नेपाल धितोपत्र बोर्डबाट मर्चेन्ट बैंकरको रुपमा कार्य गर्न अनुमतिपत्र प्राप्त संस्था

गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED
(A Subsidiary of GARIMA BIKAS BANK LIMITED)
समृद्धिको सारथी

THE ANALYTICS

GARIMA MONTHLY INSIGHT

BAISAKH 2082
(14 APRIL 2025 -14 MAY 2025)
VOL: 3, ISSUE: 10

Market Ahead

Macroeconomic Factors

NEPSE Scanner

Market Scanner

Article of the Month

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Market Update:

In Baisakh, NEPSE declined by 41.81 points from 2,662.08 to 2,620.27, despite a rise in total turnover, share volume, and transaction size by 39.11%, 40.24%, and 107.09% respectively, while market capitalization dropped by 0.82%. NEPSE initially showed an upward trend in the first week but started declining thereafter, largely due to uncertainty surrounding the delayed appointment of the NRB Governor, whose policies significantly influence the stock market and overall economy. The market has been moving sideways for around eight months, facing strong resistance near the 2750 level.

At the start of Jestha 2082, NEPSE showed an upward trend fueled by speculation of the Governor's appointment, but after Dr. Biswo Nath Poudel's official appointment on May 20, the market corrected the following day and resumed sideways movement. Investors are now paying attention to the upcoming budget, which is the reason the market seem to be in 'wait and watch' mode. The budget for FY 2082-83 will be announced on 15th Jestha 2081 (29th May 2025).

NRB has released the nine-months CME and Financial Situation Report of Nepal up to Chaitra 2081. Additionally, it has published the financial performance of BFIs for the same period. Commercial banks have announced the revised interest rates for Jestha 2082. The key highlights of these significant developments are summarized below:

1. The overall net profit of commercial banks amounts to Rs. 41.25 billion, 5.16% fall MoM. Nabil Bank is leading with a net profit of Rs. 5.05 billion

2. The development banking sector posted a total net profit of Rs. 3.90 billion, decline of 9.91% MoM while finace sector published total net profit of Rs. 676.64 million, showing a growth of 41.31% MoM.

3. Nepal's public debt has surged to Rs. 262.2 billion in the current FY by mid- May, totalling 42.94% of GDP, with foreign borrowings comprising 51.68% and domestic borrowinngs 48.28%.

4. Dr. Biswo Nath Poudel has been appointed as the 18th Governor of Nepal Rastra Bank (NRB).

5. By the end of first ten months of FY 2081/82, Nepal's trade deficit widened by 6.72% as imports rose by 13.11% to Rs. 14.74 Kharba, while exports surged by 72.71% to Rs. 2.17 Kharba.

6. In the first ten months of the current FY 2024/25, the government has collected 64.99% of its revenue target of Rs. 1.42 trillion, and spent Rs. 1,157.89 billion i.e., 62.24% of total budget.

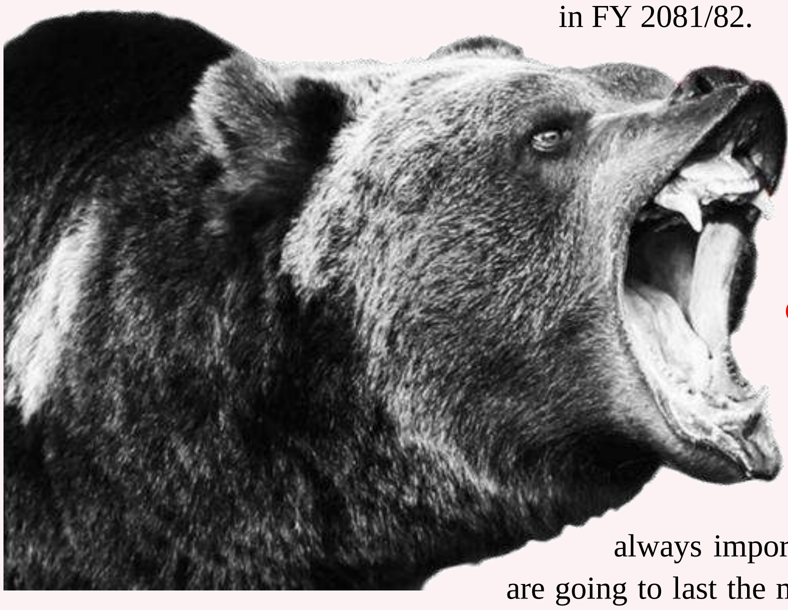
7. The average loan interest rates fell to 8.22% for commercial banks, 9.59% for development banks, and 10.40% for finance companies for FY 2081/82—down from 10.55%, 12.17%, and 13.36% respectively from last FY 2080/81.

8. For the month of Jestha 2082, 6 banks have revised their rates, with three banks decreasing and three increasing their rates both in the case of individual and institutional fixed deposit. NIMB has made the deepest cut in the individual fixed deposit rate by 1% to 5.5% from 6.5% in Baisakh. While Rastriya Banijya Bank Limited (RBBL) has increased its institutional fixed deposit rate by 1% from 3.00% to 4.00%.. On average, individual and institutional fixed deposit rate for Jestha is 5.95% and 4.39% respectively.

9. Per the Banking & Financial Statistics, the average CD Ratio of Banking sector (A, B, and C Class) is 79.45 which is lower than 79.47 of earlier month. NPL has risen to 5.24% from 4.92% previous month and CAR has inclined to 12.39% from 12.33%. Weighted average interest rate has come down to 4.45% (saving 3.39%, fixed 6.10%) and weighted average rate on credit has fallen to 8.22%.

10. On the external front of the economy, remittance inflows rose by 10.0% to Rs. 1,191.31 billion as of mid-April 2024/25, with approximately Rs. 139.54 billion coming in between mid-March and mid-April alone. Exports inclined by 65.2%, while imports rose by 12.2% and the trade deficit increased by 6.4%. The balance of payments (BOP), current account balance, and gross foreign exchange reserves all grew to Rs. 346.23 billion, Rs. 210.22 billion, and $17.63 billion, respectively. Additionally, 358,222 Nepali workers received their first-time approval for foreign employment, while 249,652 received renewal entry approvals.

11. As per the CME Report, Y-o-Y deposits at BFIs has increased by 5.7% while the private sector credit has increased by just 7.1%. Monetary Policy has targeted the Private Sector Credit growth of 12.5% in FY 2081/82.



12. According to Nepal Tourism Board (NTB), Nepal witnessed highest-ever foreign tourist arrivals for April, with 1,15,490 foreign tourists in April 2025, 4.59% incline YoY.

Coda: Market is subject to several forms of risks, especially the fundamentals, and investors have tendencies to be behaviourally biased, leading to making the sub-par investment decisions. It's always important to screen the facts vs opinions. Facts are going to last the market long while opinion can likely make market volatile.

Trade Wars Should Motivate Banks to Rethink Credit Risk Management

Author- Dr. Marco Folpmers

Barriers to trade have many repercussions in the real economy, including price hikes, rising inflation, interest rate volatility and supply-chain disruptions. But what impact will the trade wars, fueled by constantly evolving tariffs under the Trump administration, have on credit portfolio management?

Nobel prize winners (like Paul Krugman) and former IMF chief economists have spent weeks explaining the effects of trade wars, but, strangely, the credit risk component of all of the tariffs movement has received relatively little attention. That may be because accounting for tariffs is a complex issue that will require the use of new credit risk methodologies.

Let's unpack this complex puzzle, step-by-step, and then focus on appropriate actions that credit risk managers can and should take.

First-Order Effects: Decreasing Affordability

A basic rule of international economics is that firms trade with each other – not with countries. So, any analysis of trade war repercussions must start at the firm level, where we can make a distinction between firms faced with higher costs of imports and those faced with tariffs for their own exports.

The tariffs that are imposed on the imports from specific countries will lead to price increases at the importing firm. If the importer concludes that a product component is now more expensive, it will either pass on the price increase in its final product price or absorb the higher cost in its margin – or seek an alternative.

In its April 2025 Beige Book, the Federal Reserve states that many importers have "already received notices from suppliers that costs would be increasing" because of rising tariffs, and that importers therefore expect "elevated input cost growth."

Whatever action (or combination of actions) a firm takes will ultimately impact its financial performance, altering its debt service coverage ratio. This change needs to be considered by banks that lend to importers. The probability of default (PD) for th e loans issued to these firms may deteriorate, placing some clients on banks' watchlist for increased levels of credit risk.

These trends may also have an impact on the loss given default (LGD) of bank loans issued to importers. Remember, once the economic conditions of a specific sector (like manufacturing with imported raw materials) decline, its fixed assets will be less marketable and can only be sold off if repurposed. This will lead to lower asset prices and higher LGDs.

The result is that the banks' assessments of loans issued to importers will decline. Consequently, banks will have to increase the expected loss and the regulatory capital covering these particular loans. They may also try to pass on the added costs to their clients (importers), via reset interest rates.

What's more, banks that report under IFRS 9 and that lend to importers may need to increase their IFRS 9 expected credit loss estimations. Since IFRS 9 provisioning is forward looking and anticipates losses on the future development of the debt service coverage ratio, this impact will be felt immediately.

Outlook for Exporters

Firms whose exports will be hindered by rising tariffs face similar challenges. To stay in business, exporters will likely have to decrease the final price of their products, which will impact their performance and their income, as well as their debt service coverage ratio.

The worst-case scenario for exporters is that they end up with products that cannot be sold, forcing them to hold a large unsold inventory. This could lead to structural challenges that call into question not just their long-term profitability but even their survival. Staffers working at these firms face a difficult, uncertain future – with reorganizations and, in some cases, dismissals, seemingly on the horizon.

In its beige book, the Federal Reserve states that "several districts" have reported that importers and exporters are "taking a wait-and-see approach to employment, pausing or slowing hiring until there is more clarity on economic conditions."

Second- and Third-Order Effects

The political idea behind a trade war is that an economic policy favoring specific industries (such as the manufacturing sector in the U.S.) is effective at helping those industries. This is among the secondary effects we can expect to see from U.S. policy changes on tariffs.

Under a protectionist policy like the one that is currently set up in the U.S., new firms can arise – with significant potential for earnings – in protected sectors. These companies will have a distinct advantage over the industries that are being hardest hit by the retaliatory tariffs.

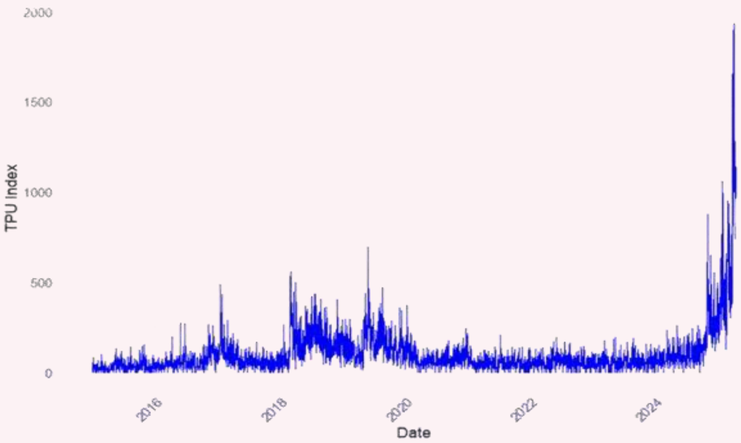
This process, of course, takes time. Firms need to be set up, a client base needs to be established and employees must be recruited and trained.

Banks are crucial agents in this scenario, because they will need to provide the funds for setting up these new businesses. Indeed, this is likely a key reason why the Trump administration is pushing hard for lower interest rates.

On the downside, the economic uncertainty created by changing tariffs has yielded postponements of investments – another second-order effect. Indeed, the Trade Policy Uncertainty Index (see Figure 1) has reached unprecedented levels over the past few weeks.

When we look at the big picture, we also see third-order impacts of U.S. policy changes – the response of policy makers to the first- and second-order effects. These are impossible to predict but may include both an escalation of the tariffs – after trading partners take retaliatory measures – and a softening of a policy – after international agreements on de-escalation are negotiated.

Figure 1: Trade Policy Uncertainty Index



Source: TPU Index, through April 24, 2025

Central banks may also take measures to mitigate the impact of policy revisions. In the U.S., the Fed typically has a dual mandate: stable inflation and optimum employment. However, in the current environment of looming stagflation, this dual mandate may lead to conflicts. For example, while inflation calls for higher rates, declining economic activity could result in lower rates. So, it will be interesting to see how the Fed navigates the drama surrounding tariffs.

The Importance of Mesoeconomics

Credit risk managers who want to survive and even thrive in this new era of volatility and uncertainty must develop a new way of thinking. Specifically, developments by groups of firms – aka the "meso" level – must be tracked and analyzed.

Today, credit risk methodology tends to focus exclusively on two levels: the individual level – e.g., the PD at obligor level – and the macro level – e.g., the three macro scenarios (base, optimistic and pessimistic) for IFRS 9 provisioning.

Going forward, this approach will be too simplistic. The first- and second-order effects outlined above cannot properly be captured by rough macro indicators such as GDP, unemployment and house prices. These effects will impact specific groups of firms whose correlated risk profiles are not currently modeled at the obligor level.

Credit risk professionals, in short, need to be able to identify firms that are similarly affected by the tariffs. European banks should seek answers to the following questions: Which firms depend on exports to the U.S. for, say, more than 15% of their revenues? Do we have retail clients working for these firms? And are they at risk of becoming unemployed?

U.S. banks, on the other hand, should strive to understand which firms are expected to suffer the most from retaliatory tariffs and from the export restrictions of targeted raw materials.

The questions we've outlined, of course, are only a starting point. A full analysis of the impact of tariffs can be conducted only when banks are able to model performance and risk at the supply chain level. Until then, they will not be able to understand the dynamics fully, either at the firm level or the individual client level.

What's more, if trade war conditions persist, the development of new analysis tools will become urgent. New IFRS 9 provisioning methodologies, for example, may need to be created, borrowing elements from economic capital models that typically include some analysis at the sector level.

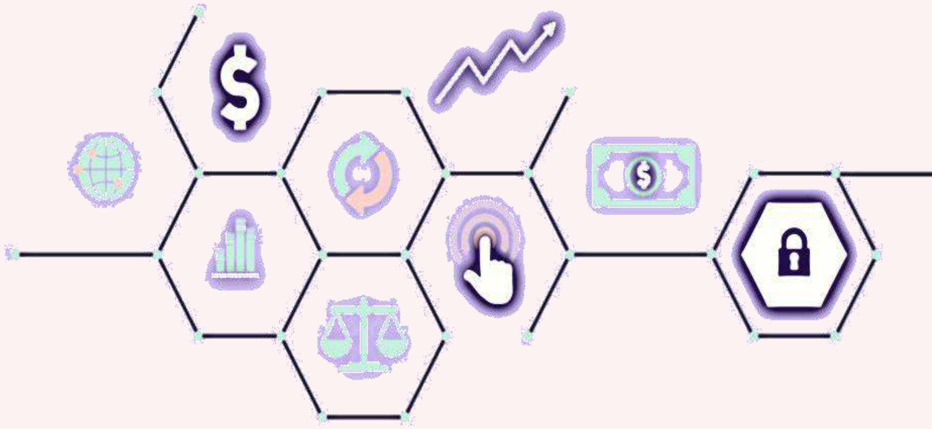
Parting Thoughts

After 80 years of globalization, it is not an exaggeration to say that we've reached a turning point in worldwide trade, thanks largely to the reciprocal tariffs adopted by the Trump administration.

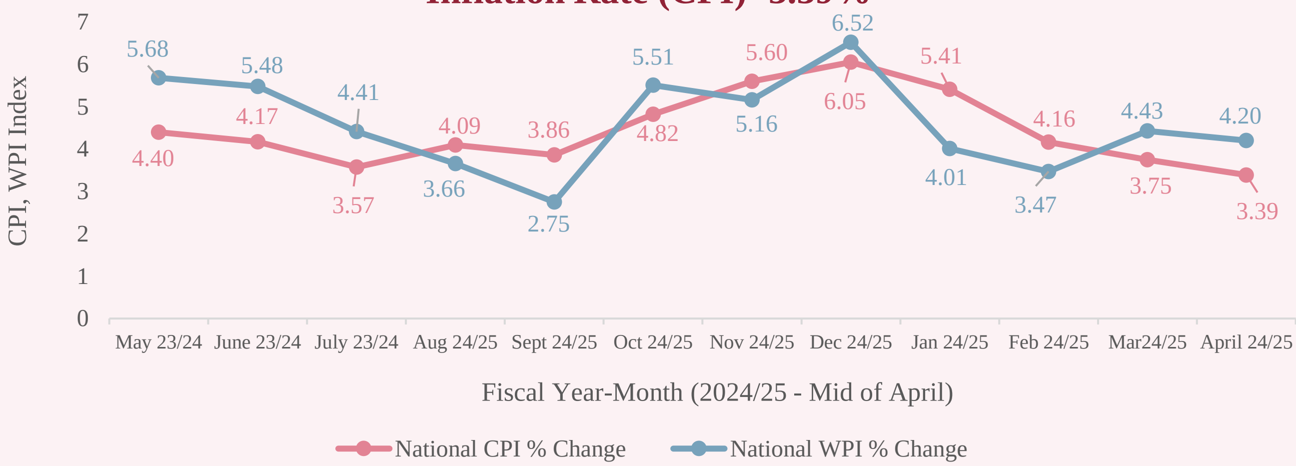
Financial risk managers are not economists and therefore do not necessarily need to have an opinion on economic policy matters. But it is their job to make sense of the broader economic environment and to make sure that new determinants of credit risk are being embedded in their analyses and models. Expanding these models to the mesoeconomics level is a great way to start.

Dr. Marco Folpmers (FRM) is a partner for Financial Risk Management at Deloitte the Netherlands.

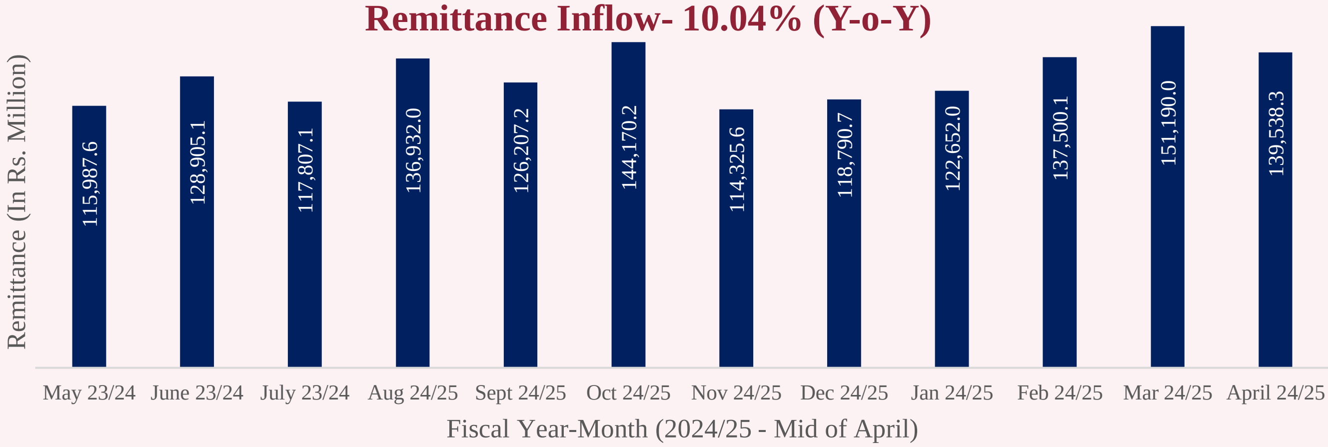
WHERE DO THE FACTORS STAND?



Inflation Rate (CPI)- 3.39%



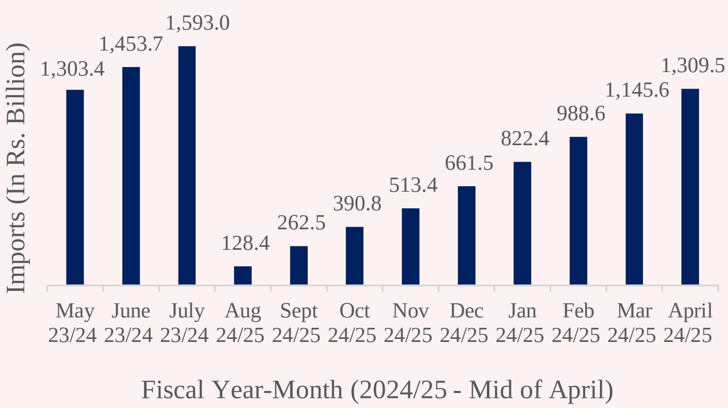
Remittance Inflow- 10.04% (Y-o-Y)



Liquidity Indicators (As on 24th May 2025):

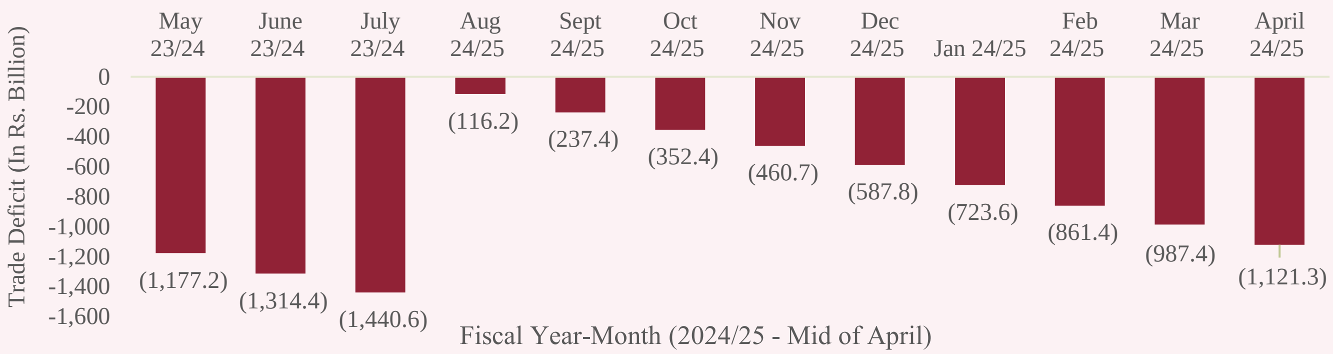
- BFI's Deposits: NPR. 6,902 billion
- BFI's Lending: NPR. 5,534 billion
- CD Ratio: 79.01%
- Inter-bank Intereset Rate: 3.00%

Total Import (12.2% Y-o-Y)

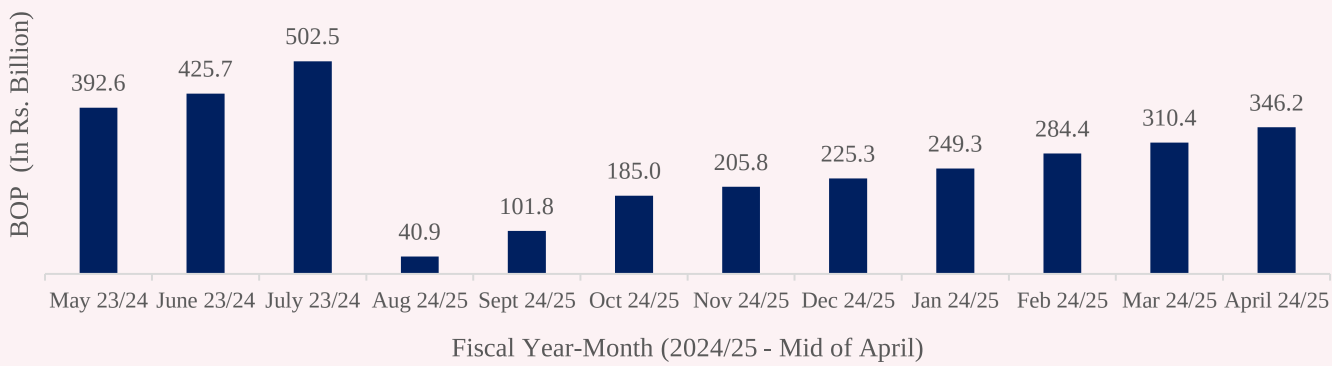


Total Export (65.2% Y-o-Y)

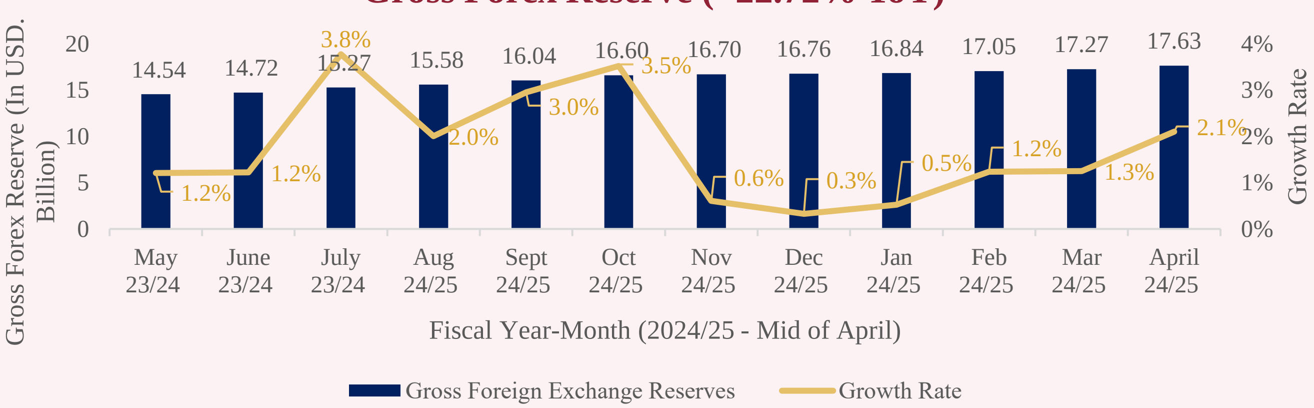
Trade Deficit



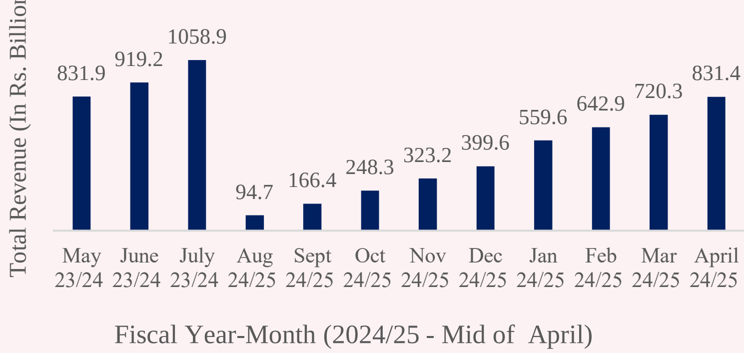
Balance of Payments (Surplus)



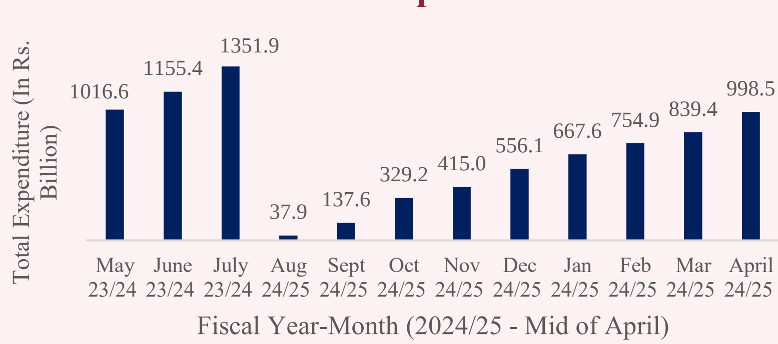
Gross Forex Reserve (+22.72% YoY)



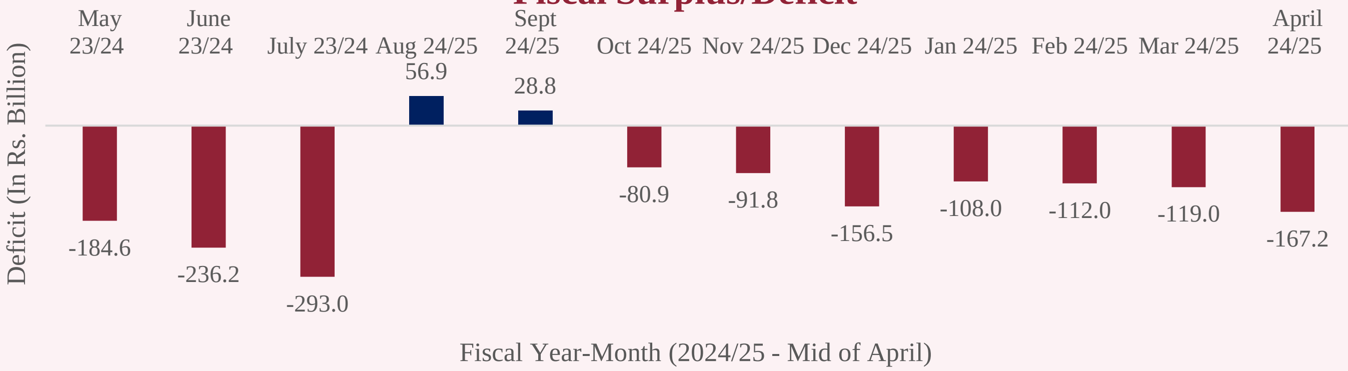
Govt. Revenue



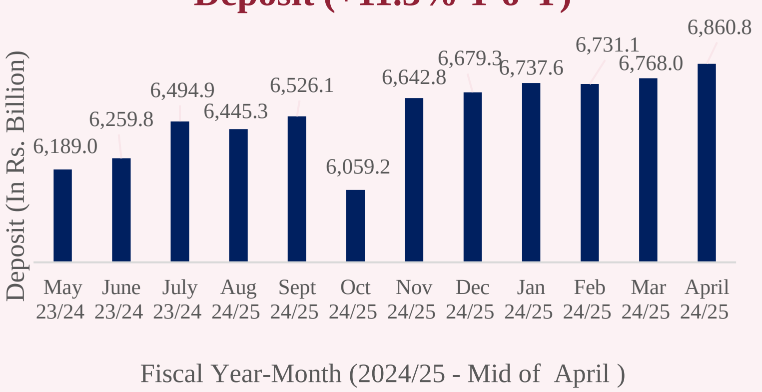
Govt. Expenditure



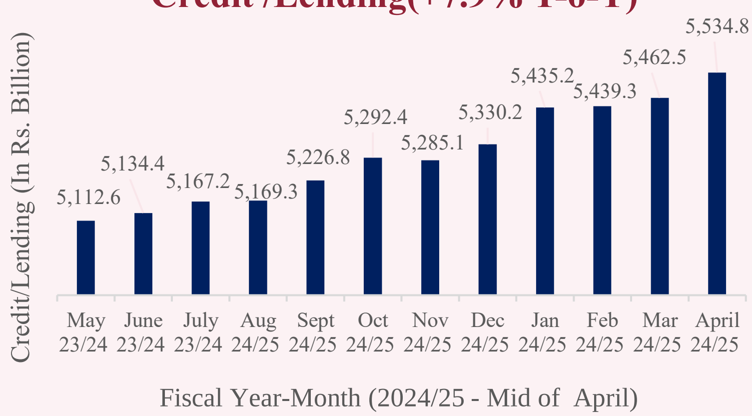
Fiscal Surplus/Deficit



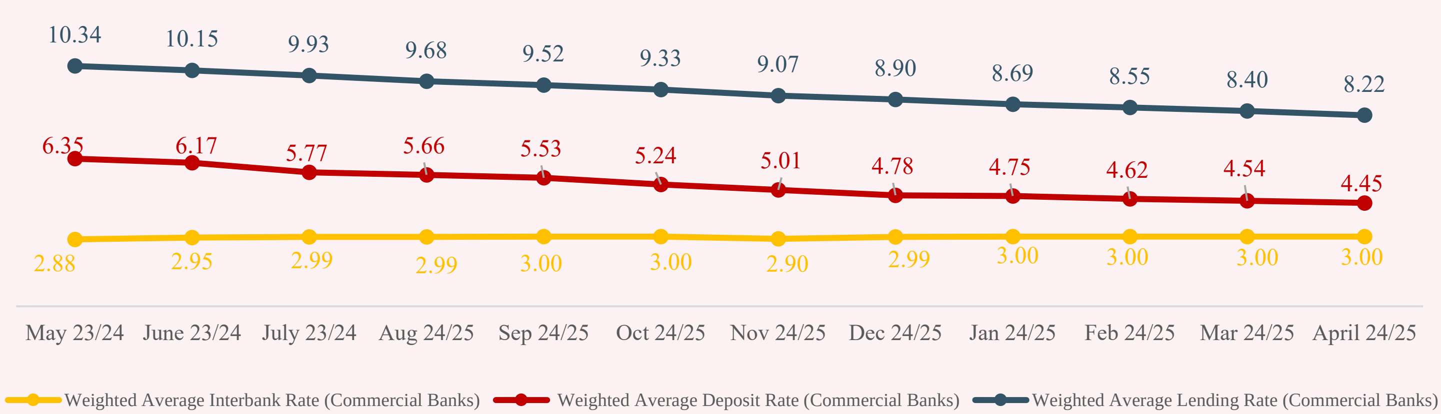
Deposit (+11.3% Y-o-Y)



Credit /Lending(+7.9% Y-o-Y)



Market Interest Rates

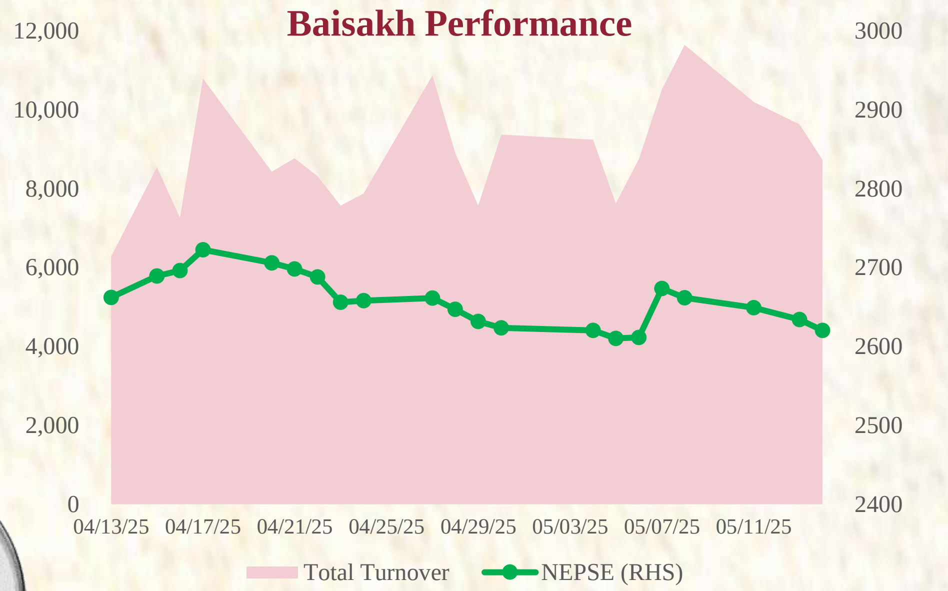


Short-term Interest Rates (As on 27th May 2025):

- 28 days: 2.95%
- 91 days: 2.95%
- 364 days: 2.98%

Market Update:

NEPSE SCANNER



Metrics	14.05.25	13.04.25	Monthly Change
NEPSE	2,620.27	2,662.08	-1.57%
Sensitive	440.00	446.44	-1.44%
Float	176.84	179.16	-1.29%
Sensitive Float	149.15	150.09	-0.63%
Turnover (Million)	8,736.57	6,280.30	39.11%
Shares Volumes	18,496,138	13,189,328	40.24%
Total Transactions	112,577	54,361	107.09%
Total Scrips Traded	315	322	-2.17%
Market Cap (Rs. Million)	4,358,710.47	4,425,401.02	-1.51%
Sensitive Mrkt. Cap (Rs. Mn)	1,972,005.31	1,994,347.02	-1.120%
Float Market Cap (Rs. Mn)	1,457,947.90	1,469,949.62	-0.82%
Sens. Float Mrkt. Cap (Rs.M	783,681.58	784,993.98	-0.17%
Average Return	15.04%	15.59%	-0.55%
Std. Deviation	22.98%	23.12%	-0.14%
10 Day 10% VAR	-6.00%	-6.03%	0.03%
Market Cap / GDP Ratio	71.37%	77.57%	-6.20%

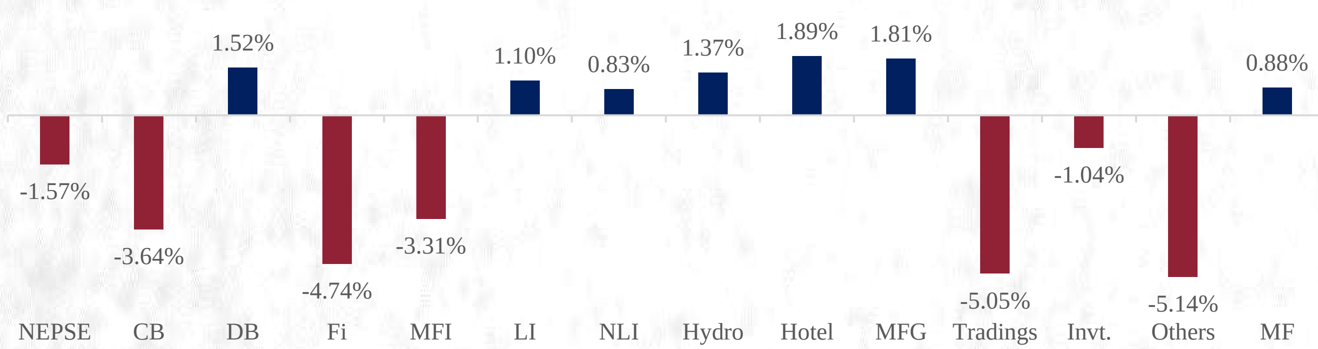
- NEPSE fell to 2,620.27 level from 2,662.08 (previous month end), losing 41.81 points (1.57%); high and low index remained 2,740.13 and 2,604.79 resp. in the review month.
- Sensitive, float and sensitive float index also declined by 1.44%, 1.29% and 0.63% respectively.
- By the month end, the turnover witnessed the rise of 39.11% and volume 40.24%. The transactions also increased by 107.09% as compared to the previous month end.
- Monthly average of these metrics computes to Rs. 9.04 billion (62.35%), Rs. 22.2 million (99.93%), and Rs. 81.51 thousand (39.72%) respectively.
- Market cap decreased by 1.51% to Rs. 4.36 trillion, out of which approx. 45.24% are only Sensitive. Sensitive market cap which covers A class stocks saw a 1.12% decline, Sensitive float market cap decreased by 0.17% and the size of Float market cap reduced by 0.82%.

- Avg. market return decreased to 15.04% from 15.59%, Standard Deviation slightly declined to 22.98% and 10-day 10% VAR stood at 6.00%.
- Market is under-valued as per Market Capitalization to GDP ratio (Buffett Indicator) which is 71.37%.
- In the review period, market traded for 20 days. Last month, number of trading days was 19.

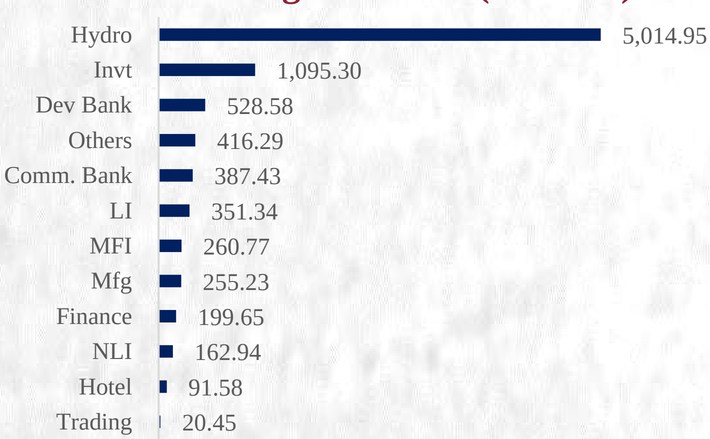
Average Turnover	Average Volume	Average Transaction Size	Average Market cap
NPR 9.0 Bn	*NPR. 22.2 Mn*	*NPR. 81.5 K*	*NPR. 4.42 Tn*
62.35%	*99.93%*	*39.72%*	*-0.27%*

SECTOR SCANNER

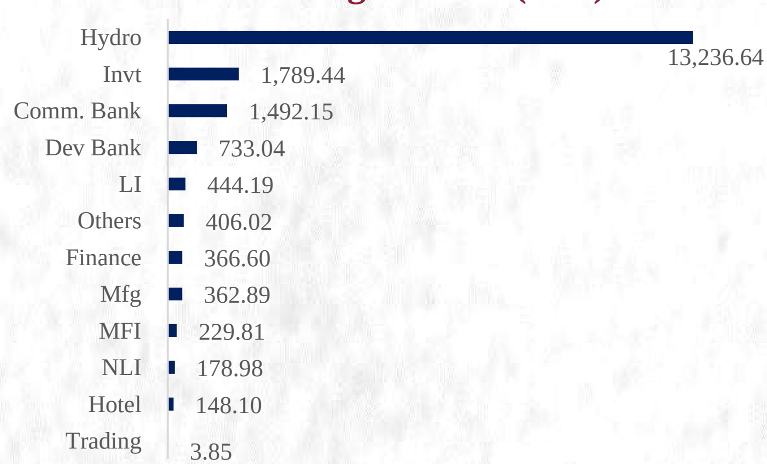
Monthly Sectoral Performance



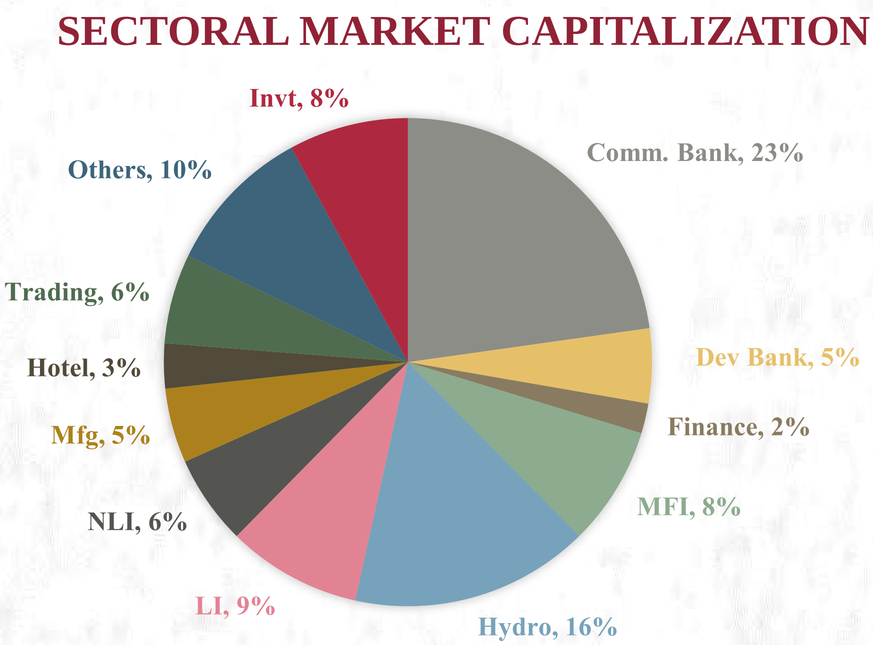
Baisakh Avg. Turnover (Millions)



Baisakh Avg. Volume ('000)



- Of the 13 sectors, seven recorded this month. The Hotels and Manufacturing sectors led the gains with increases of 1.89% and 1.81% respectively, followed by Development Banks (+1.52%) and Hydropower (+1.37%). The remaining six sectors experienced declines during the review period. The 'Others' and Trading sectors saw the largest drops, falling by 5.14% and 5.05% respectively, followed by Finance (-4.74%), Commercial Banks (-3.64%), and others.
- Hydropower sector recorded the highest Turnover and Transactions size in all trading days of the month making an average of 56.76% and 52.74% respectively. In case of Turnover (volumes), Hydropower sector traded the highest with an average of 67.85%. Both Investment and Development Bank sector made the notable Turnover of average 12.56% and 6.13% respectively while their average Transaction size was 8.48% and 4.82% respectively.
- Pie- chart below shows the approximate market capitalization of 12 sectors as on last trading day of Chaitra i.e. Wednesday 31st Baisakh, but excludes Promoter shares, Debentures, and Mutual Funds. BFI sector (A, B, C, D Class) covers approx. 38%, Commercial Bank alone 23%. Hydro and Hotel have 16% and 3% coverage respectively. Insurance sector occupy 15% (Life – 9% and Non-Life – 6%) while Trading sector covers 6%. Finance has the least capitalization, *amounting approx. Rs. 75.64 billion.*

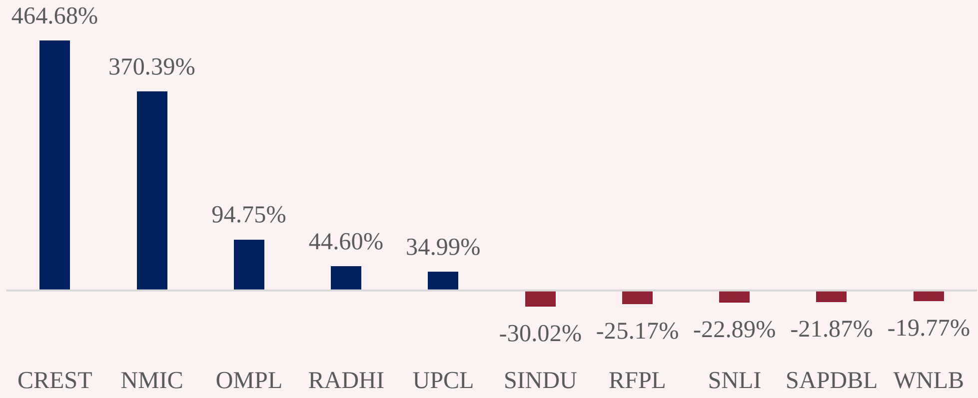


Monthly Terminology: Bull Trap

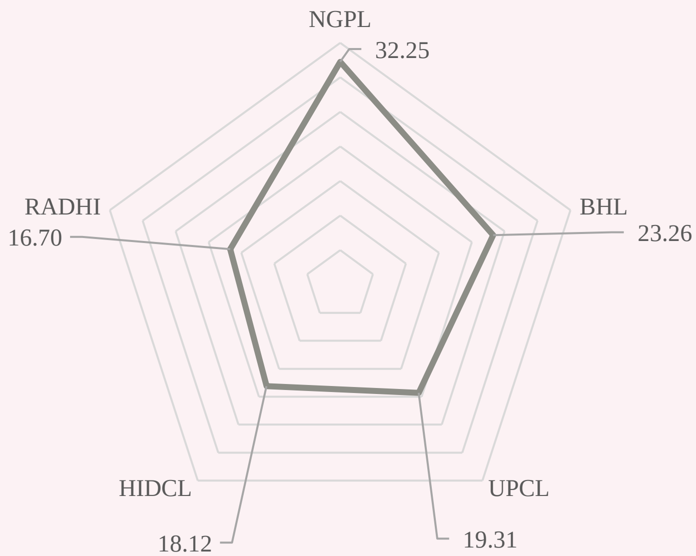
A Bull Trap is a false signal in a downtrend where a stock or market briefly rallies above a resistance level, luring investors to buy, only to reverse and continue falling. It tricks traders into thinking a recovery has begun, often resulting in losses. Bull traps typically occur in volatile or bearish markets and are driven by temporary optimism or low-volume breakouts. Like a "dead cat bounce," it's a deceptive move that appears bullish but lacks real momentum. Traders use confirmation tools like volume and trend indicators to avoid being caught in such traps.

STOCK SCANNER

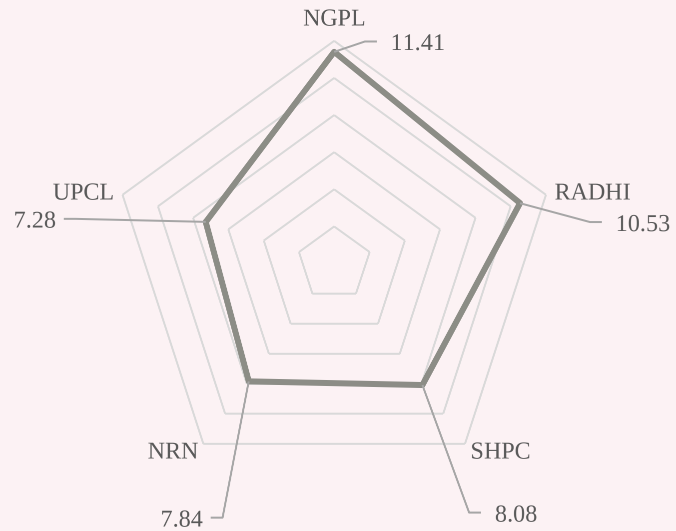
Top 5 Gaining and Losing Stocks/Scrips



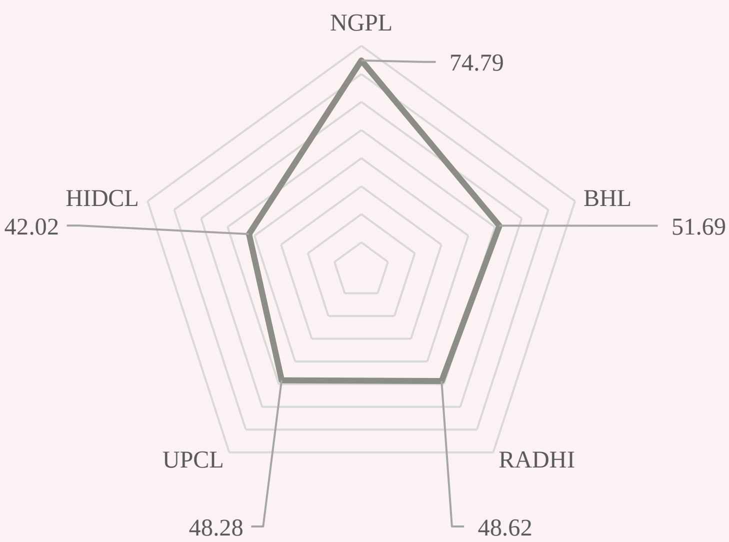
Stocks with Highest Volume (Millions)



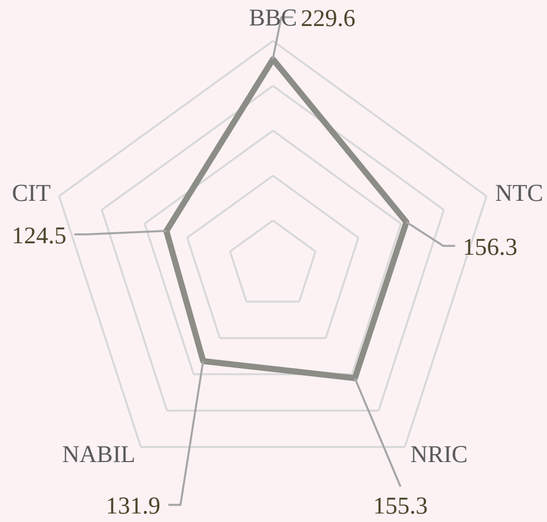
Stocks with Highest Turnover (Billions)



Stocks with Highest Transaction Size ('000)



Stocks with Highest Market Cap. (Billions)



TECHNICAL OUTLOOK…

Technical Indicator (14th May)	Value
RSI	41.34
MACD line	-14.21
Signal line	-13.99
Bollinger Upper Band	2721.22
Bollinger Middle Band	2654.15
Bollinger Lower Band	2587.08
ADX	11.37
Exp. Moving Avg. (9 Days)	2633.96
Exp. Moving Avg. (26 Days)	2653.51
Exp. Moving Avg. (50 Days)	2668.18
Exp. Moving Avg. (200 Days)	2582.36

Technical Overview:

After reaching a high of 2740, the index fell to a low of 2605 and finally settled at 2620 in the month end of Baisakh. In the weekly chart, short-term indicators such as RSI and Bollinger Bands currently signal a neutral stance, while MACD indicate a slight downward bias. The market is in sideways movement as also signalled by Fib. Retracement. On a broader trend basis, the daily chart shows the index trading above the 200-day EMA (2582) but below the 50-day EMA (2670), reflecting a developing bullish structure. Additionally, the weekly chart reinforces a positive outlook, with both the 50-day and 200-day EMAs supporting a sustained upward trend over the medium to long term.

Key Bulletins of the Month

1) In Jestha, 14 out of 20 commercial banks kept their fixed deposit rates unchanged from Baisakh, while six banks revised them—three decreasing (led by NIMB's 1% point cut) and three increasing (with SANIMA leading a 0.38% point rise).

2) In the first ten months of FY 2081/82, Nepal's trade deficit widened by 6.72% as imports rose by 13.11% to Rs. 14.74 Kharba, while exports surged by 72.71% to Rs. 2.17 Kharba.

3) The NRB's 80/81 Financial Stability Report revealed that BFIs' market share in Nepal's financial system fell to 78.26% from 79.84% in the previous fiscal year, despite a 12.01% increase in commercial banks' total assets to Rs. 7.24 trillion.

4) Under the new policy for FY 82/83, the government has made it mandatory for all industries to register with the Social Security Fund.

5) SEBON has approved Nepal's first Green Bond Issuance worth Rs. 5 billion with 7 years maturity, marking a milestone in green finance.

6) According to 9 Months CME report, Nepal's inflation declined by 36% to 3.39%, exports surged by 65.5%, reaching Rs. 188.2 billion and imports rose by 12.2% to Rs. 139.53 billion.

7) NEA has received approval to import 600 MW of electricity from India for 15 hours daily from 2 AM to 5 PM, extending the previous 12 hours import limit.

8) The government's social security budget has increased from over Rs 258 billion in FY 80/81 to nearly Rs 300 billion in FY 81/82.

9) Non-banking assets (NBA) of banks and financial institutions surged by 75% over the past year, rising from Rs. 23.96 billion to Rs. 42.05 billion by Falgun, driven by the increase in non-performing loans, according to NRB.

10) NRB announced it will invest Rs. 970 million from its gratuity and pension fund as fixed deposits in BFIs; Rs. 776 million in A, Rs. 145.5 million in B, and Rs. 48.5 million in C class.

11) Employer registration in Nepal's Social Security Fund dropped from 69.4% to 47.8% this year, with only 44.4% of registered businesses making regular contributions, down from 70% last year, according to GEFONT.

12) Nepal Insurance companies have yet to settle Rs. 35.36 billion in claims for 157,559 insured individuals- including 52,687 life and 104,872 non-life insurance claims- as of mid- April, according to the NIA.

13) Nepal received over Rs. 57 billion in FDI in FY 2024/25, with IT attracting 235 ventures worth Rs. 1.31 billion and hotels and tourism drawing the highest investment of Rs. 21.33 billion.

"While it might seem that anyone can be a value investor, the essential characteristics of this type of investor – patience, discipline, and risk aversion – may well be genetically determined."

– Seth Klarman

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