



# NEPAL CHRONICLES

Fourth Quarter 2079-80

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Renowned economist Dr. Swarnim Wagle quit the Nepali Congress (NC) due to constant humiliation by the party's chief Sher Bahadur Deuba and his wife Arzu Rana Deuba. Wagle embarked on a new path and gracefully embraced membership in the Rastriya Swatantra Party.

President Ramchandra Paudel certified the Citizenship Bill which had been blocked by the then President Bidya Devi Bhandari. The citizenship bill passed by the previous federal parliament was certified by President Paudel.

In a four-day visit to India, Prime Minister Pushpa Kamal Dahal and his Indian counterpart Narendra Modi signed seven points agreement.

Kathmandu District Court ordered to send 16 people, including former ministers, to jail pending trial in the case of fake Bhutanese refugees.

Former banker Anil Keshari Shah joined the Rastriya Swatantra Party. Party chairman Rabi Lamichhane

welcomed Shah to join the party on the occasion of the first anniversary.

The Election Commission (EC) has decided to make a legal provision that binds the parties to field at least 33 percent of women candidates for direct elections.

The government has instructed the Nepali Embassy in New Delhi to inquire about the Akhand Bharat (Undivided India) map and submit a report.

On the occasion of Pokhara International Airport inauguration by Prime Minister Pushpa Kamal Dahal, the Chinese Embassy wrote on its Twitter account, "This [Pokhara airport] is the flagship project of the China-Nepal BRI cooperation.

The Maoist Center, Janata Samajbadi Party (JSP), CPN (Unified Socialist) and Nepal Communist Party (NCP) led by Netra Bikram Chand have formed the Socialist Front Nepal to combine their strength.

The Central Investigation Bureau (CIB) of Nepal Police arrested several high-profile people in connection with Lalita Niwas land scam.

An agreement was signed between the government of Nepal and the World Bank for a concessional loan worth NPR.15.84 billion (US\$120 million) and a grant worth NPR.2.60 billion (US\$19.7 million).

Nepal is facing 1,000 MW of electricity wastage daily due to not having a proper transmission line and distribution mechanism.

Regulation and supervision of banks and financial institutions will now be done through the 'SIS' system. Through this system, banks and financial institutions will regularly submit their data and information to the Nepal Rastra Bank and the data will be processed automatically.

The government has presented an annual budget of NPR 1.751 Tr. for the fiscal year 2023/24. Of the total budget, NPR 1.141 Tr. (65.20 percent) is recurrent expenditure and NPR 302 Bn (17.25%) has been allocated for capital expenditure. Similarly, NPR 307 Bn has been allocated for financial management.

India has opened the door for Nepal to sell an extra 300MW of electricity in the Indian market using the transmission lines in the neighboring Bihar state.

Chinese digital payment service WeChat Pay and NMB Bank Nepal have partnered to make cross-border mobile payments possible between the two countries.

The government has decided to accept a concessional loan worth US \$50 million from the Asian Development Bank (ADB) as budgetary assistance under the Customs and Logistics Reform Program.

More than 740,000 individuals received government permits for foreign employment with less than 15 days left for the fiscal year 2022/23 to complete. The (DoFE) Department of Foreign Employment records show that 2,044 individuals left the country daily looking for jobs abroad.

The Asian Development Bank has scaled down its gross domestic product (GDP) growth forecast for Nepal's economy for the current fiscal year to 4.1% from its earlier projection of 4.7%.

The United Nations Emirates (UAE) has agreed to provide a minimum salary of 400 dollars (1469 dirhams) for domestic workers (housemaids) from Nepal.

In a press conference held after the meeting between the Prime Ministers of Nepal and India, Indian Prime Minister Narendra Modi announced the intention to buy 10,000 megawatts of electricity annually.

NBA decides not to intervene in individual banks' decision to fix their interest rates.



The 7 new brokers who had obtained trading licenses from Nepal Stock Exchange (NEPSE) started their operations on 13th July, 2023.

The Securities Board of Nepal (SEBON) has decided to **resume the issuance of initial public offerings (IPOs) of Ghorahi Cement**, which had fallen into controversy due to unfair practices in the subscription process of the primary shares.

The Nepal Stock Exchange (NEPSE) has been granted permission to conduct **internal testing for its latest index called the 'NEPSE 30 Index.'** The 'NEPSE 30 Index' was a novel addition to the existing suite of indices that included the NEPSE Index, Sensitive Index, Float Index, and Sensitive Float Index, which were presently in use.

CDS and Clearing Limited has informed that action would be taken against those investors who **apply for shares worth more than the amount available in their bank account** in the IPO.

Addressing the 31st-anniversary program of the board, Chairman Hamal said that he would complete all the procedures to create an environment where the **IPO will be approved within 45 days.**

The Securities Board of Nepal (SEBON) has decided to categorize companies with paid-up **capital of less than NPR 25 million as SME companies.** In their IPO, a minimum of 250 shares should be applied for.

Lumbini cable car has commenced its operations. The cable car is expected to attract Indian tourists from the border area, and within just one month of operation, approximately 30,000 people have already visited.

Kathmandu Municipality has requested 7,000 houses to amend their house designs as they were built without the approval of the municipality. Additionally, the municipality has successfully collected taxes amounting to NPR 8.25 billion in just 11 months, achieving 79% of its total target.

Pokhara Municipality has taken action against the illegal plotting carried out at Pame. Realtors have filled a dampened area of Fewa Lake to construct houses, which is in violation of the law and poses a threat to the water resources of Fewa Lake. The municipality is addressing this issue to protect the lake and maintain its ecological balance.

The Nayarangath-Butwal road project has reported only 37% completion in the last 53 months. As a result, people in the region are facing challenges such as air pollution and difficulties in their day-to-day travel. After the deadline for the project was exceeded, the contractor's contract was extended to allow the work to continue.

The Gwarko flyover construction has been put on hold due to design faults. However, the government authorities and the contractor are working closely together to address these issues and find a solution. Once the problems are resolved, the project will be restarted to ensure the timely completion of the flyover.

Tribhuvan International Airport (TIA) is set to undergo a major upgrade with a budget of NPR 35 billion. The master plan for the airport's upgradation has been approved, paving the way for significant improvements and enhancements to its facilities and services.

Mystic Mountain's revenue report of NPR 25 crore indicates a positive trend in the tourism sector. The significant revenue generated by the company suggests that there is a degree of vibrancy in the tourism industry.

Siddhartha Group has made a significant investment of NPR 2 billion to establish a new hotel in Bhairahawa. This hotel boasts modern facilities, including 85 well-appointed rooms, a seminar hall with a capacity to accommodate 1200 people, and even a casino. The addition of such a hotel will likely enhance the hospitality and tourism offerings in Bhairahawa, attracting both domestic and international travelers to the region.

RV group is simultaneously building two apartments, one in Gyaneshwor and the other in Kupondole. The estimated cost of apartments is NPR 5 crore for a 2000 sq. ft. unit and NPR 11 crore for a 4000 sq. ft. unit.

The fiscal year has come to an end, and here's a recap of all the political events for the year:

### 2022 Elections

#### Announcement of the election date

After many tussles, the ruling coalition agreed to hold federal and provincial elections on November 20. Due to the pending citizenship bill, the government was unable to reach a consensus regarding the election date. As the Election Commission needs at least 120 days to prepare for the election, and there were less than 120 days remaining for the proposed election date by EC, there were many speculations that the coalition was planning to shift the election date to February rather than November. However, then Prime Minister Deuba put his foot down to announce the election date on November 20. He was afraid further delays could give room for communists to come together, which could be detrimental to the NC.

#### Hassles for seat allocation

After months of discussions and meetings, the seat allocation for the election was finalized by the ruling coalition as well as the main opposition. Major tweaks had to be made in the final hours, which saw Janata Samajbadi Party (JSP) leave the ruling coalition and join hands with UML. Similarly, replacing JSP in the ruling coalition was Loktantrik Samajbadi Party (LSP), the same party that had recently split with JSP.

The final seat allocation saw Nepali Congress (NC) take 90-seats, despite a faction within the party demanding 100-seats. Similarly, CPN-Maoists Center got 45-seats, UML (Socialists Center) 20-seats, LSP 8-seats and Rastriya Janamorcha Party 2-seats. On the other hand, the main opposition UML joined hands with JSP despite their differences, who got offered 17-seats as opposed to the 16-seats offered by the ruling coalition. Similarly, JSP also backed UML candidates in 35-seats. Another major party, Rastriya Prajatantra Party (RPP), decided to go to the elections independently, albeit taking support and also supporting UML in different regions.

#### Federal and Provincial Elections

A total of 275 members were elected to the House of Representatives and 550 members to the provincial assemblies. Out of the 275 members in parliament, 165 members were elected under the First-Past-The-Post (FPTP) electoral system, and the rest 110 members under the proportional representation system. The coalition that uprooted Oli from the Prime Ministerial position, aside from the Janata Samajbadi Party (JSP), fought together in the election. Although UML had decided to go into the election on its own, it later decided to forge an electoral alliance with Janata Samajbadi Party by complying with its demand for 16 seats in the Madhesh Province.

As for the results, the Nepali Congress (NC) won 89 seats (57 under FPTP and 32 under proportional representation) to become the largest party in parliament. The CPN-Maoists won 32 seats (18 under

FFTP and 14 under proportional representation), the CPN-US won 10 seats all under FFTP, the Loktantrik Samajbadi Party won 4 seats all under FFTP, and Rastriya Janamorchha Party won 1 seat under FFTP, leading to the ruling coalition gaining the most votes.

Similarly, the main opposition CPN-UML won 78 seats (44 under FFTP and 34 under proportional representation) with the help of JSP, who won 7 seats all under FFTP. In the end, it was the newly formed Rastriya Swatantra Party that surprised everyone. It won 20 seats (7 under FFTP and 13 under proportional representation).

A total of 61 political parties contested in the FFTP and 47 contested in the proportional representation system. On the whole, 86 political parties participated in the elections. Only parties that get 3% of the proportional votes and 1 seat under FFTP are eligible to be called national parties. With this election, 7 parties earned national party status. In an ironic turn of events, the newly formed CPN-US headed by a veteran Madhav Kumar Nepal lost its national party status while a newly formed Rastriya Swatantra Party headed by a newcomer Rabi Lamichhane became a national party in their very first election. Similarly, Nagarik Unmukti Party won three seats in parliament, and Lalbir Chaudhary, father of Resham Chaudhary won as an independent candidate. Together with him, the party has four seats in parliament. The Nagarik Unmukti Party and Janamat Party, led by CK Raut, defeated Loktantrik Samajbadi Party and Janata Samajbadi Party candidates, bringing a change in Terai politics.

It is a big win for the political parties to have held the national elections on time. We didn't see much violence which is another win. Several fresh faces came out from the election as winners. We can see that the political landscape is changing, and in the next national election, we anticipate the parliament to be dominated by newcomers.

## **Government Formation**

### **Nepal gets a new Prime Minister in a Familiar Face**

After the election results were out, it was thought that Sher Bahadur Deuba and Prachanda would share the Prime Minister post on a rotational basis. There had been a similar agreement between Oli and Prachanda in which the former refused to give up the Prime Ministerial post. This led to the fall of Oli's government and animosity between the two. Being the leader of the majority party, Sher Bahadur Deuba too refused to give up the Prime Minister post for the first term. Fearing a similar fate, Prachanda jumped ship. Hence, despite winning the majority of seats in the parliament, the Nepali Congress had to stay out of the government after Prachanda joined hands with Oli to become Nepal's new prime minister. The parties that supported him were CPN-Maoist, CPN-UML, Rastriya Swatantra Party, Rastriya Prajatantra Party, Janmat Party, Nagarik Unmukti Party, and Janata Samajbadi Party. It just shows that in Nepalese politics anything can happen.

As for the reward for the support, CPN-UML would share the Prime Minister and the Speaker of the House posts on a rotational basis with CPN-Maoist as well as keep the Presidential post for the full term. This became a source of contention.



## **Nepali Congress also gives a vote of confidence to Prachanda**

The newly appointed Prime Minister Pushpa Kamal Dahal (Prachanda) would have needed to get at least 138 votes of confidence to serve as Prime Minister. It was a done deal, yet the final shock came when the Nepali Congress too gave its vote of confidence to Prachanda. All in all, he got 268 out of 275 votes; only 2 lawmakers voted against him. With this act of the Nepali Congress, Prachanda was freed from Oli's tight grip, thus even if UML left him, he would continue to enjoy the support of Nepali Congress to remain as Prime Minister. NC believed the coalition between Oli and Prachanda wouldn't last long, giving it the chance to sweep into power. NC hoped to get either the post of president or speaker for itself.

While everyone eyed the presidential post, UML cautiously took up all the major posts in the country. Election Commission, Commission for Investigation of Abuse of Authority and National Human Rights Commission, are all led by UML. Similarly, the acting chief justice is also said to have been appointed on UML quota. Moreover, the Constitutional Council which makes major appointments is also dominated by UML and its allies. The Constitutional Council consists of Speaker, Deputy Speaker, National Assembly Chair, Chief Justice, leader of the main opposition party and Prime Minister. The first four belong to UML or its allies, and there was confusion regarding who is the main opposition party. Now, if UML also got the Presidential post, it would have had almost unilateral authority in running government operations.

It is therefore not surprising that Prime Minister Dahal was wary of giving the presidential post to UML as agreed earlier. Interestingly, this is where Sher Bahadur Deuba's play of giving a vote of confidence to PM Dahal paid off. This support enabled the Maoists to reject UML's candidate. UML did try to salvage the situation by proposing Madhav Kumar Nepal for President. Not seeing a further coalition with UML, Maoists sat with Nepali Congress, Janata Samajbadi (JSP) and CPN (Unified Socialist) to decide the next course of action. Both Nepali Congress & CPN (US) sought the Presidential post. Since Nepali Congress had a stronger hand, their candidate Ram Chandra Poudel was selected for the Presidential position while JSP got the vice-presidency. With this, UML withdrew their support to the government leaving only the Maoist and the Janmat party to handle the state affairs. After approximately two months of the new government, Nepalese bade farewell to it and welcomed another.

A change here and a change there yet the overall picture of Nepalese politics remained the same. Before the election, there was a coalition of Nepali Congress & Maoist Centre and after the election, there was a coalition of UML & Maoist Centre. Although Nepali Congress won the majority of seats, UML & Maoist Centre formed the first government. However, after Nepali Congress gave their vote of confidence to Prime Minister Pushpa Kamal Dahal, it changed the political dynamics. We came full circle with the current coalition once again belonging to Nepali Congress & Maoist Centre.

The current coalition consists of Maoist Centre, Nepali Congress, CPN-US, JSP, Loktantrik Samajbadi Party (LSP), Nagarik Unmukti Party, and Nepal Samajbadi Party. The coalition has agreed to distribute the ministerial positions in the following manner: Nepal Congress – 8; Maoists – 5; JSP – 2; CPN-US – 2; LSP, Nagarki Unmukti Party, Janmat, AamJanta, Nepal Samajbadi Party 1 each. However, Janmat party left the coalition after the latter decided to support JSP's Upendra Yadav instead of their candidate. Prime Minister has his work cut out for him, he needs to keep the coalition intact in order to save his position.

## **Nepali Congress on Shaky Grounds**

The oldest and one of the largest parties Nepali Congress seems to be marred by internal conflicts. Many party members are dissatisfied with the way Deuba is running the party. They have accused him of unilaterally deciding who will represent Nepali Congress in the government. Their defeat in the by-elections has members questioning the party's operations. Swarnim Wagle, a renowned economist fed up with NC has left it for RSP. Similarly, another popular leader Gagan Thapa is voicing his frustration with the party. He and Bishwa Prakash Sharma, both general secretaries of the party are rumored to be developing a new strategy to revitalize the old party. However, they were responsible for overlooking the election campaign in the two constituencies they lost in the by-polls. This could be used by those who see them as threats to discredit them. So, it would be interesting to see how Nepali Congress dynamics will change in the future.

## **Newcomer - Rastriya Swatantra Party**

A hot topic in this election was the new political party - Rastriya Swatantra Party. It was formed specifically for this election in June 2022 by Rabi Lamichhane, a famous media personality. It was fielded as an alternative to the major political parties. The formation of the Rastriya Swatantra Party can be seen as an indicator of the growing frustration of youths with the old political leaders and their desire for change.

However, Rastriya Swatantra Party was soon engulfed in controversies. RSP's party leader Rabi Lamichhane was removed from the post of Home Minister due to a dispute about his citizenship. Even after he regained his citizenship, he wasn't given back the Home Ministerial post citing similar issues could be raised against him in the future. So, RSP decided to quit the government under the UML-Maoist coalition and called back all its ministers, disappointing the public. Similarly, an audio recording of RSP member Dhaka Kumar Shrestha asking for Rs. 20 million bribe has further tarnished RSP's image. However, people still have high hopes for RSP compared to other parties. RSP could redeem itself by presenting itself as an alternative to Nepali Congress, the only Democratic Party in the country. Many dissatisfied with NC have joined RSP, the most notable being Swarnim Wagle.

Frustrated with Nepali Congress, Swarnim Wagle left it for Rastriya Swatantra Party. The decision turned out to be a good one for he won a parliament seat running as RSP candidate. The party also won another seat in the parliament in the recent by-elections. In both the constituencies, RSP beat Nepali Congress candidates by a wide margin.

## **New alliance – Socialist Front**

Looking at their declining popularity, the communist parties of Nepal except UML, have joined together to form a Socialist Front. The Front consists of CPN (Maoist Centre), Janata Samajbadi Party, CPN (Unified Socialist) and Netra-Bikram Chand-led Communist Party of Nepal. Surprisingly, Baburam Bhattarai who first suggested such an alliance has not joined the Front. The Front has 54 lawmakers in the parliament. It is to be seen how useful this alliance will be given the tendency of the parties to break up and align with new ones.

*It is clear that the coalition is hanging by a thread. Despite having vast differences in ideologies, different parties have joined hands just for the sake of winning. Looking back at history, the coalition government has always failed to make an impact due to differences of opinions that arise, and we won't be surprised if the current coalition too collapses. If there is a UML and Nepali Congress coalition in the future, we shouldn't be surprised.*

## **Scandalous Events**

### **Citizenship bill**

President Bidhya Devi Bhandari had returned the “Citizenship bill”, passed by both houses, for amendments with 15-point suggestions. However, the bill was again passed by both houses without changes. As per the constitution, the president can send back bills only once. Hence, as the bill came back to the president in its previous state for verification, she became hesitant to verify it. However, after the new government, Nepal got a new President Ram Chandra Poudel. As soon as he took office, his first act as President was the passing of the controversial Citizenship Amendment Bill. The bill was passed on the same day as PM Dahal's visit to India. It certainly raises suspicion that a third party was behind the bill's passing. However, many Nepali Congress leaders welcomed the bill. They cited that those Nepalese unable to access government services without citizenship will now be able to do so.

### **Clean Chit to Finance Minister**

The infamous Finance Minister Janardan Sharma was given a clean chit to return to his position as Finance minister. He had been embroiled in the controversy of allowing unauthorized persons during the preparation of Fiscal Policy for the FY 2079/80 and tweaking some tax charges. The certain tweaking would provide humongous benefits to certain industrialists. Following the events, the Finance Ministry was asked to submit the CCTV footage of that day, however, the ministry claimed that it had been automatically deleted. Hence, an investigation committee was formed to investigate the matter which later concluded that it could not find any evidence of irregularities. The ruling coalition also pressured the investigation committee to provide clean chit to the accused minister.

### **Refugee Scandal**

The fake Bhutanese refugee scandal was one of the biggest scandals to hit the country this year. Everyone was aghast when the USA revealed that Nepal had sent fake refugees to it. Moreover, top leaders were suspected of involvement. CPN-UML Secretary and former Deputy Prime Minister Top Bahadur Raymajhi was arrested for his involvement. Even Arzu Deuba, the wife of Nepali Congress President Sher Bahadur Deuba, was accused of involvement after an audio clip was released, which Nepali Congress later claimed was fabricated. Former Home Minister and NC leader Bal Krishna Khand had also been arrested after the ex-secretary of the Home Ministry Teknarayan Pandey claimed that he had only followed the Minister's direction. In a leaked video, a former parliamentarian and NC lawmaker Angtawa Sherpa was shown running an office to send Nepalese to the USA as fake Bhutanese refugees. After complaints from the victims, police arrested three people who took money by promising to send them to America as fake

Bhutanese refugees. But as the investigation continued, more prominent names started to be linked to the case.

### **Resham Chaudhary's Release**

In a mockery of the Justice System, the government granted a pardon to Resham Chaudhary just days after the Supreme Court sentenced him to life imprisonment for his role in the Tikapur incident. He was granted amnesty on Republic Day. This sends the message that you can be pardoned for any hideous crime if you have political connections.

### **Prime Minister Dahal Controversial Statements**

Prime Minister Dahal has made two controversial statements this year. First was his speech about taking responsibility for killing 5000 people during the insurgency era. Two writ petitions had been filed against PM Dahal for his speech but the case hasn't gone anywhere. However, there are two ways of looking at it. The filing of the writ petitions can be taken in two ways - the obvious one is that UML could be behind it and is intimidating Dahal, and we could see such threats increasing in the future for Dahal and his allies. The other, because it came at a time when Dahal is in power, he could settle the insurgency cases once and for all. As is, his government could pass an amnesty act for crimes committed during the insurgency era. The Truth and Reconciliation Act which was created for looking over conflict-era crimes hasn't yet been amended as per the Supreme Court's decision, with the amnesty provisions still intact. It could become another contentious point with international powers. Nepal is already feeling the heat for not complying with anti-money laundering issues and is geared to being put on the grey list.

The second controversial statement was about Pritam Singh, a pioneer trucking entrepreneur in Nepal, playing a role in making him the Prime Minister. He stated that Singh had reached Delhi several times and held multiple rounds of talks with political leaders in Kathmandu to make him the Prime Minister implying that India played a role in him getting the position. Even after such a controversial statement, no one but UML, the main opposition party, called for action. They disrupted the National Assembly's meeting demanding Dahal to resign. Rastriya Swatantra Party which claims to be different from the old parties hasn't said anything about it. We expect nothing to come out of these statements.

In the face of all this, PM Dahal lost his beloved wife. We extend our heartfelt condolences to him.

### **Lalita Niwas Land Scam**

In another high-profile case, police nabbed Min Bahadur Gurung, the owner of Bhatbhateni supermarket, former Election Commissioner Sudhir Shah, and others for their alleged involvement in Lalita Niwas land scam. Others arrested include non-gazetted first class officials Yograj Paudel and Narayan Das Shrestha, who were then in-charge of the Land Revenue Office, Dilli Bazaar.

*This year, Nepal's political scenario was filled with several controversial issues such as the Bhutanese refugee scandal, providing amnesty to Resham Chaudhary, passing of the controversial citizenship bill, Prime Minister claiming India's role in the government formation, etc. Surprisingly, these scandals haven't caused much turbulence in the political environment. The government is still intact.*

### Nepalese Economy

#### Economic Growth

The expected economic growth for FY 2022–23 by the Ministry of Finance (MoF) is 8%, while inflation is anticipated to hover around 7%. These figures are viewed as being too good compared to our internal forecast, shown below, and forecasts made by several international organizations. Later, during the Q3 review, the Central Bureau of Statistics (CBS) revised economic growth to be around 1.86%. This is a huge deviation from what the government has forecasted between points in time. The major factor in this gap is the underestimation of the Russia-Ukraine war and its impact on the global supply chain, as Nepal's consumption and growth are derived from imports. As a result, inflation all over the globe escalated, causing central banks around the globe to keep their policy hawkish, meaning keeping policy rates on the higher side. Similarly, Nepal's central bank followed the same path as other countries, which not only slowed economic activity but also depleted aggregate output.

S.N.	Entity	FY 2021/22	Forecasted FY 2022/23
1	Central Bureau of Statistics	5.61%	1.86%
2	International Monetary Fund	5.8 %	4.1 %
3	World Bank	5.8%	5.1%
4	Asian Development Bank	4.3%	4.9%
5	Our in-house Analyst's Forecast	-	4.57%

#### Fiscal Situation

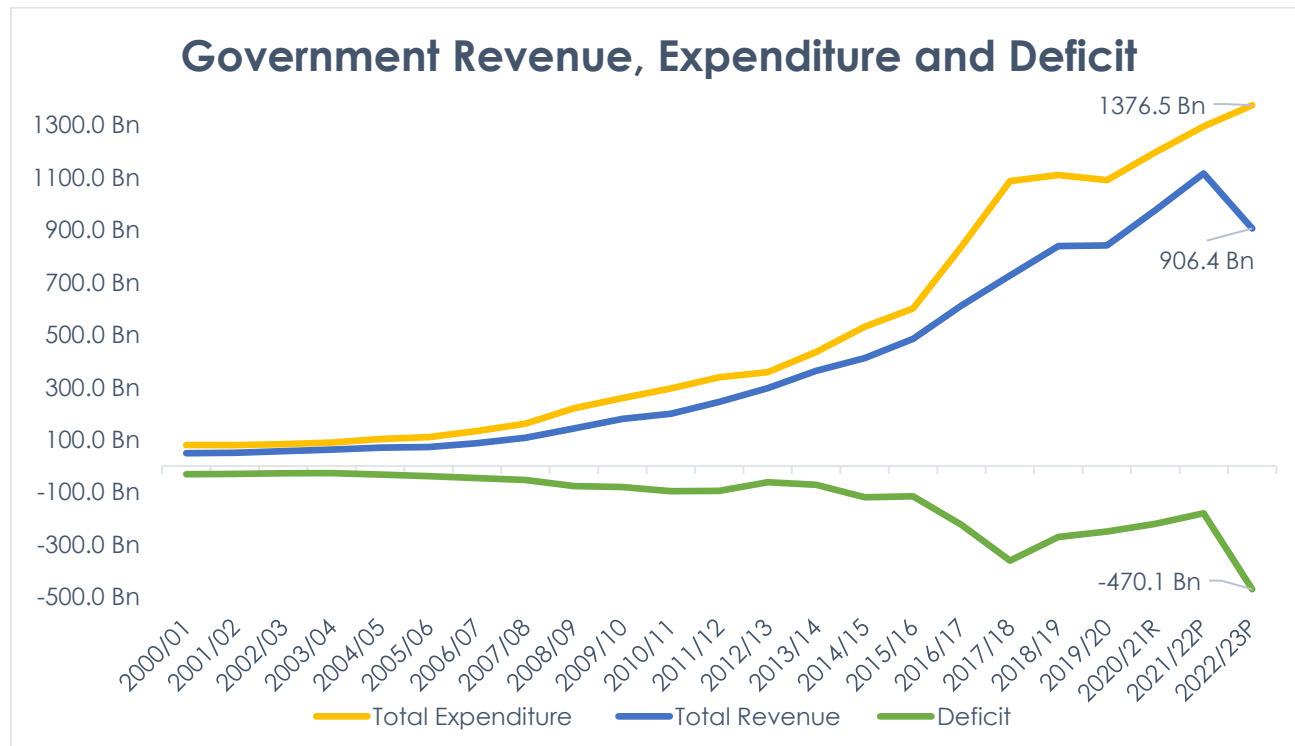
This year is the worst year in terms of government expenditure because the government has incurred the largest fiscal deficit till now. Identifying and gauging the factors impacting government revenue is the decrease in imports due to a rise in inflation, interest, and depletion of foreign exchange reserves since Nepal is an import-reliant economy where the government's revenue is heavily dependent on customs, excise, and Value Added Tax (VAT). In FY 2022/23 government has projected to earn NPR 1085 billion as tax revenue. Out of which 25.52% of revenue will be collected from custom duty, 16.77% from excise duty, and 30.76% from VAT whereas remaining revenue was projected to be collected as income tax and education service tax.

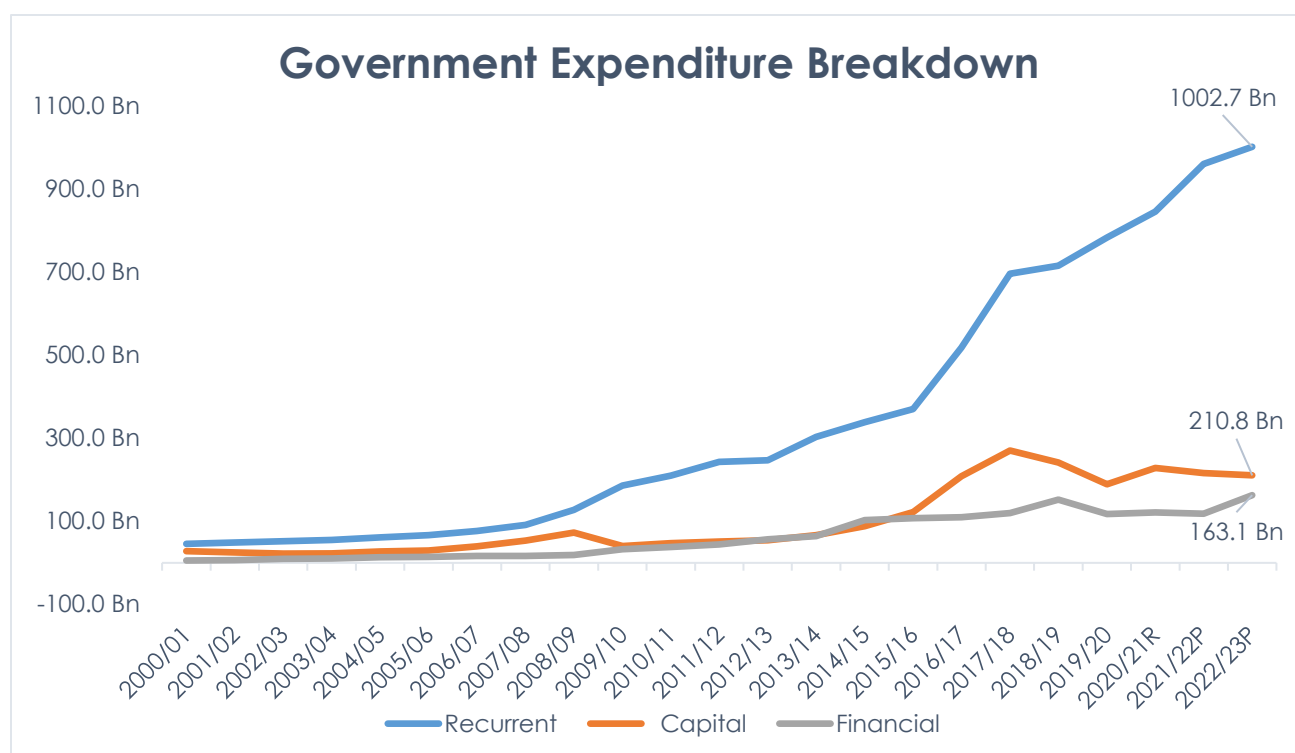


Particulars (in 100 Billions)	Old Provision	Revised Budget	Executed Budget (Upto 27 <sup>th</sup> Ashad)
Budget Size	17.94	15.50	
Recurrent	11.83	10.22	10.03
Capital	3.80	3.14	2.14
Financing	2.30	2.14	1.67
<b>Total</b>	<b>17.94</b>	<b>15.50</b>	<b>13.85</b>

(Source: MoF, Semi-Annual Budget Review)

Up-to July 12, 2023, the government has collected NPR 911.50 billion, which is 64.96% of the target revenue collection. The revenues came from NPR 823.74 billion in tax revenue, NPR 87.75 billion from non-tax sources, and NPR 48.02 billion from grants and other receipts. Similarly, the estimated total expenditure from treasury was NPR 1385.99 billion, out of which NPR 1003.90 billion was spent on recurrent expenditure, NPR 214.66 billion was spent on capital expenditure, and the remaining NPR 167.42 billion was spent on debt servicing. While comparing such revenue and expenditure with last year's fourth quarter, which were NPR 1067.95 billion and NPR 1296.24 billion, respectively, these figures suggest that sources of revenue have been shrinking while expenditure has been ballooning.





Deficits have escalated significantly since 2014–15. That was the year the constitution was formed when Nepal adopted fiscal federalism and started a three-tiered government, i.e., local, provincial, and central. This is the major reason behind the surge in fiscal deficits we are currently facing.

In previous years, usually, there used to be lower deficits in Q4. However, this year's Q4 has had the largest deficit to date, which has kept current liquidity in the banking system, but it's not sustainable. Deficit financing is obvious for developing nations but financing it with debt cannot be sustained for the longer term until and unless debt is being mobilized on return generating national assets.

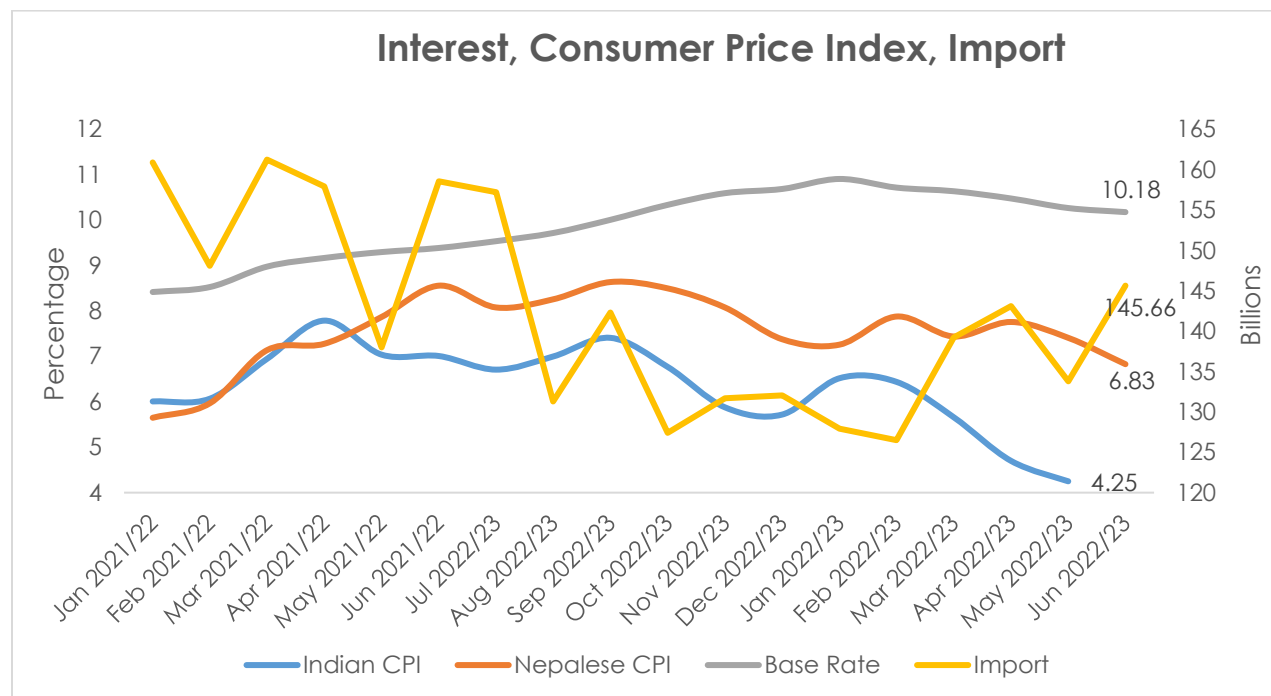
## Monetary Sector

### Banking, Inflation and Interest

Banking and Financial Institutions (BFIs) have deposits totaling NPR 5715 billion and loans of NPR 4861 billion as of July 09, 2023. Up to eleven months of FY 2079/80 deposit mobilization was NPR 445.13 billion, and credit disbursed to the private sector stood at NPR 157.36 billion, which is around 1/4th compared to last year's credit disbursement. Similarly, weighted average base rates have declined since the second quarter end of this year, and in reference to that as well as pressure from borrowers and their possibility of loan default, bankers have decreased interest rates on fixed deposits, i.e., from 11.1% to 9.99%, starting mid-April. The Nepal Bankers Association (NBA) is under constant pressure to revise higher interest rates on credit and prevent default ratios; as a consequence, they are working to address credit rates issues. Besides this, the NRB has announced refinancing facilities for those sectors whose economic output has been negative for two consecutive quarters. Similarly, loans up to NPR 50 million allocated for real sectors (Hotels, livestock, and construction) can be restructured and rescheduled on the

basis of importance and significance by analyzing their cash flows. Along with it NBA has also agreed to breach the gentleman's agreement of fixing the deposits rate and leave it on the market.

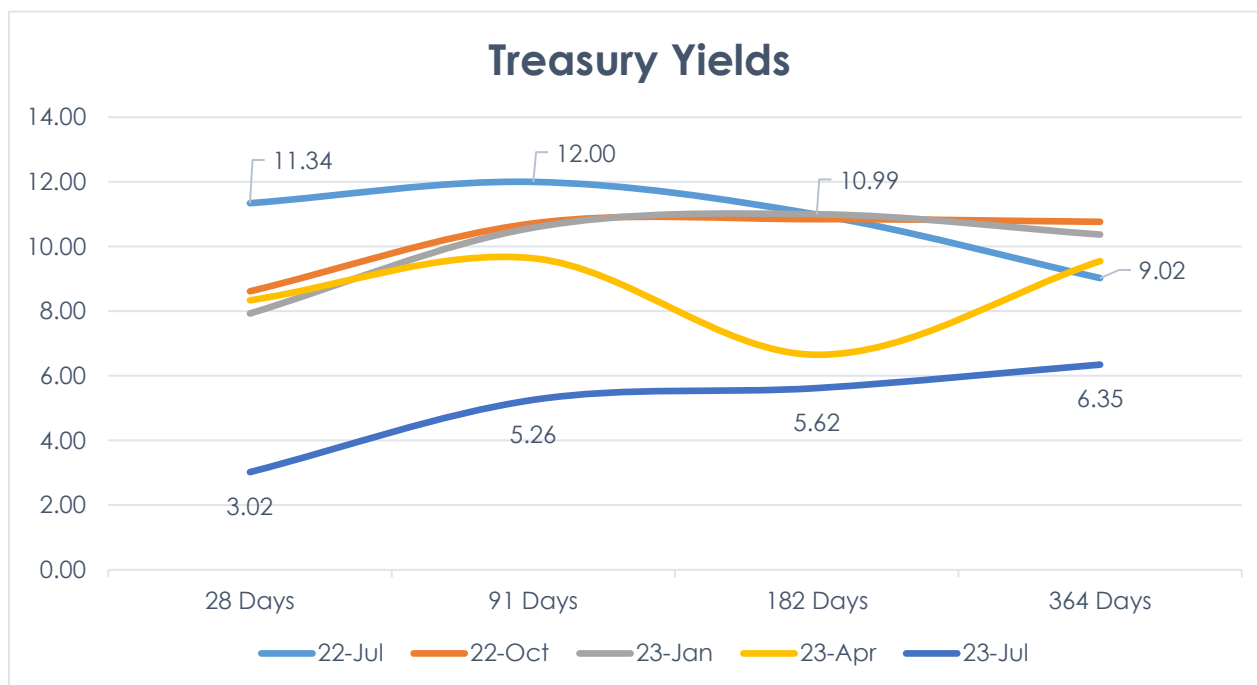
Similarly, the CPI in the eleventh month stands at 6.83%, which is below the targeted threshold of 7%. The major factor behind this slump is the fall in the price level of service sectors.



Inflation and interest rates are major factors in boosting consumption and investments. Due to higher interest rates, investors are discouraged from borrowing and investing. Whereas inflation or a rise in price level has diminished household's disposable income, decaying purchasing power, which has negatively affected the consumption pattern. Due to such higher inflation and interest rates, this environment has worsened both industrial output and domestic consumption, which has severely impacted economic growth. At the beginning of the year, the projected economic growth rate by MoF was 8%, but the revised estimated growth rate was around 1.8% by CBS. That being so, imports increased in the 11th month due to a decline in inflation and interest rates as well as a rise in capital expenditures.

### Yield Curve (Treasury)

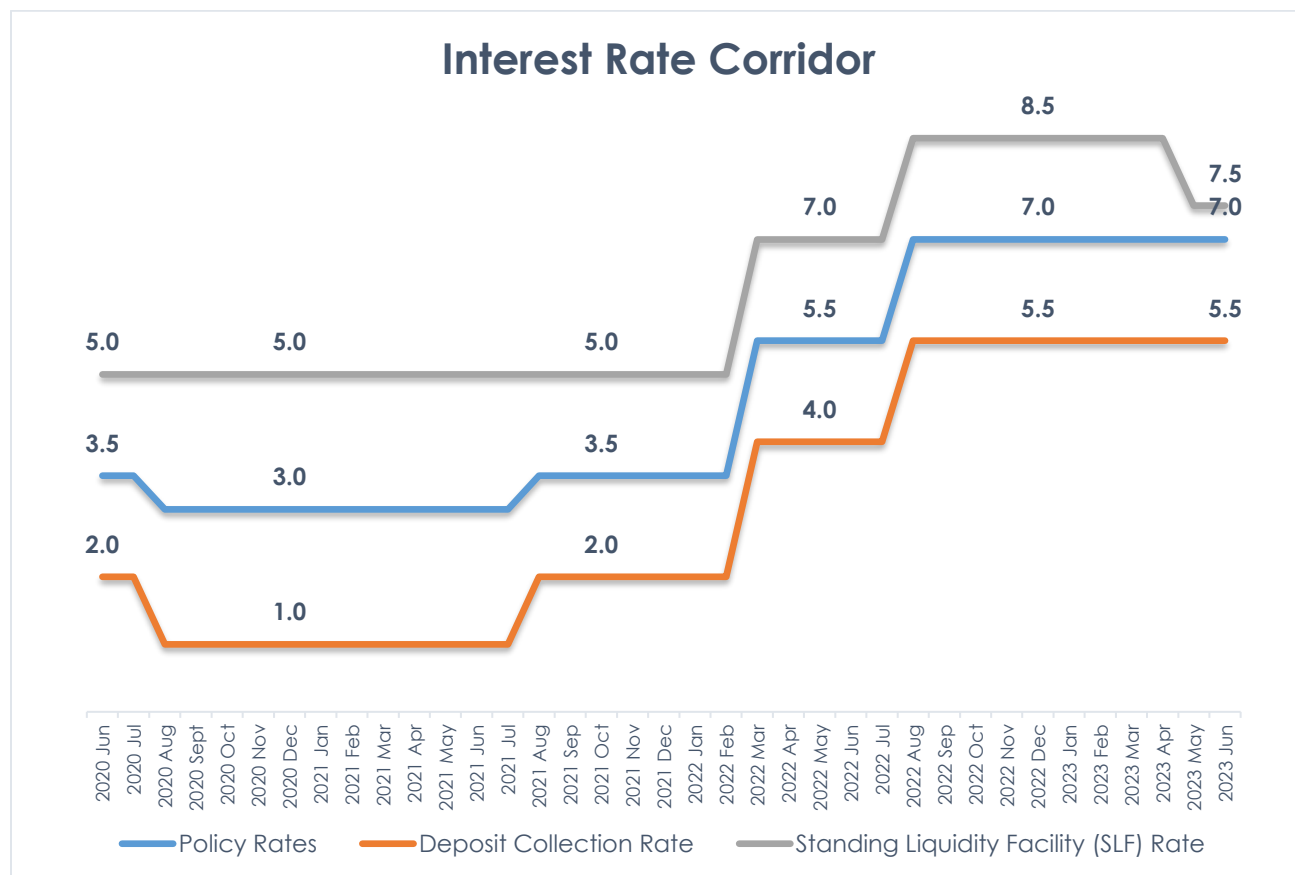
Treasury Bill (TB), a short-term government debt collection instrument that helps the government raise debt from the market is sold in the market through auctions. Comparing the weighted average bid rate of the 28-day TB rate, it was 11.34% in July 2022, whereas in the recent period, it is 3.02%; similarly, it was 12% for the 91-day TB rate a year ago, and currently, it is 5.26%. Besides this, the condition is identical with the 182 days of TB, as it was 10.99% last year and now it's 5.62%, and the 365 days of TB's rate was also 9.02% a year earlier and now it's around 6.35%.



The major thing that we've been observing in this TB's rate is the pattern of the curve because, in the context of Nepal, due to the unavailability of the functional yield curve, we've been following these treasury yields to identify the short-term interest rate pattern and to foresee the near-term interest rate environment. Besides this, TB's yield curve was convex (i.e., inverted) during July 2022, which infers that investors in the money market were scared or uncertain about the very short-term interest rate conditions and demanded higher rates in 28 and 91-day treasury bill rates rather than 182 and 365 days. Whereas, in recent periods, with the availability of liquidity in the banking system, commercial banks have been bidding in the TB on the lower side. Due to the fact that the yield curve in the current context is concave in nature, meaning that the bidder or investors are gaining confidence in the near term, the economy and investors prefer this type of yield curve because it shows improvement and certainty among the general public regarding the interest rates gradually coming down in an economy.

### Interest Rate Corridor (IRC)

IRC shows where the policy rates are guiding the interest rate environment. Interest rate corridors assist open market operations to maintain liquidity and interest rates in an economy. However, in the Q3 monetary policy review, Nepal Rastra Bank (NRB) revised the upper band of the IRC or bank rate, to 7.5%. As per our anticipation, this revision of the upper band of the IRC means that the interest rate governing authority is also willing to maintain the interest rate at a moderate level, as their objective of raising this IRC is to maintain the interest rates on the higher side and contract the aggregate demand. As their objective of aggregate demand contraction is achieved, overall economic output growth has also decreased from an estimated 5.1% to 1.86%. Since the aim of contraction has been met, the upcoming IRC needs to be revised prudently to maintain and revive economic activity.



## Conclusion

CPI of India is gradually declining and Nepal being an import-oriented economy means Nepal receives India's inflation. However, inflation in India is gradually declining meaning that the cost of imports will also be decreasing over time which would further help to preserve the current state of foreign exchange reserves. Similarly, the majority of countries adopted hawkish policies last year. But countries this year are preparing for cautious and relaxing policies which would help recover the wounded economic circumstance. Similarly, Nepal is also facing an identical problem of economic output contraction. Hence we've anticipated the following policy changes for economic recovery process:

1. Fiscal policy 2023/24 has targeted economic growth of 6% and inflation of around 6.5%. On the frontier of this, Monetary policy required to facilitate such economic growth needs to be dovish in nature. However, challenges still lie in the global arena, but headline inflation is gradually declining around the globe, as well as in our neighboring trade partners. However, on this basis, the operational target of policy rates needs to be revised to 6.5% or lower, and the interest rate corridor as a whole needs to be revised. The reason for this suggestion is to transmit the interest cost relief to current borrowers in light of lower production and consumption. Similarly, policy rates need to be made flexible so that they can be accommodated promptly by considering foreign exchange reserve status



and inflation. This will not only cushion industry operators, but also help to retain lost employment due to production and demand slowdowns.

2. Similarly, Credit to GDP has reached around 90.85% in Chaitra, which would be coming further below due to loan settlement in Q4. Thus, monetary policy needs to address the moderate growth of the credit outflow, and at present, banks are facing the issue of capital adequacy ratio (CAR) in order to release credits. The NRB must now, as the policymaker, address the increased Risk Weight of Assets (RWA) introduced in its previous year's monetary policy. While we do not advocate removing the incremental RWA completely, we suggest that the authority slash it gradually by taking into account external threats (i.e., imports and inflation) as well. The increased RWA can be slashed in steps by considering and analyzing the demand side.
- If RWA has increased by 100% prior, it can be reduced by 25%–50% at a time, and analyze the market demand and imports and revise it accordingly.

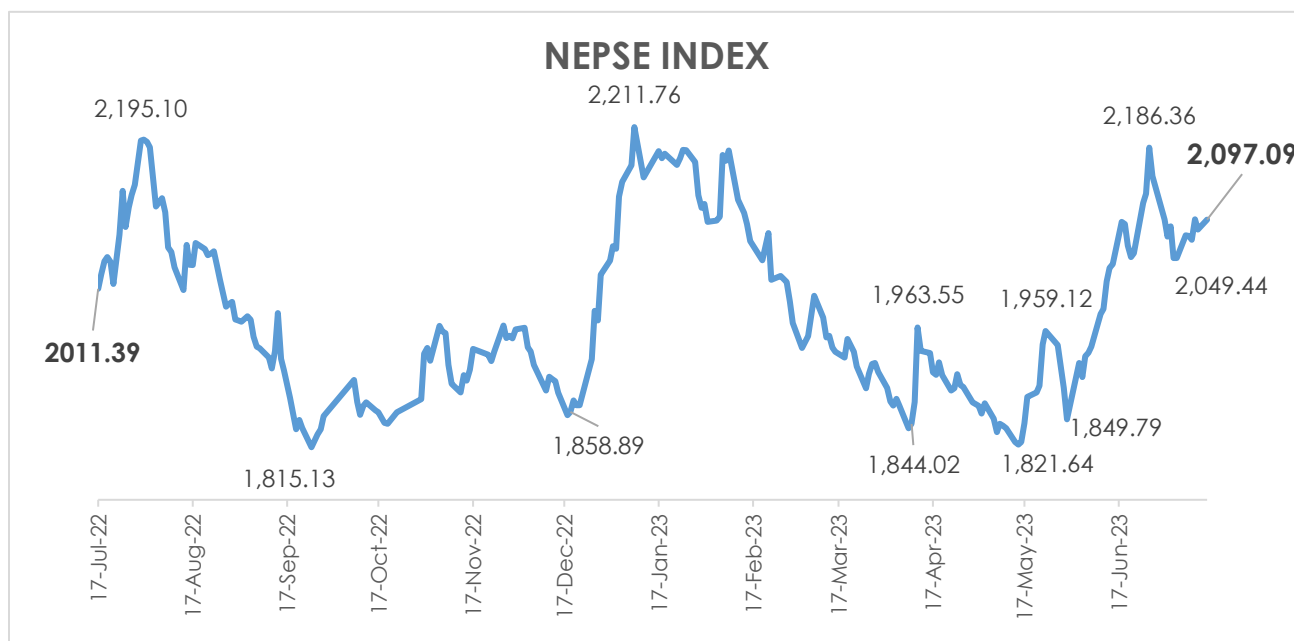
Another alternative to maintaining the CAR and credit outflow is by increasing capital via right shares issue, but this option is not feasible at the moment when considering controllability as well as the supervisory capacity of the NRB. With increased capital, the bank will become 'too big to control' which may lead to a flawed system. Hence, the only feasible alternative to maintaining CAR and credit outflow is to reduce RWA gradually or by releasing capital by revising the provision of good loans from 1.3% to 1%.

3. Upcoming monetary policy needs to focus on reducing credit concentration risk. With the implication of increased risk weight assets (RWA), credit outflow has shifted from other products to term loans. In principle, the use of term loans should stimulate industries and their productivity. Thus, as a regulatory body, the NRB needs to check and maintain the marginal physical product of capital such that it will induce aggregate output growth over time.
4. In order to facilitate credit, a suitable amount of refinancing should be injected into hardly hit sectors in this near-crisis state. However, the NRB must be very strict in this credit disbursement and mobilization by lenders and borrowers. NRB must also improve its loan supervisory capacity, as it has been targeting the loans in the agriculture and SME sectors to be 15% each by 2025 and other loan portfolio targets too, which is a very large chunk of deposit allocation. Thus, productivity, security, and supervision need to be ensured while disbursing loans.
5. A second-tier Institution to monitor cooperatives needs to be formulated as soon as possible, and monitoring the business of cooperatives needs to be expedited as they are misusing funds on various speculative assets.

Similarly, by observing the indicators from the 11-months macro-economic report, the rise in remittance by 22.7% to NPR 1112.52 billion on a year-over-year basis, the foreign exchange adequacy remaining at 9.6 months, the balance of payment surplus remaining positive (i.e., NPR 228.98 billion), the overall CPI declining to 6.83%, and the gradual decline in the weighted average base rate shows that the economy is

on a recovery path. But still there remains a room for suspicion until fund mobilizers act prudently. The likelihood, of monetary policy incorporating most of the above anticipated policy revisions, is high; however, we need to wait for monetary to be unveiled for further analysis.

NEPSE began the current fiscal year at 2071.77. During the fiscal year, the index varied between 1807 and 2277, indicating that the market is range bound. The NEPSE index decreased in the first quarter before rising sharply in the second. Similarly, the index decreased in the third quarter, while it began to rise in the fourth quarter from mid-May 2023. It finally closed at 2097.09.



Due to the credit crunch, soaring inflation, and high-interest rates, which had a negative influence on investor confidence, the NEPSE index only saw sluggish growth throughout mid-December 2022. The second quarter of this fiscal year also saw companies publish their quarterly report with robust growth. This, however, lacked enough power to uplift the market sentiment. The market remained indifferent to this event. Regulations from the central bank also played a major role in the slowdown of the market as the central bank introduced a policy on working capital barring excess capital into the market. The lack of loanable funds in the market along with increasing interest on loans also supported the inert growth of the market. Additionally, import restriction on the other hand hurt government revenue in the second quarter of this fiscal year which further squeezed liquidity from the market. When the government issued Repo at the end of the second quarter to ease the short-term liquidity shortage, it led to a drop in the interbank rate and the market's situation improved. Similarly, the appointment of Bishnu Poudel as finance minister had a positive influence on market sentiment as the market anticipated a decrease in interest rate jolting the market upward.

The third quarter of this fiscal year saw a gradual decrease in the NEPSE index with minor upticks in the last two days of this quarter due to the decision to reduce the interest rate on bank deposits to less than 10%, effective on Baishak 1st, 2080. Other factors viz. budget cut from NPR. 1793.83 to NPR. 1549.9

billion, doubling of NPL from last year, etc pushed the market down during this whole quarter. In this quarter NRB also imposed tighter regulation on microfinance, in response that they had become loan sharks leading to a decline in the microfinance sector by 27.6%. A more in-depth look at sectors within NEPSE showed negative growth in the third quarter as well. The manufacturing & Processing, Life insurance indices also saw significant drops of 15.76% and 11.08 % respectively. In contrast, Hotel and Tourism index had the smallest decline of 0.56% compared to other indices.

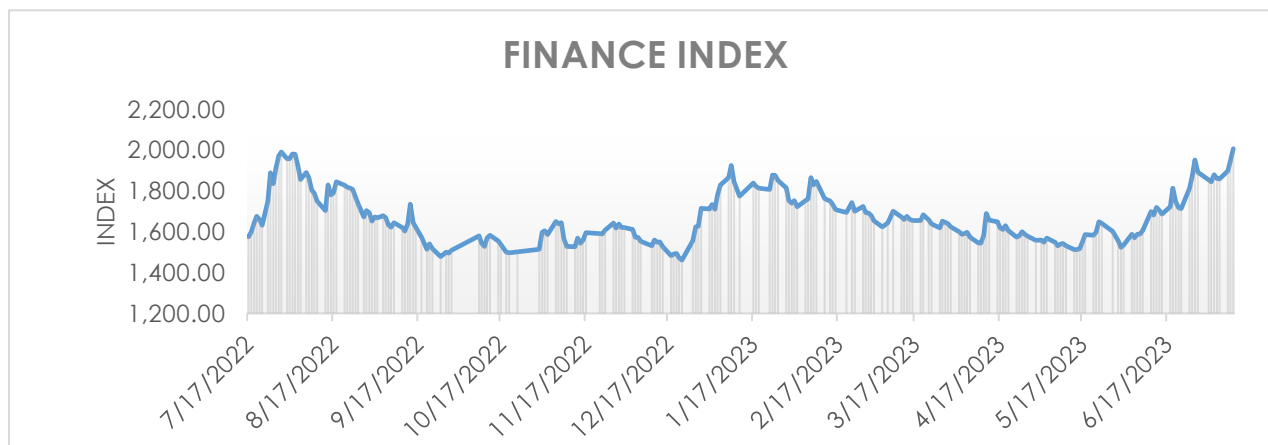
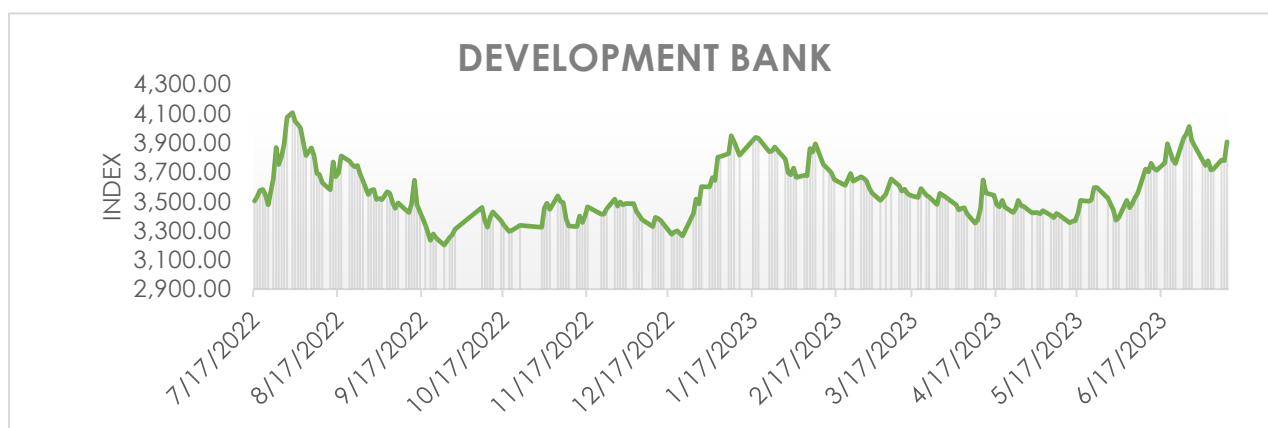
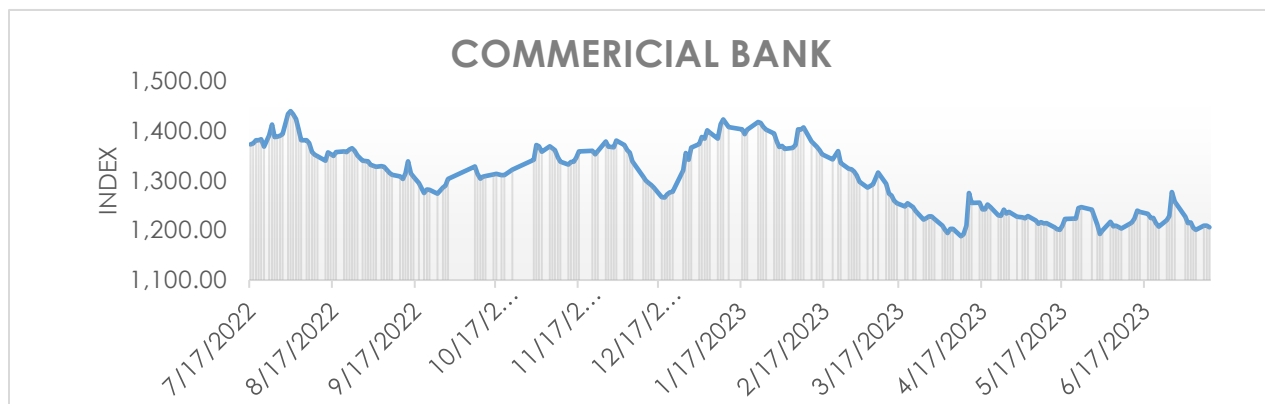
The fourth quarter saw a rise in the NEPSE index including a rise in the majority of the indices except for the Banking sub-index and Hydropower sub-index. Increasing Non-performing loans in the banking sector with NRB forecasting NPL to be greater than 4 for the banking sector could have led to sluggish and negative growth of the banking sector. Hotel and tourism stocks saw their lifetime highs in this quarter. Their index rose the highest in this quarter with a nearly 77% increment in the index from the start of the fourth quarter to 16th July 2023. Non-Life insurance, , Manufacturing and Processing, Life Insurance and Finance are other top four indices that rose the most this quarter with increments of 31.2%, 24.82%, 24.35%, and 16.22% respectively. Development Bank indices had the lowest growth this quarter with only 9.53%. Additionally, the average monthly turnover this quarter remained at NPR. 2.30 billion. This quarter was flooded with a variety of news and announcements from regulatory authorities and officials which had a direct and indirect impact on the market sentiment. The central bank reduced the upper band of interest rates. This led to the anticipation of lower interest rates in the market. The declaration of FY 2080/81 as a tourism decade along with the news of increasing tourists in the country led the tourism and hotel sector index to surge rapidly. Similarly, news on Nepal to export 10,000 MW of electricity to India in the coming 10 years, the addition of electricity into the national grid, and the announcement of the budget for FY 2080/81 also had some positive impact on the capital market. The budget revealed the government's plan to export energy, replace bitumen with cement, and mobilization of funds via SKBBL to cater to underprivileged groups. These news along with the gradual increment of liquidity in the banking sector also helped to maintain the positive tone of the market.

Furthermore, the country is ready to welcome another index, the NEPSE 30. It is expected to facilitate derivative-nature transactions and exchange-traded funds which could positively spark the present condition of NEPSE. Additionally, the stock market is going to see new brokers in the market as well in the coming period. With recent ease in liquidity, improving overall macroeconomic indicators published by NRB, and expectation of relative expansionary monetary policy, we view the coming time to be positive for the capital market.

## Sectoral dissection

### Banking Sector

This fiscal year banks remained sluggish throughout the year and their index hovered between a definite price range: 1180.57 – 1454.32 for commercial banks, 3193 – 4185.09 for development banks and 1460.08 – 2028 for finance companies.



High-interest rates plagued the bulk of this fiscal year. Starting of this fiscal year saw commercial banks keeping high rates of interest with deposits at 12.133%. Development banks and Finance also followed



the footstep of commercial banks by keeping their interest rates high. The decision to increase the rate backfired on development banks and finance companies as it increased their Cost of Funds. Thus, during the month of Mangsir development banks and finance revisited their interest rate and slashed their rate by 0.2%. This fiscal year NRB also revisited the regulatory spread rate amid the protest from the industrial and business sector. The spread rate came down from 4.4% and 5% to 4% and 4.06% respectively.

As a result of the import ban on luxury goods and high-risk weighting on loans to the risky sector, banks were forced to tighten their credit flow to the economy during the second quarter of this fiscal year. The banking sector saw virtually zero credit this quarter as well. Although credit flow was low, deposits (particularly fixed deposits) increased during the second quarter, and the CD ratio hung around 86-87%. Fixed deposits amounted to 60.3% of the total deposits by Mangsir. This is an increment of 2.3% from the month of Kartik. The ratio of fixed deposits to total deposits was less than 50% in the previous year.

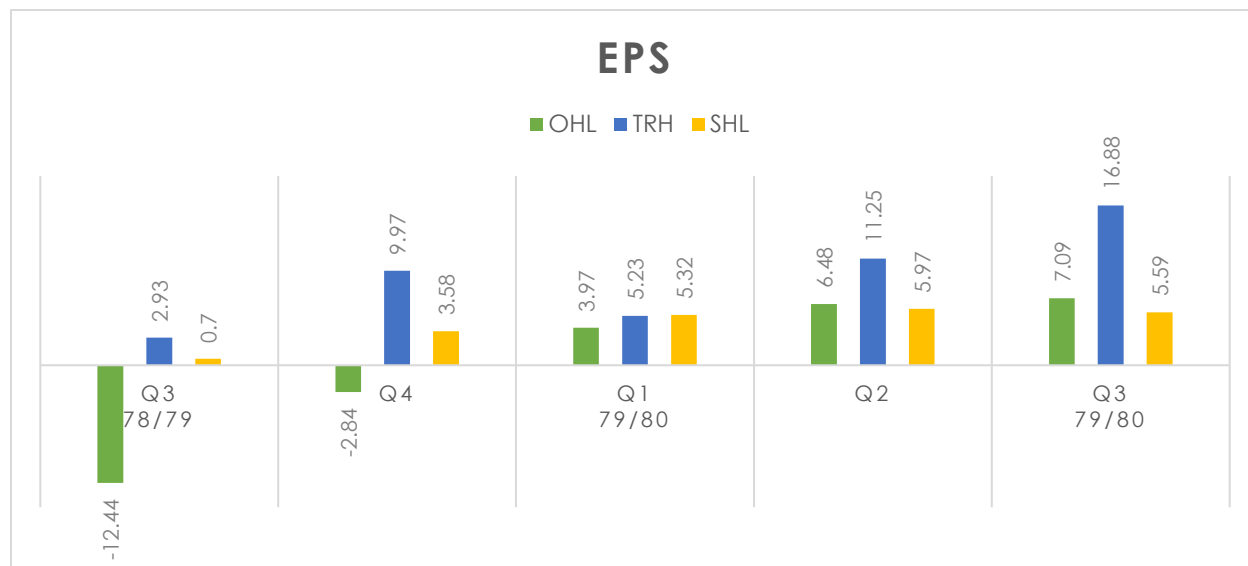
The third quarter of this fiscal year began with commercial banks deciding to lower their interest rate on deposits as well by cutting them by 1.33% since the Cost of Funds had taken a toll on their operation. Similarly, the banks slashed their base rate to 5% from 6%, Nepal Banker Association slashed interest on saving deposits by 0.42% and calls by 0.2%. Interest rates on fixed deposits also fell to 11% in anticipation of reducing bank expenses. The third quarter also saw NRB imposing tighter regulation on microfinance due to public outcry as many microfinances began harassing their borrower for repayment. NPLs of development banks also surged this whole quarter from 2.32% to 2.82% to 3.4% in the third quarter of this fiscal year. Sectoral lending also came down during this fiscal year for development banks. Deprived sector lending stood at 9.65% of total lending while specified sector lending stood at 24.92%. These both figures had decreased from the previous quarter.

## Hotels and Tourism

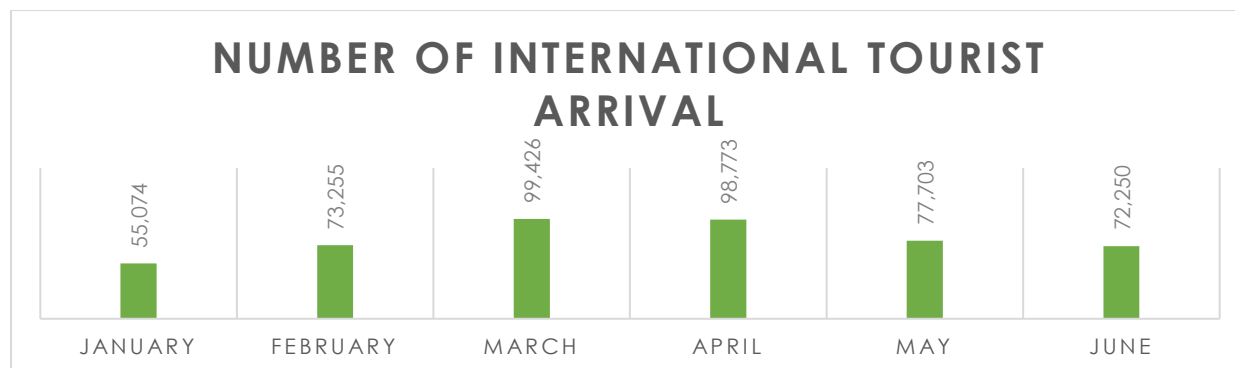
Hotels and Tourism sector this fiscal year gained momentum from the second quarter and have continued to be on the rise till the fourth quarter. Hotels & Tourism index was 2618.56 at the beginning of this fiscal year while it surged to 5797.47. This is an astounding growth of approximately 120% during this fiscal year. Furthermore, stock price of Oriental Hotel Limited (OHL), Taragaon Regency Hotel (TRH) and Soaltee Hotel Limited (SHL) broke their all-time high price this fiscal year.



The first quarter of this quarter was not optimistic for Tourism and Hotel sectors as they were still recovering from the setback of pandemic and were struggling with the number of tourist and operating costs where Oriental Hotel Limited even posted negative earnings during the third and fourth quarters of 2078/79. Nevertheless, the country's situation eased in the coming months and companies began reporting positive figures.



The second quarter saw a gradual spike in tourist arrivals. The figure had reached 230,000 which was a significant increase from 72,000 in the same period last year. Additionally, hotels and tourist destinations reported high occupancy rates on weekends and festivities. These scenarios in a way boosted the sentiment of investors in NEPSE. Similarly, a significant recovery in tourism was seen this fiscal year compared to 2021 and 2022 with a 96.48% increase in arrivals compared to Pre-COVID times. According to Nepal Tourism Board, a total of 98,773 international tourists visited Nepal in April, which is a substantial increase from 61,589 tourists who arrived in the corresponding month of 2022, 22,732 in April, and just 14 in April 2020.



Furthermore, the year 2023-2032 has been announced as Nepal Tourism Decade. This new plan had been brought forward three years after Visit Nepal 2020 which was called off in March 2020 as the pandemic swept the globe. Nepal plans to bring 3.5 million tourists, excluding India and those coming overland, in the next ten years. According to the plan, while 2023 would be the year for preparations, 2024 will be focused on

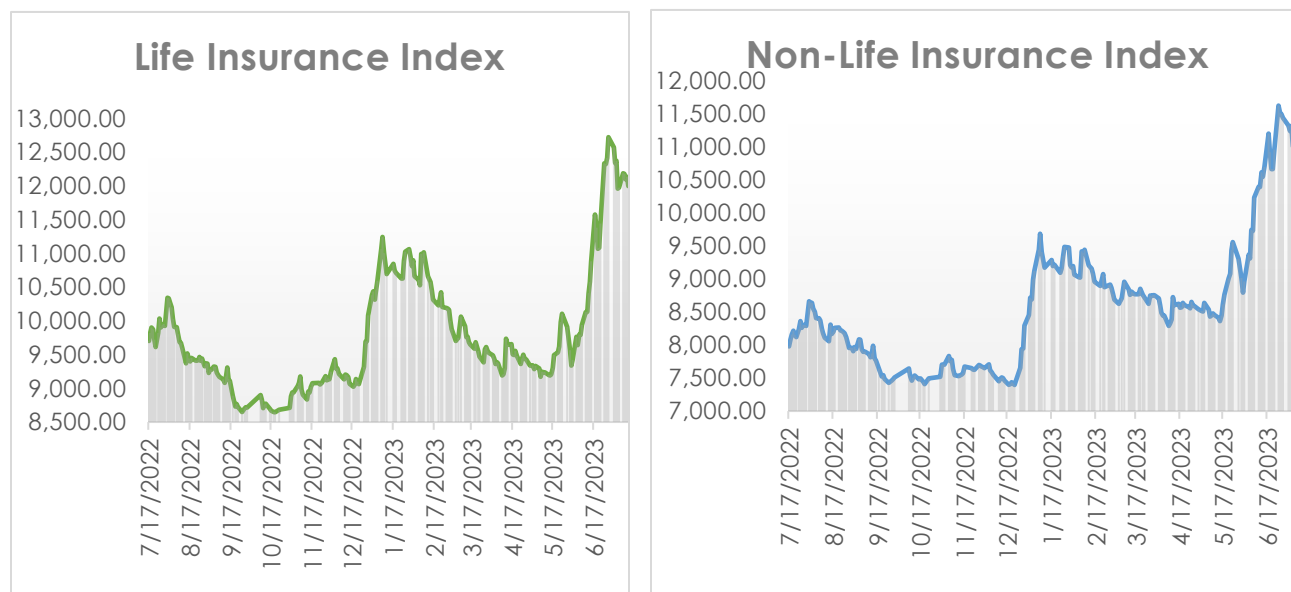
Bagmati Province, 2025 on Gandaki Province, and 2027 on Lumbini Province. In 2028, the focus will be on Madhesh Province, while in 2029, 2030, and 2031, Sudur Paschim, Province 1, and Karnali Province will get the focus. Nepal has also taken an ambitious aim of increasing the tourism sector's contribution to the national GDP to 10%. Similarly, Kathmandu Metropolitan City (KMC) also announced a 30 % discount on property tax on hotels/resorts for the fiscal year 2080/081 considering the plea to lower the taxes as the sector is still facing financial and operational losses. We view that this positive news helped the index to march forward this fiscal year.

However, Hotel Association Nepal had expressed concern for the Hotels and Tourism sector saying that the budget of 2080/081 does not contribute significantly to the sector. In addition, the introduction of a luxury tax to be levied on higher-end hotels may hike the price of hotels and resorts making the sector more expensive.

Hence, we view there are both positives and negatives surrounding the future of the Hotels and Tourism sector. With positives weighing more, we view that this sector is filled with optimism in the future.

## Insurance Sector (Life & Non-Life Insurance)

Life and Non-life insurance surged this fiscal year, with the majority of growth in the last quarter. Life insurance index grew from 9703.39 in July, 2022 to 11991.15 in July, 2023 which is a growth of approximately 23%. In a similar fashion, Non-Life Insurance Index surged 40% during the fiscal year from 8047.26 in July 2022 to 11287.84 in July 2023.



The insurance sector remained stagnant in the first quarter of the fiscal year. As the economy was moving towards the third quarter, a positive moment was seen in the insurance sectors index. The first quarter of this fiscal year was plagued with credit shortage, soaring inflation, and slow growth. Problems like insurance policy being withdrawn were seen during the second quarter of this fiscal year. During the same period, the ban was imposed on the import of vehicles which affected the automobile sector which

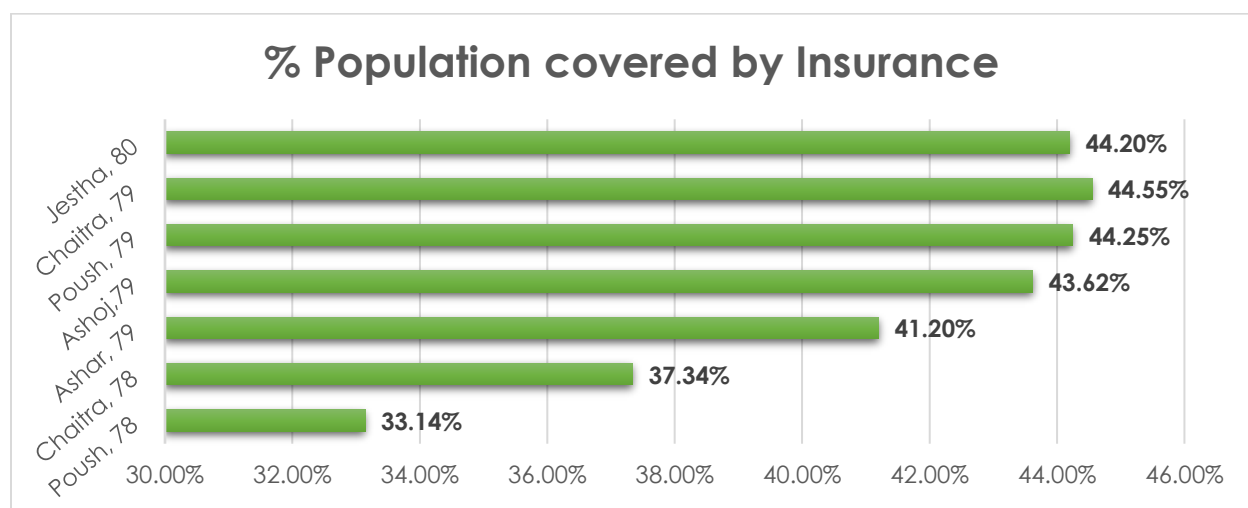
also happens to be a major segment within the Non-Life insurance sector. Gross premiums also declined during the same quarter as well. This quarter also saw the majority of mergers and acquisitions of insurance companies due to the requirement to increase the paid-up capital as mandated by the Insurance board.

Huge spike in lending was seen from insurance companies during the third quarter of this fiscal year as insurance companies had become significant source of borrowing due to credit crunch in the banking channel. Insurance companies had lent NPR. 78 billion in the first half of this fiscal year compared to 57 billion lent during the same period last year. Issue of policy surrender was seen in the fourth quarter as well. Life insurance saw a major portion of policies being surrendered in the fourth quarter than Non-life insurance companies.

On the bright side, gross premiums of insurance sectors have been increasing quarter-to-quarter and the percentage of population covered by insurance has also been increasing quarter-to-quarter. An increasing percentage of the population covered by insurance companies widens the playing field for them which can lead to an improved bottom line of the sector given that the issue of policy surrender also goes down.

(Rupees in Million.)

	Ashoj	Poush	Chaitra	Jestha
Life Insurance	35,776.86	71,652.05	104,734.82	119,478.14
Non-Life Insurance	10,842.45	20,082.5	30,014.84	36,198.84
Total Gross Premium	46,619.31	91,734.55	134,749.66	155,676.98



## Hydropower Sector

In the final quarter of 2079/80, the hydropower sector faced a challenging period as the hydropower index witnessed a decline of 5.73%, casting a somber hue over the industry. However, amidst these trials, notable breakthroughs have emerged, breathing optimism into the hydropower sector. One such development is the submission of a file by India, signaling their interest in an electricity purchase and sale agreement involving 50 MW, with Bangladesh as the intended beneficiary of Nepal's power.

Furthermore, India has opened new avenues for Nepal by granting the opportunity to sell an additional 300 MW of electricity in the Indian market. This opportunity leverages the transmission lines in Bihar, a neighboring state. Sadly, the approval process for importing Nepali electricity into India has encountered a surge in bureaucratic hurdles, casting doubt on India's prior commitment to purchasing 10,000 MW from Nepal within the next decade.

Adding to Nepal's challenges, the country currently grapples with a daily wastage of approximately 1,000 MW of electricity, predominantly due to the absence of a robust transmission line and distribution mechanism. This predicament underscores the urgent need for focused attention and investments to rectify the inefficiencies hampering the effective utilization of Nepal's abundant hydropower potential.

## Microfinance Sector

Nepal Rastra Bank has issued a directive instructing microfinance institutions to reschedule and restructure loans, with a requirement of collecting at least 5% of the interest owed from the borrowers. This decision comes after a thorough review by the central bank, which recognized the challenges faced by borrowers in repaying loans from microfinance institutions. To address this, the loans disbursed in specific areas can now be rescheduled and restructured, subject to need and justification. It has been emphasized that each loan file must include clear grounds for rescheduling or restructuring.

In addition to this positive development, the Nepal Rastra Bank will allocate the "Sana Kisan Uddham Bikas" program, which will be implemented through Sana Kisan Bikash Lagubitha. These progressive measures are poised to have a positive impact on the microfinance sector, leading to significant improvements. These forward-thinking measures have yielded remarkable results, evident in the significant upswing of the microfinance index by an impressive 15.76%. As a testament to the effectiveness of these interventions, the index closed at a noteworthy value of 4049.56, surpassing the previous quarter's index of 3498.30.



### Infrastructure Development

The government is planning to build 29 conference halls with an investment of NPR 18.17 billion. The conference halls in Godawori and Butwal can accommodate more than 1000 people at a time, however, they are facing challenges due to poor management policies and substandard construction. As a result, these halls are yet to be booked, and issues with their construction have been observed.

### Road

ADB (Asian Development Bank) will provide funding of 30 million dollars for the construction of the Kakadvitta-Laukahi road. The road will be a four-lane stretch covering 95 kilometers. The construction will adhere to the criteria of being environmentally friendly, temperature-resistant, and the bridges will be designed to withstand flooding..

Thankot-Dhading Tunnel road: Nepal's first flyover at Balambu is currently under construction, and its deadline is set for next year. The construction company is working diligently to ensure the project is completed on time.

Nakhhu-Bhaisepati road: After six long years of construction, the 2-kilometer Nakhhu-Bhaisepati road has finally been blacktopped and completed.

At Narayangath-Mugling road, 12 bridges are under construction in the upcoming fiscal year. To execute this project, the national highway will be temporarily halted for a few hours every day. The funding for this project will be provided by ADB (Asian Development Bank).

Pod Way: A proposed project to build a pod way around Lumbini has been awaiting government approval. The project, with a budget of NPR 3 billion, aims to construct a 6-kilometer long pod way, providing tourists with an aerial view to visit Lumbini.

The Muglin-Pokhara 4-lane road project has completed 31% of the total road length. The development of the road has been initiated from both ends, namely Muglin and Pokhara.

## Transactions

In the fourth quarter, banks and financial institutions (BFIs) accumulated a substantial cash reserve. As a result, they have begun offering loans to retail investors. Notably, during this quarter, we observed that banks are now providing long-term housing loans, despite the real estate sector being subjected to a high 150% risk weightage. This indicates that banks may lack alternative products to facilitate loans and are seeking to increase their revenue through real estate lending.

During this quarter, banks have also lowered their interest rates. This has instilled confidence among both buyers and sellers in the real estate market. Additionally, efforts have been made to match many defaulters with potential buyers, and banks are working diligently to reduce their Non-Performing Loans (NPLs).

Time	No. of Transactions	Capital Gain Tax	Total Tax collection
2079 Baisakh	98,974	943,699,406	4,780,528,824
2079 Jestha	123,644	935,163,501	4,249,793,334
2079 Ashad	114,346	1,473,093,211	6,113,343,193

2080 Baisakh	118,871	1,071,699,481.00	3,104,800,636
2080 Jestha	156,107	1,280,884,869.00	3,756,001,794
2080 Ashad	122,336	1,583,682,757.00	4,274,269,228

The government has recently lifted the kitta kaat policy after it had been on hold for the past year. So far, out of the 753 local governments, only 166 have been able to publish the segregation of residential and agricultural land. Following the uplifting of the kitta kaat policy, there was a noticeable surge in transactions and tax collection during the month of Baisakh. However, the government later halted it again and instructed the ministry to send a policy for the lifting of kitta kaat.

According to the Department of Land Management and Archive, tax collection has decreased, despite a slight increase in the number of transactions. In this quarter, the total tax collection is NPR 15.07 billion, whereas it was NPR 18.5 billion during the same period last year. There is a noticeable decrease in tax collection of 45% compared to the previous fiscal year. This significant decline in tax collection indicates a challenging economic situation or changes in tax policies that might have affected revenue generation during this fiscal year. Despite the decline in tax collection, the slight increase in transactions offers hope for a slow appreciation in property prices and indicates some positive signs for the early part of the next fiscal year.

Among the major urban cities in Nepal, including Kathmandu, Lalitpur, Bhaktapur, Kaski, and Rupendehi, they are the top tax collectors this quarter. However, Sunsari and Banke remain at the top for the highest number of land transactions. The higher number of transactions outside the valley suggests that small land plots with relatively lower values are in high demand.

The cyclical nature of the economy creates periods of growth followed by contractions towards the economic slowdown or even a recession. Barring periods of extremes like Bubbles or Depressions, the periods of prosperity and recession are recurring and inevitable. Sometimes these cycles are expedited or prolonged as a result of policy changes, or some black swan events.

Post pandemic, the policy makers' first priority was to jumpstart the economy. The central bank as a relief introduced refinancing facilities of around approx. NPR 150 billion. Loans worth approx. NPR 130 Billion was rescheduled and restructured. Money supply was in abundance and liquidity was in excess in the banking system. Cheap money was available at low interest rates. The pent up consumption during the pandemic ramped up. Imports started growing. The economy looked to move slowly towards recovery.

However, being an import based economy, our country fulfills its consumption needs mostly through imported goods. To add to the woes, Russia-Ukraine ruckus was fanning the fires of inflation. The import costs (esp. Fuel prices) were rising. This caused the foreign exchange reserve to take a hit. The foreign exchange reserve came down to worryingly low levels. People started drawing similarities between Nepal and the foreign exchange depleted Sri Lanka and Pakistan which was on the brink of crisis due to devaluation of the currency and low foreign exchange reserves.

On the other hand asset price inflation was another problem born out of cheap credit post pandemic. The stock market reached an all time high and real estate prices were inflated too.

(Among the probable causes of asset price inflation could have been the cheap credit lent out for the purpose of refinancing/restructuring loans that was aimed to aid COVID hit businesses that could have been directed to real estate and the equity market.)

The government and the policy makers had to step in. The result of overcompensating through policies that were supposed to counteract the post pandemic effects in the economy now had started to cause problems in the external sector.

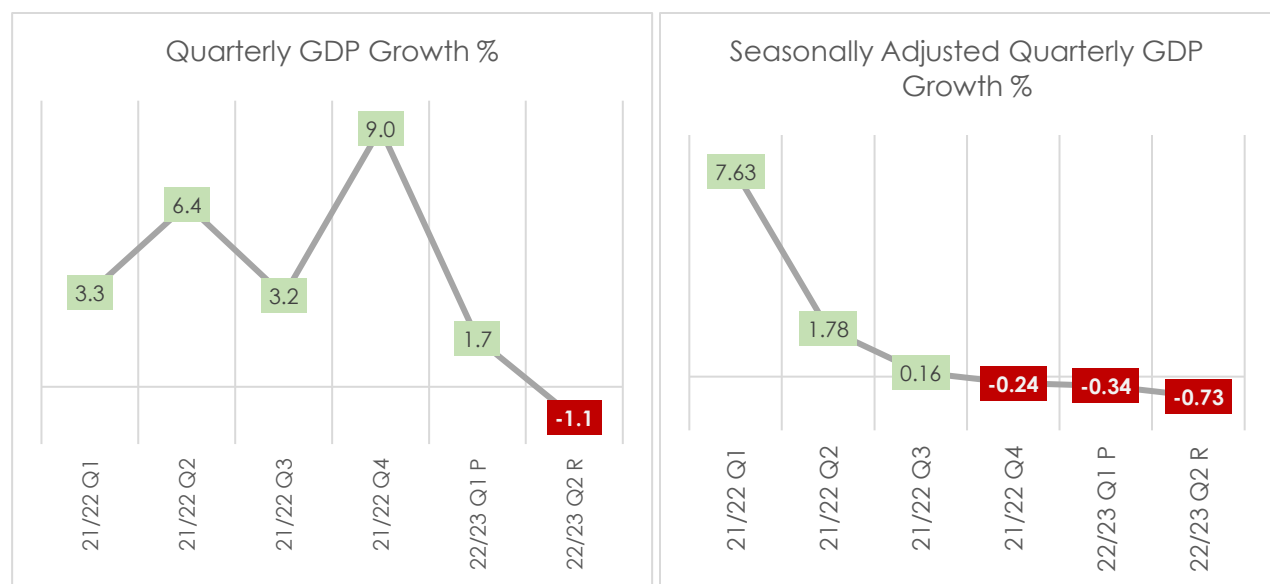
The government took stringent measures. Start of the year 2079, in order to curb the imports, the government introduced import bans on more than 40 non essential luxury items. The central bank complimented the decision by increasing the interest rates making credit more expensive for the borrowers; both to discourage consumption and control inflation.

Policies are double edged swords. Measures taken to minimize the external sector complications (i.e. to stop the bleeding foreign exchange and control soaring inflation and imports) was now pushing the economy towards a slowdown.

As the consumption slowed down, the domestic businesses struggled with profitability. To add to that industry and businesses bore the brunt of high interest rates. Survey statistics surfaced of the overall market demand contracting by 28% (CNI survey- Jan 2023). The stock market, which is said to reflect the state of the economy, has also moved mostly sideways after a plunge of more than 40% from the all-time high levels of 3,198.60 and has been hovering around the 2000 range. Real Estate transactions reflect a more dire picture with the tax revenue collection (CGT and transaction tax) of the government from real estate transactions is seen to have halved from the previous year tax collection which was at NPR 75 Billion, shrinking to around 36 Billion in the year FY 2079/80.

Analysis of economic indicators also sums up the current situation.

Quarterly statistics published by the Central Bureau of Statistics showed how the GDP growth rate of Nepal has performed over the past few quarters.



Seasonally adjusted GDP growth rate was negative for three consecutive quarters. However, in absolute terms the GDP growth rate went negative only in Q2 of FY 22/23.

The dictionary definition of the word recession is given as “a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.”

**Is this the onset of a major slowdown in the economy?**

**Dare we use the forbidden word for the state of our economy “Recession”**

Although opinions divide economists and academics as to which of the indicators reflect the true onset of recession stating just the GDP contraction is not enough to claim the recession has arrived. The pulse of economic activity has to be checked through different parameters.

Despite being divided on what tests to perform, and the different ways that the doctors may take to get to the diagnosis of the disease and the severity thereof, if the symptoms are glaringly evident and all of the test reports point to the same disease, the opinions will converge on a similar conclusion.

The basic principle of GDP growth ( change in level of output) on basis of Keynesian Expenditure method is given as:

$$\text{Economic Output (Y)} = C + I + G + (X - M)$$

Where,

C = Consumption

I = Private Sector Investment

G = Government Spending

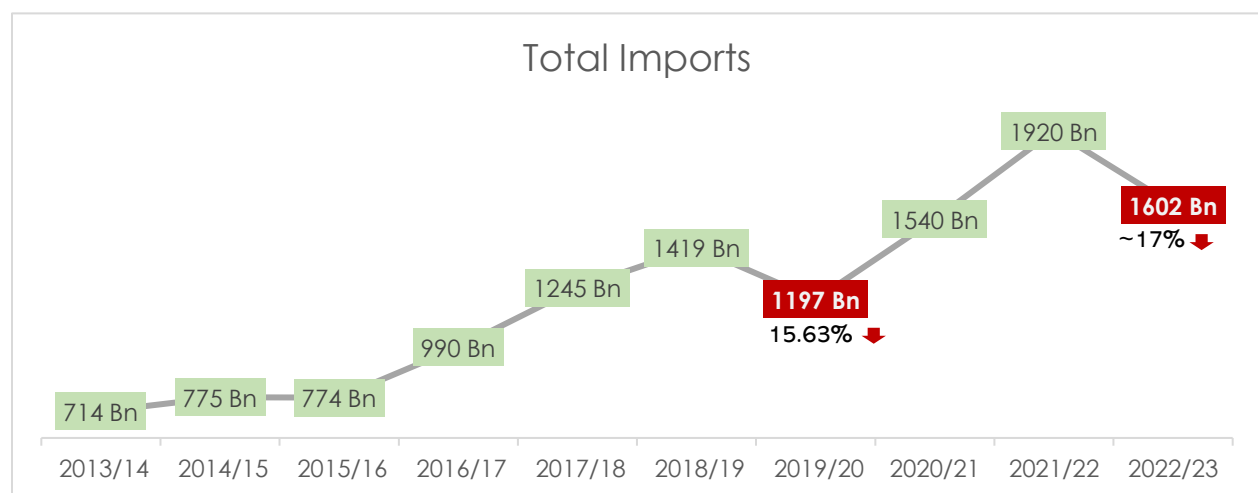
X = Exports

M = Imports

We attempt to look at different indicators of the economy, to be beyond doubts about the current state of Nepal's economy.

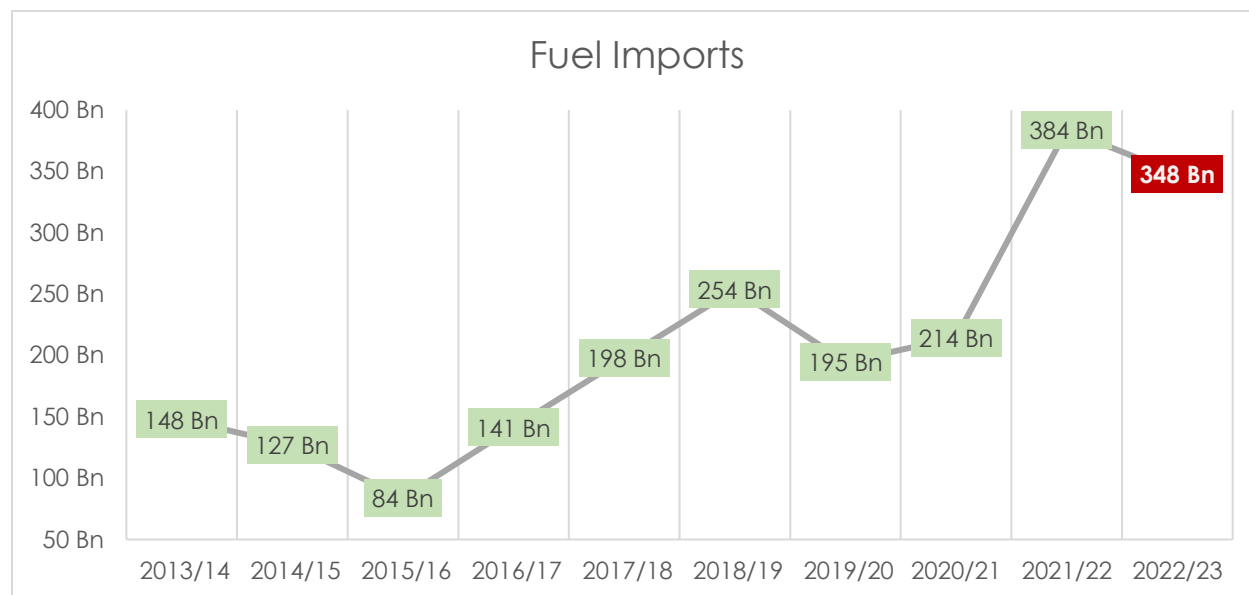
### Household Spending and Industrial Consumption (C)

Nepal's imports have been on a steep rise the past 6-7 years. The goods import saw an obvious dip during the pandemic with imports declining about 15.63% than the previous year. This year the slowdown in economic activity is evident with the imports projected to decline more than it did during the pandemic with imports to be around ~1600 Billion which will be ~17% shrink in Nepal's imports.





The highest share of Nepal's import is petroleum which constitutes ~20% of total imports. The petroleum consumption is also seen to be declining indicating sluggish development and industrial activities and other economic activities overall. This drop in both household and industrial consumption can indicate a significant slowdown in internal economic activities.

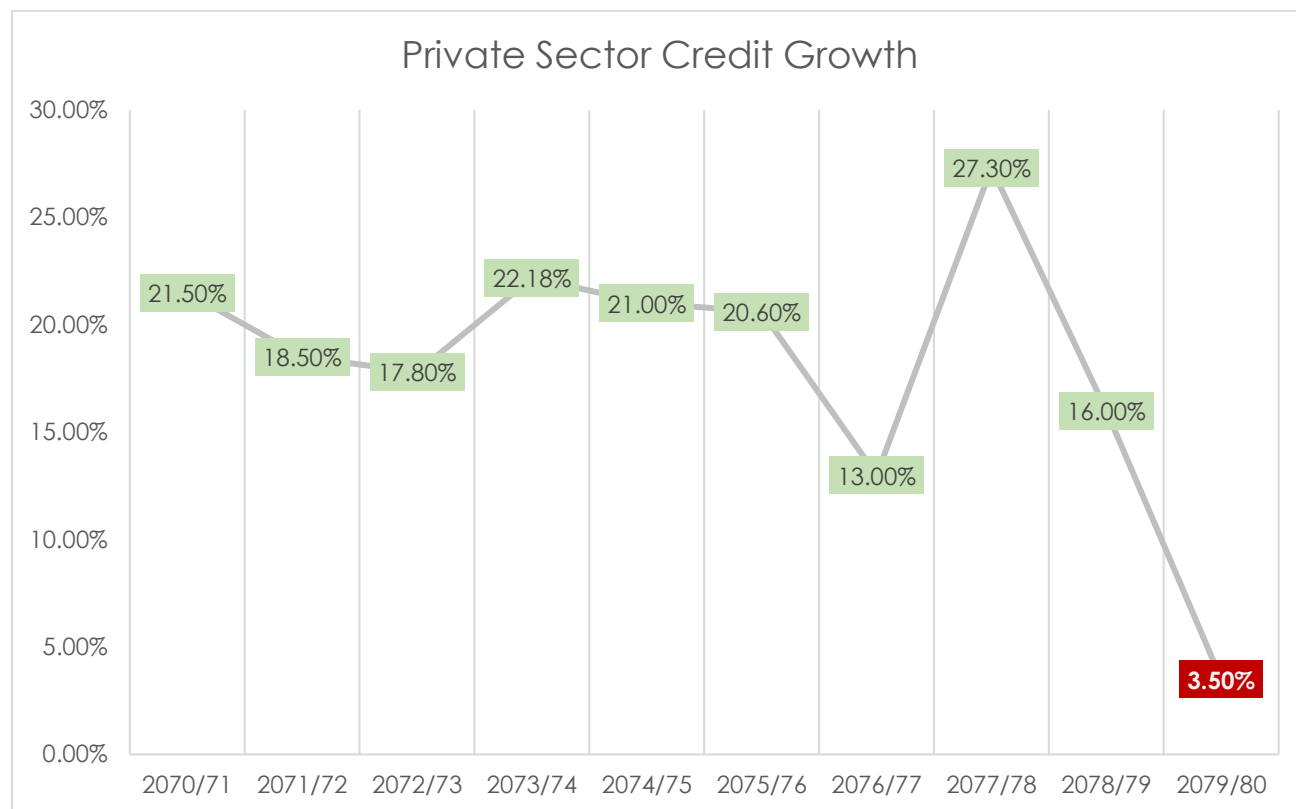


### Private Sector Investment (I)

A flourishing private sector is a reflection of a prospering economy and credit is the fuel that propels the private sector engine. Credit expansion targets set by the central bank is a function of the annual GDP growth targets in the Fiscal Budget as mandated by the government policies. The government had set an 8% GDP growth target for FY 2079/80. The credit growth requirements were set at 12.6%. However, at the end of 11 months of the fiscal year the GDP growth rate of only 1.8% was estimated by CBS and the broad money supply target of 12% fell short at only 7.8%, also the credit expansion target of 12.6% fell way short at just 3.4%.

Year	Economic Growth (Actual)	Targeted Economic (Growth)	M2 Money Supply Growth (Actual)	M2 Money Supply Growth (Target)	Credit Growth (Actual)	Credit Growth (Target)
2075/76	6.39%	8.00%	16.70%	18.00%	20.60%	20.00%
2076/77	-2.42%	8.50%	17.84%	18.00%	13.00%	21.00%
2077/78	3.83%	4.01%	21.80%	18.00%	27.30%	20.00%
2078/79	5.49%	7.00%	9.00%	18.00%	16.00%	19.00%
2079/80	1.86%	8.00%	7.80%	12.00%	3.40%	12.60%

## Private Sector Credit



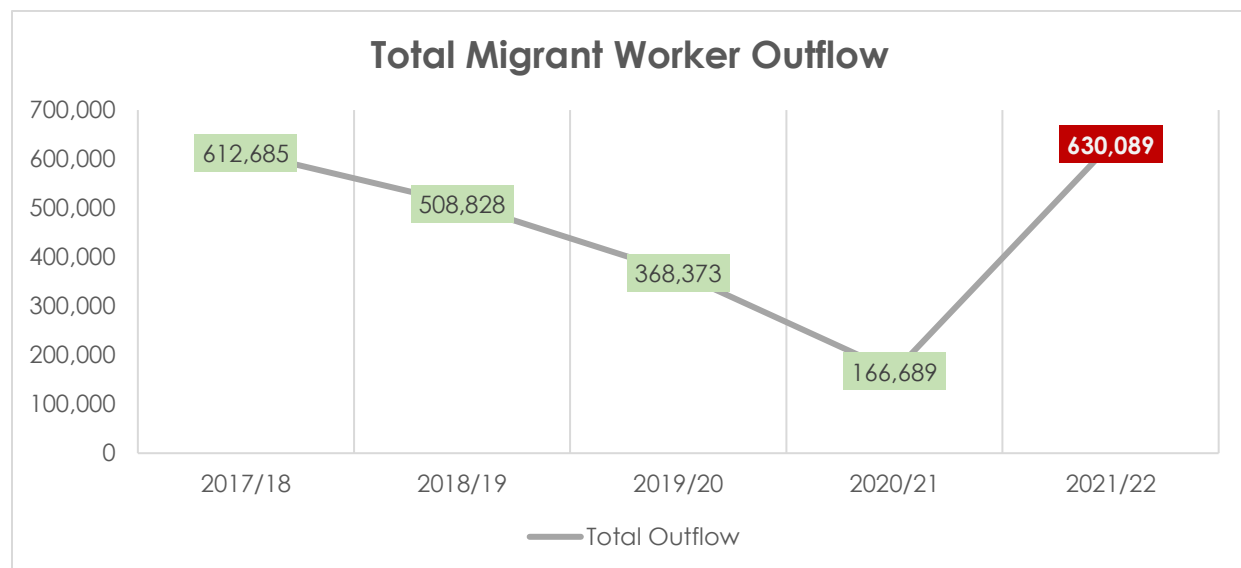
The credit growth shrank to low single digits with the credit extension increasing by a meager 3.4% (11 months of FY 2079/80). This indicates the private sector has had to cut down on investments as a consequence of a slowed down economy and overall goods and service demand shrink. The private sector also got discouraged from investing because of rising cost of funds due to the high interest rate environment, as the interest cost became higher than returns on investment.

## Employment

As industries and businesses struggle with profitability, sustenance becomes a first priority during economic downturns. Layoffs of employees start happening for cost cutting, and unemployment rises. However, with informal sector employment data unavailability and lack of proper statistical publication of timely data of even the formal sector, we have taken the foreign employment number as a proxy to gauge the unemployment situation. As employment opportunities shrink domestically people start seeking foreign employment.

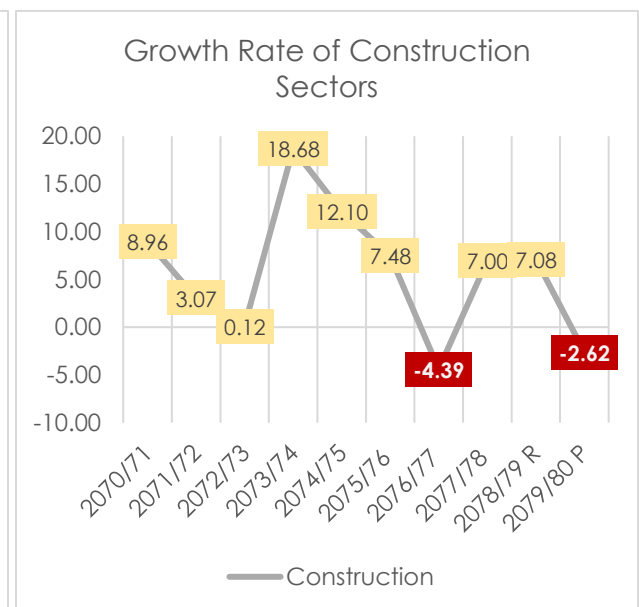
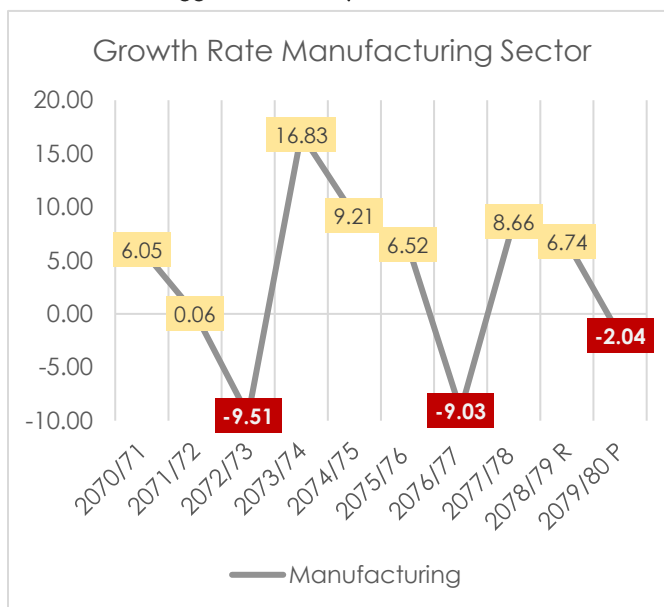
The total number of migrant workers was at a 5 year high, as more than 630 thousand workers have gone for foreign employment. The numbers still do not reflect the true picture as these omit Nepalese going to India through the open borders for permanent employment and temporary seasonal employment outside of agriculture season.

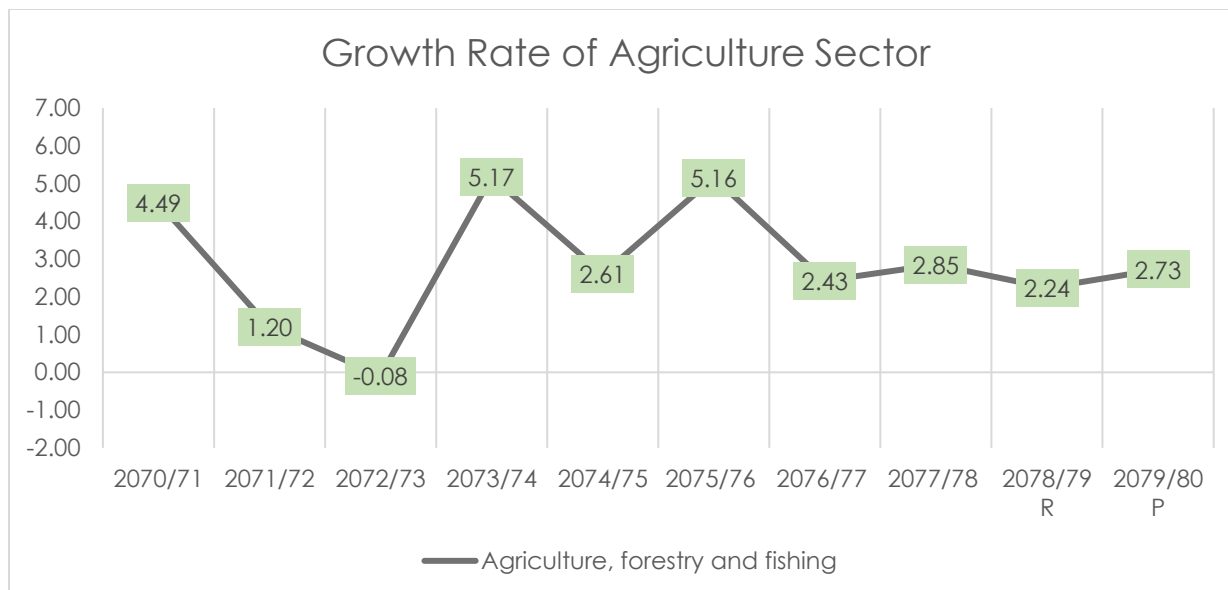
Domestic industry, service sector and agriculture sector alike seems to be struggling with economic declivity and is failing to provide adequate employment opportunities to absorb the growing youth population coming into the job market.



## Industrial Output

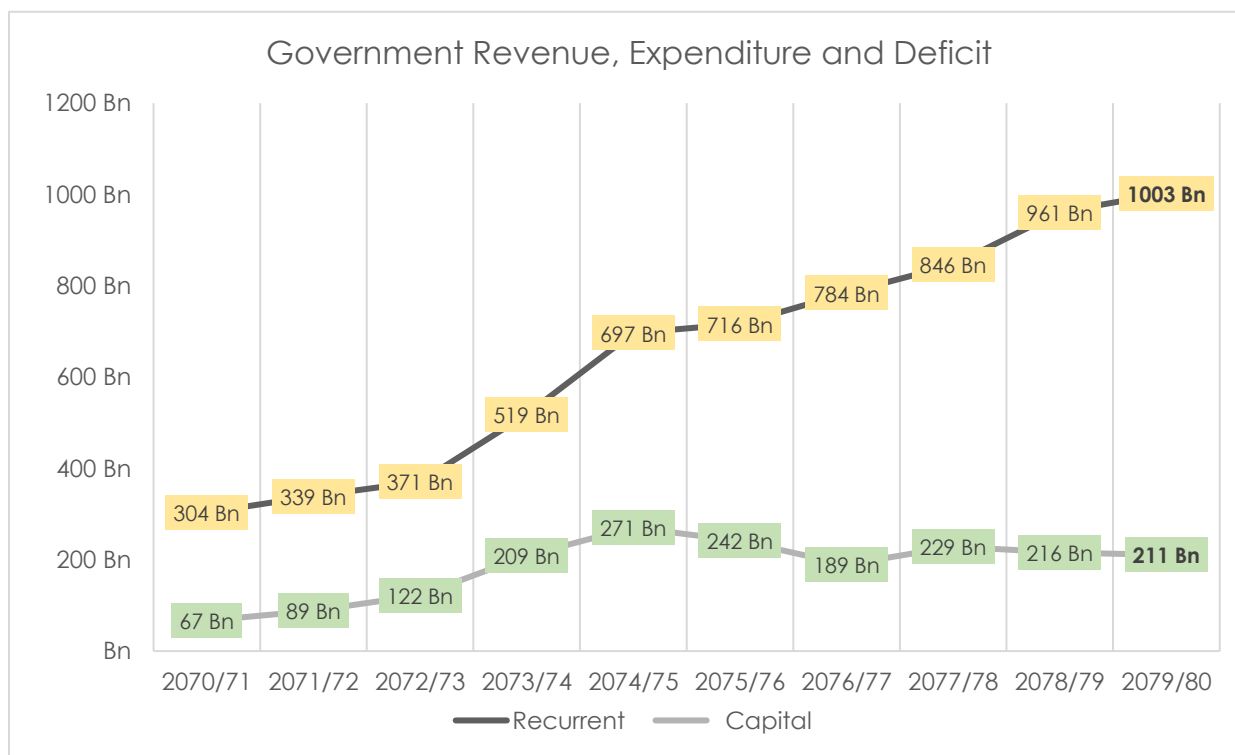
The manufacturing sector growth rate is negative for FY 2079/80. Similarly construction sector growth also went negative. The two instances these two sectors were negative was post earthquake and subsequent economic blockade in the year 2072 and during/post COVID. Agriculture, the primary production oriented sector that contributes ~21% to the GDP, has virtually stagnant growth. All of which indicates a sluggish economy.





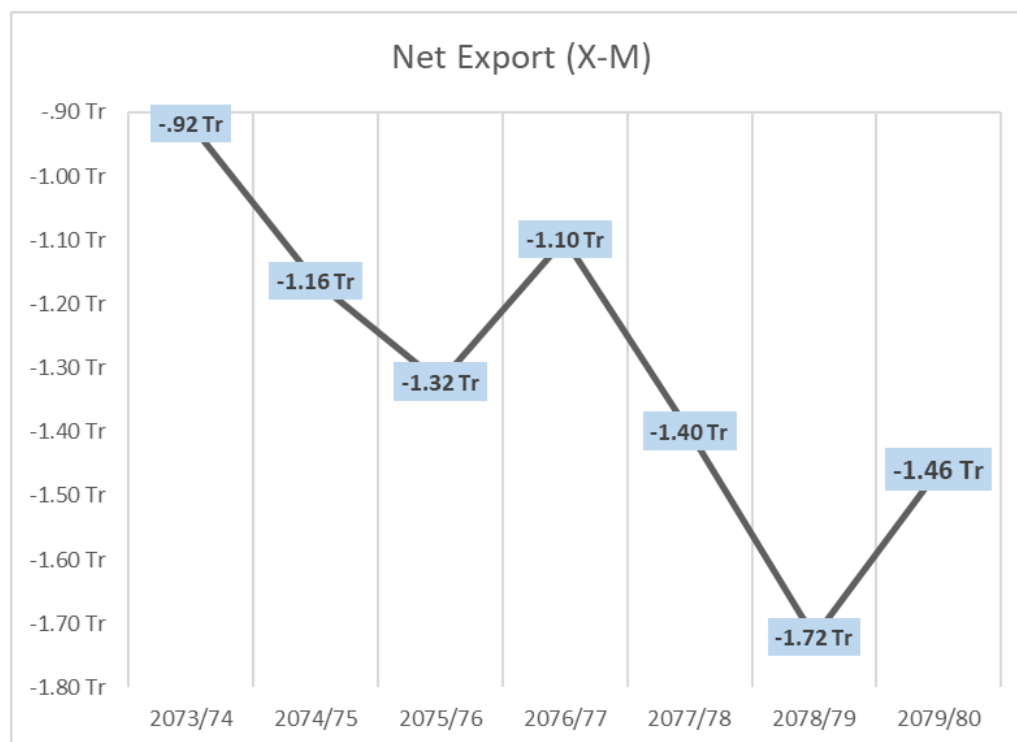
## Government Spending (G)

Abysmal spending in productive sector infrastructure has been a long running problem in Nepalese context due to several factors including the three tiered governmental structure. The recurrent expenditure portion of the budget has been growing whereas capital expenditure which contributes to GDP through infrastructure spending remains stagnant. In FY 2079/80 the capital expenditure was just 16.35% of the total fiscal budget, which is also a contributor to the recent economic headwinds.



## Net Export (X-M)

Nepal has always been a net importer. But the chasm between imports and exports has widened drastically in the last decade. The rising deficit in trade has been expedient the past few years worsening the contribution of exports in Nepal's total GDP. While the slowed down consumption caused a decline in imports by 15.67%, the past fiscal year the net export was -1.46 trillion, with exports declining by more than ~20% from the past year's NPR 200 Billion to NPR 156 Billion.



(The net export/deficit is gradually widening because the majority of government revenue, ~45%, is collected from customs and excise duty. Government's proclivity towards import based tax revenue collection is also a major contributor to the deficit problem. Further, being expedient in terms of profit making, import based trading businesses are preferred over productive sector/ manufacturing/agriculture/ industry based businesses.)

## Where are we ??

There is no denying that all the evidence points in the same direction. The Nepalese economy is in a slump. Though not alarming as of yet, the economy is only held together by remittances. Economic revival is a challenge, not only because the problems are hard to solve but also because the solutions need to treat the core of the disease, not just the symptoms.

The major drivers of economic output are labor and capital. Hopes of better living and earning is causing

labor flight to GCC and other nations while the government and households are enjoying the fruits of their labor coming as remittance without regard for long term sustainability.

Similarly, capital is expensive for which is discouraging domestic investors and potential FDI opportunities, they are reluctant to venture into Nepalese economy due to numerous bureaucratic and political hurdles. Whereas hard earned capital earned via remittance is also being used in consumption fueled imports. Stakeholders have myopic orientation, as the government seeks to collect revenue and the private sector seeks to earn quick profits in an economy based on imports. If not taken towards revival, the economic woes are bound to get worse.

Longer this prevails, we will reach the tipping point one day where we'll neither have labor nor the capital and GDP growth will be the least of our concerns.



