Economic Outlook Based on July 2024

Kala Legal

Protecting your creations

Overview 2024/25

Economic Information

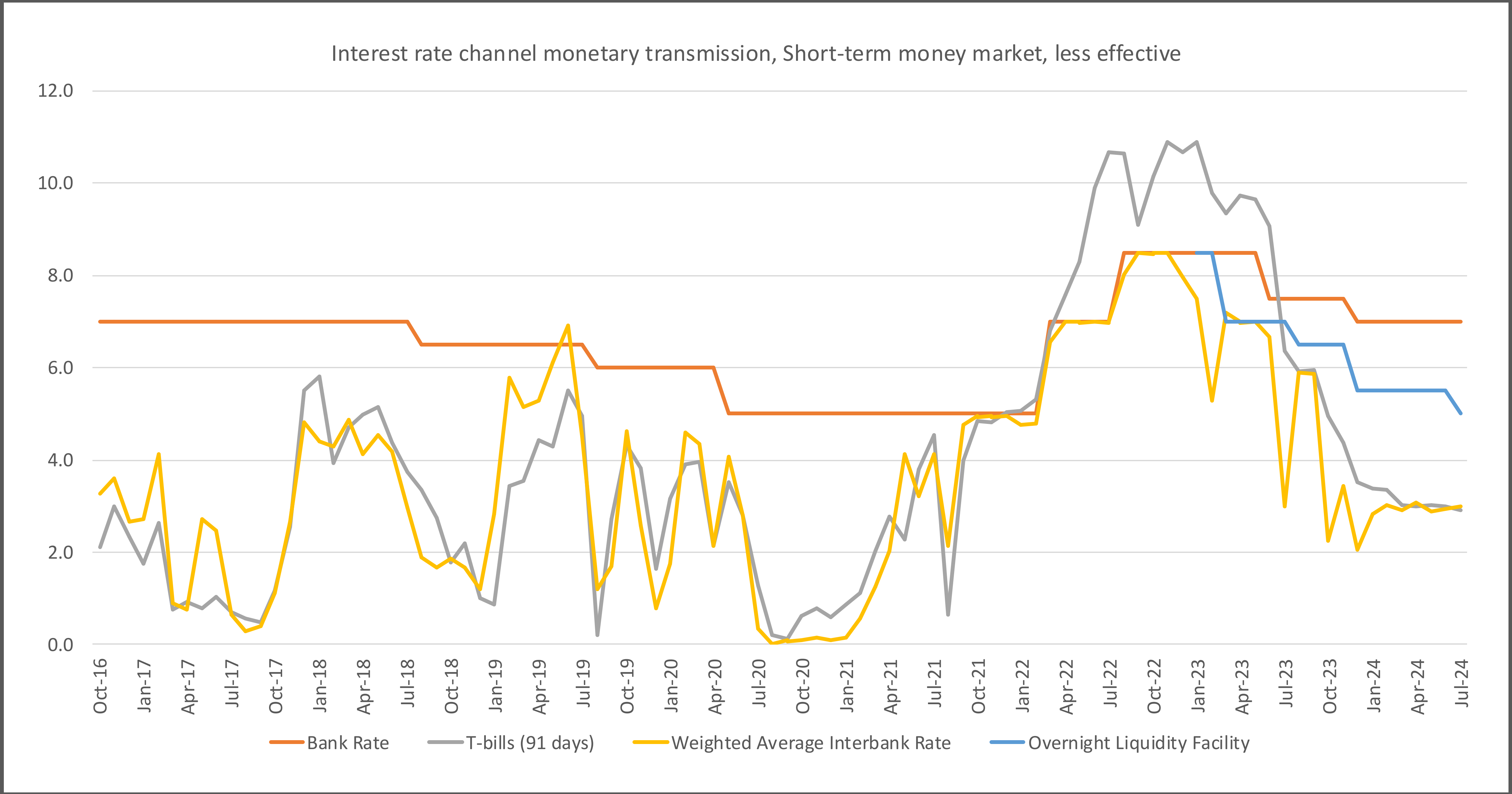
Financial Sector Highlights

Fiscal situation

1

Overview 2024/25

Policy Stance and Objectives	*The NRB has maintained a cautiously accommodative monetary policy stance, emphasizing the need to support economic recovery while managing inflation and ensuring financial stability. The central bank targets inflation around 5% and aims to maintain foreign exchange reserves sufficient to cover imports for at least seven months. The weighted average interbank rate among financial institutions is used as the operating target for monetary policy, with a growth rate of broad money (M2) kept at about 12% and a private sector credit growth target of 12.5%.*
Monetary Policy Transmission Channels	*Interest Rate Channel: (Less effective) The transmission of monetary policy through interest rates has been less effective. The review highlights that while the impact on the short-term money market is immediate, the medium-term money market shows less responsiveness. Despite reductions in policy rates and the interest rate corridor's higher limit, the broader transmission to the credit market remains weak.* *Lending Rates Channel: (Not effective) The effectiveness of monetary policy transmission through lending rates is limited. The readiness and health of the banking system significantly affect this channel. Issues within banks or their unwillingness to lend result in ineffective rate cuts, which fail to stimulate demand as intended.* *Asset Price Channel: (Not effective) This channel is also noted to be ineffective. Despite lower interest rates, there has not been a significant increase in asset prices, such as real estate, due to subdued lending growth and low market confidence.* *Exchange Rate Channel: (Not effective) The exchange rate channel has not been effective either. Lower domestic investment returns due to interest rate cuts have not led to substantial foreign capital inflows, impacting the domestic currency and trade balance.*
Policy Responses and Measures	*Capital Adequacy: The NRB plans to review the capital adequacy framework and introduce new instruments to alleviate pressure on core capital. It also aims to allow regulatory reserves to be included in Tier 2 Capital up to 100% of Tier 1 Capital.* *Foreign Exchange: The policy includes measures to simplify foreign exchange processes, maintain the exchange rate peg with the Indian currency, and expand the list of available foreign currencies. Additionally, the spending limit from domestic foreign exchange accounts has been raised.* *Asset Management and Transparency: The NRB intends to establish an asset management company and integrate tax office submissions with the banking system to improve transparency. Provisions related to asset quality grading and working guidelines have been relaxed to support financial stability.*


Interest rate channel monetary transmission, Short-term money market, less effective
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
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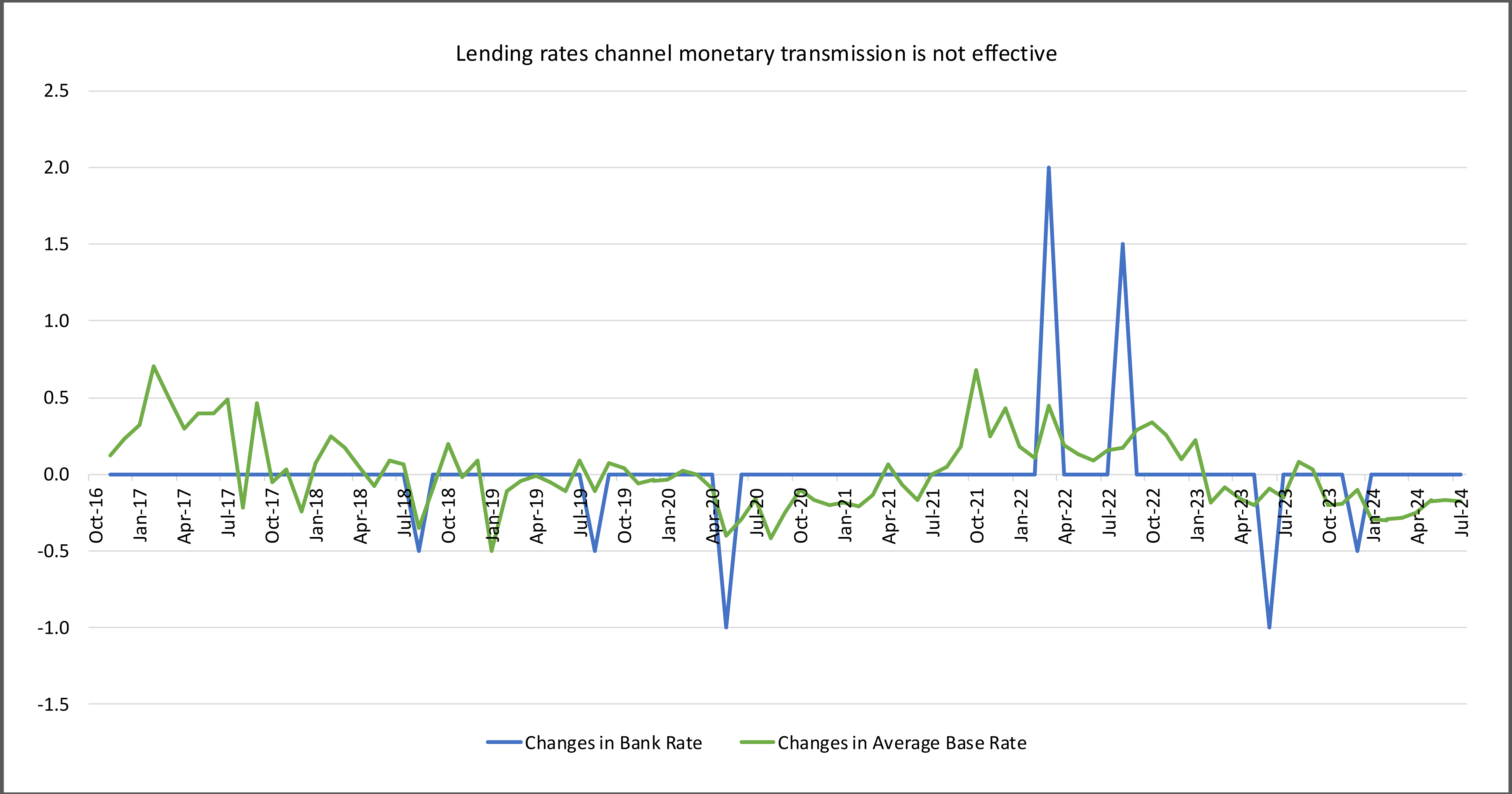
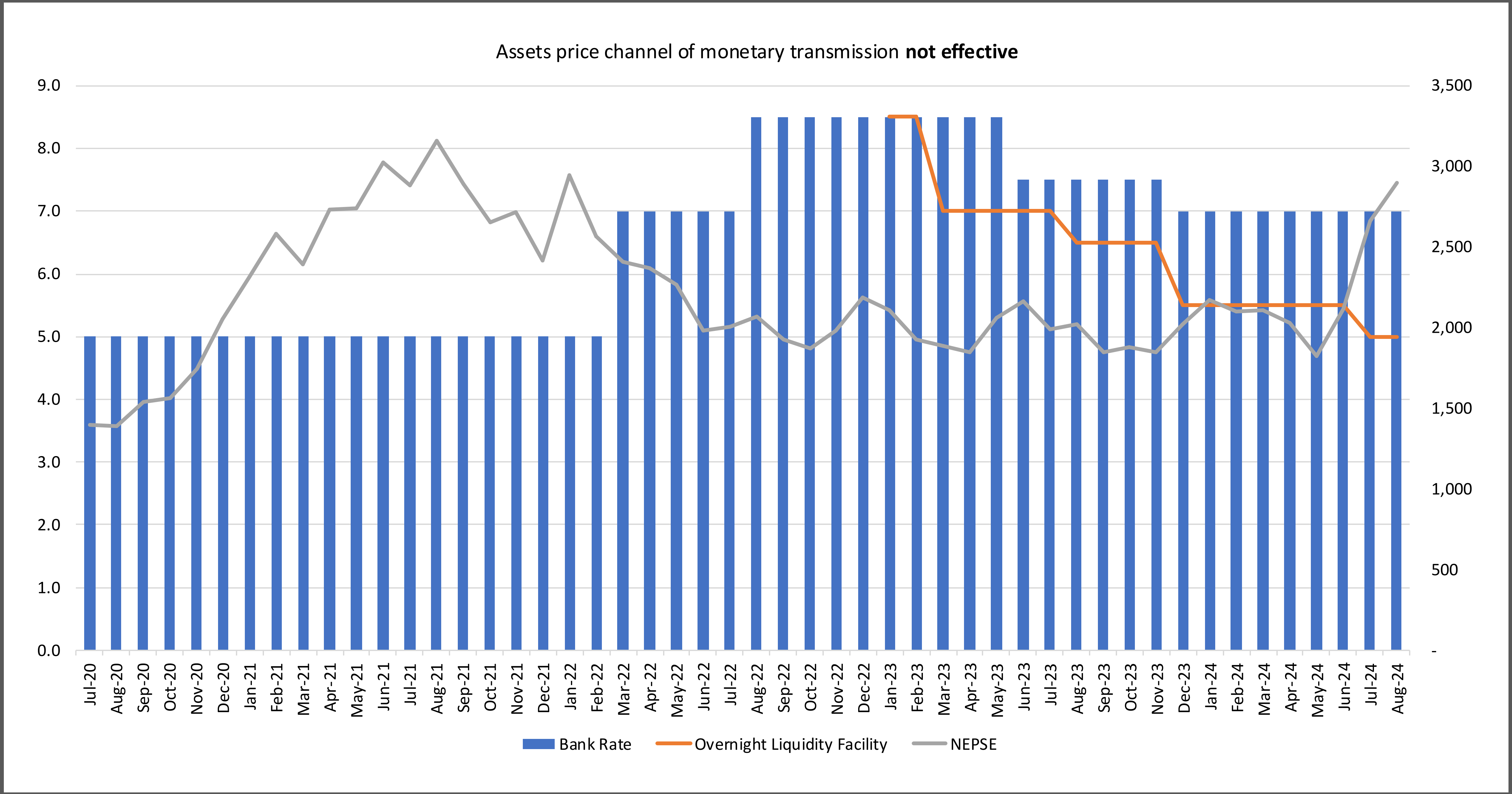
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Bank Rate
T-bills (91 days)
Weighted Average Interbank Rate
Overnight Liquidity Facility


Lending rates channel monetary transmission is not effective
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Changes in Bank Rate
Changes in Average Base Rate



Assets price channel of monetary transmission **not effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
3,500
3,000
2,500
2,000
1,500
1,000
500
-
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
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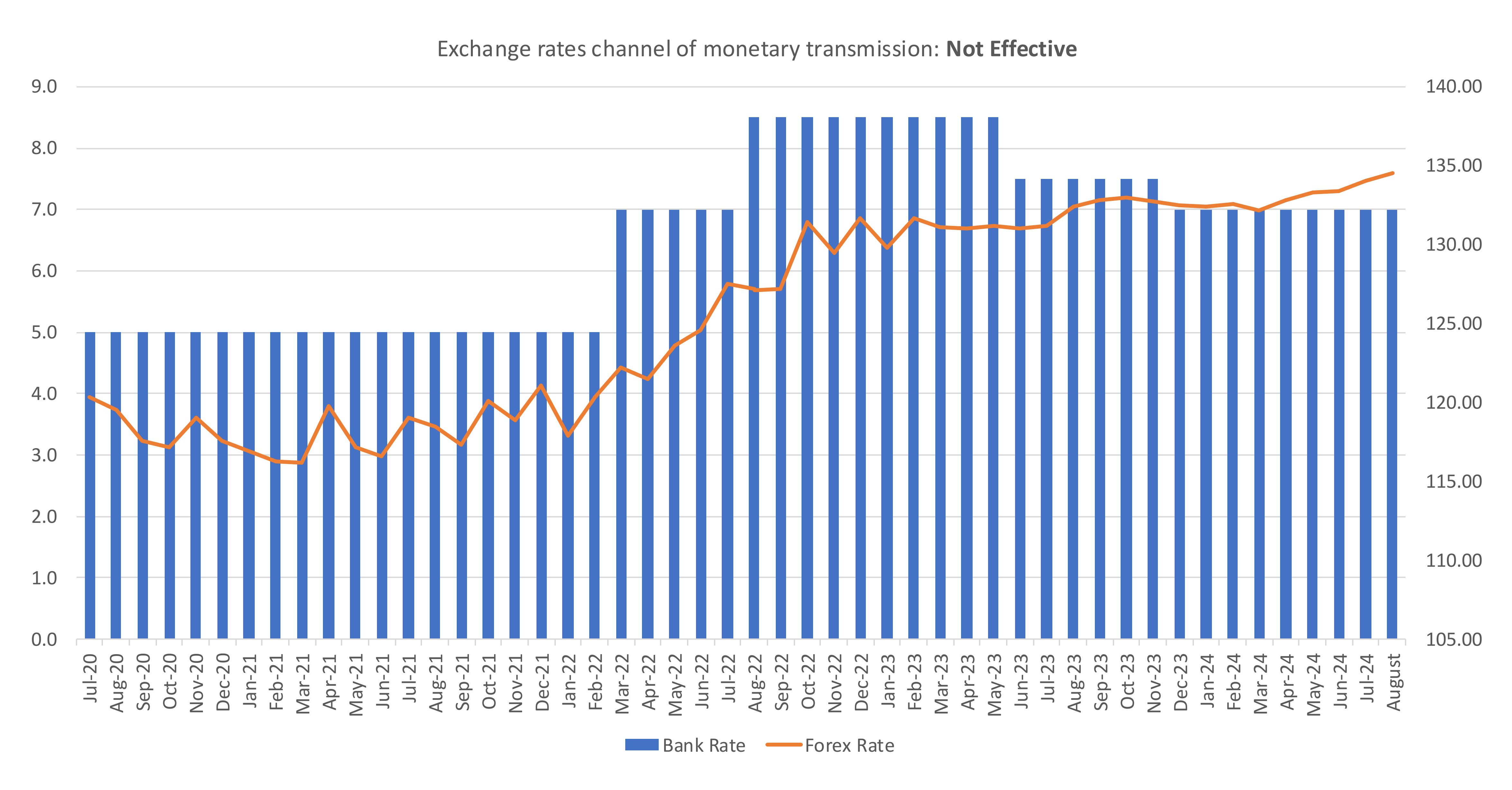
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
May-24
Jun-24
Jul-24
Aug-24
Bank Rate
Overnight Liquidity Facility
NEPSE


Exchange rates channel of monetary transmission: **Not Effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
140.00
135.00
130.00
125.00
120.00
115.00
110.00
105.00
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
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May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
May-24
Jun-24
Jul-24
August
Bank Rate
Forex Rate

100 billion GDP

- *To achieve rapid and sustainable economic growth, Nepal must prioritize the development of large corporations and firms capable of making a substantial impact on our GDP. Currently, their contribution is limited, but we can draw inspiration from countries like India, where large firms contribute around 40% to the GDP, and China, where it's 70%. For Nepal to transform into a $100 billion economy, we need to increase the number of large firms with assets exceeding $5 billion from the current zero to at least 50. Additionally, we must support 500 firms in growing to a size of at least $500 million.*

BAFIA amendments

- *While this may seem daunting, the potential for progress is significant. Many mid-sized firms are ready to expand, but they face challenges, particularly in accessing finance and capital. The capital market in Nepal is still in its infancy, and banks are under pressure to maintain capital adequacy. Furthermore, recent amendments to BAFIA have imposed restrictions, preventing borrowers who hold more than 1% ownership in a bank from borrowing from any bank in Nepal. However, with the right policy interventions, these obstacles can be overcome.*

There is reason for optimism.

- *By implementing policies that alleviate capital pressures on banks—such as providing capital support or offering incentives for lending—we can unlock the potential of our businesses. Enhancing access to finance, driving fiscal and legal reforms, and boosting business confidence are all within our grasp. By also focusing on reducing the informal economy, we can pave the way for a brighter economic future. With determination and the right strategies, Nepal is well-positioned to achieve its vision of becoming a $100 billion economy.*

Prosperity

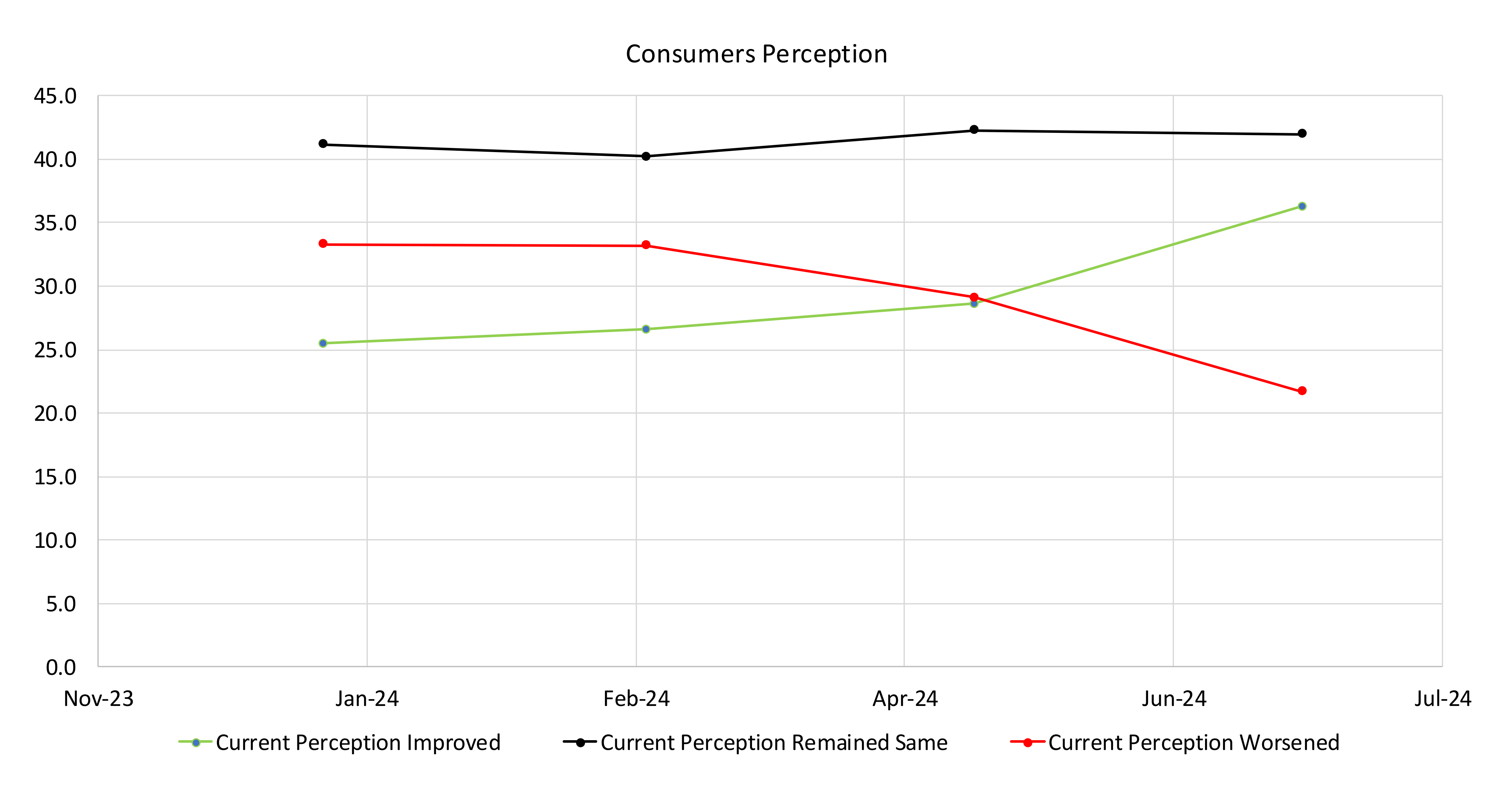
Wealthy nations are prosperous today because they have experienced steady growth over a long period, not necessarily because they grew particularly fast. One of the most noticeable differences when traveling from a rich country to a poor one is the stark contrast in levels of physical capital.

Physical capital

In wealthy nations, vast airports accommodating large planes, enormous factories filled with high-tech machinery, expansive farms with advanced irrigation systems and massive combines, top-tier education and healthcare systems, well-managed public transportation, and households equipped with appliances and gadgets for every imaginable purpose all suggest a significantly higher use of physical capital compared to poorer countries. Physical capital boosts income by making workers more productive—a single construction worker with a backhoe, for example, can move far more earth than several workers with shovels and wheelbarrows.

The real challenge

The real challenge in our country is that we are still in the early stages of growth and lack the organizational structure needed to deploy large quantities of physical capital effectively. Our government, in general, lacks the capacity to intervene and create a nurturing environment for growth, even if the intention is there. Unfortunately, the government remains heavily reliant on import duties for its revenue. Government policies, domestic vested interests, and household habits formed during the years of catch-up growth continue to keep us dependent. To progress, we need to industrialize our country and harness our available natural resources. However, tapping into these resources requires significant capital, far more than our local resources can provide. Clearly, much more is needed


Consumers Perception
45.0
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
Nov-23
Jan-24
Feb-24
Apr-24
Jun-24
Jul-24
Current Perception Improved
Current Perception Remained Same
Current Perception Worsened

2024/25 *“Optimistic outlook while exercising prudence”*

We can't console ourselves by saying, "there is no crisis"!

The biggest challenge faced by the Nepalese economy isn't its fundamentals, which are relatively strong in the short term. The real challenge is the threat to business and the loss of private sector confidence due to rising extremism, red tape, outdated laws, bureaucratic hurdles, complex regulations, declining governance, and rent-seeking behavior. These negative developments deter investors and consumers.

Nepalese planners need to identify the causes that could push the economy into a negative trajectory and find ways to alleviate these conditions.

Much more needs to be done to accelerate economic growth by creating jobs, encouraging both local and foreign investment, seeking foreign aid, utilizing natural resources, increasing productivity, and reducing the trade deficit.

We must understand that the most successful free market environments are those where the government enables but does not attempt to control the economy.

We risk emphasizing short-term growth at the expense of addressing medium to long-term challenges. We can't wait for a crisis to act. We must act now. But are we preparing enough?

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 to the Banking and Financial Institutions Act (BAFIA) marks a significant step towards separating banking from business activities. However, implementing this segregation gradually is advisable to ensure smooth transition. The amendment's approach to categorizing extended family members as related parties could infringe upon individual rights. Therefore, it is recommended to reconsider this aspect.* *Moreover, BAFIA should be amended to include provisions for an exit mechanism for promoters of Banking and Financial Institutions (BFIs). Promoting substantial public ownership will contribute to better governance within these institutions. Additionally, revising the Board's composition to include a balanced mix of executive and non-executive directors could further strengthen governance.* *Smooth Implementation: Potential Government Strategies* *Adjusting Section 52: Should apply to natural persons but not to corporate bodies.* *Emphasizing Individual Holdings: Shift focus from collective holdings to the beneficial owner.* *Voting Rights Restriction: Establish procedures to protect minority shareholders, both public and promoters.*
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.*

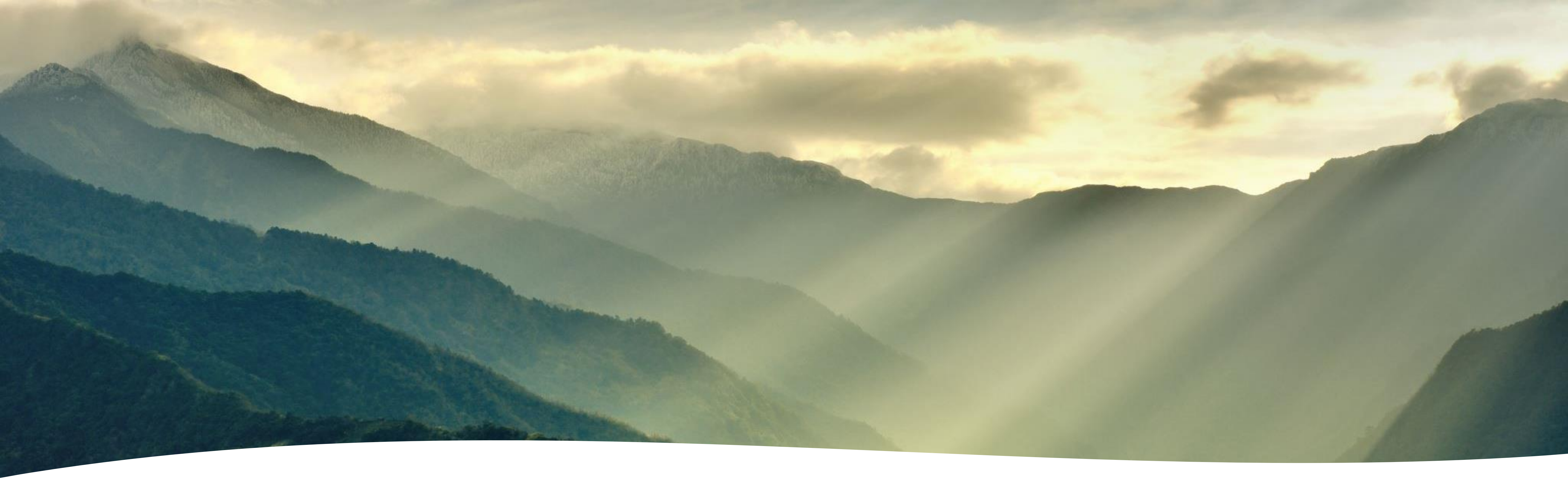
Conclusion: *Decriminalization is not about avoiding consequences but creating a business-friendly environment that promotes growth and innovation. Pragmatic reforms in corporate law are essential for shaping a brighter future for businesses worldwide.*

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 6%. For FY 2024/25. GoN set GDP growth target rate at 6% for FY 2024/25

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%

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

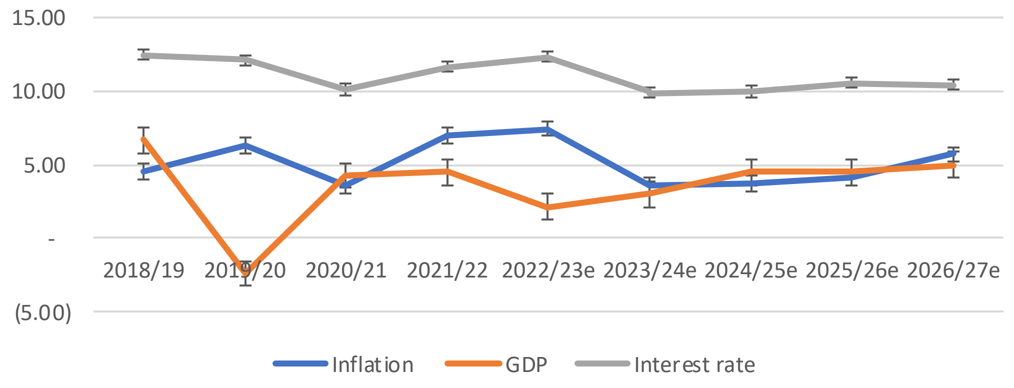
ADB.

April 2024. 3.6% - 2023/24 Fresh projections
April 2024. 4.8% - 2024/25 Fresh projections

CBS

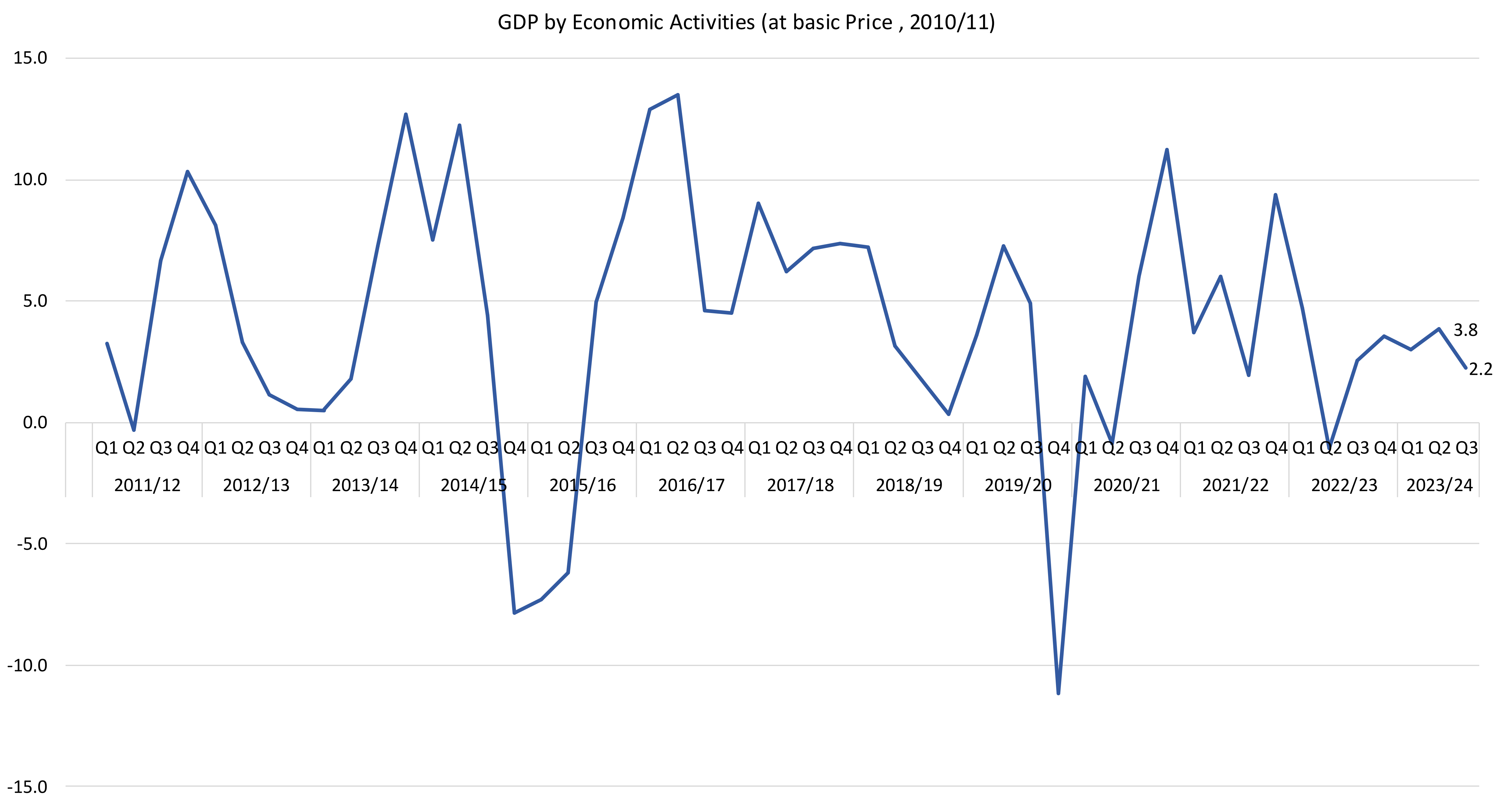
April 2023 2.16% 2022/23
April 2024 3% FY 2023/24

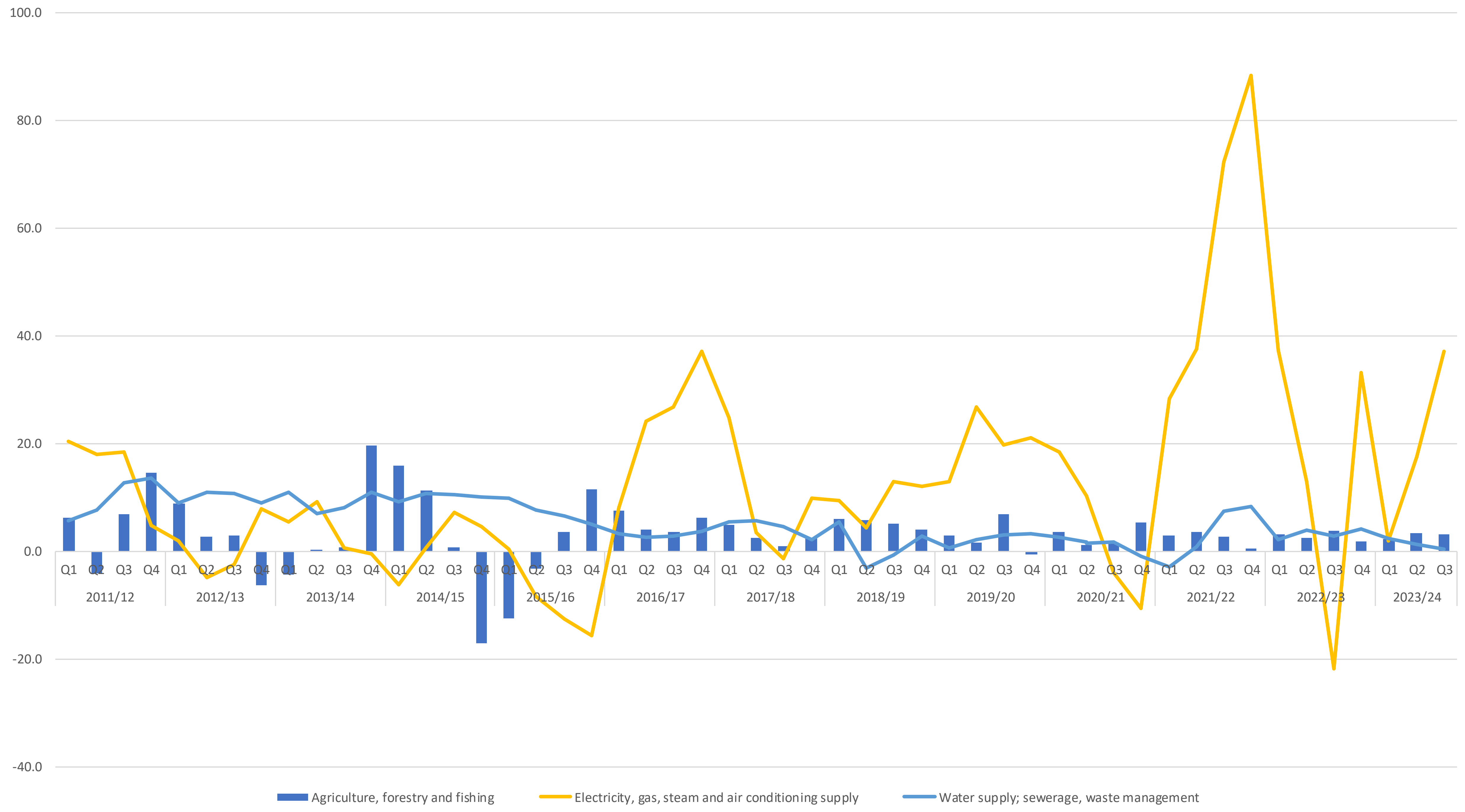
Don't let numbers mislead you!
Forecasts for Nepal's GDP by various agencies exhibit substantial variation over a brief period. This underscores the potential for misleading figures and emphasizes the importance of exercising caution when employing forecasts to inform policy decisions and growth strategies.



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

Industrial Classification	2079/80 2022/23				2080/81 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
0.0
-5.0
-10.0
-15.0
3.8
2.2
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3
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


100.0
80.0
60.0
40.0
20.0
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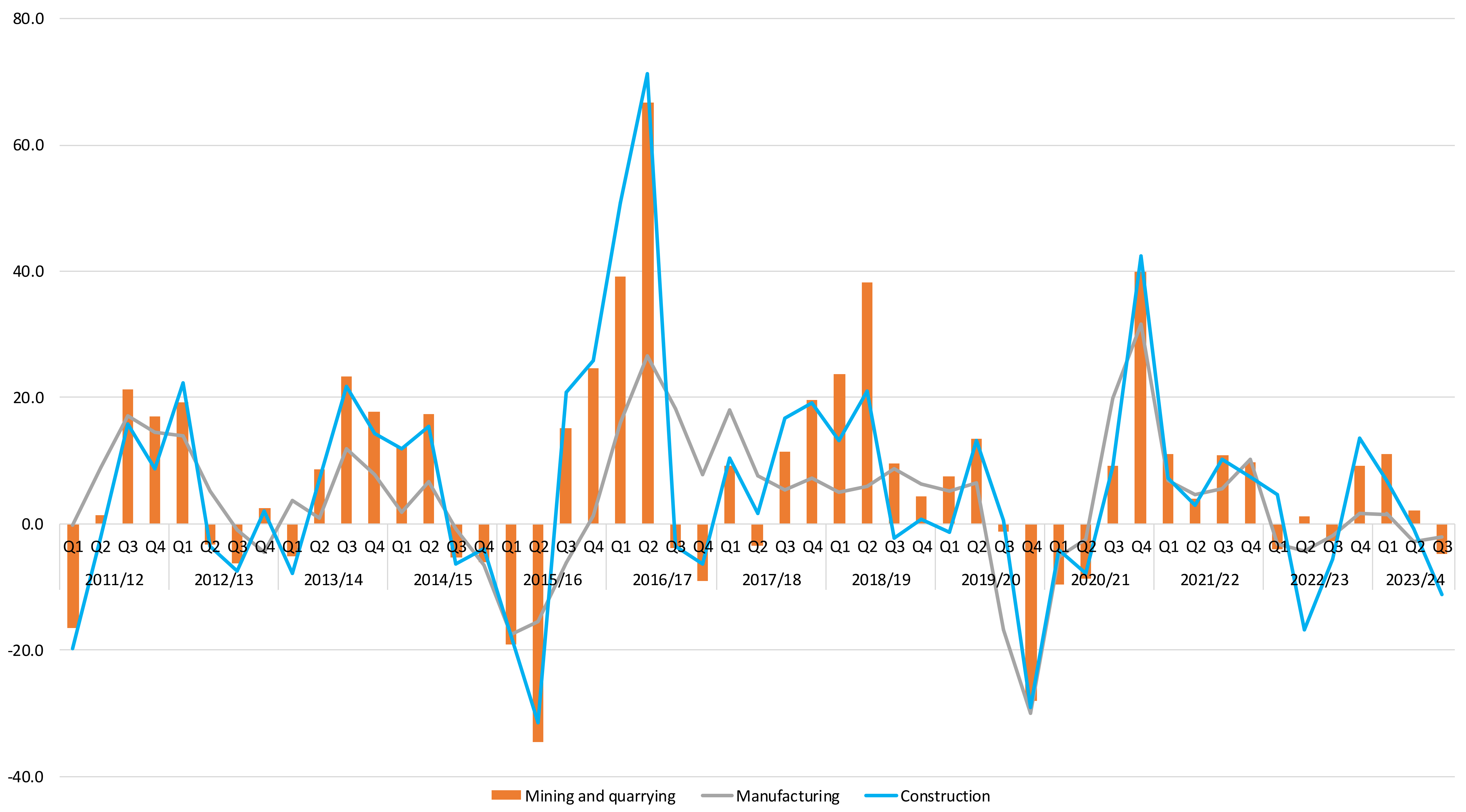
-20.0
-40.0
Q1 Q2 Q3 Q4
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Agriculture, forestry and fishing
Electricity, gas, steam and air conditioning supply
Water supply; sewerage, waste management


80.0
60.0
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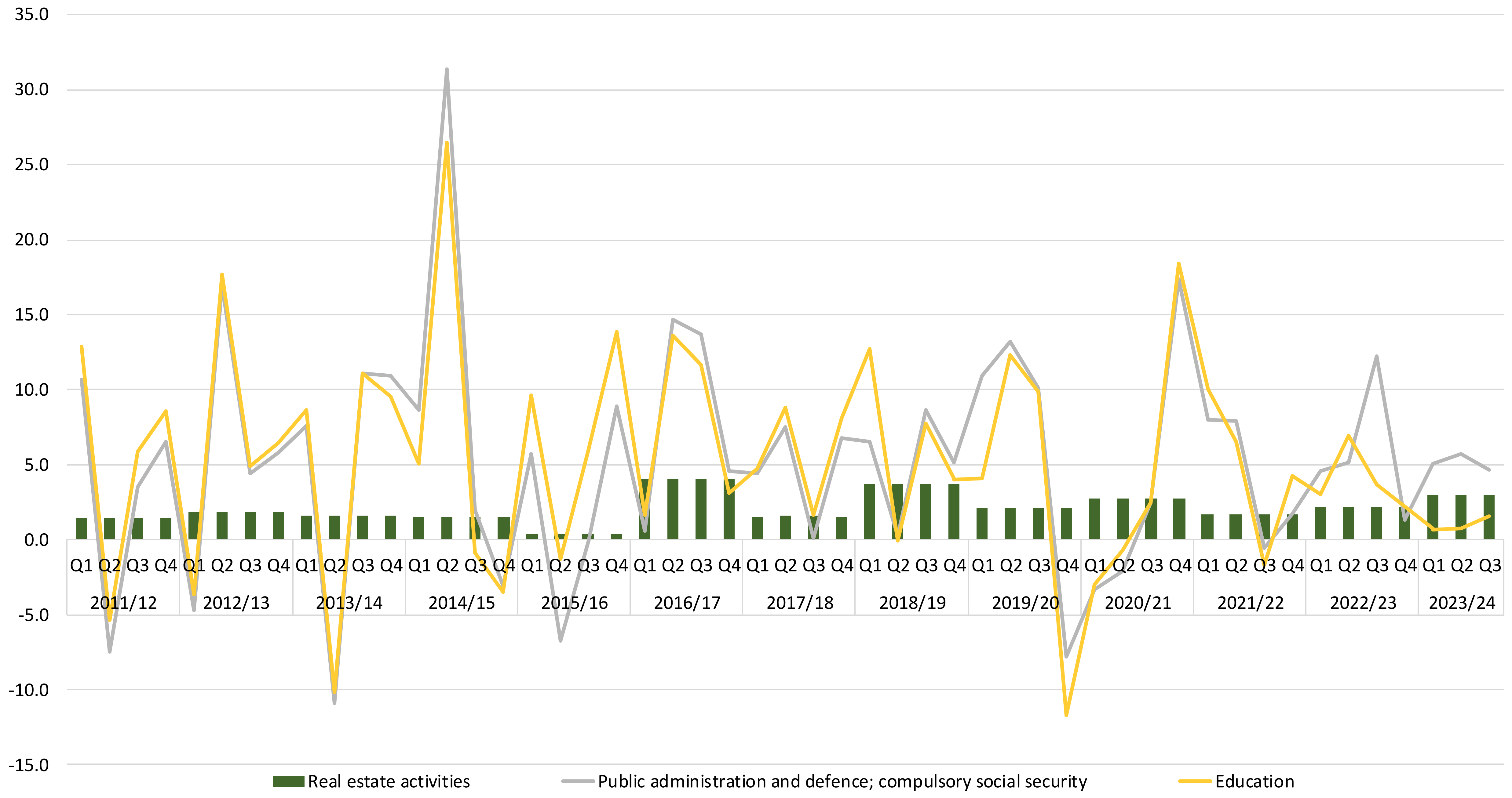
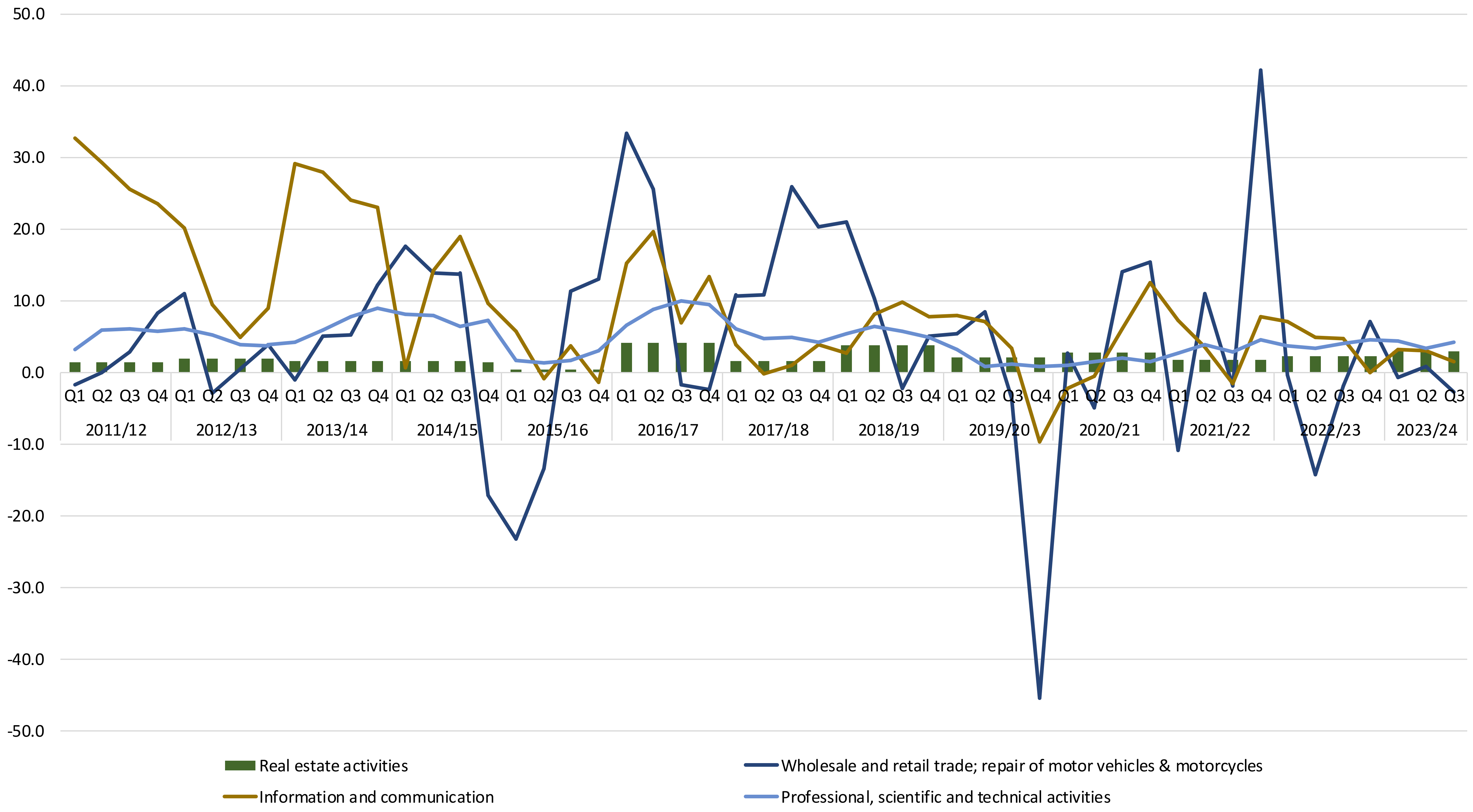
-40.0
Q1 Q2 Q3 Q4
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Mining and quarrying
Manufacturing
Construction



35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
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
Public administration and defence; compulsory social security
Education



50.0
40.0
30.0
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.

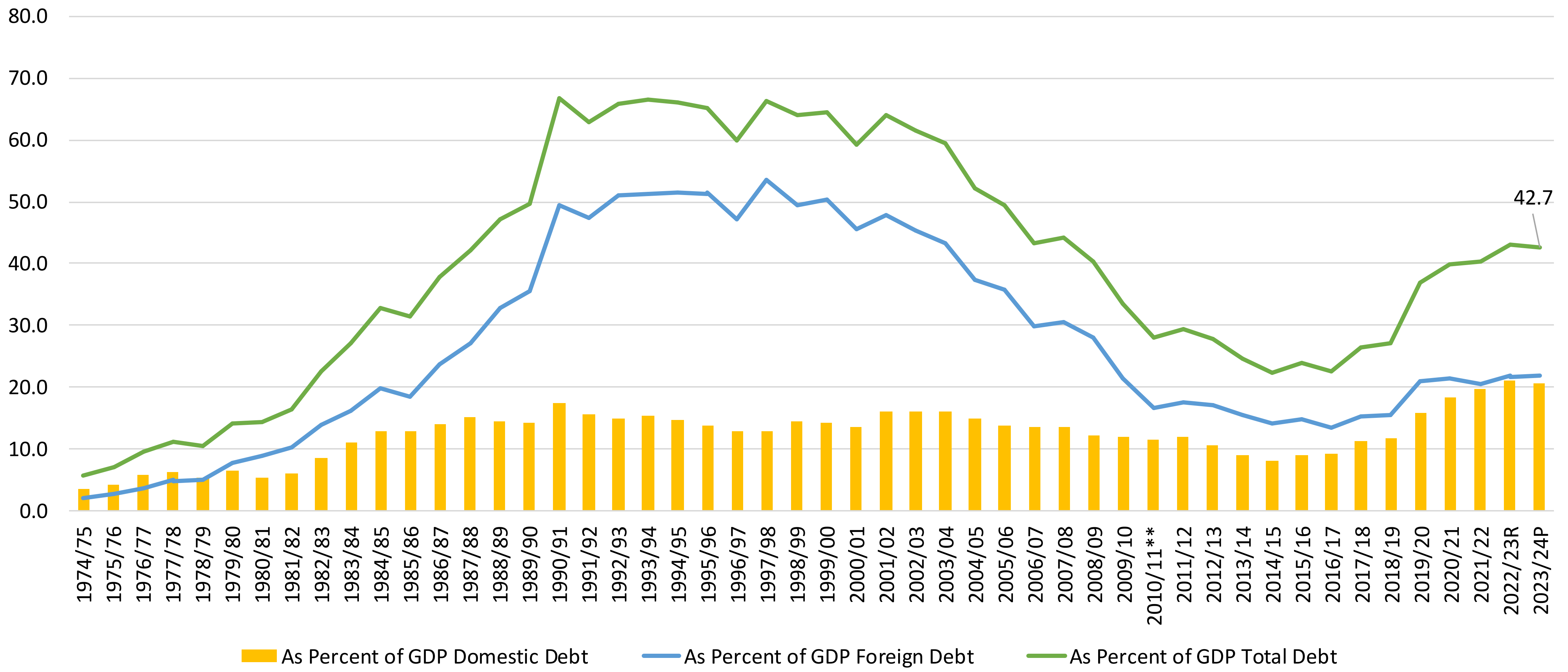
Key sectors to consider:

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.

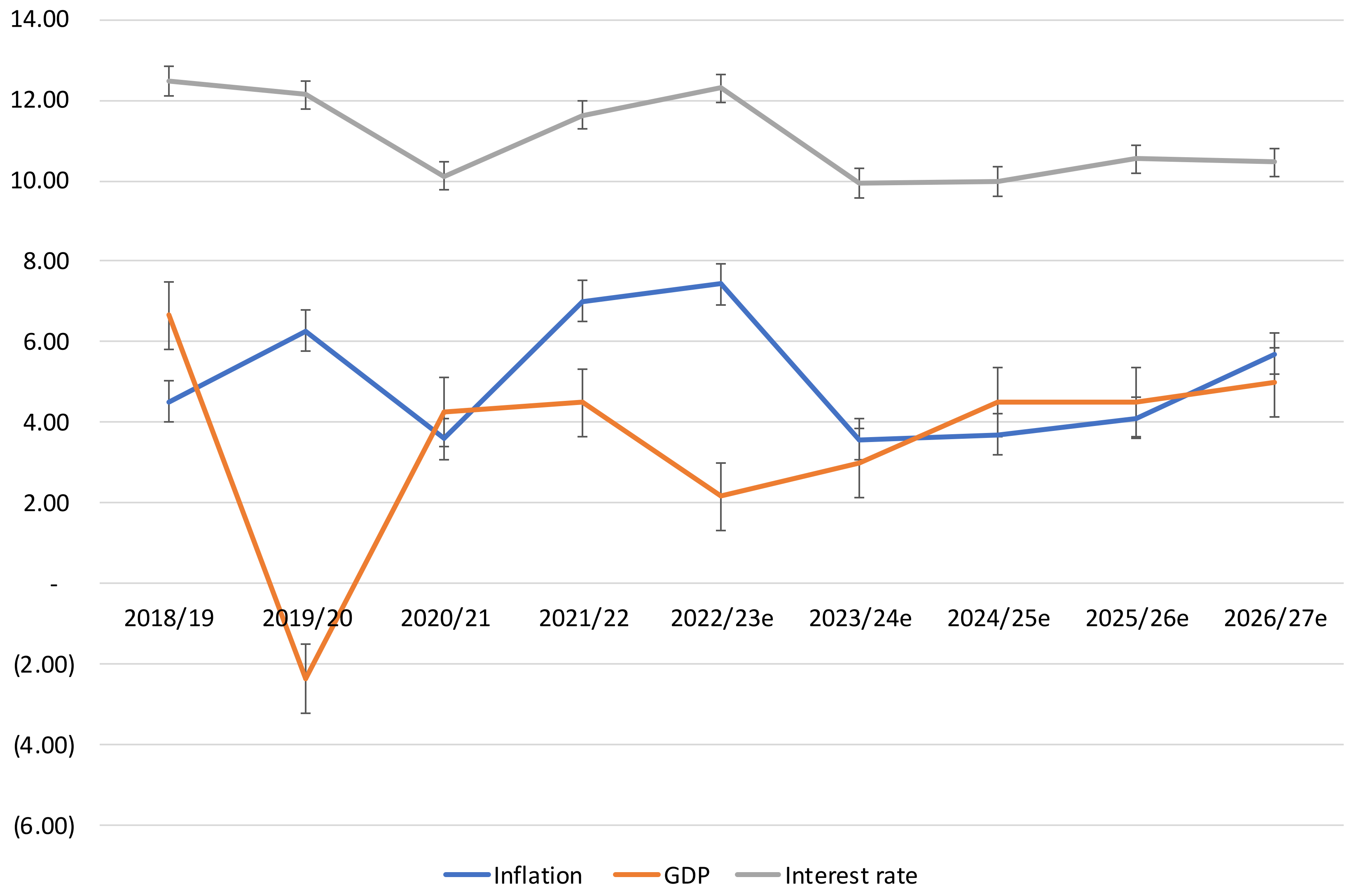
Starts above 80% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 42.9% in 2019/80. Overall, foreign debt decreases significantly, domestic debt remains stable with a slight increase, and total debt shows a decreasing trend followed by a recent rise.



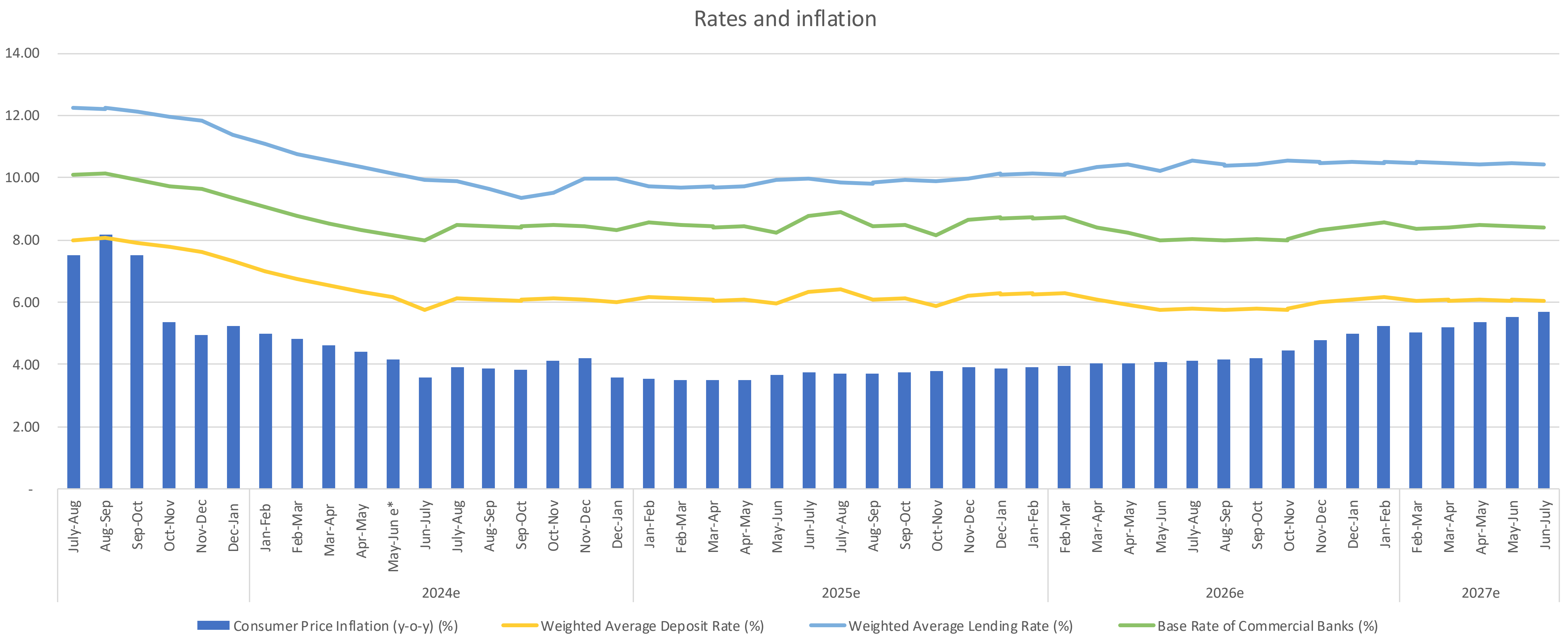
Geopolitical conditions pose significant risks, including potential spillover effects from conflicts and the vulnerability of food and energy markets and supply chains to these factors.

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.

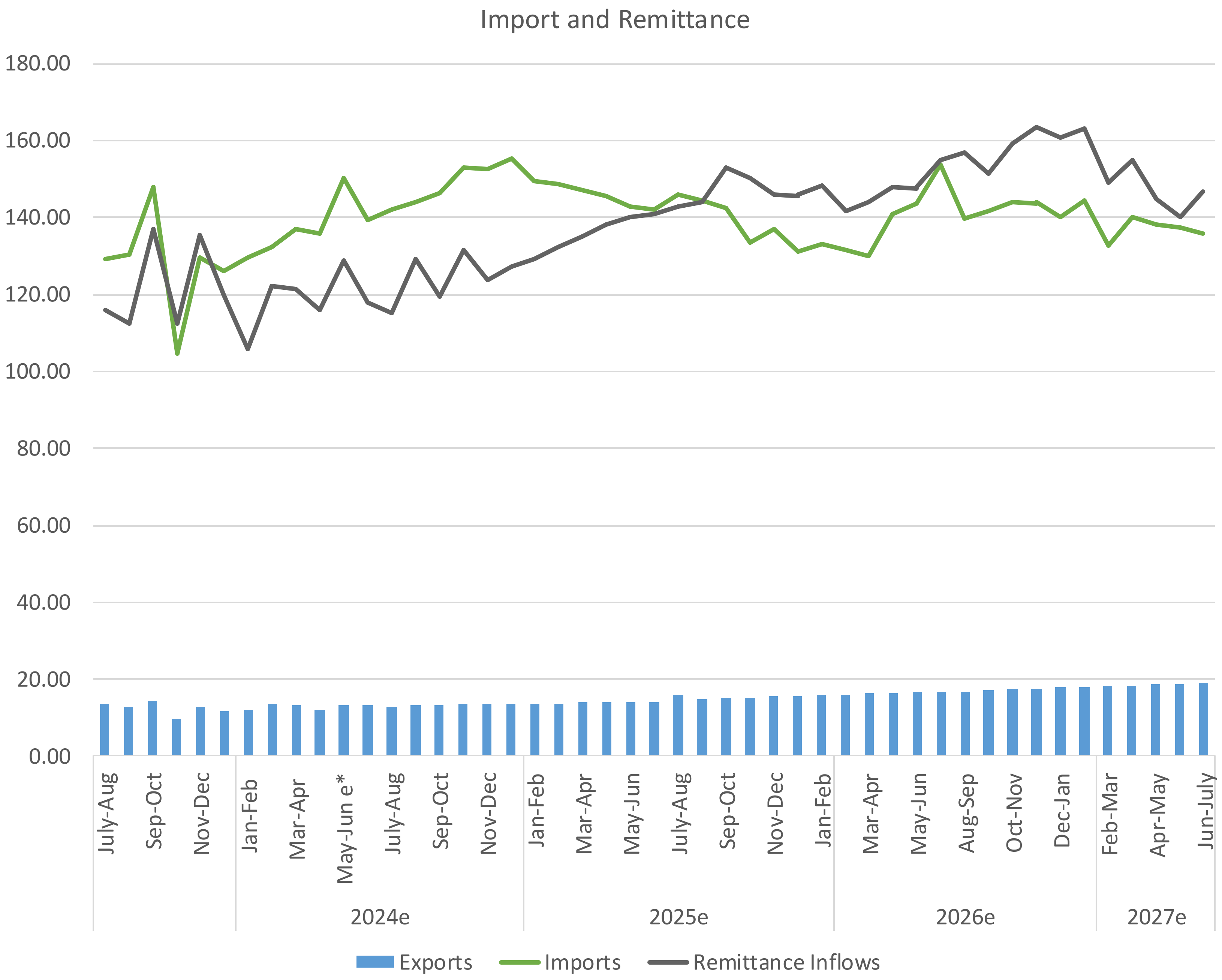


Interest rates and Inflation



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						2024					
	Mid-Month											
	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July
Consumer Price Inflation (y-o-y) (%)	7.52	8.19	7.50	5.38	4.95	5.26	5.01	4.82	4.61	4.40	4.17	3.57
Exports	13.53	12.92	14.43	9.69	12.64	11.76	11.86	13.79	13.33	12.23	13.09	13.12
Imports	129.2	130.5	148.0	104.7	129.7	126.0	129.8	132.3	137.1	136.0	150.3	139.3
Remittance Inflows	116.0	112.4	137.0	112.6	135.3	120.0	105.8	122.2	121.4	116.0	128.9	117.8
Government Expenditure	35.0	96.1	149.4	75.1	97.4	113.6	120.1	114.8	107.8	147.5	124.4	226.7
Current Expenditure	12.1	75.5	125.7	57.8	88.8	77.4	71.7	73.1	61.9	108.5	70.3	128.8
Capital Expenditure	0.8	7.3	9.7	12.2	60.7	13.2	14.3	17.6	16.2	14.5	23.1	56.8
Revenue	78.9	62.2	78.0	57.5	86.8	133.1	70.9	71.6	109.0	83.9	87.3	139.7
Deposit Mobilization	-133.2	125.7	166.1	-3.9	109.1	113.3	20.1	38.7	-26.8	34.0	71.5	227.8
Private Sector Credit	-4.4	37.9	75.4	-9.6	10.7	82.6	4.6	2.3	22.7	3.0	21.6	30.1
Weighted Average Deposit Rate (%)	8.00	8.06	7.90	7.76	7.62	7.32	7.01	6.74	6.53	6.35	6.17	5.77
Weighted Average Lending Rate (%)	12.24	12.23	12.11	11.96	11.85	11.38	11.08	10.78	10.55	10.34	10.15	9.93
Base Rate of Commercial Banks (%)	10.11	10.14	9.94	9.74	9.64	9.35	9.06	8.77	8.51	8.34	8.17	8.00

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. 2079/80 (2022/23) (Mid-August)	1.05	0.12	0.93	1.17	1.00	8.86	0.25	1 USD= 125NPR
Share % in Total Trade	89.86	10.14						
Trade deficit % GDP			2.30%					
F.Y. 2080/81(2023/24) (Mid-August)	0.99	0.10	0.89	1.09	1.00	9.90	0.25	1 USD= 130 NPR
Share % in Total Trade	90.83	9.17					Up	
Trade deficit % GDP			2.20%					
F.Y. 2081/82 (2024/25) (Mid-August)	0.99	0.09	0.90	1.08	1.00	11.00	0.27	1 USD= 130 NPR
Share % in Total Trade	91.67	8.33					Up	
Trade deficit % GDP			2.05%					
Percentage Change in F.Y. 2080/81 (2023/24) compared to same period of the previous year	-5.74%	-15.60%	-4.49%	-6.74%			0.00%	
Percentage Change in F.Y 2081/82 (2024/25) compared to same period of the previous year	0.00%	-10.00%	1.12%	-0.92%			8.00%	

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 increased to 23.32% by mid-August 2024, compared to the 25.27% reported in the corresponding previous year.

Trade Deficit

In the first month of fiscal year 2024/25, the monthly trade deficit decreased by $0.07 billion, reaching $0.90 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to $11.98 billion, indicating a significant reversal from the $11.15 billion recorded during the corresponding period of the previous fiscal year.

Import Pressure

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

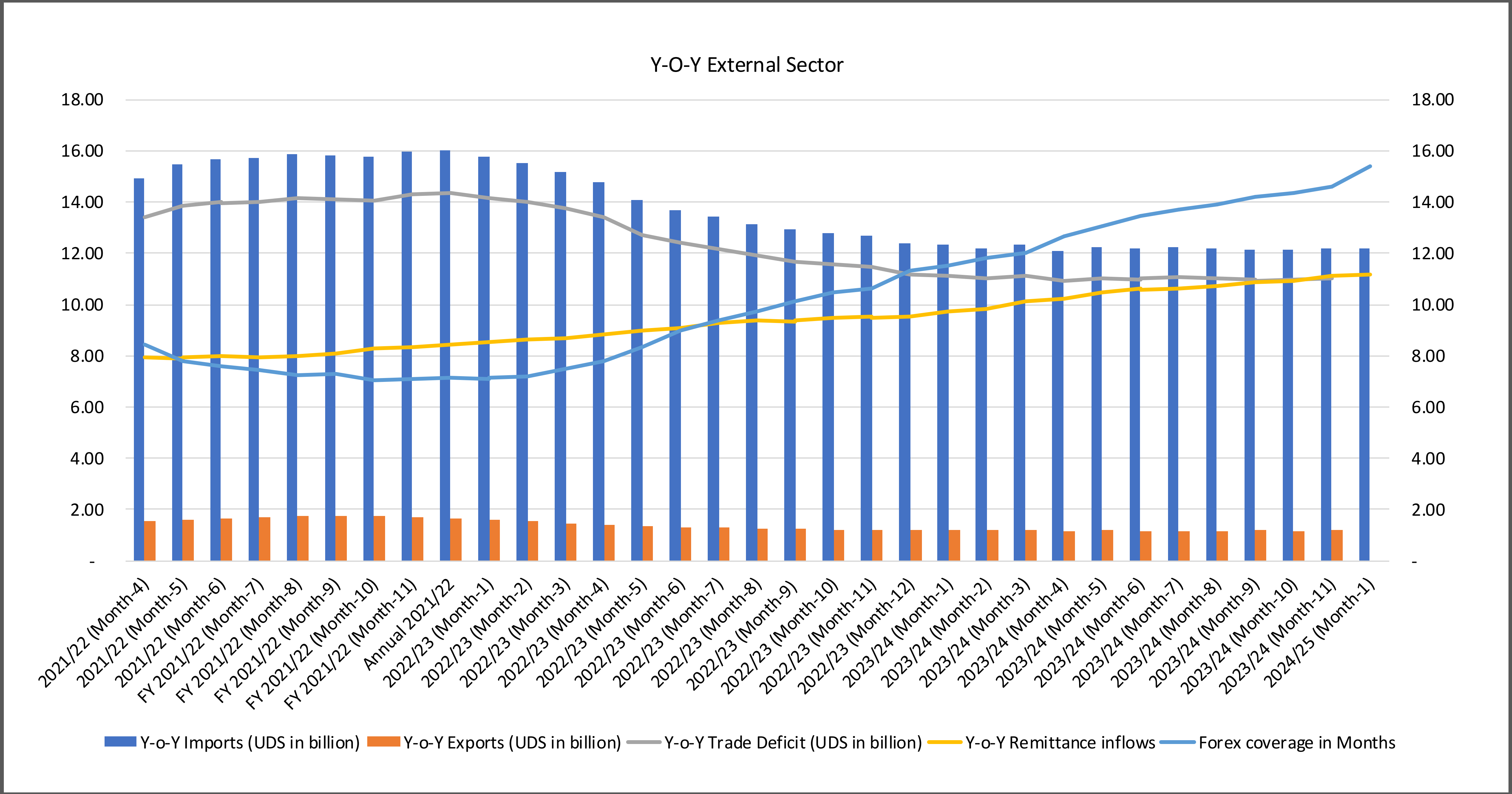
Observations

Presently, Nepal maintains strong foreign exchange reserves, which cover over 14.42 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.

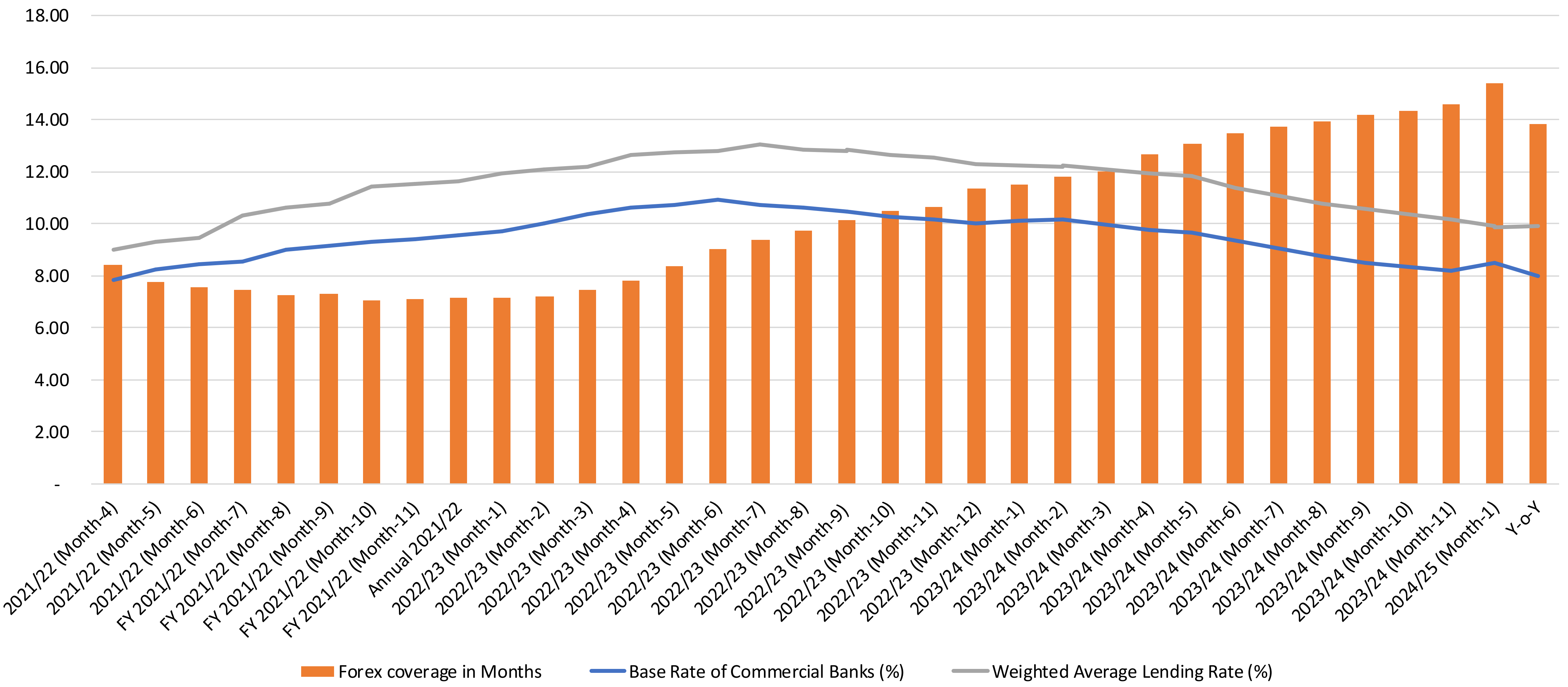
Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming 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	Imports_Value	Imports_Revenue
Other - Medicaments put up in measured doss or in forms or packing for retail sale	Kg	14,29,650	23,74,330	1,28,204
Diammonium hydrogenorthophosphate (diammonium phosphate)	Kg	1,81,41,000	17,94,740	0
ATF	KL	12,472	12,03,107	1,86,006
Polypropylene, in primary forms	Kg	50,21,160	7,50,825	1,09,096
Polyethylene having a specific gravity >=0.94, in primary forms.	Kg	46,15,200	7,07,124	1,38,762
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	PCS	7,123	6,84,866	6,28,965
Unassembled Motorcycles with piston engine of capacity exceedubg 125 not exced 200 CC	PCS	5,217	6,74,324	6,08,314
Concentrate of non-alcohalic soft drinks	Kg	8,29,403	6,73,428	2,32,620
Electric conductors, nes, for a voltage >1 00 V.	MTR	7,49,648	6,29,087	24,866
Refined bleached deodorized palm olein	LTR	43,56,821	5,99,010	1,57,538
Apples, fresh	Kg	56,06,276	5,97,445	1,19,021
Other potatoes, fresh or chilled	Kg	2,31,04,046	5,88,744	1,11,887
Electric car, jeep & van 51KW to <=100KW	PCS	216	5,86,895	3,74,071
Ethylene-alpha-olefin copolymers, having a specific gravity of less than 0.94	Kg	37,88,250	5,66,794	1,09,931
Dried Red Lentils, Unskinned, unsplit (Whole)	Kg	55,73,021	5,51,047	1,06,690
Petroleum bitumen	Kg	76,26,549	5,21,299	1,56,136
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	Kg	14,92,800	5,18,162	1,53,815
Other soyabean	Kg	57,48,792	5,01,770	26,565
Wire of refined copper, maximum cross-sect onal dimension >6mm.	Kg	3,75,168	4,96,862	92,666
Garlic, fresh or chilled	Kg	37,44,300	4,95,595	1,28,016
Other preparations of a kind used in animal feeding, nes	Kg	30,90,539	4,84,792	38,557
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	Kg	56,00,766	4,67,309	40,839

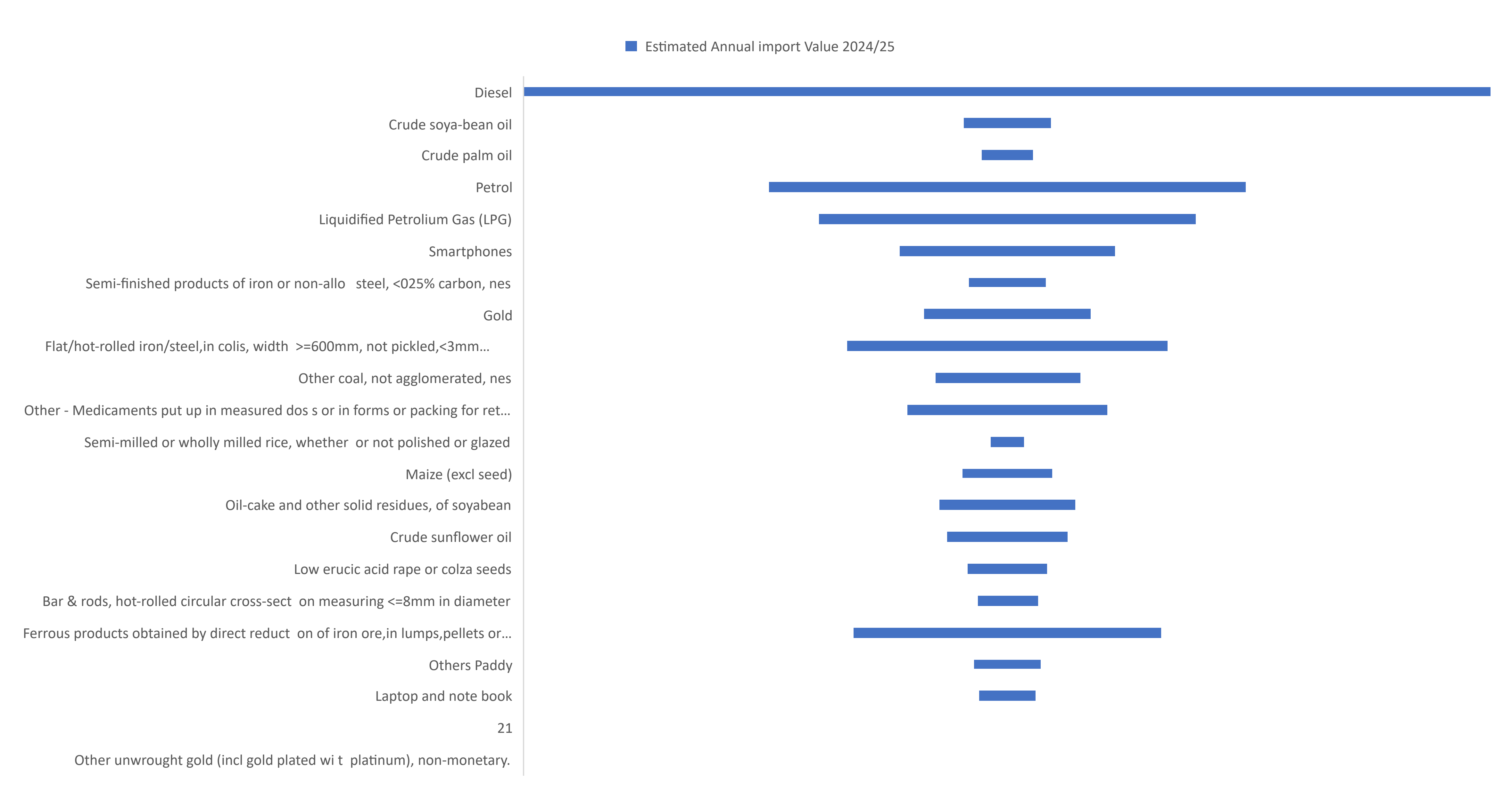

Y-O-Y External Sector
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
2021/22 (Month-4)
2021/22 (Month-5)
2021/22 (Month-6)
FY 2021/22 (Month-7)
FY 2021/22 (Month-8)
FY 2021/22 (Month-9)
FY 2021/22 (Month-10)
FY 2021/22 (Month-11)
Annual 2021/22
2022/23 (Month-1)
2022/23 (Month-2)
2022/23 (Month-3)
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)
2024/25 (Month-1)
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



	2023/24												2024/25		
Trade Indicators	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)	2024/25 (Month-9)	2023/24 (Month-10)	2023/24 (Month-11)	Annual 2023/24	2024/25 (Month-1)	Y-o-Y	Remaks
Imports (UDS in billion)	0.99	2.00	3.14	3.94	4.94	5.91	6.91	7.92	8.98	10.03	11.18	12.25	0.99	13.24	UP
Monthly Imports	0.99	1.01	1.14	0.80	1.00	0.97	1.00	1.01	1.06	1.05	1.15	1.07	0.99		
Exports (UDS in billion)	0.10	0.20	0.31	0.39	0.49	0.58	0.67	0.77	0.88	0.97	1.07	1.17	0.09	1.26	UP
Montly Exports	0.10	0.10	0.11	0.08	0.10	0.09	0.09	0.10	0.11	0.09	0.10	0.10	0.09		
Trade Deficit (UDS in billion)	0.89	1.80	2.83	3.55	4.45	5.33	6.24	7.15	8.10	9.06	10.11	11.08	0.90	11.98	UP
Total Foreign Trade (UDS in billion)	1.09	2.20	3.45	4.33	5.43	6.49	7.58	8.69	9.86	11.00	12.25	13.42	1.08	14.50	UP
Monthly Import Revenue	0.25	0.27	0.32	0.21	0.27	0.25	0.25	0.26	0.28	0.28	0.32	0.27	0.27		
Total Import revenue	0.25	0.52	0.84	1.05	1.32	1.57	1.82	2.08	2.36	2.64	2.96	3.23	0.27	3.25	UP
Montly Remittance	0.89	0.86	1.05	0.87	1.04	0.92	0.81	0.94	0.93	0.89	0.99	0.91	0.95		
Remittance inflows	0.89	1.76	2.81	3.68	4.72	5.64	6.45	7.39	8.33	9.22	10.21	11.12	0.95	12.07	UP
Imports/Exports Ratio	9.90	10.00	10.13	10.10	10.08	10.19	10.31	10.29	10.20	10.34	10.45	10.47	11.00	10.51	UP
Exports Share to Total Trade (%)	9.17	9.09	8.99	9.01	9.02	8.94	8.84	8.86	8.92	8.82	8.73	8.72	8.33	10.52	UP
Imports Share to Total Trade (%)	90.83	90.91	91.01	90.99	90.98	91.06	91.16	91.14	91.08	91.18	91.27	91.28	91.67	89.48	Down
Monthly Trade Deficit (UDS in billion)	0.89	0.91	1.03	0.72	0.90	0.88	0.91	0.91	0.95	0.96	1.05	0.97	0.90		
Trade deficit % GDP	2.20%	4.44%	6.99%	8.76%	10.98%	13.16%	15.40%	17.65%	18.47%	20.66%	23.06%	25.27%	2.05%	27.32%	Down

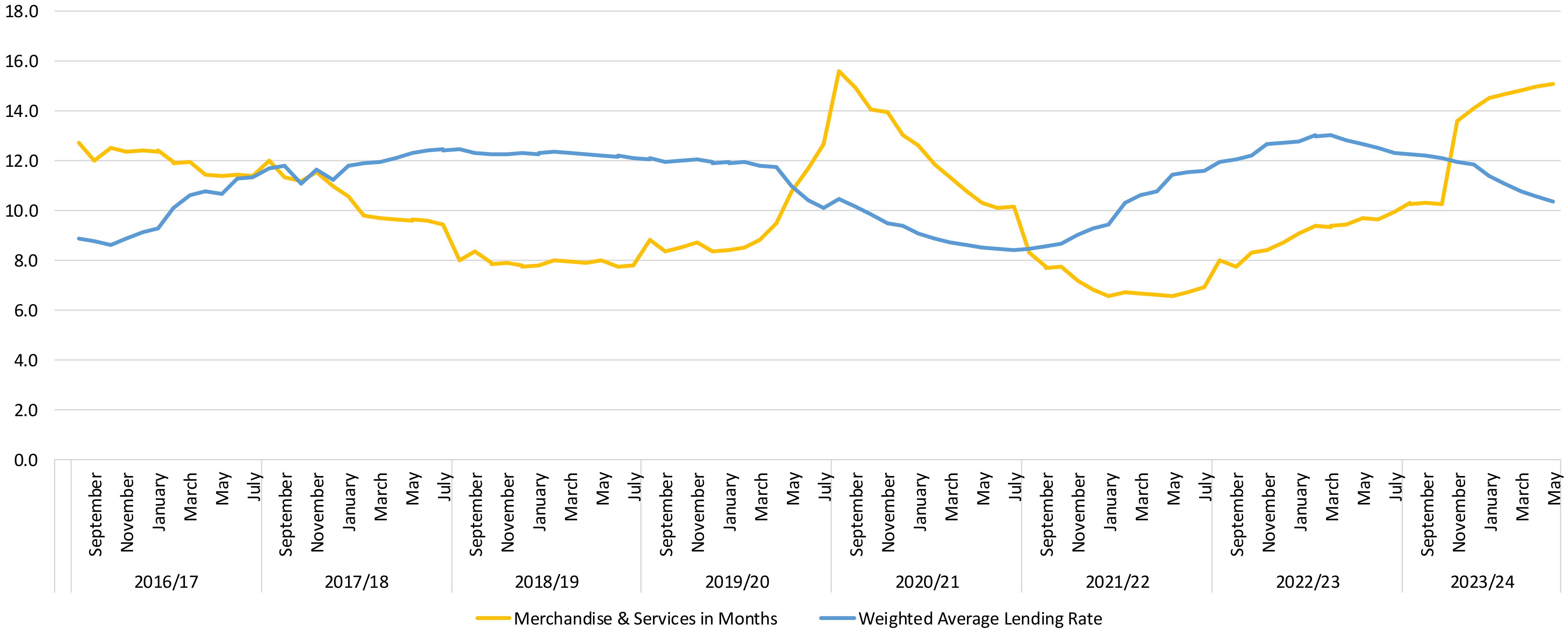
Trade Directions


Estimated Annual import Value 2024/25
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 ret...
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 or...
Others Paddy
Laptop and note book
21
Other unwrought gold (incl gold plated wi t platinum), non-monetary.

Expected Annual Imports of Major Items (USD in million)

Description	2022/23 Annua Import Value	2023/24 1 month	2023/24 2 month	2023/24 3 month	2023/24 4 month	2023/24 5 month	2023/24 6 month	2023/24 7 month	2023/24 8 month	2023/24 9 month	2023/24 10 month	2023/24 11 month	2023/24 Annua Import Value	2024/25 1 month	Estimated Annual import Value 2024/25	Import Direction
Diesel	1,183	57	121	230	310	415	511	596	684	794	890	994	1,108	54	1,073	Decline
Crude soya-bean oil	274	15	23	35	44	55	60	66	71	83	88	100	103	10	99	Decline
Crude palm oil	199	6	18	27	35	44	50	57	68	75	79	79	82	3	58	Decline
Petrol	514	42	87	132	176	220	261	299	343	387	436	484	524	44	529	Growth
Liquidified Petrolium Gas (LPG)	447	29	56	89	119	159	196	233	276	315	354	393	428	37	419	Growth
Smartphones	188	22	41	73	89	105	116	134	149	167	185	203	221	27	240	Growth
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	12	24	28	30	38	49	55	63	73	79	99	107	6	86	Decline
Gold	172	13	32	57	63	77	83	97	124	124	169	182	182	8	187	Decline
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	158	26	46	75	87	111	144	166	188	214	236	251	266	23	357	Decline
Other coal, not agglomerated, nes	209	16	27	35	43	59	83	100	118	138	152	162	176		162	Decline
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	12	32	54	67	84	102	124	138	158	175	193	211	18	223	Growth
Semi-milled or wholly milled rice, whether or not polished or glazed	83	7	9	10	11	19	25	29	33	38	41	45	48	5	38	Decline
Maize (excl seed)	127	8	13	19	23	35	47	55	64	78	87	102	108	6	100	Decline
Oil-cake and other solid residues, of soyabean	98	12	22	32	42	59	72	85	100	108	117	124	130	9	151	Decline
Crude sunflower oil	139	14	23	35	42	52	60	74	92	97	105	119	137	20	136	Growth
Low erucic acid rape or colza seeds	72	6	11	15	24	33	40	43	48	55	62	72	83	10	89	Growth
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	12	19	27	29	34	41	48	58	86	70	75	80	6	68	Decline
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	29	54	74	92	115	149	174	199	233	241	270	300	29	341	Decline
Others Paddy	154	21	22	23	23	31	40	57	66	76	86	89	93	8	75	Decline
Laptop and note book	48	6	11	16	19	24	29	34	39	43	47	53	58	7	64	Growth

Import Capacity in Months and Lending Rate!



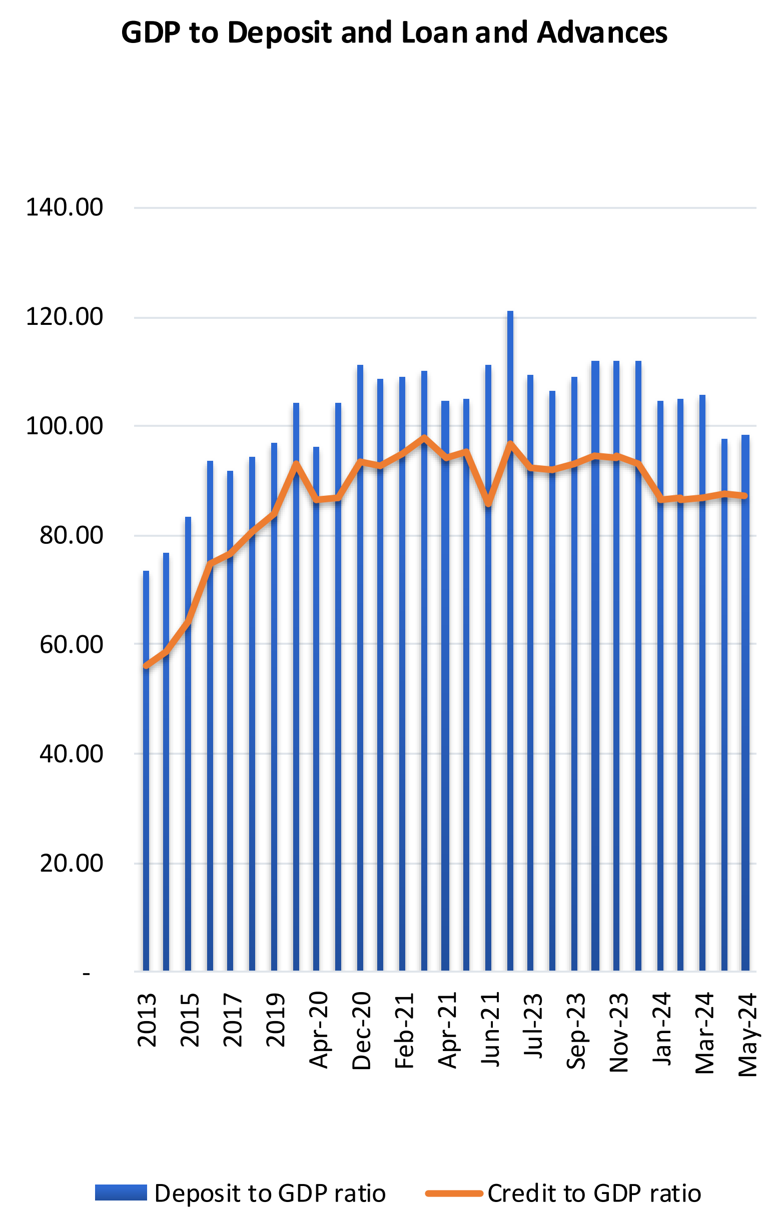
GDP and BFI's Risk Assets and Liabilities!

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

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

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

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



Financial Sector highlights

3

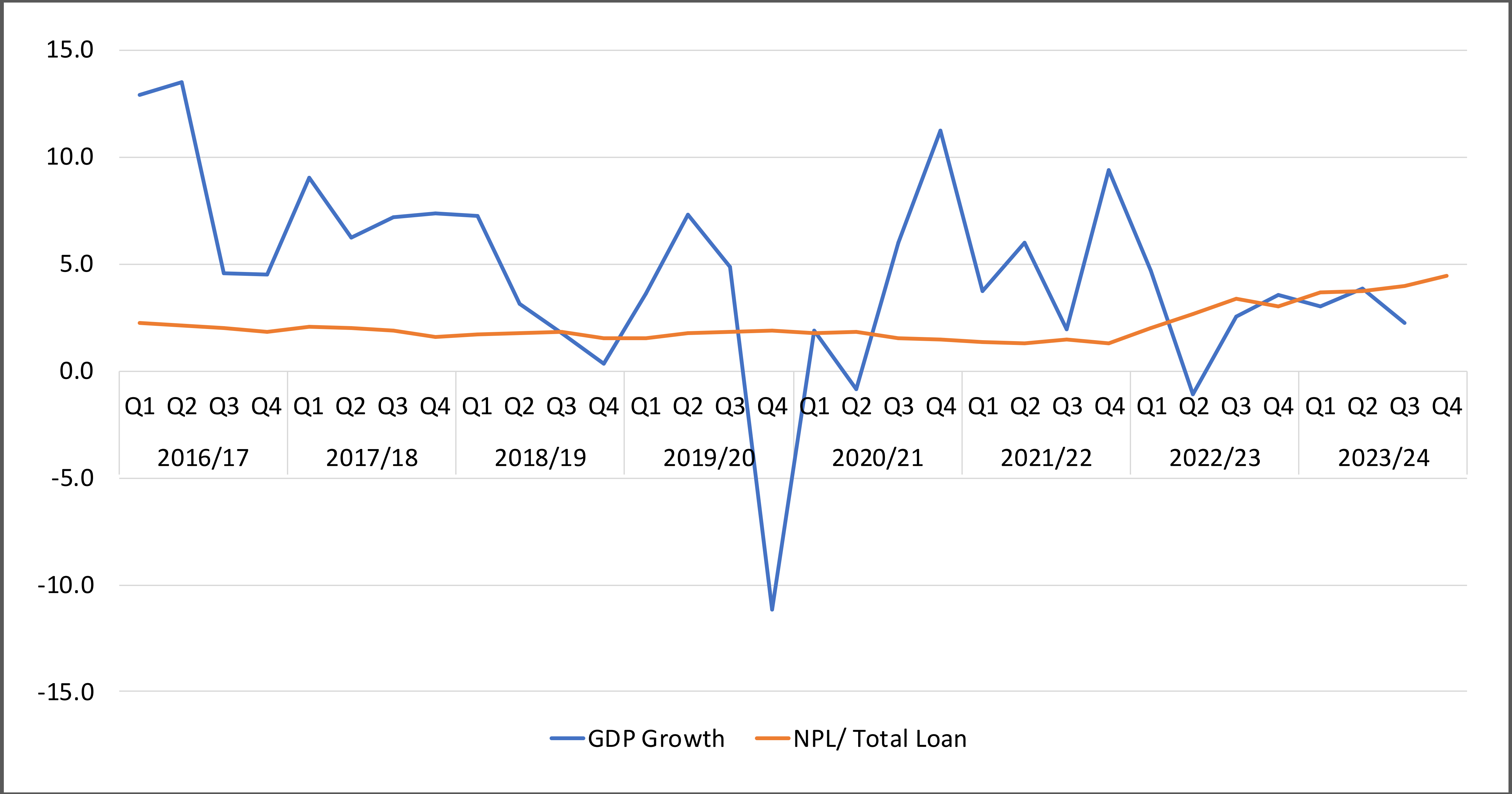
2024 "Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates"

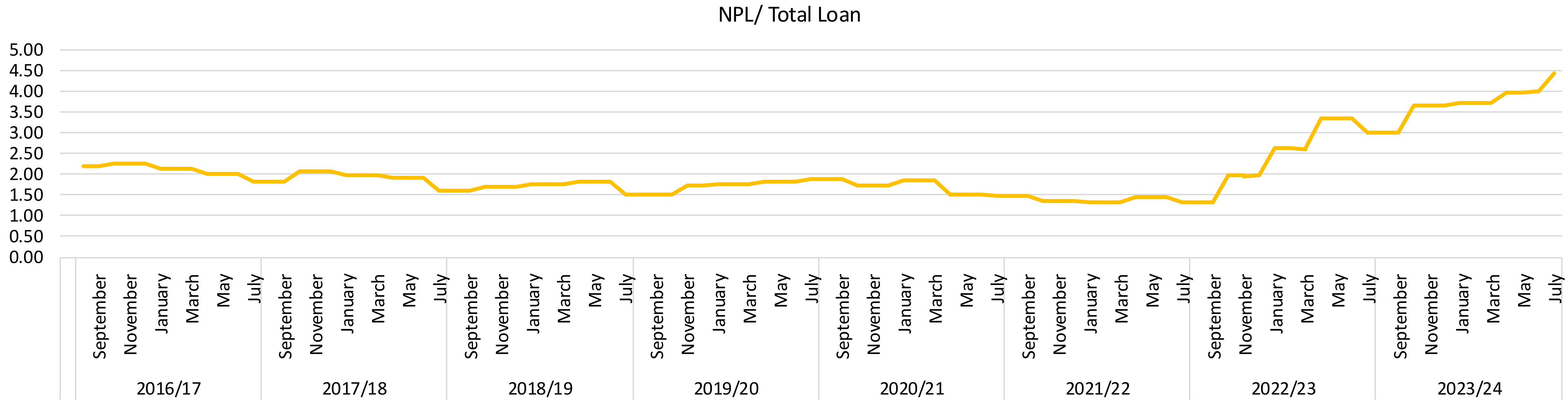
Economic activity in Nepal has been sluggish, despite some positive developments. May 2024 saw only a slight improvement in consumer spending, primarily due to increased remittances and lower borrowing costs. However, the manufacturing sector, crucial to industrial activity, has not experienced significant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

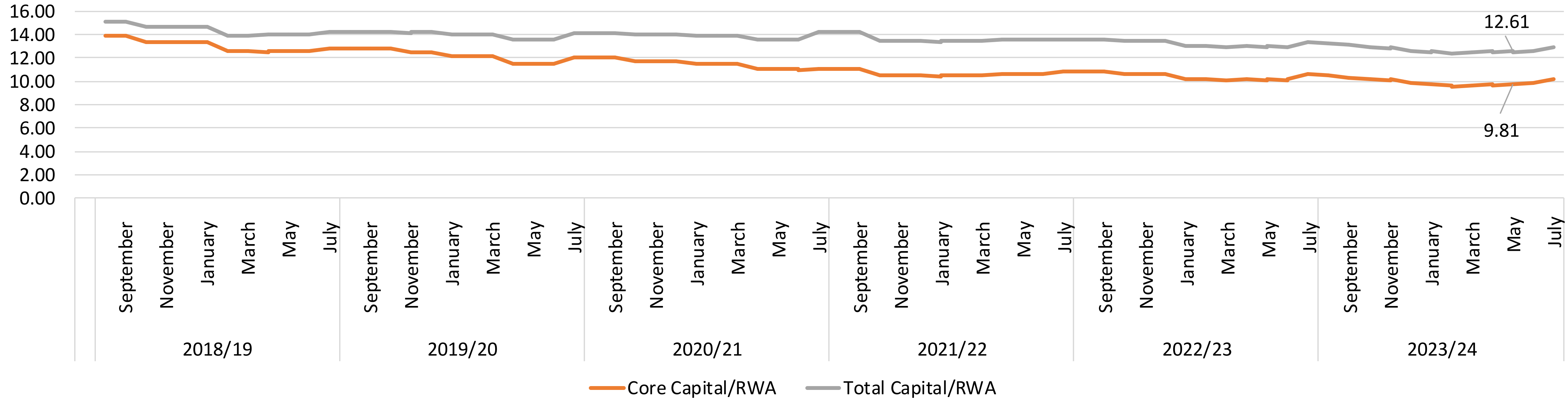
Migration and urbanization have led to a decline in rural demand, which is expected to remain below the levels seen in the 2023/24 fiscal year. During the current fiscal year, the weighted average lending rates have decreased by 2.07%. As a result, there has been a modest increase in urban demand for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


15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
GDP Growth
NPL/ Total Loan

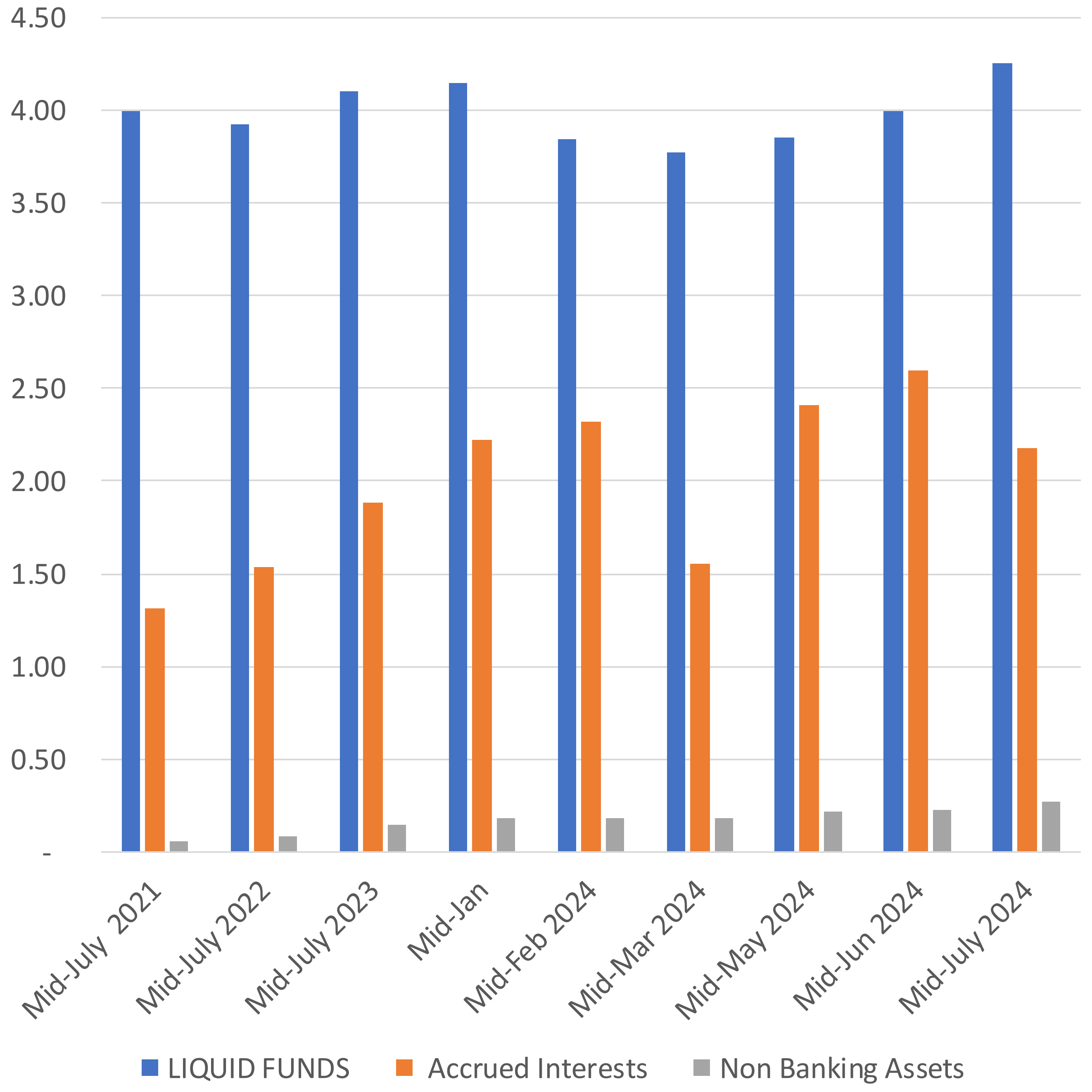

NPL/ Total Loan
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
September
November
January
March
May
July
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24


16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
12.61
9.81
September
November
January
March
May
July
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Core Capital/RWA
Total Capital/RWA

1. ***Accrued Interest Trends:***
    1. *There has been a consistent increase in accrued interest from Mid-July 2021 to Mid-July 2023, indicating a rising number of borrowers struggling to meet their debt obligations.*
    2. *Post Mid-July 2023, accrued interest exhibits fluctuations but remains high, suggesting persistent financial strain among borrowers.*
2. ***NPA Ratio:***
    1. *The NPA ratio, shown in the second chart, is highly volatile, with significant peaks and troughs over the analyzed period.*
    2. *This volatility suggests instability in the banking sector, as loans continue to shift from performing to non-performing status, likely driven by the increasing accrued interest.*
3. ***GDP Growth:***
    1. *Despite the volatility in the NPA ratio, the GDP growth rate remains relatively stable throughout the period.*
    2. *This stability indicates that the broader economy has not yet been significantly affected by the rising NPAs and accrued interest, although continued trends could pose future risks.*

Relationship Analysis

1. *Accrued Interest and NPA: The upward trend in accrued interest is closely linked to the increase in NPAs. As more borrowers are unable to service their debt, interest accumulates, and loans eventually become non-performing.*
2. *NPA and GDP Growth: The NPA ratio's volatility contrasts with the stability in GDP growth, suggesting that while the financial sector is under strain, other sectors of the economy are likely sustaining overall economic growth. However, if NPAs continue to rise, it could lead to more cautious lending practices, reducing investment and potentially slowing down GDP growth in the future.*



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 $1.54 billion and $1.77 billion, correspondingly.*
Non-performing assets	***Exercise caution:*** *Non-Performing Loans (NPLs) are projected to remain at 3.01% by the end of July 2025. 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)	*3,535.30*
Loan of 5M or and above without specified purpose	*479.78*
Margin Nature Loan	*693.02*
Hire Purchase Loan	*283.39*
Credit Card	*43.68*
Education Loan	*422.80*
Gold/Silver	*449.91*
Guarantee Bond	*24.31*
Fixed A/c Receipt	319.99
Total	6,252.19
% of total Loan	15.90%

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	*Increase wholesale and retail operations.*	*Aggregate demand*	*Decline*	*High*
	Enhancing foreign exchange reserves and experiencing a substantial inflow of remittances	*Pressure on BOP*	*Decline*	*Low*
	Improvement in Corporate cash recovery.	*Firm Investment*	*Increase*	*Moderate*
	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 2024/25, 2025/26 and 2026/27

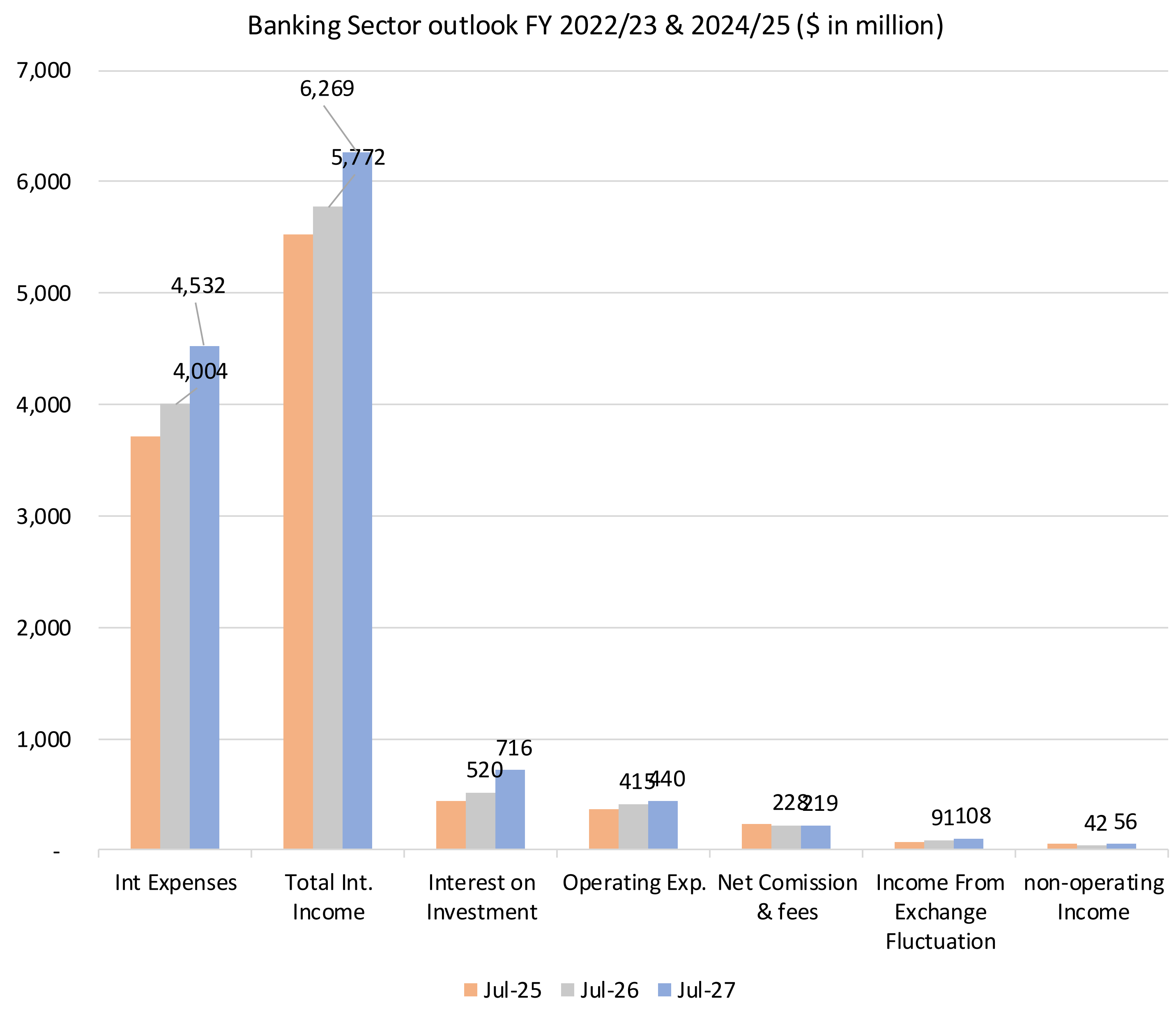
Assets and Liability (Exchange Factor $ 1 = NPR 130)								
Capital, Deposits and Risk Assets								
Particulars	Jul-24	Change	July 2025e	Change	July 2026e	Change	July 2027e	Change
CAPITAL FUND	5,605	6.67%	6,412	14.39%	7,331	14.33%	8,238	12.37%
PAID UP CAPITAL	3,357	2.61%	3,437	2.38%	3,500	1.84%	3,564	1.83%
BORROWINGS	1,853	-5.65%	2,088	12.68%	1,725	-17.39%	1,685	-2.32%
Borrowing from NRB	3	-80.57%	6	115.02%	2.80	-56.87%	(8.99)	-420.62%
DEPOSITS	49,966	12.55%	54,075	8.22%	59,498	10.03%	64,199	7.90%
Current	2,937	-15.91%	2,113	-28.05%	2,828	33.84%	3,760	32.93%
Saving	15,034	28.66%	16,074	6.92%	18,687	16.26%	19,611	4.94%
Fixed	28,022	8.44%	30,848	10.09%	31,992	3.71%	33,582	4.97%
Call	3,635	20.91%	4,745	30.55%	5,711	20.36%	7,010	22.74%
Others	339	-8.45%	295	-12.84%	279	-5.54%	236	-15.48%
LIQUID FUNDS	4,255	3.60%	3,028	-28.85%	2,238	-26.08%	4,565	103.94%
GOVT. SECURITIES/OTHER	11,317	40.16%	13,790	21.86%	16,879	22.40%	20,073	18.92%
Investment in share and other	2,121	-15.77%	2,377	12.09%	2,212	-6.95%	2,300	3.98%
LOANS & ADVANCES	39,759	5.97%	41,849	5.26%	44,876	7.23%	47,841	6.61%
Total Capital/RWA	12.95%	1.25%	14.45%	11.58%	15.56%	7.67%	15.67%	0.72%
CD	78.04%	-5.21%	75.84%	-2.82%	74.28%	-2.05%	73.50%	-1.06%
NPL /Total Loan	3.90%	51.16%	3.01%	-22.83%	2.91%	-3.37%	2.83%	-2.65%
Return on Capital Employed	10.08%	-21.05%	12.78%	26.72%	12.73%	-0.36%	11.12%	-12.66%

Profit and loss								
	Jul-24	Change	July 2025e	Change	July 2026e	Change	July 2027e	Change
Int on Loans and Adv.	4,525	2.80%	5,091	12.50%	5,253	3.17%	5,553	5.72%
Total Int. Income	5,185	4.70%	5,527	6.59%	5,772	4.43%	6,269	8.61%
Avg. Yield From Loan	9.94%	-15.96%	9.98%	0.40%	10.53%	5.60%	10.54%	-54.94%
Int Expenses	3,508	6.23%	3,717	5.96%	4,004	7.72%	4,532	13.20%
Avg. Cost of Fund	5.76%	-27.18%	6.32%	9.85%	5.79%	-8.48%	6.07%	4.95%
NII	1,678	1.65%	1,811	7.92%	1,769	-2.32%	1,737	-1.77%
Interest Spread	4.18%	6.65%	3.65%	-12.62%	4.75%	29.97%	4.38%	-7.83%
Commission & fees	236	23.20%	236	0.10%	228	-3.31%	219	-3.76%
Ex. Fluctuation Gain	49	14.70%	72	46.33%	91	26.34%	108	19.24%
Other Operating & Non-operating Income	70	-30.51%	52	-26.15%	42	-19.39%	56	34.53%
Gross Income	2,032	2.38%	2,170	6.77%	2,129	-1.89%	2,121	-0.38%
Employees Exp	490	15.48%	520	6.24%	577	10.89%	617	6.92%
Employee cost in % of Total Int. Income	9.44%	9.96%	9.41%	-0.33%	9.99%	6.18%	9.84%	-1.56%
Office Operating Exp	331	10.00%	371	12.00%	415	12.09%	440	5.90%
LLP & write-off	667	26.21%	373	-44.10%	181	-51.37%	242	33.29%
Additional LLP to Risk Assets	1.65%	22.36%	0.87%	-47.61%	0.45%	-48.22%	0.56%	25.03%
Provision Written Back	333	56.90%	366	10.00%	494	35.00%	608	23.00%
PBT	878	-7.03%	1,272	44.96%	1,449	13.92%	1,430	-1.33%
Return on total assets	1.39%	-11.45%	1.83%	31.78%	1.90%	3.56%	1.70%	-10.30%

Profitability of BFIs.

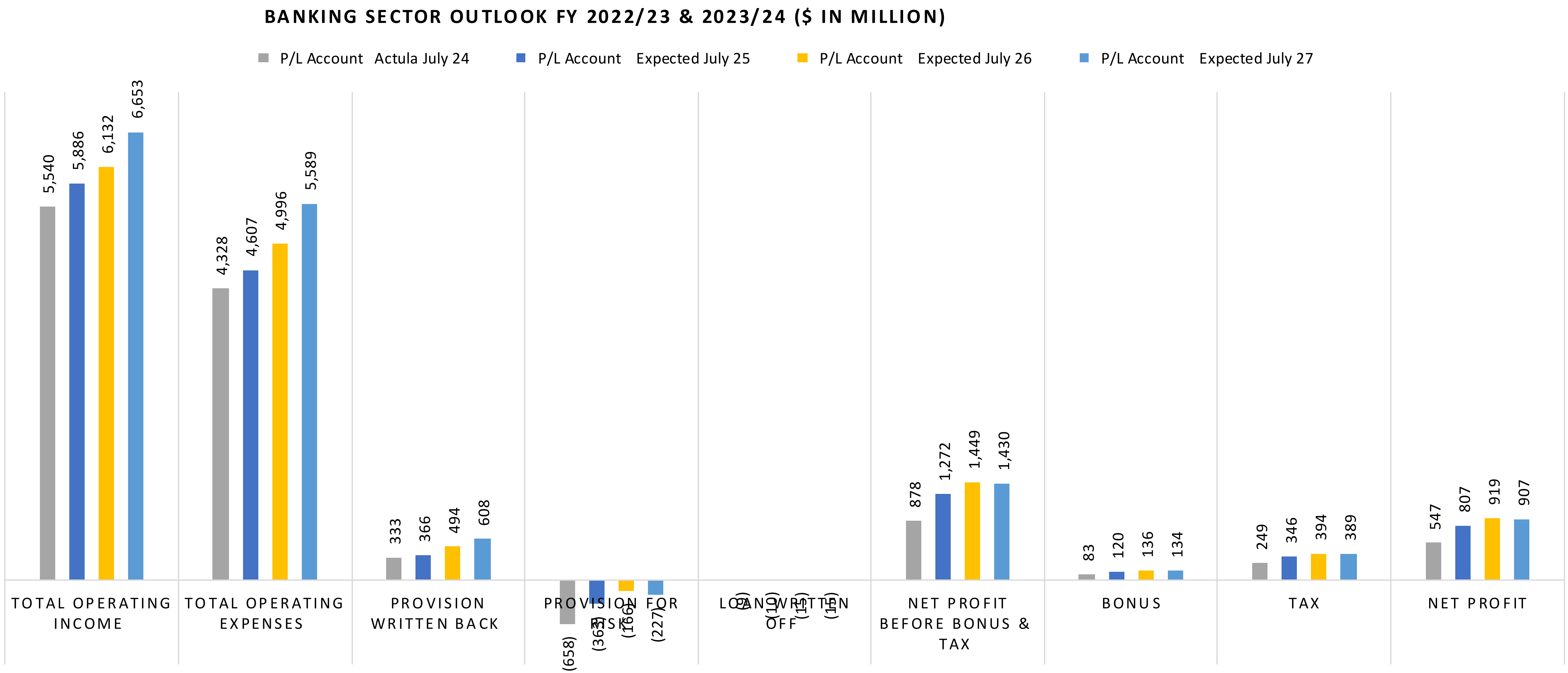
(Exchange Factor $ 1 = NPR 130

$ in million				
P/L Account				
Particulars	Actual July 24	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	5,540	5,886	6,132	6,653
Total Operating Expenses	4,328	4,607	4,996	5,589
Provision Written Back	333	366	494	608
Provision for Risk	(658)	(363)	(166)	(227)
Loan Written Off	(9)	(10)	(15)	(15)
Net Profit before Bonus & Tax	878	1,272	1,449	1,430
Bonus	83	120	136	134
Tax	249	346	394	389
Net profit	547	807	919	907

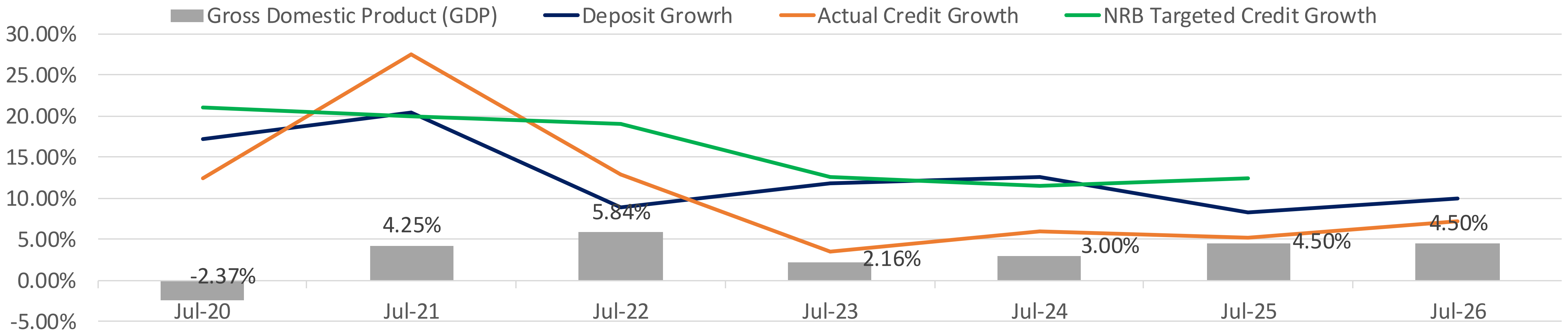


Profitability of BFIs

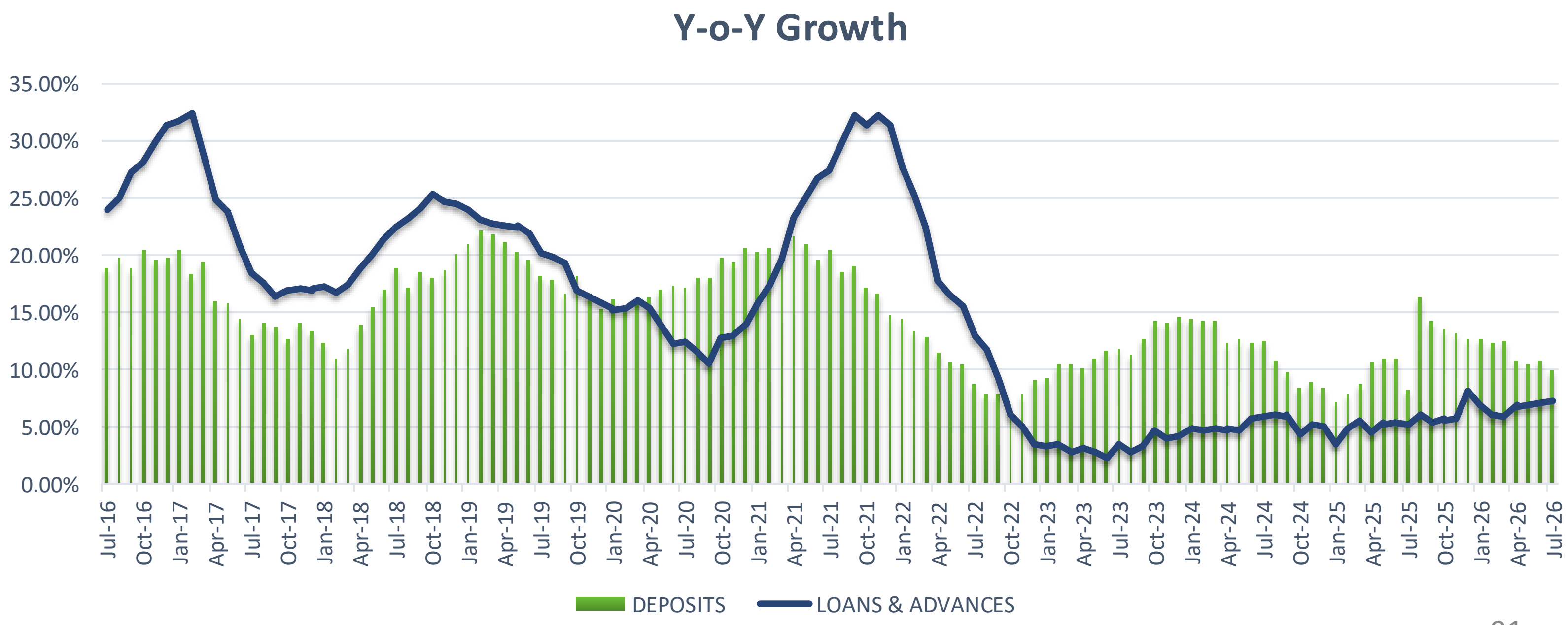
(Exchange Factor $ 1 = NPR 130)



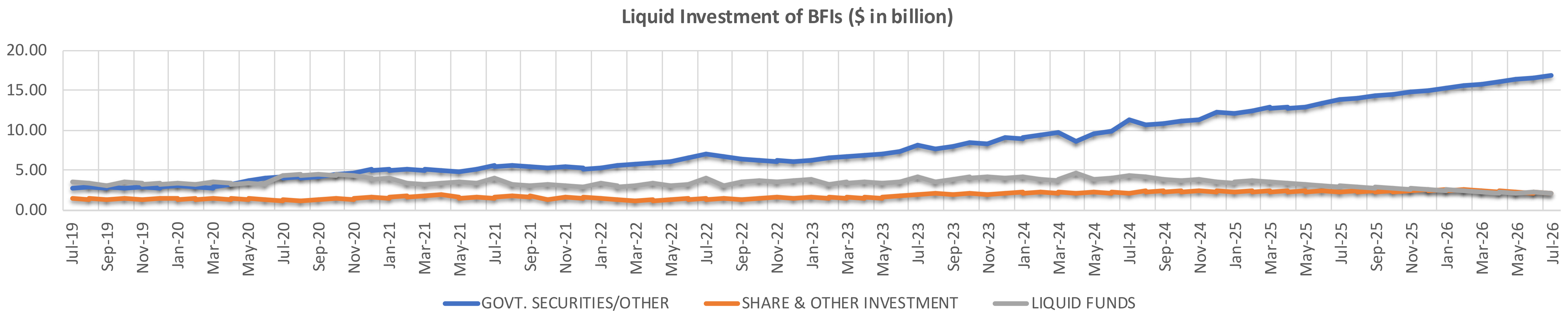
Annual Loan and Deposit Growth and LLP

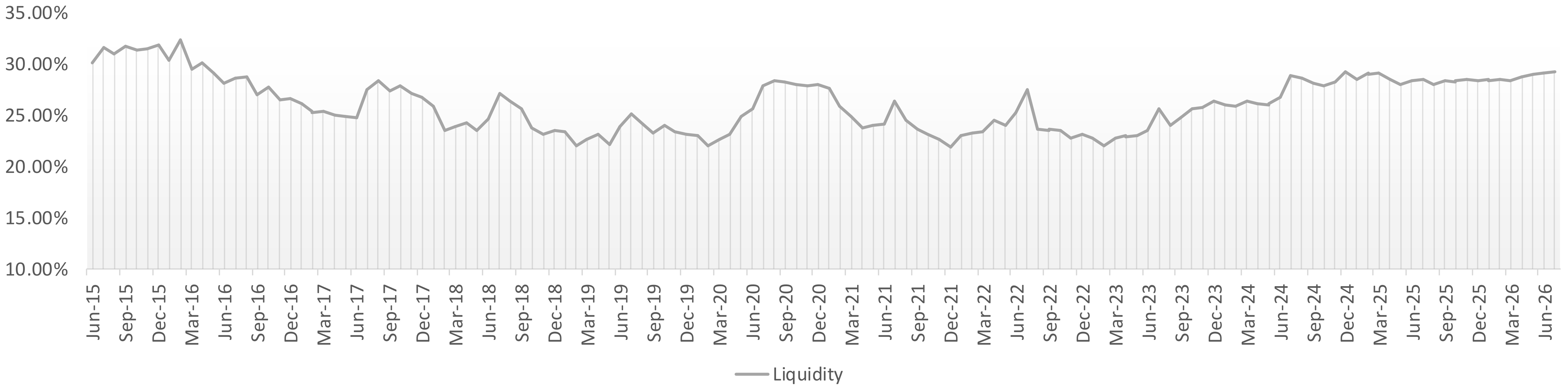


	Amount in USD Million	
Particulars	Incremental LLP	Incremental LLP
Pass Loan loss Provision	110.45	16.79%
Watch List Provision	98.97	15.04%
Special Loan Loss Provision	448.39	68.16%
Additional Provision	657.81	



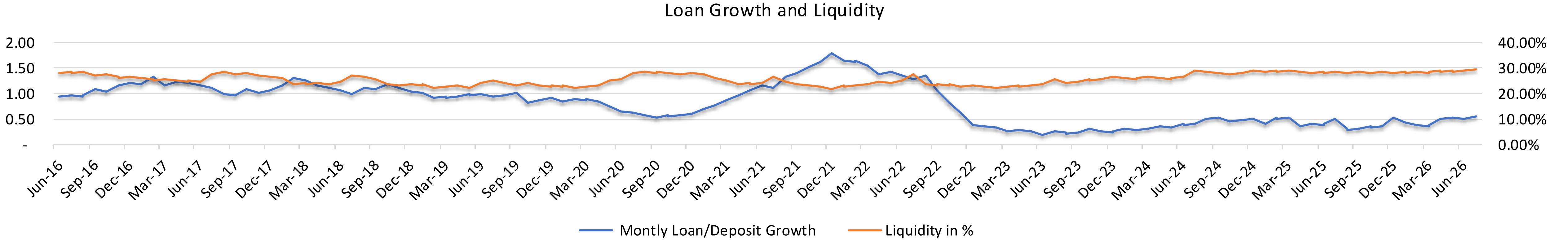
Liquidity



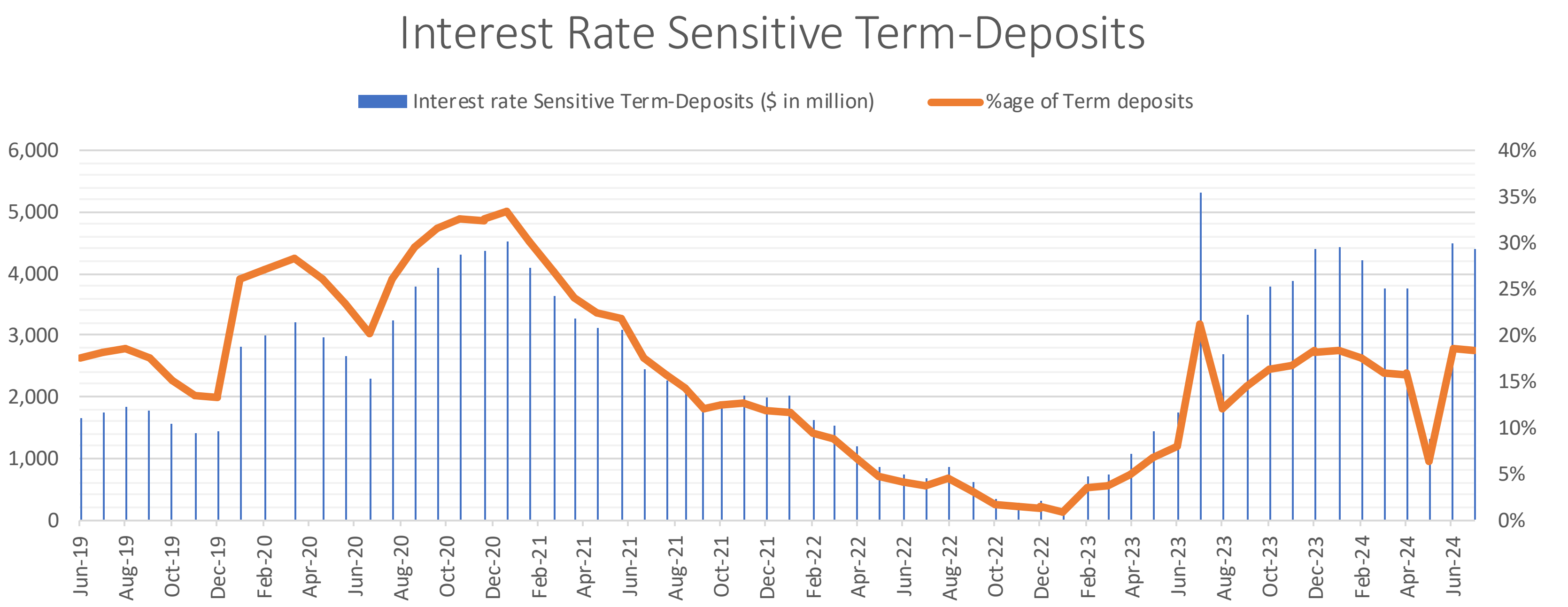


While liquidity continues to improve steadily, it's probable that a significant number of BFIs will experience negative cash flows from operations.

Liquidity

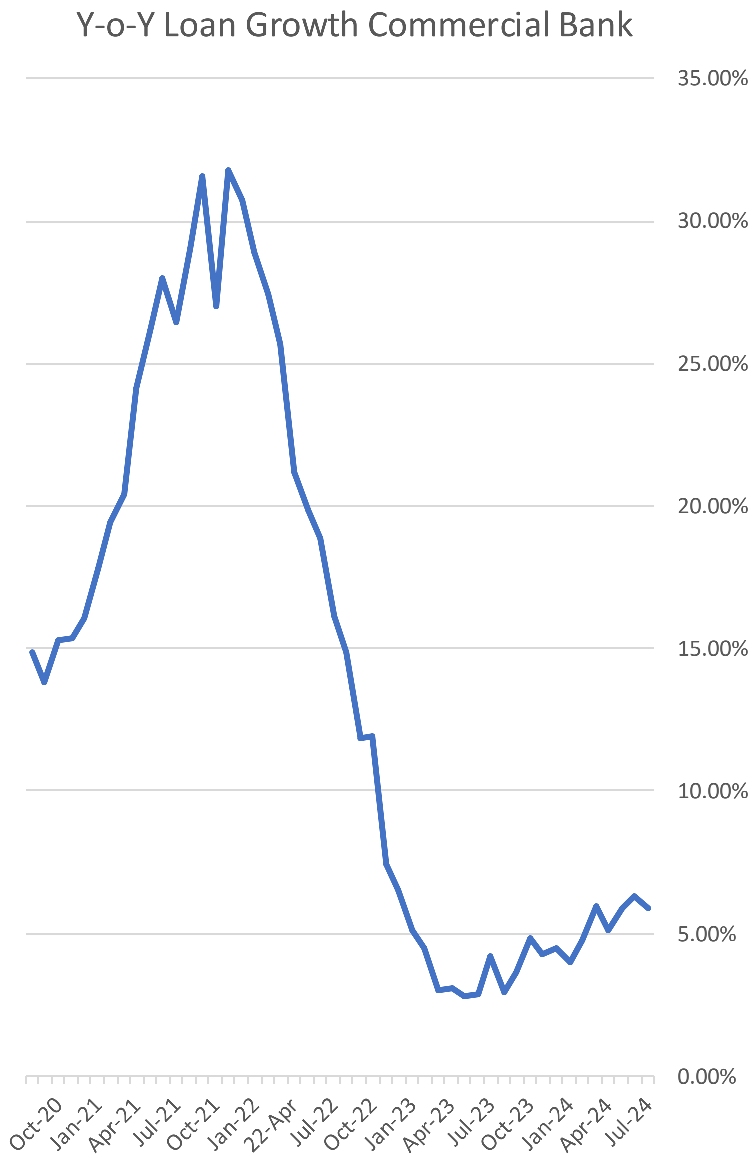


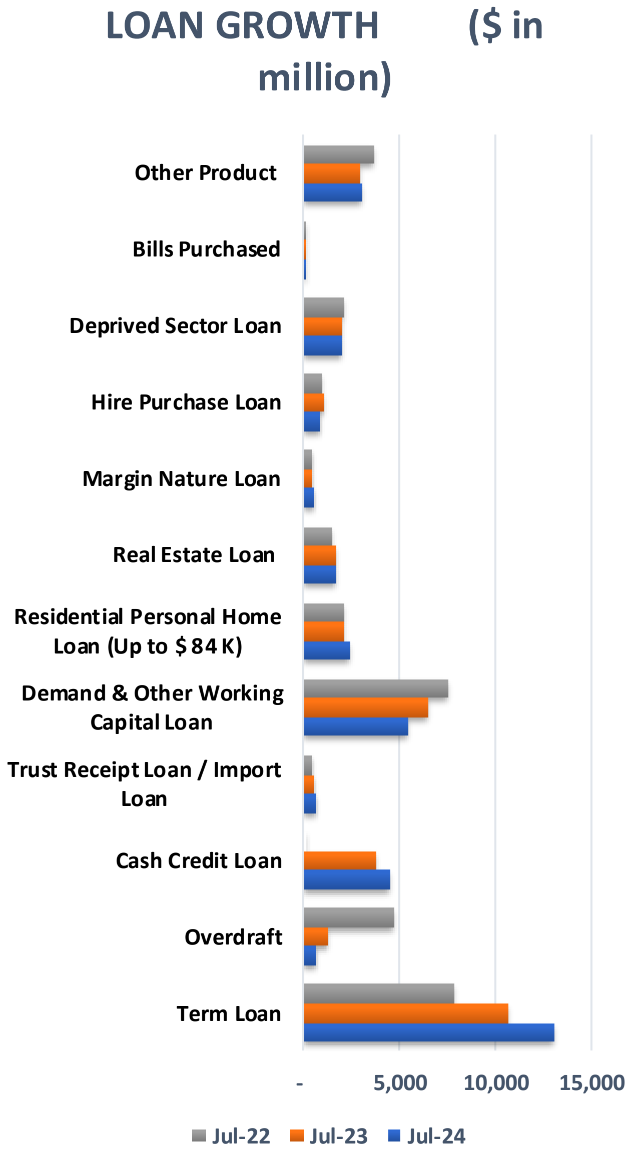
Amount in million		Maturity	
Period	Deposit mix	Within next month	Within a Year
3-6 months	18%	4,403.59	11,661.19
6-12 months	33%		
1-2 yrs.'	23%		
2 yrs. and above	25%		
Total	100%	18.29%	48.43%

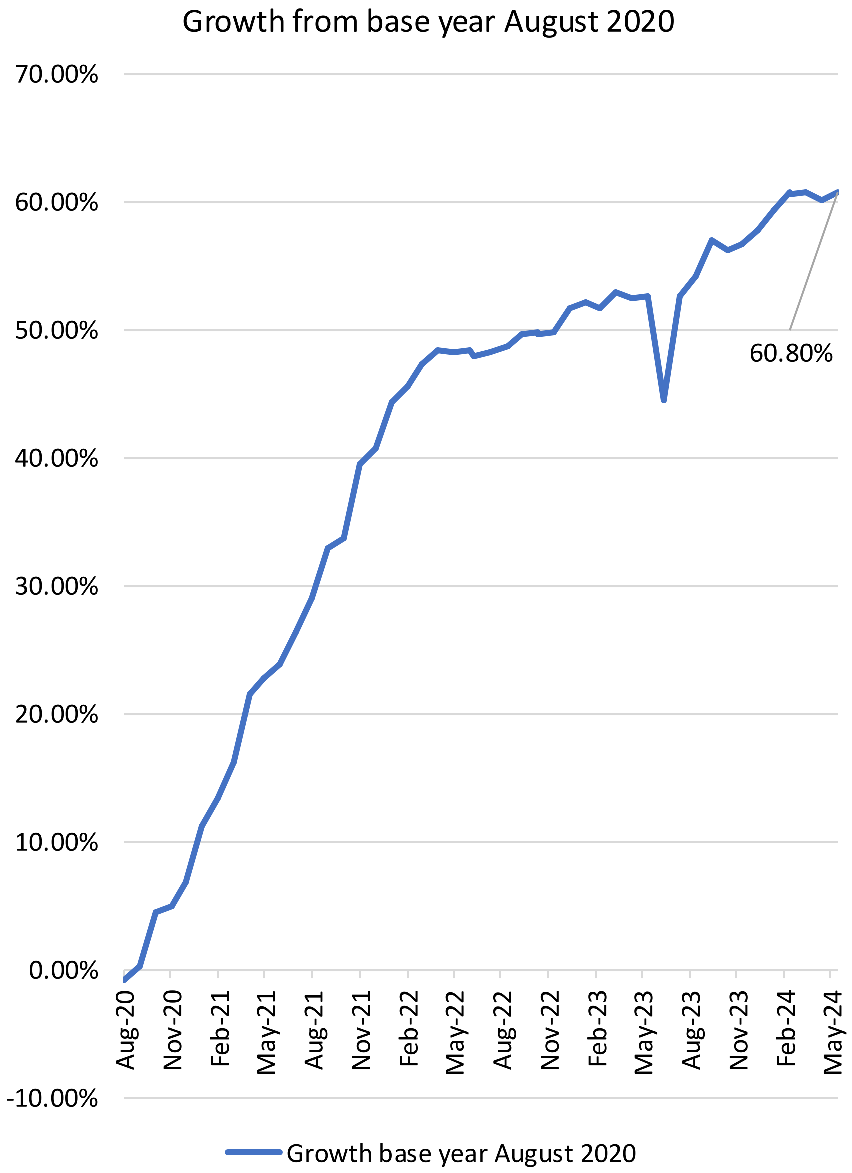


Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

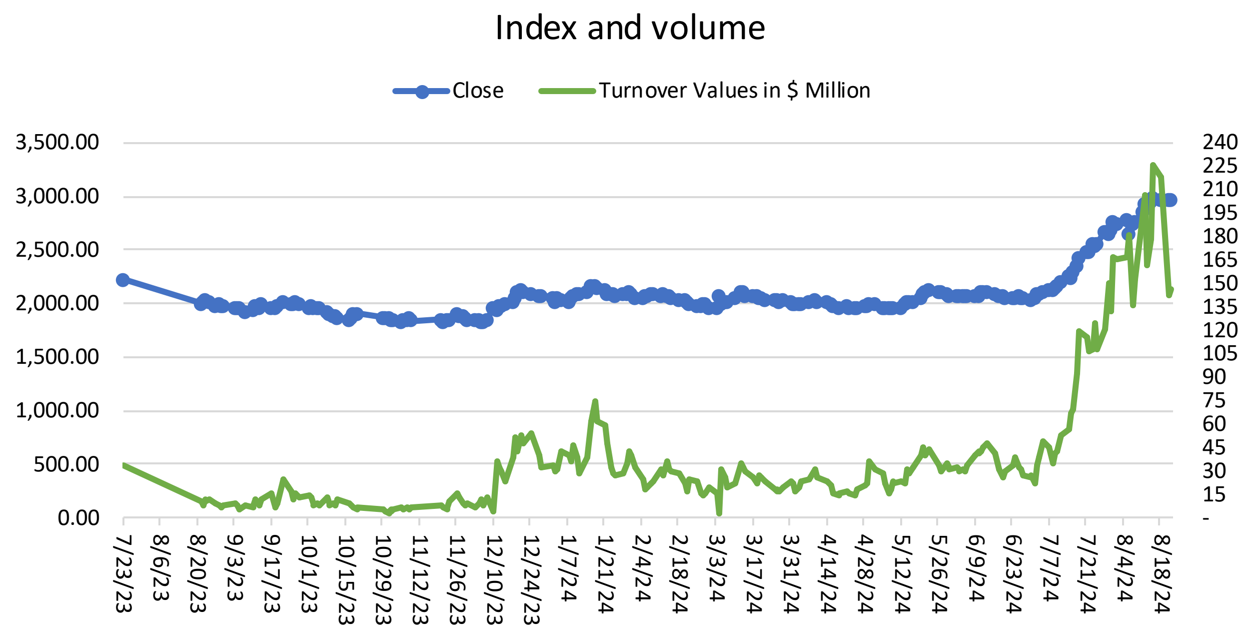
Sector wise Loan Growth of Commercial Banks

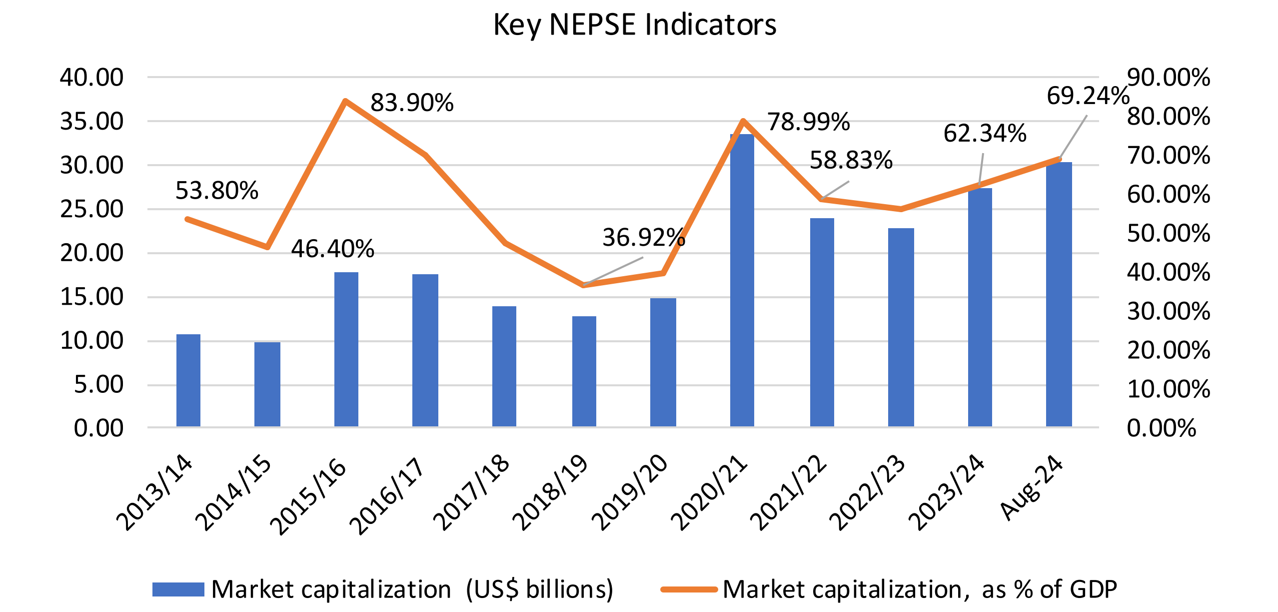


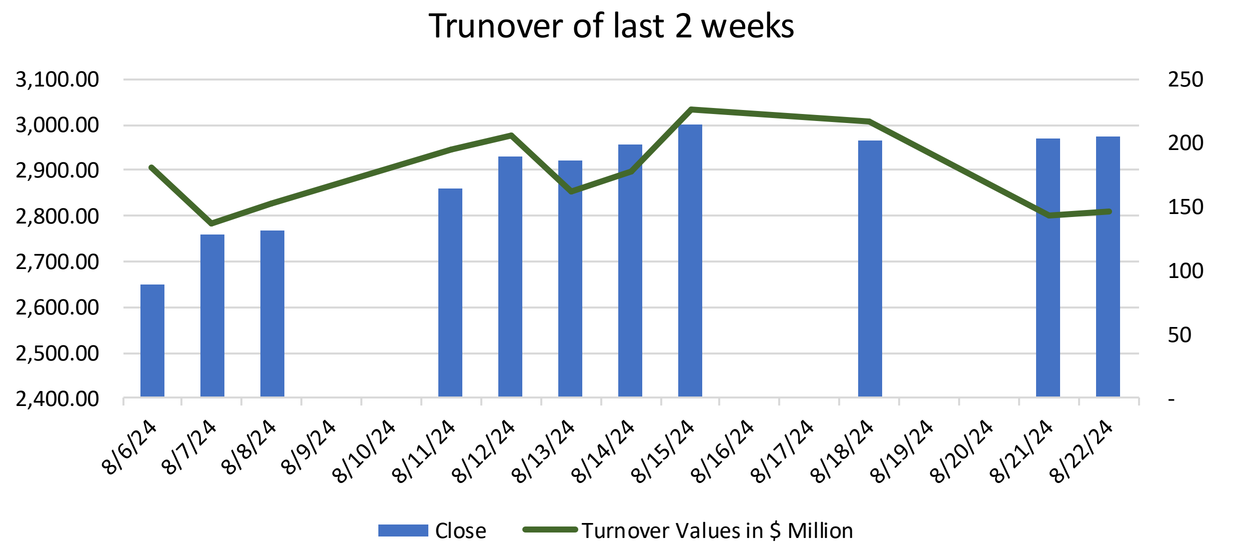


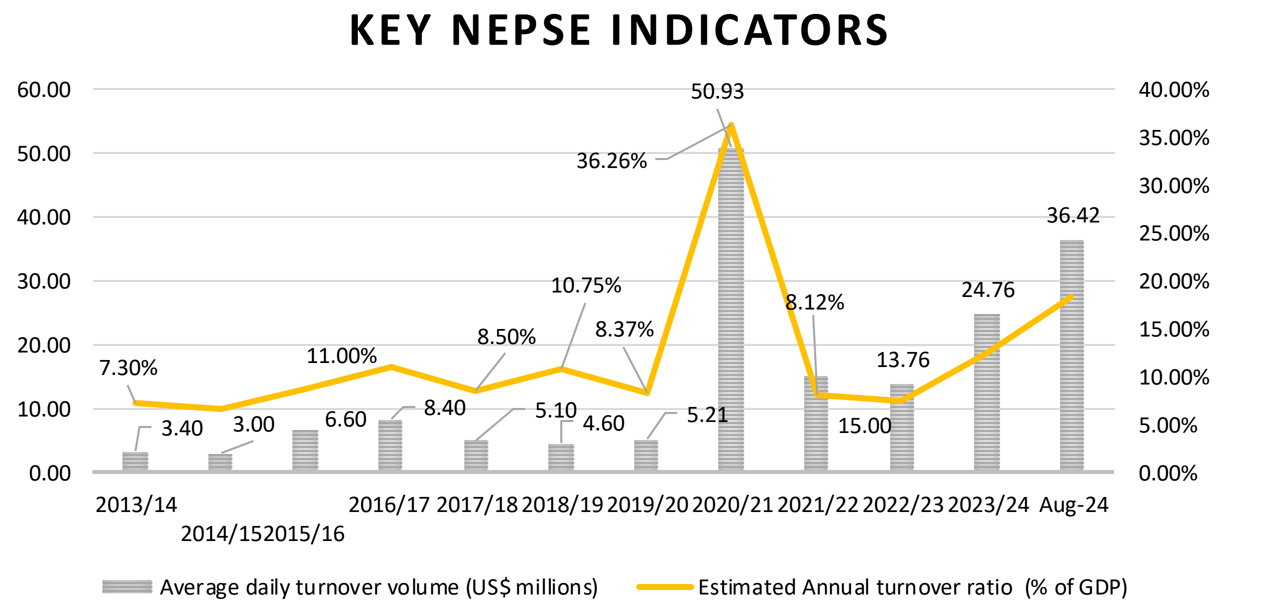


Capital Market

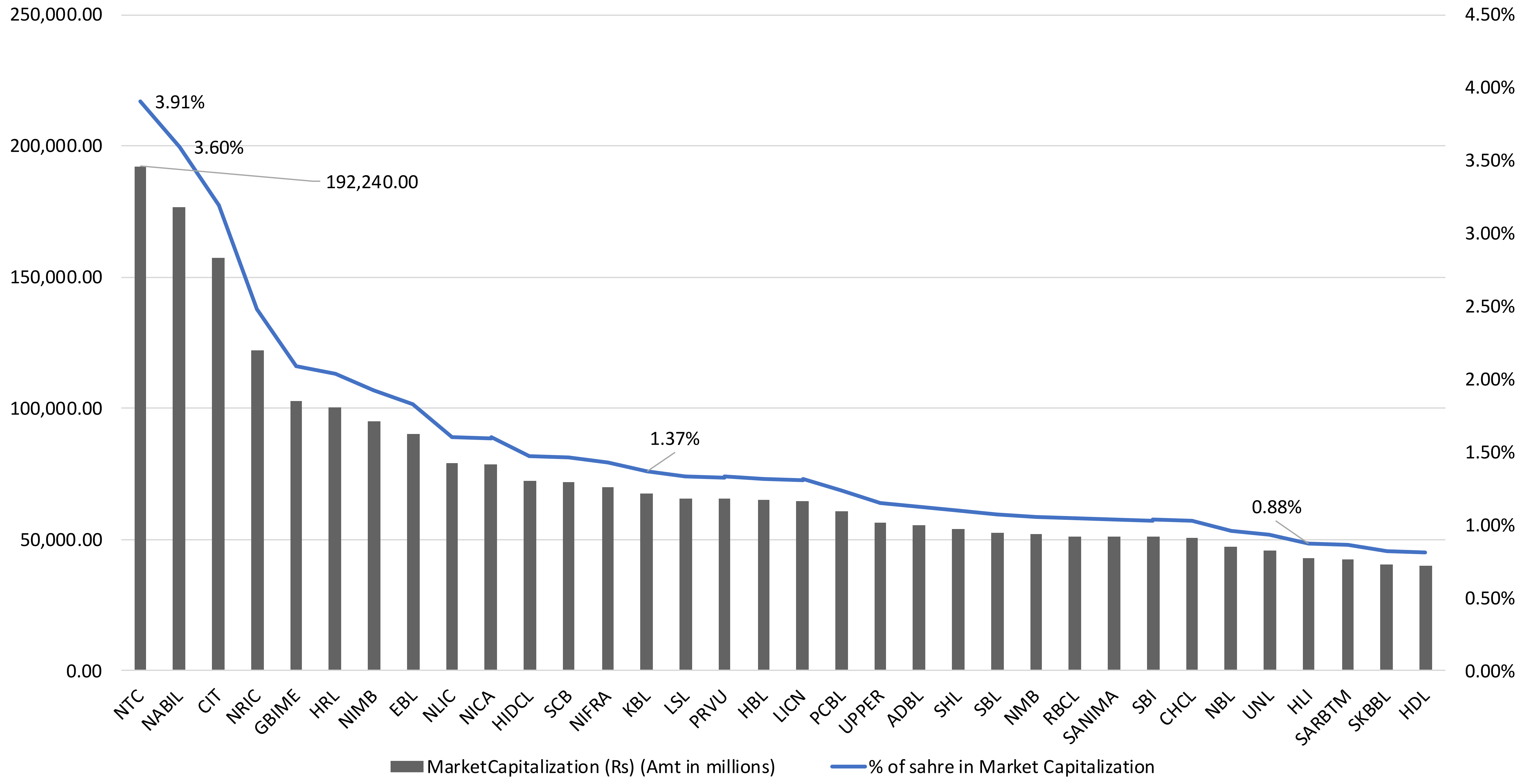








The 34 companies listed on NEPSE make up 51,17% of the total market capitalization, with the majority of their shares not available for free trade.



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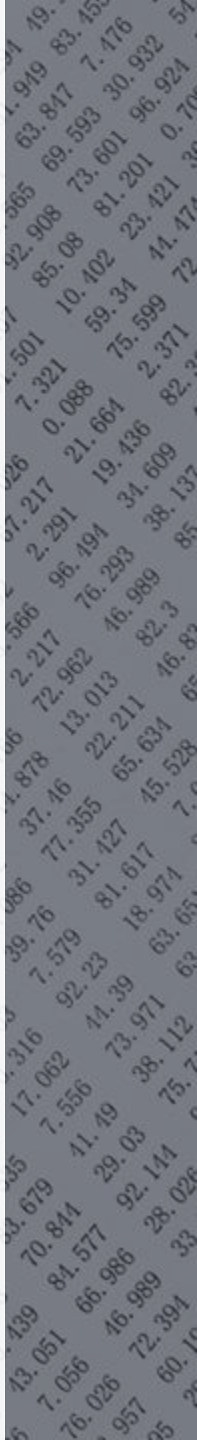
Fiscal Situation



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

Government Receipts & Payments Status	Annual Budget	23/08/2024	% age
1. Revenue (USD in million)	10,917.72	798.03	7.31%
a) Tax Revenue	9,878.54	661.19	6.69%
b) Non Tax Revenue	1,039.18	136.83	13.17%
2. Grants	402.51	-	0.00%
3. Other Receipts	-	17.80	
Total Receipt	11,320.23	815.82	7.21%
2. Total Expenditure from Treasury	14,310.02	442.75	3.09%
a. Recurrent	8,774.34	149.10	1.70%
b. Capital	2,710.42	75.54	2.79%
c. Financing	2,825.27	218.11	7.72%
Deficit	(2,989.80)	373.08	
% of GDP	6.82%	0.85%	

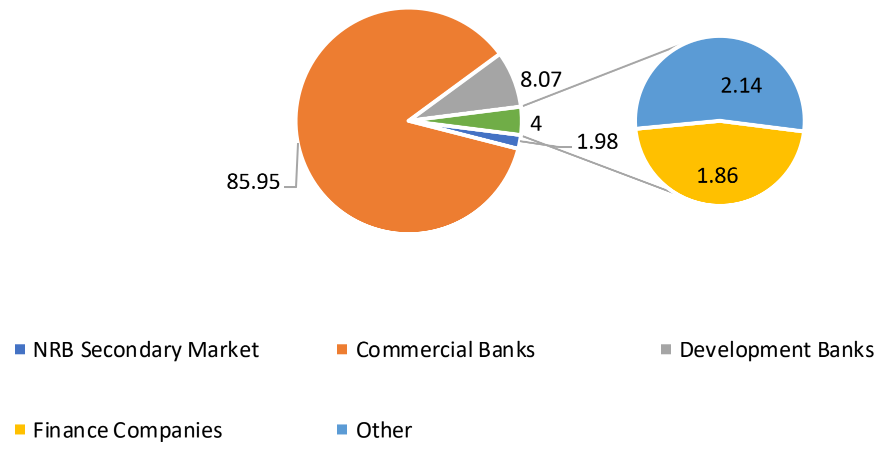
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

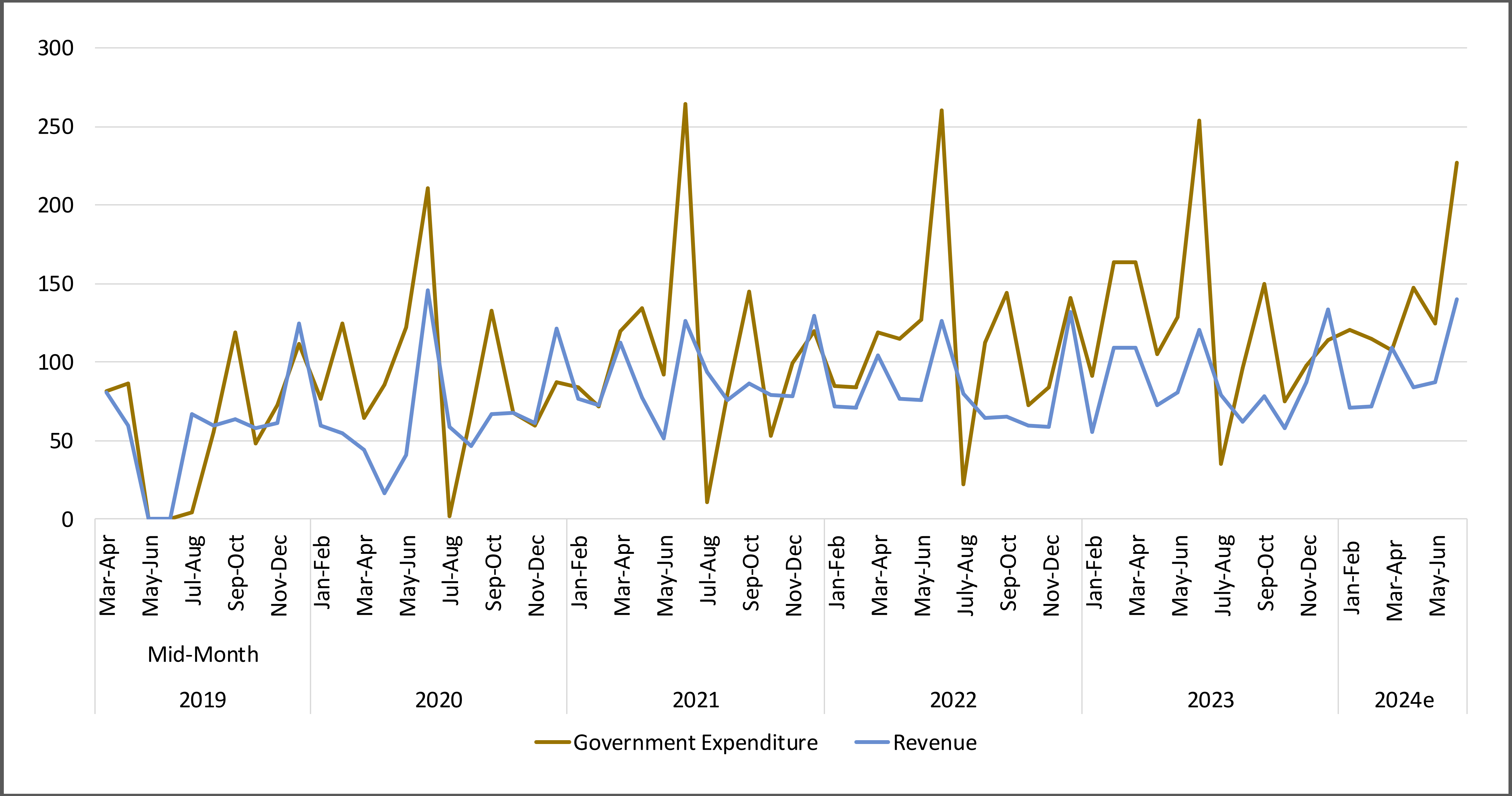
	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2021/22	Expenditure	82	643	1,940	2,381	3,187	4,090	4,892	5,576	6,535	7,428	8,385	10,465
	Revenue	784	1,417	2,143	2,809	3,466	4,555	5,155	5,754	6,632	7,214	7,851	8,900
	Treasury Position	2,338	2,467	2,006	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	11,361
	Revenue	663	1,186	1,841	2,325	3,054	4,172	4,768	5,370	6,286	6,991	7,724	8,898
	Treasury Position	1,756	1,614	1,441	1,281	1,579	1,989	1,809	1,722	2,636	2,351	2,114	834

Key Economic Indicators

Particulars	Mid-May 2024 (USD=130 NPR)
CPI-Inflation	CPI-based Inflation remained 3.57 percent on y-o-y basis.
External Trade	Imports and exports decreased 1.2 percent and 3.0 percent respectively. In the previous year, imports and exports decreased 16.1 percent and 21.4 percent respectively.
Remittances	Remittances increased 16.5 percent in Nepalese rupee and 14.5 percent in USD.
Balance of Payments	Balance of Payments remained at a surplus of $.3.86 billion.
Broad money (M2)	Broad money (M2) expanded 13.0 percent.
Deposits and Loans and advances	Deposits at Banks and Financial Institutions increased 13.0 percent and private sector credit increased 5.8 percent.

Ownership Structure of Government Securities

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May-Jun
Mid-Month
2019
2020
2021
2022
2023
2024e
Government Expenditure
Revenue

Government Revenue

HEADS	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Customs	113	232	382	471	612	737	847	981	1107	1249	1398
Import Duties	86	186	311	379	491	592	680	785	885	995	1110
Green Tax	0	0	0	0	0	0	0	0	0	0	1
Export Duty	0	0	0	0	0	1	1	1	1	2	2
Infrastructure Tax	10	18	28	39	55	71	81	97	110	126	142
Other incomes of Custom	6	6	6	6	7	1	2	2	2	3	4
Agriculture Reform Duties	5	9	13	16	22	27	31	36	40	44	47
Road Maintenance and Improvement Duty	4	8	15	19	25	30	35	41	47	54	61
Road Construction and Maintenance Duty	2	4	8	10	13	15	18	19	22	26	32
Value Added Tax	**184**	**344**	**531**	**672**	**887**	**1089**	**1269**	**1467**	**1678**	**1882**	**2121**
Production, Sales and Service	88	146	202	263	348	427	503	580	671	757	863
Imports	95	198	330	409	540	662	766	888	1007	1124	1258
Excise Duties	85	164	267	342	436	528	604	700	803	918	1042
Internal Production	64	120	187	246	316	387	443	517	595	686	780
Excise on Imports	20	44	81	96	120	141	161	184	208	232	262
Educational Service Tax	2	5	7	9	10	12	14	16	18	21	23
Income Tax	**156**	**240**	**347**	**462**	**648**	**1046**	**1193**	**1287**	**1555**	**1675**	**1793**
Income Tax	105	177	274	340	515	900	995	1079	1337	1412	1522
Interest Tax	52	62	73	122	133	145	198	208	218	263	271
Total Tax Revenue	**540**	**984**	**1534**	**1956**	**2594**	**3412**	**3927**	**4451**	**5162**	**5745**	**6377**
Non Tax Revenue	67	101	151	172	202	407	438	464	592	655	693
Total Revenue	607	1085	1686	2128	2796	3819	4365	4916	5754	6399	7071
Other Receipts	71	101	119	125	136	145	165	169	171	172	174
Total Receipts	**678**	**1186**	**1804**	**2253**	**2932**	**3965**	**4529**	**5085**	**5925**	**6571**	**7245**

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%

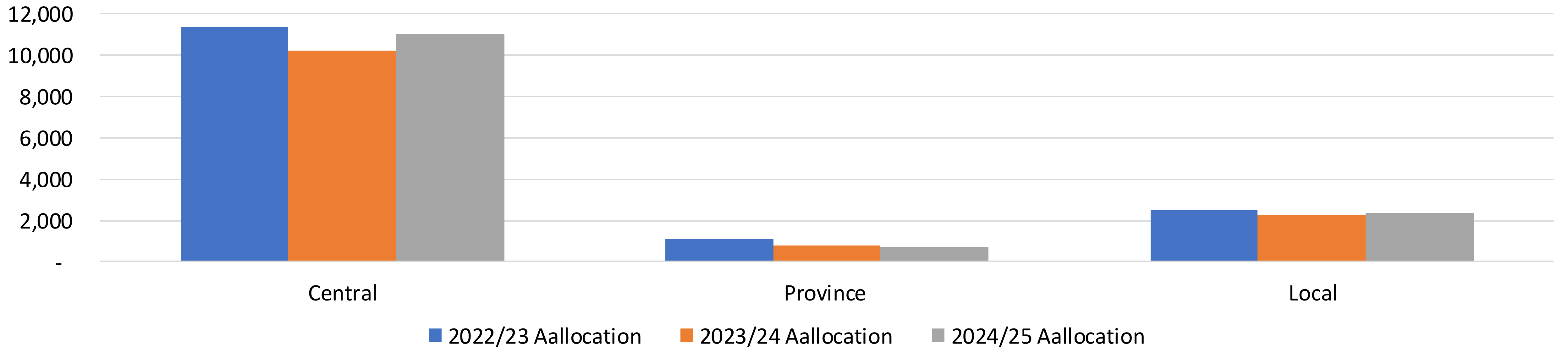
Summary of Macro Economic Indicators			
1 USD = 130 NPR			
Description	2078/79 R	2079/80 R	2080/81 P
	2021/22	2022/23	2023/24
Percapita GDP (NRs.)	1,70,506	1,81,569	1,91,888
Annual Change in nominal percapita GDP (%)	13.30	6.49	5.68
Percapita GNI (NRs.)	1,71,494	1,83,686	1,94,829
Annual Change in nominal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

Revenue Sources	Exchange Factor 1 USD = NPR 120							1 USD= NRP 132				1 USD= NRP 132	
	Actual Budget Amount ($ Million) 2020/21	Budget Amount ($ Million) 2021/22	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,
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