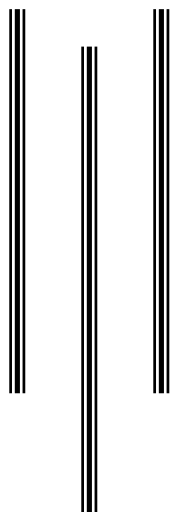
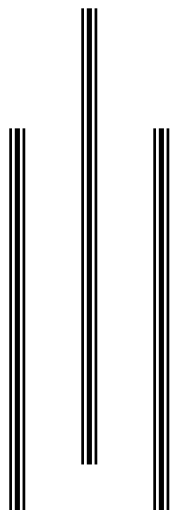


Macroeconomic Situation of Nepal

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



Nepal Rastra Bank

April 2004

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

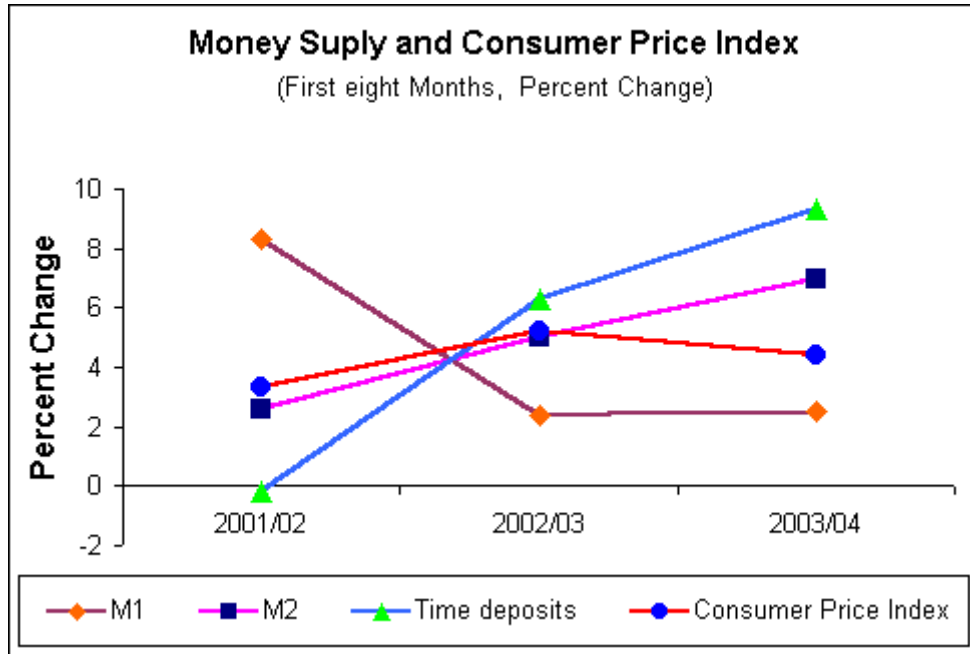
(During the First Eight Months of FY 2003/04)

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 as well as the NEPSE index decreased.
- Total government expenditure, on cash basis, increased.
- Resource mobilization increased faster than the total expenditure.
- Budget deficit increased due to the larger base of the expenditure.
- Price situation, on the point-to-point basis, decreased.
- Imports went up at a rate faster than the exports, resulting in the widened trade deficit.
- The sharp rise in the private remittances resulted in the current account surplus.
- The overall balance of payments (BOP) stood favorable due to huge current account surplus
- The gross foreign exchange reserve reached Rs.123.5 billion, enough to cover merchandise imports of 11.2 months and merchandise and service imports of 9.5 months.

Monetary Situation

During the first eight months of FY 2003/04, broad money grew by 7.0 percent to Rs. 263.1 billion. Narrow money, a component of broad money, increased by 2.5 percent to Rs. 85.8 billion in comparison to the rise of 2.4 percent last year. Time deposits, the other component of broad money, went up by 9.3 percent to Rs. 177.2 billion compared to the rise of 6.3 percent last year. The net foreign assets (NFA) of the banking system (adjusting the foreign exchange valuation) surged by 12.7 percent in contrast to the decline of 0.4 percent last year. Domestic credit of the banking system increased by 2.0 percent to Rs. 232.9 billion compared to a growth of 5.8 percent last year. Credit to the private sector posted a growth of 6.3 percent to Rs. 160.4 billion. The share of net claims on government of the banking sector's total domestic credit declined from 27.7 percent in mid-March 2003 to 25.9 percent in mid-March 2004. Accordingly, the share of claims on the private sector rose from 66.1 percent in mid-February 2003 to 68.9 percent in mid-March 2004. The 91-day average treasury bills rate decreased to 3.81 percent in mid-March 2004 from 3.91 percent in mid-March 2003.

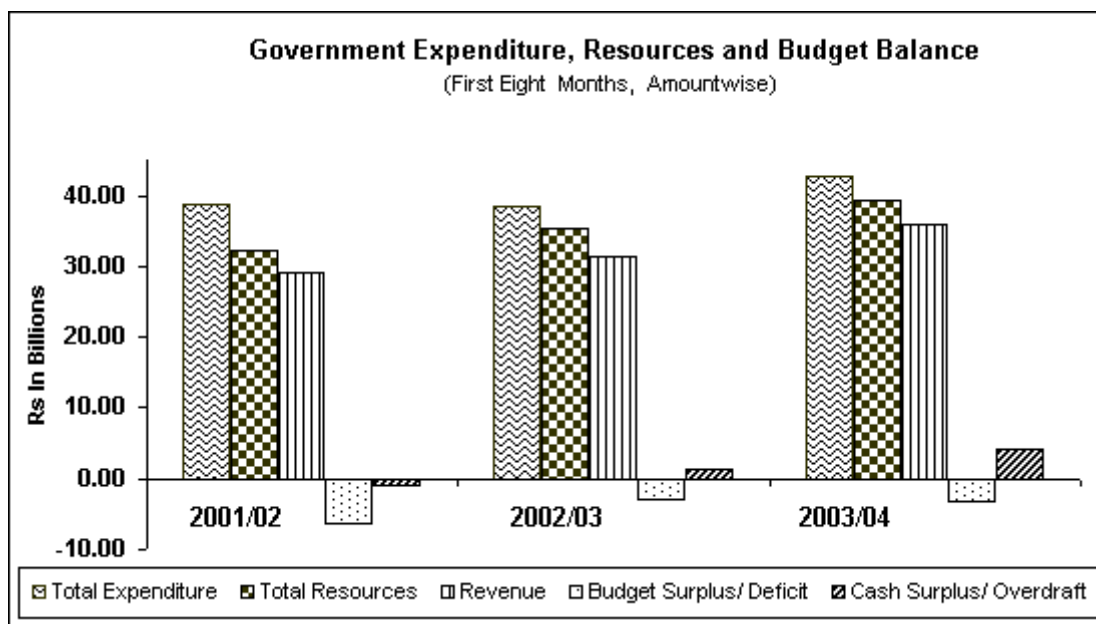


Government Budgetary Operation

Based on the cash flow data, the total expenditure of the government increased by 10.9 percent to Rs. 42.6 billion as against the marginal decline of 0.9 percent last year. Of the total expenditure, regular expenditure increased by 7.6 percent to Rs. 32.8 billion compared to an increase of 9.4 percent last year. The development expenditure went up satisfactorily, by 24.1 percent to Rs. 8.2 billion, in contrast to a sharp decline of 29.6 percent last year. The freeze account marked an increment of 22.1 percent to Rs. 1.6 billion as against the decline of 12.7 percent last year.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 11.5 percent to Rs. 39.5 billion compared to a rise of 9.3 percent last year. Revenue, the major source of the government resources, went up by 14.6 percent to Rs. 35.8 billion compared to a slower growth of 7.5 percent last year. The rate of revenue mobilization improved mainly due to the rise in imports and passport fee. Foreign grants went up substantially to Rs. 2.5 billion as against just Rs. 1.2 billion last year. However, the non-budgetary receipts (net) declined by 60.8 percent to Rs. 945 million. Although the growth rate of non-debt resources was higher than that of the total expenditure, the budget deficit increased by 3.9 percent to Rs. 3.1 billion compared to the decline by 52.5 percent last year due mainly to the broad base of the expenditure. To finance the deficit, HMG mobilized foreign cash loan amounting to Rs. 7.2 billion and domestic loan amounting to Rs. 1.3 billion this year. After fulfilling the deficit and adjusting Rs. 1.1 billion in the other headings of

HMG account, HMG's cash transactions resulted in a surplus of Rs. 4.2 billion in mid-March 2004 as compared to a surplus of Rs. 1.4 billion last year.



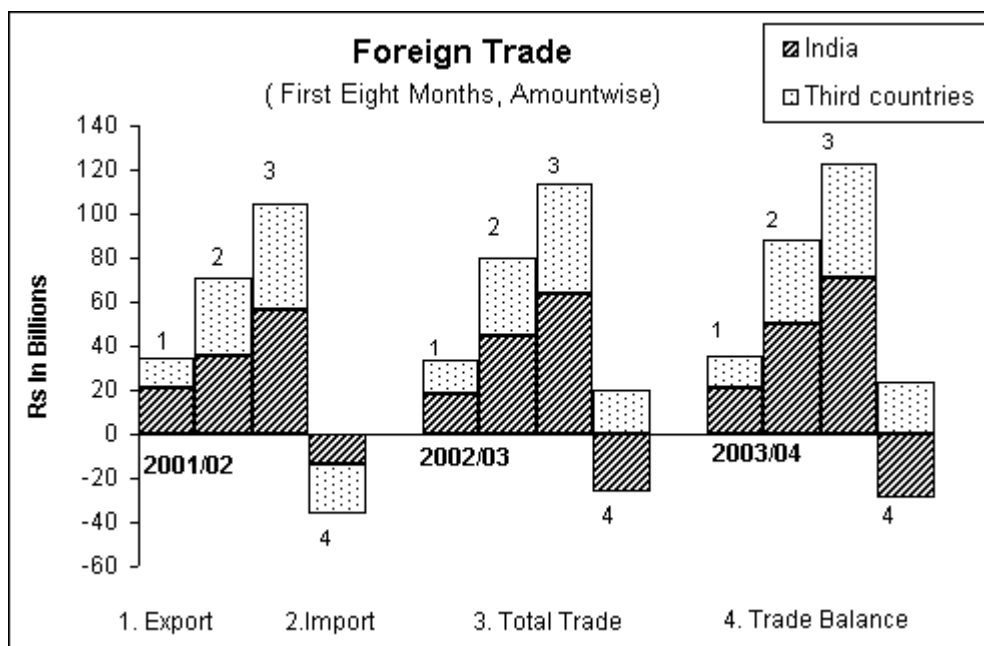
Price Situation

The National Urban Consumer Price Index, on point-to-point basis, increased by 4.4 percent in mid-March 2004 compared to the rise of 5.2 percent in mid-March 2003. On point-to-point basis, the index of food and beverages group increased by 3.1 percent compared to the rise of 6.8 percent last year. Under this group the indices rose for oil and ghee (by 19.7 percent), spices (by 7.9 percent), sugar and related products (by 6.5 percent), restaurant meals (by 6.1 percent), meat, fish and eggs (by 5.6 percent), pulses (by 3.7 percent), milk and milk products (by 1.6 percent) and vegetables and fruits (by 1.2 percent) while the indices declined for grains and cereals products (by 0.8 percent) and beverages (by 0.7 percent). The index of non-food and services group surged by 5.7 percent compared to the increase of 3.6 percent last year. The rise in the prices of transportation and communication (by 11.1 percent), housing (by 8.8 percent), education, reading and recreation (by 4.7 percent) as well as medical and personal care (by 4.1 percent) exerted an upward pressure on the index of non-food and services group which rose by 5.7 percent. Regionwise, the price indices of the Terai, Hills and Kathmandu Valley rose by 3.2 percent, 3.4 percent and 7.0 percent respectively compared to the corresponding rise of 6.4 percent, 4.5 percent and 3.8 percent last year. On an average basis, the price index increased by 5.1 percent compared to the rise of 3.6 percent last year.

The National Wholesale Price Index, on point-to-point basis, increased by 3.6 percent in mid-March 2004 compared to an increase of 5.9 percent in mid-March 2003. The indices for imported and domestic manufactured goods increased by 8.6 percent and 7.8 percent respectively while the index for agricultural commodities declined by 1.3 percent. On the average basis, the wholesale price index increased by 4.5 percent compared to the rise of 2.1 percent last year.

Foreign Trade

Total exports increased by 3.8 percent to Rs. 35.1 billion in contrast to the decline of 1.4 percent last year. Exports to India, witnessing a reversal, increased by 13.5 percent to Rs. 20.9 billion in contrast to the decline of 13.6 percent last year. Exports to other countries, which had gone up by 18.5 percent last year, declined by 7.7 percent to Rs. 14.2 billion. The exports of woollen carpets and tanned skin to other countries increased while that of readymade garments, Pashmina and jewellery declined.



Total imports increased by 9.6 percent to Rs. 87.9 billion compared to the rise of 13.4 percent last year. Imports from India increased by 11.5 percent compared to the rise of 28.1 percent last year, while imports from other countries went up by 7.1 percent in contrast to the decline of 0.9 percent last year. Imports of rice, electrical equipment, tire, tube, M.S. billet, salt, pulses, wheat, tobacco, vehicles and spare parts, industrial chemicals, chemical fertilizers, 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, tire and tube, electrical equipment, cloths, cosmetics, other machinery parts, raw wool, plastic granules, chemical fertilizers, pesticide as well as agricultural equipment from other countries went up this year.

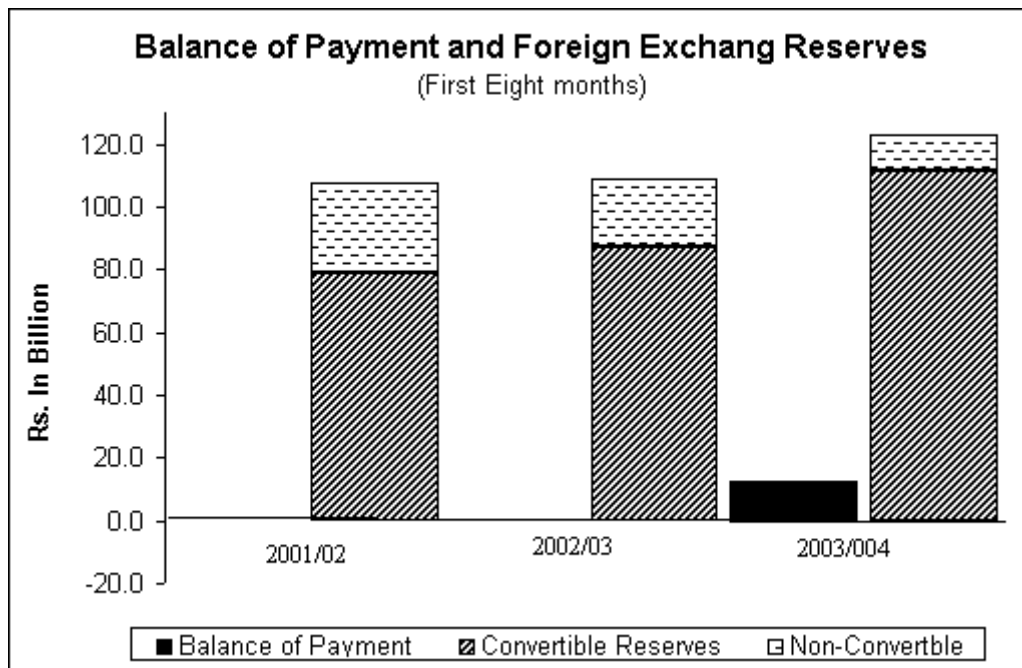
The higher growth of imports relative to that of the exports resulted in the trade deficit of Rs. 52.8 billion compared to the deficit at Rs. 46.4 billion last year. Trade deficit with India increased by 10.1 percent compared to the substantial rise of 92.7 percent last year. Trade deficit with other countries widened by 18.6 percent in contrast to the decline of 12.0 percent last year. The overall export/import ratio, which was 42.1 percent last year, came down to 39.9 percent this year. The export/import ratios for India and other countries respectively changed to 41.8 percent and 37.5 percent this year compared to 41.0 percent and 43.5 percent last year.

Balance of Payments

According to the BOP statistics for the first six months of FY 2003/04, trade deficit expanded by 15.3 percent to Rs. 36.8 billion due to the higher growth of imports vis-à-vis the exports. 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. 33.1 billion. The income (net) was unfavourable by Rs 1.3 billion. Current account recorded a surplus of Rs. 13.4 billion due to the increased inflow of remittances. Despite a substantial deficit in the financial account, the BOP remained favorable by Rs. 8.6 billion on account of the surplus in the current account as well as in the residual items. The BOP had recorded a deficit of Rs. 1.5 billion during the same period last year. On the basis of the monetary statistics for the first eight months, the BOP recorded a surplus of a Rs. 11.6 billion in contrast to the deficit of Rs. 0.4 billion during the same period last year.

Foreign Exchange Reserve

The gross foreign exchange reserve in mid-March 2004 reached Rs.123.5 billion. The convertible reserve increased by 24.9 percent to Rs.109.4 billion whereas the non-convertible reserve (Indian currency) declined by 30.3 percent to Rs. 14.0 billion. The share of convertible reserve in the total reserve reached 88.6 percent this year from 81.3 percent last 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 is attributable to an increased inflow of the private remittances. Despite the sharp decline in the non-convertible reserve, the overall reserve position is quite comfortable as it is sufficient to finance merchandise imports of 11.2 months and merchandise and service imports of 9.5 months.



Share Market Transactions

Major indicators of the stock market showed a falling trend. Both the number of share transactions and their value decreased. The market capitalization of the listed companies rose by 11.5 percent to Rs. 38.5 billion. However, the NEPSE index declined from the mid-March 2003 level of 209.66 by 1.86 index points (0.9 percent) to 207.8 in mid- March 2004.
