Economic Outlook Based on June 2024

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Overview 2023/24

Economic Information

Financial Sector Highlights

Monetary Policy Expectations

Fiscal situation

1

Overview 2023/24

The IMF Executive Board has completed the fourth review of the Extended Credit Facility (ECF) for Nepal, which allows the country to draw about US$52.25 million. This brings total disbursements under the ECF arrangement to approximately US$222.5 million. The ECF program, which began in January 2022, has helped Nepal mitigate the economic impacts of the COVID-19 pandemic and other global shocks, support vulnerable populations, and maintain macroeconomic stability. The report highlights several key points about Nepal's economic status:

Economic Performance: Nepal experienced a significant economic slowdown after a post-pandemic rebound driven by a credit boom. Growth is expected to recover to 3.5% in the fiscal year 2023/24, supported by increased domestic demand, new hydroelectric capacity, and a recovery in tourism.

***Inflation and Fiscal Deficit:** Inflation, although declining, remains high at 8.2% as of September 2023. The country faces a widening fiscal deficit despite measures to control expenditures, largely due to low domestic demand affecting government revenue.*

Risks: The outlook for Nepal's economy remains uncertain with risks skewed to the downside, particularly from external sectors due to high remittance income and dependence on imported goods. There are also concerns about the stability of the banking sector.

***The economic outlook for Nepal remains complex.** Economic activity is expected to pick up with growth reaching 4.9 percent in FY2024/25, supported by stronger domestic demand. The cautiously accommodative monetary policy stance. This growth is driven by increased domestic demand, new hydroelectric capacity, and a recovery in tourism.*

***Bank asset quality has deteriorated,** with the increase in NPAs putting additional pressure on the banking sector. The Nepal Rastra Bank (NRB) has introduced measures to improve bank supervision and regulation, including new guidelines and asset classification regulations.*

***Maintaining macroeconomic stability**, advancing fiscal reforms, and addressing financial sector vulnerabilities are critical for Nepal's sustainable growth. The IMF emphasizes the need for prudent fiscal and monetary policies to manage risks and support economic recovery. monetary policy transmission is still weak in a context of balance sheet repair, a cautious and data dependent monetary policy remains appropriate to preserve price and external stability.*

***The IMF has stressed** the importance of continuing reforms in areas such as fiscal discipline, banking regulation, governance, and improving the business climate to ensure sustainable economic growth and stability.*

GON defaults on its contractual obligations

If the Government of Nepal (GoN) continue to default on its contractual obligations by not paying contractors' running bills, interest subsidies on agricultural loans, and COVID-19 insurance, it can have several significant consequences, even though Nepal does not currently have a sovereign rating from any rating agency. Here are the potential consequences:

- ***Erosion of Trust and Credibility***
  - ***Domestic and International Trust:*** *Defaulting on obligations erodes the trust of both domestic and international stakeholders, including contractors, financial institutions, and potential investors. This loss of trust can make future engagements and negotiations more difficult and expensive.*
  - ***Reputation:*** *The country's reputation for financial management and reliability would suffer, potentially deterring foreign investment and aid.*
- ***Impact on Contractors and Businesses***
  - ***Financial Strain:*** *Contractors and businesses relying on timely payments from the government may face financial strain, leading to potential layoffs, bankruptcies, or project delays.*
  - ***Project Delays:*** *Essential infrastructure and development projects might be delayed or halted, impacting economic growth and public services.*
- ***Banking Sector Instability***
  - ***Loan Defaults:*** *If the government fails to provide interest subsidies on agricultural loans, farmers and other beneficiaries might default on their loans, leading to increased non-performing assets (NPAs) in the banking sector.*
  - ***Credit Crunch:*** *Banks might become more cautious in lending, leading to a credit crunch that can stifle economic growth.*
- ***Insurance Sector Impact***
  - ***Policyholder Confidence:*** *Not honoring COVID-19 insurance claims can undermine confidence in the insurance sector, causing policyholders to lose trust in the system.*
  - ***Increased Risk*** *Premiums: Insurers might increase premiums or reduce coverage to mitigate risks associated with government defaults.*
- ***Economic Slowdown***
  - ***Reduced Spending and Investment:*** *Uncertainty and lack of trust in the government's financial commitments can lead to reduced spending and investment by both the private sector and consumers.*
  - ***Growth Inhibition:*** *An economic slowdown can result from decreased activity in key sectors affected by the defaults.*

Consequences continued

Potential for Lower Future Ratings

Negative Outlook: *Even without a current sovereign rating, these defaults could influence future ratings if Nepal seeks them. Rating agencies would consider these defaults as indicators of poor financial management and increased risk.*

Higher Borrowing Costs: *A lower rating or negative outlook can lead to higher borrowing costs for the government and businesses, as lenders would demand higher interest rates to compensate for perceived risks.*

Political and Social Consequences

Public Dissatisfaction: *Unmet financial commitments can lead to public dissatisfaction and unrest, potentially destabilizing the political environment.*

Policy Reevaluation: *The government may need to reevaluate its fiscal policies and spending priorities, possibly leading to austerity measures or budget cuts in other areas.*

Conclusion

The consequences of the GoN defaulting on its contractual obligations are far-reaching, impacting various sectors of the economy and society. The erosion of trust and credibility, financial strain on businesses, banking sector instability, and potential future impacts on sovereign ratings are all critical issues that need to be addressed to maintain economic stability and growth.

2024 “*Optimistic outlook while exercising prudence*”

There is a sign that Nepal may have political stability and a strong government, as a 7-point agreement between the two largest parties has brought some hope. It seems the Government of Nepal (GoN) will put its effort and strength into economic development and is likely to initiate more economic reforms. However, we are cautiously optimistic.

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.

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.

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.

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.

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

BAFIA Amendment:	*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.* *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: Potential Government Strategies for Effective Implementation* *1. Adjusting Section 52: Should be applicable to natural person but not body corporate.* *2. Emphasizing Individual Holdings: A Shift in Focus from Collective Holdings* *3. Voting Rights Restriction: Limiting Borrowers' Voting Rights to 0.2% of Outstanding Bank Loans* *4. Mechanism Alignment: Utilizing Existing Mechanisms in Accordance with Legal Framework*
GDP Base Review:	*The Government of Nepal should contemplate updating the base year for GDP calculation from 2010/11 to 2020/21. This adjustment is warranted due to four significant events post the Great Gorkha Earthquake: a trade embargo, changes in government structure, and the impact of the Covid-19 pandemic. Shifting the base year to 2020/21 will provide a fresh perspective for policy formulation and response, considering the evolving economic landscape*
Prompt Corrective Action:	*In addition to 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.* *Furthermore, concerning the Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&L) should be increased from 5% to 9%. Additionally, the NRB should undertake a comprehensive review of the risk weightage assigned to various items on the balance sheet. This involves a meticulous assessment of the potential risks associated with different assets and liabilities held by BFIs. Through recalibrating the risk weightage, the NRB can ensure that the regulatory framework accurately reflects the inherent risks in banking activities, thereby fostering prudence and stability in the financial sector.*

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.*

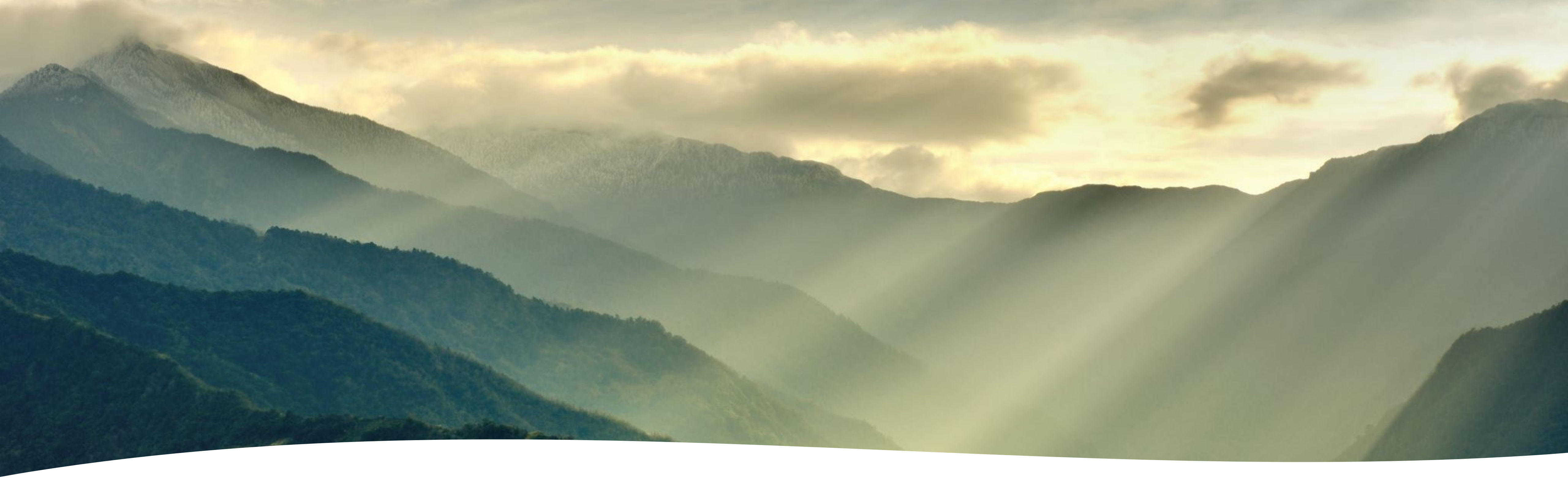
Conclusion: *Decriminalization is not about avoiding consequences but creating a business-friendly environment that promotes growth and innovation. Pragmatic reforms in corporate law are essential for shaping a brighter future for businesses worldwide.*

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 Contact Management and enforcement requirements to maintain time schedule of the project.*
- *Design an Effective Monitoring system to improve the productivity of investment,*
- *Appoint Competent Project Personnel led by dynamic person,*
- *Support effective Legal Institutional Framework for PPP investment and introduce fund base investment approval process.*
- *Enabling sectoral policy Operation Framework*

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



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.

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

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*

Analyzing Nepal's GDP Growth Trajectory

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%

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

June 2024. 5.3 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% 2022/23

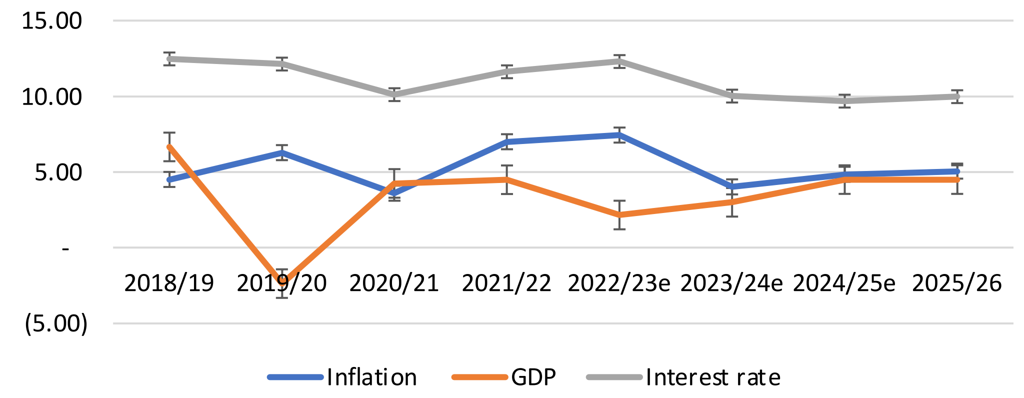
April 2024 3% FY 2023/24

Inflation

Given the increase in price of oil and war between Russia and Ukraine the inflation has reached above target level. For FY 2024/25 the GoN set target rate of inflation at 5.5%

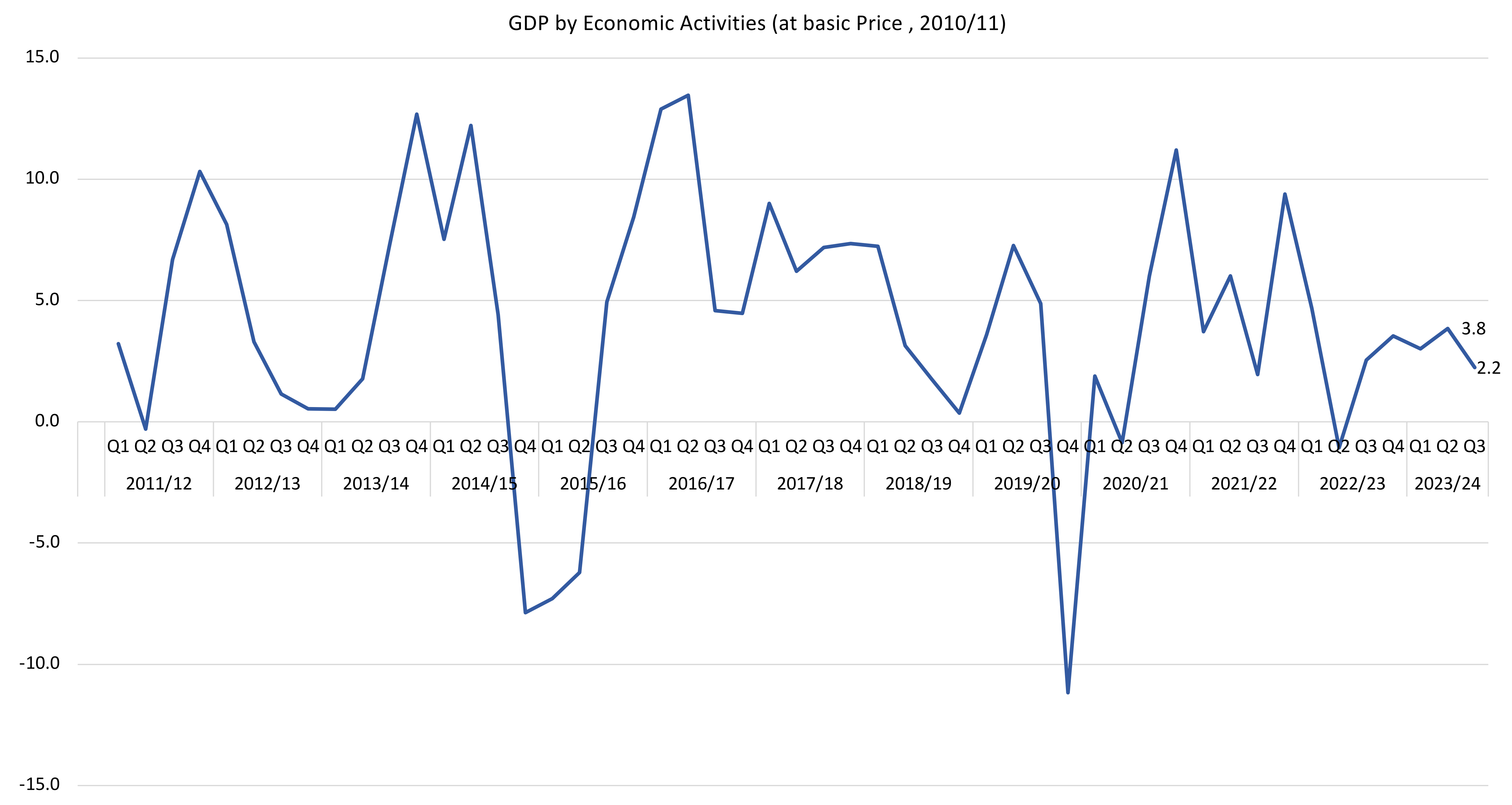
Don't let numbers mislead you!

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.



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

Industrial Classification	2079/80				2080/81			
	2022/23				2023/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3 vs Q2
Agriculture, forestry and fishing	3.1	2.5	3.9	1.8	2.3	3.4	3.1	Down
Mining and quarrying	-4.0	1.2	-2.7	9.2	11.0	2.1	-4.8	Down
Manufacturing	-3.2	-4.3	-1.9	1.7	1.6	-2.8	-2.0	Up
Electricity, gas, steam and air conditioning supply	37.3	12.9	-21.8	33.1	1.9	17.6	37.1	Up
Water supply; sewerage, waste management	2.2	4.0	2.8	4.1	2.4	1.2	0.4	Down
Construction	4.5	-16.8	-5.5	13.5	6.9	-0.7	-11.2	Down
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.4	-14.2	-1.9	7.1	-0.8	0.8	-2.7	Down
Transportation and storage	2.6	1.5	0.8	0.4	1.3	14.1	15.0	Up
Accommodation and food service activities	55.4	-0.1	5.2	24.9	11.5	29.1	19.1	Down
Information and communication	7.2	4.9	4.6	0.0	3.1	3.0	1.5	Down
Financial and insurance activities	16.4	11.0	21.1	-13.7	9.9	8.1	6.1	Down
Real estate activities	2.2	2.2	2.2	2.2	3.0	3.0	3.0	Down
Professional, scientific and technical activities	3.7	3.3	4.1	4.6	4.5	3.4	4.2	Up
Administrative and support service activities	3.7	5.0	4.5	6.9	5.9	3.1	3.5	Up
Public administration and defence; compulsory social security	4.6	5.2	12.2	1.3	5.1	5.7	4.7	Down
Education	3.0	6.9	3.7	2.2	0.7	0.8	1.5	Up
Human health and social work activities	11.1	6.3	4.9	4.1	4.7	3.7	5.3	Up
Arts, entertainment and recreation; Other service activities; and Activities of households as employers	9.8	3.2	4.1	3.5	2.1	8.8	8.3	Down
Aggregate	4.7	-1.1	2.5	3.5	3.0	3.8	2.2	Down


GDP by Economic Activities (at basic Price , 2010/11)
15.0
10.0
5.0
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-10.0
-15.0
3.8
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Q1 Q2 Q3 Q4
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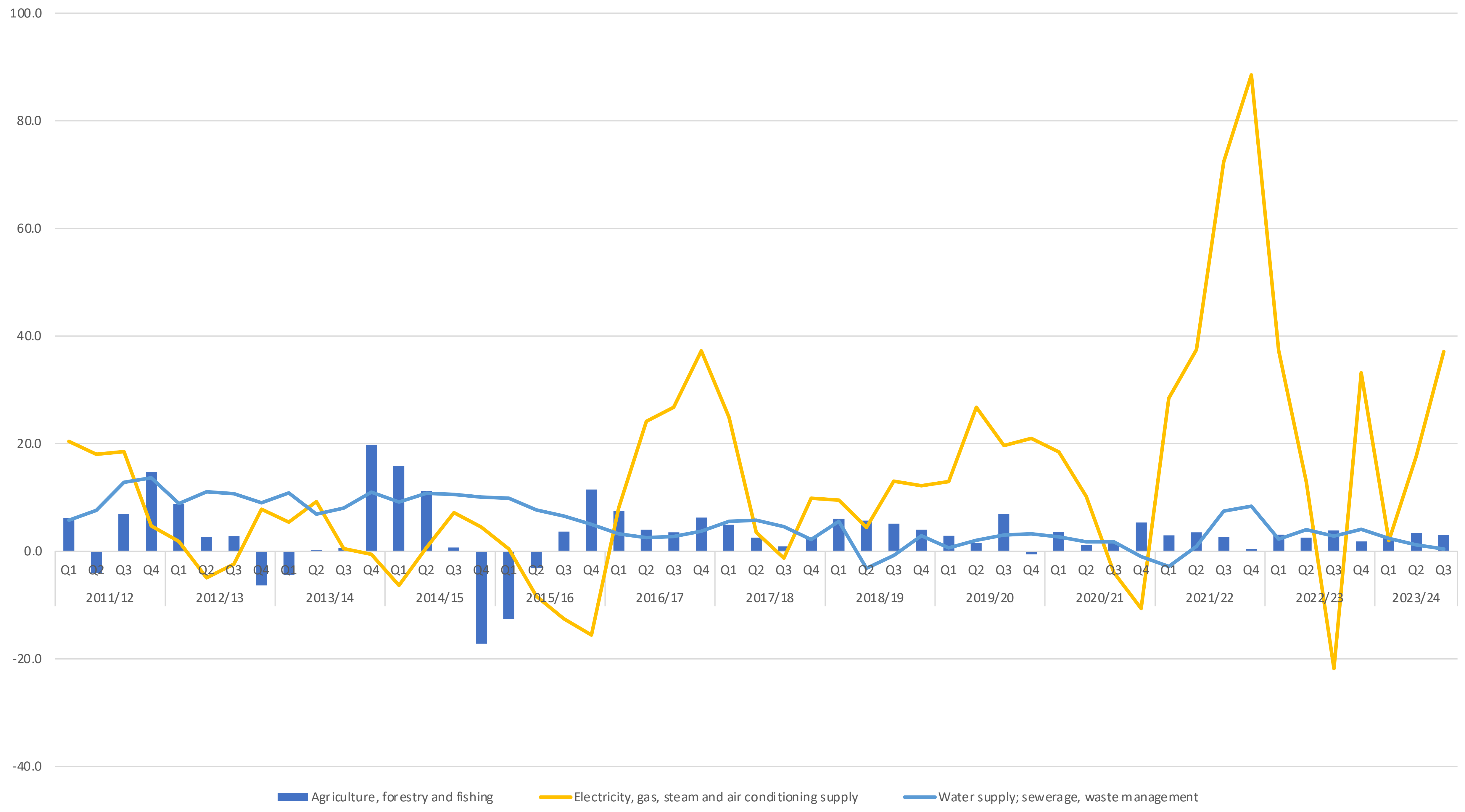
2023/24



100.0
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-20.0
-40.0
Q1 Q2 Q3 Q4
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2014/15
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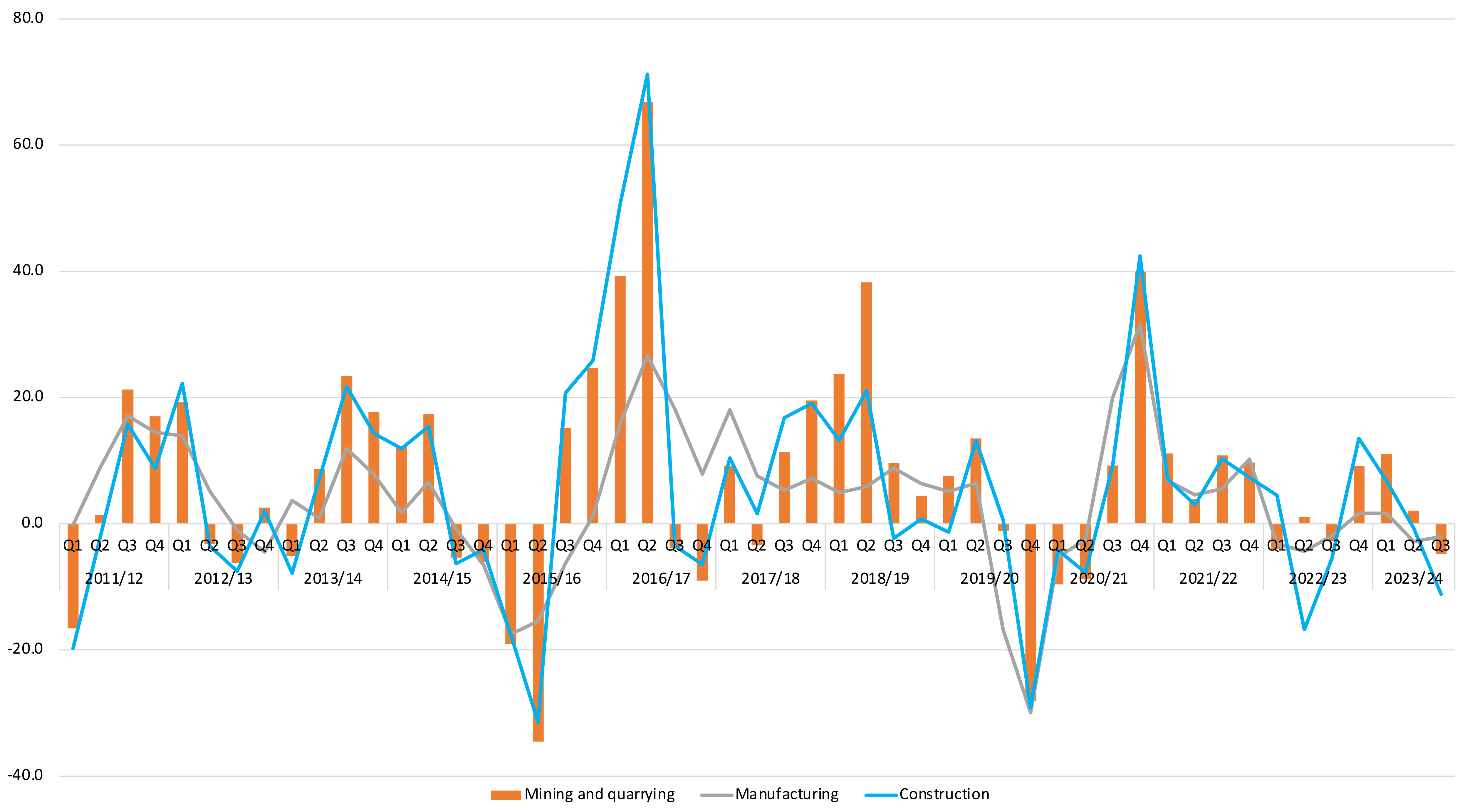
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Agriculture, forestry and fishing
Electricity, gas, steam and air conditioning supply
Water supply; sewerage, waste management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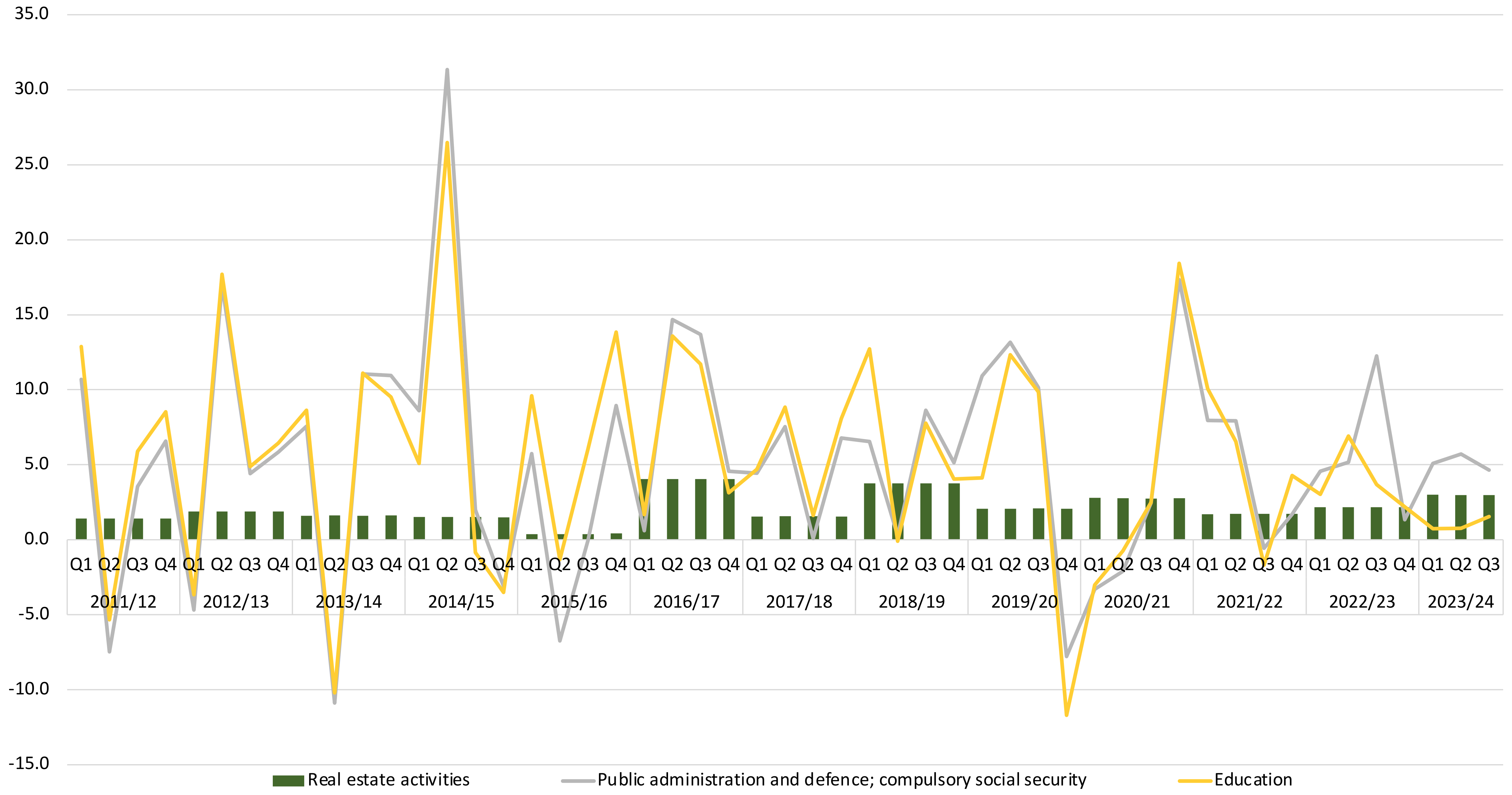
2023/24
Mining and quarrying
Manufacturing
Construction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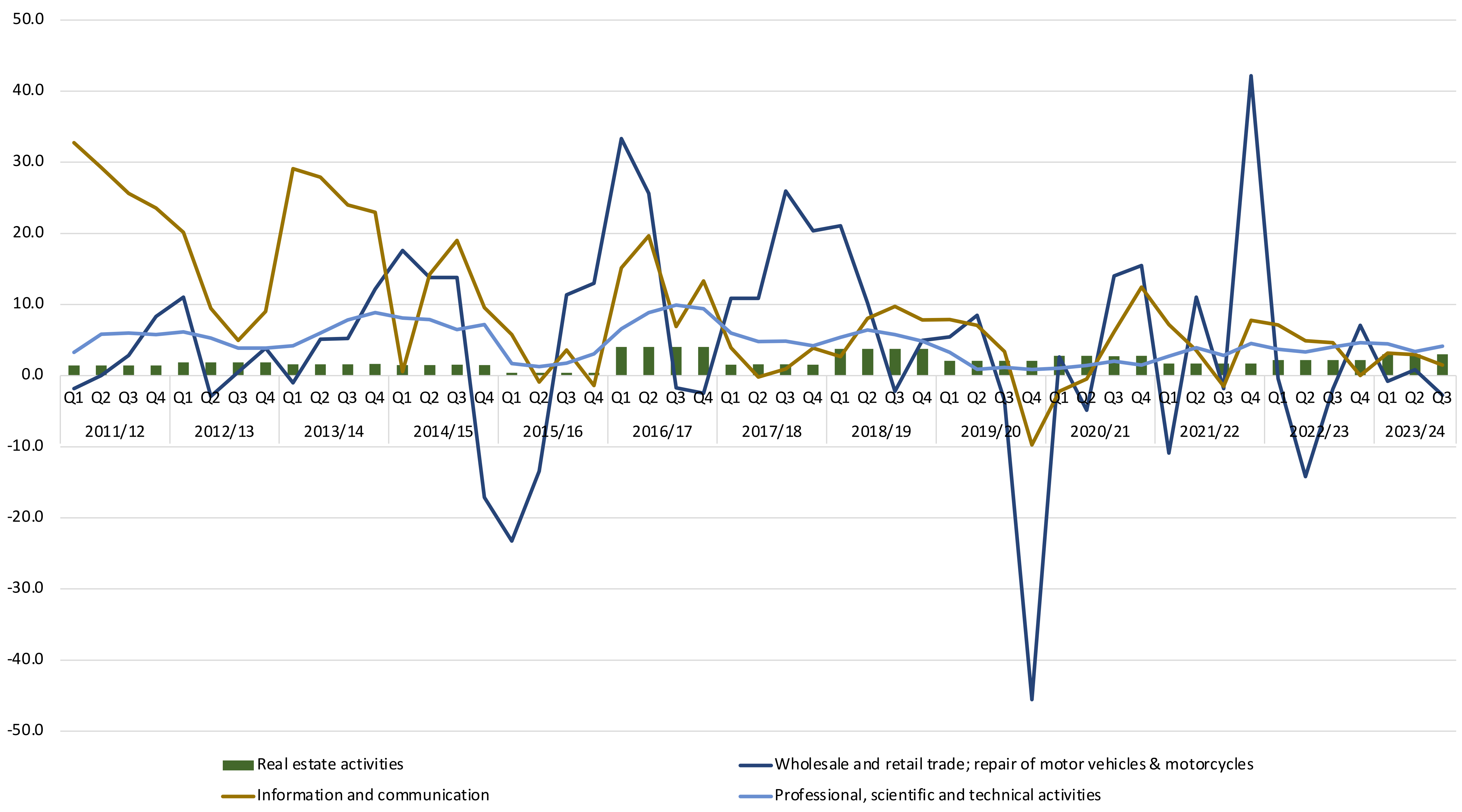
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Real estate activities
Public administration and defence; compulsory social security
Education



50.0
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20.0
10.0
0.0
-10.0
-20.0
-30.0
-40.0
-50.0
Q1 Q2 Q3 Q4
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Real estate activities
Wholesale and retail trade; repair of motor vehicles & motorcycles
Information and communication
Professional, scientific and technical activities

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.

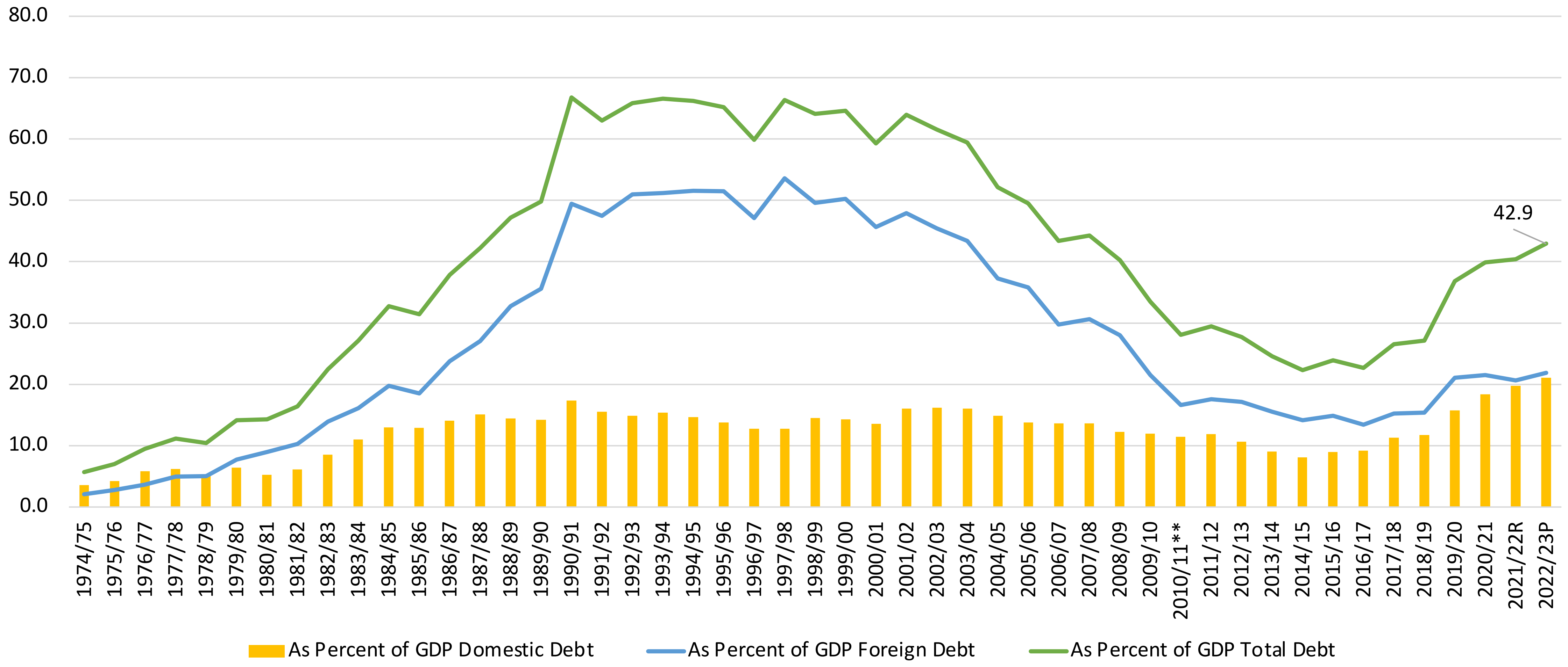
Key sectors to consider:

1. ***Electricity, Gas, Steam, and Air Conditioning Supply***
   - ***Growth Pattern:*** *This sector showed highly variable growth, but it has shown significant improvement in Q3 of 2023/24 with a growth rate of 37.1%.*
   - ***Potential:*** *The energy sector is crucial for industrial and economic development. Consistent investment and advancements in this sector can drive overall economic growth.*
2. ***Accommodation and Food Service Activities***
   - ***Growth Pattern:*** *This sector demonstrated high growth rates in previous quarters (e.g., 55.4% in Q1 of 2022/23 and 29.1% in Q2 of 2023/24). Though it shows a slight decline in Q3 of 2023/24 (19.1%), the growth remains substantial.*
   - ***Potential:*** *This sector can be a major driver of economic growth due to its link to tourism and domestic consumption. Enhancing this sector can lead to increased employment and service exports.*
3. ***Transportation and Storage***
   - ***Growth Pattern:*** *This sector showed steady growth, with a significant increase in Q3 of 2023/24 (15.0%).*
   - ***Potential:*** *Efficient transportation and storage are vital for the movement of goods and services. Improvements in infrastructure and logistics can enhance economic efficiency and support other sectors.*
4. ***Human Health and Social Work Activities***
   - ***Growth Pattern:*** *Consistent positive growth with an increase in Q3 of 2023/24 (5.3%).*
   - ***Potential:*** *Investment in healthcare can improve the overall well-being of the population, which in turn boosts productivity and economic participation.*
5. ***Professional, Scientific, and Technical Activities***
   - ***Growth Pattern:*** *This sector exhibited steady growth with an increase in Q3 of 2023/24 (4.2%).*
   - ***Potential:*** *This sector can drive innovation and support the development of high-value industries. Increased investment in R&D and technical services can lead to sustainable economic growth.*

Conclusion:

While all the sectors mentioned above have potential, Accommodation and Food Service Activities and Electricity, Gas, Steam, and Air Conditioning Supply stand out due to their high growth rates and potential for substantial economic impact.

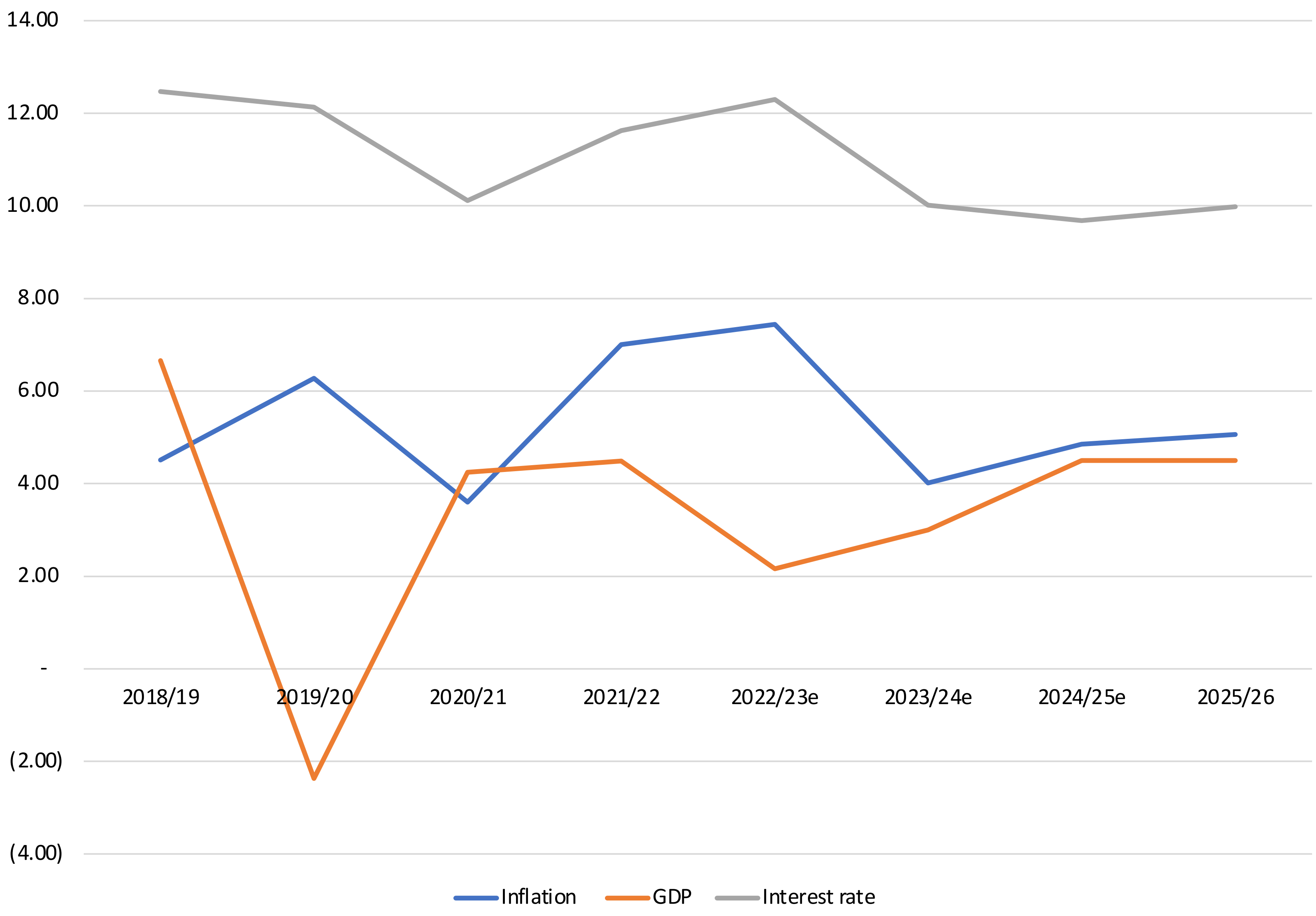
Starts above 80% of GDP, decreases to around 60% by 2066/67. Stabilizes, then rises from 2072/73 onwards, ending at 42.9% in 2019/80. Overall, foreign debt decreases significantly, domestic debt remains stable with a slight increase, and total debt shows a decreasing trend followed by a recent rise.



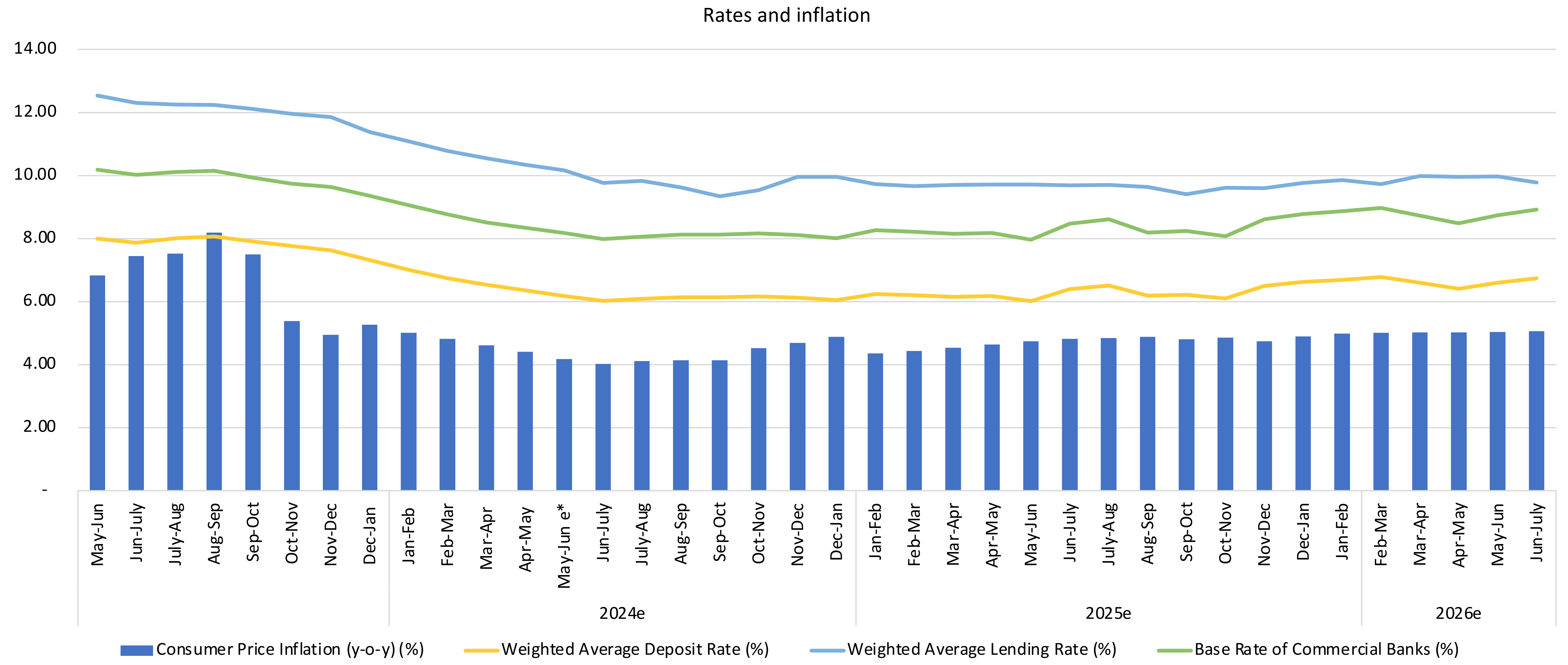
Geopolitical conditions pose significant risks, including potential spillover effects from conflicts and the vulnerability of food and energy markets and supply chains to these factors.

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.

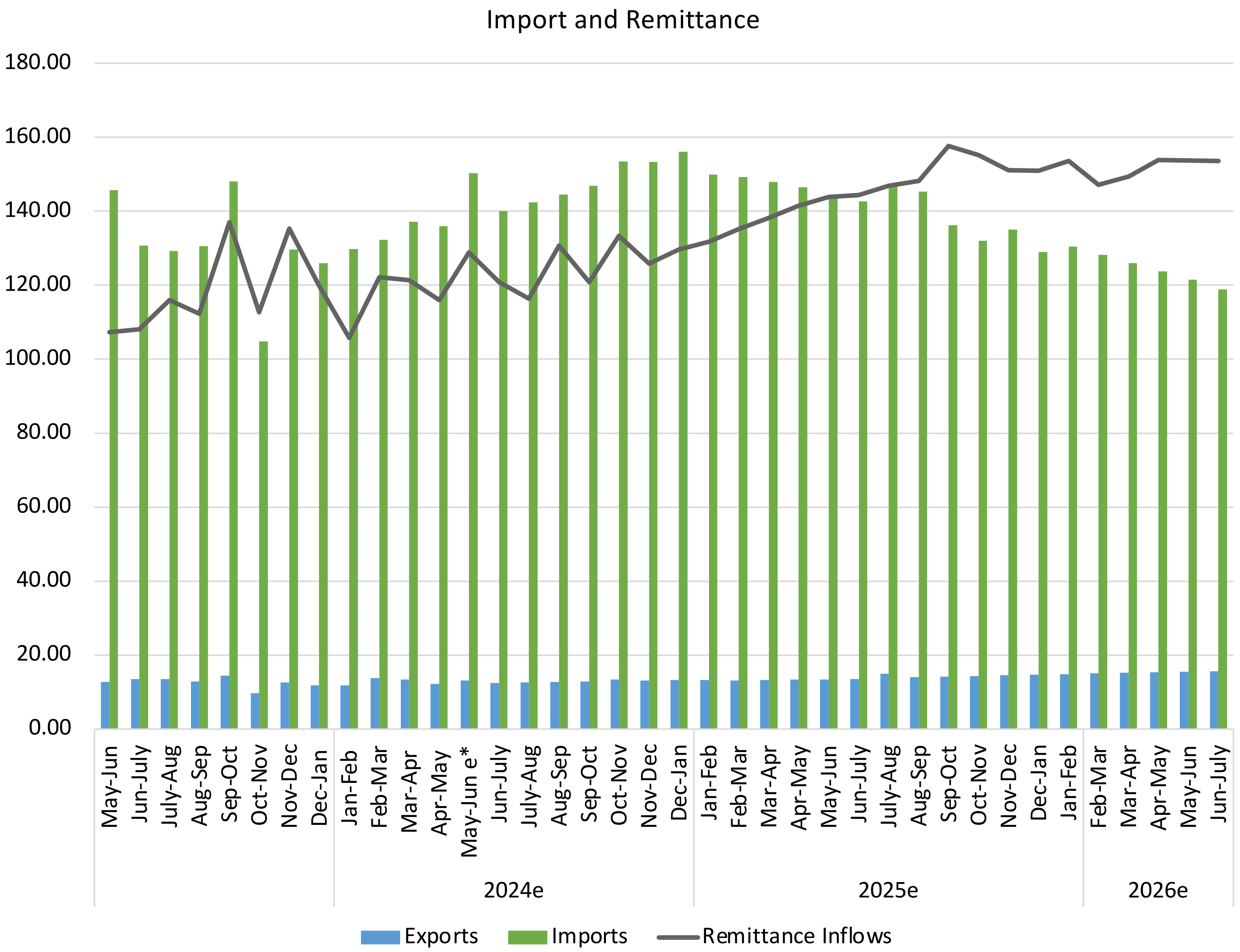


Interest rates and Inflation



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)

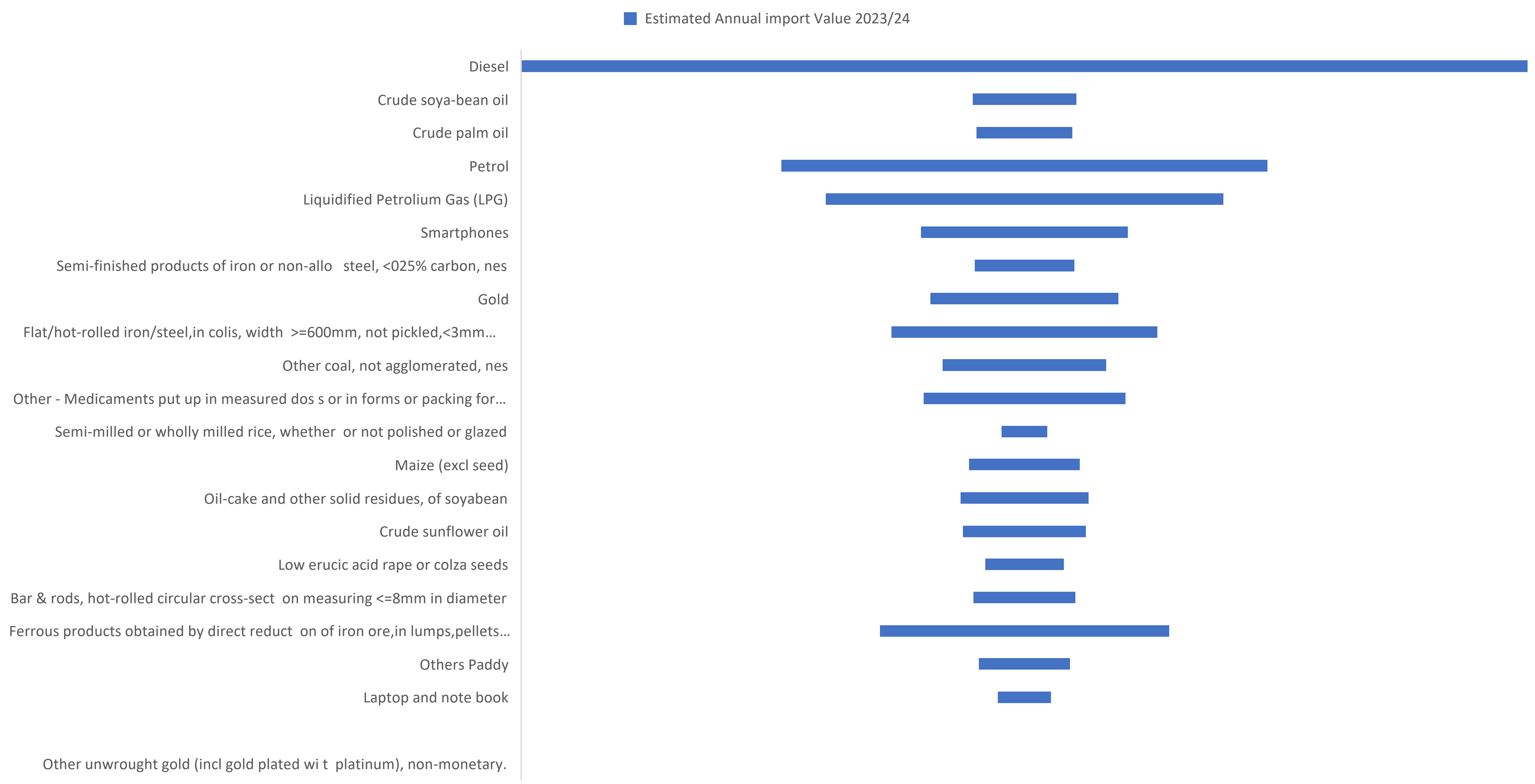
Particulars Amount in NPR Billion	2023							2024e						
	Mid-Month													
	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun e*	Jun-July
Consumer Price Inflation (y-o-y) (%)	6.83	7.44	7.52	8.19	7.50	5.38	4.95	5.26	5.01	4.82	4.61	4.40	4.17	4.02
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	13.09	12.52
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	150.3	140.08
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	128.9	120.81
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	124.4	188.5
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	70.3	130.6
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	23.1	57.9
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	87.3	142
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	71.5	72.2
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	21.6	28.5
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	5.85
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	10.15	9.73
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	8.17	7.74

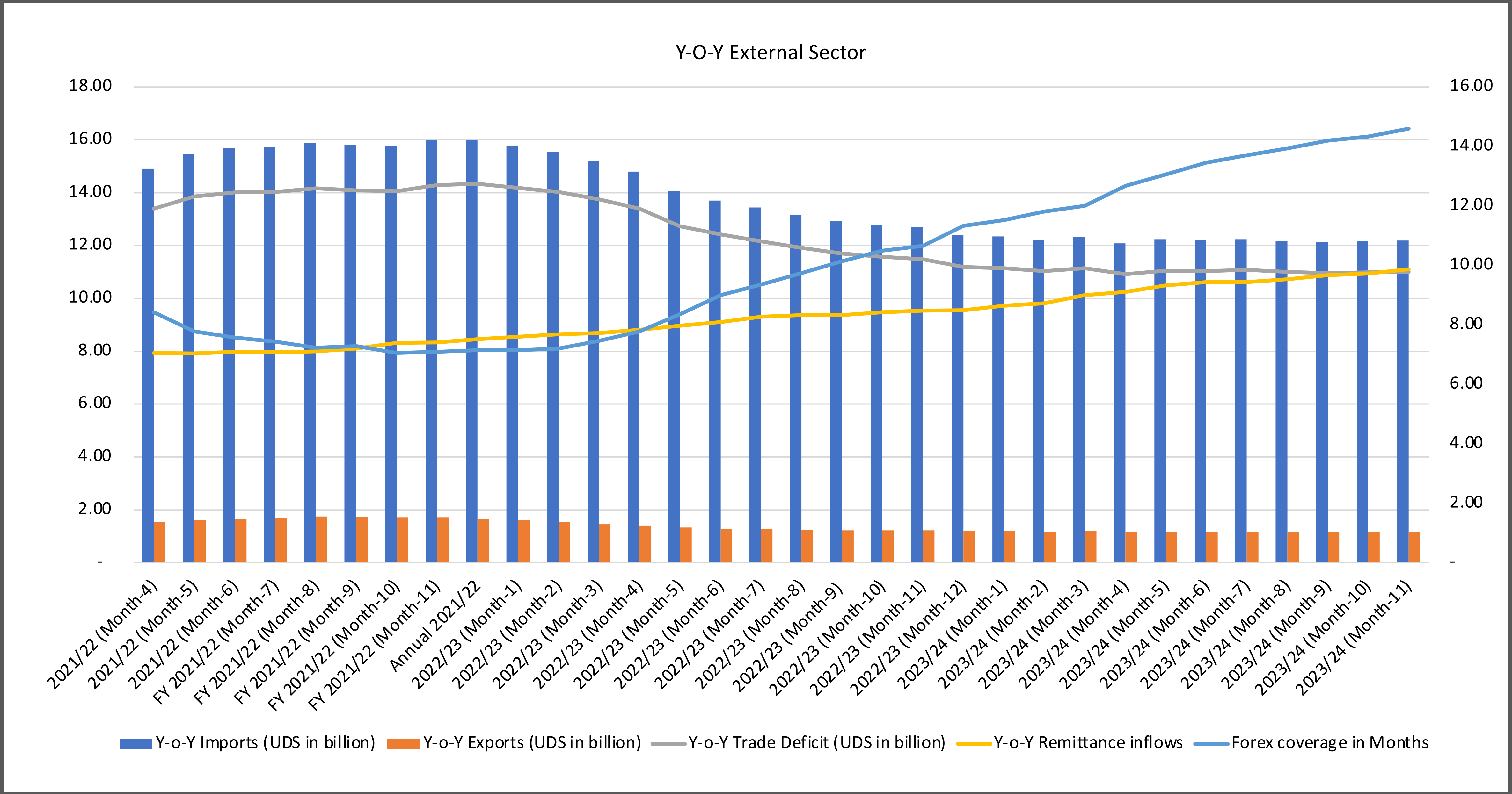
Our view on the current level of External vulnerabilities

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)	16.00	1.67	14.34	17.67	1.00	9.60	4.02	1 USD= 120NPR
Share % in Total Trade	90.57	9.43						
Trade deficit % GDP	35.39%						-	
F.Y. 2079/790(2022/23) (Mid-June)	12.40	1.21	11.19	13.61	1.00	10.25	2.90	1 USD= 130 NPR
Share % in Total Trade	91.11	8.89					Down	
Trade deficit % GDP	27.62%							
F.Y. 2080/81 (2023/24) (Mid-June)	12.25	1.17	11.08	13.42	1.00	10.47	3.23	1 USD= 130 NPR
Share % in Total Trade	91.28	8.72					Up	
Trade deficit % GDP	25.27%							
Percentage Change in F.Y. 2079/80 (2022/23) compared to same period of the previous year	-22.52%	-27.41%	-21.95%	-22.98%			-27.86%	
Percentage Change in F.Y .2080/81 (2023/24) compared to same period of the previous year	-1.21%	-3.31%	-0.98%	-1.40%			11.38%	

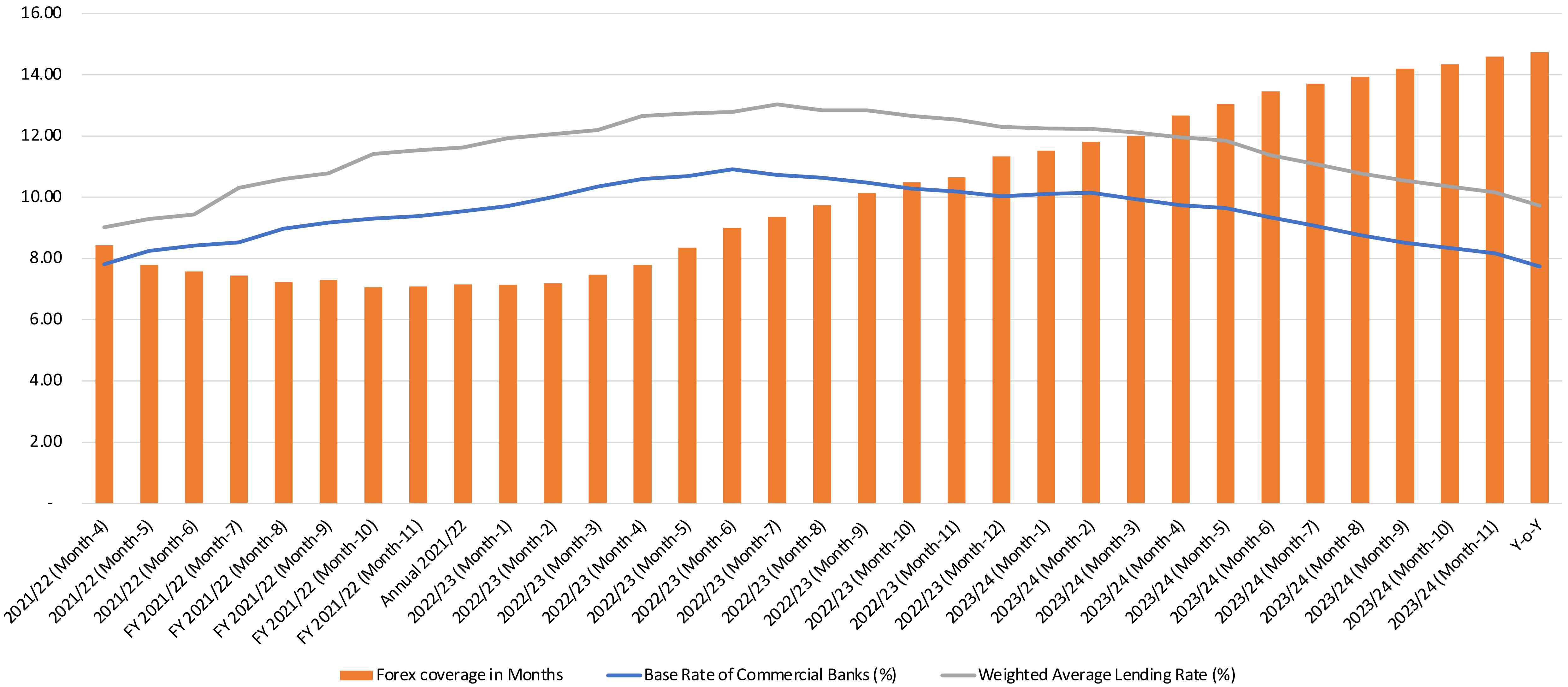
Trade to GDP	As a positive sign of improved resilience in the external sector, the Department of Customs announced that the year-on-year trade deficit as a percentage of gross domestic product (GDP) saw a reduction to 25.27% by mid-June 2024, compared to the 27.62% reported in the corresponding previous year.
Trade Deficit	*In the twelfth month of fiscal year 2023/24, monthly trade deficit, reduced by $0.08 billion to reach $0.97 billion. However, in comparison to the same period in FY 2022/23, there was a year-on-year decrease in the trade deficit to $11.08 billion, signaling an improvement from the $11.19 billion recorded in the corresponding period of the prior fiscal year.*
Import Pressure	Heavy reliance on imported raw materials, capital goods, and consumer products. Limited potential for export growth. Sending unskilled manpower abroad as a primary export. Limited international transportation connectivity. Untapped natural resources.
Observations	*Presently, Nepal maintains strong foreign exchange reserves, which cover over 14.74 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.* *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.* *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.*

Description	Unit	Quantity	Import Value	Imports Revenue
ATF	KL	1,97,830	160	2.34
Electric car, jeep & van 51KW to <=100KW	PCS	6,885	151	7.43
Diammonium hydrogenorthophosphate (diammonium phosphate)	Kg	20,06,59,150	143	0.00
Other Urea	Kg	26,03,30,218	121	0.00
Petroleum bitumen	Kg	14,51,49,464	76	2.23
Concentrate of non-alcohalic soft drinks	Kg	1,34,78,947	67	2.27
Aeroplanes and other aircraft, of an unlad n weight >15000kg	PCS	8	66	0.94
Electric car, jeep & van upto 50KW	PCS	4,571	66	2.02
Apples, fresh	Kg	8,21,45,502	65	1.63
Polyethylene having a specific gravity >=0.94, in primary forms.	Kg	5,08,54,930	59	1.21
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	Kg	2,16,36,211	57	1.68
Polypropylene, in primary forms	Kg	5,24,09,173	56	0.87
Ferrous waste and scrap, nes .	Kg	11,33,44,887	56	0.73
Electric conductors, nes, for a voltage >1 00 V.	MTR	2,09,28,656	51	0.16
Synthetic staple fibres, of polyesters, no carded, etc	Kg	4,68,74,521	51	0.10
Other potatoes, fresh or chilled	Kg	25,52,89,738	50	1.20


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


Y-O-Y External Sector
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
2021/22 (Month-4)
2021/22 (Month-5)
2021/22 (Month-6)
FY 2021/22 (Month-7)
FY 2021/22 (Month-8)
FY 2021/22 (Month-9)
FY 2021/22 (Month-10)
FY 2021/22 (Month-11)
Annual 2021/22
2022/23 (Month-1)
2022/23 (Month-2)
2022/23 (Month-3)
2022/23 (Month-4)
2022/23 (Month-5)
2022/23 (Month-6)
2022/23 (Month-7)
2022/23 (Month-8)
2022/23 (Month-9)
2022/23 (Month-10)
2022/23 (Month-11)
2022/23 (Month-12)
2023/24 (Month-1)
2023/24 (Month-2)
2023/24 (Month-3)
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 Imports (UDS in billion)
Y-o-Y Exports (UDS in billion)
Y-o-Y Trade Deficit (UDS in billion)
Y-o-Y Remittance inflows
Forex coverage in Months

Interest rates and Extranational Sector



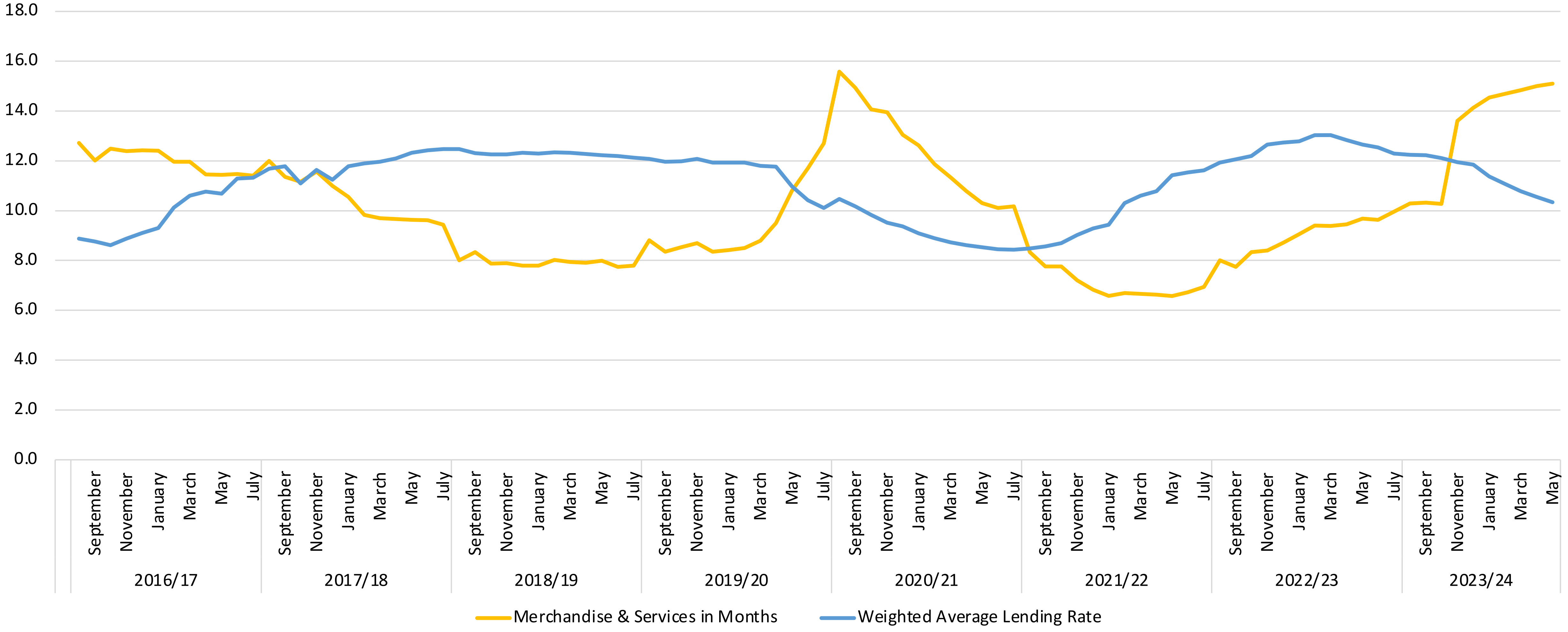
Trade Indicators	2022/23 (Month-11)	Annual 2022/23		2023/24 (Month-1)	2023/24 (Month-2)	2023/24 (Month-3)	2023/24 (Month-4)	2023/24 (Month-5)	2023/24 (Month-6)	2023/24 (Month-7)	2023/24 (Month-8)	2023/24 (Month-9)	2023/24 (Month-10)	2023/24 (Month-11)	Annual 2023/24	Y-o-Y	Remaks
Imports (UDS in billion)	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	12.25	12.25	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	1.07		
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	1.17	1.17	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	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	11.08	11.08	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	13.42	13.42	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	0.27		
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	3.23	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	0.99	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	10.21	11.14	11.14	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	10.47	10.47	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	8.72	10.56	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	91.28	89.44	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	0.97		
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%	25.27%	25.27%	Down

Trade Directions

Expected Annual Imports of Major Items (USD in million)

Description	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	2023/24 Annua Import Value	Estimated Annual import Value 2023/24	Import Direction	Error on estimate
Diesel	57	121	230	310	415	511	596	684	794	890	994	1,108	1,090	Decline	-1.61%
Crude soya-bean oil	15	23	35	44	55	60	66	71	83	88	100	103	113	Decline	8.79%
Crude palm oil	6	18	27	35	44	50	57	68	75	79	79	82	104	Decline	21.13%
Petrol	42	87	132	176	220	261	299	343	387	436	484	524	527	Growth	0.56%
Liquidified Petrolium Gas (LPG)	29	56	89	119	159	196	233	276	315	354	393	428	431	Decline	0.64%
Smartphones	22	41	73	89	105	116	134	149	167	185	203	221	225	Growth	1.59%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	12	24	28	30	38	49	55	63	73	79	99	107	108	Decline	1.00%
Gold	13	32	57	63	77	83	97	124	124	169	182	182	204	Growth	10.67%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	26	46	75	87	111	144	166	188	214	236	251	266	289	Growth	7.83%
Other coal, not agglomerated, nes	16	27	35	43	59	83	100	118	138	152	162	176	177	Decline	0.78%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	12	32	54	67	84	102	124	138	158	175	193	211	219	Growth	3.70%
Semi-milled or wholly milled rice, whether or not polished or glazed	7	9	10	11	19	25	29	33	38	41	45	48	50	Decline	4.08%
Maize (excl seed)	8	13	19	23	35	47	55	64	78	87	102	108	120	Decline	10.20%
Oil-cake and other solid residues, of soyabean	12	22	32	42	59	72	85	100	108	117	124	130	139	Growth	6.51%
Crude sunflower oil	14	23	35	42	52	60	74	92	97	105	119	137	134	Decline	-2.61%
Low erucic acid rape or colza seeds	6	11	15	24	33	40	43	48	55	62	72	83	86	Growth	2.99%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	12	19	27	29	34	41	48	58	86	70	75	80	111	Decline	27.78%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	29	54	74	92	115	149	174	199	233	241	270	300	314	Decline	4.40%
Others Paddy	21	22	23	23	31	40	57	66	76	86	89	93	99	Decline	6.22%
Laptop and note book	6	11	16	19	24	29	34	39	43	47	53	58	58	Growth	-0.43%

Import Capacity in Months and Lending Rate!



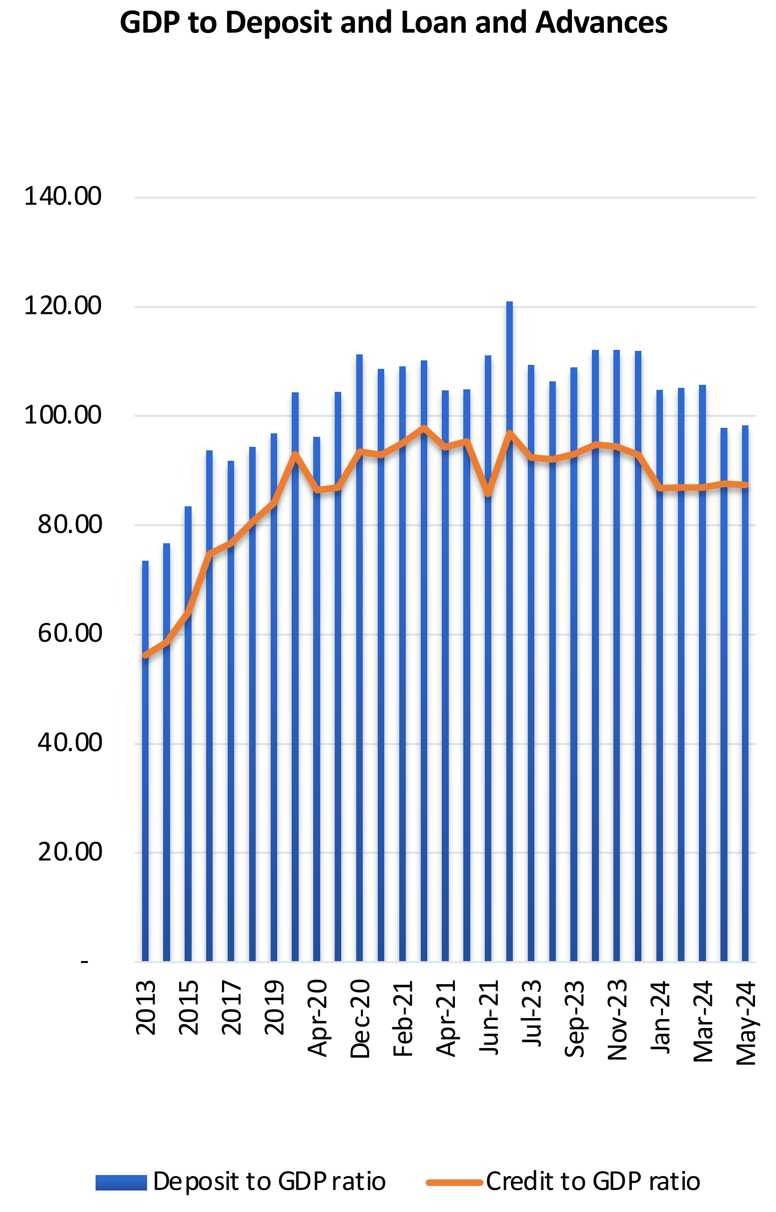
GDP and BFI's Risk Assets and Liabilities!

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



Financial Sector highlights

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.

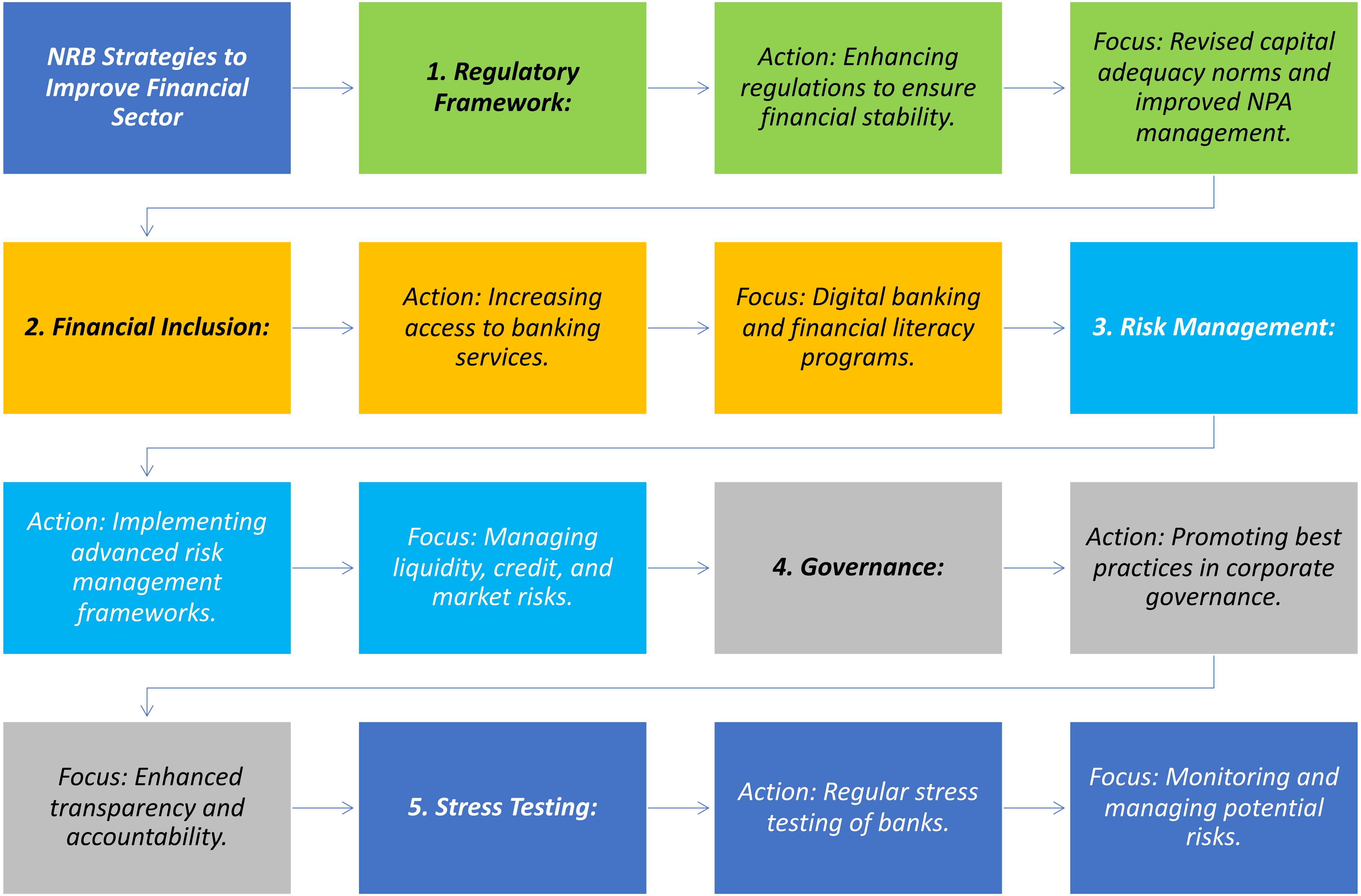
The growing share of the non-bank financial sector has increased the interdependence and interconnectedness within the financial system. Sharing financial resources among BFIs, insurance companies, cooperatives, FinTechs, and other contractual savings institutions like the Citizen Investment Trust, Social 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.

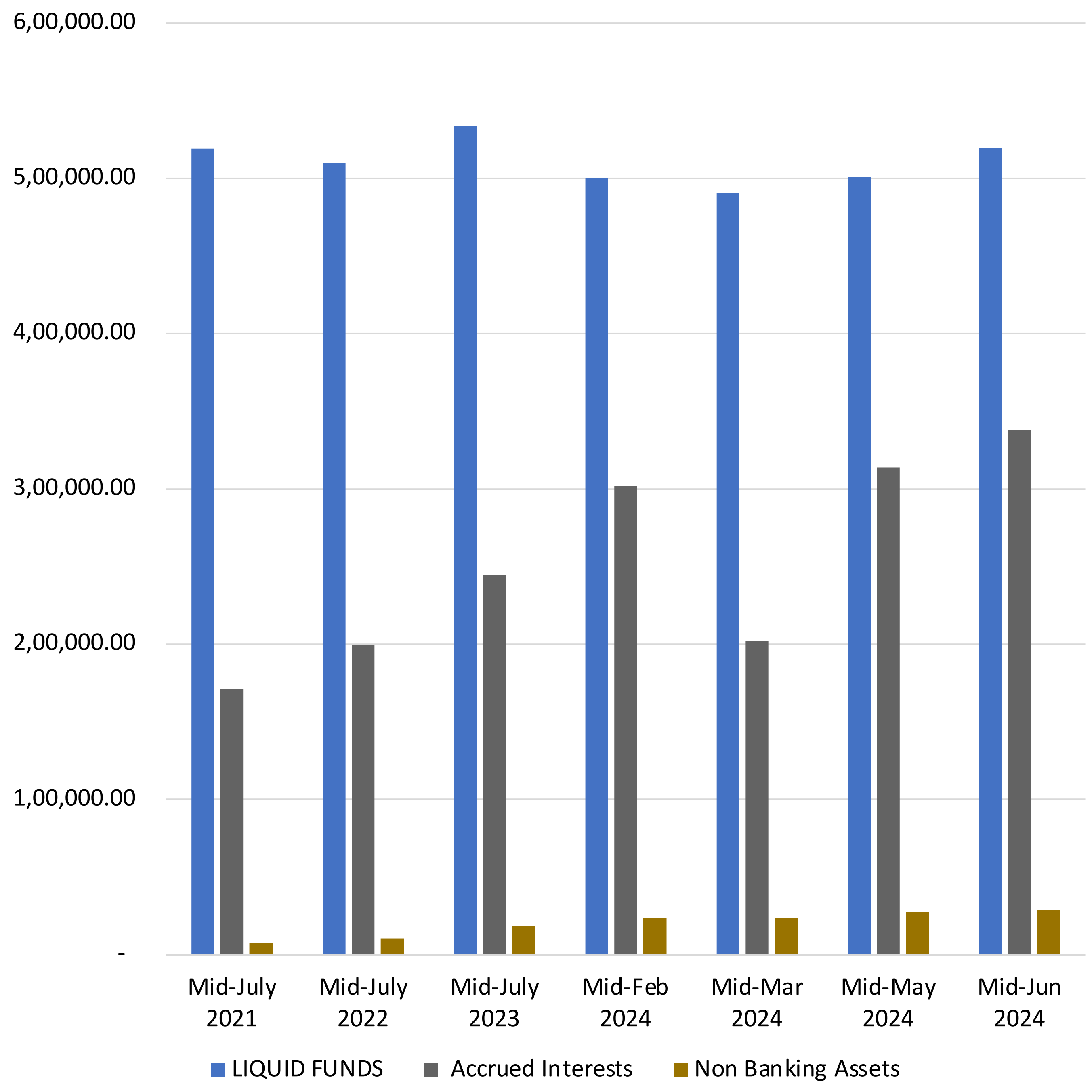
In summary, tighter monetary policy supported by macro-prudential regulations helped contain price and external sector imbalances. The financial system remains stable despite increased uncertainties. However, the path ahead appears challenging, with downside risks in domestic and international economies 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.

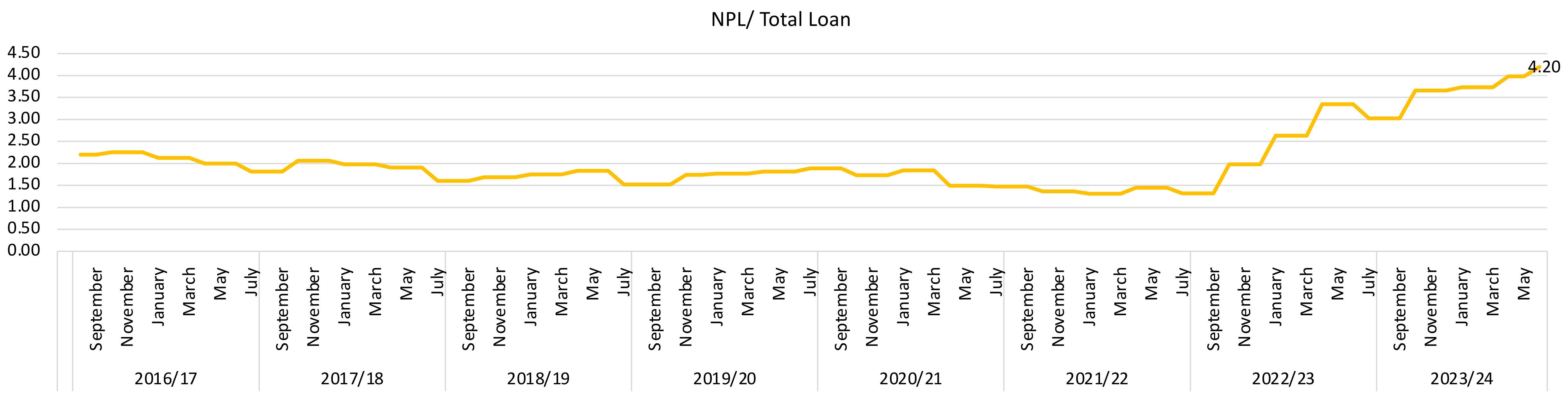

NRB Strategies to Improve Financial Sector
1. Regulatory Framework:
Action: Enhancing regulations to ensure financial stability.
Focus: Revised capital adequacy norms and improved NPA management.
2. Financial Inclusion:
Action: Increasing access to banking services.
Focus: Digital banking and financial literacy programs.
3. Risk Management:
Action: Implementing advanced risk management frameworks.
Focus: Managing liquidity, credit, and market risks.
4. Governance:
Action: Promoting best practices in corporate governance.
Focus: Enhanced transparency and accountability.
5. Stress Testing:
Action: Regular stress testing of banks.
Focus: Monitoring and managing potential risks.

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.

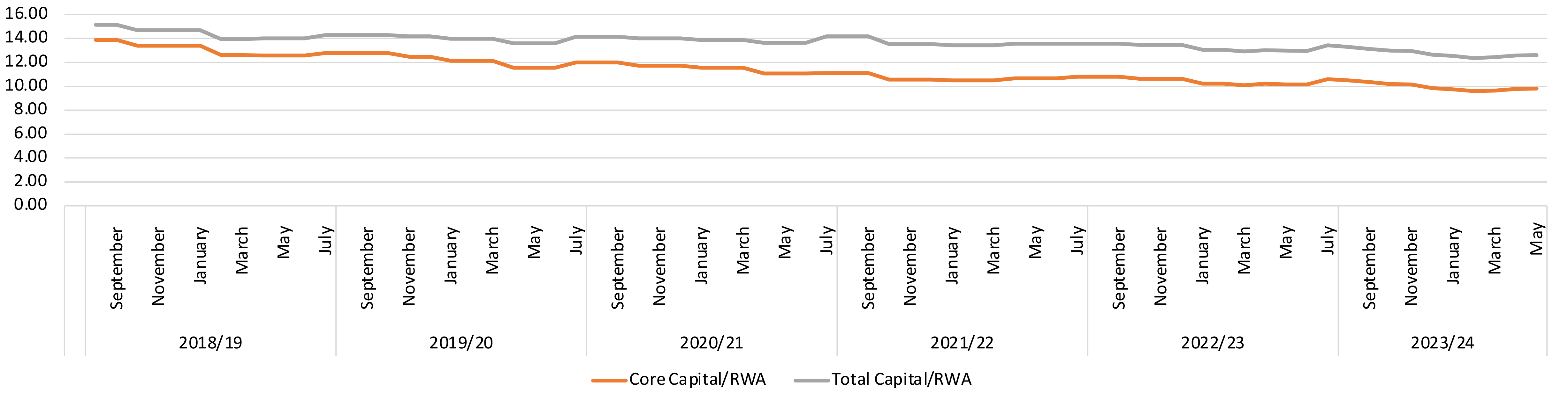
Our proactive measures to tackle the hurdles posed by rising accrued interest, non-banking assets, and problem loans are insufficient to guarantee a secure financial future. While the restructuring facility provided by NRB, allowing for the capitalization of accrued interest up to 90% with a nominal 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
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
4.20
September
November
January
March
May
July
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24



16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
September
November
January
March
May
July
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Core Capital/RWA
Total Capital/RWA

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	***Despite the accommodative stance adopted by the NRB, MSMEs continue to face a challenging economic environment with low profitability. This negative trend is likely to increase default rates. Furthermore, many large corporations have experienced significant growth in corporate debt, and the cash conversion cycle has extended from 45 days to over 240 days. Consequently, there is greater pressure on these corporations to maintain a favorable Return on Invested Capital (ROIC).***
Working Capital financing	***Under the Working Capital financing guidelines, borrowers are likely to confront persistent obstacles when seeking to inject new equity into their operations. The prolonged working capital cycle will impede borrowers' capacity to finance their operational needs internally. This protracted cycle renders the injection of fresh equity impractical, given the inadequacy of internal resources. As a result, the enforcement of these updated working capital regulations is anticipated to yield adverse consequences, potentially hampering industrial growth and unsettling the equilibrium in supply chain management. Sector-specific adjustments remain pending, adding to the prevailing sense of pessimism.***
Household debt Regrouped	*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.*

	Outlook
Banking system	*Anticipated positive trends indicate that Banking and Financial Institutions (BFIs) are poised for increased profitability in the fiscal year 2025/26. This optimistic outlook is primarily fueled by the favorable impacts arising from the availability of loan reconstruction and rescheduling facilities. Despite facing additional tax burdens and challenges associated with a low-interest margin environment and limitations on non-interest income, the sector is foreseen to witness an upturn in profitability, particularly driven by the reduction in Non-Performing Assets (NPA). As of present, the Non-Performing Loans (NPLs) and Loan Loss Provisions (LLP) of Banking and Financial Institutions (BFIs) amount to $1.56 billion and $1.79 billion, correspondingly.*
Non-performing assets	***Exercise caution:** Non-Performing Loans (NPLs) are projected to remain at 4.20% by the end of July 2024. Despite this estimation, the prevailing uncertainty is anticipated to significantly impact bank capitalization and profitability, potentially leading to cascading effects in various sectors. There will be around a 10% reduction in BFI's profit, and BFIs will continue to feel pressure on their core capital.*
Lending Growth	*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. However, this strategy has shown counterproductive results.*

Household debts	in $ million
Residential Personal Home Loan (Up to Rs. 20 million)	3,576.83
Loan of 5M or and above without specified purpose	444.29
Margin Nature Loan	670.10
Hire Purchase Loan	280.55
Credit Card	44.56
Education Loan	403.53
Gold/Silver	459.99
Guarantee Bond	562.61
Fixed A/c Receipt	265.96
Total	6,708.40
% of total Loan	17.06%

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*
***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).**	√			*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 year. Introduce workout arrangement for default triggered by breach of contract by GoN.	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	Implement ability	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

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

Amount in $ Million

Assets and Liability (Exchange Factor $ 1 = NPR 130)

Capital, Deposits and Risk Assets

Particulars	July 2024e	Change	July 2025e	Change	July 2026e	Change
CAPITAL FUND	5,602	6.61%	6,012	7.32%	5,790	-3.70%
PAID UP CAPITAL	3,360	2.71%	3,441	2.39%	3,507	1.92%
BORROWINGS	2,227	13.39%	2,554	14.71%	2,524	-1.19%
Borrowing from NRB	2	-85.05%	7	182.50%	2.85	-56.60%
DEPOSITS	49,949	12.51%	54,058	8.22%	59,466	10.00%
Current	2,628	-24.75%	1,764	-32.87%	716	-59.40%
Saving	15,810	35.30%	16,958	7.26%	21,748	28.25%
Fixed	28,001	8.36%	30,826	10.09%	31,953	3.66%
Call	3,170	5.44%	4,213	32.93%	4,767	13.15%
Others	340	-8.13%	296	-12.82%	281	-5.17%
LIQUID FUNDS	3,866	-5.87%	2,694	-30.31%	1,371	-49.11%
GOVT. SECURITIES/OTHER	9,722	20.41%	12,100	24.46%	13,819	14.20%
Investment in share and other	2,286	-9.18%	2,541	11.12%	2,483	-2.26%
LOANS & ADVANCES	39,708	5.83%	42,217	6.32%	45,535	7.86%
Total Capital/RWA	13.19%	3.07%	13.75%	4.25%	12.75%	-7.29%
CD	77.66%	-5.67%	76.19%	-1.90%	74.89%	-1.71%
NPL /Total Loan	4.20%	62.66%	3.27%	-22.11%	3.17%	-2.92%
Return on Capital Employed	8.72%	-31.74%	13.86%	59.01%	14.77%	6.58%

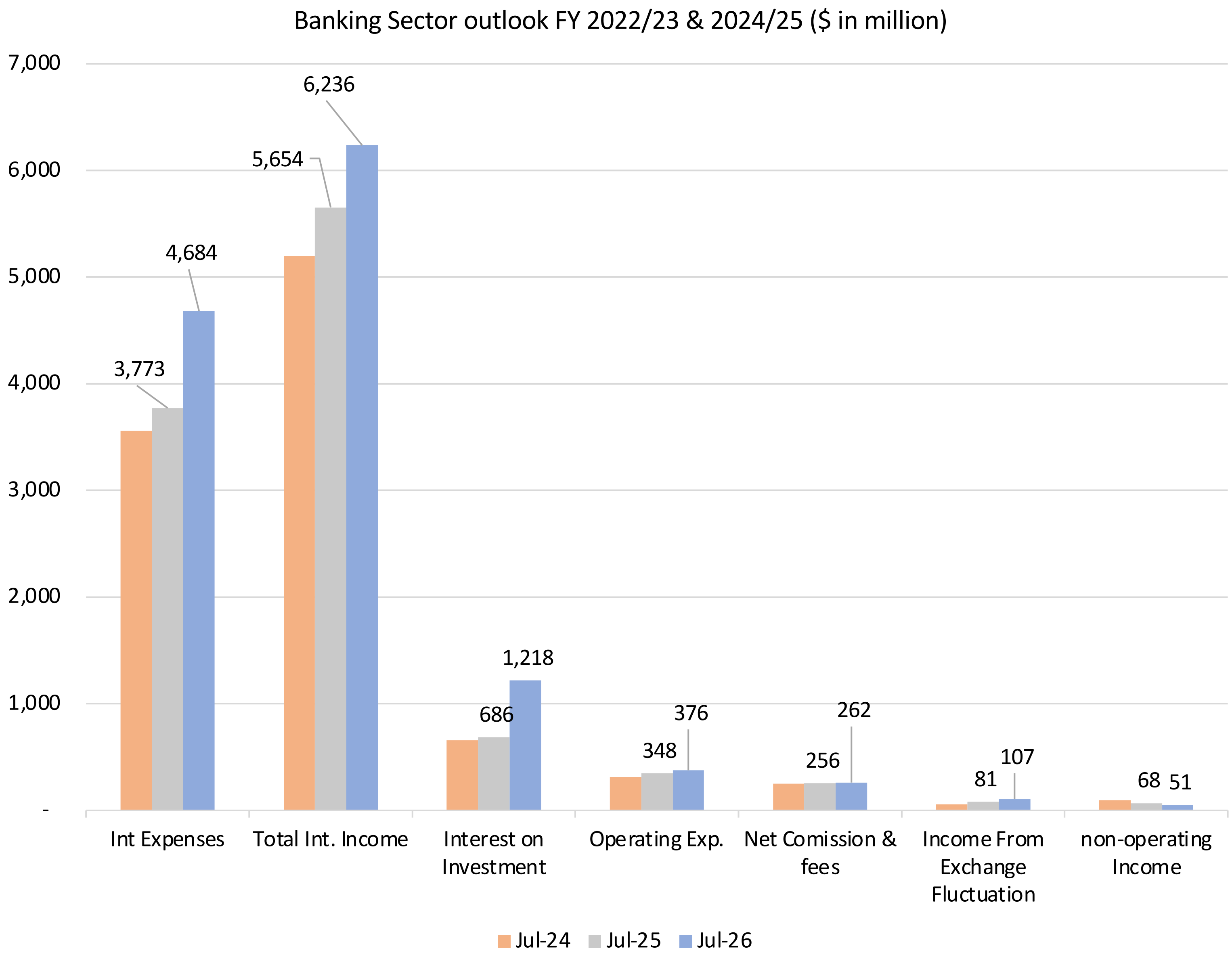
Profit and loss

	July 2024e	Change	July 2025e	Change	July 2026e	Change
Int on Loans and Adv.	4,539	3.12%	4,968	9.44%	5,018	1.01%
Total Int. Income	5,198	4.95%	5,654	8.78%	6,236	10.30%
Avg. Yield From Loan	9.98%	-15.59%	9.65%	-3.32%	9.92%	2.79%
Int Expenses	3,559	7.77%	3,773	6.02%	4,684	24.14%
Avg. Cost of Fund	5.98%	-24.29%	6.42%	7.30%	6.77%	5.49%
NII	1,639	-0.70%	1,881	14.75%	1,552	-17.46%
Interest Spread	4.00%	1.95%	3.23%	-19.22%	3.14%	-2.59%
Commission & fees	251	31.23%	256	1.87%	262	2.39%
Ex. Fluctuation Gain	56	31.19%	81	45.16%	107	31.70%
Other Operating & Non-operating Income	95	-5.46%	68	-28.93%	51	-24.11%
Gross Income	2,041	2.82%	2,285	11.97%	1,972	-13.69%
Employees Exp	465	9.57%	490	5.37%	524	7.00%
Employee cost in % of Total Int. Income	8.94%	4.09%	8.40%	-6.03%	8.40%	0.00%
Office Operating Exp	313	4.06%	348	11.11%	376	8.12%
LLP & write-off	748	41.58%	446	-40.44%	138	-69.03%
Additional LLP to Risk Assets	1.86%	37.64%	1.03%	-44.45%	0.34%	-67.43%
Provision Written Back	243	14.56%	291	20.00%	393	35.00%
PBT	758	-19.67%	1,294	70.65%	1,328	2.64%
Return on total assets	1.20%	-23.49%	1.86%	55.14%	1.74%	-6.69%

Profitability of BFIs.

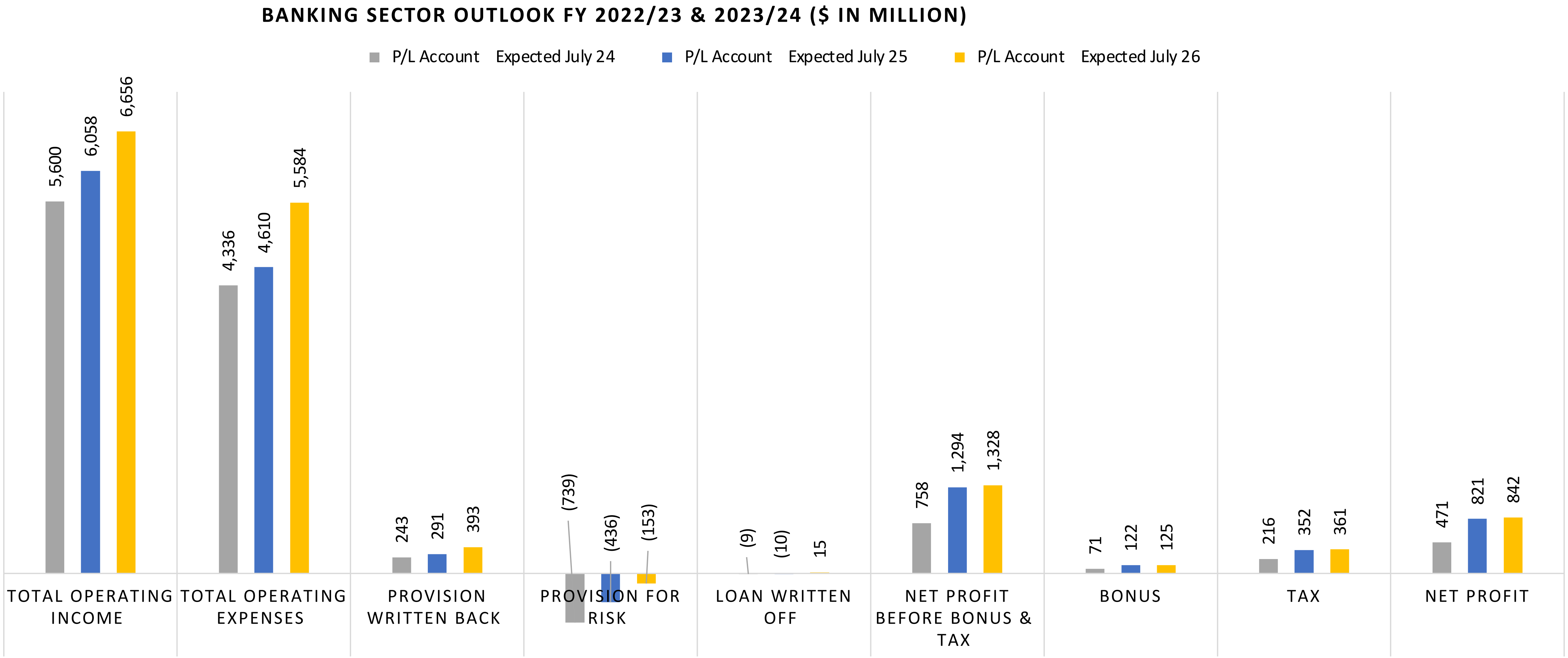
(Exchange Factor $ 1 = NPR 130

$ in million			
P/L Account			
Particulars	Expected July 24	Expected July 25	Expected July 26
Total Operating Income	5,600	6,058	6,656
Total Operating Expenses	4,336	4,610	5,584
Provision Written Back	243	291	393
Provision for Risk	(739)	(436)	(153)
Loan Written Off	(9)	(10)	15
Net Profit before Bonus & Tax	758	1,294	1,328
Bonus	71	122	125
Tax	216	352	361
Net profit	471	821	842

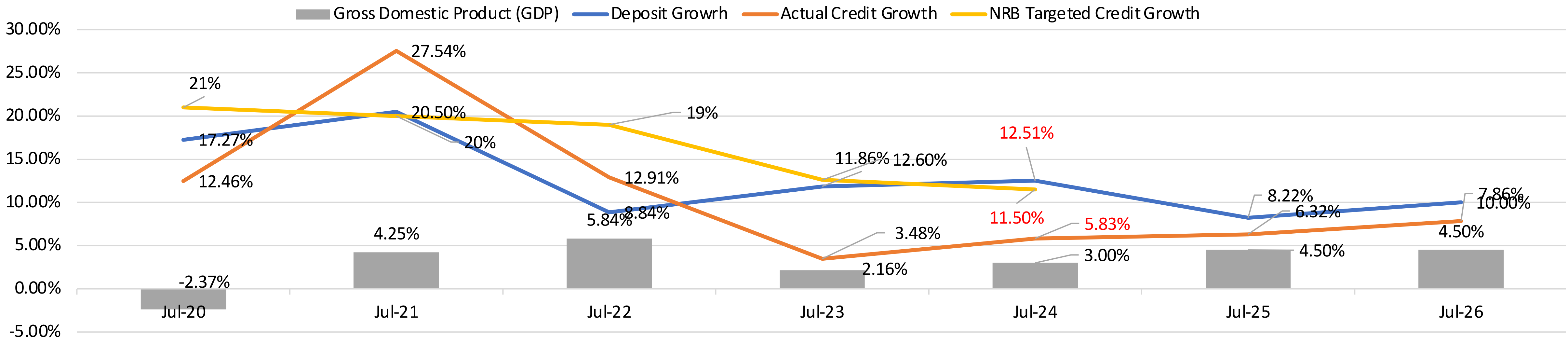


Profitability of BFIs

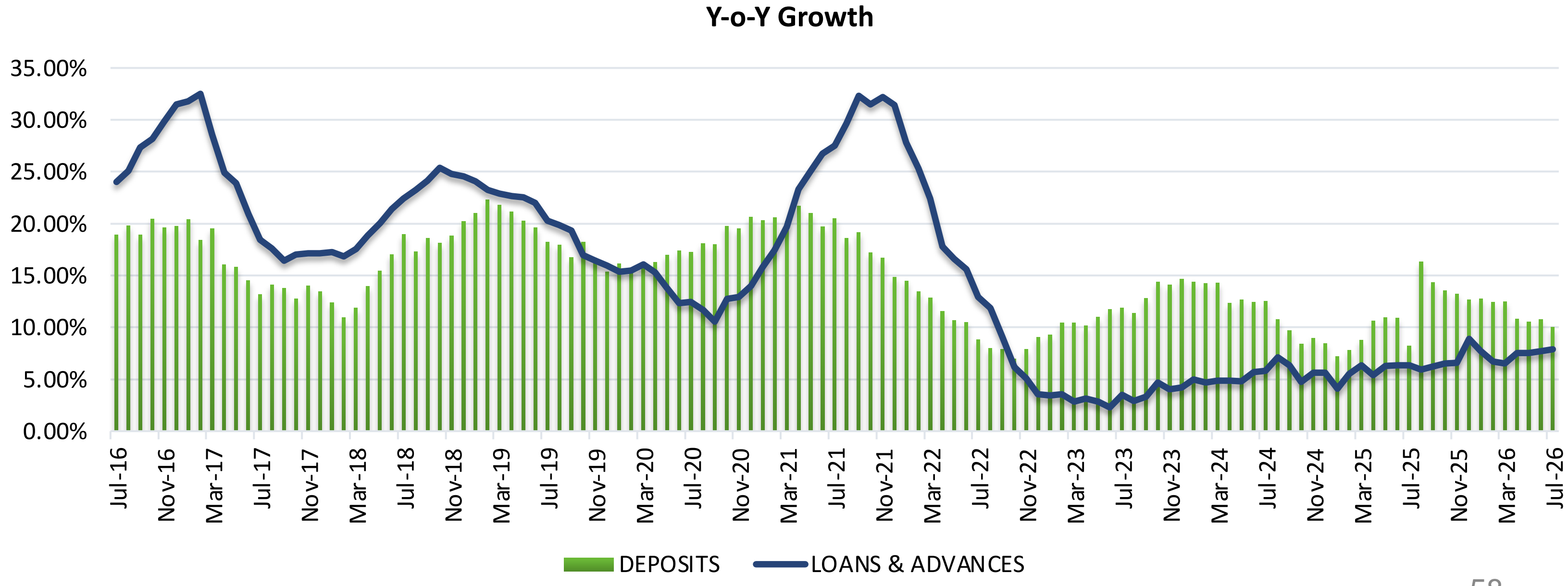
(Exchange Factor $ 1 = NPR 130)



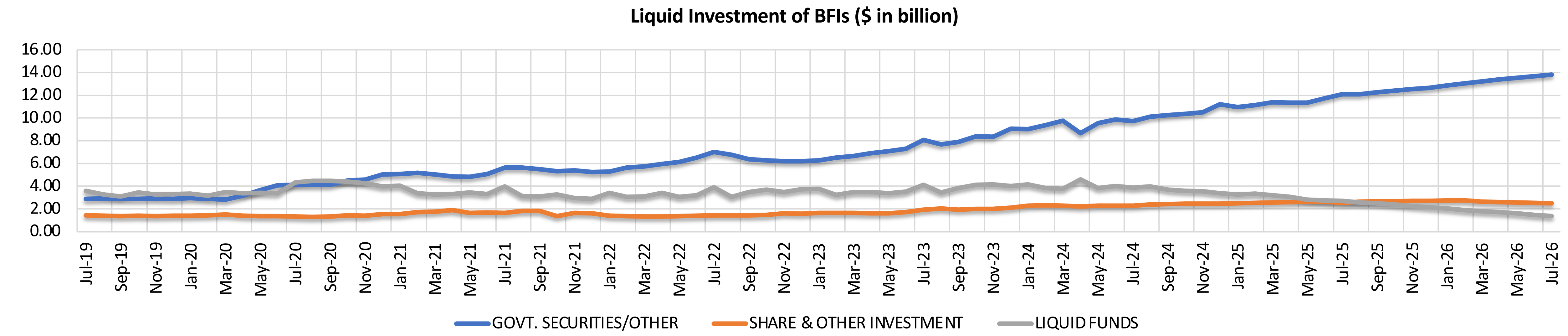
Annual Loan and Deposit Growth and LLP

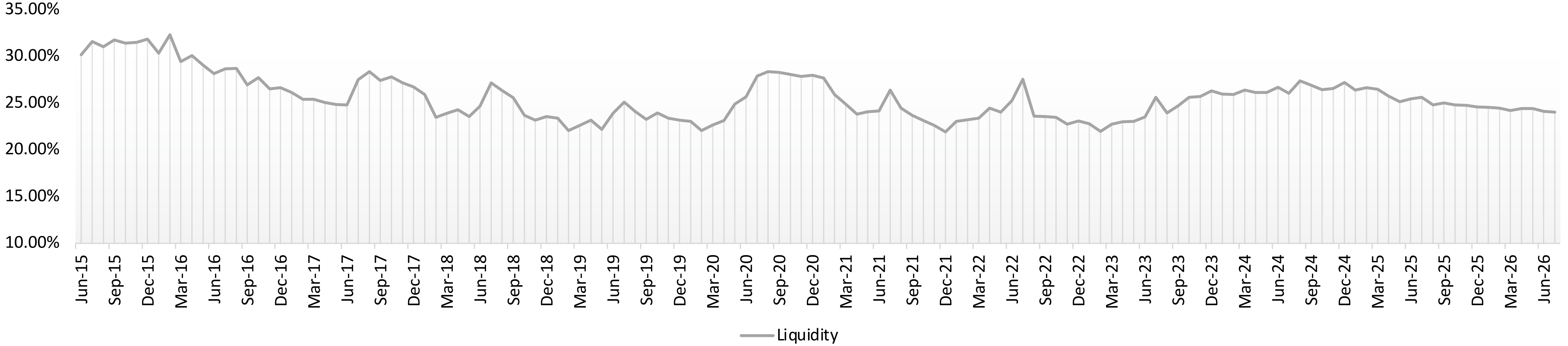


Particulars	Amount in USD Million Incremental LLP	Incremental LLP
Pass Loan loss Provision	129.84	17.57%
Watch List Provision	123.62	16.73%
Special Loan Loss Provision	485.57	65.70%
Expected Provision	739.03	



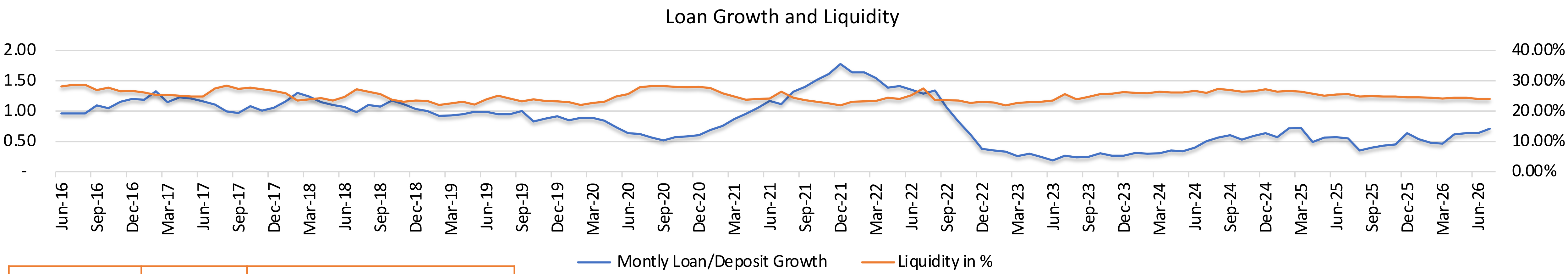
Liquidity



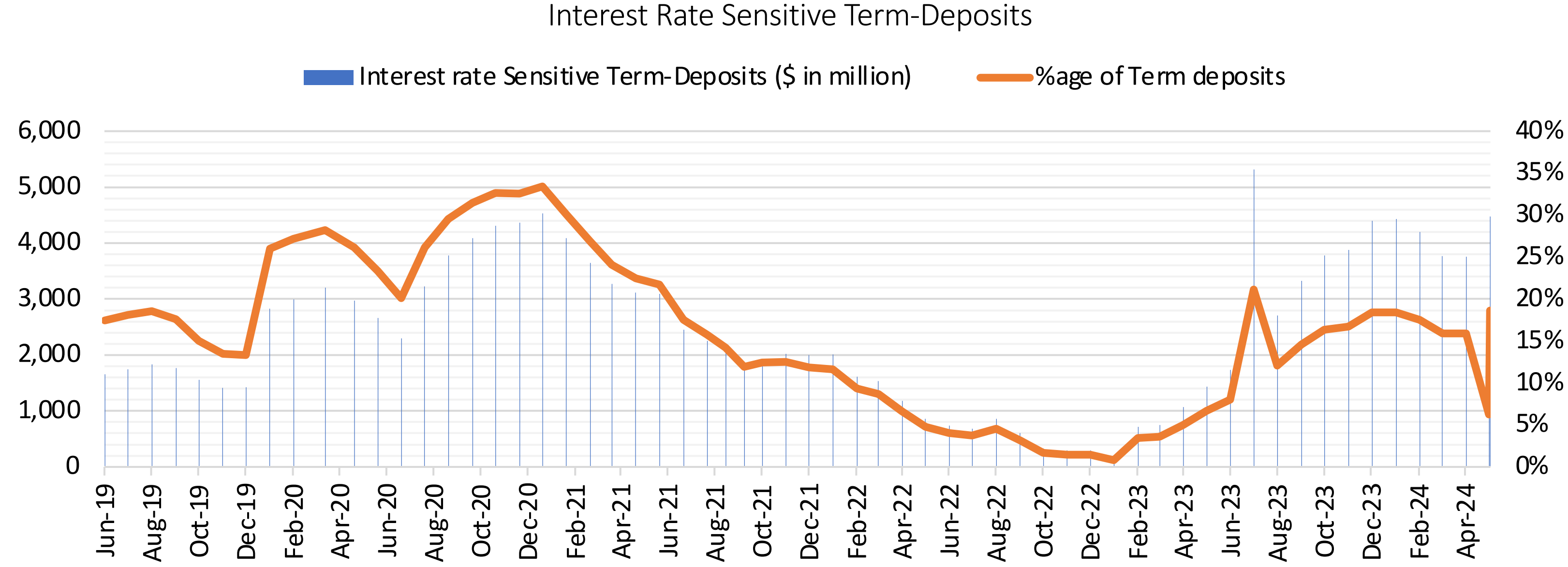


While liquidity continues to improve steadily, it's probable that a significant number of BFIs will experience negative cash flows from operations.

Liquidity

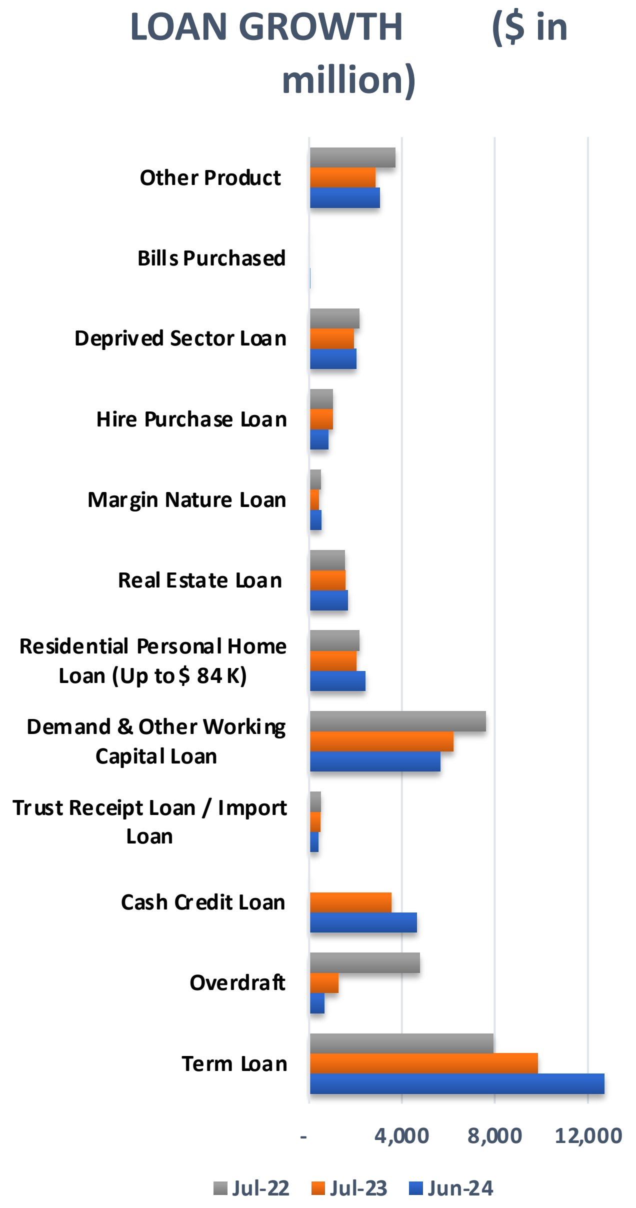


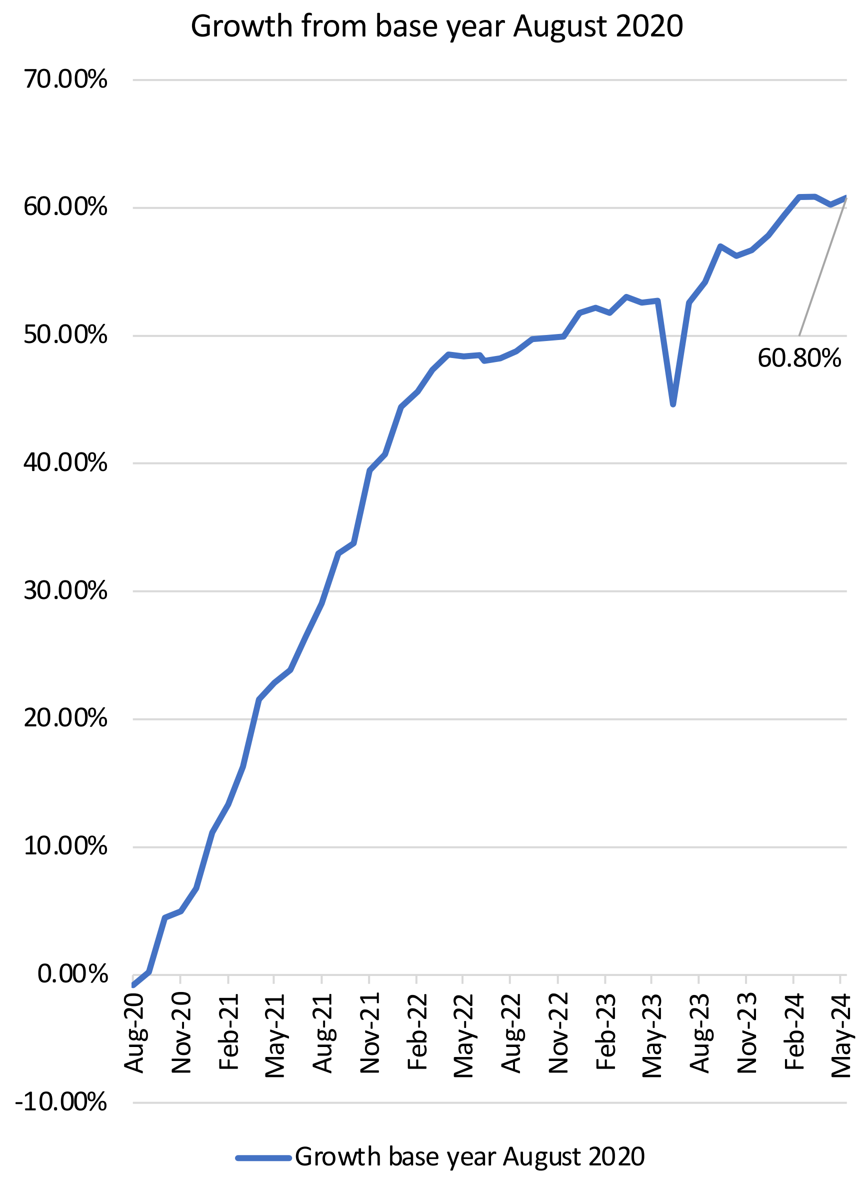
Amount in million		Maturity	
Period	Deposit mix	Within next month	Within a Year
3-6 months	23%	4,476.31	12,046.18
6-12 months	27%		
1-2 yrs.'	25%		
2 yrs. and above	25%		
Total	100%	18.88%	56.82%



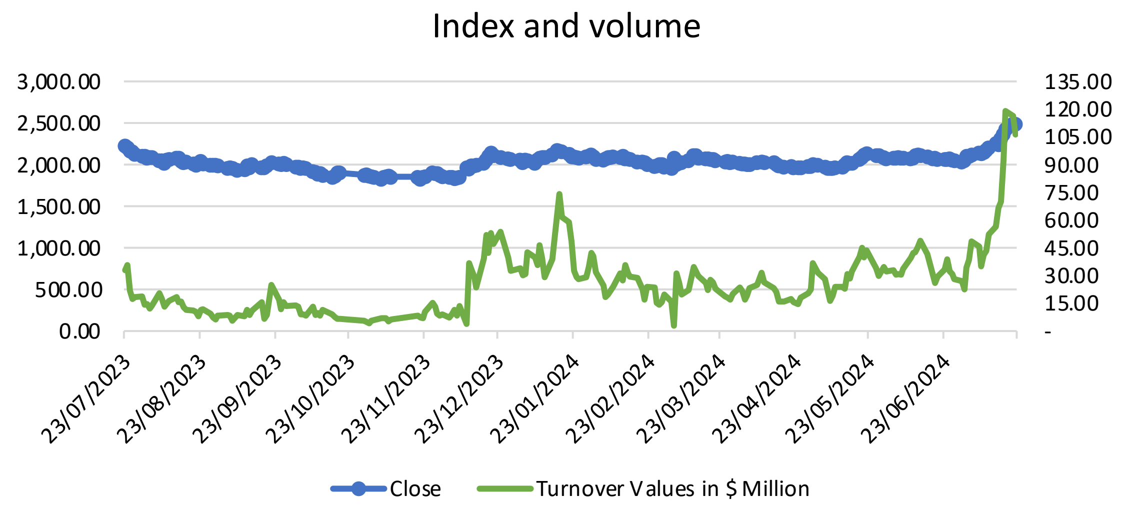
Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

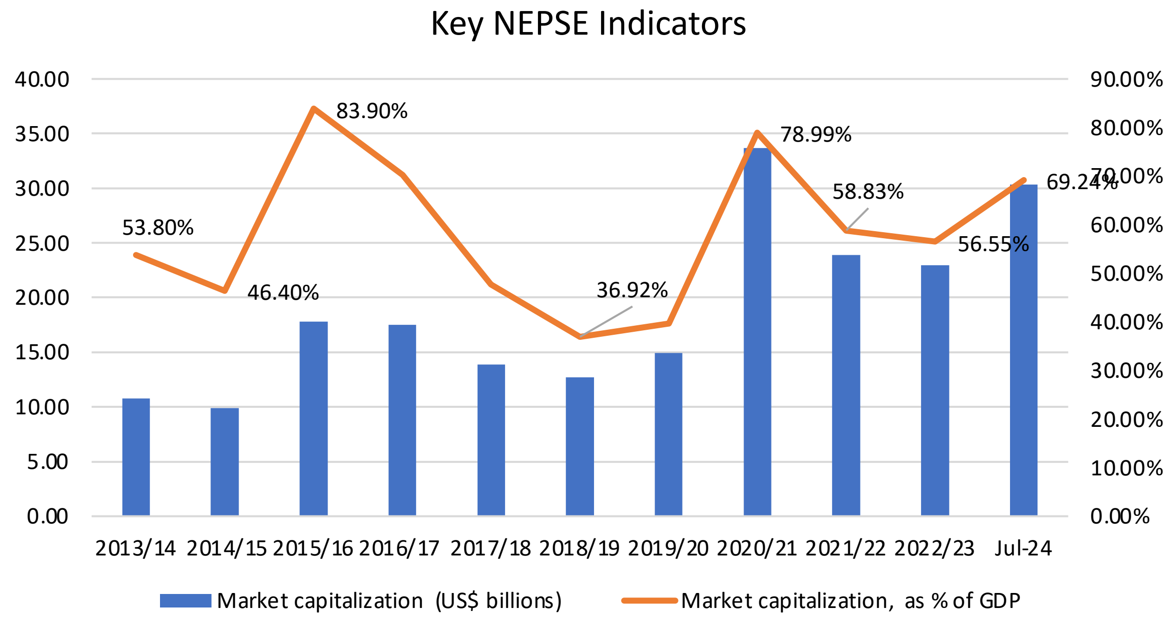
Sector wise Loan Growth of Commercial Banks

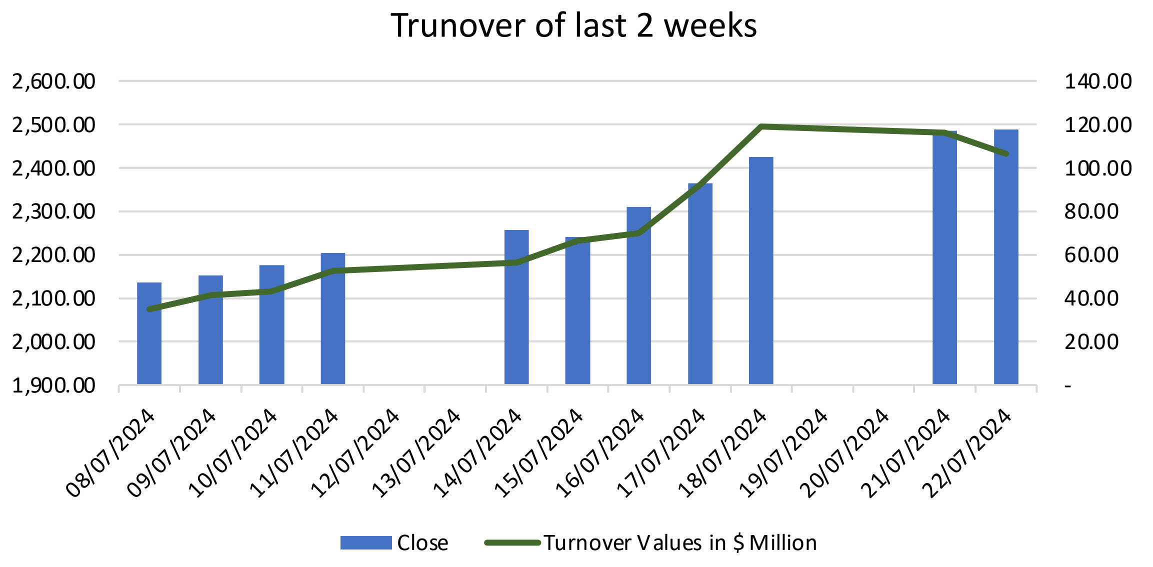


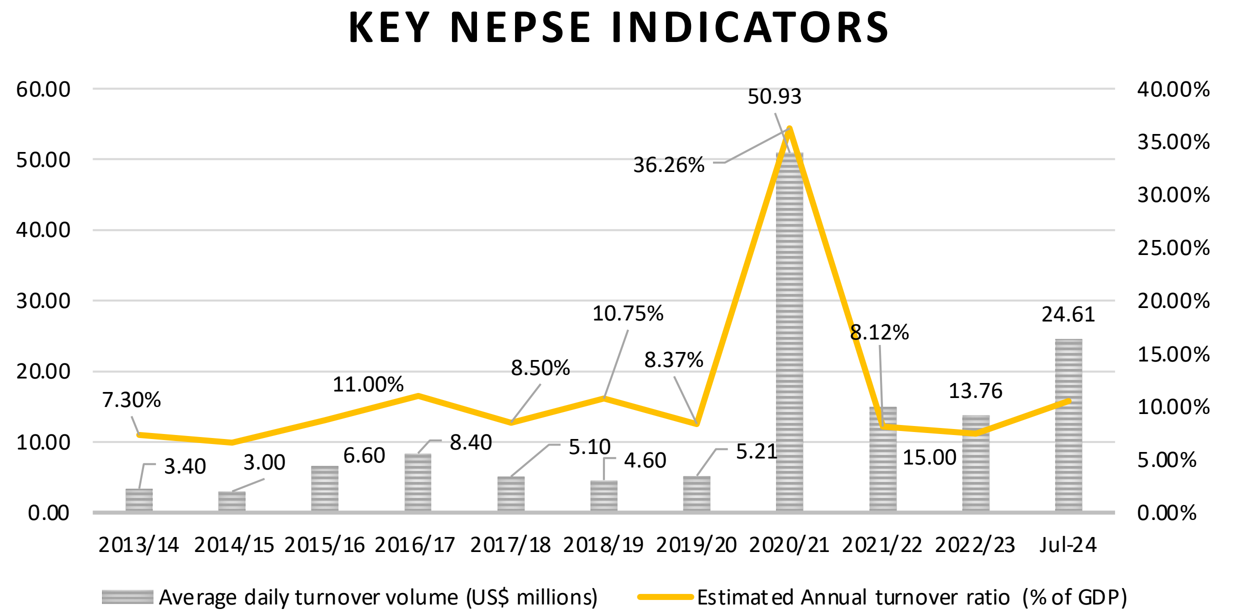


Capital Market









4

Monetary Policy Expectorations

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.

Why is monetary policy not effective in Nepal

- *Interest Rate Channel: Less effective*
  - *In the short-term money market, the impact of monetary policy transmission is immediate. This market includes transactions involving unsecured overnight lending rates and short-term instruments like Treasury Bills (T-Bills). However, the transmission to the bond market is less effective.*
- *Lending Rates Channel: Not Effective*
  - *The transmission of monetary policy to the credit market or lending rates depends significantly on the readiness and health of the banking system. If banks face inherent issues or are unwilling to lend, rate cuts will be ineffective. Generally, rate cuts are intended to stimulate demand, but this mechanism fails if banks are not prepared to extend credit.*
- *Asset Price Channel: Not Effective*
  - *When credit is cheap and easily available, household demand increases. However, the supply of assets, such as houses, cannot be increased immediately. As a result, asset prices rise due to higher demand.*
- *Exchange Rate Channel: Not Effective*
  - *When interest rates are cut, the return on domestic investments decreases. This may lead to reduced inflows of foreign inflows, causing the domestic currency to depreciate. Consequently, import costs rise while export prices decrease, impacting the trade balance.*

Policy Mistaks	Observations
Overreliance on Import Restrictions	➢ *Develop and promote local industries to reduce import dependency.* ➢ *Implement balanced trade policies to ensure essential imports while fostering domestic production*
Inconsistent Fiscal Stimulus	➢ *Ensure timely and consistent fiscal interventions to support economic stability.* ➢ *Focus on efficient allocation and utilization of government resources.*
Sudden Policy Changes	➢ *Introduce policy changes with phased rollouts to minimize disruptions.* ➢ *Engage stakeholders in policy development to ensure smooth transitions.*
Overemphasis on Monetary Measures	➢ *Balance monetary measures with structural reforms to enhance overall economic resilience.* ➢ *Implement targeted lending programs to support critical sectors.*

5

Fiscal Situation

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

Government Receipts & Payments Status	Annual Budget	15/07/2024	% age
1. Revenue (USD in million)	10,942.63	8,145.36	74.44%
a) Tax Revenue	10,042.15	7,265.81	72.35%
b) Non Tax Revenue	900.48	879.55	97.68%
2. Grants	384.18	86.36	22.48%
3. Other Receipts	-	183.49	
Total Receipt	11,326.81	8,415.20	74.29%
2. Total Expenditure from Treasury	13,471.63	10,836.65	80.44%
a. Recurrent	8,782.95	7,326.27	83.41%
b. Capital	2,323.65	1,474.75	63.47%
c. Financing	2,365.03	2,035.63	86.07%
Deficit	(2,144.83)	(2,421.45)	
% of GDP	4.89%	5.52%	

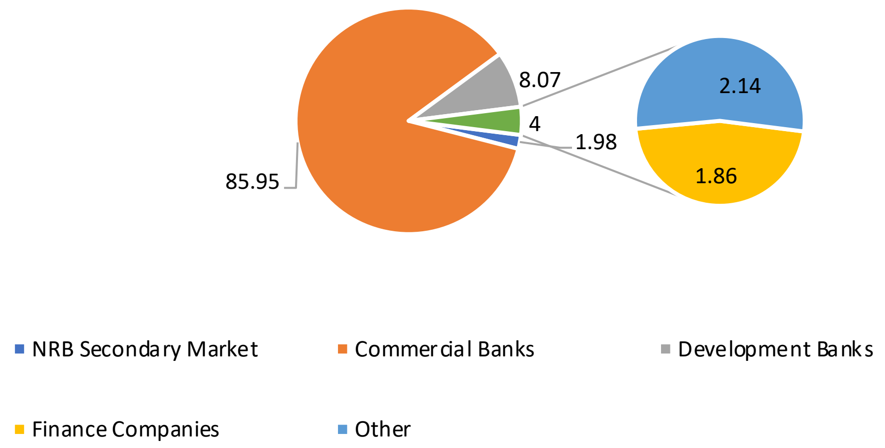
Key Economic Indicators

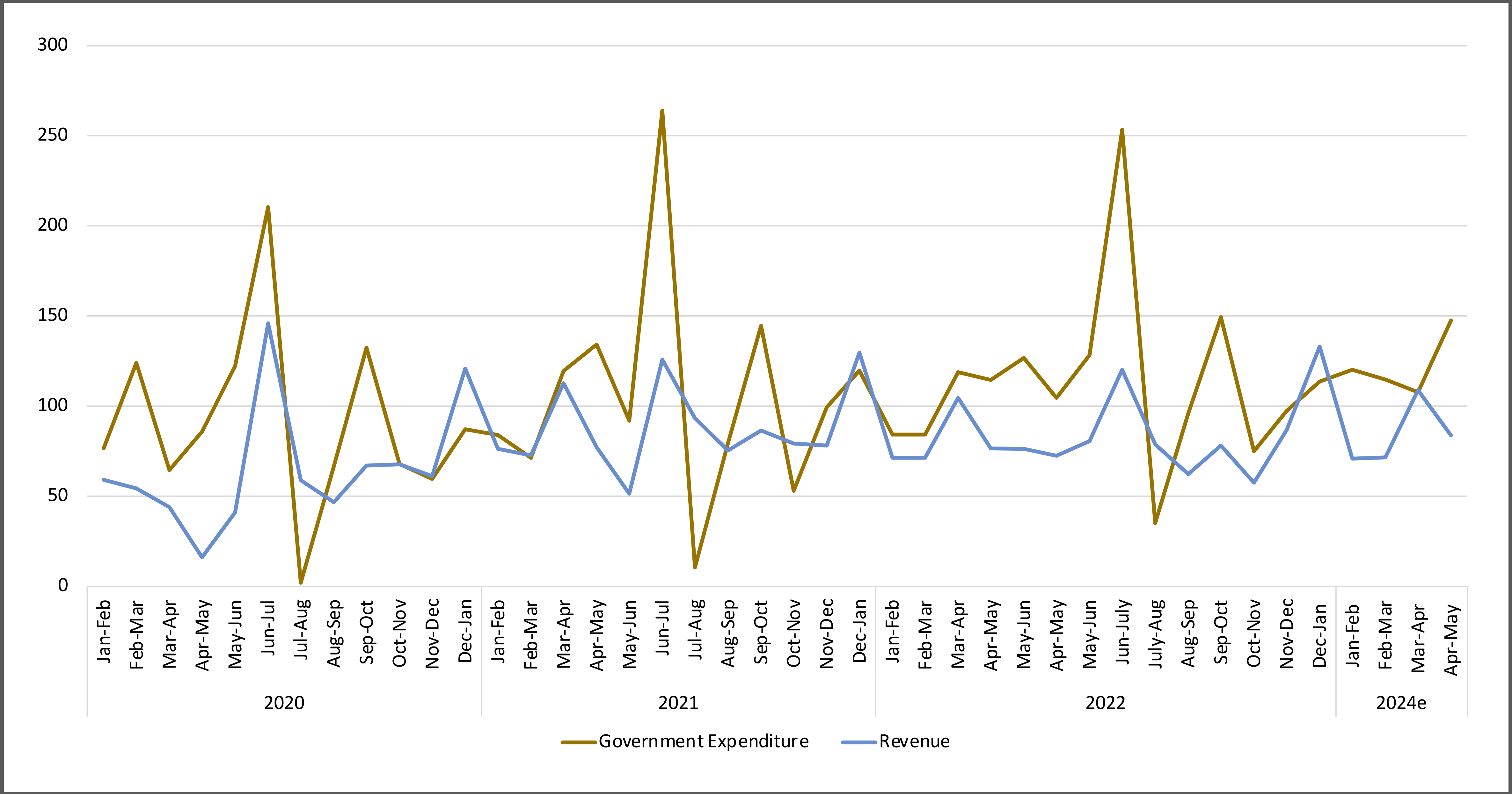
Particulars	Mid-May 2024 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 4.17 percent on y-o-y basis.
External Trade	Imports decreased 1.8 percent, exports decreased 3.0 percent and trade deficit decreased 1.7 percent
Remittances	Remittances increased 19.3 percent in NPR terms and 17.3 percent in USD terms.
Balance of Payments	Balance of Payments remained at a surplus of $.3.27 billion.
Broad money (M2)	Broad money (M2) increased 9.1 percent. On y-o-y basis, M2 expanded 12.7 percent.
Deposits and Loans and advances	Deposits at BFIs increased 9.0 percent and private sector credit increased 5.1 percent. On y-o-y basis, deposits increased 12.6 percent and private sector credit increased 5.6 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	9,709	
	Revenue	663	1,186	1,841	2,325	3,054	4,172	4,768	5,370	6,286	6,991	7,724	
	Treasury Position	1,756	1,614	1,441	1,281	1,579	1,989	1,809	1,722	2,636	2,351	2,114	

Ownership Structure of Government Securities





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Government Expenditure
Revenue

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

Annual Growth Rate of GDP by Economic Activities						
(at constant prices)						
Industrial Classification	2078/79 2021/22	percentage of GDP	2079/80 R 2022/23	percentage of GDP	2080/81 P 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%
Agriculture, Forestry and Fishing	**2.35**	**86%**	**2.76**	**89%**	**3.05**	**89%**
Non-Agriculture	**6.54**	**14%**	**2.13**	**11%**	**3.75**	**11%**
Gross Domestic Product (GDP) at basic prices	**5.28**	**15%**	**2.31**	**11%**	**3.54**	**12%**
Taxes less subsidies on products	**8.75**	**0%**	**-1.12**	**0%**	**6.77**	**0%**
Gross Domestic Product (GDP)	**5.63**	**100%**	**1.95**	**100%**	**3.87**	**100%**

Gross Value Added by Industrial Division

(at current prices)

1 USD = 130 NPR

Industrial Classification	2078/79 2021/22	percentage of GDP	2079/80 R 2022/23	percentage of GDP	2080/81 P 2023/24	percentage of GDP
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 2021/22	percentage of GDP	2079/80 R 2022/23	percentage of GDP	2080/81 P 2023/24	percentage of GDP
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 2021/22	percentage of GDP	2079/80 R 2022/23	percentage of GDP	2080/81 P 2023/24	percentage of GDP
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%

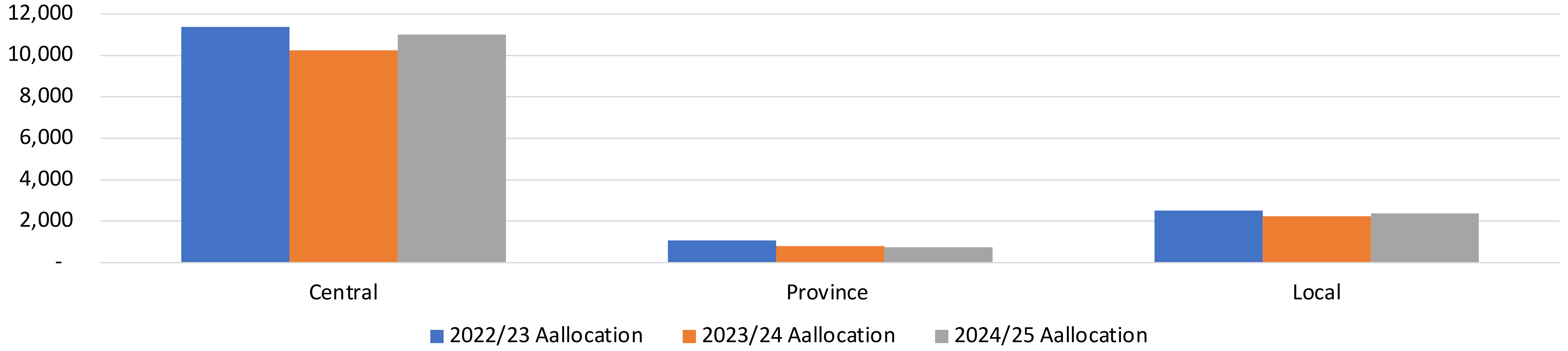
Summary of Macro Economic Indicators			
1 USD = 130 NPR			
Description	2078/79 R	2079/80 R	2080/81 P
	2021/22	2022/23	2023/24
Percapita GDP (NRs.)	1,70,506	1,81,569	1,91,888
Annual Change in nominal percapita GDP (%)	13.30	6.49	5.68
Percapita GNI (NRs.)	1,71,494	1,83,686	1,94,829
Annual Change in nominal 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

	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 2023/24 Revised and 2024/25 Budget
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

	Exchange Factor 1 USD = NPR 120						1 USD= NRP 132				1 USD= NRP 132	
Allocated Budget	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 2023/24 Revised and 2024/25 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
Recrecation, 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,
Kala Legal
Protecting your creations

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