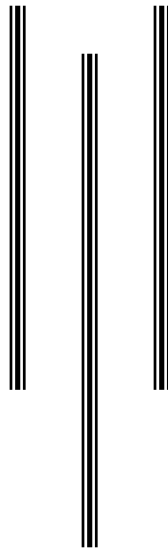


# Macroeconomic Situation of Nepal

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



Nepal Rastra Bank

**November 2003**

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

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

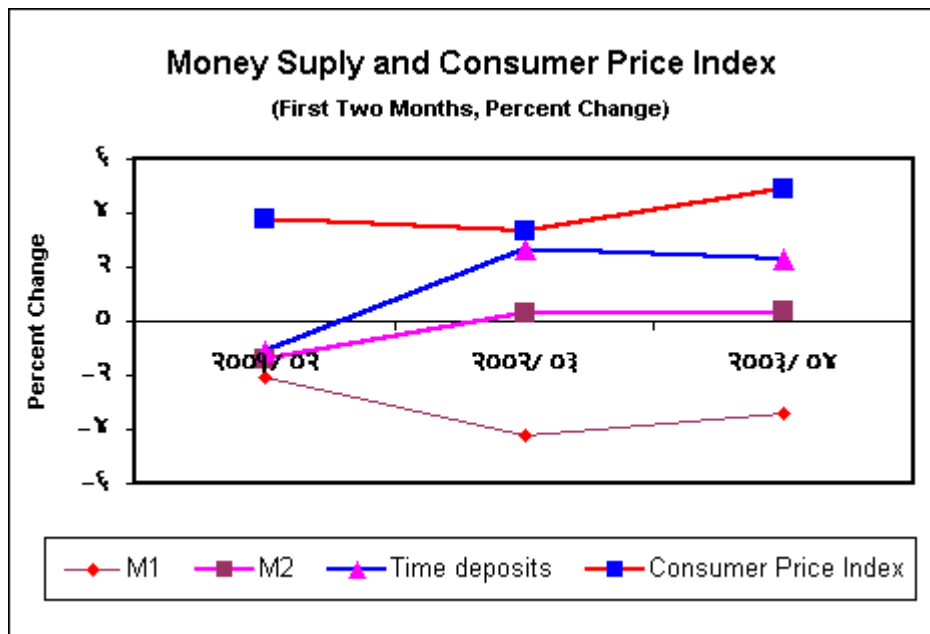
### **Major Points**

- FY 2003/04 saw a decline in narrow money and a slight rise in broad money.
- The weighted average treasury bills rates declined.
- Despite the increase in the number of transactions, the stock exchange transactions in terms of the turnover in amount declined.
- Despite the decline in freeze expenditure, the total government expenditure increased due to the substantial rise in the regular as well as the development expenditure.
- The faster rise in the total expenditure compared to the resources mobilized resulted in the jump in the budget deficit.
- Price situation, on the annual average and on the point-to-point basis, rose moderately.
- On the external front, although export increased at a rate much faster than the import, the trade deficit widened due to the large base of import.
- The sharp rise in the private remittances resulted in the current account surplus.
- Despite the negative balance in the financial account, substantial surplus in the current account as well as that in the capital account made the overall balance of payments (BOP) favorable during FY 2002/03.
- The gross foreign exchange reserve of the banking system in mid-September 2003 reached Rs.108.0 billion, enough to cover merchandise imports of 10.1 months and merchandise and service imports of 8.4 months.

### **Monetary Situation:**

During the first two months of FY 2003/04, broad money increased marginally by 0.4 percent to Rs.243.2 billion. Of the two components of the broad money, narrow money declined by 3.4 percent to Rs.78.7 billion compared to a fall of 4.2 percent last year. The

second component, i.e. the time deposits registered a growth of 2.3 percent to Rs. 164.5 billion during the review period compared to the rise of 2.7 percent last year. The NFA of the banking system (adjusting the foreign exchange valuation) declined marginally by 0.6 percent compared to the decline of 2.6 percent last year. Domestic credit of the banking system registered a marginal growth of 0.1 percent reaching to Rs.227.2 billion compared to a growth of 0.9 percent last year. Credit to the private sector grew by 1.4 percent to Rs.151.1 billion. The weighted average treasury bills rate stood at 3.66 percent in mid-September 2003 compared to 4.03 percent in mid- August 2003.

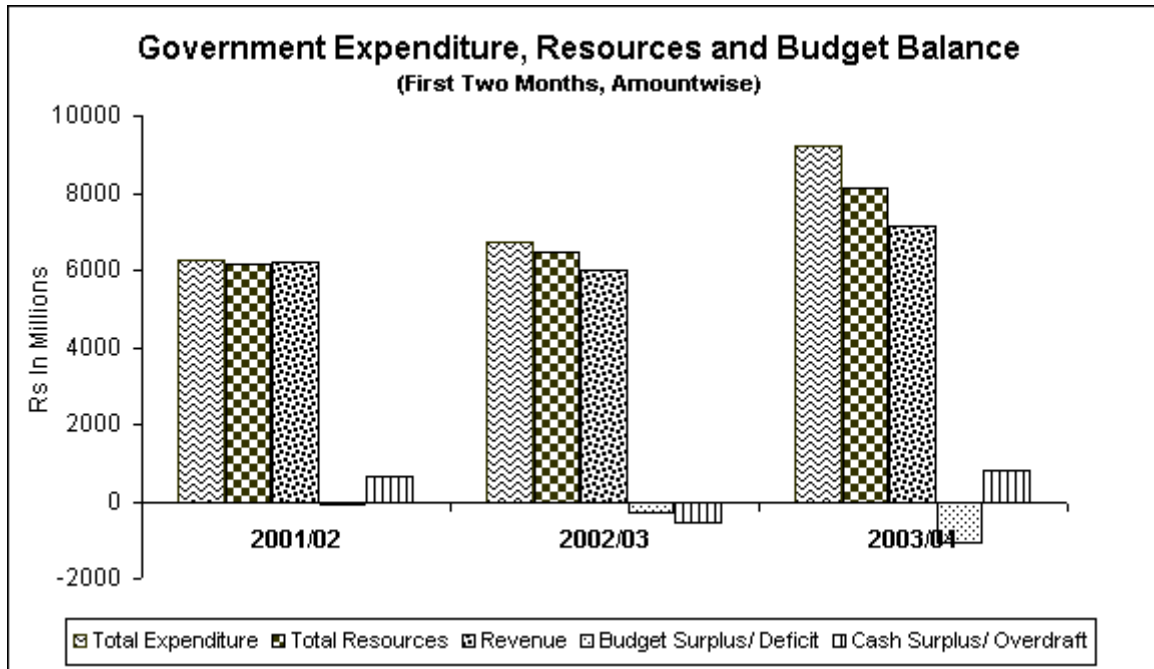


### Government Budgetary Operation:

Based on the cash flow data, the total government expenditure increased by 37.3 percent to Rs. 9.2 billion compared to the rise of 7.4 percent last year. Of the total expenditures, regular expenditure rose by 55.3 percent to Rs. 7.0 billion compared to an increase of 22.9 percent last year. The development expenditure surged by 95.3 percent to Rs. 649.1 million in contrast to a sharp decline of 56.4 percent last year. The freeze account, in contrast to a growth of 2.9 percent last year, marked a decline by 15.9 percent to Rs.1.6 billion during the review period.

Total non-debt resources (revenue, non-budgetary and other receipts, and foreign grants) increased by 26.0 percent to Rs. 8.1 billion compared to an increase of 4.8 percent last year. Revenue, the major source of the government resources, went up impressively by 19.0 percent to Rs. 7.2 billion in contrast to a decline of 3.0 percent last year. The revenue mobilization improved due mainly to the rise in imports. Foreign grants went up substantially to Rs. 408.2 million as against just Rs.46. 6 million during the same period last year. The net non-budgetary receipts increased marginally by 1.9 percent to Rs. 418.3 million. The higher growth rate in total expenditures compared to that of non-debt resources resulted in the budget deficit of Rs. 1090.7 million in comparison to the deficit of Rs.263.4 million last year. In order to finance the deficit,

HMG mobilized foreign loans amounting to Rs. 320.6 million and issued Citizen Saving Certificates equivalent to Rs. 73.0 million this year. After adjusting Rs. 95.5 million in the other headings of the government account, an overdraft of Rs. 792.6 million from Nepal Rastra Bank was utilized in mid-September 2003 so as to bridge the gap of the budget deficit.



### Price Situation:

The National Urban Consumer Price Index, on point-to-point basis, increased by 4.9 percent compared to the rise of 3.3 percent last year. The price index, on the annual average basis, increased by 5.0 percent compared to the rise of 3.0 percent last year. On point-to-point basis, the index of food and beverages group increased by 3.9 percent compared to the rise of 2.5 percent last year. Despite the decline in the prices of sugar and related products, vegetables and fruits as well as pulses, the rise in the prices of oil and ghee (by 20.2 percent), restaurant meals (by 7.2 percent), meat, fish and eggs (by 6.9 percent), grains and cereals products (by 5.5 percent), spices, milk and milk product 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 5.8 percent compared to a growth of 4.1 percent last year. Regionwise, the price indices of the Terai, Hills and Kathmandu Valley rose by 4.9 percent, 4.6 percent and 4.9 percent respectively. The corresponding price rises last year were 3.8 percent, 2.1 and 3.0 percent respectively. On point-to-point basis, the wholesale price index increased by 3.2 percent compared to an increase of 3.1 percent last year.

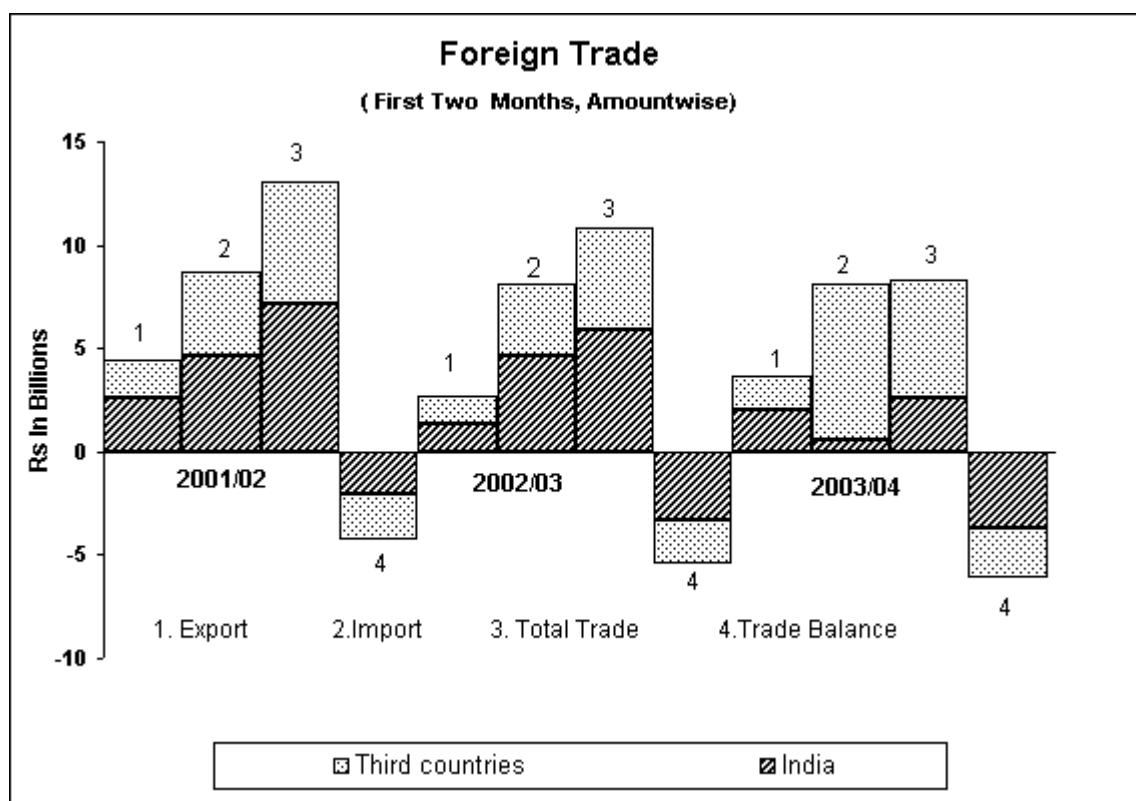
### Foreign Trade:

Total export increased by 28.4 percent to Rs. 8.1 billion in contrast to the decline of 24.5 percent during the same period last year. Export to India, witnessing a reversal during this year, increased substantially by 28.0 percent to Rs. 4.3 billion in contrast to the decline of 32.8 percent during the same period last year. Export to other countries, which had declined by 12.6 percent last year, increased by 28.8 percent to Rs. 3.9

billion. Exports of readymade garments, woollen carpets, metal handicraft goods and tanned skin to the countries other than India increased by 17.8 percent, 15.9 percent, 1031.1 and 91.3 percent respectively while that of the Pashmina declined by 12.4 percent. The total export to the third countries increased on account of the improved exports of readymade garments, woollen carpets, metal handicraft goods and tanned skin.

Total import increased by 23.1 percent to Rs. 21.4 billion as compared to the rise of 3.6 percent during the same period last year. Import from India increased by 19.4 percent as compared to the rise of 16.8 percent last year, while import from the third countries rose substantially by 28.1 percent in contrast to the decline of 10.2 percent during this period last year. Imports of rice, agricultural equipment and parts, electrical equipments, tire, tube, M.S. billet, fruits, vegetable, salt, pulse, wheat, tobacco, petroleum products, vehicles and spare parts, industrial chemicals, yarn, cloths, M.S. wire rod and other machinery parts from India and edible oil, cardamom, nut, yarn, zinc ingot, steel sheet, copper wire and sheet, crude soybean oil, tire and tube, electrical equipment, medicine, readymade garments, cosmetics, paper, other machinery parts, raw wool as well as plastic granules from the third countries went up during this year.

With the higher growth rate of exports compared to that of imports, the trade gap decelerated from 31.6 percent last year to 20.1 percent during the review period. Trade deficit with India increased by 15.1 percent as against the substantial rise of 84.9 percent last year. Trade deficit with the other countries expanded by 27.7 percent in contrast to the decline of 8.5 percent during same period last year. The overall export/import ratio, which was 36.4 percent last year, went up to 38.0 percent during the review period. This ratio with India increased to 35.7 percent from 33.3 percent last year, while the ratio of third countries rose marginally to 40.8 percent from 40.6 percent.



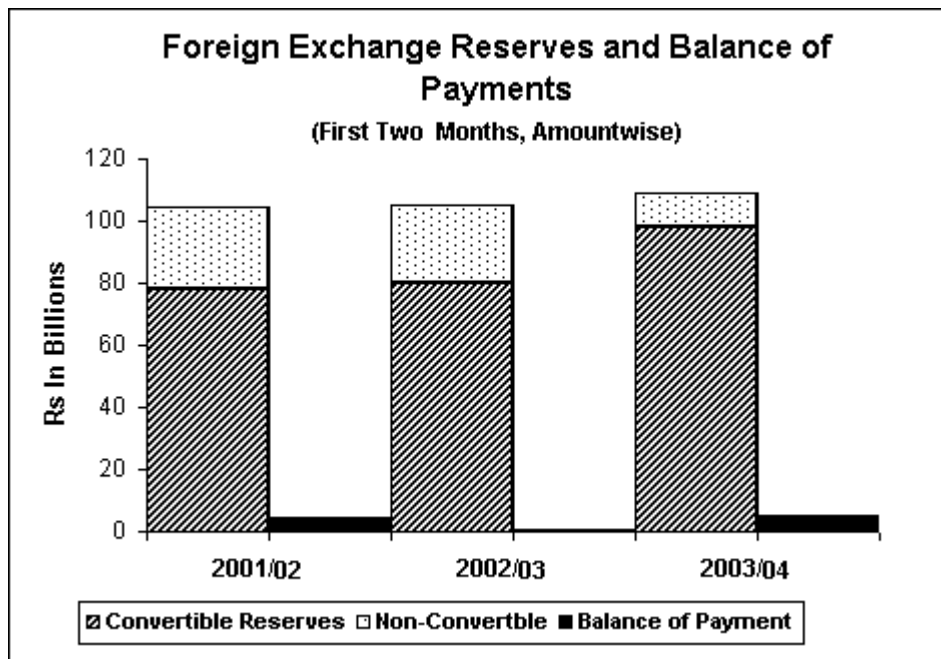
## Balance of Payments:

NRB has changed the format of summary BOP from mid-May 2003, with a view to making the BOP more realistic by increasing data coverage in accordance with the format more compatible with international standard. In the traditional format, imports were expressed in c.i.f. value but in the new format, imports are also expressed in f.o.b. value. Similarly, external sale and purchase of electricity and aviation fuel are included in export and import respectively. Traditional format included workers' remittance received only through the formal channel while the new format includes estimated remittances as well. Capital account is segregated into capital account and financial account in the new format. The capital account in the new format includes grants of investment nature while the financial account includes foreign loans, trade credits, foreign direct investment as well as currency and deposits.

Based on the available BOP statistics for FY 2002/03, the service receipts increased faster than the payment resulting in the surplus in service sector covering 7.8 percent of the trade deficit. Compared to the last year, receipts under investment income increased by 4.4 percent while payments rose by 5.3 percent resulting in the deficit in the goods, services and income accounts by 33.9 percent to Rs. 66.5 billion. Such deficit had increased by 1.6 percent last year. Due to the substantial inflow of remittances, there has been a surplus of Rs. 8.4 billion in the current account. Despite the decline in the financial account, the BOP became favorable by Rs.5.2 billion due to the sufficient surplus in the current account as well as the capital account. The BOP had recorded a deficit of Rs.3.3 billion during FY 2001/02.

## Foreign Exchange Reserves:

The gross foreign exchange reserves in mid-September 2003 reached Rs.108.0 billion. The convertible reserve increased by 23.1 percent to Rs. 99.7 billion whereas the inconvertible reserve (Indian currency) declined by 64.3 percent to Rs.8.3 billion. The share of convertible reserve in the total reserve reached 92.4 percent from 89.8 percent last year, resulting in a corresponding decline in the share of inconvertible reserve to 7.6 percent. The rise in the share of the convertible reserve is attributable to an increased inflow of the private remittances.



### Share Market Transactions:

Major indicators of the stock market showed mixed performance. The number of share transactions increased while the value declined. NEPSE index slumped from the mid-September 2002 level by 14.52 points (6.5 percent) to 208.46 in mid-September 2003. The market capitalization of the listed companies increased by 8.6 percent to Rs. 37.1 billion.

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