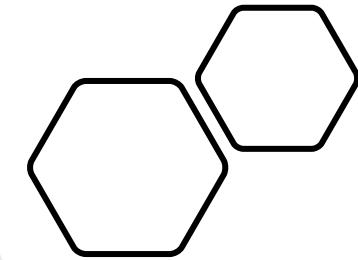


# Economic Outlook Based on Mid November 2023



Kala Legal

Protecting your creations



---

## Overview 2023/24

---

---

## Economic Information

---

---

## Financial Sector Highlites

---

---

## Fiscal situation

1

Overview 2023/24





## Investment Summit !

*The Government of Nepal is taking a proactive step by planning an Investment Summit, aiming to bolster the confidence of foreign investors. A keen eye is being kept on Nepal's economic development and legal reforms by potential foreign investors, who, in turn, express a cautious yet optimistic outlook. Many believe that Nepal has the potential to metamorphose into a "Land of Opportunities" if the government enhances administrative processes and expedites legal reforms.*

*To achieve this transformation, it is imperative for the Nepalese Government to meticulously identify and address challenges faced by both local and foreign investors. These include tackling investment restrictions, establishing clear entry routes in sectors with significant investment potential, and addressing the absence of long-term policies. Furthermore, ensuring policy consistency, creating a level playing field, reforming inflexible laws and regulations, and enhancing the efficiency of the judiciary system are vital steps toward fostering a favorable business environment.*

*Other identified impediments, such as multiple agencies engaging in similar activities requiring numerous approvals, bureaucratic delays, discretionary practices, and a high cost of entry, need to be systematically addressed. Simultaneously, focusing on infrastructure development, mitigating transaction costs, and revisiting repatriation policies are crucial components of this transformative process. By strategically identifying and solving these challenges, the authorities can eliminate bottlenecks, enhance efficiency, and create a conducive environment that attracts substantial investment. It is with optimism that we anticipate the resolution of these issues, paving the way for Nepal to fully realize its potential as a "Land of Opportunities."*

# Outlook 2024

---

*In the aftermath of the COVID-19 pandemic, Nepal faced a challenging credit crunch scenario in 2023. Despite these difficulties, there's a positive outlook on the horizon. The country's economic revival is underway, and although growth expectations dipped below historical averages, there's optimism for a robust recovery. The initial sense of pessimism is giving way to resilience and adaptability, with the potential for substantial economic progress.*

---

*While challenges persist, there's a concerted effort to overcome them. The consequences of the financial crisis are being addressed through strategic measures, fostering an environment conducive to investment, innovation, and overall economic development. The nation is on a trajectory to rebound from the setbacks experienced in the wake of the pandemic.*

---

*Despite the lingering effects on domestic demand, economic activities, and market confidence, there are positive signs of gradual improvement. Government revenue, including VAT collections, is expected to see an upturn as economic conditions stabilize. Although there are rising obligations related to social security and administrative payments, prudent financial management is being implemented to navigate these challenges successfully.*

---

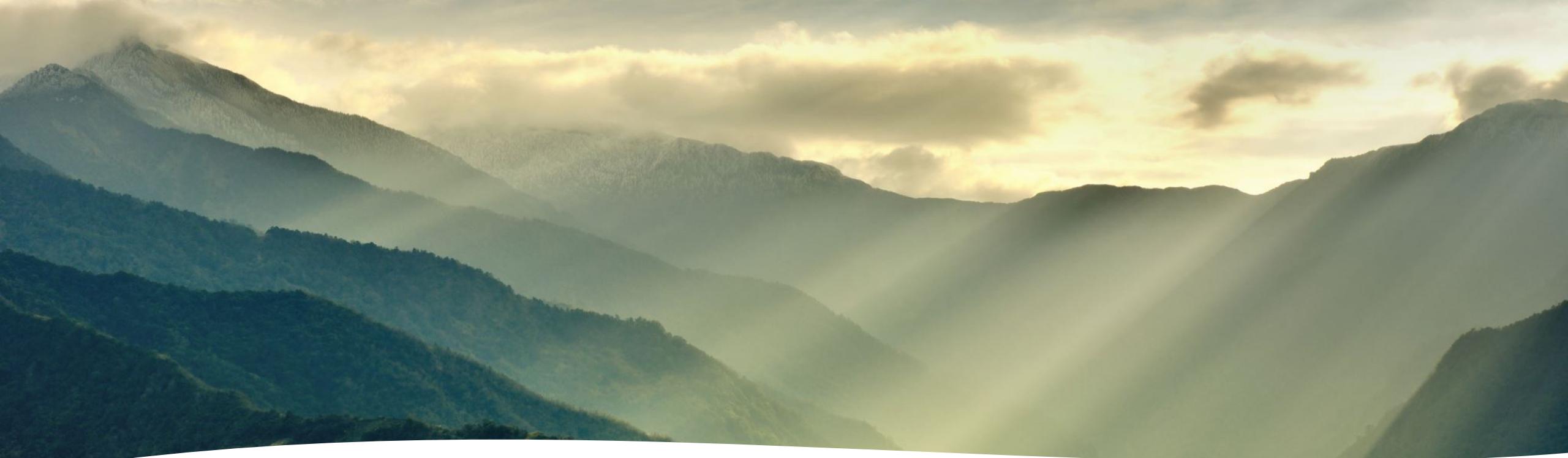
*While economic analysts acknowledge the potential for continued economic headwinds, there's a prevailing belief that Nepal is well-positioned to weather these conditions. Strategic monetary and fiscal policies are being carefully considered to ensure stability and support the ongoing economic recovery. The nation's resilience and proactive measures instill confidence in a brighter economic future.*

# 2024 “Optimistic” Outlook

The central bank is proactively tackling financial stability risks, acknowledging their significance in accomplishing primary objectives. The NRB recognizes that implementing monetary policy in isolation might unintentionally introduce stress into the financial system. This recognition is rooted in the understanding that financial instability could hinder central banks from achieving their inflation-related goals.

For instance, addressing inflationary pressures by raising the policy rate may highlight existing financial vulnerabilities, potentially leading to financial instability. The nature of the inflationary pressure prompting the tightening of monetary policy is a key consideration in determining how much a central bank can increase its policy rate without jeopardizing financial stability. This proactive approach underscores the commitment to maintaining a positive and secure financial environment.

- The economic data for December paints a positive picture of consumer spending, showcasing an improvement compared to the first quarter. Retail sales have experienced an uptick, marking a departure from the decline observed since January 2023. Notably, spending on motor vehicles, a sector sensitive to interest rates, has increased, indicating a potential positive impact of the accommodative monetary policy implemented by the Nepal Rastra Bank (NRB).
- Ongoing discussions about the overall relaxation of financial conditions last month, as evidenced by market interest rates and asset prices, are noteworthy. Expenditures at fuel stations are on the rise, driven by a significant drop in oil prices and an increase in the movement of products and services. The retail sector is witnessing heightened demand, reflecting a widespread enhancement in consumer demand.
- Additionally, there are positive indications of developments in both manufacturing and non-manufacturing activities by businesses. As long-term interest rates remain at moderate level, the general improvement in financial conditions is expected to support household and business spending.
- While these trends are encouraging, it's important to note that they don't conclusively guarantee their continuity. Just a few months ago, both inflation and economic activity rebounded, introducing a level of uncertainty about the future trajectory. Therefore, the recent easing of financial conditions serves as a reminder that various factors can influence these conditions, emphasizing the need for policymakers to exercise caution when relying on such measures to fulfill their responsibilities.



# Climate Change: Assessing Nepal's Role and Urgent Needs

*Despite not being a major contributor to climate change, Nepal is currently grappling with its severe consequences. Even though our nation has not significantly contributed to climate-altering activities, we are acutely feeling the impact.*

*As we endeavor to shield our beautiful country of Nepal from the adverse effects of climate change, it becomes imperative to call on countries with substantial emissions to acknowledge their pivotal role in this global challenge. Collaborative efforts are essential to ensure that Nepal receives its fair share of assistance for implementing effective climate protection measures.*

# 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:

**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.

### 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.

**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.

# 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 NRB 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 Contract 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.*

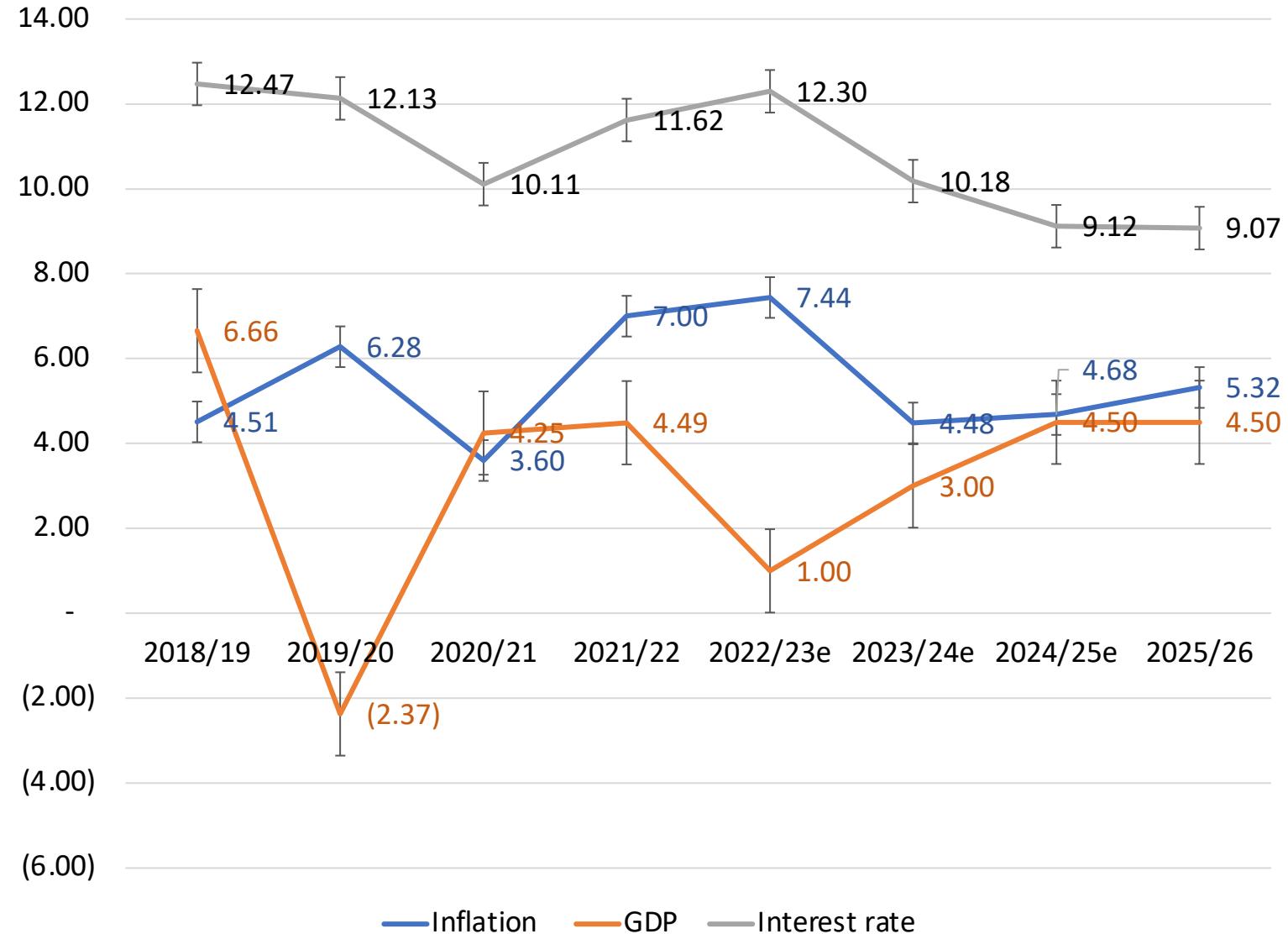
## Economic Information

2

## **Anticipated Inflation**

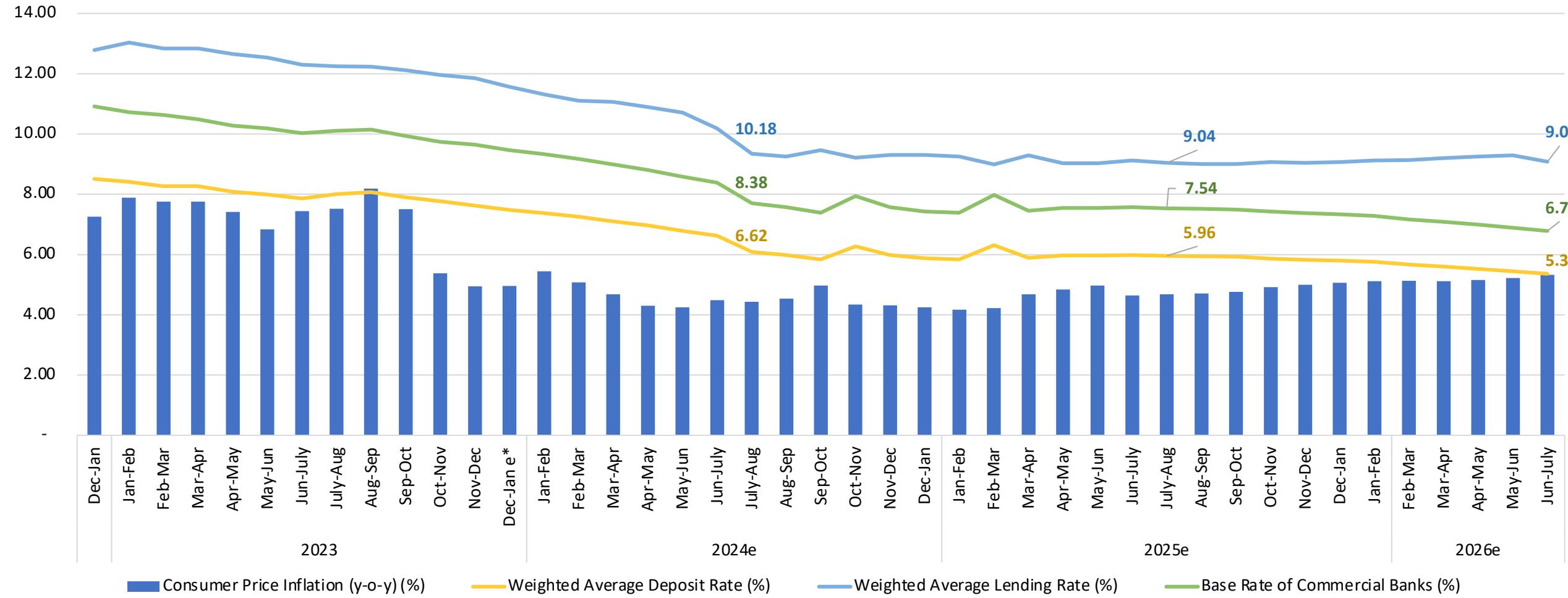
*In the face of global uncertainties, there's a pressing need for the Nepal Rastra Bank (NRB) to reassess its approach to anticipated inflation and acknowledge the possible misalignment between its objectives of inflation control and financial stability.*

*In the present circumstances, emphasizing financial stability implies that the NRB should concentrate on maintaining a target inflation rate with a generous margin of 2% on either side. Furthermore, the introduction of additional prudential regulations could serve as a complementary measure to reinforce overall financial stability. This reconsideration is critical given the complex and unpredictable global economic landscape.*



# Interest rates and Inflation

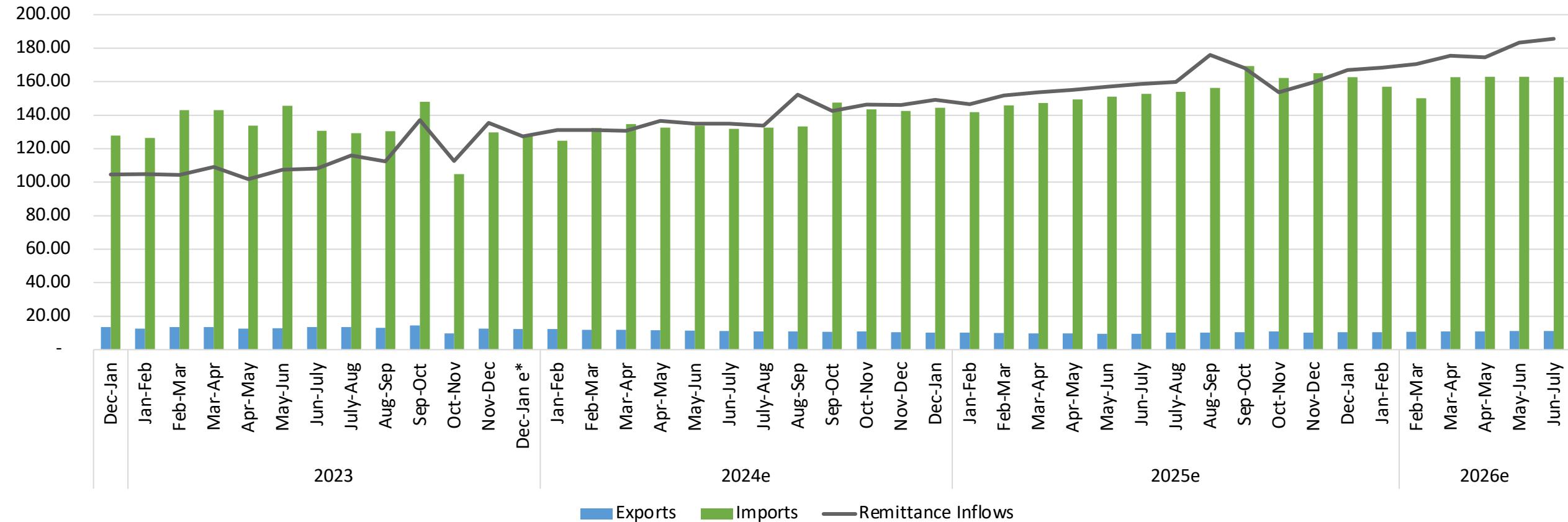
Rates and inflation



# Imports and Remittance outlook.

(NPR in billion)

Import and Remittance



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

# Monthly indicator. (NPR in billion)

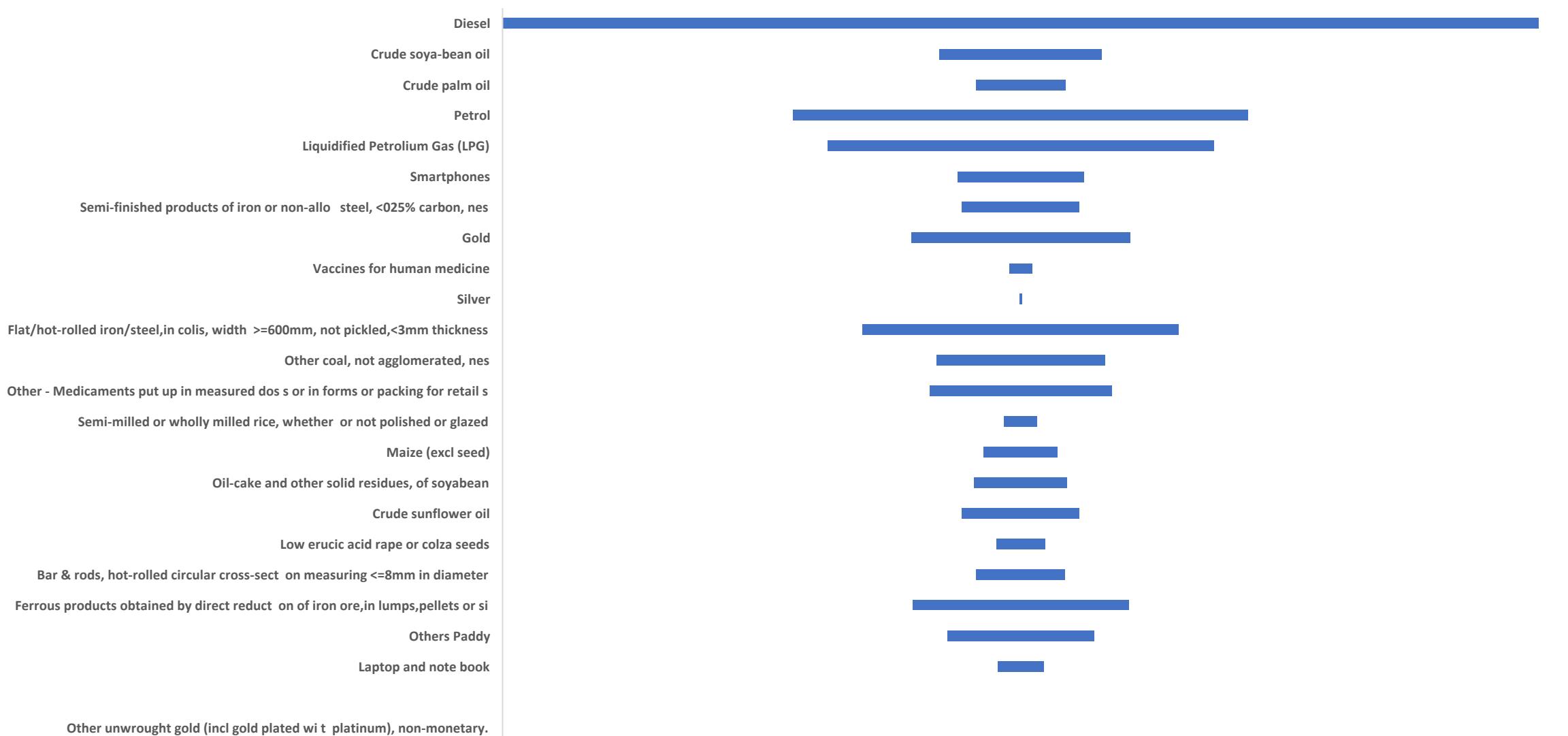
Particulars Amount in NPR Billion	2022		2023											Dec-Jan e*	
	Mid-Month														
	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Oct-Nov		
Consumer Price Inflation (y-o-y) (%)	7.26	7.88	7.76	7.76	7.41	6.83	7.44	7.52	8.19	7.50	5.38	4.95	4.96	4.96	
Exports	13.50	12.62	13.50	13.50	12.62	12.69	13.55	13.53	12.92	14.43	9.69	12.64	12.3	12.3	
Imports	127.9	126.5	143.10	143.1	133.8	145.7	130.8	129.2	130.5	148.0	104.7	129.7	127.8	127.8	
Remittance Inflows	104.6	104.8	104.4	109.1	101.8	107.3	108.0	116.0	112.4	137.0	112.6	135.3	127.4	127.4	
Government Expenditure	141.0	91.3	163.82	163.8	104.7	128.3	253.5	35.0	96.1	149.4	75.1	97.4	113.6	113.6	
Current Expenditure	100.9	76.4	97.92	97.9	80.0	90.7	128.4	12.1	75.5	125.7	57.8	88.8	100.5	100.5	
Capital Expenditure	19.5	12.8	22.99	23.0	18.4	27.4	80.6	0.8	7.3	9.7	12.2	60.7	13.2	13.2	
Revenue	132.1	55.7	108.73	108.7	72.4	80.6	120.3	78.9	62.2	78.0	57.5	86.8	134.2	134.2	
Deposit Mobilization	104.0	38.8	70.76	75.3	14.9	74.4	182.1	-133.2	125.7	166.1	-3.9	109.1	88.0	88.0	
Private Sector Credit	64.0	10.8	35.29	33.8	-8.8	4.2	18.6	-4.4	37.9	75.4	-9.6	10.7	61.2	61.2	
Weighted Average Deposit Rate (%)	8.51	8.41	8.26	8.26	8.08	7.99	7.86	8.00	8.06	7.90	7.76	7.62	7.48	7.48	
Weighted Average Lending Rate (%)	12.79	13.03	12.84	12.84	12.65	12.53	12.30	12.24	12.23	12.11	11.96	11.85	11.56	11.56	
Base Rate of Commercial Banks (%)	10.91	10.72	10.63	10.48	10.27	10.18	10.03	10.11	10.14	9.94	9.74	9.64	9.46	9.46	

Our view on the current level of External vulnerabilities

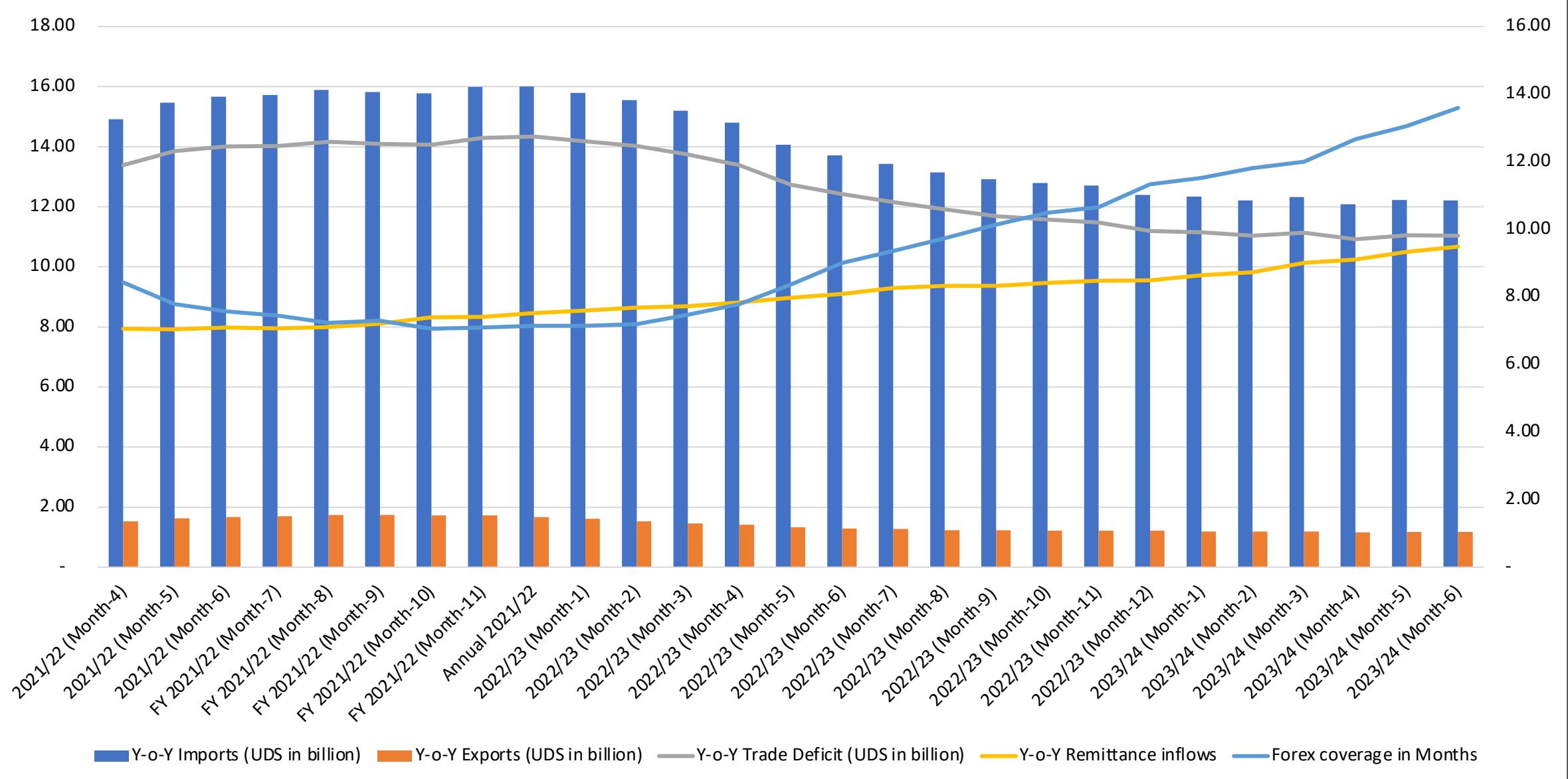
Conversion Rate: 1 USD= NRs 130, 2022/23 and 119, 2021/22 (USD in billion)

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-Dec.)	8.40	1.00	7.40	9.40	1.00	8.40	1.82
Share % in Total Trade	89.36	10.64					1 USD= 119 NPR
Trade deficit % GDP			19.73%				-
F.Y. 2079/790(2022/23) (Mid-Dec.)	6.10	0.62	5.48	6.72	1.00	9.84	1.40
Share % in Total Trade	90.77	9.23					1 USD= 119 NPR
Trade deficit % GDP			14.61%				
F.Y. 2080/81 (2023/24) (Mid-Dec.)	5.91	0.58	5.33	6.49	1.00	10.19	1.57
Share % in Total Trade	91.06	8.94					1 USD= 130 NPR
Trade deficit % GDP			14.21%				
Percentage Change in F.Y. 2079/80 (2022/23) compared to same period of the previous year	-27.38%	-38.00%	-25.95%	-28.51%		-23.08%	
Percentage Change in F.Y. 2080/81 (2023/24) compared to same period of the previous year	-3.11%	-6.45%	-2.74%	-3.42%		12.14%	

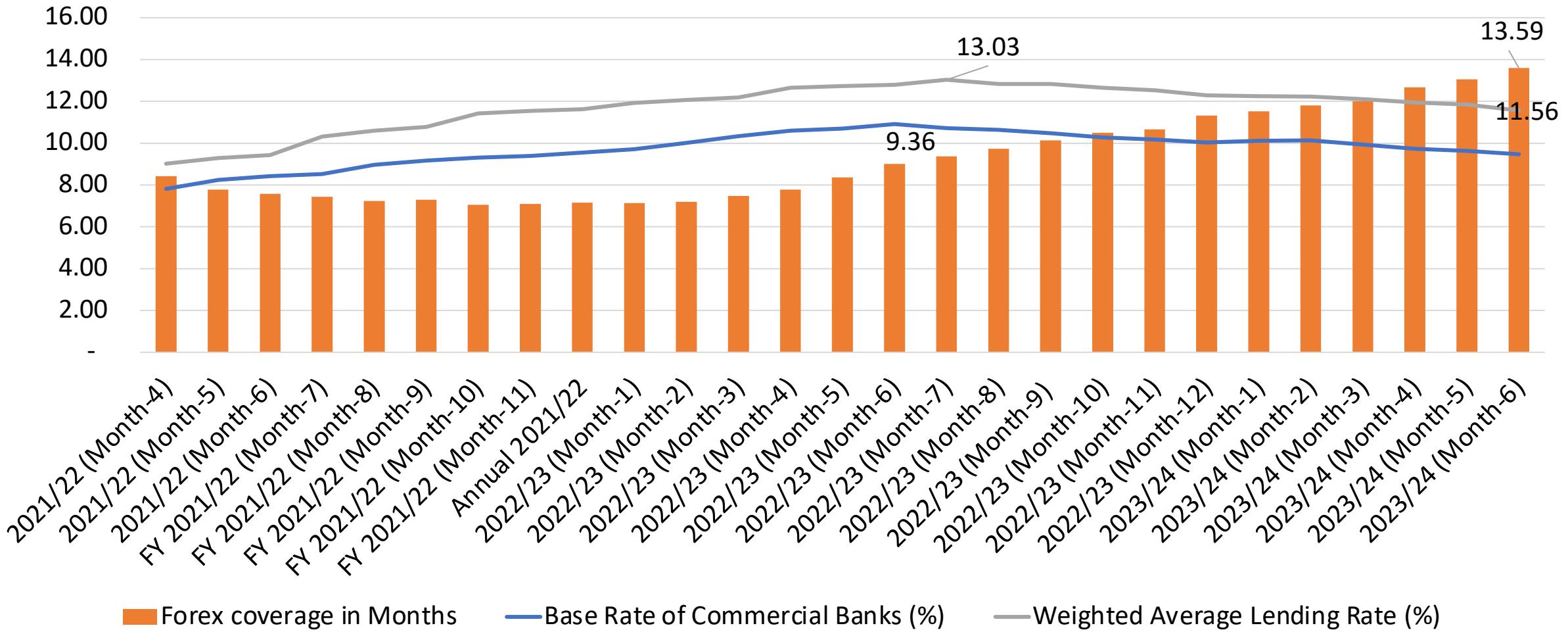
Imports surges during OCT. 2023							
Description	Surge in Quantity	Surge in Amount	Surge Amount USD Million	Share in Incremental imports	The Potential for BOP Overall Reversal Risk	Root of the incremental imports	
Smartphones	75%	76%	31.28	24.06%	Insignificant	Festival Demand	
Fertilizer	114%	104%	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%			
<b>Total Incremental Value</b>			130.00	100%			



## Y-O-Y External Sector



# Interest rates and Extranational Sector



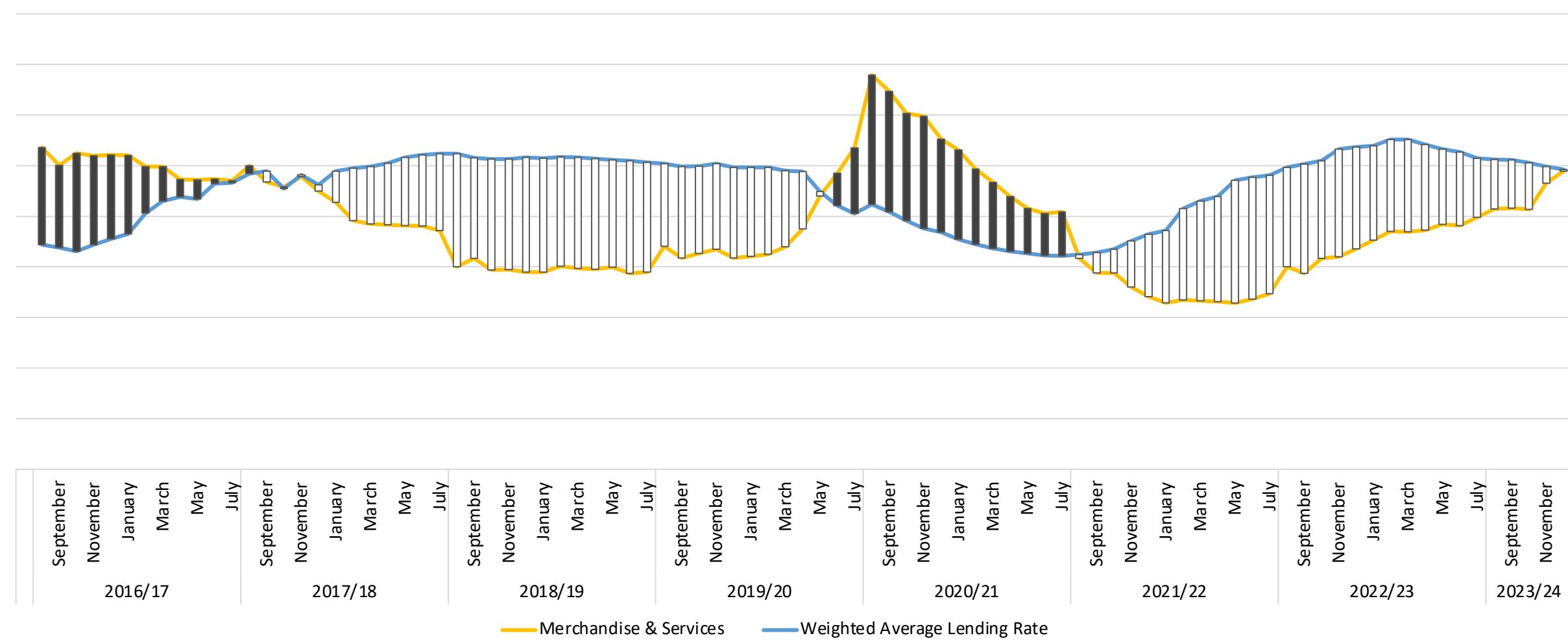
Trade Indicators	2022/23								2023/24							
	2022/23 (Month-6)	2022/23 (Month-7)	2022/23 (Month-8)	2022/23 (Month-9)	2022/23 (Month-10)	2022/23 (Month-11)	Annual 2022/23	2023/24 (Month-1)	2023/24 (Month-2)	2023/24 (Month-3)	2023/24 (Month-4)	2023/24 (Month-5)	2023/24 (Month-6)	Y-o-Y	Remarks	
Imports (UDS in billion)	6.10	7.07	8.14	9.24	10.27	11.39	12.40	0.99	2.00	3.14	3.94	4.94	5.91	12.23	Down	
Monthly Imports	0.99	0.97	1.07	1.10	1.03	1.12	1.01	0.99	1.01	1.14	0.80	1.00	0.97			
Exports (UDS in billion)	0.62	0.72	0.81	0.91	1.01	1.10	1.21	0.10	0.20	0.31	0.39	0.49	0.58	1.18	Down	
Montly Exports	0.10	0.10	0.09	0.10	0.10	0.09	0.11	0.10	0.10	0.11	0.08	0.10	0.09			
Trade Deficit (UDS in billion)	5.48	6.35	7.33	8.33	9.26	10.29	11.19	0.89	1.80	2.83	3.55	4.45	5.33	11.05	Down	
Total Foreign Trade (UDS in billion)	6.72	7.79	8.95	10.15	11.28	12.49	13.61	1.09	2.20	3.45	4.33	5.43	6.49	13.41	Down	
Monthly Import Revenue	0.22	0.23	0.23	0.26	0.25	0.25	0.28	0.25	0.27	0.32	0.21	0.27	0.25			
Total Import revenue	1.40	1.63	1.86	2.12	2.37	2.62	2.90	0.25	0.52	0.84	1.05	1.32	1.57	3.04	Up	
Montly Remittance	0.81	0.80	0.84	0.78	0.83	0.83	0.89	0.89	0.86	1.05	0.87	1.04	0.98			
Remittance inflows	4.58	5.38	6.22	7.00	7.83	8.66	9.55	0.89	1.76	2.81	3.68	4.72	5.70	10.67	Up	
Imports/Exports Ratio	9.84	9.82	10.05	10.15	10.17	10.35	10.25	9.90	10.00	10.13	10.10	10.08	10.19	10.36	Up	
Exports Share to Total Trade (%)	9.23	9.24	9.05	8.97	8.95	8.81	8.89	9.17	9.09	8.99	9.01	9.02	8.94	10.68	Up	
Imports Share to Total Trade (%)	90.77	90.76	90.95	91.03	91.05	91.19	91.11	90.83	90.91	91.01	90.99	90.98	91.06	89.32	Down	
Monthly Trade Deficit (UDS in billion)	0.89	0.87	0.98	1.00	0.93	1.03	0.90	0.89	0.91	1.03	0.72	0.90	0.88			
Trade deficit % GDP	14.61%	16.93%	19.54%	22.20%	24.68%	27.43%	29.83%	2.37%	4.80%	7.54%	9.46%	11.86%	14.21%	29.45%	Down	
Change in Monthly Trade Deficit %	15.89%	-2.25%	12.64%	2.04%	-7.00%	10.75%	-12.62%	1.12%	2.20%	11.65%	-43.06%	20.00%	-2.27%			
Conversion Factor	130	130	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 Annual Import Value	2022/23				2022/23				2022/23				2022/23				2023/24				2023/24				Estimated Annual import Value 2023/24		Import Direction
		6 month	7 month	8 month	9 month	10 month	11 month	month	month	month	month	month	month	month	month	month	month	month	month	month	month	month	month	month	month	2023/24		
Diesel	1,402	539	651	761	865	984	1,058	1,183	57	121	230	310	415	511	1,287	Decline												
Crude soya-bean oil	468	183	203	213	231	245	262	274	15	23	35	44	55	60	130	Decline												
Crude palm oil	328	129	137	155	170	178	189	199	6	18	27	35	44	50	80	Decline												
Petrol	595	258	298	340	383	429	472	514	42	87	132	176	220	261	565	Growth												
Liquidified Petroleum Gas (LPG)	546	217	256	298	354	383	418	447	29	56	89	119	159	196	386	Decline												
Smartphones	317	100	114	128	144	157	172	188	22	41	73	89	105	116	195	Growth												
Semi-finished products of iron or non-alloy steel, <0.25% carbon, nes	427	80	92	110	128	146	162	176	12	24	28	30	38	49	118	Decline												
Gold	297	84	97	127	133	149	172	172	13	32	57	63	77	83	190	Decline												
Vaccines for human medicine	267	41	43	53	77	84	86	5	9	10	17	19	22	34	Decline													
Silver	109	2	3	5	6	7	10	12	0.03	0.58	0.77	1.00	1.00	1.00	2	Decline												
Flat/hot-rolled iron/steel,in coils, width >=600mm, not pickled,<3mm thickness	239	36	54	67	93	118	139	158	26	46	75	87	111	144	328	Growth												
Other coal, not agglomerated, nes	300	78	91	116	149	170	192	209	16	27	35	43	59	83	195	Growth												
Other - Medicaments put up in measured doses or in forms or packing for retail s	192	92	110	125	141	154	171	190	12	32	54	67	84	102	227	Growth												
Semi-milled or wholly milled rice, whether or not polished or glazed	198	47	56	62	67	71	76	83	7	9	10	11	19	25	50	Decline												
Maize (excl seed)	155	64	76	81	87	100	120	127	8	13	19	23	35	47	98	Decline												
Oil-cake and other solid residues, of soyabean	170	50	59	67	73	81	88	98	12	22	32	42	59	72	178	Growth												
Crude sunflower oil	151	56	68	84	102	115	129	139	14	23	35	42	52	60	134	Growth												
Low erucic acid rape or colza seeds	103	34	46	55	62	67	70	72	6	11	15	24	33	40	79	Growth												
Bar & rods, hot-rolled circular cross-section measuring <=8mm in diameter	121	41	55	72	83	90	104	114	12	19	27	29	34	41	111	Decline												
Ferrous products obtained by direct reduction of iron ore,in lumps,pellets or si	200	148	182	205	236	268	306	335	29	54	74	92	115	149	314	Growth												
Others Paddy	134	75	100	110	123	130	140	154	21	22	23	23	31	40	116	Decline												
Laptop and note book	95	24	28	31	34	38	42	48	6	11	16	19	24	29	58	Growth												

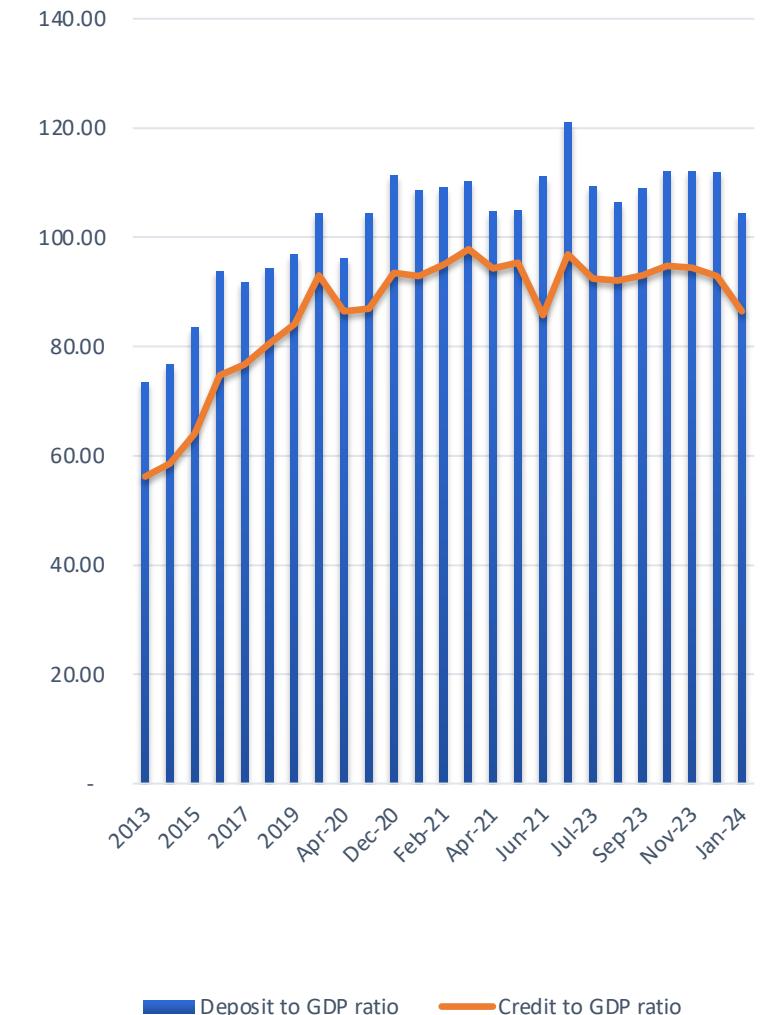
# Import Capacity in Months and Lending Rate!



# *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.*

**GDP to Deposit and Loan and Advances**



# Financial Sector highlights

---

3

# Economic Performance

Real Sector		Outlook																					
		Outlook																					
Corporate performance	<p>Following the accommodative stance adopted by the NRB, there is a promising outlook for a substantial decrease in the population of MSMEs experiencing negative economic profitability. This positive trend is likely to contribute to a reduction in default rates. Additionally, a considerable portion of large corporations has witnessed notable enhancements in the return on invested capital (ROIC), accompanied by a rapid decline in the weighted average cost of capital (WACC). As a result, there is a lessened pressure on sustaining a favorable ROIC for these corporations.</p>	Banking system	<p>Anticipated positive trends indicate that Banking and Financial Institutions (BFIs) are poised for increased profitability in the fiscal year 2025/26. This optimistic outlook is primarily fueled by the favorable impacts arising from the availability of loan reconstruction and rescheduling facilities. Despite facing additional tax burdens and challenges associated with a low-interest margin environment and limitations on non-interest income, the sector is foreseen to witness an upturn in profitability, particularly driven by the reduction in Non-Performing Assets (NPA). As of the current status, the NPLs and Loan Loss Provisions (LLP) of BFIs stand at \$1.40 billion and \$1.47 billion, respectively.</p>																				
Working Capital financing	<p>Under the Working Capital financing guidelines, borrowers are likely to confront persistent obstacles when seeking to inject new equity into their operations. The prolonged working capital cycle will impede borrowers' capacity to finance their operational needs internally. This protracted cycle renders the injection of fresh equity impractical, given the inadequacy of internal resources. As a result, the enforcement of these updated working capital regulations is anticipated to yield adverse consequences, potentially hampering industrial growth and unsettling the equilibrium in supply chain management. <b>Sector-specific adjustments remain pending, adding to the prevailing sense of pessimism.</b></p>	Non-performing assets	<p>Exercise caution as Non-Performing Loans (NPLs) are projected to approach approximately 3.75% by the conclusion of July 2024. Despite this estimation, the prevailing uncertainty is anticipated to exert a notable influence on both bank capitalization and profitability, potentially leading to cascading effects in various sectors.</p>																				
Household debt Regrouped	<p>While the corporate sector bears a substantial portion of the debt burden, it's encouraging to highlight the positive trend of a significant increase in household debt. It's worth noting that, even with this growth, household debt remains below the levels observed in advanced economies.</p>	Lending Growth	<p>Prioritizing the reduction of corporate sector indebtedness and curbing the expansion of household debt is essential, even though it is expected to pose challenges to overall economic activity. This strategic focus, however, lays the groundwork for fostering a more resilient and sustainable economic environment in the long run.</p>																				
		<table border="1"> <thead> <tr> <th>Household debts</th> <th>\$ million</th> </tr> </thead> <tbody> <tr> <td>Residential Personal Home Loan (Up to Rs. 20 million)</td> <td>2,905.14</td> </tr> <tr> <td>Margin Nature Loan</td> <td>624.54</td> </tr> <tr> <td>Hire Purchase Loan</td> <td>276.23</td> </tr> <tr> <td>Credit Card</td> <td>41.72</td> </tr> <tr> <td>Education Loan</td> <td>359.62</td> </tr> <tr> <td>Gold/Silver</td> <td>418.7</td> </tr> <tr> <td>Fixed A/c Receipt</td> <td>279.9</td> </tr> <tr> <td>Total</td> <td>4,905.85</td> </tr> <tr> <td>% of total Loan</td> <td>12.61%</td> </tr> </tbody> </table>		Household debts	\$ million	Residential Personal Home Loan (Up to Rs. 20 million)	2,905.14	Margin Nature Loan	624.54	Hire Purchase Loan	276.23	Credit Card	41.72	Education Loan	359.62	Gold/Silver	418.7	Fixed A/c Receipt	279.9	Total	4,905.85	% of total Loan	12.61%
Household debts	\$ million																						
Residential Personal Home Loan (Up to Rs. 20 million)	2,905.14																						
Margin Nature Loan	624.54																						
Hire Purchase Loan	276.23																						
Credit Card	41.72																						
Education Loan	359.62																						
Gold/Silver	418.7																						
Fixed A/c Receipt	279.9																						
Total	4,905.85																						
% of total Loan	12.61%																						

Major Risks/Impact	High	Medium	Low	Remarks
<i>Excessive capacity, supply constraints, and intense competition within the manufacturing sector could potentially have adverse repercussions on asset quality.</i>		v		Improved
<i>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.</i>		v		Improved
<i>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).</i>		v		Improved
<i>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.</i>			v	Improved
<i><b>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.</b></i>		v		Improved
<i>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.</i>		v		(BFI paid \$ 92 million in taxes for the FPO bargain pricing)
<i>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.</i>		v		Improved
<i>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.</i>		v		No-change

# Risk Matrix

	Condition	Related effect	Risk	
Low saving/Investment	Improving wholesale and retail operations.	Aggregate demand	Increase	Moderate
	Enhancing foreign exchange reserves and experiencing a substantial inflow of remittances	Pressure on BOP	Decline	Low
	Corporate cash recovery.	Firm Investment	Improve	Moderate
	Improve disposable income.	Consumer spending	Improve	Moderate
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	improvement of consumer's demand	Increase	Moderate
FDI inflow Outlook	Demand for liquidity in host countries	Flow of FDI	Low	High
Level of NPL	Reconstruction and rescheduling	Reduce NPL	Decline	Moderate
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	IMPLEMENTABILITY	PRIORITY ORDER
Risk Assets management	<i>The third review of the working capital guidelines should incorporate sector-specific requirements, given that the second amendment does not adequately address them.</i>	Immediate	Possible	High
	<i>Downward revision of policy rates and continuation of Refinancing for another one year</i>	Immediate	Possible	Medium
	<i>Allow assets purchase and allow Peer-to-peer lending and invoice discounting</i>	Immediate	Possible	High
	<i>Review Risk Assets pricing policy</i>	Immediate	Possible	High
	<i>Design and implement a second-phase recovery and stimulus package for agriculture, industries and services</i>	Immediate	Possible	High
	<i>Review base rate calculation method to include all costs</i>	Immediate	Possible	Medium
	<i>Implement mandatory taking Permanent Account Number (PAN) for all size loan.</i>	Immediate	Possible	Medium
Liquidity Management	<i>Replace CD ratio by Net-Liquidity Ratios</i>	Immediate	Possible	High
	<i>Review of Saving Deposit interest rate policy</i>	Immediate	Possible	High
	<i>Review of SLF policy, and Assets purchase policy of NRB</i>	Immediate	Possible	High
	<i>Discourage cash transactions and promote electronic payment system by focusing on digitization &amp; Fin-tech and reducing the cost of transactions</i>	Immediate	Possible	High

# Way forward

	Specific measures/Workability	Timeframe	Implementability	Priority order
Legal reform	<i>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.</i>	Immediate	Possible	High
	<i>Establish an exit policy aimed at balancing the ownership structure to enhance transparency and governance.</i>	Medium-term	Possible	High
	<i>Implement separate policies to supervise systematically important banks.</i>	Medium-term	Possible	High
MSMEs	<i>Initiate steps to have single definition of MSMEs across all regulators. Increase coverage of credit guarantees on MSME loans.</i>	Immediate	Possible	High
	<i>Introduce policy to scale-up agriculture base MSMEs, which can immediately create employment and substitute imports</i>	Immediate	Possible	High
	<i>Introduce E-commerce and digital solutions to increase access short-term bridge loans to micro and small businesses, and digital payments.</i>	Short-term	Possible	High
Risk Assets	<i>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.</i>	Short-term	Possible	High
Forex	<i>Sustain the credibility of the exchange rate peg by periodically reviewing foreign exchange policies and directives.</i>	Long-term	Possible	High

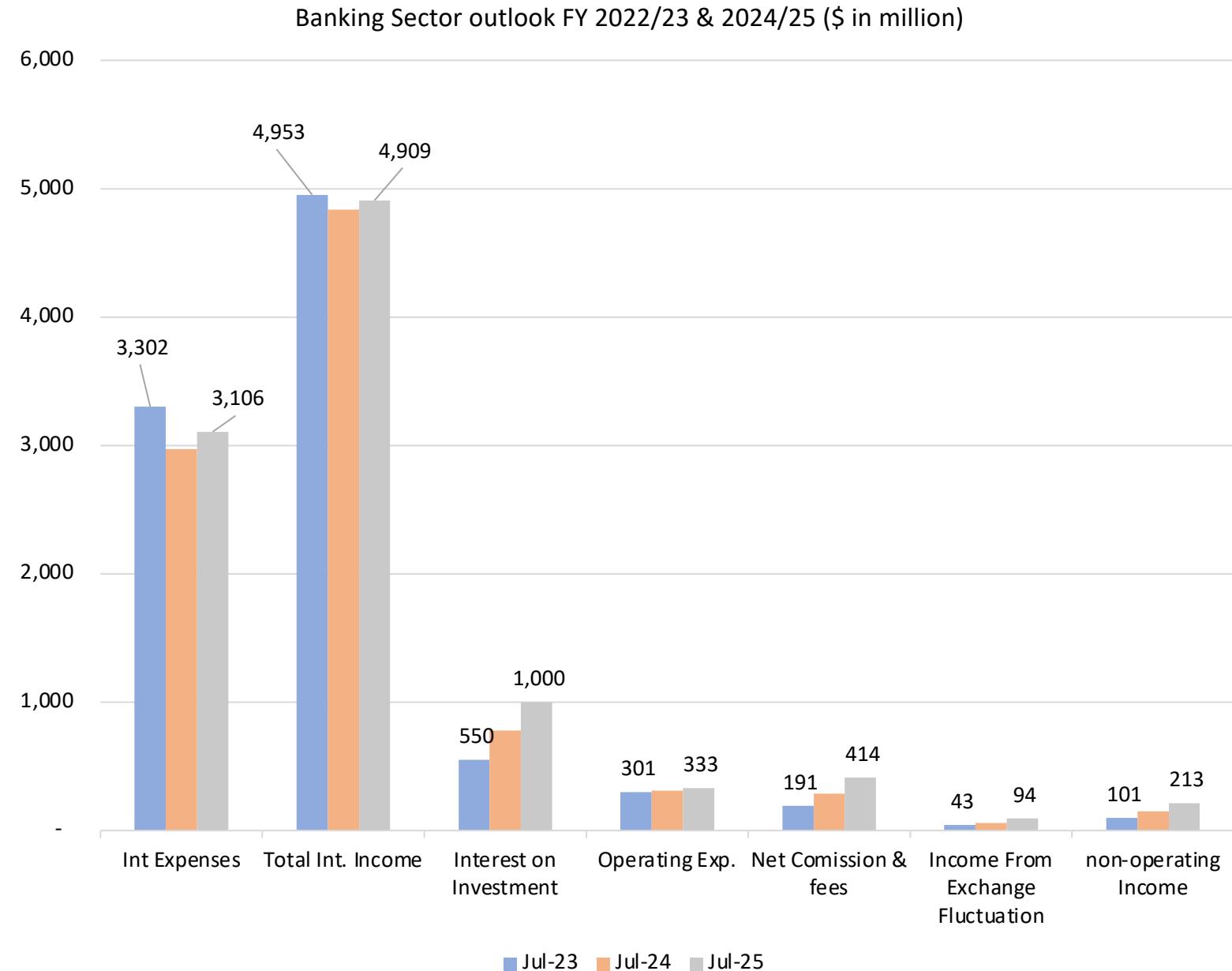
# BFIs Outlook 2023/24, 2024/25 and 2025/26

Amount in \$ Million													
Assets and Liability (Exchange Factor \$ 1 = NPR 130)							Profit and loss						
Particulars	July 2024e	Change	July 2025e	Change	July 2026e	Change	Int on Loans and Adv.	July 2024e	Change	July 2025e	Change	July 2026e	Change
CAPITAL FUND	5,966	13.53%	6,950	16.49%	6,965	0.21%	Total Int. Income	4,058	-7.82%	3,909	-3.66%	4,181	6.95%
PAID UP CAPITAL	3,292	0.64%	3,385	2.82%	3,411	0.75%	Avg. Yield From Loan (cash basis)	4,836	-2.36%	4,909	1.52%	5,006	1.97%
BORROWINGS	2,117	7.79%	2,368	11.88%	2,281	-3.67%	Int Expenses	2,970	-10.06%	3,106	4.58%	2,772	-10.74%
Borrowing from NRB	24	52.98%	11	-55.32%	8.97	-15.60%	Avg. Cost of Fund	6.62%	-16.21%	5.98%	-9.69%	5.36%	-10.38%
DEPOSITS	49,259	10.96%	53,502	8.61%	56,886	6.33%	NII	1,866	13.05%	1,803	-3.35%	2,234	23.85%
Current	3,270	-6.38%	4,042	23.62%	4,066	0.59%	Interest Spread	3.56%	-9.21%	3.14%	-11.83%	3.71%	18.40%
Saving	12,303	5.29%	13,344	8.46%	18,283	37.01%	Commission & fees	286	49.63%	414	44.59%	508	22.90%
Fixed	30,086	16.43%	31,587	4.99%	29,434	-6.82%	Ex. Fluctuation Gain	61	42.72%	94	54.06%	130	37.89%
Call	3,158	5.07%	3,997	26.55%	4,439	11.07%	Other Operating & Non-operating Income	150	49.47%	213	41.75%	214	0.56%
Others	441	19.23%	532	20.57%	664	24.88%	Gross Income	2,363	19.06%	2,524	6.80%	3,086	22.25%
LIQUID FUNDS	4,633	12.81%	5,102	10.11%	5,336	4.59%	Employees Exp	443	4.39%	453	2.32%	481	6.17%
GOVT. SECURITIES/OTHER	10,457	29.52%	12,280	17.43%	14,482	17.93%	Employee cost in % of Total Int. Income	9.15%	6.58%	8.40%	-8.23%	8.40%	0.00%
Investment in share and other	2,450	-2.69%	2,939	19.98%	3,093	5.24%	Office Operating Exp	310	3.21%	333	7.12%	355	6.68%
LOANS & ADVANCES	39,854	6.22%	42,869	7.57%	46,071	7.47%	LLP & write-off	655	23.96%	365	-44.21%	231	-36.66%
Total Capital/RWA	13.61%	6.40%	14.58%	7.12%	13.62%	-6.62%	Additional LLP to Risk Assets	1.62%	19.86%	0.83%	-48.71%	0.50%	-39.57%
CD	80.22%	-2.56%	79.42%	-0.99%	80.34%	1.16%	Provision Written Back	182	-14.22%	178	-2.00%	356	100.00%
NPL /Total Loan	3.74%	45.13%	3.00%	-20.00%	2.72%	-9.05%	PBT	1,137	20.48%	1,551	36.42%	2,375	53.09%
Return on Capital Employed	12.27%	-3.87%	14.38%	17.11%	21.96%	52.77%	Return on total assets	1.67%	4.77%	2.08%	24.02%	2.89%	39.18%

# Profitability of BFIs.

(Exchange Factor \$ 1 = NPR 130

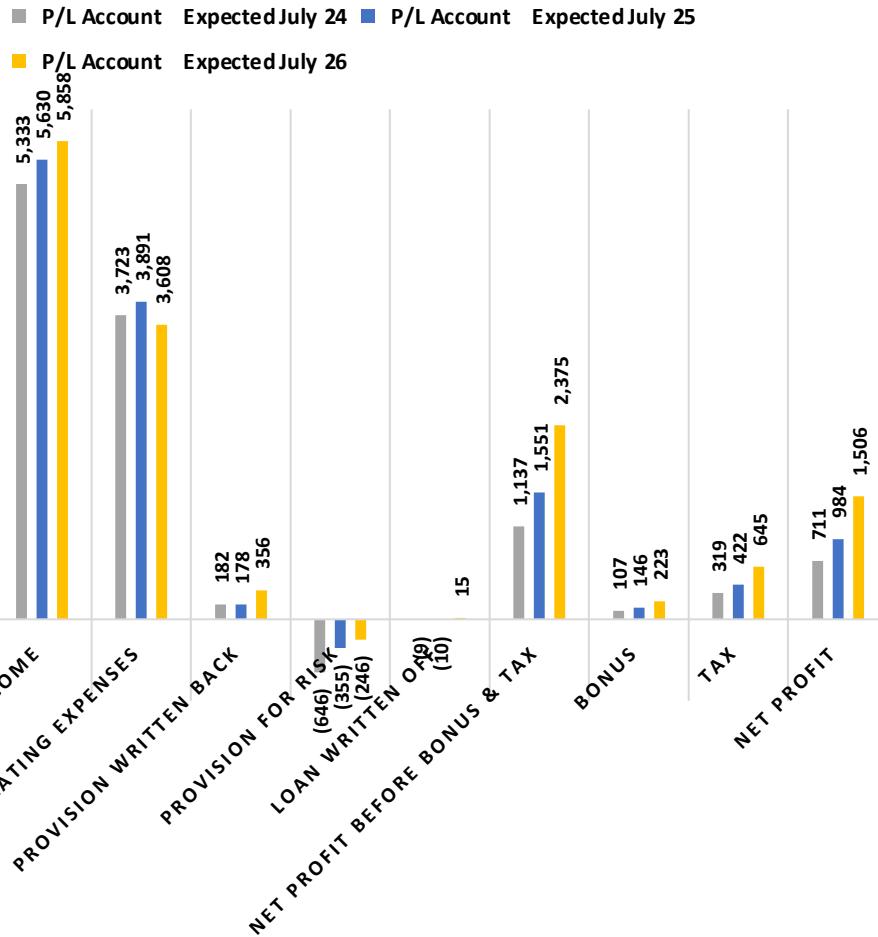
Particulars	\$ in million		
	Expected July 24	Expected July 25	Expected July 26
Total Operating Income	5,333	5,630	5,858
Total Operating Expenses	3,723	3,891	3,608
Provision Written Back	182	178	356
Provision for Risk	(646)	(355)	(246)
Loan Written Off	(9)	(10)	15
Net Profit before Bonus & Tax	1,137	1,551	2,375
Bonus	107	146	223
Tax	319	422	645
Net profit	711	984	1,506



# Profitability of BFIs

(Exchange Factor \$ 1 = NPR 130)

## BANKING SECTOR OUTLOOK FY 2022/23 & 2023/24 (\$ IN MILLION)



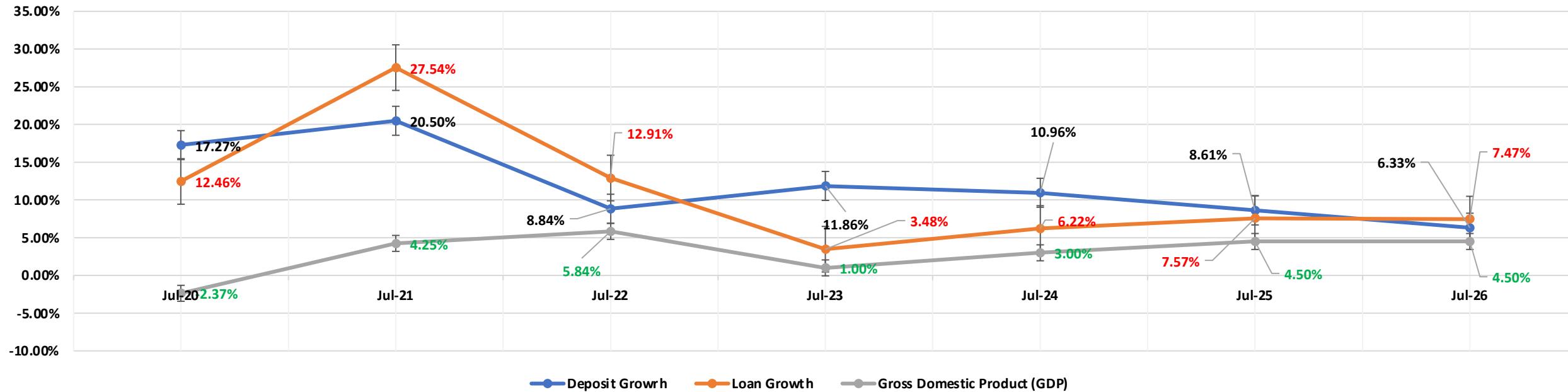
The tax associated with Bargain gain and FPO is anticipated to strain the already stressed capital of financial institutions, resulting in an expected reduction of Rs 60 billion or more in their lending capacity.

The question arises: should the tax payment related to bargain gains and FPO be treated as an expense on the profit and loss statement, or should it be deducted from reserves? Nonetheless, three alternative strategies are available:

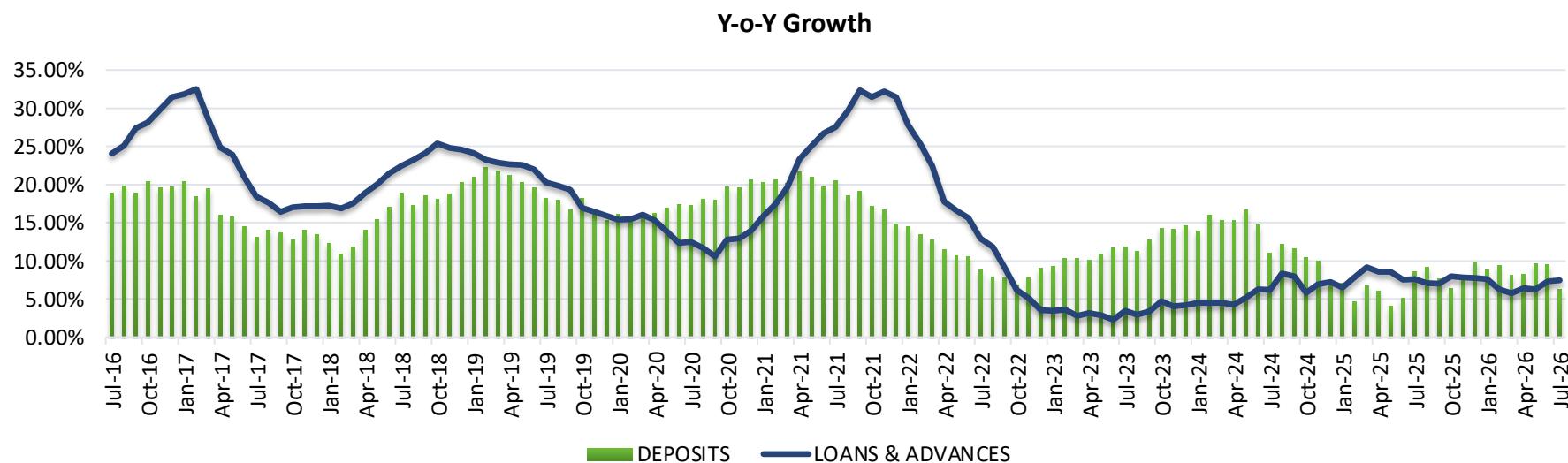
1. NRB could explore allocating it to a reserve, particularly since the capital movement is not a result of regular business operations. Clear directives should be rolled out, accompanied by measures to mitigate the impact on lending capacity (or on CAR). Importantly, this option would have no bearing on the profit and loss statement.
2. If NRB chooses to charge it to the profit and loss statement, it should allow BFIs to spread the impact over five years. This strategic move aims to protect both lending capacity and profitability. NRB should coordinate with the Accounting Standards Board and ICAN.
3. Alternatively, BFIs might be permitted to reduce capital on a pro-rata basis. It needs a lot of regulatory reform.

The prudent approach would be to charge it to reserves. In this scenario, prompt decision-making is imperative to ensure effective financial and fiscal stability.

# Annual Loan and Deposit Growth and LLP

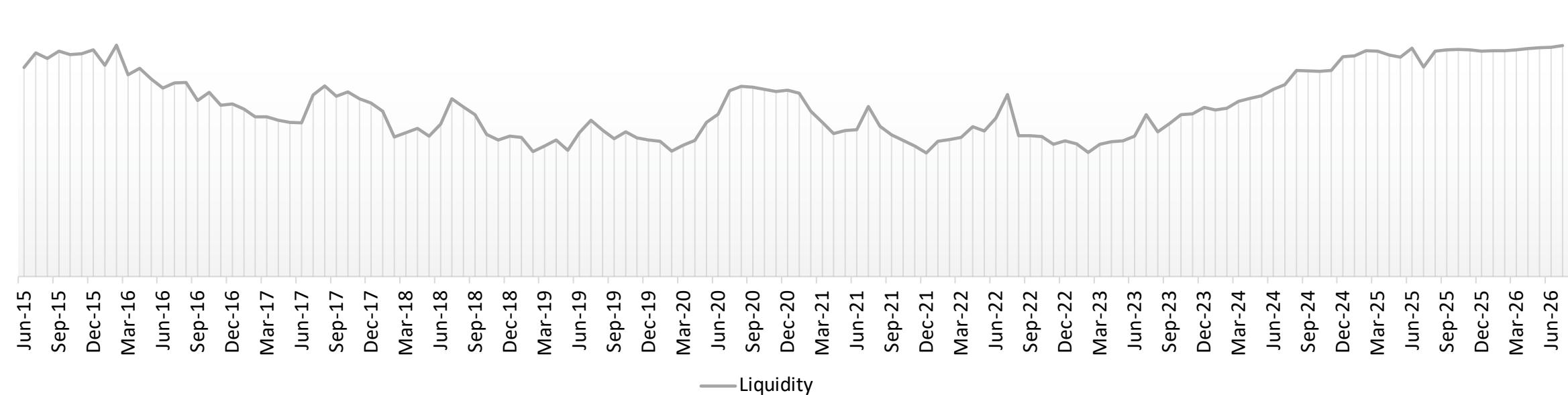
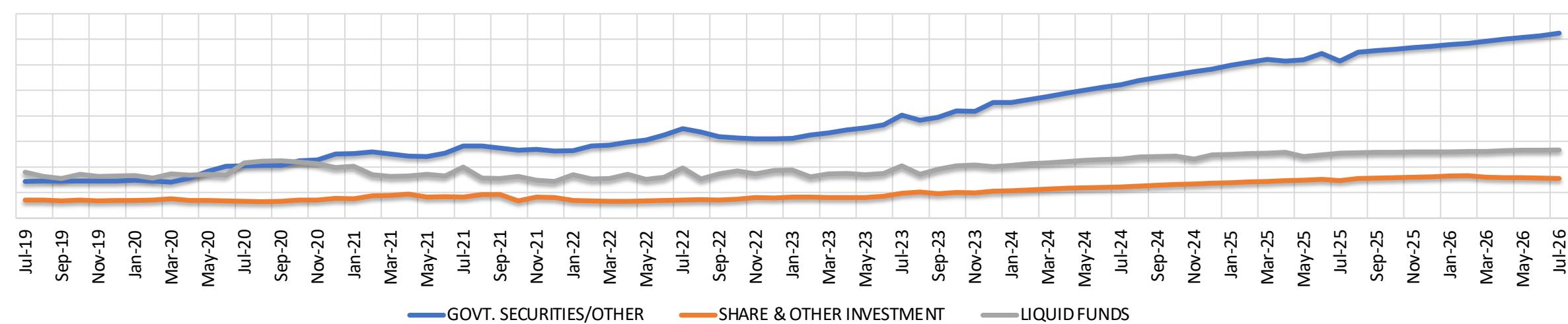


Exchange Factor \$ 1 = NPR 130	Amount in USD Million
Particulars	Estimated Incremental LLP 2024
Loan loss Provision	84.96
Watch List Provision	272.41
Special Loan Loss Provision	11.10
	368.47



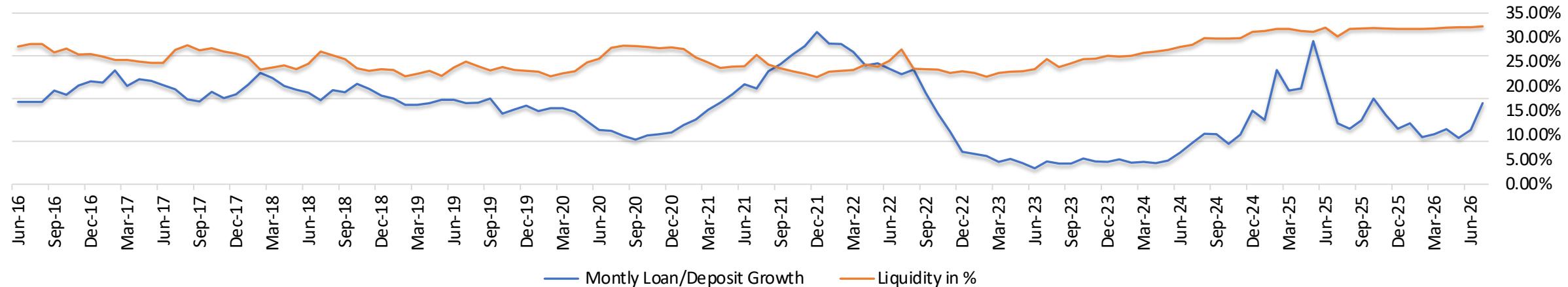
# Liquidity

Liquid Investment of BFIs (\$ in billion)



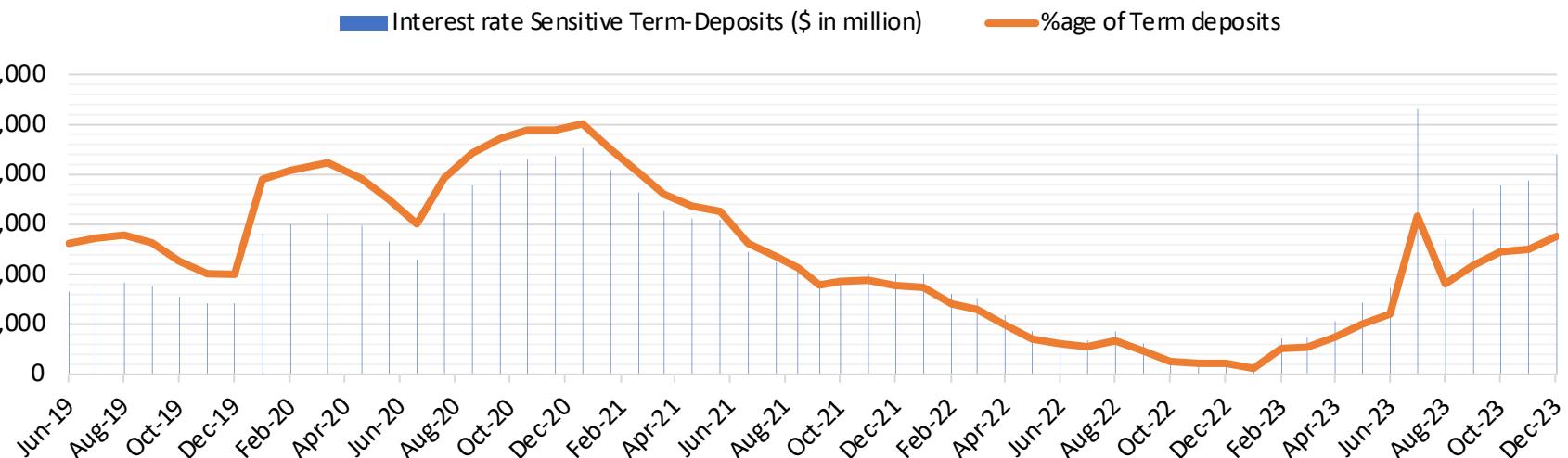
# Liquidity

Loan Growth and Liquidity



Amount in million		Maturity	
Period	Deposit mix	Within next month	Within one Year
3-6 months	20%		
6-12 months	28%		
1-2 yrs.'	26%	4,397.46	10,641.51
2 yrs. and above	27%		
Total	100%	19.0%	22,417.99

Interest Rate Sensitive Term-Deposits



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.

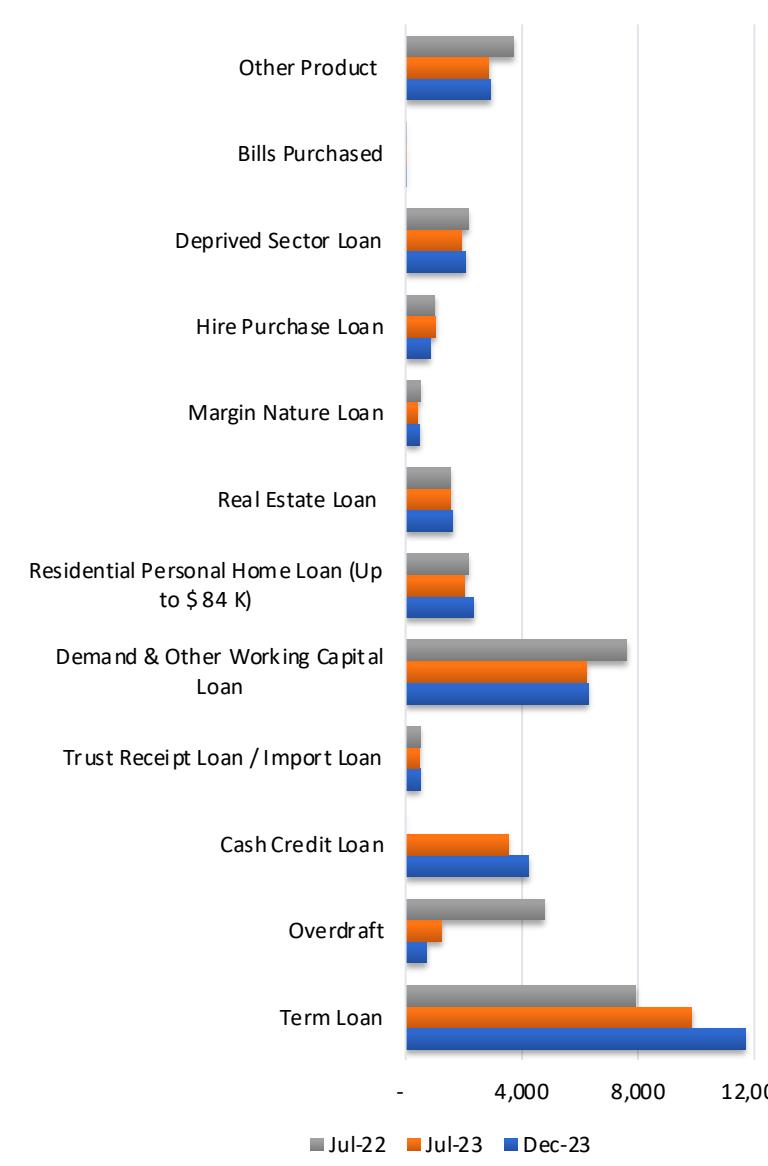
# Sector wise Loan Growth of Commercial Banks

Loan Growth Commercial Bank

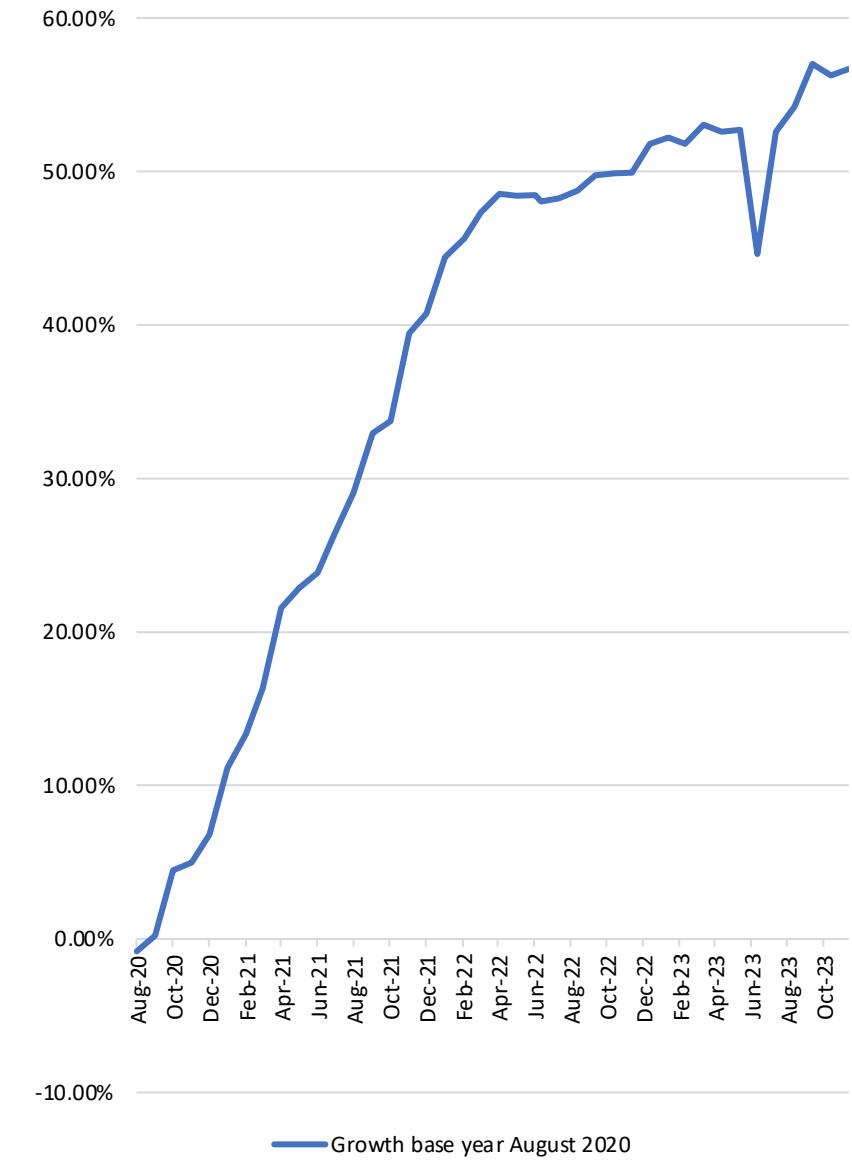


LOAN GROWTH

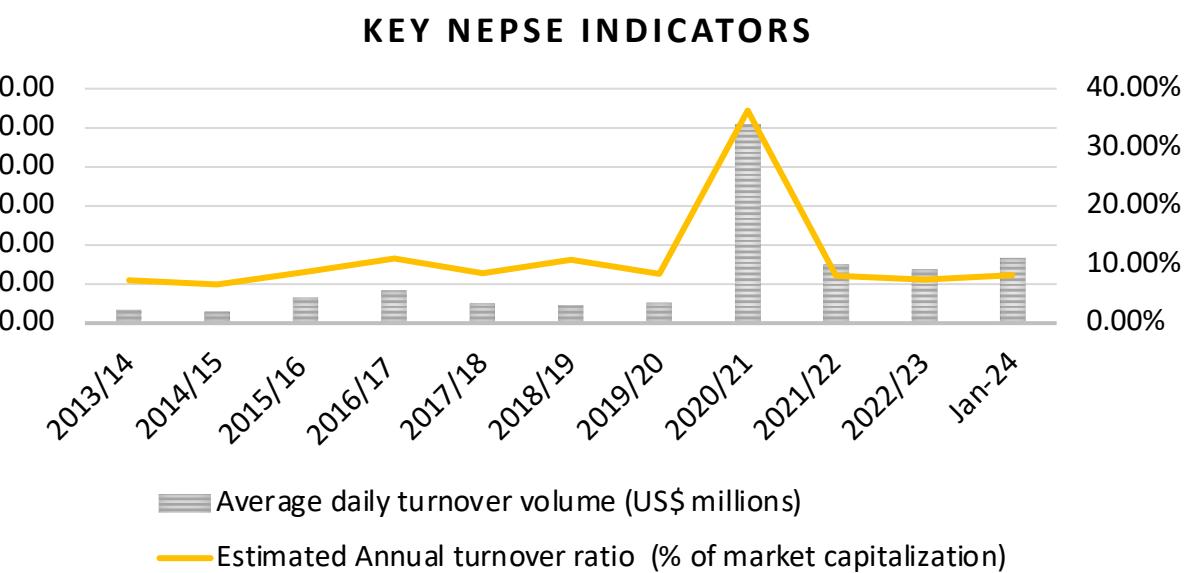
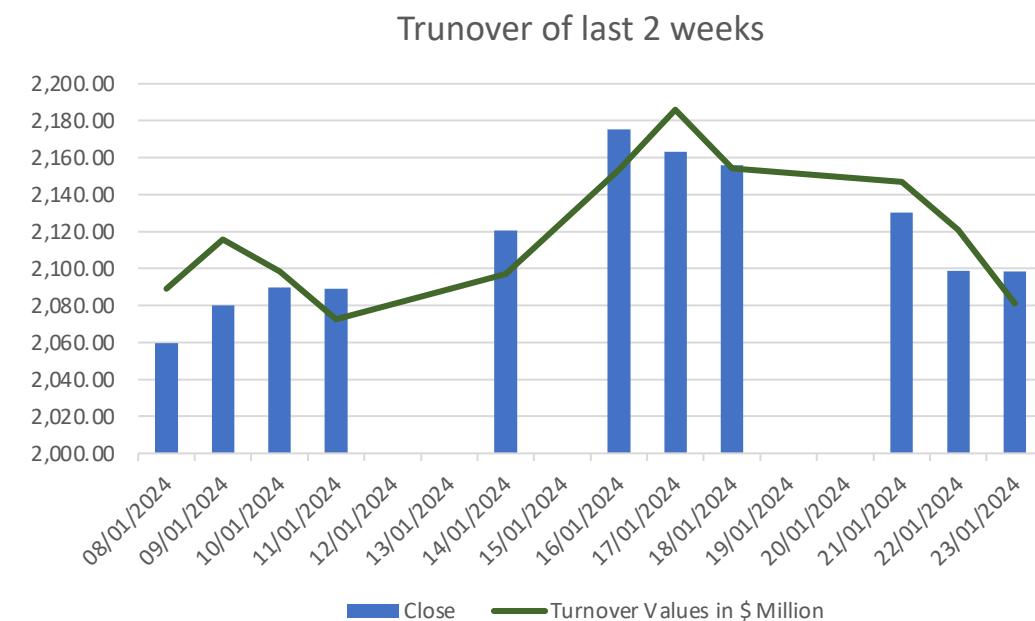
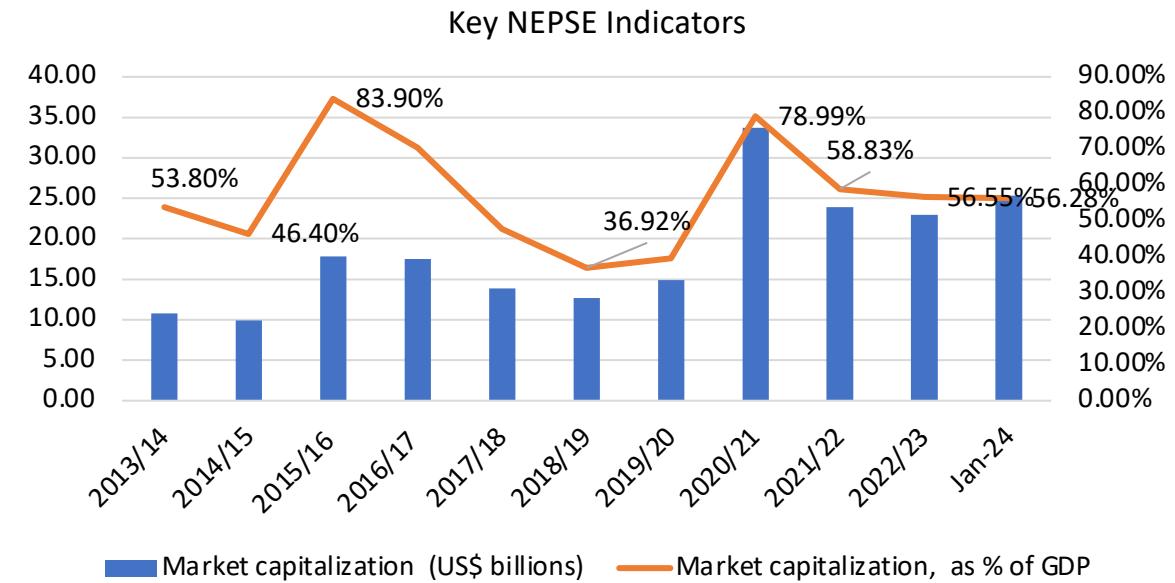
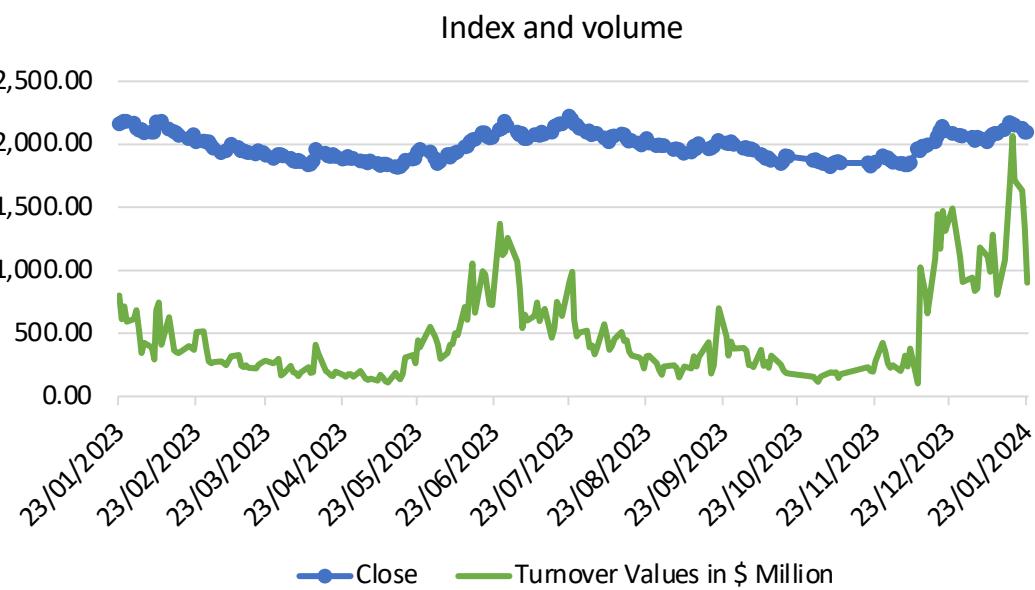
(\$ in million)



Growth from base year August 2020



# Capital Market



# 4

## Fiscal Situation

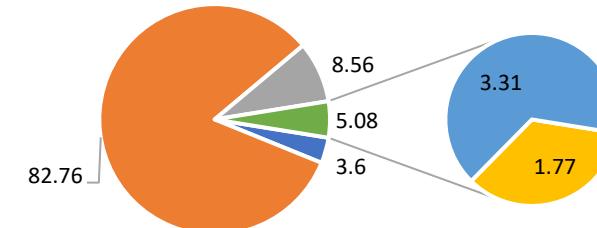
Government Receipts & Payments Status	Annual Budget	25/12/2023	% age
1. Revenue (USD in million)	10,942.63	2,913.74	26.63%
a) Tax Revenue	10,042.15	2,700.56	26.89%
b) Non Tax Revenue	900.48	213.18	23.67%
2. Grants	384.18	21.22	5.52%
3. Other Receipts	-	142.72	
Total Receipt	11,326.81	3,077.67	27.17%
2. Total Expenditure from Treasury	13,471.63	3,852.92	28.60%
a. Recurrent	8,782.95	2,951.84	33.61%
b. Capital	2,323.65	306.34	13.18%
c. Financing	2,365.03	594.74	25.15%
Deficit	(2,144.83)	(775.24)	

## Key Economic Indicators

Particulars	Mid-Dec 2023 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 5.38 percent on y-o-y basis.
External Trade	Imports decreased 3.8 percent, exports decreased 7.7 percent and trade deficit decreased 3.3 percent.
Remittances	Remittances increased 26.4 percent in NPR terms and 23.1 percent in USD terms.
Balance of Payments	Balance of Payments remained at a surplus of \$ 1.13 billion.
Broad money (M2)	Broad money (M2) increased 3.7 percent. On y-o-y basis, M2 expanded 14.2 percent.
Deposits and Loans and advances	Deposits at BFIs increased 2.7 percent and private sector credit increased 2.1 percent. On y-o-y basis, deposits increased 14.3 percent and private sector credit increased 4.4 percent

	Mid-Month	August	Septemb	October	Novemb	Decemb	January	Februar	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	2,890	3,773							
	Revenue	663	1,186	1,841	2,325	3,054							
	Treasury Position	1,756	1,614	1,441	1,281	1,579							

## Ownership Structure of Government Securities



■ NRB Secondary Market ■ Commercial Banks ■ Development Banks ■ Finance Companies ■ Other

## 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)
Jan 2024.	3.90%.	(Improved for 2023/24)

##### 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)
Dec 2023.	3.5 %	(improved 2023/24)

##### 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
------------	------

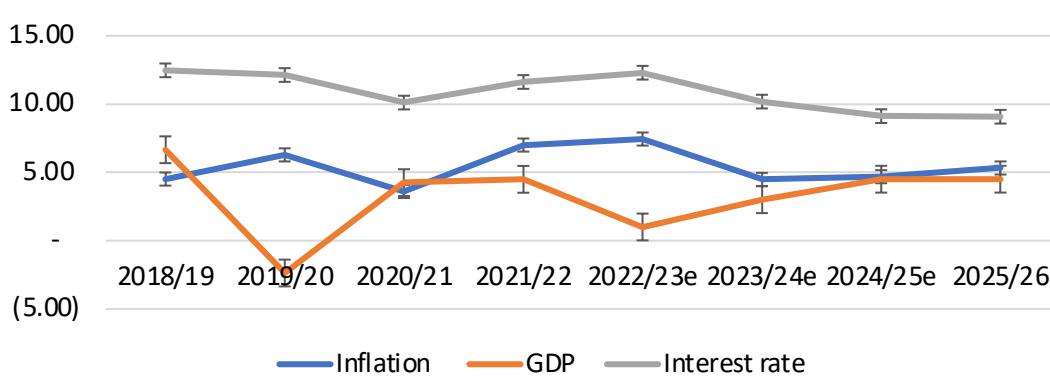
## Inflation

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	2079/80				2080/81	
	2022/23				2023/24	
	Q1	Q2	Q3	Q4	Q1	
Agriculture, forestry and fishing	2.85	2.27	4.25	1.82	1.38	Down
Mining and quarrying	-1.88	-5.58	-0.08	11.48	15.80	Up
Manufacturing	-3.22	-4.39	-1.99	1.61	1.29	Up
Electricity, gas, steam and air conditioning supply	36.62	12.39	-20.76	31.94	1.60	Down
Water supply; sewerage, waste management	7.62	1.31	-1.01	-2.07	3.09	Down
Construction	-9.61	-7.95	-3.14	9.97	11.40	Up
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.10	-14.55	-1.53	7.09	-1.24	Down
Transportation and storage	1.16	1.26	1.16	0.89	1.56	Up
Accommodation and food service activities	55.98	0.40	5.76	25.40	11.74	Down
Information and communication	7.06	4.81	4.55	-0.04	3.14	Down
Financial and insurance activities	9.86	3.94	14.18	2.04	13.22	Up
Real estate activities	2.17	2.17	2.17	2.17	2.19	Up
Professional, scientific and technical activities	3.77	3.76	4.59	5.04	5.09	Up
Administrative and support service activities	3.45	4.38	3.88	8.24	8.83	Up
Public administration and defence; compulsory social security	4.95	6.16	8.53	1.81	6.51	Up
Education	3.18	7.07	3.82	2.30	0.79	Down
Human health and social work activities	11.01	6.27	4.88	4.07	1.09	Down
Arts, entertainment and recreation; Other service activities; and Activities of households as employers	9.55	3.04	4.42	3.96	2.85	Down
Aggregate	3.20	-1.0	2.4	4.33	3.16	Down

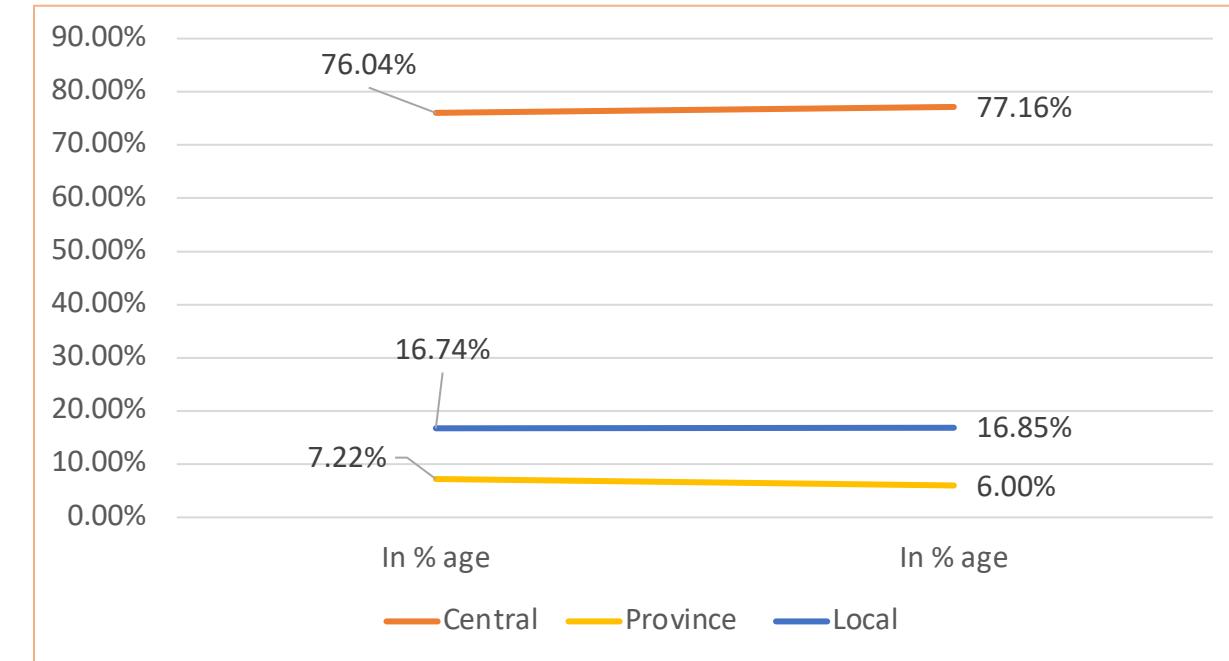
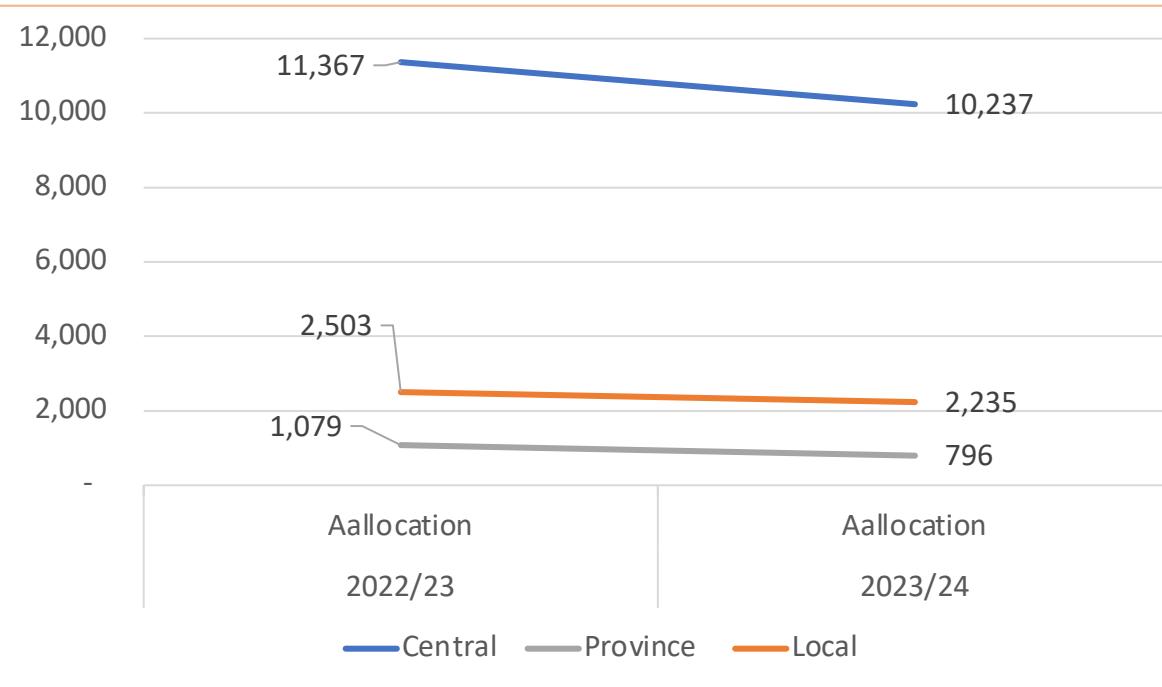
# Budget Source and Allocation 2023/24

## 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
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 2022/23
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

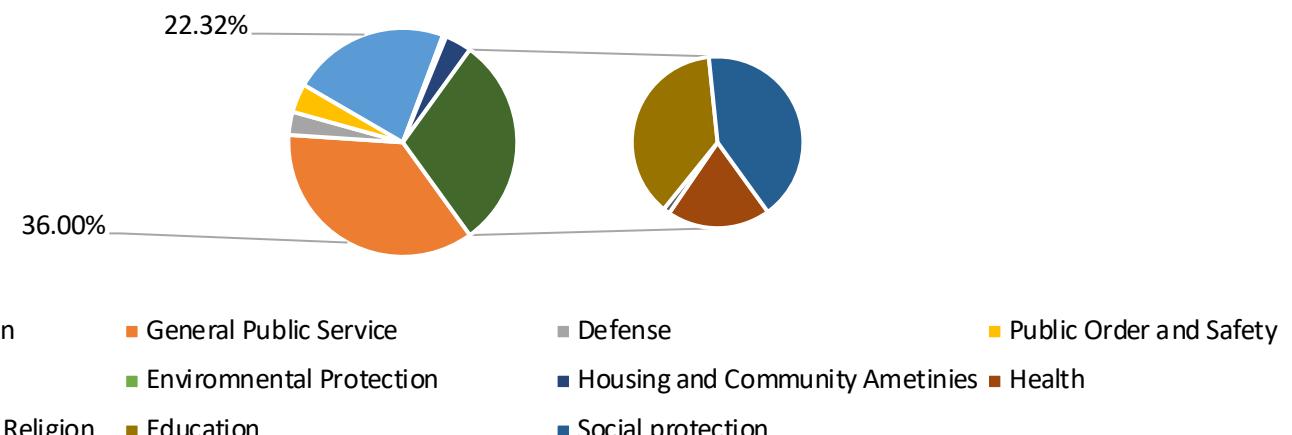
Areas of Budget allocation	2021/22		2022/23		2023/24		Compare to last year	
	Amount in \$ Mn	in % age	Amount in \$ Mn	in % age	Amount in \$ Mn	in % age	In figure	In %
General Public Service	4,034	29.42%	4,779	31.97%	4,777	36.00%	Down	Up
Defense	414	3.02%	462	3.09%	434	3.27%	Down	Up
Public Order and Safety	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
Environmental 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,  
Kala Legal  
Protecting your creations

<https://www.linkedin.com/company/kala-legal/>