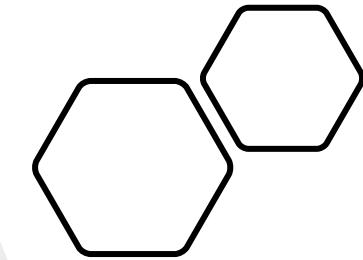


Economic Outlook Based on Mid January 2024





Overview 2023/24

Economic Information

Financial Sector Highlights

Monetary policy Expectations

Fiscal situation

1

Overview 2023/24



Analyzing various economic indicators, it appears contradictory to conclude whether the Nepalese economy is shrinking!

<p><i>Despite the perception of reduced imports, the average import trend shows an increase.</i></p>	<p><i>Similarly, while there's a belief remittance inflow may fall, the average remittance trend indicates growth.</i></p>	<p><i>Contrary to the notion of decreased in government revenue, the average revenue trend shows an increase.</i></p>	<p><i>Moreover, despite assumptions of reduced government spending, the average spending trend suggests otherwise.</i></p>	<p><i>Although the interest rate is perceived to be at its peak, the average interest rate trend is actually decreasing.</i></p>	<p><i>Additionally, although there's a perception of reduced forex reserves, the average reserve trend indicates growth.</i></p>	<p><i>It is said that NPA level of BFIs are increasing if you look from NRB prospective BFIs are more prudent and are becoming more transparent.</i></p>	<p><i>It is said industrial capacity utilization is low, however it is argued that industries are over capitalise.</i></p>	<p><i>It said that loan growth is slow indicating low confidence, however it is observed that borrowers are over leverage.</i></p>
--	--	---	--	--	--	--	--	--

Considering these conflicting observations, it is challenging to determine whether the Nepalese economy is experiencing growth or contraction.

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 while exercising prudence”

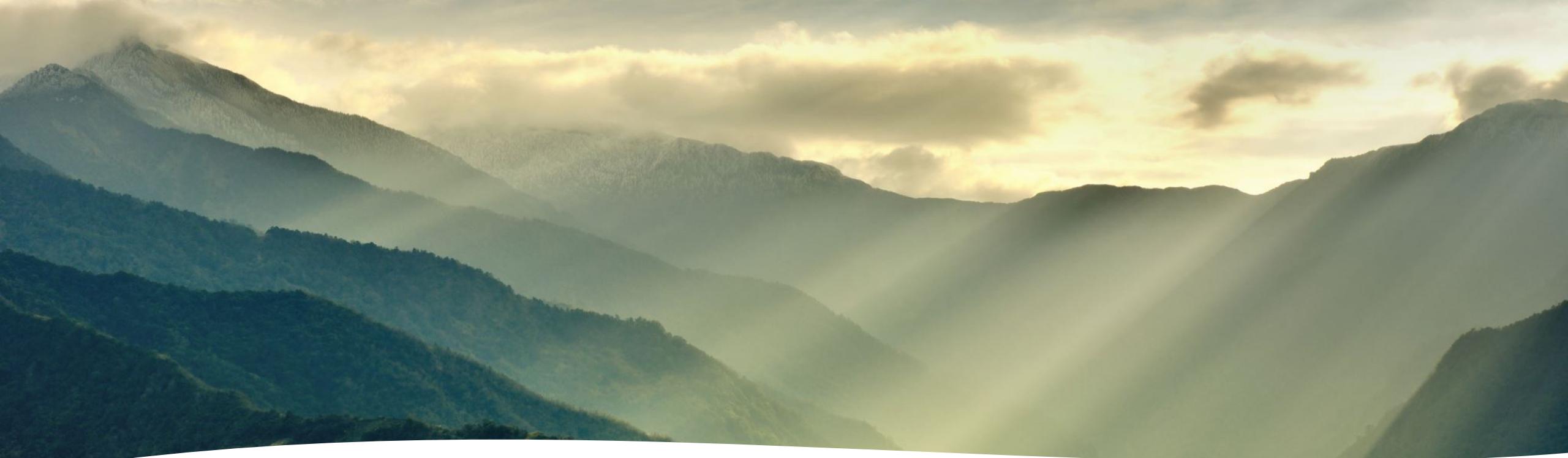
Positive developments are emerging for Nepal, propelled by proactive measures implemented by the central bank to address financial stability risks and achieve primary objectives. The Nepal Rastra Bank (NRB) acknowledges the intricate relationship between monetary policy and financial stability, emphasizing the need for coherent policy actions to prevent undue strain on the financial system. This commitment underscores a dedication to fostering a positive and secure financial environment.

Recent economic indicators for January 2024 demonstrate encouraging signs of improvement in consumer spending compared to previous quarters. Retail sales, particularly in interest rate-sensitive sectors like motor vehicles, have rebounded, indicating a favorable impact of the NRB's accommodating monetary policy.

While the recent arrest of some businessmen and bureaucrats has understandably caused concern within the business community. Transparent communication of the rationale behind such actions is crucial to allay uncertainties. Upholding the rule of law is paramount, with the presumption of innocence until proven guilty being fundamental.

By promoting transparency and accountability, confidence in the stability and fairness of the legal system can be upheld within the business community. While acknowledging potential impacts on economic activity, trust in the economy's resilience to navigate through challenges is essential. Moreover, positive developments are evident in both manufacturing and non-manufacturing activities among businesses. With moderate long-term interest rates, overall improvements in financial conditions are expected to support household and business expenditures.

Although these trends are promising, caution is warranted, given past fluctuations in inflation and economic activity. The recent easing of financial conditions serves as a reminder of the multitude of factors influencing economic trends, underscoring the importance of prudent policymaking. Overall, a positive momentum is anticipated for 2024, with an optimistic outlook prevailing. It's important to maintain an optimistic outlook while exercising prudence.



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.

BAFIA Amendment:	<p><i>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.</i></p>
GDP Base Review:	<p><i>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</i></p>
Prompt Corrective Action:	<p><i>In addition to the current PCA guidelines, the NRB should consider introducing supplementary provisions. If the net NPA level is below 7%, no further action is necessary. However, if it surpasses 7% but remains below 9%, falling within the first threshold, BFIs should refrain from approving new loans. Crossing the 9% threshold triggers the second tier, where BFIs must abstain from accepting new deposits. Should this metric reach 11% or higher, the bank will be categorized into the third tier, prompting PCA initiation.</i></p> <p><i>Furthermore, concerning the Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&L) should be increased from 5% to 9%. Additionally, the NRB should undertake a comprehensive review of the risk weightage assigned to various items on the balance sheet. This involves a meticulous assessment of the potential risks associated with different assets and liabilities held by BFIs. Through recalibrating the risk weightage, the NRB can ensure that the regulatory framework accurately reflects the inherent risks in banking activities, thereby fostering prudence and stability in the financial sector.</i></p>

Charting a New Course for Reform

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

Nepal Distributive Trade Survey, 2022

The Nepal Distributive Trade Survey, 2022 conducted by the National Statistics Office aimed to estimate economic indicators of the wholesale and retail trade sector for national account purposes. This included assessing CPC-wise trade margins of goods and collecting information on income, expenditure, investment, employment, compensation of employees, and changes in stock from a sample of 18,000 trade establishments.

The survey revealed that 68.2% of trade establishments (comprising wholesale and retail trade and repair of motor vehicles and motorcycles) are registered with government agencies, while 31.8% remain unregistered. Concerning trade margins, wholesale and retail trade and repair of motor vehicles and motorcycles reported the highest margin at 24.02%, followed by wholesale trade at 13.01%, and retail trade margin at 18.28% among the three NSIC divisions.

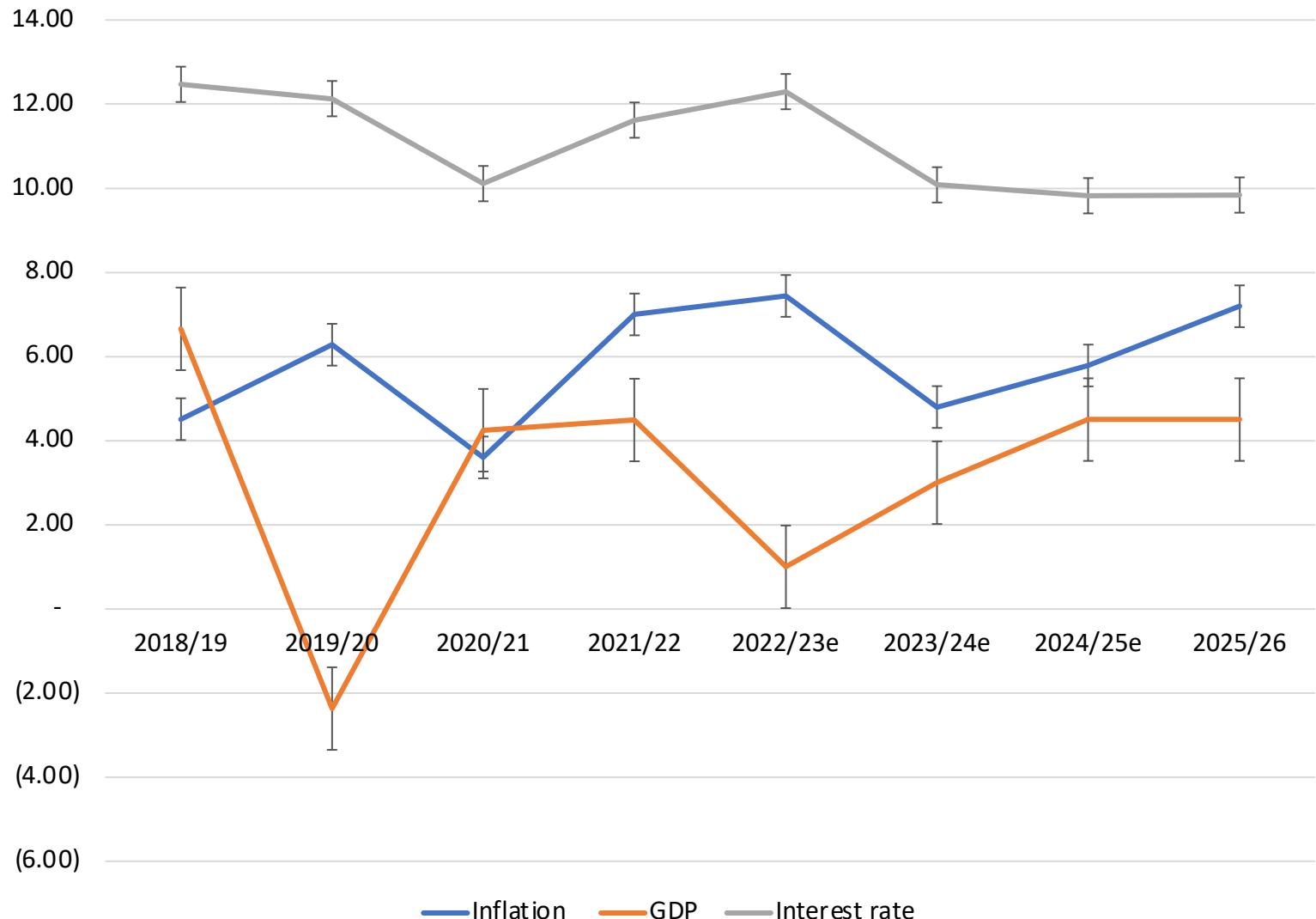
The total number of individuals engaged in the wholesale and retail trade sector is 1,130,645, with 726,681 (64%) being male and 403,964 (36%) female. On average, there are two individuals engaged in each establishment. The survey found that 88.65% of individuals are involved in retail trade, 5.8% in motor trade and repair, and 5.54% in wholesale trade establishments. Only about one-fifth of the total individuals engaged in this sector are paid. The average annual wages and salaries per paid employee amount to NPR 208,494 (NPR 17,374 per month).

The average annual operating cost per establishment stands at NPR 264,373. Wholesale trade establishments recorded the highest operating cost per establishment at NPR 1,314,379, followed by motor trade and repair at NPR 583,393, and retail trade at NPR 219,240.

Anticipated Inflation

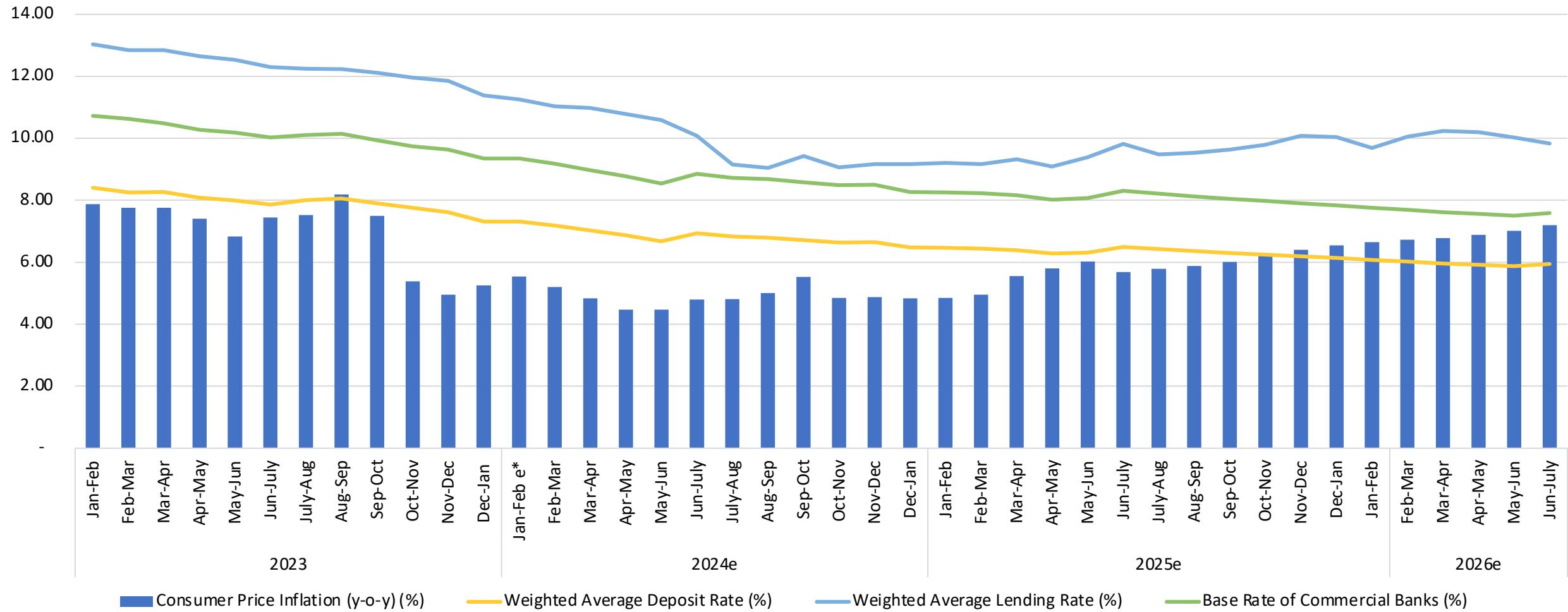
In the face of global uncertainties, there's a pressing need for the Nepal Rastra Bank (NRB) to reassess its approach to anticipated inflation and acknowledge the possible misalignment between its objectives of inflation control and financial stability.

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

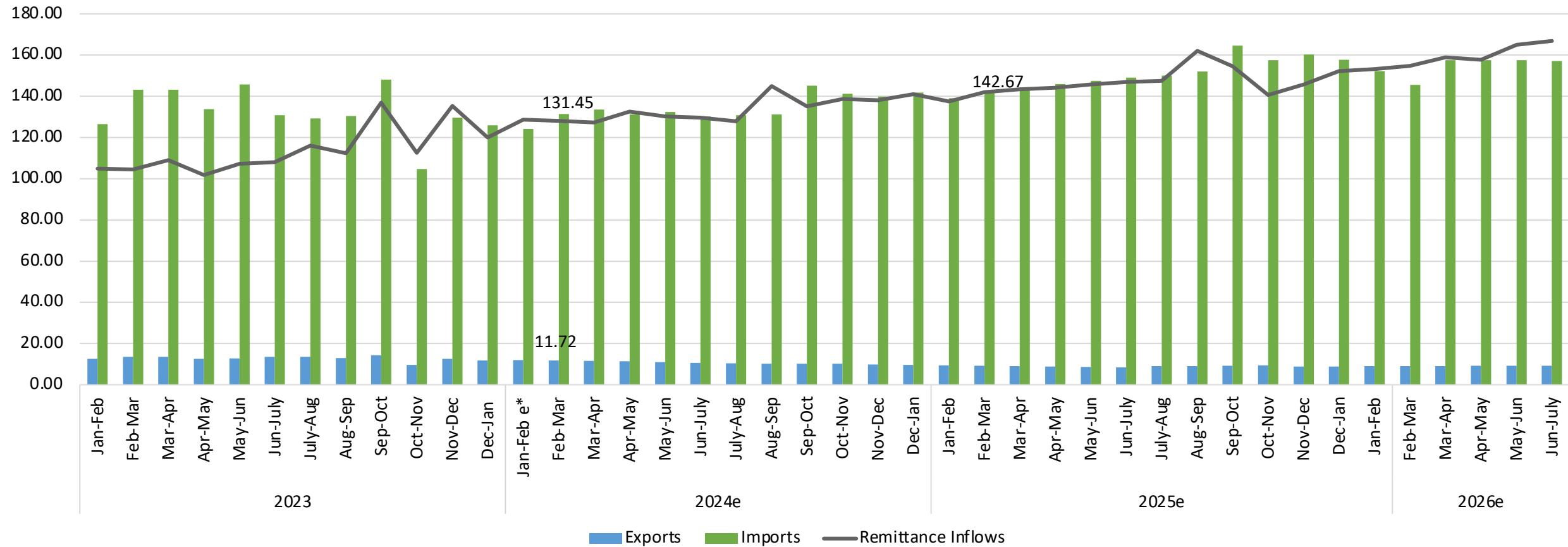
Rates and inflation



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)

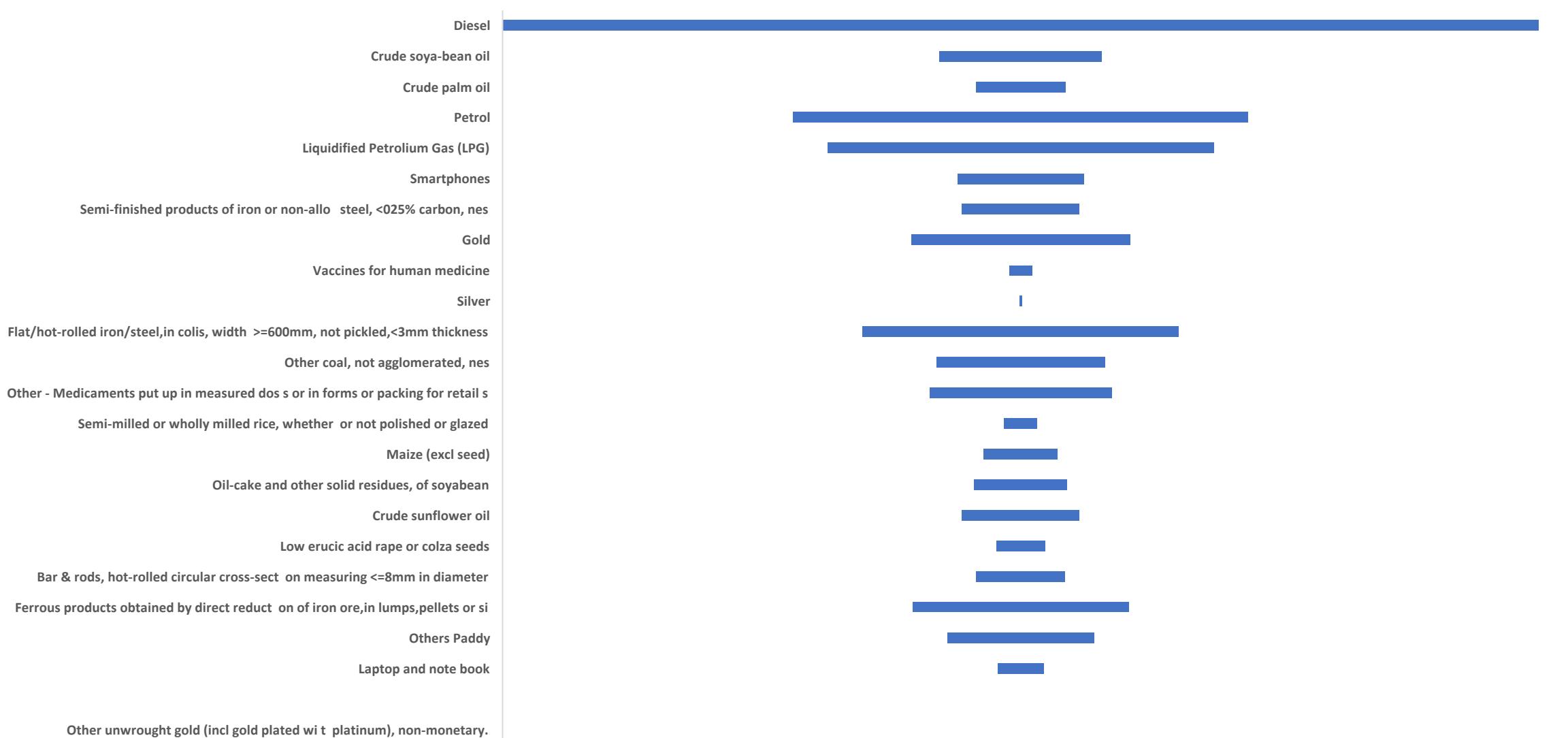
Particulars Amount in NPR Billion	2023													2024e
	Mid-Month													
	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb e*	
Consumer Price Inflation (y-o-y) (%)	7.88	7.76	7.76	7.41	6.83	7.44	7.52	8.19	7.50	5.38	4.95	5.26	5.5	
Exports	12.62	13.50	13.50	12.62	12.69	13.55	13.53	12.92	14.43	9.69	12.64	11.76	12.0	
Imports	126.5	143.10	143.1	133.8	145.7	130.8	129.2	130.5	148.0	104.7	129.7	126.0	124.2	
Remittance Inflows	104.8	104.4	109.1	101.8	107.3	108.0	116.0	112.4	137.0	112.6	135.3	120.0	128.7	
Government Expenditure	91.3	163.82	163.8	104.7	128.3	253.5	35.0	96.1	149.4	75.1	97.4	113.6		
Current Expenditure	76.4	97.92	97.9	80.0	90.7	128.4	12.1	75.5	125.7	57.8	88.8	77.4		
Capital Expenditure	12.8	22.99	23.0	18.4	27.4	80.6	0.8	7.3	9.7	12.2	60.7	13.2		
Revenue	55.7	108.73	108.7	72.4	80.6	120.3	78.9	62.2	78.0	57.5	86.8	133.1		
Deposit Mobilization	38.8	70.76	75.3	14.9	74.4	182.1	-133.2	125.7	166.1	-3.9	109.1	113.3		
Private Sector Credit	10.8	35.29	33.8	-8.8	4.2	18.6	-4.4	37.9	75.4	-9.6	10.7	82.6		
Weighted Average Deposit Rate (%)	8.41	8.26	8.26	8.08	7.99	7.86	8.00	8.06	7.90	7.76	7.62	7.32	7.3	
Weighted Average Lending Rate (%)	13.03	12.84	12.84	12.65	12.53	12.30	12.24	12.23	12.11	11.96	11.85	11.38	11.3	
Base Rate of Commercial Banks (%)	10.72	10.63	10.48	10.27	10.18	10.03	10.11	10.14	9.94	9.74	9.64	9.35	9.3	

Our view on the current level of External vulnerabilities

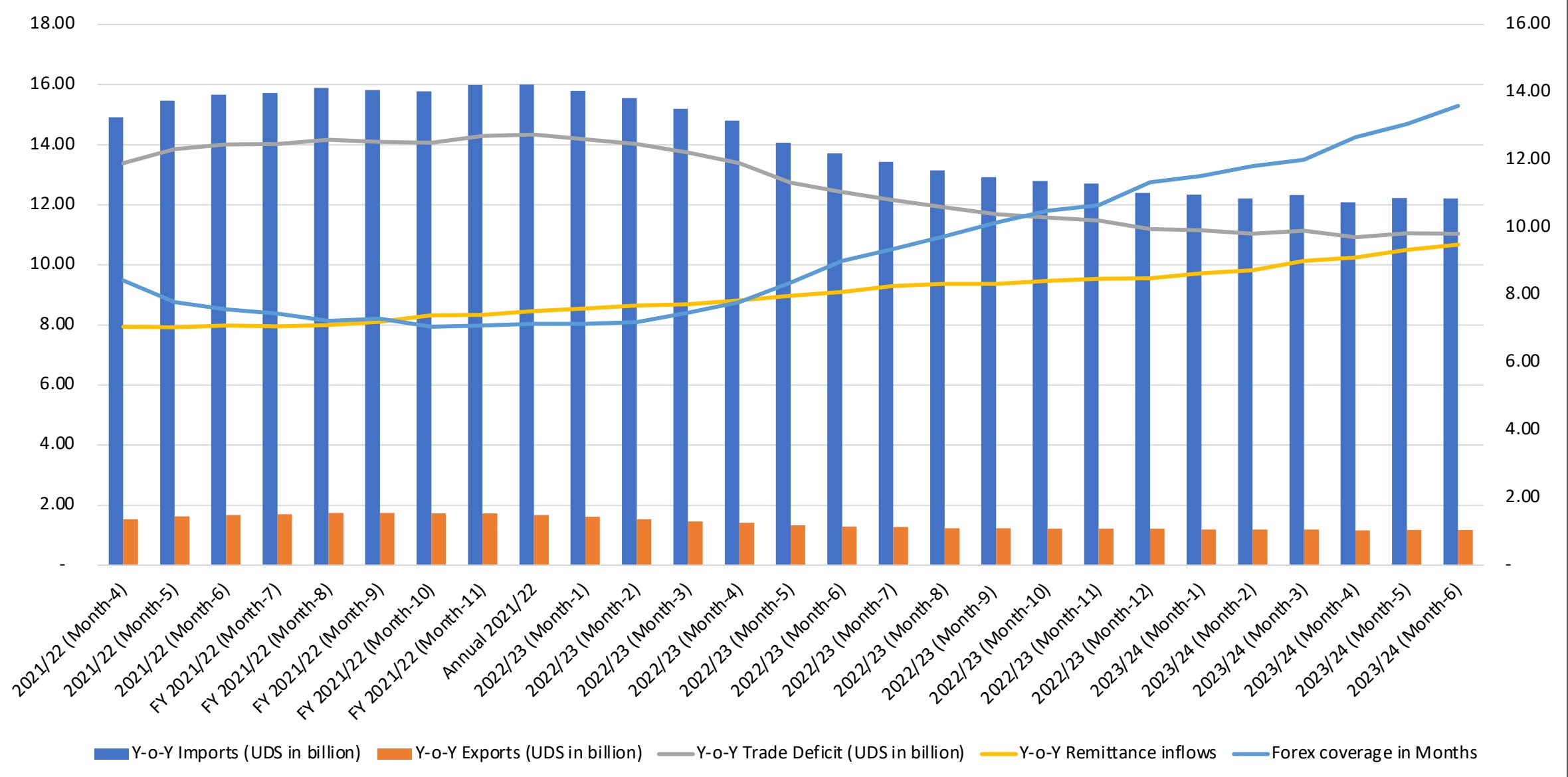
Conversion Rate: 1 USD= NRs 130, 2022/23 and 119, 2021/22 (USD in billion)

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio	Revenue	Exchange factor
F.Y. 2078/79 (2022/23) (Mid-Jan.)	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-Jan.)	6.10	0.62	5.48	6.72	1.00	9.84	1.40
Share % in Total Trade	90.77	9.23					Down
Trade deficit % GDP	14.61%						
F.Y. 2080/81 (2023/24) (Mid-Jan.)	5.91	0.58	5.33	6.49	1.00	10.19	1.57
Share % in Total Trade	91.06	8.94					Up
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%

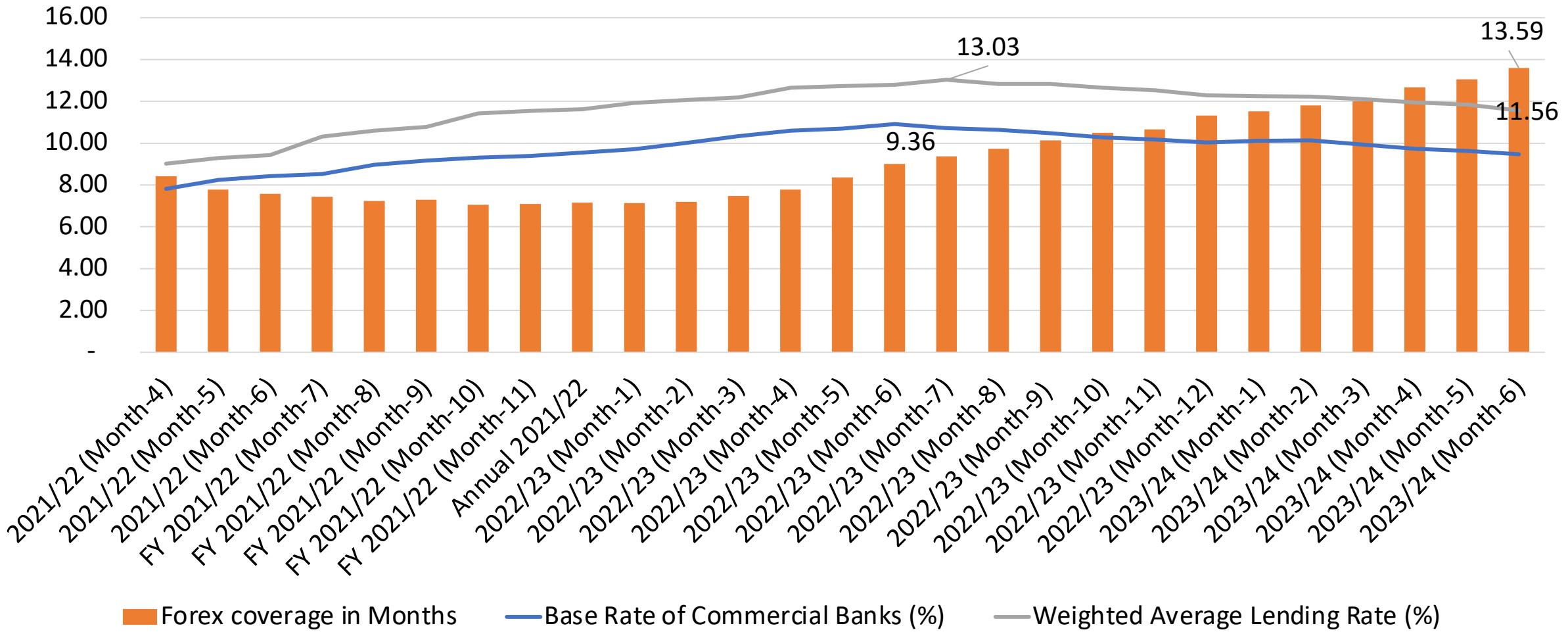
Imports surges during OCT. 2023							
	Description	Surge in Quantity	Surge in Amount	Surge Amount USD Million	Share in Incremental imports	The Potential for BOP Overall Reversal Risk	Root of the incremental imports
Trade to GDP	As a positive sign of improved resilience in the external sector, the Department of Customs announced that the year-on-year trade deficit as a percentage of gross domestic product (GDP) saw a slight uptick to 24.54% by mid-January 2024, compared to the 29.45% reported in the previous month.						
Trade Deficit	In the sixth month of fiscal year 2023/24, the trade deficit softened, reaching \$0.88 billion, which marked a notable decrease from the previous month's deficit of \$0.90 billion. In a year-on-year comparison, the trade deficit for the same period in FY 2023/24 decreased to \$11.04 billion, demonstrating an improvement from the \$12.42 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	<p><i>Presently, Nepal enjoys robust foreign exchange reserves, providing coverage for over 13.56 months of imports and service payments when considering the year-on-year import ratio. Encouragingly, the Nepalese economy faces no significant challenges, thanks to the decreasing prices of imported energy and food.</i></p> <p><i>Despite the shift in monetary policy from tightening to accommodative, there hasn't been a pronounced improvement in aggregate demand. However, there's optimism surrounding the expectation of continued growth in remittance inflows, offering relief to the balance of payments in the months ahead.</i></p> <p><i>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, contributing to overall stability.</i></p>						
	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%		



Y-O-Y External Sector



Interest rates and Extranational Sector



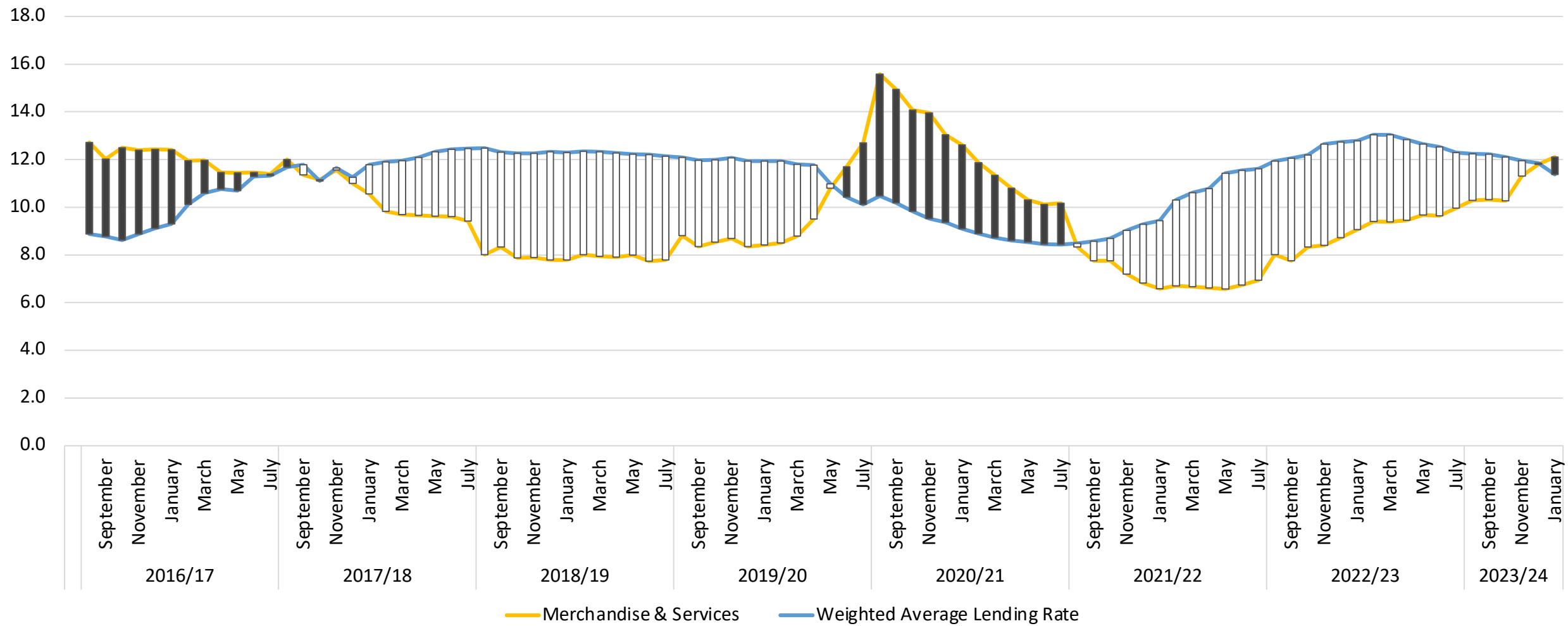
Trade Indicators	2022/23								2023/24							
	2022/23 (Month-6)	2022/23 (Month-7)	2022/23 (Month-8)	2022/23 (Month-9)	2022/23 (Month-10)	2022/23 (Month-11)	Annual 2022/23	2023/24 (Month-1)	2023/24 (Month-2)	2023/24 (Month-3)	2023/24 (Month-4)	2023/24 (Month-5)	2023/24 (Month-6)	Y-o-Y	Remarks	
Imports (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												

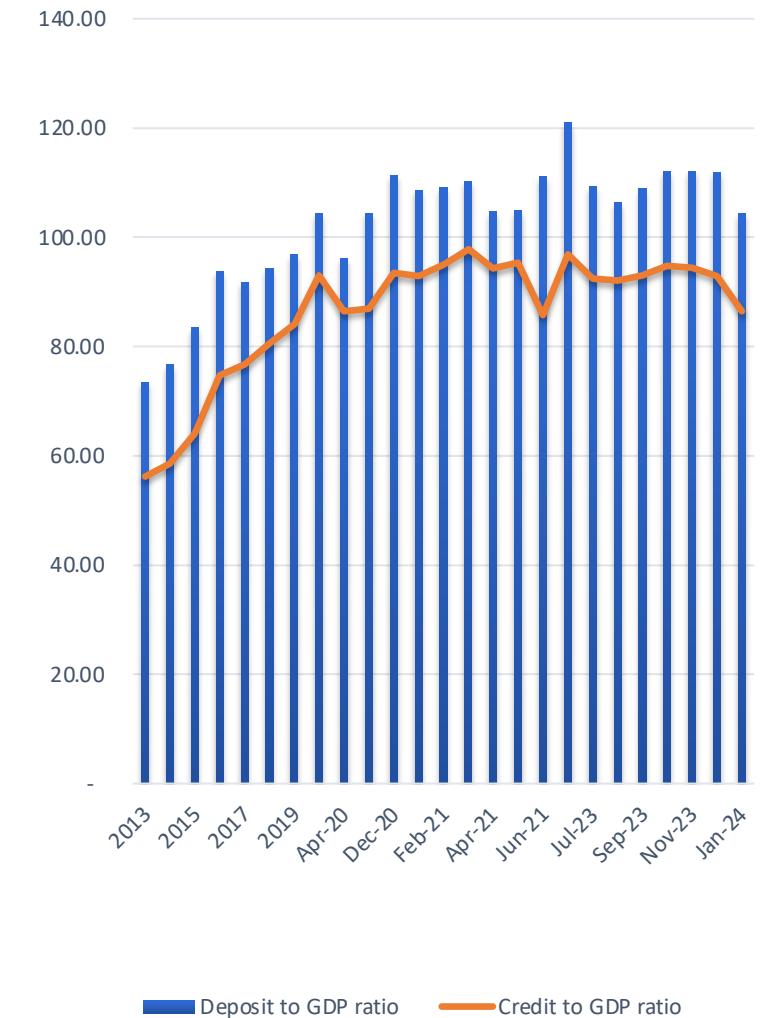
Import Capacity in Months and Lending Rate!



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

Despite challenges, the Nepalese economy is demonstrating resilience and progress, marked by stable inflation rates and a narrowing trade deficit. Remittances are experiencing an upward trend, contributing to increased financial inflows, while a surplus in the Balance of Payments and robust reserves signal overall stability. The growth in broad money and deposits further indicates the country's positive trajectory.

While there is concern over the rising level of Non-Performing Assets (NPAs), it's important to view this within a broader context. Elevated NPAs don't necessarily equate to an economy in decline but rather highlight areas that require attention and corrective action. Understanding the underlying causes is key. NPAs often result from borrower behavior, mismanagement, or the consequences of policy decisions. Loose monetary policies, for instance, have contributed to high NPA levels in Nepalese financial institutions. These policies prompted the introduction of seemingly secure yet risky financial products and low-interest rates, sometimes overlooking associated risks.

Some institutions inadvertently took on substantial risks by bundling risky loans into apparently safe products. While initially promising high returns with minimal risk, these products ultimately proved to be high-risk and low-yield. This underscores the importance of a comprehensive understanding of financial products and their inherent risks to effectively navigate challenges.

Furthermore, banking regulations emphasizing minimal capital requirements, light supervision, and market discipline have inadvertently exacerbated market instability. During upswings, they encourage riskier investments, while during downturns, they lead to reduced investments, amplifying market volatility. As banking and financial institutions (BFIs) grapple with the mounting pressure of meeting capital requirements, it is imperative for the Nepal Rastra Bank (NRB) to consider raising the maximum threshold for regulatory retail portfolios to Rs 50 million. This adjustment would provide much-needed relief to BFIs, allowing them to bolster their Capital Adequacy Ratio (CAR), a crucial indicator of financial health and stability. By accommodating larger retail portfolios within the regulatory framework, BFIs can enhance their ability to manage risk and allocate resources effectively.

Moreover, NRB should conduct a comprehensive review of the risk weightage assigned to various items on the balance sheet. This entails a meticulous assessment of the potential risks associated with different assets and liabilities held by BFIs. By recalibrating the risk weightage, NRB can ensure that the regulatory framework accurately reflects the inherent risks in banking activities, thereby promoting prudence and stability in the financial sector. This proactive approach by the regulatory authority would not only facilitate the strengthening of BFIs' CAR but also contribute to overall systemic resilience and confidence in the banking system.

Despite these challenges, which also include issues related to corporate governance and declining customer confidence, the Nepalese economy remains resilient. With proactive measures and a commitment to addressing underlying issues, Nepal is poised for continued growth and stability.

Economic Performance

Outlook		Outlook																		
Corporate performance	<p><i>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.</i></p> <p><i>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.</i></p>	<p><i>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 present, the Non-Performing Loans (NPLs) and Loan Loss Provisions (LLP) of Banking and Financial Institutions (BFIs) amount to \$1.46 billion and \$1.68 billion, correspondingly.</i></p>																		
Working Capital financing	<p><i>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. Sector-specific adjustments remain pending, adding to the prevailing sense of pessimism.</i></p>	<p><i>Exercise caution as Non-Performing Loans (NPLs) are projected to remain at 3.71% by the end 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.</i></p>																		
Household debt Regrouped	<p><i>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.</i></p>	<p>Household debts in \$ million</p> <table border="1"> <tbody> <tr> <td>Residential Personal Home Loan (Up to Rs. 20 million)</td> <td>3,915.50</td> </tr> <tr> <td>Margin Nature Loan</td> <td>648.39</td> </tr> <tr> <td>Hire Purchase Loan</td> <td>276.37</td> </tr> <tr> <td>Credit Card</td> <td>42.88</td> </tr> <tr> <td>Education Loan</td> <td>399.03</td> </tr> <tr> <td>Gold/Silver</td> <td>409.03</td> </tr> <tr> <td>Fixed A/c Receipt</td> <td>320.19</td> </tr> <tr> <td>Total</td> <td>6,011.39</td> </tr> <tr> <td>% of total Loan</td> <td>15.37%</td> </tr> </tbody> </table>	Residential Personal Home Loan (Up to Rs. 20 million)	3,915.50	Margin Nature Loan	648.39	Hire Purchase Loan	276.37	Credit Card	42.88	Education Loan	399.03	Gold/Silver	409.03	Fixed A/c Receipt	320.19	Total	6,011.39	% of total Loan	15.37%
Residential Personal Home Loan (Up to Rs. 20 million)	3,915.50																			
Margin Nature Loan	648.39																			
Hire Purchase Loan	276.37																			
Credit Card	42.88																			
Education Loan	399.03																			
Gold/Silver	409.03																			
Fixed A/c Receipt	320.19																			
Total	6,011.39																			
% of total Loan	15.37%																			

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>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.</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 & 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

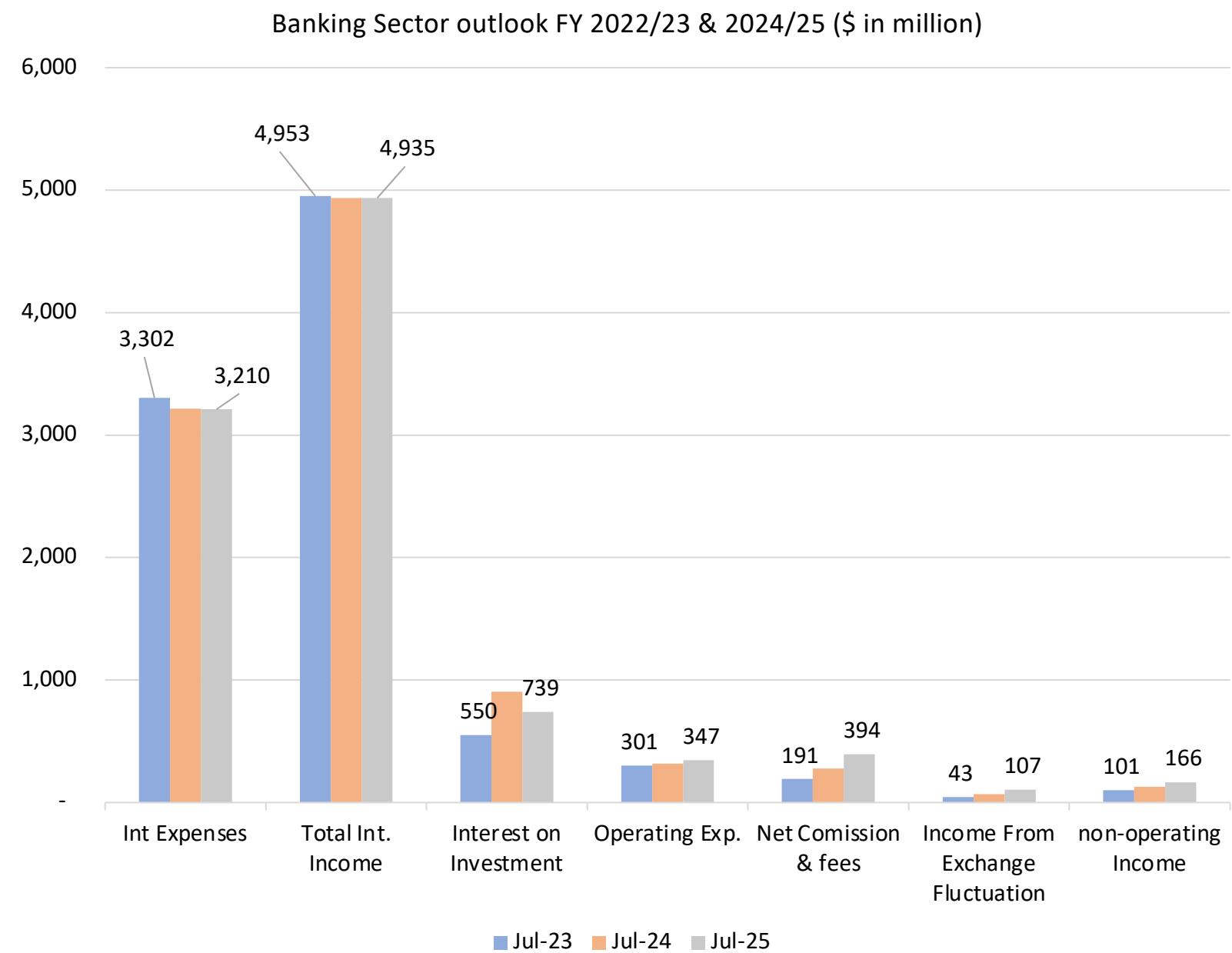
BFIs Outlook 2023/24, 2024/25 and 2025/26

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	5,867	11.65%	6,293	7.26%	6,688	6.29%	Total Int. Income	4,031	-8.43%	4,196	4.09%	4,416	5.25%
PAID UP CAPITAL	3,402	4.00%	3,527	3.65%	3,654	3.62%	Avg. Yield From Loan (cash basis)	4,936	-0.34%	4,935	-0.01%	5,440	10.24%
BORROWINGS	2,192	11.64%	2,559	16.74%	2,557	-0.08%	Int Expenses	3,216	-2.61%	3,210	-0.17%	3,827	19.21%
Borrowing from NRB	31	99.52%	119	284.04%	131.30	10.15%	Avg. Cost of Fund	6.93%	-12.27%	6.50%	-6.28%	5.94%	-8.57%
DEPOSITS	48,160	8.48%	52,901	9.84%	55,811	5.50%	NII	1,720	4.20%	1,725	0.29%	1,613	-6.47%
Current	3,660	4.80%	4,956	35.41%	5,339	7.72%	Interest Spread	3.15%	-19.74%	3.32%	5.62%	3.90%	17.26%
Saving	10,734	-8.14%	11,678	8.80%	15,741	34.79%	Commission & fees	277	45.05%	394	42.00%	478	21.40%
Fixed	30,199	16.87%	31,809	5.33%	29,736	-6.52%	Ex. Fluctuation Gain	66	55.51%	107	60.43%	150	40.38%
Call	3,136	4.34%	3,946	25.82%	4,364	10.59%	Other Operating & Non-operating Income	129	28.62%	166	28.15%	154	-7.15%
Others	431	16.45%	511	18.68%	631	23.50%	Gross Income	2,193	10.48%	2,391	9.03%	2,395	0.16%
LIQUID FUNDS	4,374	6.49%	4,259	-2.64%	3,175	-25.44%	Employees Exp	435	2.51%	440	1.26%	460	4.41%
GOVT. SECURITIES/OTHER	9,911	22.75%	11,236	13.37%	12,961	15.36%	Employee cost in % of Total Int. Income	8.81%	2.55%	8.40%	-4.62%	8.40%	0.00%
Investment in share and other	2,550	1.29%	3,140	23.14%	3,365	7.18%	Office Operating Exp	317	5.47%	347	9.34%	377	8.70%
LOANS & ADVANCES	39,988	6.58%	42,720	6.83%	44,888	5.07%	LLP & write-off	766	44.95%	570	-25.63%	384	-32.66%
Total Capital/RWA	13.44%	5.06%	13.58%	1.01%	14.00%	3.12%	Additional LLP to Risk Assets	1.89%	39.96%	1.31%	-30.67%	0.85%	-34.88%
CD	82.28%	-0.05%	79.98%	-2.80%	79.70%	-0.35%	Provision Written Back	305	44.11%	309	1.00%	463	50.00%
NPL /Total Loan	3.71%	43.74%	3.17%	-14.53%	2.99%	-5.57%	PBT	981	3.91%	1,343	36.94%	1,638	21.93%
Return on Capital Employed	10.77%	-15.69%	13.74%	27.67%	15.77%	14.72%	Return on total assets	1.44%	-9.64%	1.80%	24.49%	1.99%	10.85%

Profitability of BFIs.

(Exchange Factor \$ 1 = NPR 130

Particulars	\$ in million		
	Expected July 24	Expected July 25	Expected July 26
Total Operating Income	5,409	5,601	6,222
Total Operating Expenses	3,968	3,997	4,664
Provision Written Back	305	309	463
Provision for Risk	(757)	(560)	(399)
Loan Written Off	(9)	(10)	15
Net Profit before Bonus & Tax	981	1,343	1,638
Bonus	92	126	154
Tax	277	365	445
Net profit	612	852	1,038

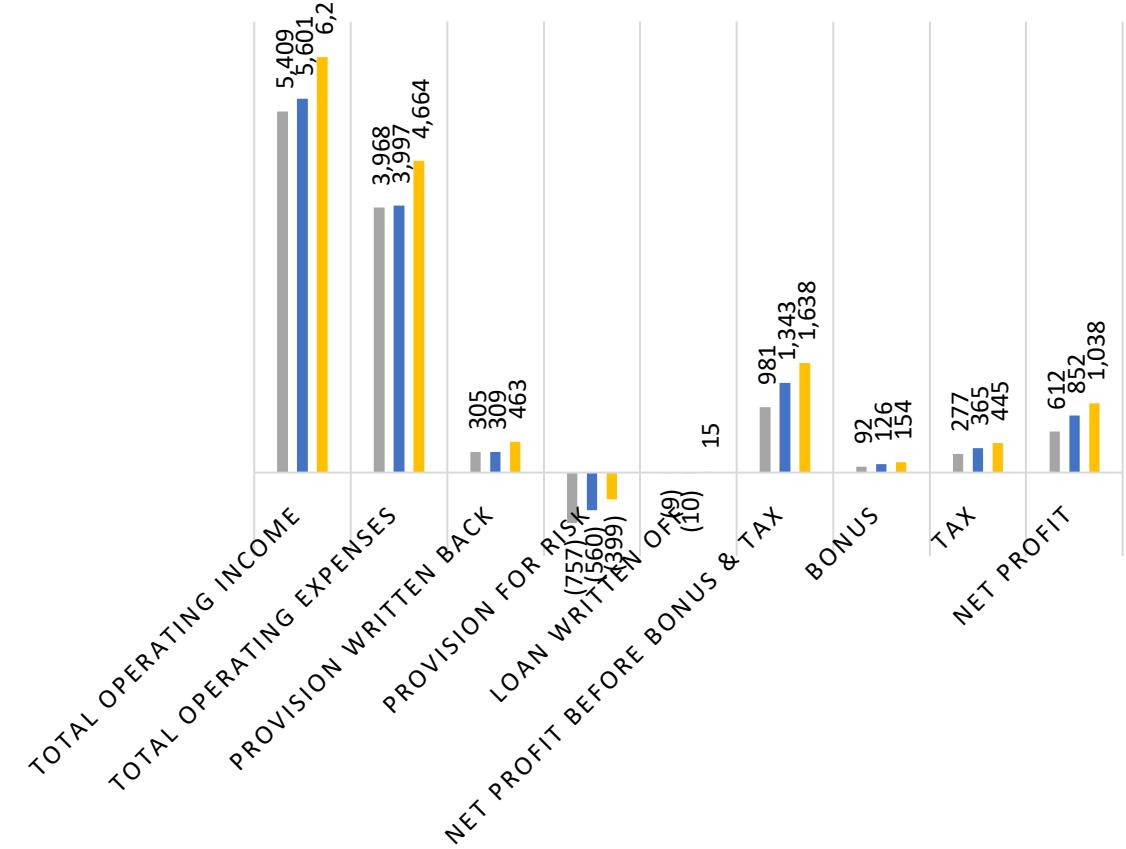


Profitability of BFIs

(Exchange Factor \$ 1 = NPR 130)

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

■ P/L Account Expected July 24 ■ P/L Account Expected July 25
 ■ P/L Account Expected July 26



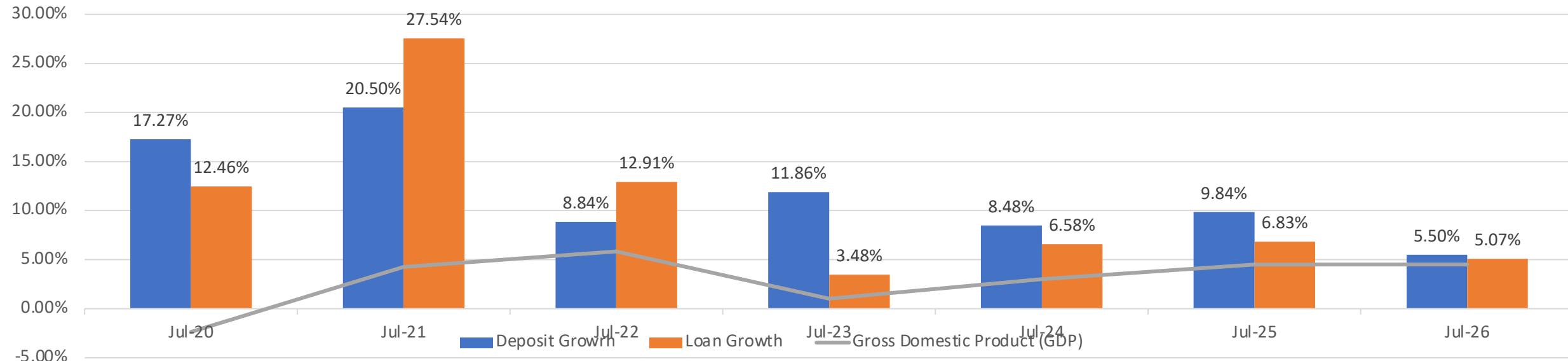
The tax associated with Bargain gain and FPO is anticipated to strain the already stressed capital of financial institutions, resulting in an expected reduction of Rs 60 billion or more in their lending capacity.

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:

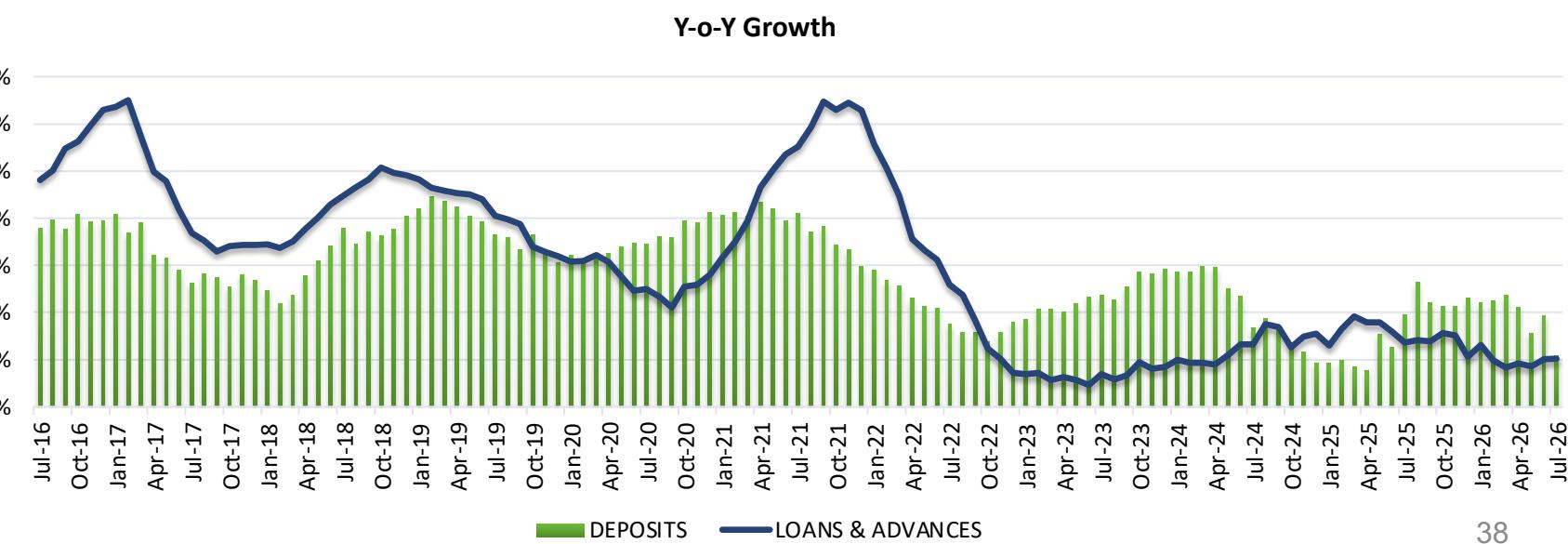
1. NRB could explore allocating it to a reserve, particularly since the capital movement is not a result of regular business operations. Clear directives should be rolled out, accompanied by measures to mitigate the impact on lending capacity (or on CAR). Importantly, this option would have no bearing 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

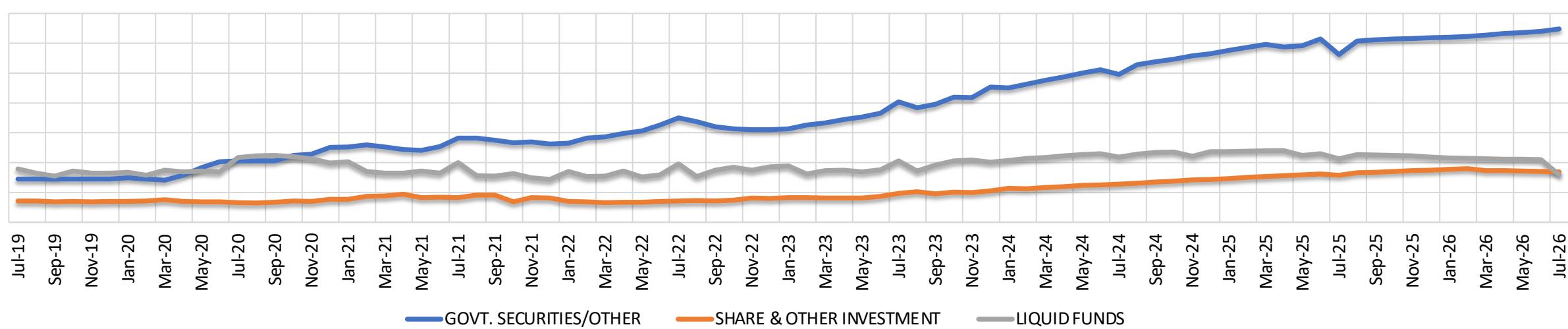


Particulars	Amount in USD Million	
	Incremental LLP	LLP
Loan loss Provision	30.87	4.08%
Watch List Provision	249.20	32.93%
Special Loan Loss Provision	476.74	62.99%
	756.81	

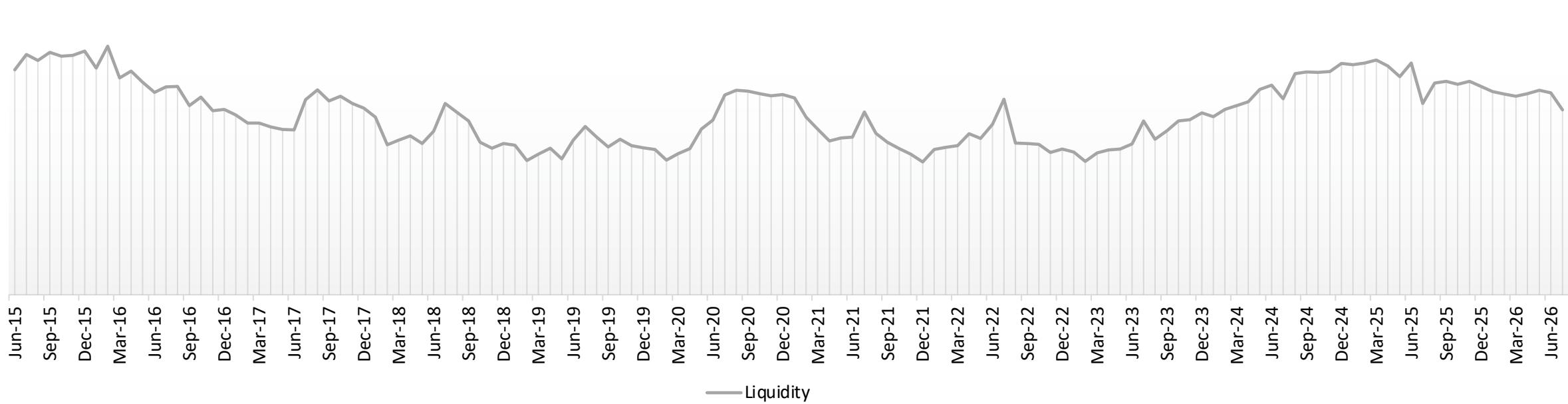


Liquidity

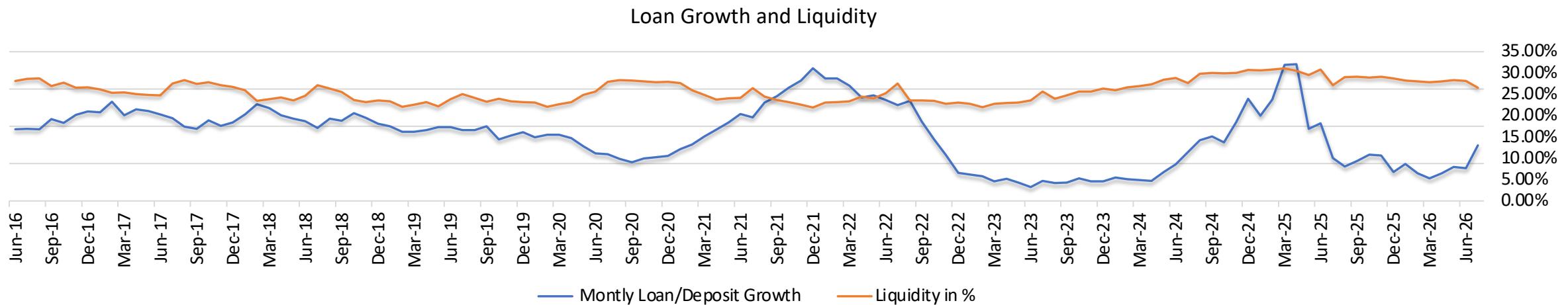
Liquid Investment of BFIs (\$ in billion)



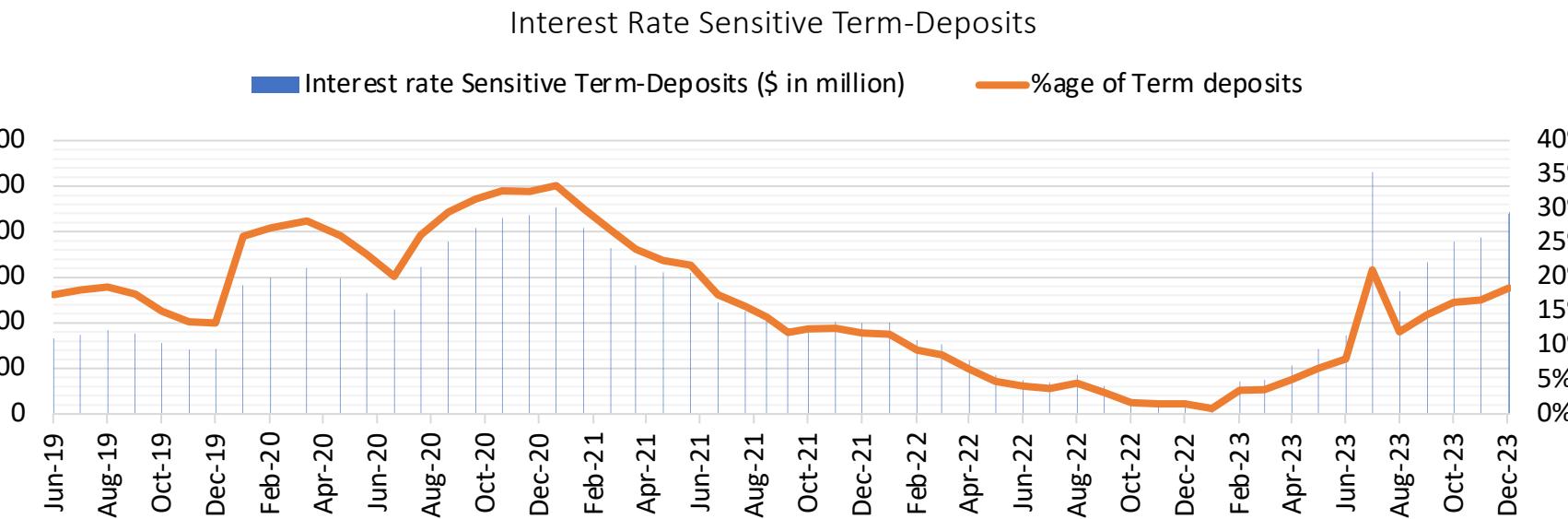
Liquidity



Liquidity



Amount in million	Deposit mix	Maturity	
		Within next month	Within one Year
3-6 months	20%		
6-12 months	28%		
1-2 yrs.'	25%		
2 yrs. and above	26%		
Total	100%	19.0%	22,417.99
4,397.46			10,831.50
11,586.49			



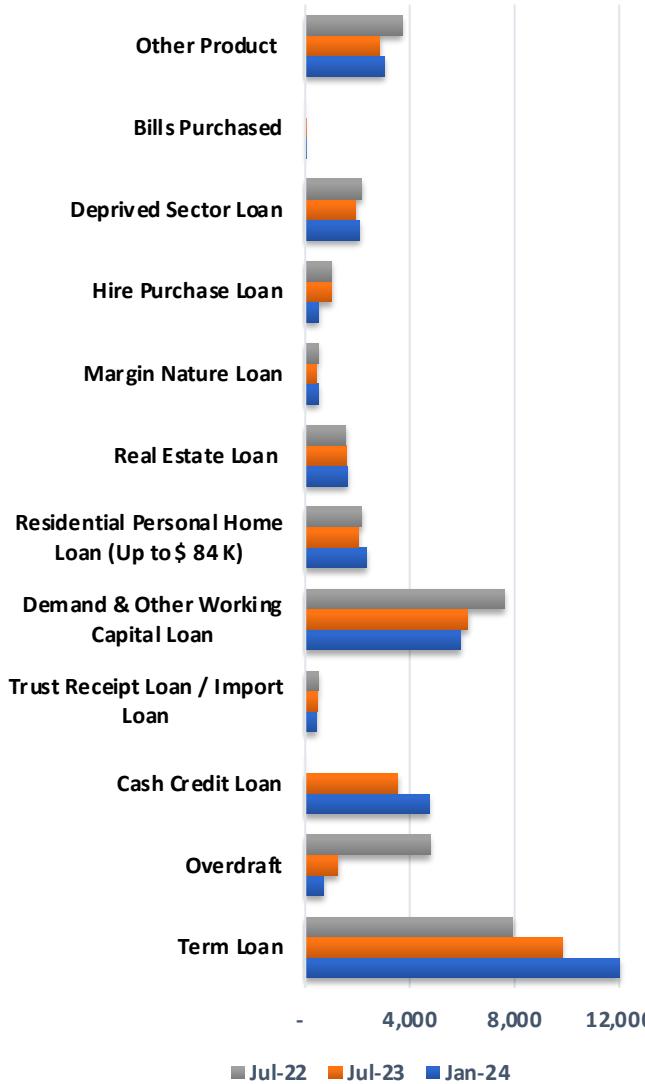
Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

Sector wise Loan Growth of Commercial Banks

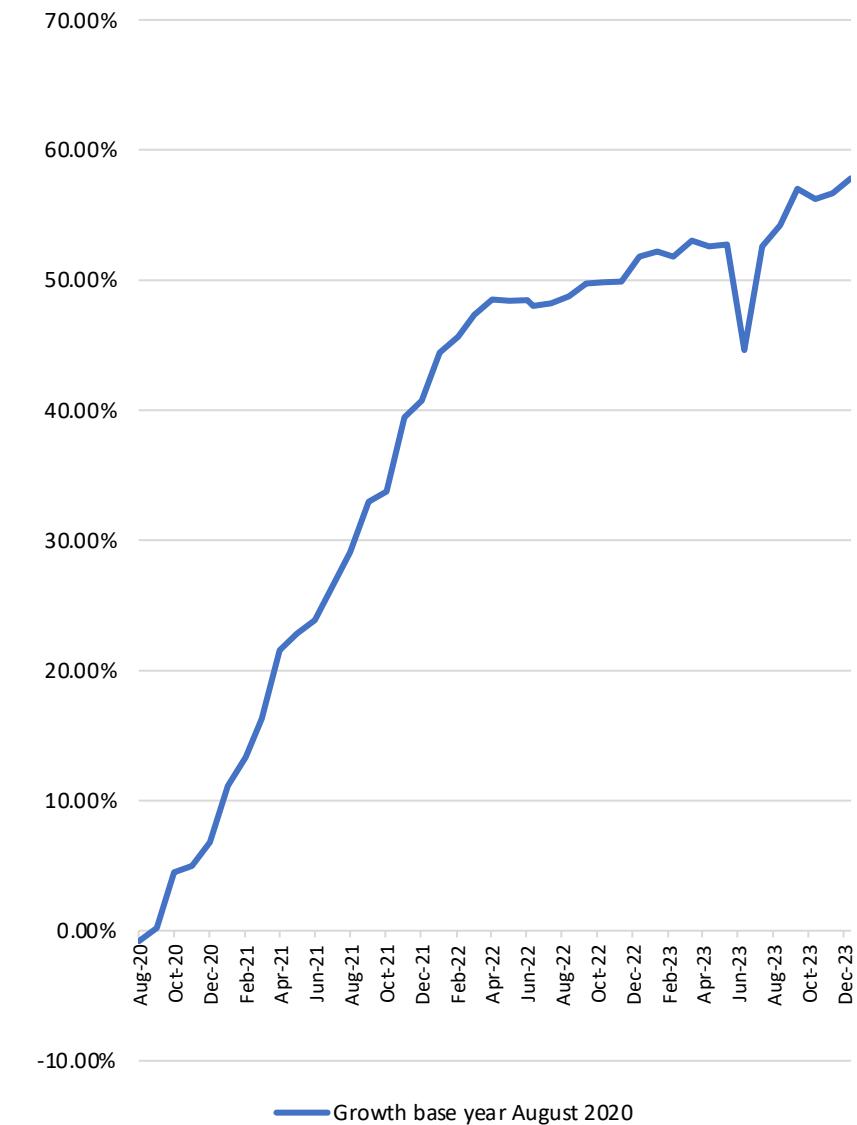
Loan Growth Commercial Bank



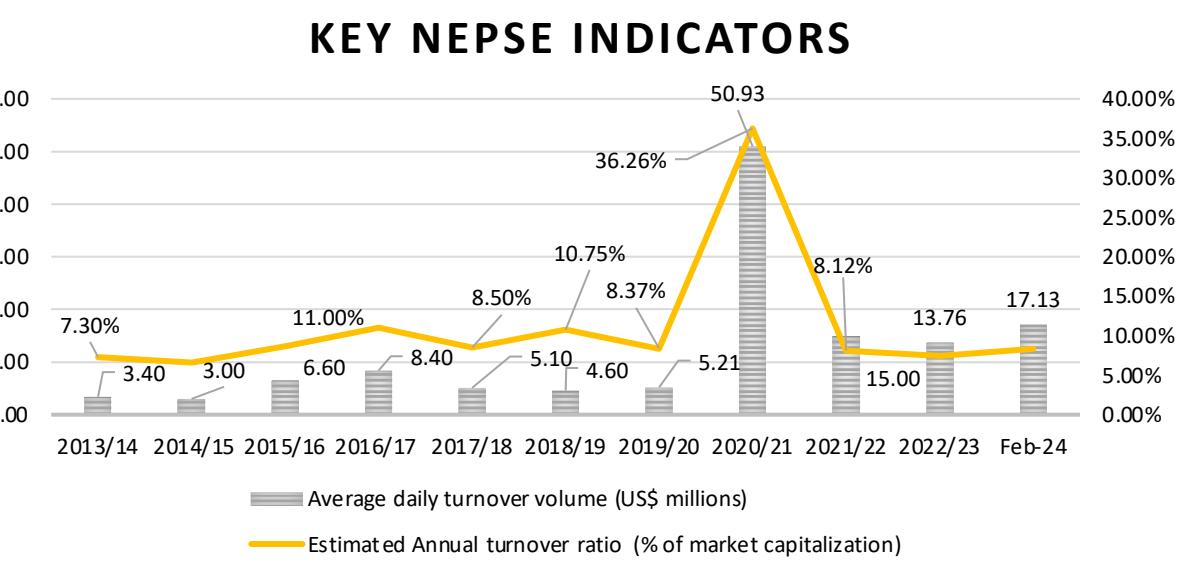
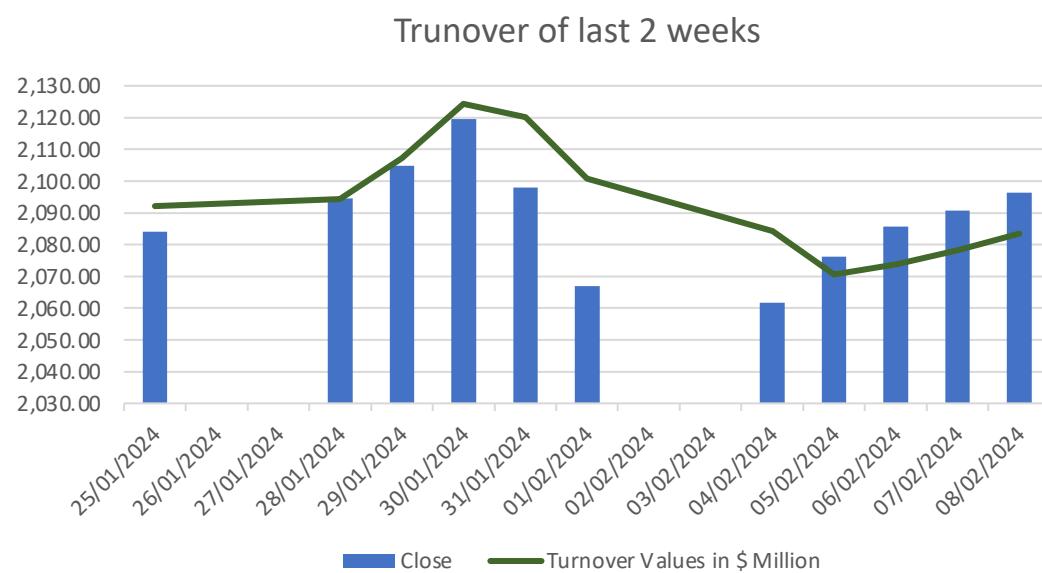
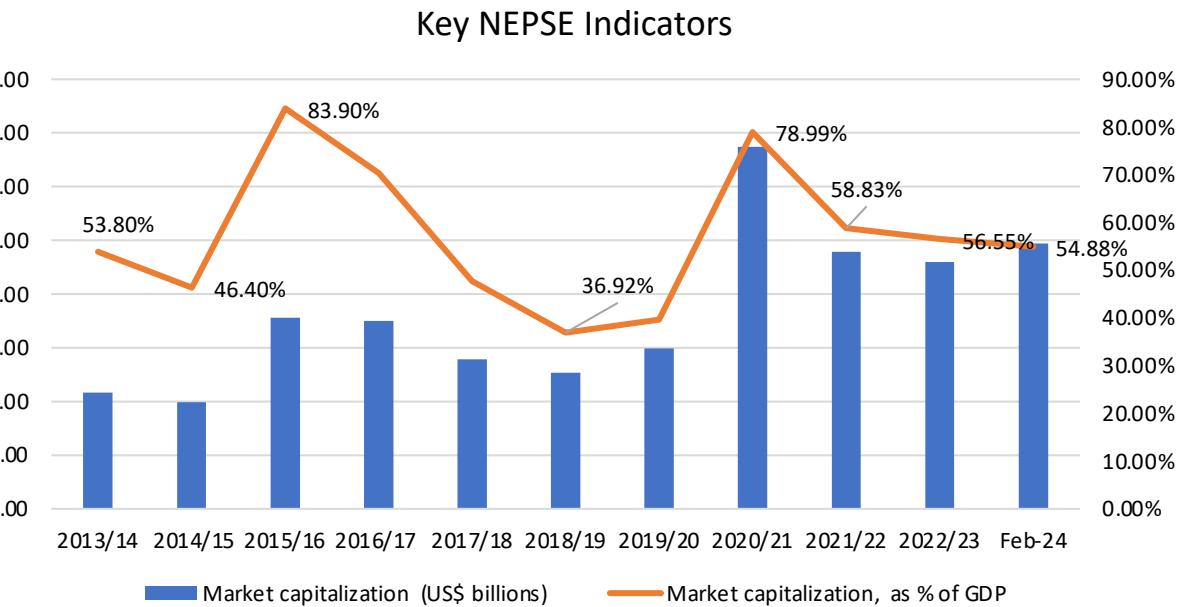
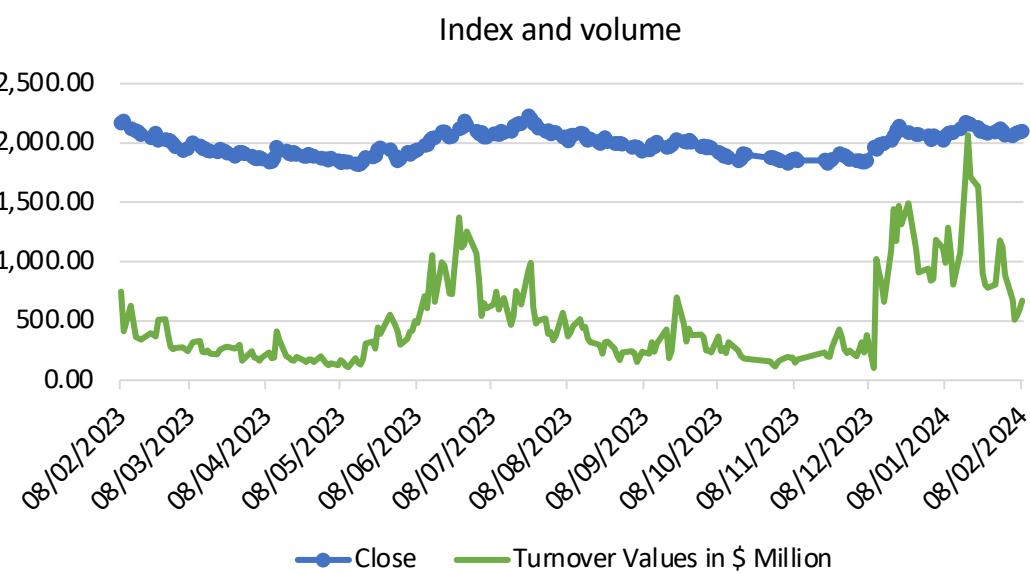
LOAN GROWTH (\$ in million)



Growth from base year August 2020



Capital Market





5

Mid-Term
Monetary Policy
Expectations
2023/24

Mid-Term Monetary Policy Expectations 2023/24

In the current economic landscape of Nepal, authorities are engaged in significant deliberations regarding the mid-term monetary policy outlook. The challenges of striking the right balance between imposing and loosening restrictions, allocating financial resources judiciously, and formulating effective strategies for revenue generation are formidable. Despite these challenges, aligning the optimal economic policy, as recommended by economic analysis, with political feasibility is not always a straightforward task.

An acknowledged deficiency in the effectiveness of the monetary policy stance, as illuminated in Nepal Rastra Bank's economic reports, particularly stands out in addressing the adverse effects of high-interest rates on the economy. While this shortfall has contributed to a temporary reduction in government revenue due to the contraction in economic activities and the impact of elevated interest rates on fiscal allocations, there is room for optimism.

Recent indicators, as illuminated in the reports, suggest a decline in both bank deposit and lending rates. While deposit growth has faced some challenges, and bank credit growth has dipped below the average of the last decade, there are promising developments on the horizon. Despite industrial capacity utilization falling below 60%, resulting in a 20% reduction in government revenue, authorities are actively engaging in ongoing dialogues with business communities to address and improve the situation. In response, the government's proactive stance in crafting a strategy to enhance economic activities, alongside anticipated monetary and fiscal stimulus measures, is poised to be a catalyst in elevating business confidence to new heights. This optimistic outlook reflects a collective effort to navigate challenges and pave the way for positive economic momentum in the near future.

The financial distress faced by nonbanking financial institutions and nonfinancial firms, particularly small and medium-sized enterprises (SMEs), has reached levels higher than in previous tightening episodes. However, there is an optimistic perspective on the horizon, as healthy firms encountering difficulties in accessing external financing may find relief through targeted interventions, potentially alleviating the challenges faced by distressed firms.

In light of this scenario, companies burdened with debt might exhibit caution in investing in new developments, facilities, hiring, or production. The overall economic outlook emphasizes the imperative for careful consideration and strategic decision-making by authorities to effectively address these multifaceted challenges, as highlighted by many analysts. The inherent optimism lies in the potential for proactive measures to spur positive economic momentum.

Nepal Rastra Bank (NRB) will be actively pursuing critical upgrades to enhance regulatory capacity and elevate the quality of supervision. This initiative involves data-driven enhancements and a robust reinforcement of the autonomy and accountability framework.

Simultaneously, the maintenance of the current accommodative monetary stance is aligned with the potential mitigation of debt servicing costs and associated risks to financial stability, especially in the context of sustained higher interest rates.

A thorough review of banks' loan classification policies is underway to accurately reflect the asset quality of the banking system. The consideration of adopting NFRS 9 aims to improve default determinations based on expected loss rather than incurred loss.

Additionally, a comprehensive review of asset and liability pricing, liquidity policies, and refinance facilities is being undertaken. The accounting treatments for capitalized interest during construction periods will also be subject to review, particularly for large projects.

Clear and comprehensive guidance needs to be disseminated for the restructuring and rescheduling of loans, with a specific focus on reviewing risk grading for health, manufacturing, construction and hospitality sectors and SMEs facing cash flow crises. The existing provisioning requirement of 5% for restructuring should be reviewed to ensure it does not discourage workout arrangements and initiate force closures by banks. NRB should steep up the process to implement interest rate spreads effectively, aligning them with permissible levels, while the redesigning of working capital guidelines is tailored to meet sector-specific requirements.

As banking and financial institutions (BFIs) grapple with the mounting pressure of meeting capital requirements, it is imperative for the Nepal Rastra Bank (NRB) to consider raising the maximum threshold for regulatory retail portfolios to Rs 50 million. This adjustment would provide much-needed relief to BFIs, allowing them to bolster their Capital Adequacy Ratio (CAR), a crucial indicator of financial health and stability. By accommodating larger retail portfolios within the regulatory framework, BFIs can enhance their ability to manage risk and allocate resources effectively.

Moreover, NRB should conduct a comprehensive review of the risk weightage assigned to various items on the balance sheet. This entails a meticulous assessment of the potential risks associated with different assets and liabilities held by BFIs. By recalibrating the risk weightage, NRB can ensure that the regulatory framework accurately reflects the inherent risks in banking activities, thereby promoting prudence and stability in the financial sector. This proactive approach by the regulatory authority would not only facilitate the strengthening of BFIs' CAR but also contribute to overall systemic resilience and confidence in the banking system.



Monetary measures	Policy Actions	Impact
Policy Adjustment:	NRB is to maintain accommodative policy	NRB is set to uphold an accommodative policy, aiming to enhance the equilibrium of liquidity by bolstering both market demand and supply.
Policy Rates	Adjustment in Policy Rates:	Anticipated during the policy announcement is a reduction in policy rates exceeding 50 bps. The calibration of these rates will align with inflation, resulting in a corresponding decrease in the market lending rate.
Liquidity ratios	Refined Liquidity Ratios:	An upward revision by 25 basis points is anticipated in the Cash Reserve Ratio (CRR). Projections suggest that the average market lending rate might reach 10.08% by the year's end.
BOP Position	Balanced BOP Position:	It is anticipated that NRB will uphold a Forex reserve sufficient to cover over 7 months of imports of goods and services. This strategic move is aimed at stabilizing the external sector and preserving the credibility of the foreign exchange rate peg.
Revised Credit Strategy	Revised Credit Strategy:	NRB is anticipated to prioritize Non-Performing Asset (NPA) management over credit expansion. Efforts will be made to curtail the ease of credit flow to imports, particularly within the trading sector. Additionally, the flow of credit to corporates is expected to be moderated, aligning with sustainable limits.
Growth of broad money (M2)	Expansion of Broad Money (M2):	The growth target for broad money (M2) is set to hover around 12%. To encourage increased savings and curb domestic consumption, deposit rates will be maintained slightly below the current levels.
Bank Supervision	Enhanced Bank Supervision:	More rigorous policies will be introduced to enhance the effective regulation of Banking and Financial Institutions (BFIs). Additionally, a thorough review of the asset quality of systemically important banks will be conducted.
Capital market	Revamped Capital Market Approach:	A policy initiative is on the horizon to streamline the entry of Non-Resident Nepalis into the capital market. Furthermore, measures will be introduced to mitigate and streamline the volatility in the capital market.
Capital Adequacy	Review Capital Adequacy:	NRB should increase maximum threshold for regulatory retail portfolio to Rs 50 million, this will support BFIs to improve CAR. NRB should recalibrating the risk weightage.
Growth target	Revised Growth Objective:	NRB is anticipated to strive for sustainable GDP growth, emphasizing the pursuit of economic expansion that is both enduring and well-balanced.
Inflation	Inflation Management:	The focus of monetary management will be on containing consumer price inflation within a target of 6.5 percent, allowing for a margin of 2% on either side. This 2% margin provides NRB with the flexibility to calibrate policies that can support fiscal objectives effectively.

5

Fiscal Situation

Government of Nepal Receipts & Payments Status (Exchange Factor \$ 1 = NPR 130)

Government Receipts & Payments Status	Annual Budget	07/02/2024	% age
1. Revenue (USD in million)	10,942.63	4,252.31	38.86%
a) Tax Revenue	10,042.15	3,824.73	38.09%
b) Non Tax Revenue	900.48	427.58	47.48%
2. Grants	384.18	21.22	5.52%
3. Other Receipts	-	164.17	
Total Receipt	11,326.81	4,437.70	39.18%
2. Total Expenditure from Treasury	13,471.63	5,129.38	38.08%
a. Recurrent	8,782.95	3,814.94	43.44%
b. Capital	2,323.65	453.01	19.50%
c. Financing	2,365.03	861.43	36.42%
Deficit	(2,144.83)	(691.68)	
% of GDP	4.76%	1.54%	

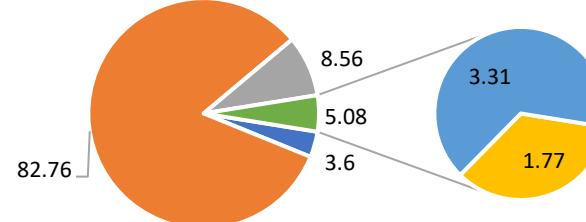
Key Economic Indicators

Particulars	Mid-Jan 2024 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 5.26 percent on y-o-y basis.
External Trade	Imports decreased 3.1 percent, exports decreased 7.2 percent and trade deficit decreased 2.6 percent.
Remittances	Remittances increased 25.3 percent in NPR terms and 22.6 percent in USD terms.
Balance of Payments	Balance of Payments remained at a surplus of \$2.1 billion.
Broad money (M2)	Broad money (M2) increased 6.4 percent. On y-o-y basis, M2 expanded 14.3 percent
Deposits and Loans and advances	Deposits at BFIs increased 6.6 percent and private sector credit increased 4 percent. On y-o-y basis, deposits increased 14.9 percent and private sector credit increased 4.9 percent.

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

	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	4,709						
	Revenue	663	1,186	1,841	2,325	3,054	4,172						
	Treasury Position	1,756	1,614	1,441	1,281	1,579	1,989						

Ownership Structure of Government Securities



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

Government Revenue

HEADS	Amount in \$ million	Mid-Months 2022/23									Mid-Months 2023/24				
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Customs	542	660	761	882	1,005	1,130	1,270	1,404	113	232	382	471	612		
Import Duties	429	520	597	691	790	886	994	1,098	86	186	311	379	491		
Export Duty	2	2	2	2	2	3	3	3	0	0	0	0	0		
Infrastructure Tax	53	67	80	95	108	124	140	158	10	18	28	39	55		
Other incomes of Custom	4	5	5	5	5	6	6	6	6	6	6	6	7		
Agriculture Reform Duties	22	28	34	39	43	48	53	57	5	9	13	16	22		
Road Maintenance and Improvement Duty	21	26	30	35	40	45	51	57	4	8	15	19	25		
Road Construction and Maintenance Duty	11	12	13	15	16	19	23	25	2	4	8	10	13		
Value Added Tax	829	1,011	1,177	1,356	1,555	1,744	1,948	2,202	184	344	531	672	887		
Production, Sales and Service	324	394	463	529	607	682	765	904	88	146	202	263	348		
Imports	505	618	713	827	948	1,061	1,183	1,297	95	198	330	409	540		
Excise Duties	456	542	601	695	793	894	1,021	1,101	85	164	267	342	436		
Internal Production	351	418	462	536	613	693	796	853	64	120	187	246	316		
Excise on Imports	105	124	140	159	180	201	226	248	20	44	81	96	120		
Educational Service Tax	5	6	7	8	10	12	13	15	2	5	7	9	10		
Income Tax	488	898	1,025	1,108	1,377	1,487	1,587	1,937	156	240	347	462	648		
Income Tax	372	769	853	925	1,183	1,254	1,345	1,684	105	177	274	340	515		
Interest Tax	116	129	172	184	194	233	242	253	52	62	73	122	133		
Total Tax Revenue	2,319	3,117	3,571	4,050	4,739	5,266	5,838	6,659	540	984	1,534	1,956	2,594		
Non Tax Revenue	196	413	388	433	521	551	599	704	67	101	151	172	202		
Total Revenue	2,515	3,531	3,959	4,483	5,260	5,817	6,437	7,363	607	1,085	1,686	2,128	2,796		
Other Receipts	212	239	267	271	276	279	298	410	71	101	119	125	136		
Total Receipts	2,726	3,770	4,226	4,754	5,536	6,096	6,735	7,772	678	1,186	1,804	2,253	2,932		

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

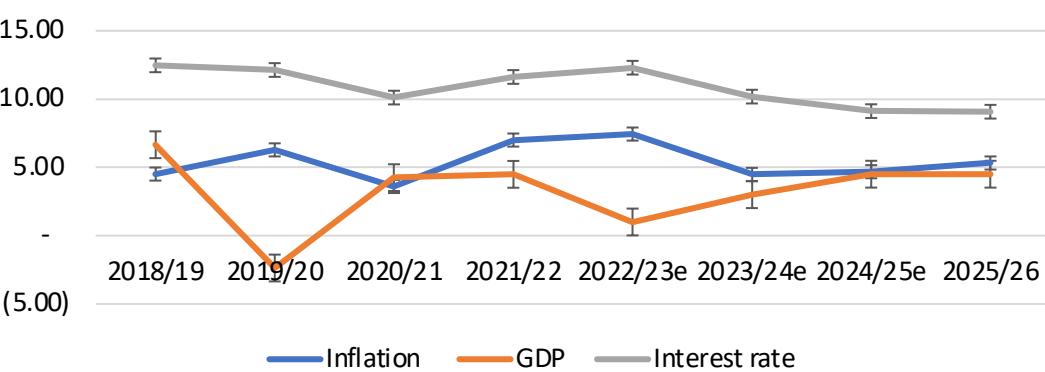
Jan. 2023	5.1%	(0.9% up from Oct 2022)
May 2023.	4.40%	(0.6% down from March 2023)
Oct 2023.	0.80 %	(3.6% down from May 2023)
Dec 2023.	3.5 %	(improved 2023/24)

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

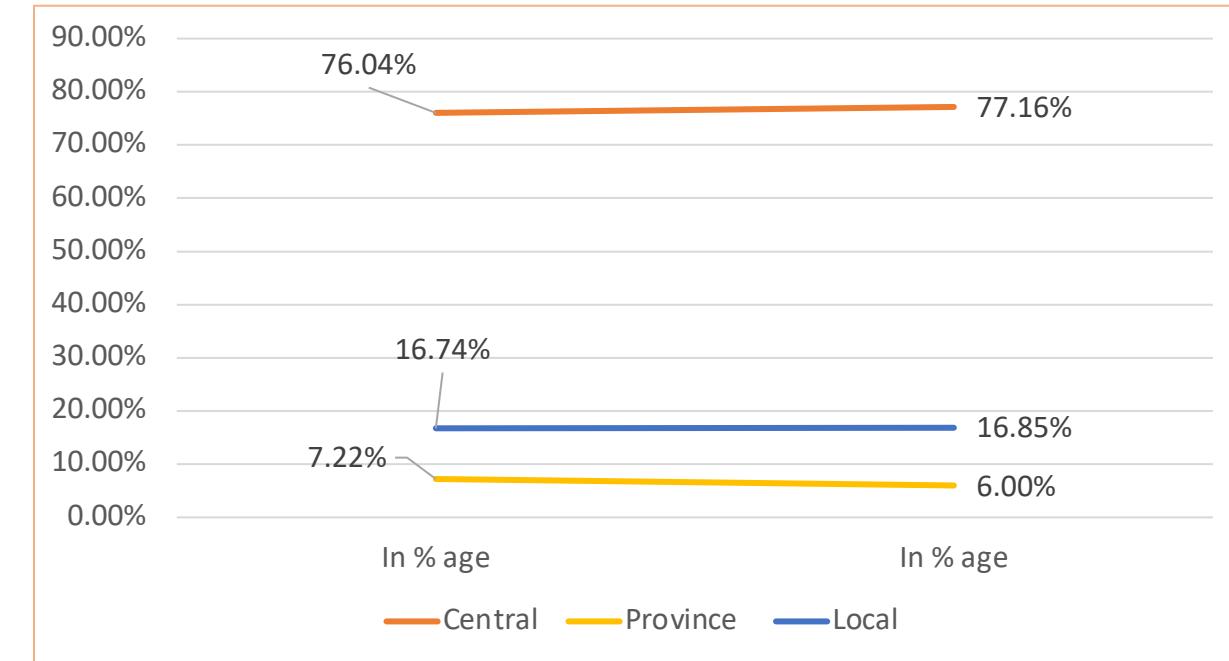
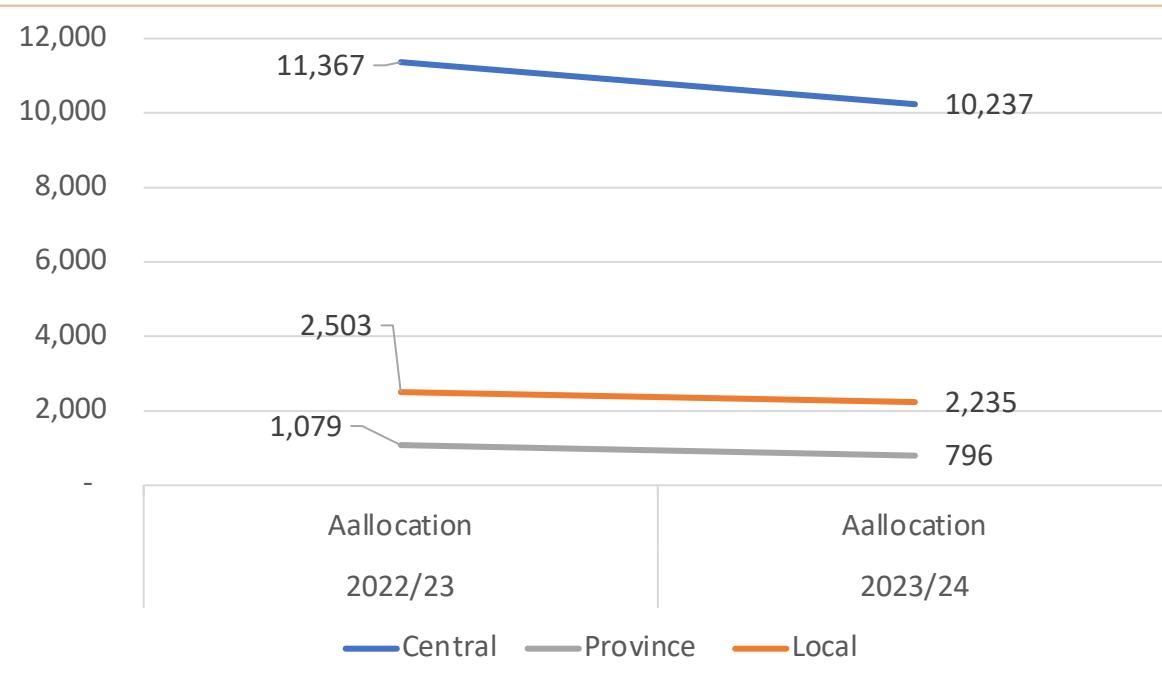
Budget Source and Allocation 2023/24

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

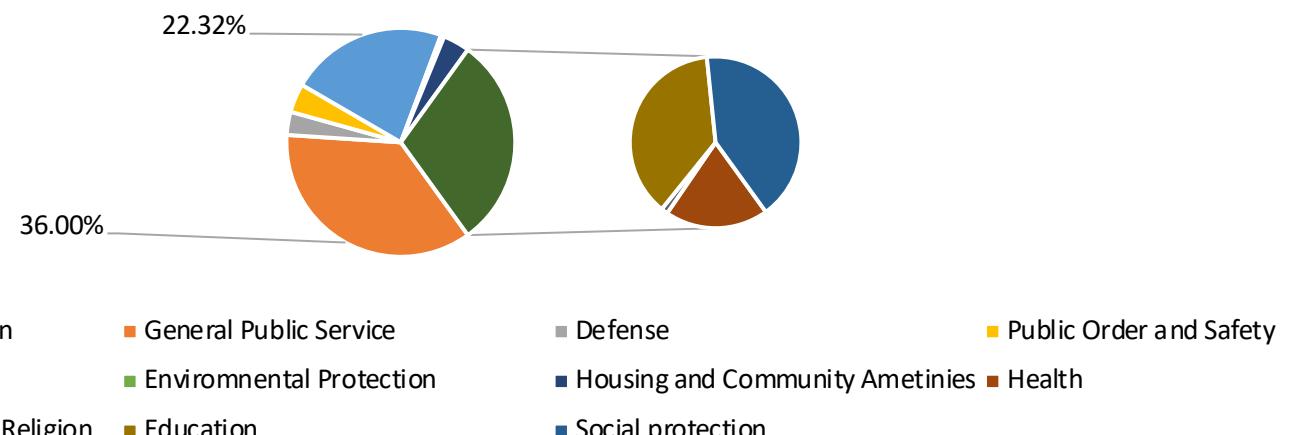
Areas of Budget allocation	2021/22		2022/23		2023/24		Compare to last year	
	Amount in \$ Mn	in % age	Amount in \$ Mn	in % age	Amount in \$ Mn	in % age	In figure	In %
General Public Service	4,034	29.42%	4,779	31.97%	4,777	36.00%	Down	Up
Defense	414	3.02%	462	3.09%	434	3.27%	Down	Up
Public Order and Safety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