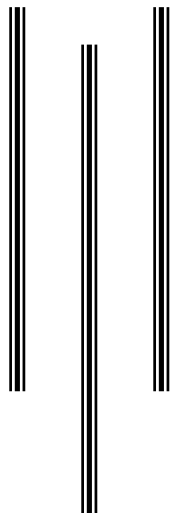
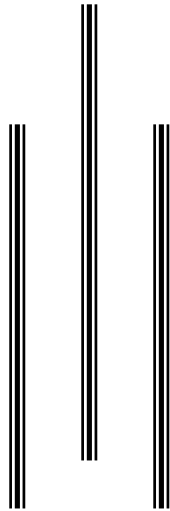


# Macroeconomic Situation of Nepal

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



Nepal Rastra Bank

June 2004

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

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

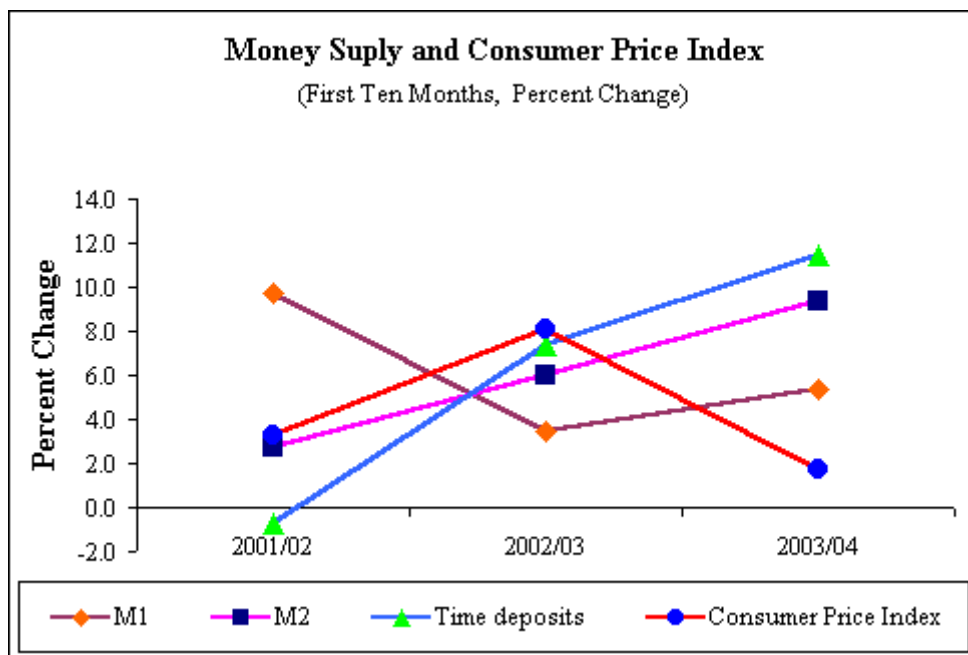
## Major Points

- FY 2003/04 saw growth 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.
- Resource mobilization increased faster than the total expenditure, resulting in the decline in the budget deficit.
- Price rise, on point-to-point basis, decelerated.
- Imports rose at a rate faster than the exports, resulting in the widened trade deficit.
- The sharp rise in grants and increase in the service net resulted in the current account surplus.
- The overall balance of payments (BOP) stood favorable due to huge current account surplus, high inflow of loan and miscellaneous income.
- The gross foreign exchange reserve reached Rs.125.4 billion, enough to cover merchandise imports of 11.2 months and merchandise and service imports of 9.3 months.

## **Monetary Situation**

During the first 10 months of FY 2003/04, broad money increased by 9.4 percent to Rs. 269.0 billion. Narrow money, a component of broad money, increased by 5.4 percent to Rs. 88.2 billion compared to the rise of 3.5 percent last year. Time deposits, the other component of broad money, went up by 11.5 percent to Rs. 180.8 billion compared to the rise of 7.4 percent last year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) surged by 16.2 percent in comparison to the rise of 2.5 percent last year. Domestic credit of the banking system grew by 2.8 percent to Rs. 234.9 billion compared to the rise of 8.2 percent last year. Credit to the private sector posted a growth of 7.7 percent to Rs. 162.6 billion. The share of net claims on government in the banking sector's total domestic credit declined from 28.0 percent in mid-May 2003 to 23.8 percent in mid-May 2004. Accordingly, the share of claims on the private sector rose from 65.4 percent in mid-May 2003 to 69.2 percent in mid-May 2004. The 91-day average treasury

bills rate decreased significantly from 2.91 percent in mid-May 2003 to 0.70 percent in mid-May 2004.

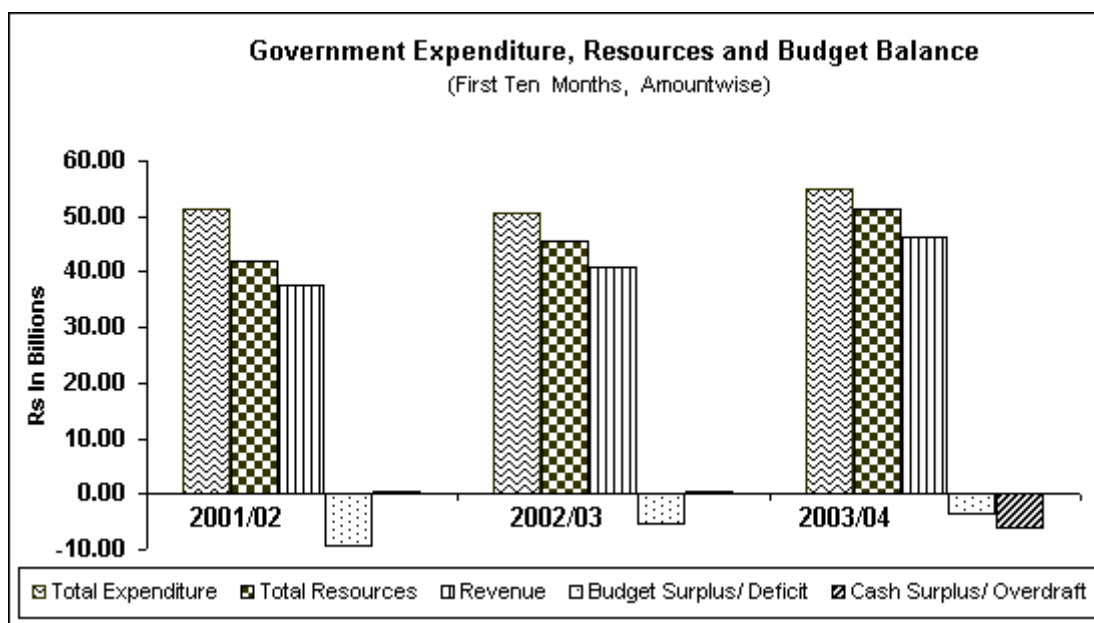


## Government Budgetary Operation

Based on the cash flow data, the total expenditure of the government increased by 8.3 percent to Rs. 54.9 billion in contrast to the decline of 1.1 percent last year. Of the total expenditure, regular expenditure increased by 4.5 percent to Rs. 41.7 billion compared to an increase of 9.4 percent last year. The development expenditure went up satisfactorily by 23.4 percent to Rs. 11.7 billion, in contrast to a sharp decline of 28.7 percent last year. The freeze account marked an increment of 15.5 percent to Rs. 1.6 billion as against the decline of 12.5 percent last year.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 13.1 percent to Rs. 51.5 billion compared to the rise of 8.7 percent last year. Revenue, the major source of the government resources, went up by 13.4 percent to Rs. 46.4 billion compared to a slower growth of 8.6 percent last year. The rate of revenue mobilization improved mainly due to the rise in excise duties, income tax and non-tax revenue especially the passport fees. Foreign grants went up substantially to Rs. 3.5 billion as against just Rs. 1.5 billion received last year. However, the non-budgetary receipts (net) declined by 50.6 percent to Rs. 1.2 billion. The higher growth of non-debt resources compared to the total expenditure growth resulted in the decline in the budget deficit by 33.8 percent to Rs. 3.4 billion compared to the decline by 44.9 percent last year. To finance the deficit, HMG mobilized foreign cash loan amounting to Rs. 7.2 billion and domestic loan amounting to Rs. 3.3 billion this year. After meeting the deficit and adjusting Rs.1.1 billion in

the other headings accounts, HMG's cash transactions resulted in a surplus of Rs. 6.0 billion in mid-May 2004 against an overdraft of Rs.583.5 million last year.



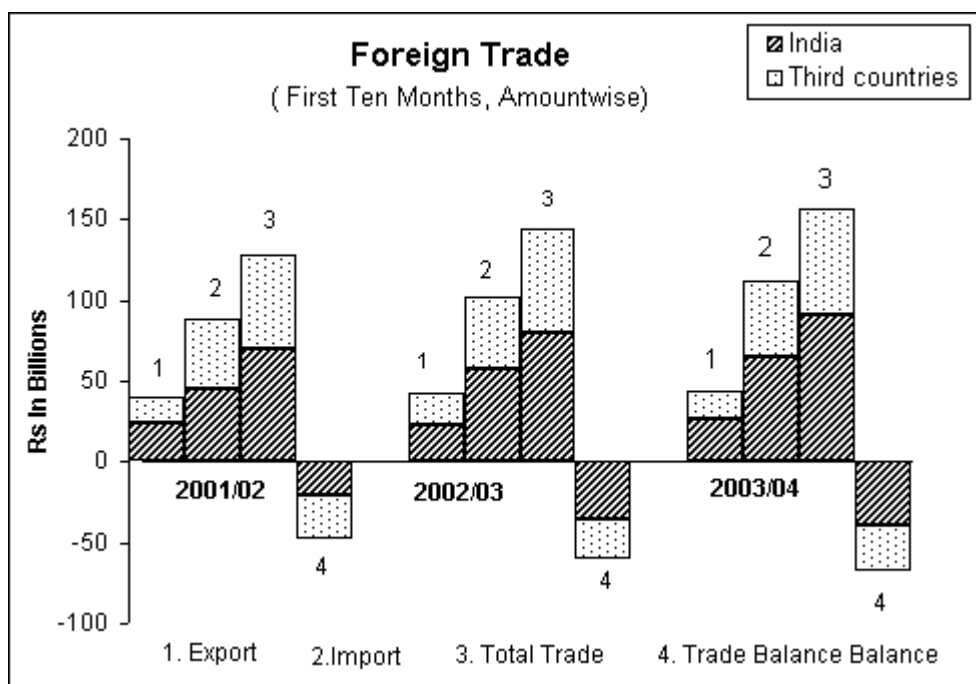
## Price Situation

The national urban consumer price index, on point-to-point basis, decelerated by 1.3 percent as at mid-May 2004 compared to the rise of 7.7 percent last year. The slow growth in the price index is mainly attributable to the strong supply situation of foodgrains, fruits and vegetables. On point-to-point basis, the index of food and beverages group increased marginally by 0.6 percent compared to the substantial rise of 8.3 percent last year. There was rise in the price indices of sugar and related products (13.7 percent), meat, fish and eggs (7.3 percent), spices (6.9 percent), pulses (2.4 percent), restaurant meals (2.2 percent), milk and milk products (1.1 percent) and oil and ghee (0.9 percent) while there was decline in the indices of grains and cereal products (2.6 percent), vegetables and fruits (2.0 percent) and beverages (1.0 percent). The index of non-food and services group decelerated by 2.2 percent compared to an increase of 7.0 percent last year. There was increase in the indices of education, reading and recreation (4.6 percent), medical and personal care (3.5 percent), housing (1.9 percent), cloth, clothing and sewing services (1.6 percent) and tobacco and related products (1.3 percent) while there was decline in the indices of transport and communication (1.6 percent) and footwear (0.3 percent). Regionwise, the price indices in the Kathmandu Valley rose by 4.4 percent and that in the Hills by 0.3 percent whereas the price index of the Terai remained constant at last year's level. Such indices had increased by 6.4 percent, 6.9 percent and 7.3 percent respectively last year. The national urban consumer price index, on an average basis, increased by 4.4 percent during the first 10 months of this year compared to the same level of last year.

The national wholesale price index, on point-to-point basis, increased by 1.7 percent this year compared to an increase of 8.0 percent last year. The indices for domestic manufactured and imported commodities increased by 7.9 percent and 3.8 percent respectively whereas the index for agricultural commodities declined by 2.1 percent. The average national wholesale price index for the first 10 months increased by 4.0 percent compared to the rise of 3.4 percent last year.

## Foreign Trade

Total exports increased by 4.5 percent, as was the case last year, to Rs. 44.0 billion. Exports to India increased by 15.6 percent to Rs. 25.8 billion in contrast to the decline of 8.6 percent last year. Exports to other countries, which had gone up by 24.7 percent last year, declined by 8.0 percent to Rs. 18.2 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 9.5 percent to Rs. 112.3 billion compared to the rise of 16.7 percent last year. Imports from India increased by 11.8 percent compared to the rise of 28.1 percent last year, while imports from other countries went up by 6.7 percent as against the lower growth 4.6 percent last 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 this year.

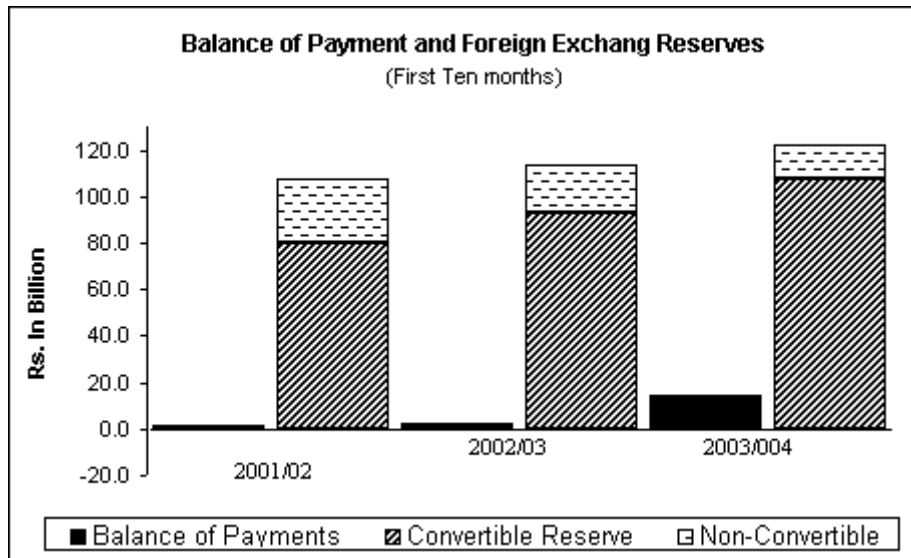
The higher growth of imports relative to that of the exports resulted in the trade deficit of Rs. 68.3 billion compared to Rs. 60.4 billion deficit last year. Trade deficit with India, which had recorded the substantial rise of 71.5 percent last year, further increased by 9.4 percent. Trade deficit with other countries widened by 18.3 percent in contrast to the decline of 7.3 percent last year. The overall export/import ratio, which was 41.1 percent last year, came down to 39.2 percent this year. The export/import ratios for India and other countries stood respectively at 40.0 percent and 38.2 percent this year compared to the respective level at 38.6 percent and 44.2 percent last year.

### **Balance of Payments**

According to the BOP statistics for the first eight months of FY 2003/04, trade deficit expanded by 13.7 percent to Rs. 49.4 billion due to the higher growth of imports vis-à-vis the exports. Service receipts increased at a rate faster 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. 43.0 billion. The income (net) was unfavourable by Rs 1.4 billion. Current account recorded a surplus of Rs. 15.1 billion due to the sharp rise in foreign grants and the increase in the service (net). Despite a substantial deficit in the financial account, the BOP recorded a surplus of Rs. 11.6 billion on account of the surplus in the current account as well as in the residual items. The BOP had witnessed a deficit of Rs. 342.4 million during the same period last year. On the basis of the monetary statistics for the first 10 months, the BOP recorded a surplus of a Rs. 14.8 billion compared to the surplus of Rs. 2.2 billion during the same period last year.

### **Foreign Exchange Reserve**

The gross foreign exchange reserve in mid-May 2004 reached Rs.125.4 billion. The convertible reserve increased by 14.2 percent to Rs.109.6 billion and the non-convertible reserve (Indian currency) grew by 1.7 percent to Rs. 15.8 billion. The share of convertible reserve in the total reserve reached 87.4 percent this year from 86.1 percent last year, resulting in a corresponding decline in the share of non-convertible reserve to 12.6 percent. The rise in the share of the convertible reserve is attributed to an increase inflow of foreign grants, loans and the private remittances. 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 9.3 months.



### Share Market Transactions

Major indicators of the stock market showed a mixed trend. Both the number of share transactions and their value increased. The market capitalization of the listed companies rose by 9.7 percent to Rs. 37.9 billion. However, the NEPSE index declined by 3.1 index points (1.5 percent); from 207.45 in mid-May 2003 to 204.3 in mid- May 2004.

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