Economic Outlook Based on Mid October 2023

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Overview 2023/24

Economic Information

Financial Sector Highlites

Fiscal situation

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Overview 2023/24

Strategic Measures for Economic Recovery and Stimulus Initiatives in Nepal

Strategic Path for Economic Recovery

The Government of Nepal is urged to articulate a comprehensive strategy for economic recovery, incorporating the following measures:

1. Foundational Concepts for Inclusive Revival

Develop and prioritize foundational concepts to ensure an inclusive economic revival.

2. Sectoral Adaptation and Support

Anticipate and address challenges in vital economic sectors through strategic support, encompassing agriculture, manufacturing, retail, hospitality, construction, and related industries.

3. Embrace the "New Economy"

Identify and capitalize on opportunities within the "new economy," focusing on financial services, digital technology, telecommunications, and other sectors less reliant on physical presence.

4. Enhance Competitiveness

Evaluate the ease of doing business, aligning with international standards to enhance competitiveness.

5. Global Best Practices

Research, assess, and implement effective policies observed in other regions.

6. Stakeholder Engagement

Promote active engagement with stakeholders, including businesses, employee representatives, and other bodies.

7. Tailored Initiatives

Create, develop, and assess actionable initiatives tailored to specific sectors (e.g., hospitality, Agri, and technology) and overarching themes (e.g., productivity).

8. Data Enhancement

Scrutinize existing data sources and explore innovative metrics to improve decision-making.

9. Performance Framework

Contemplate a new delivery and performance framework for reporting key economic achievements.

Stimulus Initiatives

These recommendations are crucial for steering Nepal towards economic recovery and sustainable growth.

1

Stimulating Business Activity

- Support private sector growth and encourage investment promotion.

2

Agro-Industrialization

- Promote agro-industrialization to address challenges in agriculture, including low production, inadequate post-harvest handling, limited value addition, and insufficient market access.

3

Infrastructure Development

- Invest in essential infrastructure for economic growth, focusing on transportation and power infrastructure.

4

Credit Access for MSMEs

- Implement a scheme to reduce lending risk for micro, small, and medium enterprises (MSMEs), making it more appealing for financial institutions to lend to this subsector.

5

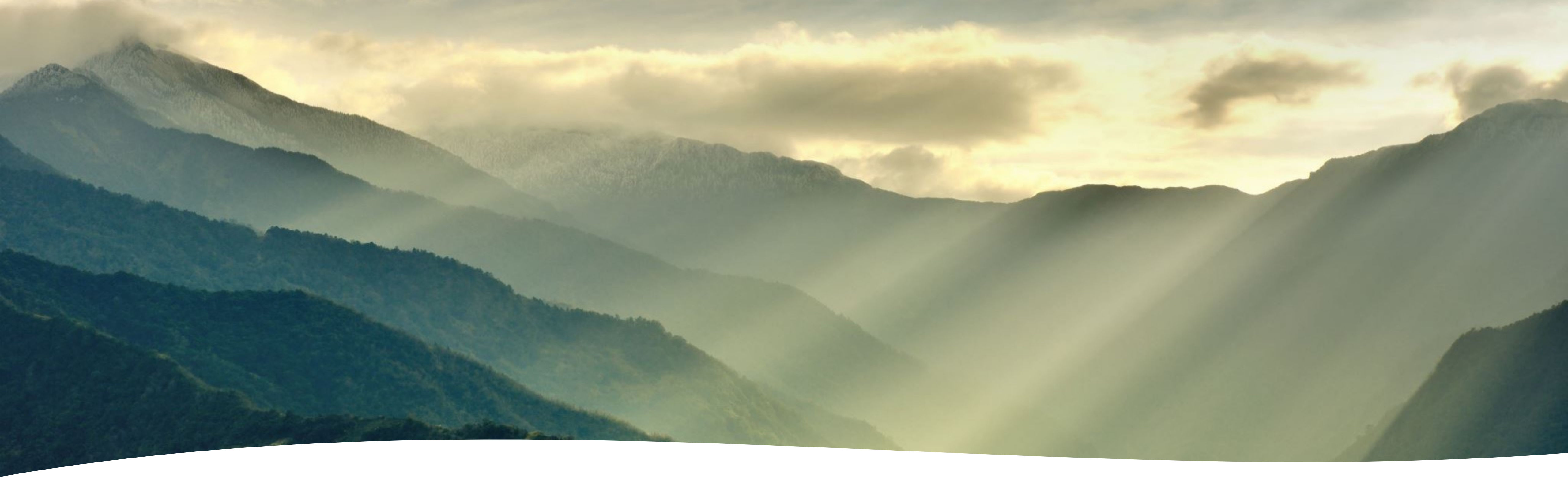
Tax Reform

- Harmonize, abolish, and reduce tax rates to improve the business and investment environment.
- Amend fees and levies imposed by regulatory authorities and departments.
- Strengthen tax law enforcement to address evasion challenges and minimize revenue leakages.

6

Effective Public Expenditure

- Maintain fiscal discipline and increase the efficiency of public funds.
- Allocate funds to priority areas stimulating economic growth.
- Prioritize ongoing projects over committing to new ones.



Climate Change: Assessing Nepal's Role and Urgent Needs

Nepal, though not a contributor to climate change, grapples with its consequences. While our nation has made no significant contributions to climate-altering activities, we are feeling the impact acutely.

As we strive to protect our beautiful country of Nepal from the adverse effects of climate change, it's crucial that we encourage countries with significant emissions to recognize their role in this global challenge.

We must work together to ensure that Nepal receives its fair share of assistance for effective climate protection..

Intensifying Headwinds

We firmly support the perspective that a weakened business and investment climate cannot effectively stimulate growth. When economic sentiment is low, the interplay between business confidence, investment, and economic growth becomes increasingly critical.

Business sentiment and confidence, in general, not only wield significant influence but also serve as crucial leading indicators for forecasting future investments and economic activities. Importantly, maintaining a stable macroeconomic environment and avoiding unpredictable economic policies is of utmost importance.

Monetary policy plays a pivotal role in this context. The current policy stance should be more accommodating to encourage business expansion and enhance the investment climate. Consequently, in the pursuit of much-needed growth and expanded investment, authorities should establish an enabling environment that fosters a more optimistic economic outlook.

While investment remains a fundamental driver of economic growth, the focus should extend beyond merely stimulating investment and instead embrace a multidimensional approach, identifying other factors that can drive economic expansion.

Navigating Uncertain Waters

A period of uncertainty looms ahead, prompting understandable concerns among economic analysts about the potential consequences it may entail. This situation demands a delicate balance. Although worst-case scenarios are not highly likely, their potential impact is cause for unease. Consequently, economic policies often recommend proactive measures to mitigate these risks.

However, as stakeholders advocate for increased action, there is a cautionary note. There is a risk of regulators overreacting, potentially exacerbating the situation. While short-term measures may be necessary to address immediate challenges, they should not overshadow the broader, medium-term vision for economic reform aimed at improving living standards.

It is imperative for policymakers to differentiate between short-term crisis responses and medium-term policy adjustments. Doing so will help instill confidence among market participants regarding the stability and direction of economic policies.

A Call for Evaluation

The current juncture necessitates a comprehensive evaluation of the progress made in transforming Nepal's financial system. While there have been notable advancements, they still fall short of the required scope. The existing mechanisms, despite recent adjustments, do not fully align with the challenges posed by financial globalization.

In the context of financial sector reforms, it is crucial to consider not only the desired directions and well-sequenced measures but also the emerging uncertainties, both domestically and globally. From a macroeconomic standpoint, significant changes have yet to materialize: GDP growth remains stagnant, structural shifts in the economy are absent, new employment opportunities have not materialized, and investment levels continue to underwhelm.

Charting a New Course for Reform

Financial Sector Reform Objectives:

The primary goals of financial sector reform should encompass averting credit crunches and banking crises while emphasizing effective management should such crises occur. Additionally, these reforms must prioritize support for low-income earners. Prudential regulation and supervision should address not only microeconomic but also macroeconomic risks associated with boom-bust cycles.

Asset Management Company (AMC):

Given the escalating levels of non-performing assets (NPAs) and the potential for corporate defaults to trigger economic downturns and unemployment, the opportune moment has arrived to initiate the establishment of an Asset Management Company (AMC). Establishing an AMC to handle the bad loans of Banking and Financial Institutions (BFIs) can strategically address NPAs and enhance the financial health of the banking sector. The creation of an NPA management AMC is a pivotal step in addressing challenges posed by bad loans, benefiting BFIs by improving financial health and contributing to overall economic stability and growth. I wholeheartedly endorse the establishment of such an institution and believe it can be a game-changer in addressing NPA-related issues in the financial industry.

Amendment to the NRB Act:

Amending the NRB Act should heavily emphasize a comprehensive evaluation of the NRN Board's composition. The current composition, predominantly comprising retired NRB employees, should undergo restructuring to include experts from diverse economic and professional backgrounds. However, careful consideration of specific qualifications and selection criteria for these external experts is crucial to ensure they possess the necessary skills and knowledge to contribute effectively to the central bank's functions. Additionally, the governance structure should strike a balance between external expertise and the central bank's internal knowledge and experience.

Establishment of a Monetary Policy Committee:

The establishment of a Monetary Policy Committee is imperative to ensure both independence and accountability in the policymaking process. While separating the roles of monetary policy and credit policy can offer advantages, emphasizing the significance of coordination and communication among responsible authorities is essential. These factors are vital for safeguarding overall economic stability and the health of the financial system.

Charting a New Course for Reform

BAFIA Amendment:

The BAFIA (Banking and Financial Institutions Act) requires amendments that incorporate provisions for an exit mechanism for BFI promoters. Encouraging a significant public holding will elevate governance standards within these institutions. Additionally, a reevaluation of the Board's composition is recommended, introducing a blend of executive and non-executive directors to enhance governance. Furthermore, restructuring BFIs based on their functions, rather than solely on capital, will promote efficiency and relevance in the financial sector.

GDP Base Review:

The Government of Nepal should contemplate updating the base year for GDP calculation from 2010/11 to 2020/21. This adjustment is warranted due to four significant events post the Great Gorkha Earthquake: a trade embargo, changes in government structure, and the impact of the Covid-19 pandemic. Shifting the base year to 2020/21 will provide a fresh perspective for policy formulation and response, considering the evolving economic landscape.

Prompt Corrective Action:

In addition to existing PCA guidelines, the NRB should consider supplementary provisions. If the net NPA level is below 7%, no further action is required. If it exceeds 7% but remains below 9%, falling under the first threshold, BFIs should abstain from approving new loans. Crossing the 9% threshold triggers the second tier, requiring BFIs to refrain from accepting new deposits. If this metric reaches 11% or higher, the bank will be classified into the third grade, and PCA initiation will follow. Additionally, in relation to the Income Tax Act, permissible provisions charged to the Profit and Loss statement (P&L) should be raised from 5% to 9%.

Nine Enablers of Nepalese Economy

As capital expenditure is crucial for achieving growth objectives in the Federal Structure Economy, Nepal should focus on following basic principles:-

- Design Long-term vision and strategy for economic development and social harmony,
- Prepare Project Banks - investment project preparation to invite local as well as foreign investment,
- Reduce Budgetary processes to speed up capital expenditure,
- Improve Procurement Efficiency and maintain budgetary discipline,
- Implement Stringent Contact Management and enforcement requirements to maintain time schedule of the project.
- Design an Effective Monitoring system to improve the productivity of investment,
- Appoint Competent Project Personnel led by dynamic person,
- Support effective Legal Institutional Framework for PPP investment and introduce fund base investment approval process.
- Enabling sectoral policy Operation Framework

The government of Nepal must plan effectively and effectively and should continuously monitor its activities to achieve sustainable goals and high growth.

“Cautiously optimistic”

The monetary policies implemented during the COVID period were notably impressive. However, the rapid unwinding of these pandemic-related monetary measures has set a historical precedent as one of the fastest in history. Unfortunately, the market struggled to adapt to this swift change, resulting in the emergence of a crisis. The volatile input prices have created cost pressures for entities, leading to concerns that more companies may default on their debt.

Nepalese policymakers need to carefully select appropriate policy responses to reinvigorate the economy. Finding the best possible solution to reduce import reliance is crucial. While both monetary and fiscal policies have utilized some effective tools to prevent long-term economic shocks, there remains an unaddressed vulnerability in the short term.

On the liquidity front, it is expected that the short-term money market will remain comfortable. However, credit flow may be constrained due to capital limitations, leading to a lower-than-expected credit flow. The market is likely to experience a gradual reduction in the cost of borrowing.

The decline in market-based interest rates is a result of lower credit demand, coupled with pressure on the core capital of Banking and Financial Institutions (BFIs). The reduction in policy rates has also played a significant role in shaping this scenario.

It is anticipated that the short-term fund market will remain comfortable despite lower credit demand. The sluggish growth in bank credit can be attributed to the moderation in GDP growth, expected to be around 2.5-3.5 per cent compared to an earlier expectation of 6 per cent in FY2023/2024.

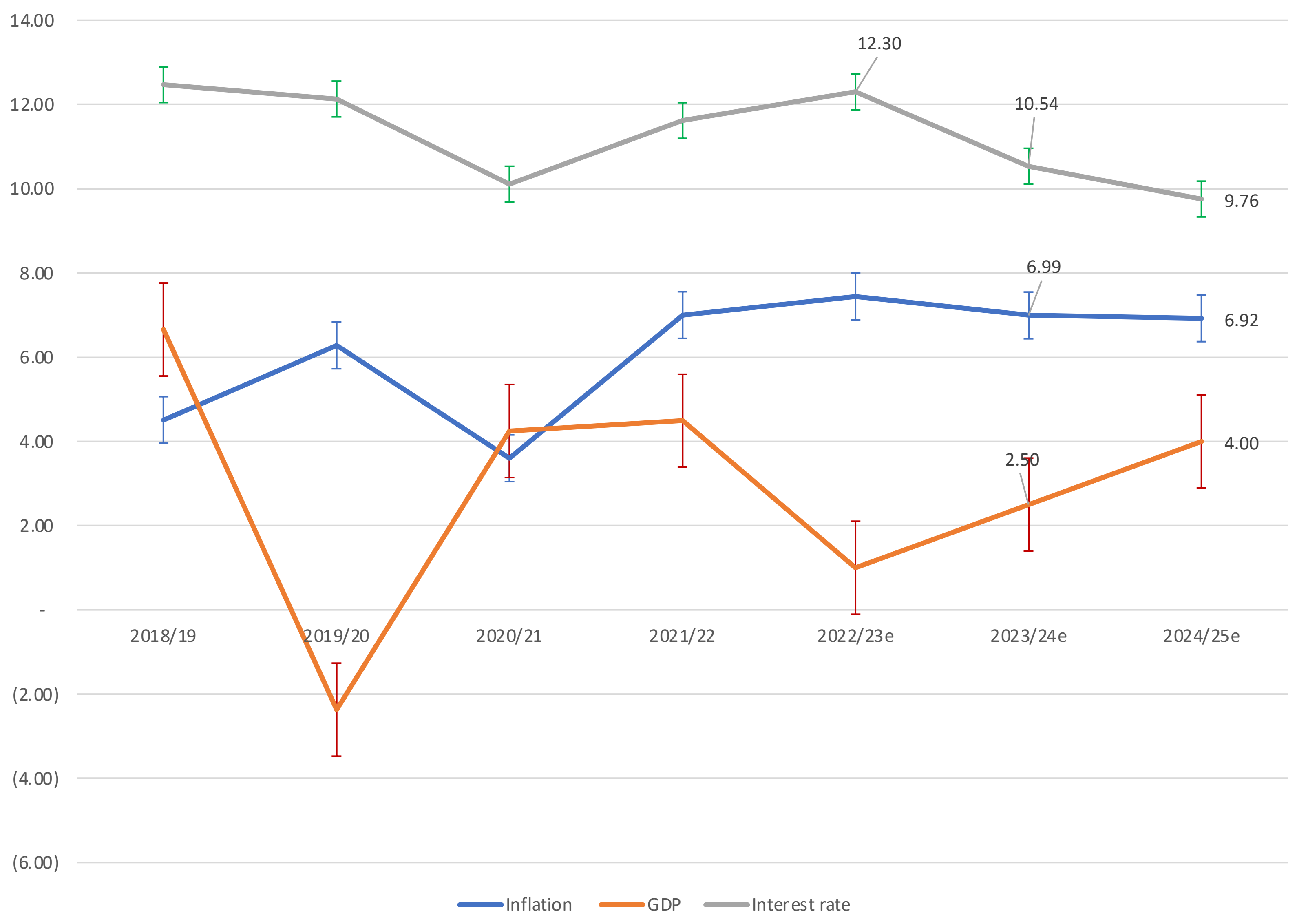
2

Economic Information

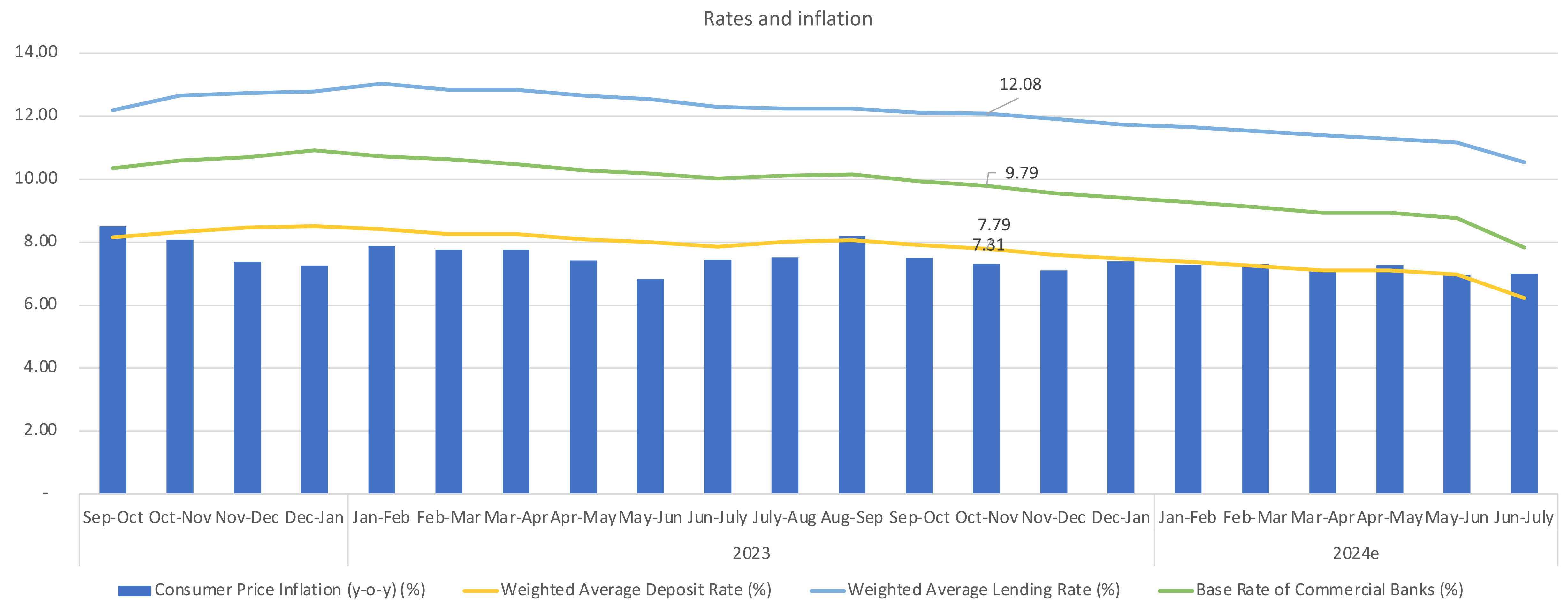
Inflation expectations

In the current landscape of uncertain global prospects, it is imperative for the Nepal Rastra Bank (NRB) to contemplate an alternative approach that acknowledges the potential misalignment between inflation control and financial stability goals.

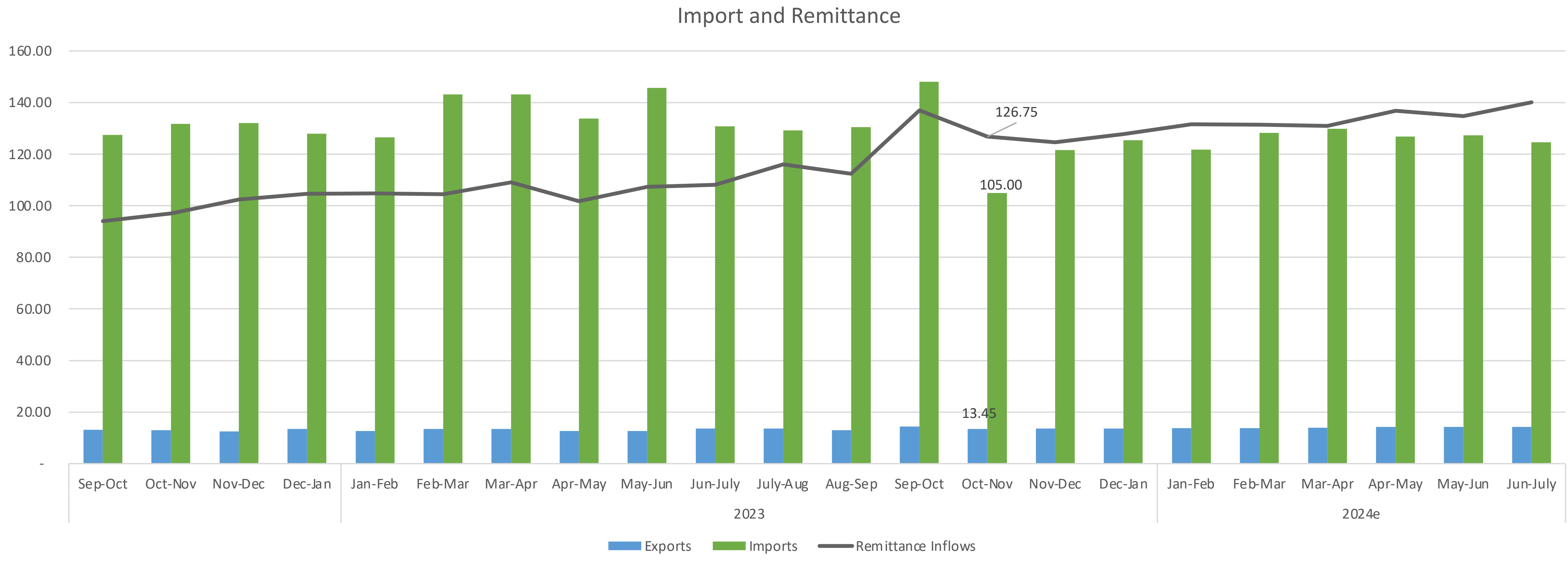
Given the prevailing conditions, wherein financial stability takes precedence, a prudent strategy for the NRB would be to concentrate on sustaining a target inflation rate with a permissible margin of 2% on either side. Furthermore, the adoption of supplementary prudential regulations can serve as a reinforcing measure to enhance overall financial stability.



Interest rates and Inflation



Imports and Remittance outlook. (NPR in billion)



The initial outcomes showed promise. However, this seemingly commendable performance concealed underlying structural weaknesses that were left unaddressed.

Monthly indicator. (NPR in billion)

Particulars Amount in NPR Billion	2022				2023								
	Mid-Month												
	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct
Consumer Price Inflation (y-o-y) (%)	8.50	8.08	7.38	7.26	7.88	7.76	7.76	7.41	6.83	7.44	7.52	8.19	7.50
Exports	13.14	12.95	12.53	13.50	12.62	13.50	13.50	12.62	12.69	13.55	13.53	12.92	14.43
Imports	127.4	131.7	132.1	127.9	126.5	143.10	143.1	133.8	145.7	130.8	129.2	130.5	148.0
Remittance Inflows	94.0	97.0	102.5	104.6	104.8	104.4	109.1	101.8	107.3	108.0	116.0	112.4	137.0
Government Expenditure	143.8	72.8	84.2	141.0	91.3	163.82	163.8	104.7	128.3	253.5	35.0	96.1	149.4
Current Expenditure	115.0	57.6	72.9	100.9	76.4	97.92	97.9	80.0	90.7	128.4	12.1	75.5	125.7
Capital Expenditure	13.8	6.6	7.7	19.5	12.8	22.99	23.0	18.4	27.4	80.6	0.8	7.3	9.7
Revenue	64.8	59.5	58.8	132.1	55.7	108.73	108.7	72.4	80.6	120.3	78.9	62.2	78.0
Deposit Mobilization	66.3	24.1	64.4	104.0	38.8	70.76	75.3	14.9	74.4	182.1	-133.2	125.7	166.1
Private Sector Credit	61.4	9.4	4.7	64.0	10.8	35.29	33.8	-8.8	4.2	18.6	-4.4	37.9	75.4
Weighted Average Deposit Rate (%)	8.16	8.32	8.46	8.51	8.41	8.26	8.26	8.08	7.99	7.86	8.00	8.06	7.90
Weighted Average Lending Rate (%)	12.19	12.65	12.74	12.79	13.03	12.84	12.84	12.65	12.53	12.30	12.24	12.23	12.11
Base Rate of Commercial Banks (%)	10.34	10.60	10.69	10.91	10.72	10.63	10.48	10.27	10.18	10.03	10.11	10.14	9.94

Our view on the current level of External vulnerabilities

Conversion Rate: 1 USD= NRs 130, 2022/23 and 119, 2021/22 (USD in billion)

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2078/79 (2022/22) (Mid-Nov.)	5.46	0.69	4.77	6.15	1.00	7.91	0.73	1 USD= 119 NPR
Share % in Total Trade	88.78	11.22						
Trade deficit % GDP	14.53%							
F.Y. 2079/790(2022/23) (Mid-Nov.)	4.26	0.44	3.82	4.70	1.00	9.73	0.74	1 USD= 119 NPR
Share % in Total Trade	90.68	9.32						
Trade deficit % GDP	10.19%							
F.Y. 2080/81 (2023/24) (Mid-Nov.)	3.94	0.39	3.55	4.33	1.00	10.10	0.84	1 USD= 130 NPR
Share % in Total Trade	90.99	9.01						
Trade deficit % GDP	9.46%							
Percentage Change in F.Y. 2079/80 (2022/23) compared to same period of the previous year	-21.98%	-36.52%	-19.87%	-23.61%			1.37%	
Percentage Change in F.Y .2080/81 (2023/24) compared to same period of the previous year	-7.51%	-10.96%	-7.12%	-7.83%			13.51%	

Trade to GDP

As an indicator of reduced strain on the external sector, the Department of Customs reported that the year-on-year trade deficit as a percentage of gross domestic product (GDP) rose to 29.10% by mid-Nov 2023. This marks a slight decrease from the 29.69% figure reported in the previous month.

Trade Deficit

In the fourth month of fiscal year 2023/24, the trade deficit decreased to \$0.73 billion, indicating a substantial decline from the preceding month's deficit of \$1.03 billion. In a year-on-year comparison, the trade deficit for the same period in FY 2023/24 was \$10.92 billion, reflecting a reduction from the \$13.74 billion recorded in the corresponding period of the previous fiscal year.

Import Pressure

Heavy reliance on imported raw materials, capital goods, and consumer products.
Limited potential for export growth.
Sending unskilled manpower abroad as a primary export.
Limited international transportation connectivity.
Untapped natural resources.

Observations

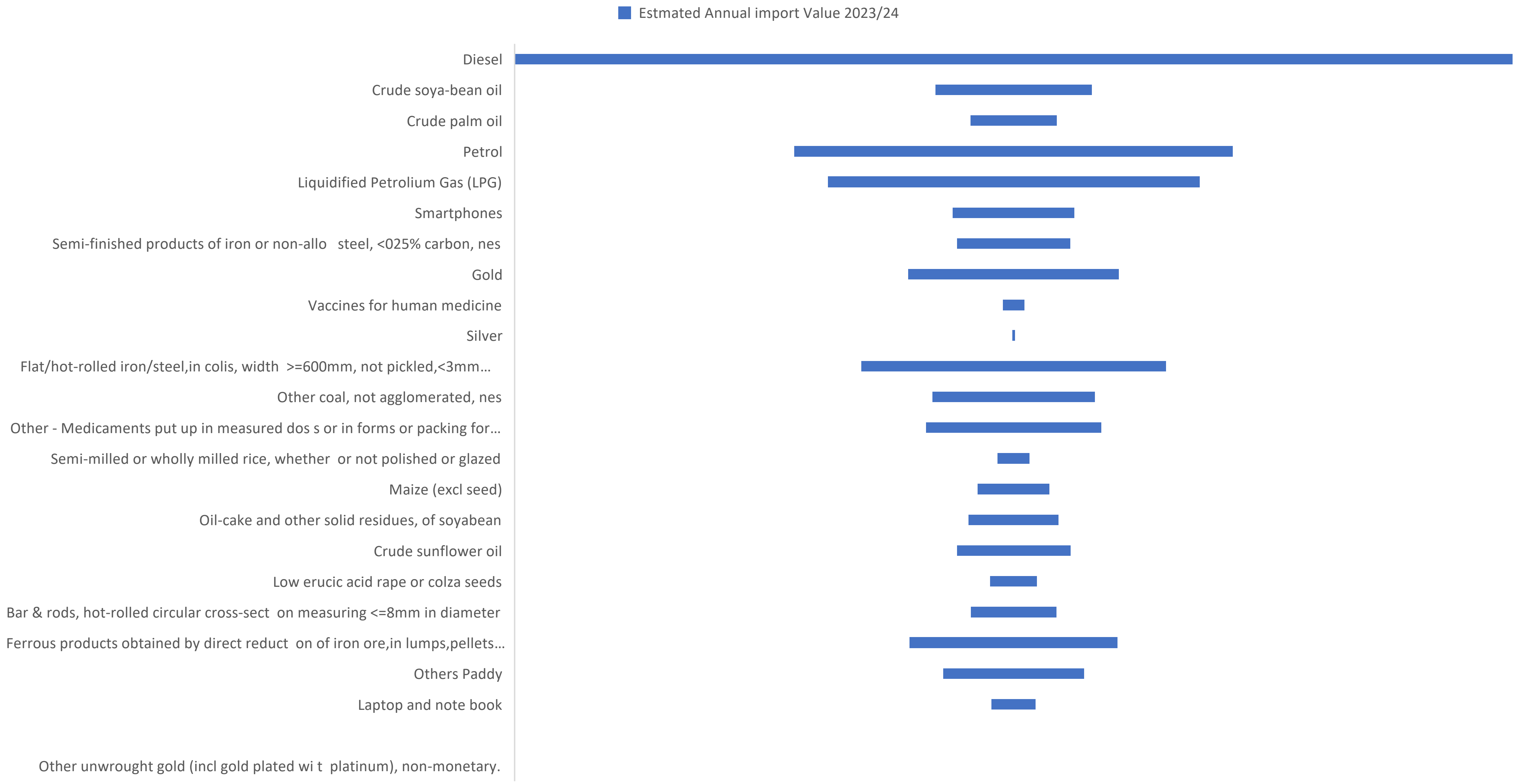
Currently, Nepal's foreign exchange reserves offer coverage for over 12.25 months of imports and service payments, taking into account the year-on-year import ratio. On a positive note, the Nepalese economy is not confronted with a significant challenge, as the prices of imported energy and food are on a downward trend.

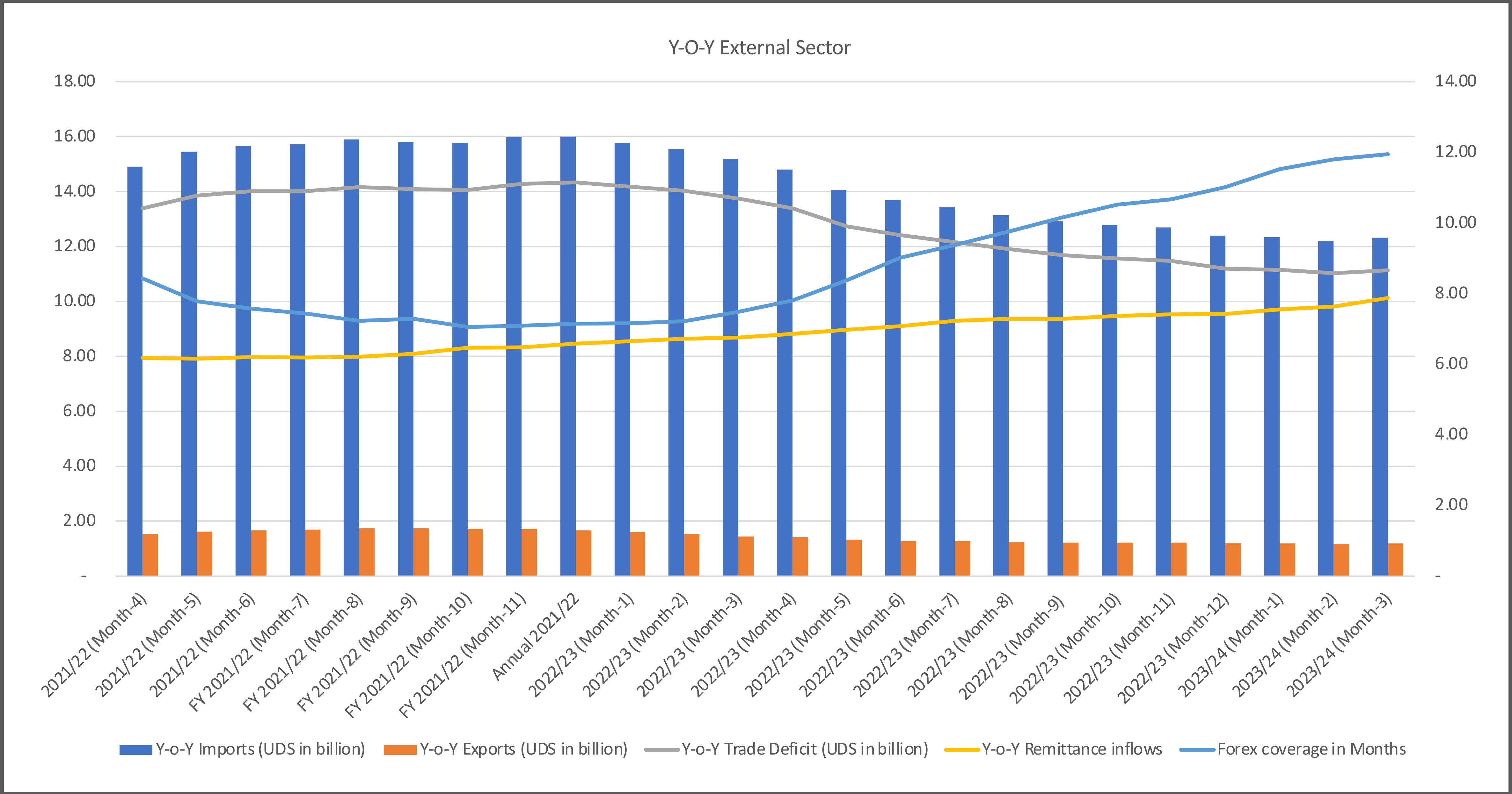
Despite the shift in monetary policy stance from tightening to accommodative, there hasn't been a pronounced improvement in aggregate demand. Nevertheless, there is an expectation that remittance inflows will continue to rise, offering relief to the balance of payments in the upcoming months.

While there has been a noticeable increase in the import of specific goods in the current month, the risk of a significant reversal in this trend has not seen a substantial escalation.

Imports surges during Oct. 2023

Description	Surge in Quantity	Surge in Amount	Surge Amount USD Million	Share in Incremental imports	The Potential for BOP Overall Reversal Risk	Root of the incremental imports
Smartphones	75%	76%	31.28	24.06%	Insignificant	Festival Demand
Fertilizer	114%	104%	32.05	24.65%	Insignificant	Seasonal Demand
Gold	80%	78%	24.80	19.08%	Moderate	Gold import quota increased by 100%
AFT	60%	70%	14.90	11.46%	Insignificant	
Electric car	85%	80%	11.58	8.91%	Insignificant	Backlog custom clearance
Other			15.39	11.84%		
Total Incremental Value			130.00	100%		


Estmated Annual import Value 2023/24
Diesel
Crude soya-bean oil
Crude palm oil
Petrol
Liquidified Petrolium Gas (LPG)
Smartphones
Semi-finished products of iron or non-allo steel, <025% carbon, nes
Gold
Vaccines for human medicine
Silver
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm...
Other coal, not agglomerated, nes
Other - Medicaments put up in measured dos s or in forms or packing for...
Semi-milled or wholly milled rice, whether or not polished or glazed
Maize (excl seed)
Oil-cake and other solid residues, of soyabean
Crude sunflower oil
Low erucic acid rape or colza seeds
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets...
Others Paddy
Laptop and note book
Other unwrought gold (incl gold plated wi t platinum), non-monetary.


Y-O-Y External Sector
18.00
16.00
14.00
12.00
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8.00
6.00
4.00
2.00
-
14.00
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-
2021/22 (Month-4)
2021/22 (Month-5)
2021/22 (Month-6)
FY 2021/22 (Month-7)
FY 2021/22 (Month-8)
FY 2021/22 (Month-9)
FY 2021/22 (Month-10)
FY 2021/22 (Month-11)
Annual 2021/22
2022/23 (Month-1)
2022/23 (Month-2)
2022/23 (Month-3)
2022/23 (Month-4)
2022/23 (Month-5)
2022/23 (Month-6)
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2022/23 (Month-9)
2022/23 (Month-10)
2022/23 (Month-11)
2022/23 (Month-12)
2023/24 (Month-1)
2023/24 (Month-2)
2023/24 (Month-3)
Y-o-Y Imports (UDS in billion)
Y-o-Y Exports (UDS in billion)
Y-o-Y Trade Deficit (UDS in billion)
Y-o-Y Remittance inflows
Forex coverage in Months

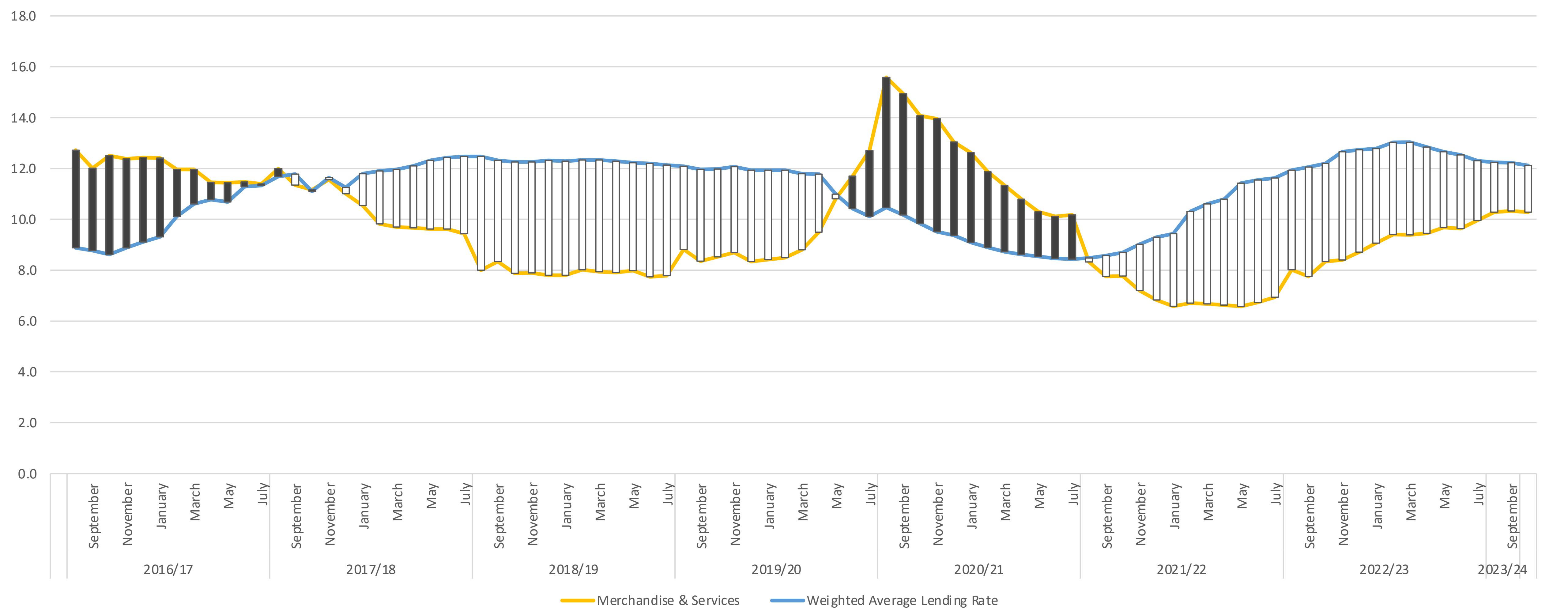
Trade Indicators	2022/23 (Month-3)	2022/23 (Month-4)	2022/23 (Month-5)	2022/23 (Month-6)	2022/23 (Month-7)	2022/23 (Month-8)	2022/23 (Month-9)	2022/23 (Month-10)	2022/23 (Month-11)	Annual 2022/23		2023/24 (Month-1)	2023/24 (Month-2)	2023/24 (Month-3)	2023/24 (Month-4)	Y-o-Y	Remaks
Imports (UDS in billion)	3.21	4.26	5.11	6.10	7.07	8.14	9.24	10.27	11.39	12.40		0.99	2.00	3.14	3.94	12.08	Down
Monthly Imports	1.02	1.05	0.85	0.99	0.97	1.07	1.10	1.03	1.12	1.01		0.99	1.01	1.14	0.80		
Exports (UDS in billion)	0.33	0.44	0.52	0.62	0.72	0.81	0.91	1.01	1.10	1.21		0.10	0.20	0.31	0.39	1.16	Down
Montly Exports	0.10	0.11	0.08	0.10	0.10	0.09	0.10	0.10	0.09	0.11		0.10	0.10	0.11	0.08		
Trade Deficit (UDS in billion)	2.88	3.82	4.59	5.48	6.35	7.33	8.33	9.26	10.29	11.19		0.89	1.80	2.83	3.55	10.92	Down
Total Foreign Trade (UDS in billion)	3.54	4.70	5.63	6.72	7.79	8.95	10.15	11.28	12.49	13.61		1.09	2.20	3.45	4.33	13.24	Down
Monthly Import Revenue		0.23	0.21	0.22	0.23	0.23	0.26	0.25	0.25	0.28		0.25	0.27	0.32	0.21		
Total Import revenue	0.74	0.97	1.18	1.40	1.63	1.86	2.12	2.37	2.62	2.90		0.25	0.52	0.84	1.05	2.98	UP
Montly Remittance	0.75	0.75	0.78	0.81	0.80	0.84	0.78	0.83	0.83	0.89		0.89	0.86	1.05	0.97		
Remittance inflows	2.24	2.99	3.77	4.58	5.38	6.22	7.00	7.83	8.66	9.55		0.89	1.76	2.81	3.79	10.35	UP
Imports/Exports Ratio	9.73	9.73	9.83	9.84	9.82	10.05	10.15	10.17	10.35	10.25		9.90	10.00	10.13	10.10	10.40	UP
Exports Share to Total Trade (%)	9.32	9.32	9.24	9.23	9.24	9.05	8.97	8.95	8.81	8.89		9.17	9.09	8.99	9.01	10.64	UP
Imports Share to Total Trade (%)	90.68	90.68	90.76	90.77	90.76	90.95	91.03	91.05	91.19	91.11		90.83	90.91	91.01	90.99	89.36	Down
Monthly Trade Deficit (UDS in billion)	0.92	0.94	0.77	0.89	0.87	0.98	1.00	0.93	1.03	0.90		0.89	0.91	1.03	0.72		
Trade deficit % GDP	7.68%	10.19%	12.23%	14.61%	16.93%	19.54%	22.20%	24.68%	27.43%	29.83%		2.37%	4.80%	7.54%	9.46%	29.10%	Down
Change in Monthly Trade Deficit %	-10.52%	2.39%	-18.47%	15.89%	-2.25%	12.64%	2.04%	-7.00%	10.75%	-12.62%		1.12%	2.20%	11.65%	-43.06%		
Conversion Factor	125	125	130	130	130	130	130	130	130	130		130	130	130	130		

Trade Directions

Expected Annual Imports of Major Items (USD in million)

Description	2021/22 Annua Import Value	2022/23 4 month	2022/23 5 month	2022/23 6 month	2022/23 7 month	2022/23 8 month	2022/23 9 month	2022/23 10 month	2022/23 11 month	2022/23 Annua Import Value	2023/24 1 month	2023/24 2 month	2023/24 3 month	2023/24 4 month	Estmated Annual import Value 2023/24	Import Direction
Diesel	1,402	354	426	539	651	761	865	984	1,058	1,183	57	121	230	310	1,287	Decline
Crude soya-bean oil	468	146	159	183	203	213	231	245	262	274	15	23	35	44	202	Decline
Crude palm oil	328	102	110	129	137	155	170	178	189	199	6	18	27	35	112	Decline
Petrol	595	190	220	258	298	340	383	429	472	514	42	87	132	176	565	Decline
Liquidified Petrolium Gas (LPG)	546	157	183	217	256	298	354	383	418	447	29	56	89	119	480	Decline
Smartphones	317	81	86	100	114	128	144	157	172	188	22	41	73	89	157	Growth
Semi-finished products of iron or non-allo steel, <025% carbon, nes	427	62	72	80	92	110	128	146	162	176	12	24	28	30	147	Decline
Gold	297	64	81	84	97	127	133	149	172	172	13	32	57	63	272	Decline
Vaccines for human medicine	267	40	40	41	43	53	77		84	86	5	9	10	27	28	Decline
Silver	109	2	2	2	3	5	6	7	10	12	0.03	0.58	0.77	1.00	4	Decline
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	239	12	17	36	54	67	93	118	139	158	26	46	75	87	394	Growth
Other coal, not agglomerated, nes	300	49	60	78	91	116	149	170	192	209	16	27	35	43	209	Decline
Other - Medicaments put up in measured dos s or in forms or packing for retail s	192	61	75	92	110	125	141	154	171	190	12	32	54	67	227	Growth
Semi-milled or wholly milled rice, whether or not polished or glazed	198	35	39	47	56	62	67	71	76	83	7	9	10	11	41	Decline
Maize (excl seed)	155	36	53	64	76	81	87	100	120	127	8	13	19	23	93	Decline
Oil-cake and other solid residues, of soyabean	170	25	37	50	59	67	73	81	88	98	12	22	32	42	116	Growth
Crude sunflower oil	151	39	48	56	68	84	102	115	129	139	14	23	35	42	147	Growth
Low erucic acid rape or colza seeds	103	18	26	34	46	55	62	67	70	72	6	11	15	24	61	Growth
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	121	28	34	41	55	72	83	90	104	114	12	19	27	29	111	Growth
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	200	99	117	148	182	205	236	268	306	335	29	54	74	92	269	Decline
Others Paddy	134	7	41	75	100	110	123	130	140	154	21	22	23	23	182	Growth
Laptop and note book	95	17	20	24	28	31	34	38	42	48	6	11	16	19	58	Growth

Import Capacity in Months and Lending Rate!

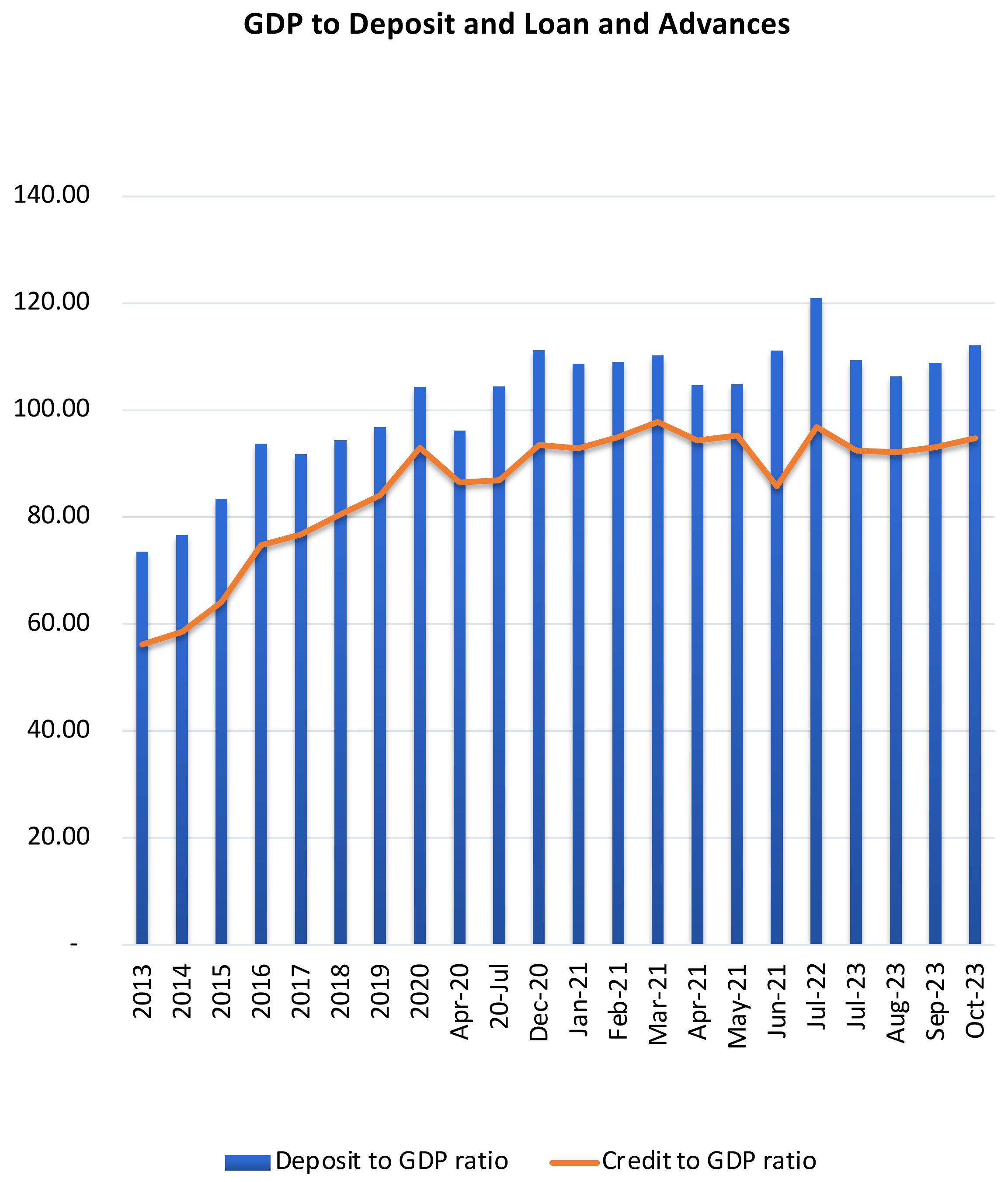


GDP and BFI's Risk Assets and Liabilities!

Government of Nepal must shift base year of GDP calculation 2010/11 to 2020/21 as four major event occurred after 2011 namely:

- Great Gorkha Earthquake
- Trade embargo
- Government structure
- Covid-19.

Shifting of the base year will sufficiently provide new horizon for policy design and response.



Financial Sector highlights

3

Economic Performance

Real Sector	Outlook
Corporate performance	A growing population of MSMEs with negative economic profitability could potentially lead to an escalation in default rates. Furthermore, for a significant portion of large corporations, there has been a notable decline in the return on invested capital (ROIC), coupled with a rapid increase in the weighted average cost of capital (WACC). Consequently, there exists a persistent and challenging pressure on maintaining a favorable ROIC.
Working Capital financing	Under the newly introduced guidelines, borrowers may encounter ongoing challenges when attempting to infuse new equity into their operations. The extension of the working capital cycle will hinder borrowers' ability to fund their working capital needs from internal funds. This elongation of the working capital cycle will make it impractical to inject fresh equity, as internal resources will be insufficient. Consequently, the implementation of these new working capital regulations is expected to have a detrimental effect, potentially impacting industrial growth and disrupting the balance in supply chain management. Sector-specific adjustments are still pending.
Household debt	While the corporate sector bears the lion's share of the debt burden, household debt has seen a substantial rise and is approaching levels observed in advanced economies.

Financial Sector	Outlook
Banking system	The increased cost of funds and limitations on balance sheets will have repercussions on the profitability of Banking and Financial Institutions (BFIs), particularly as monetary policy becomes less accommodating. The profitability of the banking sector is expected to continue to face challenges due to the prevailing low-interest margin environment, constraints on non-interest income, and the potential for elevated levels of non-performing loans (NPLs). Presently, the NPLs and Loan Loss Provisions (LLP) of BFIs stand at $1.41 billion and $ 1.67 billion, respectively.
Non-performing assets	NPLs are expected to hover around the 4% mark by the conclusion of July 2024. Nevertheless, this development is likely to have a significant impact on bank capitalization levels and profitability, with potential ripple effects extending to other areas.
Lending Growth	Giving precedence to reducing corporate sector indebtedness and limiting the growth of household debt is crucial, although it is anticipated to present challenges to overall economic activity.

Household debts	$ million
Real Estate Loan	1,853.73
Margin Nature Loan	623.21
Personal Guarantee	272.42
Hire Purchase Loan	997.54
Gold and Silver	404.58
Credit Card	39.16
Fixed Deposit Receipts	418.32
Residential Personal Home Loan (Up to Rs. 20 million)	2,883.82
Share of Househod debts	19%

Major Risks/Impact	High	Medium	Low	Remarks
Excessive capacity, supply constraints, and intense competition within the manufacturing sector could potentially have adverse repercussions on asset quality.	√			No-change
Substantial surges in the market prices of vital raw materials, energy, or transportation, along with supply disruptions, may negatively impact the performance of the industrial sector. This, in turn, could intensify the pressure on short-term loan demand and exacerbate financing mismatches due to working capital guidelines.		√		Improve
A heavy reliance on imported raw materials, capital goods, and consumer products can potentially strain the Balance of Payments. Additionally, a supply-demand mismatch could lead to a deterioration in the asset quality of Banking and Financial Institutions (BFIs).	√			No-change
Variations in the current market interest rates applicable to loans and debts, both within the financial market and the overall financing landscape, have the potential to negatively impact business operations and financial health, leading to a decline in asset quality. With credit growth remaining subdued due to sluggish domestic demand, it is expected that many market lending rates will be adjusted downward. This could also lead to a reduction in yields on government securities.	√			No-change
The profitability of the banking sector continues to face challenges, including a low-interest margin environment, limitations on non-interest income, and a rising trend in corporate payment defaults. These factors pose challenges to the successful implementation of NFRS 9.	√			No-change
The asset quality of Banking and Financial Institutions (BFIs) may experience a decline due to microeconomic vulnerabilities. Additionally, there is a potential for a significant increase in Income Tax liabilities in the event of changes to tax laws and regulations or unfavorable interpretations and inconsistent enforcement, particularly in transactions involving bargain pricing, share premiums, FPOs, and ownership transfers, among other factors.	√			No-change
Variations in the exchange rate between the Nepalese Rupee and the U.S. dollar have the potential to influence the market prices of raw materials.	√			No-change
Global supply constraints have the potential to negatively impact both operations and financial stability. An inability to effectively manage supply and distribution gaps could disrupt economic activities.		√		Improve

Risk Matrix

Condition		Related effect		Risk
Low saving/Investment	Lacklustre wholesale and retail operations.	Aggregate demand	Decline	Severe
	Enhancing foreign exchange reserves and experiencing a substantial inflow of remittances	Pressure on BOP	Decline	Low
	Limited corporate cash recovery.	Firm Investment	Decline	Severe
	Reduced disposable income.	Consumer spending	Decline	Severe
Post-Covid	Increasing Tourism activities	Occupancy at Hotel and retail restaurant	Increase	Low
	Outmigration	Demand for worker	Increase	Low
War and conflicts	Increasing commodities prices	Import Bill	Increase	Moderate
	Increasing Energy Price	Cost of production	Increase	Moderate
Interest Rate Outlook	Pressure on Liquidity	No sign of improvement of consumer's demand	Decline	Low
FDI inflow Outlook	Demand for liquidity in host countries	Flow of FDI	Low	High
Level of NPL	Low corporate debts recovery	Increase in cash cycle	Increase	Severe
Demand for Working capital	Decreasing cost of borrowing and inputs	Reducing cost of production	Stable	Moderate
Inflation outlook	Lower commodity price	Lower consumer demand	Decline	Moderate

Way forward

	SPECIFIC MEASURES/WORKABILITY	TIME FRAME	IMPLEMENT ABILITY	PRIORITY ORDER
Risk Assets management	The third review of the working capital guidelines should incorporate sector-specific requirements, given that the second amendment does not adequately address them.	Immediate	Possible	High
	Downward revision of policy rates and continuation of Refinancing for another one year	Immediate	Possible	Medium
	Allow assets purchase and allow Peer-to-peer lending and invoice discounting	Immediate	Possible	High
	Review Risk Assets pricing policy	Immediate	Possible	High
	Design and implement a second-phase recovery and stimulus package for agriculture, industries and services	Immediate	Possible	High
	Review base rate calculation method to include all costs	Immediate	Possible	Medium
	Implement mandatory taking Permanent Account Number (PAN) for all size loan.	Immediate	Possible	Medium
Liquidity Management	Replace CD ratio by Net-Liquidity Ratios	Immediate	Possible	High
	Review of Saving Deposit rate policy	Immediate	Possible	High
	Review of SLF policy, and Assets purchase policy of NRB	Immediate	Possible	High
	Discourage cash transactions and promote electronic payment system by focusing on digitization & Fin-tech and reducing the cost of transactions	Immediate	Possible	High

Way forward

	Specific measures/Workability	Timeframe	Implement ability	Priority order
Legal reform	Consider revising BAFIA (Banking and Financial Institutions Act) to bolster State-Owned Banks (SOBs) and enhance their financial health. This can be achieved through either injecting fresh capital or through consolidation or acquisition of select private banks, thereby increasing their balance sheet size to a minimum of $5 billion to attract foreign institutional investors.	Immediate	Possible	High
	Establish an exit policy aimed at balancing the ownership structure to enhance transparency and governance.	Medium-term	Possible	Medium
	Implement separate policies to supervise systematically important banks.	Medium-term	Possible	High
MSMEs	Initiate steps to have single definition of MSMEs across all regulators. Increase coverage of credit guarantees on MSME loans.	Immediate	Possible	High
	Introduce policy to scale-up agriculture base MSMEs, which can immediately create employment and substitute imports	Immediate	Possible	High
	Introduce E-commerce and digital solutions to increase access short-term bridge loans to micro and small businesses, and digital payments.	Short-term	Possible	High
Risk Assets	Initiate a sector-specific analysis and take proactive measures to conduct a swift assessment of Banking and Financial Institutions (BFIs) in order to comprehend the long-term implications of the ongoing crisis.	Short-term	Possible	High
Forex	Sustain the credibility of the exchange rate peg by periodically reviewing foreign exchange policies and directives.	Long-term	Possible	High

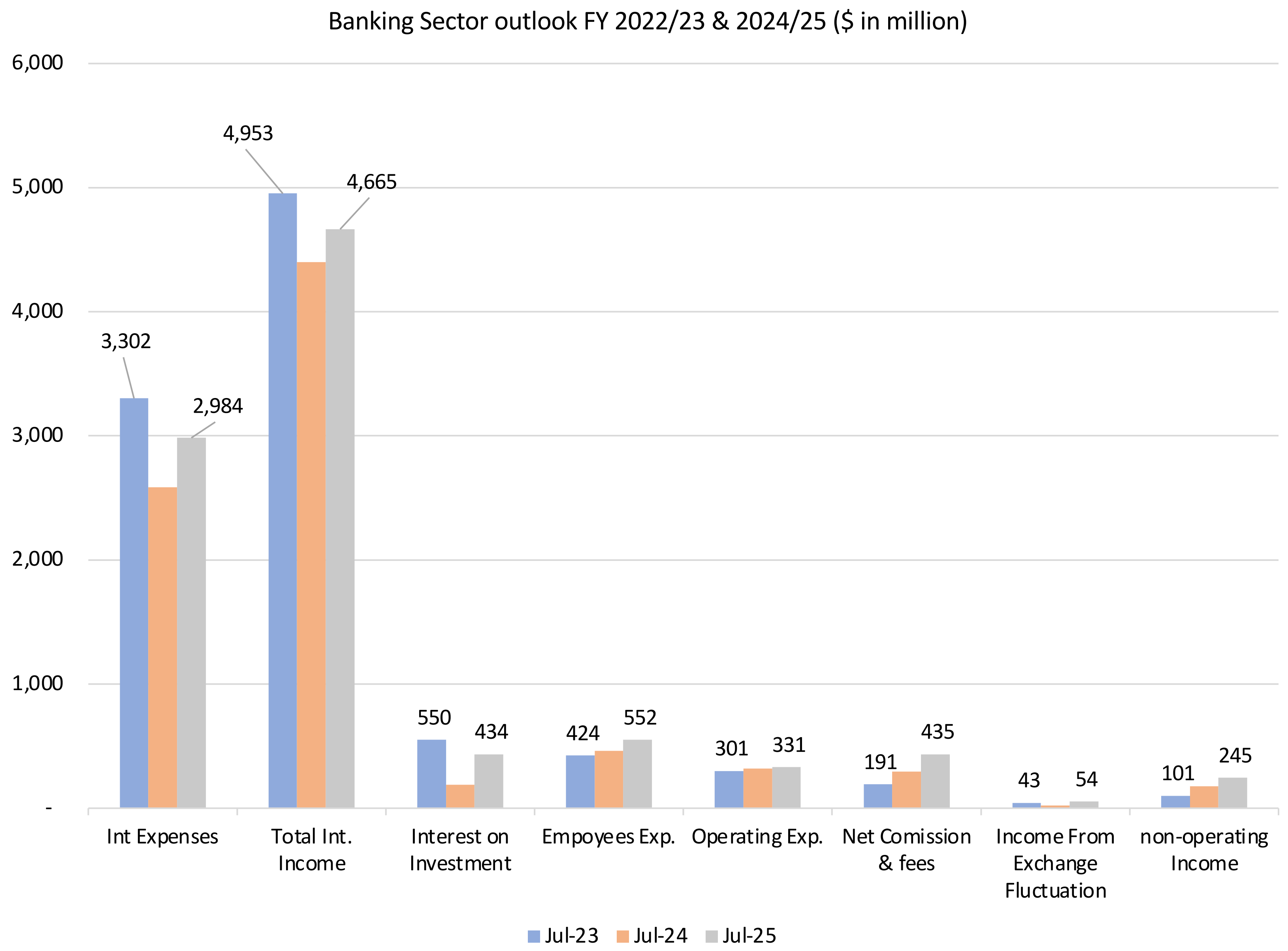
Outlook 2023/24 and 2024/25

Amount in $ Million									
Assets and Liability (Exchange Factor $ 1 = NPR 130)					Profit and loss				
Capital, Deposits and Risk Assets						July 2024e	Change	July 2025e	Change
Particulars	July 2024e	Change	July 2025e	Change	Int on Loans and Adv.	4,211	-4.34%	4,231	0.47%
CAPITAL FUND	5,844	11.21%	6,257	7.06%	Total Int. Income	4,402	-11.12%	4,665	5.97%
PAID UP CAPITAL	3,280	0.24%	3,360	2.46%	Avg. Yield From Loan (cash basis)	10.54%	-10.89%	9.76%	-7.41%
BORROWINGS	2,293	16.78%	2,336	1.86%	Int Expenses	2,585	-21.70%	2,984	15.42%
Borrowing from NRB	22	44.29%	15	-35.31%	Avg. Cost of Fund	6.22%	-21.26%	5.11%	-17.89%
DEPOSITS	48,697	9.69%	51,792	6.36%	NII	1,817	10.06%	1,681	-7.48%
Current	3,202	-8.33%	3,236	1.07%	Interest Spread	4.31%	10.03%	4.65%	7.72%
Saving	11,940	2.18%	12,650	5.95%	Commission & fees	296	55.01%	435	46.88%
Fixed	29,755	15.15%	30,979	4.11%	Ex. Fluctuation Gain	21	-49.74%	54	152.00%
Call	3,310	10.11%	4,304	30.03%	Other Operating & Non-operating Income	175	74.25%	245	39.97%
Others	490	32.60%	624	27.19%	Gross Income	2,310	16.35%	2,415	4.58%
LIQUID FUNDS	4,337	5.60%	5,106	17.72%	Employees Exp	460	8.52%	552	19.86%
GOVT. SECURITIES/OTHER	10,195	26.27%	12,747	25.02%	Employee cost in % of Total Int. Income	10.45%	21.73%	8.40%	-19.65%
Investment in share and other	2,442	-3.00%	3,076	25.97%	Office Operating Exp	317	5.55%	331	4.26%
LOANS & ADVANCES	39,968	6.53%	43,368	8.50%	LLP & write-off	838	58.57%	1,121	33.78%
Total Capital/RWA	13.48%	5.38%	13.04%	-3.26%	Additional LLP to Risk Assets	2.07%	53.35%	2.56%	23.63%
CD	81.31%	-1.24%	82.99%	2.06%	Provision Written Back	312	47.05%	405	30.00%
NPL /Total Loan	3.87%	50.14%	4.21%	8.66%	PBT	1,006	6.57%	817	-18.75%
Return on Capital Employed	11.08%	-13.19%	8.41%	-24.11%	Return on total assets	1.48%	-7.33%	1.09%	-26.14%

Profitability of BFIs.

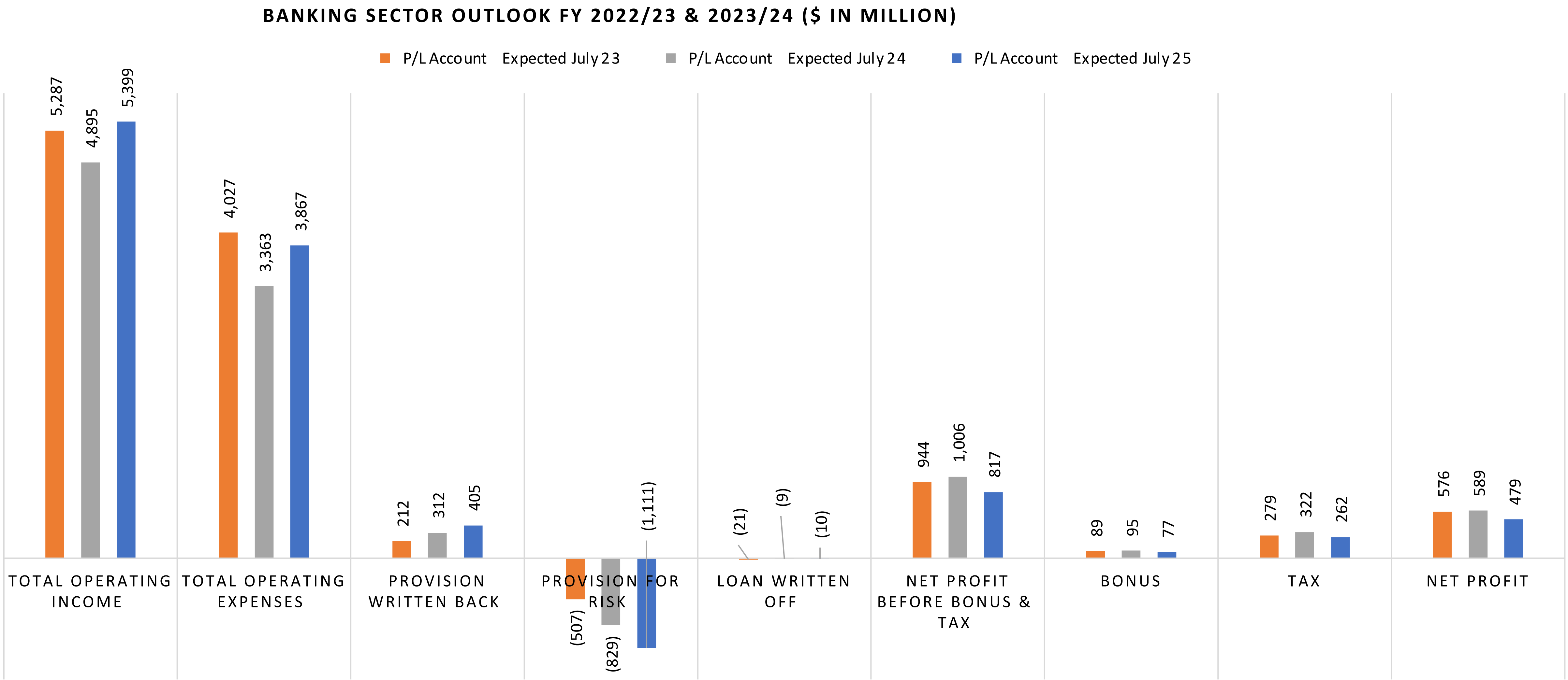
(Exchange Factor $ 1 = NPR 130

$ in million			
P/L Account			
Particulars	Expected July 23	Expected July 24	Expected July 25
Total Operating Income	5,287	4,895	5,399
Total Operating Expenses	4,027	3,363	3,867
Provision Written Back	212	312	405
Provision for Risk	(507)	(829)	(1,111)
Loan Written Off	(21)	(9)	(10)
Net Profit before Bonus & Tax	944	1,006	817
Bonus	89	95	77
Tax	279	322	262
Net profit	576	589	479



Profitability of BFIs

(Exchange Factor $ 1 = NPR 130)

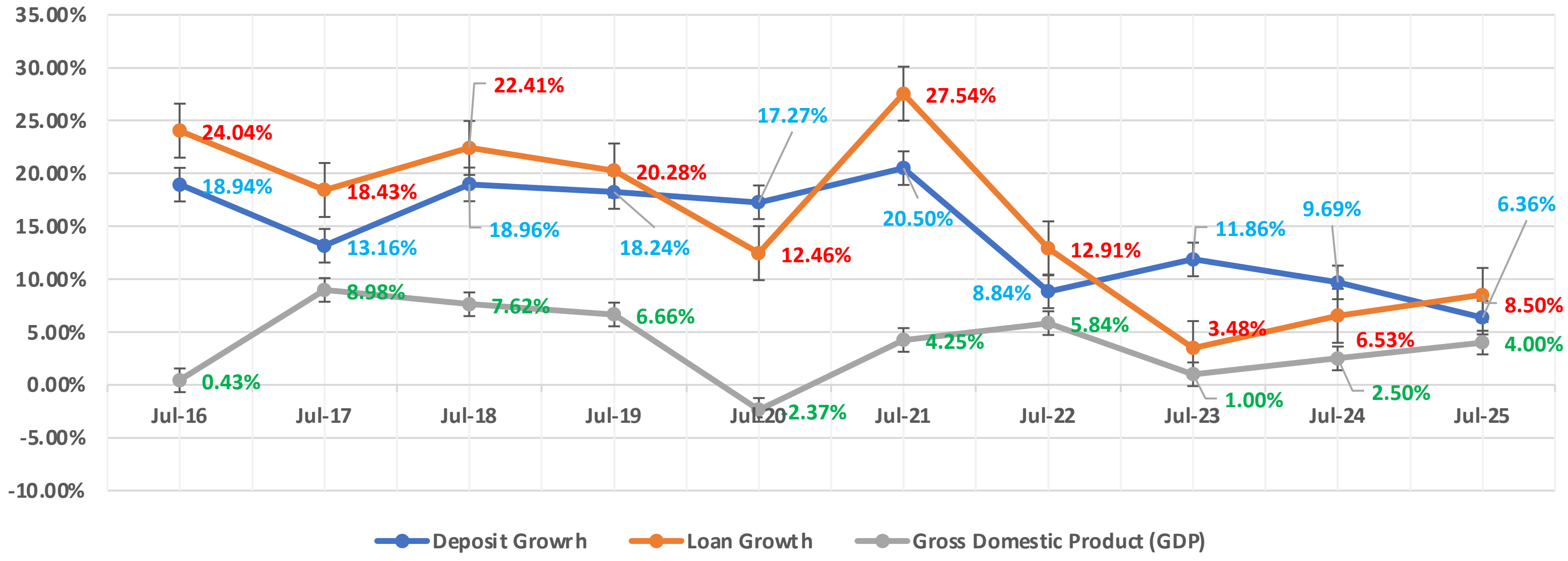


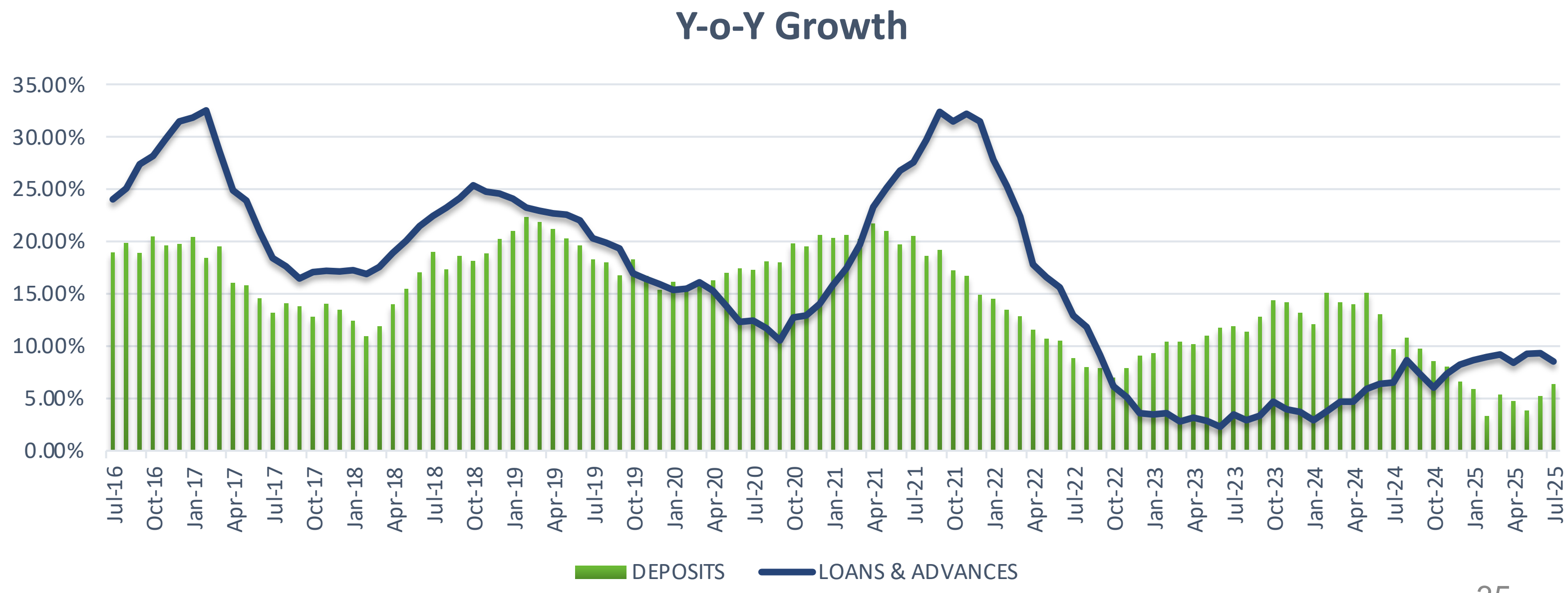
Annual Loan and Deposit Growth and LLP

In the aftermath of the COVID-19 pandemic, Nepal grappled with a challenging credit crunch scenario in 2023. The country's economic outlook appeared grim, with growth expectations significantly below historical averages. This prevailing sense of pessimism raised substantial concerns about genuine threats to Nepal's economy, some of which had the potential for profound harm. The consequences of this financial crisis have had widespread effects, leading to years of economic stagnation and missed opportunities for investment, innovation, and overall progress.

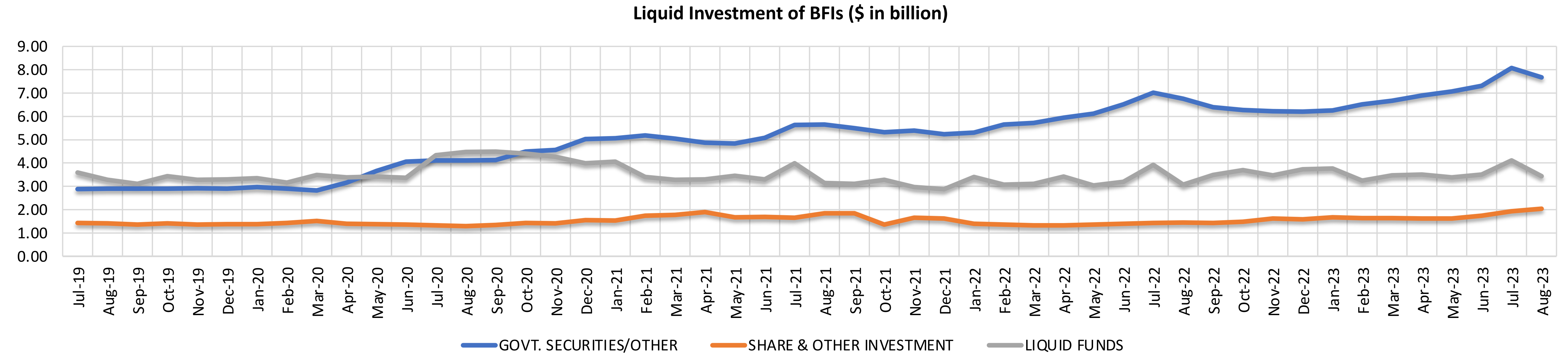
Due to sluggish domestic demand, constrained economic activities, and reduced market confidence, government revenue, including VAT collections, shows no signs of improvement. Simultaneously, government obligations related to social security and administrative payments are on the rise. Many analysts believe that Nepal may confront challenging economic conditions that could potentially jeopardize financial stability. Therefore, thoughtful considerations are crucial when selecting monetary and fiscal strategies.

Particulars	Amount in Million Incremental LLP	
Loan loss Provision	127	88.61%
Watch List Provision	13	242.19%
Special Loan Loss Provision	88	53.78%





Liquidity



Liquid Investment of BFIs ($ in billion)
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jul-19
Aug-19
Sep-19
Oct-19
Nov-19
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
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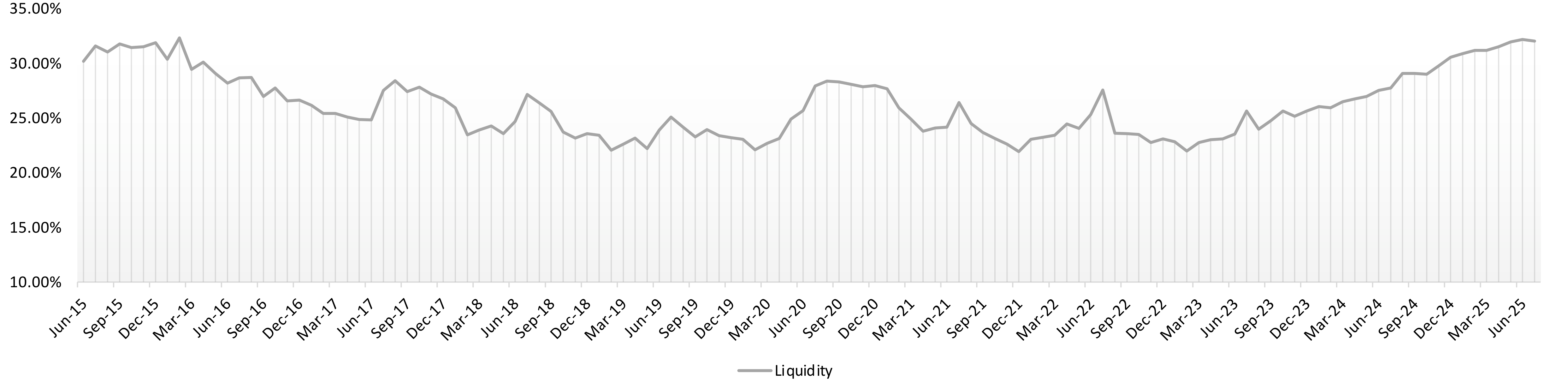
Aug-23
GOVT. SECURITIES/OTHER
SHARE & OTHER INVESTMENT
LIQUID FUNDS



35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
Jun-15
Sep-15
Dec-15
Mar-16
Jun-16
Sep-16
Dec-16
Mar-17
Jun-17
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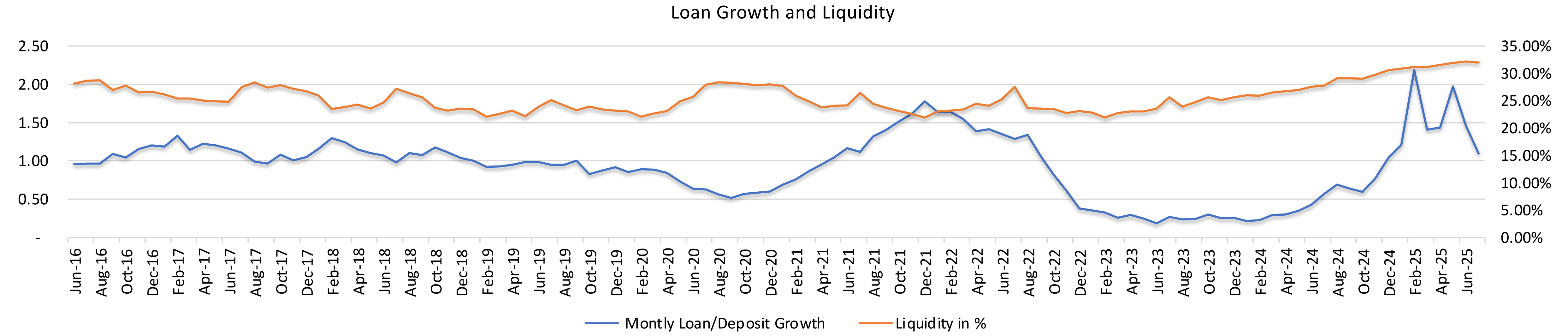
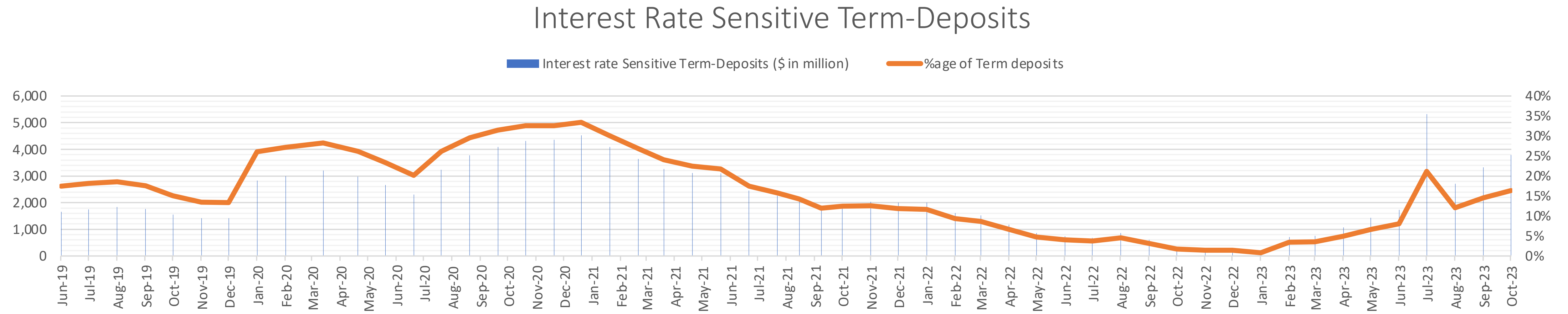
Jun-25
Liquidity

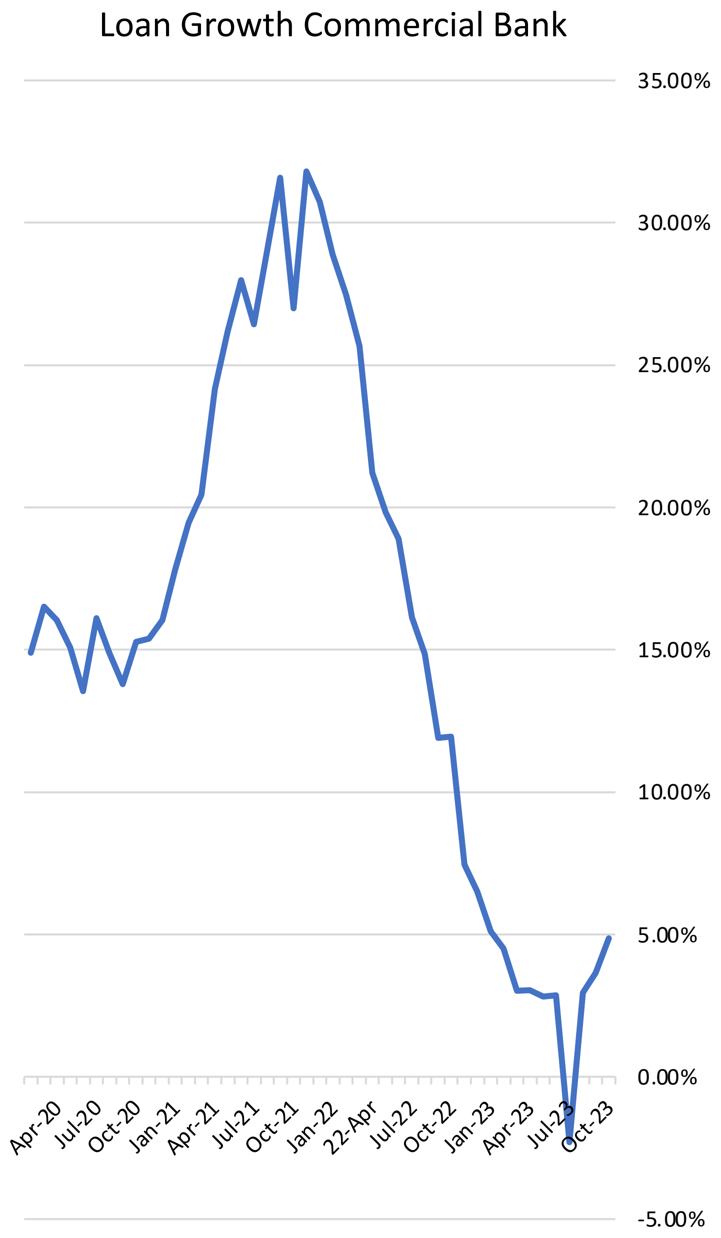
Liquidity

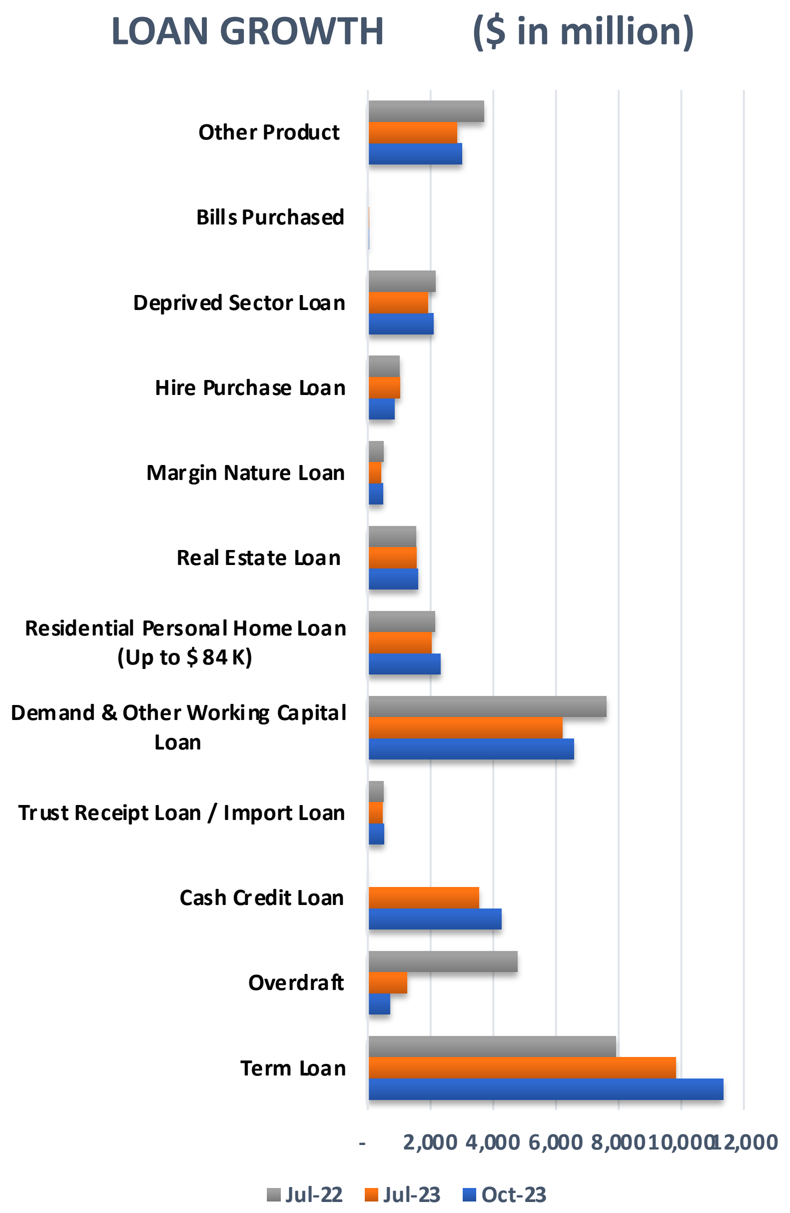


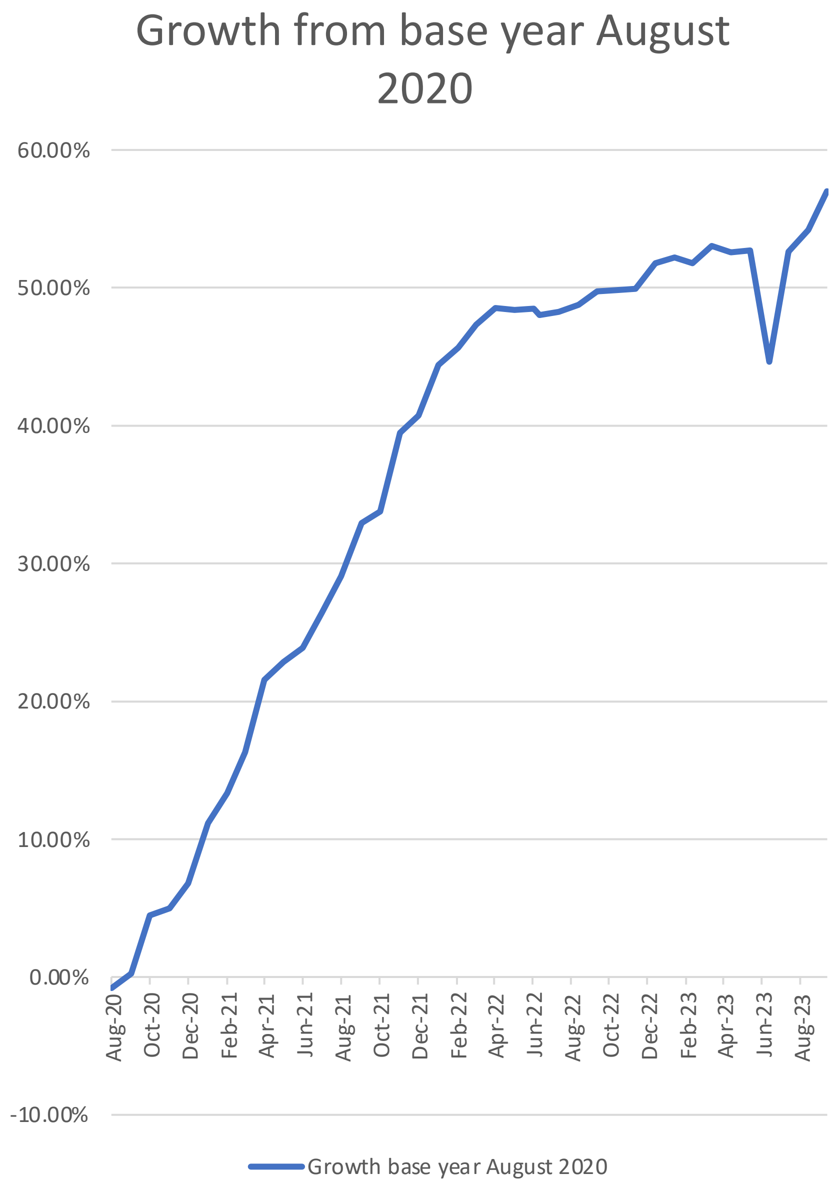


Despite the decline in interest rate-sensitive fixed deposits, it is possible that we will continue to witness fluctuations in the short-term money market.

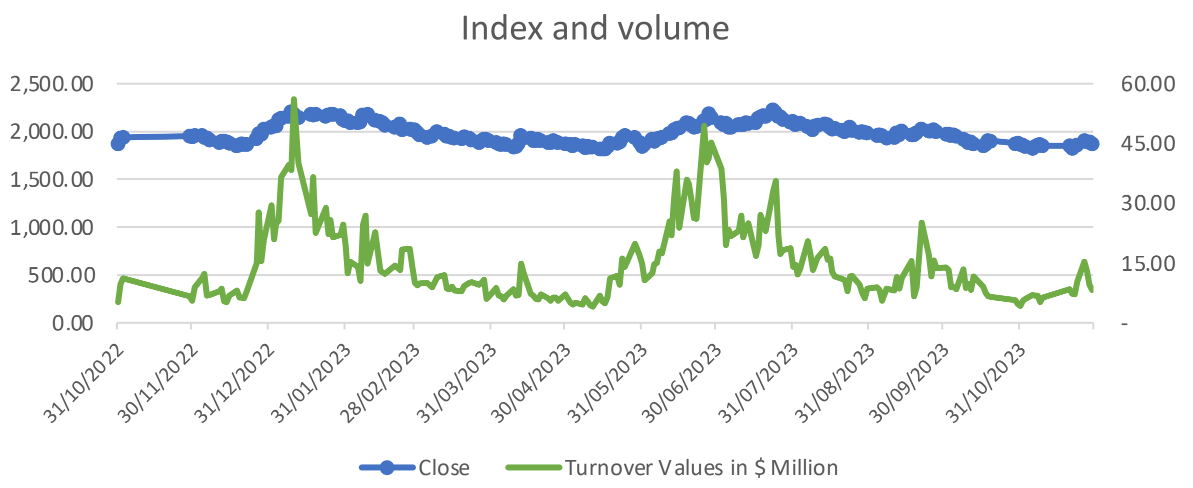
Sector wise Loan Growth of Commercial Banks

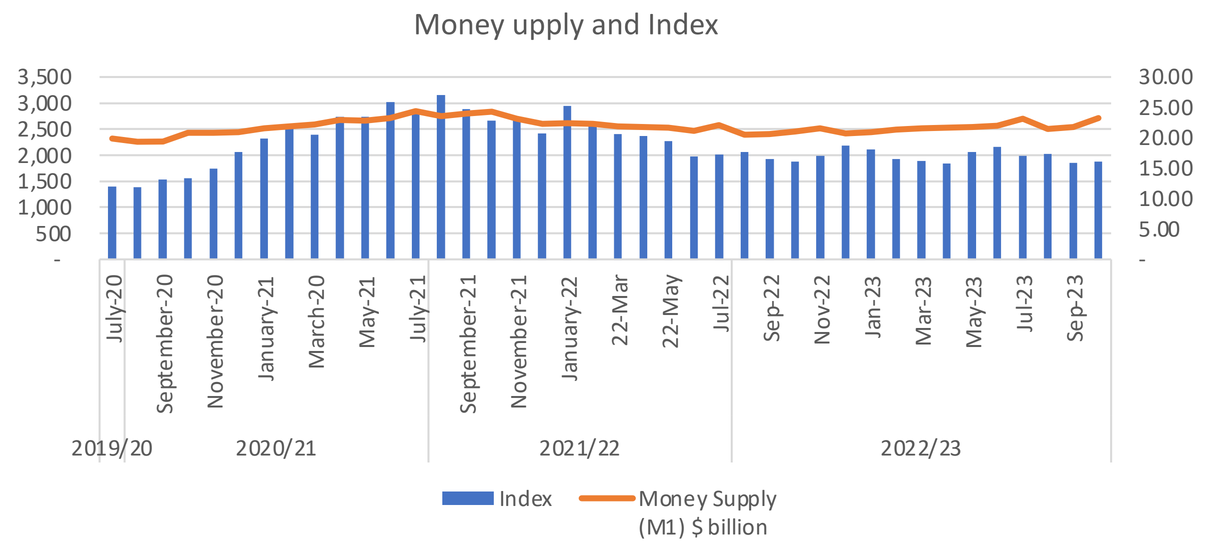


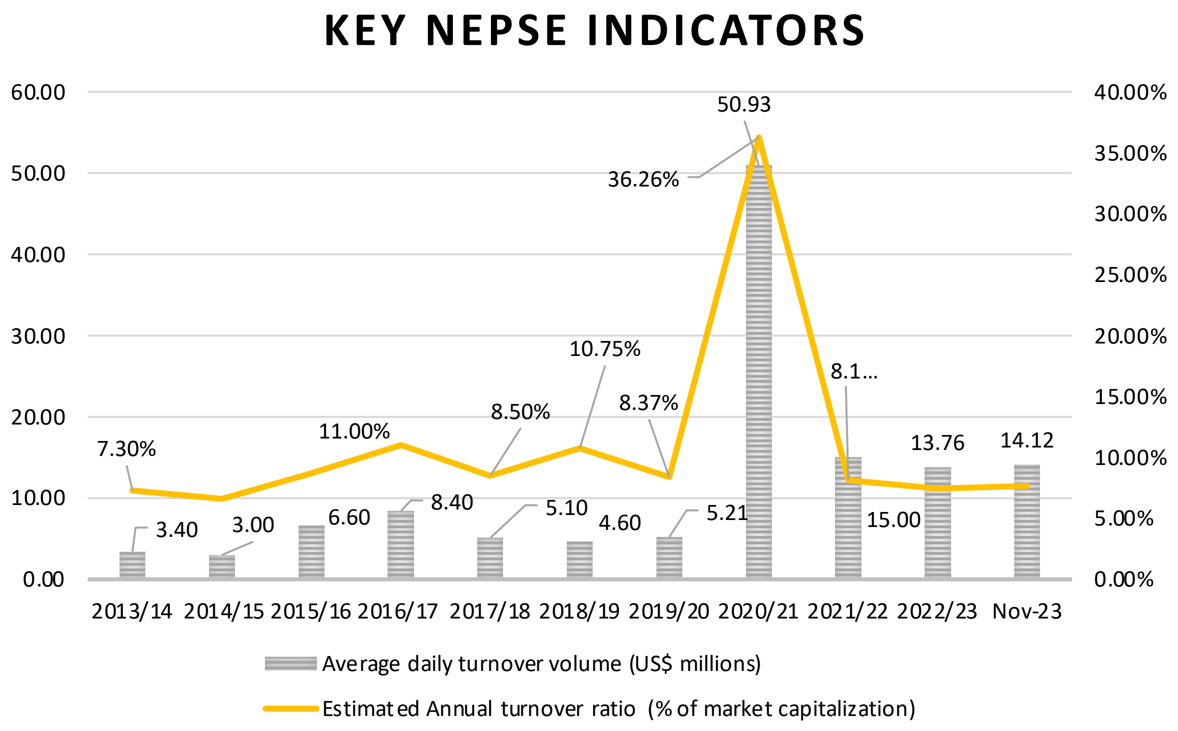


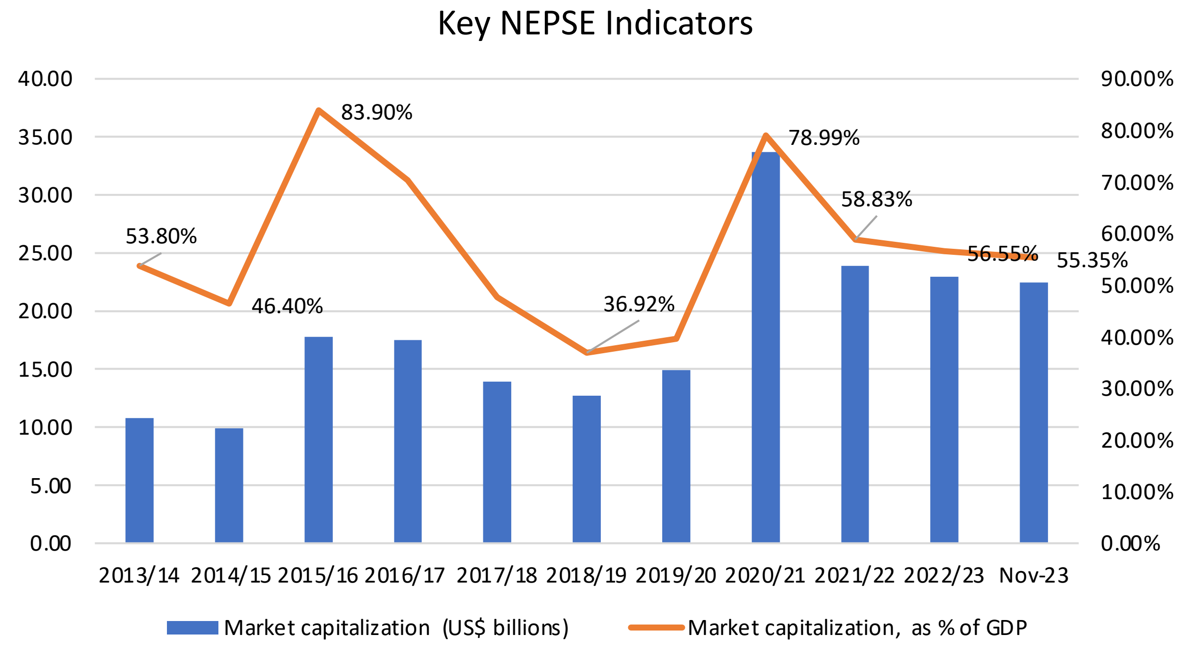


Capital Market









4

Fiscal Situation

Government of Nepal Receipts & Payments Status

Government Receipts & Payments Status	Annual Budget	28/11/2023	% age
1. Revenue (USD in million)	10,942.63	2,329.13	21.28%
a) Tax Revenue	10,042.15	2,150.49	21.41%
b) Non Tax Revenue	900.48	178.64	19.84%
2. Grants	384.18	21.22	5.52%
3. Other Receipts	-	125.77	
Total Receipt	11,326.81	2,476.12	21.86 %
2. Total Expenditure from Treasury	13,471.63	2,869.96	21.30%
a. Recurrent	8,782.95	2,209.32	25.15%
b. Capital	2,323.65	240.96	10.37%
c. Financing	2,365.03	419.68	17.75%
Deficit	(2,144.83)	(393.85)	

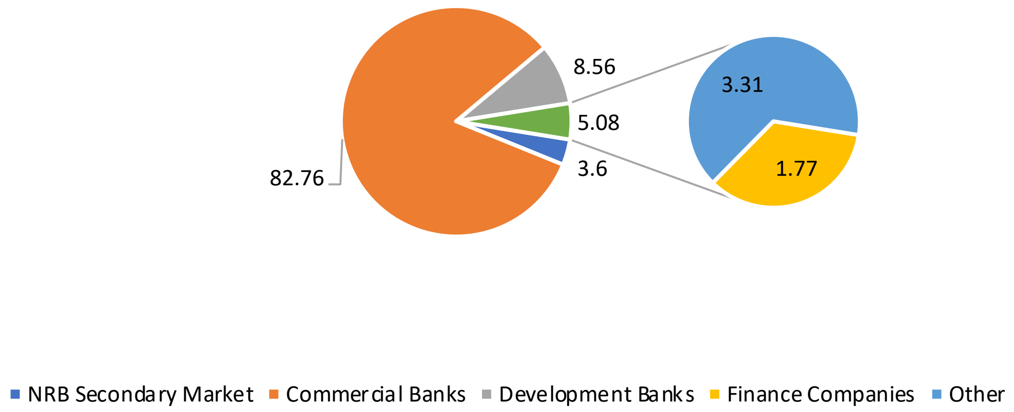
Key Economic Indicators

Particulars	Mid-Sept 2023 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 7.50 percent on y-o-y basis.
External Trade	Imports increased 1.7 percent, exports decreased 2.3 percent and trade deficit increased 2.1 percent.
Remittances	Remittances increased 30.0 percent in NPR terms and 25.9 percent in USD terms.
Balance of Payments	Balance of Payments remained at a surplus of $ 766 million.
Broad money (M2)	Broad money (M2) increased 3.1 percent. On y-o-y basis, M2 increased 14.0 percent.
Deposits and Loans and advances	Deposits at BFIs increased 2.8 percent and private sector credit increased 2.3 percent. On y-o-y basis, deposits increased 14.9 percent and private sector credit increased 4.8 percent.

Government of Nepal Treasury (USD= 119 NPR) (USD in million)

	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2021/22	Expenditure	82	643	1,940	2,381	3,187	4,090	4,892	5,576	6,535	7,428	8,385	10,465
	Revenue	784	1,417	2,143	2,809	3,466	4,555	5,155	5,754	6,632	7,214	7,851	8,900
	Treasury Position	2,338	2,467	2,006	2,316	2,447	2,335	2,558	2,818	2,799	2,710	2,933	1,897
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	2,473	2,238	1,536	1,533	1,673	1,722	1,722	1,602	1,608	1,516	1,426	605
F/Y 2023/24	Expenditure	287	942	2,289									
	Revenue	663	1,186	1,841									
	Treasury Position	1,756	1,614	1,441									

Ownership Structure of Government Securities



Economic Growth

The economic growth for the year 2022-23 is estimated to remain below 3% against the ambitious growth target of 8%. For FY 2023/24 GoN set GDP growth target rate at 6%

Growth 2022/23

Nepal GDP forecast

World Bank

Jan. 2023	**5.1%**	**(No change from Oct. 2022)**
April 2023	**4.1%**	**(1% down from Jan 2023)**
Oct 2023.	***1.9 %***	**(2.2% down from April 2023)**

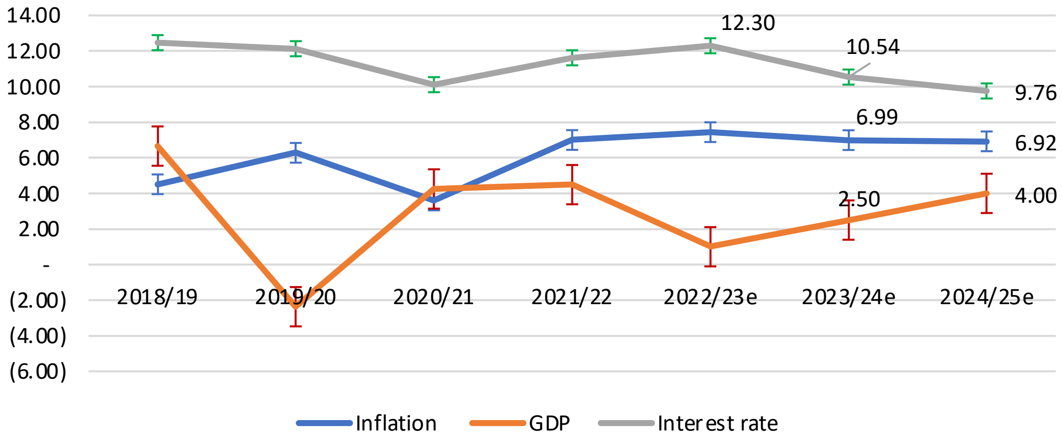
IMF

Jan. 2023	**5.1%**	**(0.9% up from Oct 2022)**
May 2023.	**4.40**	**(0.6% down from March 2023)**
Oct 2023.	**0.80**	**(3.6% down from May 2023)**

ADB.

Sept. 2022	**4.7%**	
April 2023	**4.1%**	**(0.6% down from Sept 2023\)**
Sept 2023.	**1.9%**	**(2.2% down from April 2023)**

CBS **April 2023** **2.16**



Inflation

Given the increase in price of oil and war between Russia and Ukraine the inflation has reached above target level. For FY 2023/24 the GoN set target rate of inflation at 6.5%

Don't let numbers mislead you! Forecasts for Nepal's GDP by various agencies exhibit substantial variation over a brief period. This underscores the potential for misleading figures and emphasizes the importance of exercising caution when employing forecasts to inform policy decisions and growth strategies.

Growth Rate of Seasonally Unadjusted National Quarterly GDP by Economic Activities (at basic Price , 2010/11)

	Industrial Classification	2078/79				2079/80		
		2021/22				2022/23		
		Q1	Q2	Q3	Q4	Q1 P	Q2 R	Average
A	Agriculture, forestry and fishing	2.7	3.4	2.3	0.7	1.6	2.6	Up
B	Mining and quarrying	24.0	8.1	8.2	-5.3	-12.4	-16.4	Down
C	Manufacturing	4.8	3.8	5.7	10.7	-2.9	-4.3	Down
D	Electricity, gas, steam and air conditioning supply	16.6	22.4	54.0	69.3	27.5	8.0	Down
E	Water supply; sewerage, waste management	0.5	0.5	1.7	0.3	0.2	0.1	Down
F	Construction	14.2	10.1	13.1	1.3	-15.0	-20.6	Down
G	Wholesale and retail trade; repair of motor vehicles & motorcycles	-12.2	14.0	0.2	46.9	0.7	-9.7	Down
H	Transportation and storage	16.4	7.6	-3.1	-5.4	-0.4	-5.5	Down
I	Accommodation and food service activities	-4.5	2.6	19.2	42.9	45.8	20.4	Down
J	Information and communication	10.6	5.4	0.5	-2.0	0.3	1.9	Down
K	Financial and insurance activities	3.9	-1.7	5.8	14.6	14.6	14.0	Up
L	Real estate activities	3.8	3.8	3.8	3.8	2.2	2.2	Down
M	Professional, scientific and technical activities	2.6	3.6	3.0	5.8	6.6	6.3	Up
N	Administrative and support service activities	-0.3	3.5	8.4	5.9	7.0	4.3	Down
O	Public administration and defence; compulsory social security	7.9	7.9	-0.6	1.7	4.6	5.7	Up
P	Education	10.1	6.6	-2.3	2.5	-0.3	2.6	Down
Q	Human health and social work activities	1.3	14.4	4.5	8.3	7.2	1.5	Down
R, S, T	Arts, entertainment and recreation; Other service activities; and Activities of households as employers	4.5	2.9	5.3	2.5	0.5	0.8	Down
	Aggregate	3.3	6.4	3.2	9.0	1.7	-1.1	Down

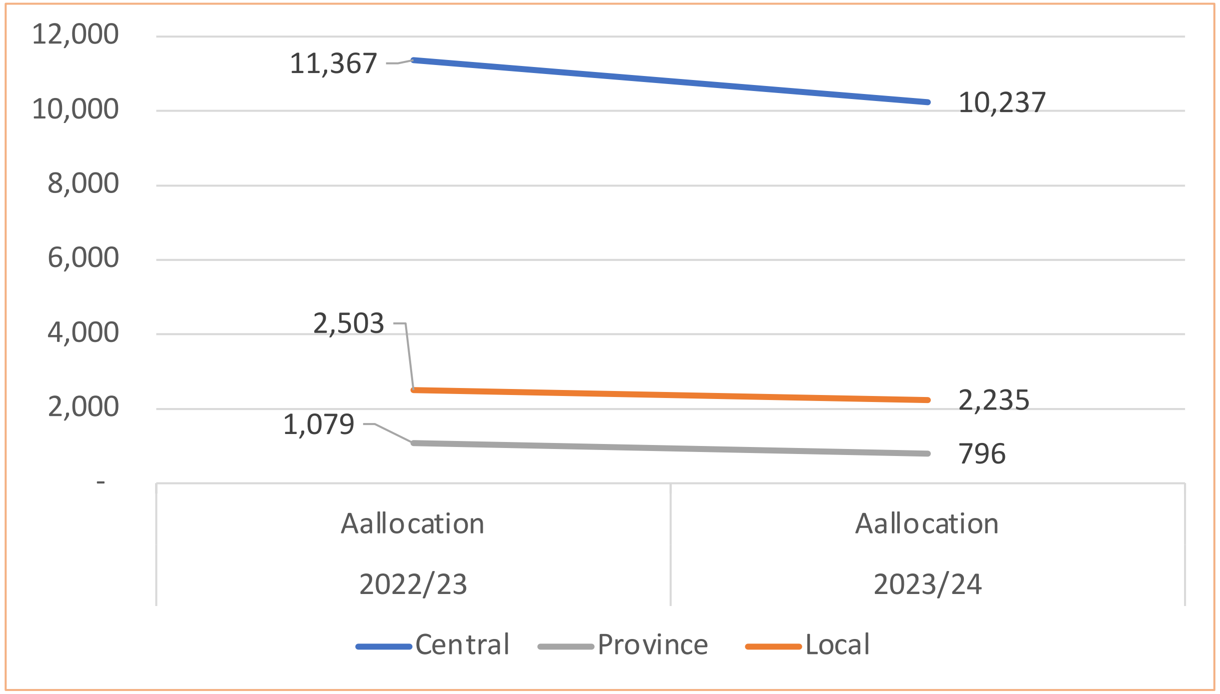
Budget Source and Allocation 2023/24

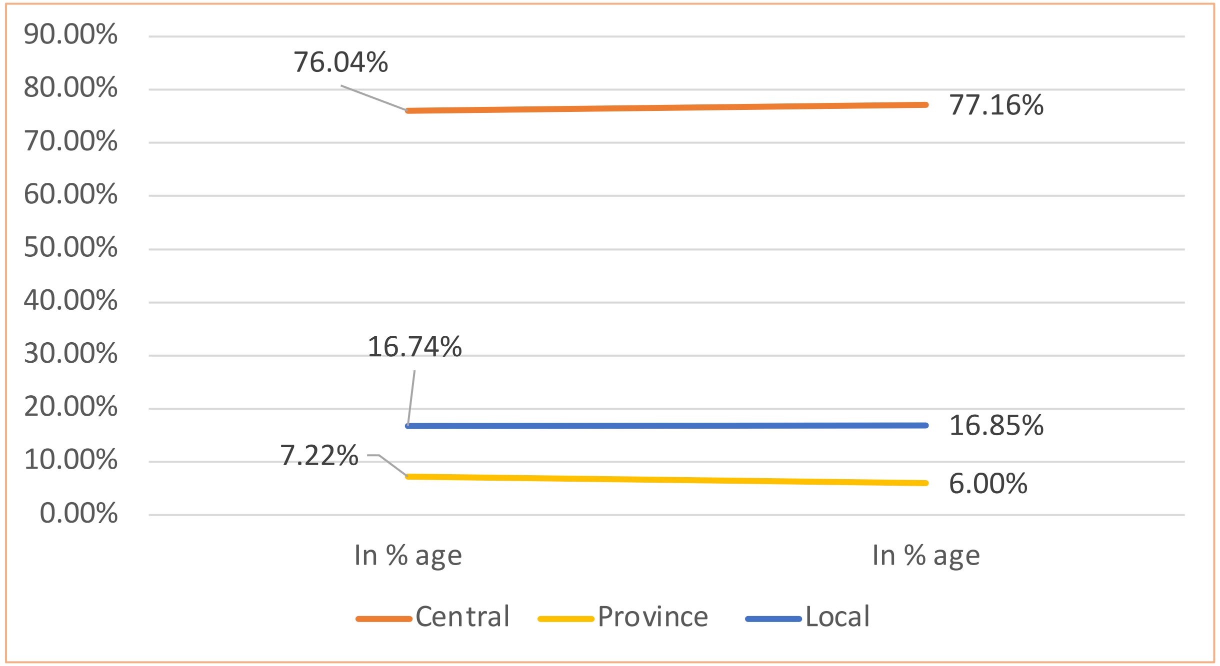
Budget Allocations

	Exchange Factor 1 USD = NPR 120							1 USD= NRP 132
Allocated Budget	Actual Budget Amount ($ Million) 2020/21	Actual Budget Amount ($ Million) 2021/22	Actual Amount ($ Million) 2021/22	Budget Amount ($ Million) 2022/23	Revised Amount ($ Million) 2022/23	Variance	Actual	Budget ($ Million) 2023/24
Current Expenditure	3,764.18	5,655.11	4,535.35	6,278.36	5,336.60	-15.00%	N/A	5,618.92
Capital Expenditure	1,906.97	3,118.91	1,801.78	3,169.87	2,152.88	-32.08%	1,797.66	2,288.44
Financial Provisioning	1,864.53	1,733.15	1,752.41	1,918.48	1,693.83	-11.71%	1,462.37	2,329.19
Intergovernmental Fiscal Transfer	3,287.63	3,222.64	3,383.96	3,581.94	3,358.33	-6.24%	N/A	3,030.96
Total	10,823.31	13,729.81	11,473.50	14,948.65	12,541.65	-16.10%	10,996.65	13,267.52
Gross Revenue Expenditure				12,155.04			11,913.03	

Budget Sources

	Exchange Factor 1 USD = NPR 120								1 USD= NRP 132		
Revenue Sources	Budget Amount ($ Million) 2020/21	Budget Amount ($ Million) 2021/22	Revised Amount ($ Million) 2021/22	Budget Amount ($ Million) 2021/22	Budget Amount ($ Million) 2022/23	Revised Amount ($ Million) 2022/23	Variance	Actual	Budget Amount ($ Million) 2023/24	Change over Budget 20222/23	Change over Actual 20222/23
Tax Revenue	7,211.40	8,540.89	8,487.72	8,216.69	10,334.32	8,666.67	-16.14%	8,419.96	9,462.27	9.18%	12.38%
Foreign Grant	304.01	528.14	206.74	229.07	462.15	320.49	-30.65%	177.48	375.33	17.11%	111.48%
Deficit	3,307.90	4,660.78	3,368.19	3,027.74	4,152.18	3,554.50	-14.39%	3,315.60	3,429.92	-3.50%	3.45%
Foreign Debt	1,441.24	2,577.44	1,440.65	1,089.11	2,018.84	1,421.16	-29.61%	N/A	1,611.74	13.41%	
Domestic Debt	1,866.67	2,083.33	1,927.53	1,938.63	2,133.33	2,133.33	0.00%	N/A	1,818.18	-14.77%	
Total	10,823.32	13,729.80	12,062.64	11,473.50	14,948.64	12,541.65	-16.10%		13,267.52	5.79%	





Observations:

1. The global unrest and the surge in commodity prices are poised to negatively impact government revenue receipts. Consequently, achieving the revenue growth target of 9.18% appears to be a formidable challenge.
2. The endeavor to mobilize $1,611 million in foreign loans appears ambitious. Furthermore, the acquisition of emergency financial assistance from multilateral agencies and securing other loans hinges on the progress achieved in various projects. Hence, it is imperative to enhance the capacity to absorb capital budget allocations effectively.
3. Domestic borrowing totaling $1,818 million, combined with limited liquidity in bonds and unexpected tax burdens associated with M&A transactions and tax issues related to FPOs, may exert pressure on Banking and Financial Institutions (BFIs). This pressure could potentially dissuade BFIs from extending credit to the private sector.
4. The target of mobilizing $375 million in foreign grants surpasses the grants received in recent years.
5. Approximately 22.84% of the budget, equivalent to $3,031 million, has been allocated to provincial and local governments. This allocation reflects a 1.12% decrease compared to the previous year. Nevertheless, the government aims to empower sub-national governments to assume a more substantial role in national priority projects.
6. Certain sections of the Finance Act have retroactively imposed taxes, necessitating explanatory notes to elucidate these clauses.

Budget Source and Allocation 2023/24

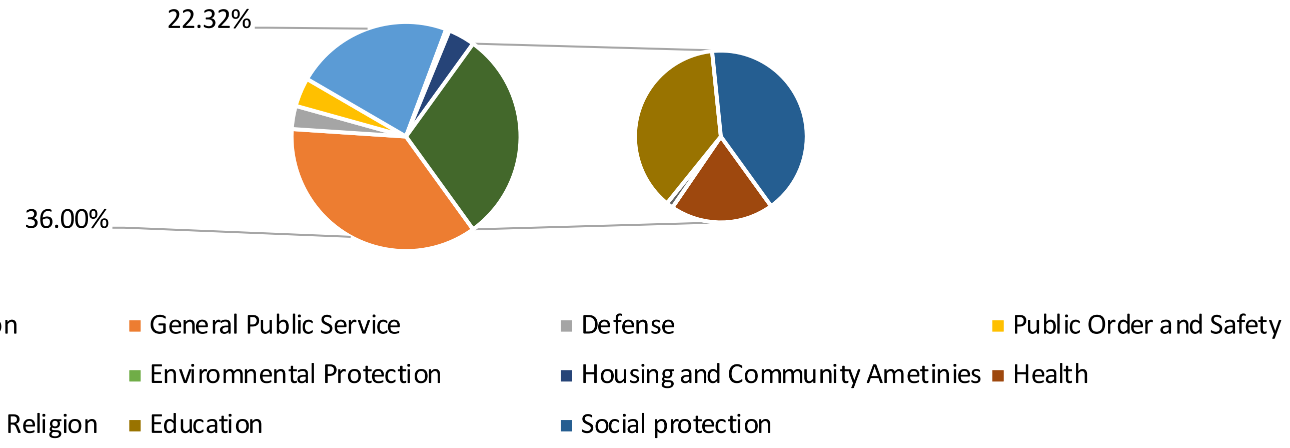
Areas of Budget allocation	2021/22		2022/23		2023/24		Compare to last year	
	Amount in $ Mn	in % age	Amount in $ Mn	in % age	Amount in $ Mn	in % age	In figure	In %
General Public Service	4,034	29.42%	4,779	31.97%	4,777	36.00%	Down	Up
Defense	414	3.02%	462	3.09%	434	3.27%	Down	Up
Public Order and Safety	484	3.53%	545	3.65%	539	4.07%	Down	Up
Economic Affair	3,684	26.87%	3,890	26.02%	2,962	22.32%	Down	Down
Enviromnental Protection	105	0.76%	92	0.61%	65	0.49%	Down	Down
Housing and Community Ametinies	671	4.89%	738	4.94%	500	3.77%	Down	Down
Health	1,180	8.60%	1,027	6.87%	779	5.87%	Down	Down
Recreation, Culture and Religion	56	0.41%	80	0.54%	50	0.38%	Down	Down
Education	1,500	10.94%	1,641	10.98%	1,498	11.29%	Down	Up
Social protection	1,582	11.54%	1,694	11.34%	1,663	12.53%	Down	Up
Total	13,709	100%	14,949	100%	13,268	1.00		
Exchnage Factor	USD 1 = NPR 120				USD 1 = NPR 132			

Sectoral distribution

- The allocation for general public service and Economic affair constitute approximately 58.33% of the budget.
- Decrease in allocation allocation of budget for Health and Environmental protection by 24% and 29% respectively.
- Budget for Recreation, Culture and Religion has been decreased by 37%.

Commitment of Budget

- Boost to economic growth through by increasing economic activities for achieving sustainable growth%.
- Improve confidence of private sector.
- Improve business and investment environment.
- Maintain financial stability.
- Improve governance.



Thank You!

Best regards,
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