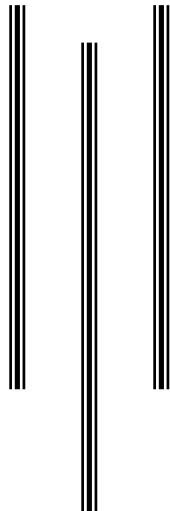
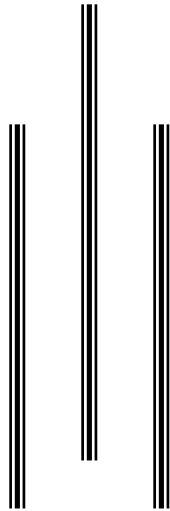


Macroeconomic Situation of Nepal

(During the First Eleven Months of FY 2003/04)



Nepal Rastra Bank

August 2004

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

(During the First Eleven Months of FY 2003/04)

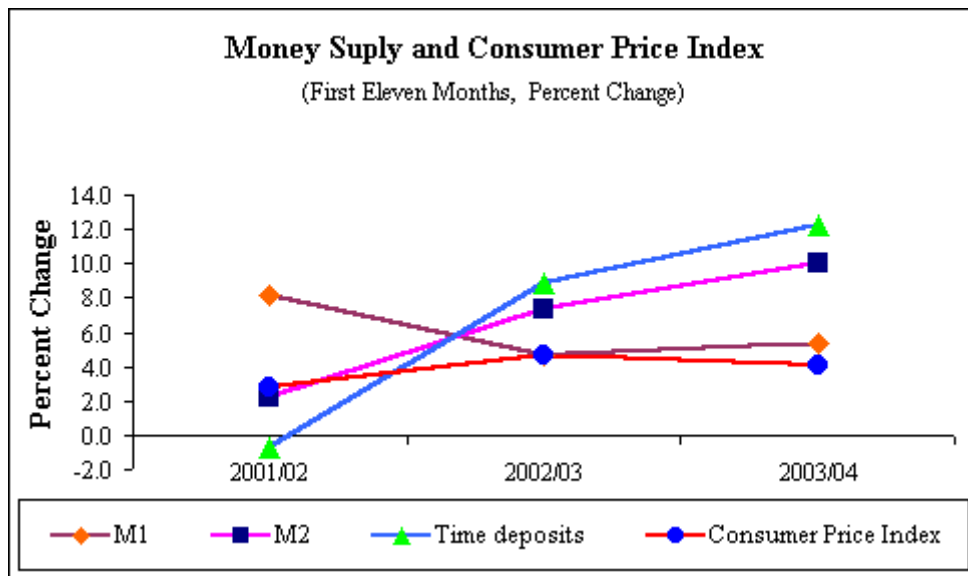
Major Points

- FY 2003/04 saw acceleration both in narrow and broad money.
- Net claims on government declined significantly.
- Weighted average treasury bills rates decreased.
- Stock exchange transactions increased resulting in the rise in the NEPSE index.
- Total government expenditure, on cash basis, increased.
- Resource mobilization accelerated at a rate much 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.
- 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 huge current account surplus, high inflow of loan and miscellaneous income.
- Gross foreign exchange reserve reached Rs.126.5 billion, enough to cover merchandise imports of 11.2 months and merchandise and service imports of 9.3 months.

Monetary Situation

During the first 11 months of FY 2003/04, broad money accelerated by 10.0 percent to Rs. 270.4 billion. Narrow money, a component of broad money, increased by 5.3 percent to Rs. 88.2 billion compared to the rise of 4.6 percent previous year. Time deposits, the other component of broad money, went up by 12.3 percent to Rs. 182.2 billion compared to the rise of 8.9 percent previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) surged by 16.1 percent in comparison to the rise of 2.8 percent previous year. Domestic credit of the banking system grew by 4.5 percent to Rs. 238.8 billion compared to the rise of 9.6 percent previous year. Credit to the private sector posted a growth of 9.1 percent to Rs. 164.7 billion compared to the rise of 11.2 percent previous year. However, credit to the government declined by 9.1 percent in contrast to the rise of 8.0 percent previous year. As a result, the share of net claims on government in the banking sector's total domestic credit declined from 28.3 percent in mid-June 2003 to 23.9

percent in mid-June 2004. Accordingly, the share of the claims on the private sector rose from 65.2 percent in mid-June 2003 to 69.0 percent in mid-June 2004. The



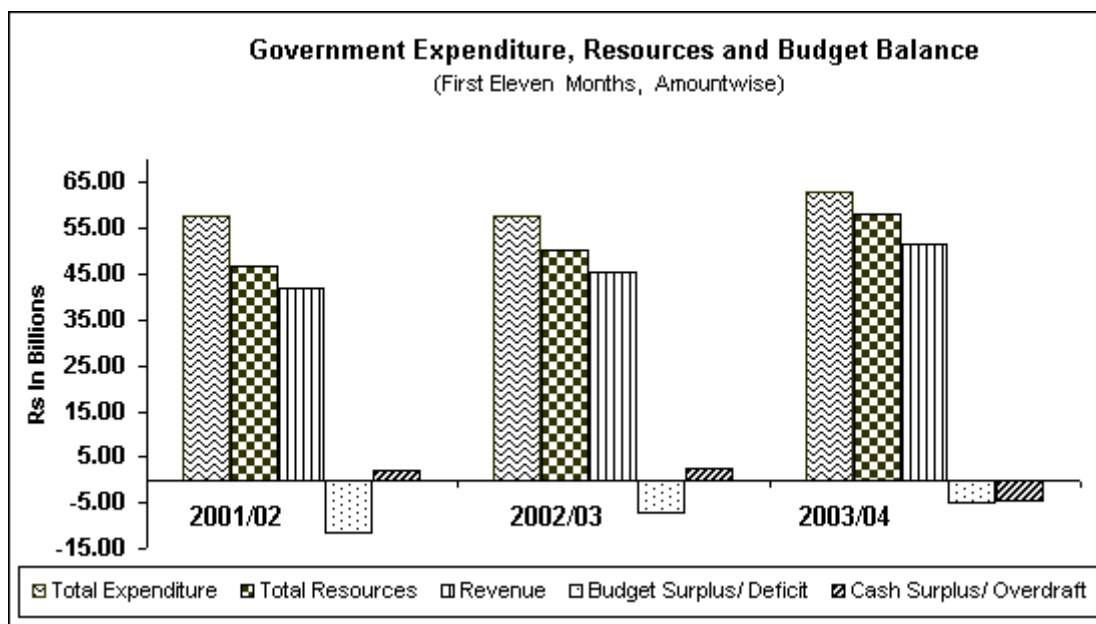
91- days average treasury bills rate decreased significantly from 1.67 percent in mid-June 2003 to 0.82 percent in mid-June 2004.

Government Budgetary Operation

Total government expenditure, based on cash flow, increased by 9.1 percent to Rs. 63.0 billion in contrast to the decline of 0.4 percent previous year due mainly to the large increment in development as well as freeze expenditure. Of the total expenditure, regular expenditure rose by 6.4 percent to Rs. 47.5 billion compared to an increase of 10 percent previous year. The development expenditure went up satisfactorily by 18.7 percent to Rs. 13.9 billion, in contrast to a sharp decline of 25.9 percent previous year. The freeze account marked an increment of 15.5 percent to Rs. 1.6 billion as against the decline of 12.5 percent previous year.

Substantial rise in foreign grants and revenue receipts led total non-debt resources (revenue, non-budgetary and other receipts as well as foreign grants) to increase by 15.5 percent to Rs. 58.2 billion compared to the rise of 8.2 percent a year ago. Revenue, the major source of the government resources, went up by 13.6 percent to Rs.51.8 billion compared to the rise of 8.2 percent previous year. Revenue mobilization improved mainly due to the rise in the collection of income tax, excise duties and non-tax revenue mainly the passport fees. Foreign grants went up substantially to Rs. 4.5 billion as against only Rs. 1.6 billion received previous year. However, the non-budgetary receipts (net) declined by 49.1 percent to Rs. 1.4 billion. Despite a significant growth in the total expenditure in FY 2003/04, the decline in the deficit remained at the rate similar to that in the previous year (35.0 percent) which is attributed to the higher growth of non-debt resources. To finance the deficit, HMG mobilized foreign cash loan amounting to Rs. 7.2 billion and domestic loan amounting to Rs. 3.3 billion during the fiscal year 2003/04. After meeting the deficit and adjusting Rs.1.1 billion in the other headings of accounts, HMG's cash

transactions resulted in a surplus of Rs. 4.7 billion in mid-June 2004 against an overdraft of Rs.2.4 billion during mid-June 2003.



Price Situation

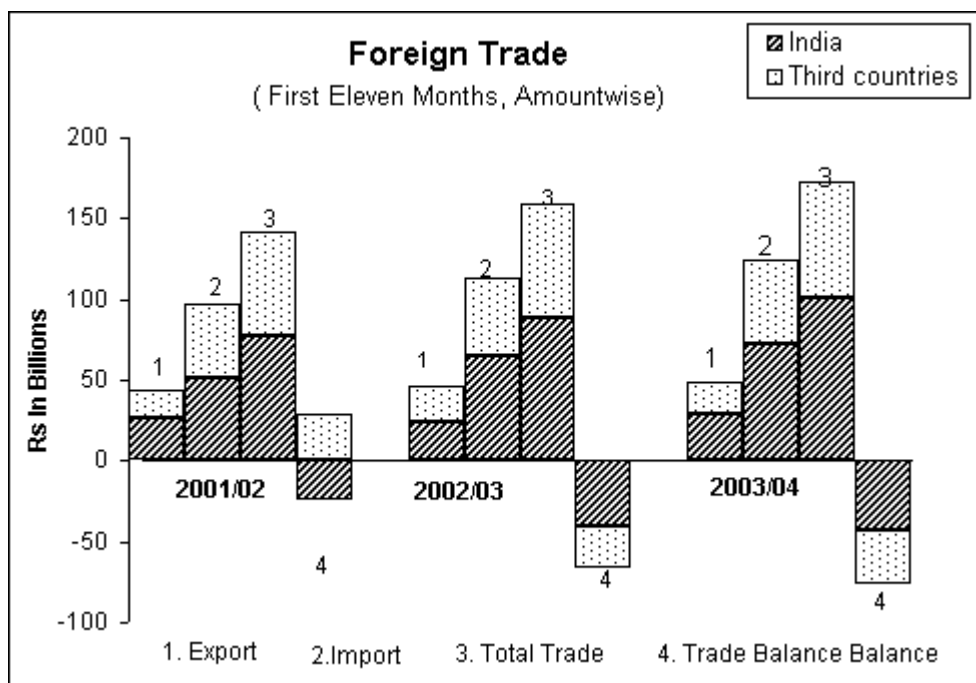
The national urban consumer price index, on point-to-point basis, decelerated to 1.8 percent as at mid-June 2004 compared to the rise of 6.6 percent previous year. The moderate rise in the price index is mainly attributable to the strong supply situation and lower price of foodgrains. On point-to-point basis, the index of food and beverages group grew only by 1.6 percent compared to the rise of 6.2 percent previous year. The indices of sugar and related products (by 17.4 percent), spices (by 9.0 percent), meat, fish and eggs (by 8.1 percent), vegetables and fruits (by 7.1 percent), pulses (by 2.8 percent), restaurant meals (by 2.0 percent), milk and milk products as well as oil and ghee (both by 0.8 percent) went up while the indices of grains and cereal products (by 3.7 percent) and beverages (by 1.1 percent) declined. The index of non-food and services group decelerated by 2.1 percent compared to the rise of 7.1 percent previous year. The indices for education, reading and recreation (by 4.5 percent), medical and personal care (by 3.5 percent), housing goods and services (by 1.8 percent), cloth, clothing and sewing services (by 1.8 percent) and tobacco and related products (by 1.3 percent) increased while that of the indices for transport and communication (by 1.6 percent) and footwear (by 0.3 percent) declined. Regionwise, the price indices rose in the Kathmandu Valley by 4.8 percent, in the Hills by 0.8 percent and in the Terai by 0.5 percent. Such indices had increased by 6.0 percent, 5.8 percent and 7.3 percent respectively in the prerevious year. The national urban consumer price index, on average, increased by 4.1 percent during the first eleven months of FY 2003/04 compared to the rise of 4.6 percent a year ago.

The national wholesale price index, on point-to-point basis, increased by 4.5 percent in FY 2003/04 compared to an increase of 5.6 percent previous year. The indices for domestic manufactured, imported commodities and agricultural commodities increased by 8.0 percent, 4.0 percent and 3.4 percent respectively. The average

national wholesale price index for the first eleven months increased by 4.0 percent compared to the rise of 3.6 percent previous year.

Foreign Trade

Total exports increased by 5.5 percent to Rs 48.6 billion compared to the rise of 5.6 percent previous year. Exports to India increased by 17.4 percent to Rs. 28.7 billion in contrast to the decline of 7.0 percent previous year. Exports to other countries, which had gone up by 24.8 percent previous year, declined by 8.1 percent to Rs. 19.9 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 10.3 percent to Rs. 124.7 billion compared to the rise of 15.7 percent previous year. Imports from India increased by 12.0 percent compared to the rise of 26.4 percent previous year, while imports from other countries went up by 8.1 percent as against the lower growth of 4.1 percent 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 resulted in the trade deficit of Rs. 76.1 billion compared to the deficit of Rs. 66.9 billion previous year. Trade deficit with India, which had recorded a substantial rise of 61.9 percent in FY 2002/03 further widened by 8.6 percent in FY 2003/04. Trade deficit with other countries increased by 21.1 percent in contrast to the decline of 8.1 percent previous year. The overall export/import ratio, which was 40.8 percent in FY 2002/03, came

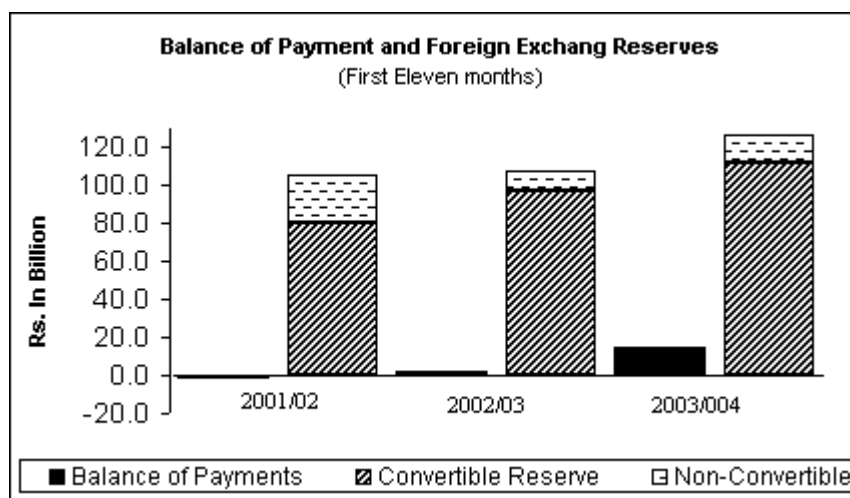
down to 39.0 percent in FY 2003/04. The export/import ratios for India and other countries stood respectively at 39.8 percent and 37.9 percent in FY 2003/04 compared to 37.9 percent and 44.6 percent respectively last year.

Balance of Payments

According to the BOP statistics for the first nine months of FY 2003/04, trade deficit expanded by 13.8 percent to Rs. 57.2 billion due to the higher growth of imports vis-à-vis the exports. Service receipts increased at a rate much 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. 49.7 billion due to the huge deficit in goods account. The income (net) was also unfavourable by Rs 1.6 billion. However, the current account recorded a surplus of Rs. 15.8 billion due to the sharp rise in foreign grants and the increase in the services (net). Despite a substantial deficit in the financial account, the BOP recorded a surplus of Rs. 14.8 billion on account of the surplus in the current account as well as in the residual items. The BOP had witnessed a surplus of Rs. 5.6 billion during the same period previous year. On the basis of the monetary statistics for the first 11 months, the BOP recorded a huge surplus of Rs. 14.8 billion as against a surplus of Rs. 2.5 billion during the same period previous year.

Foreign Exchange Reserve

The gross foreign exchange reserve in mid-June 2004 reached Rs.126.5 billion. The convertible reserve increased by 16.4 percent to Rs.112.1 billion and the non-convertible reserve (Indian currency) grew by 3.7 percent to Rs. 14.4 billion. The share of convertible reserve in the total reserve reached 88.6 percent in FY 2003/04 from 87.4 percent previous year, resulting in a corresponding decline in the share of non-convertible reserve to 11.4 percent. The rise in the share of the convertible reserve has been attributed to an increased inflow of foreign grants, loans and the private remittances. Similarly, the payment of petroleum products in non-convertible currency has been the main reason for the decline in its 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 9.3 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 rose by 12.6 percent to Rs. 39.6 billion. Likewise, the NEPSE index rose by 5.47 index points (2.6 percent), from 207.65 in mid-June 2003 to 213.12 in mid-June 2004.
