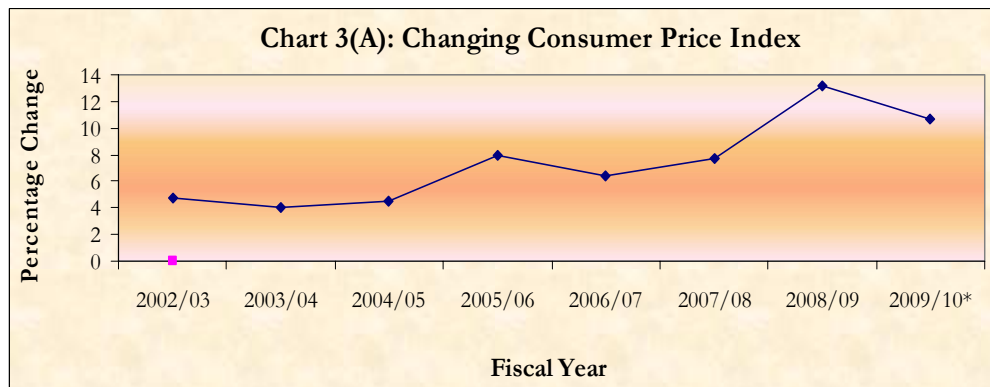


3. Price and Supply Situation

Structure of Inflation

3.1 Price situation in Nepal tends to be affected more by various structural and external factors than due to monetary expansion. Decreasing trend in the agriculture and industrial production, and closures and strikes have negatively affected overall supply system leading to price increase. Price hike of petroleum products in the international market and Indian inflation are the other factors affecting the price. Changes in the monetary aggregates affect aggregate demand, ultimately having impact on the price situation. Nepal faced a double-digit inflation of 13.2 percent in the fiscal year 2008/09 due to excessive price rise of foods and petroleum products. Efforts were made to maintain smooth supply system, contain the money supply at the desired level, and adopt anti-inflationary measures in the context of inflationary situation getting more challenging at the international level. But, these measures had negligible impact. During this period, impact of price situation in India and especially the rising price of food items caused rise in the rate of inflation in Nepal. Strikes and closures have badly affected the internal supply system thereby making inflationary pressure to persist.



Overall Consumer Price Situation

3.2 In mid-March 2010, CPI-based point-to-point annual inflation rate (base year 1996/97=100) or the overall consumer price index rise in the urban area remained at 11.2 percent. The inflation ratio for the same period of the previous year was 13.1 percent. Average CPI inflation rate in mid March 2010 of the current fiscal year stood at 10.7 percent, which was 13.8 percent in the

same period of the previous fiscal year 2008/09. Though there is a slight decline in the inflation rate in comparison to the previous year, double-digit inflation in the country still persists. As per the Monetary Policy for the fiscal year 2009/10, Nepal Rastra Bank, announced the average CPI-based inflation target rate of 7.0 percent. Time to time adjustments along the price rise in petroleum products could not leave any positive impact on the CPI-based inflation due to rising prices of sugar and related products, pulses and food items, closures and strikes, and persistent load shedding. As such, rate of inflation is estimated to remain double-digit during the current fiscal year.

Table 3 (a): CPI-based Annual point-to-point Inflation Rate

<i>Months</i>	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10*</i>
<i>Jul-Aug</i>	7.3	7.3	6.3	13.1	10.4
<i>Aug-Sep</i>	8.2	6.6	7.0	13.5	9.7
<i>Sep-Oct</i>	7.8	7.5	6.3	14.1	9.3
<i>Oct-Nov</i>	8.5	7.1	6.3	14.5	9.9
<i>Nov-Dec</i>	8.8	7.3	5.7	14.1	11.3
<i>Dec-Jan</i>	7.0	7.6	5.8	14.4	11.8
<i>Jan-Feb</i>	5.8	8.0	6.4	13.7	12.0
<i>Feb-Mar</i>	7.7	6.2	7.2	13.1	11.2
<i>Mat-Apr</i>	7.9	5.6	8.9	11.9	
<i>Apr-May</i>	9.1	4.6	9.2	12.9	
<i>May-Jun</i>	9.1	4.5	11.0	12.3	
<i>June-Jul</i>	8.3	5.1	12.1	11.4	
<i>Annual Average</i>	8.0	6.4	7.7	13.2	10.7

* First eight months average

Source: Nepal Rastra Bank

- 3.3 Analyses of CPI based on geographical regions reveal that these indices rose by 10.2 percent, 12.5 percent and 11.3 percent in mid-March, 2010 in Kathmandu valley, Hills, and Terai respectively in comparison to increases of 13.4 percent, 12.4 percent and 13.4 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	Weightage Percent	Fiscal year				
		2005/06	2006/07	2007/08	2008/09	2009/10**
Kathmandu Valley	30.8	5.5	6.4	7.0	13.4	10.2
Hills	18.8	7.6	5.2	7.5	12.4	12.5
Terai	50.4	9.0	6.5	7.1	13.3	11.3
Nepal	100.0	7.7	6.2	7.2	13.1	11.2

* Mid-March - mid-March point-to-point change ** provisional
Source : Nepal Rastra Bank

3.4 By regions, average inflation was 9.9 percent in Kathmandu, 10.9 percent in Hills and 11.1 percent in Terai in the first eight months of current fiscal year, while these figures were 14.8 percent, 13.3 percent and 13.5 percent respectively in the corresponding period of the previous fiscal year. Inflationary pressure was highest in Kathmandu in the previous year, while it has been so in the Hills this year. Regional gap of inflation rate has widened this year in comparison to the previous fiscal year.

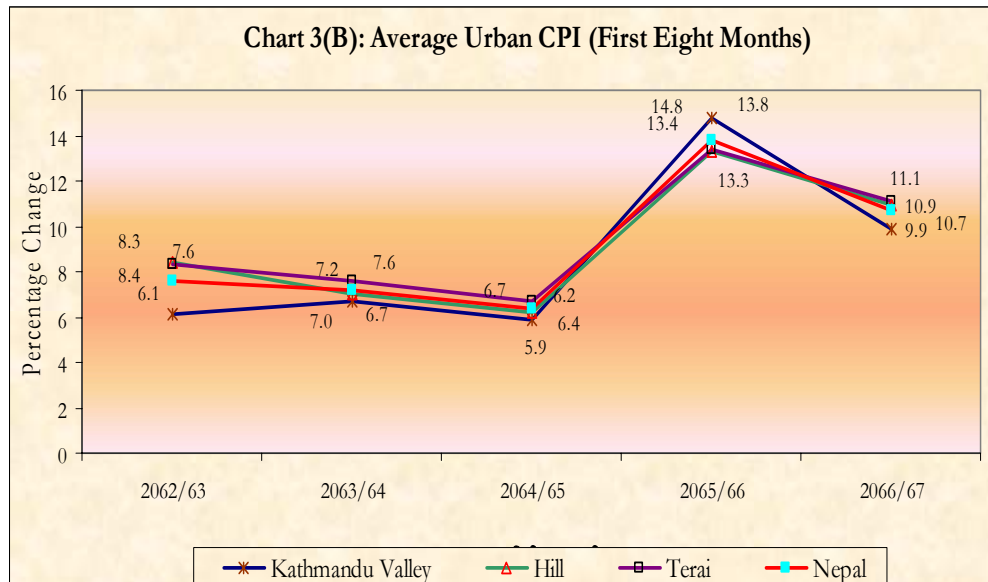


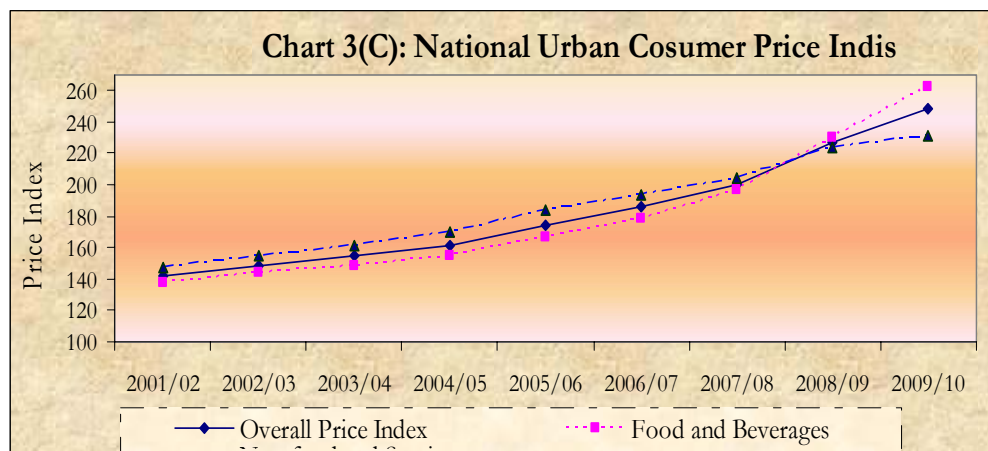
Table 3 (c): Average Urban Consumer Price Index
(Base year 1994/95 = 100)

Regions	Weightage percent	Fiscal Year				
		2005/06	2006/07	2007/08	2008/09	2009/10**
Kathmandu Valley	30.8	6.1	6.7	5.9	14.8	9.9
Hills	18.8	8.4	7.0	6.2	13.3	10.9
Terai	50.4	8.3	7.6	6.7	13.4	11.1
Nepal	100.00	7.6	7.2	6.4	13.8	10.7

*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 carrying 53.2 percent weightage in the overall CPI rose by 15.7 percent in mid-March 2010 compared to 17.1 percent rise in the corresponding period of the previous fiscal year. Such higher increment in the price index of this group was due to the effect of substantial increase in prices of sugar and related products (61.0 percent), spices (33.7 percent), lentils - pulses (29.6 percent), meat, fish and eggs (23.8 percent), and restaurant meal (17.3 percent), and. Prices of all sub-groups under this group has increased except for ghee (clarified butter) and edible oil.



Non-food and Services Group

3.6 Prices of non-food and services group carrying 46.8 percent weightage in the overall CPI increased by 5.9 percent in mid-March 2010 in comparison to the

increase of 8.8 percent in the corresponding period of the previous fiscal year. Such increase is attributed to increased prices of tobacco and tobacco products (11.1 percent), and education, reading materials and recreations (11.1). In addition, except for the prices of transportation and communication of this group all the 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*)

Consumer goods	Weight (percent)	Fiscal year				
		2005/06	2006/07	2007/08	2008/09*	2009/10**
<i>Total A + B</i>	100.0	7.7	6.2	7.2	13.1	11.2
<i>A. Food and Beverage</i>	53.2	6.2	9.2	9.4	17.1	15.7
<i>Food grains and cereal</i>	18.0	13.2	7.8	14.9	13.0	12.3
<i>Lentils (Pulses)</i>	2.7	12.4	17.9	13.7	24.6	29.6
<i>Vegetables and Fruits</i>	7.9	1.5	18.4	-1.8	21.9	6.9
<i>Spices</i>	1.9	2.4	26.8	-0.7	10.9	33.7
<i>Meat, Fish and Eggs</i>	5.2	-1.2	12.0	5.3	25.2	23.8
<i>Milk and Milk Products</i>	4.0	5.1	6.9	7.6	17.0	13.0
<i>Oil and Ghee</i>	3.1	-3.0	10.9	27.3	6.5	-3.2
<i>Sugar and related Products</i>	1.2	5.3	-12.2	-8.4	53.0	61.0
<i>Beverages</i>	2.3	10.4	3.1	2.2	14.2	14.4
<i>Restaurant Meal</i>	6.9	3.3	2.9	7.8	19.3	17.3
<i>B. Non-Food and service</i>	46.8	9.1	3.2	4.9	8.8	5.9
<i>Cloth, clothing and sewing service</i>	8.9	2.9	2.4	2.4	8.5	6.3
<i>Footwear</i>	2.2	2.8	6.1	4.6	7.4	6.4
<i>Household goods and service</i>	14.9	14.1	3.1	6.1	8.9	6.6
<i>Transport & Communication</i>	4.0	21.2	0.5	1.1	13.5	-0.9
<i>Medical and personal care</i>	8.0	3.0	2.4	5.8	4.8	2.1
<i>Education, reading materials & recreation</i>	7.1	4.8	6.1	5.5	8.3	11.1
<i>Tobacco & tobacco products</i>	1.7	3.8	6.4	8.3	16.3	11.1

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

Source: Nepal Rastra Bank

Region-wise Consumer Price Situation

- 3.7 Analysis of Price index on regional basis shows that price in the Kathmandu Valley, which represents 30.8 percent on Regional weight of CPI, increased by 10.2 percent by mid-March 2010. Price Index had risen by 13.4 in the same period of the previous year. Price index for the food and beverage group rose by 15.2 percent whereas the index for the non-food item and service group increased by 4.8 percent only. Among the food and beverages group, there was a significant increase in the prices of sugar and related products, pulses, meat, fish, egg, spices and restaurant meals. The price of sugar and related products has increased by the highest rate (58.8 percent) in this group. Likewise, among the non-food and services group, that recorded rise in prices during this period are education, reading materials, and recreational items (13.3 percent) tobacco and related products (8.4percent), fuel, electricity and water (6.1 percent).
- 3.8 By region-wise, the price index of the Terai that stands with the highest weighted index (50.4) increased by 11.3 percent in mid-March 2010 as compared to increase of 13.3 percent a year ago. The average price index of this group of commodities increased by 15.6 percent during the period mainly due to higher rate of price increases especially in sugar and related products (63.4 percent), spices (35.9 percent) pulses (26.3 percent) fish, meat and eggs (18.7 percent), beverages (15.6). Likewise, price index of non-food and services group of commodities increased by 5.9 percent due to relatively higher rate of increases in prices of education and reading materials, recreational items (9.9 percent), footwear (8.5 percent) fuel, electricity and water (8.3 percent) cloth, clothing and sewing services (7.8 percent) and household goods (7.1 percent).
- 3.9 Region-wise, the price index of the Hilly Region carrying the lowest weighted index of 18.8 percent increased by 12.5 percent in mid-March 2010. It had increased by 12.4 percent in mid-March 2009. Average prices index of food and beverages group increased by higher proportion (16.6 percent) due mainly to higher rate of price rise in the food and beverages group of commodities specifically sugar and related products (58.6 percent), spices (37.8 percent), pulses (26.1 percent) fish, meat and eggs (23.6 percent), beverages (19.3 percent) and restaurant meal (18.6 percent). Likewise, the average price index of non-food and services group also increased, but at relatively lower rate of 7.5 percent due to price rise of tobacco and related

products (15.9 percent) education, reading materials and recreational items (11.4 percent), footwear (8.1 percent) and cloth, clothing and sewing service (7.5 percent).

Core Inflation

3.10 Calculation of core inflation by using exclusion method (excluding rice, fruits and vegetables, fuel, electricity, water and transport from overall CPI) stood at 12.8 percent in the mid- March 2010 from 12.5 percent in the same period of the previous year. Point to point analysis of price index of food and beverage group shows an increase of 19.0 percent in mid-March 2010 from 17.2 percent in the same period of the previous year 2008/09. Price index of non-food and services group of items, however, increased by 6.5 percent in the mid-March 2010 that had recorded an increase of 8.2 percent in the same period of the previous year.

Wholesale price index

3.11 National Wholesale Price Index (1999/2000=100) on year-on-year basis increased by 12.2 percent in mid-March 2010 that had increased by 12.3 percent a year ago. The Index of agricultural products among the National Price Indices rose by 19.2 percent, domestically produced industrial goods by 12.1 percent, and imported goods group by 1.2 percent.

3.12 The ratio of price rise in spices, livestock products, and pulse and grain products among the agricultural group was the highest. Among prices of domestically produced industrial goods, food and beverages, tobacco products and construction materials recorded the highest price rise whereas prices of imported goods like medicine and petroleum products and coal have been only comparatively higher.

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

Group	Weight Percent	Percentage Change				
		Fiscal Year				
		2005/06	2006/07	2007/08	2008/09	2009/10*
Total	100.0	6.2	12.2	6.6	12.3	12.2
Agricultural goods	49.6	4.7	19.9	4.9	15.3	19.2
Domestically produced Industrial goods	20.4	3.5	8.7	9.0	8.8	12.1
Imported goods	30.0	10.1	3.7	7.8	10.0	1.2

* Price Index Oint-to-point price changes: Mid-March; Mid-March;**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 13.7 percent in mid-March 2010 as compared to the rise of 19.3 percent a year ago. Under the National Salary and Wage Rate Index, the salary index increased by 13.8 percent and the wage rate index increased by 13.6 percent. In the previous year, the index of the former had increased by 16.8 percent while that of the latter by 20.1 percent. The increase in the salary and wage rate index was mainly due to the significant rise in the salary of government officials including army, police, teachers etc. and the government decision of raising the minimum wage rates of labourers working in the industrial sector.

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

<i>Group/sub-group</i>	<i>Weight (percent)</i>	<i>Percentage Change*</i>			
		<i>Fiscal year</i>			
		2006/07	2007/08	2008/09	2009/10**
<i>Overall Index</i>	100.0	10.1	9.0	19.3	13.7
<i>1. Salary Index</i>	27.0	6.2	10.9	16.8	13.8
<i>1.1 Civil Service</i>	2.8	10.0	23.5	28.1	14.6
<i>1.2 Public Enterprises</i>	1.1	6.7	8.8	21.9	11.1
<i>1.3 Bank and Financial Institutions</i>	0.6	3.0	50.5	18.2	1.3
<i>1.4 Army and Police Force</i>	4.0	11.4	9.3	30.9	13.0
<i>1.5 Education</i>	10.6	7.0	14.8	16.1	22.4
<i>1.6 Private Organizations</i>	7.9	1.3	-1.5	2.7	0.0
<i>2. Wage Rate Index</i>	73.0	11.4	8.4	20.1	13.6
<i>2.1 Agriculture Labours</i>	39.5	10.9	6.0	26.9	17.0
<i>2.2 Industrial Labours</i>	25.2	13.3	11.6	10.6	8.8
<i>2.3 Construction Labours</i>	8.3	7.5	10.9	18.1	10.6

* Mid-March to Mid-March Point-to-Point Change ** Provisional

Source: Nepal Rastra Bank

Supply Situation

3.14 Among the petroleum products, supply of diesel rose by 35.5 percent to 104,489 Kilolitres (KL) and that of diesel by 33.6 percent to 371,435 KL in the first eight months of the fiscal year 2009/10. Supply of these commodities for

the same period in the previous year was petrol 77,112 KL and diesel 278,022 KL. Likewise, supply of furnace oil for the first eight months of the current fiscal year 2010 more than doubled (1.18 times) to 1,532 Kilolitre (KL) from 700 (KL) supplied in the corresponding period of the previous year. Supply of LP gas also increased from 73,618 MT in the first eight months of the previous year to 86,403 Metric Ton (MT) in the corresponding period of this fiscal year 2009/10, an increase of 17.4 percent. Supply of aviation fuel also followed that trend with an increase of 13.7 percent from 48,264 KL in the previous year to 54,870 this year. Supply of Kerosene and light diesel oil, however, decreased by 32.5 and 38.5 percent as compared to the previous year totalling 39,101 and 160 Kiloliter KL from the previous year's 57,966 KL and 260 KL respectively.

- 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 petroleum products from Biratnagar, Birgunj, Amlekhgunj, Kathmandu, Pokhara, Bhairahawa, Nepalgunj, Surkhet, Dhangadi, Dipayal, Mahendranagar, and Janakpur. Under this system, wholesale and retail prices may differ from place to place. For example, wholesale price of petrol sold through the Birgunj and Biratnagar Depots is Rs. 75,337.65 per KL, while the price per KL in Dipayal and Surkhet is Rs. 76,823.05. Average retail prices of diesel, kerosene, and LP gas in Kathmandu are Rs. 80.00 per litre, Rs. 61.00, Rs. per liter and Rs. 1250 per cylinder respectively. Price for the aviation fuel is Rs 75 per liter.
- 3.16 Transportation of food grains to 30 remote hilly districts is continued in the review period of this fiscal year 2009/10 through Nepal Food Corporation under the policy of providing transport subsidy for ensuring smooth supply of food grains in those districts. During the fiscal year 2008/09, 19,250 MT of food grains were transported against the target of 18,500 MT. Likewise, 12,047 MT of food grains was transported and supplied against the target set for transporting 12,960 MT in the first eight months of the current fiscal year 2009/10. In the first eight months of the previous fiscal year 11,320 MT of food grains was transported and supplied to those districts against the target of 12,950 Metric MT.

- 3.17 During the first eight months of the current fiscal year 2009/10, 25,873 quintals of iodised salt was transported and supplied to 22 remote to remotest districts of the country against the target to supply 35,360 quintals.

Retail Prices of Some Major Commodities

- 3.18 Review of the average retail prices of ten agricultural commodities amongst the daily consumable goods revealed that price of almost every such commodity has increased. Prices of nine commodities out of ten reviewed were found to have increased except one during the first eight months of the current fiscal year 2009/10 in comparison to the prices during the same period of the previous year. Amongst them, the highest price rise of 55.4 percent and 50.5 percent occurred in potato and lentil (pigeon peas). In the same manner, ginger (39.0 percent), black gram - lentil - (33.2 percent), onion (26.0 percent), Ghee (22.5 percent) and mutton (21.1 percent) are other items registering higher price rise. Compared to the commodities mentioned above, prices of coarse rice and wheat flour have recorded a moderate rise. The only commodity that registered a decrease in price in this period is the mustard oil (7.0 percent).
- 3.19 Calculation of average retail prices of commodities between two periods of the first eight months of the current fiscal year and the previous fiscal year, that registered the highest price rise are pigeon peas (56.8 percent), black gram (53.7 percent), ginger (38.6 percent), mutton (21.2 percent), dried onion (11.3 percent), clarified butter (ghee) (17.7 percent), wheat flour (11.7 percent), and coarse rice (11.1 percent). Two commodities that registered decline in prices are potato (5.5 percent) and mustard oil (0.5 percent).
- 3.20 Region wise comparison of prices during the first eight months of the current fiscal year, show prices of nine commodities in Terai registered increases whereas such commodities numbered eight only. Of the commodities that registered very high rise in prices in Terai in this period are lentils (pigeon peas and black gram), ginger and mutton. Commodities in the Hills that followed the pattern of price rise in Terai are again lentils, ginger and dry onion. During this period, price of potato has declined by 22.7 percent in Terai whereas prices of mustard oil and potato registered declines of 4.4 and 2.2 percent in the Hills.