels 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 FY 2002/03, the service receipts increased faster than the payment resulting in the surplus in service sector covering to 7.8 percent of the trade deficit. Compared to the last year, receipts under investment income increased by 4.4 percent while payments rose by 5.3 percent resulting in the rise in the deficit of goods, services and income by 33.9 percent to Rs. 66.5 billion. Such a deficit rose by 1.6 percent last year. Due the substantial inflow of remittances, there has been a surplus of Rs. 8.4 billion in current account. Despite the decline in financial account, the BOP became favorable by Rs.5.2 billion due mainly to the sufficient surplus in current account as well as capital account. The BOP had recorded a deficit of Rs.3.3 billion during this period last year

The gross foreign exchange reserve in mid-August 2003 reached Rs. 108.8 billion. The convertible reserve increased by 22.9 percent to Rs. 98.0 billion whereas the inconvertible reserve (Indian currency) declined by 57.3 percent to Rs.10.7 billion. The share of convertible reserve in the total reserve reached 90.1 percent from 89.8 percent last year, resulting in a corresponding decline in the share of inconvertible reserve to 9.9 percent. While the rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances.



Major indicators of the stock market showed mixed performance. Both the value and turnover in the number of shares increased while the NEPSE index slumped from the mid-July 2002 level by 18.67 points (8.2 percent) to 207.92 in mid–August 2003. However, the market capitalization of the listed companies increased by 6.9 percent to Rs. 36.9 billion.

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