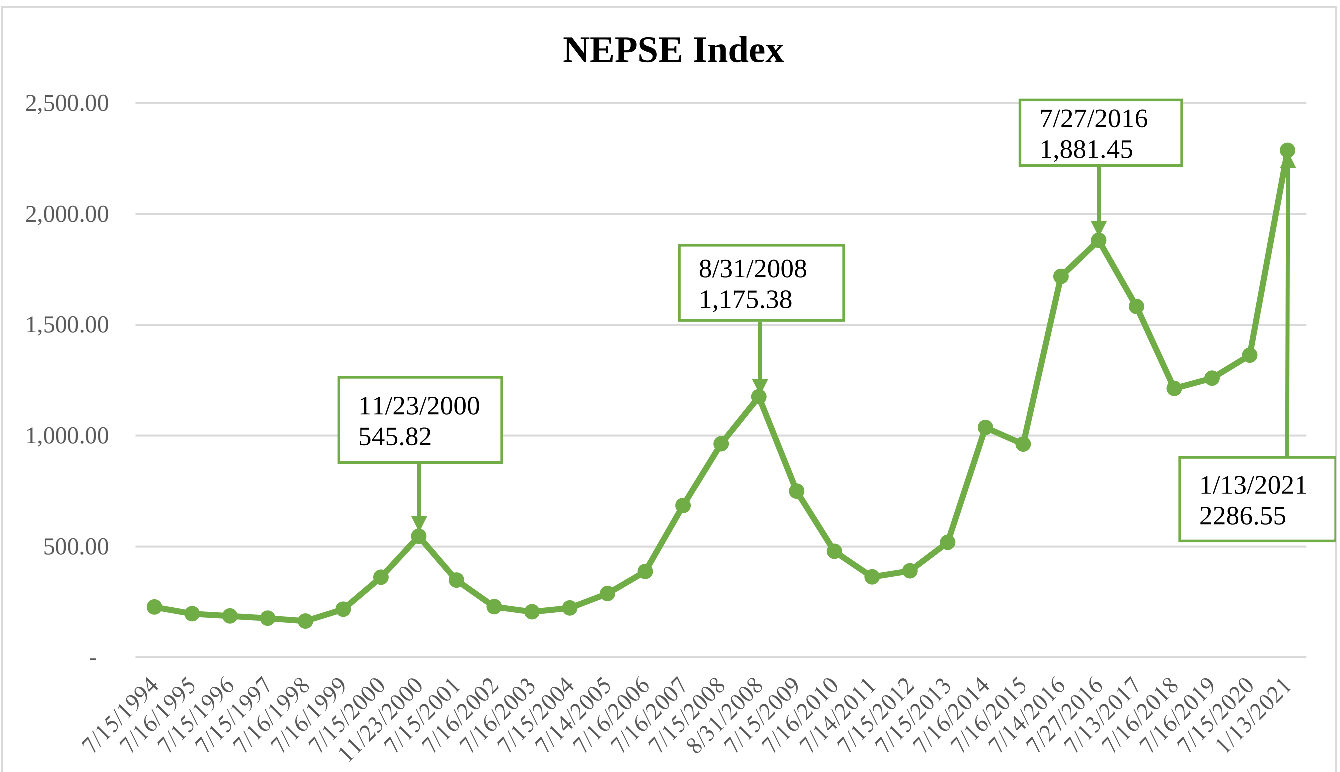
Bull Markets in Nepal

The unfortunate event of COVID-19 and subsequent events graced the stock market with a magnificent Bull Run of FY 2020/21 as the market continues to break records one after another. The current Bull Run has been an interesting journey as it witnessed some of the most iconic events in history like COVID-19, launching of the online trading platform, dissolution of parliament, the entrance of the first stock dealer, NRB capping the interest rate spread between fixed deposits and saving deposits and SEBON slashing the broker's commission. From the lowest point of 1188.71 points, NEPSE has climbed up continuously, shattering the previous high of 1881.45 points to reach 2296.73 points on Jan 13, 2021. Similarly, on the same day, the market capitalization reached a record high of Rs.3.08 trillion. The highest turnover was observed on Dec 20, 2020, where it reached Rs. 9.02 billion when the news of parliament dissolution broke out which induced panic selling among the investors. Nevertheless, the market started gaining traction from the following week only, climbing higher and higher with the support of excess liquidity and low-interest rates.

Before diving into the current Bull Run, let's revisit the previous bull runs and the factors inducing the same.



Bull Market of 1999

Following the end of the *"Jana Andolan"* in 1990 which brought an end to the party less panchayat government, an economic liberalization began in Nepal. The dividends from that economic growth facilitated the development and modernization of rural Nepal. Following the same path of modernization, Securities Board of Nepal (SEBON) and Nepal Stock Exchange (NEPSE) were established in January 1994 with an aim to create opportunities for the common Nepalese to invest in companies and be able to relish the share of the profits.

From 1994 to 1999, our country witnessed robust GDP growth, growing on average by 6% every year. This economic boom increased the consumption and spending in the economy as well as encouraged savings. With the growing number of people uplifting their lifestyle, the stock market was seen as a primary resource in ensuring prosperity of not just the few industrialists but the rising middle class as well. Many companies started issuing shares to the general public in order to raise further capital. The result was the NEPSE index peaking at 545.82 points on 23rd November, 2000. It had witnessed a threefold growth in two and a half years on the way to its peak and hence the first bull market was recorded in our country.

Bull Market of 2008

The stock market had remained stagnant for much of the decade due to a series of political events like Royal family massacre, increasing influence of people's war initiated by CPN (Maoists), king taking full control of the parliament etc. which had handicapped the development activities. However, mid-way through the decade we witnessed yet another people's movement also popularly referred to as *"Jana Andolan II"* led by the seven parties and CPN (Maoists), pledging to end the monarchy.

Following the protest, Nepal's 10 years long internal conflict had ended on 2006 and the introduction of a structural three-year budget plan built positivity among the investors. Shortly after the culmination of the *"Jana Andolan II"* and signing of the peace treaty with CPN (Maoists), the first constituent assembly was established under Maoist government and Nepal was declared a Federal republic. All these developments made people believe in the forthcoming economic prosperity and the stock market started gaining momentum. Thus, we witnessed yet another bull run and the market quickly reached 1,175.38 points on 31st August, 2008.

Bull Market of 2016

What most of us recall is the bull market of 2016. Following the draft of the new constitution in 2015, India imposed an economic blockade. With the imports almost completely halted, the outflow of cash stopped and liquidity started piling up in the economy. The blockade had depressed the loan demands and as a result the interest rates on loans started to fall.

The fall in lending rates triggered a fall in fixed deposit rates hence, making fixed deposits unattractive for investment. With the lack of other investment avenues, the liquidity started flowing into the stock market. The banks also started increasing their credit flow towards the stock market in order to utilize the funds available and low interest rates encouraged investors to increase their leveraged position. At the same time, NRB announced new monetary policy making it mandatory for commercial banks, development banks and finance companies to increase their paid-up capital. This instigated a massive influx of investors entering the stock market with the hopes of getting attractive bonus and right shares. As a result, NEPSE index reached historic high closing at 1,881.45 on 27th July, 2016.

Bull Market of 2020/21

On March 12, 2020, WHO declared COVID-19 as a pandemic, and with that announcement the stock markets around the world started to crash one after another. The spillover effect of the announcement was also seen on NEPSE as it started to decline from March 12, 2020, to reach the low of 1188.71 points on June 29, 2020. As the COVID-19 started being more prominent, the country shut down its borders, restricted all the international flights, and imposed nationwide lockdown to battle with the unseen enemy. With the industries all shut, borders sealed and people under social distancing rule, the liquidity started to amass in the economy. At the same time, NEPSE launched its online trading platform to fully automate the trading and the timing could not be more perfect.

Owing to the situation, the banks lowered their interest rates to the minimum to maintain their profitability. To make the situation worse, NRB issued a circular where it capped the spread between saving deposits and fixed deposits at 5%, hoping that it will increase the FD rates. However, it backfired as instead of increasing FD rates, the banks decreased their saving deposits rate to as low as 1.5%. A decreased savings rate also means a decreased base rate, based on which the banks determine their lending rate. According to the latest macroeconomic report published by NRB, the base rate of the commercial banks is 7.36% while their weighted average lending rate is 9.37%. This means that the investors can now get loans at a cheaper rate. Not only this, as there is a low demand for loans from other sectors, banks are also eyeing margin lending to expand their loan portfolio.

Additionally, COVID-19 spurred a digital movement in the country, as more and more companies started their online operation to stay afloat and even expand. Taking the advantage of the same, BFIs strengthened their digital operation by providing a wide range of services through digital platforms. NEPSE also jumped into the trend and introduced NEPSE Online Trading System, which enabled investors to trade with a click. According to data published by SEBON, currently, around 90% of transactions conducted are through the online platform, which reflects the investors' behavioral shift due to added convenience.

Now, in this scenario, let's revisit the investment avenue available for the investors in Nepal. The current situation allows us to invest in real estate, precious metals, bank deposits, bonds, mutual funds, or the stock market. With gold prices reaching their all-time high, it is not an affordable alternative to all of the investors, the same argument applies to real estate too. Similarly, the interest rates in savings and fixed deposits are at one of the lowest. Bonds and mutual funds face the liquidity issue and are still in the nascent phase. That leaves us with only one alternative, i.e. the stock market, which is just a click away. The convenience provided by the digitization, added with the excess liquidity and low-interest rates with a limited avenue to invest, fueled the current Bull Run.

Looking back into history, we can conclude that usually bull runs are fueled by some kind of major events like major paradigm shift in the political scenario, earthquake and economic blockade, and now COVID-19**.** Each bull run has its peculiar characteristic, but, the bull of 2016 and 2020/21 have one common characteristic, i.e. excess liquidity, and low-interest rate. From this reference, we can sketch the probability of an upcoming fall once the liquidity starts to get pulled away from the economy. Once the economy returns to its normal level with a free flow of goods and services through the borders, and other sectors demanding loans from the banks, the reaction of the stock market will be interesting to watch.