



ALPHA CAPITAL

Fund for Contrarian Investors

NEWSLETTER

First Quarter 2080-81

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Former Speaker & Chairman of Constituent Assembly Subas Chandra Nembang has passed away. Nembang who is also vice-chairman of UML died on Sep 12 after he suffered a heart attack.

The government has approved the new Citizenship Regulation. Non-resident Nepalese can now obtain Nepalese citizenship if s/he is residing in a foreign country other than member countries of SAARC.

CPN (Maoist Centre) has said that it is ready to change the name of the party and remove the Maoist tag if the other communist parties and forces are ready to come together.

A leader of Nepali Congress Shekhar Koirala met the party President Sher Bahadur Deuba and expressed his displeasure over the way the party is run. He warned Deuba not to operate the party in a single-minded manner.

Chairman of CPN (UML) KP Sharma Oli has said that it is no longer possible to revive the NCP. "Those who took refuge in the Congress after toppling the CPN government are talking about reviving the CPN to

subdue the people," said Oli. He said that those who say they are communists should come to UML.

Dissatisfaction with the government's service delivery is increasing within the Nepali Congress, the main constituent of the power partner. Pushpa Kamal Dahal, along with 9 ministers, is not satisfied with the work of the Congress government participating in the 'Prachanda'-led government.

A rebel lawmaker from Nepali Congress Kedar Karki has become the chief minister of Koshi Province. He had 39 lawmakers from UML supporting him while only 8 lawmakers from NC supported him in lieu of coalition joint candidate from the Maoist center Indra Bahadur Angbo.

The race to become the finance minister has started with the agreement to reorganize the cabinet among the top political leaders. An agreement has been reached between the ruling coalition to change the Minister of Finance and the Minister of Home Affairs, while two ministers of the United Socialist Party are also being recalled and two new ones are being sent.

A man who claims himself to be a pro-monarchy and anti-MCC activist attacked Nepali Congress Joint General Secretary Mahendra Yadav in Kathmandu.

A courtesy meeting was held between Finance Minister Dr Prakasharan Mahat and the delegation led by MCC Chief Executive Officer Alice Albright. On the occasion of the meeting, Finance Minister Mahat expressed the view that the success of projects under MCC is essential and only if they can be implemented in accordance with the stipulated time limit, budget limit and scope, the doubts of the past will end and a successful example of project management can be presented in Nepal.

The Supreme Court has ordered a show-cause order regarding the non-registration of cases against former Prime Ministers Madhav Kumar Nepal and Baburam Bhattarai in the Lalita Niwas case.

During the visit of Prime Minister Pushpa Kamal Dahal "Prachanda" to China, 12 agreements and memorandums of understanding were signed between Nepal and China.



About NPR 100 billion was withdrawn from commercial banks in a single day after the provision for including the amount in local-level accounts as deposits was removed.

The increase in the number of blacklists shows how the life of common people is becoming financially difficult due to high-interest rates, lack of liquidity, and economic recession.

NEA is upgrading the power transmission network to meet growing demand in Nawalparasi. The core of this development is the construction of a new double-circuit transmission line, Sunwal-Hakui 132 kV, aimed at addressing the escalating electricity demand in the Bhairahawa Industrial Corridor of Parasi and Rupandehi.

The government has set a target of acquiring internal loans worth NPR 240 billion in the current fiscal year, while a total of NPR 55 billion will be collected by the first quarter end in mid-October.

Every year, the number of young people who go abroad is increasing. In the financial year 2079-80, the number of Nepali youths who migrated abroad for foreign employment has increased by more than 21%. In the absence of good employment opportunities, around 800,000 people go abroad every year to countries other than India.

In the draft 'Electricity Act 2080,' approved by the Council of Ministers, a provision has been included that prohibits a single company from engaging in all three aspects simultaneously. At present, the Nepal Electricity Authority holds a monopoly over all aspects of electricity generation, transmission, and distribution.

Chaudhary Group, a prestigious business house in Nepal, and Adani Group, a prestigious business house in India, have agreed on a strategic partnership for the enhancement of cement business between the two countries. With the aim of further strengthening the deep relationship between Nepal and India, the two business houses have started a new chapter in the cement business.

IME Group will build Disneyland in collaboration with a Chinese company. During Prime Minister Pushpa Kamal Dahal's visit to China, an agreement was signed between the two companies to build a theme park similar to Shanghai Disneyland in China. The potential site for the theme park is anticipated to be in Chitwan.

The World Bank has predicted that Nepal's economy will grow by 3.9% in 2024. Along with the removal of import bans, enthusiasm is returning to tourism and monetary policy is gradually being eased.

FNCCI President Dhakal discusses visa, and trade relations with Indonesian Ambassador. The discussion centered around mutual interests in collaboration, business enhancement, and people-to-people relations. Information on this was shared by FNCCI.

As economic woes deepen, poultry farmers face hardships in business. The investors are having difficulties repaying their loans to the banks and financial institutions due to the current economic crisis.



Nepal and Germany have signed a Joint Declaration of Intent (JDoI) on the Skilled Labour Migration and Knowledge Exchange at the Federal Ministry of Labour and Social Affairs of Germany.

The US dollar has reached an all-time high. Since Nepal imports in large amounts, the goods will come in with expensive dollars, its pressure

will be seen in the price increase.

The government is preparing to introduce an automated system for foreign direct investment (FDI) worth up to NPR 100 million. The online system will allow people to register and accomplish the required bureaucratic process to open a company even from their home country and will not have to take approvals from government offices separately.

Nepal has prepared to make a proposal with a plan to take more concessions in trade with America. After the completion of the 'Nepal-US Trade and Investment Talks' (TIFA), which had been stalled for a long time, the Nepali side started the initiative to take more concessions.



SEBON is enforcing stricter rules for hydropower companies in regard to their IPO and share trading.

Hydropower companies have been known to issue shares to the general public to raise capital for their projects. However, concerns have arisen when these companies deviate from their intended goals and invest the amount elsewhere.

The Global IME Bank will take a US\$25 million loan from the Global Climate Partnership Fund (GCPF) Luxembourg. Regarding the loan investment, the agreement has been exchanged between the bank and the GSPF.

A new law has been drafted to extend the period of permits for hydropower projects. According to Electricity Bill 2080, which has been approved by the Council of Ministers, the permit period for reservoir projects has been proposed to be 45 years.

The way has been opened to bring the NEPSE-30 index into full operation. Nepal Stock Exchange (NEPSE) has approved the procedures related to index development, operation, and management.

The Securities Board of Nepal (Sebon) is considering amending regulation to allow Non-resident Nepalis (NRN) to invest in the country's secondary market.

In the seventh amendment of the Securities Registration and Issuance Regulations, the Nepal Securities Board has provided that private companies with a two-year trading record will be allowed to issue an IPO as soon as they go public.

Securities Brokers Association Nepal has demanded to amend the current provision of opening two demat accounts. Submitting a memorandum, the association has requested that the demat account, which is an indispensable tool for risk management, be left open as per the needs of investors.

Nepal Rastra Bank is encouraging mergers among microfinance companies by providing dividend concessions. Amending the Unified Directive, 2079 issued to licensed Microfinance Financial Institutions of the "D" category, the central bank has relaxed the provision for allocating funds to Corporate Social Security from

25% to 15% of excess dividend amount.

Nepal Securities Board has granted 5 stockbroker licenses to more companies. The meeting of the Board of Directors allowed 3 brokers to do limited work and 2 brokers to do full business.

After widespread criticism that mutual funds are not working as intended, SEBON has started discussing the removal of the quota of mutual funds. The board is discussing not giving the 5% reservation quota given to mutual funds.

Rastriya Beema Sansthan, which is owned by the government, is going to issue primary shares worth one and a half billion rupees to the general public. Currently, the insurance company operating as a corporation has prepared to issue shares by transforming into a public company according to section 172 of the Insurance Act.



The Barahi Group is planning to unveil a hotel in Sedi, Pokhara, with an estimated investment of NPR 6 billion by the year 2026. The hotel is expected to cover an area of 63 ropani and will feature 71 rooms for guests.

The extension of the Ring Road from Kalanki to Basundhara has commenced, and it differs from other sections of the Ring Road. This specific extension is aimed at improvements and enhancements to make it more pedestrian-friendly.

The Butwal to Palpa tunnel road, which is approximately 1.126 kilometers in length, is expected to be completed within the next five years. While work has commenced, the project has experienced some delays due to the rainy season. Nevertheless, the Department of Roads remains confident that the project will be completed on schedule.

The Nagdhunga-Naubise rescue tunnel road, spanning 2.5 kilometers, has been successfully completed. Within the main

tunnel, which is also 2.5 kilometers in length, only 500 meters of work remains to be finished.

The contract for the Narayanghat-Butwal Road, a 114-kilometer-long project, has been extended by one year. Currently, 40% of the 65-kilometer section and 36% of the 49-kilometer section have been completed.

The upgrading of the Mugling-Narayanghat road has commenced. This project covers a total length of 39 kilometers. The current road upgrade is anticipated to provide improved infrastructure that will last for the next 20 years.

For the Sanga-Dhulikhel Road, approximately 15% of the work has been completed for the 15.5-kilometer-long road.

The risk weight of loans flowing to licensed real estate companies has been reduced from 150% to 100%.

Nepal Rastra Bank has increased the home loan limit for first time home buyers from NPR 15 million to NPR 20 million through the current year's monetary policy.

The businessmen from the construction sector started protests saying that the construction business is in crisis due to the fact that they work for twelve months but the government only pays them in the last month of the fiscal year resulting in huge receivables.

The new design for the flyover under construction at Gwarko has been approved. It is claimed that the construction of the flyover will go ahead. The previously prepared design was redesigned after problems were seen and the equipment was not available according to the design.



At the start of the fiscal year, members of the opposition had been demanding the resignation of the Prime Minister. Some members of Nepali Congress were also voicing their dissatisfaction with the government. Prime Minister Dahal felt he wouldn't be Prime Minister for long. He might have expected Nepali Congress & UML to come together. The Maoist party itself seemed to be weakening. We too were expecting a change in the government.

However, everyone's attention was diverted towards the 100kg gold smuggling case. It could have been yet another political move. The Maoist government has been bringing back the old cases and arresting high-profile individuals. The 100kg gold case also had some high-profile names from CPN-UML. With rumors spreading that NC and UML might form an alliance, opening up all these cases could be a move of Maoists to bring instability within the competitors. For internal party politics, Prachanda seems to be developing a ploy to weaken the bargaining power of members like Janardan and Pun by bringing in Biplov and Babu Ram as his successors. He has been calling for the unification of all leftist parties except UML. The formation of Samajbadi Morcha looks like a step to keep the coalition partner Congress in check. Thus, all of the political opponents for Prime Minister Dahal (inside the party and other parties as well) have been put under scrutiny as the government has been investigating old cases which have involvement of political leaders of all major Parties including Congress and UML in Bhutanese Refugee scandal, Lalita Niwas scandal involving Baburam Bhattarai and Madhav Kumar Nepal. All of these look like moves to keep staying in power by the incumbent PM.

Naturally, the Nepalese political realm has been quiet since the gold smuggling case. Yet, all the other events are there as usual. The youth leaders in the Nepali Congress have been voicing their concerns over the leadership of the Nepali Congress. They feel threatened by the newcomers such as Rastriya Swatantra Party and Kathmandu's mayor Balen. Some members of the Unified Socialists party have returned to their mother party UML. These events indicate the weakening of the coalition.

Businessmen particularly the Marwari community are dissatisfied with the government. They believe they are being unfairly targeted. Those involved in the Lalita Niwas scam have already gone underground or left the country. As such, if more such cases come targeting these businessmen, we can anticipate capital flight from the country. This will impact the business sentiment in the country as well as the investment climate. We believe they are being targeted for political donations and funding. Due to the recession, their businesses have been affected and there might have been some internal conflict. This might have made them political targets. We believe they won't be leaving their businesses but only reducing reinvestments.

Maoist popularity is dwindling. Hence, they are likely to take up more such cases. As long as Prachanda is PM, such cases won't go away. Maoists are also being targeted through various petitions involving their role in insurgency-era cases. It is highly likely that the government will dissolve rather than major leaders



and businessmen get pulled into such scandals looking at the past history of the Nepali Political landscape.

We lost a respected leader this quarter – Subas Chandra Nembang. He had multiple times assumed the role of Speaker of the Parliament and Constituent Assembly. We pray for the departed soul to rest in peace.

Although domestic politics has been quiet, our bilateral relationship management has been quite interesting. Prime Minister visited both the US and China back-to-back. First, he attended the United Nations General Assembly. There he met with UN Secretary-General Antonio Guterres. They discussed bringing Nepal's peace process to a logical end as well as development financing among other things. He also met with US President Joe Biden and President of Sri Lanka Ranil Wickremesinghe. He also met with Rabab Fatima, Under-Secretary-General and High Representative for the Least Developed Countries about the graduation of Nepal from LDC status.

Immediately after, Prime Minister Dahal embarked on a week-long visit to China. He attended the opening ceremony of the 19th Asian Games at the invitation of Chinese Premier Li Qiang. He then met with Chinese President Xi Jinping and his Chinese counterpart Li Qiang. The Chinese side has been urging Nepal to support its various initiatives such as the Belt and Road Initiative (BRI), Global Development Initiative (GDI), Global Security Initiative (GSI), and Global Civilizational Initiative (GCI). Nepalese officials have said that while we support the various initiatives of China, Nepal won't be part of any security initiative as it is against our policy of staying neutral. All in all, Nepal signed 12 agreements during the visit, none of which were under the BRI initiative. In return, Nepalese officials acknowledged that Nepal recognized the one-China principle and was against Taiwan's independence; and that Nepal will never allow separatist activities against China on Nepal's soil referring to China-Tibet affairs.

China's visit was followed by a visit from the Chief Executive Officer of the Millenium Challenge Corporation Alice Albright. She met with Prime Minister Dahal along with various others like the Home Minister, Foreign Minister, Finance Minister, Energy Minister, Physical Infrastructure, and Transport Minister to talk about the timely completion of the MCC projects.

In conclusion, there wasn't any major event in the political scene of the country for the first quarter. However, the weakening economic scenario of the country can be expected to bring some turmoil in the political landscape too. Additionally, both China and the USA are becoming active in expediting their respective projects BRI and MCC in Nepal. Both want to increase their influence in Nepal. Their struggle for dominance could cause some instability in Nepal.



World Economy

Most economists were expecting a severe recession heading toward the world economy, but this has not yet materialized. The relatively mild impact of recession over the globe might be because of some temporary factors. Households in some developed economies have been using up their savings accumulated during the pandemic which could have provided a buffer to economic challenges thanks to the fiscal policy which was employed by the countries during COVID-19. During the pandemic, many countries implemented fiscal policies such as stimulus checks and unemployment benefits to support their citizens which played a major role in preventing a more severe economic downturn during the worst of crisis.

Though the temporary factors are holding the economy, they are not expected to last in the future as credit growth has weakened or turned negative across the advanced economies. This is made evident as net bank lending to the private sector has decreased in the U.S., Euro-Zone, and U.K. Similarly, U.S. unemployment sits at its lowest point since 1968 and core inflation is higher than it was in 1983. Additionally, the Federal Reserve and the European Central Bank have raised rates at their fastest pace in 40 years and 30 years respectively. Though the previous monetary tightening has worked, this however has made the financial condition over the globe less favorable as monetary tightening acts as a friction for consumers and businesses to borrow money which can have several ripple effects in the economy. Thus, a possibility of recession across most of Europe is still there while suspecting contraction of US GDP in the time to come.

China's economic challenges also have given rise to several economic problems like too low inflation, too much housing, a property market crisis, and an increment in the rate of youth unemployment (Aged 16 to 24). This rate in June reached 21.3%. This gloomy statistic presents a concern for the Chinese economy and persistent deflation is likely to spill over to developed markets as a weaker yuan lowers the cost of Chinese goods abroad. This also means that the positive spillover effect (in case the Chinese economy rebounds due to policy support from the country) from China's recovery will be limited to developed markets.

Emerging markets are also expected to be impacted by the weakness in developed markets. This can impact exports from emerging markets viz. India, Thailand, Mexico, Poland, Philippines, etc., and can lead to fiscal tightening as well. One key exception here could be India's pre-election fiscal boost. Supporting all the above facts, the OECD has predicted the global GDP growth to remain subpar in the year 2023 and 2024, at 3% and 2.7% respectively.



Nepalese Economy

On Monday, 29 May 2023, the Honorable Finance Minister, Dr. Prakash Sharan Mahat presented the budget for the fiscal year 2080-81 according to which 65.19 % of the total budget is allocated to current expenditure, 17.2 % is allocated to capital expenditure and remaining 17.5 % of the total budget is allocated to financing expenditure. Similarly, the economic growth is set at 6% and inflation is targeted to be 6.5% for the fiscal year 2080-81 (2023-24).

However, the real growth of GDP decreased by an estimate of 1.9% in FY23, the lowest rate since FY20 and substantially below the 10-year average growth rate. Major contributors behind the scenario remain to be import restriction and monetary tightening. Recent growth rates for GDP in Nepal predicted by major international agencies are 3.5%, 3.9%, and 4.3% by the IMF, World Bank, and Asian Development Bank respectively.

Fiscal Situation

Amount in '00000

Revenue and Expenditure	Till end of 1 st Month	Till end of 2 nd Month	Till the end of 1 st Quarter	Target achieved till the end of 1 st Quarter this FY.	Target achieved till the end of first quarter, previous fiscal year.
Revenue (Tax plus Non-Tax)	982,221	1,410,771	2,191,151	15.4%	14.8%
Grants	0	0	618	0.12%	1.43%
Recurrent Expenditure	286,644	876,635	2,133,904	18.69%	18.91%
Capital Expenditure	44,317	81,639	178,331	5.9%	5.17%
Financing Expenditure	328,334	353,139	493,490	16.05%	15.09%

Source: Financial Comptroller General Office

Till the end of the first quarter government has collected NPR. 219.11 billion in revenue. Segregating the revenue, the government has collected NPR 199.46 billion in tax revenue and NPR 19.65 billion in non-tax revenue. The amount of revenue collected has increased in comparison to the first quarter end of the previous fiscal year. Similarly, a bird's eye view of government revenue shows the government has been able to collect 15.4% of the total targeted revenue this fiscal year in comparison to 14.8% in the previous fiscal year. On the expenditure side, only 5.9% of the targeted capital expenditure has been achieved which ranges among the



lowest between recurrent expenditure of 18.69% and financing expenditure of 16.05%.

Economy during 1st Quarter

- India had banned non-Basmati rice exports to keep its food reserve intact amid the threat from EL Niño disruptions.
- Lumpy Skin disease on livestock and erratic monsoon season pressuring the agriculture output.
- Inflation remained above 7%.
- Nepal Banker's Association decided to break the gentlemen's agreement on interest rates. Now commercial banks can determine the interest rate on their own basis from July.
- NRB decided to ease import. Latest amendment allows to open LC till 60 thousand dollars at a time or allows to import till 30 million INR at a time.
- Banks are allowed to count 60% of local level funds as their deposits in a move to increase deposits in commercial banks.
- A new law has been drafted to increase the period of permits for hydroelectricity projects. According to the Electricity Bill 2080, the permit period for reservoir projects has been proposed to be 45 years and the period for other types of projects has been increased to 40 years.
- The government has been raising huge internal debt as compared to the previous fiscal year's 1st quarter which was NPR 55 billion Government has already raised NPR 64 billion this quarter – NPR 59.21 billion in development bond and NPR 5 million treasury bills.
- Overproduction and underconsumption are seen in the cement industry. The cement sector has been severely affected by lower demand, which has caused production to decline by 25%.
- The industry sector and the service sector in Nepal receive the highest FDI, accounting for 62.6% and 37.3% of all FDI respectively. Out of 62.6% of FDI in the industry sector, the manufacturing sector holds 24.5% and the hydropower sector holds 32.8%. Similarly, out of the total FDI flowing into the service sector, Banks and Financial Institutions amount to 25.6%.
- Macroeconomic report published by NRB during the month of Shrawan based on 12-month data of FY 2022/23 reported an increase in consumer price inflation, decrease in merchandise export, decrease in merchandise import, increase in travel payments, increase in remittance, balance of payment surplus, increase in deposits of banks and financial institution and increase in private sector credit.
- Inflation is predicted to hover around 7% in the year 2024 and 6.4% during the year 2025.
- The World Bank predicts 3.9% economic growth for Nepal during 2024 and 5% during 2025.
- WTO warns of a looming recession for the global economy.



- Nepal Rastra Bank (NRB) raised the ceiling on the maximum limit on the loans against shares to NPR. 200 million from existing 120 million for institutional investors. Additionally, margin loan for an individual is now NPR. 150 million against NPR.120 million.

Monetary Stance

Amount in Billion.

Indicators	Till end of 1 st Month	Till end of 2 nd Month	Till the end of 1st Quarter	Increase/Decrease during the last month
Deposits	5,612	5,741	5,847	106
Total Loans	4,859	4,913	4,951	38
CD Ratio	83.54	82.54	81.81	-0.73
Inter Bank Rate (IBR)	6.2	3.08	1.99	-1.09

Fig. Financial Indicators

Source: Nepal Rastra Bank

Note: Data available till the end of first quarter is taken.

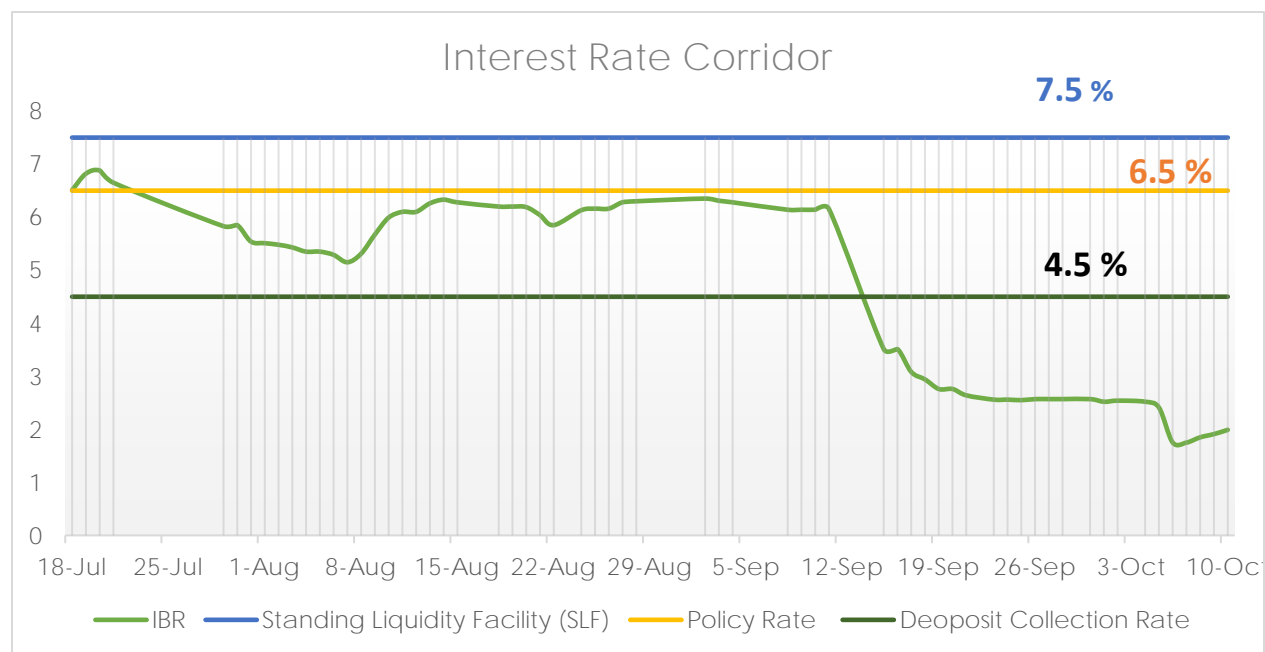
Nepal Rastra Bank announced its Monetary Policy on 23rd July 2023 for the fiscal year 2080-81 (2023-24). The monetary Policy has fixed the upper, middle, and lower bands of the interest rate corridor to 7.5%, 6.5%, and 4.5% respectively. Additionally, as Nepal has a high ratio of credit (extended to the private sector) to GDP in South Asia, monetary policy has taken a stance to maintain financial stability in the country. Moreover, historical data points out that the average growth of credit in the banking sector has been 19.4% in the last 20 years yet the growth of real sectors has not grown in line with credit expansion which shows the misuse of credit extended by BFIs. Thus, monetary policy has taken a stance to reduce the credit concentration and promote SMEs and MSMEs. This monetary policy stands in between the extremes of monetary policy i.e. expansionary and contractionary monetary policy. Monetary policy also expanded the money supply limit from 12% from the previous year to 12.5% in anticipation of a more active market. Other major provisions of monetary policy are a) to reduce the number of microfinance institutions, b) provisions for Nepali citizens travelling abroad to receive up to USD 2,500 as passport facility, an increase from the previous limit of USD 1,500 (which hints that the country has a comfortable reserve of foreign exchange), and c) growth rate limit of 11.5% for private sector credit to ensure financial stability.

Till the end of the first quarter, a gradual increase in deposits and total lending is seen. Total deposits grew at a higher rate than lending as deposits grew by NPR.106 billion and total lending grew by 38 billion in the last month. On the contrary, both the deposit and total lending grew at a slower amount in comparison to the growth in the second month of this quarter. Deposit and total lending had grown by NPR 129 billion and NPR



54 billion in the second month respectively. A major monetary stance of the economy can be gauged by looking at the interbank rate and CD ratio. Interbank has decreased by 1.09% in the last month. The fall of the interbank rate is a favorable sign for the economy as this triggers the fall of interest rate, and a decrease in interest rate in majority of the case raises investments and consumption. A fall in the interbank rate is also a signal of increasing liquidity in the economy. This optimistic picture is however constrained by a decrease in the CD ratio. A decrease in this ratio shows decrement in the credit flows in the economy. To sum up, a rise in liquidity but a slower growth in credit is not a signal of a vibrant economy.

Interest Rate Corridor



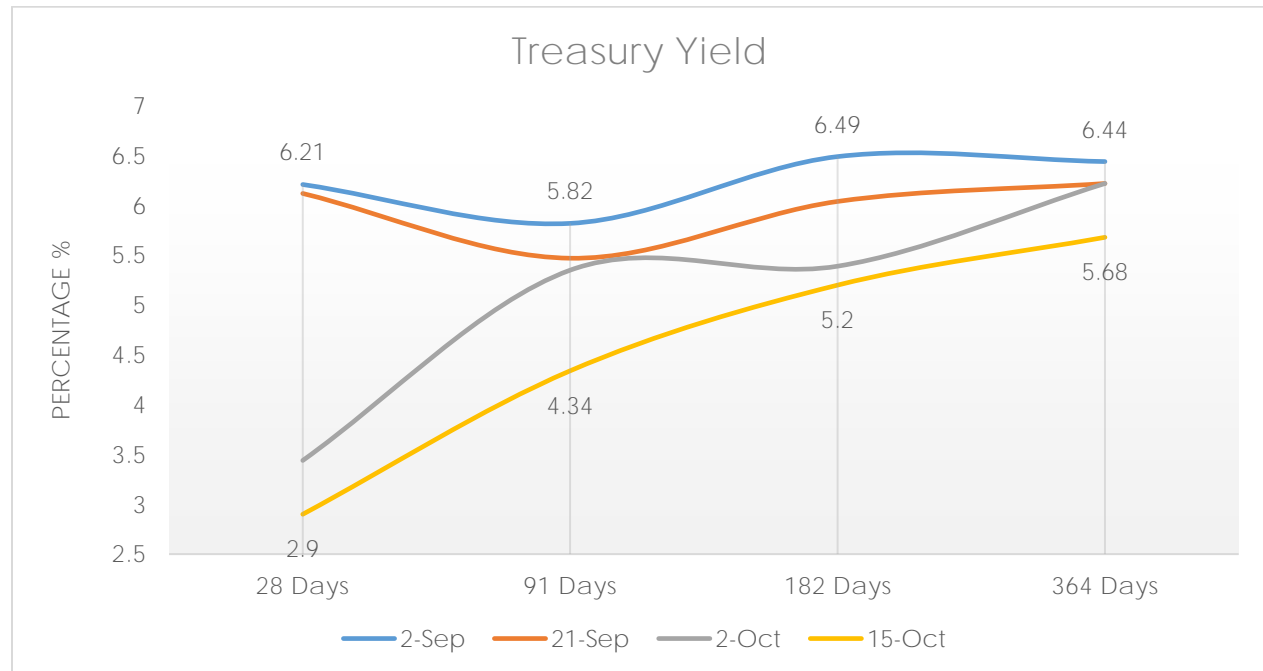
Source: Nepal Rastra Bank

Interest Rate Corridor shows where the policy rates are guiding the interest rate environment. Interest rate corridor assists open market operations to maintain liquidity and interest rates in the economy. SLF rate, Policy rate and Deposit collection rate of the interest rate corridor is kept at 7.5%, 6.5% and 4.5% as per current monetary policy rates. The corridor is used as a guide to control the interbank rate of the economy which is shown by the green line in the above chart. Keeping the Inter Bank rate (IBR) within the corridor helps to control liquidity in the economy. This interbank rate in turn affects the interest rate in the economy. These three rates are revised from 8.5%, 7.5%, and 6.5% to the current rate in the monetary policy for the fiscal year. This lowering of rates in the interest rate corridor is done mainly to lower the interest rates in the economy to support borrowing and consumption in an attempt to revive the slowed down economy. Interbank rate below the deposit collection rate this first quarter implies the abundant liquidity in the banking system. NRB not mopping the excess liquidity may be a sign that the economy's current low interest rate is just a temporary



phenomenon.

Treasury Yield Rates



Source: Nepal Rastra Bank

Because yield curve is not functional in Nepal's context, Treasury Bill rates are used to analyze the curve's pattern. We've been tracking Treasury yields to spot trends in short-term interest rates, predict future trends in interest rates, and gauge investor sentiment toward the economy. From September 2 to October 15, this quarter, the mid-term Treasury rates—28 days and 91 days—dramatically declined, providing a clue about investor perceptions of the economy. We see the decrease in the Treasury rate as an aggressive bid from the banks as they lack a supportive economy to make loans, which suggests a subdued or stagnating investors' confidence.

Conclusion

Two months' data ending Mid-September published by Nepal Rastra Bank, shows an increase in inflation to 8.19% from 7.52% a month ago, increase in remittance, increase in broad money and fixed deposit, and a decrease in M1 and credit outflow in the economy (in comparison to the comfortable liquidity). On the other side, increasing political tension among countries viz. Russia-Ukraine war and now the Israel-Hamas war, International agencies predicting a sub-par global GDP growth, looming recession across Europe, and contraction of US GDP, shows a 'not-to-optimistic' picture of the global economy.

Overall, the economic picture till the first quarter remained sub-par with lower investor confidence, increasing



inflation eating away the disposable income, a 50% decrement in short term treasury yield rate. Inflation can remain elevated throughout certain period due to India's restriction in staples and increase in oil prices in the future.



Amidst a challenging economic climate, investors were initially hopeful for the introduction of a promising monetary policy that might have included the anticipated removal of the NPR 120 million cap. However, their expectations were not met, as Nepal Rastra Bank (NRB) chose not to entirely eliminate the cap, but rather ease it by amending the Unified Directives 2079 to increase margin lending. Under the revised directives, the NRB set the margin lending limit at NPR 150 million for individuals and NPR 200 million for institutional investors from NPR 120 million. This decision disappointed investors and lowered market confidence which contributed to an 11.09% decline in the NEPSE, which finished at 1864.62 as opposed to 2097.09 in the last quarter.

The central bank has issued a circular for the enforcement of the Counter-Cyclical Buffer (CCyB), requiring every commercial bank to uphold a minimum Capital Adequacy Ratio (CAR) of 11.5% by the end of the fiscal year. These requirements could potentially impede banks in their lending activities, potentially resulting in a decrease in the flow of credit. This, in turn, may indirectly impact the health and performance of the capital markets.

Navigating through the intricate landscape of sectoral indices, the life insurance sector experienced the most significant decline, with a sharp drop of 18.34%. Following closely, the hotels and tourism index registered a decrease of 17.48%, and the hydropower index saw a decline of 16.80%. Yet, amidst a sea of red figures, there was a shimmering exception: the mutual fund index. It defied the downturn, showcasing a remarkable ascent of 22.51%. A plausible reason for the rise could be the dividend announcements by several mutual funds.

Despite the prevailing market pessimism, there have been some positive developments. These include faster IPO approvals for companies going public, a 10 percent dividend increase for merged microfinance institutions, the issuance of new broker licenses, the development of the NEPSE 30 Index, and progress towards allowing NRNs to invest in the stock market soon.

Sectoral Dissection

Banking

The quarter commenced with the unveiling of a monetary policy that aimed to achieve a remarkable 11.3% growth in loans for banks and financial institutions in the ongoing financial year. However, despite having the necessary funds to lend, they found themselves in a challenging predicament due to constraints imposed by the Risk-Weighted Assets (RWA) framework, hindering their ability to disburse loans as intended.

In the realm of development banks, there was a pivotal development as Nepal Rastra Bank lifted the restriction on deposit collection. Previously, these banks were limited to gathering deposits up to 20 times their primary capital. This transformative change is anticipated to grant development banks increased flexibility in



accumulating funds and addressing the financial requirements of their clients.

As the quarter drew to a close, it was evident that a majority of banks opted to lower the interest rates offered on deposits. This decision was likely influenced by reduced banking activities during the festive season in October.

Hotels and Tourism

Tourist arrivals this year have shown a promising increase compared to previous years. However, due to negative market sentiments, the Hotels and Tourism Index plummeted by 17.48%. Looking ahead, the upcoming quarter is considered the tourist season, and this is expected to drive higher tourist inflow, potentially benefiting the overall economy and potentially leading to a recovery in the Hotels and Tourism Index.

Life and Non-life insurance

Rumors have been circulating about the issuance of right shares by both life and non-life insurance companies. While some companies have indeed issued these shares, not all of them have done so. It is expected that this will lead to an increase in the supply of shares. However, the challenging economic situation has led to a higher number of policy surrenders across the insurance sector, which is affecting these companies.

Hydropower

During this quarter, there have been notable developments in the hydropower sector. Both India and Bangladesh have displayed a positive attitude by increasing their electricity purchases from Nepal. However, the Nepal Electricity Authority (NEA) is facing challenges in collecting approximately NPR 40 billion in receivable amounts, particularly in electricity tariff arrears. This situation isn't favorable for the hydropower sector since NEA is the sole authority responsible for power purchase agreements.

Microfinance

Exploring the microfinance sector, it becomes evident that the parent company is grappling with issues related to constrained capital adequacy ratios. This situation is expected to have a negative impact on the microfinance subsidiaries, which are already under the scrutiny of the Nepal Rastra Bank (NRB). It appears that these challenges may persist until the NRB introduces specific relief policies tailored to the microfinance sector.



In the current year, the monetary policy has become more accommodating for the real estate sector after a year of stringent policy in FY 79/80. Specifically, the monetary policy has raised the loan cap for real estate from NPR 15 million to NPR. 20 million, which is expected to encourage retail investors to increase their investments in the sector. Additionally, there have been mentions that risk weightage will be reviewed in future monetary policies. Presently, the risk weightage for real estate stands at 150%. While these policy changes are a positive step towards revitalizing the real estate sector, it's important to acknowledge that it will take some time to fully recover from the damage caused by the previous year's stringent policies. The real estate market's healing and resurgence will likely be a gradual process.

After a waiting period of 1.5 years, the government has finally lifted the restrictions on land plotting. The initial intention behind restricting land plotting was to segregate agricultural and residential land, but this project ultimately proved to be unsuccessful. The removal of these restrictions is expected to provide some relief to the real estate sector. However, it's essential to recognize that while the lifting of these restrictions may help, significant progress in the real estate sector will ultimately depend on the overall economic conditions. Policy changes can only do so much, and a stable and viable economic environment is crucial for driving substantial improvement in the real estate industry.

Although we can still sense the ongoing crisis, from a macro perspective, it appears that we may find ourselves in a more comfortable position by the end of the year if the government demonstrates proactiveness. Presently, there is a notable lack of confidence in the market, but with a few strategic policy triggers, we can potentially capture a positive momentum in the near future. It will be important for the government to take proactive steps to boost market confidence and stimulate economic recovery.

Construction Industry

Nepal has indeed encountered challenging economic conditions, but there's a common saying that good times follow tough times. Over the past few decades, the cement manufacturing sector in Nepal has experienced remarkable growth. In Nepal, the practice of emulating successful business models is quite common, and this trend extended to the cement industry as well. Prior to the COVID-19 pandemic, everything was running smoothly in the cement industry. However, after the pandemic, the sector began to approach its saturation point. Over the past couple of years, there has been a sluggish economy, with construction activities slowing down, resulting in challenging times for the cement industry. In the most recent quarter, more than seven cement factories have been forced to close, leading to significant losses for the nation, investors, and financial



institutions. This situation highlights the difficulties that industries face during economic downturns.

The steel industry has been significantly affected by the contraction in the construction sector. In a year-on-year (Y-O-Y) comparison, steel raw material imports have declined by 35%. Moreover, more than 10 steel companies have been forced to shut down in the past year. In this challenging scenario where manufacturers have been discouraged, the government needs to formulate robust policies. One potential strategy is to establish cross-border relationships to sell Nepalese cement and steel to India and China. This could not only safeguard the interests of the manufacturers but also instill confidence in other industry players who would perceive government support. This cross-border trade approach could provide a lifeline to the struggling steel and cement industries in Nepal, helping them regain their footing and contribute to economic recovery.

Banking and Finance

In comparison to the previous quarter, interest rates have been on a downward trend. However, this decline has not been sufficient to boost market confidence. Both investors and individuals have adopted a defensive stance, prioritizing saving over investing. This cautious approach is primarily due to policy uncertainties, a lack of significant changes in the economy, rising inflation, and the departure of young people from the country, which has cast a shadow of uncertainty over the financial landscape. In this challenging situation, many investors suggest that it is an opportune time to invest, but few are willing to take on the risks associated with investing when market conditions are uncertain and appear unfavorable.

Under the new monetary policy, retail investors have the opportunity to obtain loans of up to NPR 20 million. This change is expected to help banks expand their loanable funds. The banking sector has learned from past mistakes, where they focused on serving big business houses while neglecting retail businesses. This approach resulted in significant non-performing loans (NPLs). As a result, it is likely that banks will now be more inclined to engage with retail investors.

This shift in focus toward retail investors is anticipated to have a positive impact on the residential real estate market, particularly during this economic downturn. With easier access to loans, the residential real estate market is expected to remain afloat despite the economic challenges.



Transaction Records

Time	Number of Transactions	CGT	Total Tax collection
2080 Shrawan	119,324	1,013,132,786	2,910,427,196
2080 Bhadra	120,381	1,092,946,429	3,045,946,811

Time	Number of Transactions	CGT	Total Tax collection
2079 Shrawan	98,064	747,283,692	2,737,241,057
2079 Bhadra	108,881	1,059,133,230	3,562,903,901

When examining transaction reports on a year-on-year (Y-O-Y) basis, it becomes evident that there has been no significant change, even after the recent land plotting policy adjustments. This indicates that policy amendments alone are not a magic solution for revitalizing the real estate industry or recovering tax revenues from it. However, what can make a difference is facilitating easier access to financing while ensuring effective governance and monitoring of government-assessed values and market values of real estate. This data highlights the fact that the government has been losing substantial tax revenue over the past 18 months, totaling more than NPR 80 billion. This underscores the importance of adopting a more comprehensive approach to address the challenges in the real estate sector, with an emphasis on financial accessibility and robust governance to establish a stronger foundation for the industry's future.

Although the number of transactions has increased compared to the previous year, there has been no significant improvement in tax collection. This suggests that sellers are indeed selling properties, but they are doing so at reduced prices. This trend indicates that the real estate market is still in a downturn. In the months of Shrawan and Bhadra, only 75 units of apartments were involved in transactions, and interest in apartments remains at a very low level. These indicators reinforce the ongoing downward trend in the real estate sector, where property values are declining, and market activity remains subdued.



Working capital serves as the lifeblood of any business, the financial pulse that keeps its daily operations alive and thriving. In simple terms, it's the monetary cushion a company relies on to navigate the ebb and flow of its financial affairs, ensuring that bills are paid, inventory stays stocked, and the wheels of commerce continue to turn. This vital financial metric hinges on a straightforward equation: the assets a company can quickly convert to cash minus the short-term debts and obligations it must settle in the near future. Like a barometer of fiscal well-being, working capital provides a snapshot of a company's financial health, offering insights into its ability to weather financial storms and seize growth opportunities.

Working Capital = Current Assets - Current Liabilities

When a working capital calculation is positive, this means the company's current assets are greater than its current liabilities. The company has more than enough resources to cover its short-term debt.

When a working capital calculation is negative, this means the company's current assets are not enough to pay for all of its current liabilities. The company has more short-term debt than it has short-term resources. Negative working capital is an indicator of poor short-term health, low liquidity, and potential problems paying its debt obligations as they become due.

Here arises the role of a working capital loan (WCL), to maintain the flow of liquidity in the company, industry, and economy. A working capital loan is a great tool to ensure your day-to-day business operations continue without disruptions.

Working capital loans offer significant advantages for businesses. They provide flexibility by allowing businesses to use the funds as needed, from covering payroll to operating costs. Quick approval, often within a day, makes them perfect for urgent financial needs or seizing time-sensitive opportunities. These loans typically come with short repayment terms, ranging from a few months to a few years, enabling businesses to repay quickly and move forward.

Working capital loans at its core constitute different types of loans such as:

- i. Working Capital Term Loan
- ii. Bank Guarantee
- iii. Bill Discounting
- iv. Letter of Credit (LC)
- v. Invoice Factoring
- vi. Trade Credit or Line of Credit
- vii. Cash Credit & Overdraft



Under annexes 1 of Working Capital Guidelines 2079, Nepal Rastra Bank (NRB) has subdivided the Working capital Loan into four categories.

- i. Cash Credit Loan
- ii. Temporary Working capital Loan
- iii. Import-Export Related Loan
- iv. Working Capital Term Loan

अनुसूची १: चालू पूँजी कर्जाको प्रकार

(क) क्यास क्रेडिट कर्जा

औद्योगिक एवम् व्यापारिक कम्पनी/फर्म/संस्थाको चालू सम्पत्ति व्यवस्थापनका लागि सोही चालू सम्पत्ति धितोलाई दृष्टिबन्धक (Hypothecation) र/वा धरौट बन्धक (Pledge) र/वा धितोबन्धक (Mortgage) राखी बैंक तथा वित्तीय संस्थाले प्रदान गर्ने नवीकरणयोग्य कर्जालाई क्यास क्रेडिट कर्जा मानिनेछ ।

(ख) अल्पकालीन अवधिको कर्जा

औद्योगिक एवम् व्यापारिक कम्पनी/फर्म/संस्थाको अल्पकालीन चालू पूँजीको आवश्यकतालाई पूर्ति गर्न सोही चालू सम्पत्ति धितोलाई दृष्टिबन्धक (Hypothecation) र/वा धरौट बन्धक (Pledge) र/वा धितोबन्धक (Mortgage) गरी निश्चित अवधि तोकिएको एकमुष्ट कर्जा प्रवाह र एकमुष्ट भुक्तानी हुने गरी बैंक तथा वित्तीय संस्थाले प्रदान गर्ने कर्जालाई अल्पकालीन अवधिको कर्जा मानिनेछ । यस्तो कर्जा नवीकरणका लागि योग्य हुने छैन ।

(ग) आयात निर्यातसँग सम्बन्धित कर्जा

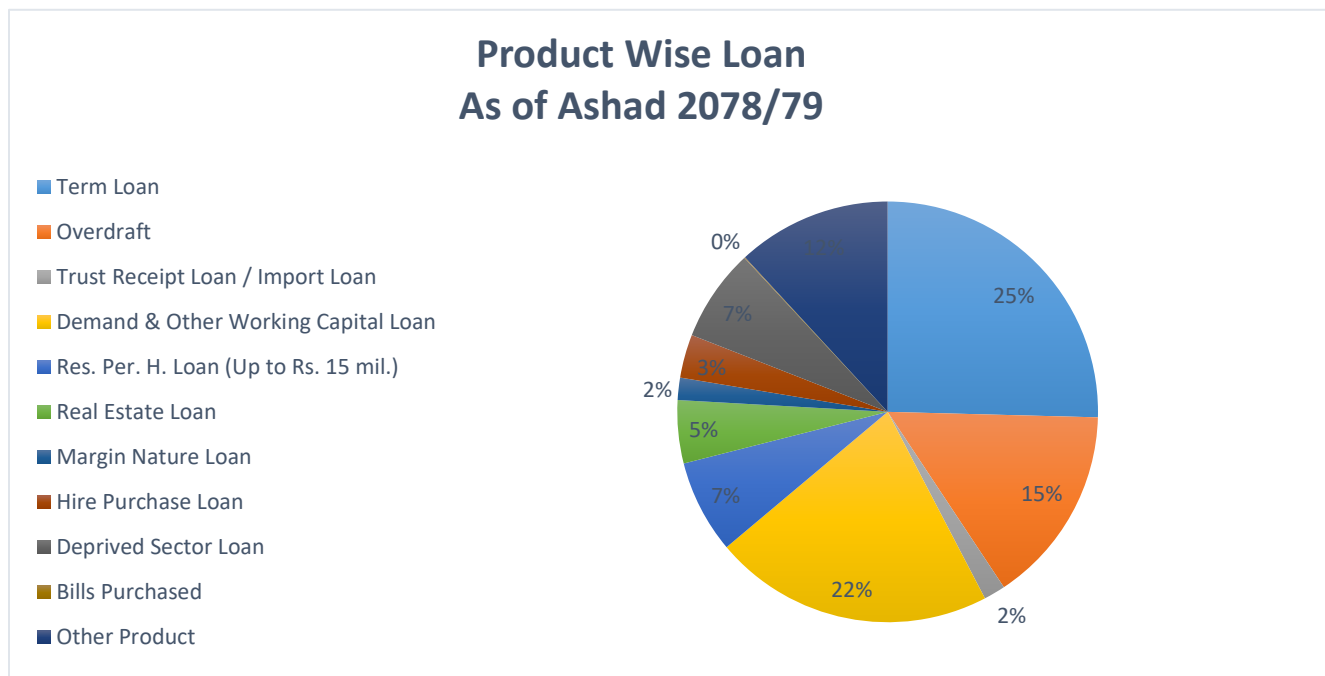
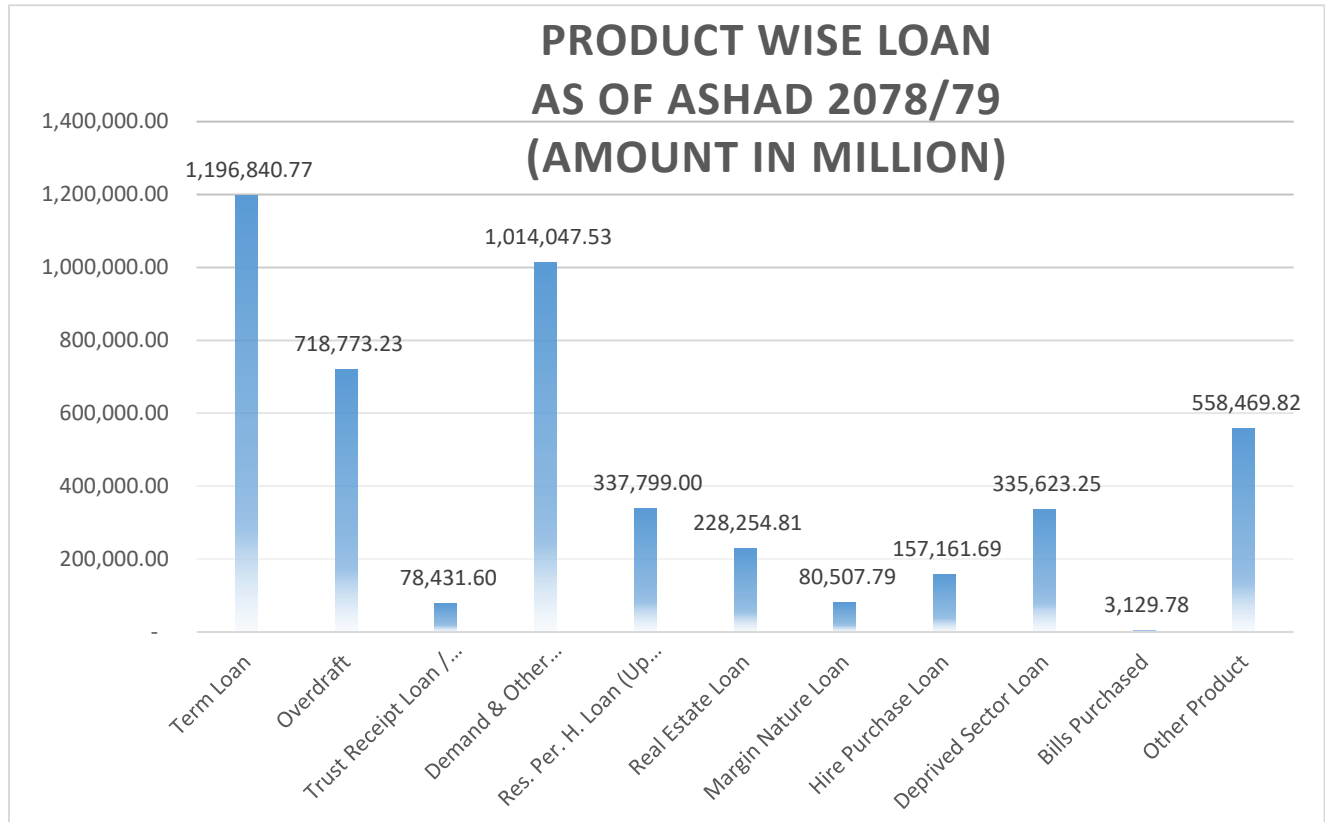
औद्योगिक तथा व्यापारिक प्रयोजनका लागि खोलिएका प्रतीतपत्र वा अन्य माध्यमबाट मालसामान आयात निर्यात गर्दा/गराउँदा Proforma Invoice मा उल्लेखित रकमको सीमासम्मको रकम भुक्तानी गर्ने प्रयोजनका लागि प्रदान गरिने कर्जालाई आयात निर्यातसँग सम्बन्धित कर्जा मानिनेछ । यस कर्जाअन्तर्गत ट्रस्ट रिसिट लगायतका कर्जा पर्दछन् ।

(घ) **चालू पूँजी प्रयोजनको आवधिक कर्जा :** व्यवसायको चालू पूँजीको आवश्यकता मूल्यांकन गर्दा स्थिर प्रकृतिको आवश्यकता Permanent Working Capital Need लाई कम्तीमा पाँच वर्ष अवधिको आवधिक कर्जा प्रदान गर्नुपर्दछ । यस्तो कर्जालाई चालू पूँजी प्रयोजनको आवधिक कर्जा मानिने छ ।



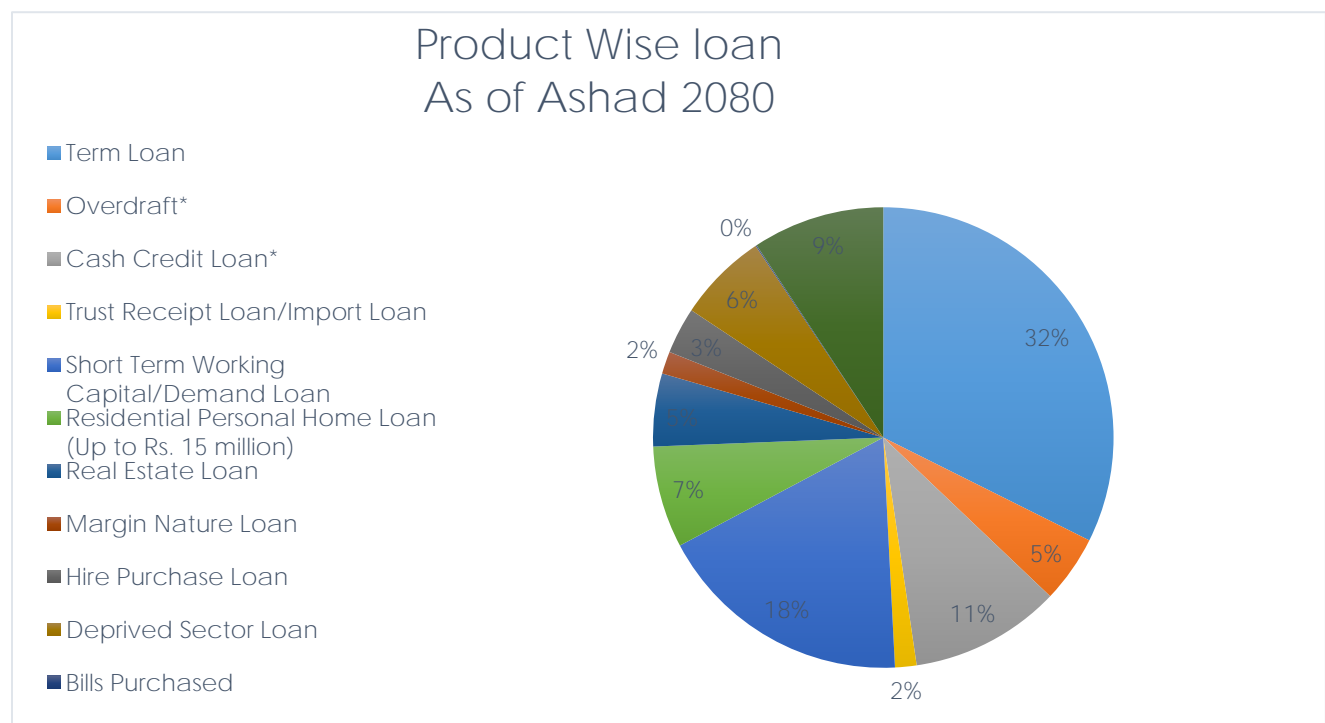
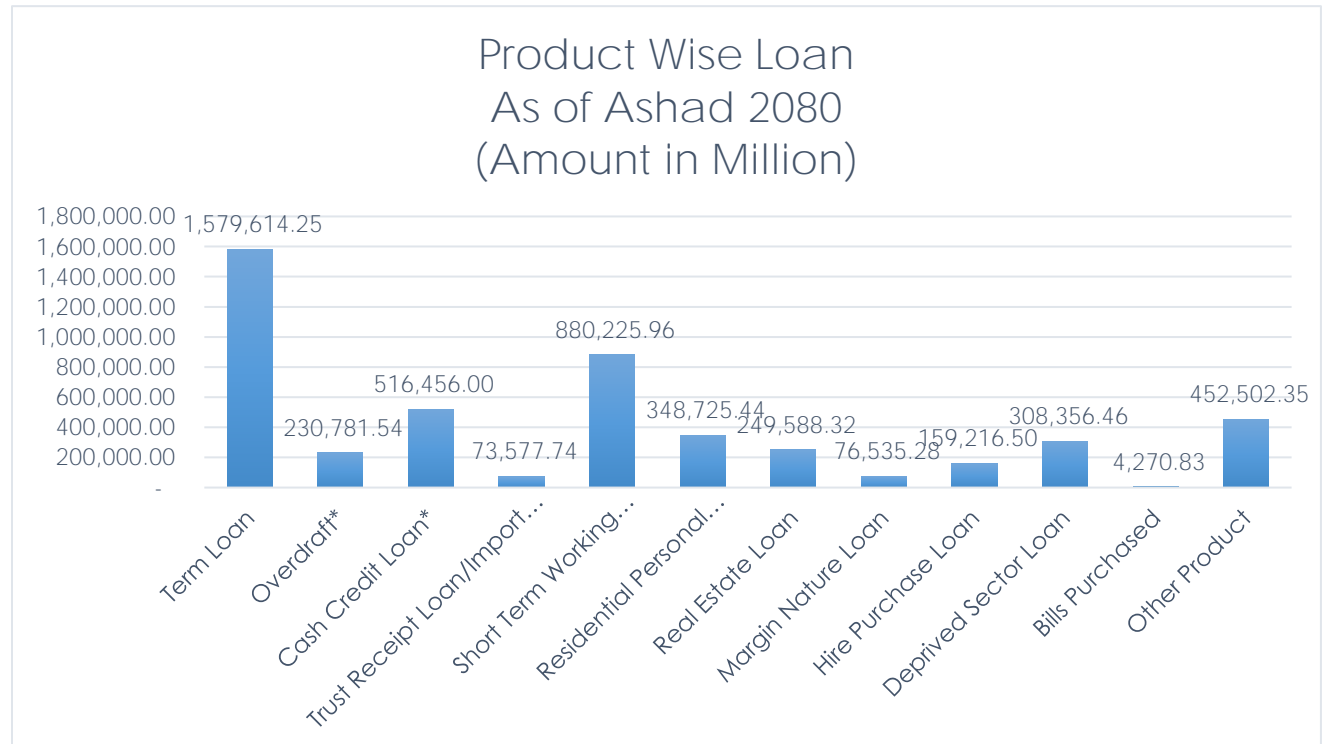
Analyzing BFIs Product Wise Loan

For the Fiscal Year end 2078/79 BFIs have made the highest lending in term loans (25.42%) followed by demand and working capital loans (21.53%) and overdrafts (15.26%). The figure below depicts the product-wise lending of BFIs as of Ashad 2079.



Nepal Rastra Bank amended Unified Directive, 2078 on 2079/10/26 redefining product categories and distinguishing the 'Cash credit loans' from the 'Overdraft' category. NRB also reclassified 'Demand & Other Working Capital Loan' as 'Short-Term Working Capital/Demand Loan'.

As per the product-wise portfolio, BFIs have made the highest lending in term loans (32.37%) followed by demand and Short-term working capital loans (18.04%) and Cash Credit loans (10.58%). The figure below depicts the product-wise lending of BFIs as of Ashad 2080.



As the data suggests working capital loans constitute a significant portion of total loans issued by BFIs in the economy. As of FY end, 2079/80 Short-term working capital loans and Cash Credit loans combined constitute 28.62% of the total loans floated by BFIs. Yet a few questions remain, have working capital loans been utilized by companies in a manner that satisfies the core meaning of a working capital loan? Before this, have working capital loans been distributed by BFIs in a manner that satisfies a business's need to maintain the flow of its financial affairs?

Let us answer these two important questions in brief.

No, working capital loans have not been distributed in a manner that satisfies a business's need to maintain the flow of its financial affairs. Short-term working capital loans are generally demanded by companies in a rush, but BFIs go through a similar process as other loans to disburse working capital loans which creates a hurdle for businesses to obtain the loan on time. Another problem is that BFIs in Nepal prefer fixed assets (specifically land and buildings) over current assets as collateral for any type of loan. This creates a difficult scenario for businesses that don't or don't want to own land or buildings. The practice of treating current assets as collateral needs to be well-established among BFIs.

Even while doing so there are a few catches on the business side too. The main one is the use of a working capital loan to obtain speculative assets instead of using it for working capital needs. NRB has been vocal about the use of loans under a specific heading as intended but there remains a significant concern around the utilization of working capital loans.

To tackle this and ensure the effective use of working capital loans NRB issued a separate Working Capital Loan Guidelines, 2079 on 7th Bhadra 2079 (23rd Aug 2022).

The private businesses voiced their reservations over the guidelines maintaining that its implementation would hurt the businesses and enterprises in the country. According to their analysis, the new guidelines were announced without assessing the current reality of the business sector, especially in the context of fluctuating interest rates, international economic crisis, skyrocketing price of fuel and raw materials, and the growing cost of logistics and freight.

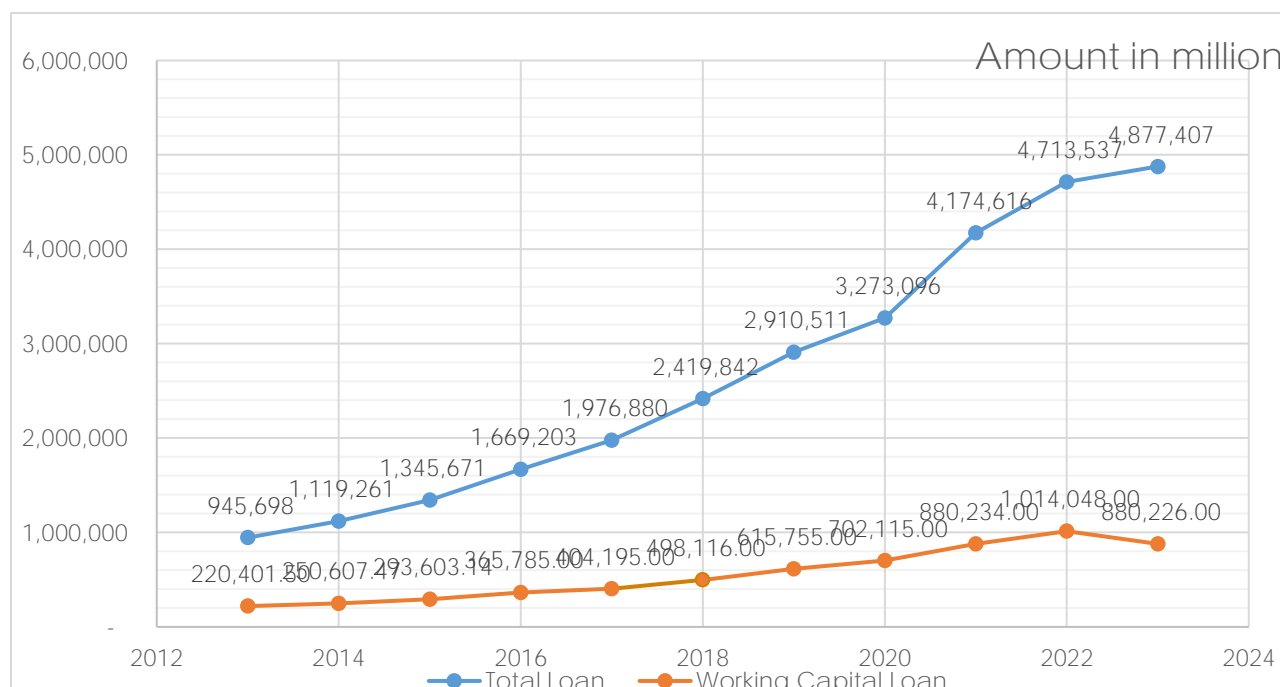
NRB addressed and amended the guidelines on various occasions but the business communities are not fully satisfied with the guidelines to date. There are still concerns about the provision of capping the loan amount to percent of the annual turnover reasoning that working capital requirements can vary depending on the nature of the industry. The business community has also suggested that NRB mention that a personal guarantee is not required as it is stipulated that no other type of fixed or immovable property (Land, Building, etc.) will be secured for working capital loans. Businesses have also demanded to scrap the arrangement that requires all renewable working capital loan accounts to maintain certain arrears for at least seven consecutive days at any one time of the fiscal year.

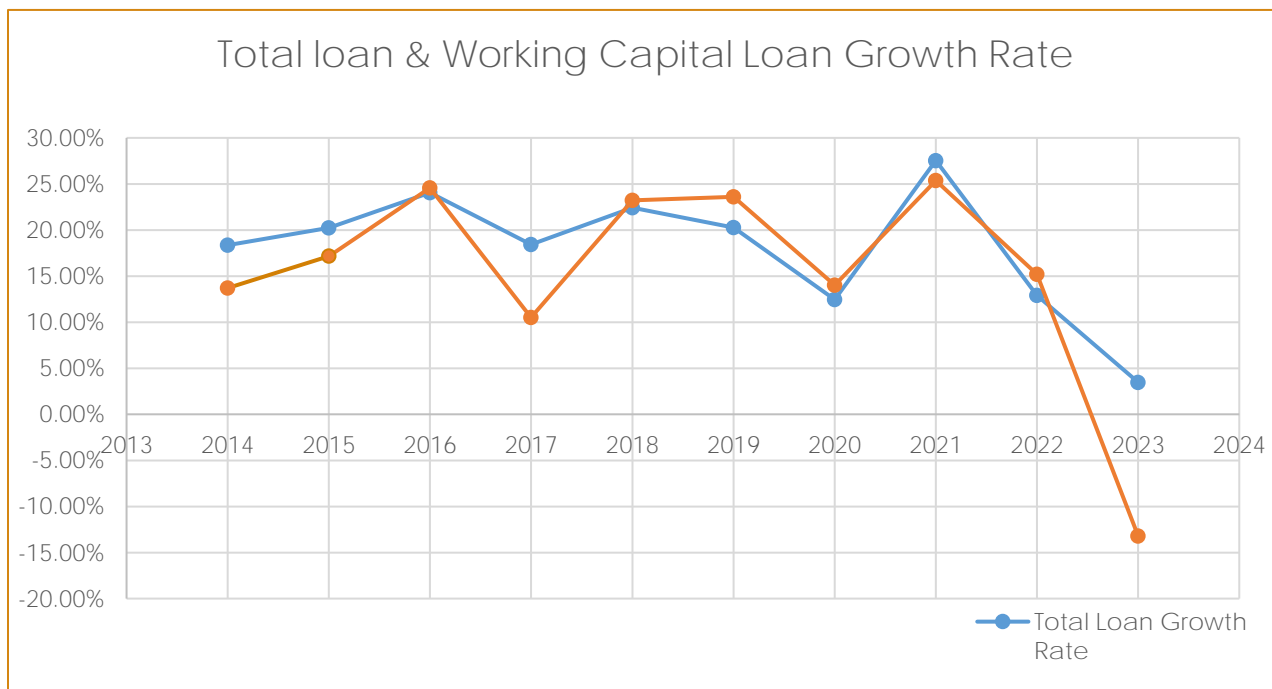


Comparing Total loan to Working Capital Loan

Analyzing the charts below, it is seen that the growth rate of working capital loans & growth rate of total loans seem to be on the lowest point in a decade. The amount of Working capital loans seems to have declined for the first time in a decade (i.e. Negative Growth Rate).

Distinguishing Cash Credit loan from Overdraft and relaxation in NRB's Working capital guidelines that the working capital loan exceeding the limit can be converted into a periodic loan and paid in five installments by 2082 BS seems to somewhat justify a significant increase in the total amount of Term loan in the recent fiscal year. This also signifies the implementation of Working Capital Guidelines is going as intended by NRB.





However, the decrease in total loan growth rate and working capital loans also raises a crucial question. This is where we leave you: Is this decrease solely due to policy changes by NRB or is it a result of low consumer and business confidence in the current business environment?

Happy Dashain !!!

iCapital Team



