

As 2017 ends in good notes, investors hope for stable govt in 2018

Record economic growth of 7.5 percent, end of load-shedding, and successful conduction of three elections have been some of the key achievements for the country's economic sector in 2017.

The election of the local levels held after 18 years and a majority seats won by the left alliance in federal parliament have given a positive outlook for strong local bodies and a stable government at the center.

2017 in review

Notwithstanding the positive developments, investors coped with a massive fluctuation in the interest rates. An increment of over five percent in the rates sapped the investors' confidence and damaged many businesses.

Now, investors expect the new government to put the economic sector in priority.

"We are hopeful that the new government cares for economic issues unlike past governments and takes a more sustainable policy to address issues of investment," said Pashupati Murarka, former president of Federation of Nepalese Chambers of Commerce and Industry.

"However, we are disappointed by the recent hike in the interest rates. But no politician seems to be concerned about it. They have not spoken about this matter yet, though it troubles us," lamented Murarka, indicating that the year 2018 would not be an easy one, at least in terms of borrowing for investments and paying for high interest rates.

Toward the end of 2017, banks and financial institutions (BFIs) turned down borrowers for loans. This shows that the country has gone back to square one in the past 12 months. The crunch of available lendable cash in BFIs was similar last year this time.

BFIs were not alone to suffer cash crunch. The government has also been equally cash-strapped due to slow growth in revenue collection. The government's vault depleted to a record of Rs 114 billion as of December 22, the lowest in four months.

The record low cash reserve in the government treasury may see more demand, particularly toward paying the bills of development works as well as toward establishing infrastructure for newly-elected provincial parliaments and provincial offices among others, including the allotted budget of Rs 7.14 billion for provinces.

There is no indication that things would be improved anytime soon without serious intervention by the government, such as ramping up development spending. With the slow pace of progress in development works, government's expenditure has remained too low with only 11 percent expenditure of the total Rs 336 billion allocated for the purpose.

As 2017 ends in good notes, investors hope for stable govt in 2018

The government will also have to release Rs 75 billion as the third tranche to local bodies by mid-March. While taking retirement in October, erstwhile Finance Secretary Shant Raj Subedi had explained the challenges the government could face if revenue collection, particularly Value Added Tax compliance, was not improved. In that case, the government's ability to spend more for local and provincial governments will be limited.

The current scenario shows that Subedi was correct but the Ministry of Finance was heedless in this matter.

Combined deposit of all BFIs was only about Rs 30 billion as of December first week. The country's current account, which measures country's transactions with the rest of the world, is continuously in deficit which recorded Rs 25 billion in the first four months of fiscal year. Balance of payment too posted only marginal surplus in the period. On top of this, remittance inflow dropped by 1.4 percent in the first four months, ending mid-October, of the fiscal year.

However, as a solace to the government, spending of the newly-elected 753 local levels has been reportedly too low to this date.

Explaining the current financial situation, Finance Secretary Shankar Adhikari had said last week that they were mulling to control haphazard import of automobiles and their accessories to adjust the balance of payment situation, as remittance inflow has dwindled.

"And we also want to take steps to bring remittance through the banking channel," added Adhikari.

On the positive side of economic indicators, there was the record economic growth of 7.5 percent, occurring in decades, apart from the three successfully held elections. This growth seemed high because it came after the suppressed near-zero growth rate resulting from the coupled effect of earthquake and blockade of 2015. But economists say nothing to cheer about this growth because the growth is has largely failed to create jobs.

A dramatic progress in electricity supply contributed partly by imported electricity improved capacity utilization of industries by about 10 percent. Besides, a good agricultural output helped to boost growth. Agricultural output is projected to be almost normal despite huge crop damages by the floods of mid-August in eastern and central Tarai.

With these few positive notes, strong steps ahead in development works and reforms in services and governance by the next government can attract more domestic and direct foreign investment. Jobs generated by increased investment will possibly retain at least a few thousand youths who would otherwise leave the country for migrant jobs.

As 2017 ends in good notes, investors hope for stable govt in 2018

Major events of 2017 in business and economy

SHORTAGE OF LENDABLE CASH

As bank and financial institutions (BFIs) endured shortage of lendable fund due to mismatch between the growth of loans and deposits, interest rates remained at a higher end throughout the year. Though there was some correction on interest rates during the mid-term of the year after the government spending rose and the Nepal Rastra Bank (NRB) eased the calculation of capital-cum-deposit (CCD) ratio, they started to rise again after the relaxation on prudential lending limit lapsed. BFIs' aggressive lending practices despite low deposit growth have driven up interest rates as they offered higher interest rates to attract deposits. They were already offering over 13 percent of interest rates on fixed deposit while they have also raised interest rates on credit by three to four percent. Since a huge amount will be withdrawn by the end of the second quarter (mid-January) from BFIs for tax filing, BFIs are panicked and raising deposit rates to lure savings of the public. This has prompted competition to raise interest rates as BFIs are worried that depositors might switch to another institution offering higher rate.

YEAR OF CORRECTION IN STOCKS

Nepal Stock Exchange (Nepse) benchmark index nosedived 50.94 points this year to close at one-year-low at 1,414.78 points. The year 2017 largely remained a year of correction for the stock market.

Stocks started to fall from the beginning of the year but they recovered in March, only to take a dive again from May. The most bullish stocks in 2017 were on April 22 when the Nepse benchmark index climbed up to 1,703.7 points. Barring some occasional spikes, the market largely remained at the lower end in the latter part of the year.

BANKS SHORING UP CAPITAL

All bank and financial institutions (BFIs) have raised their paid-up capital multi-fold in line with Nepal Rastra Bank's directive to increase minimum paid-up capital. While most of the BFIs have already met the new paid-up capital requirement, remaining institutions should meet the target for the minimum paid up capital and clearly show it on the 'Notes to Account' by the time the external audit report and financial statement of 2016/17 are made public as per the Banks and Financial Institutions Act, 2016. 2017 become the year for shareholders of most of the BFIs to reap stock dividend amid requirement to raise paid-up capital. The BFIs have increased their paid-up capital through the issuance of bonus shares, right shares, further public offerings, and through merger and acquisition.

As 2017 ends in good notes, investors hope for stable govt in 2018

CAPITAL MARKETS REFORMS

There were some initiatives taken by Securities Board of Nepal (Sebon) and Nepal Stock Exchange (Nepse) for the reform and modernization of capital market and secondary market as well as to strengthen corporate governance in the public companies. Full-fledged dematerialized trading system came into enforcement. Brokerage firms will now be allowed to provide margin trading service. Commodities market related laws and regulation got introduced. Nepse has been working on the implementation of fully automated online trading system, which is scheduled to come into implementation by next year. The Sebon also amended rules and regulations related to securities registration and issuance, paving the way for companies to float their shares on free pricing with some caps. Companies are now also allowed to float only 10 percent of their shares to the public. With the amendment on the regulation, international organizations like IFC and ADB can now float local currency denominated bonds.

Another important breakthrough in the capital market is the implementation of Application Supported by Blocked Amount (ASBA) system from the beginning of 2017.

MASSIVE IRREGULARITY AT NOC

Massive irregularities engulfed Nepal Oil Corporation (NOC) while purchasing land plots for the state-owned oil monopoly in various districts, which was revealed through an investigative reporting by Republica and its sister vernacular daily Nagarik. Later, different parliamentary committees also concluded that the NOC's managing director embezzled millions of rupees by paying exorbitantly high prices to purchase lands to build oil storages.

FAST TRACK AND BUDHIGANDAKI

The government awarded its dream project of linking Kathmandu with Tarai with the shortest road of 76-km to Nepal Army on May 5, in order to promote domestic financing. There was a kind of tug of war on Budhigandaki Hydroelectric Project this year. The coalition government of CPN (Maoist Center) and Nepali Congress, led by Prime Minister Pushpa Kamal Dahal, awarded the Rs 259 billion project to China Gezhouba Group Corporation few days before he stepped down on May 24. The decision rolled back few days before the federal elections brew another debate when CPN-UML chair KP Sharma Oli announced that the upcoming government would revoke the decision.

FIRST BUDGET IN FEDERAL SET UP

The government this year tabled the budget in federal set up of Rs 1.27 trillion, with each province and local level getting separate and direct budget allocation. A total of Rs 225 billion was allocated for the local levels. With the local elections after 18 years, the budget for local

As 2017 ends in good notes, investors hope for stable govt in 2018

development was directly sent to local levels, creating renewed vigor in implementing the budget and programs at the local level.

CGT ON NCELL BUYOUT DEAL

The Ncell buyout deal of US\$ 1.36 billion by a Malaysian Telecom giant Axiata early last year came to light this year after both seller Teliasonera and buyer Axiata tried to walk free without paying Capital Gain Tax of to the Government of Nepal. Varied explanations about CGT liability divided political leaders and even parliament committees, but a report of the Office of the Auditor General clarified the matter that Ncell or its new owner Axiata has to pay the CGT. Axiata paid a total of Rs 13.6 billion on June last week. But the Supreme Court cleared way for Ncell on December 25 to repatriate Rs 72 billion that was put on hold by the Nepal Rastra Bank before clearing the CGT in Ncell buyout deal.

CORRUPTION IN TAX SETTLEMENT

Office of the Auditor General in its annual report in April disclosed that the tax settlement of Rs 30.52 billion by giving discount of over Rs 21 billion was carried out without adhering to any rule.

Source: MyRepublica, 31st December 2017