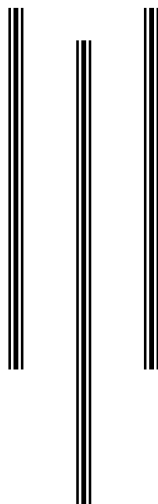


# Macroeconomic Situation of Nepal

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



Nepal Rastra Bank

**February 2004**

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

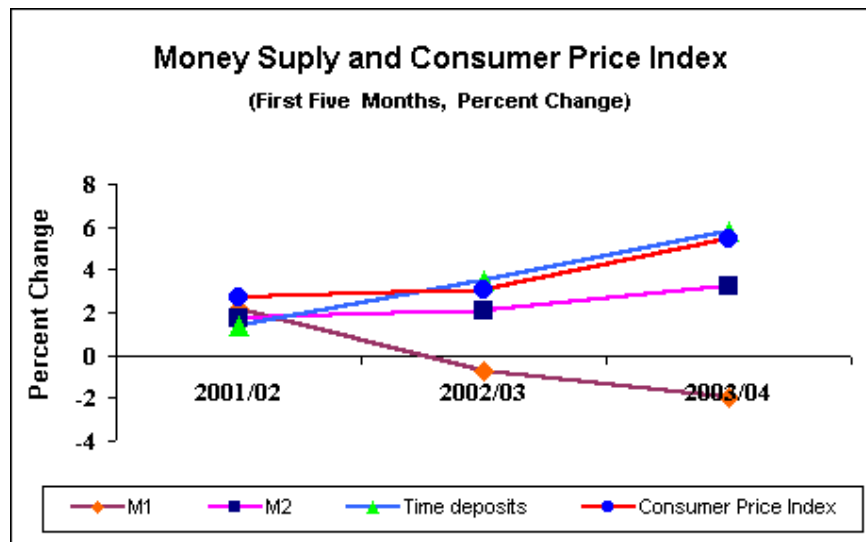
*(During the First Five Months of FY 2003/04)*

## Major Points

- FY 2003/04 saw a rise in broad money but fall in narrow money.
- The weighted average treasury bills rates increased.
- The stock exchange transactions in terms of value and 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 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.110.9 billion, enough to cover merchandise imports of 10.1 months and merchandise and service imports of 8.8 months.

## **Monetary Situation**

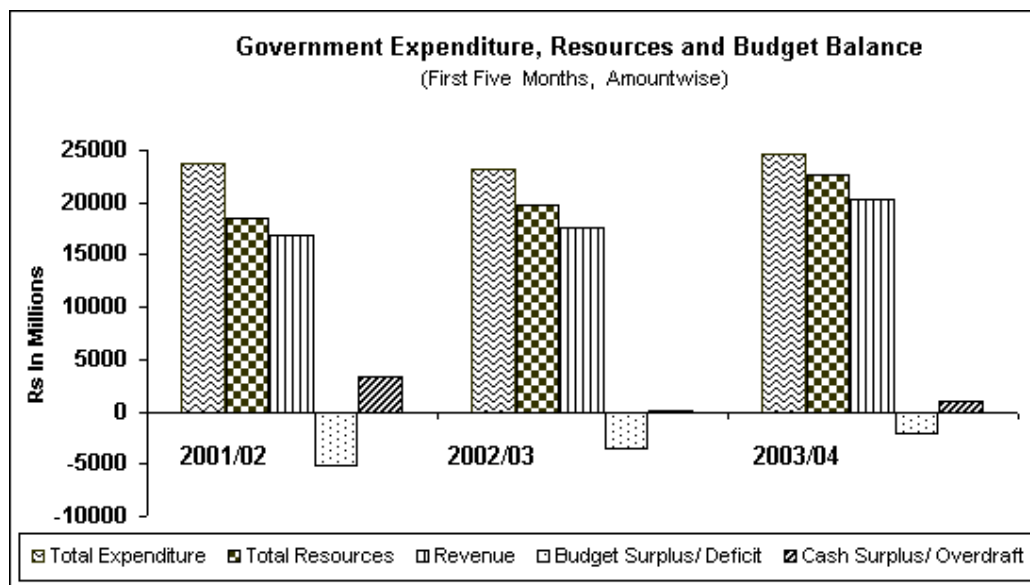
During the first five months of FY 2003/04, broad money grew by 3.2 percent to Rs. 253.8 billion. Narrow money, a component of broad money, declined by 2.0 percent to Rs. 82.1 billion compared to a decline of 0.7 percent last year. Time deposits, the other component of broad money, went up by 5.8 percent to Rs. 171.6 billion compared to the rise of 3.5 percent in the previous year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) rose by 0.7 percent in contrast to the decline of 3.1 percent in the previous year. Domestic credit of the banking system increased by 1.5 percent to Rs. 231.8 billion compared to a growth of 4.3 percent a year earlier. Credit to the private sector posted a growth of 4.3 percent to



Rs. 157.4 billion. The 91-day average treasury bills rate rose to 3.85 percent in mid-December 2003 from 2.98 percent in mid-July 2003.

### Government Budgetary Operation

Based on the cash flow data, the total expenditure increased by 6.2 percent to Rs. 24.7 billion in contrast to the decline of 1.9 percent last year. Of the total expenditure, regular expenditure rose by 3.7 percent to Rs. 19.8 billion compared to an increase of 6.6 percent last year. The development expenditure rose by 15.2 percent to Rs. 3.4 billion in contrast to a sharp decline of 33.2 percent last year. The freeze account, as against 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 14.8 percent to Rs. 22.6 billion compared to a rise of 6.4 percent

last year. Revenue, the major source of the government resources, went up by 15.3 percent to Rs. 20.3 billion compared to a slower growth of 5.1 percent last year. The revenue mobilization improved mainly due to the rise in imports. Foreign grants went up substantially to Rs. 1.1 billion as against just Rs. 562.3 million mobilized last year. However, the non-budgetary receipts net, declined by 6.0 percent to Rs. 918.1 million. The higher growth rate of non-debt resources compared to the total expenditure growth resulted in the 41.5 percent decline in the budget deficit to Rs. 2.1 billion compared to the 31.6 percent decline last year. HMG mobilized foreign cash loan amounting to Rs. 1.0 billion and internal loan amounting to Rs. 1.3 billion this year. After adjusting Rs. 1.2 billion in the other headings of HMG account, HMG's cash transactions resulted in an overdraft of Rs. 937.6 million in mid-December 2003 as compared with an overdraft of Rs. 152.5 million last year.

### **Price Situation**

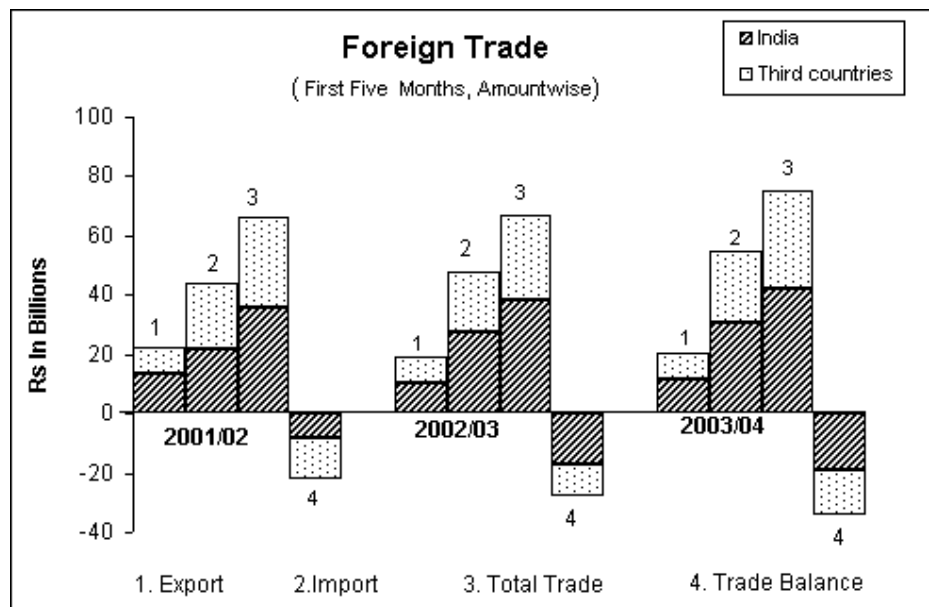
The National Urban Consumer Price Index, on the point-to-point basis, increased by 4.9 percent compared to the rise of 2.7 percent last year. The index of food and beverages group, on point-to-point basis, increased by 3.9 percent compared to the rise of 1.7 percent last year. Despite the decline in the prices of sugar and related products, spices and pulses, the rise in the prices of oil and ghee (12.9 percent), vegetable and fruit (8.0 percent), restaurant meals (6.6 percent), meat, fish and eggs (5.2 percent), milk and milk product (2.6 percent), grains and cereals products (2.0 percent) as well as beverages raised the food and beverages group index by 3.9 percent. The index of non-food and services group went up by 6.0 percent compared to a growth of 3.7 percent last year. Regionwise, the price indices of Terai, Hills and Kathmandu Valley rose by 4.2 percent, 4.6 percent and 6.4 percent respectively. Last year, the price rose by 3.4 percent, 1.8 and 2.0 percent respectively. Similarly, on an average basis, the consumer prices for the first five months of this year increased by 5.4 percent compared to the rise of 3.1 percent during the same period last year. On point-to-point basis, the wholesale price index increased by 5.9 percent compared to the rise of 0.7 percent last year. The wholesale price averaged 4.0 percent this year compared to the rise of 1.7 percent during the corresponding period last year.

### **Foreign Trade**

Total exports increased by 6.7 percent to Rs. 20.5 billion in contrast to the decline of 13.5 percent last year. Exports to India, witnessing a reversal, increased by 8.5 percent to Rs. 11.4 billion in contrast to the decline of 23.1 percent last year. Exports to other countries, which had gone up by 2.0 percent last year, rose by 4.6 percent to Rs. 9.1 billion this year. The export to the other countries of woollen carpets, pulses, jewellery, Nepalese paper and its products, handicrafts and tanned skin, increased while that of the Pashmina and readymade garments declined.

Total imports increased by 15.2 percent to Rs. 54.7 billion compared to the rise of 7.7 percent last year. Imports from India rose by 11.2 percent compared to the rise of 26.6 percent last year, while imports from the other countries went up by 20.6 percent in contrast to the decline of 10.7 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.



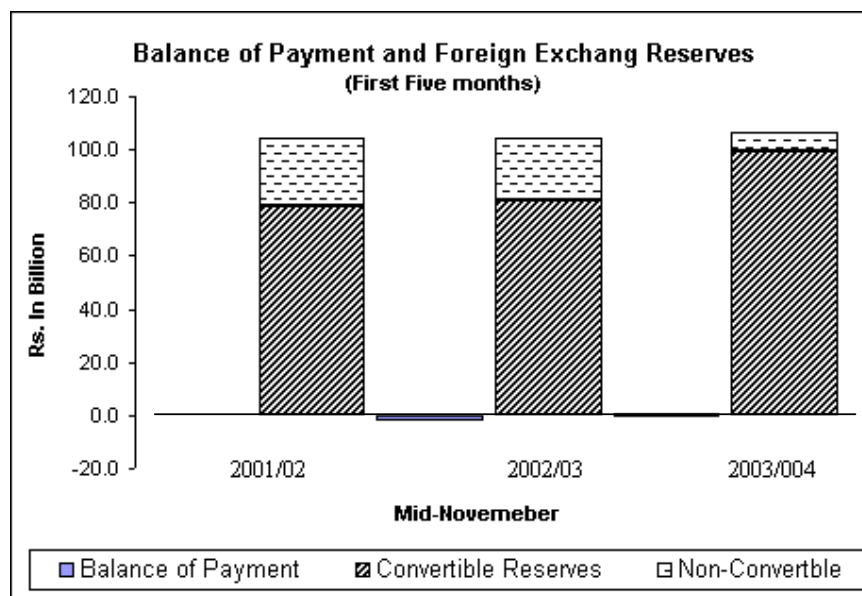
The higher growth of imports relative to that of the exports widened the trade gap by 21.0 percent compared to the growth of 29.2 percent last year. Trade deficit with India increased by 12.9 percent compared to the substantial rise of 110.4 percent last year. Trade gap with the other countries widened by 33.1 percent in contrast to the decline of 18.5 percent last year. The overall export/import ratio, which was 40.5 percent last year, came down to 37.5 percent this 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 surge in 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 and services 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 surplus in the current account as well as the miscellaneous item. The BOP had recorded a deficit of Rs. 1.2 billion during the same period last year. On the basis of the monetary statistics for the first five months, the BOP surplus is Rs. 606.2 million in comparison to a deficit of Rs. 2.7 billion during the same period last year

## Foreign Exchange Reserve

The gross foreign exchange reserve in mid-December 2003 reached Rs.110.9 billion. The convertible reserve increased by 27.7 percent to Rs103.5 billion whereas the non-convertible reserve (Indian currency) declined by 68.4 percent to Rs. 7.4 billion. The share of convertible reserve in the total reserve reached 93.3 percent this year from 77.6 percent last year, resulting in a corresponding decline in the share of non-convertible reserve to 6.7 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 8.8 months.



## Share Market Transactions

Major indicators of the stock market showed mixed performance. The number of share transactions increased whereas their value declined. The market capitalization of the listed companies increased by 7.6 percent to Rs. 36.3 billion. The NEPSE index, however, slumped from the mid-December 2002 level by 12.63 points (5.9 percent) to 201.94 in mid-December 2003

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