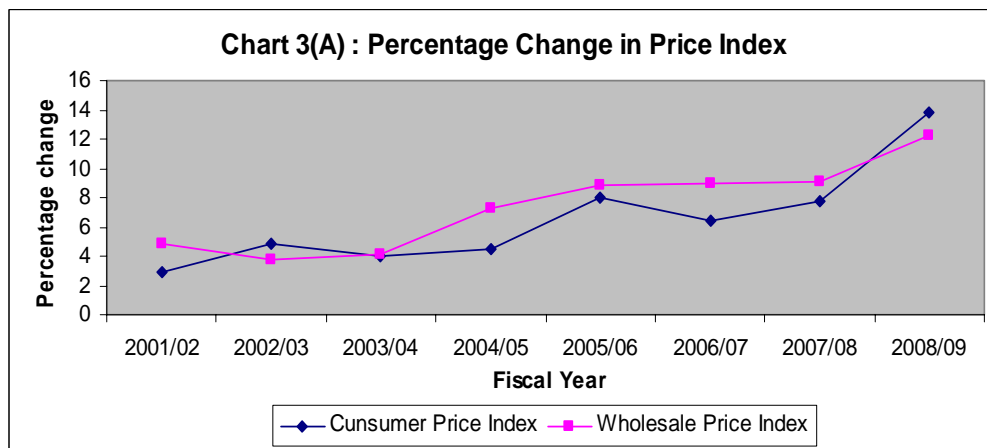


3. Price and Supply

Structure of Inflation

3.1 Nepalese price situation tends to have affected more by structural and external factors. Structural factors include overall supply of goods and services available within the country such as agricultural and industrial products, and effects of closures and strikes on supply arrangements. Factors such as price hike of petroleum products in international markets and direct impacts of Indian inflation come under external factors. As monetary aggregates obviously affect aggregate demand, its impact in turn get reflected on the price situation. The rate of inflation increased by double digit due to excessive price hike of food and petroleum products towards the end of last fiscal year i.e., Mid-June 2008. Several efforts were made to maintain smooth supply arrangement, contain the money supply at the desirable level, and adopt anti-inflationary measures in the context of inflationary situation getting more challenging at the international level. Due to fall in the price of petroleum products and economic recession that hit western countries specially the United States of America around November 2008, commodity prices like fuel, rice, wheat, edible oil, iron, and copper fell notably at the international level, with a minimal impact in Nepal. Even falling prices in India during this period could not bring significant impact like in the previous years, nor did the rate of inflation fall. Still, inflationary pressure is persistent due to negative effect of strikes, and closures badly affecting the internal supply system. Effects of gradual depreciation of Nepalese Rupees against the US Dollar is also seen to some extent on the inflation especially in a import dependent country like Nepal to keep its supply system running.



Overall Consumer Price Situation

3.2 In mid-March 2009, annual point-to-point CPI-based inflation rate remained at 13.1 percent, which was 7.2 percent for the same period of FY2007. The average inflation rate in mid-March 2009 stood at 13.8 percent in the first eight months of current FY 2008/09, which was 6.4 percent during the same period of the previous fiscal year. As per the Monetary Policy of FY 2008/09 announced by Nepal Rastra Bank it was expected that the average CPI-based inflation would remain under control at 7.5 percent. However, through the mid-term review of monetary policy, the revised estimated CPI-based inflation is estimated to go up to 11.0 percent in FY 2008/09. Even in a situation when rate of inflation remained low in most of the countries and wholesale price index in the neighboring country India remained below 4.0 percent, rate of inflation in Nepal did not fall. Prices of food and services and inflation are less likely to fall due to increased hour of load shedding, closures, strikes, political instability, and the country passing through the transition period.

Table 3 (a) : Annual Inflation Based on Consumer Price Index

Months	In percentage				
	2004/05	2005/06	2006/07	2007/08	2008/09*
July/Aug.	2.4	7.3	7.3	6.3	13.1
August/Sep	2.6	8.2	6.6	7.0	13.5
Sep/Oct.	2.6	7.8	7.5	6.3	14.1
Oct/Nov	2.7	8.5	7.1	6.3	14.5
Nov/Dec	3.1	8.8	7.3	5.7	14.1
Dec/Jan	4.6	7.0	7.6	5.8	14.4
Jan/Feb	5.7	5.8	8.0	6.4	13.7
Feb/Mar	5.7	7.7	6.2	7.2	13.1
Mar/Apr	5.8	7.9	5.6	8.9	
Apr/May	6.4	9.1	4.6	9.2	
May/Jun	6.2	9.1	4.5	11.0	
Jun/Jul	6.6	8.3	5.1	12.1	
Annual Average	4.5	8.0	6.4	7.7	13.8

*First Eight Months Average

Source: Nepal Rastra Bank

3.3 Annual urban CPI (base year 1994/95=100) increased by 10 percentage point in mid-march 2009. This index during the same period of FY2007/08 was 7.2 percent. Analyses of CPI on the basis of geographical regions reveals that, these indices increased by 13.4 percent, 12.4 percent and 13.3 percent in mid-March, 2009 in Kathmandu valley, Hills, and Terai

respectively in comparison to increases of 7.0 percent, 7.5 percent and 7.1 percent in respective regions in the same period of the previous fiscal year.

Table 3 (b) : Point to Point Urban Consumer Price Index

Base Year (1994/95=100)

(Percentage Change*)

Region	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Kathmandu	30.8	6.1	5.5	6.4	7.0	13.4
Hills	18.8	6.6	7.6	5.2	7.5	12.4
Terai	50.4	5.2	9.0	6.5	7.1	13.3
Nepal	100.0	5.7	7.7	6.2	7.2	13.1

*Mid-March-change index in Mid-March;**provisional

Source: Nepal Rastra Bank

3.4 Average CPI of urban areas in first eight months of FY 2007/08 had increased by 6.4 percent compared to 13.8 percent in the same period of current fiscal year. By regions, average inflation in Kathmandu was 14.8 percent, hills 13.3 percent and Terai 13.4 percent in the first eight months of current fiscal year while these figures remained at 5.9 percent, 6.2 percent and 6.7 percent respectively in the same period of the previous fiscal year.

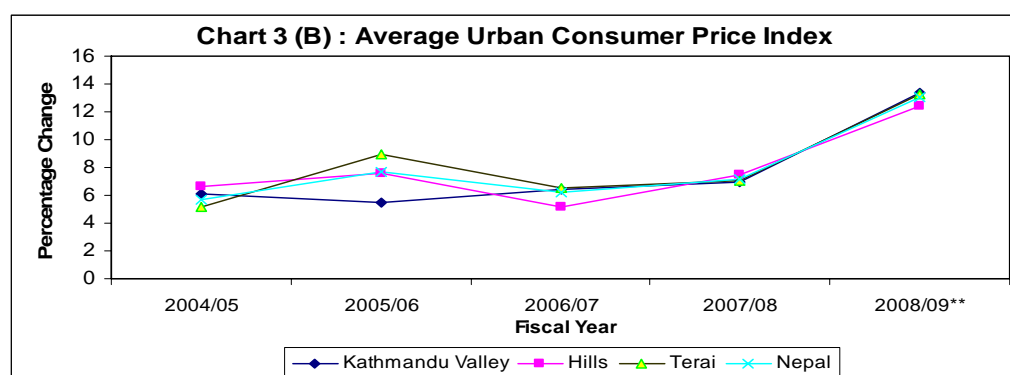


Table 3 (c) : Average Urban Consumer Price Index

Base Year (1994/95=100)

Percentage Change*

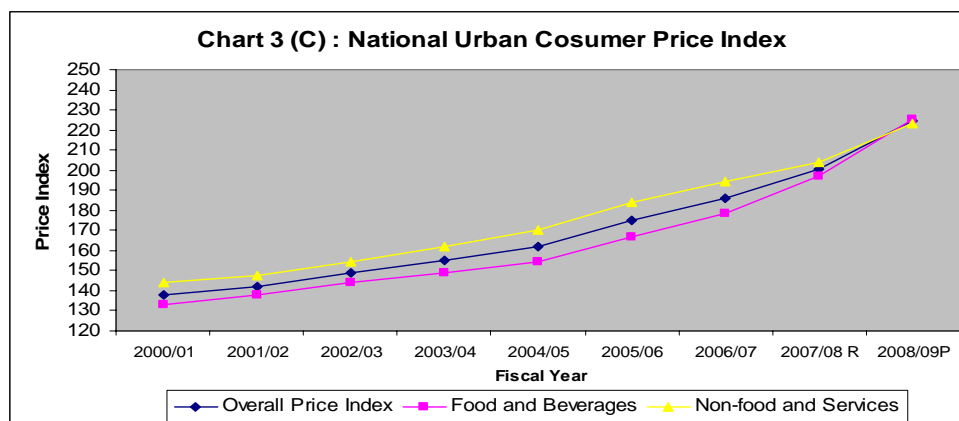
Region	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Kathmandu	30.8	4.8	6.1	6.7	5.9	14.8
Hills	18.8	3.1	8.4	7.0	6.2	13.3
Terai	50.4	3.2	8.3	7.6	6.7	13.4
Nepal	100.0	3.7	7.6	7.2	6.4	13.8

*Average price inflation of first eight months;**provisional

Source: Nepal Rastra Bank

Food and Beverages Group

- 3.5 The price level of food and beverages group with 53.2 percent weight in the overall CPI rose by 17.1 percent in mid-March 2009. The price rise in this group was 9.4 percent in the same period of the previous fiscal year. The higher increment in the price index of this group was due to the effect of substantial increase in prices of sugar and sugar products (53.0 percent), meat, fish and eggs (25.2 percent) pulses (24.6 percent), vegetables and fruits (21.8 percent) and restaurant meal (19.3 percent). The price in all subgroups under this group has increased.



Non-food and Services Group

- 3.6 Price of non-food and services group with 46.8 percent weight in the overall CPI increased by 8.8 percent in mid-March 2008. The index of this group had increased by 4.9 percent a year ago. This is attributed to increased prices of tobacco and tobacco products (16.3 percent) and transportation and communication (13.5 percent). In addition to this, prices of all sub-groups under this group have increased.

Table 3 (d) : Point to Point National Urban Consumer Price Index
Base Year (1994/95=100)

(Percentage Change*)

Consumable Goods	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Total (A+B)	100.0	5.7	7.7	6.2	7.2	13.1
A. Food and Beverage	53.2	4.7	6.2	9.2	9.4	17.1
Food grains and their products	18.0	5.8	13.2	7.8	14.9	13.0
Rice	(14.16)	5.5	14.8	3.4	19.4	15.4
Pulses	2.7	3.6	12.4	17.9	13.7	24.6
Vegetables and Fruits	7.9	4.0	1.5	18.4	-1.8	21.8

Consumable Goods	Weight (percent)	Fiscal Year				
		2004/05	2005/06	2006/07	2007/08	2008/09
Spices	1.9	-4.9	2.4	26.8	.07	10.9
Meat, Fish and Eggs	5.2	9.1	-1.2	12.0	5.3	25.2
Milk and Milk Products	4.0	0.0	5.1	6.9	7.6	17.0
Oil and Ghee	3.1	-7.5	-3.0	10.9	27.3	6.5
Sugar and Sugar Products	1.2	25.5	5.3	-12.2	-8.4	53.0
Beverages	2.3	3.2	10.4	3.1	2.2	14.2
Restaurant Meal	6.9	7.4	3.3	2.9	7.8	19.3
B. Non-Food Products and Services	46.8	6.8	9.1	3.2	4.9	8.8
Clothing and Readymade Garments	8.9	2.5	2.9	2.4	2.4	8.5
Clothing						
Cloths	(2.28)	2.7	2.2	1.2	0.5	8.1
Readymade Garment	(5.75)	2.1	3.0	2.5	2.6	7.1
Shoes	2.2	1.3	2.8	6.1	4.6	7.4
Household Goods	14.9	12.3	14.1	3.1	6.1	8.9
House Furnishing and Household Goods	(3.5)	4.8	3.7	5.9	4.2	12.6
House Rent	(4.2)	4.5	4.5	4.1	5.0	5.9
Sanitation	(1.3)	1.8	2.5	9.5	7.9	16.8
Fuel, Electricity and Water	(5.9)	20.4	22.8	1.4	6.9	7.7
Transportation and Communication	4.0	14.1	21.2	0.5	1.1	13.5
Medicine and Personal Care	8.0	1.1	3.0	2.4	5.8	4.8
Education, Education Materials and Entertainment	7.1	4.6	4.8	6.1	5.5	8.3
Tobacco and Tobacco Products	1.7	2.5	3.8	6.4	8.3	16.3

*Mid-March; Price Index of Mid-March;**provisional

Source: Nepal Rastra Bank

Region-wise Consumer Price Situation

- 3.7 Analysis of CPI on regional basis shows that price index of the Kathmandu Valley rose by 13.4 percent in mid-March 2009. This index had increased by 7.0 percent a year ago. The prices of food and beverages have increased by 19.2 percent and that of non-food and services by 7.7 percent. In the food and beverages group, there was a significant increase in the prices of sugar and sugar products, pulses, restaurant meals, rice and rice products and beverages. The price of sugar and sugar products has increased by highest rate (53.0 percent) while that of edible oil and ghee increased by the lowest rate (3.6 percent) in this group. Likewise, among the non-food and services group, the prices of tobacco and tobacco products (22.9 percent), transportation and communication (14.5 percent) and education, education materials and entertainment (8.9 percent) are at a relatively higher rate.
- 3.8 Region-wise, the price index of the Terai that stands with the highest weight in price index rose by 13.3 percent in mid-March 2009. This index had increased by 7.1 percent a year ago. The prices of food and beverages specifically of sugar and sugar products (51.4 percent), fish, meat and eggs (27.9 percent), pulses and vegetables and fruits (26.0 percent) have remained high. Likewise, the prices of transportation and communication (14.6 percent), tobacco and tobacco products (13.1 percent) and shoes (10.2 percent) that lie under non-food and services group have remained high as well.
- 3.9 Region-wise, the price index of the Hilly Region carrying the lowest weighted index of 18.8 percent rose by 12.4 percent in mid-March 2009. It had increased by 7.5 percent a year ago. The prices of food and beverages specifically in sugar and sugar products (56.6 percent), fish, meat and eggs (24.8 percent), pulses (26.0 percent), restaurant meal (20.2 percent) have remained high and the overall price index of this group rose by 15.9 percent. Likewise, the rise on the prices of cloths (22.1 percent), tobacco and tobacco products (14.9 percent) and readymade garments (13.3 percent) that come under non-food and services group has resulted in the rise of overall price index of this group by 8.5 percent.

Core Inflation

- 3.10 Core inflation, which is calculated using Exclusion Method (by excluding the prices of rice, vegetables and fruits, fuel, electricity and water, and transport from overall CPI), in mid-March 2009 stood at 12.5 percent. This was just 6.1 percent in mid-March 2008. The price of food and beverages group rose by 17.2 percent in mid-March 2009 compared to the rise of 7.4 percent a year ago. The prices of non-food and services group increased by

8.2 percent in mid-March 2009 compared to the 4.9 percent rise in the same period of the previous fiscal year.

Wholesale Price Index

- 3.11 National Wholesale Price Index (1994/95=100) on year-on-year basis increased by 12.3 percent in mid-March 2009. This growth was 6.6 a year ago. The national price indices of agricultural products, domestically produced industrial goods, and imported goods increased by 15.5 percent, 8.8 percent, and 10.0 percent respectively.
- 3.12 In the agricultural produces group, prices of fruits and vegetables, animal products and pulses have remained high. In the domestically produced industrial goods group, prices of plastic goods, leather shoes, jute products, and beverages and tobacco products have increased at higher rates, while in the imported goods group, prices of clothing, transport facilities, and machinery have remained comparatively high.

Table 3(e) : National Wholesale Price Index
(1999/00 = 100)

Group	Weight (percent)	Fiscal Year				
		Percentage Change*				
		2004/05	2005/06	2006/07	2007/08	2008/09*
Total	100	8.5	6.2	12.2	6.6	12.3
Agricultural Goods	49.6	7.6	4.7	19.9	4.9	15.3
Domestically produced Industrial Goods	20.4	4.3	3.5	8.7	9.0	8.8
Imported Goods	30.0	12.4	10.1	3.7	7.8	10.0

*Mid-March Y-o-Y, ** Provisional

Source: Nepal Rastra Bank

National Salary and Wage Rate Index

- 3.13 The year-on-year national salary and wage index (2004/05=100) increased by 20 percent in mid-March 2009 as compared to the rise of 9.0 percent a year ago. Under the National Salary and Wage Rate Index, the salary index increased by 20.8 percent and the wage index increased by 20.1 percent. In the previous year, the index of the former had increased by 10.9 percent while that of the latter by 8.4 percent. The increase in the salary index was mainly due to the significant rise in the salary of government officials including army, police, teachers etc. The increase in the wage index was

because of the government decision of raising the minimum wage rates of laborers working in the industrial sector.

Table 3 (f): National Salary and Wage Rate Index
(2004/05 = 100)

Group/Sub-Group	Weight (percent)	Percentage Change*			
		Fiscal Year			
		2005/06	2006/07	2007/08	2008/09*
Overall Index	100.0	4.3	10.1	9.0	20.3
1. Salary Index	27.0	0.4	6.2	10.9	20.8
1.1 Civil Service	2.8	0.0	10.0	23.5	28.1
1.2 Public Enterprises	1.1	4.4	6.7	8.8	21.9
1.3 Bank and Financial Institutions	0.6	10.0	3.0	50.5	18.2
1.4 Army and Police Force	4.0	0.0	11.4	9.3	30.9
1.5 Education	10.6	0.0	7.0	14.8	26.1
1.6 Private Organizations	7.9	0.0	1.3	-1.5	2.7
2. Wage Rate Index	73.0	5.7	11.4	8.4	20.1
2.1. Agriculture Laborers	39.5	7.3	10.9	6.0	26.9
2.2 Industrial Laborers	25.2	5.1	13.3	11.6	10.6
2.3 Construction Laborers	8.3	0.3	7.5	10.9	18.1

*Mid-March Y-o-Y, ** Provisional

Source: Nepal Rastra Bank

Supply Situation

- 3.14 Of the petroleum products, the supply of diesel increased by 40.1 percent to 278,022, Kilolitres (KL) and the supply of kerosene decreased by 43.4percent to 57,966 KL in the first eight months of FY2008/09. The supply of diesel and kerosene in the same period of the last year was 198,410 KL and 102,408 KL respectively. Similarly, the supply of petrol increased by 13.8 percent to 77,112 KL compared to that of the previous fiscal year. In the same period last year, the supply of petrol was 67,732 KL. The supply of LP gas increased by 16.9 percent to 73,618 MT in the current fiscal year from 62,964 MT in the last fiscal year. Similarly, the supply of furnace oil decreased by 69.8 percent to 700 KL in the review period from 2,320 kilolitres a year ago. In the review period, the supply of aviation fuel increased by 4.4 percent to 48,264 KL from 46,243 KL a year ago.
- 3.15 The arrangement of fixing wholesale price (including VAT) for Petroleum Products based on Nepal Oil Corporation Depot sites or custom points still exists. Arrangements are made for the wholesale distribution of the petroleum products from Biratnagar, Birgunj, Amlekhgunj, Kathmandu, Pokhara, Bhairahawa, Nepalgunj, Surkhet, Dhangadi, Dipayal, Mahendranagar, and Janakpur. Under this system, the wholesale and retail

prices may differ from place to place. For example, the wholesale price of petrol to sold through the Birgunj Depot per KL is Rs. 72,862.95, while the price per KL in Dipayal is Rs 74,348.35. Average retail prices of diesel, kerosene, and LP gas in Kathmandu are Rs. 77.50 per liter, Rs. 55.00, Rs. per liter and Rs. 1,125 per cylinder respectively.

- 3.16 The Government has continued its policy of providing transport subsidy in the review period of this fiscal year as well under its policy of ensuring smooth supply of food grains in 30 remote hilly districts. As such, Nepal Food Corporation has been transporting food grains to those districts. The Corporation supplied 11,869 MT of food in FY 2007/08, a total of against the target of 11,896 MT set for the year. The Corporation supplied 11,320 MT of food grains by the end of first eight months of FY2008/09 against the target of 11,900 MT. The quantity of food grains supplied during the same period of the previous a year ago was 6,987 MT against the target of 4,700 MT. The annual target for the current fiscal year is set to 17,000 MT.

Retail Prices of Some Major Goods

- 3.17 Review of the retail prices of 10 daily consumable agricultural produces in this group revealed mixed result. During the first eight months of FY2008/09, the prices of eight commodities have increased while that of two commodities decreased. For example, the price of ginger rose by 47.6 percent, followed by mustard oil (26.2 percent) refined ghee (23.5 percent), coarse rice (19.0 percent) and mutton (17.7 percent). Likewise, there has been a nominal increase in the prices of pigeon peas, mustard oil and black-grams. Despite the rise in prices of most of the commodities, the prices of potato and dry onion fell by 9.9 percent and 4.5 percent respectively compared to that of the previous fiscal year.
- 3.18 By geographical regions, the prices of all 10 agricultural commodities have increased in Hilly Region in the first eight months of current fiscal year while the prices in Terai have increased only in eight of those commodities. Commodities with higher price rises in Hilly Regions by Mid-March of 2009 of the current fiscal year are ginger, mutton, refined ghee, while those in Terai are dry onion, ginger, potato, refined ghee and mutton. There has been fall in the prices of black-grams and mustard oil by 2.6 percent and 0.7 percent respectively in Terai region. The agricultural commodities with the overall price rise are ginger (54.5 percent), mutton (33.1 percent), mustard oil (31.8 percent) refined ghee (28.1 percent), pigeon peas (12.0 percent), dry onion (11.3 percent), coarse rice (10.2 percent), wheat flour (2.3 percent). Commodities that have recorded the fall in prices during the same period are potato (14.5 percent), and black gram pulse (1.0 percent).