

Nepal's Capital Market:

Key Indicators and Investment Trends



Nepal is a culturally diverse landlocked nation with a population of approximately 30 million and a land area covering 147,181 square kilometers.

Geographical Location

Situated between India and China, Nepal shares borders with two of the world's largest populations and fastest-growing economies.

Land Area

With an area covering 147,181 square kilometers, Nepal ranks as the 93rd largest country in the world.

Gross Domestic Product

In 2022, Nepal's GDP reached USD 40.83 billion, reflecting substantial progress
in its economic development.

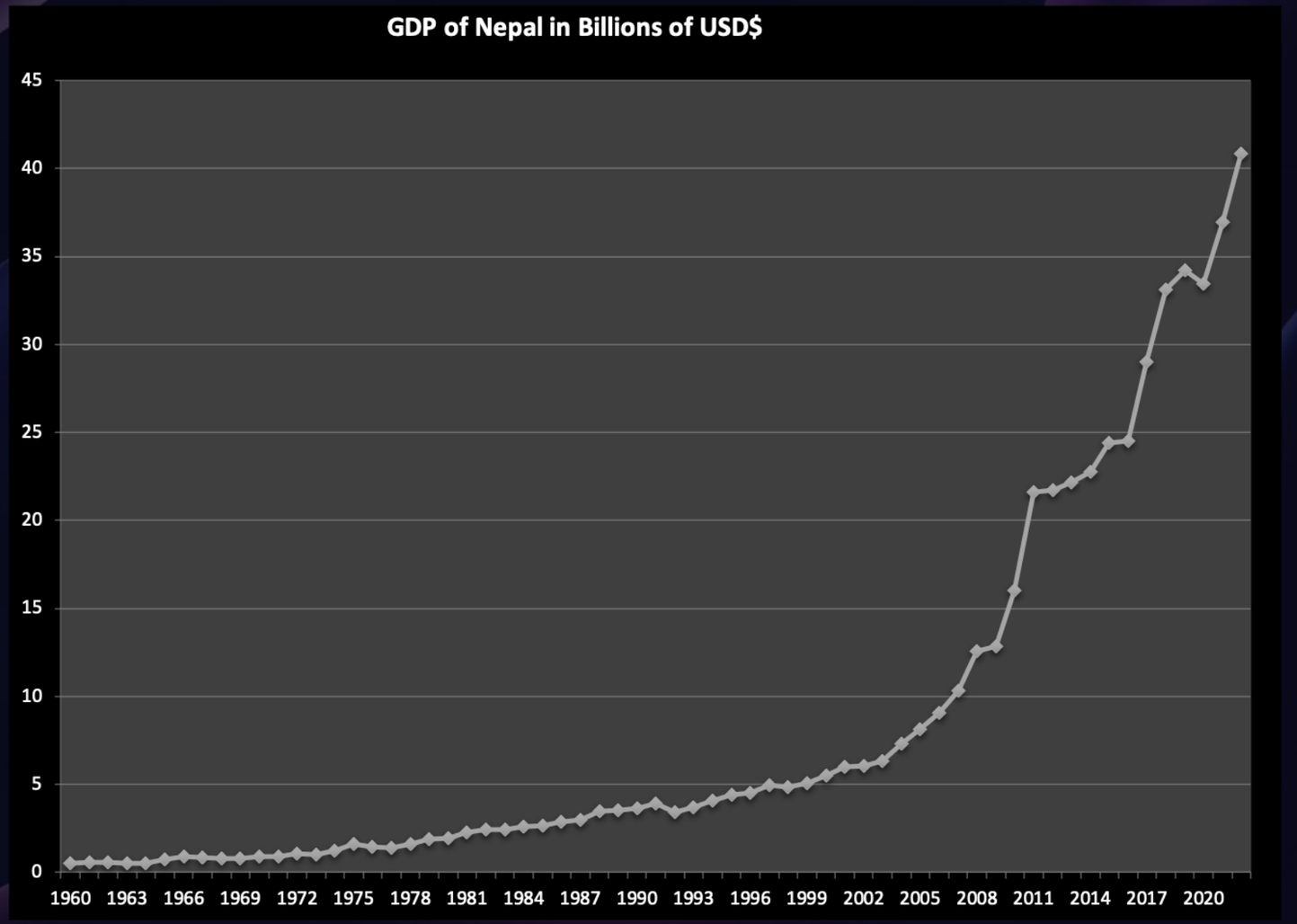
Natural Wonders

Nepal is also renowned for being home to 8 of the 14 highest peaks In the world, exceeding 8000m in height.



Economy of Nepal

Year	GDP in Billion (USD)
2015	24.37
2016	24.53
2017	28.98
2018	33.12
2019	34.19
2020	33.44
2021	36.93
2022	40.83



Gross Domestic Product (GDP) in Nepal has shown steady growth, reaching USD 40.83 billion in 2022, marking significant progress in its economic development. (_Source: World Bank_)



Inflation

1

Average Consumer Price Inflation

In FY2022/23, the annual average consumer price inflation stood at 7.74%.

2

Consumer Price Inflation in August 2023

In August 2023, consumer price inflation was recorded to be 7.52%, down from 8.26% compared to the previous year.

3

Food and Non-Food Inflation

Food inflation stood at 8.95%, while non-food and service inflation was 6.42%.

Exchange Rate

1

Nepalese Rupee (NPR)

The Nepalese Rupee (NPR) is pegged to the Indian Rupee (INR) at 1 INR = 1.6 NPR.

2

Influence of Indian Currency

Nepal's exchange rate is influenced by its relationship with the Indian currency.

3

Exchange Rate in August 2023

In August 2023, the average exchange rate for one US dollar was Rs. 132.43, compared to Rs. 131.17 in July 2023.

Interest Rates

1 **Policy Rate**

The policy rate is 6.5%, marking a decrease of 50 basis points.

2 **Weighted Average Deposit Rates**

The weighted average deposit rates of commercial banks stood at 8%.

3 **Weighted Average Lending Rate**

The weighted average lending rate of commercial banks stood at 12.24



Overview of Nepalese Capital Market

- The Securities Board of Nepal (SEBON) carries out regulatory duties.
- The Nepal Stock Exchange (NEPSE) is the only stock exchange in Nepal.
- NEPSE was established in 1993.
- When the NEPSE trading floor opened in 1994, the exchange had 62 listed companies. It has grown substantially since then.
- Now, NEPSE has about 250 listed companies with a market capitalization of approximately US$24 billion, equivalent to 60% of the GDP.

Securities Market in Numbers

Stock Exchange	1
CDS and Clearing	1
Merchant Banks	30
Fund Manager	16
Depository Participants	110
Listed Company	254
Mutual Fund	43
Bonds and Debenture	73
Stock Brokers	85
Stock Dealer	2
Rating Agency	3
Registered Bank in C-ASBA	43

These numbers reflect the diverse players and instruments that contribute to the robustness of Nepal's securities market.

Use of Technology in Securities Markets.

- The ASBA system has brought full automation to primary markets, making it accessible across the entire nation. Investors can now conveniently apply for public offerings from the comfort of their homes using the internet and mobile devices.

- The secondary market is now entirely automated through the online trade management system, offering a user-friendly platform for both local residents and Nepalese citizens working abroad, allowing them to log in and conduct transactions effortlessly.

- Transactions are settled within a two-day period following the trade, referred to as the "T+2" settlement timeframe.

Securities Market Instruments

NEPSE offers various investment options:

Equity

The majority of individual investors typically engage in purchasing and investing in equities.

Government Bond

Banks, financial institutions, and institutional investors predominantly possess government bonds.

Corporate Debenture

Debentures issued by banks and financial institutions find ownership among both individual and institutional investors.

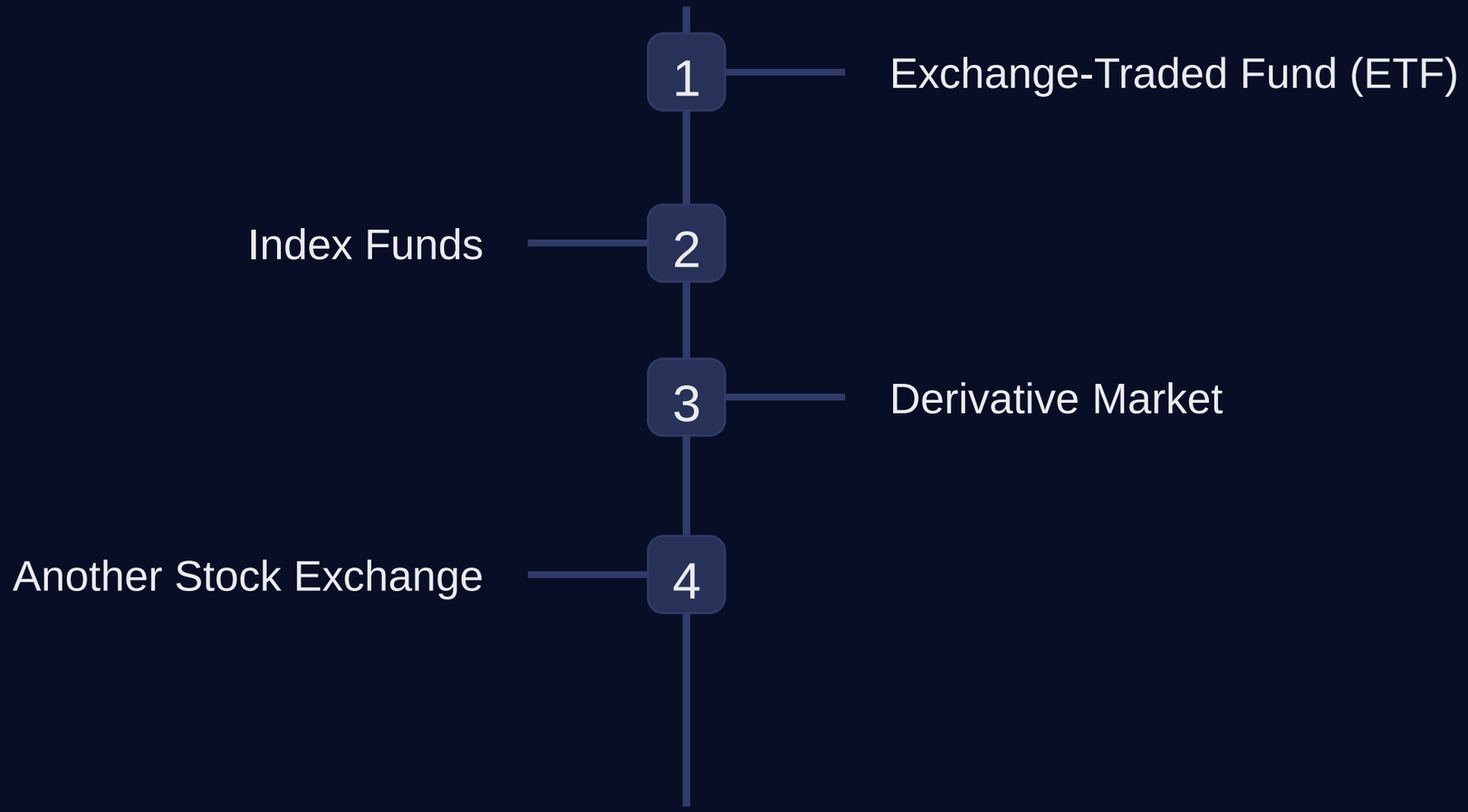
Mutual Fund

Available in two types:

- Open-ended
- Closed-ended.

Under the Development Process

NEPSE is continuously progressing by introducing new securities market instruments and enhancing its trading mechanisms. It is currently in the process of launching ETFs, index funds, and a derivative market.



Key NEPSE Indicators

NEPSE Index

The NEPSE index is presently at 2000 points, reflecting the overall market performance and investor sentiment.

Sub-Indices

There are 13 sub-indices covering sectors like financial institutions, hotels and tourism, manufacturing, hydropower, and more, providing diversified investment opportunities.

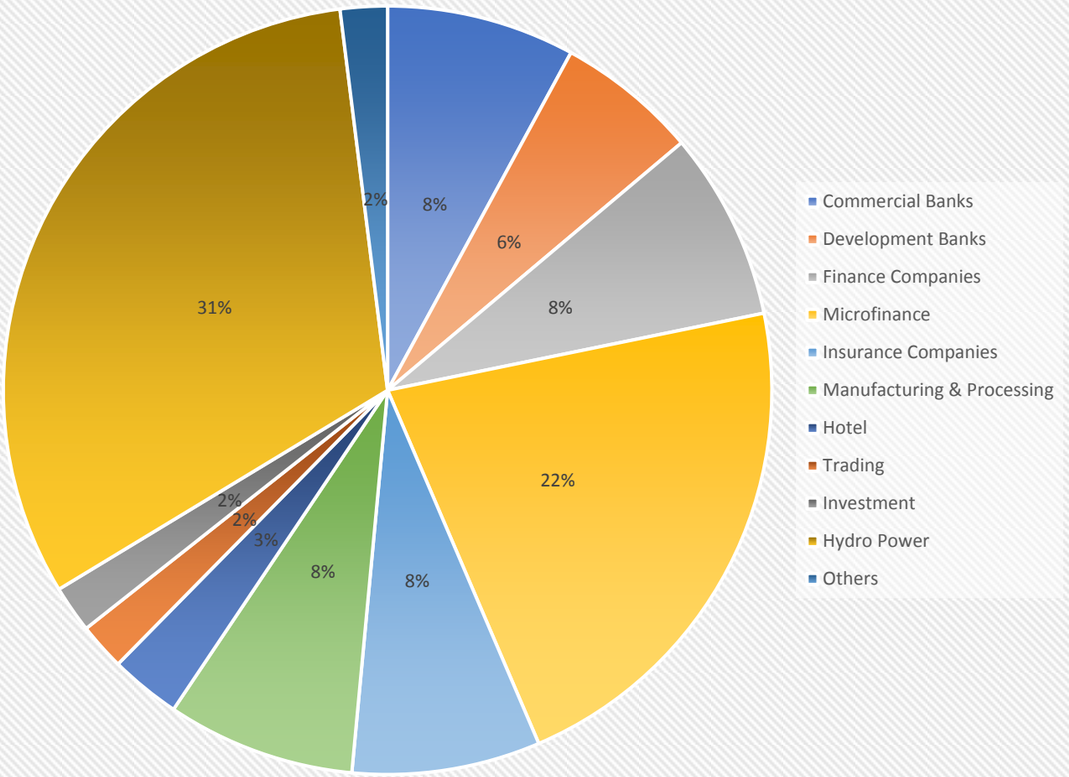
Trading Volume

The average daily volume amounts to around 10 million shares, ensuring liquidity and active participation in the market.

Turnover

The average daily turnover in Nepalese Rupees (NPR) is approximately 3000 million, indicating substantial transaction volumes.

Classification of Listed Companies by Sector



The sector-wise distribution of companies listed on NEPSE

- Commercial Banks: 8%
- Development Banks: 6%
- Finance Companies: 8%
- Microfinance: 22%
- Insurance Companies: 8%
- Manufacturing & Processing: 8%
- Hotel: 3%
- Trading: 2%
- Investment: 2%
- Hydro Power: 32%
- Others: 2%

Banks and financial institutions possess a majority, exceeding 50%.
Microfinance and hydro power sectors offer great potential for high returns.



Investors in NEPSE

The Nepal stock market has seen a rise in participants in recent years, driven by technological advancements and increased public awareness.

Fiscal Year	Numbers (In Million)	Growth
FY 2019/20	1.47	-
FY 2020/21	1.75	19%
FY 2021/22	3.78	116%
FY 2022/23	4.96	31%
As of Now	5.94	20%



Major Investors in NEPSE

The majority of investors in NEPSE are domestic individual investors. Apart from these domestic investors, participants in the stock exchange include:

- Individual Investor
- Institutional Investor
- Nepalese Working Abroad
- Non-Resident Nepalese (NRN)

Opportunity for Foreign Investors to Invest in the Nepal Stock Exchange (NEPSE)

- There are limited options for foreign investor to invest in Nepalese capital market.
- Individual foreign investors cannot directly invest in the Nepal Stock Exchange or trade shares of publicly listed Nepalese companies.
- However, the Foreign Investment and Technology Transfer Act (FITTA) does allow the establishment of a "venture capital fund" that enables foreign institutional investors to acquire ownership stakes in Nepalese companies.

Foreign Investment in Nepal is regulated by the Foreign Investment and Technology Transfer Act 2019: Provisions

Foreign Investment May be Made by Establishing Venture Capital Fund:

An institutional foreign investor may, for the purpose of investing equity in any industry, establish a venture capital fund by incorporating a company in accordance with the prevailing law.

Trading in Securities May be Made:

An institutional foreign investor establishing a venture capital fund shall have to be registered in the Securities Board for trading in securities.

FDI Trends in Nepal

- FDI inflows and existing FDI stock in Nepal have been increasing in recent years.
- The stock of FDI in Nepal increased by 16 percent during 2021/22 and stood at NPR 264.3 billion as of mid-July 2022.
- Electricity, gas, steam, and air conditioning sector has the highest FDI stock followed by the manufacturing sector.
- Country-wise, India remained in the top position with FDI followed by China, Ireland and Singapore.

Why Invest in Nepal

- The geographical placement of Nepal between India and China creates favorable opportunities for foreign investors, and the nation's rich natural resources carry considerable commercial potential.

- Hydropower – Nepal has an estimated 40,000 megawatts (MW) of commercially-viable hydropower electricity generation potential.

- There are additional sectors with the potential to attract investment, including agriculture, tourism, the ICT sector, and infrastructure. The tourism sector, which faced challenges during the pandemic, has made a full recovery.


Thank You