Capital Market in Nepal

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National Planning Commission
Government of Nepal
Presentation Outline

- Country Profile
- Structure of financial market
- Evolution of capital market
- Structure of capital market
- Capital market in the 15th Plan
- Challenges and way forward
Nepal: Country Profile

Nepal a rich cultural diverse landlocked country with population of 29.5 million and area of 147,181 kilometer square.

World Highest Peak Mt. Everest

Lumbini - Birth Place of Buddha
Nepal: Country Profile

- Area: 1,47,181 sq km
- Population: 29.5 million (2018/19)
- GDP (at basic prices, 2018/19): NRs. 3464.3 billion
- GNI per capita (US$): 1,047
- Literacy rate (15-24): 85%
- Life expectancy (at birth): 69.7 years (2018/19)
- Human Development Index: 0.574 (2018)
## Economy - Past Trend

<table>
<thead>
<tr>
<th>Description / Fiscal Year</th>
<th>2007/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>815.6</td>
<td>988.2</td>
<td>1192.7</td>
<td>1366.9</td>
<td>1527.3</td>
<td>1695.0</td>
<td>1964.5</td>
<td>2130.2</td>
<td>2253.2</td>
<td>2674.5</td>
<td>3031.1</td>
<td>3464.4</td>
</tr>
</tbody>
</table>

### Gross Domestic Product in Producers Price (Rs in Billion)

<table>
<thead>
<tr>
<th>Description / Fiscal Year</th>
<th>2007/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
<th>14/15</th>
<th>15/16</th>
<th>16/17</th>
<th>17/18</th>
<th>18/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Percentage Change</td>
<td>5.8</td>
<td>3.9</td>
<td>4.26</td>
<td>3.85</td>
<td>4.61</td>
<td>3.76</td>
<td>5.72</td>
<td>2.97</td>
<td>0.20</td>
<td>7.74</td>
<td>6.30</td>
<td>6.81</td>
</tr>
</tbody>
</table>

Source: Economic Surveys, MOF
Structure of Financial Market of Nepal

Financial System of Nepal

Money Market (Nepal Rastra Bank)
- Commercial Banks
- Development Banks
- Finance Companies
- Micro Finance companies

Insurance (Insurance Committee)
- Life Insurance Companies
- Non-Life Insurance Companies

Capital Market (Securities Board of Nepal)
- Stock market
  - Central Deposit Services
  - Listed Companies
  - Stock Brokers
  - Mutual Funds
  - Credit Rating Companies
  -- Deposit Members/Partners
  -- Portfolio Managers

Contractual Saving Institution (Established under separate Law)
- Employee Provident Fund
- Citizen's Investment Trust
- Deposit and Credit Guarantee Corporation

Cooperatives / Non-Governmental Organizations
- Saving and Credit Cooperatives
- Non-governmental Financial Intermediaries
Evolution of Capital Market of Nepal

- 1936: Formulation and **Promulgation of Company Act, 1993 (1936)**.
- 1976: Establishment of **Securities Exchange Center**.
- 1993: Securities Exchange Centre converted into **Nepal Stock Exchange (NEPSE) Ltd.**
- 1993: **Securities Board of Nepal (SEBON)** - as the **Regulatory Body of Capital Market**.
- 2007: NEPSE started **Automated Computerized System** for the trading.
- 2011: Entry of **collective investment /schemes** in the market.
- 2015: Dematerialized **Transaction started** (106 companies).
- 2016: **Fully Automated Trading System** started.
Vision: National Capital Formation through fair, competitive and broad securities and commodities exchange markets.

Goal: To attract investment through the development of strong, dynamic and reliable securities and commodities exchange market.

Objectives: To make securities and commodities exchange market accessible, fair and reliable.

Target: To increase the population investing in securities from 4.4% to 20%.
Capital Market in the Fifteenth Plan

Strategies:

• To make securities and commodities exchange market fair, competitive and reliable and enlarge its scope.

• To carry out legal, institutional and structural reform and make the securities and commodities markets operation and regulation system of international standards.

• To enhance the attraction of small, domestic and foreign institutional investors in securities market.
Nepal Stock Exchange

• NEPSE has been operating the secondary market under Securities Act, 2063.

• Goals and objectives
  ➢ To enlist the publicly issued securities.
  ➢ To provide liquidity in overall capital market by encouraging securities trading of listed government and organized companies through brokers, intermediaries and market makers.
  ➢ To support overall development of country by increasing securities’ transaction and reliable environment in capital market.
Structure of Securities Market in Nepal

Securities Board of Nepal (SEBON) – Performs the Regulatory Functions
Offers an advice to GON; Systematize the issue, transfer, sale and exchange of registered securities; and regularize and systematize the activities of stock exchange and securities businesspersons in order to protect the interest of investors.

Secondary market

Primary market
- Issuing companies
- Merchant bankers: 34 Issue managers, Underwriters
- Fixed pricing
- Generally oversubscription

(NEPSE)
- OTC market
- Stockbrokers: 50
- Listed companies: 217
- Merchant bankers:
- Portfolio managers, share registrars

Other market infrastructures
- Mutual funds: 11
- Central Securities Depository (CSD)
- Depository participants: 72
- Credit rating agency, CRA
- Application Supported by Blocked Amount, ASBA: 63
## Participants/Stakeholders on Securities Market

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Participants/Stakeholders</th>
<th>Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2016/17</td>
</tr>
<tr>
<td>1.</td>
<td>Stock Exchange</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Central Depository company</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>Listed Companies</td>
<td>242</td>
</tr>
<tr>
<td>4.</td>
<td>Securities Brokers</td>
<td>50</td>
</tr>
<tr>
<td>5.</td>
<td>Merchant Bankers</td>
<td>24</td>
</tr>
<tr>
<td>6.</td>
<td>Depository members</td>
<td>67</td>
</tr>
<tr>
<td>7.</td>
<td>ASBA Participation</td>
<td>52</td>
</tr>
<tr>
<td>8.</td>
<td>Investment fund</td>
<td>9</td>
</tr>
<tr>
<td>9.</td>
<td>Credit Rating Agency</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>417</strong></td>
</tr>
</tbody>
</table>
Central Depository System

• Central Securities Depository is an organization that holds securities in a material as well as non-material way, keep record electronically and make transfer of rights possible.

• Under the Central Securities Depository system, the traditional form of securities were converted into electronic form.

• Investors should open an electronic account separately.

• The Central Depository system has helped the capital markets to become more liquid by creating efficient and risk free environment for securities trading.

• CDS and Clearing Ltd., the only company which delivers central depository services in Nepal.
# Primary Market of Securities (based on yearly data)

<table>
<thead>
<tr>
<th>S. N.</th>
<th>Particulars</th>
<th>Fiscal Year (Amount in Billion Rupees)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
<td>Amount</td>
</tr>
<tr>
<td>1.</td>
<td>Primary issuance</td>
<td>17</td>
<td>1.51</td>
</tr>
<tr>
<td>2.</td>
<td>Issuance of right share</td>
<td>76</td>
<td>45.64</td>
</tr>
<tr>
<td>3.</td>
<td>Further issuance of share</td>
<td>4</td>
<td>7.99</td>
</tr>
<tr>
<td>4.</td>
<td>Bond/debenture</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>Mutual Fund</td>
<td>4</td>
<td>4.25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>101</td>
<td>59.39</td>
</tr>
<tr>
<td>6.</td>
<td>Bonus share</td>
<td>164</td>
<td>34.8</td>
</tr>
</tbody>
</table>
## Secondary Market (based on yearly data)

<table>
<thead>
<tr>
<th>S.N</th>
<th>Particulars</th>
<th>Unit</th>
<th>Fiscal Year</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>No. of Listed Companies</td>
<td>Number</td>
<td>208</td>
<td>196</td>
</tr>
<tr>
<td>2.</td>
<td>No. of Listed Shares</td>
<td>Number (10 millions)</td>
<td>296.59</td>
<td>359.86</td>
</tr>
<tr>
<td>3.</td>
<td>Transaction of Securities</td>
<td>Rs. Billion</td>
<td>205.02</td>
<td>121.39</td>
</tr>
<tr>
<td>4.</td>
<td>Transaction days</td>
<td>Day</td>
<td>230</td>
<td>233</td>
</tr>
<tr>
<td>5.</td>
<td>Average daily transaction Amount</td>
<td>Rs. Billion</td>
<td>0.89</td>
<td>0.52</td>
</tr>
<tr>
<td>6.</td>
<td>Total no. of shares traded</td>
<td>Number (10 millions)</td>
<td>39.29</td>
<td>29.38</td>
</tr>
<tr>
<td>7.</td>
<td>No. of transactions</td>
<td>Rs. Million</td>
<td>1.36</td>
<td>1.31</td>
</tr>
<tr>
<td>8.</td>
<td>Market capitalization of listed shares</td>
<td>Rs. Billion</td>
<td>1896.82</td>
<td>1435.14</td>
</tr>
<tr>
<td>9.</td>
<td>Trading Amount/market capitalization</td>
<td>%</td>
<td>11.04</td>
<td>8.46</td>
</tr>
<tr>
<td>10.</td>
<td>Market capitalization/GDP</td>
<td>%</td>
<td>69.43</td>
<td>47.35</td>
</tr>
<tr>
<td>11.</td>
<td>NEPSE indices</td>
<td>Index</td>
<td>1718.15</td>
<td>1212.36</td>
</tr>
<tr>
<td>12.</td>
<td>NEPSE float indices</td>
<td>Index</td>
<td>125.41</td>
<td>87.15</td>
</tr>
</tbody>
</table>
Bond Market in Nepal

- Initial stage of debt market in Nepal
- Concentration of holdings by Financial Institutions
- Enhancing the Coverage of issuer and investor base
- Centralized database of primary issues,
- Electronic transfer of debt instruments
- Policy of specialized debt funds for infrastructure projects
- 18 Government bonds and 20 debentures listed at NEPSE
Challenges

• To expand the secondary market nation-wide.
• To enhance the trust of investors in the capital market.
• To attract and increase the entry of real sector companies.
• To restructure the stock exchange and Central Depository company.
• To develop alternative investment funds such as private equity, venture capital and hedge fund.
• To strengthen the commodity market and link with the agriculture sector.
• To increase the entry of institutional investors in the market.
Way Ahead

- Ease the *entry production-oriented industries* in the market
- **Restructuring** of NEPSE and CDS
- Encourage *institutional investors and mutual funds*
- **Develop new securities market** for investment diversification
- Emphasis on *investors' education*
- Opening *up investment of foreign institutional investors* in *portfolio investment*
- Enhance *institutional governance*
Thank you!