

NEPAL CHRONICLES

Second Quarter 2080/81



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Nepal took a significant step to regulate its rapidly growing e-commerce market by preparing a draft bill to formalize the sector and protect consumer rights through transparency.

Nepal banned Chinese-owned media app TikTok citing concerns about its impact on social harmony.

Durga Prasai's campaign to reinstate monarchy attracted crowds from various parts of the country supported by right-wingers, royalists, and pro-Hindu activists.

Dr. Swarnim Wagle has been appointed as vice president of Rastriya Swatantra Party during the meeting conducted in Jaleswar, Mahottari. The meeting also welcomed central members Anil Keshari Shah, Rajan Gautam, Dr Nandan Yadav, Pukar Bam, and Kamini Choudhary.

The government decided to investigate the recent trade of Ncell shares which involved unusual transactions and possible case of tax evasion.

The Patan High Court has decided to let former Home Minister Bal Krishna Khand go

on bail in the fake Bhutanese refugee scam case. Khand, a member of the Nepali Congress, was accused of taking money while promising to send people to the US as fake Bhutanese refugees when he was the Home Minister.

Government entities are now required to use social media for sharing information about their activities and must keep their accounts updated.

During his four-day visit to Nepal, United Nations Secretary-General Antonio Guterres pledged support for addressing the impact of climate change. Visiting the Annapurna Base Camp, he acknowledged that climate change caused by development and industrial nations has negative effects in Nepal which has minimal contribution to the issue.

Rastriya Prajatantra Party (RPP) has declared to launch a nationwide protest, advocating for the restoration of monarchy, reinstatement of Nepal as a Hindu kingdom, and doing away with provincial structures.

Resham Chaudhary has been elected as the chairman of the Nagarik Unmukti Party.

Chaudhary, the sole candidate for the post, was unanimously elected for the post at the party's first general convention held in Tikapur of Kailali.

Prime Minister Pushpa Kamal Dahal completed one year of his tenure in the office. Addressing the nation, he admitted some shortcomings in his governance and committed to making significant changes in the government's workings to achieve substantial progress in the next year. If he follows the agreement made with Deuba and Madhav Kumar Nepal, it will be his last year as Prime Minister after Madhav Kumar Nepal takes over.

Two individuals were killed when the police tried to control a group of youths who had set fire to a car carrying Prakash Jwala -Minister of Physical Infrastructure and Transport. The youths were protesting for not being allowed to appear in the EPS exam.

Nepal's tourist arrival crossed one million in 2023, the highest since 2019. The tourism sector was severely hit by the COVID-19 pandemic.

TripAdvisor, a popular travel website, has ranked Kathmandu as the number one natural destination in the world. Kathmandu was also ranked 24 among the top 25 destinations in the world.

Nepal and India signed an agreement to export 10,000 megawatts of electricity to India in the next 10 years.

Foreign direct investment (FDI) pledges to Nepal increased by 89% year-on-year during the first four months of this fiscal year. According to the Department of Industry, Nepal received FDI pledges totaling NPR 21.88 billion for 178 projects in the review period.

In its "Global Economic Prospectus", World Bank has estimated Nepal's growth rate will be 3.9% this year and 5% next fiscal year.

The government and the Asian Development Bank (ADB) signed a concessional loan agreement for the

implementation of Rural Connectivity Project-Additional Financing. The agreement involves a loan amounting to USD 100 million, which is equivalent to around NPR 13 billion.

The World Bank is providing USD 103.84 million in financial aid to strengthen the quality, coverage, and resilience of Nepal's health system, comprising a USD 100 million concessional loan from the International Development Association and an additional USD 3.84 million in grants from the Health Emergency Preparedness and Response Trust Fund.

The Inland Revenue Department (IRD) has made it mandatory for the business entities having annual turnover of more than NPR 250 million to get registered in the Central Billing Monitoring System (CBMS). The move is expected to deter tax evasion.

Nepalese Internet Service Providers are facing difficulty settling dues with Indian service providers for the past 10 months due to the Ministry of Communication & Information Technology (MoCIT) not

facilitating the necessary foreign exchange processes.

Nepal Rastra Bank (NRB) is actively mopping excess liquidity from the commercial banks through deposit collection tools. The lending in the banking channel has been low due to lackluster demand for credit as well as their own capital adequacy requirements.

Axiata Group, the major shareholder of Ncell decided to exit from Nepal citing increasing business challenges.

According to the Credit Information Bureau, the number of individuals getting blacklisted has been on the rise. In 2022/23, around 34000 were blacklisted while as of mid-August of this fiscal year around 78000 people have been blacklisted.

Nepal Electricity Authority (NEA) and 61 industries have been in a tussle over the non-payment for electricity use from dedicated feeder and trunk lines. NEA had cut off electricity to those businesses but has again reconnected them after a committee was formed to investigate the matter.

After the Supreme Court's verdict, BFIs were left to pay NPR 20 billion income tax for the dividend distributed from the premium of Further Public Offerings (FPOs) and on the gains obtained during mergers & acquisitions. BFIs had filed a petition in the Supreme Court opposing the government's decision to impose such tax citing it was "ex post facto taxation" and was against the constitution.

Nepal Insurance Authority issued a letter to the insurance companies that issued IPOs on premiums to keep the amount collected for premiums in their reserve fund. The authority has allowed insurance companies to count such reserve funds in their paid-up capital.

Nepal Stock Exchange (NEPSE) has not yet put into use the software purchased for conducting OTC transactions online. It has been more than three months since the purchase of the system.

Securities Board of Nepal (SEBON) has directed listed institutions to provide notice at least 30 days in advance to the relevant authorities and shareholders about the expiry of the lock-in period of promoter shares.

Nepal's first-ever IPO through the book-building method was approved and issued to institutional investors at the beginning of this quarter. Sarbottam Cement Ltd. received approval for IPO to institutional investors in the price range from Rs. 401.00 – to Rs. 601.50 on 18th Oct 2023.

SEBON has issued a directive for mutual funds. A minimum of five percent of shares offered for public issuance by institutions are reserved for mutual funds and as per the new directive mutual funds will not be allowed to sell these shares subscribed in IPO until six months from allotment.

SEBON has decided to reduce the broker commission by 10%. The decision is awaiting approval from the Ministry of Finance for implementation.

A study by Nepal Rastra Bank suggested removing the 15% interest rate cap for microfinance institutions. It recommended a couple of methods for determining the lending rate which include limiting interest rates to a maximum of 1.75 times the base rate of commercial banks or limiting interest rates to their cost of funds plus a maximum 8%.

Nepal Rastra Bank has reduced the risk weight for share mortgage loans exceeding NPR 50 million to 125% from 150%. NRB also reduced interest rates under the interest rate corridor.

The market reacted positively to the first quarter review of the monetary policy. NEPSE index rose by 6% on December 10 invoking a circuit breaker. The market suspended trading for the rest of the day.

After the absence of Ramesh Kumar Hamal, Chairman of SEBON in the parliamentary committee meeting, the committee instructed the Commission for Investigation of Abuse of Authority to investigate the financial transactions and questionable practices of the Chairman within 30 days, especially his involvement in allowing initial public offerings (IPOs) at inflated and non-transparent premium prices.

The position of chairman of SEBON remains vacant as the tenure of Mr. Ramesh Kumar Hamal comes to an end on Jan 5, 2024. He was appointed as chairman on Feb 17, 2022, after his predecessor was sacked by the government.

With an investment of NPR 3.5 billion, a 5-star hotel with a cable car has commenced operations in Bandipur and is already in the pipeline for an IPO.

Two 5-star hotels are set to launch in Biratnagar this year, with a capital investment of NPR 3.75 billion.

The Fast Track project has demonstrated promising development, with physical completion rate of 27.19%. The project is estimated to be finished by Chaitra 2083, with a total cost of NPR 211 billion.

The construction of the Mugling-Pokhara highway is progressing rapidly, with 40% of the road completed so far. Additionally, in many sections, the road has already been blacktopped for more than 10 kilometers.

The development of the Narayangarh-Butwal highway, spanning 115 kilometers, is anticipated to reach 90% completion by the end of Chaitra 2081. The current progress report indicates a noteworthy 50% progress, showcasing a significant improvement compared to last year.

The government will directly monitor the construction progress of both the Mugling-Pokhara and Narayangarh-Butwal roads from Singha Durbar to expedite their development.

Nepal Rastra Bank (NRB) has revised the risk weightage for real estate loans to 125%. Last year, the risk weightage for real estate loans was adjusted from 75% to 150%, significantly impacting the real estate industry and ultimately slowing down the entire economy.

Nepal Rastra Bank has raised the first home buyer loan amount from NPR 15 million to NPR 20 million. This policy revision has led to an increase in loan amounts, reaching over NPR 32 billion from the previous NPR 150 million on a bi-quarterly basis. Notably, there is a higher interest flow in commercial projects compared to residential projects, indicating a trend towards rental income.

The real estate transactions in Deukhuri, Dang, the capital of Lumbini province which was previously halted have now been opened. However, the

transaction has been opened on the condition that the owner of the real estate will remain a sole owner discouraging division of land for sale.

BFI's have been lowering interest rates on deposits as well as loans. Some BFI's have brought down the interest rate on real estate loans to a single digit. Nabil Bank is offering real estate loan at 9.99% with a tenure of 30 years where the rate will be fixed for the first seven years. Similarly, other BFI's are offering similar nature of semi-fixed housing loans.

Nepal Rastra Bank has increased the monthly installment to income ratio from 50% to 60% for loans upto NPR 5 million.

In Dhangadi, new regulations have been imposed for land plotting and development, requiring developers to create plots with a 10-meter-wide, 15-inch black-topped road. However, developers expressed dissatisfaction with this decision and have filed a case against it.

E-Commerce Bill Passed

Nepal took significant steps to address misconduct in its rapidly growing e-commerce market by introducing stringent legislation. The drafted bill, proposed by Industry Minister Ramesh Rijal and registered in the National Assembly in the previous week, outlined penalties of two to three years imprisonment and fines ranging from NPR 300,000 to NPR 500,000 for online platform operators and sellers failing to adhere to specified return or exchange timelines. The proposed law requires e-commerce platforms to maintain transaction records for six years, operate solely through official websites or apps, and stipulates penalties for unlisted platforms.

Nepal Bans TikTok, Sparks Debate on Freedom of Expression

In a noteworthy development, Nepal has recently decided to prohibit the popular Chinese-owned social media application, TikTok, asserting that its content was deemed detrimental to the nation's social harmony. The decision was prompted by TikTok's alleged propagation of malicious content. More than 1,600 cybercrime cases linked to TikTok were reported in Nepal over the past four years, according to local news. This move aligns Nepal with other nations, such as India, the United States, and the United Kingdom, where TikTok has faced similar restrictions.

Notably, Gagan Thapa, a senior leader of the Nepali Congress, expressed reservations regarding the government's decision to impose a blanket ban on TikTok. He contended that such measures were an encroachment on freedom of expression and advocated for a more nuanced and balanced approach focused on regulation rather than outright prohibition.

Durga Prasai's Pro-Monarchy Movement Gains Traction Amidst Political Divide

Durga Prasai's "campaign to protect nation, nationalism, religion, culture, and citizens" stirred controversy as his supporters clashed with security forces during pro-monarchy marches in the Capital. Despite facing opposition, Prasai continued his protests on a smaller scale. The rally, supported by right-wingers, royalists, pro-Hindu activists, and Rastriya Prajatantra Party backers, attracted crowds bussed in from various parts of the country. Former king Gyanendra Shah's alleged support for the movement focused on reinstating the monarchy, remained unconfirmed.

Independent MP Dr Amaresh Kumar Singh Speaks Up on Ncell Share Sale Case at Supreme Court

Independent Member of Parliament (MP) Dr Amaresh Kumar Singh has joined the discussion about the Ncell share sale case in the Supreme Court. He decided to speak as a lawyer without using his MP logo. Dr Singh, expressing a concern for the people, shared that he feels he can do more for the country in this role rather than as a member of parliament. He emphasized that he gathered evidence about Ncell's sale and purchase and believes that the ownership of Ncell should automatically go to the Government of Nepal as per the country's

rules after six years. The case involves unusual transactions that experts believe may cause harm to the country.

Former Home Minister Bal Krishna Khand Gets Bail in Bhutanese Refugee Scam Case

The Patan High Court has decided to let former Home Minister Bal Krishna Khand go on bail in the fake Bhutanese refugee scam case. This decision comes after the Kathmandu District Court initially ordered to imprison him. The High Court, led by Judge Krishnaram Koirala, agreed with Judge Janak Pandey that Khand should be released by paying NPR 3 million as bail. Khand, a member of the Nepali Congress, was accused of taking money while promising to send people to the US as fake Bhutanese refugees when he was the Home Minister.

Power Struggle: Nepal's Electricity Authority and Factories Clash Over Unpaid Dues

In a recent dispute that unfolded on December 22, the Nepal Electricity Authority (NEA) disconnected the power of four factories due to unpaid dues, escalating the conflict when four more factories faced power cuts on December 24. The disagreement centers around backdated bills issued by the NEA to industries that used dedicated feeders and trunk lines during the load-shedding period. Industries are refusing to pay, citing a lack of proof that they used the electricity.

Youth Protest Turns Violent: Minister's Car Torched in EPS Exam Grievance

In a recent incident at Balkumari in Lalitpur, youths protesting against the Employment Permit System (EPS) examination ignited the car belonging to Minister of Physical Infrastructure and Transport Prakash Jwala. The protesters not only set fire to the minister's car but also obstructed the road section during their demonstration. Two youths lost their lives when the police opened fire in the air to control the crowd. The incident highlights the intensity of the grievances surrounding the EPS examination, prompting an urgent need for resolution and dialogue.

Nepal-India Joint Commission Concludes with Landmark Agreements

The seventh meeting of the Nepal-India Joint Commission concluded in January with the signing of four significant agreements. Among the key agreements were an Indian grant for high-impact community development, a long-term energy trade deal, cooperation on renewable energy development, and collaboration on launching a Nepali satellite. The power trade agreement stipulates that Nepal will export 10,000 MW of electricity to India over the next decade. Additionally, three interstate transmission lines were inaugurated during the meeting. The signing ceremony was attended by Foreign Minister Narayan Prakash Saud and Indian External Affairs Minister S Jaishankar. The Indian government has announced NPR 10 billion in assistance to Nepal for its post-quake construction.

Conclusion

The political landscape in Nepal appears to be undergoing significant shifts and challenges, marked by nationwide protests by the Rastriya Prajatantra Party (RPP), raising concerns about potential religious and identity-based conflicts, possibly influenced by external powers. Former King Gyanendra Shah's meeting with

the RPP, the RPP's declaration to start protests for a Hindu rastra from Falgun, and Durga Prasai's Pro-Monarchy campaign further indicate a shift in political sentiments. Additionally, the Ncell share transfer issue, while gaining attention, might be strategically highlighted to counter sentiments raised by Prasai regarding the federal system's failure.

The struggles within Prachanda's government are evident, prompting speculation about potential changes to improve their image. Along the same line, the opposition party UML is seen concentrating its focus on the next election, accelerating its publicity around different parts of the nation. Despite one year passing since the current ruling coalition took power, the majority of efforts seem directed toward maintaining the coalition rather than focusing on developmental works.

There are also legal concerns surrounding the current governor since he lacks the required master's degree. However, we see the potential elongation of the petition process, given the historical precedents.

On the international front, agreements discussed during S Jaishankar's visit regarding the future of hydropower in Nepal, including a 25-year power trade and additional transmission lines, offer positive indicators for hydropower companies. Additionally, news of India investing up to NPR 200 million in Nepal without government interference might influence public perception toward India's agenda, particularly concerning the establishment of a Hindu Rastra. In the coming days, the political party in power may show a preference for coalitions, potentially sidelining newer political parties like the Rastriya Swatantra Party (RSP).

World Economy

Amidst a global economic landscape characterized by the most substantial monetary policy tightening in forty years, the anticipated severe impact on slowing growth has not materialized, yet the prolonged and unpredictable lag between policy adjustments and their economic ramifications underscores a persistent risk of recession. In 2023, the United States defied expectations with unforeseen growth, as consumers tapped into over \$2.25 trillion in pandemic savings. Looking ahead, consumers will be more reliant on wage hikes and Federal Reserve measures. Meanwhile, China grappled with economic challenges stemming from a housing crisis, mitigated by government stimulus measures aimed at fostering improved prospects.

In 2023, the Eurozone found itself ensnared by the complexities of stagflation, where the intertwining challenges of inflation and stagnant growth posed formidable hurdles. In a unique contrast, Japan, distinguished as the solitary developed economy wielding negative interest rates, stands poised to surpass its growth potential throughout 2024. This optimistic trajectory owes itself to the proactive stance of the Bank of Japan, engaged in a resolute battle against deflation and steering the nation towards a path of robust and sustained economic expansion.

The current geopolitical landscape, characterized as the most significant in decades, has injected a heightened level of economic uncertainty into the global arena. With ongoing conflicts in Ukraine, a humanitarian crisis unfolding in the Middle East, and escalating tensions between China and the West, executives and investors are confronted with a reality where assumptions of a calm geopolitical environment can no longer be relied upon in decision-making. While the prediction of individual geopolitical crises remains challenging, the discernible trend globally indicates a trajectory marked by more frequent and impactful conflicts.

In this evolving and, at times, perilous geopolitical terrain, successfully navigating the complexities will likely necessitate access to substantial expertise. Geopolitical issues, once overlooked, now hold the potential to directly impact companies' supply chains and customer bases. As such, the ability to anticipate, understand, and adapt to the shifting geopolitical dynamics becomes not only a strategic advantage but a crucial imperative for businesses seeking resilience and success in an uncertain world.

Nepalese Economy

Fiscal Situation (in billions)

Particular	Budget 2080/81	Budget 2079/80
Budget Size	1751	1550
Recurrent	1141	1022
Capital	302	314
Financing	307	214

In the previous fiscal year, the government faced challenges in meeting budget targets, necessitating a revision in the second quarter. The primary causes included a decline in tax revenue, a lack of liquidity affecting consumer spending, and various government policies such as import margin impositions and bans on specific goods. This fiscal year, the government has proposed a budget of approximately 12% higher than the previous year, amounting to NPR. 1751 billion compared to NPR. 1550 billion.

Despite the proposed increase, the current fiscal year poses challenges for the government in achieving its targets. The economy is progressing sluggishly, making it challenging for economic improvements. The government may need to strategize and implement effective measures to overcome these challenges, ensuring fiscal goals are met and sustaining economic growth.

Current Fiscal Situation till 2nd Quarter

(In billion)

Revenue and Expenditure	Till the end of 1st quarter	Till the end of 2nd quarter	Target achieved till the end of 2nd quarter this FY	Target achieved till the end of 2nd quarter, previous fiscal year
Revenue (Tax plus non-tax)	210	490	34.90%	32.71%
Recurrent Expenditure	210	430	38.31%	38.46%
Capital Expenditure	17	49	16.30%	14.05%
Financing Expenditure	49	80	26.02%	29.44%

In the second quarter, government revenue amounted to NPR 490 billion, achieving 34.90% of the targeted revenue collection. This revenue is derived from tax revenue, non-tax revenue, and grants.

Meanwhile, the estimated recurrent expenditure budget of NPR 1141 billion attained 38.31% of its target during the second quarter, just slightly below the 38.46% achievement in the previous fiscal year. Conversely, capital expenditure showcased significant progress, reaching 16.30% and totaling NPR 49 billion. This marks a noteworthy improvement when compared to the corresponding period last year.

Monetary Sector

Banking, Inflation and Interest

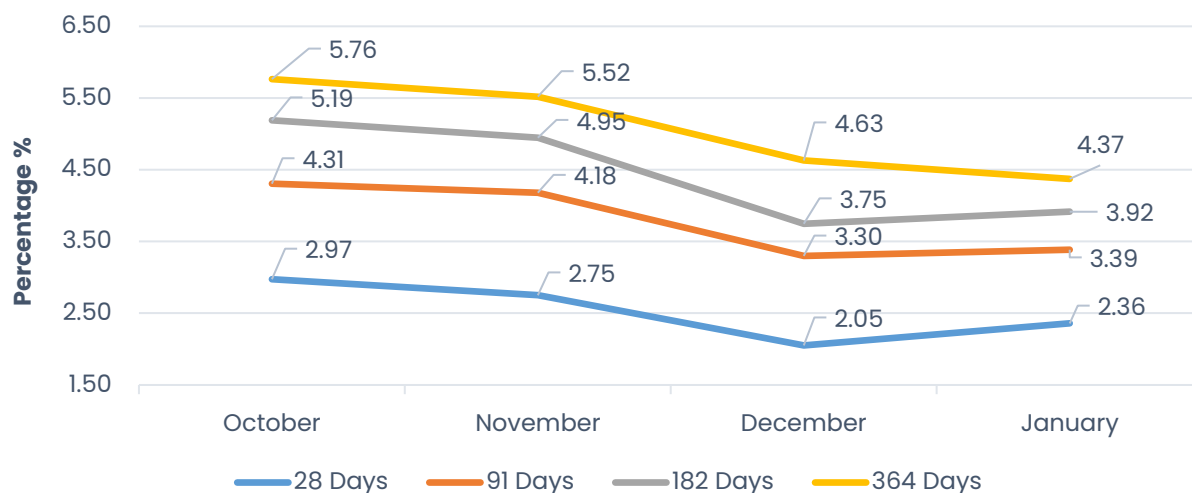
(in billion)

Indicators	Till end of 1st Quarter	Till end of 2nd Quarter	Increase/Decrease during the last quarter
Deposits	5,915.0	6,085.0	170
Total Loans	5,000.0	5,042.0	42
CD Ratio	81.74	80.1	-1.64
Inter Bank Rate (IBR)	1.99	2.68	0.69

In the fiscal year 2023/24, the government has ambitiously targeted an 11% credit flow, but achieving this goal seems highly challenging given the current circumstances. Despite a substantial increase in deposits within the banking sector, totaling NPR 6 trillion and witnessing a rise of NPR 170 billion from the first to the second quarter, the loan portfolio hasn't seen a proportional increase. Disbursing only NPR 42 billion has brought the total loan flow to NPR 5.04 trillion, a marginal uptick from the initial NPR 5 trillion in the first quarter. The primary impediment to increased lending lies in banks grappling with constraints related to risk-weighted assets.

As per the Nepal Rastra Bank's 2015 Capital Adequacy Framework, commercial banks are obligated to maintain a 0.5% counter-cyclical buffer by the end of fiscal year 2080/81. This requirement, coupled with the need to uphold a core capital of 8.5%, poses challenges for banks in enhancing their lending activities. In line with Basel III standards, banks may face hurdles in expanding their lending operations unless they bolster their capital through alternative means.

Treasury Yield



Analyzing the trend in Treasury bill rates suggests a prolonged period of low interest rates. Notably, the 364-day T-bill rates, commencing at 5.76% in the second quarter, experienced a significant reduction to 4.37% by quarter-end. Similarly, the rates for the 182-day T-bills saw a decline from 5.19% to 3.92%, mirroring the decreasing trend observed in the rates for the 91-day and 28-day Treasury bills.

Conclusion:

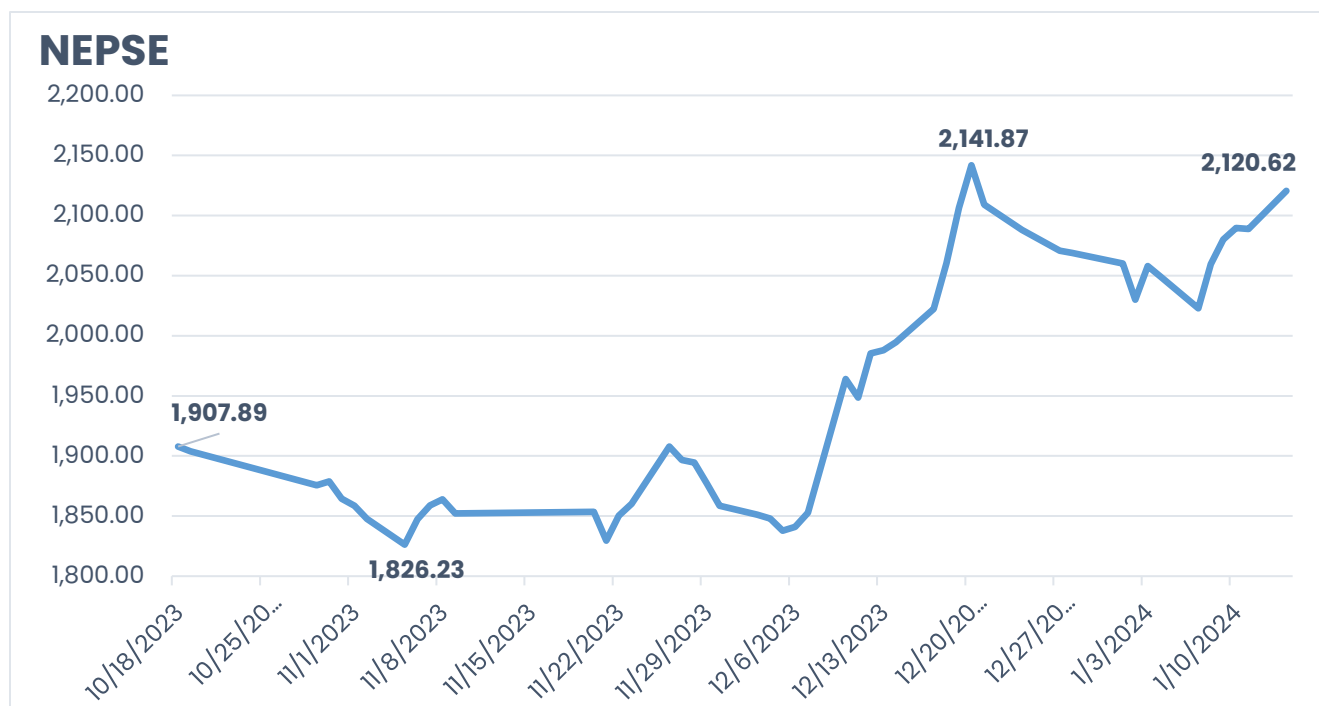
According to the fifth macroeconomic report released by the Nepal Rastra Bank, there are positive indicators signaling an overall improvement in the economic landscape. Notably, the inflation rate has decreased to 4.95%, showcasing a notable decline from the 5.38% recorded in the fourth macroeconomic report, representing a substantial 7.9% reduction. Furthermore, a promising shift is evident in the trade balance, with the combined total of exports and remittances surpassing the import figure. While imports amounted to NPR 129.71 billion, the combined value of exports and remittances reached an impressive NPR 147.93 billion. The rising number of renewals for migrant worker permits suggests a potential uptrend in remittances, further contributing to the positive outlook. The forex reserves, deemed sufficient to sustain approximately 11 months of merchandise and service imports, provide a robust foundation for economic stability. Concurrently, the declining trend in interest rates, with banks contemplating further reductions in fixed deposit rates, reflects a supportive monetary environment.

In summary, the collective evidence presented in the macroeconomic report paints a favorable picture of Nepal's economic trajectory, with decreasing inflation, a favorable trade balance, robust forex reserves, and accommodative monetary policies fostering an environment conducive to growth and liquidity in the markets.

Excess liquidity in the banks was a topic of discussion throughout the quarter. Even though excess liquidity was observed in the banking channel, there was low demand for loans due to the high interest rate in the beginning. Banks also showed no interest in aggressive loan growth as the risk weight for certain categories of loans was high and the capital adequacy ratio (CAR) of many banks was too close to the regulatory requirement for aggressive growth of the loan portfolio. Most of the banks reduced interest rates by some points every month during this quarter. The reduction in total loan outflow by banks seems to be reversing during the end of this quarter slowly with total loan outflow reaching NPR 5.042 trillion and total deposit at NPR 6.085 trillion as NRB revised the risk weight on two categories of loans i.e., margin nature loans and real estate loans from 150% to 125%.

Nepal Stock Exchange (NEPSE) remained open only for 49 days during the second quarter of this fiscal year due to the festive season. NEPSE index reached 2120.62 points at the end of the quarter from 1864.62 at the end of previous quarter making it a gain of 256 points (i.e. 13.73%). A notable rise in daily turnover was seen during the last month of this quarter with the highest turnover at NPR 7.11 billion on 24th Dec 2023. An increase in turnover can be attributed at some level to an increase in margin nature loans in recent quarters. Every other index except banking showed a notable rise in the second quarter. The Hydropower index was the highest gainer with a 34.89% gain followed by the investment index with a 27.77% gain and the Manufacturing & Processing index with a 21.05% gain.

Index	% Change	F.Y. 2080/81	
		2 nd Quarter	1 st Quarter
Banking	-0.01%	1,186.97	1,187.14
Development Bank	16.18%	4,152.28	3,574.11
Finance	12.30%	1,844.53	1,642.50
Hotels And Tourism	17.78%	5,634.22	4,783.84
Hydropower	34.89%	2,656.77	1,969.55
Investment	27.77%	82.36	64.46
Life Insurance	11.64%	10,932.32	9,792.36
Manufacturing And Processing	21.05%	6,043.88	4,992.94
Microfinance Index	10.44%	3,836.31	3,473.81
Mutual Fund	1.78%	18.89	18.56
Non-Life Insurance	16.04%	11,095.21	9,561.41
Others Index	19.07%	1,636.52	1,374.43
Trading Index	7.24%	2,898.95	2,703.26



BFIIs

Reduction in interest rates and slow rise in lending showed some silver lining for the banking sector at the end of this quarter. The issue of low capital adequacy ratio is still a controlling factor for loan growth in the economy. Despite having enough deposits to lend, banks couldn't aggressively expand their business due to constraints in the capital adequacy ratio. The banking index didn't show much movement with an overall loss of 0.01% during the quarter.

Insurance

The issue of share premiums was the major highlight in the insurance sector this quarter. Nepal Insurance Authority directed insurance companies not to issue any dividend from the amount collected as premium during the public offering.

Hotel & Tourism

Foreign tourist arrival number crossed the 1 million mark for the first time in four years. Nepal welcomed 1 million tourists between January and December 2023, after COVID, following China's border re-opening and record arrivals from India. This achievement is a huge moral boost for the hotel & and tourism industry as this sector was also hindered by the economic slowdown after COVID.

Hydropower

The long-term power trade agreement was formalized during the recent visit of India's Minister of External Affairs Mr. S. Jaishankhar to Nepal. An announcement was made in a joint press meeting to trade 10,000 MW of electricity within a timeframe of 10 years during a prime minister-level visit to India a few months earlier.

In the last decade, the population in core urban areas has witnessed a growth of 5.76%. According to survey reports from 2068, the population in core urban areas stood at 22.31%, and it has now risen to 27.07%. This demonstrates clear evidence of people migrating towards core urban areas in search of enhanced facilities and opportunities. The total count of house units has reached 7,552,066, with 59.82% being single-storey houses, 28.78% two-storey, 9.17% three-storey, 1.3% four-storey, and 0.65% above five storey. Notably, Bagmati has the highest number of high-rise buildings in Nepal. According to the 2078 survey, it is estimated that only 25% of households are utilizing banking loan facilities. This indicates a significant untapped market for educating people about the benefits of banking loan facilities.

Contractors have been facing challenges in conducting business due to delayed payments from the government. This delay in payment is expected to impact the construction cycle, leading to potential delays in the development process in the near future. In Jhapa, 16 out of 23 brick manufacturing factories have been shut down, while the remaining factories are operating at 70% of their manufacturing capacity. This is a stark indication of a liquidity crunch, having a significant impact in the construction industry. The business of steel and concrete manufacturing companies has experienced a 35% reduction, directly impacted by the slowdown in the real estate business. Four cement industries have closed down in Bara-Parsa Industrial Corridor. International Cement, Bishwokarma Cement, Krishna Cement and RMC Cement have stopped their production. However, we can anticipate a resumption in the upcoming quarters due to the relaxation in real estate business facilitated by NRB. This situation underscores the challenges that industries encounter during economic downturns. In this challenging scenario, where manufacturers are facing discouragement, the government needs to formulate robust policies.

In this quarter, banks find themselves with excess cash due to limitations on lending. Consequently, they have revised interest rates on real estate home loans, with some banks offering rates in the single digits. As interest rates decline, individuals are opting to break fixed deposits (FDs) and consider investments in small plots of land.

Despite a notable increase in the number of blacklisted business houses and individuals, it can be asserted that the major recession has been absorbed over the past two years through stringent policies. Moreover, there is a rising demand for properties in core urban areas. Although the expectation is for slow and cautious growth in the near future, signs indicate a potential uptick. With easier access to loans, the residential real estate market is anticipated to remain resilient despite economic challenges.

Transaction Records:

Time	Number of Transactions	CGT	Total Tax collection
2080 Kartik	77,185	770,916,027	2,163,867,564
2080 Mangsir	127,639	964,504,897	2,865,011,021
2080 Poush	136,773	1,100,940,082	3,205,213,530

Time	Number of Transactions	CGT	Total Tax collection
2079 Kartik	76,562	702,294,848	3,007,625,916
2079 Mangsir	89,246	727,869,661	2,649,000,913
2079 Poush	113,898	1,172,157,965	3,715,997,803

When analyzing transaction reports on a year-on-year (Y-O-Y) basis, it becomes evident that there has been some improvement in the last month of the quarter. However, this improvement is still short to say that the real estate sector has recovered completely. The government and NRB have shown flexibility towards the real estate sector in the last two quarters, indicating positive signs in this quarter despite the lack of confidence in the market.

Upon observing the financial situation of the entire economy and considering a few investment opportunities, there is a noticeable improvement in the real estate sector. Policy revisions, including the allowance for kitta kat, the adjustment of the interest rate corridor, and the reduction of the risk-weighted average (RWA) from 150% to 125%, are certainly instilling hope and confidence in real estate transactions.

Additionally, the increased inflow of remittances has provided substantial support to the real estate sector. Adopting a comprehensive approach to address challenges in the real estate sector, focusing on financial accessibility and easy governance, lays a stronger foundation for the industry's future.

Generally, the stock market index in any country is taken as a barometer of the economic condition. Among many determinants of a stock index, macroeconomic variables like inflation, interest rate, political turmoil, government policy along with company-specific risks and prospects, etc. have a considerable impact on the movement of the price of a stock. The relationship between the stock market and the economic state has always been a matter of discussion among academicians, financial analysts, bureaucrats, and stock market enthusiasts.

Numerous studies conducted in our country have delved into the intricate relationship between various economic factors (both macro – interest rate, inflation, treasury rate etc. and micro) and the performance of stocks in NEPSE.

Exploring the Recent Rally's Footprints

NEPSE Index: Since 2019



On March 12, 2020, the World Health Organization (WHO) declared COVID-19 a pandemic. Stock markets around the world started to fall and the NEPSE index was no exception. The country's index fell from 1,335.25 points on 12th March 2020 to 1,197.09 points on 29th June 2020. This event was a major shock to the country's economy because this meant a reduction in imports, and disruption in travel, education, financial, and construction sectors, all of which have a significant contribution to the country's GDP. Following the lockdown that was imposed in the country due to the worldwide pandemic, a series of economic events transpired, reshaping the financial landscape and leaving a lasting imprint on the stock market until August 2021. A pivotal element of this transformation centered around the functioning of the multiplier effect. As the economy was coping with sudden economic shocks, other significant changes were taking place within the

economy like a decrease in overall interest rates (banks started to give out loans as low as 8%, and saving rates were reduced to 1 to 3%), increase in the amount of remittance, restriction to import, building up of liquidity within the banking sector and the launch of TMS, an online trading platform in Nepal. In the face of a slow economy due to COVID-19 and import restrictions, banks responded by gradually offering more margin loans (shown in Table 1). People and investors then jumped into the stock market with these loans, creating a market rally. In the context of the stock market, the multiplier effect was evident as the surge in liquidity acted as a catalyst for increased investment in equities. The decreased interest rates further incentivized investors to seek higher returns in the stock market, contributing to the remarkable uptrend witnessed until August 2021.

Table 1

Date	NEPSE Index	Margin Loan	% Increase 
Mid-Aug, 2021	3,160.09	92,085.02	1.28%
Mid-Jul, 2021	2,883.41	90,923.62	11.89%
Mid-Jun, 2021	3,025.83	81,259.05	-0.43%
Mid-May, 2021	2,684.09	81,611.55	3.31%
Mid-Apr, 2021	2,714.79	78,994.44	12.19%
Mid-Mar, 2021	2,458.49	70,411.65	6.36%
Mid-Feb, 2021	2,526.92	66,199.13	3.34%
Mid-Jan, 2021	2,286.55	64,059.65	13.15%
Mid-Dec, 2020	2,061.42	56,612.67	12.35%
Mid-Nov, 2020	1,718.50	50,390.86	3.76%
Mid-Oct, 2020	1,562.46	48,564.23	12.51%
Mid-Sep, 2020	1,541.40	43,165.98	4.38%
Mid-Aug, 2020	1,391.46	41,355.84	0.03%
Mid-July, 2020	1,362.35	41,345.03	8.34%
Mid-June, 2020	1,201.58	38,162.39	0.47%
Mid-May, 2020	1,201.58	37,982.82	-0.20%
Mid-Apr, 2020	1,251.46	38,059.10	2.44%
Mid-Mar, 2020	1,377.18	37,151.25	

From Boom to Bust

NEPSE index increased to 3,227.11 till 19th August 2021 then after started to spiral down. Many changes in terms of policy and business environment took place during the bull of 2020/21 that forced the stock price to plummet from 3,227.11 to 1,811. Currently, the index is moving between 1,800 points to 2,270 points.

The dramatic descent of the NEPSE Index according to our analysis was significantly influenced by a strategic interplay between the NRB's policy changes and the actions taken by the Securities Board of Nepal among other factors. Nepal Rastra Bank unveiled its monetary policy for the fiscal year 2020/21 on 13th August 2021 during which the ratio of market capitalization to GDP stood at highest around 94% (highest till date). The significant policy changes introduced by NRB in its monetary policy 2021/22 which impacted the direction of NEPSE were: First, NRB decided to scrap the CCD (Credit to Core capital and deposit) ratio and substituted

it with the CD (Credit to Deposit) ratio. Second, NRB introduced a provision that restricted margin loans. According to the provision, now any individual or institution could only take a margin nature loan against collateral of shares up to Rs. 40 million from one financial institution and Rs. 120 million from the entire financial system. This provision was supposed to minimize the credit risk of such margin-nature loans. The market responded negatively, interpreting these measures as an intentional effort to curb its rapid rise. Additionally, the Securities Board of Nepal expressed concerns, publishing a list of 51 companies that gained over 300% during the rally, with P/E ratios exceeding 100, adding another layer to the financial landscape. The policy changes by NRB by restricting the amount of margin nature loan along with the SEBON introducing the list of 51 companies led market to nosedive as can be seen through table 4.

NEPSE Index and Margin Loan: Empirical Evidence

Based on the data presented above, it appears that NRB's policy decisions, whether to restrict or loosen the flow of credit, have an impact on the capital market. To examine our hypothesis regarding the relationship between margin nature loans, which depend on NRB's policies, and the NEPSE index, we conducted a statistical analysis (regression and correlation) using monthly data collected from the Nepal Rastra Bank's archives. The data spans from mid-August 2016 to mid-November 2023.

Result of Analysis:

Model 1: $\text{NEPSE Index} = \beta_0 + \beta_1 \times \text{Margin Loan} + \beta_2 \times \text{Weighted Average Credit Rate} + \epsilon$

Table 2

Model Fit

ANOVA		Sum of Squares	df	Mean Square	F	Sig.	R Square
Model 1	Regression	23281340.39	2	11640670.2	380.3	0	0.899
	Residual	2601711.285	85	30608.368			
	Total	25883051.67	87				
DV: NEPSE Index, IDV : Margin loan, Wt. Avg. Credit rate							

The ANOVA table presented (Table 2) above addresses whether the proposed model (model 1) is suitable for analysis. Specifically, it assesses the question of whether the variation in the independent variables (Margin Loan and Weighted Average Credit Rate) effectively accounts for the variation in our dependent variable, namely the NEPSE Index. The significance value, indicated as 0, provides the answer, signifying that we can proceed with the inclusion of these variables in our analysis.

Table 3

Regression

		Unstandardized Beta	Sig.	VIF
Model 1	(Constant)	1613.29	0	
	Margin Loan	0.023	0	1.189
	Wt. Avg. Credit Rate	-90.811	0	1.189
DV: NEPSE Index, IDV : Margin loan, Wt. Avg. Credit rate				

Table 4

Source: NRB (Amt in mn. of Rs.)


Date	NEPSE Index	Margin Loan	% Decrease 
Mid-Nov, 2023	1,852.09	63,600.31	0.42%
Mid-Oct, 2023	1,864.62	63,332.32	4.34%
Mid-Sep, 2023	2,007.00	60,700.81	3.05%
Mid-Aug, 2023	2,033.14	58,902.12	7.69%
Mid-July, 2023	2,097.10	54,698.12	-4.93%
Mid-June, 2023	2,042.07	57,536.38	-0.48%
Mid-May, 2023	1,821.64	57,814.23	-0.49%
Mid-Apr, 2023	1,934.48	58,100.84	-0.56%
Mid-Mar, 2023	1,953.06	58,427.42	0.31%
Mid-Feb, 2023	2,121.87	58,247.72	-0.27%
Mid-Jan, 2023	2,149.39	58,404.90	-0.61%
Mid-Dec, 2022	1,882.61	58,765.69	-1.91%
Mid-Nov, 2022	1,911.26	59,911.77	-0.72%
Mid-Oct, 2022	1,858.33	60,348.29	0.05%
Mid-Sept, 2022	1,910.38	60,319.07	-2.02%
Mid-Aug, 2022	2,041.06	61,563.90	-5.02%
Mid-July, 2022	2,009.47	64,818.98	-9.61%
Mid-June, 2022	1,996.26	71,713.79	-4.60%
Mid-May, 2022	2,350.43	75,168.86	-4.13%
Mid-Apr, 2022	2,415.25	78,409.99	-1.71%
Mid-Mar, 2022	2,668.12	79,777.60	-3.24%
Mid-Feb, 2022	2,801.57	82,447.46	-1.50%
Mid-Jan, 2022	2,857.75	83,705.35	-1.07%
Mid-Dec, 2021	2,414.62	84,611.64	-1.80%
Mid-Nov, 2021	2,784.58	86,159.42	-2.32%
Mid-Oct, 2021	2,656.97	88,206.07	-0.26%
Mid-Sept, 2021	2,812.26	88,437.07	-3.96%
Mid-Aug, 2021	3,160.09	92,085.02	

Table 5

Correlation

	Nepse Index	Margin Loan	IBR	Inflation	T-Bill	Credit rate
Nepse Index	1					
Margin Loan	.923**	1				
IBR	.223*	.340**	1			
Inflation	0.112	.223*	.626**	1		
T-Bill	.262*	.398**	.874**	.694**	1	
Credit Rate	-.567**	-.398**	.349**	.364**	.463**	1
** Correlation significant at 0.01, * Correlation significant at 0.05						

Interpretation:

Regression:

Through this examination, we've uncovered significant insights that hold relevance to all the investors invested in NEPSE. We focused our study on two key factors: Margin loan and weighted average credit rate, aiming to understand their impact on market dynamics.

To start, the big picture: The overall model exhibited statistical significance indicating that the predictors (weighted average credit rate and the amount of margin loans) collectively contribute significantly to explaining the variability in the NEPSE index. The model accounted for a good 89.9% of the variance in the NEPSE Index, suggesting a robust fit between the variables (Table 3). Breaking down the individual contributions, margin loan emerges as a positive player – when it goes up, so does the NEPSE Index. This link suggests that monitoring margin loan trends might be a beneficial strategy for investors. On the flip side, the weighted average credit rate takes on a more cautious role, showing a negative connection with the NEPSE Index. In simple terms, a higher credit rate seems to dampen the NEPSE Index. This insight is particularly relevant for investors who gauge market sentiment through credit rates.

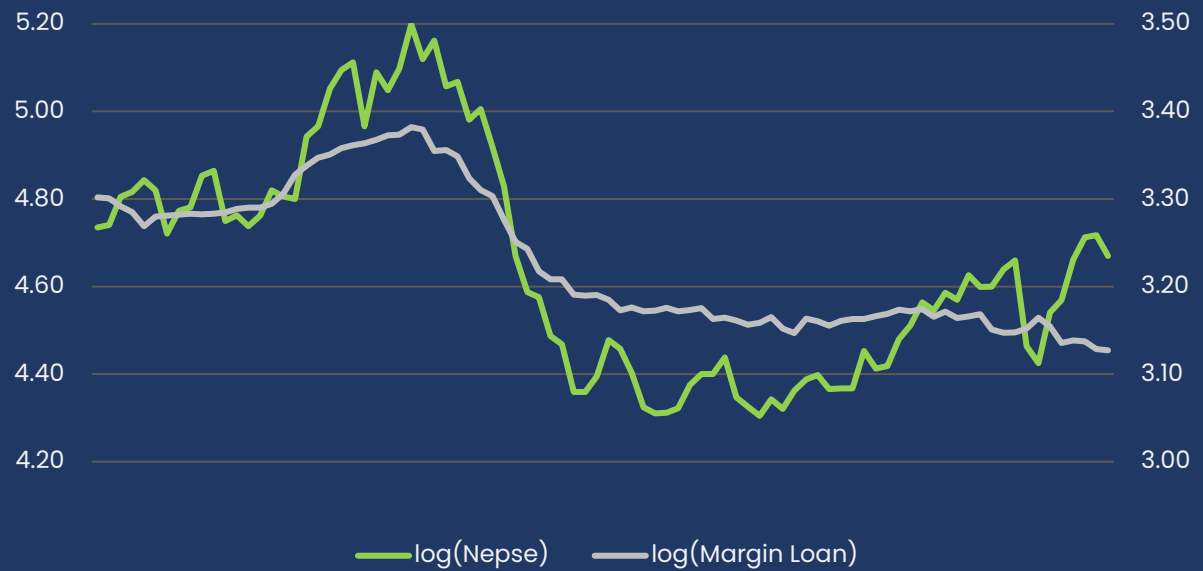
In a nutshell, this analysis is a practical guide for investors, conveying a clear message: Keep an eye on margin loan (also, on the policy changes by NRB which might bring about a change in the current level of margin loan flowing from BFIs into the economy) and credit rates as they play a crucial role in understanding the NEPSE Index. By staying attentive to these indicators, investors are more likely to make an informed decision in the ever-changing financial landscape.

Correlation:

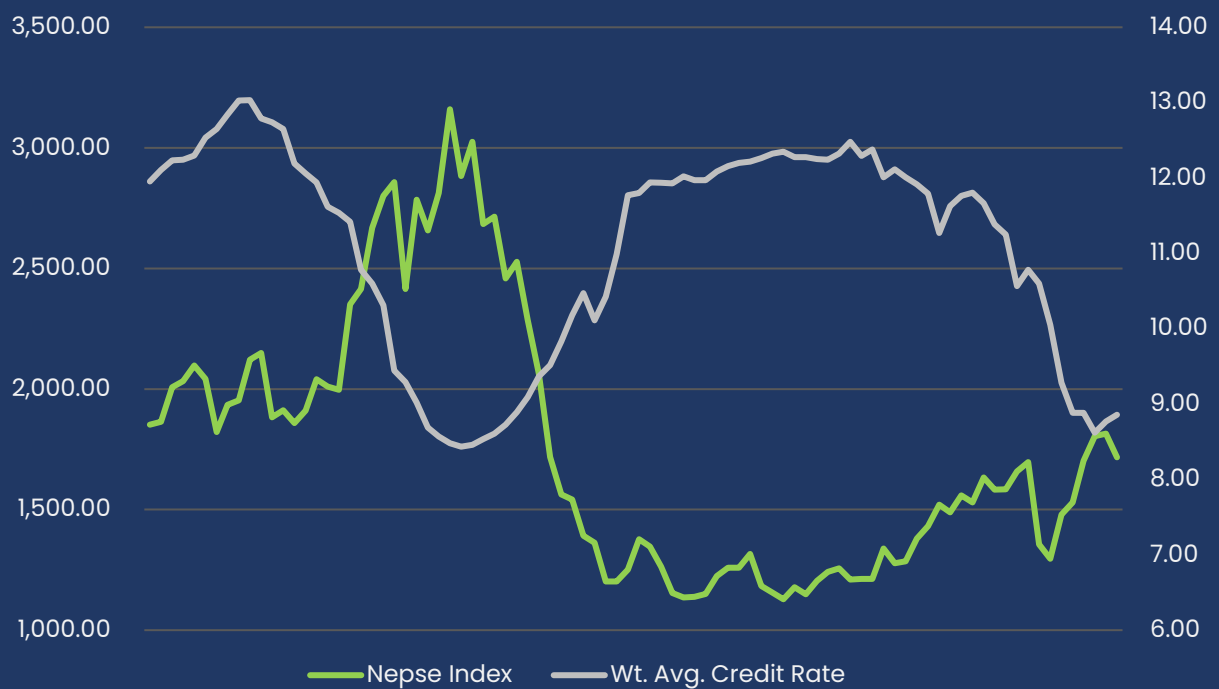
To begin, let's analyze the correlation matrix, a tool employed to gauge the level of association among various variables. Simply put, the positive or negative sign of the coefficient indicates the direction of the relationship between variables, while the coefficient's magnitude reflects the strength of this relationship. Coefficients of 1 and -1 indicate a strong positive and negative correlation between the two variables, respectively.

Figure 2

Margin Loan and NEPSE Index



Credit Rate and NEPSE Index



To see the relationship between different variables affecting the NEPSE Index, we have taken different variables like Margin loan, inter-bank rate, Inflation, weighted average credit rates and T-Bill rates. At first glance into our correlation table, we find the coefficients to be positive as well as negative. Apart from the relationship between credit rates – NEPSE Index, Credit rate – Margin loan, all other coefficients in tables are positives. Negative coefficients between credit rates and NEPSE index signifies that they are negatively related. In other words, this negative coefficient addresses the fact that as credit rate decreases NEPSE Index is seen to increase and as the credit rate increased in the past NEPSE index has been found to decrease as well. Additionally, the negative coefficients between Margin loan and Credit rates also signifies a negative relation between them. Furthermore, credit rates and NEPSE index are moderately significantly related and credit rates and margin loan are weakly but statistically significant.

Next, it becomes evident that Margin loan which is the basis of our analysis is strongly associated with Inter Bank rate, Inflation, T-Bill rate (positively) and credit rates (negatively). Above all, the strong, positive and significant statistical relationship between **NEPSE Index and Margin loan (.923) points that these two variables have more significance** among all other variables. A correlation coefficient of 0.93 indicates an exceptionally strong positive linear relationship between margin loans and the NEPSE index at the 0.01 significance level. At the 0.01 significance level, the observed correlation is deemed highly unlikely to be a result of random chance. This statistical finding is crucial for financial analysts and investors, suggesting that movements in margin loans are closely tied to the fluctuations in the NEPSE index, allowing for informed decision-making and risk management in the context of NEPSE Index. The relationship between NEPSE Index - Margin loans, NEPSE Index – Weighted average credit rates can be seen in Figure 2.

