

INFLATION ANALYSIS AND PRICE SITUATION

1. Inflation Projection for 2063/64 (2006/07)

A major objective of Nepal Rastra Bank (NRB) is to maintain price stability. Accordingly, NRB makes inflation rate projection in the announcement of annual monetary policy and attempts to control the estimated level of inflation during the period. **The average annual inflation rate projected for the fiscal year 2063/64 is 6.0 percent.** While projecting the inflation for the current FY 2063/64, it is assumed that the rate may move upward due to the probable unexpected rise in prices of petroleum products to 9.0 percent. There are some major assumptions of the projections:

- lagged effect of hike in petroleum prices of February 2006.
- Favorable weather condition for the production of grains and cereal articles
- Indian inflation would remain within the range of 5.0-5.5 percent as estimated by RBI for FY 2006/07.

2. Price Situation

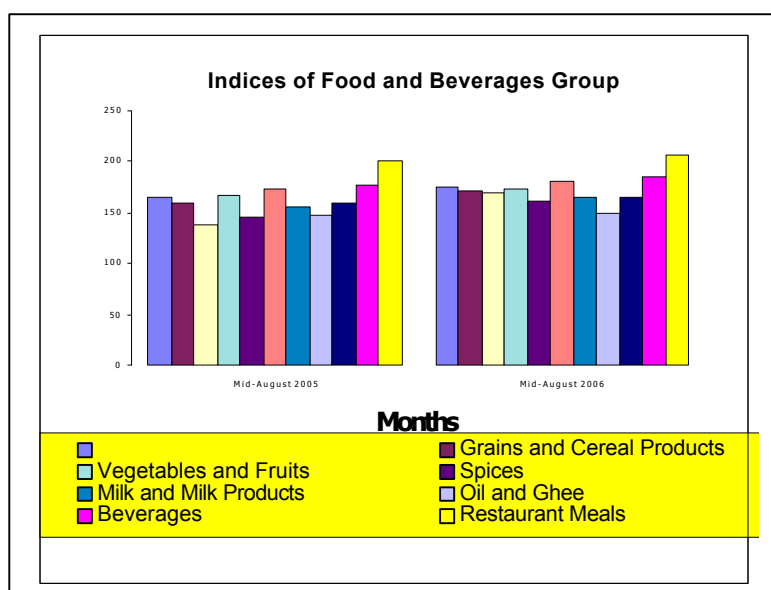
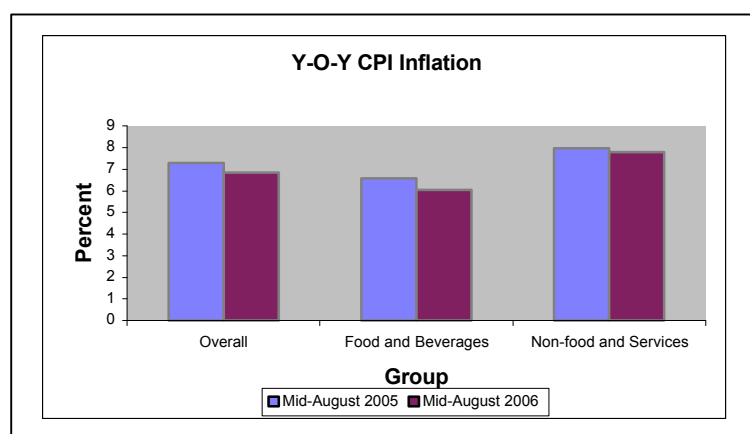
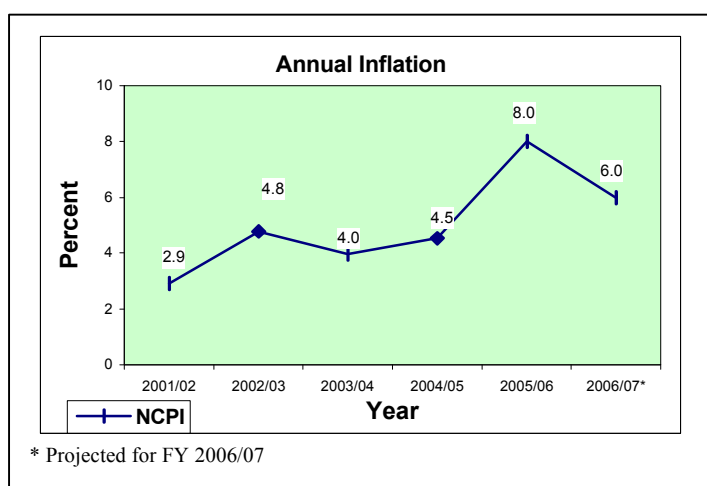
Consumer Price

(a) Overall Index

The year on year (y-o-y) consumer price inflation increased by 6.9 percent in mid-August 2006 compared to an increase of 7.3 percent in the corresponding period of the previous year. The pass-through effect of two times rise in the prices of petroleum products in 2005/06 as well as an increase in the prices of transportation fare in the same period together with a sharp rise in the prices of pulses mainly accounted for consumer price inflation of 6.9 percent in the review period. On the other hand, a comparatively low rise in the prices of grains and cereal products eased inflation relative to that of the previous year.

(b) Food and Beverages Group

In the review period, the y-o-y index of food and beverages group surged up by 6.1 percent compared to an increase of 6.6 percent in the corresponding period last year. Despite a marginal rise in the prices of grains and cereal products, a sharp increase in the prices of spices and pulses pushed up the index of this group. The indices of pulses (23.6 percent), spices (10.5 percent), grains and cereal products (7.4 percent), milk and milk products (6.2 percent), meat, fish and eggs (5.2 percent), beverages (4.8 percent), vegetables and fruits (4.3 percent), sugar and related products (3.5 percent), restaurant meals (2.4 percent) and oil and ghee (1.0 percent) all increased in the review period.



Box 1: Inflation Analysis: Global Scenario

On the eve of the FY 2006/07 (mid-July, 2006) headline inflation in several countries firmed up in response to sustained pressures from record high international crude oil prices. Many central banks, thus, tightened their monetary policies to contain inflation and inflationary expectations. In Nepal, NRB also announced slightly tightened Monetary Policy for FY 2006/07 with projecting annual average rate of inflation to be 6.0 percent. However, the policy recognized the fact that the projection might be about 3.0 percentage point higher if the Government of Nepal revised upward the prices of petroleum products.

In the first month of the FY 2006/07 (mid-July 2006 - mid-Aug. 2006), headline inflation in Nepal as measured by National Urban Consumer Price Index (NUCPI) stood at 6.9 percent. Along with higher oil prices, primary food articles (rice & rice products, pulses etc.) and transportation fares also posed upward pressure in inflation.

Global Inflation: Some numbers

Headline inflation moved up around the globe with the increase in international crude oil price. Inflation edged up sharply in major advanced economies in June 2006 with the oil price reaching a new high of over \$ 75 a barrel.

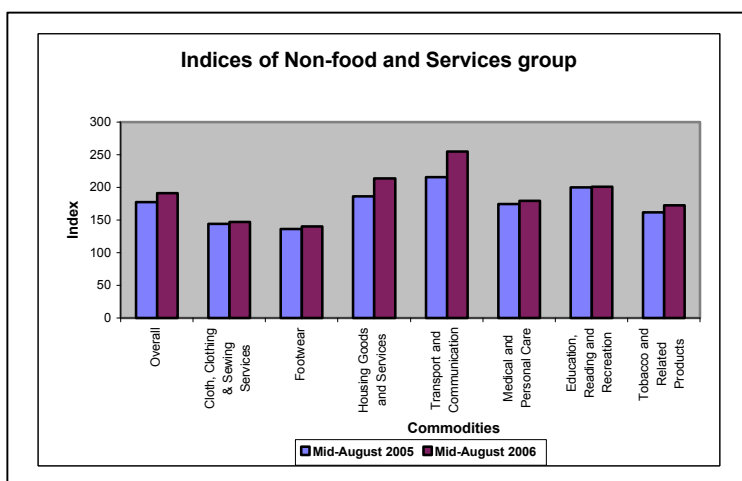
On y-o-y basis, U.S. inflation in June 2006 reached to 4.3 percent and 2.5 percent each in Euro area and U.K. The inflation rate for some selected developed & developing economics for May 2006 and May 2005 are shown in Table.

CPI Inflation		
Developed Economies	2005 May	2006 May
Australia	2.4	3.0
Canada	1.6	2.8
Euro Area	2.1	2.5*
Japan	0.2	0.6
U.K.	2.0	2.5*
U.S.	2.5	4.3*
Developing Economies		
Brazil	7.3	4.0*
India	3.7	6.3
Indonesia	7.4	15.5*
Israel	0.2	3.5
Korea	2.7	2.6*
Philippines	7.6	6.7
South Africa	3.3	3.9
Thailand	3.8	5.9*
Nepal	7.3**	6.9**

* Data for June 2006 ** Data for mid-August.

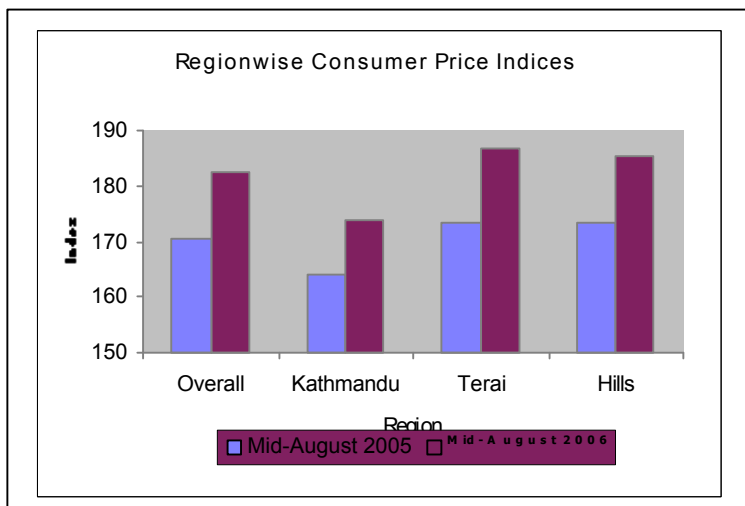
Note: Indian data on inflation pertain to CPI for industrial workers.

Source: IMF, websites of various central banks, The Economist and the OECD.



(c) Non-food and Services Group

The index of non-food and services group increased by 7.8 percent compared to an increase of 8.0 percent in the same period last year. The pass through effect of rise in the prices of petroleum products two times in 2005/06 as well as the lagged effect of in the prices of transportation fare in February 2006, accounted for the rise in the price index of this group. The indices of transport and communication (17.9 percent), housing goods and services (14.4 percent), tobacco and related products (6.5 percent), footwear (2.8 percent), medical and personal care (2.5 percent), cloth, clothing and sewing services (1.7 percent) and education, reading and recreation (0.7 percent) all increased in the review period.



(d) Regional Indices

Region-wise, the price indices of Terai increased by higher rate of 7.5 percent followed by Hills at 6.8 percent and the Kathmandu Valley at 5.9 percent. In the corresponding period of the previous year, the indices of Hills had increased at the higher rate of 8.7 percent, followed by Terai at 7.4 percent and the Kathmandu Valley at a lower rate of 6.1 percent.

(e) Core CPI inflation

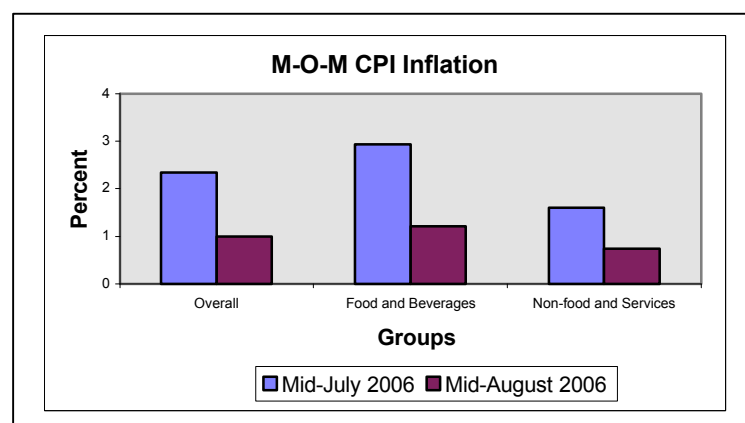
The y-o-y core inflation increased by 4.6 percent in mid-August 2006 compared to an increase of 4.5 percent a year ago.

Box 2: Central Bank Responses to Inflationary Shock

Many central banks around the world tighten monetary policy to contain inflation & inflationary expectation especially in view of possible pass-through of previous increase in oil prices. In an open economy, central bank responded the shocks by adjusting policy interest rates.

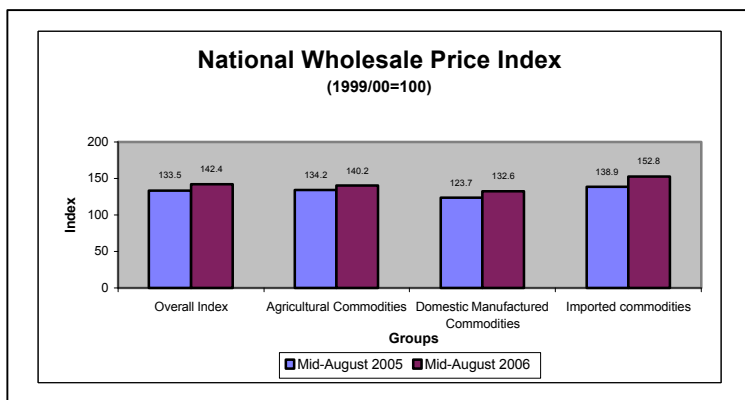
- U.S. Federal Reserve raised Fed fund rate by 25 basis points in May 2006 and 25 basis point in June 2006 to 5.25 percent. Thus, Fed fund rate increased by 425 basis points since the tightening began in June 2004.
- In Euro area, European Central Bank raised key policy rate by 25 basis points in June 2006, a total increase of 75 basis points since December 2005.
- Reserve Bank of Australia also raised policy interest rate by 25 basis points to 5.75 percent in response to strong economic activity & underlying inflationary pressures.
- In U.K., on the other hand, Bank of England after cutting its policy rate by 25 basis point on August 4, 2005 has kept unchanged since then.
- In Japan, y-o-y consumer price inflation has turned positive since January 2006. Accordingly, Bank of Japan on July 14, 2006 decided to increase the un collateralized overnight leading rate by 25 basis points after maintaining zero interest rates for an extended period.
- In Thailand, Bank of Thailand raised policy rates by 25 basis points each in April and June 2006 to 5.0 percent a total hike of 275 basis points since March end 2005.
- Bank of Korea raised the policy rate by 25 basis points to 4.25 percent in June 2006, total of 100 basis points since October 2005.
- The Bank of Indonesia, which had raised policy rates by 425 basis points during July - December 2005, cut the rate by 25 basis points each in May and July 2006 to 12.25 percent to support growth.
- In Nepal, the monetary policy announced in July, 2006 also hike up the bank rate by 25 basis points to 6.25 percent.

Source: IMF, websites of various central banks, The Economist and the OECD.



(f) M-O-M CPI Inflation

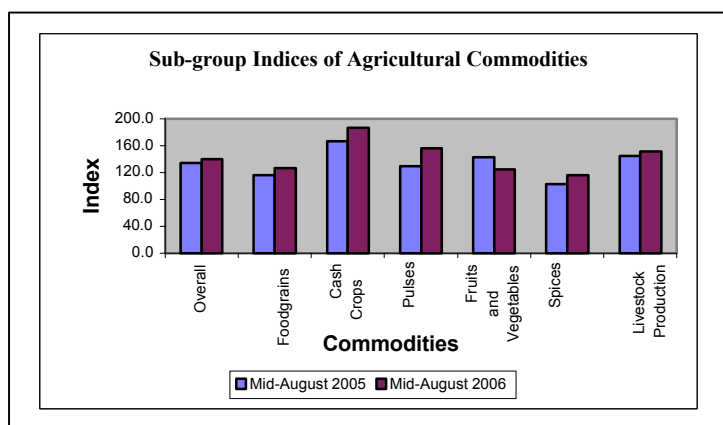
The overall price index in Mid-August, 2006 increased by 1.0 percent compare to that of mid-July 2006. During the review month, the indices of food and beverages and non-food and services group increased by 1.2 percent and 0.7 percent, respectively. The indices of Terai and Hills increased by 1.0 percent each and Kathmandu valley increased by 0.9 percent.



Wholesale Price

(a) Overall Index

The y-o-y wholesale price inflation increased by 6.7 percent in mid-August 2006 compared to an increase of 9.3 percent in the corresponding period of the previous year. Despite a decline in the prices of fruits and vegetables in the review period, a lagged effect of upward price revision in petroleum products in February last fiscal year and sharp rise in prices of pulses, spices, cash crops and construction materials pushed the wholesale price index up.



(b) Agricultural Commodities

In the review period, the index of agricultural commodities increased by a lower rate of 4.5 percent compared to the growth of 9.9 percent during the corresponding period last year. Such growth is mainly attributable to the rise in the prices of food-grains, cash crops as well as pulses livestock. The indices of pulses (20.6 percent), spices (13.4 percent), cash crops (11.9 percent), food-grains (9.0 percent) and livestock production (5.1 percent) increased respectively whereas the index of fruits and vegetables (12.6 percent) declined sharply in the review period.

Box 3: World Petroleum Production: Demand & Supply

In 2003, USA, Britain and their allies launched an attack on Iraq. This conflict led to cut down the global oil production resulting to increase the gap between production and supply of petroleum products. Since then, the global oil price tended to increase steadily upward to mark the unpredicted high of U.S.\$ 75 per barrel in June 2006. However, the prices of oil products declined and it presently stands around \$ 58 per barrel. The volatility of the global oil prices have multiple effect in the world economy as well as Nepalese economy especially in driving up inflation and inflationary expectation.

Table 1: World Petroleum Production, Demand & Supply, 1995-2005

Year	Production	Demand	Supply	(Thousand Barrels per Day)		
				1	2	3
	1	2	3	% change	% change	% change
1995	26004	69984	70314	-	-	-
1996	26461	71539	71960	2	2	2
1997	27710	73293	74185	5	2	3
1998	28774	73945	75679	4	1	2
1999	27579	75596	74879	-4	2	-1
2000	29267	76619	77793	6	1	4
2001	28344	77406	77717	-3	1	0
2002	26352	78082	76957	-7	1	-1
2003	27822	79742	79565	6	2	3
2004	29924	82453	83005	8	3	4
2005	31155	83987	84411	4	2	2

Source: Energy Information Administration, Official energy statistics for the US government.

The table 1 shows the aggregate production, demand and supply of the world petroleum based on the data from 1995 to 2005. In 1999, the production and supply of oil prices both declined by 4.0 percent and 1.0 percent respectively. The same trend appeared in 2002 and both declined by 7.0 percent and 1.0 percent respectively, whereas in 2001, the production declined by 3.0 percent and supply stood at par of the previous year. However, for remaining years, the production increased at a higher level and supply followed it at a lower rate. During the period, demand rose marginally in all of the years but the production and supply showed a fluctuating trend. The fluctuation in the production market had affected the supply side, consequently, supply pushed market price tended to change periodically and the trend of fluctuation hit on the oil prices as demand was persistently increased.

Table 2: World Supply – Demand Balance of Oil (Millions barrel per day)

Item	2003	2004	2005	2006P	2006P			
1	2	3	4	5	Q1	Q2	Q3	Q4
Demand								
OECD	48.7	49.5	49.6	49.9	50.2	48.8	49.9	50.8
Non-OECD	31.2	33.0	34.4	35.6	35.1	35.2	35.4	36.8
China	5.6	6.5	6.9	7.4	7.2	7.3	7.4	7.6
Total	79.9	82.5	84.0	85.6	85.3	84.0	85.4	87.6
Supply								
Non-OPEC	48.9	50.1	50.1	50.9	50.7	50.4	51.0	51.6
OPEC	30.7	32.9	33.9	34.1	33.7	33.5	34.5	34.7
Total	79.6	83.1	84.0	85.0	84.4	83.9	85.5	86.3
Stock changes	0.3	-0.6	-0.1	0.5	0.9	0.1	-0.1	1.3

Source: Energy Information Administration, Official energy statistics for the US government.
P : Projections

With limited surplus global crude oil production capacity and the U.S. oil production and refining industries still to recover fully, oil prices are expected to remain firm in the near future (Table 2). The Energy Information Administration (EIA) of the US, therefore, expects WTI prices to average US \$ 69.1 per barrel in calendar year 2006, an increase of about 22 percent over the price prevailing in 2005 (US \$ 56.5 per barrel).

Table 3: The US and Brent Petroleum, 1995 - 2005

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
US Price/barrel	18.40	22.03	20.61	14.40	19.30	30.26	25.95	26.15	30.99	41.47	56.70
Brent Price/barrel	17.02	20.67	19.09	12.72	17.97	28.50	24.44	25.02	28.83	38.27	54.52
US % change	-	19.7	-6.4	-30.1	34.0	56.8	-14.2	0.8	18.5	33.8	36.7
Brent % change	-	21.5	-7.6	-33.4	41.3	58.6	-14.2	2.4	15.2	32.7	42.5
Nepal % change*	-	7.8	-1.4	-14.8	15.9	25.8	-11.7	15.6	8.5	20.3	31.1

Source: Energy Information Administration, Official energy statistics for the US government.
*: Nepal Rastra Bank, Research Department, Price Division.

Table 3 presents the data of US and Brent Oil prices. Brent is the oil-distributing hub in Europe. The table shows that Brent price is lower than that of the US market price. During 1995 to 2005, it is observed that the oil prices had dramatically fluctuated. In Brent, the price rose unexpectedly to \$54.52 in 2005 from \$17.02 per barrel in 1995 level. Similarly in US market, for the same period, the price of petroleum products stood at \$56.70 and \$18.40 per barrel respectively. During this decade the Brent and U.S. price rose 321.50 percent and 308.15 percent respectively.

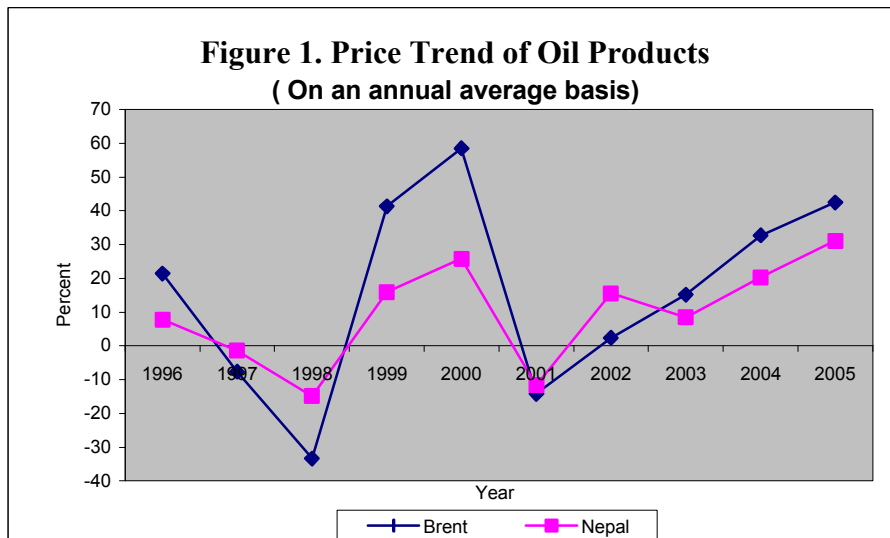
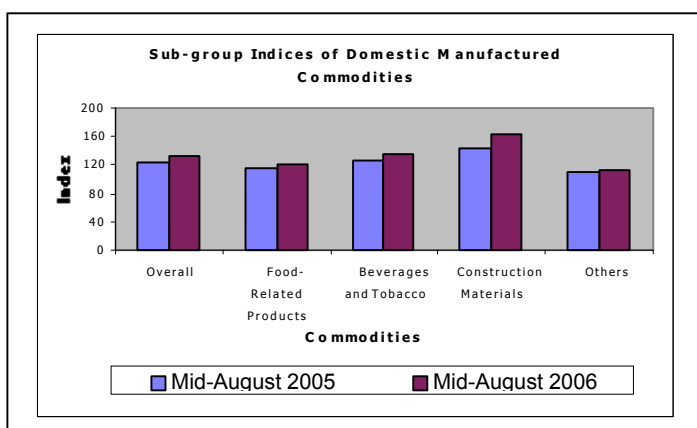


Figure I shows that Brent oil prices increased by 21.5 percent in 1996. Since then, declining trend in global prices reached to -33.4 percent in 1998 possibly due to crisis in South East Asian economies. The prices again moved up to a increase of 58.6 percent in 2000. However it declined by 14.2 percent in 2001. After 2002 to 2005, the prices increased widely and reached to 42.5 percent level in 2005. Nepalese oil prices followed the trend of Brent prices during the period. However, since 2003 to date, the Nepalese oil prices stood at below the level of Brent oil prices.



(c) Domestic Manufactured Commodities

In the review period, the index of this group increased by a higher rate of 7.2 percent due to the rise in price of construction materials compared to a rise of 4.0 percent during the same period of the preceding year. The indices of construction materials (12.9 percent), beverages and tobacco (6.4 percent), food-related products (5.6 percent) and others (2.8 percent) all increased in the review period.

Box 4: Petroleum Product Pricing in Nepal

Price of petroleum products are fixed by the Government of Nepal (GoN). So, this product is classified as government controlled goods in CPI. Nepal Oil Corporation, a government undertaking, is a sole authority to import and supply all articles of oil products and it imports and distributes the products to private petroleum dealers. The dealers then determine their retail prices for ultimate consumers.

Table 4: Periodic Price Trend of Petroleum Products in Nepal (Per Ltr / NRs.) (1994-2006)

FY	Effective Date	Petrol	% Change	Diesel	% Change	Kerosene	% Change	LPG Per Cln	% Change
1994/95	27 Dec 94	29.00	0.0	12.00	0.0	8.50	-5.6		
1995/96	04 Apr 96	31.00	6.9	13.50	12.5	9.50	11.8	305.00	
	11 Jul 96	34.00	9.7	14.00	3.7	9.50	0.0	380.00	24.6
1996/97	13 Jun 97	39.00	14.7	17.50	25.0	11.00	15.8	380.00	24.6
	25 Jun 97	39.00	0.0	15.50	-11.4	10.50	-4.5	495.00	30.3
1997/98		39.00	0.0	15.50	0.0	10.50	0.0	465.00	22.4
1998/99	17 Jul 98	40.00	2.6	16.50	6.5	10.50	0.0	465.00	0.0
	16 Jan 99	40.00	0.0	15.50	-6.1	10.50	0.0	465.00	0.0
1999/00	27 Oct 99	40.00	0.0	23.00	48.4	13.00	23.8	465.00	0.0
2000/01	14-Oct-00	47.00	17.5	27.50	19.6	26.00	100.0	550.00	18.3
	16-Nov-00	47.00	0.0	27.50	0.0	22.00	-15.4	550.00	0.0
	17-Jan-01	46.00	-2.1	26.50	-3.6	17.00	-22.7	550.00	0.0
2001/02	02 Jan 02	46.00	0.0	26.50	0.0	17.00	0.0	550.00	0.0
2002/03	23-Nov-02	52.00	13.0	26.50	0.0	17.00	0.0	650.00	18.2
	26-Mar-03	56.00	7.7	35.50	34.0	28.00	64.7	700.00	7.7
	20-Apr-03	56.00	0.0	33.50	-5.6	27.00	-3.6	700.00	0.0
2003/04	03 Jul 04	54.00	-3.6	31.00	-7.5	24.00	-11.1	700.00	0.0
2004/05	12 Aug 04	56.00	3.7	31.00	0.0	24.00	0.0	725.00	3.6
	18 Sep 04	56.00	0.0	35.00	12.9	28.00	16.7	750.00	3.4
	10 Jan 05	62.00	10.7	41.00	17.1	36.00	28.6	850.00	13.3
	12 Feb 05	62.00	0.0	41.00	0.0	34.00	-5.6	800.00	-5.9
	21 Jun 05	62.00	0.0	41.00	0.0	34.00	0.0	900.00	12.5
2005/06	19 Aug 05	67.00	8.1	46.00	12.2	39.00	14.7	900.00	0.0
	18 Feb 06	67.00	0.0	52.50	14.1	47.71	22.3	900.00	0.0

Source: Nepal Rastra Bank, Research Department, Price Division.

In FY 1995/96, the prices of petroleum products viz. petrol, diesel, kerosene and LPG were registered Rs. 31, Rs. 13.50, Rs. 9.50, Rs. 305, respectively. During a decade, the prices of these products were increased more than double and recorded to Rs. 67, Rs. 52.50, Rs. 47.70 and Rs. 900, respectively. In review period, the prices was revised 23 times and the mounting prices affected the overall economy.

Contd..

The Tenth Plan (2002-2007) has the program to strengthen the management capacity of NOC, as well as to introduce measures for reducing leakages. The Plan also ensured about the private sector participation in the activities of NOC. It is expected that the effective implementation of these plans and policies would streamline continuous supplies of petroleum products and enable NOC to become financially viable.

Table 5 : Prices of Petroleum Products in Nepal (In US\$)

FY	Exchange Rate with USD/ 1 NPR*	Petrol	% Change	Diesel	% Change	Kerosene	% Change	LP Gas (Per Clnd)	% Change
1986	17.60	0.62		0.43		0.33			
1987	21.10	0.55	-11.49	0.36	-16.59	0.27	-16.59		
1988	21.80	0.59	7.95	0.34	-3.21	0.26	-3.21		
1989	23.50	0.55	-7.23	0.32	-7.23	0.24	-7.23		
1990	27.40	0.69	26.32	0.33	4.06	0.25	2.92		
1991	29.10	0.67	-3.36	0.31	-5.32	0.25	0.30		
1992	42.70	0.59	-12.63	0.23	-25.52	0.19	-25.82		
1993	42.60	0.64	9.59	0.26	9.42	0.21	12.76		
1994	49.00	0.59	-7.76	0.24	-4.43	0.19	-9.44		
1995	49.11	0.59	-0.22	0.24	-0.22	0.17	-9.54		
1996	50.45	0.64	9.09	0.27	11.54	0.19	8.80	6.79	
1997	56.25	0.69	7.63	0.29	7.63	0.19	1.49	7.78	14.57
1998	56.75	0.69	-0.88	0.27	-6.89	0.19	-3.19	8.19	5.35
1999	67.60	0.59	-13.90	0.24	-13.34	0.16	-16.05	6.88	-16.05
2000	68.15	0.59	-0.81	0.34	42.59	0.19	22.81	6.82	-0.81
2001	70.40	0.66	12.94	0.39	14.34	0.31	61.34	7.81	14.50
2002	74.65	0.62	-7.04	0.35	-8.01	0.23	-26.01	7.37	-5.69
2003	78.00	0.68	9.85	0.39	10.51	0.29	27.23	8.46	14.85
2004	74.75	0.72	6.72	0.41	5.71	0.32	10.81	9.36	10.67
2005	74.14	0.80	11.28	0.51	22.94	0.42	31.07	10.86	15.95
2006	70.35	0.96	19.80	0.71	39.40	0.62	47.44	12.79	17.82

* : Source : Nepal Rastra Bank (Year end basis)

The table 5 presents the annual average of retail prices of the different oil products in Nepal in US dollar terms. The table further shows that rate of price changes in petrol, diesel and kerosene is higher compared to that of LP Gas. In FY 2006, prices of petrol, diesel and kerosene increased by 19.80 percent, 39.40 percent and 47.44 percent respectively. However, the price of LPG increased only by 17.82 subsidizing percent. The Government of Nepal still subsidizes on LPG and kerosene prices.

Nepal imports all oil products from Indian Oil Corporation. So, Nepalese and Indian petroleum prices have similar trend in the market. The following table and diagram shows the price trend of petroleum products in Nepal and India.

Table 6 : Percent Price Change in Petroleum Products (Nepal and India)

Period	April 2001	January 2002	January 2003	January 2004	January 2005	January 2006
Nepal	35.4	-9.5	4.3	20.7	11.1	30.1
India	43.5	-5.4	24.2	13.7	18.1	36.9

Source : Nepal Rastra Bank.

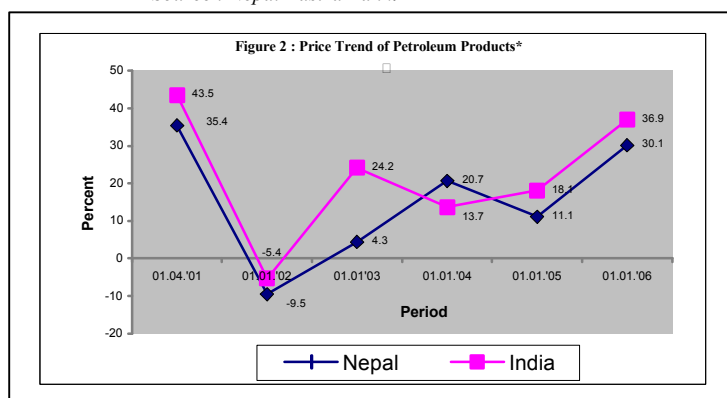
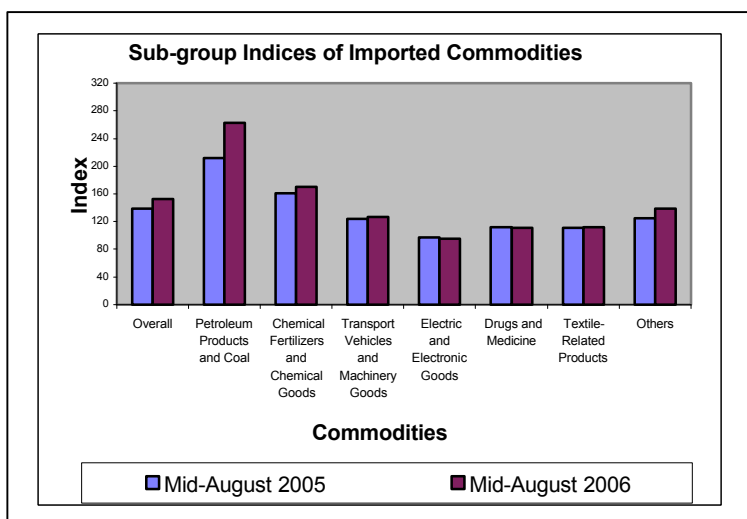
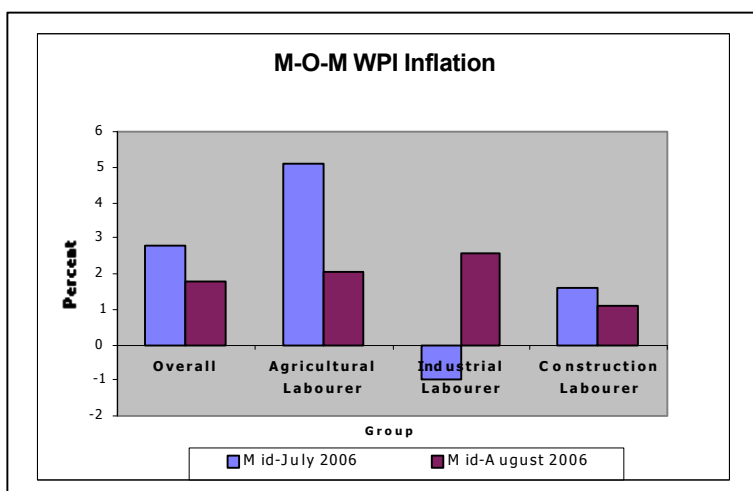


Figure 2 shows the similar trend of Nepalese and Indian oil price movement with Brent oil prices, in 2001. The prices in Nepal and India increased by 35.4 percent and 43.5 percent respectively. In 2002 the prices in both countries declined by 9.5 percent and 5.4 percent respectively. In 2003 Nepalese oil prices increased by only 4.3 percent and Indian prices sharply increased by 24.2 percent. In 2004, the increase in the Nepalese oil prices is higher than that of Indian prices. However, in 2005 and 2006, the level of price increase was below to Indian prices.



(d) Imported Commodities

In the review period, the index of this group increased by 10.0 percent compared to an increase of 11.7 percent during the corresponding period in the previous year. The pass through impact of the revised prices of petroleum products two times in the review year affected the index of petroleum products and coal that exerted an upward pressure on the index of this group. The price index of petroleum products and coal (24.2 percent), others (10.6 percent), chemical fertilizers and chemical goods (6.1 percent), transport vehicles and machinery goods (2.0 percent) and textile and related products (0.5 percent) increased in the review period. In contrast, the price indices of electric and electronic goods and drugs and medicine declined by 1.5 percent and 0.2 percent respectively.



(f) M-O-M WPI Inflation

The overall wholesale price index on m-o-m basis in mid-August, 2006 increased by 1.8 percent compared to that of mid-July 2006. During the review month, the indices of agricultural, domestic manufactured and imported commodities group increased by 2.0 percent, 2.6 percent and 1.1 percent, respectively.

Box 5: Current Financial Situation of Nepal Oil Corporation

Nepal Oil Corporation, the only state owned importer and distributor of oil products in Nepal is facing financial crisis. Its monthly operating loss reached to Rs. 3.12 crores and the cumulative loss is accounted Rs.1419.82 crores on November 2006.

Table 7: NOC's Monthly Profit/Loss Calculation as at November 2006

NOC's Profit/Loss Position (Prices are W/O VAT)	Petrol	Aviation Fuel	Diesel	LP Gas	Kerosene
Estimated Import/Sales as per FY 063/064 Projection	7,200	6,700	28,300	8,000	23,300
Depot Landed Cost, N.Rs./KL or Cyld in case of LPG	53,035.59	49,178.06	45,365.65	931.49	47,413.79
Ex-Depot Selling Price, N.Rs./KL or Cyld for LPG	56,592.15	68,125.97	44,667.47	718.72	45,519.69
Profit/Loss Per Kl (or Per Mt. for LPG)	3556.56	18947.91	-698.18	-212.77	-1894.09
Profit/Loss Per Litre (or Per Cyld. for LPG)	3.56	18.95	-0.70	-212.77	-1.89
Monthly Profit/Loss, Rs.	25,607,231	126,951,009	-19,758,475	-119,867,215	-44,132,396
Net Estimated Monthly Loss to NOC, (in Rs.)					-31,199,847
Total Government Rev. (N.Rs/Lit or Cyld)	24.01	10.78	9.51	192.78	1.98
Monthly Govt. Revenue in Crores (in Rs.)	17.28	2.89	26.92	10.86	4.61
*Total Monthly Govt. Revenue					62.57
Net Estimated Monthly Loss to NOC in Crores NRs.					-3.12

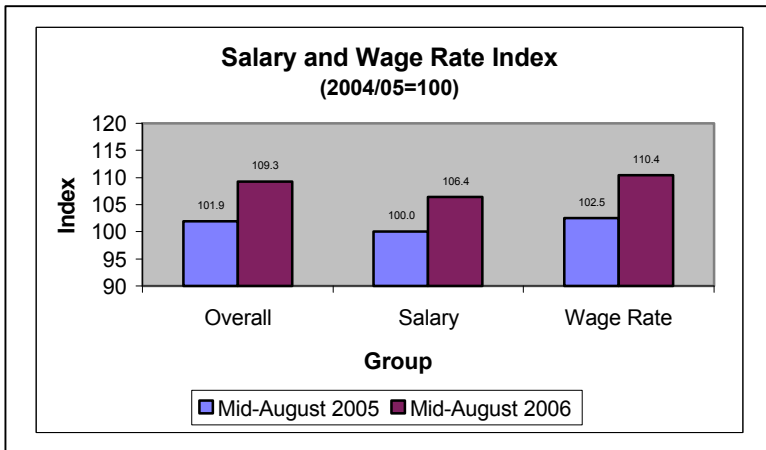
Source : Nepal Oil Corporation - Exchange rate : 1US\$=72.1 Rs.(November 01, 2006)

The table indicates that NOC distributes Diesel, LP Gas and Kerosene at a price below the cost whereas there is profit in petrol (Rs.3.56) and aviation fuel (Rs.18.95) per liter. In aggregate, there is Rs. 62.57 crores monthly revenue for the government by selling these products. The monthly loss recorded about 3.12 crores for NOC.

Salary and Wage Rate

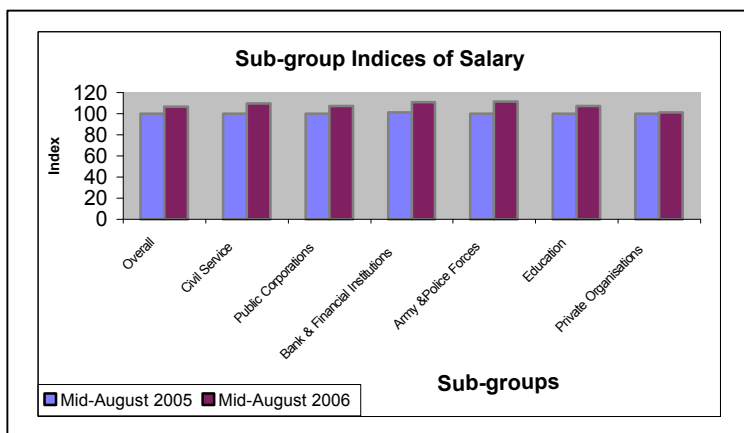
(a) Overall Index

The National Salary and Wage Rate Index (2004/05 = 100), on a y-o-y basis, increased by 7.3 percent in mid-August 2006. Such index had increased by 1.9 percent a year ago. The rise in wages of laborers as well as the 10 percent rise in the salary of government employees as announced in the budget speech of the fiscal year 2006/07 accounted for the growth of salary and wage inflation.



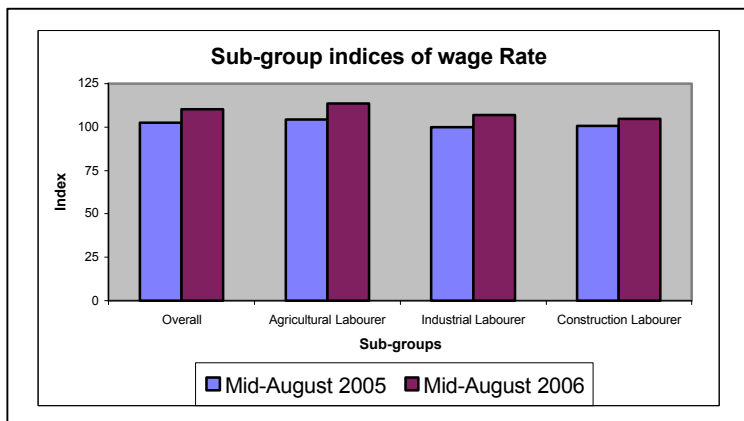
(b) Salary

The index of this group increased by 6.4 percent, compared to that of the preceding year's index. The impact of the 10.0 percent rise in the salary of government employees contributed to rise the index.



(c) Wage Rate

In the review period, the index of this group increased at a higher rate of 7.7 percent compared to an increase of 2.5 percent during the corresponding period in the preceding year. The growth in the wage rate index is mainly attributable to the rise in the wage rate of agricultural labourer (8.8 percent) industrial labourer (7.0 percent) and construction labourer (4.1 percent).



(d) M-to-M Basis

The overall index in mid-August 2006 increased by 2.9 percent compared to that of the previous month. During the review month, the salary and wage rate increased by 6.0 percent and 1.8 percent respectively.

