Market Summary of the NEPSE for the FY 2079/80

Throughout the fiscal year 2079/80, the NEPSE Index has moved in a sideways trend, fluctuating within the range of 1800 to 2200. After reaching an all-time high of 3227.11 on 19th Aug 2021, NEPSE experienced a significant decline and dropped to 1806.95 on June 24th, 2022, with a decline of around 44%. Since then, the market has been moving sideways, fluctuating between the levels of 1800 and 2200. Despite making three attempts to surpass the 2200 level, the market couldn't sustain above the index and fell back below it each time. As a result, the market has been trading within a range, as indicated in the provided chart.

In the fiscal year 2078/79, the NEPSE Index closed at the level of 2009.46. By the last trading day of fiscal year 2079/80, it saw a slight increase of 4.36% to close at 2097.09. Throughout this fiscal year, the market peaked at the index of 2277 on January 10th, 2023, and hit a low of 1807 index on May 15th, 2023.

The weighted average lending rate which had been in the increasing trend from the Aug 2021 (8.48%) has peaked in the months of February and March 2023 reaching to the level of 13.03%. Afterwards, it has been gradually declining with the gradual ease in the liquidity in the banking system attributed by the increasing remittance and declining imports in the economy. As per macroeconomic data of Mid- June 2023, it has dropped to 12.53%. However, it is still significantly higher from the level observed in August 2021. Moreover, the lending growth rate has been limited to around 3.4% up to the 11-month data by NRB. These factors, the high lending rates and constrained lending growth may have contributed to the market's stagnation and lack of significant upward momentum in the fiscal year 2079/80.

Index Change (Yearly Comparison)

Index	7/15/2022	7/16/2023	Change in Index
NEPSE Index	2,009.46	2,097.09	4.36%
Sensitive Index	385.91	394.15	2.14%
Float Index	139.37	144.97	4.02%
Sensitive Float Index	126.48	129.28	2.21%

Sub-Index	7/15/2022	7/16/2023	Change in Index
Banking	1,363.39	1,234.80	-9.43%
Development Bank	3,502.59	3,895.17	11.21%
Finance	1,586.93	1,925.33	21.32%
Hotels & Tourism	2,640.60	5,797.47	119.55%
Hydropower	2,343.65	2,367.11	1.00%
Investment	64.48	73.06	13.31%
Life Insurance	9,688.19	11,991.15	23.77%
Manufacturing & Processing	5,091.08	5,637.51	10.73%
Microfinance	4,451.79	4,049.56	-9.04%
Mutual Fund	15.01	15.15	0.93%
Non-Life Insurance	7,986.32	11,287.84	41.34%
Others	1,464.03	1,549.49	5.84%
Trading	2,025.56	2,637.94	30.23%

By the end of the fiscal year 2079/80, nearly all the sectors experienced growth, with increases ranging from a nominal 1% in the hydropower sector to a substantial 119.55% in the hotel sector. However, both the banking index and microfinance index showed a decline.

Briefly elaborating the performance of the major indices as follows:

Banking

The Banking Index had decreased by 9.43% from last year and stood at 1,234.80 at the end of the fiscal year 2079/80. The index suffered due to profitability of banking sector being affected by factors such as the requirement of maintaining spread rate of 4% by the end of Asadh 2080 and less loan flow during the fiscal year. Additionally, the sector having the highest market capitalization and high supply of the shares in the capital market is less appealing to the traders for short-term trading.

Development Bank & Finance

The Development Bank Index had increased by 11.21% from that of the previous year and stood at 3895.17 at the end of the fiscal year. Similarly, the finance index has also increased by 21.32% from the index of the previous year. Both the development bank and finance index have relatively low number of stocks and have relatively low market capitalization. Despite weaker performance in terms of profitability and growth, the low supply of stocks and lower supply of the shares in the indices make the sectors more attractive to the traders in the capital market.

Hotels & Tourism

During FY 2079/80, the Hotels & Tourism Index saw a substantial increase of 119.55%, bouncing back from challenging times during 2076 and 2077 due to lockdowns and travel restrictions. The hospitality industry faced losses, but by the third quarter of FY 2079/80, there were signs of improvement. Three Five Star hotels (SHL, TRH, and OHL) reporting profit in the quarterly reports and a newly listed City Hotel’s rising price contributed to the index growth. The government's Visit Nepal Decade initiative (2023-2033) also had a positive impact on revitalizing the tourism sector.

Hydropower

The Hydropower Index showed nominal growth of 1% in FY 2079/80. During the last bull rally towards 3200, the hydropower sector was the favorite sector of the traders in the capital market. However, as the market turned bearish and the number of hydropower companies listed on NEPSE increased, the supply of hydropower stocks gradually rose. Moreover, the lack of strong fundamental support for these hydropower companies resulted in decreased demand for them during the fiscal year 2079/80.

Investment

The Investment Index had a growth of 13.31% from that of the previous year. Under the investment index, CIT and CHDC were the major stocks driving the investment index’s growth.

Life Insurance & Non-Life Insurance

The Life Insurance Index had growth of 23.77% and Non-life Insurance Index had a growth of 41.34% from that of previous fiscal year. Increment in life and nonlife sector was supported by decision of Insurance authority to raise the minimum bar on paid-up capital of insurance companies. It has been decided that insurance companies can issue bonus shares, right shares, an FPO, or take the merger and acquisition route in order to meet the revised capital structure.

Microfinance

The Microfinance Index witnessed a decline of 9.04% from that of the previous year. The major decline in the microfinance index has been observed due to the major event affecting microfinance institution i.e., amendment in the Unified directives for the microfinance institutions 2078 by Nepal Rastra Bank that tightened the lending provision and dividend distribution provisions by microfinance.

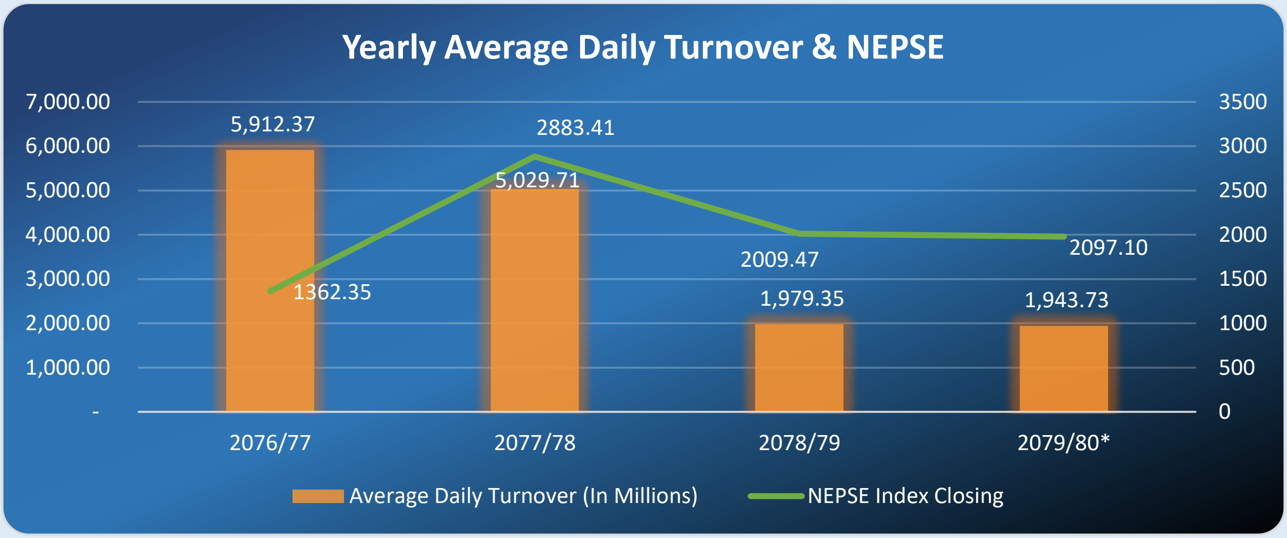
Manufacturing & Processing

The Manufacturing & Processing Index had increased by 10.73% from that of the previous year. The growth of the index was largely contributed by the growth in UNL. UNL nearly doubled in this fiscal year.

Trading

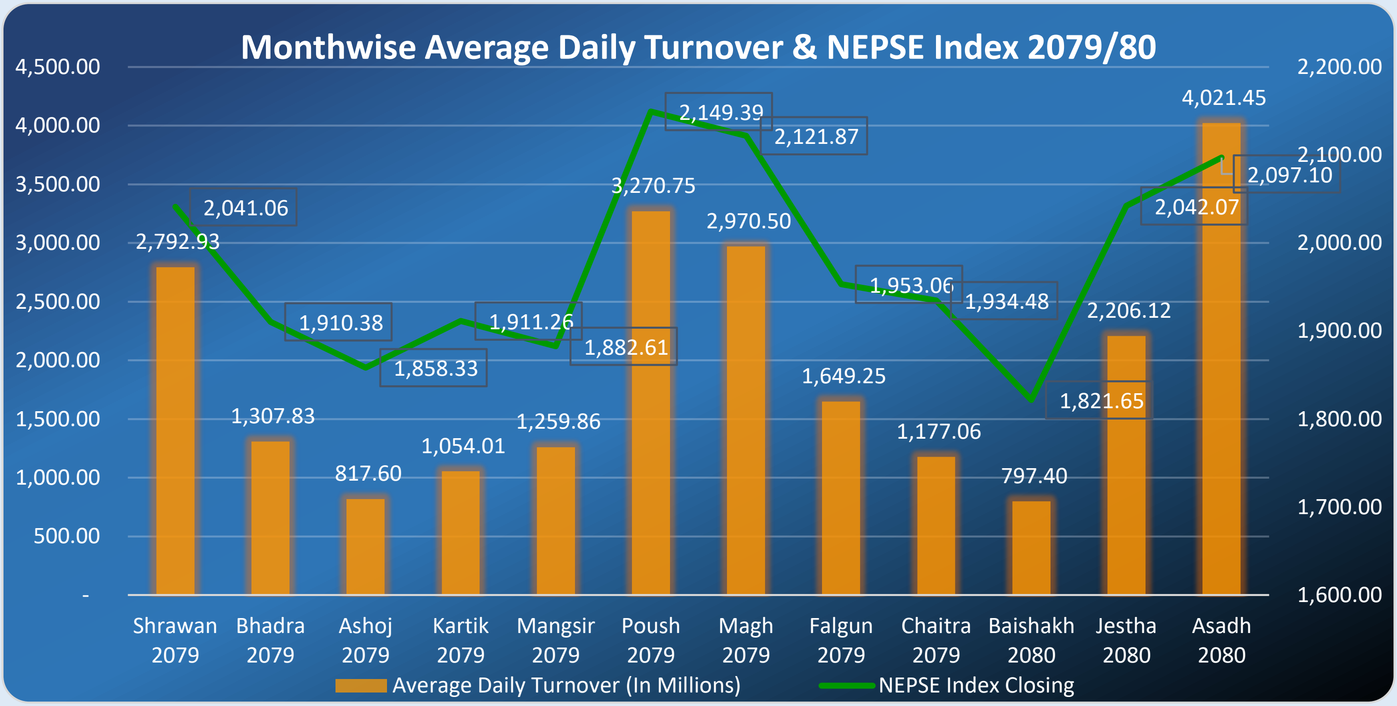
The growth in the Trading Index of 30.23% from the previous year was majorly contributed by the rise in the price of STC.

Year wise Daily Average Turnover & NEPSE Index



Average daily turnover can also be taken as an important indicator for measuring the nation's economic activity. It also reflects the liquidity position of the banking system as the higher the amount of trading of stock market size is the market liquidity in the economy.

The average daily turnover for the year 2079/80, by taking the average daily turnover of 12 months is 1.94 billion and the NEPSE Index closed in 2097.09 at the end of the fiscal year. The average daily turnover as well as the NEPSE Index for the year 2079/80 is comparatively less when compared to the last 3 years signifying the suppressed market performance in the year.



From the above chart of month-wise average daily turnover, it can be observed that the rise of the NEPSE is directly correlated with turnover. Among the 12 months in the fiscal year 2079/80, the month of Asadh 2080 has the highest average daily turnover of 4.02 billion providing some positive hope for the next fiscal year.

Some Major Events of FY 2079/80

6 Dec, 2023	Decision by the Government on the relaxation of import restrictions on the luxury goods. Completely lifted the import restrictions from 16th December 2022.
28 Dec, 2023	Extension of timeline for banks by the Government to count 80% of local government's reserve funds as deposits in their CD ratio till mid-July 2023.
4 Jan, 2023	NRB has relaxed in working capital loan repayment in 5 installments till Ashad 2082 issued prior to Kartik, 2079.
22 Feb, 2023	Amendment in the Unified directives for the microfinance institutions 2078 by NRB that tightened the lending provision and dividend distribution provisions by microfinance.
8 May, 2023	As per the NRB's, the Class "A", "B" and "C" banks are required to change and publish the lending interest rate on a monthly basis on their website.
29 May, 2023	Government unveiled the budget and financial bill 2080/81.
13 Jul 2023	Nepal Bankers' Association Ends Long-standing Interest Rate Cartelization allowing Banks to Set Their Own Rates.
17 Jul 2023	Finance Ministry has announced that BFIs are to no longer be allowed to count 80% of government reserve fund as deposits for CD ratio calculation due to easing liquidity in the market.

Brief Macroeconomic Outlook of the FY 2079/80

During the Covid-19 pandemic in 2020, Nepal's economy faced challenges. To address the impact of prolonged lockdowns, NRB implemented measures for increasing liquidity and reducing market interest rates. This led to excessive lending, especially in unproductive sectors, straining foreign exchange reserves. Slow deposit growth and excessive lending resulted in a credit crisis in the banking system. NRB then imposed regulations on BFIs, aiming to maintain a maximum CD ratio of 90%, increase the CRR ratio, and apply higher risk weights for loans in unproductive sectors. Additionally, the Russian-Ukraine war heightened inflation, increasing market interest rates and negatively affecting the stock market. The trade deficit worsened gross foreign reserves, leading to import restrictions as a way to preserve reserves.

The restrictive policies have certainly proven to be effective for the economy. The inflation rate which was as high as 8.26% in the beginning of the fiscal year has come down to 6.83% as of June 2023. The import restriction which discouraged imports has led to the trend of decrease in imports for the entirety of the fiscal year. The import restriction removal as of Poush 2079 also did not increase the import figure as had been expected. There was a 16% decrement in imports till eleven months' data on y-o-y comparison, which was 16.8% till ten months' data. The remittance has increased in the eleven months' data on y-o-y comparison, it has increased by 22.7%. On the other hand, exports decreased by 22.7% as compared to the previous year. The export figure has been on a decrease in the fiscal year due to the increased import duty on top 2 exports of Nepal (Palm Oil & Soybean Oil) by the Indian government which decreased the export of our edible oils in our neighboring country, India. However, there is major prospect in the electricity export as Nepal has finalized an agreement with Bangladesh for the trading of power from the upcoming wet season (June-November) with export of 40-50 MW from Nepal. Nepal has finalized an electricity export agreement with India to export 370 MW of electricity. The monthly decrease in imports with the monthly increase of remittance in 2079/80 has contributed to the Balance of Payment (BOP) Surplus reaching 228 billion which was in deficit figure during the beginning of the fiscal year.

The position of Excess liquidity in the market stood at around NPR 21.77 billion (as of mid-June 2023). In the beginning month of the present fiscal year, the Excess liquidity stood at the deficit of 41.26 billion which indicates that the economy has recovered greatly considering the current liquidity figure. Similarly, in this fiscal year, there is deposit and credit growth of just 8.8% and 3.4% as of June 2023. The credit growth is slow due to the high lending interest rates and economic slowdown in the fiscal year. The liquidity in the market has been eased to the extent that the interbank rate became as low as 0.53 as of July 17, 2023. As NRB were assured on the ease of liquidity, BFIs are no longer allowed to count 80% of the government funds as deposit for the calculation of CD Ratio as of 17th July 2023. With that decision, the interbank rate increased to 6.51% on the next day of facility removal but it has gradually come down to 5.85% as of 30th July 2023.

The implementation of import controls has resulted in a loss of government revenue in the form of import and excise duties, leading to a budget deficit. This has created a vicious cycle where attempts to improve one economic indicator come at the expense of another. At the end of the fiscal year, the government had a budget deficit of 397.87 billion.

Overall, the economic situation for the fiscal year 2079/80 showed a positive recovery and improving economic outlook with reduced imports, remittance growth and BOP surplus. The decline in the market interest rate might become the catalyst for increasing economic activities and mitigating the impact of the recession. There is also a prospect for the enhancement of the electricity export industry strengthening the economy of the country.