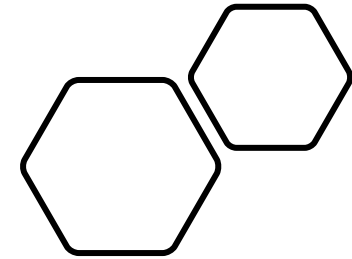


# Economic Outlook Based on Mid May 2024



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Overview 2023/24

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Economic Information

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Financial Sector Highlights

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Monetary Policy Expectation

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Fiscal situation

# 1



Overview 2023/24



## *International Monetary Fund (IMF)*

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graph TD; IMF[International Monetary Fund (IMF)] --- L1[According to International Monetary Fund (IMF) Nepal's economy, after a slowdown last year, is showing signs of recovery. Economic activity is expected to increase, supported by a cautiously accommodative monetary policy, increased capital expenditure in the FY2024/25 budget, additional hydropower generation, and a rise in tourist arrivals. Inflation is projected to stay within the 5.5 percent target, and the external position is expected to strengthen further.]; IMF --- L2[Significant fiscal achievements include the approval of a Domestic Revenue Mobilization Strategy and an Action Plan for improving budget execution. The Nepal Rastra Bank (NRB) has also finalized and implemented a Supervisory Information System for banks and is making progress on procuring an international consultant for a Loan Portfolio Review of the 10 largest banks.]; IMF --- R1[Nepal is also committed to improving its anti-money laundering and combating the financing of terrorism (AML/CFT) framework. Recent legal amendments and ongoing efforts to align with international standards are steps in this direction, with continued technical support from the IMF and other donors.]; IMF --- R2[Looking ahead, growth is expected to reach 4.9 percent in FY2024/25, driven by stronger domestic demand and strategic investments, particularly in the energy sector. The policies and reforms under the ECF program are designed to support this growth while maintaining macroeconomic stability. Key priorities include accelerating capital spending, strengthening the monetary framework, and enhancing the financial system's resilience.]; IMF --- R3[Despite these advances, the economy faces challenges. Growth is projected at around 3 percent for FY2023/24, below potential due to subdued domestic demand and post-pandemic balance sheet repairs. Inflation has decreased to 4.6 percent in April 2024 from a peak of 8.6 percent in September 2022. However, the tax-to-GDP ratio remains below pre-pandemic levels, limiting fiscal space for development spending. Additionally, non-performing loans in banks have doubled since August 2022, and the financial health of savings and credit cooperatives has worsened.]; L1 --- L2; L1 --- R1; L1 --- R2; L1 --- R3; R1 --- R2; R1 --- R3; R2 --- R3;
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*According to International Monetary Fund (IMF) Nepal's economy, after a slowdown last year, is showing signs of recovery. Economic activity is expected to increase, supported by a cautiously accommodative monetary policy, increased capital expenditure in the FY2024/25 budget, additional hydropower generation, and a rise in tourist arrivals. Inflation is projected to stay within the 5.5 percent target, and the external position is expected to strengthen further.*

*Significant fiscal achievements include the approval of a Domestic Revenue Mobilization Strategy and an Action Plan for improving budget execution. The Nepal Rastra Bank (NRB) has also finalized and implemented a Supervisory Information System for banks and is making progress on procuring an international consultant for a Loan Portfolio Review of the 10 largest banks.*

*Nepal is also committed to improving its anti-money laundering and combating the financing of terrorism (AML/CFT) framework. Recent legal amendments and ongoing efforts to align with international standards are steps in this direction, with continued technical support from the IMF and other donors.*

*Looking ahead, growth is expected to reach 4.9 percent in FY2024/25, driven by stronger domestic demand and strategic investments, particularly in the energy sector. The policies and reforms under the ECF program are designed to support this growth while maintaining macroeconomic stability. Key priorities include accelerating capital spending, strengthening the monetary framework, and enhancing the financial system's resilience.*

*Despite these advances, the economy faces challenges. Growth is projected at around 3 percent for FY2023/24, below potential due to subdued domestic demand and post-pandemic balance sheet repairs. Inflation has decreased to 4.6 percent in April 2024 from a peak of 8.6 percent in September 2022. However, the tax-to-GDP ratio remains below pre-pandemic levels, limiting fiscal space for development spending. Additionally, non-performing loans in banks have doubled since August 2022, and the financial health of savings and credit cooperatives has worsened.*

# 2024 “Optimistic outlook while exercising prudence”

*Despite some proactive measures taken by the central bank to address financial stability risks, the effectiveness of these actions remains questionable. The Nepal Rastra Bank (NRB) recognizes the complex interplay between monetary policy and financial stability, but whether their strategies will prevent undue strain on the financial system is uncertain. This situation reveals the NRB's ongoing struggle to maintain a stable and secure financial environment.*

*Recent economic indicators for May 2024 show only a slight improvement in consumer spending compared to previous quarters. The rebound in retail sales, particularly in interest rate-sensitive sectors like motor vehicles, may be a temporary response to the NRB's accommodating monetary policy rather than a sign of sustained economic health. While these trends offer a glimmer of hope, caution is necessary, especially considering past fluctuations in inflation and economic activity. The recent easing of financial conditions serves as a stark reminder of the multitude of factors that can influence economic trends, highlighting the critical need for prudent policymaking.*

*The proposed amendment to the Bank and Financial Institutions Act (BAFIA) has sparked significant concerns within the business community. This review highlights key issues and implications, particularly focusing on Sections 2 and 52 of the proposed Act, which impose restrictions on shareholders owning more than 1% of a bank's shares from borrowing money from any bank in Nepal.*

*Section 52 extends this restriction, specifying that shareholders and their relatives cannot engage in business transactions with any other bank if they hold shares exceeding the 1% threshold in any bank. This rule could negatively impact investment, as shareholders with substantial stakes in banks often have a vested interest in the success of these institutions. By limiting their ability to borrow from any other bank in Nepal, the amendment might discourage potential investors who seek both equity in one bank and credit facilities from another bank where they have not invested.*

*Although the stringent rule aims to enhance governance and transparency within financial institutions, it could lead to unintended consequences. Shareholders may be forced to disinvest their ownership in banks, creating an oversupply and potentially causing a crash in the capital market. Additionally, banks might lose valuable business relationships and opportunities from reputable clients. The blanket restriction fails to consider the individual creditworthiness and business acumen of shareholders, potentially penalizing competent investors who could contribute positively to the banking sector.*

*Overall, while there is some momentum heading into 2024, a more cautious and realistic outlook is warranted. Instead of an overly optimistic view, it is imperative to remain vigilant and prudent in managing the economic challenges ahead.*

## 2024 “Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates”

*Economic activity in Nepal has been sluggish, despite some positive developments. May 2024 saw only a slight improvement in consumer spending, primarily due to increased remittances and lower borrowing costs. However, the manufacturing sector, crucial to industrial activity, has not experienced significant advancements on the supply side.*



*Migration and urbanization have led to a decline in rural demand, which is expected to remain below the levels seen in the 2023/24 fiscal year. During the current fiscal year, the weighted average lending rates have **decreased by 2.07%**. As a result, there has been a modest increase in urban demand for domestic capital goods, as indicated by various economic indicators.*



*Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and deposit rates downwards to accommodate the lack of significant demand for credit. This ongoing trend has resulted in notable decreases in the weighted average lending and deposit rates.*



*Consumer confidence for this year has reached a record low, and construction activity has also been lackluster. Investment outlook remains bleak due to various factors, including subdued demand for credit from corporate, especially those in manufacturing; sustained low government capital expenditure; weakened balance sheets of both banks and corporates; diminished capacity utilization; and declining business sentiment.*

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

<i>Despite the perception of reduced imports, the average import trend shows an increase.</i>	<i>Similarly, while there's a belief remittance inflow may fall, the average remittance trend indicates growth.</i>	<i>Contrary to the notion of decreased in government revenue, the average revenue trend shows an increase.</i>	<i>Moreover, despite assumptions of reduced government spending, the average spending trend suggests otherwise.</i>	<i>Although the interest rate is perceived to be at its peak, the average interest rate trend is actually decreasing.</i>	<i>Additionally, although there's a perception of reduced forex reserves, the average reserve trend indicates growth.</i>	<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>	<i>It is said industrial capacity utilization is low, however it is argued that industries are over capitalize.</i>	<i>It said that loan growth is slow indicating low confidence, however it is observed that borrowers are over leverage.</i>
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*Considering these conflicting observations, it is challenging to determine whether the Nepalese economy is experiencing growth or contraction.*

# Strategic Measures for Economic Recovery and Stimulus Initiatives in Nepal

## Strategic Path for Economic Recovery

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

### 1. Foundational Concepts for Inclusive Revival

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

### 2. Sectoral Adaptation and Support

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

### 3. Embrace the "New Economy"

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

### 4. Enhance Competitiveness

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

### 5. Global Best Practices

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

### 6. Stakeholder Engagement

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

### 7. Tailored Initiatives

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

### 8. Data Enhancement

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

### 9. Performance Framework

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

## Stimulus Initiatives

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

1

### **Stimulating Business Activity**

- Support private sector growth and encourage investment promotion.

2

### **Agro-Industrialization**

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

3

### **Infrastructure Development**

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

4

### **Credit Access for MSMEs**

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

5

### **Tax Reform**

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

6

### **Effective Public Expenditure**

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

# Charting a New Course for Reform

## *Financial Sector Reform Objectives:*

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

## *Asset Management Company (AMC):*

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

## *Amendment to the NRB Act:*

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

## *Establishment of a Monetary Policy Committee:*

*Establishing a Monetary Policy Committee is crucial for ensuring both independence and accountability in the policymaking process. While delineating the roles of monetary policy and credit policy can yield benefits, emphasizing coordination and communication among responsible authorities is paramount. These factors play a pivotal role in safeguarding overall economic stability and the soundness of the financial system. **While commendable progress has been made with the formation of a Monetary Committee by the NRB, it's imperative to initiate corresponding amendments in the NRB Act to align with these provisions on monetary policy actions.***

## Charting a New Course for Reform

<b>BAFIA Amendment:</b>	<p>The proposed amendment in the Banking and Financial Institutions Act (BAFIA) has taken strides towards segregating banking and business activities. However, it is advisable to implement this segregation in a phased manner. Categorizing larger family members as related parties might encroach upon individuals' fundamental rights. Hence, the amendment should revisit this aspect.</p> <p>Furthermore, the BAFIA requires amendments to include provisions for an exit mechanism for Banking and Financial Institutions (BFI) promoters. Encouraging a substantial public holding will enhance governance standards within these institutions. Additionally, it is advisable to reassess the composition of the Board, introducing a balanced mix of executive and non-executive directors to bolster governance. Smooth Implementation: <i>Potential Government Strategies for Effective Implementation</i></p> <ol style="list-style-type: none"> <li>1. <i>Adjusting Section 52: Substituting natural person</i></li> <li>2. <i>Emphasizing Individual Holdings: A Shift in Focus from Collective Holdings</i></li> <li>3. <i>Voting Rights Restriction: Limiting Borrowers' Voting Rights to 0.2% of Outstanding Bank Loans</i></li> <li>4. <i>Mechanism Alignment: Utilizing Existing Mechanisms in Accordance with Legal Framework</i></li> </ol>
<b>GDP Base Review:</b>	<p>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</p>
<b>Prompt Corrective Action:</b>	<p>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.</p> <p>Furthermore, concerning the Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&amp;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.</p>

## ***Decriminalization of Corporate Laws: Paving the Way for Business Innovation***

*In today's rapidly evolving business environment, decriminalization is crucial for fostering growth and innovation. But what does decriminalization mean, and why is it important?*

## ***Understanding Decriminalization:***

*Decriminalization involves removing criminal penalties for certain corporate actions or omissions. Instead of criminal prosecution, non-compliance may lead to civil fines. This shift from punitive measures to a more pragmatic approach helps protect business reputations and build trust and confidence among stakeholders.*

## ***Reasons for Decriminalizing Business Laws:***

- *Protection of Reputation: Criminal charges can damage a business's reputation, affecting its relationships with customers, partners, and investors, even if the charges are not substantiated.*
- *Facilitating Innovation: Simplified compliance protocols and streamlined procedures encourage creativity and investment, driving economic growth.*
- *Global Trends: Leading economies like the UK, Singapore, and the US are implementing regulatory reforms to reduce bureaucracy and enhance the business environment, setting a model for others to follow.*

## ***Tangible Benefits of Decriminalization:***

- *Reduced Compliance Burden: Businesses can focus on core operations and innovation without the fear of imprisonment for minor infractions.*
- *Faster Business Setup: Streamlined regulations speed up the registration process, attracting more entrepreneurs and investment.*
- *Lower Costs: Legal fees associated with defending against minor criminal charges are reduced, and simplified regulations lower administrative costs.*
- *Improved Efficiency: Resources are freed up, allowing courts to prioritize serious crimes. Businesses are motivated to self-regulate to avoid fines.*
- *Enhanced Business Confidence: A predictable regulatory environment fosters trust and encourages risk-taking, driving economic growth.*

***Real-World Examples:*** India's Jan Vishwas Bill and amendments to Korea's Companies Act highlight the positive impact of decriminalization on business landscapes.

***Challenges:*** Balancing deterrence with leniency for minor infractions and ensuring effective enforcement mechanisms remain critical issues.

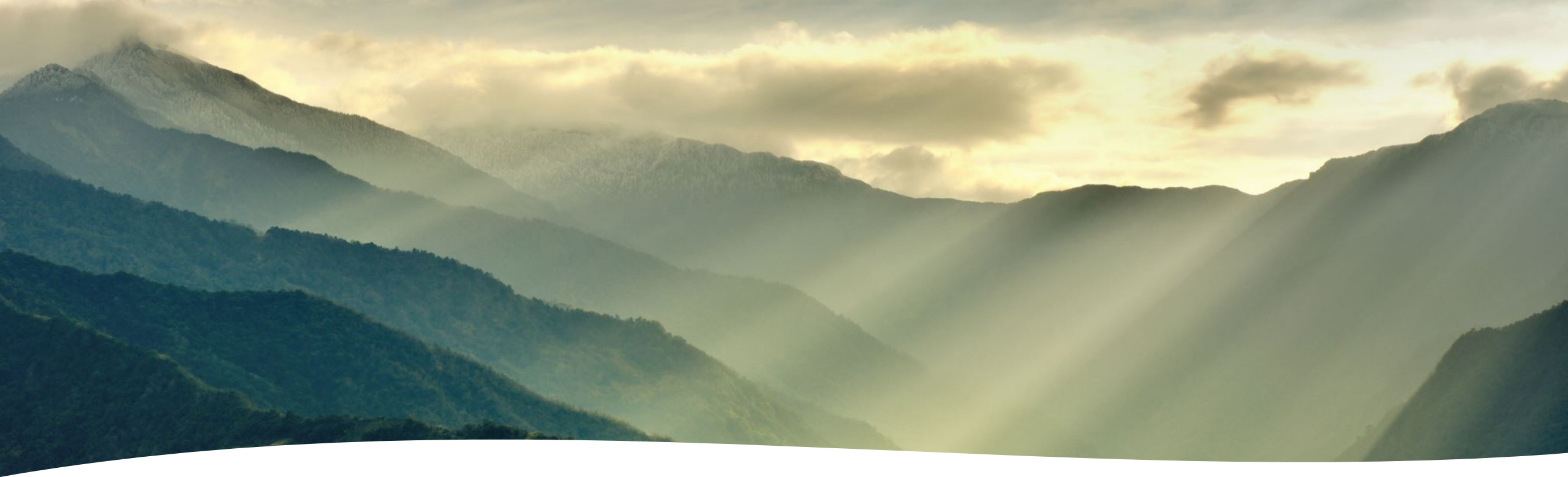
***Conclusion:*** Decriminalization is not about avoiding consequences but creating a business-friendly environment that promotes growth and innovation. Pragmatic reforms in corporate law are essential for shaping a brighter future for businesses worldwide.

# *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.*



## *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.*

2

Economic Information



# 16th Five-Year Periodic Plan (2081/82-2085/86)



GOOD GOVERNANCE,



SOCIAL JUSTICE,



PROSPERITY.

The plan aims to address structural obstacles to development and implement transformational strategies to achieve its ambitious targets.

<i>Strengthen</i>	<i>Strengthen macroeconomic fundamentals and promote rapid economic growth.</i>
<i>Enhance</i>	<i>Enhance production, productivity, and competitiveness.</i>
<i>Create</i>	<i>Create decent jobs and promote productive employment.</i>
<i>Foster</i>	<i>Foster educated, skilled, and healthy human capital.</i>
<i>Develop</i>	<i>Develop quality infrastructure and integrated transport systems.</i>
<i>Promote</i>	<i>Promote modern, sustainable urbanization and settlements.</i>
<i>Empower and include</i>	<i>Empower and include marginalized communities.</i>
<i>Improve</i>	<i>Improve fiscal management and capital expenditure.</i>
<i>Promote</i>	<i>Promote good governance, LDC graduation, and sustainable development goals.</i>

### ***Economic Goals:***

- 1. Achieve an economic growth rate of 7.3% (current: 3.9%).*
- 2. Increase per capita income to \$2,413 (current: \$1,456).*
- 3. Reduce absolute poverty to 17 % and consumer inflation to 5%.*
- 4. Improve the human development index from 0.601 to 0.650.*
- 5. Extend average life expectancy from 71.3 to 73 years.*

### ***Economic Projections***

- 1. Raise the revenue-GDP ratio to 24% (current: 17.8%).*
- 2. Increase federal expenditure to 32% of GDP (current: 26.5%).*
- 3. Maintain sovereign debt below 45% of GDP.*
- 4. Reduce the trade deficit to 24% of GDP (current: 27%).*

### ***Social and Infrastructure Goals:***

- 1. Enhance access to health facilities to 90% of families (current: 77%).*
- 2. Raise literacy rates to 85% and reduce unemployment from 11.4% to 5%.*
- 3. Boost hydropower production from 3,100 MW to 11,769 MW.*
- 4. Ensure 90% internet access and 85% financial institution access for families.*

## Sectoral Strategies:

### **A.Foreign Employment:**

- *Identify new high-return employment destinations.*
- *Sign bilateral labor agreements for safe and secure foreign employment opportunities.*

### **B.Energy Sector:**

- *Export electricity worth Rs 41 billion annually by the end of the plan.*
- *Promote the energy sector to reduce the trade deficit.*

### **C.Employment and Social Goals:**

- *Create 1.2 million jobs annually.*
- *Raise the minimum wage to Rs 25,000 per month.*
- *Increase social security beneficiaries to 2 million.*

### **D.Governance and Competitiveness:**

- *Improve the rule of law index from 0.52 to 0.80.*
- *Increase the global competitiveness index from 52 to 65.*
- *Enhance the corruption reduction awareness index from 35 to 43*

## Implementation Strategy:

- *Focus on structural transformation, adopting new technologies, and promoting research and development.*
- *Collaborate with private, government, and non-government sectors for national skill development.*
- *Prioritize marginalized community empowerment and inclusive employment*

# 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.*

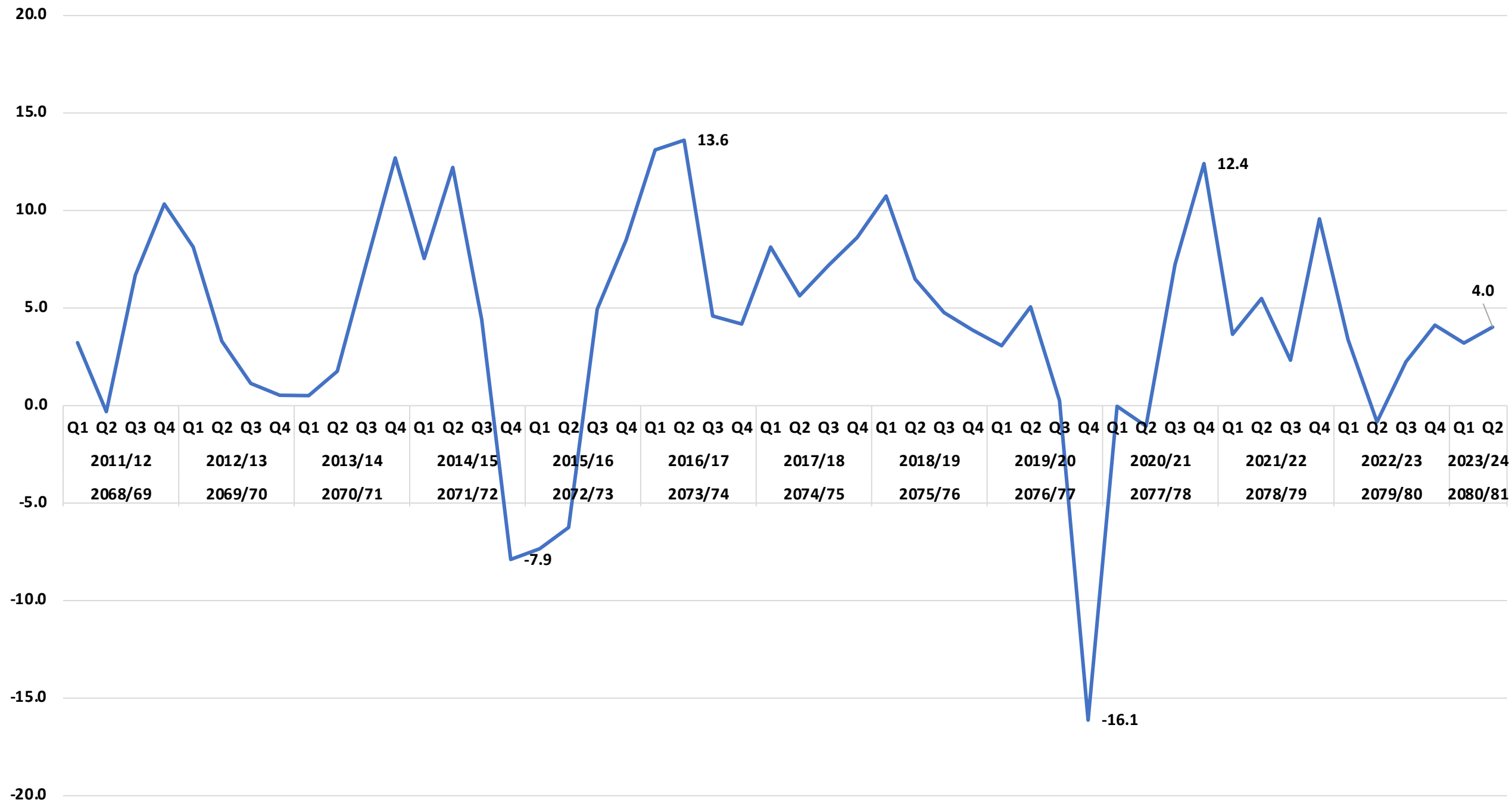
*The survey revealed that 68.2% of trade establishments (comprising wholesale and retail trade and repair of motor vehicles and motorcycles) are registered with government agencies, while 31.8% remain unregistered. Concerning trade margins, wholesale and retail trade and repair of motor vehicles and 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.*

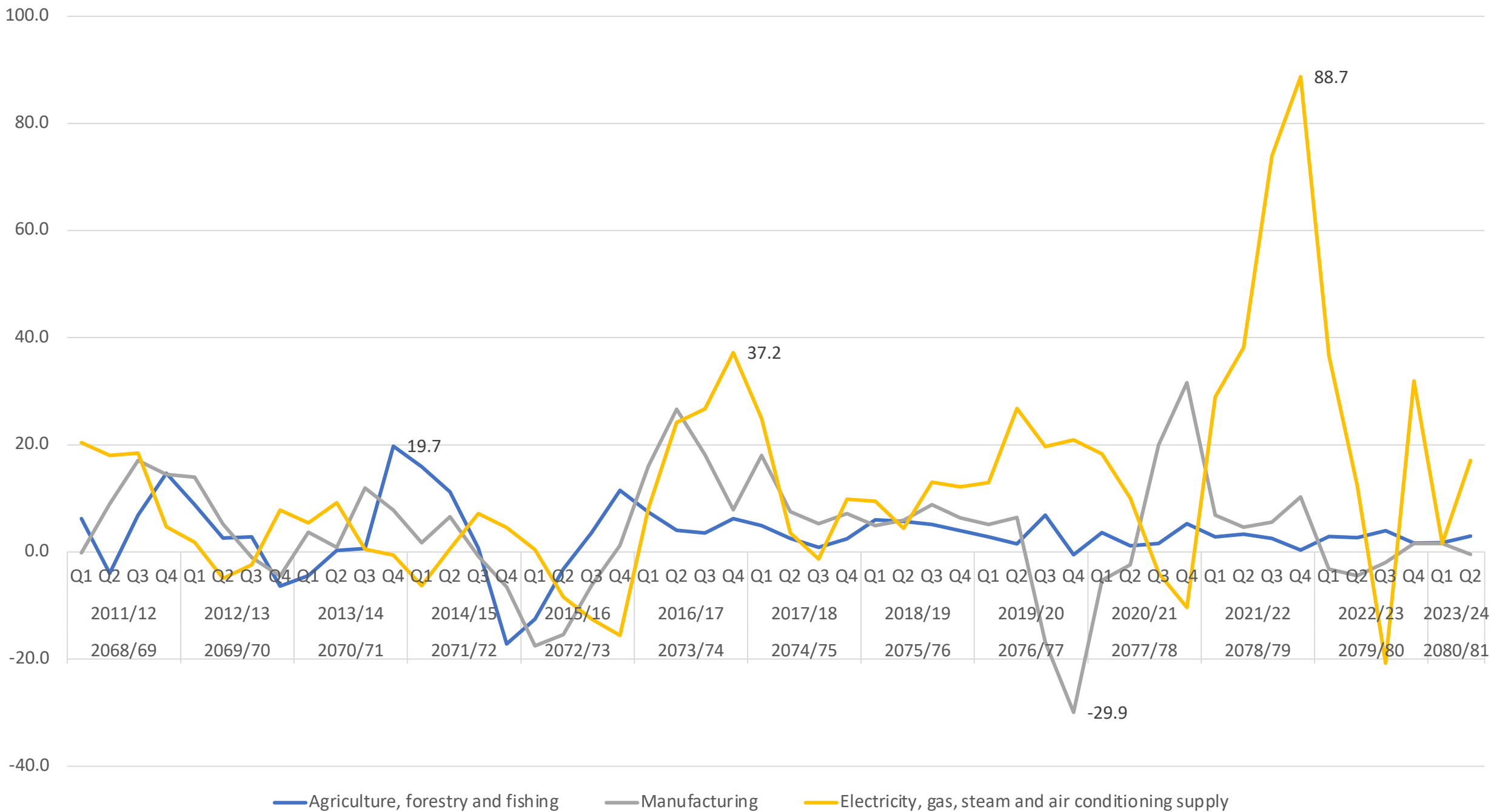
*The total number of individuals engaged in the wholesale and retail trade sector is 1,130,645, with 726,681 (64%) being male and 403,964 (36%) female. On average, there are two individuals engaged in each establishment. The survey found that 88.65% of individuals are involved in retail trade, 5.8% in 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).*

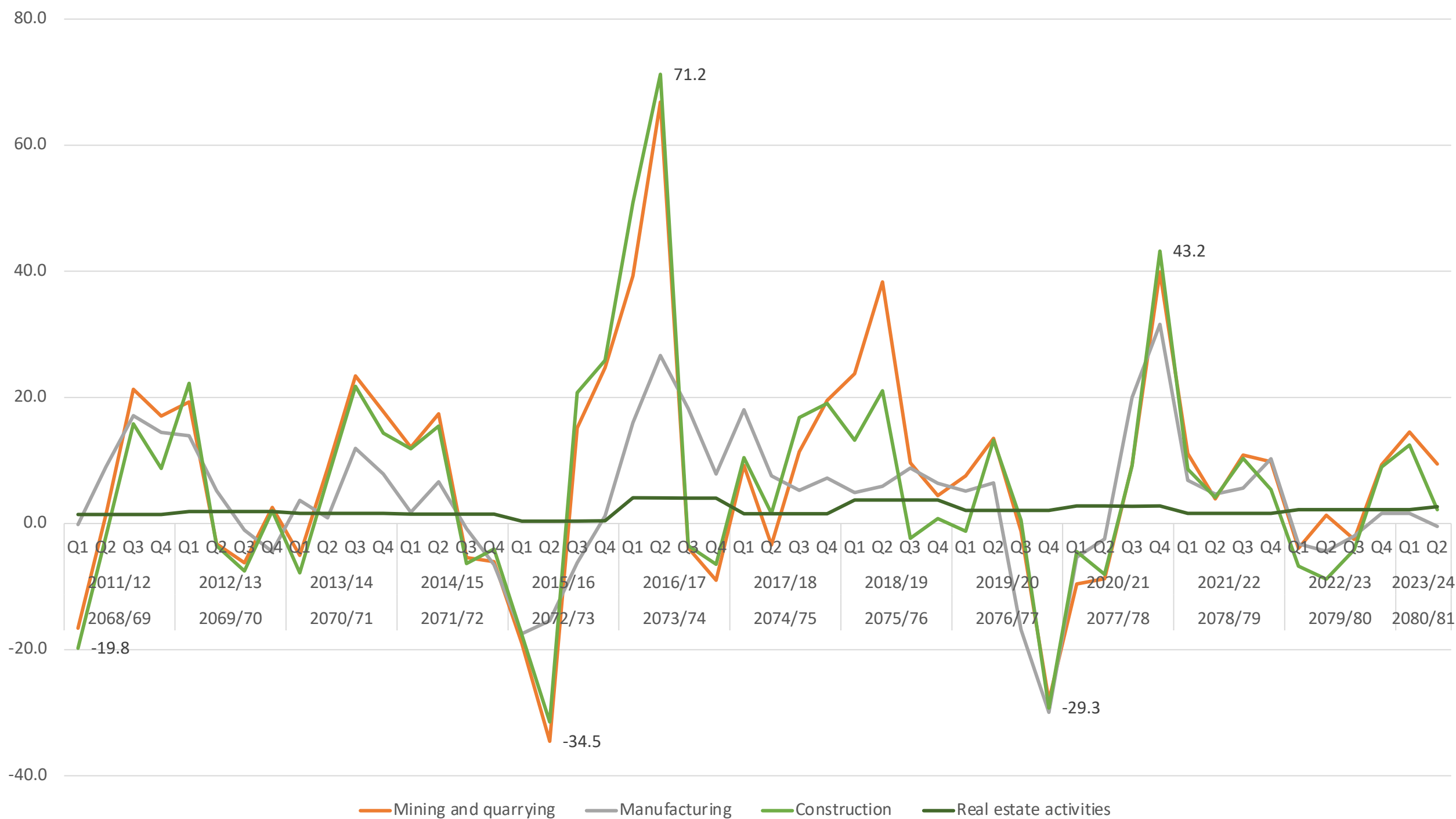
*The average annual operating cost per establishment stands at NPR 264,373. Wholesale trade establishments recorded the highest operating cost per establishment at NPR 1,314,379, followed by motor trade and repair at NPR 583,393, and retail trade at NPR 219,240.*

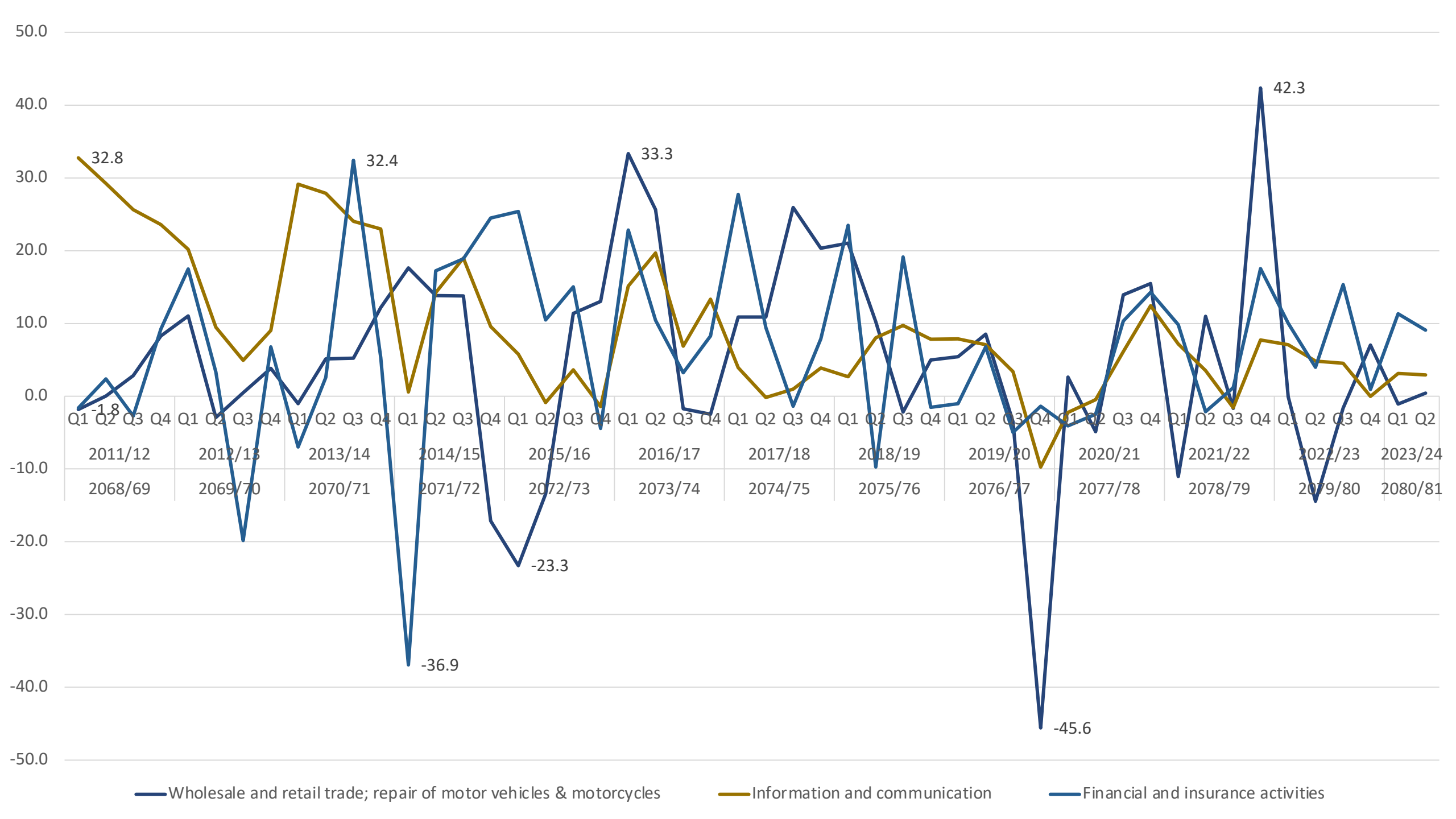
# Analyzing Nepal's GDP Growth Trajectory

### Quarterly Gross Domestic Product (QGDP) growth at basic price









*Nepal's GDP growth trajectory displays volatility, characterized by fluctuations on both a quarterly and yearly basis.*

01

*Positive and Negative Growth*

*Throughout various quarters, the economy experiences periods of robust positive growth rates juxtaposed with instances of negative growth, demonstrating its resilience through expansion and contraction phases.*

02

*Earthquake Recovery:*

*Following initial negative growth in 2016/17, the earthquake reconstruction efforts drive increased demand, resulting in notable spikes in growth rates, particularly in Q4 of 2016/17 (13.6%), highlighting significant economic activities spurred by earthquake recovery endeavors.*

03

*COVID-19 Impact:*

*Conversely, the imposition of lockdowns and movement restrictions led to negative growth instances in Q4 of 2019/20 (-16.1%), reflecting economic contractions primarily influenced by external factors like the COVID-19 pandemic.*

04

*Challenges in 2022/23:*

*The year 2022/23 presents significant challenges, with consecutive slow growth rates attributed to trade restrictions, tight monetary policies, adherence to Working Capital Guidelines, and the collapse of several non-regulated financial cooperatives.*

05

*Overall Trend 2024/25:*

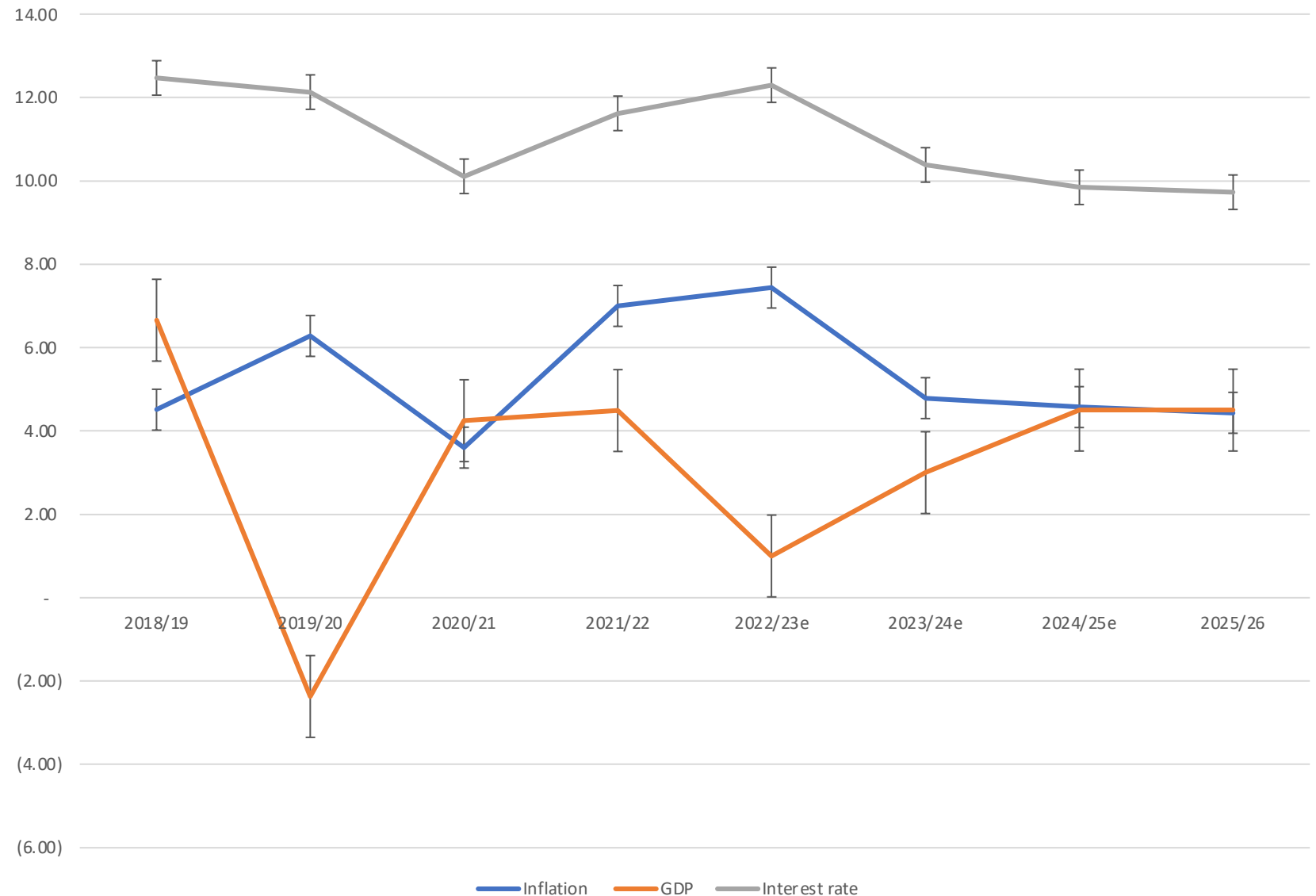
*Despite the volatility, there exists a prevailing upward trajectory in GDP growth rates. As the economy embarks on a recovery path, the sustainability of this growth hinges upon the fiscal and monetary policy stance.*

*Nepal's GDP growth trajectory, as reported by CBS, depicts a blend of positive expansions and occasional contractions, highlighting a volatile yet generally upward trend in economic activity, despite facing significant challenges along the way.*

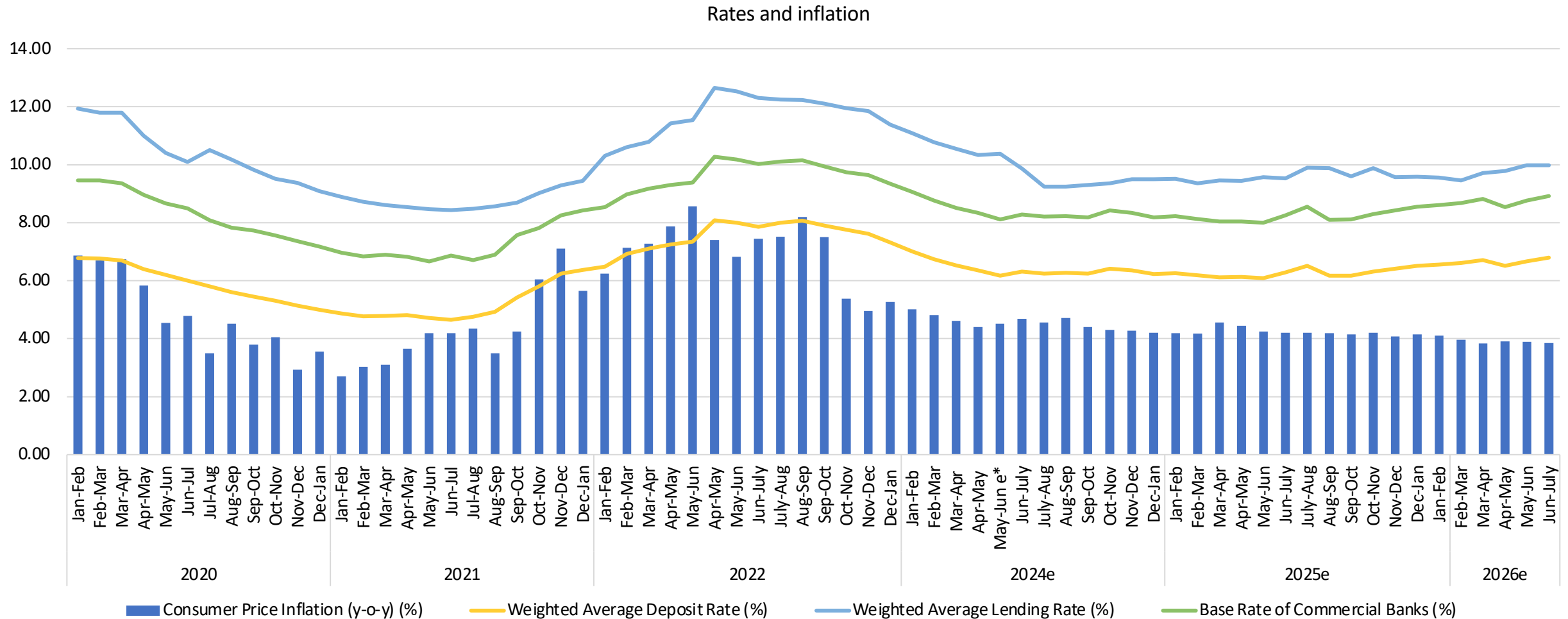
**Geopolitical conditions pose significant risks, including potential spillover effects from conflicts and the vulnerability of food and energy markets and supply chains to these factors.**

**Moreover, ongoing easing in financial conditions may bolster demand, potentially hindering efforts to curb inflation or even reigniting inflationary pressures.**

**Considering Budget 2024/25, the proposed amendment to BAFIA, and developing risks from NPL and continuous pressure on the capital of BFIs, along with the overall uncertainty surrounding the economic outlook, NRB should remain vigilant. It should closely monitor data, particularly firm-level performance, to assess the appropriate course of action regarding monetary policy.**

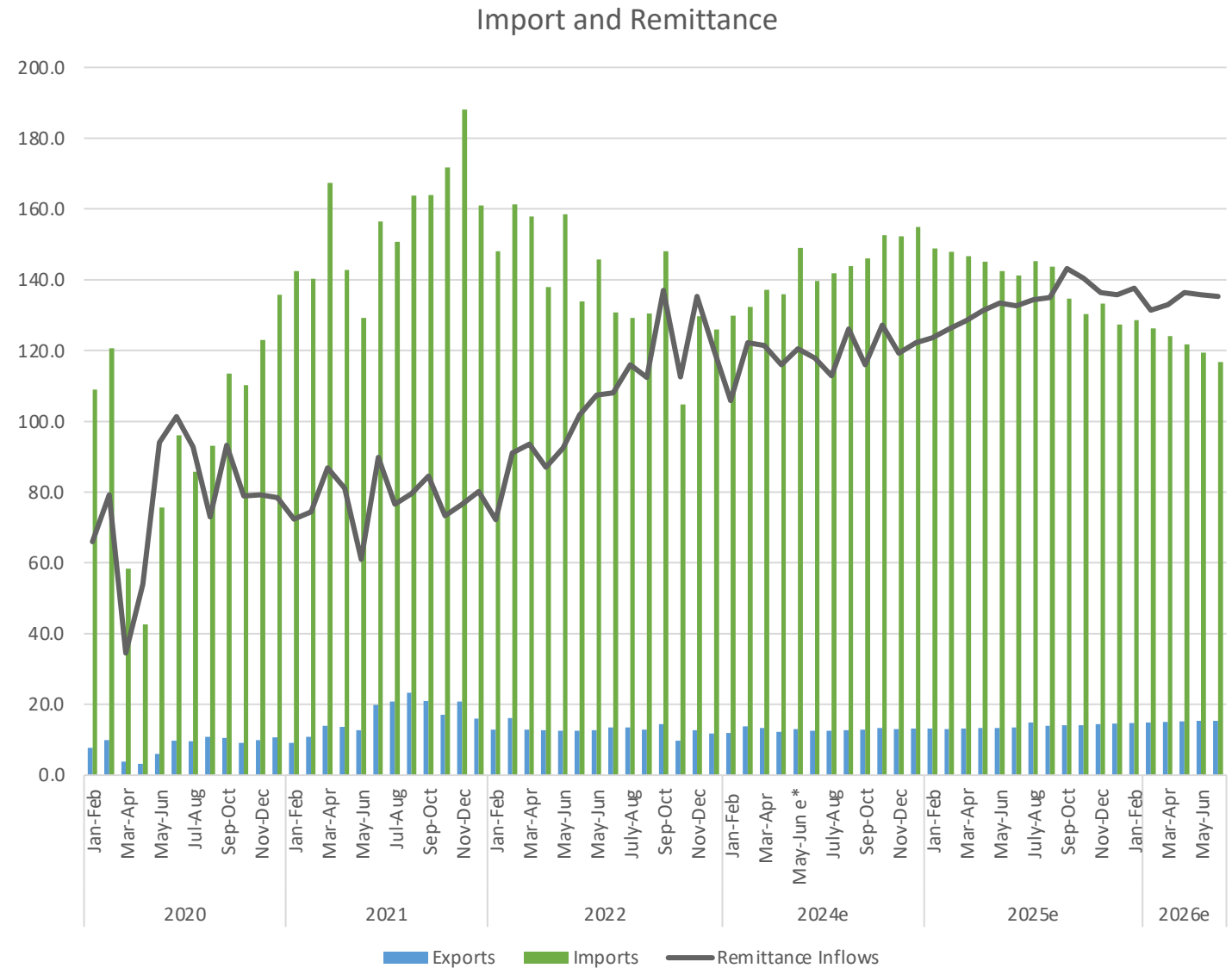


# Interest rates and Inflation



# Imports and Remittance outlook. (NPR in billion)

*The initial outcomes displayed promise, yet this seemingly commendable performance obscured underlying structural weaknesses that went unaddressed. However, we remain optimistic that authorities will redefine policies to address these shortcomings.*



# Monthly indicator. (NPR in billion)

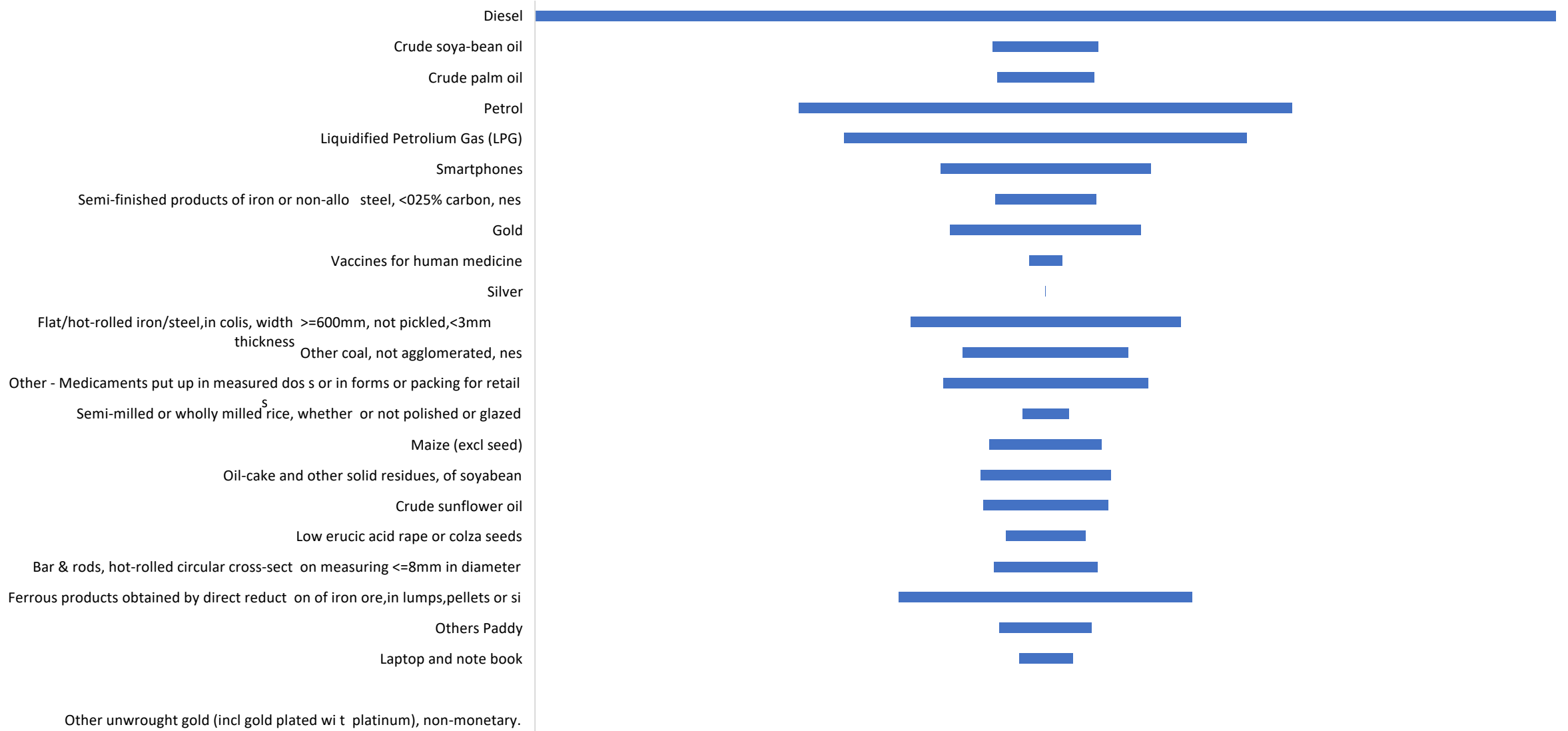
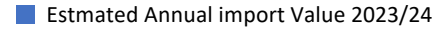
Particulars Amount in NPR Billion	2023								2024e				
	Mid-Month												
	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun e*
Consumer Price Inflation (y-o-y) (%)	6.83	7.44	7.52	8.19	7.50	5.38	4.95	5.26	5.01	4.82	4.61	4.40	4.52
Exports	12.69	13.55	13.53	12.92	14.43	9.69	12.64	11.76	11.86	13.79	13.33	12.23	13.00
Imports	145.7	130.8	129.2	130.5	148.0	104.7	129.7	126.0	129.8	132.3	137.1	136.0	149.00
Remittance Inflows	107.3	108.0	116.0	112.4	137.0	112.6	135.3	120.0	105.8	122.2	121.4	116.0	120.48
Government Expenditure	128.3	253.5	35.0	96.1	149.4	75.1	97.4	113.6	120.1	114.8	107.8	147.5	
Current Expenditure	90.7	128.4	12.1	75.5	125.7	57.8	88.8	77.4	71.7	73.1	61.9	108.5	
Capital Expenditure	27.4	80.6	0.8	7.3	9.7	12.2	60.7	13.2	14.3	17.6	16.2	14.5	
Revenue	80.6	120.3	78.9	62.2	78.0	57.5	86.8	133.1	70.9	71.6	109.0	83.9	
Deposit Mobilization	74.4	182.1	-133.2	125.7	166.1	-3.9	109.1	113.3	20.1	38.7	-26.8	34.0	
Private Sector Credit	4.2	18.6	-4.4	37.9	75.4	-9.6	10.7	82.6	4.6	2.3	22.7	3.0	
Weighted Average Deposit Rate (%)	7.99	7.86	8.00	8.06	7.90	7.76	7.62	7.32	7.01	6.74	6.53	6.35	6.17
Weighted Average Lending Rate (%)	12.53	12.30	12.24	12.23	12.11	11.96	11.85	11.38	11.08	10.78	10.55	10.34	10.38
Base Rate of Commercial Banks (%)	10.18	10.03	10.11	10.14	9.94	9.74	9.64	9.35	9.06	8.77	8.51	8.34	8.11

## Our view on the current level of External vulnerabilities

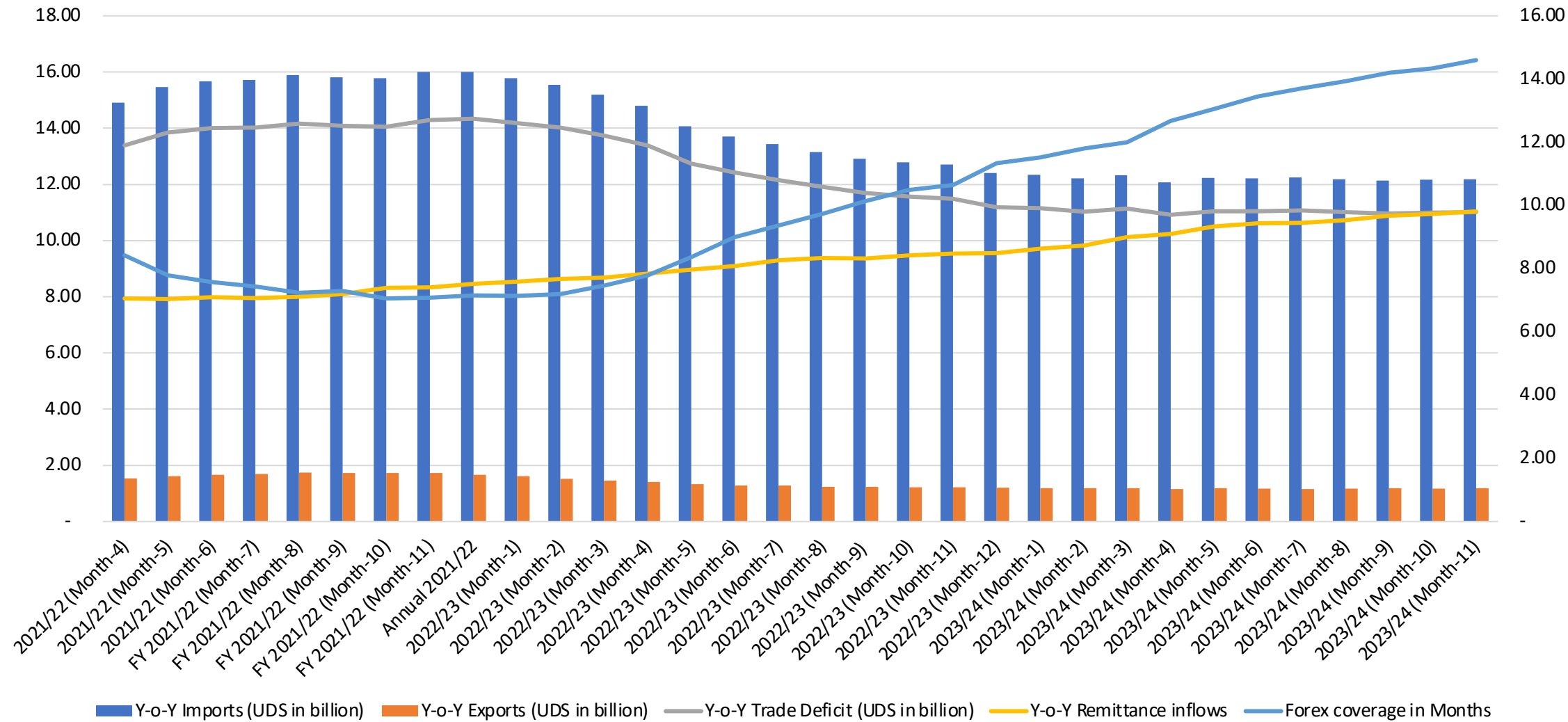
Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2078/79 (2022/22) (Mid-June)	14.69	1.55	13.14	16.24	1.00	9.49	3.72	1 USD= 119 NPR
Share % in Total Trade	90.47	9.53						
Trade deficit % GDP	29.69%							
F.Y. 2079/790(2022/23) (Mid-June)	11.39	1.10	10.29	12.49	1.00	10.35	2.62	1 USD= 119 NPR
Share % in Total Trade	91.19	8.81					Down	
Trade deficit % GDP	25.40%							
F.Y. 2080/81 (2023/24) (Mid-June)	11.18	1.07	10.11	12.25	1.00	10.45	2.96	1 USD= 130 NPR
Share % in Total Trade	91.27	8.73					Up	
Trade deficit % GDP	23.06%							
Percentage Change in F.Y. 2079/80 (2022/23) compared to same period of the previous year	-22.48%	-28.97%	-21.72%	-23.10%			-29.57%	
Percentage Change in F.Y .2080/81 (2023/24) compared to same period of the previous year	-1.84%	-2.73%	-1.75%	-1.92%			12.98%	

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 reduction to 23.06% by mid-June 2024, compared to the 25.40% reported in the corresponding previous year.
Trade Deficit	<i>In the eleventh month of fiscal year 2023/24, there was a marginal increase in the trade deficit, rising by \$0.09 billion to reach \$1.05 billion. However, in comparison to the same period in FY 2022/23, there was a year-on-year decrease in the trade deficit to \$10.11 billion, signaling an improvement from the \$10.29 billion recorded in the corresponding period of the prior fiscal year.</i>
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	<i>Presently, Nepal maintains strong foreign exchange reserves, which cover over 14.60 months of imports and service payments based on the year-on-year import ratio. The Nepalese economy is stable, aided by the decreasing prices of imported energy and food.</i>  <i>Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming months.</i>  <i>Although there has been a noticeable increase in the import of specific goods this month, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.</i>

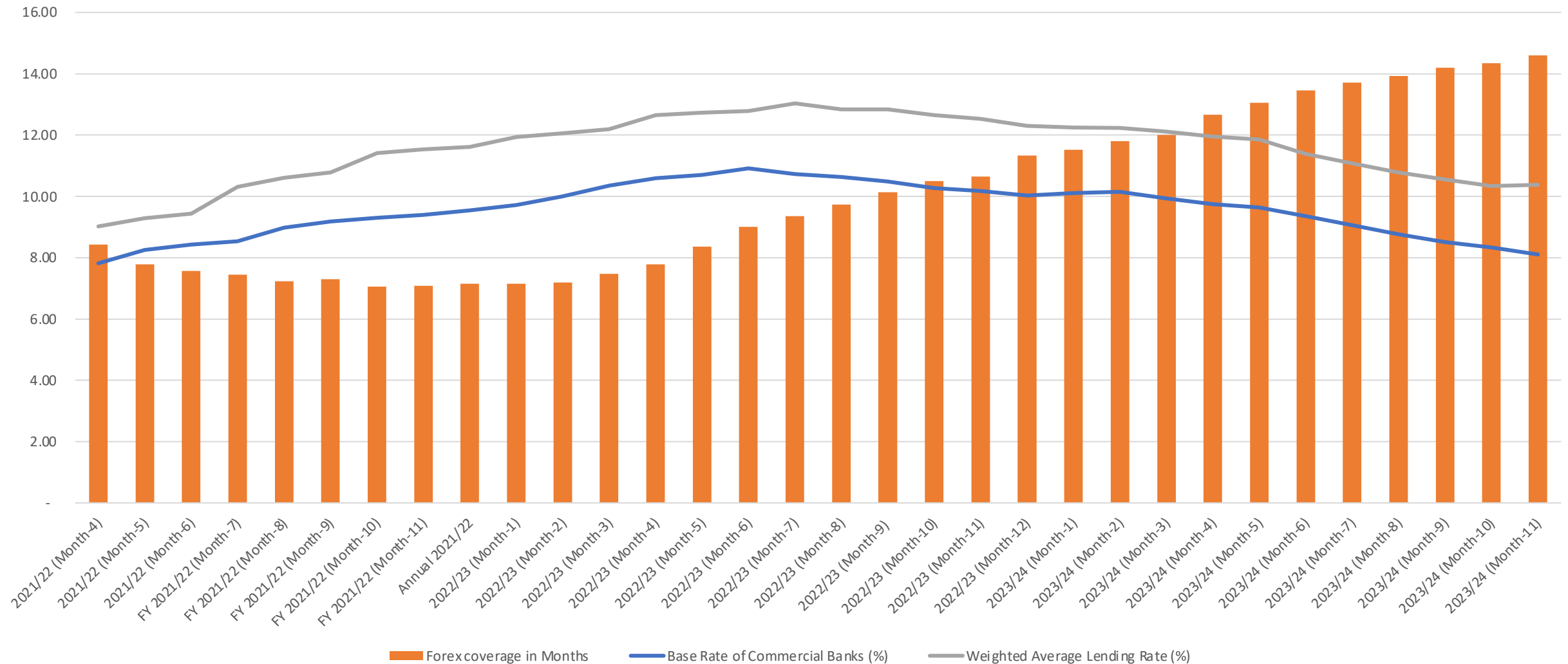
Some import that need attentions	Unit	Quantity	Imports_ Value2
Electric car, jeep & van 51KW to <=100KW	PCS	6,885	151
ATF	KL	1,84,066	150
Other Urea	Kg	25,04,10,218	116
Diammonium hydrogenorthophosphate (diammonium phosphate)	Kg	14,36,14,150	100
Petroleum bitumen	Kg	12,93,79,990	68
Electric car, jeep & van upto 50KW	PCS	4,344	63
Apples, fresh	Kg	7,67,87,381	60
Concentrate of non-alcoholic soft drinks	Kg	1,24,50,409	60
Ferrous waste and scrap, nes .	Kg	11,26,03,614	56
Polyethylene having a specific gravity >=0.94, in primary forms.	Kg	4,63,53,580	54
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	Kg	2,00,77,473	52
Polypropylene, in primary forms	Kg	4,88,48,409	52
Aeroplanes and other aircraft, of an unlad n weight >15000kg	PCS	6	50
Other potatoes, fresh or chilled	Kg	24,01,99,506	47
Other soyabean	Kg	7,02,07,828	46
Synthetic staple fibres, of polyesters, no carded, etc	Kg	4,17,44,526	45



Y-O-Y External Sector



# Interest rates and Extranational Sector



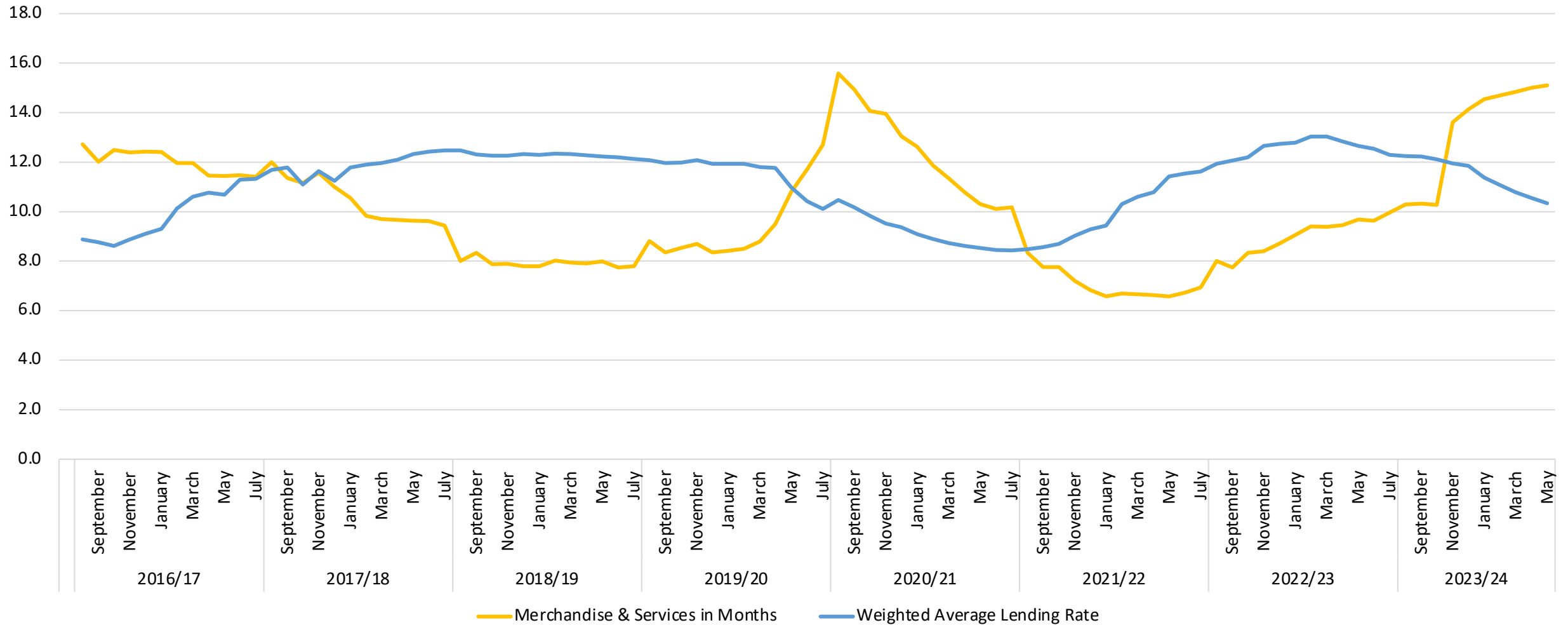
	2022/23			2023/24												
Trade Indicators	2022/23 (Month-11)	Annual 2022/23		2023/24 (Month-1)	2023/24 (Month-2)	2023/24 (Month-3)	2023/24 (Month-4)	2023/24 (Month-5)	2023/24 (Month-6)	2023/24 (Month-7)	2023/24 (Month-8)	2023/24 (Month-9)	2023/24 (Month-10)	2023/24 (Month-11)	Y-o-Y	Remaks
Imports (UDS in billion)	11.39	12.40		0.99	2.00	3.14	3.94	4.94	5.91	6.91	7.92	8.98	10.03	11.18	12.19	Down
Monthly Imports	1.12	1.01		0.99	1.01	1.14	0.80	1.00	0.97	1.00	1.01	1.06	1.05	1.15		
Exports (UDS in billion)	1.10	1.21		0.10	0.20	0.31	0.39	0.49	0.58	0.67	0.77	0.88	0.97	1.07	1.18	Down
Montly Exports	0.09	0.11		0.10	0.10	0.11	0.08	0.10	0.09	0.09	0.10	0.11	0.09	0.10		
Trade Deficit (UDS in billion)	10.29	11.19		0.89	1.80	2.83	3.55	4.45	5.33	6.24	7.15	8.10	9.06	10.11	11.01	Down
Total Foreign Trade (UDS in billion)	12.49	13.61		1.09	2.20	3.45	4.33	5.43	6.49	7.58	8.69	9.86	11.00	12.25	13.37	Down
Monthly Import Revenue	0.25	0.28		0.25	0.27	0.32	0.21	0.27	0.25	0.25	0.26	0.28	0.28	0.32		
Total Import revenue	2.62	2.90		0.25	0.52	0.84	1.05	1.32	1.57	1.82	2.08	2.36	2.64	2.96	3.24	UP
Montly Remittance	0.83	0.89		0.89	0.86	1.05	0.87	1.04	0.92	0.81	0.94	0.93	0.89	0.93		
Remittance inflows	8.66	9.55		0.89	1.76	2.81	3.68	4.72	5.64	6.45	7.39	8.33	9.22	10.15	11.04	UP
Imports/Exports Ratio	10.35	10.25		9.90	10.00	10.13	10.10	10.08	10.19	10.31	10.29	10.20	10.34	10.45	10.33	UP
Exports Share to Total Trade (%)	8.81	8.89		9.17	9.09	8.99	9.01	9.02	8.94	8.84	8.86	8.92	8.82	8.73	10.72	UP
Imports Share to Total Trade (%)	91.19	91.11		90.83	90.91	91.01	90.99	90.98	91.06	91.16	91.14	91.08	91.18	91.27	89.28	Down
Monthly Trade Deficit (UDS in billion)	1.03	0.90		0.89	0.91	1.03	0.72	0.90	0.88	0.91	0.91	0.95	0.96	1.05		
Trade deficit % GDP	25.40%	27.62%		2.20%	4.44%	6.99%	8.76%	10.98%	13.16%	15.40%	17.65%	18.47%	20.66%	23.06%	25.11%	Down

Trade Directions

Expected Annual Imports of Major Items (USD in million)

Description	2021/22 Annual Import Value	2022/23 11 month	2022/23 Annual Import Value	2023/24 1 month	2023/24 2 month	2023/24 3 month	2023/24 4 month	2023/24 5 month	2023/24 6 month	2023/24 7 month	2023/24 8 month	2023/24 9 month	2023/24 10 month	2023/24 11 month	Estimated Annual import Value 2023/24	Import Direction
Diesel	1,402	1,058	1,183	57	121	230	310	415	511	596	684	794	890	994	1,090	Decline
Crude soya-bean oil	468	262	274	15	23	35	44	55	60	66	71	83	88	100	113	Decline
Crude palm oil	328	189	199	6	18	27	35	44	50	57	68	75	79	79	104	Decline
Petrol	595	472	514	42	87	132	176	220	261	299	343	387	436	484	527	Growth
Liquidified Petroleum Gas (LPG)	546	418	447	29	56	89	119	159	196	233	276	315	354	393	431	Decline
Smartphones	317	172	188	22	41	73	89	105	116	134	149	167	185	203	225	Growth
Semi-finished products of iron or non-allo steel, <025% carbon, nes	427	162	176	12	24	28	30	38	49	55	63	73	79	99	108	Decline
Gold	297	172	172	13	32	57	63	77	83	97	124	124	169	182	204	Growth
Vaccines for human medicine	267	84	86	5	9	10	17	19	22	29	33	33	40	40	36	Decline
Silver	109	10	12	0.03	0.58	0.77	1.00	1.00	1.00	1.00	1.00	1.00	0.89	0.90	1	Decline
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	239	139	158	26	46	75	87	111	144	166	188	214	236	251	289	Growth
Other coal, not agglomerated, nes	300	192	209	16	27	35	43	59	83	100	118	138	152	162	177	Decline
Other - Medicaments put up in measured dos s or in forms or packing for retail s	192	171	190	12	32	54	67	84	102	124	138	158	175	193	219	Growth
Semi-milled or wholly milled rice, whether or not polished or glazed	198	76	83	7	9	10	11	19	25	29	33	38	41	45	50	Decline
Maize (excl seed)	155	120	127	8	13	19	23	35	47	55	64	78	87	102	120	Decline
Oil-cake and other solid residues, of soyabean	170	88	98	12	22	32	42	59	72	85	100	108	117	124	139	Growth
Crude sunflower oil	151	129	139	14	23	35	42	52	60	74	92	97	105	119	134	Decline
Low erucic acid rape or colza seeds	103	70	72	6	11	15	24	33	40	43	48	55	62	72	86	Growth
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	121	104	114	12	19	27	29	34	41	48	58	86	70	75	111	Decline
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	200	306	335	29	54	74	92	115	149	174	199	233	241	270	314	Decline
Others Paddy	134	140	154	21	22	23	23	31	40	57	66	76	86	89	99	Decline
Laptop and note book	95	42	48	6	11	16	19	24	29	34	39	43	47	53	58	Growth

# Import Capacity in Months and Lending Rate!



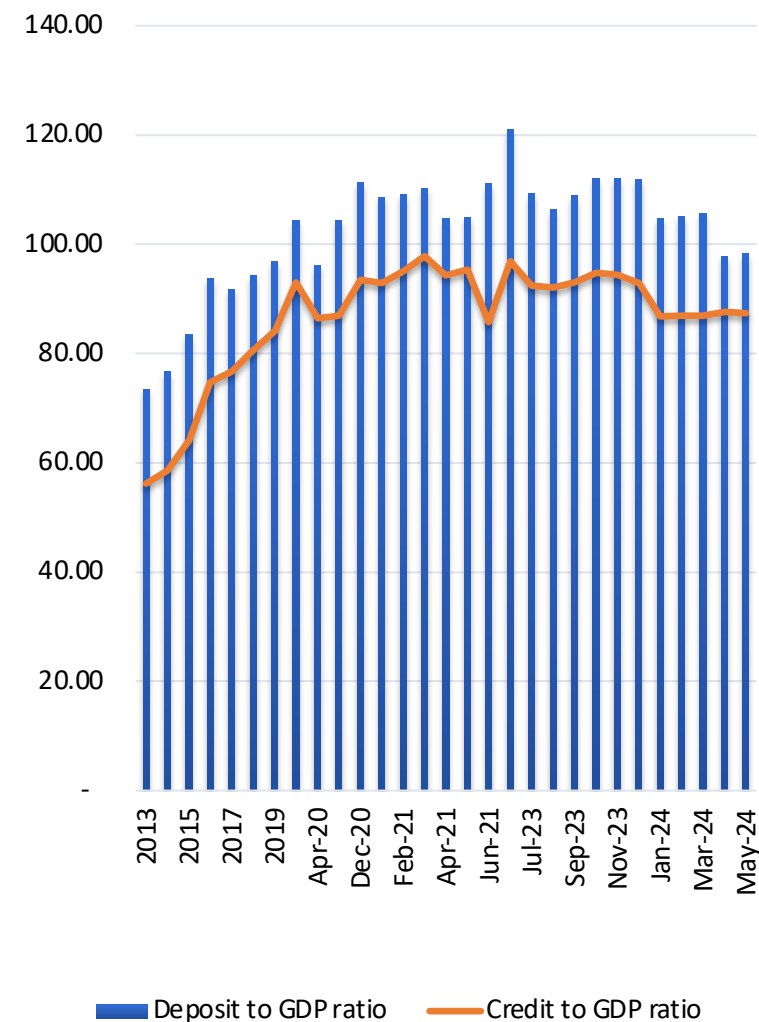
# GDP and BFI's Risk Assets and Liabilities!

*Government of Nepal  
must shift base year of  
National Accounting from  
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.*

**Budget 2024/25 Update:  
Shift in Base Year for  
National Accounting**

GDP to Deposit and Loan and Advances



# Financial Sector highlights

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3

## Summary of Nepal's Economic and Financial Condition in FY 2022/2023:



*The economic condition of Nepal appeared modest in FY 2022/2023. Inflation was marginally above the target, while remittance inflows and foreign exchange reserves showed a positive trend, increasing gradually. The external sector performed well, leading to a reduction in the current account deficit and maintaining a surplus in the balance of payments. The consolidation of banks and financial institutions resulted in a decrease in the number of financial institutions, thereby strengthening the resilience of the financial system. However, with larger financial institutions, vigilant regulation to manage the buildup of risks is becoming increasingly important.*



*Financial soundness indicators demonstrated the resilience and stability of the financial system. The capital adequacy of BFIs remained well above regulatory requirements. However, there are concerns about the stability of BFIs due to deteriorating asset quality. High interest rates and borrowing costs have suppressed demand, and firms continue to face challenges in financing their debt. This situation has negatively impacted banks' balance sheets, as evidenced by low profitability and elevated levels of non-performing loans. The unwinding of accommodative monetary policy in the context of Covid-19 could further affect borrowers' repayment capacity and put additional pressure on the stability of financial institutions. Despite these challenges, BFIs managed to maintain adequate capital, liquidity, and profitability.*



*The growing share of the non-bank financial sector has increased the interdependence and interconnectedness within the financial system. Sharing financial resources among BFIs, insurance companies, cooperatives, FinTechs, and other contractual savings institutions like the Citizen Investment Trust, Social Security Fund, and Employees Provident Fund has facilitated the mobilization of resources to support economic activities. However, this interconnectedness also introduces risks in new areas of the financial system. Issues such as mission drift, weak governance practices, and predatory lending without proper financial analysis raise concerns about the soundness of cooperative institutions. These issues, coupled with political instability and economic slowdown, could exacerbate the situation and create spillover effects in the financial system.*



*The NRB has been actively working towards financial inclusion and access by introducing regulatory measures targeting specific sectors, deprived populations, and small borrowers. The expansion of bank branches to almost all local levels, rising financial literacy, and the growing use of digital financial services have significantly improved financial inclusion and access.*



*Digital payment modes such as QR payment, Connect IPS, mobile banking, and RTGS have further enhanced NRB's mandate to promote financial inclusion and access. However, the rapid acceleration in digital financial services poses challenges to the financial system. Protecting financial consumers against risks such as information safety, online deception, and fraud remains challenging.*



*Additionally, vulnerabilities and risks in digital infrastructures and institutions could undermine the effectiveness of regulation and increase system-wide risks. Therefore, strong oversight of digital financial services is essential to maintain financial stability.*



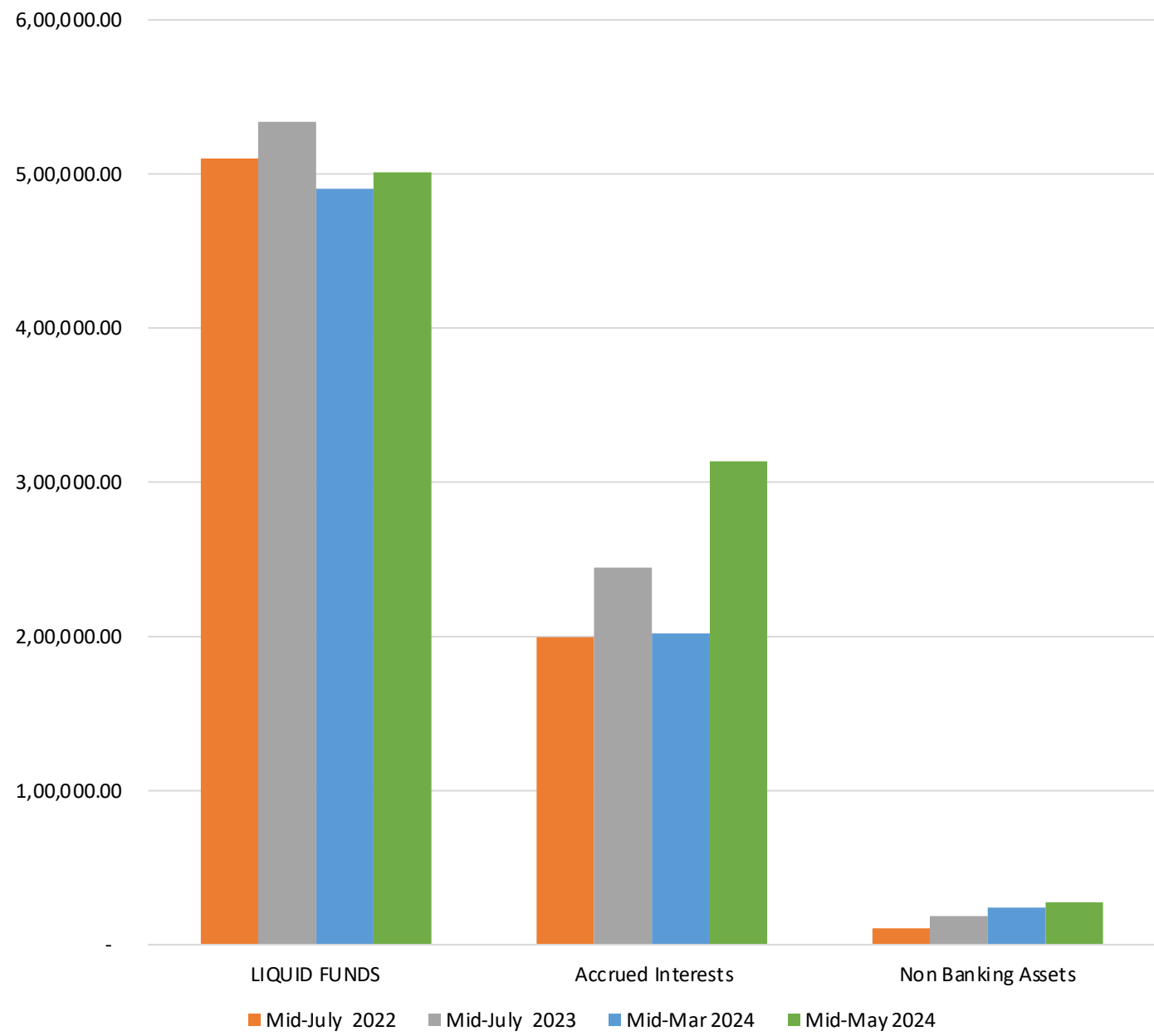
*In summary, tighter monetary policy supported by macro-prudential regulations helped contain price and external sector imbalances. The financial system remains stable despite increased uncertainties. However, the path ahead appears challenging, with downside risks in domestic and international economies threatening the soundness of the financial system. Maintaining financial stability and resilience will significantly depend on initiatives to assess the financial system's soundness in conjunction with prudent regulation and supervision of risk buildup.*



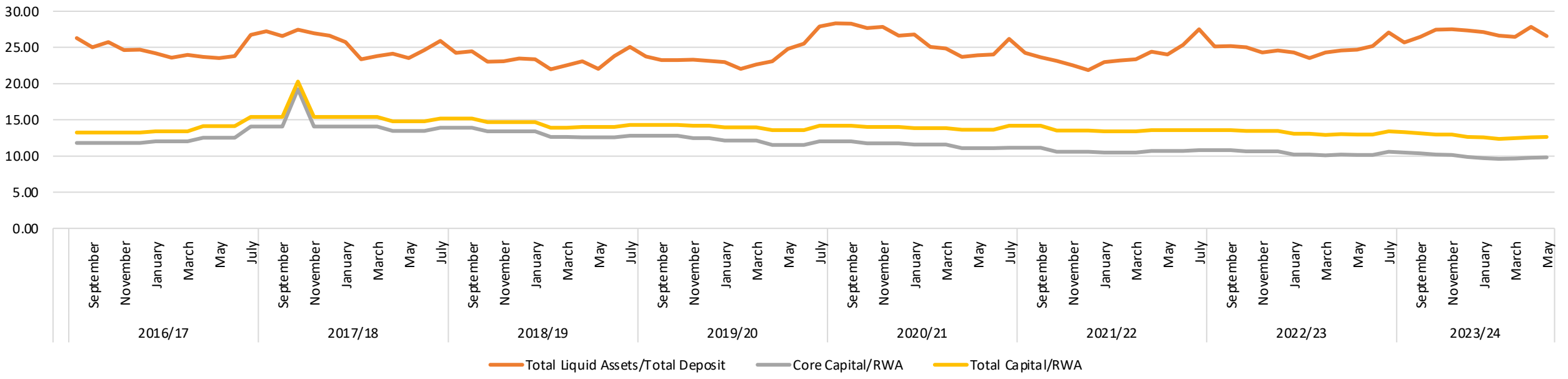
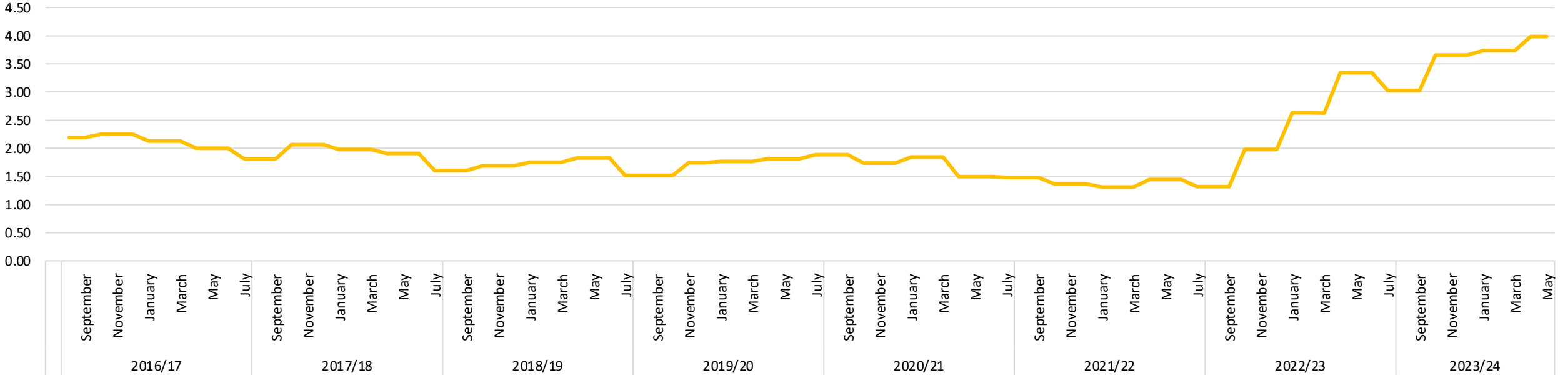
*Addressing the mounting challenges of increasing accrued interest, non-banking assets, and problem loans presents a daunting moment for financial institutions. These issues threaten the stability and viability of the banking sector.*

*Our proactive measures to tackle the hurdles posed by rising accrued interest, non-banking assets, and problem loans are insufficient to guarantee a secure financial future. While the restructuring facility provided by NRB, allowing for the capitalization of accrued interest up to 90% with a nominal 10% interest on cash, has provided temporary relief, it has merely postponed the inevitable burden of accrued interest. Moreover, the conversion of 90% interest into a separate loan mechanism has artificially inflated loan growth, masking the underlying issues. Excluding the interest capitalization, the growth in fresh loans remains alarmingly modest.*

*This highlights the gravity of our situation. Without significant reform and more effective solutions, we risk falling short of our objectives and facing a precarious financial landscape.*



NPL/ Total Loan

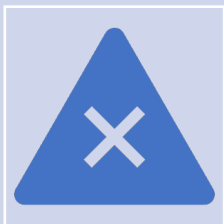




*Inadequate capital, insufficient liquidity, weak risk management practices, and cybersecurity failures do more than harm individual banks—they threaten the entire system's stability. Supervision aims to apply heightened standards to firms with the greatest potential for systemic risk, but accurately identifying these firms in advance is an inexact science fraught with uncertainty.*



*The Nepal Rastra Bank's (NRB) supervisory function is supposed to underpin a safe and sound banking system. However, as the banking system evolves, NRB's supervision often struggles to keep pace. NRB must continuously explore new models of financial risk, yet this is easier said than done. Bringing together multiple perspectives to challenge supervisory judgments and building organizational frameworks to institutionalize this practice is a complex and daunting task. Supervision must adapt appropriately when NRB detects changes at a firm or within the financial sector, especially in times of rapid innovation and technological change—a challenge that is often underestimated.*



*Furthermore, NRB must acknowledge its limitations. The recent failure of cooperatives starkly revealed regulators' shortcomings, highlighting that supervision can lack the necessary speed, force, and agility, particularly when banks expand rapidly or take on new risks. While NRB has since been proactive in addressing these issues, this work is slow and fraught with challenges. Although supervisors around NRB have stepped up to the task, the true measure of their efforts will be judged by the market, which remains skeptical.*

Economic Performance

	Outlook
Corporate performance	<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. 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>
Working Capital financing	<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. <b>Sector-specific adjustments remain pending, adding to the prevailing sense of pessimism.</b></i>
Household debt Regrouped	<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>

	Outlook
Banking system	<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). <b>As of present, the Non-Performing Loans (NPLs) and Loan Loss Provisions (LLP) of Banking and Financial Institutions (BFIs) amount to \$1.56 billion and \$1.79 billion, correspondingly.</b></i>
Non-performing assets	<i><b>Exercise caution as Non-Performing Loans (NPLs) are projected to remain at 3.90% 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.</b></i>
Lending Growth	<i>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 aims to foster a more resilient and sustainable economic environment in the long run. <b>However, this strategy has shown counterproductive results.</b></i>
Household debts in \$ million	
Residential Personal Home Loan (Up to Rs. 20 million)	3,536.43
Loan of 5M or and above without specified purpose	432.48
Margin Nature Loan	661.18
Hire Purchase Loan	278.77
Credit Card	42.57
Education Loan	359.09
Gold/Silver	444.92
Guarantee Bond	568.24
Fixed A/c Receipt	264.87
Total	6,588.54
% of total Loan	16.76%

Major Risks/Impact	High	Medium	Low	Remarks
Excessive capacity, supply constraints, and intense competition within the manufacturing sector could potentially have adverse repercussions on asset quality.	√			Deteriorate
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.	√			Deteriorate
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).	√			Deteriorate
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.	√			Deteriorate
<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. Concerns about proposed amendment to the Bank and Financial Institutions Act (BAFIA).</b>	√			Deteriorate
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.		√		(BFI paid \$ 92 million in taxes for the FPO bargain pricing)
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.	√			Deteriorate
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.	√			Deteriorate

# Risk Matrix

	Condition	Related effect		Risk
Low saving/Investment	Decrease wholesale and retail operations.	Aggregate demand	Decline	High
	Enhancing foreign exchange reserves and experiencing a substantial inflow of remittances	Pressure on BOP	Decline	Low
	Corporate cash recovery.	Firm Investment	Decline	High
	Loss of disposable saving	Failure of non-regulated financial institutions (Cooperatives)	Increase	High
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	High
	Increasing Energy Price	Cost of production	Increase	High
Interest Rate Outlook	Pressure on Liquidity	improvement of consumer's demand	Stable	Low
FDI inflow Outlook	Demand for liquidity in host countries	Flow of FDI	Low	High
Level of NPL	Reconstruction and rescheduling	Pressure on Capital of BFIs	Increase	High
Demand for Working capital	Decreasing cost of borrowing and inputs	Reducing cost of production	Stable	Moderate
Inflation outlook	Lower commodity price	Lower consumer demand	Decline	Moderate

## Way forward

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

# Way forward

Specific measures/Workability		Timeframe	Implementability	Priority order
Legal reform	The proposed amendment in the Banking and Financial Institutions Act (BAFIA) has taken strides towards segregating banking and business activities. However, it is advisable to implement this segregation in a phased manner. Categorizing larger family members as related parties might encroach upon individuals' fundamental rights. Hence, the amendment should revisit this aspect.	Immediate	Possible	High
	Establish an exit policy aimed at balancing the ownership structure to enhance transparency and governance. Revisit BAFIA amendment	Immediate	Possible	High
	Implement separate policies to supervise systematically important banks.	Immediate	Possible	High
MSMEs	Initiate steps to have single definition of MSMEs across all regulators. Increase coverage of credit guarantees on MSME loans.	Immediate	Possible	High
	Introduce policy to scale-up agriculture base MSMEs, which can immediately create employment and substitute imports	Immediate	Possible	High
	Introduce E-commerce and digital solutions to increase access short-term bridge loans to micro and small businesses, and digital payments.	Short-term	Possible	High
Risk Assets	Initiate a sector-specific analysis and take proactive measures to conduct a swift assessment of Banking and Financial Institutions (BFIs) in order to comprehend the long-term implications of the ongoing crisis.	Short-term	Possible	High
Forex	Sustain the credibility of the exchange rate peg by periodically reviewing foreign exchange policies and directives.	Long-term	Possible	High

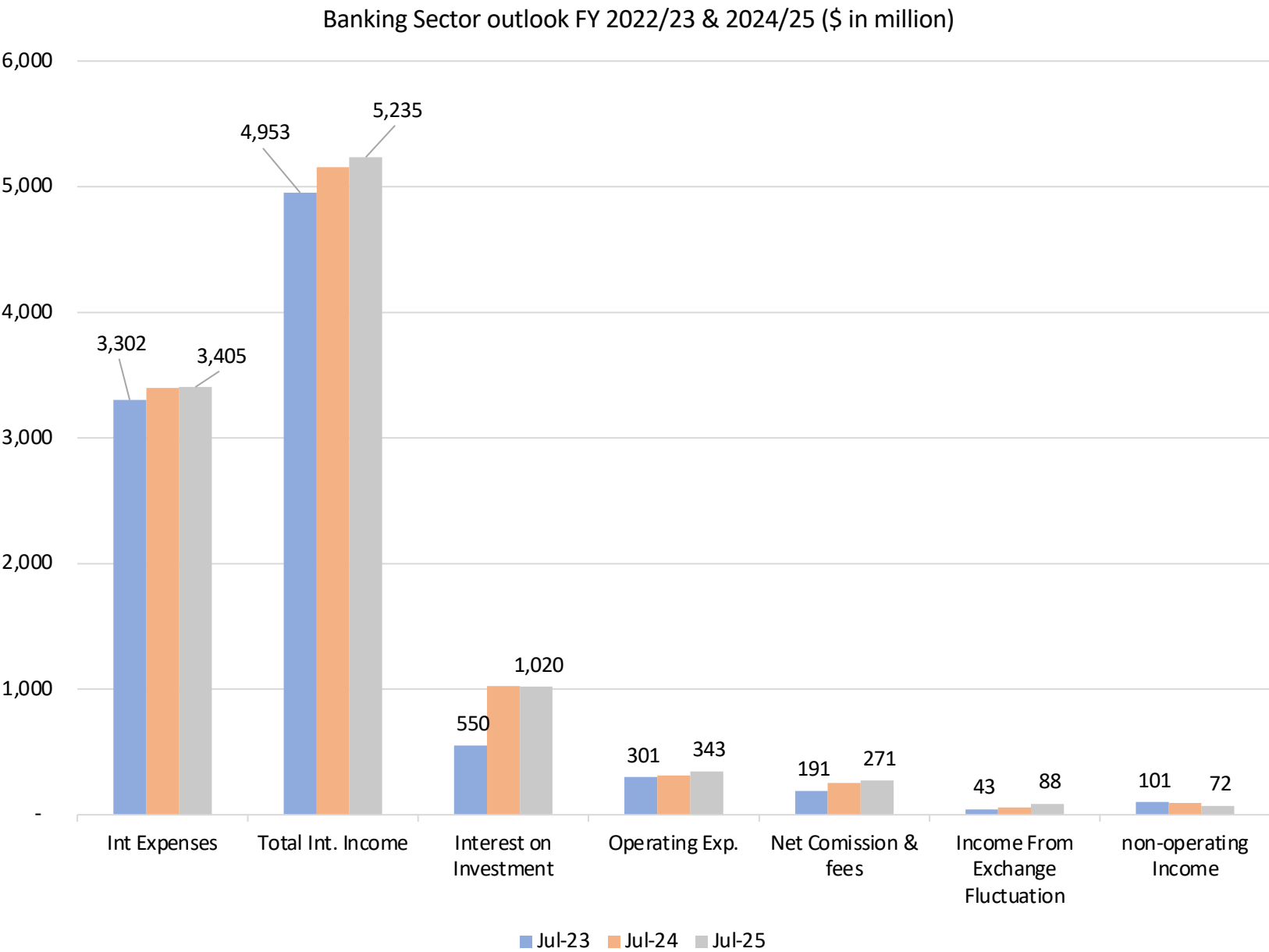
# BFI's Outlook 2023/24, 2024/25 and 2025/26

Amount in \$ Million													
Assets and Liability (Exchange Factor \$ 1 = NPR 130)							Profit and loss						
Capital, Deposits and Risk Assets								July 2024e	Change	July 2025e	Change	July 2026e	Change
Particulars	July 2024e	Change	July 2025e	Change	July 2026e	Change	Int on Loans and Adv.	4,129	-6.20%	4,215	2.07%	4,006	-4.95%
CAPITAL FUND	5,478	4.24%	5,862	7.01%	5,541	-5.48%	Total Int. Income	5,155	4.09%	5,235	1.55%	5,662	8.16%
PAID UP CAPITAL	3,361	2.73%	3,442	2.42%	3,509	1.94%	Avg. Yield From Loan	10.12%	-14.45%	9.52%	-5.86%	10.18%	6.90%
BORROWINGS	2,259	15.01%	2,692	19.19%	2,737	1.67%	Int Expenses	3,399	2.93%	3,405	0.18%	4,001	17.51%
Borrowing from NRB	3	-81.91%	6	124.10%	2.41	-61.79%	Avg. Cost of Fund	6.31%	-20.19%	6.28%	-0.44%	6.80%	8.21%
DEPOSITS	48,488	9.22%	53,128	9.57%	57,697	8.60%	NII	1,756	6.41%	1,830	4.18%	1,661	-9.24%
Current	2,674	-23.45%	1,942	-27.38%	983	-49.35%	Interest Spread	3.81%	-2.87%	3.24%	-14.83%	3.38%	4.38%
Saving	14,337	22.70%	15,992	11.54%	19,935	24.66%	Commission & fees	253	32.56%	271	7.11%	288	6.07%
Fixed	28,018	8.43%	30,888	10.25%	32,053	3.77%	Ex. Fluctuation Gain	58	34.87%	88	52.21%	118	34.32%
Call	3,119	3.76%	4,010	28.58%	4,444	10.82%	Other Operating & Non-operating Income	96	-4.62%	72	-24.99%	59	-17.92%
Others	340	-8.13%	296	-12.82%	281	-5.17%	Gross Income	2,163	8.98%	2,261	4.51%	2,125	-5.99%
LIQUID FUNDS	3,927	-4.39%	2,883	-26.58%	1,663	-42.31%	Employees Exp	465	9.58%	490	5.39%	524	7.02%
GOVT. SECURITIES/OTHER	9,716	20.33%	12,075	24.28%	13,778	14.10%	Employee cost in % of Total Int. Income	9.01%	4.95%	8.40%	-6.81%	8.40%	0.00%
Investment in share and other	2,325	-7.67%	2,675	15.07%	2,680	0.21%	Office Operating Exp	312	3.63%	343	9.97%	368	7.24%
LOANS & ADVANCES	39,596	5.54%	41,601	5.06%	44,464	6.88%	LLP & write-off	783	48.25%	504	-35.67%	204	-59.46%
Total Capital/RWA	12.93%	1.09%	13.57%	4.94%	12.47%	-8.09%	Additional LLP to Risk Assets	1.96%	44.61%	1.19%	-39.16%	0.51%	-57.09%
CD	80.91%	-1.72%	77.52%	-4.19%	76.34%	-1.52%	Provision Written Back	261	23.13%	287	10.00%	345	20.00%
NPL /Total Loan	3.88%	50.24%	3.08%	-20.56%	2.82%	-8.59%	PBT	865	-8.39%	1,212	40.13%	1,374	13.41%
Return on Capital Employed	10.17%	-20.40%	13.31%	30.94%	15.97%	19.99%	Return on total assets	1.37%	-12.75%	1.75%	27.39%	1.80%	3.10%

# Profitability of BFIs.

(Exchange Factor \$ 1 = NPR 130)

\$ in million			
P/L Account			
Particulars	Expected July 24	Expected July 25	Expected July 26
Total Operating Income	5,562	5,666	6,127
Total Operating Expenses	4,175	4,237	4,893
Provision Written Back	261	287	345
Provision for Risk	(774)	(494)	(219)
Loan Written Off	(9)	(10)	15
Net Profit before Bonus & Tax	865	1,212	1,374
Bonus	81	114	129
Tax	245	329	373
Net profit	538	768	871

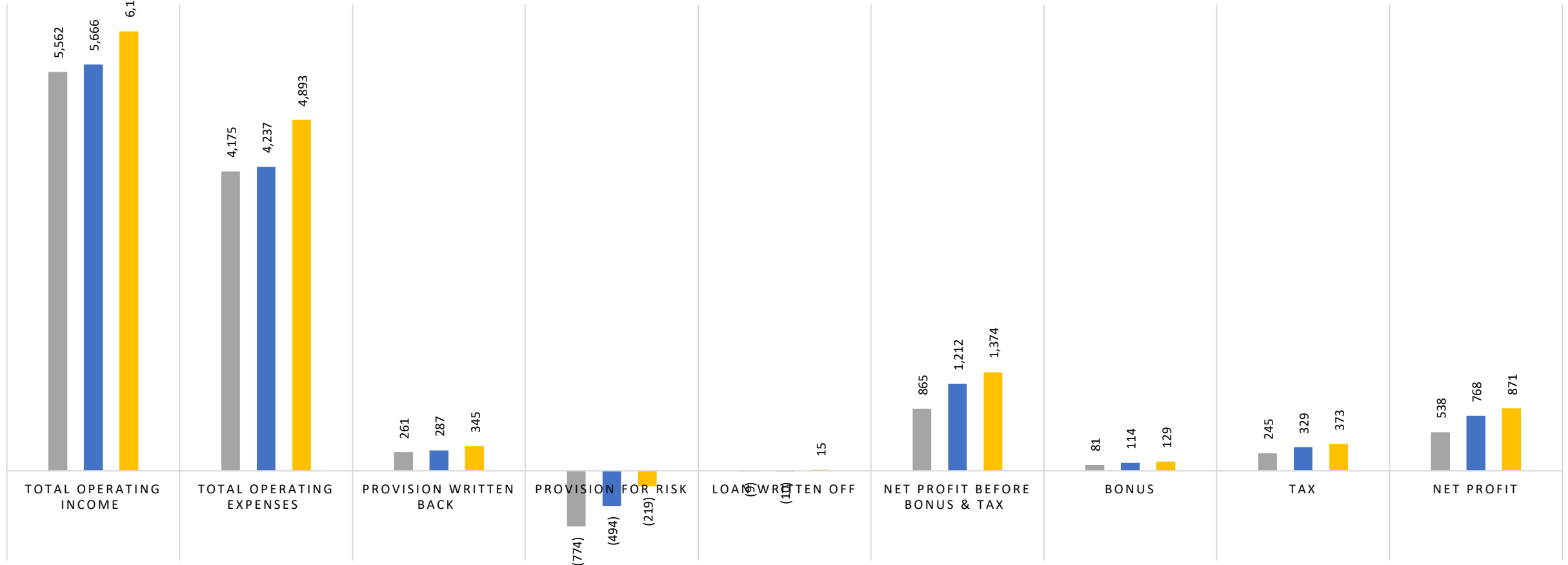


# Profitability of BFIs

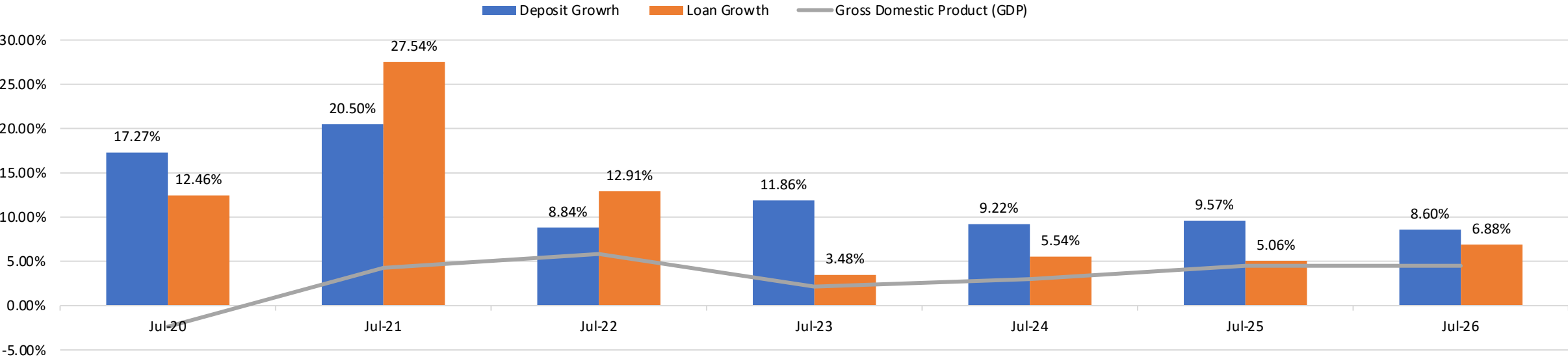
(Exchange Factor \$ 1 = NPR 130)

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

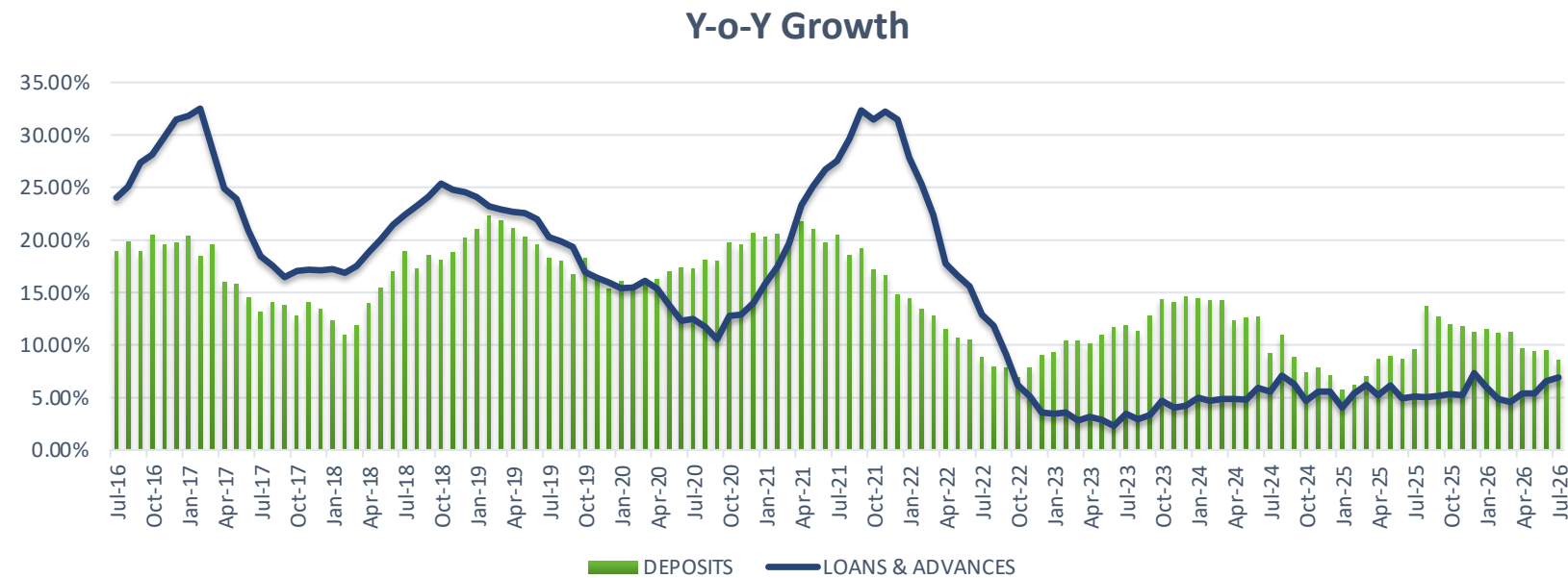
■ P/L Account Expected July 24 ■ P/L Account Expected July 25 ■ P/L Account Expected July 26



# Annual Loan and Deposit Growth and LLP

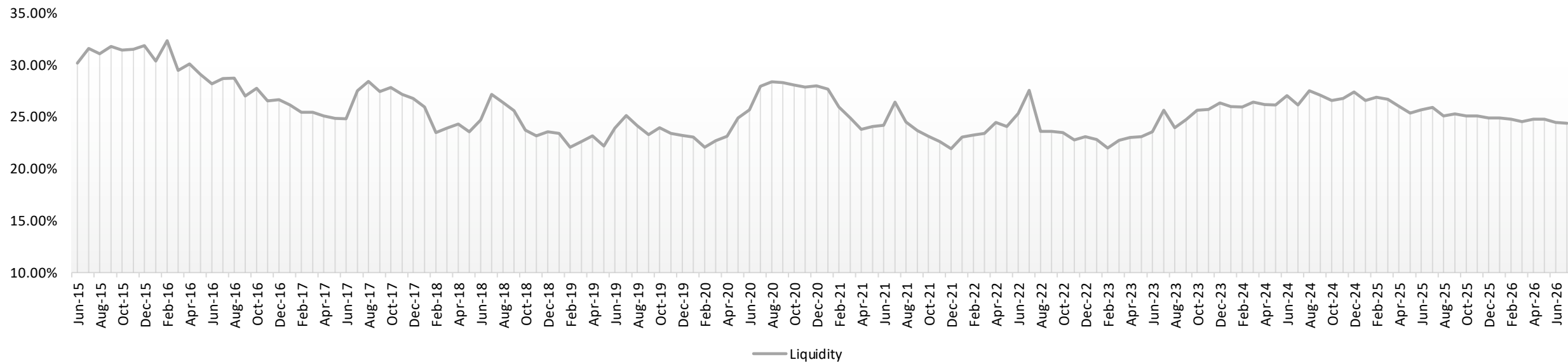
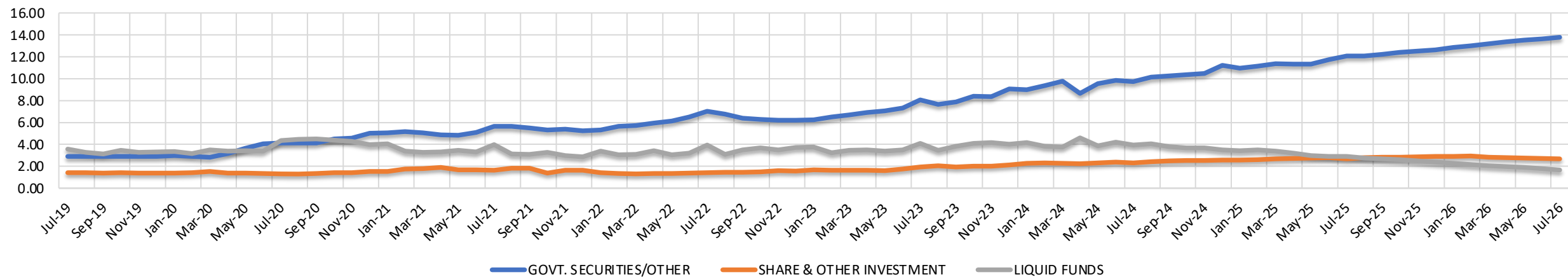


	Amount in USD Million	
Particulars	Incremental LLP	Incremental LLP
Pass Loan loss Provision	134.69	17.40%
Watch List Provision	127.38	16.45%
Special Loan Loss Provision	512.19	66.15%
Expected Provision	774.25	



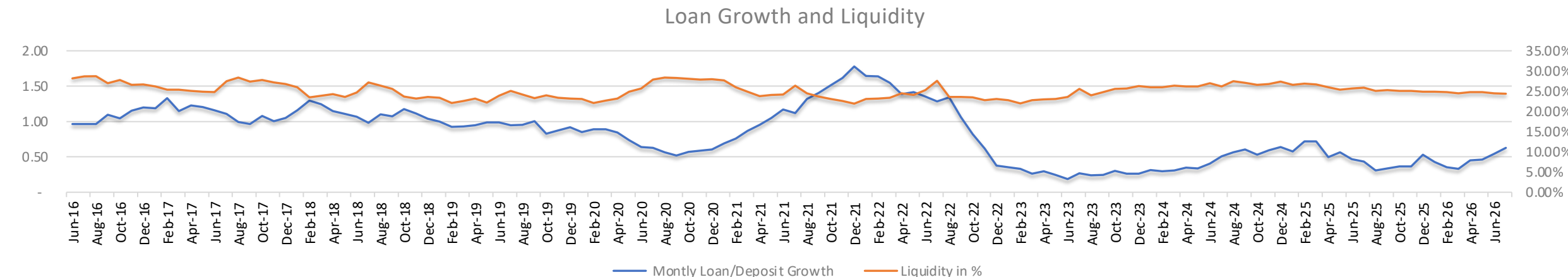
# Liquidity

Liquid Investment of BFIs (\$ in billion)

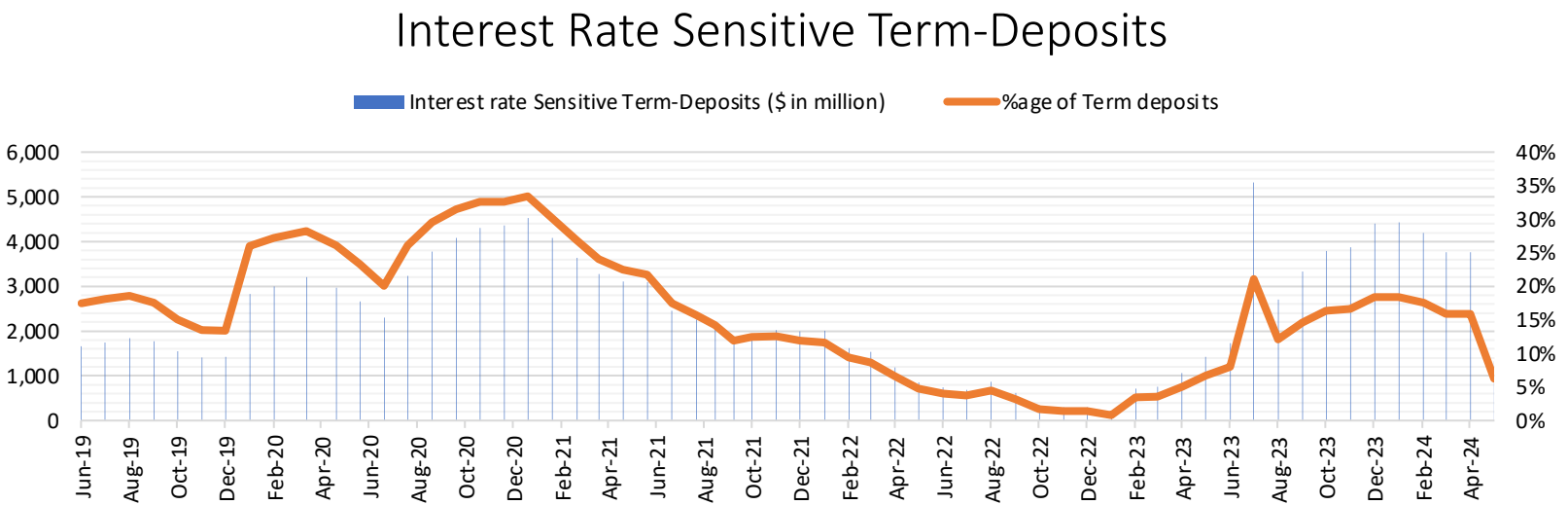


While liquidity continues to improve steadily, it's probable that a significant number of BFIs will experience negative cash flows from operations.

# Liquidity

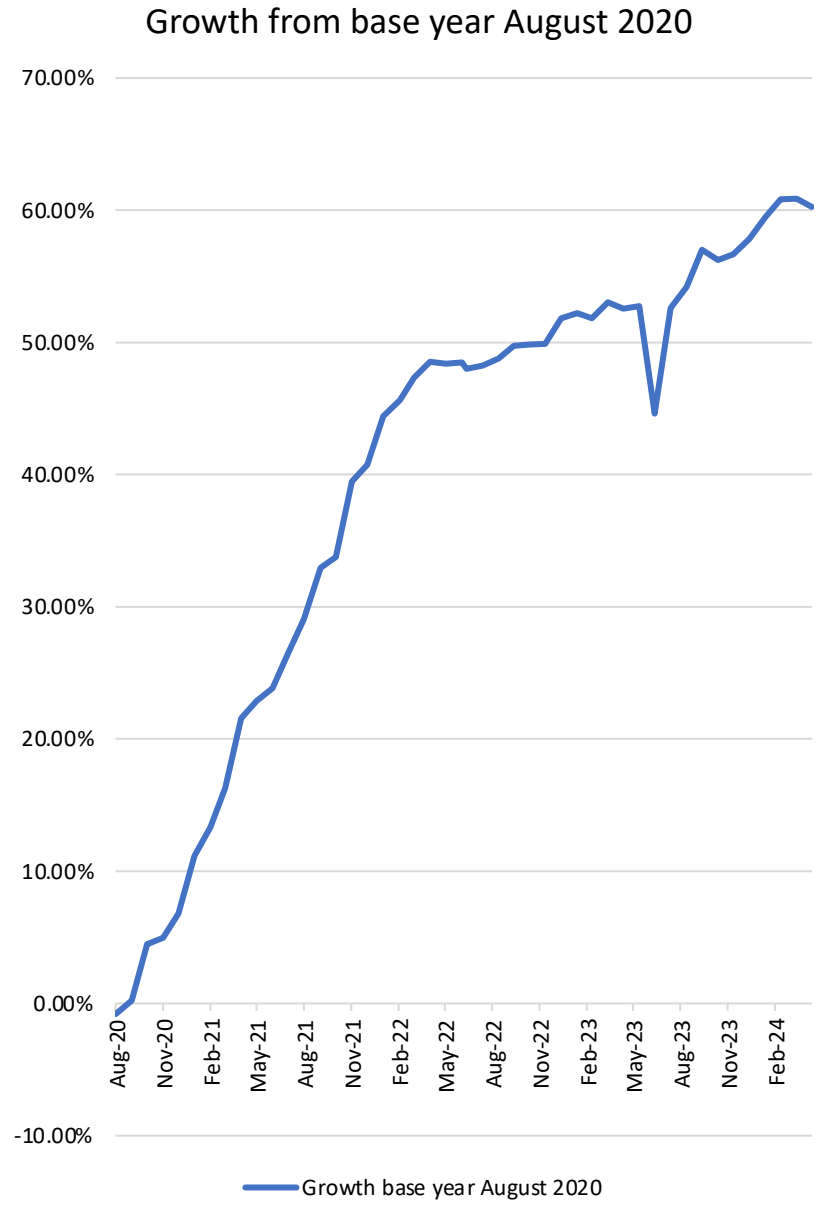
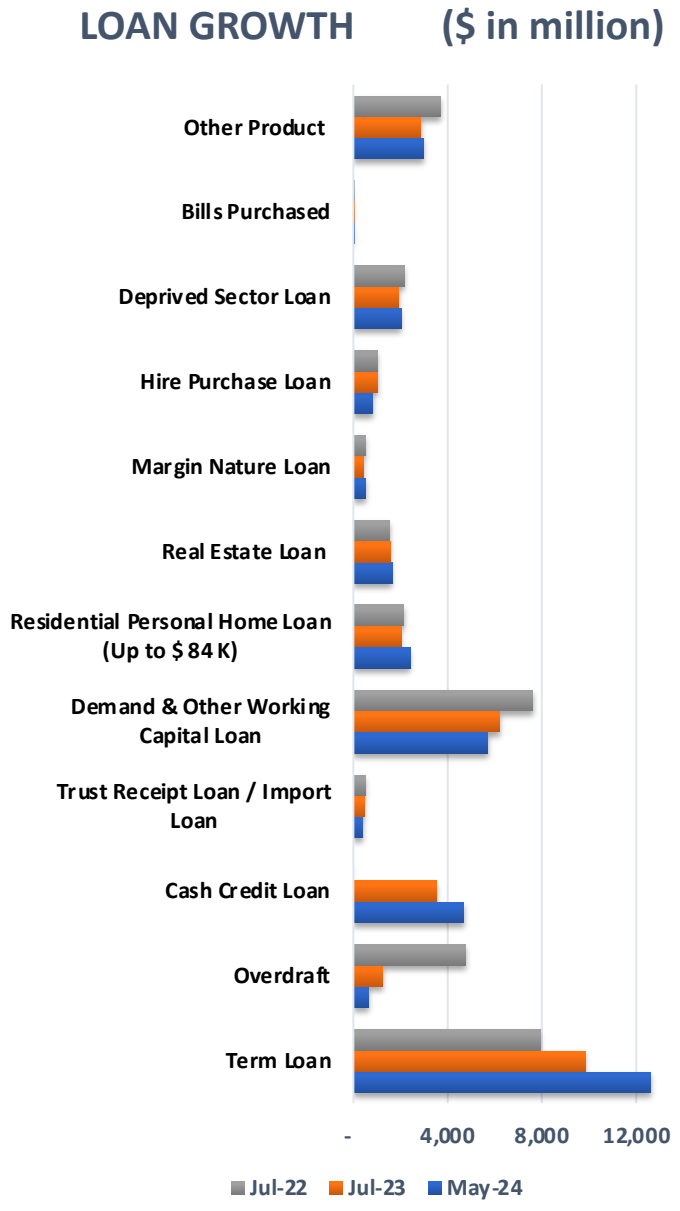


Amount in million		Maturity	
Period	Deposit mix	Within next month	Within a Year
3-6 months	20%	1,325.91	12,595.18
6-12 months	20%		
1-2 yrs.'	29%		
2 yrs. and above	30%		
Total	100%	5.59%	59.41%



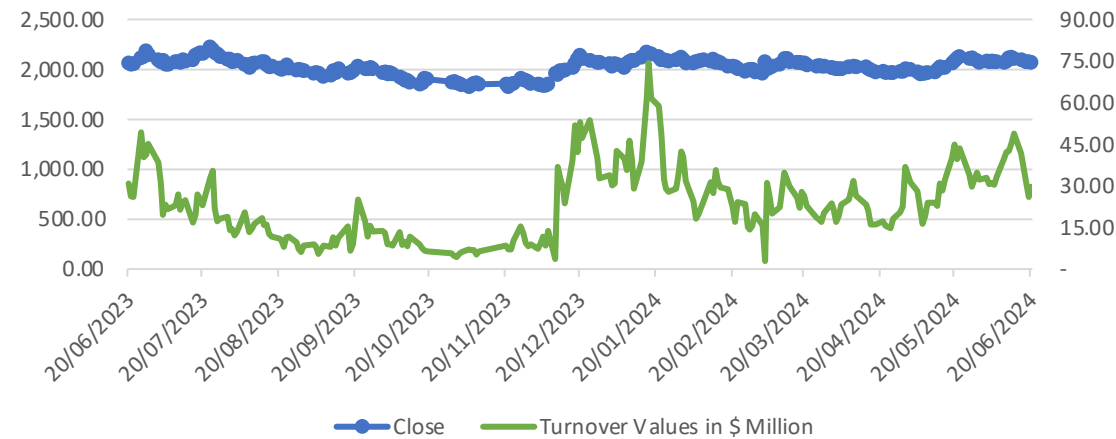
Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

# Sector wise Loan Growth of Commercial Banks

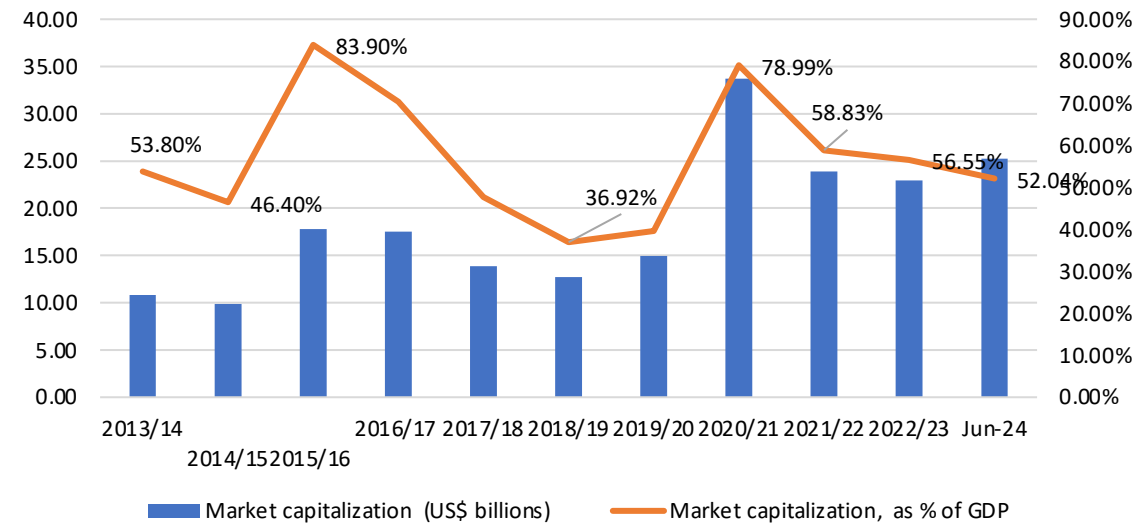


# Capital Market

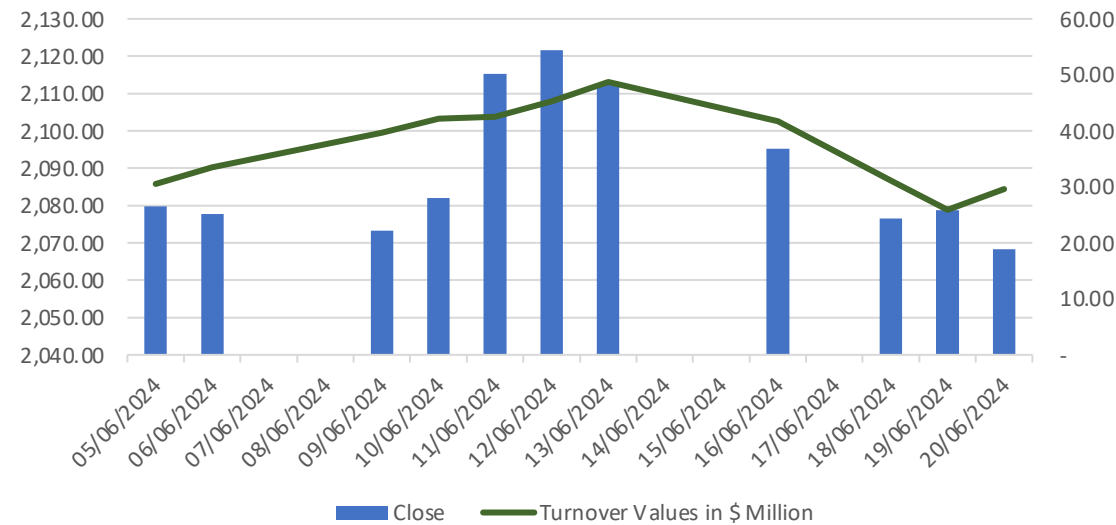
Index and volume



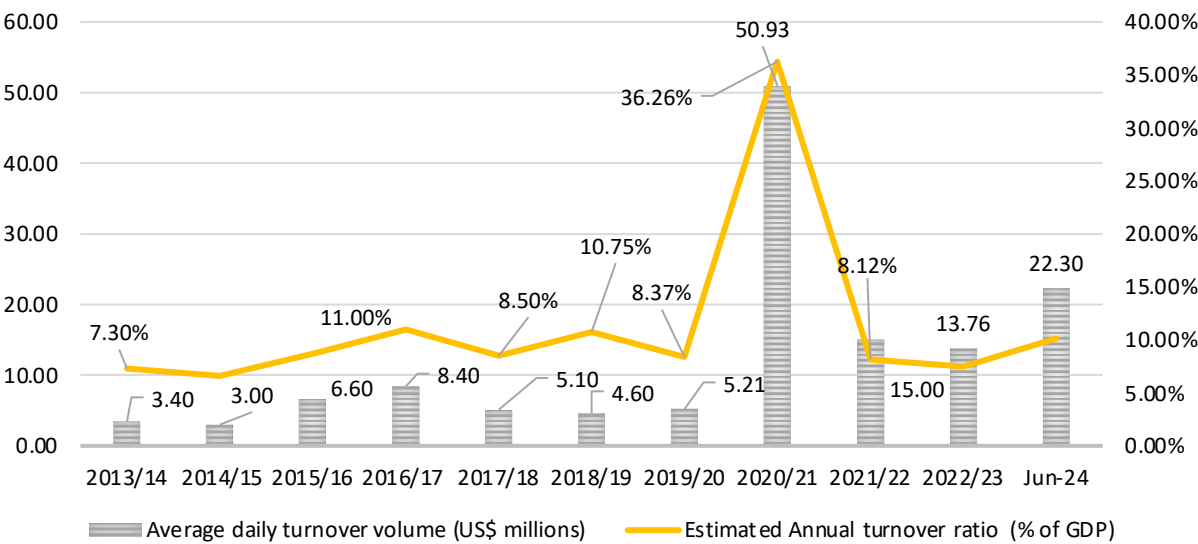
Key NEPSE Indicators



Trunover of last 2 weeks

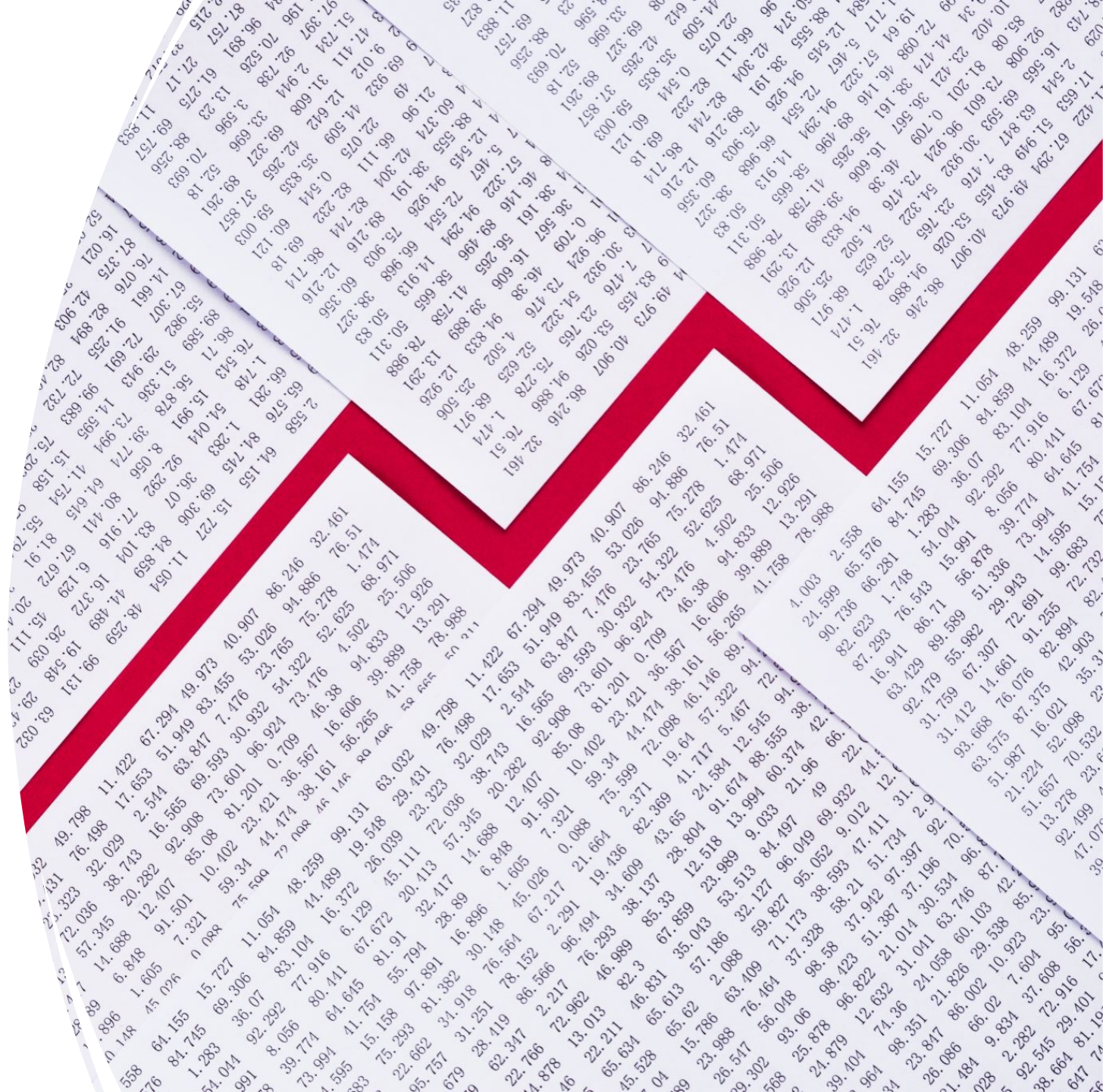



KEY NEPSE INDICATORS



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## Monetary Policy Expectations





*We prefer to refrain from giving opinions on monetary policy expectations. Instead, we will provide a comprehensive review of the policy once the Nepal Rastra Bank officially announces it.*

*Furthermore, we do not anticipate a significant shift in the existing monetary policies based on current indicators and trends. The upcoming policy may continue to maintain the existing accommodative monetary policy stance, with only minor adjustments rather than substantial changes.*

*Additionally, we need to wait and see how the accommodative monetary policy will work in scenarios where the proposed amendment to the Bank and Financial Institutions Act (BAFIA) has sparked significant concerns within the business community. This amendment, particularly focusing on Sections 2 and 52 of the proposed Act, will impose restrictions on shareholders owning more than 1% of a bank's shares from borrowing money from any bank in Nepal.*

*Our analysis will be more detailed and focused on evaluating the announced measures and their potential economic impact.*

<i><b>Policy Mistaks</b></i>	<i><b>Observations</b></i>
<i><b>Overreliance on Import Restrictions</b></i>	<ul style="list-style-type: none"> <li>➤ <i>Develop and promote local industries to reduce import dependency.</i></li> <li>➤ <i>Implement balanced trade policies to ensure essential imports while fostering domestic production</i></li> </ul>
<i><b>Inconsistent Fiscal Stimulus</b></i>	<ul style="list-style-type: none"> <li>➤ <i>Ensure timely and consistent fiscal interventions to support economic stability.</i></li> <li>➤ <i>Focus on efficient allocation and utilization of government resources.</i></li> </ul>
<i><b>Sudden Policy Changes</b></i>	<ul style="list-style-type: none"> <li>➤ <i>Introduce policy changes with phased rollouts to minimize disruptions.</i></li> <li>➤ <i>Engage stakeholders in policy development to ensure smooth transitions.</i></li> </ul>
<i><b>Overemphasis on Monetary Measures</b></i>	<ul style="list-style-type: none"> <li>➤ <i>Balance monetary measures with structural reforms to enhance overall economic resilience.</i></li> <li>➤ <i>Implement targeted lending programs to support critical sectors.</i></li> </ul>

5

Fiscal Situation

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

Government Receipts & Payments Status	Annual Budget	20/06/2024	% age
1. Revenue (USD in million)	10,942.63	7,131.26	65.17%
a) Tax Revenue	10,042.15	6,433.78	64.07%
b) Non Tax Revenue	900.48	697.48	77.46%
2. Grants	384.18	21.22	5.52%
3. Other Receipts	-	174.49	
Total Receipt	11,326.81	7,326.97	64.69%
2. Total Expenditure from Treasury	13,471.63	9,264.06	68.77%
a. Recurrent	8,782.95	6,442.33	73.35%
b. Capital	2,323.65	1,071.43	46.11%
c. Financing	2,365.03	1,750.31	74.01%
Deficit	(2,144.83)	(1,937.09)	
% of GDP	4.16%	3.76%	

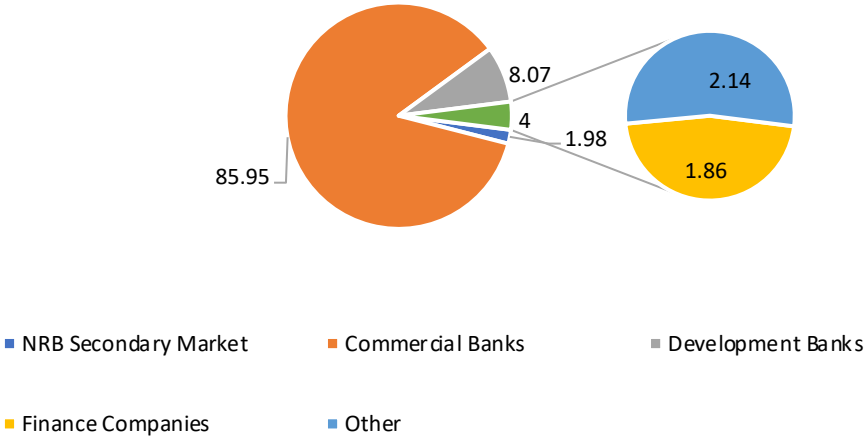
Key Economic Indicators

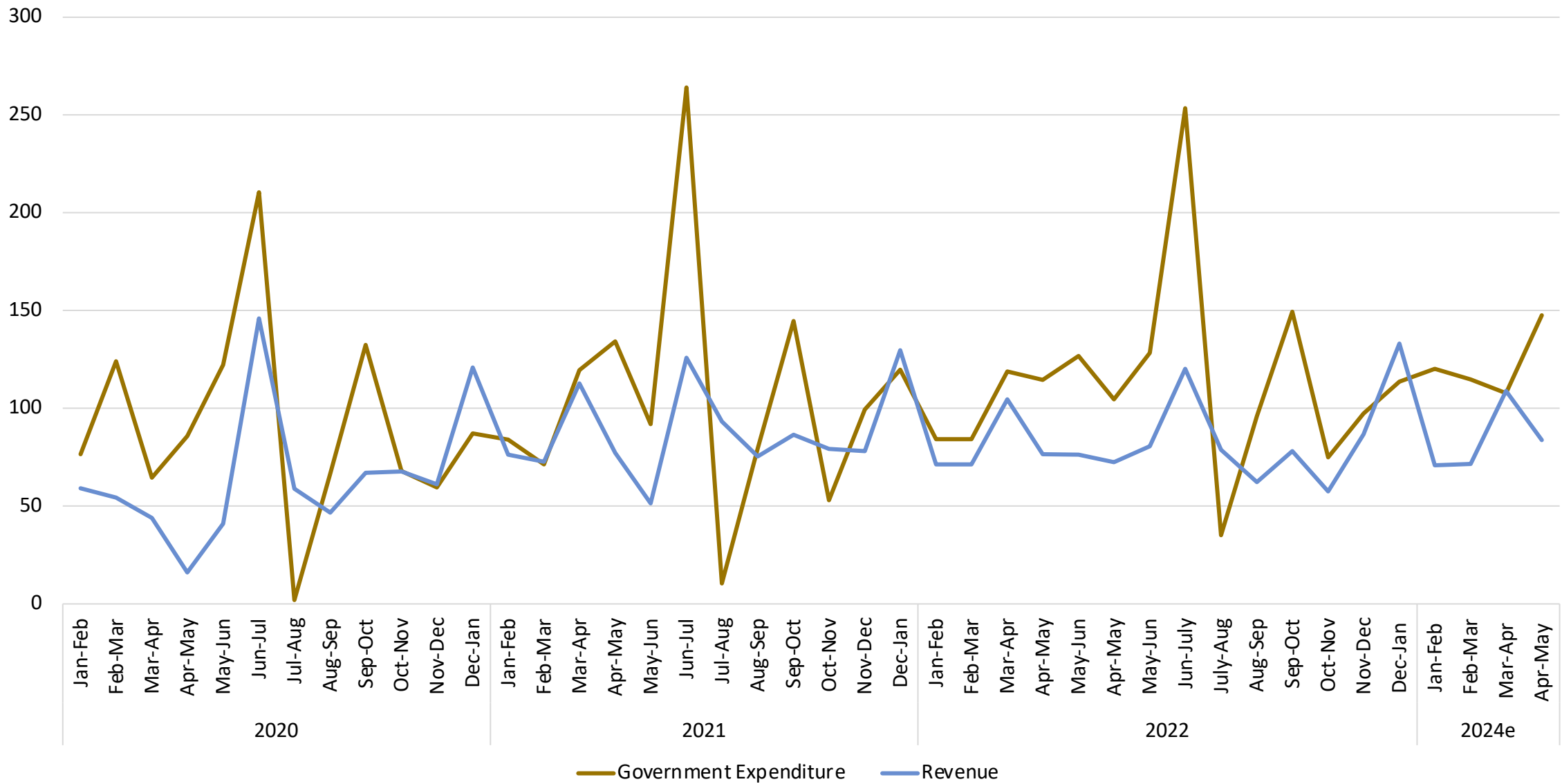
Particulars	Mid-May 2024 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 4.40 percent on y-o-y basis.
External Trade	Imports decreased 2.4 percent, exports decreased 3.6 percent and trade deficit decreased 2.3 percent.
Remittances	Remittances increased 19.2 percent in NPR terms and 17.1 percent in USD terms.
Balance of Payments	Balance of Payments remained at a surplus of \$.3.02 billion.
Broad money (M2)	Broad money (M2) increased 8.1 percent. On y-o-y basis, M2 expanded 12.4 percent.
Deposits and Loans and advances	Deposits at BFIs increased 7.8 percent and private sector credit increased 4.7 percent. On y-o-y basis, deposits increased 12.8 percent and private sector credit increased 5.2 percent

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

	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2021/22	Expenditure	82	643	1,940	2,381	3,187	4,090	4,892	5,576	6,535	7,428	8,385	10,465
	Revenue	784	1,417	2,143	2,809	3,466	4,555	5,155	5,754	6,632	7,214	7,851	8,900
	Treasury Position	2,338	2,467	2,006	2,316	2,447	2,335	2,558	2,818	2,799	2,710	2,933	1,897
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	2,473	2,238	1,536	1,533	1,673	1,722	1,722	1,602	1,608	1,516	1,426	605
F/Y 2023/24	Expenditure	287	942	2,289	2,890	3,773	4,709	5,685	6,498	7,328	8,543		
	Revenue	663	1,186	1,841	2,325	3,054	4,172	4,768	5,370	6,286	6,991		
	Treasury Position	1,756	1,614	1,441	1,281	1,579	1,989	1,809	1,722	2,636	2,351		

Ownership Structure of Government Securities





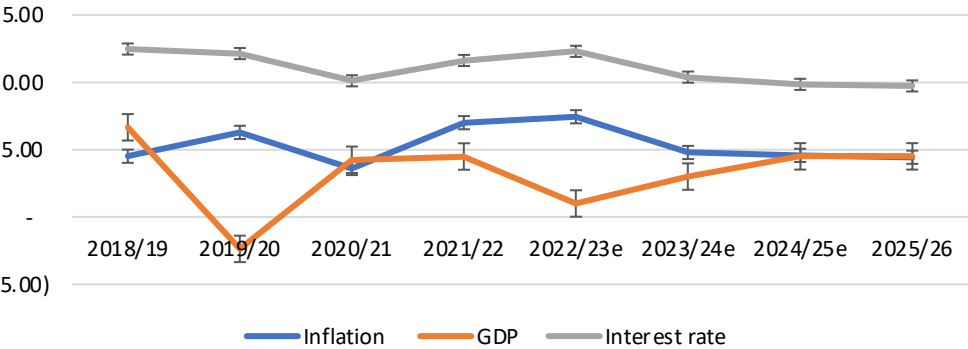
# Government Revenue

HEADS	Mid-Months 2022/23								Mid-Months 2023/24				
Amount in \$ million	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 2024/25 GoN set GDP growth target rate at 6%

Growth 2022/23		
Nepal GDP forecast		
World Bank		
Jan 2024.	3.90%.	(Improved for 2023/24)
April 2024	3.3%.	( 0.6% down from Jan 2024)
April 2024	4.6%.	FY 2024/25 Fresh projections
IMF		
Oct 2023.	0.80 %	(3.6% down from May 2023)
Dec 2023.	3.5 %	(improved 2023/24)
May 2024.	3.9%.	(Improved from 2023)
May 2024	4.9%	FY 2024/25 Fresh projections
ADB.		
April 2024.	3.6% -	2023/24 Fresh projections
April 2024.	4.8% -	2024/25 Fresh projections
CBS		
April 2023	2.16%	
April 2024	3%	



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 5.5%

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.

Industrial Classification	2079/80				2080/81		
	2022/23				2023/24		
	Q1	Q2	Q3	Q4	Q1	Q2	Trend
Agriculture, forestry and fishing	2.9	2.7	4.0	1.6	1.7	3.0	Growth
Mining and quarrying	-3.9	1.3	-2.5	9.3	14.5	9.4	Down
Manufacturing	-3.2	-4.4	-2.0	1.6	1.6	-0.4	Down
Electricity, gas, steam and air conditioning supply	36.6	12.4	-20.8	31.9	1.6	17.1	Growth
Water supply; sewerage, waste management	0.5	2.3	3.1	2.9	1.7	0.8	Down
Construction	-6.8	-8.8	-4.2	9.0	12.5	2.2	Down
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.1	-14.4	-1.6	7.0	-1.1	0.5	Growth
Transportation and storage	1.2	1.3	1.2	0.9	1.6	14.3	Growth
Accommodation and food service activities	56.0	0.4	5.8	25.4	11.7	29.3	Growth
Information and communication	7.1	4.8	4.5	0.0	3.1	2.9	Down
Financial and insurance activities	10.0	4.0	15.3	0.9	11.4	9.1	Down
Real estate activities	2.2	2.2	2.2	2.2	2.2	2.7	Down
Professional, scientific and technical activities	3.9	3.7	4.5	5.0	4.9	3.9	Growth
Administrative and support service activities	4.7	4.0	3.5	7.9	7.2	2.6	Down
Public administration and defence; compulsory social security	5.0	6.2	8.5	1.8	6.5	6.4	Growth
Education	3.2	7.1	3.8	2.3	0.8	0.8	Down
Human health and social work activities	11.0	6.3	4.9	4.1	1.1	3.7	Down
Other Services	9.6	3.0	4.4	4.0	2.8	9.9	Growth
Quarterly Gross Domestic Product (QGDP) growth at basic price	3.4	-0.8	2.2	4.1	3.2	4.0	Growth

## Annual Growth Rate of GDP by Economic Activities

(at constant prices)

Industrial Classification	2078/79		2079/80 R		2080/81 P	
	2021/22	percentage of GDP	2022/23	percentage of GDP	2023/24	percentage of GDP
Agriculture, forestry and fishing	2.35	21%	2.76	21%	3.05	21%
Mining and quarrying	8.84	0%	0.98	0%	2.31	0%
Manufacturing	6.70	5%	-1.98	5%	-1.60	4%
Electricity and gas	52.68	1%	19.89	1%	17.44	2%
Water supply; sewerage and waste management	3.08	0%	3.25	0%	2.80	0%
Construction	6.93	5%	-1.10	5%	-2.07	5%
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.42	13%	-3.02	12%	0.16	12%
Transportation and storage	4.60	5%	1.45	6%	11.89	6%
Accommodation and food service activities	12.56	1%	18.03	2%	21.84	2%
Information and communication	4.19	2%	4.15	2%	4.91	2%
Financial and insurance activities	6.91	6%	7.27	6%	7.80	6%
Real estate activities	1.72	7%	2.18	7%	2.98	7%
Professional, scientific and technical activities	3.50	1%	3.93	1%	4.15	1%
Administrative and support service activities	1.58	1%	5.03	1%	4.04	1%
Public administration and defence; compulsory social security	4.08	8%	5.75	9%	4.49	9%
Education	4.66	7%	3.93	7%	2.71	8%
Human health and social work activities	6.99	1%	6.57	2%	5.52	2%
Other Services	4.48	1%	5.11	1%	4.17	1%
<b>Agriculture, Forestry and Fishing</b>	<b>2.35</b>	<b>86%</b>	<b>2.76</b>	<b>89%</b>	<b>3.05</b>	<b>89%</b>
<b>Non-Agriculture</b>	<b>6.54</b>	<b>14%</b>	<b>2.13</b>	<b>11%</b>	<b>3.75</b>	<b>11%</b>
<b>Gross Domestic Product (GDP) at basic prices</b>	<b>5.28</b>	<b>15%</b>	<b>2.31</b>	<b>11%</b>	<b>3.54</b>	<b>12%</b>
<b>Taxes less subsidies on products</b>	<b>8.75</b>	<b>0%</b>	<b>-1.12</b>	<b>0%</b>	<b>6.77</b>	<b>0%</b>
<b>Gross Domestic Product (GDP)</b>	<b>5.63</b>	<b>100%</b>	<b>1.95</b>	<b>100%</b>	<b>3.87</b>	<b>100%</b>

# Gross Value Added by Industrial Division

(at current prices)

1 USD = 130 NPR

Industrial Classification	2078/79	percentage of GDP	2079/80 R	percentage of GDP	2080/81 P	percentage of GDP
	2021/22		2022/23		2023/24	
Agriculture, forestry and fishing	8,006	21%	8,718	21%	9,359	21%
Mining and quarrying	179	0%	185	0%	183	0%
Manufacturing	1,850	5%	1,881	5%	1,893	4%
Electricity and gas	494	1%	592	1%	703	2%
Water supply; sewerage and waste management	162	0%	168	0%	172	0%
Construction	1,978	5%	2,134	5%	2,100	5%
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,156	13%	5,136	12%	5,375	12%
Transportation and storage	1,977	5%	2,452	6%	2,828	6%
Accommodation and food service activities	525	1%	713	2%	941	2%
Information and communication	677	2%	713	2%	754	2%
Financial and insurance activities	2,228	6%	2,567	6%	2,649	6%
Real estate activities	2,724	7%	3,004	7%	3,235	7%
Professional, scientific and technical activities	314	1%	349	1%	384	1%
Administrative and support service activities	234	1%	254	1%	277	1%
Public administration and defence; compulsory social security	2,872	8%	3,635	9%	3,741	9%
Education	2,599	7%	3,040	7%	3,303	8%
Human health and social work activities	570	1%	700	2%	725	2%
Other Services	193	1%	214	1%	223	1%
Gross Domestic Product (GDP) at basic prices	32,738	86%	36,453	89%	38,847	89%
Taxes less subsidies on products	5,543	14%	4,689	11%	5,037	11%
Taxes on Products	5,562	15%	4,706	11%	5,052	12%
Subsidies on Products	19	0%	17	0%	15	0%
Gross Domestic Product (GDP)	38,281	100%	41,143	100%	43,883	100%

## Gross Domestic product by Expenditure Approach

(at current prices)

1 USD = 130 NPR

Description	2078/79	percentage of GDP	2079/80 R	percentage of GDP	2080/81 P	percentage of GDP
	2021/22		2022/23		2023/24	
Gross Domestic Product (GDP)	38,281	100.00	41,143	100.00	43,883	100.00
Final Consumption Expenditure	35,761	93%	38,095	93%	40,541	92%
Government consumption	3,220	8%	2,735	7%	2,762	6%
Collective Consumption	2,038	5%	2,313	6%	2,226	5%
Individual Consumption	1,182	3%	422	1%	535	1%
Private consumption	31,858	83%	34,603	84%	36,954	84%
Food	15,589	41%	16,740	41%	17,958	41%
Non-food	5,927	15%	6,459	16%	6,820	16%
Services	10,341	27%	11,403	28%	12,177	28%
Nonprofit institutions serving households	683	2%	757	2%	825	2%
Actual final consumption expenditure of household	33,723	88%	35,782	87%	38,315	87%
Gross Capital Formation	14,411	38%	13,025	32%	13,396	31%
Gross Fixed Capital Formation(GFCF)	11,094	29%	10,317	25%	10,730	24%
General Government	2,276	6%	3,047	7%	3,078	7%
State Owned Enterprises	514	1%	615	1%	753	2%
Private	8,304	22%	6,655	16%	6,900	16%
Change in Stock *	3,317	9%	2,708	7%	2,666	6%
Net Exports of Goods and Services	(13,616)	-36%	(11,408)	-28%	(11,302)	-26%
Imports	16,182	42%	14,269	35%	14,787	34%
Goods	14,411	38%	12,175	30%	12,204	28%
Services	1,771	5%	2,094	5%	2,583	6%
Exports	2,566	7%	2,861	7%	3,485	8%
Goods	1,627	4%	1,413	3%	1,543	4%
Services	939	2%	1,449	4%	1,942	4%
GDP	36,555	95%	39,712	97%	42,636	97%
Statistical Discrepancies	1,726	5%	1,430	3%	1,248	3%

## Gross National Disposable Income and Saving

(at current prices)

1 USD = 130 NPR

Description	2078/79 R	percentage of GDP	2079/80 R	percentage of GDP	2080/81 P	percentage of GDP
	2021/22		2022/23		2023/24	
Gross Domestic Product (GDP)	38,281	100	41,143	100	43,883	100
Compensation of Employees	13,303	35%	14,633	36%	15,613	36%
Taxes less subsidies on production and imports	5,560	15%	4,707	11%	5,057	12%
Taxes less subsidies on production	17	0%	18	0%	21	0%
Taxes less subsidies on products	5,543	14%	4,689	11%	5,037	11%
Operating Surplus/Mixed Income, Gross	19,419	51%	21,802	53%	23,213	53%
Primary Income Receivable	442	1%	740	2%	973	2%
Primary Income Payable	220	1%	260	1%	301	1%
Gross National Income (GNI)	38,503	101%	41,622	101%	44,556	102%
Current transfers Receivable	8,658	23%	10,433	25%	12,095	28%
Current transfers Payable	59	0%	60	0%	244	1%
Gross National Disposable Income (GNDI)	47,102	123%	51,995	126%	56,406	129%
Final Consumption Expenditure	35,761	93%	38,095	93%	40,541	92%
Gross Domestic Saving	2,520	7%	3,048	7%	3,342	8%
Gross National Saving	11,341	30%	13,900	34%	15,865	36%
Gross Capital Formation	14,411	38%	13,025	32%	13,396	31%
Lending/Borrowing (Resource gap) (+/-)	(4,795)	-13%	-555	-1%	1,221	3%

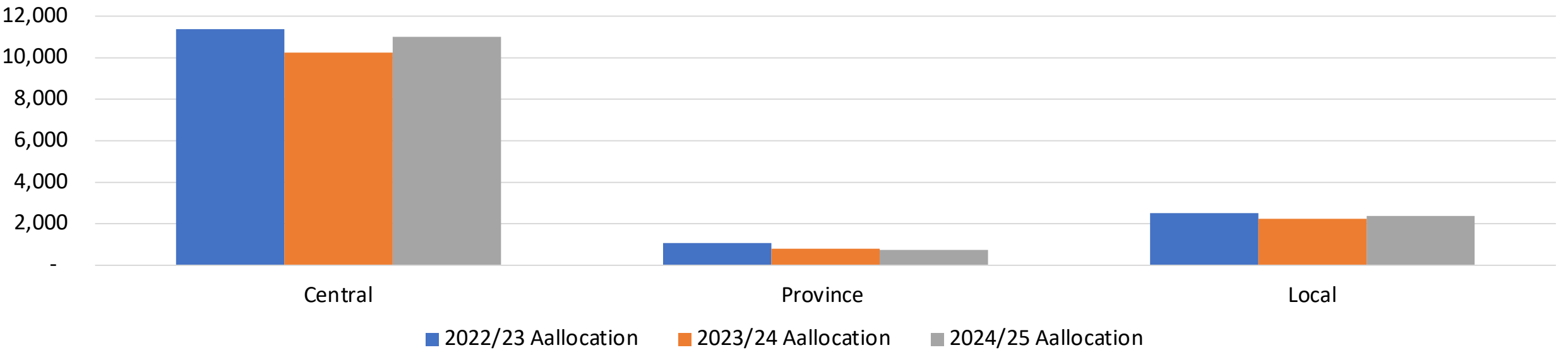
Summary of Macro Economic Indicators			
1 USD = 130 NPR			
Description	2078/79 R	2079/80 R	2080/81 P
	2021/22	2022/23	2023/24
Percapita GDP (NRs.)	1,70,506	1,81,569	1,91,888
Annual Change in nominal percapita GDP (%)	13.30	6.49	5.68
Percapita GNI (NRs.)	1,71,494	1,83,686	1,94,829
Annual Change in nominal percapita GNI (%)	13.35	7.11	6.07
Percapita GNDI (NRs.)	2,09,795	2,29,464	2,46,647
Annual Change in nominal percapita GNDI (%)	11.39	9.38	7.49
Percapita GDP at constant price (NRs.)	86,671	87,553	90,105
Annual Change in real percapita GDP (%)	4.67	1.02	2.92
Percapita GNI at constant price (NRs.)	91,227	89,784	92,526
Annual Change in real percapita GNI (%)	4.16	-1.58	3.05
Percapita GNDI at constant price (NRs.)	1,11,601	1,12,159	1,17,135
Annual Change in real percapita GNDI (%)	2.36	0.50	4.44
Percapita incomes in US\$			
Nominal Percapita GDP (US\$)	1,411	1,389	1,434
Nominal Percapita GNI (US\$)	1,419	1,405	1,456
Nominal Percapita GNDI (US\$)	1,736	1,755	1,843
Final Consumption Expenditure as percentage of GDP	93.42	92.59	92.38
Gross Domestic Saving as percentage of GDP	6.58	7.41	7.62
Gross National Saving as percentage of GDP	29.63	33.79	36.15
Exports of goods and services as percentage of GDP	6.70	6.96	7.94
Imports of goods and services as percentage of GDP	42.27	34.68	33.70
Gross Fixed Capital Formation as percentage of GDP	28.98	25.08	24.45
Resource Gap as percentage of GDP( +/-)	-12.53	-1.35	2.78
Workers' Remittances as percentage of GDP	20.24	22.82	22.96
Product Tax as a percentage of GDP	14.53	11.44	11.51
Total Tax as a percentage of GDP	19.8	16.2	16.7
Exchange rate (US\$: NRs)	120.84	130.75	133.82
Population (millions)	29.19	29.46	29.73

# Budget Sources 2024/25

	Exchange Factor 1 USD = NPR 120							1 USD= NRP 132				1 USD= NRP 132	
Revenue Sources	Actual Budget Amount (\$ Million) 2020/21	Budget Amount (\$ Million) 2021/22	Revised Amount (\$ Million) 2021/22	Actual Amount (\$ Million) 2021/22	Budget Amount (\$ Million) 2022/23	Revised Amount (\$ Million) 2022/23	Variance	Budget Amount (\$ Million) 2023/24	Change	Revised Amount (\$ Million) 2023/24	Change	Budget Amount (\$ Million) 2024/25	Change
Tax Revenue	7,211.40	8,540.89	8,487.72	8,216.69	10,334.32	8,666.67	-16.14%	9,459.24	9.15%	8,449.20	-10.68%	9,547.75	13.00%
Foreign Grant	304.01	528.14	206.74	229.07	462.15	320.49	-30.65%	378.36	18.06%	224.38	-40.70%	396.41	76.67%
Deficit	3,307.90	4,660.78	3,368.19	3,027.74	4,152.18	3,554.50	-14.39%	3,429.92	-3.50%	2,920.03	-14.87%	4,149.04	42.09%
Foreign Debt	1,441.24	2,577.44	1,440.65	1,089.11	2,018.84	1,421.16	-29.61%	1,611.74	13.41%	1,101.85	-31.64%	1,649.04	49.66%
Domestic Debt	1,866.67	2,083.33	1,927.53	1,938.63	2,133.33	2,133.33	0.00%	1,818.18	-14.77%	1,818.18	0.00%	2,500.00	37.50%
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%	11,593.60	-12.62%	14,093.20	21.56%

# Budget Allocations 2024/25

	Exchange Factor 1 USD = NPR 120						1 USD= NRP 132				1 USD= NRP 132	
	Actual Budget Amount (\$ Million) 2020/21	Budget Amount (\$ Million) 2021/22	Actual Amount (\$ Million) 2021/22	Budget Amount (\$ Million) 2022/23	Revised Amount (\$ Million) 2022/23	Variance	Budget (\$ Million) 2023/24	Change	Revised Amount	Variance	Budget Amount (\$ Million) 2024/25	Change
Allocated Budget												
Current Expenditure	3,764.18	5,655.11	4,535.35	6,278.36	5,336.60	-15.00%	5,618.92	5.29%	5,194.73	-7.55%	5,543.85	6.72%
Capital Expenditure	1,906.97	3,118.91	1,801.78	3,169.87	2,152.88	-32.08%	2,288.44	6.30%	1,631.11	-28.72%	2,669.35	63.65%
Financial Provisioning	1,864.53	1,733.15	1,752.41	1,918.48	1,693.83	-11.71%	2,329.19	37.51%	1,875.40	-19.48%	2,782.46	48.37%
Intergovernmental Fiscal Transfer	3,287.63	3,222.64	3,383.96	3,581.94	3,358.33	-6.24%	3,030.96	-9.75%	2,892.37	-4.57%	3,097.55	7.09%
Total	10,823.31	13,729.81	11,473.50	14,948.65	12,541.65	-16.10%	13,267.52	5.79%	11,593.60	-12.62%	14,093.20	21.56%



# Sectoral distribution 2024/25

Areas of Budget allocation	2021/22		2022/23		2023/24		2024/25		Compare to last year	
	Amount in \$ Mn	in % age	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%	7,067	50.15%	Up	Up
Defense	414	3.02%	462	3.09%	434	3.27%	442	3.13%	Up	Down
Public Order and Safety	484	3.53%	545	3.65%	539	4.07%	569	4.04%	Up	Down
Economic Affair	3,684	26.87%	3,890	26.02%	2,962	22.32%	2,903	20.60%	Down	Down
Enviromnental Protection	105	0.76%	92	0.61%	65	0.49%	64	0.46%	Down	Down
Housing and Community Ametinies	671	4.89%	738	4.94%	500	3.77%	508	3.60%	Up	Down
Health	1,180	8.60%	1,027	6.87%	779	5.87%	434	3.08%	Down	Down
Recreation, Culture and Religion	56	0.41%	80	0.54%	50	0.38%	45	0.32%	Down	Down
Education	1,500	10.94%	1,641	10.98%	1,498	11.29%	440	3.12%	Down	Down
Social protection	1,582	11.54%	1,694	11.34%	1,663	12.53%	1,621	11.50%	Down	Down
Total	13,709	100%	14,949	100%	13,268	100%				
Exchnage Factor	USD 1 = NPR 120				USD 1 = NPR 132					

## Sectoral distribution

- The allocation for general public service and Economic affair constitute approximately 47.95% of the budget.
- Decrease in allocation allocation of budget for Health and Environmental protection by 44% and 1.3% respectively.
- Budget for Recreation, Culture and Religion has been decreased by 11.68%.

## Observations

- **Revenue Growth Target:** The global unrest and surge in commodity prices will likely impact government revenue receipts. Consequently, the revenue growth target of 13% appears challenging.
- **Foreign Loan Mobilization:** The mobilization of \$1,649 million in foreign loans seems ambitious. Aside from emergency financial assistance from multilateral agencies, the mobilization of other loans hinges on progress made on projects. Therefore, there is a need to ramp up the capital budget absorption capacity.
- **Domestic Borrowing:** The planned domestic borrowing of \$2,500 million, combined with increasing non-performing loans, may pressure Banks and Financial Institutions (BFIs). Consequently, BFIs might be less motivated to lend to the private sector.
- **Foreign Grant Mobilization:** The target of mobilizing \$396 million in foreign grants is higher than the amount received in recent years, which could be overly optimistic.
- **Provincial and Local Government Allocation:** \$3,098 million has been allocated to provincial and local governments, representing approximately 21.98% of the budget. This is 0.87% less than the previous year's allocation.
- **Sub-National Government Role:** The government aims to enhance the role of sub-national governments in national priority projects, which is crucial for balanced regional development.
- **Engagement of Non-Resident Nepalese:** The government aims to attract Non-Resident Nepalese to bring back their knowledge, skills, and capital, which could positively impact national development.



Given the current economic uncertainties and challenges, achieving these ambitious targets will require effective implementation and favorable economic conditions.

**Revenue:** The tax revenue for 2024/25 is projected to increase by 13% from the revised amount of 2023/24. This reflects an ambitious target, indicating optimism for higher economic activity and improved tax collection efficiency.

**Foreign grants** The substantial increase of 76.67% in foreign grants for 2024/25 suggests high expectations for increased international aid and donor support, contrasting sharply with the significantly reduced amount in 2023/24.

**Deficit:** The projected deficit increase of 42.09% for 2024/25 points to a highly ambitious budget with expanded spending plans, likely aimed at stimulating economic growth despite the slow recovery.

**Foreign debt:** The significant increase of 49.66% in foreign debt for 2024/25 indicates ambitious borrowing plans to finance the deficit and potentially fund major projects or initiatives.

The overall budget increase of 21.56% for 2024/25 compared to the revised budget of 2023/24 is a highly ambitious fiscal plan. The government appears to be banking on substantial economic recovery, improved revenue collection, and significant external and domestic borrowing.

The FY 2024/25 budget for Nepal is indeed ambitious. The government aims to significantly boost revenue from taxes and foreign grants while also planning for higher borrowing both domestically and internationally. This approach suggests a strong focus on economic recovery and growth despite the current slow growth and challenges in revenue collection. Achieving these ambitious targets will require effective implementation and potentially favorable economic conditions.

Nepal requires an immediate economic rescue plan to revive its economy.		The plan should aim to restore fiscal balance, ensure financial stability, and control inflation.
Importance of Fiscal Balance	Fiscal balance is crucial for sustainable economic growth. It involves managing government revenues and expenditures to prevent budget deficits. Ensuring fiscal balance fosters investor confidence and supports long-term economic stability.	
Ensuring Financial Stability	Financial stability is essential for a robust economy. It involves maintaining stability in the banking sector, preventing financial crises, and ensuring smooth credit flows. Upholding financial stability boosts investor trust and encourages economic investment.	
Anchoring Inflation	Controlling inflation is vital for economic health. Excessive inflation erodes purchasing power and destabilizes the economy. Anchoring inflation to a reasonable limit supports price stability and fosters economic growth.	
Components of the Emergency Economic Plan	Fiscal Measures: Implementing prudent fiscal policies to manage government finances and reduce budget deficits. Financial Sector Reforms: Strengthening regulatory frameworks and enhancing oversight to ensure stability in the banking sector. Monetary Policy Actions: Implementing measures to control inflation through appropriate monetary policy tools.	
Immediate Action Steps	Assessing the current economic situation and identifying priority areas for intervention. Formulating and implementing policies swiftly to address fiscal imbalances, ensure financial stability, and control inflation. Collaboration between government agencies, financial institutions, and international partners to implement the plan effectively.	
Benefits of the Plan	Stimulating economic growth and creating employment opportunities. Restoring investor confidence and attracting foreign investment. Enhancing the overall economic resilience of Nepal in the face of future challenges.	
Conclusion	An emergency economic plan is essential for Nepal to overcome its economic challenges. By maintaining fiscal balance, financial stability, and controlling inflation, Nepal can jump-start its economy and pave the way for sustainable growth and development.	

Thank You!

Best regards,  
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