



ALPHA CAPITAL
Fund for Contrarian Investors

NEWSLETTER

Fourth Quarter 2080-81



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NEPAL
THIS
QUARTER

The Upendra Yadav-led Janata Samajbadi Party Nepal (JSP-N) split into two after the party's federal council chair Ashok Rai along with six other lawmakers and 30 central committee members applied for a new party at the Election Commission of Nepal. The new party too is named Janata Samajbadi Party (JSP).

A seven-member parliamentary probe committee was formed to investigate the misappropriation of cooperative funds. The Nepali Congress had been demanding the formation of the committee to investigate Rastriya Swatantra Party (RSP)'s chairman and Home Minister Rabi Lamichhane's involvement in the misappropriation of the cooperative funds.

Mukul Dhakal, the General Secretary of the Rastriya Swatantra Party (RSP), expressed his concerns in the media after an assessment of the party in 32 districts. In the political document submitted later to the party chair Rabi Lamichhane, Dhakal highlighted significant internal

challenges and a looming decline in the party's popularity. Mukul Dhakal has since been removed from his position allegedly for his misconduct and violating party rules, particularly for releasing the documents to the media first without the party's approval.

Nepali Congress and CPN-UML reached an agreement to form a new government, ousting Prime Minister Pushpa Kamal Dahal. According to the deal, CPN-UML Chairman KP Sharma Oli will lead the coalition for two years and Nepali Congress President Sher Bahadur Deuba will lead the coalition until the 2027 general elections. The deal also includes amendments to some constitutional provisions.

For the fifth time since he became Prime Minister, Pushpa Kamal Dahal again was in front of the lower house seeking a vote of confidence. This time he lost his position as he only received a vote of confidence from 63 lawmakers; paving the way for CPN-UML chairman KP Sharma Oli to become the Prime Minister of Nepal.

A writ petition has been filed in the Supreme Court against the appointment of KP Sharma Oli as the new prime minister under Article 76(2) of the constitution. The petitioners claim that Article 76(3) should have been invoked instead of Article 76(2). As per Article 76(3), the leader of the largest party in the parliament should be the Prime Minister.

Major parties were peeved at RSP leader and Minister for Education, Science & Technology Sumana Shrestha for her decision to take action against teachers and professors involved in party politics. Legally, teachers are barred from engaging in politics. However, many of the cadets of the political parties are teachers.

A task force has been formed to address the issues concerning transitional justice in Nepal. The task force is responsible for drafting a proposal for the Truth and Reconciliation Commission bill. The task force consists of members of each three major parties.



Nepal This Quarter | Economy and Business

Nepal revised its Value Added Tax Regulation 1997. It is now compulsory for traders to include the Harmonised System (HS) code on VAT bills for imported products. This move is aimed at improving domestic trade tracking and preventing cross-border smuggling.

The Nepali rupee has been falling against the US dollar due to the Indian rupee depreciating against the US dollar. Being an import-driven country, this fall is likely to increase inflation in Nepal particularly the cost of critical products such as edible oil, fuel, and food.

The Bangladesh Power Development Board (BPDB) has approved a bid from the Nepal Electricity Authority (NEA) to supply 40 megawatts of electricity for five years. This electricity will be supplied during the six-month monsoon season, from June 15 to November 15, each year. The agreed selling rate is 6.40 US cents per unit of electricity.

The government has announced a budget of NPR 1.86 trillion for the upcoming

fiscal year 2024/25. The five transformative areas the budget focuses on are Agriculture, Energy, ICT, Tourism, and Entrepreneurship & Industrial Development.

Industrialists cautioned that the government's imposition of advance income tax on food and pulses might cause prices to surge by up to 30%, potentially worsening inflation. The Nepal Rice Oil Dal Industry Association, Nepal Flour Industry Association, and Livestock Feed Industry Association denounced the decision, expressing concerns that it could lead to industry bankruptcies and an upsurge in smuggling from India. According to the Financial Bill, rice imports will face a 2.5% tax while pulses will be taxed at 10%.

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review under the four-year Extended Credit Facility (ECF) for Nepal, allowing the authorities to withdraw the equivalent of SDR 31.4 million (about US\$

41.3 million). This brings total disbursements under the ECF for budget support thus far to SDR 188.3 million (about US\$ 247.7 million).

The third Nepal Investment Summit was held on April 28-29. The project showcased 148 projects to foreign and domestic investors. The summit concluded with four projects getting investments worth more than NPR 9 billion.

Industrialists have declared that they would not consume electricity supplied by the Nepal Electricity Authority (NEA) after it cut off electricity to several industries over non-payment of disputed arrears on dedicated feeder and trunk line fees.

In the third quarter review of monetary policy, NRB has relaxed the provisioning requirements for good category loans from 1.25% to 1.20%.



Nepal This Quarter | Capital Market

The Supreme Court has issued an interim order to the government preventing it from canceling the appointment process of the chairman of the Securities Board of Nepal (SEBON). The government canceled the appointment process after only two out of the five candidates appeared for the interview round. At least three candidates should be recommended for the selection of SEBON's chairman.

SEBON has halted the initial public offering by Reliance Spinning Mills using the book-building method. This decision was made in response to a request from the Public Accounts Committee, which asked for information regarding the company's share issuance. Reliance Spinning Mills has been accused of manipulating its books and not provisioning for controversial dues owed to NEA.

The Ministry of Finance has endorsed a proposal from the SEBON to reduce commission rates levied by stockbrokers. Finance Minister Barshaman Pun approved this measure, which was finalized during a

recent SEBON board meeting.

The study committee for Nepal's new stock exchange, led by coordinator Chintamani Sivakoti, has submitted its report to the government. Amidst interest from three groups—Himalayan Stock Exchange, Annapurna Stock Exchange, and National Stock Exchange—the process of establishing the exchange has become complex. The government's delay in appointing a Securities Board Chairman adds to the anticipation of a competitive environment among these groups.

During the current fiscal year, share investors contributed NPR 3.79 billion in capital gains taxes. According to CDSC data, short-term investors accounted for NPR 2.44 billion, long-term investors contributed NPR 890 million, and institutional investors, including organizations, paid NPR 455.3 million.

After an almost six-month delay, the public issuance of securities has resumed. The process had been halted due to

the absence of SEBON's chairman whose signature was required for approvals. An amendment to the Securities Act now allows the Ministry of Finance representative on the SEBON board to act as chairman. The board plans to proceed with initial public offerings (IPOs) at face value and has established criteria for approving such requests.

In the third quarter review of monetary policy, NRB has made it easier for BFIs to sell their share investments. The central bank has allowed BFIs to sell their share investments worth 20% of their core capital which was previously only 1%. However, holding period of such shares must be longer than one year. This is expected to increase the participation of BFIs in the secondary market, particularly increasing supply in the near term.

NEPSE ended the year at 2240.41, a 6.83% gain from last year's closing of 2097.09. The sector with the most gain was the Finance Sector with 35.26% return, and the most loss was the Life Insurance with -10.20% return.



Nepal This Quarter | Real Estate

The expansion of the 16-km road from Suryavinayak to Dhulikhel, originally planned as a six-lane project, is currently 25% finished, significantly lagging behind the scheduled timeline. Originally slated for completion within 36 months, the project delays have sparked concerns regarding both the anticipated timeframe and the potential effects on local traffic congestion.

Over the last 10 months, Kathmandu's house tax has climbed by 14%, totaling NPR 2 billion from July to April, up from NPR 1.75 billion the previous year. Despite this uptick, the economic downturn has subdued construction activity, resulting in reduced map pass fees. This increase in house tax has come amid a broader economic slowdown impacting the city.

Despite challenges in the real estate sector, Gharana KC Group and Kayal Group are teaming up for a new project: the construction of DLF Greens Apartments in Vishalnagar, Kathmandu. Spanning seven ropani 10 aana, this luxury development is projected to require an investment of

approximately three billion rupees. This partnership underscores a steadfast dedication to upscale construction amidst a challenging economic climate.

The renowned international hotel chain, Indian Hospitality Group (IHG), has been appointed to manage the Mansarovar Amusement Park and Resort in Nepalgunj. Plans are underway to add a new 100-room resort to the existing amusement park complex, which already includes a water park. IHG has indicated that the new resort is slated to open by early 2028.

Public entities, industries, companies, projects, educational institutions, or other establishments that have acquired surplus land beyond the upper ceiling limit are now permitted to sell the excess land within the stipulated upper ceiling as per the amendment in Land Act 2021; Subsection 3 of section 12c.

BFIs or Cooperatives holding excess land beyond the prescribed upper ceiling due to accepting or transferring collateral land from borrowers

during loan recovery must sell this excess land within 3 years of accepting such land, else they'll require the government's approval for selling as per amendment in Land Act 2021, section 12f.

The maximum compensation limit for land acquisition by institutions other than local bodies or fully owned by the government has been set at three times the minimum land value established for registration purposes as per amendment in Land Acquisition Act 2034, subsection 3 of section 16.

Industries permitted to hold land exceeding the prescribed upper limit can now utilize 50% of their purchased land as collateral with Banks and Financial Institutions (BFIs) as per the amendment in the Industrial Enterprise Act 2076, subsection 6 of section 32.

Budget 2024/25 introduced the Gandaki Economic Triangle project, which targets integrated development in Bharatpur, Butwal, and Pokhara. The initiative seeks to foster a strong industrial ecosystem through collaboration with the private sector.



HOW WE VIEW

How We View | Politics

A seemingly quiet quarter for politics ended up rocking the boat in the end.

With great power comes great responsibility, more apt for politics would be more controversy. The yesteryear of Home Minister Rabi Lamichhane has been haunting the Rastriya Swatantra Party. The party leader was accused of involvement in cooperative fund misappropriation. Gorkha Media Network, popular for Galaxy TV, has been accused of embezzling funds from multiple cooperatives to the tune of around NPR 1 billion. As a shareholder and then Managing Director, the Home Minister has been shielded from the cooperative scam investigation. After its demand for a parliamentary probe committee was formed to investigate the Home Minister's involvement in the cooperative fund embezzlement case, the Nepali Congress stopped its parliament obstruction.

In a high-profile case, the chairman of Kantipur Media Group, Kailash Sirohiya, who is deemed to have a beef with Rabi Lamichhane, had been arrested for misuse of citizenship. The media community speculated it was done by the Home Minister for KMG's constant coverage of his controversy. They regarded the arrest as a threat against press freedom.

Janata Samajbadi Party Nepal broke into two factions – Janata Samajbadi Party (JSP) led by Ashok Rai & Janata Samajbadi Party Nepal (JSPN) led by Upendra Yadav. JSP members reportedly left the party because they believed Party chair Upendra Yadav would be withdrawing support to the government. JSP was formed to save the coalition. An effort in vain, dear we say as the coalition in the end did break up.

CPN-UML and Nepali Congress joined forces to oust Prime Minister Pushpa Kamal Dahal and form a new government. They agreed that Oli would be Prime Minister for two years, while Deuba would be serving the remainder of the term. Accordingly, CPN-UML withdrew its support to the government. This led to Pushpa Kamal Dahal seeking a vote of confidence rather than submitting his resignation from the post. On July 12, he lost his Prime Minister position as only 63 lawmakers gave him a vote of confidence. The following day, President Ram Chandra Poudel appointed KP Sharma Oli as the prime minister under Article 76(2) of the constitution. On July 15, Nepal received its new set of ministers – 10 from the Nepali Congress, 9 from CPN-UML, 2 from JSP, and 1 from LSP. Besides the power-sharing deal, the agreement between the Nepali Congress and CPN-UML also includes a review of the electoral system, proportional representation, the composition of the National Assembly, and the size of the provincial assemblies.

Why was there such a sudden change? Many probable explanations have been proposed, including additional investigation of the Bhutanese refugee scandal, which might hurt the Nepali Congress, and a probe into the Giribandhu tea estate land scam, which could affect CPN-UML. Another plausible reason was that the government was trying to sign a significant loan agreement with China under the BRI framework and the opposing parties did not want that. Some speculate dissatisfaction in budget allocation could have led to collapse of the Prachanda's government. Some have even claimed that the nomination of the SEBON



chairman is the reason for the change in the government. Similarly, some say PM Dahal was also eyeing to fill up upcoming vacancies of the central bank's governor and other important posts with his allies. Hence, we can assume that the growing dissatisfaction and distrust among the coalition partners have led to the fall of yet another coalition.

Moving on to international relations, the Emir of Qatar, Sheikh Tamim bin Hamad Al Thani came to Nepal on April 23 for a two-day visit. The visit ended with the signing of a Memorandum of Understanding on cooperation between Nepal & Qatar in the fields of youth, sports, education, and scientific research.

India saw the ruling party BJP winning 243 seats in the Lok Sabha elections enabling Narendra Modi to serve as Prime Minister of India for the third time in a row.

To conclude, the only thing constant in Nepalese politics is instability. This quarter serves as further confirmation of this notion. Starting next fiscal year, the two largest parties in the parliament Nepali Congress & CPN-UML will lead the government. It would be interesting to watch how they work together, and for how long.



How We View | Economy

The State of the World Economy

The worldwide financial system has shown remarkable resilience, kept steady growth, and witnessed a decline in inflation despite several significant challenges, including the COVID-19 pandemic, the ongoing conflict in Ukraine, and spikes in inflation. Economic growth is projected to sustain around 3.2% for the years 2024-2025, with a continued downward trend in inflation. Financial conditions have drastically improved, mainly in emerging markets, and the United States economy has remarkably exceeded its pre-pandemic growth trend.

However, this optimistic outlook is tempered by significant ongoing challenges. Inflation trends, while generally declining, still pose concerns, especially with services inflation remaining persistently high. Moreover, there are stark regional disparities. The United States faces significant risks stemming from an unsustainable fiscal stance, which can have long-term repercussions. Europe and China are dealing with slow growth, largely due to fiscal constraints and sectoral challenges. Meanwhile, low-income countries are struggling with heightened inflation and the lasting economic scarring from the pandemic, which has underscored the need for deep structural reforms and investments in human capital to foster growth and stability.

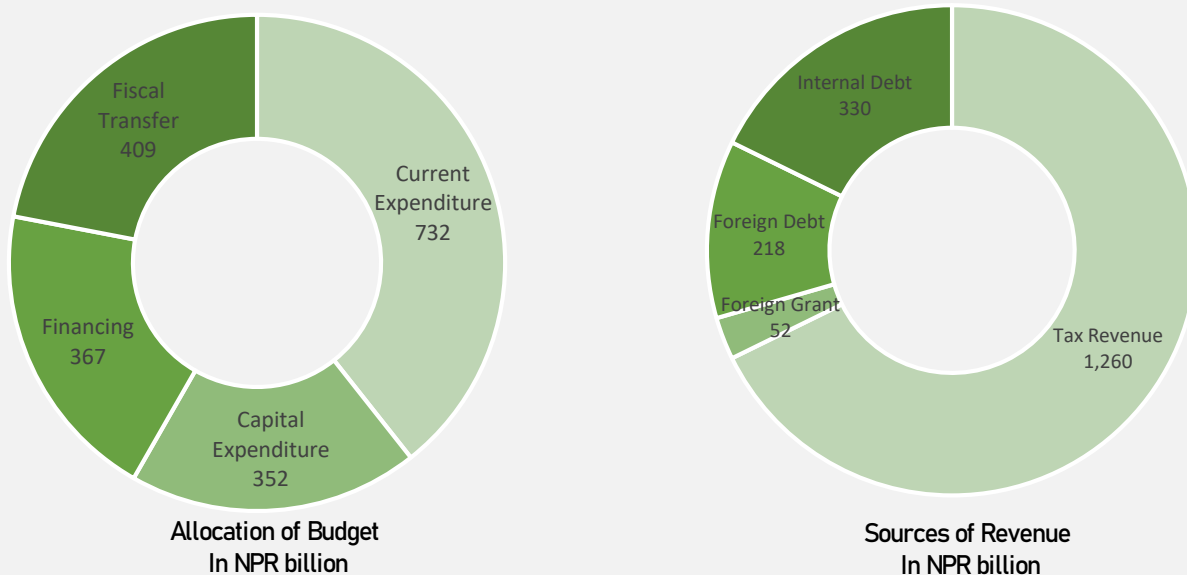
Addressing these multifaceted challenges necessitates a comprehensive approach. Firstly, there is a critical need to rebuild fiscal buffers and manage sovereign debt efficiently. This includes improving medium-term growth prospects through enhanced productivity, which can be achieved through more efficient resource allocation and the strategic usage of artificial intelligence (AI). Concurrently, the global economy must navigate the rising tide of geo-economic fragmentation, which poses risks to international trade and cooperation.

Furthermore, substantial global investments in green initiatives are necessary for a climate-resilient future. This calls for robust technology transfer and financing from advanced economies to support the sustainable development of emerging markets and developing countries. The transition to a green economy not only addresses climate change but also opens new avenues for economic growth and innovation.

To surmount these challenges and secure sustained global growth, multilateral cooperation is paramount. Global collaboration can facilitate the necessary policy coordination and resource mobilization to tackle inflation, enhance productivity, and promote sustainable development. By working together, countries can better manage the complexities of the global economic landscape and ensure a stable and prosperous future for all.



Budget Overview: Nepal's Financial Plan for FY 2081/82



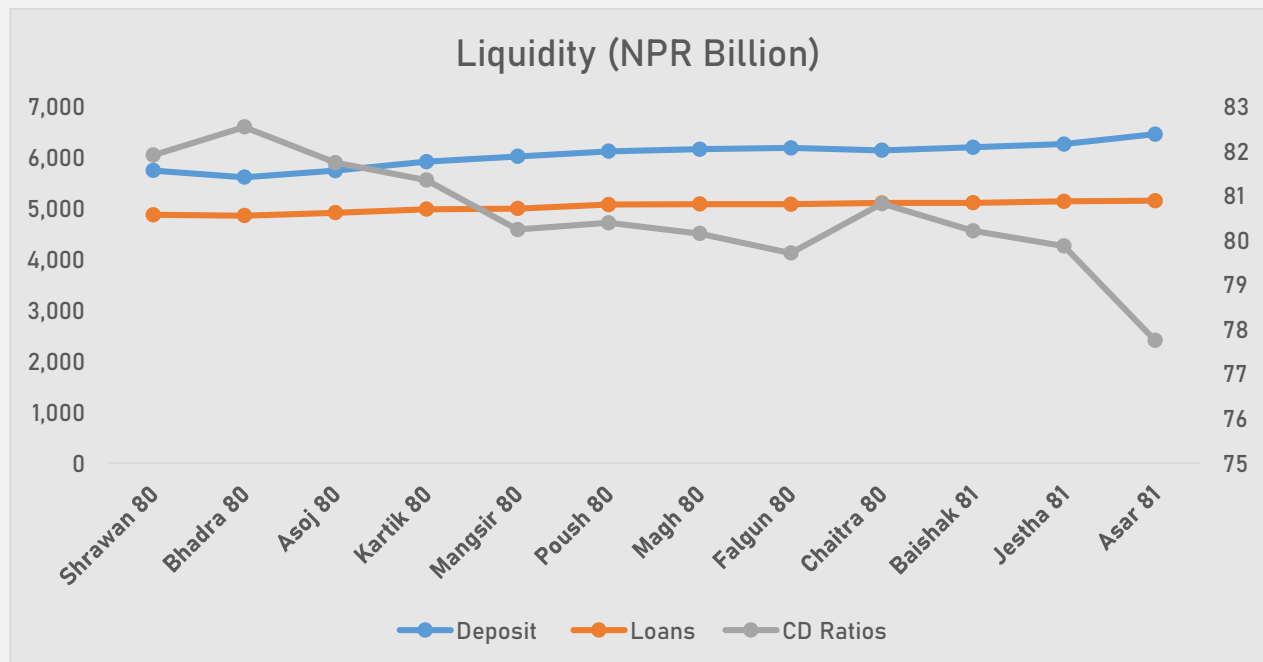
Former Finance Minister Barsaman Pun presented an NPR1.86 trillion budget for the fiscal year 2081/82, reflecting a 6.2% increase from the previous year. The budget allocates NPR 1.14 trillion for recurrent expenditure, NPR 352.35 billion for capital expenditure, and NPR 367.18 billion for debt financing, with NPR 408.27 billion earmarked for provincial and local transfers. Revenue targets are set at NPR 1.26 trillion, bolstered by NPR 52.33 billion from foreign grants and NPR 547.67 billion from loans and domestic borrowing.

New initiatives include establishing business incubation centers across provinces, promoting loans for startups, and supporting private equity and venture capital funds. An international exhibition center in Chobar will highlight women-produced goods, while IT parks in Kathmandu Valley and Butwal are slated for development. The government aims to bolster local products, facilitate returnee entrepreneurship, and create innovation hubs in seven provinces, each focusing on specific sectors. Despite these promising measures, concerns linger about the budget's implementation, given historical challenges in meeting capital expenditure targets.

In the fiscal year 2080/81 budget, the government disbursed NPR 1,409 billion, a decrease of NPR 20 billion from the prior year, achieving only 80% implementation. Despite a proposed budget of NPR 1,751 billion, notable last-minute expenditures amounted to NPR 86 billion (6% of the total) in the final week, comprising 17% of the capital budget, which surged to NPR 191 billion from NPR 157 billion by Asar 24. This marks the second consecutive year of expenditure decline since FY 2076/77 BS, primarily due to reduced capital outlay, despite a rise of NPR 100 billion in public debt and service expenses. Current expenditure dwindled by NPR 53 billion, and capital spending by NPR 42 billion compared to the preceding year, resulting in NPR 50 billion in unpaid bills and leaving 37% of the capital budget unspent. Our capital expenditure has historically been hindered by frequent changes in government, altering priorities and leading to inefficiencies in implementation.



Monetary Management



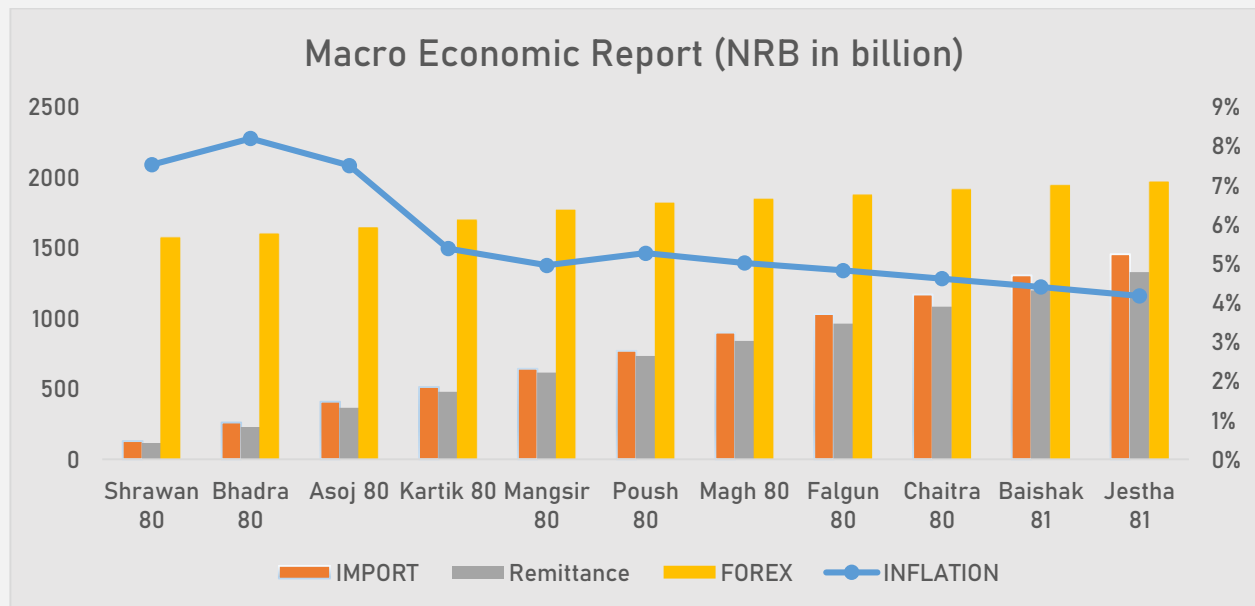
The data provided illustrates the trends in deposits, loans, and Credit-Deposit (CD) ratios from Shrawan to the following Asar, highlighting the economic challenges Nepal faced during the fiscal year 2080/81. Deposits consistently increased from NPR 5,743 billion to NPR 6,457 billion, primarily driven by remittance inflows, a significant source of foreign currency and economic stability in Nepal. However, despite this increase in deposits, loan growth remained relatively stagnant, rising only marginally from NPR 4,874 billion to NPR 5,150 billion over the same period. This suggests that banks have been unable to extend more loans at a pace comparable to the increase in deposits. Additionally, the CD ratio decreased from 81.91 in July to 77.75 the following July, indicating that a smaller proportion of deposits is being converted into loans. This decline reflects a cautious lending environment or decreased demand for loans, underscoring the economic challenges Nepal faced during the fiscal year.

The fiscal year 2080/81 presented several economic challenges for Nepal, particularly evident in the trends related to remittance-driven deposits and weak loan demand. The significant increase in deposits, largely attributed to remittance inflows from Nepali citizens working abroad, contributed to the growth in bank deposits. However, while remittances provide a stable inflow of funds, they do not directly translate into increased economic activity if these funds are not effectively channeled into productive investments. The slow growth in loans suggests potential issues such as weak demand for credit, possibly due to economic uncertainty or low business confidence. Additionally, banks may be risk-averse, tightening lending standards in response to perceived economic risks or regulatory requirements, thus limiting loan disbursements. The lack of robust loan growth indicates that businesses and consumers are not borrowing as much, which can hinder economic growth. Loans are essential for business expansion, infrastructure development, and consumption. Without sufficient loan flow, these areas may struggle to grow, leading to slower overall economic development. In summary, the fiscal year 2080/81 did not show significant improvement in terms of economic activity, as reflected by the stagnant loan growth despite the increase in deposits driven by remittance inflows. The



declining Credit-Deposit ratio underscores the challenge of converting deposits into productive loans, which is crucial for stimulating economic growth. Addressing these issues may require policy interventions to boost confidence and encourage lending and borrowing activities.

Macro-Economic Report



The provided data for the fiscal year 2080/81 illustrates significant trends in Nepal's economic indicators, specifically inflation, imports, remittances, and foreign exchange reserves (FOREX). In Shrawan 2080, inflation was at 7.5%, peaking at 8.2% in Bhadra 2080 before steadily declining to 4.2% by Jestha 2081. The overall decline in inflation can be attributed primarily to a reduction in non-food inflation, while food inflation remains high.

Imports remained unchanged at NPR 1453.70 billion in Jestha 2081, mirroring the NPR 1480.98 billion recorded in Jestha 2080. The country's FOREX reserves grew from 1480.87 billion to 1,967.2 billion over the same period last year. The forex reserves are sufficient to cover merchandise and services imports of 12.6 months.

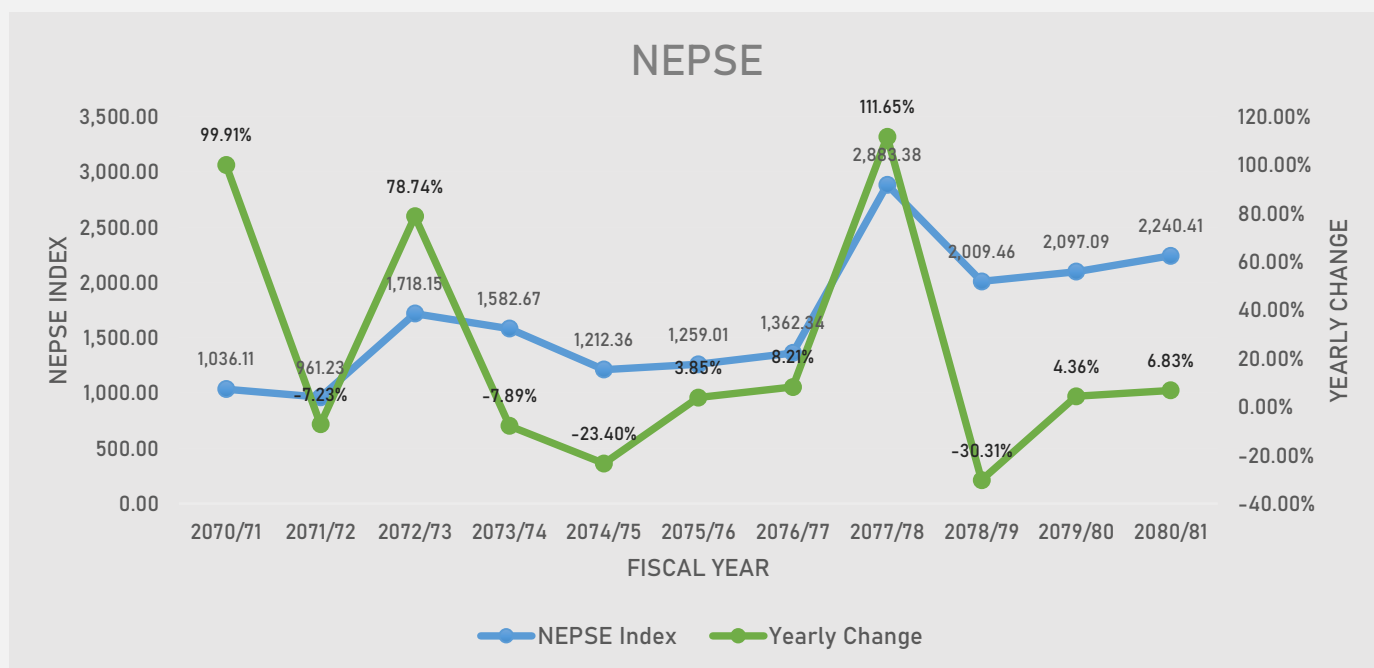
Remittances, a crucial component of Nepal's economy, showed significant growth, reaching NPR 1327.5 billion till Jestha 2081 compared to NPR 1112.52 billion collected till Jestha 2080. This steady rise in remittances has been instrumental in bolstering the country's FOREX reserves and providing a buffer against economic instability.

In summary, the data reveals that while remittances and FOREX reserves have grown substantially, indicating stable inflows from abroad, the high food inflation and reduced non-food inflation reflect mixed economic conditions. The decline in overall inflation, coupled with stagnant imports and rising FOREX reserves, highlights a scenario where external financial support remains strong, but domestic economic activities appear sluggish.



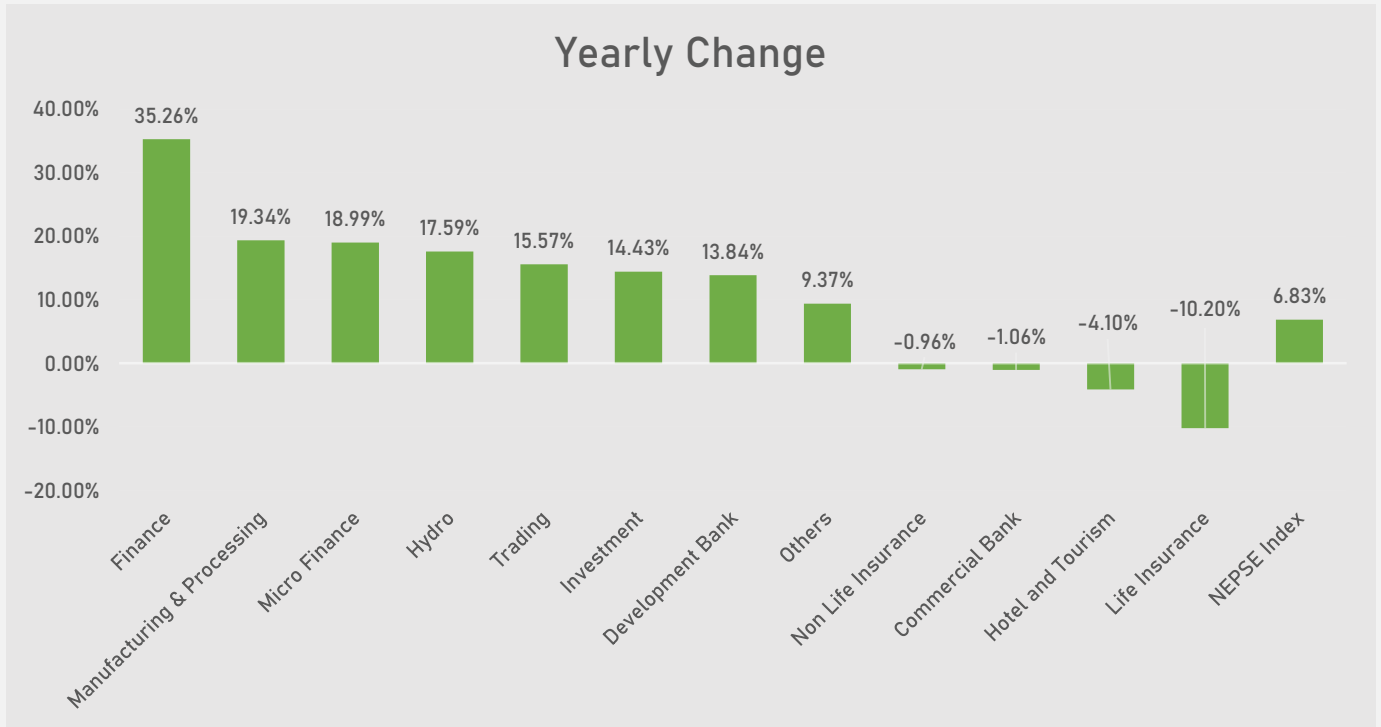
How We View | Capital Market

NEPSE index closed at 2240.41 index points this fiscal year with a drop of negative 17.18 points on the last day. NEPSE index gained 143.43 points this fiscal year sustaining a growth of 6.83 % compared to last fiscal year. The index peaked one day ahead of the end of the fiscal year on July 14, 2024, closing at 2,257.59 points and an intraday high of 2290.95 points. The index was at its lowest point on November 5, 2023, closing at 1,826.23 points. Comparing intra-year low to high on a closing basis represents an increment of 23.62% from the low of 1826.23 points.



Sub - Index	Quarterly % Change	Yearly % Change	Q4 End 2080/81 Points	Q3 End 2080/81 Points	Q4 End 2079/80 Points
Finance	29.24%	35.26%	2,604.16	2,015.01	1,925.32
Manufacturing & Processing	-0.35%	19.34%	6,727.70	6,751.61	5,637.51
Micro Finance	20.32%	18.99%	4,818.40	4,004.77	4,049.56
Hydro	12.16%	17.59%	2,783.55	2,481.82	2,367.11
Trading	9.22%	15.57%	3,048.79	2,791.37	2,637.94
Investment	10.29%	14.43%	83.59	75.79	73.05
Development Bank	11.96%	13.84%	4,434.20	3,960.51	3,895.16
Others	-0.40%	9.37%	1,694.64	1,701.43	1,549.49
Non-Life Insurance	6.29%	-0.96%	11,179.96	10,518.48	11,287.84
Commercial Bank	15.34%	-1.06%	1,221.73	1,059.23	1,234.80
Hotel and Tourism	8.63%	-4.10%	5,559.65	5,117.97	5,797.46
Life Insurance	5.27%	-10.20%	10,767.60	10,228.92	11,991.15
NEPSE Index	10.62%	6.83%	2,240.41	2,025.30	2,097.09





Banking

Expectations of favorable monetary policy for FY 2081/82 and the news backing those expectations surfaced in the media during the quarter end. This expectation and backing were supported by an abundance of liquidity in the banking system. As of July 14, 2024, total deposits in the BFIs stand at NPR 6 trillion 482 billion while total lending stands at NPR 5 trillion 160 billion. Commercial banks alone hold a total deposit of NPR 5 trillion 751 billion while lending NPR 4 trillion 564 billion.

The news of the abundance of liquidity in the banking system became a year-round phenomenon. The CD ratio on the second last day of this fiscal year stands well below the regulatory requirement at 77.61. Capital Adequacy Ratio (CAR), Tier 1 Capital, and high-risk weight on certain categories of loans are attributed to the liquidity abundance in commercial banks. NRB issued a Unified Directive to A, B, and C-class banks on June 26 allowing them to issue perpetual Non-Cumulative Preference Shares which can be an addition to Tier 1 capital while calculating Capital Adequacy Ratio. Here perpetual means the banks can't redeem these shares on any date in the future and non-cumulative means banks are not obliged to book and accumulate the preference dividends in the loss-making year and pay in the future profit-making years. These preference shares are issued without any collateral backing and can be purchased only by institutional investors. This provision intends to help banks increase their loan flow capacity ultimately increasing the liquidity in businesses and the overall economy. The time frame for this policy impact can be predicted to be on the longer side as a large number of regulatory requirements for the issue of these preference shares should be complied with. Also, the schedule for this issue should be planned carefully avoiding multiple issuances by different banks in a single period hurting the liquidity in the market further.



Microfinance and Co-operatives

The rise of Non-performing Loans (NPL) and loan defaults in microfinance and co-operatives were among the major political and economic issues this year. As per the published Q3 report of micro finances, the highest NPL to total loan stands at 13.56% while the lowest stands at 1.47%. More than 25 companies have surpassed the NPL rate of 5% as per their Q3 financial report. Protests were conducted by the depositors to get their deposits back and by borrowers to get their interest rates reduced.

The same type of problem with even larger implications was seen in the co-operative sector. According to the police, 212 cases have been filed in the court in the last three fiscal years with the highest being filed this fiscal year. 411 people have been arrested so far with 1397 still on the run after the issuance of an arrest warrant according to police. The home minister himself was under scrutiny about a loan supplied to his company from a Pokhara-based co-operative. This incident triggered months-long debate and a halt of parliament due to conflict between the government and the opposition.

Hydropower Sector

NEA concluded the 5-year agreement to export 40 MW of electricity to Bangladesh for the first time paving the path for the export of Nepal's hydroelectricity export to a second country after India. Initially, this export will be facilitated through the 24 MW Trishuli Hydropower Station and 22 MW Chilime hydropower plant both owned by NEA. This agreement for the monsoon season generates revenue in USD at the rate of 6.40 cents per unit of electricity.

The New Electricity Bill remains stalled in parliament with no signs of progress due to the clash between the government and the opposition on completely different issues.

Insurance Sector

The Insurance Board of Nepal has started collecting business data in real-time directly from insurance companies in the Insurance Regulatory Information System through APIs. The board has been collecting details on a monthly and quarterly basis from insurance companies and has begun collecting data on a daily basis since June 30. The board is preparing to fully implement this from July 16 after ensuring the accuracy of the data collected. An extremely close regulatory monitoring system is introduced with this practice in effect.

Hotel & Tourism

The tourism sector experienced a significant increase in tourist numbers this fiscal year, marking the highest influx recorded for each month in the last quarter. March through June of 2024 each set new records for tourist arrivals, with March alone welcoming a peak of 128,167 visitors. Construction of large-scale hotels and operations by international chains such as Hilton, Holiday Inn, Forest Inn, Lemon Tree Premier, etc. substantially added to the hotel infrastructure.



How We View | Real Estate

Infrastructure Development

National Projects

A new city, "Chaurjahari," is set to be developed in Rukum. The project will involve the pooling of 1,136 land plots to create a city that can accommodate 100,000 residents. This initiative aims to provide homes for a large population and discourage migration.

Roads

- Thankot- Nagdhunga Tunnel road

The breakthrough of the Thankot-Nagdhunga Tunnel Road was achieved by Honorable Prime Minister Pushpa Kamal Dahal. The tunnel road, approximately 2.7 km in length, is expected to be ready for smooth vehicle operation in about a year. This tunnel will reduce the travel distance by 2.8 km.

- Mugling-Pokhara

The Mugling-Pokhara road project is being executed in two phases. Currently, 65% of the construction on the east side is completed, while only 29% is finished on the west side. Supervisors estimate that an additional year will be required to complete the project satisfactorily.

- Kathmandu-Hetauda Road via Chitlang

The Investment Board Nepal is planning to develop the Kathmandu-Hetauda road via Chitlang. The estimated cost of the project is around NPR 221 billion. The road is expected to be approximately 100 km in length, with an estimated travel time of 57 minutes.

Demand and Supply

This quarter has seen a tug-of-war between demand and supply in the real estate market. Typically, demand increases when interest rates decrease, but this time, both demand and interest rates are going down. This indicates a lack of confidence in the market, with investors being cautious. Financial institutions report that the real estate market is worse in Tier II and III cities. While there is an increase in transactions, prices have not gone up; instead, they have decreased. Outside Kathmandu Valley, prices have dropped by around 50%, whereas inside the valley, prices are stagnant or only reduced by those desperate to sell. Despite these economic constraints, there is hope for the new fiscal year's monetary policy to bring some relief to the real estate sector.



Policy

The President has emphasized the importance of enhancing the land survey department's capabilities, committing to digitize survey reports and integrate satellite systems for more advanced surveying. The government aims to introduce an online platform for all real estate transactions and tackle issues related to homelessness and slum conditions. Furthermore, efforts will be made to streamline Guthi land policies. Despite the government's optimistic proposals, implementation continues to pose challenges. Given the substantial contribution of the real estate sector to GDP, prioritizing its development is crucial for the government.

The private sector and Nepal Real Estate Association have submitted agendas for upcoming policy amendments and the budget. They have demanded licenses for real estate agents and that all transactions be regulated, reflecting actual market activities. The government is also working towards agent-based transactions. They have also requested to increase the loan-to-property ratio from 50% to 80% for businesses and amend the RWA of real estate property from 125% to 100%. The third quarter review of monetary policy didn't incorporate any of the latter two recommendations. However, it has increased Debt Service to Gross Income Ratio from 50% to 70% which could help increase demand.

Construction and Housing Market

At the end of the fiscal year, there has been no notable progress in the construction and housing market. House design approvals have significantly dropped by more than 50% in Kathmandu and other parts of Nepal, indicating hesitancy among people to build houses and a struggle for housing companies to sell.

Banking and Finance

In the past 28 months, interest rates have reached their lowest point. Bank rates are at 8.99% for green housing, boosting market sentiment for taking loans in the real estate sector. The decline in bank interest rates is due to excessive liquidity. Despite the lower interest rates, lending for real estate has only increased by around 4.5% year-on-year by the end of the fiscal year. Recently, banks have disbursed NPR 14.6 billion for residential real estate, NPR 1.19 billion for residential apartments, and NPR 4.69 billion for land plots. This indicates some recovery from the previous year, suggesting that slow and steady progress is being made.

Signs of recovery are evident through policy amendments, and loan relaxations. With these factors in play, the real estate sector shows potential for an upward trend in the coming years.



Transaction Records

Time	Number of Transactions	CGT (NPR)	Total Tax Collection (NPR)
2081 Baisakh	141,782.00	1,399,084,432	3,863,816,266
2081 Jestha	175,620.00	1,568,887,930	4,339,241,769
2081 Ashad	136,093.00	1,724,700,247	5,023,600,000

Time	Number of Transactions	CGT (NPR)	Total Tax Collection (NPR)
2080 Baishak	118,871.00	1,071,699,481	3,104,800,636
2080 Jestha	156,107.00	1,280,884,869	3,756,001,794
2080 Asadh	122,336.00	1,583,682,757	4,274,269,228

Looking at the data, we can see that transactions improved compared to last year and the corresponding quarter. However, in the month of Ashad, transactions fell sharply, but tax collection increased from NPR 4.33 billion to NPR 5.02 billion. One perspective is that people are buying expensive land and paying higher taxes. However, this is unlikely, as most transactions in the last month were from Janakpur, Bhadrapur, Belabari, and Rajbiraj, all in the Terai region, where land prices are unlikely to have increased significantly. It's more plausible that banks are refinancing bad loans from the Terai region, which could lead to further problems for the banks.

Based on the data, it is unlikely that real estate outside the valley will see significant growth in Tier III cities. In Tier I and Tier II cities, we can expect slow growth for land with high potential value.

So, looking at the data, we can assume that the real estate property market is still in the process of revival, which may take a few years to improve and take shape.



THIS QUARTER FOCUS

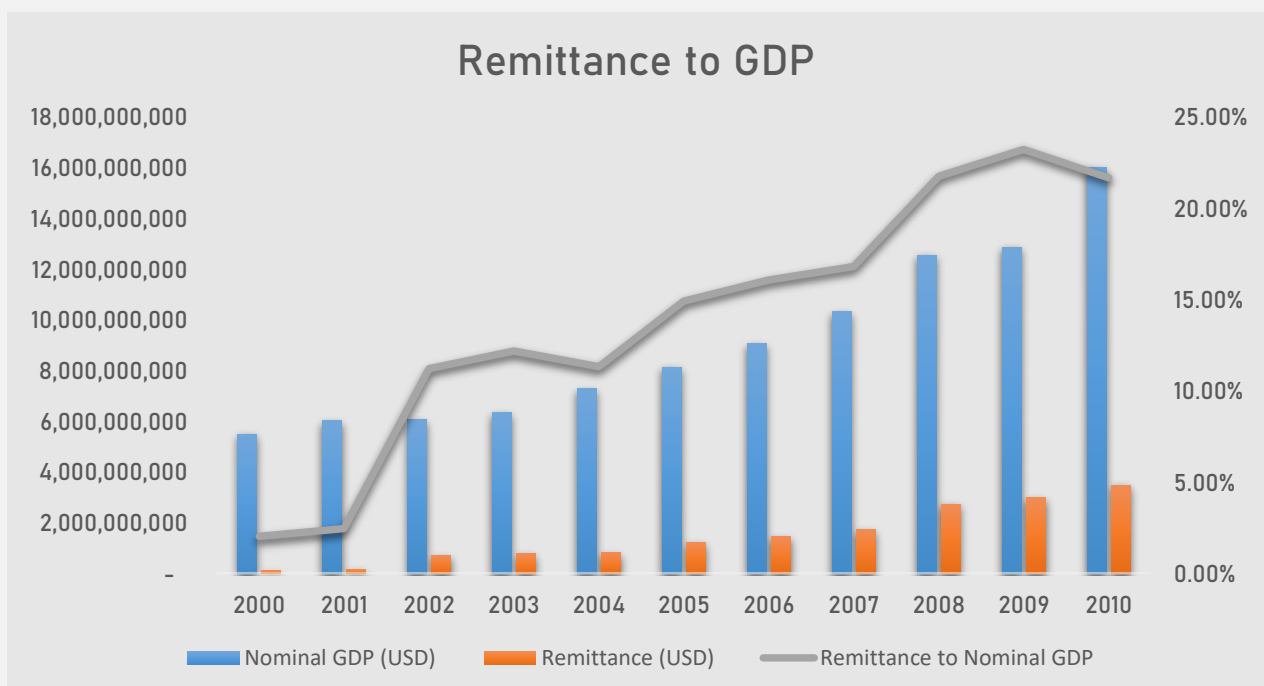
This Quarter Focus | Emerging Trends in Remittance, Its Impact on GDP and Inflation in Nepal

History and Relevance of Remittance to Nepalese Economy

As the economy of every country hovers around inflation and interest rates, an additional factor plays a very critical role in our economy, Remittance. Remittances play a crucial role in the global economy but its significance to Nepal is of utmost importance. As of 2022 remittance to nominal GDP of Nepal stands at 22.76% according to World Bank data. This is estimated to grow even further at around 24.50% as of 2024.

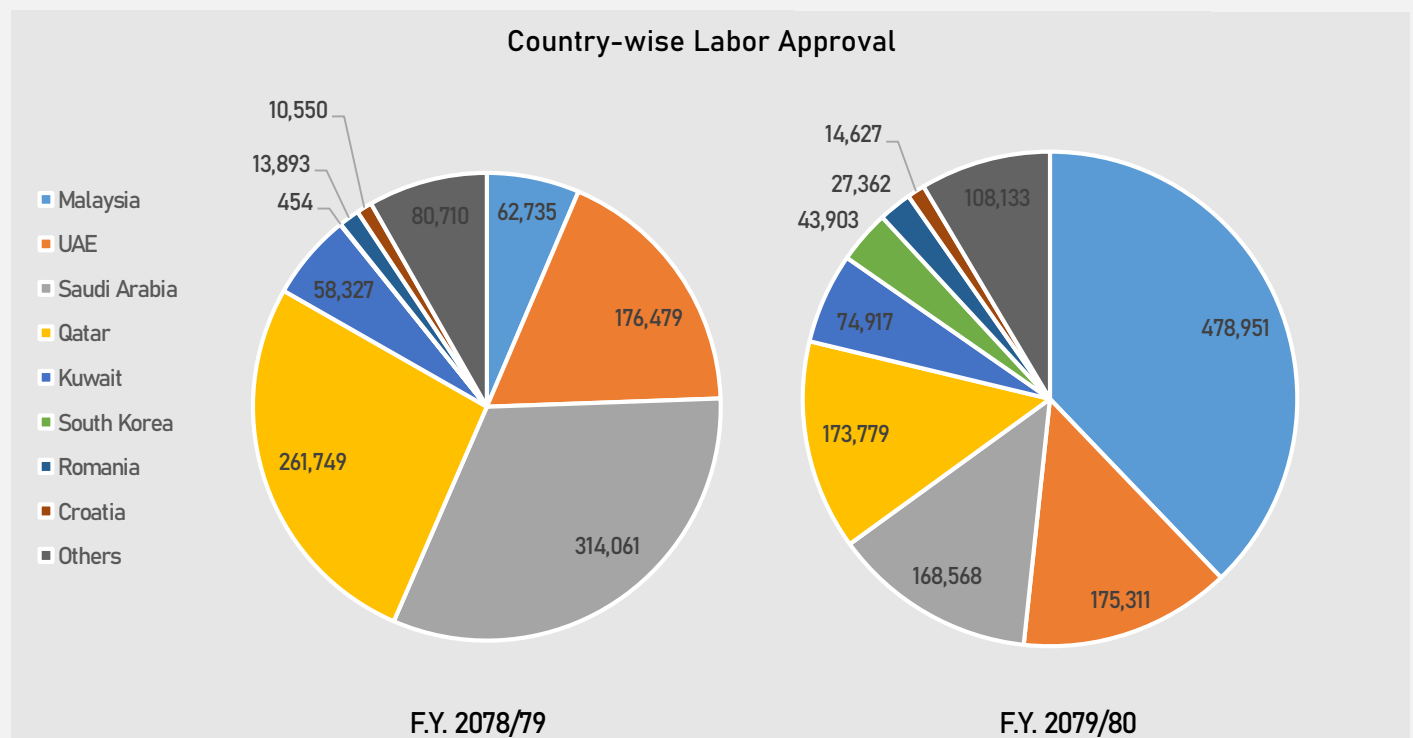
The formally recorded history of remittance in Nepal dates back to post Anglo-Nepal War of 1814-16 AD when the Sugauli Treaty was signed between the East India Company and the Nepalese side. Nepalese joining the East India Company as army personnel is said to have formally started the inflow of remittance to Nepal. This trend grew even larger as demand for youth grew in the British army during both World War I and II. Historically, the salaries of those army personnel and their pension after their retirement were the major sources of remittance for the country.

As access to opportunities grew due to globalization Nepal's working-age population migrated to different parts of the globe in large numbers mainly to fulfill their economic need. The government of Nepal signed the first Foreign Employment Act in 1985, formally recognizing and managing foreign employment through the Act. Foreign migration for employment grew significantly in the first decade of the 21st century fueled by different factors: political, social, and economic. As data suggest, the remittance amount grew from USD 111 million in 2000 AD to USD 3.464 billion in 2010 indicating a growth of 31 times over the period of a single decade. This increase fueled the dependency of the Nepalese economy on remittance as the remittance to nominal GDP ratio grew from 2.03 % in 2000 AD to 21.65% in 2010 AD.



Remittance for Nepalese Economy

Remittance over the years has played a crucial role in both micro and macro aspects of the Nepalese economy. It is the major source of household income and consumption in most of rural Nepal. This amount serves as a fund for basic needs consumption like food, shelter, health, and education as well as for investment in small businesses ultimately contributing to improving the standard of living in rural Nepal. Over the last decade, the major aspiration of rural youth has been to support their household from remittance income as the Nepalese economy shifts largely from an agriculture-based economy to a service-based economy. The major destination countries for these youth have been Malaysia, Qatar, Saudi Arabia, United Arab Emirates, and Kuwait with some traveling to South Korea after passing the Employment Permit System (EPS) test. Also, there's an unaccounted Indian part of this story. People from Terai and the western hills of the country who cannot afford the cost of migration to the above-mentioned countries choose India as the top destination for employment. The number of migrant Nepalese workers in India is always a subject of discussion with most studies agreeing around two to three million. There is no official data available that can be relied upon.



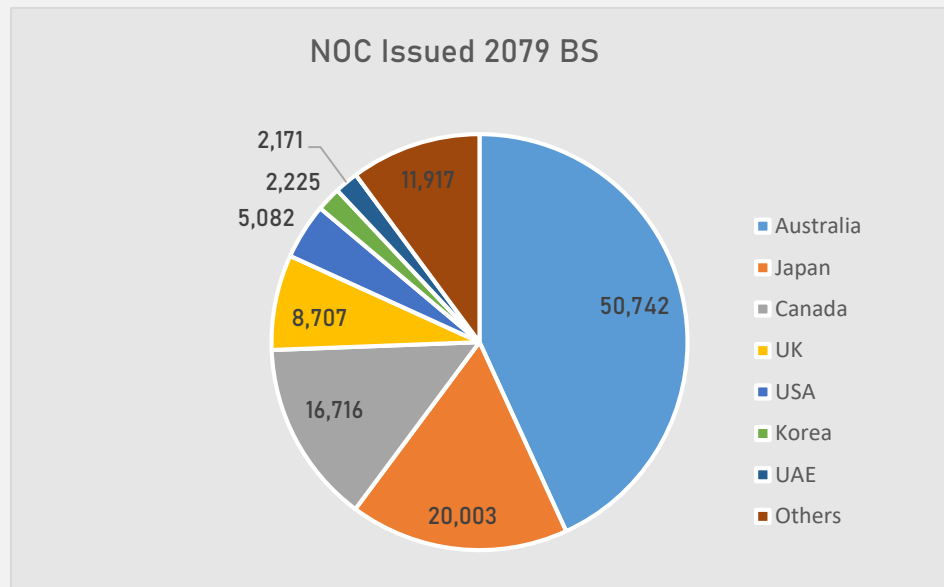
In recent years, remittances have been crucial for Nepal from a macroeconomic standpoint, significantly bolstering the country's Balance of Payments (BOP) and foreign exchange reserves. Despite Nepal's imports surpassing exports by tenfold, effective management of the BOP and forex reserves has been sustained largely through remittance inflows. Moreover, remittances have been instrumental in fostering economic stability and enhancing social welfare, thereby supporting Nepal in achieving its goals of poverty reduction.



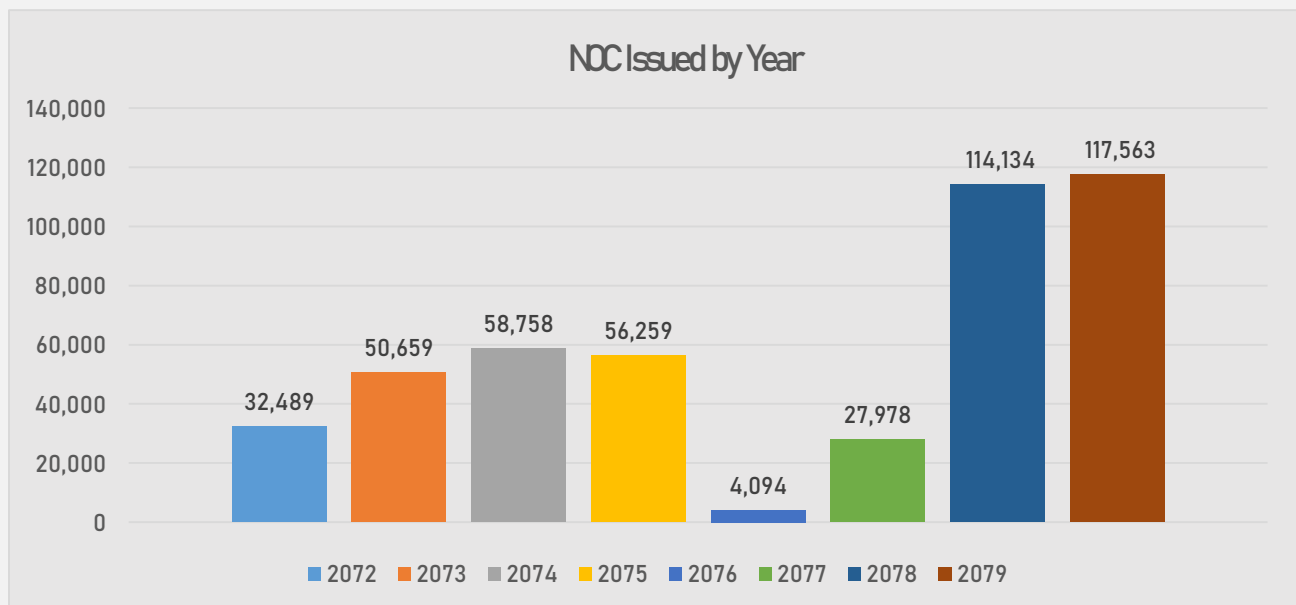
Emerging Trend in Remittance

In addition to migrant workers mentioned earlier, there is a growing trend of remittances from developed countries such as the USA, Australia, the United Kingdom, Canada, and Europe in Nepal, which is often overlooked in discussions. This trend is closely tied to the increasing migration of Nepalese students to developed countries for educational purposes in recent years. Many of these students opt to remain in these countries after graduation and join their workforce. Since their employment in these countries does not require approval or permits from Nepalese labor or governmental authorities, official figures on Nepalese nationals in the workforce of these developed countries are unavailable. As we analyze the trend in the No

Objection Certificate (NOC) issued by the Ministry of Education in recent years we can easily predict that a large number of this workforce resides in countries like Australia, Japan, the USA, Canada, the United Kingdom, and the rest of Europe. During 2079 BS a total of 117,563 No Objection Certificate was issued by the Ministry of



Education with 43% of NOC issued for Australia alone, followed by Japan at 17%, Canada at 14%, the United Kingdom at 8%, the United States 4% and so on.



Source: Ministry of Education, Science and Technology



The question arises whether these students serve as a source of remittances for Nepal. It is argued that even if these students join the workforce in their respective countries, they can't afford to send remittances to Nepal due to issues like high living costs and better investment opportunities in these developed countries. However, World Bank data on net remittance inflows to Nepal suggests otherwise. Out of the top 6 countries which sent remittances to Nepal in 2021 the bottom 3 are the United States, Australia, and the United Kingdom respectively.

S. No.	Destination Country	Net Remittance received (In Million USD)	Contribution %
1.	Saudi Arabia	1,691.98	26.05%
2.	Malaysia	1,684.72	25.94%
3.	Qatar	1,098.59	16.91%
4.	United States	684.18	10.53%
5.	Australia	466.58	7.18%
6.	United Kingdom	224.54	3.46%
7.	Others	644.70	9.93%
	World	6,495.29	

Source: World Bank Data, 2021

New labor permits issued to migrant workers peaked at around 500,000 during 2012/13, the new labor permits issued to migrant workers declined to around 200,000 in 2018/19 and again remained around 500,000 post-COVID. Post-COVID figures also include a new trend of worker migration to European countries like Romania, Croatia, Poland, and Malta. While labor permit issuance reached its peak a decade ago and is now recovering, the increasing number of students studying abroad remains a significant yet unrecognized contribution by policymakers. This workforce not only contributes directly through remittance but also through technical know-how and promotion of Nepal in their respective country. A rise in Nepal's IT sector exports and new Business Process Outsourcing (BPO) industries are the perfect examples of these contributions.

Conclusion

Considering the recent scenario of an increase in outward migration of all skilled, semi-skilled, and unskilled manpower from the country, the Nepalese economy seems to be moving towards more dependency on remittance and other foreign sources of income. The increase in household income due to remittances boosts



overall consumption and investment levels. Countries like India, Philippines, Bangladesh, etc. have shown remarkable GDP growth with some level of attribution to high remittance inflows. The consumption patterns of households are significantly determined by their receipt of remittance income which ultimately contributes to GDP calculation and demand-pull inflation. A sudden change in consumer behavior due to the fast growth of remittance can impact price levels in the economy in an unforeseen manner.

Central banks play a crucial role in managing the impact of remittance on inflation and interest rates through monetary policy. Some study suggests that remittance inflows can lead to fluctuations in interest rates in response to changes in economic conditions. We emphasize the importance of fostering a deeper understanding of remittance trends for informed economic decision-making. As we navigate the landscape of remittance flows, we must carefully consider the implications for sustainable economic development and prosperity. In conclusion, the growing trend of remittance has a profound impact on GDP, inflation, and interest rates in Nepal. Understanding and harnessing this impact is crucial for policymakers to formulate effective economic strategies. As remittance continues to rise, its implications on the Nepalese economy are expected to increase, shaping the future of economic growth and stability. Remittance trends can influence policy decisions related to monetary and fiscal policy. Policymakers must adapt to the changing dynamics of remittance to maximize its positive impact on the economy. Collaboration between government institutions, financial regulators like NRB, international agencies, and non-resident Nepalese are essential for leveraging the potential of remittance for economic growth.



