

Capital Market in Nepal

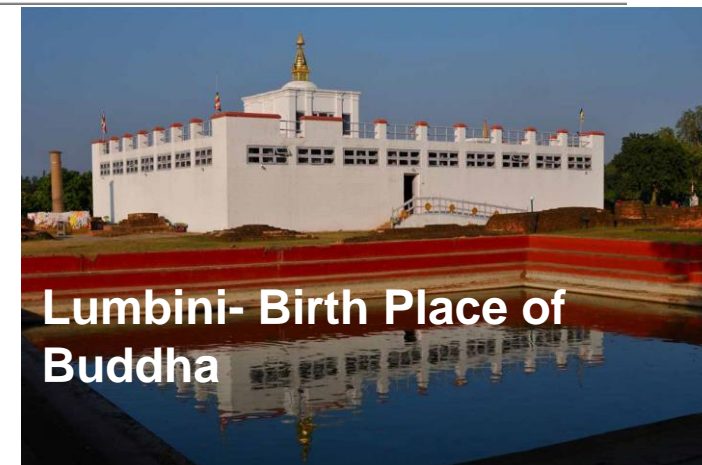
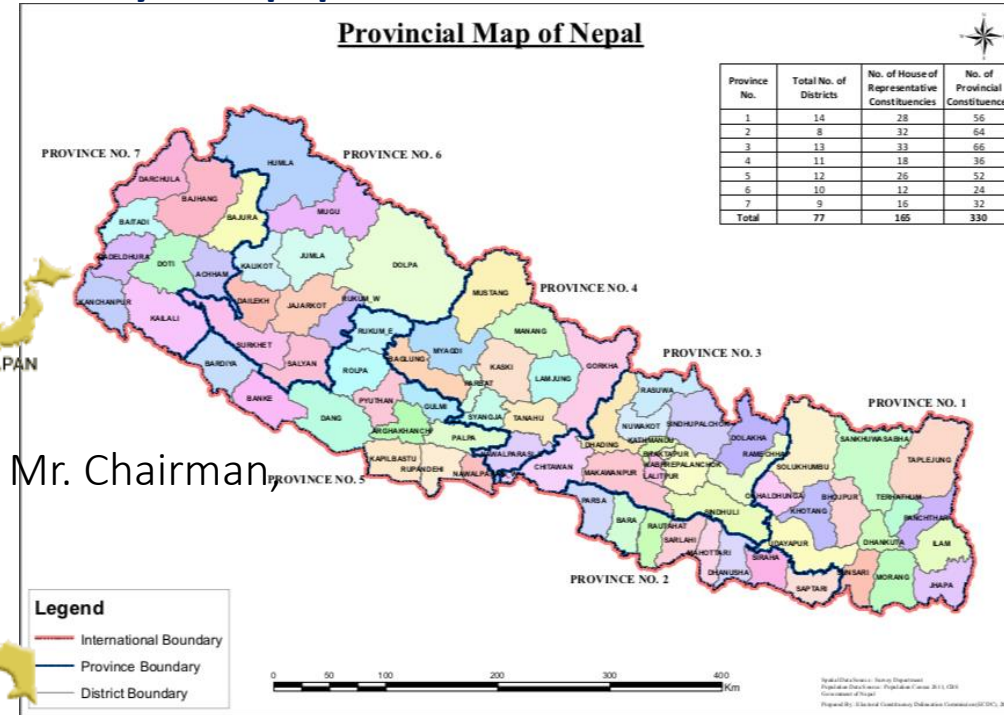
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Presentation Outline

- 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



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)

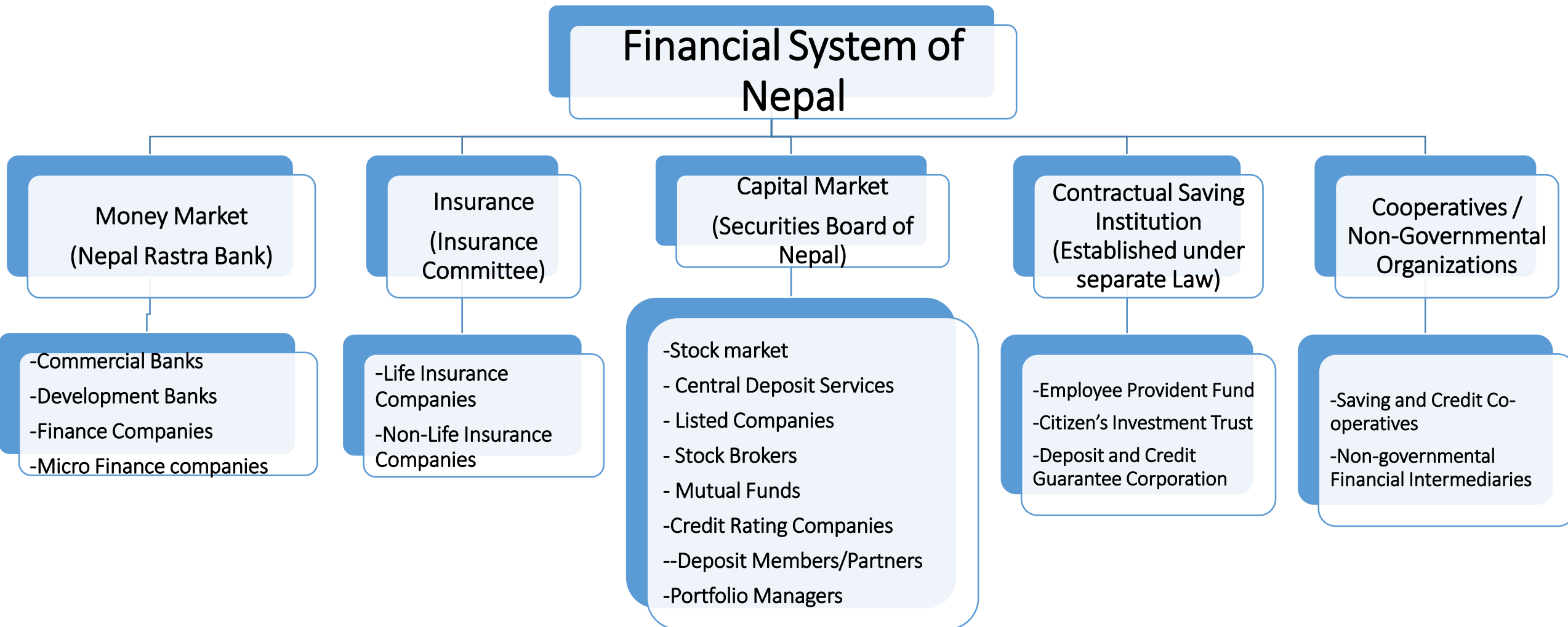


Economy- Past Trend

Description / Fiscal Year	2007/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	Gross Domestic Product in Producers Price (Rs in Billion)											
GDP	815.6	988.2	1192.7	1366.9	1527.3	1695.0	1964.5	2130.2	2253.2	2674.5	3031.1	3464.4
Annual Percentage Change												
GDP	5.8	3.9	4.26	3.85	4.61	3.76	5.72	2.97	0.20	7.74	6.30	6.81

Source: Economic Surveys, MOF

Structure of Financial Market of Nepal



Evolution of Capital Market of Nepal

- 1936 : Formulation and Promulgation of Company Act, 1993 (1936).
- 1976: Establishment of Securities Exchange Center.
- 1983: Formulation and Promulgation of Securities Exchange Act, 2040 (1983),
- 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.

Capital Market in the Fifteenth Plan

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

S.N.	Participants/Stakeholders	Fiscal Year		
		2016/17	2017/18	2018/19
1.	Stock Exchange	1	1	1
2.	Central Depository company	1	1	1
3.	Listed Companies	242	196	215
4.	Securities Brokers	50	50	50
5.	Merchant Bankers	24	25	30
6.	Depository members	67	70	72
7.	ASBA Participation	52	65	63
8.	Investment fund	9	11	11
9.	Credit Rating Agency	1	2	2
Total		417	421	445

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)

S. N.	Particulars	Fiscal Year (Amount in Billion Rupees)						Change (%)			
		2016/17		2017/18		2018/19		Number		Amount	
		Number	Amount	Number	Amount	Number	Amount	2017/18	2018/19	2017/18	2018/19
1.	Primary issuance	17	1.51	21	8.30	28	7.35	23.5	33.3	449.7	-11.4
2.	Issuance of right share	76	45.64	55	25.70	19	5.88	-27.6	-65.5	-43.7	-77.1
3.	Further Issuance of share	4	7.99	6	11.5	-	-	50.0	-	43.9	-
4.	Bond/debenture	-	-	1	3	12	12.98	-	1100.0	-	899.3
5.	Mutual Fund	4	4.25	4	4.8	6	6.55	0.0	50.0	12.9	36.5
Total		101	59.39	87	43.3	65	49.76	-13.9	-25.3	-10.3	-6.6
6.	Bonus share	164	34.8	112	33.1	94	26.7	-31.7	-4.9	16.1	-19.3

Secondary Market (based on yearly data)

S.N	Particulars	Unit	Fiscal Year			Change (%)	
			2016/17	2017/18	2018/19	2017/18	2018/19
1.	No. of Listed Companies	Number	208	196	215	-5.77	9.69
2.	No. of Listed Shares	Number (10 millions)	296.59	359.86	420.66	21.34	16.89
3.	Transaction of Securities	Rs. Billion	205.02	121.39	110.8	-40.79	-8.72
4.	Transaction days	Day	230	233	246	1.30	8.58
5.	Average daily transaction Amount	Rs. Billion	0.89	0.52	0.44	-41.55	-15.94
6.	Total no. of shares traded	Number (10 millions)	39.29	29.38	38.75	-25.22	31.89
7.	No. of transactions	Rs. Million	1.36	1.31	1.422	-3.5	8.53
8.	Market capitalization of listed shares	Rs. Billion	1896.82	1435.14	1567.5	-22.71	9.22
9.	Trading Amount/market capitalization	%	11.04	8.46	7.07	-23.39	-16.43
10.	Market capitalization/GDP	%	69.43	47.35	45.25	-31.80	-4.44
11.	NEPSE indices	Index	1718.15	1212.36	1259	-29.44	3.85
12.	NEPSE float indices	Index	125.41	87.15	92.43	-30.51	6.06

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!

