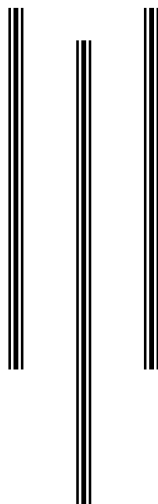


Macroeconomic Situation of Nepal

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



Nepal Rastra Bank

January 2004

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

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

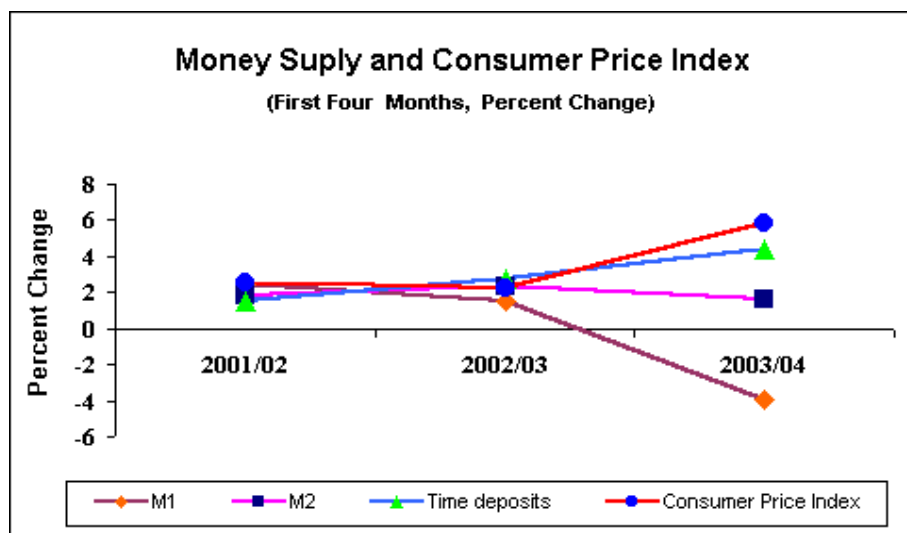
Major Points

- FY 2003/04 saw a slight rise in broad money and decline in narrow money.
- The weighted average treasury bills rates declined.
- 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.
- Imports rose at a rate much faster than the exports, 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.108.4 billion, enough to cover merchandise imports of 10.1 months and merchandise and service imports of 8.7 months.

Monetary Situation

During the first four months of FY 2003/04, broad money grew by 1.6 percent to Rs. 249.7 billion. Narrow money, a component of broad money, declined by 3.9 percent to Rs. 80.5 billion in contrast to a rise of 1.5 percent last year. Time deposits, the other component of broad money, went up by 4.4 percent to Rs. 169.3 billion compared to the rise of 2.7 percent in the previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) rose by 1.1 percent in contrast to the decline of 3.5 percent in the previous year. Domestic credit of the banking system increased by 2.0 percent to Rs. 233.2 billion compared to a growth of 4.2 percent a year earlier. Credit to the private sector posted a growth of 4.1 percent to Rs. 157.1 billion.

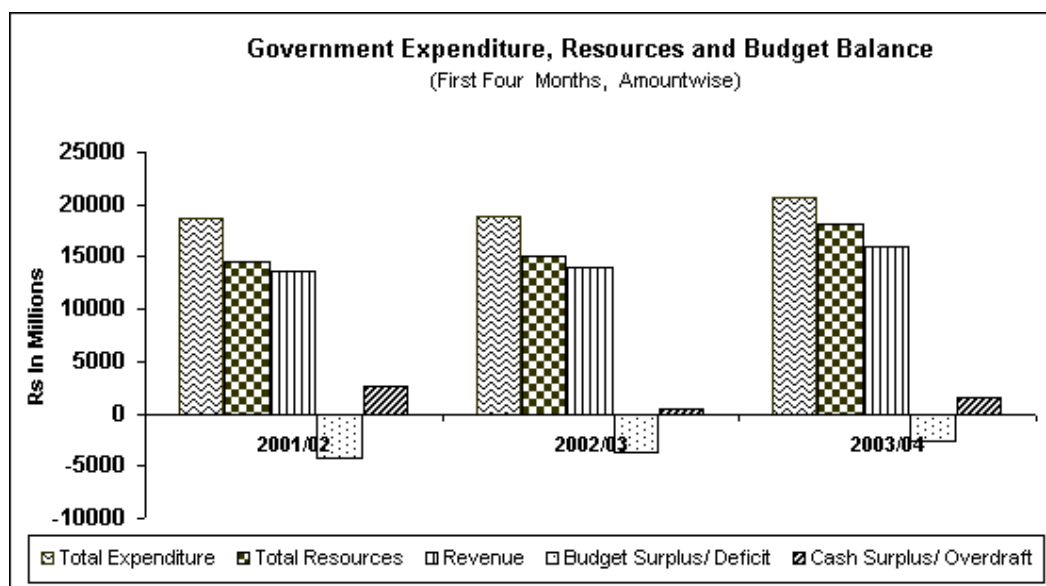
The 91-day average treasury bills rate fell to 3.67 percent in mid-November 2003 from 4.00 percent in mid-November 2002.



Government Budgetary Operation

Based on the cash flow data, the total expenditure increased by 10.0 percent to Rs. 20.7 billion compared to the marginal growth of 0.5 percent last year. Of the total expenditure, regular expenditure rose by 7.5 percent to Rs. 16.8 billion compared to an increase of 13.5 percent last year. The development expenditure surged up impressively by 22.0 percent to Rs. 2.3 billion in contrast to a sharp decline of 45.2 percent last year. The freeze account, in contrast to the decline of 12.7 percent last year, marked an increment of 22.1 percent to Rs. 1.6 billion this year.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 20.3 percent to Rs. 18.2 billion compared to a rise of 3.7 percent last year. Revenue, the major source of the government resources, went up by 14.0 percent to Rs. 16.0 billion compared to the rise of 2.3 percent last year. The revenue mobilization improved due mainly to the rise in imports. Foreign grants went up substantially to Rs. 1.1 billion as against just Rs. 194.0 million received last year. The net, non-budgetary receipts increased by 25.5 percent to Rs. 1.0 billion. The higher growth rate of non-debt resources compared to that of the total expenditure resulted in the decline in the budget deficit by 31.8 percent to Rs. 2.6 billion compared to the decline of 10.8 percent last year. In order to finance the deficit, HMG mobilized foreign cash loans amounting to Rs. 856.8 million and issued treasury bills equivalent to Rs. 700.0 million and the Citizen Saving Certificates equivalent to Rs. 73.0 million. After adjusting Rs. 557.9 million in the other headings of HMG account, HMG utilized from Nepal Rastra Bank an overdraft of Rs. 1.5 billion in mid-November 2003. HMG had utilized Rs. 397.2 million overdraft facility from NRB last year.



Price Situation

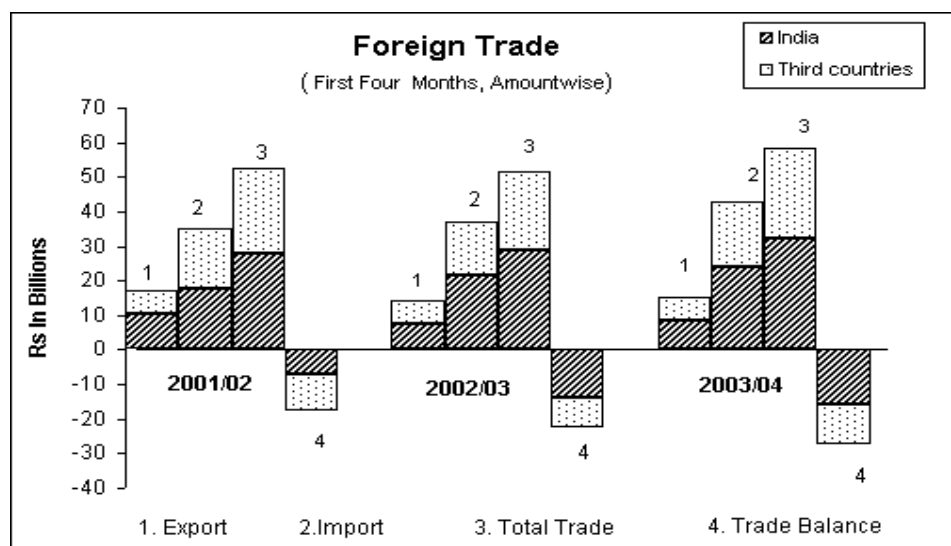
The National Urban Consumer Price Index, on point-to-point basis, increased by 5.8 percent compared to the rise of 2.2 percent last year. The price index, on the annual average basis, increased by 5.5 percent compared to the rise of 2.9 percent last year. The index of food and beverages group, on point-to-point basis, increased by 5.3 percent compared to the rise of 1.1 percent last year. Despite the decline in the prices of sugar and related products, pulses and spices, the rise in the prices of oil and ghee (21.7 percent), vegetable and fruit (8.0 percent), meat, fish and eggs (7.1 percent), restaurant meals (6.9 percent), grains and cereals products (4.0 percent), milk and milk product as well as beverages raised the food and beverages group index by 5.3 percent. The index of non-food and services group went up by 6.3 percent compared to a growth of 3.4 percent last year. Regionwise, the price indices of Terai, Hills and Kathmandu Valley rose by 5.0 percent, 5.1 percent and 7.4 percent respectively. The corresponding price rises last year were 2.9 percent, 1.2 and 1.7 percent. On point-to-point basis, the wholesale price index increased by 4.1 percent compared to the rise of 0.3 percent last year.

Foreign Trade

Total exports increased by 8.0 percent to Rs. 15.5 billion in contrast to the decline of 17.3 percent last year. Exports to India, witnessing a reversal, increased by 9.7 percent to Rs. 8.4 billion in contrast to the decline of 26.8 percent last year. Exports to other countries, which had declined by 2.7 percent last year, increased by 6.0 percent to Rs. 7.1 billion this year. The export of pulses, handicrafts, tanned skin, Nepalese paper and its products and woollen carpets to the countries other than India increased while that of the Pashmina, jewellery and readymade garments declined.

Total imports increased by 16.1 percent to Rs.43.0 billion compared to the rise of 5.5 percent last year. Imports from India rose by 12.2 percent compared to the rise of 21.8 percent last year, while imports from the third countries went up by 21.4 percent in contrast to the decline of 10.9 percent last year. Imports of rice, electrical equipment, tire, tube, M.S. billet, fruit, vegetables, salt, pulses, wheat, tobacco, petroleum products, vehicles and spare parts, industrial chemicals, cloths, M.S. wire rod, cold rolled sheets and other machinery parts from India and that of 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, plastic granules as well as chemical fertilizers from the third countries went up this year.

The higher growth of imports compared to that of the exports, raised the trade gap as it widened by 21.2 percent compared to the rise of 27.6 percent last year. Trade deficit with India increased by 13.6 percent as against the substantial rise of 93.7 percent last year. Trade gap with other countries widened by 32.9 percent in contrast to the decline of 16.0 percent last year. The overall export/import ratio, which was 38.7 percent last year, came down to 36.0 percent this year. This ratio with India declined to 35.1 percent this year from 35.9 percent last year while that with the third countries went down to 37.1 percent this year from 42.6 percent last year.



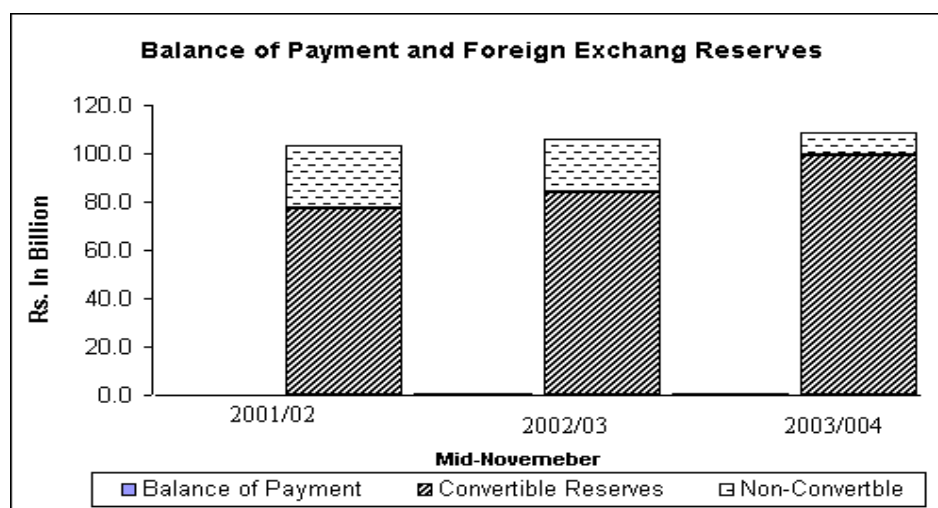
Balance of Payments

Based on the available BOP statistics for the first three months of FY 2003/04, trade deficit expanded by 26.1 percent to Rs. 19.3 billion due to the higher imports. Service receipts increased at a rate higher than that of payments, resulting in the surplus in the service sector. Despite the surplus in the service sector, the goods, services and income accounts remained in deficit by Rs.17.9 billion. Investment income receipts declined by

6.6 percent while payments declined by 14.9 percent. Current account recorded a surplus of Rs. 10.7 billion due to the increased inflow of remittances. Despite a substantial deficit in the financial account, the BOP remained favorable by Rs. 936.9 million due to the sufficient surplus in the current account as well as in the miscellaneous income. The BOP had recorded a surplus of Rs.852.8 million during the same period last year. The BOP, on the basis of monetary statistics for the first four months, is in surplus of Rs. 1.0 billion in comparison to a deficit of Rs. 3.1 billion during the same period last year

Foreign Exchange Reserves

The gross foreign exchange reserves in mid-November 2003 reached Rs.108.4 billion. The convertible reserve increased by 18.8 percent to Rs. 99.4 billion whereas the non-convertible reserve (Indian currency) declined by 59.3 percent to Rs. 9.0 billion. The share of convertible reserve in the total reserve reached 91.7 percent this year from 79.1 percent last year, resulting in a corresponding decline in the share of non-convertible reserve to 8.3 percent. The rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances. Despite the sharp decline in the non-convertible reserve, the overall reserve position of the country is quite comfortable as it is sufficient to finance merchandise imports of 10.1 months and merchandise and service imports of 8.7 months.



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, however, slumped from the mid-November 2002 level by 14.52 points (6.6 percent) to 206.21 in mid-November 2003. The market capitalization of the listed companies increased by 8.7 percent to Rs. 36.7 billion.