



ALPHA CAPITAL

# NEWSLETTER

Third Quarter 2080-81



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**NEPAL**  
**THIS**  
**QUARTER**

Resham Chaudhary has been elected as the chairman of the Nagarik Unmukti Party. He was the only candidate for the post, and as a result he was unanimously elected during the party's first general convention held in Tikapur, Kailali.

Rajendra Mahato, a senior leader of the Loktantrik Samajbadi Party quit the party to launch a 'National Liberation Revolution Campaign' for the establishment of a 'multi-nation state'.

The Rastriya Prajatantra Party announced a series of mass gatherings and protests to pressure the government to implement its concerns. It submitted a 40-point charter of demands to Prime Minister Pushpa Kamal Dahal. The party is campaigning for Hindu state, reinstatement of monarchy and removal of provincial structures in the government.

The Special Court convicted numerous high-profile persons in the Lalita Niwas land-misappropriation case, including former secretary Chhabiraj Pant and

authority head Deep Basnyat. Key planners Ram Kumar Subedi and Shobhakant Dhakal, as well as personnel from the Malpot, Bhumisudhar, and Napi offices, were all found guilty.

The Supreme Court reversed the former KP Sharma Oli government's decision to allow Giri Bandhu Tea Estate to exchange its 343 bighas of land within Koshi Province. The government's decision was challenged in court by attorneys Omprakash Aryal, Omprakash Mishra, and Bhaktaraj Bharti, resulting in its annulment.

Police arrested Arun Chaudhary, a prominent businessman and owner of Champion Footwear Pvt. Ltd; Ajit Narayan Thapa, the then executive head of the Bansbari Leather and Shoe factory; and Sanjay Thakur, chairman of CG Chandbag Residency. They were arrested for investigation over land embezzlement case of Bansbari Leather & Shoe Factory.

Narayan Dahal of the Maoist Center has been elected as the Speaker of the National

Assembly. Dahal was elected as the Speaker of the National Assembly after getting the votes of the UML and the United Socialists.

The Commission for Investigation of Abuse of Authority filed a corruption case against 20 individuals, including former Nepal Telecommunication Authority chairmen Digambar Jha and Purushottam Prasad Khanal. The case, registered in a special court seeks recovery of approximately NPR 1 billion in losses that the government incurred in the procurement of a mobile device management system.

The decision of the Parliament Secretariat to suspend Nepali Congress lawmaker Tek Bahadur Gurung, who was convicted of corruption, has been overturned. This verdict allows Gurung, who was elected to the House of Representatives from Manang in the November 2022 elections, to resume parliamentary proceedings after more than two years of suspension.



## Nepal This Quarter | Economy and Business

Nepal and India have started cross-border QR code payments. Indian tourists can use QR code for making payments in Nepal. Similarly, Indian workers in Nepal and Nepali workers in India can send money home using digital means. Additionally, Nepali traders can receive money from their foreign partners via QR system.

The rising foreign exchange reserves of Nepal are concerning economists. It is already at a record-breaking NPR 1.84 trillion. The main causes of the large reserves that have been accumulated are decreasing investments, increasing remittances, and lowering imports.

Federation of Nepalese Chambers of Commerce & Industry will be taking the initiative to establish an investment company with an authorized capital of NPR 10 billion. Businesses and the general public can invest in the company which will undertake various projects for economic growth.

The non-banking assets of banks and financial institutions have increased dramatically, mostly due to an increase in bad loans. Recent data from Nepal Rastra Bank shows that non-banking assets in these institutions increased by 211%, from NPR 7.69 billion in mid-July 2021 to NPR 23.97 billion in mid-March 2024.

The Investment Board Nepal has approved a substantial investment of NPR 100 billion for five key projects. The approved projects include the Super Tamor Hydropower Project, Upper Morang Hydropower Project, a solar energy project in Kohalpur Badganga, Huaxin Narayani Cement, and the Lower Manang Masryangdi Hydropower Project. This decision will boost the nation's infrastructure and energy sectors greatly.

According to Nepal Tourism Board, the number of tourists in March increased by 28.90% compared to same period last year. The number of tourists in March alone was 128,167

the highest since COVID. This number does not include tourist visiting Nepal through land routes.

Nepal Electricity Authority is finding it challenging to manage electricity during peak hours due to fall in production of domestic hydropower plants and low imports from India. Consequently, businesses in industrial areas of Terai are now suffering from undeclared load shedding, which can last upto 12 hours a day negatively impacting their operations.

Nepal and Bangladesh have agreed on tariff for trade of 40MW electricity. The agreed rate is 6.5 cents per unit. Nepal would also not bear the cost of transmission and trade margin for the supply of power to Bangladesh. The decision is yet to be approved by the cabinet of both countries.

The government is organizing the third Nepal Investment Summit 2024 to showcase Nepal as an emerging destination for global investors. The Summit is scheduled for April 28-29, 2024.



## Nepal This Quarter | Capital Market

Guru Prasad Neupane, the former chairman of Ridi Power Company, was found guilty of money laundering and was sentenced to one year in prison and a fine of around NPR 40 million by the special court. Dissatisfied with the verdict, he will be taking his case to Supreme Court for reappeal. Kathmandu District Court is still deliberating over another case of his for suspected insider trading.

Nepal Rastra Bank (NRB) has amended its Foreign Investment and Foreign Loan Management Regulations 2078, removing the requirement for its approval for foreign investments in companies listed on the Nepal Stock Exchange (NEPSE).

According to recent data from the Central Bank, share mortgage loans have surged in the current financial year, with approximately NPR 84.29 billion disbursed in loans secured against shares as of the end of December, reflecting a substantial increase of about NPR 8 billion in just six months.

During the second quarter of the current financial year, 22 companies' shares were traded in over-the-counter (OTC) market. Across 24 transactions involving these companies, a total of 5.9 million shares were bought and sold in the OTC market.

The Nepal Electricity Authority (NEA) is set to invest funds raised from its upcoming Initial Public Offering (IPO) in expanding hydropower and transmission line projects. With a proposal already under Cabinet review, NEA aims to secure nearly NPR 70 billion through this IPO, marking a significant step towards enhancing Nepal's energy infrastructure.

The selection process for Securities Board of Nepal (SEBON) has been put on hold after it was discovered that the shortlisted candidates were being backed by major business houses indicating a conflict of interest. The shortlisted candidates were: Krishna Bahadur Karki, Dr. Nabaraj Adhikari, Santohs Narayan Shrestha, Chiranjibi

Chapagain and Mukti Shrestha.

Following persistent opposition to its attempt to establish a new stock exchange, the government has formed a three-member committee headed by Chintamani Shivakoti, the former deputy governor of Nepal Rastra Bank, to study whether there is a need to bring a new stock exchange in the country. Three companies had submitted applications for the new stock exchange: Himalayan stock exchange, National stock exchange and Annapurna stock exchange.

Newly appointed Finance Minister, Barsaman Pun had asked concerned stakeholders to submit suggestions for the improvement of the capital market. The suggestions received included removal of cap on share mortgage loan as well as reduction in risk weightage for the same, issuance of license for new stock exchange, restructuring of NEPSE, enabling digital transactions for OTC market, etc.



Household tax collections in the Kathmandu metropolitan area have risen by 13 percent. Over the first eight months of the current financial year, the 32 ward offices of the metropolis collected NPR 1.69 billion, up from NPR 1.5 billion in the same period last year, reflecting an increase of NPR 190.62 million.

Nepal Real Estate Organization has launched a multi-listing system similar to stock exchange to manage real estate transactions. The aim is to organize, make transparent and more professional the agents and agencies involved in the real estate business.

The road expansion from Kavrepalanchok border point Sanga to Dhulikhel under the Araniko highway has been stopped. The construction of culverts and other structures under construction in the Banepa-Budol section has been stopped after the order of the High Court of Patan.

Remittance inflows to Nepal have surged by 21 percent over the first eight months of fiscal year 2080/081, totaling NPR 9.61 trillion, according to Nepal Rastra Bank. In US dollar terms, remittances increased by 18.8 percent to \$7.24 billion, bolstering the country's foreign currency reserves and strengthening the external sector. This rise follows a 14.8 percent increase in the previous year.

Kathmandu Metropolitan City has introduced new building regulations under the 'Building Construction Standards 2080 Building Code,' effective from May 1. The new code allows for the construction of only one underground floor in older urban areas and up to two underground floors in other areas. Additionally, there is now a mandatory requirement to allocate space for vehicle parking in any new residential construction depending upon the total area.

Over the past two decades, 385 housing, apartment, and building projects have been approved across Kathmandu Valley. Kathmandu leads with 230 projects, followed by Lalitpur with 106, and Bhaktapur with 46, according to the local authority.

Banks and financial institutions have disbursed NPR 32 billion rupees in personal residential home loans over the past seven months, marking a significant increase from NPR 9 billion during the same period last year.

The House of Representatives has passed a crucial amendment to the Property Act, mandating that all real estate transactions require a government-issued license. This measure, part of the Bill, 2080 to amend laws for preventing money laundering and enhancing the business environment, aims to regulate the real estate sector more tightly.



**HOW WE  
VIEW**

## How We View | Politics

In the dynamic realm of Nepalese politics, where certainties are scarce and shifts are frequent, a significant coalition emerged after the dissolution of the alliance between the two formidable political entities, the Maoists and the Congress, following a two-and-a-half-year collaboration. This pivotal moment heralded the formation of a new coalition, comprised of five major political parties.

Unified in their vision, the five political parties say they are committed to realizing the people's expectations for good governance, development, and social justice, as well as prioritizing national interests and concerns. Furthermore, they say they are dedicated to cultivating balanced and holistic international relations, paving the way for a prosperous trajectory aligned with the ethos of Nepal's federal democratic republic as enshrined in its constitution.

At the helm of this transformative journey stand notable leaders: KP Sharma Oli, Chairperson of CPN-UML; Prime Minister Dahal, Chairperson of CPN (Maoist Center); Madhav Kumar Nepal, Chairperson of CPN (Unified Socialist); Rabi Lamichhane, Chairperson of Rastriya Swatantra Party; and Upendra Yadav, Chairperson of Janata Samajbadi Party Nepal. Together, they penned a monumental seven-point agreement, signifying their collective commitment to steer Nepal towards a brighter future.

Nepali Congress and Maoists had fallen out over the election of National Assembly's chairperson. Narayan Prasad Dahal, the newly elected National Assembly chairperson belonging to Maoists, pledged to enhance the Upper House's importance, stressing its pivotal role in Nepal's governance. He vowed to champion the recognition of the National Assembly as indispensable, shaping the legislative landscape.

Recent coalitions between two communist parties, which had previously experienced disputes, have raised concerns about Chinese influence over the political scenario, particularly regarding the Belt and Road Initiative (BRI). This concern is evident from recent developments, where Chinese delegates are frequently meeting government officials.

### **RPP Rally in Kathmandu: Calls for Return to Monarchy and End of Secularism**

The Rastriya Prajatantra Party protested against the republic system, demanding the resignation of Deputy Prime Minister and Home Minister Rabi Lamichhane. Led by RPP Chairperson Rajendra Lingden and operating under the slogan 'Let's change the system to change the situation,' the demonstration aimed to exert pressure for the fulfillment of the party's 40-point demands submitted to the government. These demands encompassed the abolition of



the republic system, reinstatement of the monarchy, and termination of secularism.

### **Fraud Allegations against RSP President Lamichhane Led to Nepali Congress Stall in Parliament**

Victims of fraud at Pokhara's Surya Darshan Savings and Credit Cooperative Limited had lodged a complaint against Rastriya Swatantra Party (RSP) chairperson and lawmaker Rabi Lamichhane at the District Police Office, Kaski. They alleged that Lamichhane, while serving as Galaxy Television's managing director, obtained an illegal loan from Surya Darshan. Despite calls for a parliamentary investigation, no separate committee was formed due to ongoing rumors, leading to Nepali Congress stalling parliamentary sessions.

To conclude, the unpredictable nature of politics has once again been underscored this quarter, as evidenced by the breakup of the previous coalition and the formation of a new alliance between the two communist parties. This realignment has resulted in a significant shift of power towards the Maoist party, positioning them seemingly on the side of authority. However, the Maoist party must demonstrate tangible progress to maintain their newfound influence, especially considering their relatively fewer seats in parliament compared to opposing parties. Given the unpredictability of our political history, forecasting the future of the current coalition remains a daunting task.



# How We View | Economy

## Global Economy

### IMF World Economic Outlook:

In April 2024, the IMF projected that global growth would remain at 3.1 percent for 2024 and rise to 3.2 percent in 2025. However, elevated central bank rates to combat inflation as well as reduced fiscal support amid high debt levels have weighed on economic activity.

Inflation has been falling faster than expected in most regions, driven by supply-side issues unwinding and restrictive monetary policies. Global headline inflation is predicted to decline to 5.8 percent in 2024 and 4.4 percent in 2025.

### OECD Economic Outlook:

The OECD predicts that global GDP will grow by 2.7 percent in 2023 and show a modest improvement of 2.9 percent in 2024. This year's growth rate is the lowest since the global financial crisis (excluding the pandemic).

While inflation is decreasing in major economies, core inflationary drivers remain persistent. Real wage decline is expected to end this year. However, the recovery remains fragile, and governments must take action on fiscal policy and spending to protect vulnerable population and support growth.

### World Bank Global Economic Prospects:

The global economy is projected to grow by 1.7 percent in 2023 and 2.7 percent in 2024. This sharp slowdown in growth is widespread, with forecasts revised downward for 95 percent of advanced economies and nearly 70 percent of emerging market and developing economies.

### Overall Assessment:

The baseline forecast indicates that growth has declined from 3.4 percent in 2022 to 2.8 percent in 2023, before stabilizing at 3.0 percent in 2024. Some advanced economies are experiencing a pronounced slowdown, with growth falling to 1.3 percent in 2023.

In summary, the global economy faces challenges related to inflation, fiscal policies, and persistent risks. Policymakers must navigate these complexities to ensure sustainable growth and stability.



## Nepalese Economy

Nepal Rastra Bank published the midterm monetary policy at the end of Magh. Despite widespread hopes that the central bank would intervene to boost the flow of credit in the economy, no major policy changes were made, maintaining the status quo.

To mitigate the challenge due to the heightened liquidity in the banks and financial institutions, Nepal Rastra Bank implemented a Standing Deposit Facility (SDF) for the BFIs. After the implementation of the SDF from Falgun 1, 2080 BFIs now have the option to deposit funds in Nepal Rastra Bank at the deposit collection rate. The deposit collection rate is said to be around the lower rate of the interest rate corridor which is currently at 3% after being revised by Nepal Rastra Bank in the first quarter review of the monetary policy. It was at 4.5% in the monetary policy released by Nepal Rastra Bank at the beginning of the fiscal year.

With no revision in the midterm review by Nepal Rastra Bank, the three rates of the interest rate corridor currently stand at the following rates:

Bank rate:	7%
Policy Rate:	5.5%
Deposit Collection Rate:	3%

## Monetary Stance

Indicator	F.Y 2079/80 End	F.Y. 2080/81 Q1	F.Y. 2080/81 Q2	F.Y. 2080/81 Q3
Total Deposit	5,767	5,847	5,915	6,134
Total Loan	4,879	4,951	5,000	5,100
CD Ratio	81.65	81.81	81.74	80.86
Inter Bank Rate	0.44 %	1.99 %	1.99	3.82
Treasury Bill:				
28 days	3.02	2.9	3.21	2.98
31 days	5.26	4.27	3.44	3.12
182 days	5.62	5.1	4.04	3.01
364 days	6.35	5.78	4.45	3.27

News of the abundance of liquidity in the banking system surfaced in the business news portals from the second quarter throughout the third quarter. The already low CD ratio of 81.74 in the second quarter was further hit with the rising deposit and reached the lowest of 79.42 on 24<sup>th</sup> March. The government withdrew the funds of the local level government of almost NPR 92 billion from the banking system pushing the CD ratio up by 1.17 points. The closing figures for the total deposit, total loan, and CD ratio stand at 6.13 trillion, 5.1 trillion, and 80.86 respectively. Even after the withdrawal of NPR 92 billion by the government, deposit in the banking system grew by NPR 219 billion in the third quarter. The total loan growth was only NPR 100 billion. With a large number of deposits coming into the banking system and the low loan demand, it is



yet to be seen how the banks will manage their excess liquidity going into the fourth quarter.

## Fiscal Instances

Amount in Lakh (,00,000)

Topic	Target/Budget (F.Y. 2080/81)	Actual (Upto Q3 Chairta End F.Y. 2080/81)	Percentage (F.Y. 2080/81)	Target/Budget (F.Y. 2079/80)	Actual (Upto Q3 Chairta End F.Y. 2079/80)	Percentage Non-Tax 079/80)
1. Revenue	14,225,417	7,248,027	50.95%	14,031,470	6,838,059	48.73%
a) Tax Revenue	13,054,796	6,548,733	50.16%	12,953,758	6,161,182	47.56%
b) Non-Tax Revenue	1,170,621	699,294	59.74%	1,077,712	676,877	62.81%
2. Grants	499,430	27,580	5.52%	554,583	48,020	8.66%
3. Other Receipts	0	222,367	0%	0	358,664	0%
Total Receipts of GoN (1+2+3)	14,724,847	7,497,974	50.92%	14,586,053	7,244,743	49.67%
Total Expenditure:	17,513,121	9,016,725	51.49%	17,938,373	9,430,516	52.57%
a. Recurrent	11,417,841	6,411,058	56.15%	11,832,351	7,067,659	59.73%
b. Capital	3,020,744	948,895	31.41%	3,803,845	1,072,434	28.19%
c. Financing	3,074,536	1,656,772	53.89%	2,302,177	1,290,423	56.05%

Comparing third quarter end of the last two fiscal years, capital expenditure has declined by NPR 12.35 billion and recurrent expenses have declined by NPR 65.66 billion however an increase of NPR 36.63 billion in financing expenditure is seen in the current quarter as compared to last year. The financing expenditure is expected to grow significantly next fiscal year. The tax revenue of the government increased by NPR 38.75 billion while the non-tax revenue increased by NPR 2.24 billion contributing to an overall increase in government revenue by NPR 40.99 billion as compared to third quarter end of the last fiscal year.

The resource committee headed by the vice chairperson of the National Planning Commission has crafted the budget ceiling of 1.8 trillion for the upcoming fiscal year 2081/82. For the current fiscal year 2080/81, the initially allocated budget of NPR 1.751 trillion was revised and downsized by 12.62 percent to NPR 1.530 trillion through the mid-term review of the budget.



## Macro Economics

Amount in NPR billion

Indicators	2080/81 Up to Falgun End	2079/80 Up to Falgun End	2078/79 Up to Falgun	Y-O-Y Change
Inflation (%)	4.82	7.44	7.14	-35.22%
Indian Inflation (%)	4.85	5.66	6.95	-14.31%
Export	100.62	104.79	147.75	-3.98%
Import	1030.22	1058.38	1308.73	-2.66%
Trade Deficit	929.61	953.59	1160.98	-2.51%
Export-Import Ratio (%)	9.77	9.9	11.29	-1.31%
Travel Income	51.39	37.12	14.49	38.44%
Remittance	961.22	794.32	631.19	21.01%
Forex Reserve in USD (\$)	14.14	10.69	9.58	32.27%
Forex Reserve Sufficiency (in Months)	12.4	9.4	6.7	31.91%

Nepal Rastra Bank published eight months of macroeconomic data for the fiscal year 2080/81 up to Falgun's end. This data shows a significant decrease in overall inflation to 4.82 percent which was at 7.44 percent a year ago. Inflation in India also experienced a decline reaching 4.85 percent from 5.66 percent a year ago.

Travel income for the month of Falgun stood at NPR 5.99 billion contributing to an eight-month total of NPR 51.39 billion for the current fiscal year which was at NPR 37.12 billion a year ago, showing a significant increase of 38.44 percent. Travel income arises from sources like tourism, business visitors, and other international visitors' spending money on accommodations, food, transportation, and other related expenses.

Remittances sent by the migrant workers are at their highest level for any 8 months, reaching NPR 961 billion at the end of Falgun. Contributed by it is the national foreign currency reserve, which stands at a total of USD 14.14 billion at the end of the first 8 months of the fiscal year. This reserve is sufficient to cover merchandise and services import for the next 12.4 months.

The trade deficit seems to be declining but with no good reason. Both imports and exports seem to be declining from the past two years suggesting a decrease in economic activities. Considering the real GDP constant, the data suggests a decline in both production and consumption within the country which are considered strong indicators of an economic slowdown.



## How We View | Capital Market

There was a lot of liquidity in the banking and financial systems this quarter. The most recent NRB data indicates that deposits in the banking sector had reached a record high of more than NPR 6200 billion. Likewise, there hasn't been much of a shift in the Credit-Deposit ratio this quarter; at the start of the quarter, it was 80.39. At the end of Falgun, the credit-to-deposit ratio was 79.91; by the conclusion of the quarter, it was 80.64. The slight uptick in the CD ratio primarily stems from the finance minister's decision to exclude funds from local-level governments as deposits. The relatively unchanged CD ratio this quarter reflects a decline in lending activity within the economy. Additionally, the stagnant interbank rate, which mostly remained below 3, also highlights a reduced credit lending in the economy. This quarter, the government also tried to manage the liquidity by introducing the Standing Deposit Facility (SDF), a tool that allows banks to park their excess money. At the end of the quarter, the government had NPR 9.75 billion outstanding in SDF. Moreover, to soak up the liquidity, the government also came up with development bonds amounting to NPR. 32.69 billion this quarter with different maturity ranging from five years, six years, and eight years.

Most commercial banks reduced their interest rates this quarter due to the increased liquidity in the banking system as well as lower interbank rates. According to a report from NRB, the weighted average credit rate decreased from 11.08 percent to 10.78 percent till the end of Falgun this quarter. A peculiar situation in the capital market is being observed whereby the market is declining in tandem with the declining interest rate. A lot of factors are contributing to this situation, such as delayed payments from the government to the construction and the dairy sectors (total outstanding greater than NPR. 7 billion), decreased consumption, increasing non-performing loans in the banking system along with non-banking assets, which affects the bank's capacity to payout dividends and draws more provisioning against such assets, BFIs focusing on recovery rather than lending, declining private sector confidence, and commercial banks struggling to maintain their core capital requirements.

Overall, the market declined this quarter, with the banking sub-index seeing a major decline of -12.54%, followed by the investment sub-index and the hotel and tourism sub-index with -11.27% and -10.10%, respectively. On a positive note, the manufacturing sub-index and the finance sub-index saw gains of 1.33% and 4.28%, respectively.

### **Sectoral Dissection**

#### **Banking Sector**

Despite a reduction in interest rates, the proportionate growth of credit in the economy is not evident. The issue of the capital adequacy ratio is still at the heart of this problem for the sector. Despite having enough liquidity in the system, banks are using the liquidity absorption tools offered by NRB rather than lending it out. NRB introduced the net NPL ratio for A-class banks for the first time. Net NPLs are simply the NPLs for which a provision has not been created.



According to the Mid-Jan data published by NRB, total NPL for commercial banks stood at 3.63%, whereas net NPL stood at 1.13%. This highlights that out of 3.63% of NPL, 1.13% of it is not covered by the provisions that might attract additional provisions in the future. Further, the breakdown within class A banks shows that Citizens and Global IME banks have the highest percentage of net NPL within the sector, while Everest and Nepal SBI banks have the lowest percentage of net NPL. This quarter also saw events like banks closing their extra branches to reduce their operational costs and banking personnel getting arrested for loan misappropriation. This sub-index fell the most this quarter, by 12.54%.

### Microfinance Sector

In this quarter, victims of cooperatives and microfinance organized a protest outside Nepal Rastra Bank, Baluwatar. Finance Minister Barsaman Pun appointed a seven-member team led by the deputy governor of Nepal Rastra Bank, to investigate problems in the microfinance sector. The taskforce was given a 60-day deadline (mid-May) to provide a report once the microfinance issues had been identified. Similarly, government representatives and the microfinance struggle committee inked a six-point agreement to address the issues that microfinance victims face. Some of the main signed provisions include: a) Microfinance should not charge interest rates higher than those mentioned when authorizing loans; and b) Microfinance should not levy interest rates higher than a single digit and should take only one percent service charge. As of April 16, 2024, the average non-performing loan ratio was 6.75% with the highest being 18.14%. Throughout the quarter, the index grew by only 1.33%.

### Hydropower Sector

Nepal Electricity Authority has made several initiatives to elevate hydropower sector of the country. To encourage domestic small-scale hydropower investment, NEA has decided to open up the power purchase agreement (PPA) for hydropower projects of up to 10 megawatts under the 'take or pay system'. Nepal also struck an agreement to export power to Bangladesh through India's NTPC Vidyut Vyapar Nigam (NVVN). This sub-index declined by 9% during the quarter.

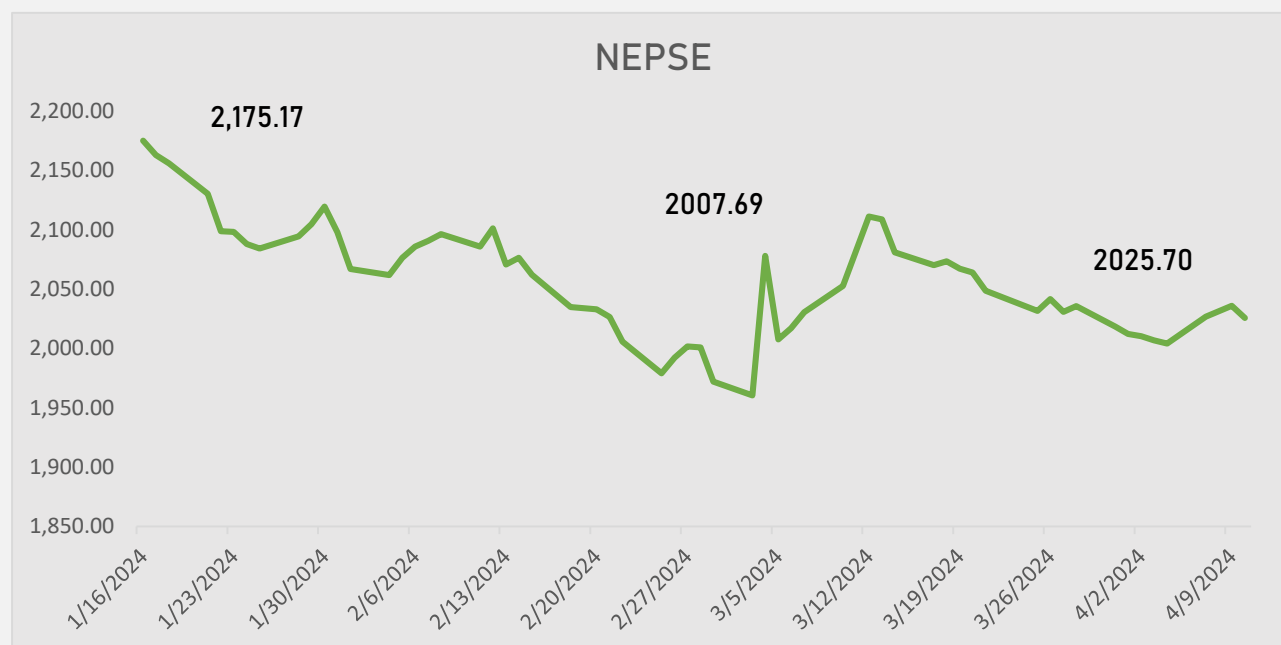
### Hotel Sector

This sector has received some of the most investment in the country. It is believed that the sector has approximately 20 billion investments as several star hotels and resorts are being built throughout the country. Despite having a large number of hotels, Nepal has not been able to draw in enough tourists. Although research suggests that Nepal has the capacity to cater to 3.5 to 4 million tourists per year, it now only serves 1 to 1.1 million tourists per year, which is relatively low for the sector. This fact is further supported by hotel occupancy rates that range between 20% and 60%. This sector declined by 10.10% in this quarter. A bigger number of tourists must visit the country in order for the sector to remain vibrant.



## Insurance Sector

Life Insurance and Non-Life Insurance both took a hit in their index by 8% and 7% respectively during the quarter. No major development in the sector was seen.



Sector Wise Sub-Indices	Quarter Start	Quarter End	This Quarter Change
Banking Sub Index	1,211.15	1,059.23	-12.54%
Development Bank Index	4,261.85	3,960.51	-7.07%
Finance Index	1,932.28	2,015.01	4.28%
Hotels And Tourism Index	5,692.88	5,117.97	-10.10%
Hydropower Index	2,750.21	2,481.82	-9.76%
Investment Index	85.42	75.79	-11.27%
Life Insurance	11,127.33	10,228.92	-8.07%
Manufacturing And Processing	6,194.96	6,751.61	8.99%
Microfinance Index	3,952.40	4,004.77	1.33%
Mutual Fund	19.04	18.27	-4.04%
Non-Life Insurance	11,308.67	10,518.48	-6.99%
Others Index	1,679.53	1,704.76	1.50%



# How We View | Real Estate

## Infrastructure Development

### Hotels

The Shinta Mani Hotel in Mustang, operated by Bensley, now offers packages starting at a minimum of \$12,000 for a 5-day stay. With Mustang recently featured in The New York Times' list of 42 must-visit places, tourism in the region, including at Shinta Mani, is expected to receive a significant boost.

### National Projects

Several key national projects have reached significant milestones:

- Upper Tamakoshi project
- Gautam Buddha International Airport
- Pokhara Regional International Airport
- Melamchi Drinking Water Project

These projects have been successfully completed. Additionally, major projects like the Bardiya Babai Irrigation Project, the Kanchanpur Mahakali Irrigation Project, and the Lumbini Development Fund have achieved over 50% completion.

### Roads

Narayangath- Muglin Road: All the bridges have been fixed up, and they're working on making the road longer. They're also drilling to get rid of a big rock hill, and they should be done by the end of the year.

Narayangadh- Butwal road: Despite a 5-year timeframe, only 50% of the construction work on the Narayangadh-Butwal road has been completed. Contractors have been granted an extension, but completing the remaining construction within the next two years seems tough. However, progress on the 22 minor bridges along this route is promising, with all nearing the final stages of construction.

Mugling-Pokhara: Construction on the Mugling-Pokhara road involves the demolition of 74 houses to facilitate smoother transportation. The project is being executed in two phases, with 51% of the construction completed on the east side and only 18% on the west side. Supervisors indicate that an additional year may be required to finish the project satisfactorily.

Nagdhunga- Dhading tunnel road: We're expecting to hear that they've made a big breakthrough on the Nagdhunga-Dhading tunnel road soon. Hopefully, we'll be driving through the tunnel in about a year.



National Projects: Kaligandaki Corridor, which connects 202 km of Parbat, Myadi, and Mustang districts, is still being worked on. For this inter-district connection project, 75% of the budget that was allotted has already been used.

### **Construction and Housing Market**

In the housing sector, numerous projects are at a standstill, with no progress observed over the past year. For instance, Padma Colony is facing difficulties selling many of its 45 housing units. As a solution, they're offering a swap option where buyers can exchange 50% of the land and pay 50% in cash for one unit. Similarly, CG Holdings has only managed to book 50% of its 90 housing units in Dhapakhel. Downtown has shifted its focus from selling housing units to selling off its 100 ropani land. Additionally, CE Groups has slowed down construction activities across various locations in Nepal, including Biratnagar, Nilbarahi, Tillottama Homes, Bodhi Homes, and Bandipur Colony.

### **Banking and Finance**

We have observed a decrease in interest rates this quarter. Fixed deposit interest rates have decreased dramatically from 12% to 6% year over year. Despite efforts by banks to discourage fixed deposits, people are still reluctant to make investments in any industry. The economy may be at its lowest point right now due to investors' and banks' lack of confidence. It seems like we're experiencing a phase of economic depression, where the only way forward is up.

On the bright side, personal home loans have tripled year-over-year to NPR 32.5 billion from NPR 9.2 billion. This surge follows amendments in policy by Nepal Rastra Bank and the government, which include easing interest rates and extending personal home loan limits. Banks are now offering home loans at single-digit fixed interest rates for up to 10 years, attracting more investors. However, professional real estate loans have decreased, indicating an oversupply compared to demand. Realtors are adopting a "wait and watch" approach.

### **Transaction Records**

Time	Number of Transactions	CGT	Total Tax collection
2080 Magh	141816	1,199,673,383	3,375,746,231
2080 Falgun	146708	1,285,058,177	3,592,691,081
2080 Chaitra	146650	1,469,107,142	3,948,136,816



Time	Number of Transactions	CGT	Total Tax collection
2079 Magh	118,026	1,078,073,897	3,750,817,946
2079 Falgun	117,571	1,031,799,940	3,568,051,497
2079 Chaitra	142,251	1,328,804,388	4,512,699,343

The data clearly indicates a downward trend in the real estate sector. In Chaitra 2077, the total tax collection was NPR 8.60 billion, but after three years, it plummeted to NPR 3.95 billion marking a staggering 54% decline. This significant correction in the real estate market is essential for investors who have been overly optimistic. Despite increases in kitta-kaat and revisions in risk weightage assets (RWA) policy, the sector remains sluggish. The continued rise in kitta-kaat transactions contrasts sharply with the low tax collection, suggesting a notable drop in real estate prices.

Capital gain tax tends to increase in the last month of every quarter, possibly due to high-value transactions facilitated by banks. However, despite these efforts, the real estate market continues to struggle.

Real estate agencies in Nepal have pioneered a multi-listing system, akin to a stock exchange, aiming to revolutionize the industry. Real estate investment trusts (REITs) are seen as the key to bringing regulation and professionalism to the sector. Even the government is actively exploring avenues for regulation and monitoring, as evident in the development of apps and websites like "merokitta" designed to provide comprehensive real estate information. This shows there's a lot of potential for growth in Nepal's real estate industry, which is a big player in the country's economy.

While many aspects are aligning positively, the main thing holding us back is confidence in the current economy. This confidence should be bolstered by government support, and once achieved, our economy will be poised to move in the right direction. Going forward, there could be some optimism for a future rebound thanks to an increase in remittance inflow and decreased interest rates. As the saying goes, when all seems lost, the economy often rebounds. Therefore, we may be nearing the bottom of the economic cycle.



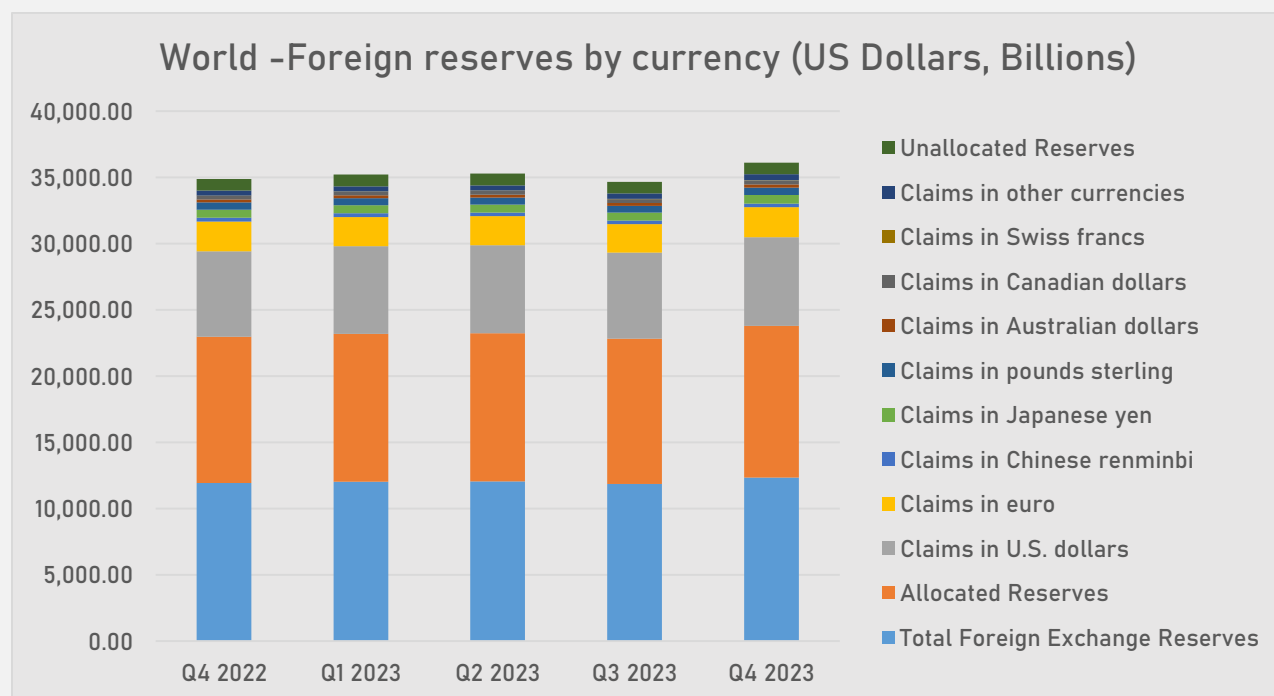
# THIS QUARTER FOCUS

Foreign exchange reserves are the bedrock of economic stability, shielding nations from uncertainties and fostering confidence. They cushion against financial instability, support imports during downturns, and underpin investor trust. Through trade surpluses, foreign direct investment (FDI), foreign portfolio investment (FPI), export incentives, currency interventions, bilateral agreements, commodity exports, prudent borrowing, and currency diversification, countries fortify their reserves, ensuring resilience and strength in the face of global challenges.

The IMF suggests that determining the suitable level of foreign exchange reserves for a country necessitates a nuanced approach, as traditional measures such as covering short-term debt or three months of imports have inherent limitations. As an alternative, the IMF proposes a two-step methodology for assessment.

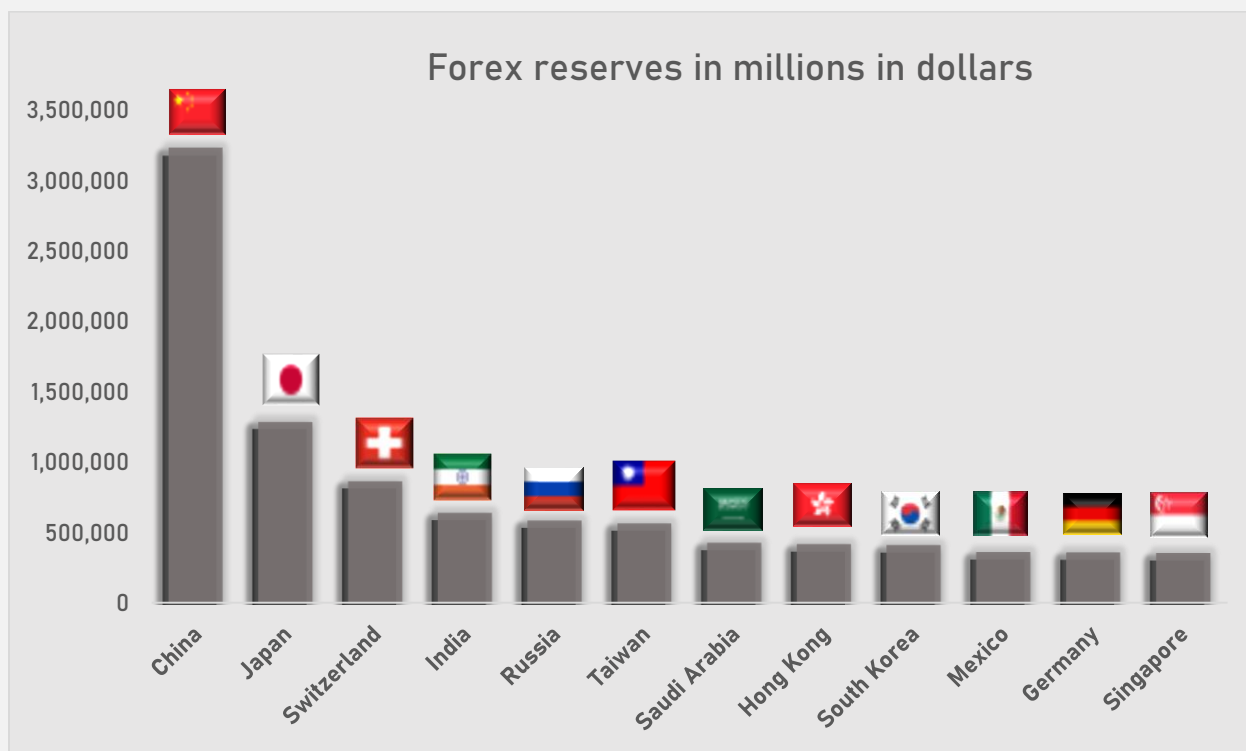
1. Evaluate country-specific vulnerabilities, considering factors like falling exports, sudden debt flows, and capital flight.
2. Estimate reserves needed based on these vulnerabilities, considering exchange rate regimes.

For low-income countries, 3 months of imports remains a relevant benchmark due to reliance on volatile flows. Countries with sound policies require lower reserves. However, while reserves are vital, strong macroeconomic policies are crucial for overall resilience.



Source: [imf.org](https://www.imf.org)





Source: imf.org

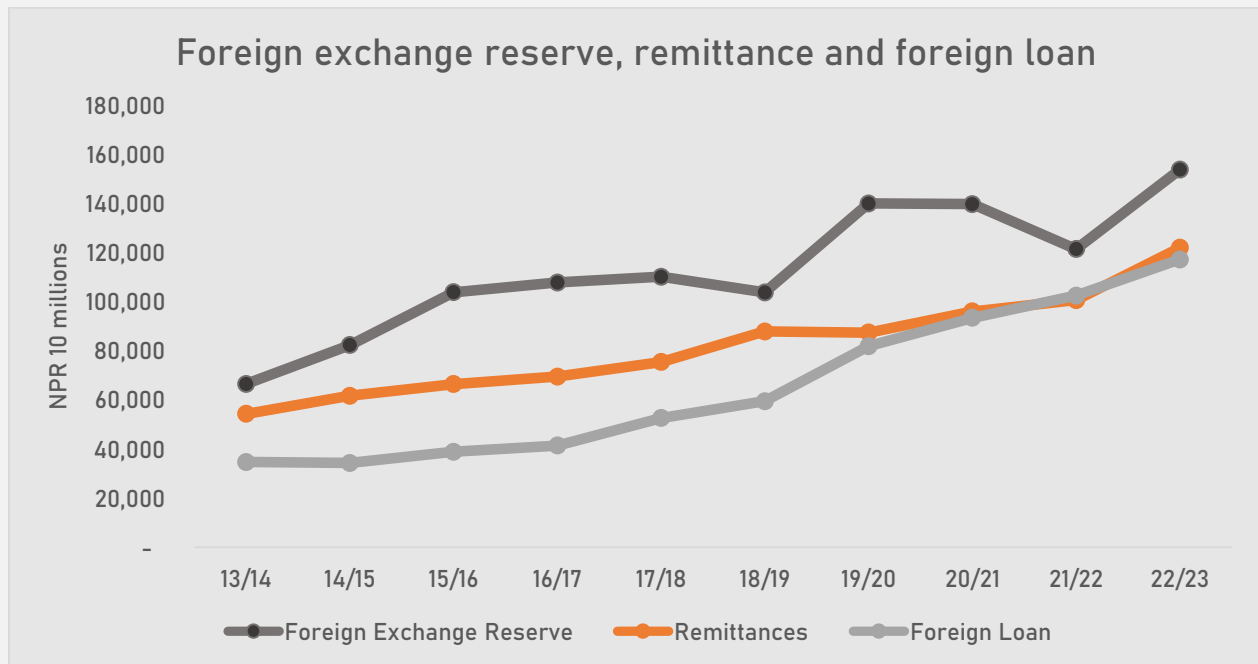
In response to the Asian Financial Crisis of 1997, Asian countries learned the necessity of accumulating foreign reserves to safeguard against capital outflows. These reserves serve as a defense mechanism during economic volatility, such as the global financial crisis of 2007–2008, the "taper tantrum" of 2013, and the COVID-19 pandemic in 2020. Central banks in Asia strategically utilize these reserves to stabilize exchange rates and bolster confidence in their economies. Additionally, some Asian countries, like China and Japan, employ currency pegs or interventions in foreign exchange markets to manage their exchange rates and support their export-oriented economies.

### **The Rationale of Reserves in Nepal**

In the midst of Nepal's economic turbulence and multifaceted challenges, the nation has reached an unprecedented zenith: boasting a historic achievement of a record-breaking foreign reserve totaling NPR 1.872 trillion, amply covering 12.4 months of service and merchandise imports as evidenced by the latest eight-month data for the fiscal year 2023/24 meticulously compiled by Nepal Rastra Bank (NRB). Considering our present economic conditions and the analysis conducted by NRB, a policy has been instituted stipulating that our foreign exchange reserves should constitute a minimum of 7 months' worth of imports, serving as the lower threshold. However, NRB has not specified an upper boundary for these reserves. Presently, we find ourselves in possession of reserves that cover a full 12 months of imports. In light of this surplus,



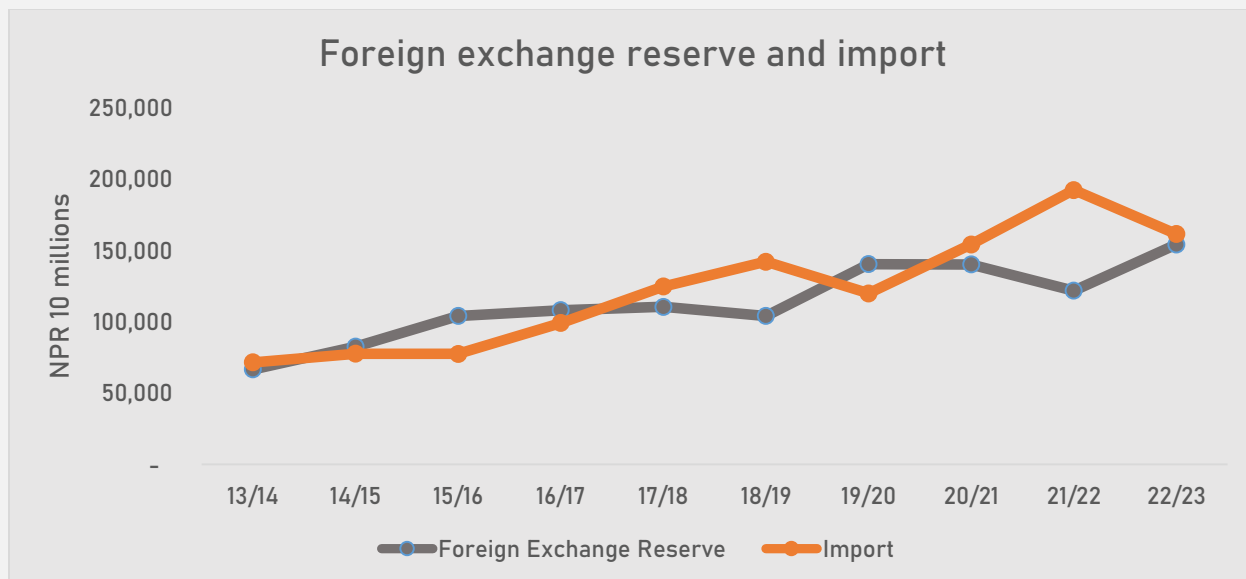
what opportunities might we explore, and what could be the opportunity cost of maintaining such a surplus?



Source: Nepal Rastra Bank

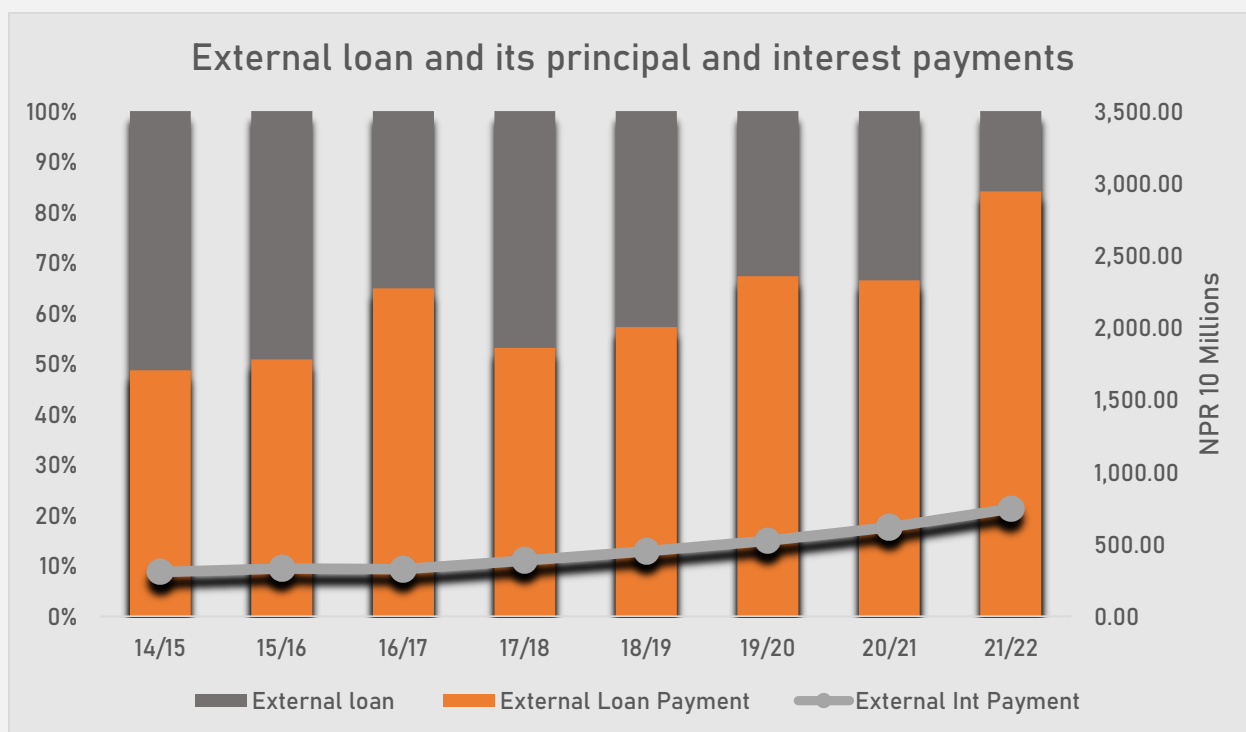
While conventional wisdom dictates that countries typically enhance their foreign reserves through avenues such as trade surpluses, investments, and central bank interventions, our country's circumstances paint a different picture. In our case, the monthly surge in foreign reserves is primarily attributed to inflows from remittances, foreign debt, grants, and exports, with remittances playing a predominant role surpassing both foreign debt and exports. This underscores a clear and positive correlation between remittances and our reserves, highlighting the pivotal role they play in fortifying our nation's financial standing. It underscores the importance of acknowledging the unique dynamics that shape our economy.





Source: Nepal Rastra Bank

Nepal relies heavily on imports, with a significant portion of remittances being spent on imported goods. As one of the world's most remittance-dependent nations, Nepal ranks among the top 10 countries with the highest remittance-to-GDP ratio. While remittances have boosted our foreign exchange reserves, what would happen if this flow were disrupted? In such a scenario, how could we increase our reserves without relying solely on remittances? Currently, remittances mainly go towards imports and consumption, rather than investing in productive sectors or building infrastructure. This raises the question of exploring other sectors to bolster our foreign reserves in the event of remittance challenges.



Source: pdmo.gov.np



Due to the government's challenges in revenue collection, it has increasingly relied on loans in recent years, both domestically and from foreign sources. This trend has resulted in a significant burden of debt servicing for the government. For instance, debt servicing expenditures have surged from NPR 95 billion in FY 2020/21 to NPR 222.74 billion in FY 2022/23. In the current fiscal year, Nepal has incurred an additional loan of NPR 218.86 billion. Looking ahead, the government plans to allocate NPR 436 billion for interest payments and debt repayments in the upcoming fiscal year, marking a substantial increase of NPR 106 billion compared to the current fiscal year. Despite initially budgeting NPR 307 billion for debt repayment this year, actual spending is anticipated to surpass NPR 330 billion.

### **The Flip of the Coin**

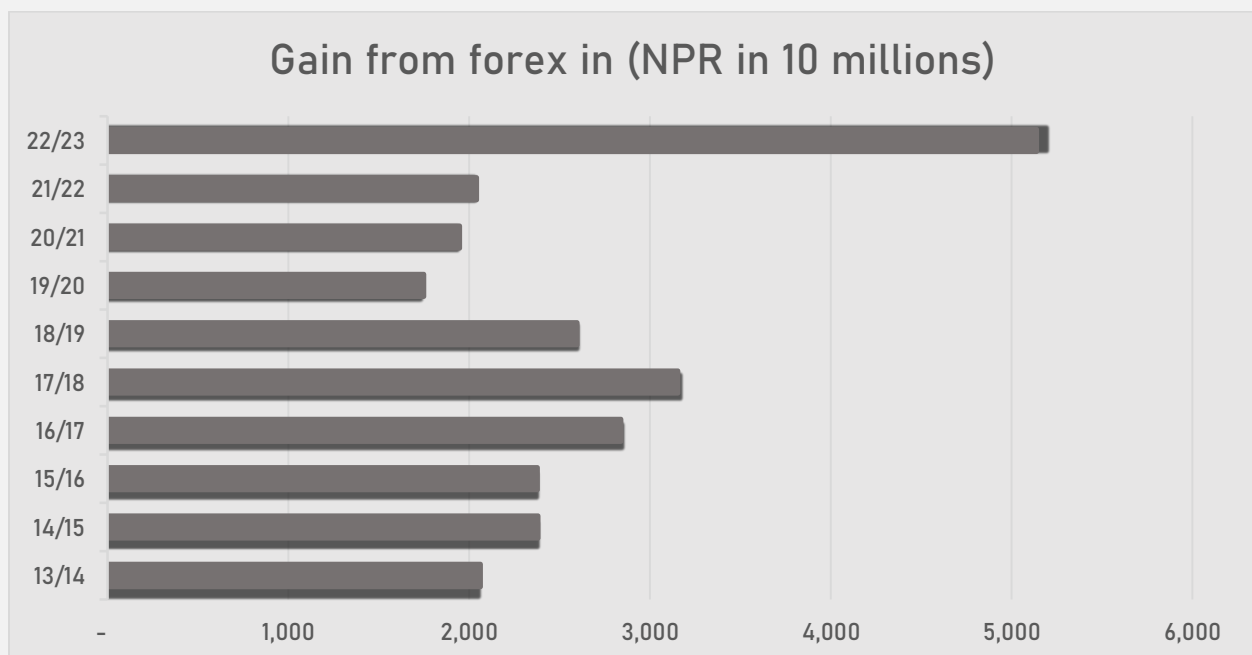
Nepal Rastra Bank, the apex body responsible for monetary and financial stability, seems to consider some peculiar characteristics of the national economy and maintain a huge accumulation of reserves. After the unexpected and unprecedented pandemic that struck humanity in 2020, aggregate demand for goods had globally plummeted. Despite this, the developed countries realized a quick recovery within a couple of years while the least developed countries took a long time, giving an impression of a K-shaped recovery. This factor, culminated with geopolitical tensions and the breakdown of the global supply chain led to high inflation, and it has yet suppressed demand in emerging countries like Nepal. Individual consumption has decreased. But once that pent-up demand surfaces and rises beyond the pandemic level, there could be huge pressure on the foreign reserves. This is one of the plausible hypotheses for rationalizing the NRB's move to accumulate foreign reserves that are more than sufficient to cover a year of imports.

The Central Bank of Nepal also considers some other structural changes. Nepal has experienced a decent but continual growth in service imports after the pandemic. The country experienced a rapid rise in digitization of the economy, opening new avenues for spending foreign reserves. As the country marches towards its digital future, envisioned by the 2019 Digital Nepal Framework, a bit increment in forex reserves to sustain the crucial service imports indicates NRB's proactiveness. In addition, capital goods imports have been increasing, though at a low rate. It is a good signal of the economic recovery as well. Also, the country has aspired to attain high economic growth by executing some real big national pride projects too. Those projects would require the government and private sector to import machines, raw materials, and such on an extremely large scale. The forex reserve accumulation can be attributed to sluggish import demands and increased foreign debt. As the demand side starts to pick up the foreign reserve will start to deplete. The foreign debt burden and its interest payment will erode the reserve further in the coming days.

One of the major reasons for being the lowest FDI-receiving nation in Asia is its rigid capital control measures. The investors are afraid that they may not be able to repatriate the income and investment on the day of exit. So, to appease these investors too, the higher level of reserves



within NRB makes a real good sense.



Source: Nepal Rastra Bank

Last but not least, Nepal Rastra Bank has implemented a prudent investment strategy of its reserves and earned a good sum of money, on behalf of the government of Nepal. The Return of Investment (ROI) on the foreign assets managed by the NRB lies in the range of 3-5 percent per annum, as per the financial statements published by the central bank.

To conclude, though there are both bright and dark sides to the large reserve accumulations, proper management of delicate funds by the Central Bank of Nepal is the need of the day. Adding up a bit of transparency on its rationale for such a huge volume of reserves, which is approaching the level of Bangladesh's reserve level, would add to its credibility and democratic accountability.



