

INDUSTRY STATUS REPORT

BASED ON
THE ONLY
COMPREHENSIVE
QUARTERLY
INDUSTRIAL
SURVEY OF NEPAL

CNI BUSINESS
ASSESSMENT
SPECIAL

FIRST EDITION



DECEMBER 2022



CONFEDERATION OF NEPALESE INDUSTRIES

INDUSTRY STATUS REPORT (PREVIOUS EDITIONS)



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ACKNOWLEDGMENTS

CNI Research Cell (CRC) expresses its gratitude to CNI President Vishnu K. Agarwal for his support for the execution of the survey. We extend sincere thanks to Vice President Birendra Pandey for constant encouragement, and to the respondents of the survey for their time and inputs. The team also appreciates the assistance of Mr. Rajeev Majgaiyan, Mr. Himal Poudel, Mr. Bishnu Parajul, Mr. Sabin Shrestha and Swadeshi team. Also, many thanks to Moti Marasini for designing the ISRs impeccably.

About Industry Status Report

The Industry Status Report (ISR) provides a comprehensive analysis on the state of various industries in Nepal, leveraging an in-house survey. In Nepal, what explains misdirected policy interventions aimed at private sector growth? The absence of periodically available primary data on Nepali industries is one of the key reasons. Against this backdrop, ISR is produced as an effort to promote evidence-based policy-making. Each quarter, CNI Research Cell conducts an industrial survey and publishes this report to tease out changes across critical variables that either promote or stifle growth in industries.

Industry Status Report (FY 2079/80, Q1 Edition)

The Industry Status Report (FY 2079/80, Q1 Edition) has the benefit of comparing survey data from four consecutive quarters. It is based on a survey conducted from 4 November to 11 December 2022, to gather data on the first quarter of the Fiscal Year 2079/80 i.e. Shrawan-Ashoj of 2079.

Apart from presenting the findings of the survey, each ISR covers one theme in depth. The First Edition focused on the energy industry. The Second Edition focused on the manufacturing industry. The Third Edition explored the Federal Government's budget-making process and presented key policy suggestions made by CNI on behalf of Nepali industries followed by the next edition featuring the monetary policy 2079/80.

This edition covers the CNI Flash Business Assessment Survey. The survey was conducted with an aim to rightly assess the current business and financial environment and generate data based knowledge. The survey depicts the picture of current economic issues such as liquidity crisis, increasing rate of interest, decreasing aggregate demand in the economy.

What does the survey cover?

<p></p> <p>Business Performance: industry capacity utilization, revenue trends, demand in domestic market and market competition, trade</p>	<p></p> <p>Finance: interest rates, the share of the loan, access to finance</p>	<p></p> <p>Skills and Employment: employment, share of employees that received training</p>	<p></p> <p>Industrial Ecosystem: regulation and industry administration, transportation and infrastructure</p>	<p></p> <p>Business Outlook: confidence in the industrial sector, new investment plans</p>	<p></p> <p>CNI Flash Business Assessment Survey Special</p>
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KEY STATISTICS (FY 2079/80, Q1 EDITION)



No of surveyed industries:

Q1 **45** ↓ (Q3 71)



Total employees covered:

Q1 **13009** ↓ (Q3 31136)



Average employment
per company:

Q1 **289** ↓ (Q3 438)



Average operational
capacity utilization:

Q1 **61.53%** ↓ (Q3 68.81%)



Average share of loan on
working capital:

Q1 **45.06** ↑ (Q3 27)



Average interest rate
on loans:

Q1 **12.57%** ↑ (Q3 10.92%)



Average revenue
growth rate:

Q1 **-10.63%** ↓ (Q3 12.92%)

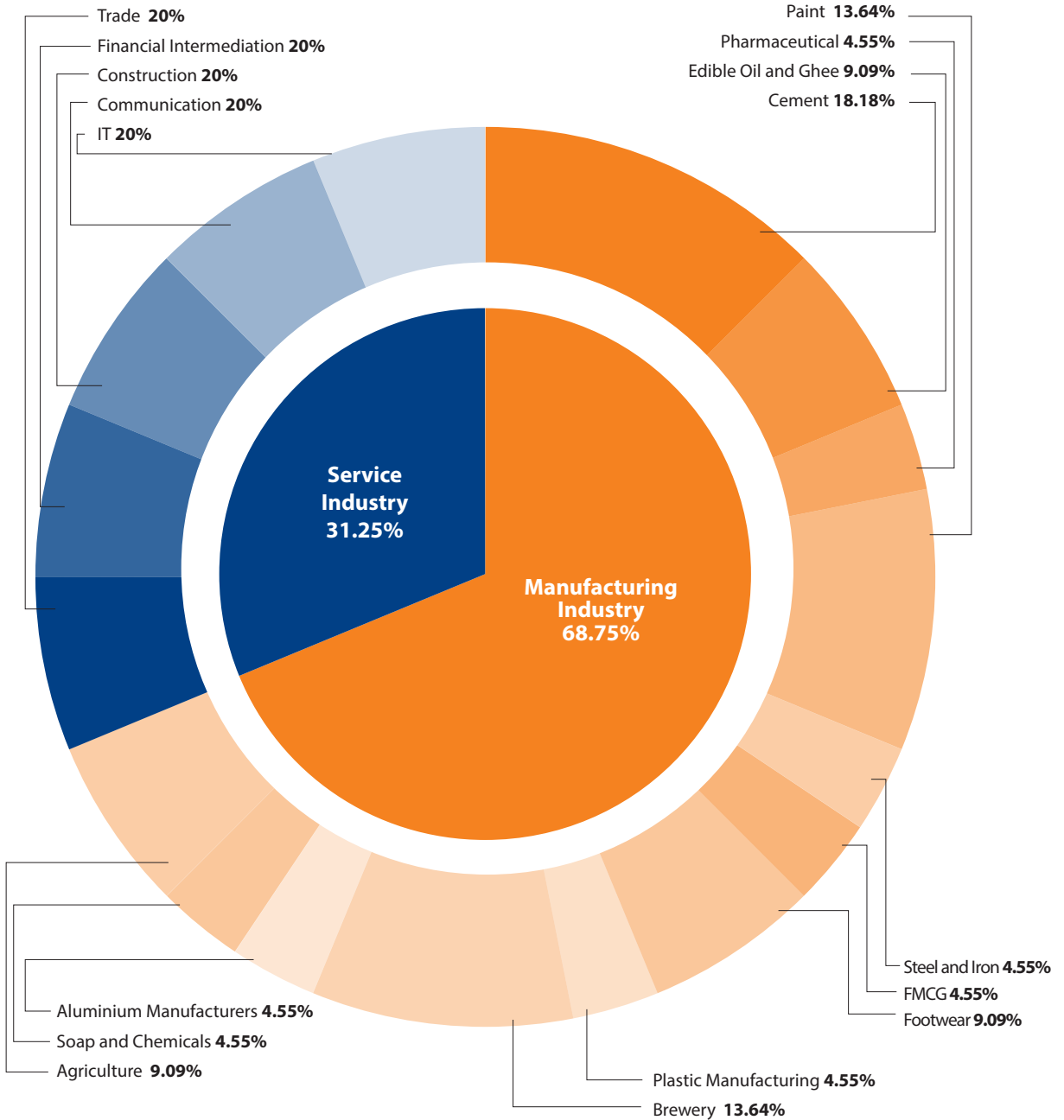


Average share of imported
raw materials by the
manufacturing industry:

Q1 **51.98%** ↑ (Q3 47.47%)

Note: Q3 in the parenthesis denotes the third quarter of the FY 2078/79

COMPOSITION OF THE INDUSTRIES SURVEYED



METHODOLOGY

The Industrial Status Report (FY 2079/80, Q1 Edition) is based on a quarterly survey of 45 industries.

The respondents are categorised under the Nepal Standard Industrial Classification (NSIC) Code for the purpose of the survey and further aggregated into two distinct industrial sectors: the manufacturing industry, and the service industry. Since most of the agro-based industries in the survey sample were involved in the agro-processing business, they have been subsumed under the manufacturing category.

The sample was drawn from CNI membership located across Nepal.

Questions are tailored to specific industries. Respondents were asked questions, depending on their respective industries, using a survey platform called KoBoToolbox. The survey questions are available online.

The basic assumption in this report rests on the fact that the respondents have provided correct information.



THE UNIT OF ANALYSIS

The unit of analysis is one industrial establishment.

BUSINESS PERFORMANCE

Periodic performance measurement is a vital part of monitoring the growth and progress of any business. This section summarizes the performance of industries within key variables in Q1 2079/80 and compares it with the survey responses from previous quarters.

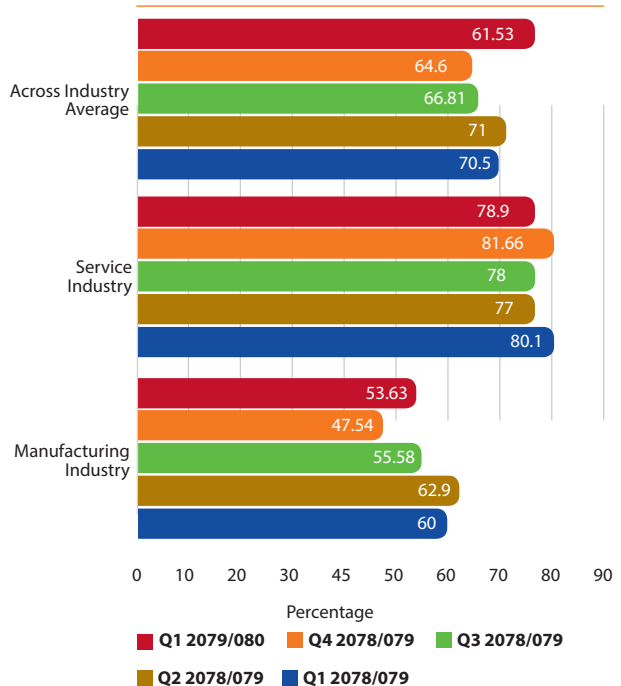
INDUSTRY CAPACITY UTILIZATION: 61.53%

KEY INDUSTRY INSIGHT I

On average, the industries were operating at **61.53%** in Q1 79/80 whereas they were operating at 64.6% in Q4 78/79. During Q1 79/80, the service industry was operational at 78.9%, which is a substantial decrease from 81.66% from the Q4 78/79.

The capacity utilization of the manufacturing industry remained higher in Q1 79/80 at 53.63% when compared with Q4 78/79 47.54% and lower in comparison to Q3 78/79 which was 55.58%.

INDUSTRY CAPACITY UTILIZATION

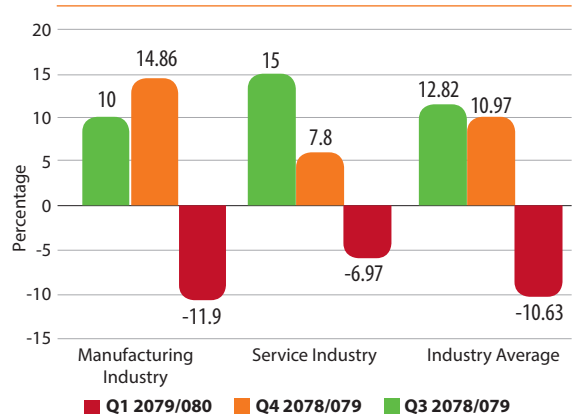


REVENUE TRENDS: REVENUE GROWTH -10.63%

KEY INDUSTRY INSIGHT II

In Q1 79/80, the across-industry-average revenue growth rate was **-10.63%** whereas the across-industry-average revenue growth was 10.97% in Q4 78/79. The pattern was consistent in both the manufacturing and service industries. The revenue generation has shrunk sharply in Q1 79/80 compared to Q4 78/79. This may be attributed to the current economic difficulties in the market majorly liquidity problem, increasing rate of interest, decreasing demand for products etc.

REVENUE GROWTH RATE



DOMESTIC MARKET DEMAND: 40% & MARKET COMPETITION: 100% (PERCEPTION-BASED QUESTION)

KEY INDUSTRY INSIGHT III AND IV

On average, **40%** of the respondents stated there was enough demand for their goods and services in the domestic market, while 60% stated otherwise. As per the responses to this perception-based-question, the demand for goods and services produced by Nepalese industries and businesses is encouraging.

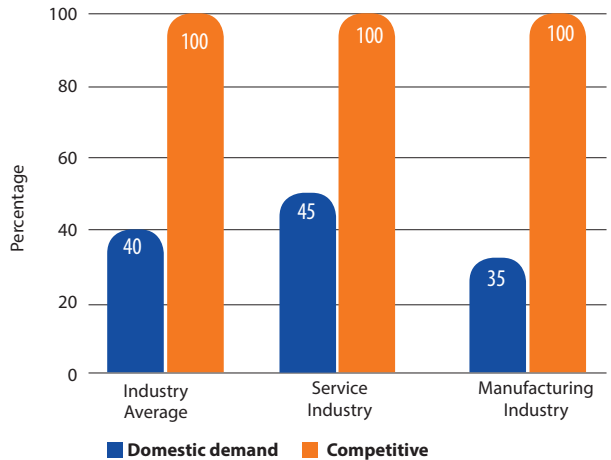
Furthermore, on average **100%** of the surveyed industries perceived their goods to be competitive in the market in relation to imported goods, which gives optimism to the domestic industries. The confidence among the domestic businesses regarding their competitiveness and sufficient market demand for domestic products is a critical factor for expanding a broader industrial base in Nepal.

SHARE OF RAW MATERIALS IMPORTED: 51.98%

KEY INDUSTRY INSIGHT V

The survey results show that manufacturing industries significantly rely on raw materials sourced from global markets. Out of the total raw material required in Q1 79/80, on average 51.98% of it was imported from the global market. There has been a substantial increase in imports of raw materials as compared to Q4 78/79 and Q3 78/79, which were 39.09% and 47.47% respectively.

DOMESTIC MARKET DEMAND AND COMPETITIVENESS

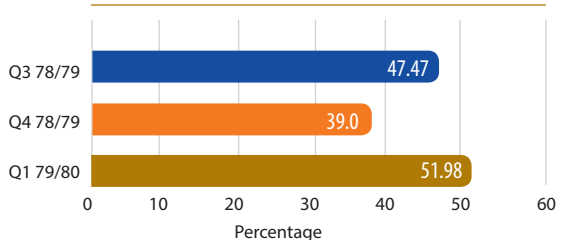


SHARE OF EXPORT: 31.82%

KEY INDUSTRY INSIGHT VI

31.82% of the respondent manufacturing industries exported their goods in Q1 79/80. The average share of export, out of their total production was 13.46%. Interestingly, the share of imported raw materials for manufacturing industries is 51.98%, which is higher than in both Q3 and Q4 78/79. It may also be extrapolated that exporting industries on average import more shares of raw materials, and competitive industries can be established even if raw materials are not available in the country.

RAW MATERIALS IMPORTED



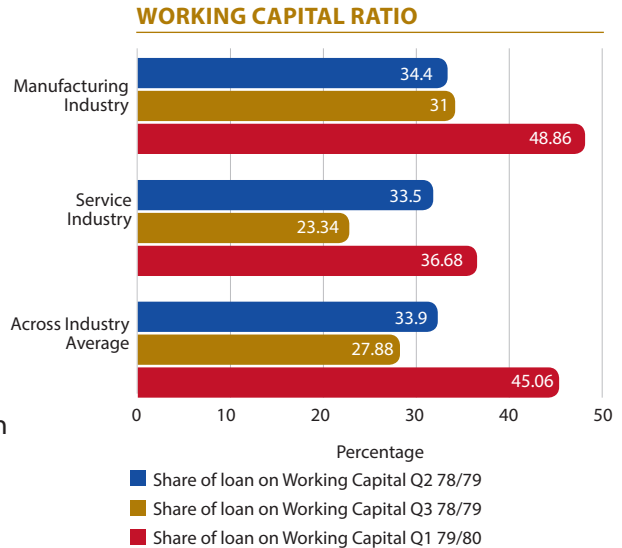
FINANCE

This section provides insights into the ability of industries to access credit and prevailing interest rates.

SHARE OF LOAN ON WORKING CAPITAL: 45.06%

KEY INDUSTRY INSIGHT VII

The result of the survey shows that 45.06% of working capital is met through credit from banks and financial institutions in Q1 79/80. With the effectiveness of the Working Capital Loan Guideline, 2079 from Kartik 2079, the drawing power of a firm for Fluctuating Working Capital has been limited. This can bring unforeseen challenges to operate business, particularly for manufacturing companies.



INTEREST RATES: 12.57%

KEY INDUSTRY INSIGHT VIII

In Q1 79/80, the average interest rate on loans was **12.57%** which is almost one percentage point higher than Q4 78/79. In Q4 2079/80, average interest rates on loans were identical at 11.54% for both manufacturing and service industries.

INTEREST RATES

Sectors	Q1 78/79	Q2 78/79	Q3 78/79	Q4 78/79	Q1 79/80
Manufacturing Industry	8.6	9.4	10.9	11.82	12.77
Service Industry	8.5	9.1	10.96	11.25	12.15
Across-industry-average	8.34	9.2	10.92	11.54	12.57

THE VULNERABILITY MEASURE:

A significant increase in interest rates can render borrowers vulnerable. The table shows both manufacturing and service industries exhibit a high measure of vulnerability in the face of increasing borrowing interest rates.

SKILLS AND EMPLOYMENT

This section highlights the trends in employment and skills of the employees in the industries.

TOTAL EMPLOYMENT: 13009

KEY INDUSTRY INSIGHT IX

The surveyed industries employed 13009 staff in total. On average, an industry establishment employed 289 individuals, with the range being 9-5200. This indicates, on average, CNI members are large business enterprises.

With 6674 employees, the manufacturing sector is the largest employing sector, followed by the service industry with 6335 employees.

Average employment among sectors.

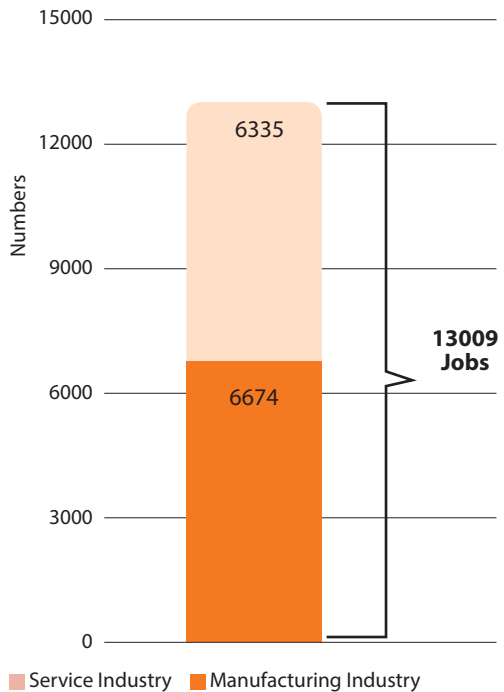
The service sector was at the top with 633 jobs while manufacturing industries were right behind with 190 jobs.

SKILL GAP AND TRAINING: 29.53% RECEIVED TRAINING

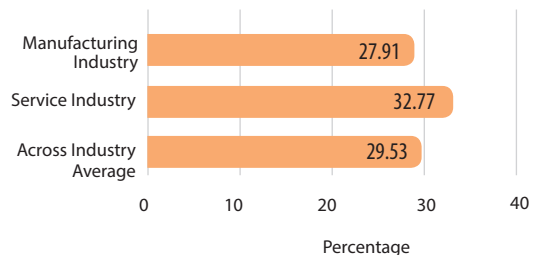
KEY INDUSTRY INSIGHT X

The survey result shows that across sectors **29.53%** of the total employees received training during the Q1 79/80. The service industry sector trained around 32.77% of the total workforce, while the manufacturing industry sector provided training to 27.91% of its employees.

EMPLOYMENT IN SURVEYED INDUSTRIES



SHARE OF EMPLOYEE THAT RECEIVED TRAINING



INDUSTRIAL ECOSYSTEM

This section focuses on the various aspects of the regulatory environment, transportation and infrastructure that have a direct bearing on the competitiveness of industries.

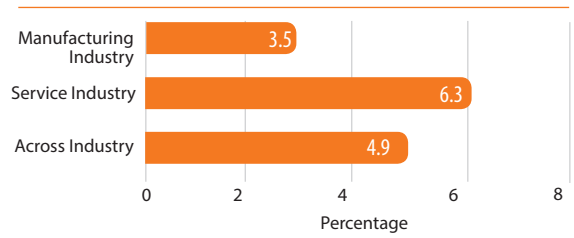
EXPERIENCE WITH GOVERNMENT ONLINE SERVICE

KEY INDUSTRY INSIGHT XI

Although the government has been prioritising digitization of the economy, the survey results reveal that respondents on average were not delighted with the quality of online services provided by various public entities. When asked to rank the quality of services on a scale of 1 to 10 (with 1 being the lowest and 10 being the highest), the average score of the respondents was 4.9. Manufacturing-industry responded with a score of 3.5, while the service industry with an average score of 6.3 (which is the highest).

Online	Q1 79/80
Manufacturing	3.5
Service	6.3
Industry Average	4.9

GOVERNMENT ONLINE SERVICE



CONSTRAINT TO CURRENT OPERATIONS OF BUSINESS

KEY INDUSTRY INSIGHT XII

The surveyed respondents identified that the top three constraints for the business operations in the Q1 were political instability, prevailing tax rates, and too many visits to Government Offices.

For the manufacturing and service sector the top issue was political instability.

Constraint to current operations of Business

- Political instability,
- Prevailing tax rates,
- Too Many Visits to Government Offices.

UTILITIES

ELECTRICITY: 6.11 OUT OF 10 FOR QUALITY OF ELECTRICITY SUPPLIED

KEY INDUSTRY INSIGHT XIII

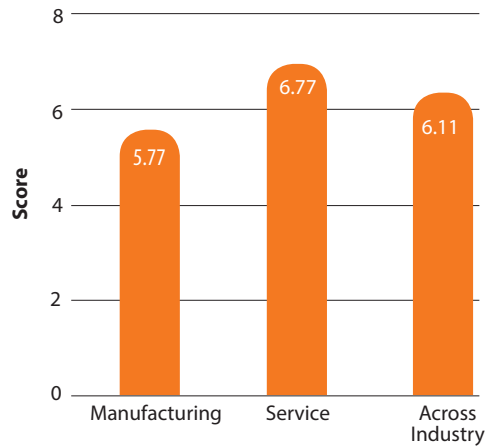
The survey result showed 56.25 percent of the industries still use generators as the quality of electricity is not reliable. The respondents also mentioned, since the electricity supply provided by NEA is from a common feeder for an area, this reduces the reliability so a separate feeder is essential for commercial purposes. Those manufacturing industries using generators as alternative sources of energy stated there is an additional 18.43% of cost increase due to the use of generators.

In response to the question that was asked to the respondents to rate the quality of electricity provided in the scale of 1 to 10, with one being the worst and 10 being the best, the average response was 6.11.

Major challenges

Among the specific challenges that the respondents want to get resolved are excess competition, access to finance and low disposable income among consumers. For the manufacturing industry, excess competition affecting the price margins is a big concern given the decreasing trend of share of the manufacturing industry and easy availability of the unregulated imports in the market. In the case of the service industry, the problem of low disposable income among Nepalese consumers is the leading reason for the lack of demand for their service.

RATE ELECTRICITY QUALITY



Service Industry

1. Low Disposable Income Among Nepalese Consumers
2. Access to Finance
3. Establishing Credibility of Goods/Service

Manufacturing Industry

1. Excess Competition Affecting Price Margins
2. Unauthorized goods in the market
3. Access to Finance

BUSINESS OUTLOOK

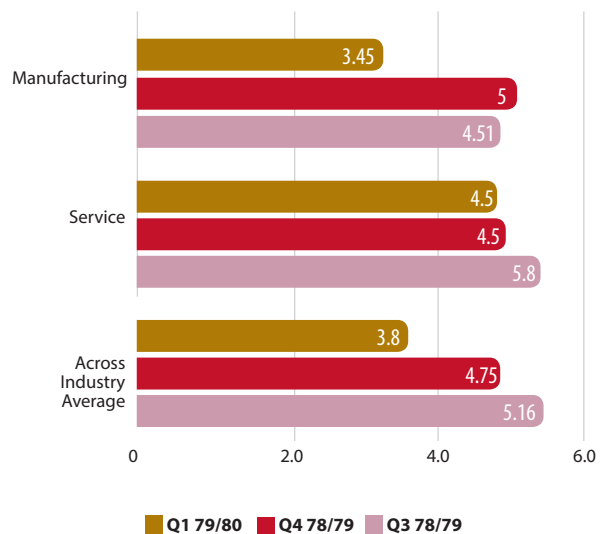
This section presents the confidence level of surveyed industries for their own business and aggregates responses regarding investment plans for the next quarter.

BUSINESS CONFIDENCE: LOW

KEY INDUSTRY INSIGHT XIV

On the whole, industrialists are not optimistic that their business is going to perform well for the next 3 months. When asked to rank the favorability (confidence measures) for their business on a scale of 1 to 10 (with 1 being the least favourable and 10 being the most favourable) in terms of revenue and investment opportunities, regulatory environment, access to finance, labour and better utility facilities, the across-industry-average score is 3.8. The manufacturing industry is comparatively less confident as per the survey respondents. This can be a result of the unfavourable macroeconomic situation. Key Indicator XIV does not paint a conducive environment for businesses currently.

HOW FAVORABLE IS REST OF THE FISCAL YEAR FOR YOUR OWN BUSINESS?

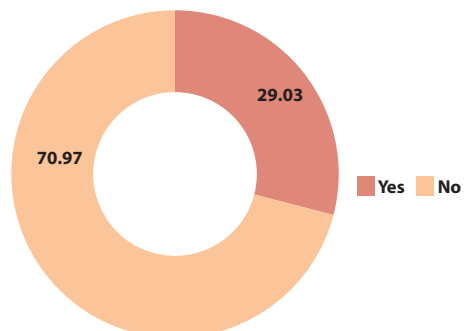


70.97% DO NOT HAVE NEW INVESTMENT PLANS

KEY INDUSTRY INSIGHT XV

The survey result shows that 70.97% of respondents do not have any new investments planned for the upcoming quarter. This is mostly explained by the fall in aggregate market demand and restricted access to credit. Only 29.03% of respondents, primarily in the IT and FMCG industry, said they have planned for new investment in the upcoming quarter.

NEW INVESTMENT PLANS



CNI FLASH BUSINESS ASSESSMENT SURVEY

BACKGROUND

The Balance of Payment (BoP) state of Nepal started to deteriorate from the beginning of last fiscal year. The forex reserve was also in a declining trend. Between mid August 2021 and mid January 2022 the foreign reserve contracted to 9.89 billion US dollar from 11.42 billion US dollar. Starting from December 2021, Nepal Rastra Bank (NRB) had made it mandatory to keep 50% and 100% cash margins while opening letter of credit (LC) in import of various goods categorised in 20 headings foreseeing declining forex reserve. This measure was introduced to control the massively depleting forex reserve. After some time the additional 27 categories were added to the list. These successive NRB preventive measures, together with other economic distress, were portrayed as early signs that Nepal was headed in the same direction as Sri Lanka.

In April 2022, GoN made a policy intervention by restricting import of few goods. This was aimed to save the depleting forex reserves and disrupt the aggregate demand. Since Nepal's economy depends largely on imports, imports are where most of the country's foreign currency outflows. If imports are reduced in such a scenario, aggregate

demand would also be reduced, which will ultimately help to improve the BoP and the foreign reserve status. Decline in imports by 16.20% in the first quarter of 2079/80 was the immediate effect of the intervention. Collection of consumption based tax like VAT and excise was decreased by 11.6% & 13.5%, it supports the fact that aggregate demand is declining.

Business community was going through a tough time with the intervention made by the government. On top of that, the interest rate on the Nepalese banking system also began to increase. The weighted average deposit rate and lending rate was increased from 5.43% to 8.16% and 8.69% to 12.19%. Capital cost of investors then started to increase creating a worse situation.

The private sector was dealing with issues like diminishing demand and rising capital costs, resulting in the decreased morale of the business community throughout the country. In this given backdrop CNI made an effort to assess the real situation of the business environment in Nepal through a deployment of a flash business survey.

Disclaimer

“The results of Part A and Part B of this publication are based on surveys conducted with partially common samples. There may be discrepancies in the results due to the variation in the characteristics and perspectives of the respondents as there were only partial common respondents in both surveys. These results should be considered as a general indication of trends and should not be used to make definitive conclusions about the population as a whole.”

WHAT DOES THE SURVEY COVER?

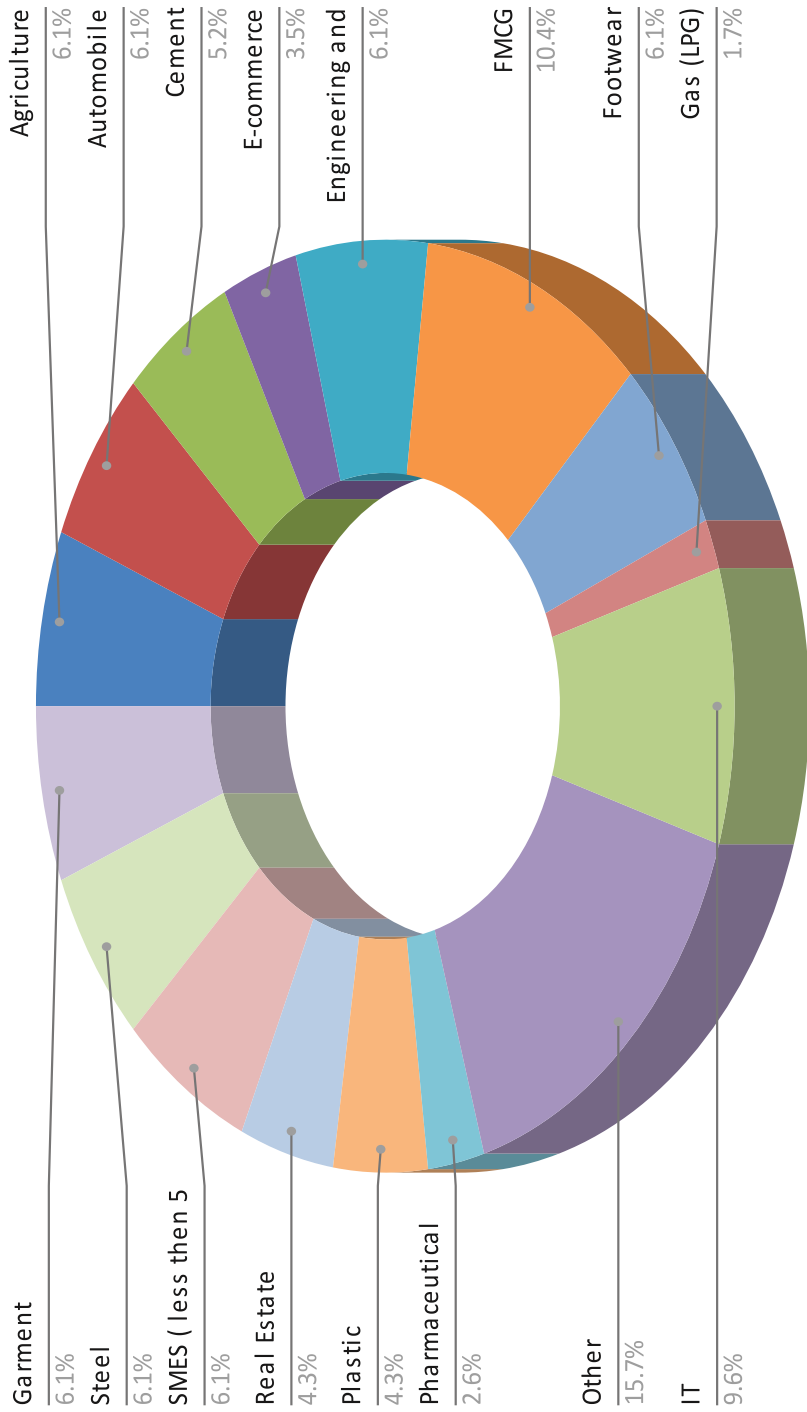
Flash survey revolves around the impact of ongoing economic distress in the country.

To understand the consequences of ongoing economic distress at a glance, a non-probability sampling technique was used. Industries and business communities have been selected as the population for this survey. It is a representative sample of the business sectors under the CNI Member network.

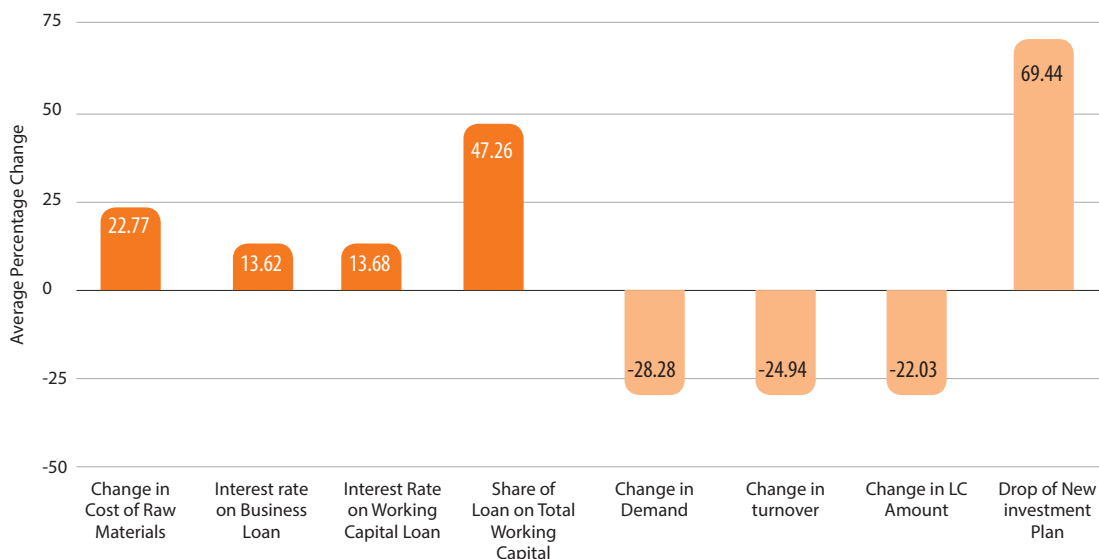
Total of 108 responses were received. There are representations from 16 different sectors on following:

- Change in cost of raw materials
- Change in interest rates on business loan
- Interest rate on working capital loan
- Share of loan on total working capital
- Change in demand
- Change in turnover
- Change in LC amount
- Drop of new investment plan

COMPOSITION OF SURVEYED INDUSTRIES



ALL SECTOR AVERAGE



The survey result shows there is an increase of 22.77 percent of the cost of raw materials across the industry. This substantial rise in cost, largely fueled by disruption in the supply chain Ukraine-Russia war which increased logistic cost further aided by the rise in fuel price.

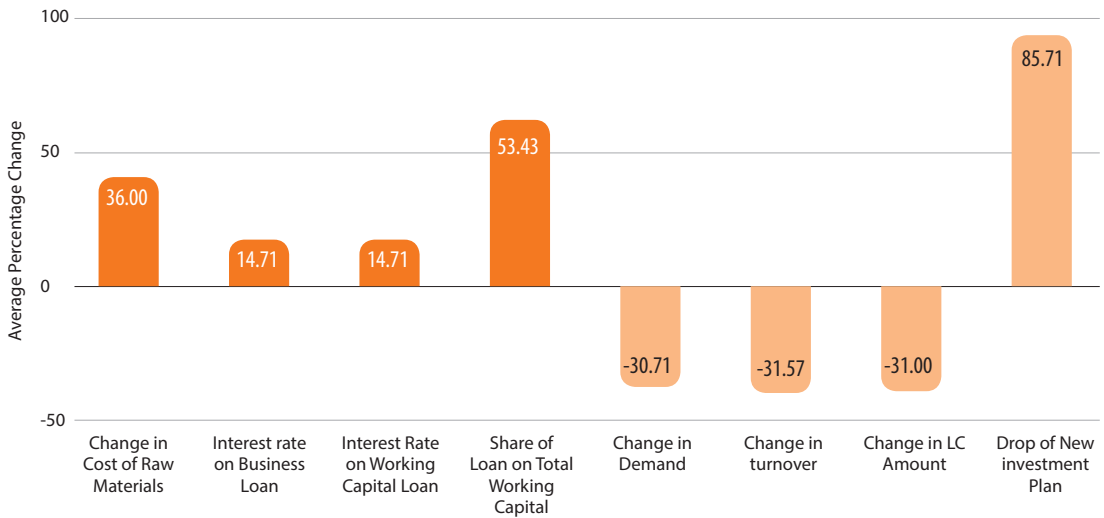
The disruption in the supply chain caused by the Ukraine-Russia war and changing geopolitics is reflected in the survey results. In the surveyed industries the share of loan in total working capital stood at 47.26%. Ongoing problem of liquidity crunch experienced by the Nepalese banking system has resulted in the increase of interest rate on credit obtained by industries which includes both general and working capital loans.

On the demand side, the demand for products shrunk by 28.28% owing

to the economic policies adopted by the government. The Ukraine-Russia conflict boosted logistical costs, which in turn increased the cost of raw materials and, eventually, the price of commodities. Similar to this, increased logistical expenses resulted in higher product prices for finished goods as well, which decreased aggregate demand. Additionally, decrease in demand led to a fall in LC amount by 22.03%. This had a consequent effect on turnover leading to fall by 24.94% across the industry

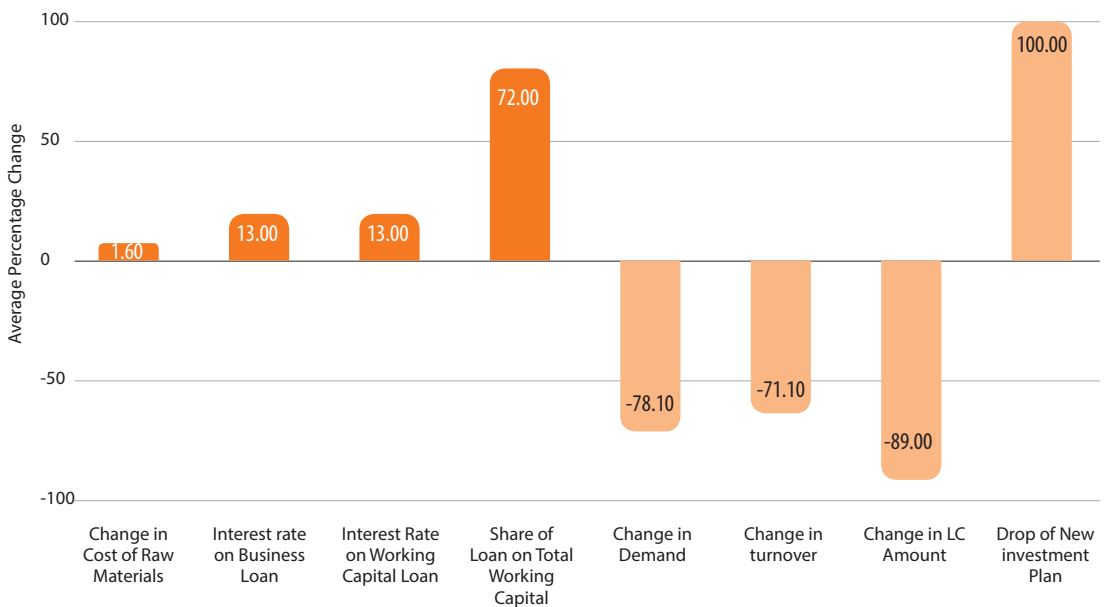
The unfavourable business climate visible in both demand and supply sides has lowered the confidence of investors. Owing to this reason almost 70% of investors who have made their investment plans terminated in the first quarter of FY 2079/80.

AGRICULTURE



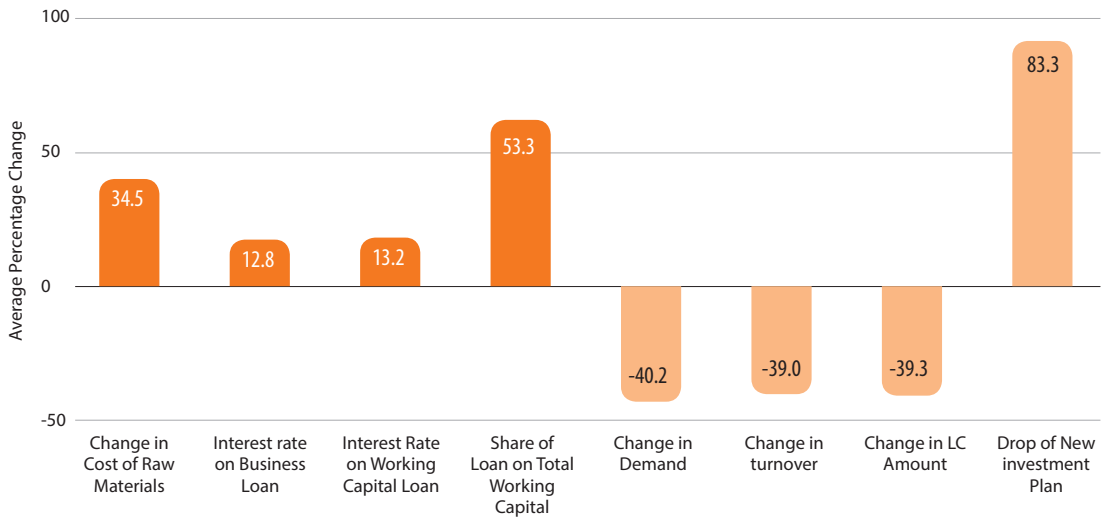
Plans for new investment in the agriculture sector dropped massively.

AUTOMOBILE



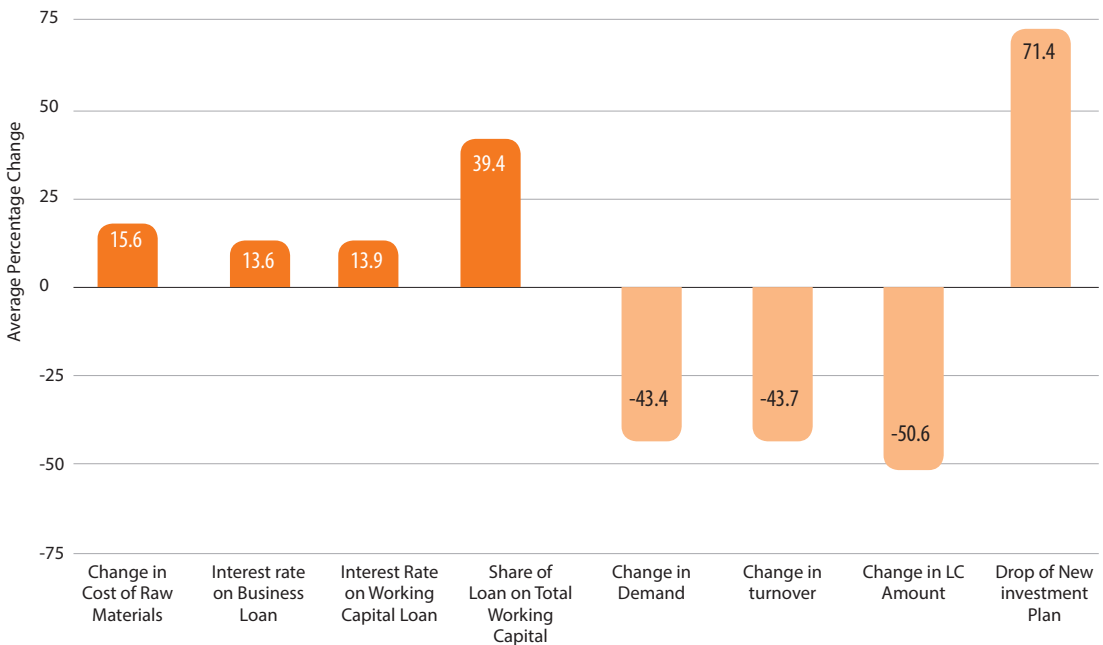
Survey results show that demand in the automobile industry declined sharply.

CEMENT MANUFACTURING



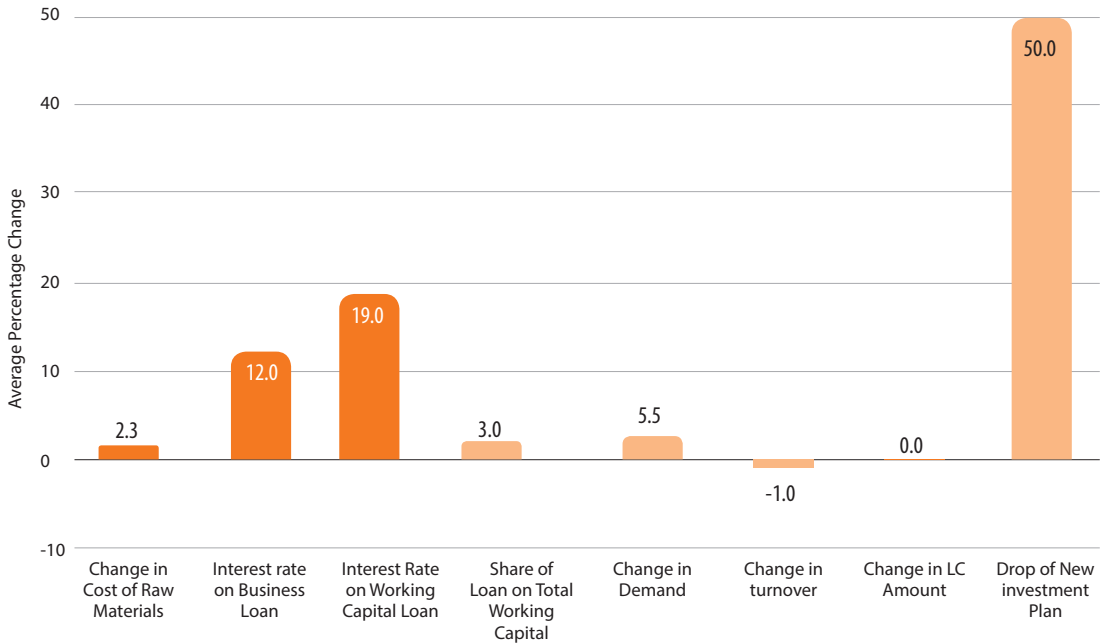
Demand for cement has fallen massively.

ENGINEERING AND CONSTRUCTION COMPANY



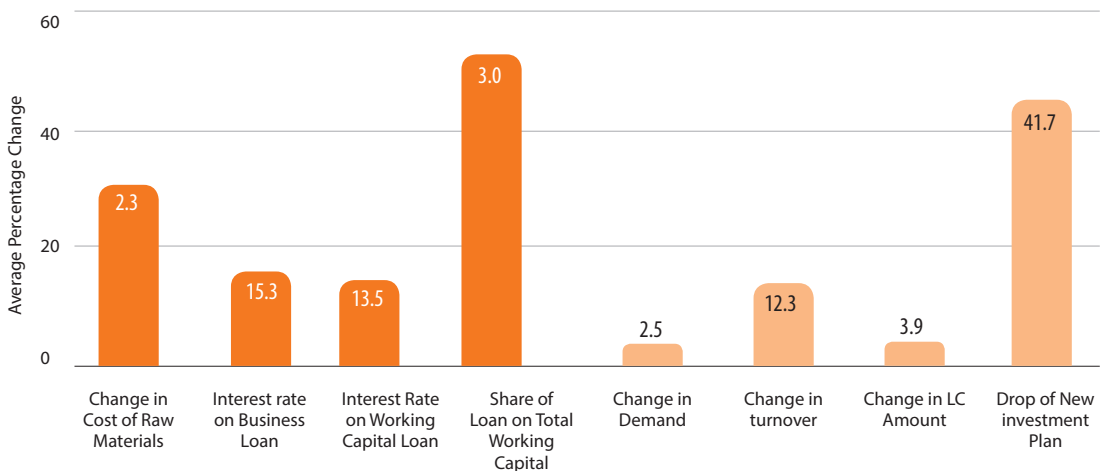
Major downturn in turnover of engineering and construction sector.

E-COMMERCE



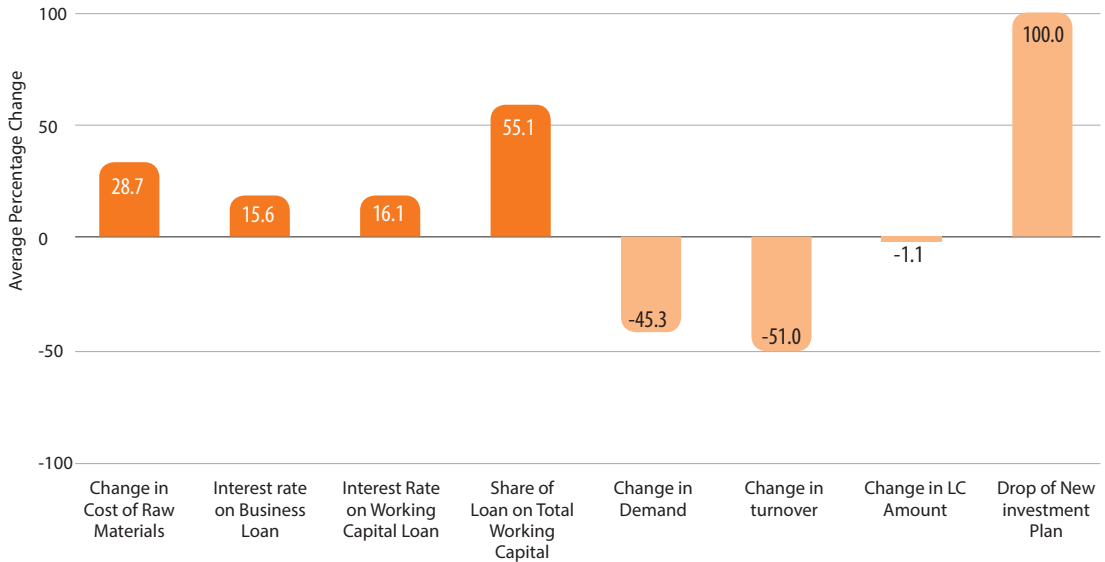
Escalation of interest rate on working capital loan for e-commerce sector

FMCG



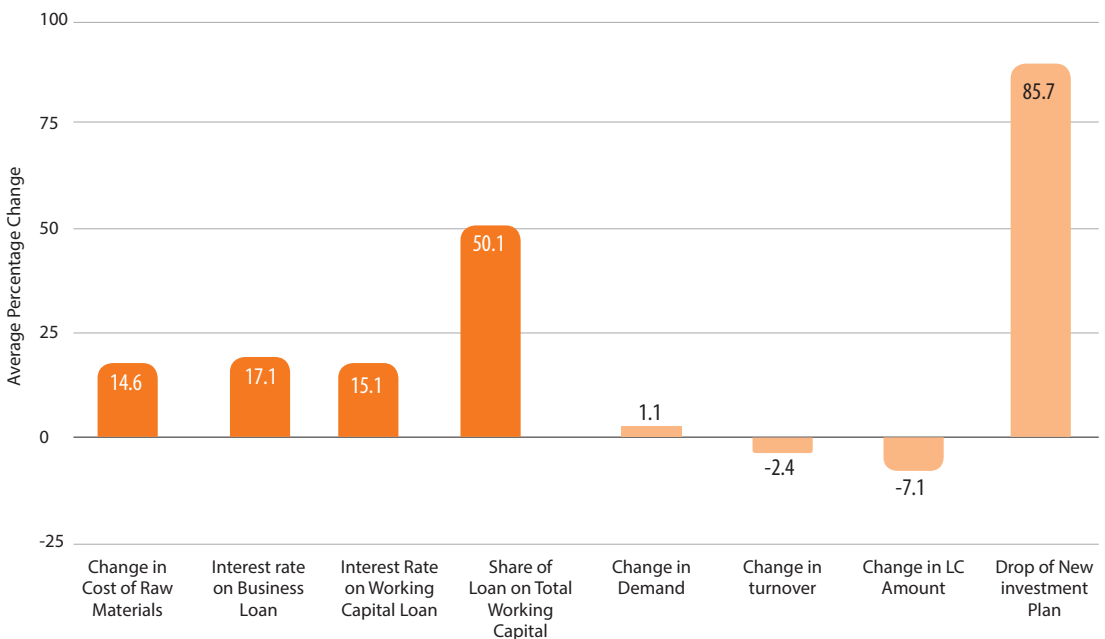
The FMCG sector went through a massive increase in the cost of raw material.

FOOTWEAR



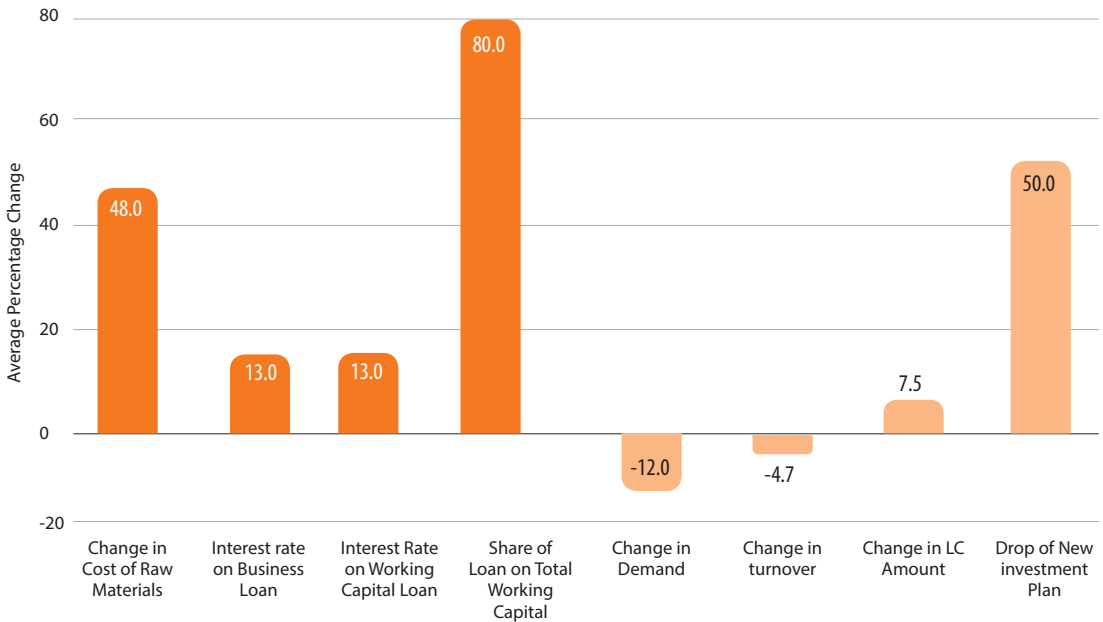
Footwear industries are facing tremendous fall in terms of demand and turnover due to unauthorized trade.

GARMENT



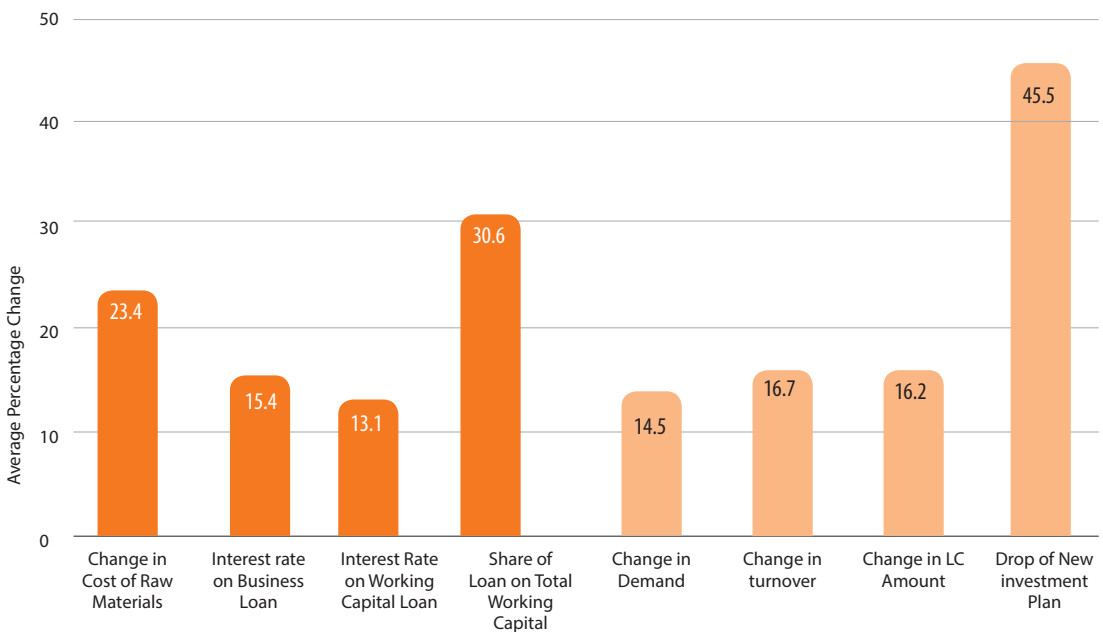
New investment plans in the Garment Sector dropped massively.

LPG GAS



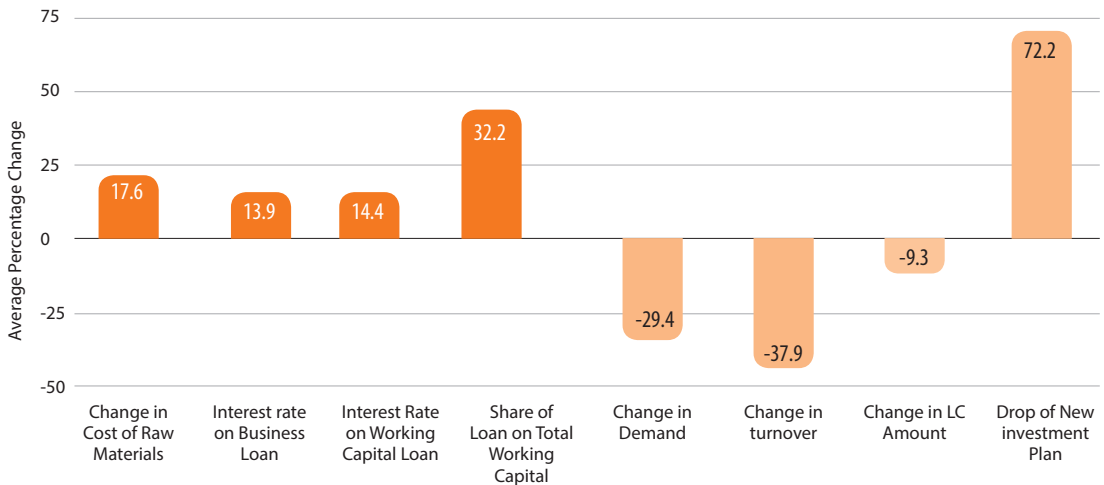
Surge in cost of Liquefied Petroleum Gas.

IT



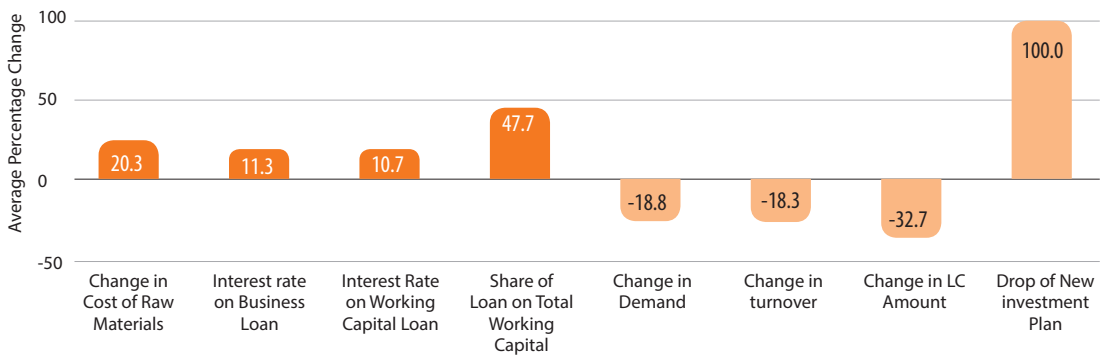
Plans for new investment in the IT sector dropped massively.

OTHER MANUFACTURING



Major reduction in LC amount in other manufacturing sectors can be seen as 72.2% dropped the plan of new investment.

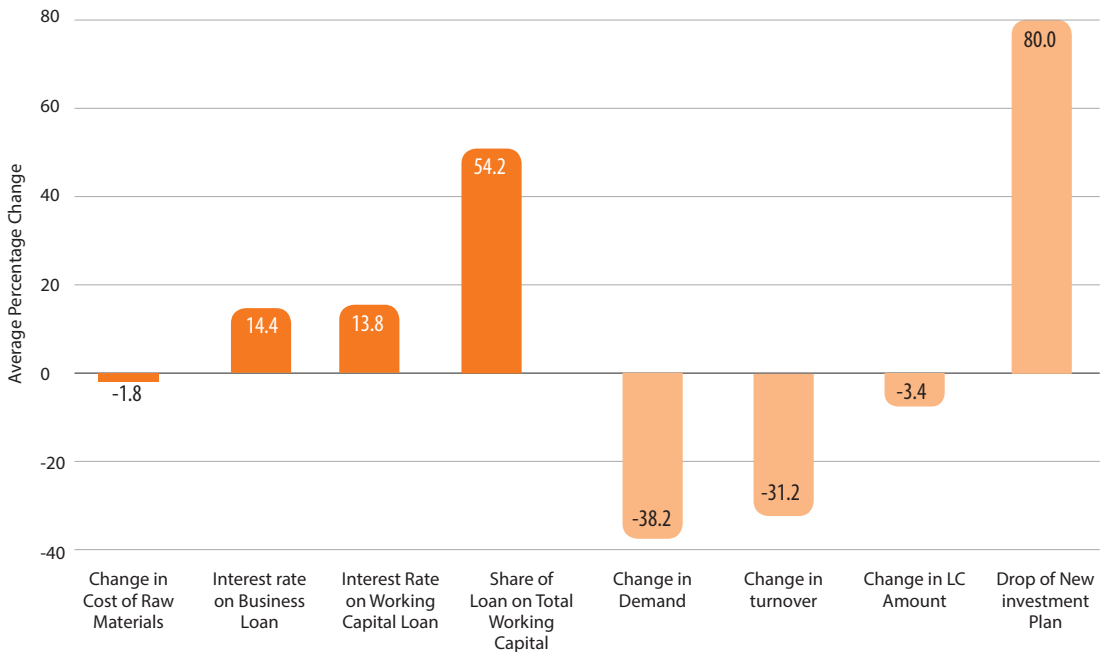
PHARMACEUTICALS



Disclaimer

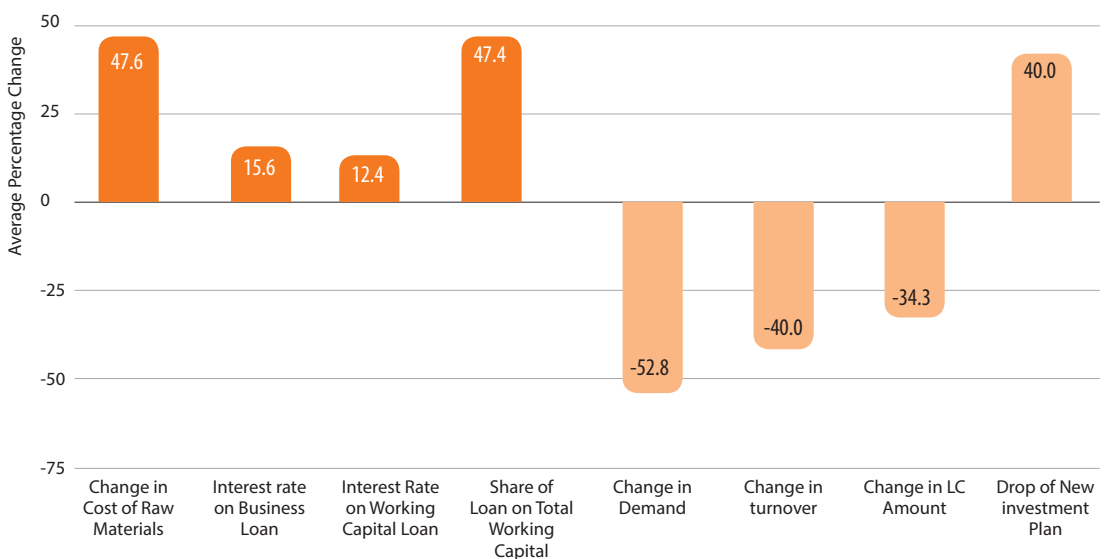
"The decrease in demand for pharmaceutical products reported in this publication may be due to a combination of factors, including increased awareness about health among the general population and financial constraints caused by recent distress in the economy. These factors may lead to individuals prioritizing emergency health needs over preventative or non-essential treatments. The information presented should be considered as indicative and not used to make definitive conclusions about the overall market for pharmaceutical products."

PLASTIC MANUFACTURER



80% of plastic manufacturers dropped their plan of new investment as the demand declined by 38.2% causing 31.2% decline in the turnover.

REAL ESTATE



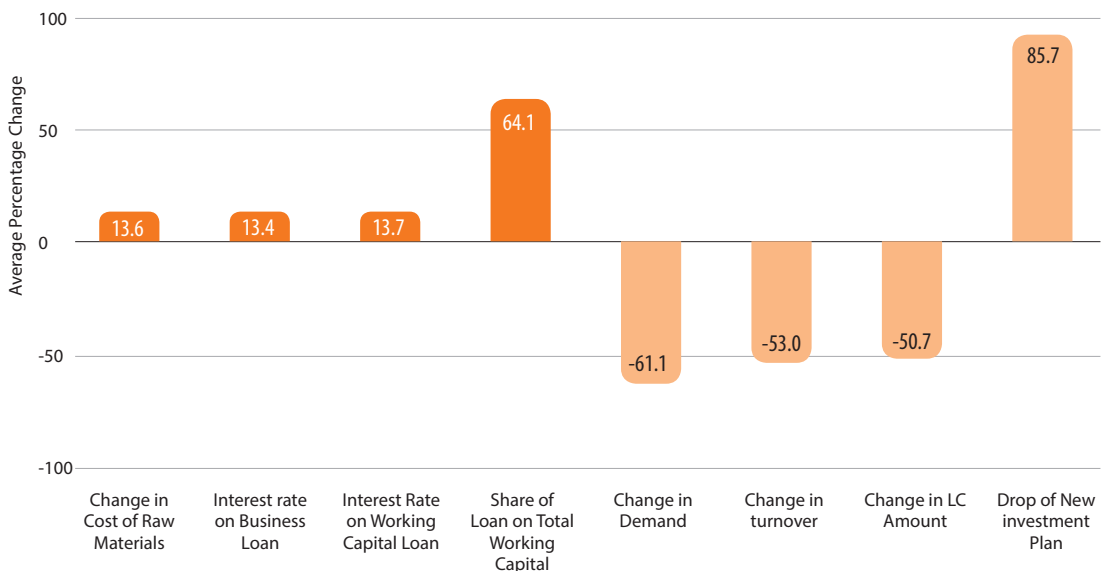
Drastic fall in demand in real estate declined the turnover of the sector. Thus on an average 40% of sector representatives dropped their investment plan.

SMES



Cost of raw materials shot up in the SME sector while the demand has decreased massively. Since demand has declined SMEs sector dropped their new investment plan by 42.9%

STEEL MANUFACTURERS (INCLUDING WIRE)



Contractions in demand for steel has downsized the turnover of the steel manufacturing sector by 53%. New investment plans dropped sharply because of the shrink in overall market demand.

RECOMMENDATION

1. It is evident from the result of the survey that the current issues of the economy are liquidity, availability of loanable funds & increasing interest rates which should be addressed promptly.
2. To increase aggregate demand there must be necessary liquidity in the economy. In order to ease the liquidity central bank & Government has to support refinance and certain regulatory forbearance as provided during the COVID period and should withdraw these facilities gradually: Government of Nepal and Nepal Rastra Bank had provided refinance facilities and many regulatory forbearance during the COVID Period, this helped economy to brace the impact, but effect on the economy still exists and is being surfaced now. Industries need support basically for liquidity and to create demand.
3. After COVID logistic costs have raised drastically, it contributes to increased cost of raw materials. Hence the government needs to address this issue.
4. Building business confidence is the key factor for encouraging new investment. For this government must address the issues of liquidity , increasing rate of interest, bureaucratic hassles etc.
5. Government must increase the capital expenditure to sustain and stimulate the economy.
6. Idle Government funds have to be channelized towards the Bank and Financial institutions (CNI has proposed to lend it to Commercial Banks at the bank rate).

About CNI

The Confederation of Nepalese Industries (CNI) was established by the captains of Nepal's industrial and corporate sector on April 17, 2002. Its core mandate is to help enhance the business environment for the private sector.

It has a membership base consisting of nearly all of the big corporate houses of Nepal, Nepali blue-chip companies, joint venture companies, etc. spread across a wide and diversified spectrum of industries.

About CRC

CNI Research Cell was established due to a dearth of evidence-based research on Nepali industries, especially based on primary data. CNI aspires to be a trusted development partner of the Government of Nepal. The data and research generated by CRC is transparent, unbiased and will be kept confidential. The team comprises Deputy Director Mr. Ravi Prajapati, Research Officer Mr. Pratap Adhikari and Sr. Assistant Ms. Rashmi Poudyal.



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