Macroeconomic Situation of Nepal

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

Nepal Rastra Bank

December 2003

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

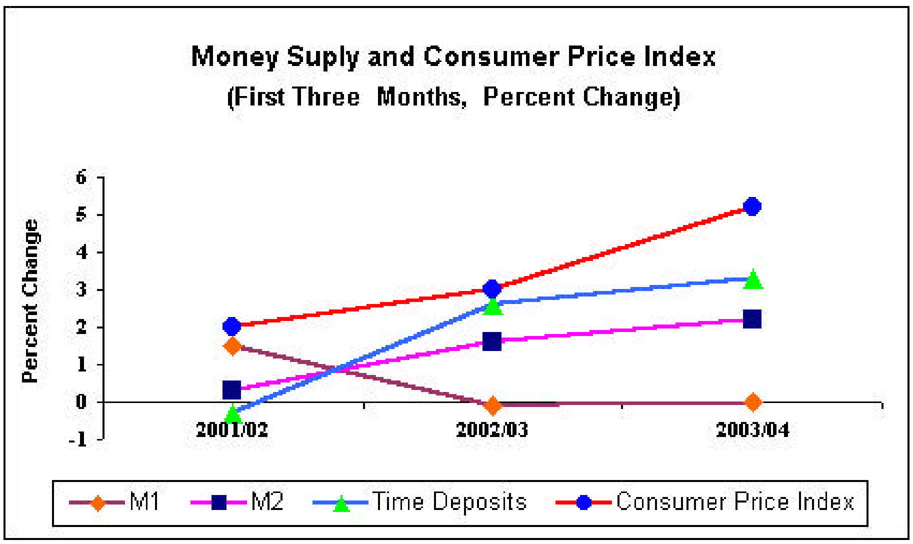
(*During the First Three Months of FY 2003/04)*

<u>Major Points</u>

- FY 2003/04 saw a slight rise in broad money and marginal decline in narrow money.
- The weighted average treasury bills rates rose.
- The stock exchange transactions increased though the NEPSE index declined.
- 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 annual average as well as on the point-to-point basis, rose.
- On the external front, the import increased at a rate much faster than the export, 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.109.6 billion, enough to cover merchandise imports of 10.2 months and merchandise and service imports of 8.7 months.

Monetary Situation

During the first three months of FY 2003/04, broad money went up by 2.2 percent to Rs. 247.4 billion. Narrow money, a component of broad money, fell by a marginal amount to Rs. 81.4 billion in comparison to a decline of 0.1 percent a year earlier. Time deposits, the other componant of broad money, posted a growth of 3.3 percent to Rs. 166.0 billion compared to the rise of 2.6 percent in the previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) increased by 1.0 percent in contrast to the decline of 1.3 percent in the previous year. Domestic credit of the banking system increased marginally by 1.7 percent to Rs. 230.7 billion compared to a growth of 4.0 percent a year earlier. Credit to the private sector grew by 3.2 percent to Rs. 153.7 billion. The 91-day average treasury bills rate went up to 3.70 percent in mid-October 2003 from 2.98 percent in mid-July 2003.

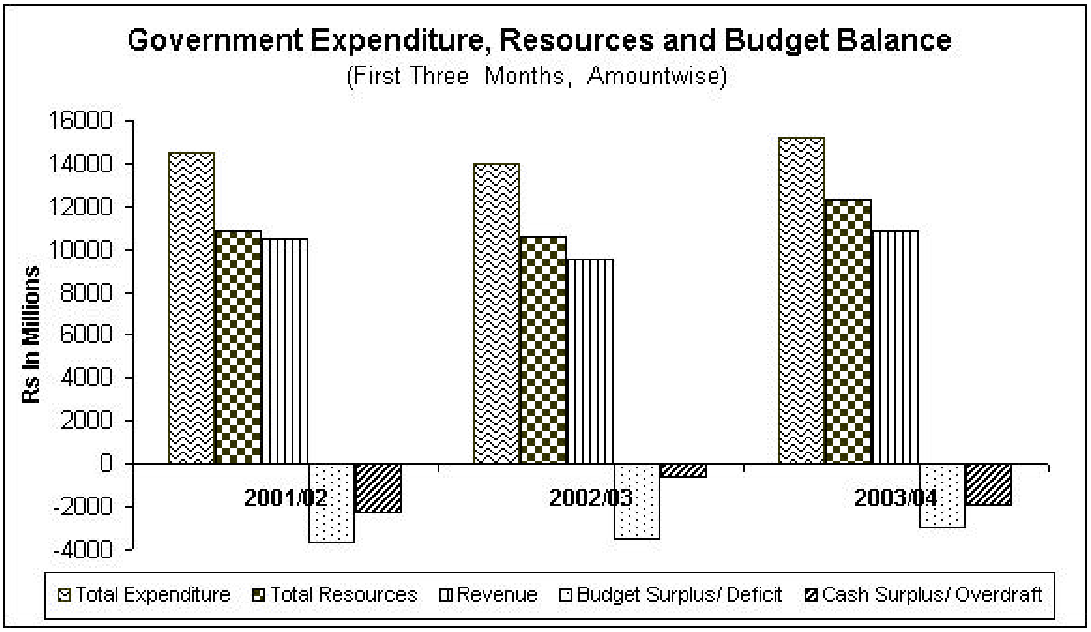


Government Budgetary Operation

Based on the cash flow data, the total government expenditure increased by 8.9 percent to Rs. 15.2 billion in contrast to the decline of 3.7 percent last year. Of the total expenditure, regular expenditure rose by 8.0 percent to Rs. 12.1 billion compared to an increase of 2.3 percent last year. The development expenditure rose by 4.5 percent to Rs.1.5 billion in contrast to a sharp decline of 29.2 percent last year. The freeze account, in contrast to the decline of 12.7 percent last year, marked an increase of 22.1 percent to Rs.1.6 billion.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 16.7 percent to Rs. 12.3 billion compared to the decline of 3.1 percent last year. Revenue, the major source of the government resources, went up by 13.2 percent to Rs. 10.8 billion in contrast to a decline of 9.1 percent last year. The revenue mobilization improved due mainly to the rise in imports. Foreign grants went up substantially to Rs. 621.9 million as against just Rs.120.7 million received last year. The net non-budgetary receipts increased substantially by 39.1 percent to Rs. 775.7 million. The higher growth rate of non-debt resources compared to that of the total expenditure resulted in the decline in the budget deficit by 14.7 percent to Rs. 2.9

billion in comparison to the 5.6 percent decline last year. In order to finance the deficit, HMG mobilized foreign loans amounting to Rs.751.0 million and issued treasury bills equivalent to Rs.400. million and Citizen Saving Certificates equivalent to Rs. 73.0 million this year. After adjusting Rs. 189.2 million in the other headings of the government account, an overdraft of Rs. 1.9 billion from Nepal Rastra Bank was utilized in mid-October 2003 to bridge the budget deficit. HMG had utilized Rs. 629.3 million overdraft facility from NRB last year.



Price Situation

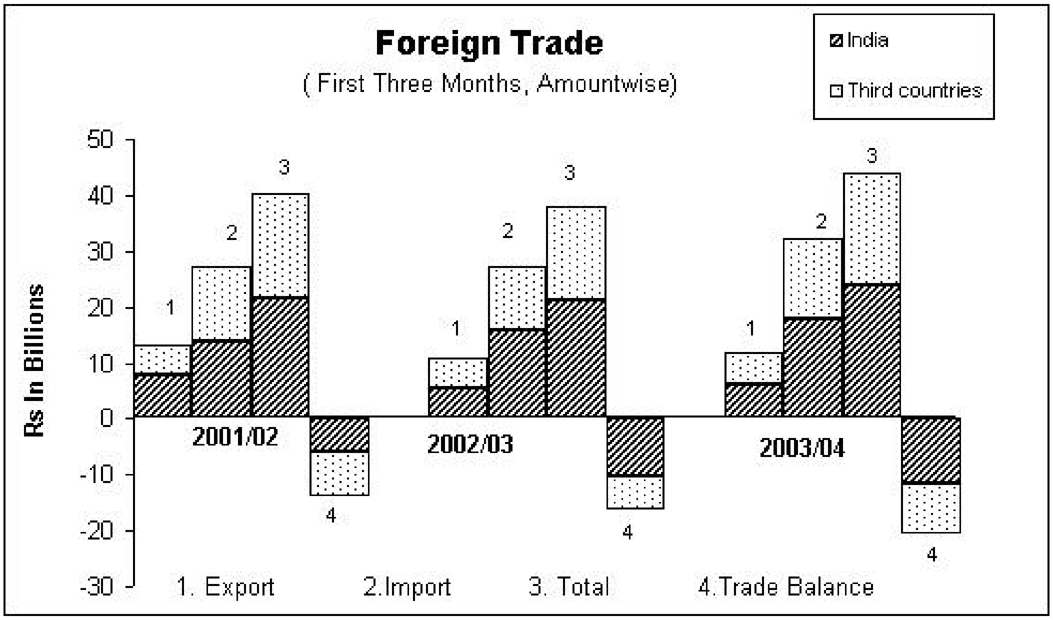
The National Urban Consumer Price Index, on point-to-point basis, increased by 5.2 percent compared to the rise of 3.0 percent last year. The price index, on the annual average basis, increased by 5.2 percent compared to the rise of 3.1 percent last year. On point-to-point basis, the index of food and beverages group increased by 4.8 percent compared to the rise of 2.2 percent last year. Despite the decline in the prices of sugar and related products as well as pulses, the rise in the prices of oil and ghee (22.9 percent), meat, fish and eggs (7.9 percent), restaurant meals (7.1 percent), grains and cereals products (4.9 percent), milk and milk product, beverages as well as spices raised the food and beverages group index by 4.8 percent. The index of non-food and services group went up by 5.8 percent compared to a growth of 3.8 percent last year. Regionwise, the price indices of Terai, Hills and Kathmandu Valley rose by 4.8 percent, 4.7 percent and 6.4 percent respectively. The corresponding price rises last year were 4.3 percent, 1.8 and 1.9 percent respectively. On point-to-point basis, the wholesale price index increased by 3.5 percent compared to the rise of 1.7 percent last year.

Foreign Trade

Total export increased by 9.1 percent to Rs. 11.7 billion in contrast to the decline of 19.1 percent last year. Export to India, witnessing a reversal, increased by 12.1 percent to Rs. 6.2 billion in contrast to the decline of 29.7 percent last year. Export to other countries, which had declined by 3.2 percent last year, increased by 5.8 percent to Rs. 5.5 billion this year. Exports of pulses, metal handicrafts goods, tanned skin, Nepalese paper, paper products, woollen carpets to the countries other than India increased by 663.3 percent, 263.6 percent, 60.3 percent 6.3 percent and 0.6 percent respectively while that of the Pashmina, jewelleries and readymade garments declined by 27.1 percent, 8.2 percent and 4.7 percent respectively. The export to the third countries increased on account of the improved exports of pulses, metal handicrafts goods, tanned skin, Nepalese paper, paper products and woollen carpets

Total import increased by 19.3 percent to Rs. 32.3 billion as compared to the decline of 0.1 percent last year. Import from India increased by 12.3 percent as compared to the rise of 15.1 percent last year, while import from the third countries rose substantially by 29.0 percent in contrast to the decline of 15.6 percent last year. Imports of rice, electrical equipments, tire, tube, M.S. billet, fruits, vegetable, salt, pulse, wheat, tobacco, petroleum products, vehicles and spare parts, industrial chemicals, cloths, M.S. wire rod, cold rold sheet 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 equipment, readymade garments, cosmetics, paper, other machinery parts, raw wool as well as plastic granules from the third countries went up during this year.

Resulted from the higher growth rate of imports compared to that of the exports, trade gap widened by 25.9 percent compared to the rise of 18.1 percent last year. Trade deficit with India increased by 12.4 percent as against the substantial rise of 76.3 percent last year. Trade deficit with the other countries expanded by 48.4 percent in contrast to the decline of 23.8 percent last year. The overall export/import ratio, which was 40.0 percent last year, went down to 36.2 percent this year. This ratio with India remained constant at 35.2 percent, while the ratio with the third countries went down to 37.4 percent from 45.6 percent last year.

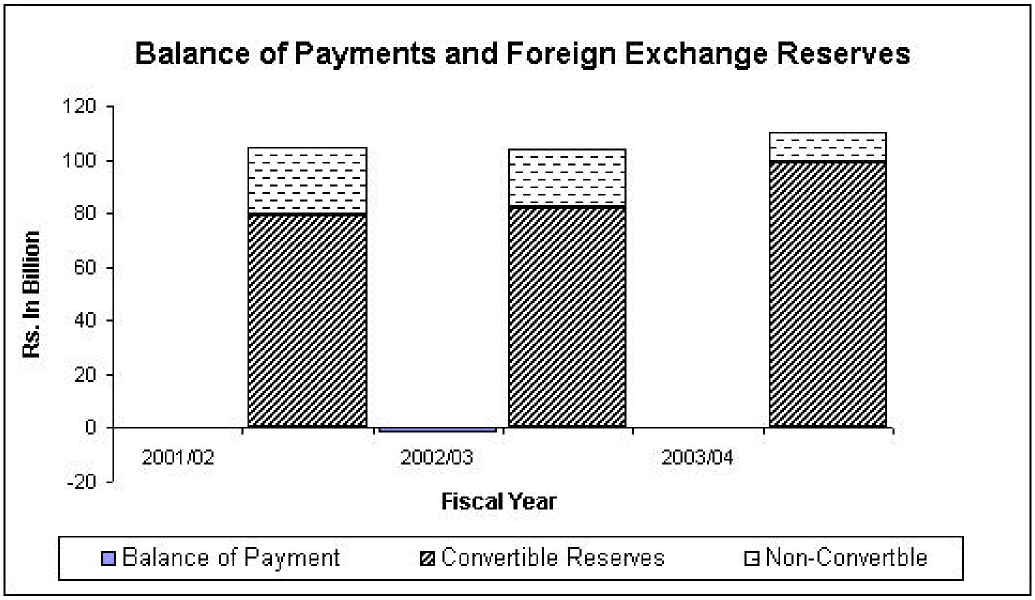


Balance of Payments

Based on the available BOP statistics for the first month of FY 2003/04, total export increased by 33.7 percent and total import increased by 19.1 percent. However, trade deficit expanded by 11.2 percent to Rs. 5.8 billion due to the large base of import as compared to that of export. Service receipt increased at a rate lower than that of payment, resulting in the deficit in the service sector. Compared to last year, income receipt declined by 1.0 percent while payments rose significantly resulting in the deficit in the goods, services and income accounts by 18.6 percent to Rs. 6.1 billion. Due to the substantial inflow of remittances, a surplus of Rs. 3.2 billion had been recorded in the current account. Despite the decline in the financial account, the BOP remained favorable by Rs.15.4 million due to the sufficient surplus in the current account as well as miscellaneous capital. The BOP had recorded a deficit of Rs.1.4 billion during the first month of the FY 2002/03. The BOP, on the basis of monetary statistics for the first three months, rose by 1.0 percent (Rs. 936.9 million) in comparison with the decline of 1.3 percent (Rs. 1.2 billion) during the same period last year

Foreign Exchange Reserves

The gross foreign exchange reserves in mid-October 2003 reached Rs.109.6 billion. The convertible reserve increased by 26.2 percent to Rs. 103.5 billion whereas the inconvertible reserve (Indian currency) declined by 72.3 percent to Rs.6.1 billion. The share of convertible reserve in the total reserve reached 94.4 percent from 78.8 percent last year, resulting in a corresponding decline in the share of inconvertible reserve to 5.6 percent. The rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances.



Share Market Transactions

Major indicators of the stock market showed mixed performance. Both the number of share transactions and their value increased. The NEPSE index slumped from the mid-October 2002 level by 11.72 points (5.3 percent) to 207.54 in mid-October 2003. The market capitalization of the listed companies increased by 9.9 percent to Rs. 36.9 billion.

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