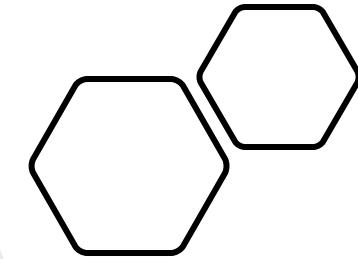


Economic Outlook Based on September 2024



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Overview 2024/25

Economic Information

Financial Sector Highlights

Fiscal situation

1

Overview 2024/25



2024/25 “Optimistic outlook while exercising prudence”

The biggest challenge for Nepal’s economy is not its short-term fundamentals, which remain relatively stable, but the increasing risks to businesses and the decline in private sector confidence. Unpredictable weather patterns and flash floods have significantly disrupted the economy, impacting key sectors such as agriculture, transport, energy, and services.

The economic and infrastructural damage requires immediate attention. The Nepal Rastra Bank (NRB) and the Ministry of Finance (MOF) must collaborate to design effective recovery strategies, including regulatory reforms and fiscal stimulus, to support the affected sectors and build resilience.

To accelerate economic growth, much more effort is needed. Priority areas include job creation, attracting local and foreign investments, securing foreign aid, leveraging natural resources, boosting productivity, and reducing the trade deficit.

Domestically, key economic drivers such as private consumption and gross fixed investment have shown minimal improvement, providing limited support to GDP growth in the first quarter of 2024-25. Although there have been gains in the energy sector, they were wiped out by the loss of hydropower projects, both operational and under construction, due to flooding. Sluggish performance in manufacturing and a weakening services sector continue to restrain overall growth. Household consumption remains low, and despite easing headline inflation, it is unlikely to recover in the second quarter due to slowing rural demand. While Consumer Price Index (CPI) inflation is below the target, food price volatility remains a risk based on recent trends.

The Government of Nepal has set a growth target of 6% for this fiscal year. However, multiple challenges—including reduced government capital expenditure, declining corporate profitability, lower core output, and weak demand—may result in growth falling below 4%.

Credit Growth

Nepal's current macroeconomic situation presents a mix of opportunities and challenges. Credit growth in the private sector has remained modest, increasing by only 1.4% over two months and 6.6% on a year-on-year basis, despite significant reductions in interest rates, with average lending rates for commercial banks dropping from 12.23% to 9.52%. This slow growth in credit uptake could indicate weak demand from the private sector, likely due to ongoing economic uncertainties or sluggish recovery in key sectors like manufacturing, real estate, and construction. Banks may also be exercising caution in lending, possibly driven by concerns over rising non-performing assets and the broader economic environment.

Regulatory easing

To address this, the government and the central bank should consider targeted fiscal policies to boost demand in these sectors, potentially through public-private partnership initiatives, infrastructure development projects, or incentives for small and medium-sized enterprises (SMEs). Additionally, regulatory easing for banks in terms of credit provisioning could stimulate lending activities.

Strong external position

The accumulation of foreign exchange reserves, which now stand at USD 16 billion, is enough to cover 16.8 months of imports, suggesting a strong external position. However, this also points to subdued import demand, likely due to weak economic activity and limited domestic investment opportunities. Excessive reserves without corresponding domestic economic expansion may reflect inefficiencies, such as underutilized capital. To address this, Nepal could explore measures to boost domestic investment, such as easing restrictions on foreign direct investment (FDI), providing tax incentives for export-oriented industries, and improving infrastructure to attract more investments.

Potential deflation

On the inflation front, year-on-year consumer price inflation has slowed to 3.85%, down from 8.19% a year ago. This significant decline, particularly in non-food inflation, indicates weakened demand-side pressures and raises concerns about potential deflation. Prolonged deflation could stifle investment and consumer spending, leading to slower economic growth. To combat this, Nepal should consider expansionary fiscal and monetary policies to boost consumer confidence and spending. Increasing government capital expenditure in infrastructure, healthcare, and education could stimulate job creation and demand.

Economic growth

Overall, while the current economic conditions reflect positive aspects like strong foreign reserves and reduced inflation, the underlying issues of weak credit growth, underutilized investment potential, and risks of deflation must be addressed. Corrective actions should focus on stimulating private sector investment, enhancing fiscal spending, and adopting policies that boost domestic consumption and job creation, ensuring that economic growth is both sustainable and inclusive.

1. Challenges

Nepal faces considerable growth challenges, with both longstanding and new issues affecting its economic future. The underwhelming performance in fiscal year 2023-24 can largely be attributed to political instability and weak economic diplomacy. Despite these setbacks, there are positive signs. Recent data shows remittance inflows have exceeded expectations, providing some stability to the balance of payments. Additionally, Nepal has recorded a surplus in foreign exchange reserves, which offers a hopeful indicator amidst broader concerns.

2. Termites

Nevertheless, underlying challenges persist. Like silent termites weakening a structure over time, some economic risks may not be immediately obvious but can cause significant long-term damage. The economy faces several key issues, including falling corporate earnings, weak government revenues, low capital expenditure, and sluggish market demand. Even though inflation appears to have stabilized, many citizens are still burdened by the rising cost of living. Other long-standing issues such as political unrest, strained relationships with neighboring countries, slow growth, high trade deficits, poor investment environments, and currency volatility continue to prevent efficient resource utilization.

3. Imports vs Exports

Nepal's heavy reliance on imports, even for basic goods, is a significant vulnerability. With increased remittance inflows, consumer habits have shifted towards imported products, making Nepal an attractive market for foreign brands. This dependency drains foreign exchange reserves and exacerbates the trade imbalance. Although remittances provide a temporary financial buffer, they cannot fully compensate for the country's insufficient exports. Nepal is also missing out on the potential benefits of boosting local production. Developing domestic industries could create jobs, raise incomes, and reduce reliance on costly imports. Locally produced goods would also be cheaper, but this opportunity remains largely untapped.

4. Hope Over Fear

Nepal continues to face familiar economic challenges, such as currency depreciation, inflation, and sluggish growth. However, embracing a pro-market strategy that focuses on openness and efficiency could unlock multiple benefits, even with the current level of investment. These include:

1. Higher economic growth driven by increased productivity.
2. Labor-intensive industrialization, resulting in rapid job creation.
3. Greater competition, encouraging market entrants and improving rural economies.
4. Capital investment flowing into underserved regions, reducing regional and social inequalities over time.

Strategic Measures for Economic Recovery and Stimulus Initiatives in Nepal

*There is hope that Nepal will embrace a comprehensive strategy for economic recovery built on nine pivotal measures aimed at addressing both immediate and long-term challenges. This begins with establishing **Foundational Concepts for Inclusive Revival**, ensuring that growth benefits all sectors of society. **Sectoral Adaptation** will address specific challenges in agriculture, retail, and manufacturing, while the nation embraces the “**New Economy**” by focusing on digital technology and services.*

*Nepal is poised to **Enhance Competitiveness** by aligning with global standards and adopting **Global Best Practices** from successful policies around the world. Engaging key stakeholders—businesses, employees, and government—will ensure inclusive and collaborative economic planning.*

*The strategy also includes **Tailored Initiatives** to target key sectors like hospitality and technology, while addressing productivity concerns. To drive informed decision-making, Nepal will need to prioritize **Data Enhancement**, improving data systems and metrics. Finally, adopting a **Performance Framework** will help monitor progress, ensuring that economic achievements are transparent, measurable, and continuously improving.*

With the right commitment, Nepal can pave the way for sustainable and inclusive economic growth.

Nine Enablers of Nepalese Economy

As capital expenditure is crucial for achieving growth objectives in the Federal Structure Economy, Nepal should focus on following basic principles:-

- *Design Long-term vision and strategy for economic development and social harmony,*
- *Prepare Project Banks - investment project preparation to invite local as well as foreign investment,*
- *Reduce Budgetary processes to speed up capital expenditure,*
- *Improve Procurement Efficiency and maintain budgetary discipline,*
- *Implement Stringent Contract Management and enforcement requirements to maintain time schedule of the project.*
- *Design an Effective Monitoring system to improve the productivity of investment,*
- *Appoint Competent Project Personnel led by dynamic person,*
- *Support effective Legal Institutional Framework for PPP investment and introduce fund base investment approval process.*
- *Enabling sectoral policy Operation Framework*

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

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.

Fiscal imbalance

- Nepal's domestic and external debts, unfunded pension liabilities, and the growing fiscal burden may push the country into a serious fiscal crisis. To address these issues and stabilize the economy, Nepal must explore practical and sustainable solutions. The most alarming concern is the downward spiral of confidence. As disillusionment spreads, talented young individuals are increasingly reluctant to remain in the country, which further discourages investment and worsens the already critical fiscal and financial situation.

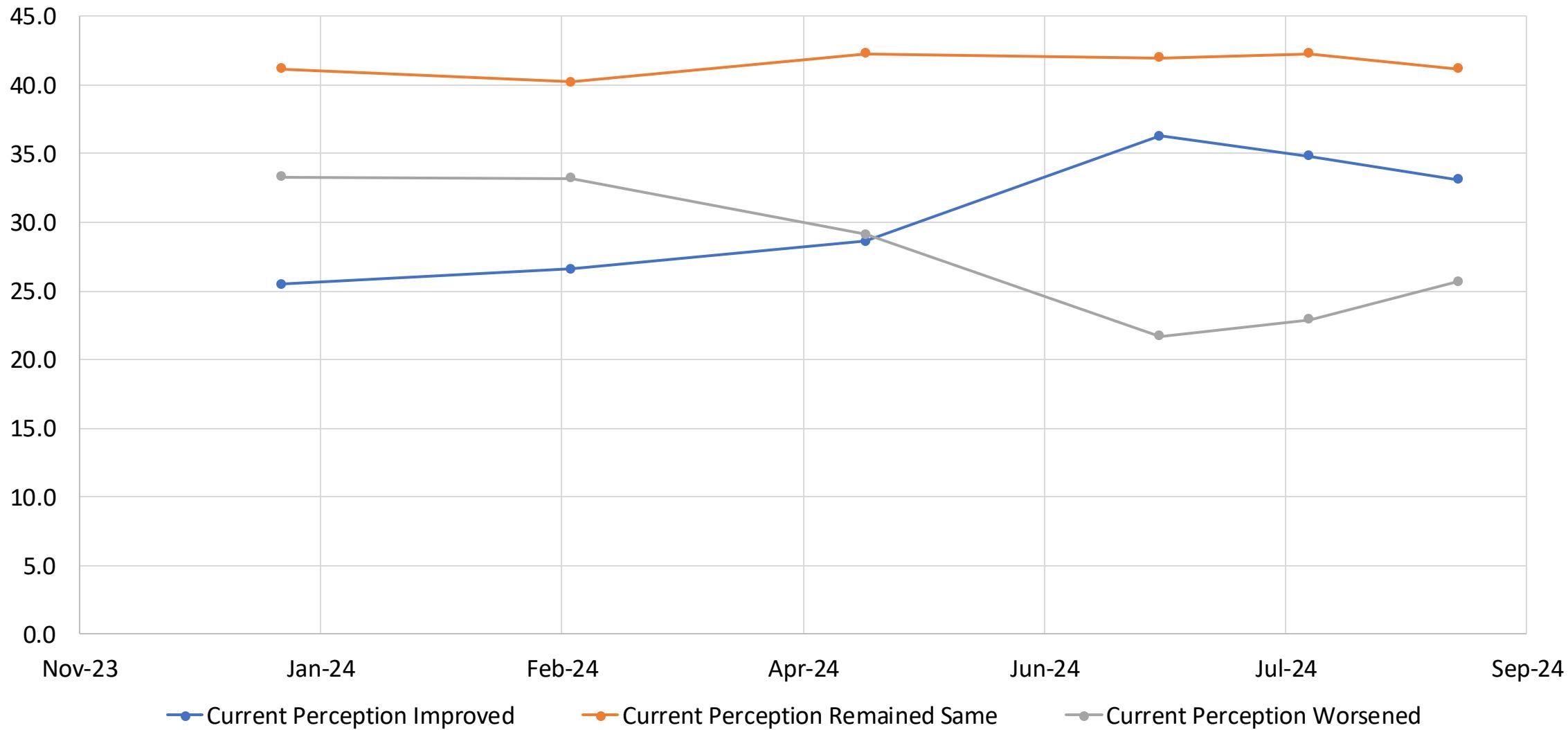
Banking Sector

- For regulatory easing, NRB must consider significant policy shifts to enhance the effectiveness of its frameworks. First, there is a need to develop policies that improve monetary policy transmission across key channels, including interest rates, lending, asset prices, and foreign exchange. Second, a thorough review of asset-liability pricing strategies is essential for better financial stability. Additionally, collaborating with ICAN to streamline the implementation of NFRS 9 is crucial for maintaining transparent financial reporting standards. The NRB should also rethink the approach to interest capitalization during construction for infrastructure projects across all sectors, ensuring it supports long-term growth. Furthermore, revising shareholder classifications to differentiate between majority and minority holdings will enhance corporate governance. Lastly, a comprehensive review of the working capital guidelines is necessary to align them with the current business environment and economic needs.

The rural poor

- Despite the large number of banks in Nepal, many people remain outside the banking network, highlighting a clear contradiction. The rural poor and urban lower middle class often prefer Savings and Credit Cooperatives or informal lending channels, such as gold dealers or rural moneylenders, over maintaining bank accounts. However, these less regulated cooperatives are on the verge of collapse, posing significant risks to those relying on them.

Current Perception



Documentation:

Exporting from Nepal or attracting foreign direct investment (FDI) currently takes 4 times longer, with 3 times more documents and 7 times more signatures than in developed countries. This inefficiency hinders our trade potential and economic growth.



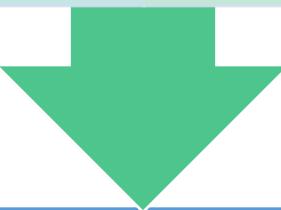
To boost trade and investment, Nepal urgently needs:

Streamlined customs processes

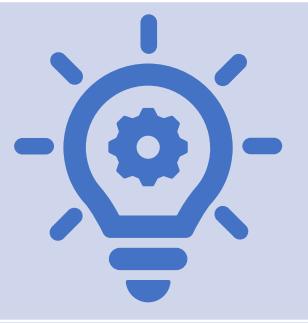
Upgraded FDI regulations

Implementation of digital systems

Enhanced coordination among government agencies



By simplifying these procedures, we can make Nepal a more competitive destination for trade and investment, driving economic progress. It's time to rethink and reform for growth!



Business Ready's analytical framework goes beyond simply evaluating the "ease of doing business" by recognizing that fostering a healthy business environment involves more than just reducing business costs. Lowering these costs can sometimes lead to unintended societal consequences. Therefore, Business Ready not only assesses the regulatory burden on businesses—such as how long it takes to establish one—but also examines the quality of regulations. For instance, do labor laws protect employees from unjust dismissal? Or do they unintentionally make female workers less competitive than their male counterparts, thus discouraging their participation in the workforce?



In addition to evaluating regulations, Business Ready explores the role of public services in turning business intentions into outcomes. This includes assessing whether utilities such as water and electricity are reliably provided to businesses. It also looks at whether governments simplify compliance with tax obligations and environmental and social regulations. Furthermore, it evaluates whether systems are in place for government agencies to efficiently share business-related information and whether public databases exist to promote transparency and the free flow of information necessary for a robust business climate.

Based on the World Bank's Business Ready 2024 report, Nepal's performance in Operational Efficiency stands out, scoring 72.21 points. Nepal's strong performance in Operational Efficiency reflects its efforts to streamline business processes, making it easier for firms to comply with regulatory demands. This is especially important in reducing administrative burdens for businesses. Despite the country's challenges in areas like public services, the high score in this pillar suggests that Nepal is creating conditions where businesses can navigate operational tasks more smoothly compared to peers. This environment helps firms maintain productivity and resilience, contributing to overall business readiness in Nepal.

The findings are based on selected data points and could be subject to debate, as different perspectives may arise about how accurately the sample represents Nepal's overall business environment. Nonetheless, the report provides a valuable starting point for understanding the country's progress.

Charting a New Course for Reform

Financial Sector Reform Objectives:

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

Asset Management Company (AMC):

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

Amendment to the NRB Act:

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

Establishment of a Monetary Policy Committee:

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:	<p>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.</p> <p>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.</p> <p><i>Smooth Implementation: Potential Government Strategies</i></p> <p><i>Adjusting Section 52: Should apply to natural persons but not to corporate bodies.</i></p> <p><i>Emphasizing Individual Holdings: Shift focus from collective holdings to the beneficial owner.</i></p> <p><i>Voting Rights Restriction: Establish procedures to protect minority shareholders, both public and promoters.</i></p>
GDP Base Review:	<p>The Government of Nepal should contemplate updating the base year for GDP calculation from 2010/11 to 2020/21. This adjustment is warranted due to four significant events post the Great Gorkha Earthquake: a trade embargo, changes in government structure, and the impact of the Covid-19 pandemic. Shifting the base year to 2020/21 will provide a fresh perspective for policy formulation and response, considering the evolving economic landscape</p>
Prompt Corrective Action:	<p>In addition to the current PCA guidelines, the NRB should consider introducing supplementary provisions. If the net NPA level is below 7%, no further action is necessary. However, if it surpasses 7% but remains below 9%, falling within the first threshold, BFIs should refrain from approving new loans. Crossing the 9% threshold triggers the second tier, where BFIs must abstain from accepting new deposits. Should this metric reach 11% or higher, the bank will be categorized into the third tier, prompting PCA initiation.</p> <p>Furthermore, concerning the Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&L) should be increased from 5% to 9%. Additionally, the NRB should undertake a comprehensive review of the risk weightage assigned to various items on the balance sheet. This involves a meticulous assessment of the potential risks associated with different assets and liabilities held by BFIs. Through recalibrating the risk weightage, the NRB can ensure that the regulatory framework accurately reflects the inherent risks in banking activities, thereby fostering prudence and stability in the financial sector.</p>

Decriminalization of Corporate Laws: Paving the Way for Business Innovation

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

Understanding Decriminalization:

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

Reasons for Decriminalizing Business Laws:

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

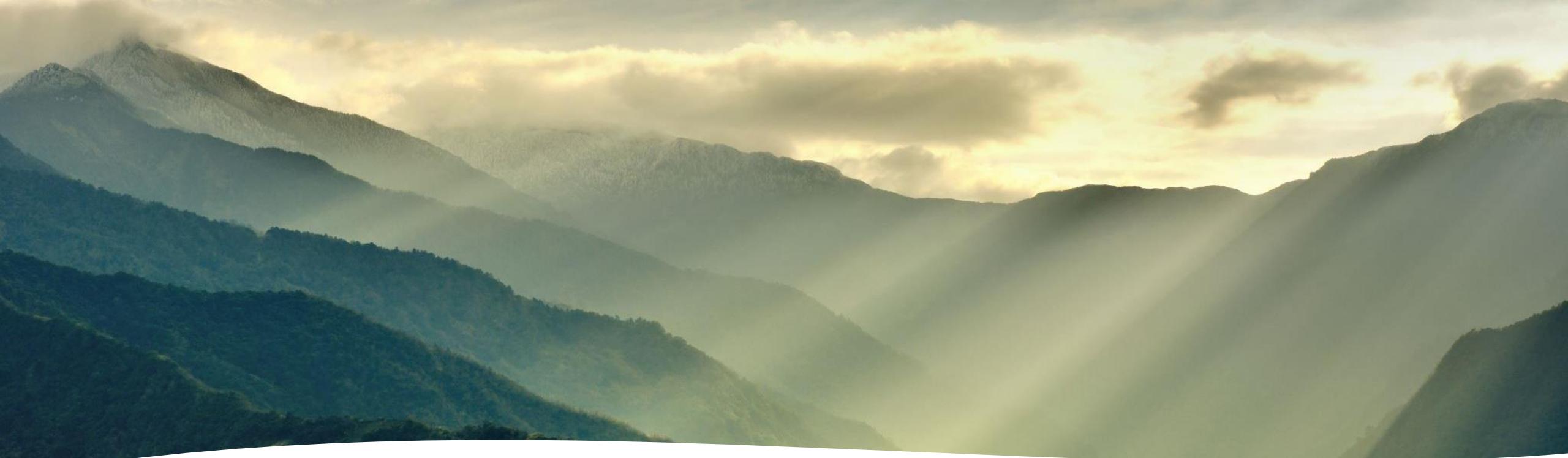
Tangible Benefits of Decriminalization:

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

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

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

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



Climate Change: Assessing Nepal's Role and Urgent Needs

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

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

2

Economic Information



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



GOOD GOVERNANCE,



SOCIAL JUSTICE,



PROSPERITY.

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

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

Economic Goals:

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

Economic Projections

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

Social and Infrastructure Goals:

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

Sectoral Strategies:

A. Foreign Employment:

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

B. Energy Sector:

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

C. Employment and Social Goals:

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

D. Governance and Competitiveness:

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

Implementation Strategy:

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

Analyzing Nepal's GDP Growth Trajectory

Forecasts for Nepal's GDP growth by major institutions reveal significant variations and frequent revisions, illustrating the complexity of predicting the country's economic trajectory.

The World Bank projects a steady recovery, with growth forecasted at 3.9% for FY 2023/24, improving to 5.3% by FY 2025/26. However, even within their estimates, there was a 2.2% downward revision between April and October 2023, reflecting a re-evaluation of global and domestic factors. Similarly, the IMF slashed its FY 2022/23 growth forecast by 3.6% in October 2023, before improving the outlook to 3.9% for FY 2023/24 and 4.9% for FY 2024/25, indicating a highly reactive stance to changing circumstances. The ADB also revised its forecast multiple times, cutting its FY 2022/23 projection by 2.1% and further increasing its FY 2023/24 growth estimate from 3.0% to 3.6%, slightly adjusting it upwards again in later revisions. Meanwhile, CBS—the national statistics agency—has consistently set moderate projections, estimating 2.16% for FY 2022/23 and 3.0% for FY 2023/24.

These frequent revisions and variations make it extremely challenging for the Nepalese government and the Nepal Rastra Bank (NRB) to craft effective economic policies. The NRB, in particular, has consistently refrained from offering GDP growth forecasts, possibly due to the volatile nature of such estimates and their potential to mislead. However, the Government of Nepal (GoN) tends to maintain ambitious growth targets, which often diverge from the more conservative projections made by international agencies. This disconnect between optimistic government targets and more cautious external forecasts complicates policy interventions, especially when managing inflation, interest rates, and public investment strategies.

The disparity between forecasts highlights the uncertainty in Nepal's economic outlook and emphasizes the difficulty of making informed decisions in such a volatile environment. For policymakers, relying on a single projection source can lead to misguided policies, and the constant adjustments force the government to adapt frequently, making long-term planning difficult. As a result, there is a critical need for the GoN and NRB to base their strategies on a range of forecasts while remaining flexible to unexpected shifts in economic conditions.

Growth Projections

World Bank

1.Jan 2024.	3.90%. (Improved for FY 2023/24)
➤April 2024	3.3%. (0.6% down from Jan 2024 for 2023/24)
2.April 2024	4.6%. FY 2024/25 Fresh projections
➤Oct. 2024	5.1% (0.5% Improved from April 24 for 2024/25)
3.April 2024	5.3 % FY 2025/26 Fresh projections
➤Oct 2024	5.5 %. (0.2% Improved from April 24 for FY 2025/26)

ADB

1.Sept 2024.	2.00 2.10 % down form April 23 (FY 2022/23)
2.April 2024.	3.6% - FY 2023/24 Fresh projections
➤Sept. 2024.	3.90. 0.60% up from previous for FY 2023/24
3.April 2024.	4.8% - FY 2024/25 Fresh projections
➤Sept 2024.	4.9% 0.1- up from April 2024 for 2024/25

IMF

1.Oct 2023.	0.80 % 4.3 % down from Jan 2023 (FY 22/23)
2.Dec 2023.	3.5 % Forecast for 2023/24
➤May 2024.	3.9%. (0.4%Improved from Dec. 2023 for 2023/24)
3.May 2024	4.9% FY 2024/25 Fresh projections

CBS

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

The wide variation in forecasts and the frequent revisions from these institutions indicate significant economic uncertainty in Nepal, particularly for FY 2023/24.

However, projections become more optimistic in the medium term for FY 2024/25 and beyond.

The World Bank seems to anticipate a faster recovery, while the ADB and IMF offer more conservative short-term outlooks, though they, too, foresee stronger growth in the years ahead.

These contrasting forecasts reflect the complexity and unpredictability of Nepal's macroeconomic environment, which is influenced by both domestic and international factors.

Economic Growth

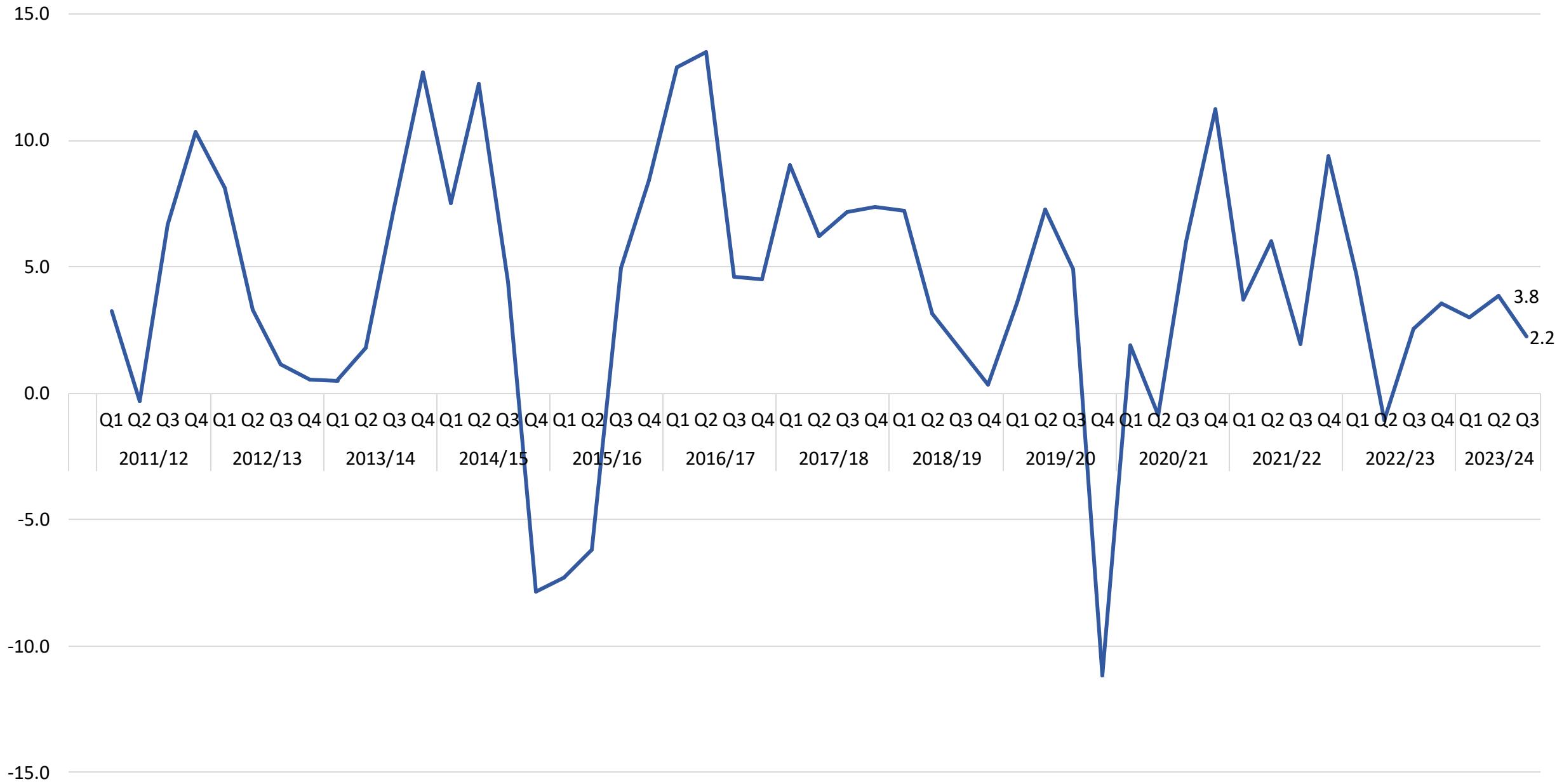
GoN set GDP growth target rate at 6% for FY 2024/25

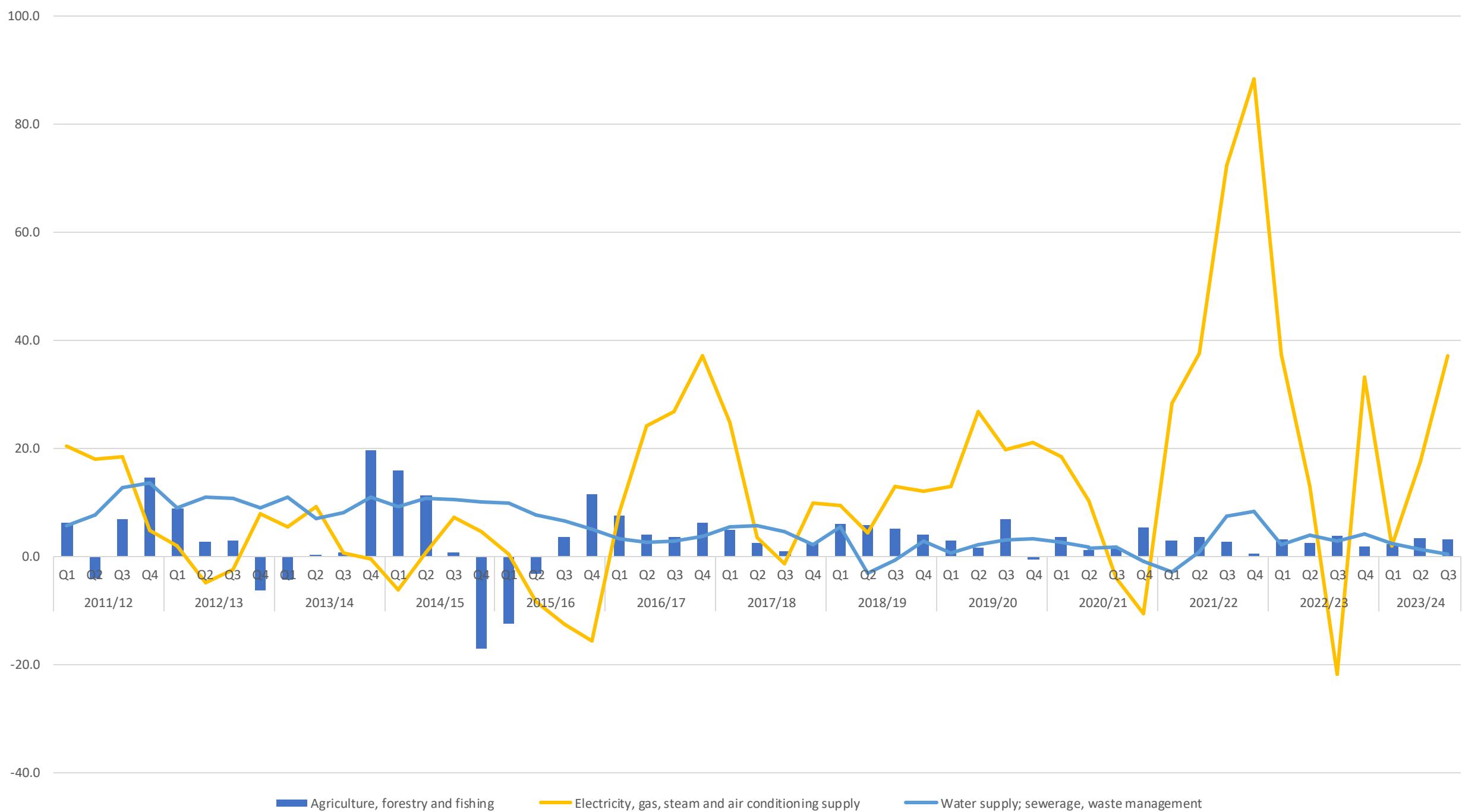
Inflation

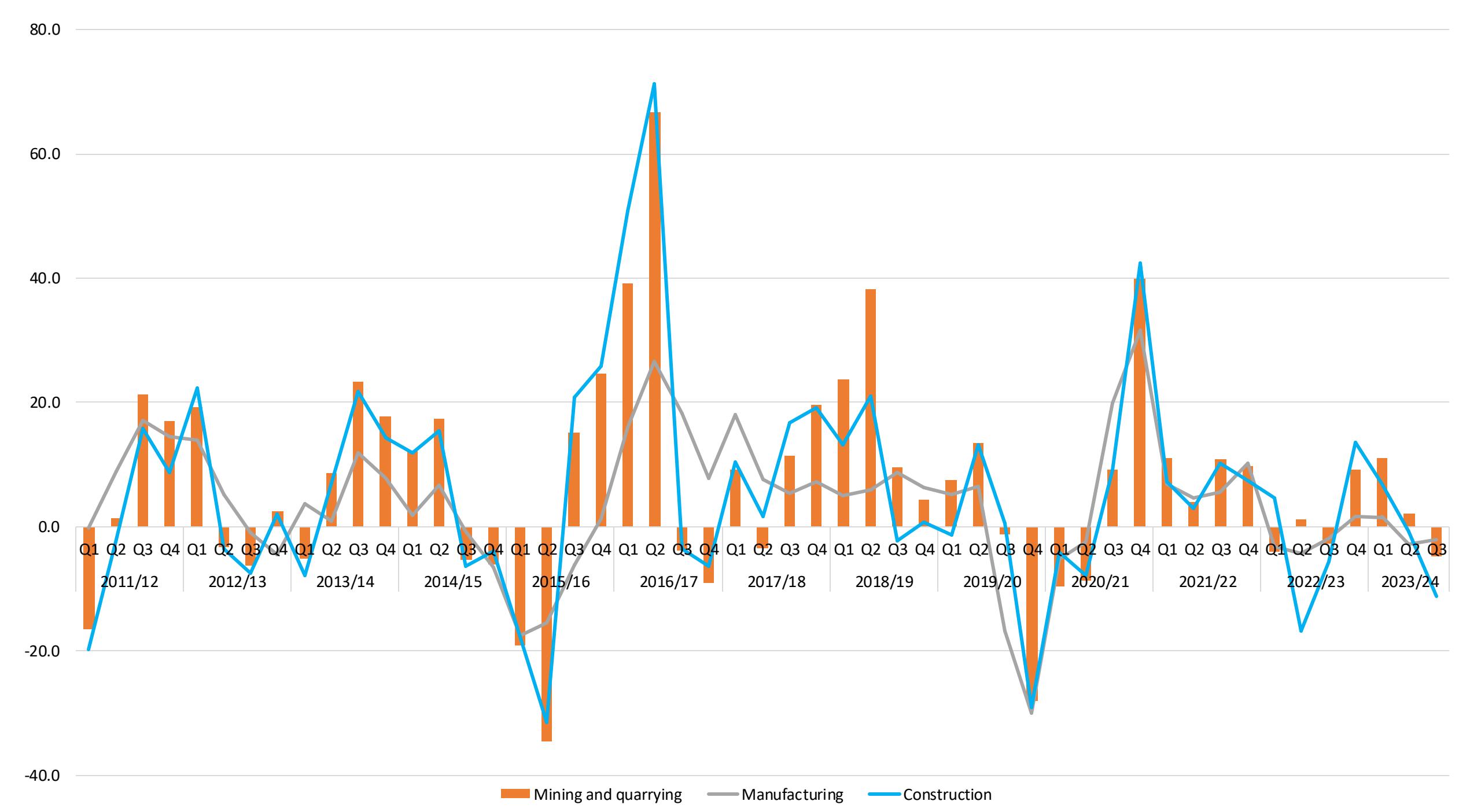
For FY 2024/25 the GoN set target rate of inflation at 5.5%

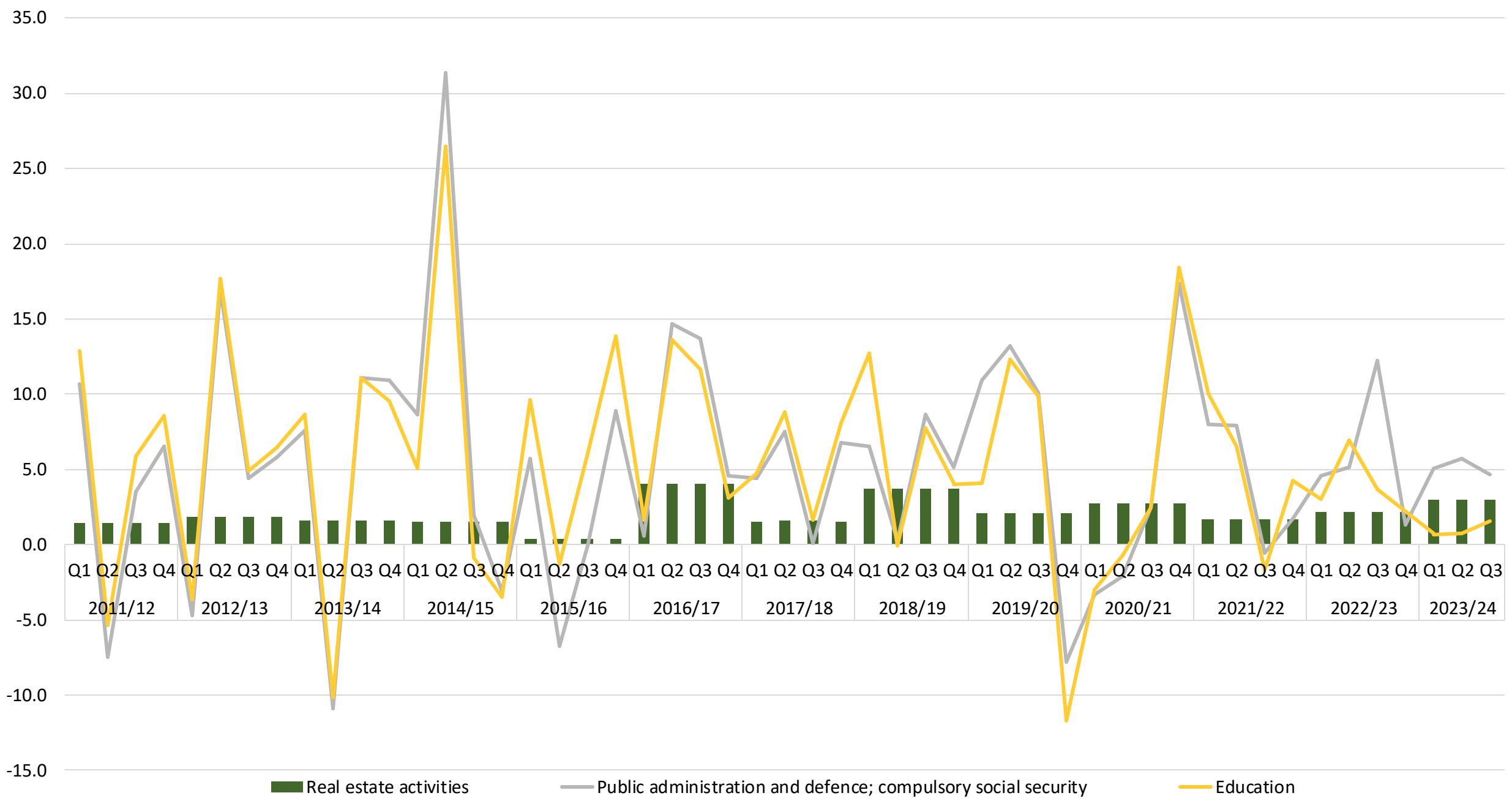
Industrial Classification	Growth Rate of Seasonally Unadjusted (Year on Year) National Quarterly GDP by Economic Activities (at basic Price , 2010/11)							
	2079/80				2080/81			
	2022/23				2023/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3 vs Q2
Agriculture, forestry and fishing	3.1	2.5	3.9	1.8	2.3	3.4	3.1	Down
Mining and quarrying	-4.0	1.2	-2.7	9.2	11.0	2.1	-4.8	Down
Manufacturing	-3.2	-4.3	-1.9	1.7	1.6	-2.8	-2.0	Up
Electricity, gas, steam and air conditioning supply	37.3	12.9	-21.8	33.1	1.9	17.6	37.1	Up
Water supply; sewerage, waste management	2.2	4.0	2.8	4.1	2.4	1.2	0.4	Down
Construction	4.5	-16.8	-5.5	13.5	6.9	-0.7	-11.2	Down
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.4	-14.2	-1.9	7.1	-0.8	0.8	-2.7	Down
Transportation and storage	2.6	1.5	0.8	0.4	1.3	14.1	15.0	Up
Accommodation and food service activities	55.4	-0.1	5.2	24.9	11.5	29.1	19.1	Down
Information and communication	7.2	4.9	4.6	0.0	3.1	3.0	1.5	Down
Financial and insurance activities	16.4	11.0	21.1	-13.7	9.9	8.1	6.1	Down
Real estate activities	2.2	2.2	2.2	2.2	3.0	3.0	3.0	Down
Professional, scientific and technical activities	3.7	3.3	4.1	4.6	4.5	3.4	4.2	Up
Administrative and support service activities	3.7	5.0	4.5	6.9	5.9	3.1	3.5	Up
Public administration and defence; compulsory social security	4.6	5.2	12.2	1.3	5.1	5.7	4.7	Down
Education	3.0	6.9	3.7	2.2	0.7	0.8	1.5	Up
Human health and social work activities	11.1	6.3	4.9	4.1	4.7	3.7	5.3	Up
Arts, entertainment and recreation; Other service activities; and Activities of households as employers	9.8	3.2	4.1	3.5	2.1	8.8	8.3	Down
Aggregate	4.7	-1.1	2.5	3.5	3.0	3.8	2.2	Down

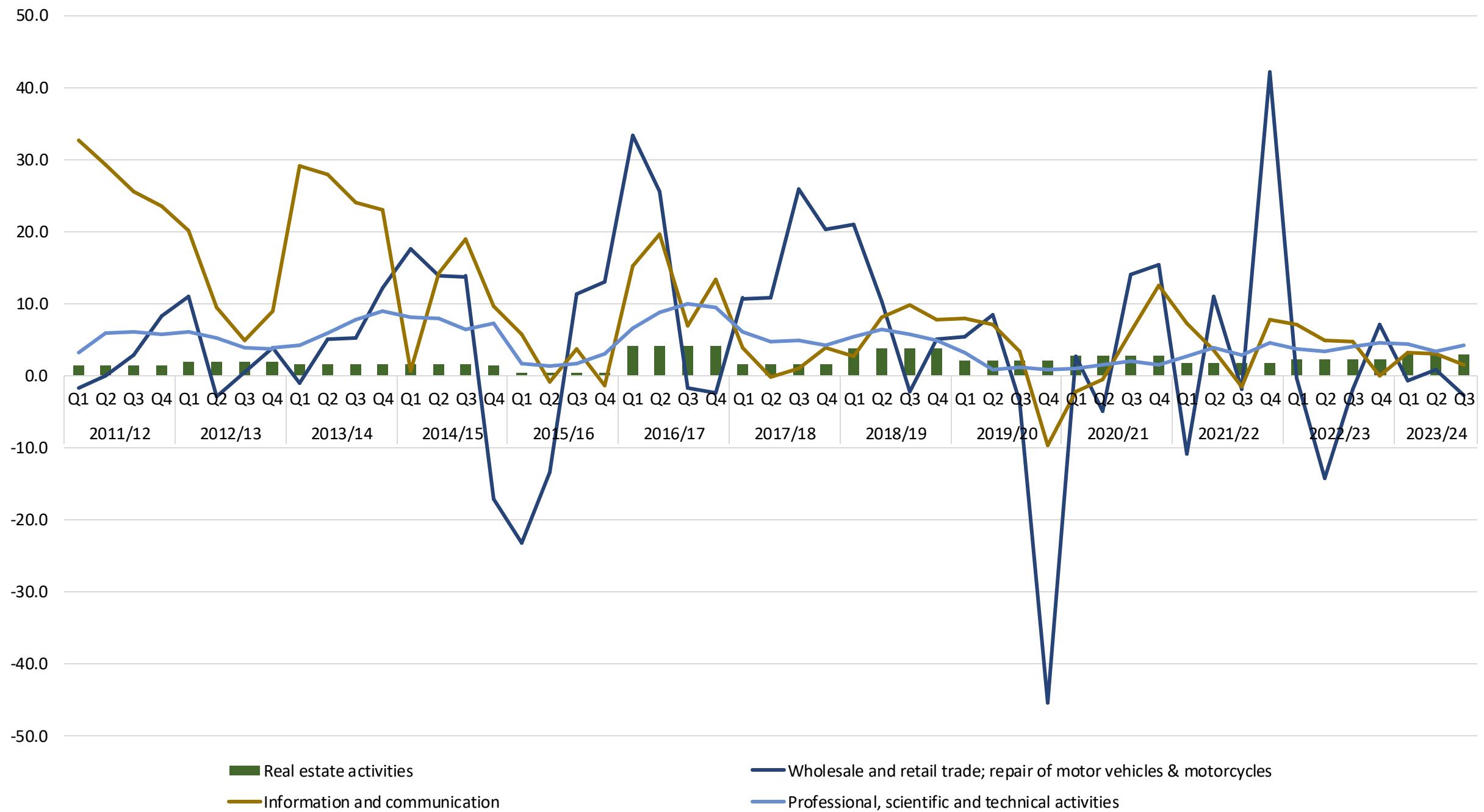
GDP by Economic Activities (at basic Price , 2010/11)

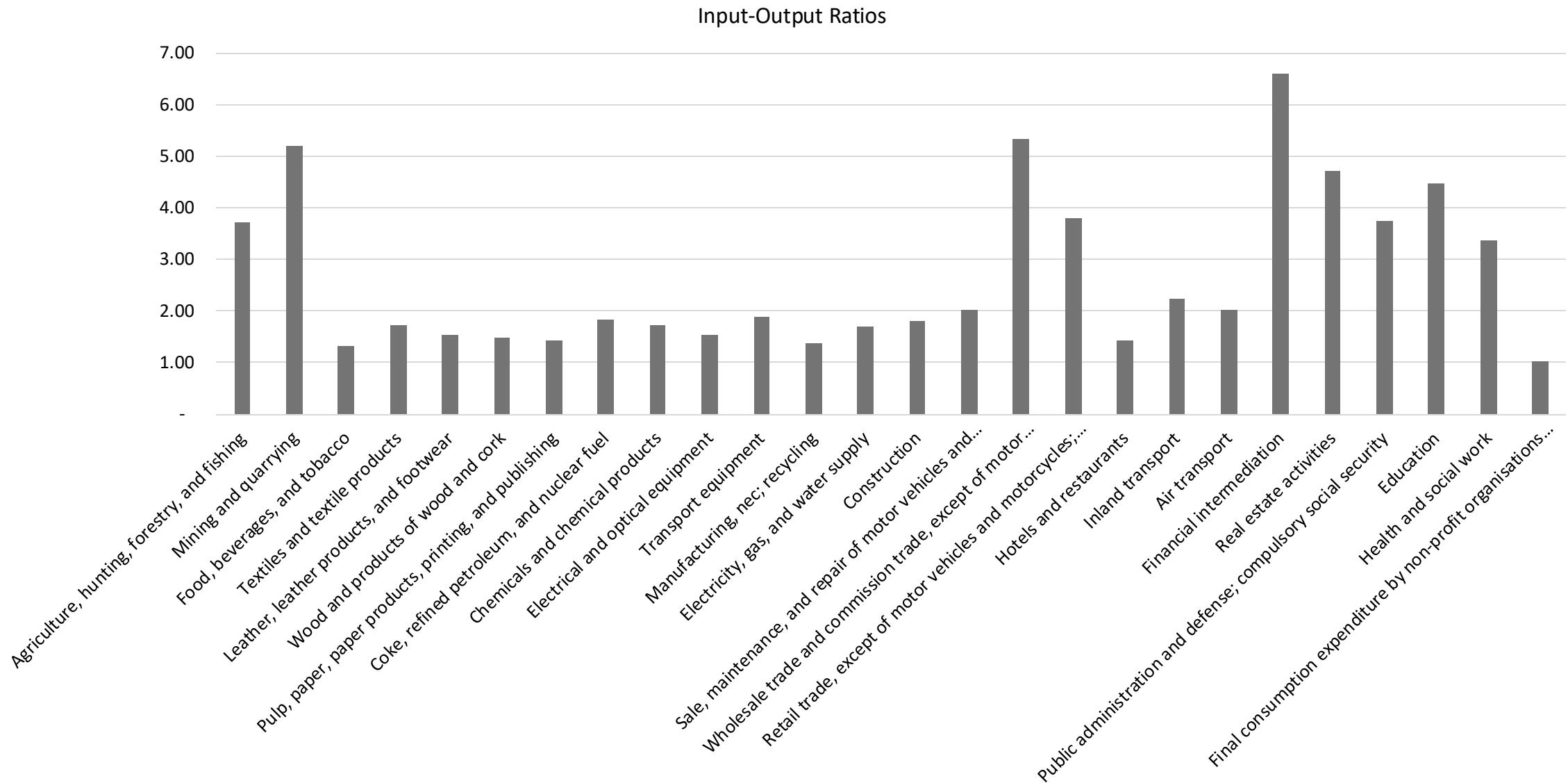












Nepal's GDP growth trajectory displays volatility, characterized by fluctuations on both a quarterly and yearly basis.

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.

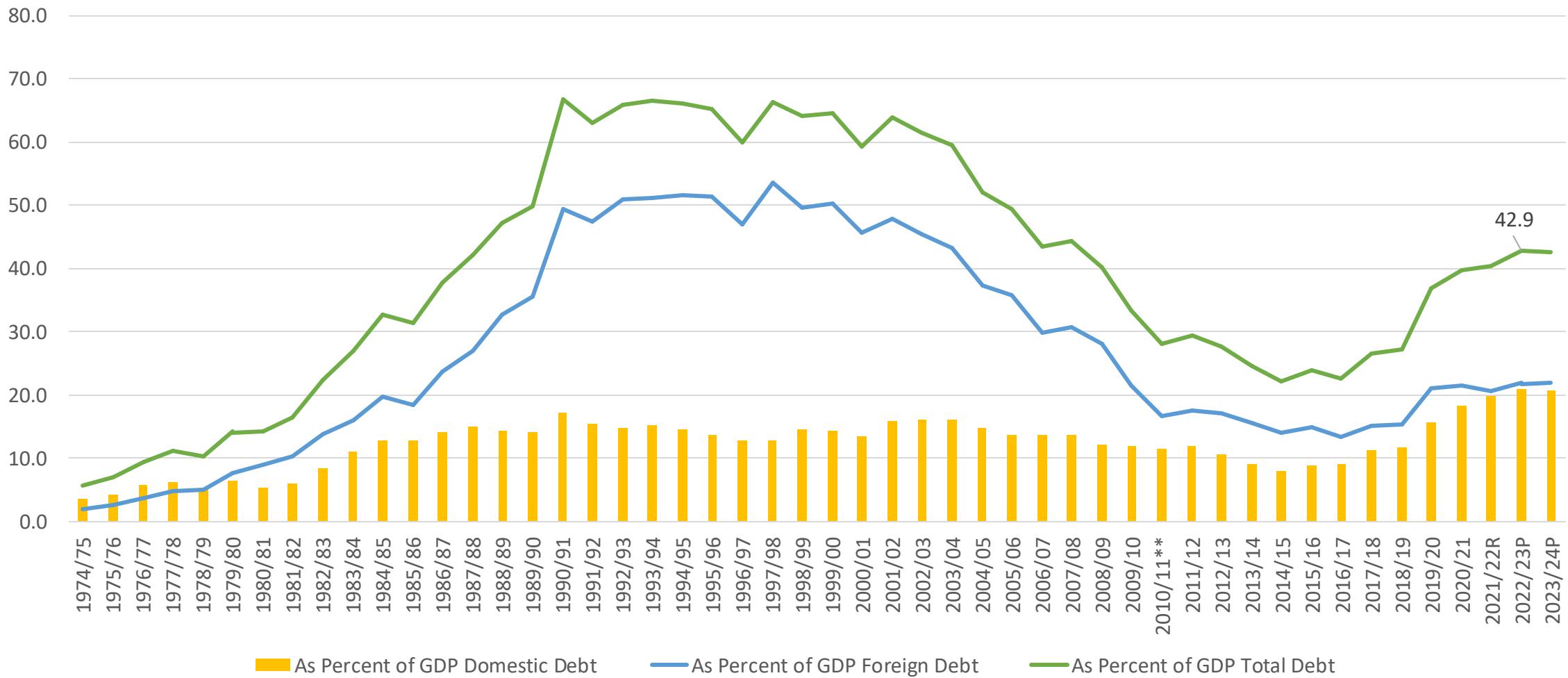
5. Professional, Scientific, and Technical Activities

- **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.

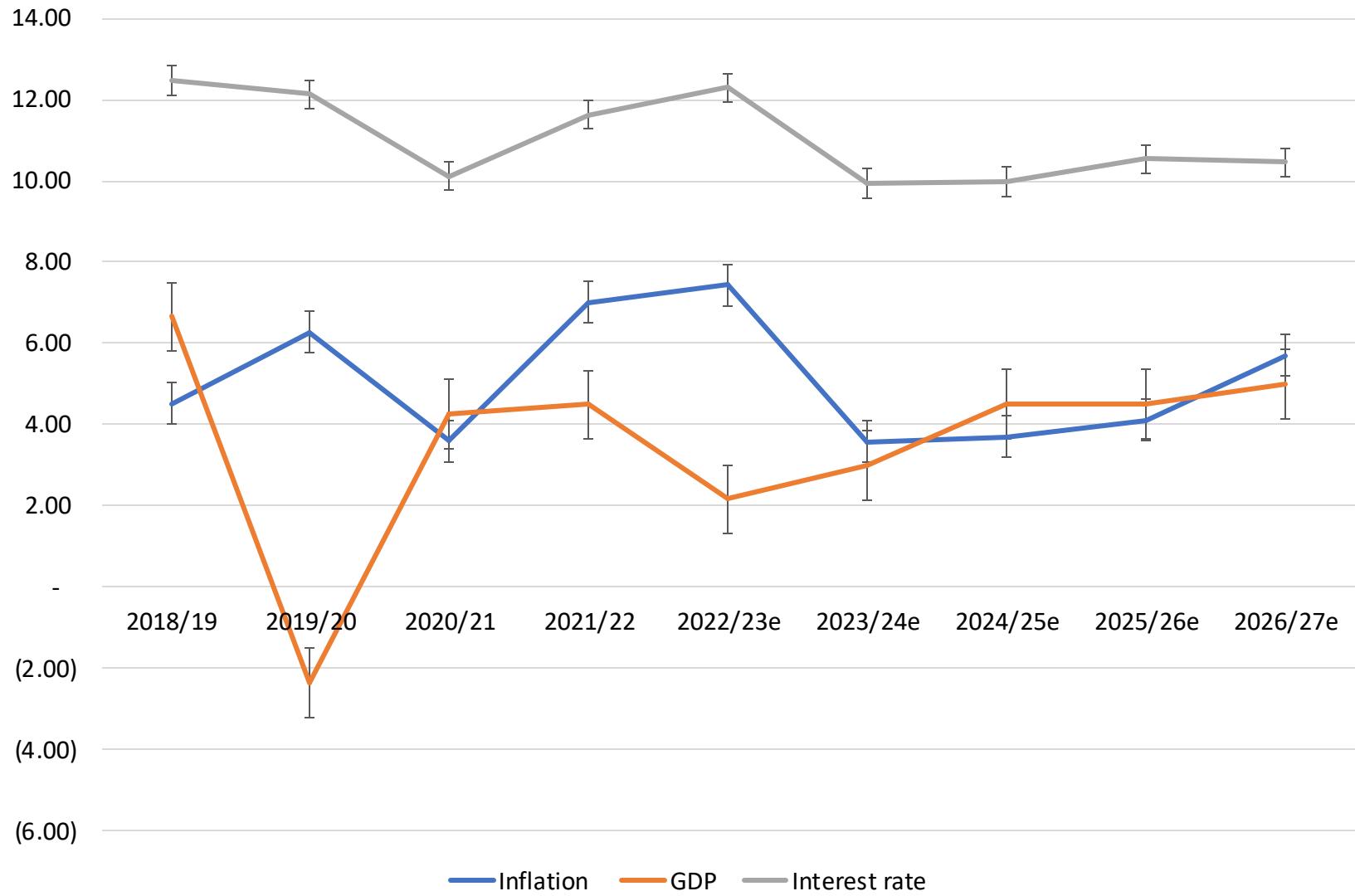
Starts above 80% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 42.9% in 2019/20. Overall, foreign debt decreases significantly, domestic debt remains stable with a slight increase, and total debt shows a decreasing trend followed by a recent rise.



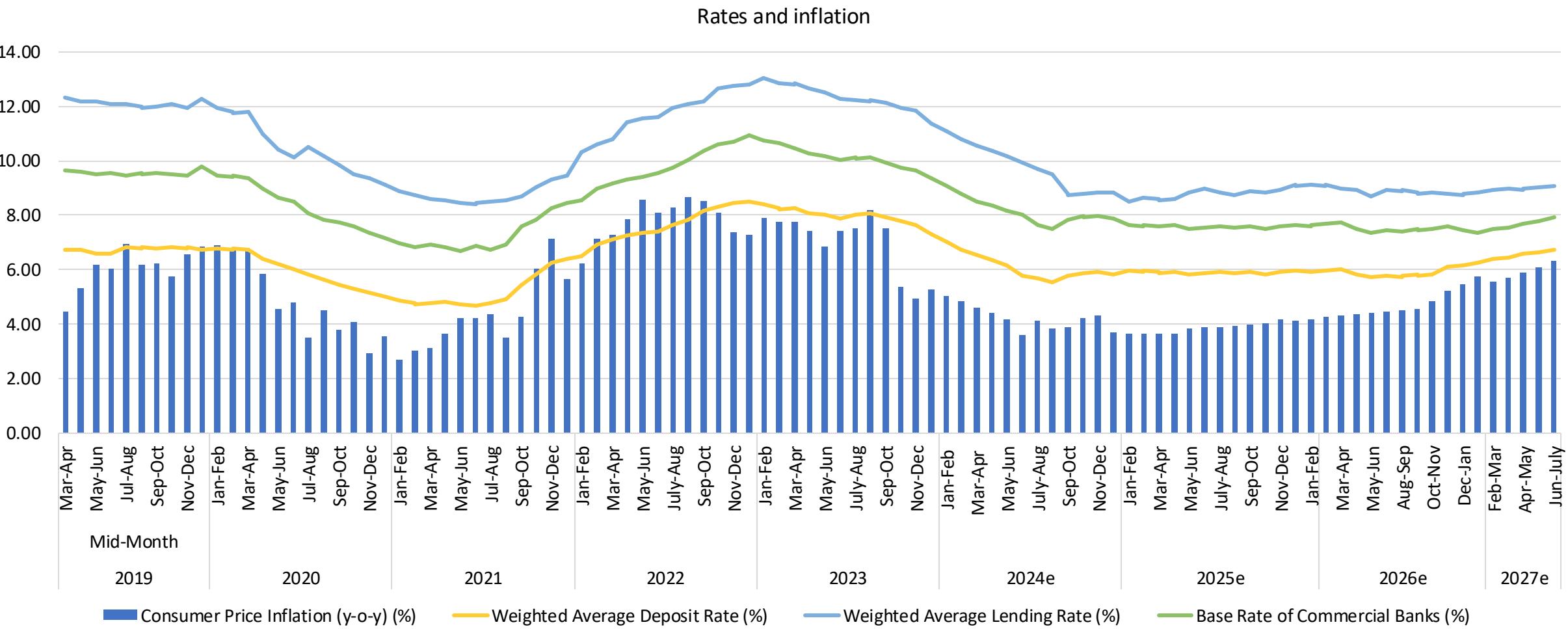
Geopolitical conditions pose significant risks, including potential spillover effects from conflicts and the vulnerability of food and energy markets and supply chains to these factors.

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.

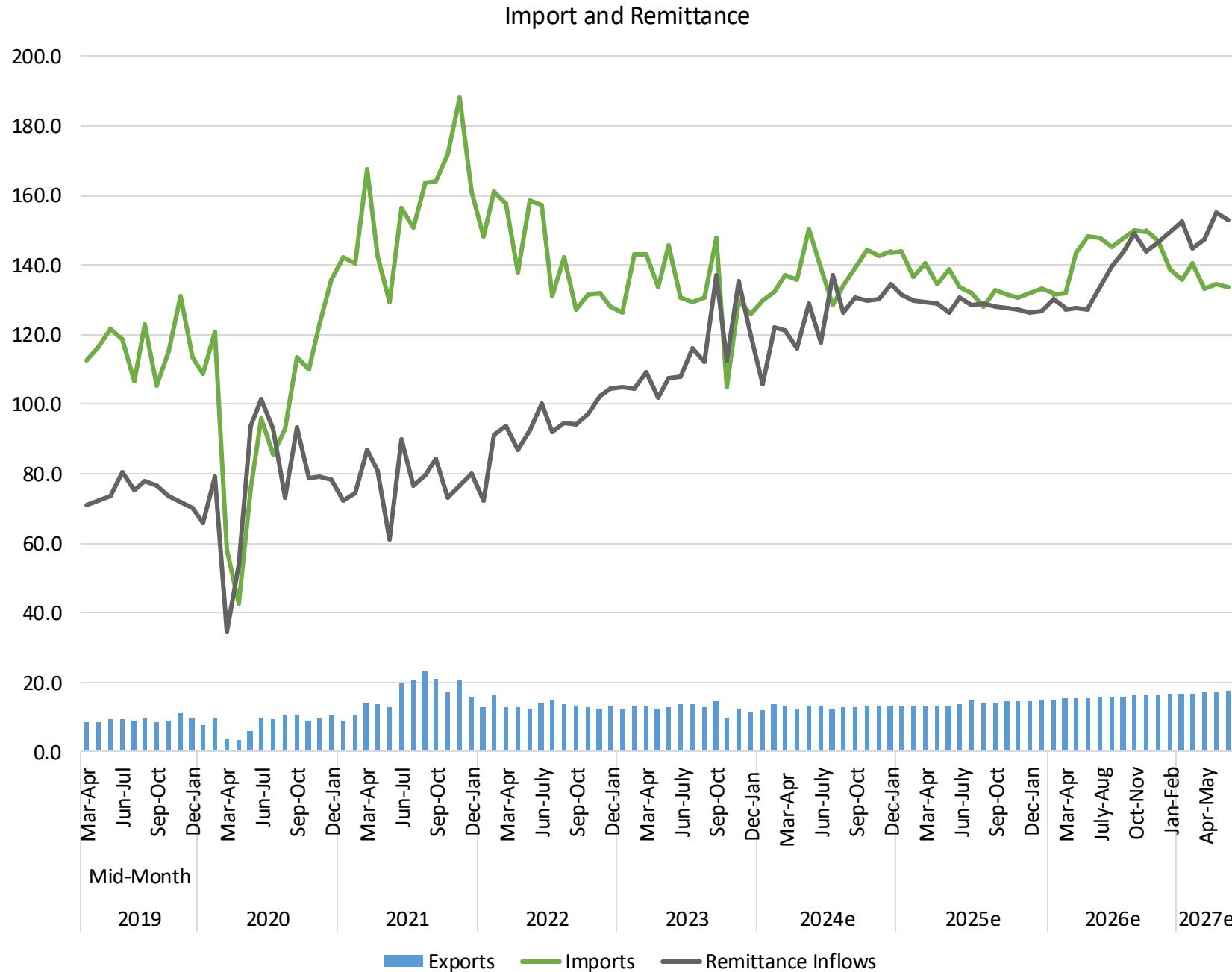


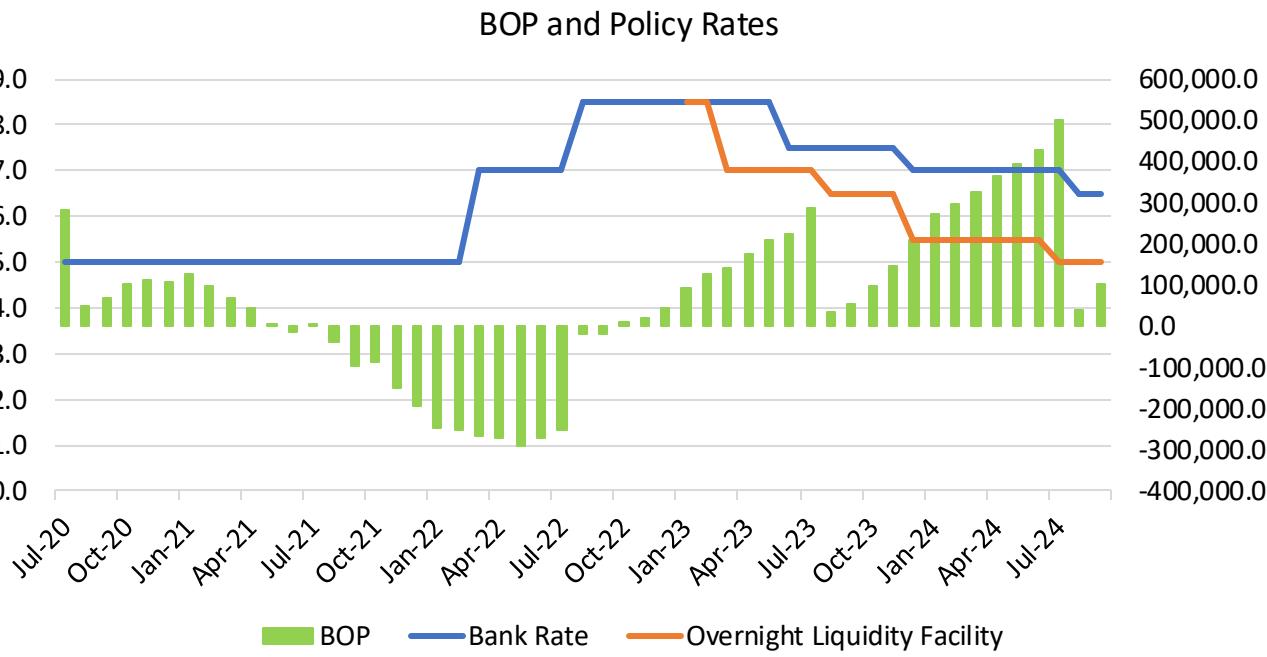
Interest rates and Inflation



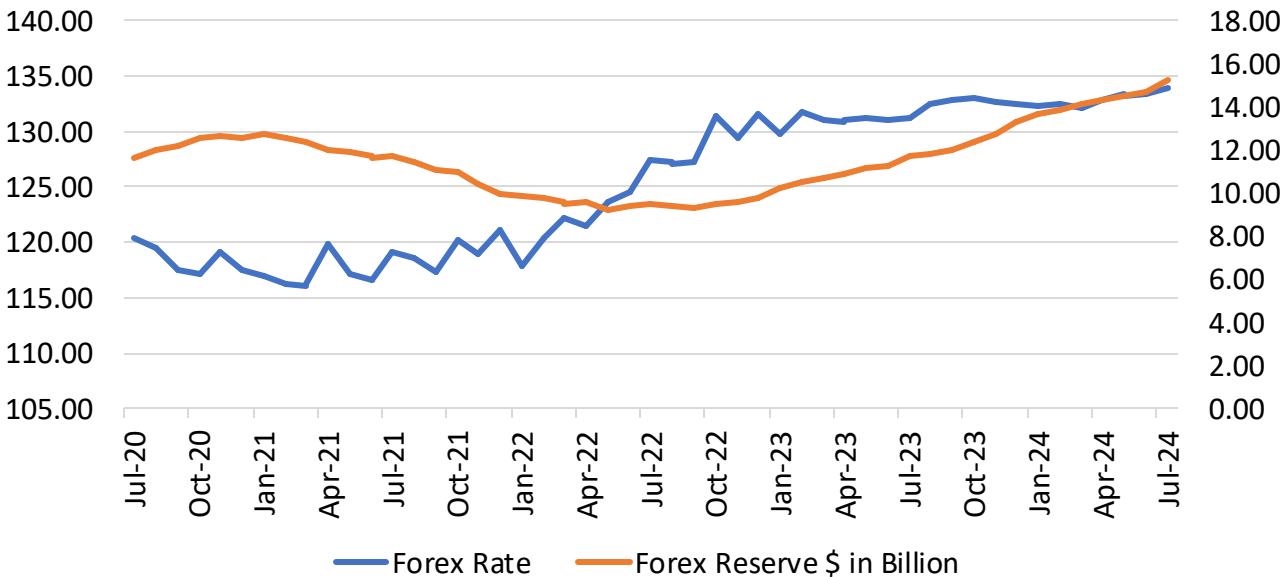
Imports and Remittance outlook. (NPR in billion)

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.





Between July 2020 and September 2024, Nepal's economic indicators exhibited significant fluctuations in the bank rate, overnight liquidity facility (OLF) rate, balance of payments (BoP), exchange rate, and remittance flows. The **bank rate** remained steady at 5% until early 2022, when it was raised to 7% amid inflationary pressures, peaking at 8.5% in August 2022 before decreasing to 6.5% by July 2024. The **OLF rate** followed a similar trend, starting at 8.5% in mid-2022 and dropping to 5% by June 2024, reflecting improved liquidity conditions. The **BoP** shifted from a positive surplus of **NPR 282,409.5 million** in July 2020 to significant deficits starting in July 2021, reaching lows of around **NPR -292,244.5 million** in May 2022. However, by 2023, the BoP began to recover, ultimately achieving a surplus of **NPR 502,491.08 million** by September 2024.



The **exchange rate** of the Nepali Rupee against the US Dollar saw depreciation, starting at **NPR 120.37** per USD in July 2020 and reaching **NPR 134.77** by September 2024. This depreciation was influenced by declining remittances and rising import costs, which peaked during the pandemic but showed signs of recovery as the economy stabilized. Remittances and export proceeds are crucial components of Nepal's foreign exchange earnings, fluctuated during this period, impacting both the BoP and forex reserves. Overall, these trends indicate a period of monetary tightening, liquidity management, and gradual improvement in Nepal's foreign currency balance amid fluctuating economic conditions.

Monthly indicator. (NPR in billion)

Particulars Amount in NPR Billion	2023/24											2024/25
	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-Jul	July-Aug	
Consumer Price Inflation (y-o-y) (%)	7.50	5.38	4.95	5.26	5.01	4.82	4.61	4.40	4.17	3.57	4.10	
Exports	14.43	9.69	12.64	11.76	11.86	13.79	13.33	12.23	13.09	13.12	12.23	
Imports	148.0	104.7	129.7	126.0	129.8	132.3	137.1	136.0	150.3	139.3	128.4	
Remittance Inflows	137.0	112.6	135.3	120.0	105.8	122.2	121.4	116.0	128.9	117.8	136.9	
Government Expenditure	149.4	75.1	97.4	113.6	120.1	114.8	107.8	147.5	124.4	226.7	40.2	
Current Expenditure	125.7	57.8	88.8	77.4	71.7	73.1	61.9	108.5	70.3	128.8	12.4	
Capital Expenditure	9.7	12.2	60.7	13.2	14.3	17.6	16.2	14.5	23.1	56.8	8.6	
Revenue	78.0	57.5	86.8	133.1	70.9	71.6	109.0	83.9	87.3	139.7	94.7	
Deposit Mobilization	166.1	-3.9	109.1	113.3	20.1	38.7	-26.8	34.0	71.5	227.8	-43.5	
Private Sector Credit	75.4	-9.6	10.7	82.6	4.6	2.3	22.7	3.0	21.6	30.1	14.1	
Weighted Average Deposit Rate (%)	7.90	7.76	7.62	7.32	7.01	6.74	6.53	6.35	6.17	5.77	5.66	
Weighted Average Lending Rate (%)	12.11	11.96	11.85	11.38	11.08	10.78	10.55	10.34	10.15	9.93	9.68	
Base Rate of Commercial Banks (%)	9.94	9.74	9.64	9.35	9.06	8.77	8.51	8.34	8.17	8.00	7.61	

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 1 USD= 125 NPR
	3.21	0.33	2.88	3.54	1.00	9.73		
Share % in Total Trade	90.68	9.32						
Trade deficit % GDP		7.11%						
FY. 2023/24 (Mid-Oct.)	3.14	0.31	2.83	3.45	1.00	10.13	0.25	1 USD= 130 NPR
Share % in Total Trade	91.01	8.99					Up	
Trade deficit % GDP		6.99%						
FY. 2081/82 (2024/25) (Mid-Oct)	3.01	0.30	2.71	3.31	1.00	10.03	0.27	1 USD= 130 NPR
Share % in Total Trade	90.94	9.06					Up	
Trade deficit % GDP		5.97%						
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-2.18%	-6.06%	-1.74%	-2.54%			0.00%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	-4.14%	-3.23%	-4.24%	-4.06%			8.00%	

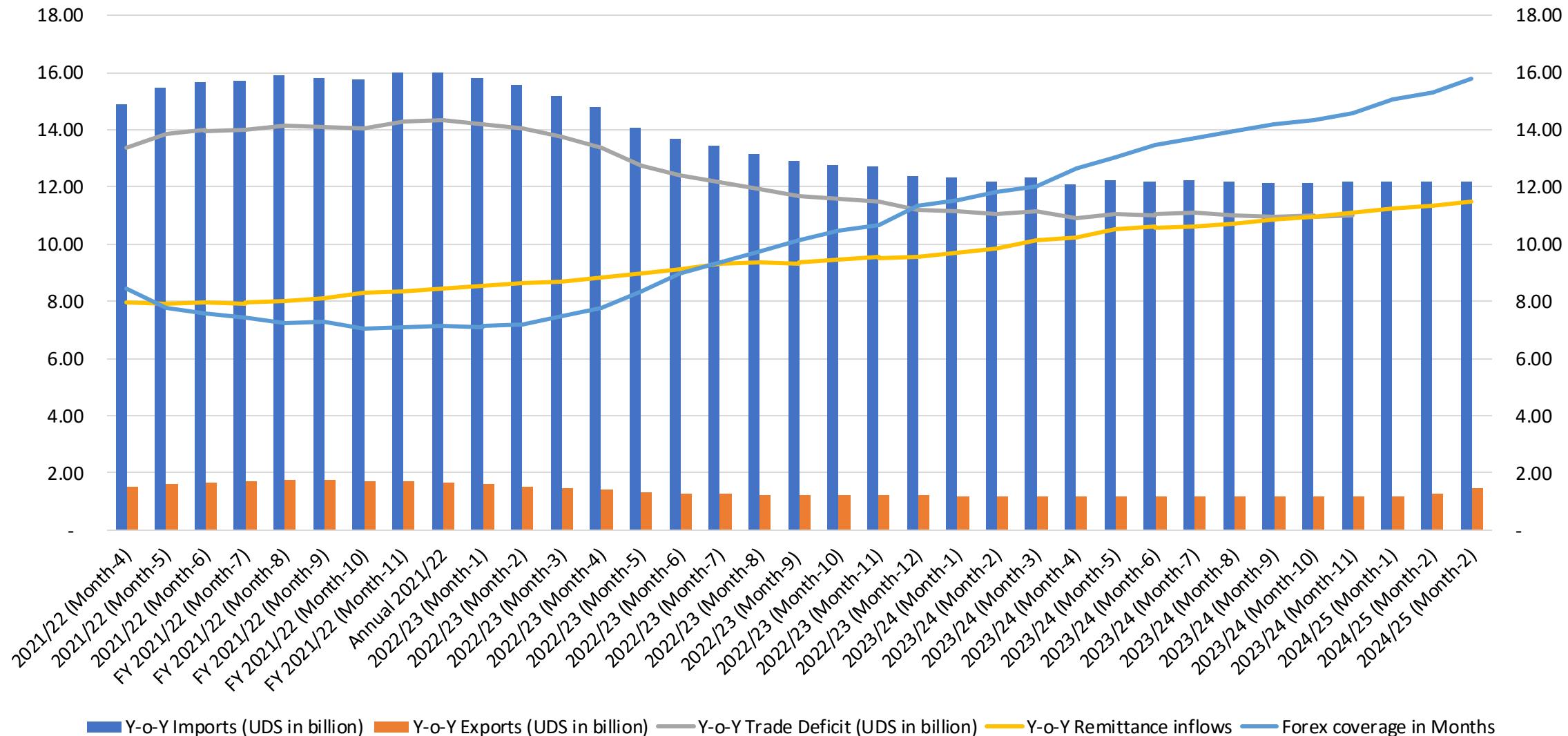
Nepal's foreign trade dynamics from fiscal year (F.Y.) 2022/23 to 2024/25 reveal both challenges and gradual improvements. The trade deficit, which stood at USD 2.88 Billion in 2022/23 (7.11% of GDP), decreased to USD 2.83 Billion (6.99% of GDP) in 2023/24 and further to USD 2.71 Billion (5.97% of GDP) in 2024/25, indicating a positive trend towards reduced domestic demand. Total imports have also seen a steady decline, from USD 3.21 Billion to USD 3.01 Billion over the same period.

However, exports have faced sharper declines, dropping from USD 0.33 Billion in 2022/23 to USD 0.30 Billion in 2024/25. This has resulted in a stagnant export-import ratio, highlighting Nepal's limited export diversification and competitiveness.

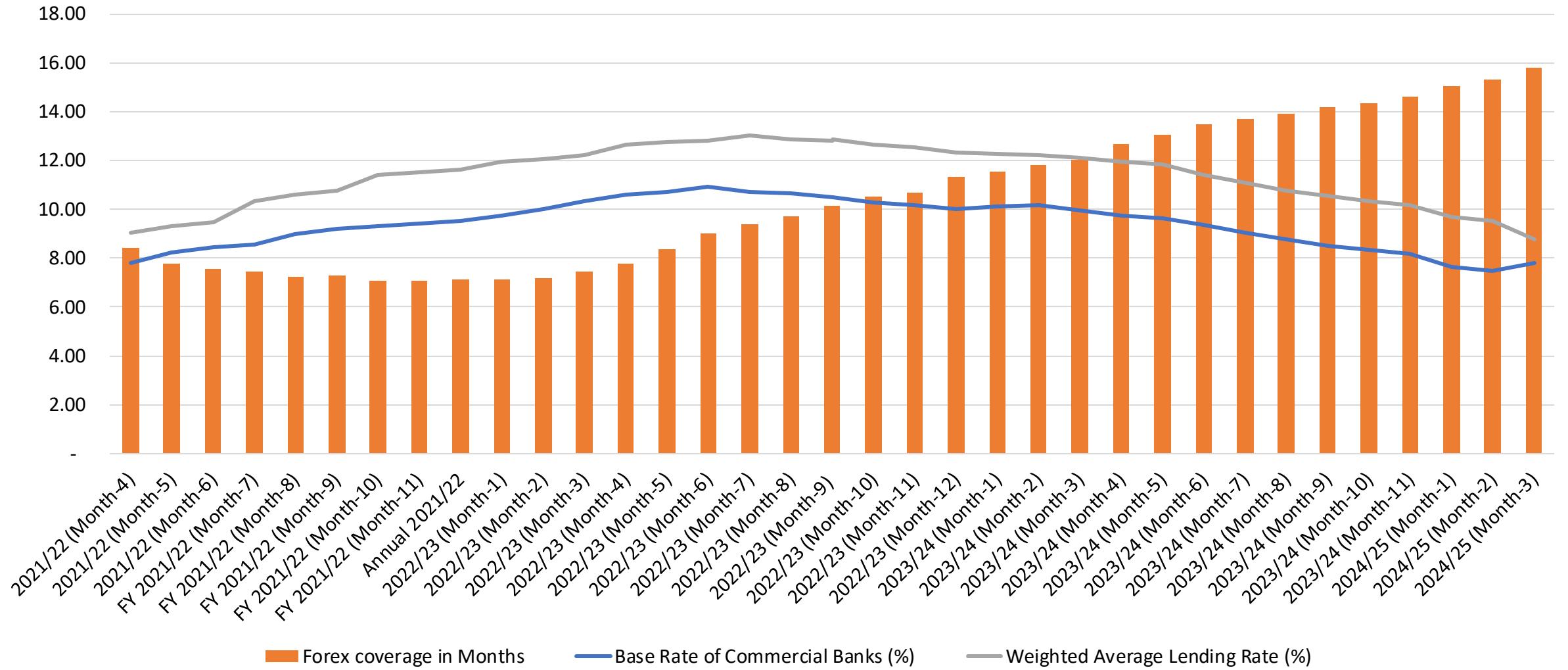
Revenue related to trade has shown an 8% increase in 2024/25, potentially indicating better customs and tax collection. Overall, while the trade deficit relative to GDP is improving, Nepal remains heavily reliant on imports, and the ongoing decline in exports underscores the need for strategic reforms to enhance export performance and reduce import dependency for sustainable economic growth.

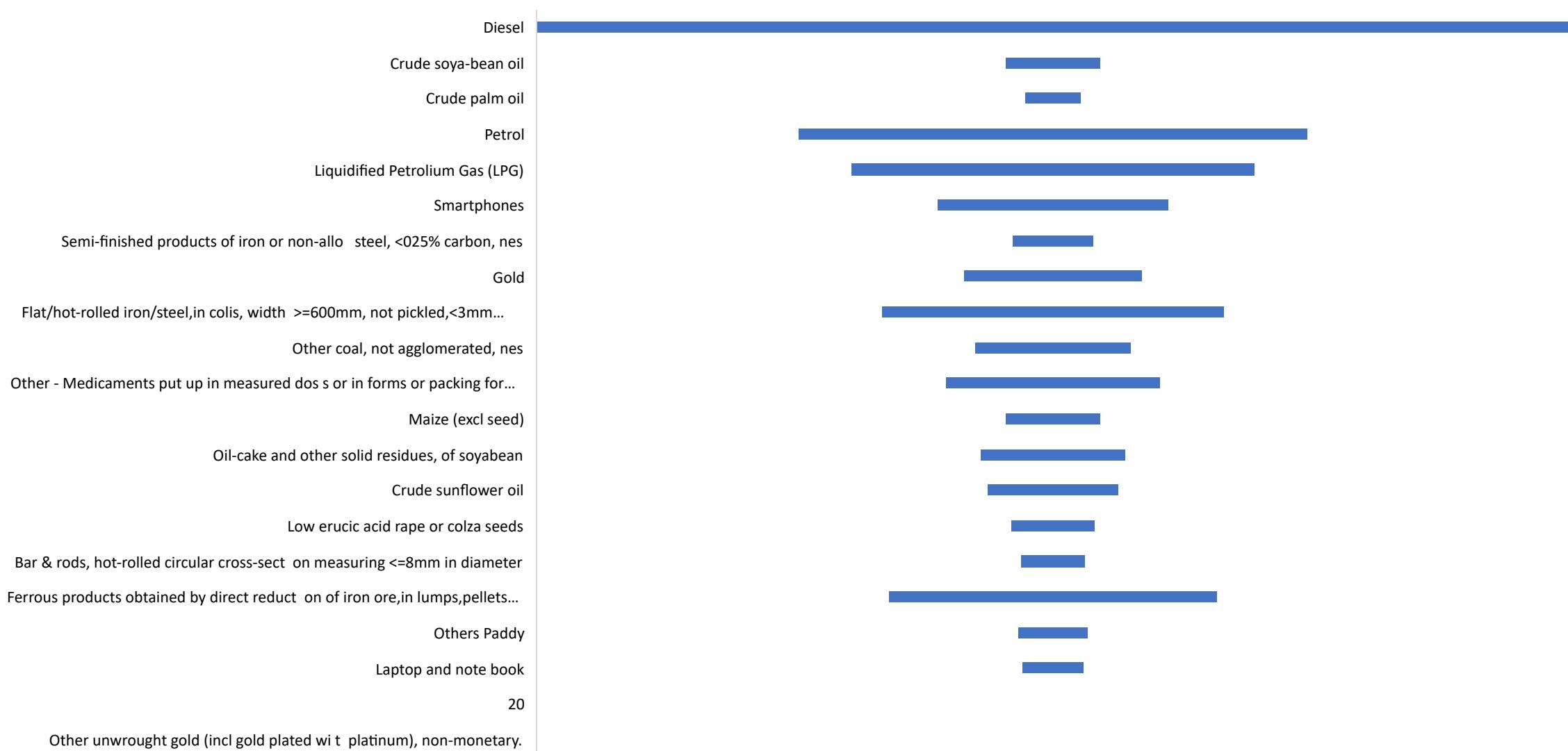
Key Economic Indicators and Global Trade Overview																																																																																																				
Indicator	Current Status	Historical Data and Global Context																																																																																																		
		Historical Trend	Global Comparison	Future Outlook																																																																																																
Trade to GDP	<p>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 decreased to 26.42% by mid-Oct. 2024, compared to the 29.63% reported in the corresponding previous year.</p>																																																																																																			
Trade Deficit	<p><i>In the second month of fiscal year 2024/25, the monthly trade deficit decreased by \$0.05 billion, reaching \$0.88 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to \$12.25 billion, indicating a significant reversal from the \$11.14 billion recorded during the corresponding period of the previous fiscal year.</i></p>																																																																																																			
Import Pressure	<p>Heavy reliance on imported raw materials, capital goods, and consumer products.</p> <p>Limited potential for export growth.</p> <p>Sending unskilled manpower abroad as a primary export.</p> <p>Limited international transportation connectivity.</p> <p>Untapped natural resources.</p>																																																																																																			
Observations	<p><i>Presently, Nepal maintains strong foreign exchange reserves, which cover over 15.79 months of imports and service payments based on the year-on-year import ratio. The Nepalese economy is stable, aided by the decreasing prices of imported energy and food.</i></p> <p><i>Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming months.</i></p> <p><i>Although there has been a noticeable increase in the import of specific goods this month, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.</i></p>																																																																																																			
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Y-O-Y External Sector



Interest rates and Extrnational Sector

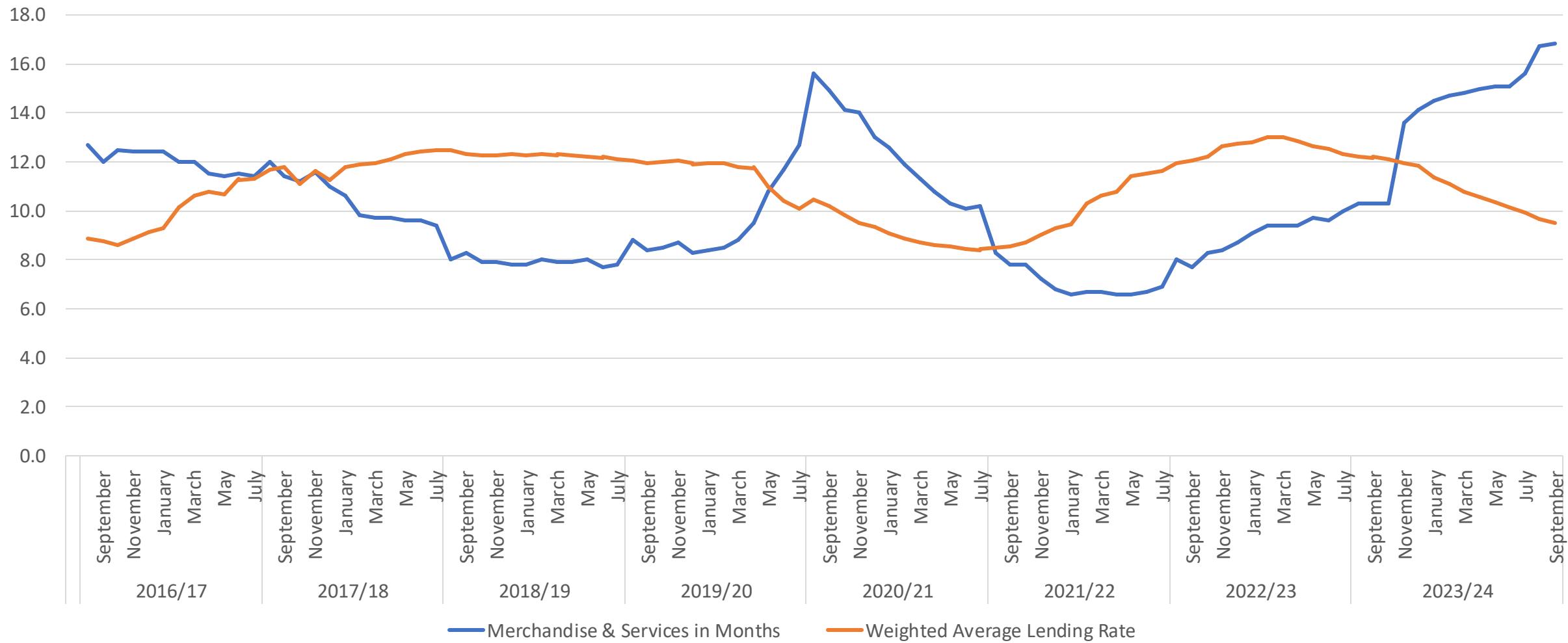




Expected Annual Imports of Major Items (USD in million)

Description	2022/23 Annual Import Value	2023/24												2023/24				Estimated Annual import Value 2024/25	Import Direction
		2 month	3 month	4 month	5 month	6 month	7 month	8 month	9 month	10 month	11 month	2024/25 1 month	2024/25 2 month						
Diesel	1,183	121	230	310	415	511	596	684	794	890	994	1,108	54	105	170	1,073	Decline		
Crude soya-bean oil	274	23	35	44	55	60	66	71	83	88	100	103	10	18	41	99	Growth		
Crude palm oil	199	18	27	35	44	50	57	68	75	79	79	82	3	7	9	58	Decline		
Petrol	514	87	132	176	220	261	299	343	387	436	484	524	44	85	128	529	Decline		
Liquidified Petroleum Gas (LPG)	447	56	89	119	159	196	233	276	315	354	393	428	37	73	108	419	Growth		
Smartphones	188	41	73	89	105	116	134	149	167	185	203	221	27	52	76	240	Growth		
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	24	28	30	38	49	55	63	73	79	99	107	6	9	14	86	Decline		
Gold	172	32	57	63	77	83	97	124	124	169	182	182	8	8	8	187	Decline		
Flat/hot-rolled iron/steel,in coils, width >=600mm, not pickled,<3mm thickness	158	46	75	87	111	144	166	188	214	236	251	266	23	54	93	357	Growth		
Other coal, not agglomerated, nes	209	27	35	43	59	83	100	118	138	152	162	176	22	32	162	162	Decline		
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	32	54	67	84	102	124	138	158	175	193	211	18	40	59	223	Growth		
Maize (excl seed)	127	13	19	23	35	47	55	64	78	87	102	108	6	11	14	100	Decline		
Oil-cake and other solid residues, of soyabean	98	22	32	42	59	72	85	100	108	117	124	130	9	19	25	151	Decline		
Crude sunflower oil	139	23	35	42	52	60	74	92	97	105	119	137	20	40	55	136	Growth		
Low erucic acid rape or colza seeds	72	11	15	24	33	40	43	48	55	62	72	83	10	19	27	89	Growth		
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	19	27	29	34	41	48	58	86	70	75	80	6	18	23	68	Decline		
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	54	74	92	115	149	174	199	233	241	270	300	29	60	93	341	Growth		
Others Paddy	154	22	23	23	31	40	57	66	76	86	89	93	8	12	13	75	Decline		
Laptop and note book	48	11	16	19	24	29	34	39	43	47	53	58	7	14	17	64	Growth		

Import Capacity in Months and Lending Rate!



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.

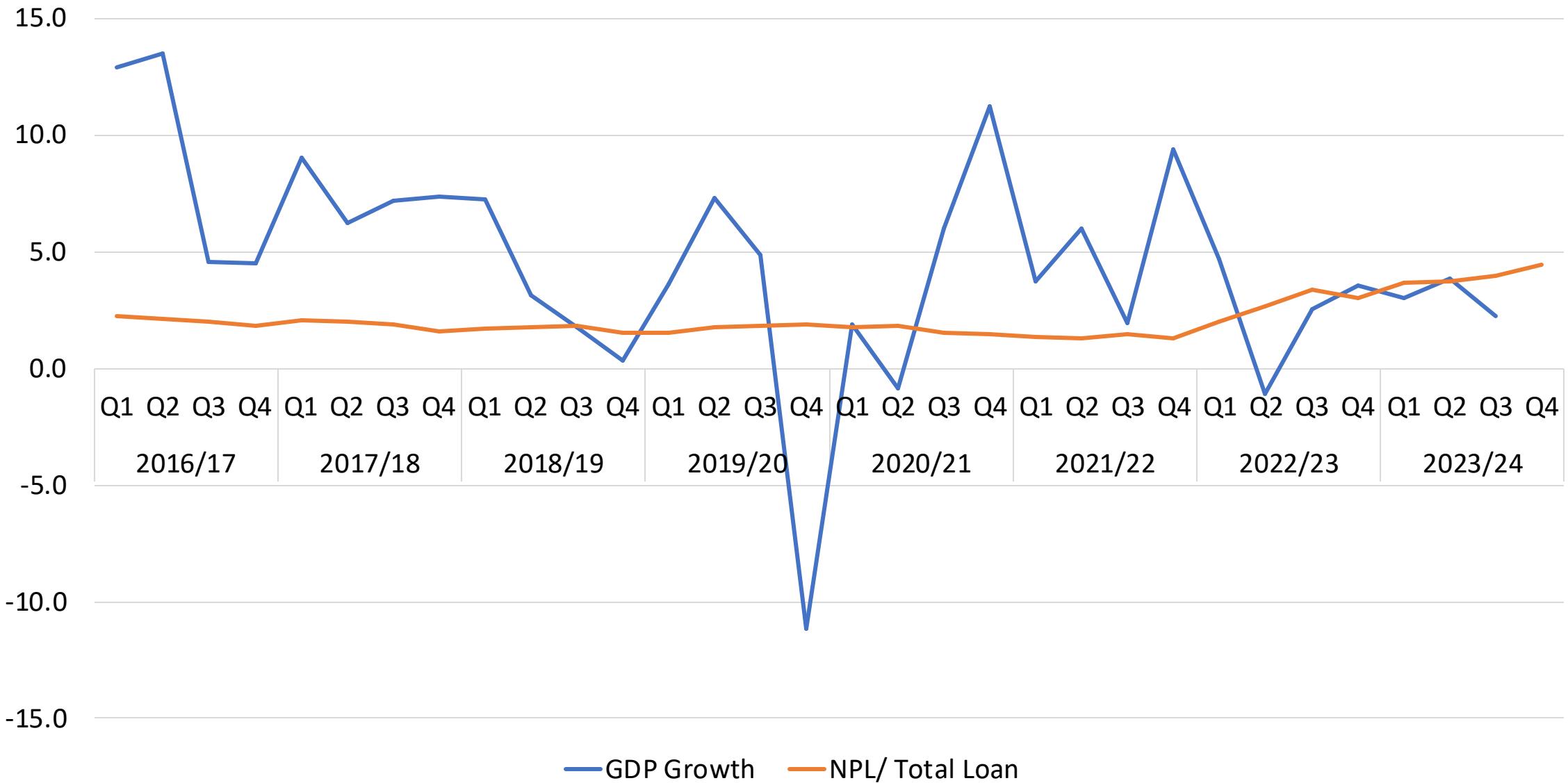


Migration and urbanization have led to a decline in rural demand, which is expected to remain below the levels seen in the 2023/24 fiscal year. During the current fiscal year, the weighted average lending rates have **decreased by 2.72%**. As a result, there has been a modest increase in urban demand for domestic capital goods, as indicated by various economic indicators.

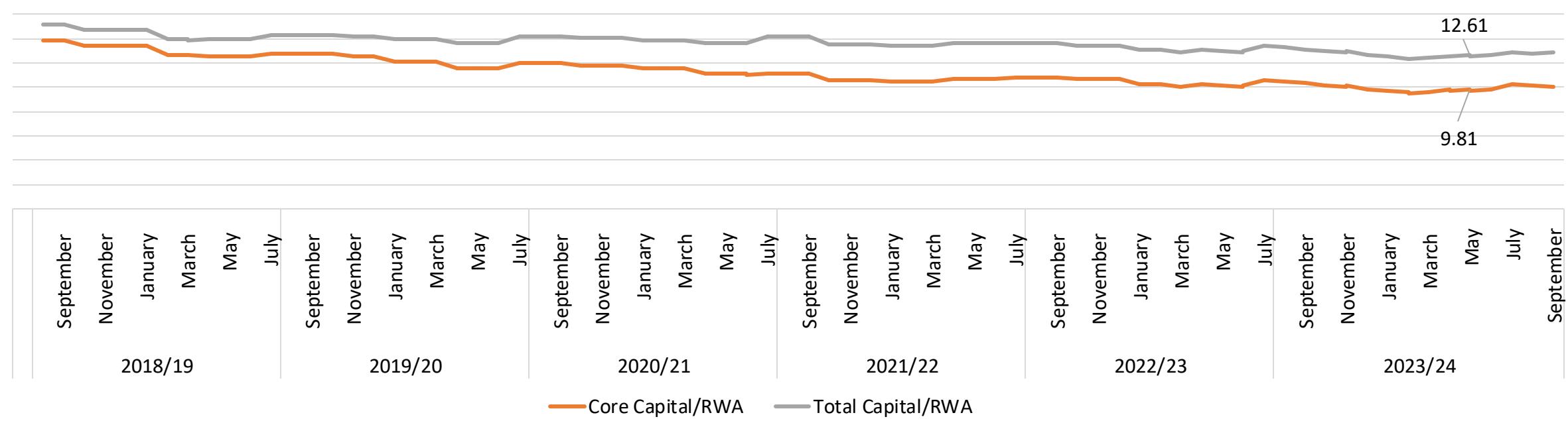
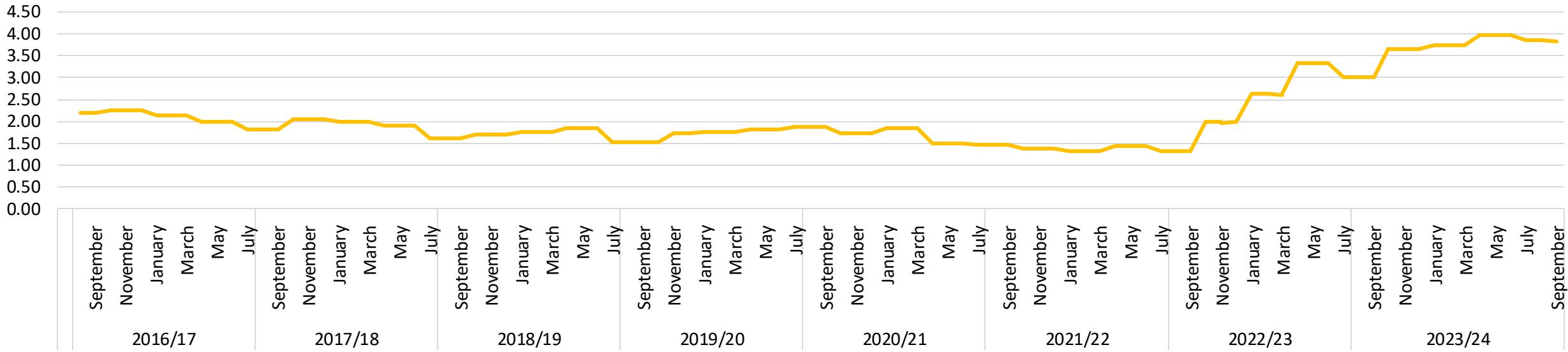
Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and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



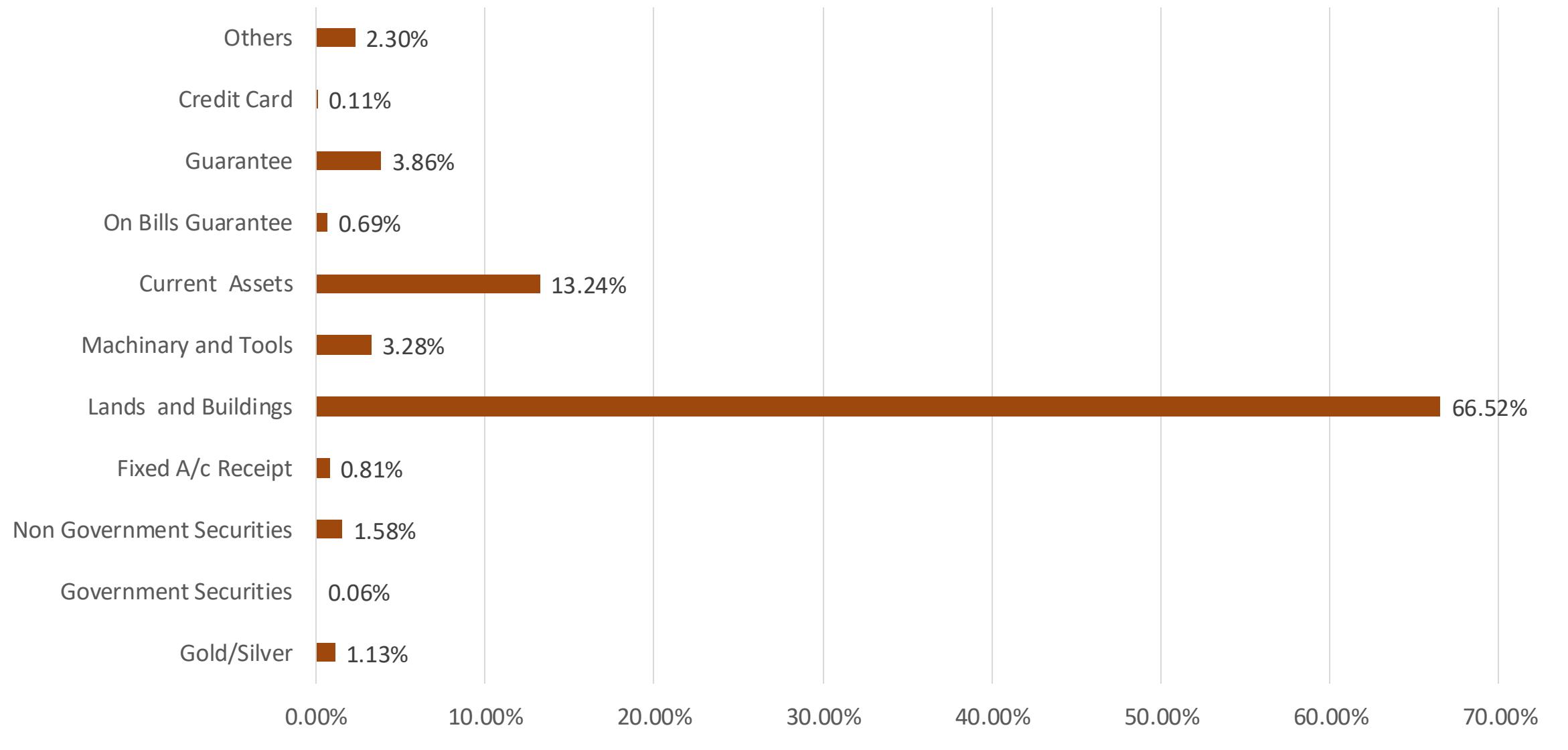
Consumer confidence for this year has reached a record low, and construction activity has also been lackluster. Investment outlook remains bleak due to various factors, including subdued demand for credit from corporate, especially those in manufacturing; sustained low government capital expenditure;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



NPL/ Total Loan



Securitywise Outstanding Credit



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:

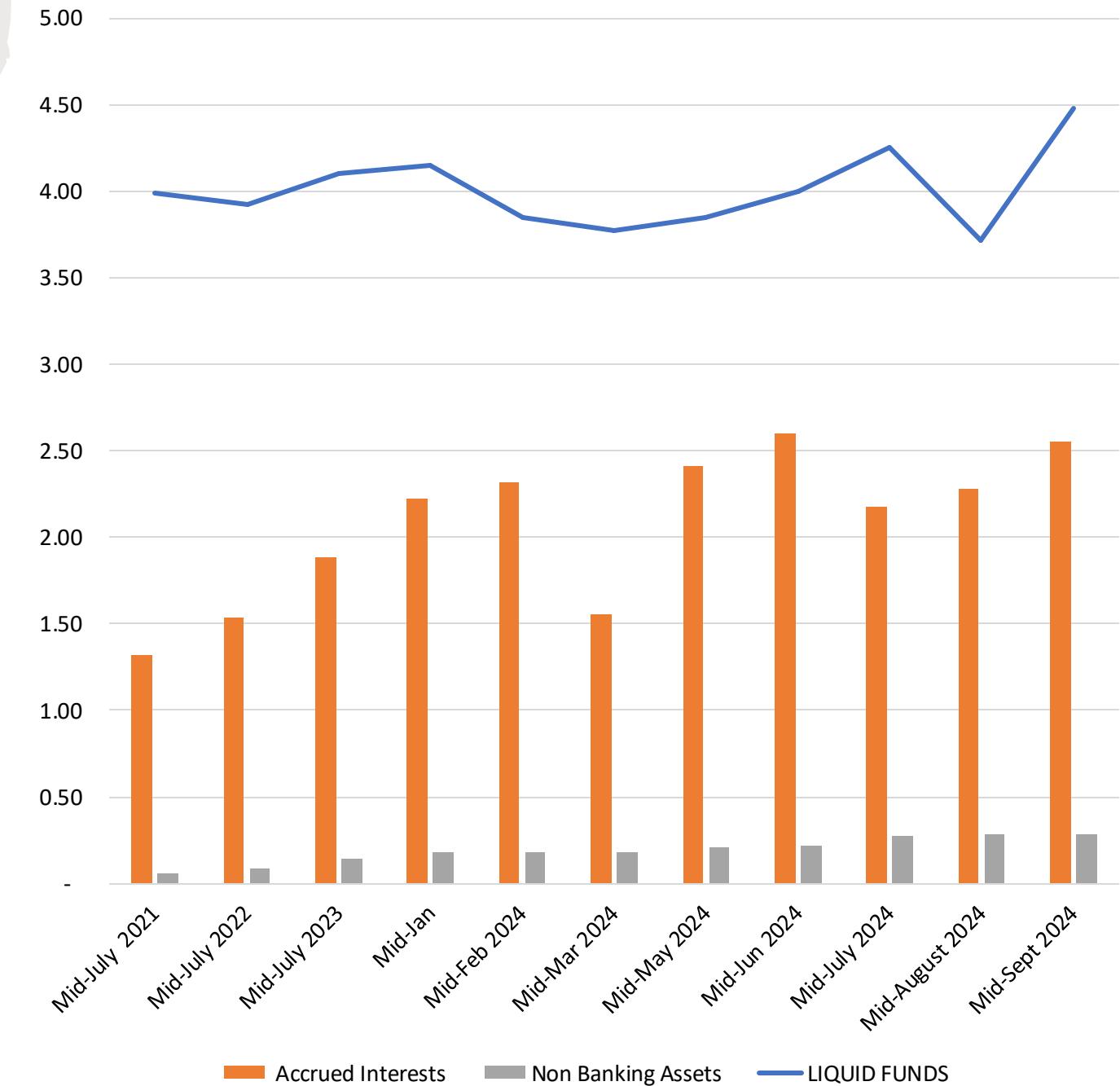
1. The NPA ratio, shown in the second chart, is highly volatile, with significant peaks and troughs over the analyzed period.
2. This volatility suggests instability in the banking sector, as loans continue to shift from performing to non-performing status, likely driven by the increasing accrued interest.

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		Outlook																										
Corporate performance	<p>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).</p>	<p>Anticipated positive trends indicate that Banking and Financial Institutions (BFIs) are poised for increased profitability in the fiscal year 2025/26. This optimistic outlook is primarily fueled by the favorable impacts arising from the availability of loan reconstruction and rescheduling facilities. Despite facing 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 \$1.55 billion and \$1.76 billion, correspondingly. The implementation of NFRS may impact NPL and consequently affect the profitability of banking and financial institutions (BFIs).</p>																										
Working Capital financing	<p>Under the Working Capital financing guidelines, borrowers are likely to confront persistent obstacles when seeking to inject new equity into their operations. The prolonged working capital cycle will impede borrowers' capacity to finance their operational needs internally. This protracted cycle renders the injection of fresh equity impractical, given the inadequacy of internal resources. As a result, the enforcement of these updated working capital regulations is anticipated to yield adverse consequences, potentially hampering industrial growth and unsettling the equilibrium in supply chain management. Sector-specific adjustments remain pending, adding to the prevailing sense of pessimism.</p>	<p>Exercise caution: Non-Performing Loans (NPLs) are projected to remain at 3.16% 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.</p>																										
Household debt Regrouped	<p>While the corporate sector bears a substantial portion of the debt burden, it's encouraging to highlight the positive trend of a significant increase in household debt. It's worth noting that, even with this growth, household debt remains below the levels observed in advanced economies.</p>	<table border="1"> <thead> <tr> <th></th><th>Household debts in \$ million</th></tr> </thead> <tbody> <tr> <td>Residential Personal Home Loan (Up to Rs. 20 million)</td><td>552.97</td></tr> <tr> <td>Land Purchase and Plotting Loan</td><td>721.28</td></tr> <tr> <td>Loan of 5M or and above without specified purpose</td><td>476.19</td></tr> <tr> <td>Margin Nature Loan</td><td>703.41</td></tr> <tr> <td>Hire Purchase Loan</td><td>275.55</td></tr> <tr> <td>Credit Card</td><td>43.64</td></tr> <tr> <td>Education Loan</td><td>410.03</td></tr> <tr> <td>Gold/Silver</td><td>547.45</td></tr> <tr> <td>Guarantee Bond</td><td>37.33</td></tr> <tr> <td>Fixed A/c Receipt</td><td>422.05</td></tr> <tr> <td>Total</td><td>4,189.90</td></tr> <tr> <td>% of total Loan</td><td>10.66%</td></tr> </tbody> </table>		Household debts in \$ million	Residential Personal Home Loan (Up to Rs. 20 million)	552.97	Land Purchase and Plotting Loan	721.28	Loan of 5M or and above without specified purpose	476.19	Margin Nature Loan	703.41	Hire Purchase Loan	275.55	Credit Card	43.64	Education Loan	410.03	Gold/Silver	547.45	Guarantee Bond	37.33	Fixed A/c Receipt	422.05	Total	4,189.90	% of total Loan	10.66%
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Major Risks/Impact	High	Medium	Low	Remarks
<i>Excessive capacity, supply constraints, and intense competition within the manufacturing sector could potentially have adverse repercussions on asset quality.</i>	v			Deteriorate
<i>Substantial surges in the market prices of vital raw materials, energy, or transportation, along with supply disruptions, may negatively impact the performance of the industrial sector. This, in turn, could intensify the pressure on short-term loan demand and exacerbate financing mismatches due to working capital guidelines.</i>	v			Deteriorate
<i>A heavy reliance on imported raw materials, capital goods, and consumer products can potentially strain the Balance of Payments. Additionally, a supply-demand mismatch could lead to a deterioration in the asset quality of Banking and Financial Institutions (BFIs).</i>	v			Deteriorate
<i>Variations in the current market interest rates applicable to loans and debts, both within the financial market and the overall financing landscape, have the potential to negatively impact business operations and financial health, leading to a decline in asset quality. With credit growth remaining subdued due to sluggish domestic demand, it is expected that many market lending rates will be adjusted downward. This could also lead to a reduction in yields on government securities.</i>	v			Deteriorate
<i>The profitability of the banking sector continues to face challenges, including a low-interest margin environment, limitations on non-interest income, and a rising trend in corporate payment defaults. These factors pose challenges to the successful implementation of NFRS 9. (Concerns about proposed amendment to the Bank and Financial Institutions Act (BAFIA).</i>	v			Deteriorate
<i>The asset quality of Banking and Financial Institutions (BFIs) may experience a decline due to microeconomic vulnerabilities. Additionally, there is a potential for a significant increase in Income Tax liabilities in the event of changes to tax laws and regulations or unfavorable interpretations and inconsistent enforcement, particularly in transactions involving bargain pricing, share premiums, FPOs, and ownership transfers, among other factors.</i>		v		(BFI paid \$ 92 million in taxes for the FPO bargain pricing)
<i>Variations in the exchange rate between the Nepalese Rupee and the U.S. dollar have the potential to influence the market prices of raw materials.</i>	v			Deteriorate
<i>Global supply constraints have the potential to negatively impact both operations and financial stability. An inability to effectively manage supply and distribution gaps could disrupt economic activities.</i>	v			Deteriorate

Risk Matrix

	Condition	Related effect		Risk
Low saving/Investment	<i>Sluggish wholesale and retail operations.</i>	<i>Aggregate demand</i>	<i>Decline</i>	<i>High</i>
	<i>Enhancing foreign exchange reserves and experiencing a substantial inflow of remittances</i>	<i>Pressure on BOP</i>	<i>Decline</i>	<i>Low</i>
	<i>Slow Corporate cash recovery.</i>	<i>Firm Investment</i>	<i>decrease</i>	<i>High</i>
	<i>Loss of disposable saving</i>	<i>Failure of non-regulated financial institutions (Cooperatives)</i>	<i>Increase</i>	<i>High</i>
Post-Covid	<i>Increasing Tourism activities</i>	<i>Occupancy at Hotel and retail restaurant</i>	<i>Increase</i>	<i>Low</i>
	<i>Outmigration</i>	<i>Demand for worker</i>	<i>Increase</i>	<i>Low</i>
War and conflicts	<i>Moderate commodities prices</i>	<i>Import Bill</i>	<i>Increase</i>	<i>High</i>
	<i>Energy Price</i>	<i>Cost of production</i>	<i>Increase</i>	<i>Moderate</i>
Interest Rate Outlook	<i>Excess Liquidity</i>	<i>Low credit demand</i>	<i>Increase</i>	<i>High</i>
FDI inflow Outlook	<i>Demand for liquidity in host countries</i>	<i>Flow of FDI</i>	<i>Low</i>	<i>High</i>
Level of NPL	<i>Reconstruction and rescheduling</i>	<i>Pressure on Capital of BFs</i>	<i>Increase</i>	<i>High</i>
Demand for Working capital	<i>Decreasing cost of borrowing and inputs</i>	<i>Reducing cost of production</i>	<i>Stable</i>	<i>Low</i>
Inflation outlook	<i>Increasing Food price</i>	<i>Lower consumer demand</i>	<i>Decline</i>	<i>Moderate</i>



SPECIFIC MEASURES/WORKABILITY		TIME FRAME	IMPLEMENTABILITY	PRIORITY ORDER
Risk Assets management	<i>The third review of the working capital guidelines should incorporate sector-specific requirements, given that the second amendment does not adequately address them.</i>	Immediate	Possible	High
	<i>NRB should broaden its review scope to include not just the Loan Portfolio, but also governance and the legal framework necessary to support the current economic model. Furthermore, NRB should allocate resources to evaluate the effectiveness of its policies and directives and develop a comprehensive long-term strategic plan covering at least the next 20 years</i>	Immediate	Possible	High
	<i>Allow assets purchase and allow Peer-to-peer lending and invoice discounting</i>	Immediate	Possible	High
	<i>Review Risk Assets pricing policy</i>	Immediate	Possible	High
	<i>Design and implement a second-phase recovery and stimulus package for agriculture, industries and services</i>	Immediate	Possible	High
	<i>Review base rate calculation method to include all costs</i>	Immediate	Possible	High
Liquidity Management	<i>Implement mandatory taking Permanent Account Number (PAN) for all size loan.</i>	Immediate	Possible	High
	<i>Replace CD ratio by Net-Liquidity Ratios</i>	Immediate	Possible	High
	<i>Review of Saving Deposit interest rate policy</i>	Immediate	Possible	High
	<i>Review of SLF policy, and Assets purchase policy of NRB</i>	Immediate	Possible	High
<i>Discourage cash transactions and promote electronic payment system by focusing on digitization & Fin-tech and reducing the cost of transactions</i>		Immediate	Possible	High

Way forward

	<i>Specific measures/Workability</i>	<i>Timeframe</i>	<i>Implementability</i>	<i>Priority order</i>
Legal reform	<i>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.</i>	<i>Immediate</i>	<i>Possible</i>	<i>High</i>
	<i>Establish an exit policy aimed at balancing the ownership structure to enhance transparency and governance. Revisit BAFIA amendment</i>	<i>Immediate</i>	<i>Possible</i>	<i>High</i>
	<i>Implement separate policies to supervise systematically important banks.</i>	<i>Immediate</i>	<i>Possible</i>	<i>High</i>
MSMEs	<i>Initiate steps to have single definition of MSMEs across all regulators. Increase coverage of credit guarantees on MSME loans.</i>	<i>Immediate</i>	<i>Possible</i>	<i>High</i>
	<i>Introduce policy to scale-up agriculture base MSMEs, which can immediately create employment and substitute imports</i>	<i>Immediate</i>	<i>Possible</i>	<i>High</i>
	<i>Introduce E-commerce and digital solutions to increase access short-term bridge loans to micro and small businesses, and digital payments.</i>	<i>Short-term</i>	<i>Possible</i>	<i>High</i>
Risk Assets	<i>Initiate a sector-specific analysis and take proactive measures to conduct a swift assessment of Banking and Financial Institutions (BFIs) in order to comprehend the long-term implications of the ongoing crisis.</i>	<i>Short-term</i>	<i>Possible</i>	<i>High</i>
Forex	<i>Sustain the credibility of the exchange rate peg by periodically reviewing foreign exchange policies and directives.</i>	<i>Long-term</i>	<i>Possible</i>	<i>High</i>

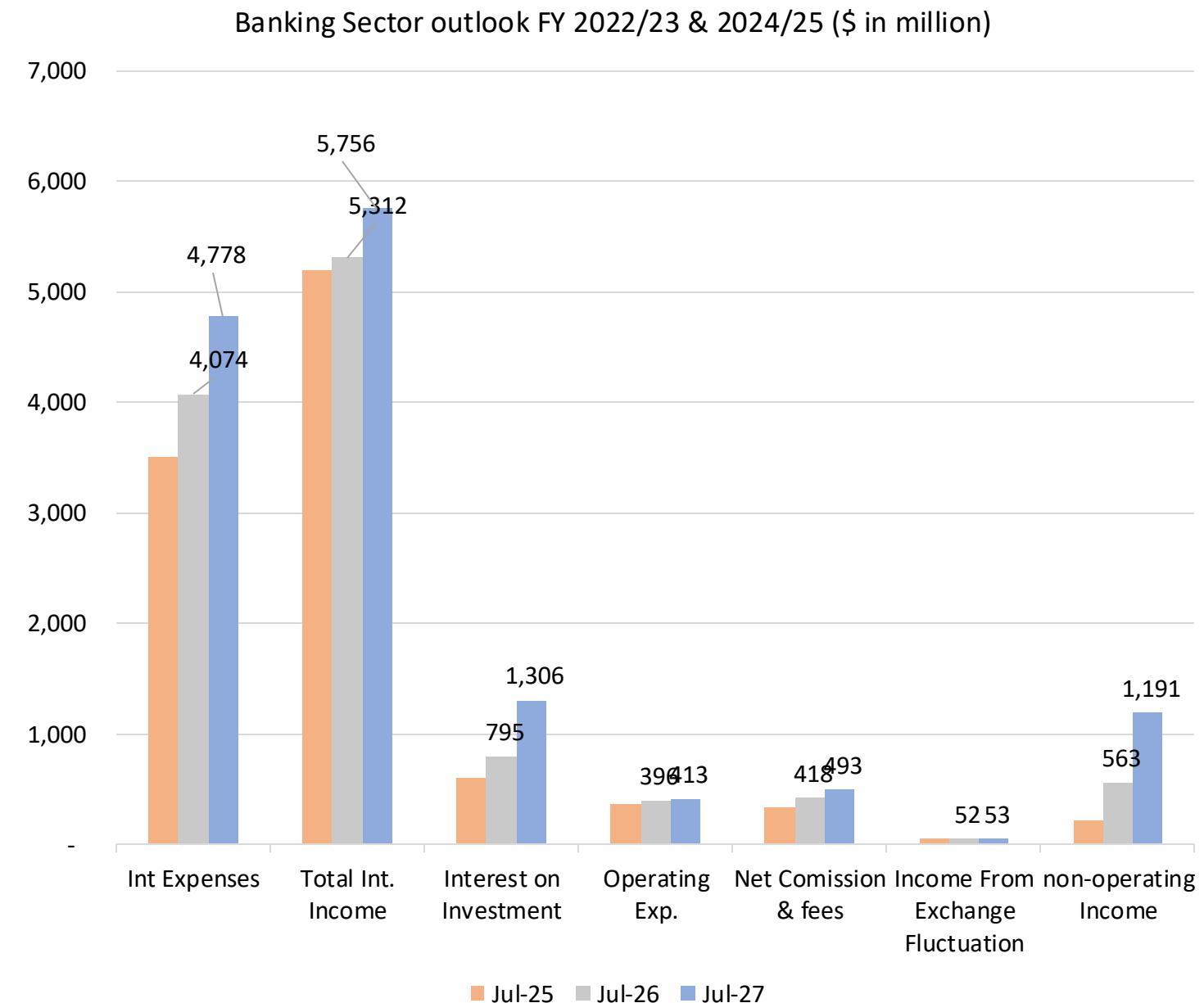
BFIs Outlook 2024/25, 2025/26 and 2026/27

Amount in \$ Million														
Assets and Liability (Exchange Factor \$ 1 = NPR 130)					Profit and loss									
Capital, Deposits and Risk Assets														
Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change	Int on Loans and Adv.	July 2025e	Change	July 2026e	Change	July 2027e	Change	
CAPITAL FUND	6,440	14.88%	7,292	13.24%	8,396	15.13%	Total Int. Income	4,601	1.67%	4,516	-1.84%	4,449	-1.48%	
PAID UP CAPITAL	3,383	0.77%	3,404	0.64%	3,427	0.67%	Avg. Yield From Loan	5,197	0.23%	5,312	2.20%	5,756	8.35%	
BORROWINGS	1,874	1.13%	1,371	-26.82%	1,166	-14.94%	Int Expenses	3,512	0.12%	4,074	16.00%	4,778	17.29%	
Borrowing from NRB	(0)	-107.51%	(5.30)	2238.39%	(106.57)	1909.03%	Avg. Cost of Fund	5.85%	1.55%	5.79%	-1.02%	6.24%	7.92%	
DEPOSITS	55,267	10.61%	60,544	9.55%	65,428	8.07%	NII	1,686	0.47%	1,238	-26.55%	977	-21.05%	
Current	2,130	-27.50%	2,940	38.07%	3,971	35.05%	Interest Spread	3.11%	-25.59%	3.22%	3.50%	2.04%	-36.66%	
Saving	18,685	24.28%	22,204	18.83%	24,457	10.15%	Commission & fees	337	43.10%	418	23.91%	493	17.93%	
Fixed	30,577	9.12%	31,810	4.03%	33,454	5.17%	Ex. Fluctuation Gain	52	6.37%	52	0.42%	53	1.81%	
Call	3,567	-1.85%	3,287	-7.85%	3,277	-0.32%	Other Operating & Non-operating Income	215	207.32%	563	162.18%	1,191	111.63%	
Others	308	-9.00%	303	-1.73%	269	-11.04%	Gross Income	2,290	12.66%	2,271	-0.82%	2,714	19.53%	
LIQUID FUNDS	3,363	-20.97%	2,874	-14.55%	6,725	134.00%	Employees Exp	522	6.63%	581	11.28%	623	7.15%	
GOVT. SECURITIES/OTHER	13,997	23.68%	17,245	23.20%	20,578	19.33%	Employee cost in % of Total Int. Income	10.05%	6.38%	10.94%	8.89%	10.82%	-1.11%	
Investment in share and other	2,225	4.90%	1,971	-11.40%	1,922	-2.48%	Office Operating Exp	361	9.13%	396	9.78%	413	4.32%	
LOANS & ADVANCES	42,126	5.95%	45,136	7.14%	48,134	6.64%	LLP & write-off	414	-37.97%	337	-18.64%	364	8.18%	
Total Capital/RWA	14.28%	10.26%	15.14%	6.00%	15.20%	0.38%	Additional LLP to Risk Assets	0.96%	-42.09%	0.83%	-13.53%	0.84%	1.44%	
CD	74.88%	-4.05%	73.67%	-1.62%	72.88%	-1.07%	Provision Written Back	323	-3.00%	387	20.00%	426	10.00%	
NPL /Total Loan	3.16%	-19.10%	3.55%	12.66%	3.95%	11.13%	PBT	1,315	49.90%	1,344	2.18%	1,740	29.46%	
Return on Capital Employed	13.15%	30.48%	11.87%	-9.76%	14.31%	20.52%	Return on total assets	1.89%	36.27%	1.76%	-7.11%	2.07%	17.69%	

Profitability of BFIs.

(Exchange Factor \$ 1 = NPR 130

\$ in million			
P/L Account			
Particulars	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	5,801	6,345	7,492
Total Operating Expenses	4,395	5,051	5,814
Provision Written Back	323	387	426
Provision for Risk	(404)	(322)	(349)
Loan Written Off	(10)	(15)	(15)
Net Profit before Bonus & Tax	1,315	1,344	1,740
Bonus	124	126	164
Tax	358	365	473
Net profit	834	852	1,104



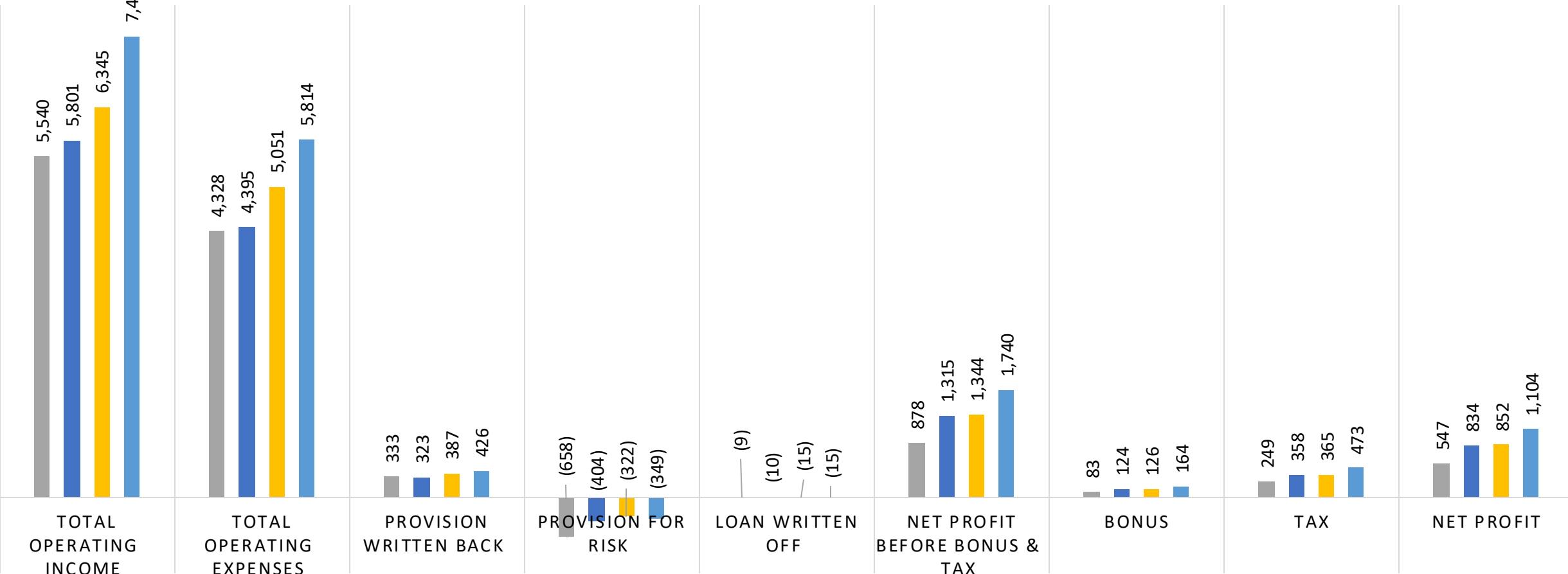
The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

Profitability of BFIs

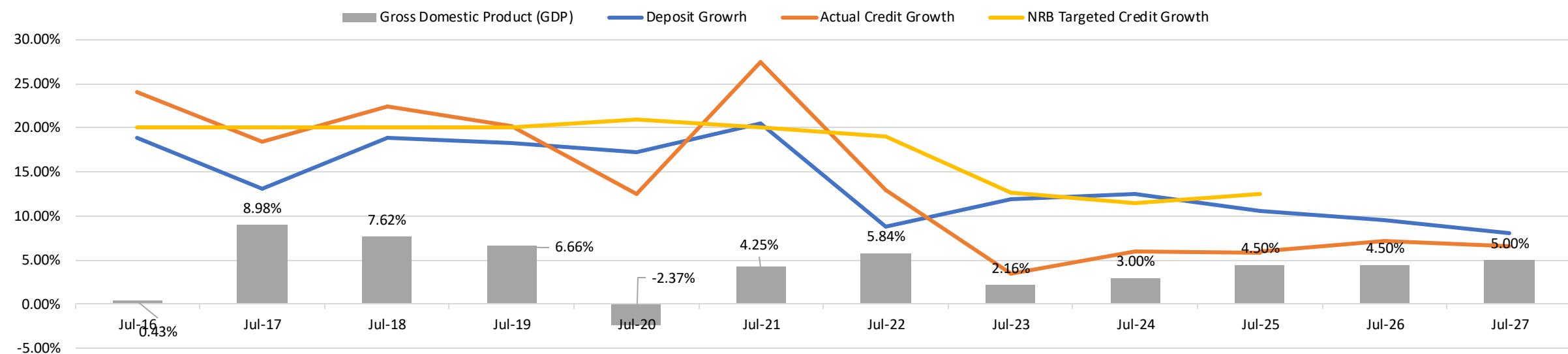
(Exchange Factor \$ 1 = NPR 130)

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

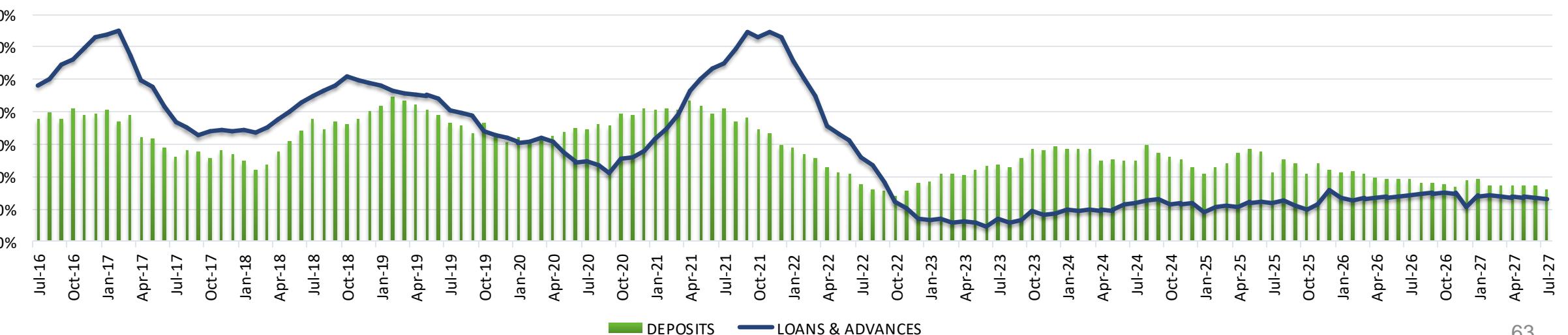
■ P/L Account Actual July 24 ■ P/L Account Expected July 25 ■ P/L Account Expected July 26 ■ P/L Account Expected July 27

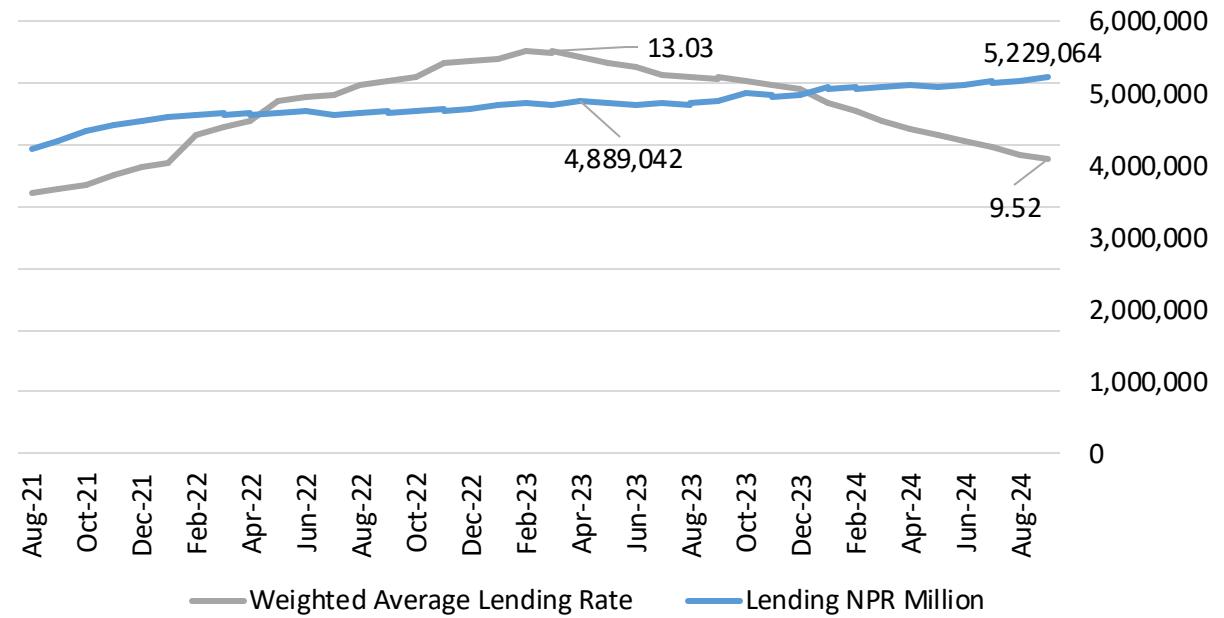


Annual Loan and Deposit Growth and LLP

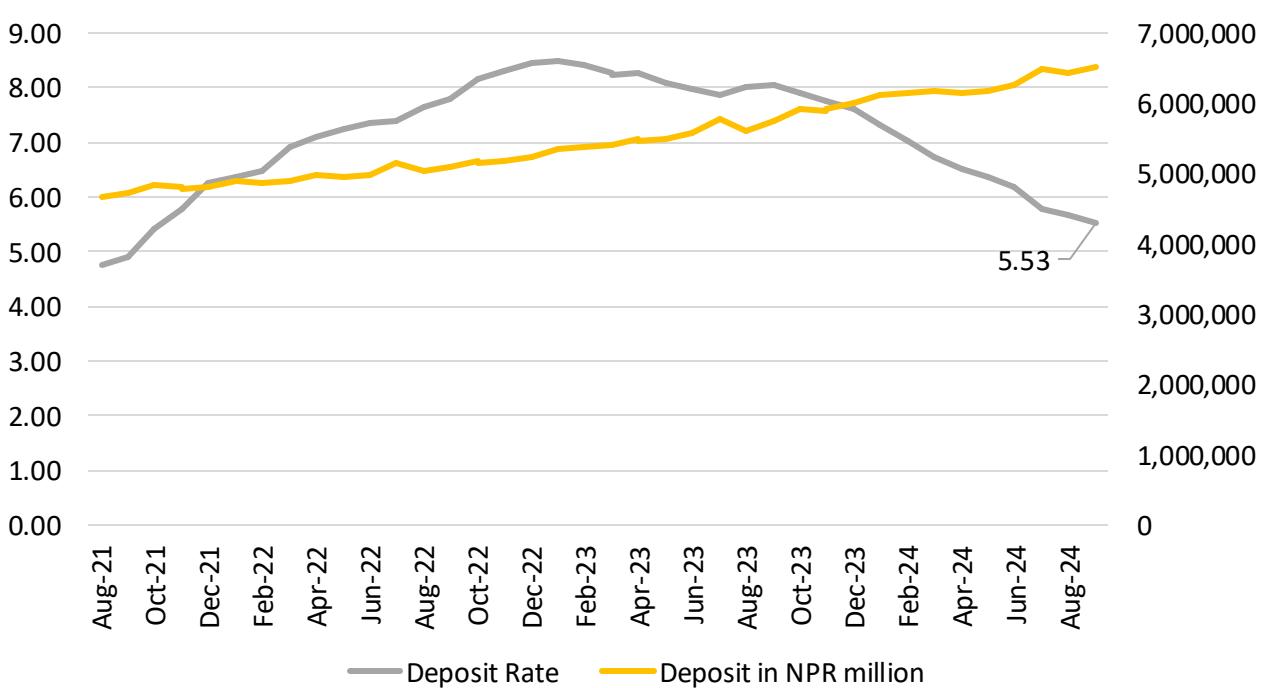


Y-o-Y Growth





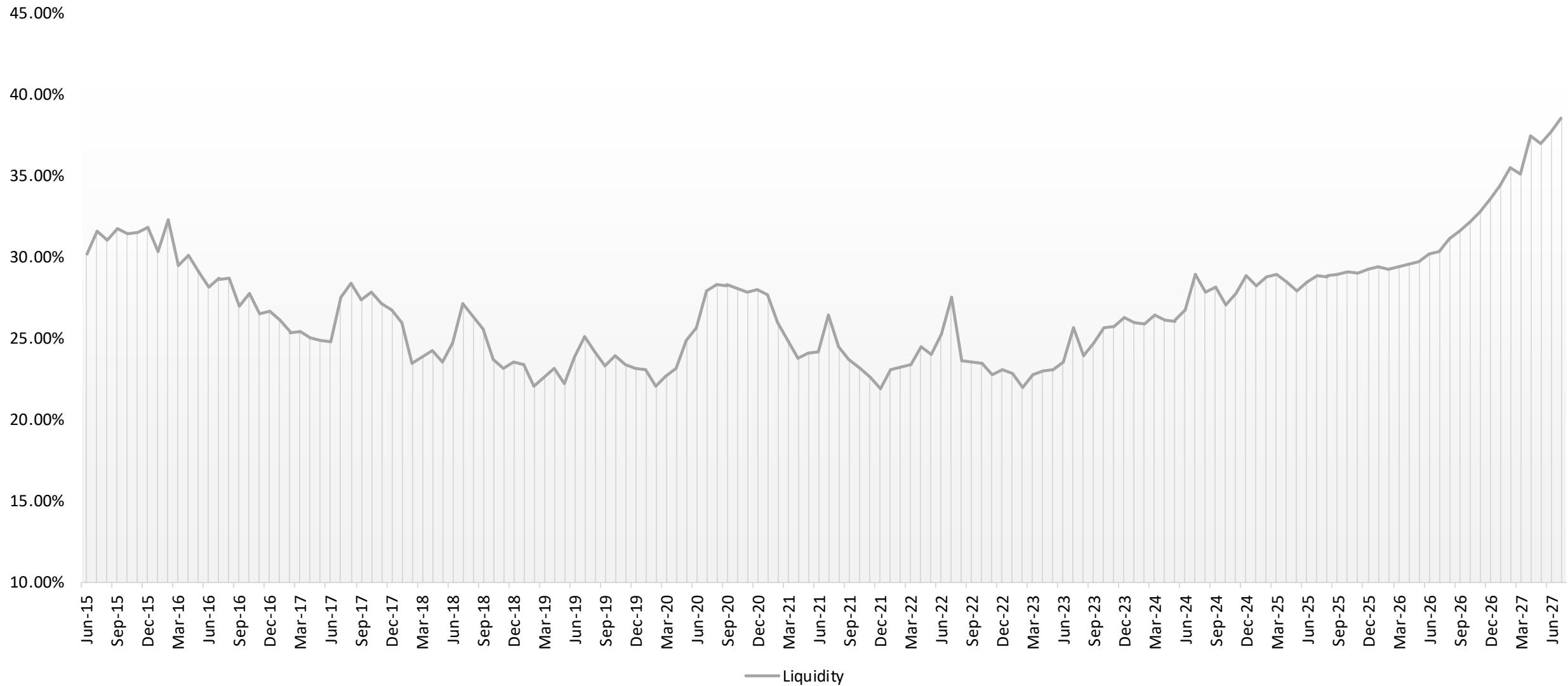
Deposits saw consistent growth, increasing from NPR 4,666 billion in August 2021 to NPR 6,525 billion by September 2024, with noticeable spikes in mid-2022 and mid-2023. Despite a decrease in deposit rates from 8.51% in January 2023 to 5.53% by September 2024, deposits continued to grow, largely driven by a shift of funds from SACCOs and other non-regulated markets into the banking sector. In contrast, lending rose from NPR 4,223 billion in August 2021 to NPR 5,229 billion in September 2024, but at a slower and more gradual pace than deposits. Lending growth faced some fluctuations, impacted by policy constraints and subdued credit demand.



The lending rate peaked at 13.03% in February 2023 but then declined to 9.52% by September 2024, reflecting a reduction in borrowing costs. Despite this decline, loan growth remained sluggish, indicating that factors beyond interest rates—such as economic uncertainties, stricter lending standards, and weaker credit demand—were suppressing loan expansion.

Meanwhile, the deposit rate climbed from 4.76% in August 2021 to 8.51% in January 2023, driven by a tightening liquidity environment. Following early 2023, the deposit rate fell in line with the declining policy rate, reaching 5.53% by September 2024. Overall, while banks successfully accumulated deposits, lending growth lagged, highlighting underlying challenges in credit demand or increased risk aversion in lending practices.

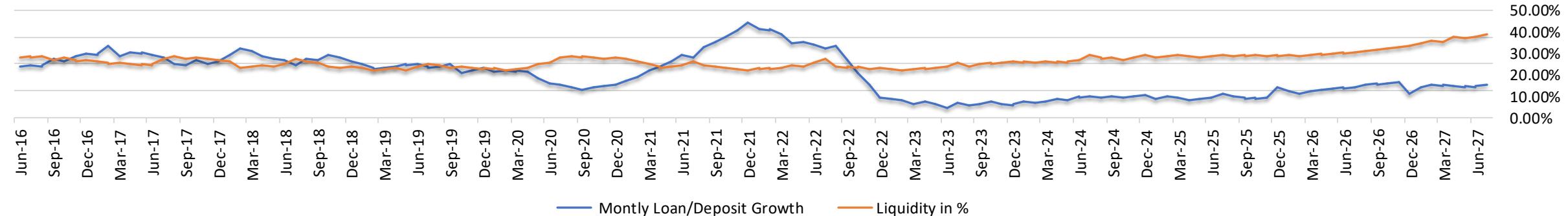
Liquidity



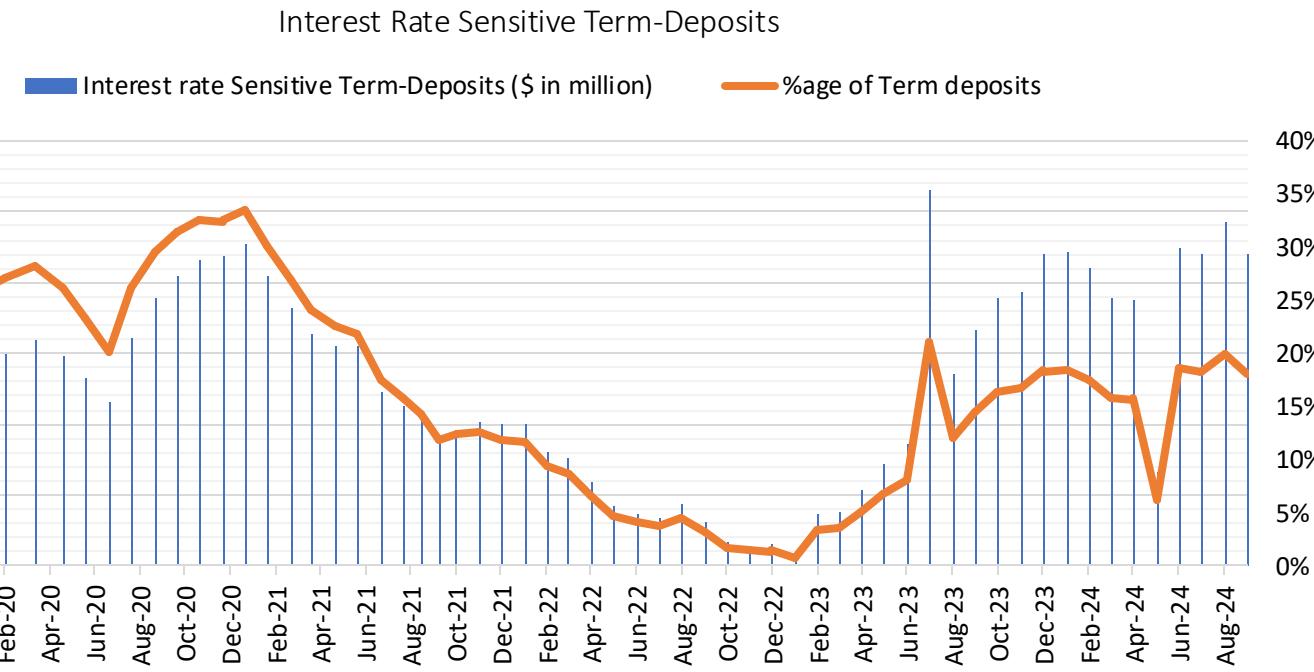
While liquidity continues to improve steadily, it's probable that a significant number of BFI's will experience negative cash flows from operations.

Liquidity

Loan Growth and Liquidity

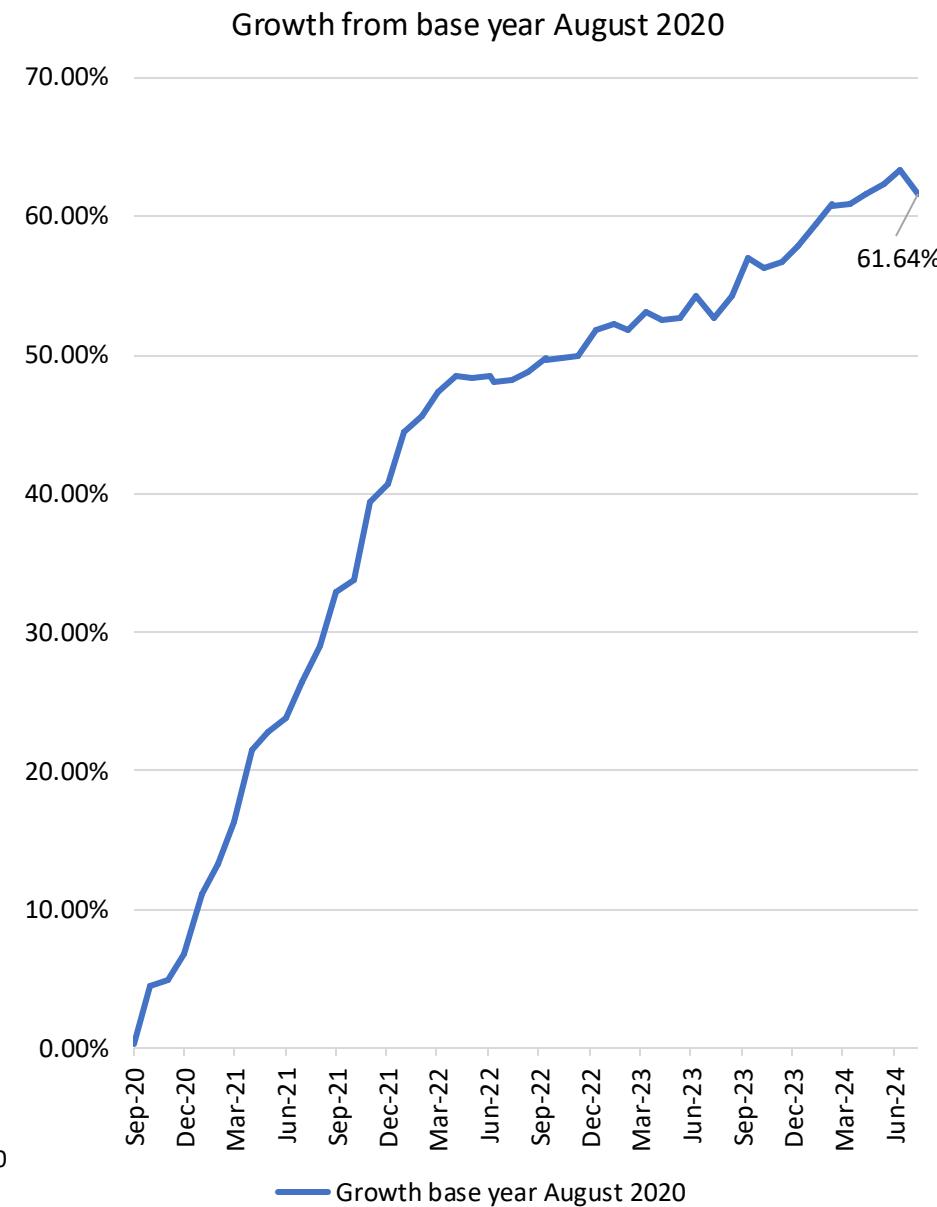
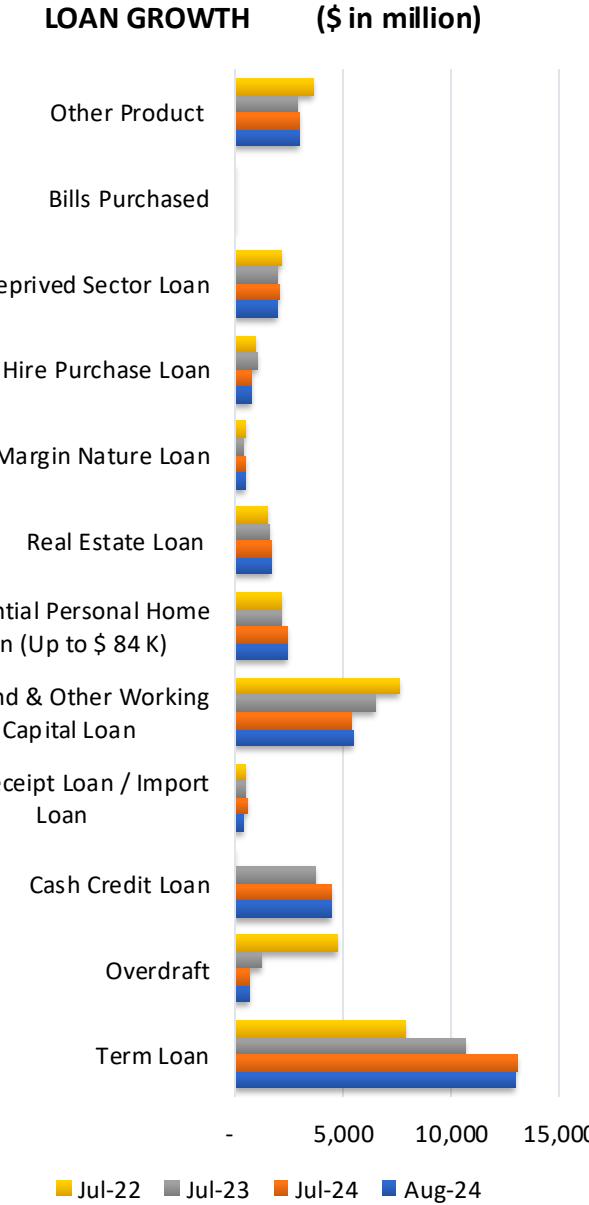


Period	Deposit mix	Maturity	
		Within next month	Within a Year
3-6 months	18%		
6-12 months	33%		
1-2 yrs.'	23%		
2 yrs. and above	25%		
Total	100%	17.98%	48.43%

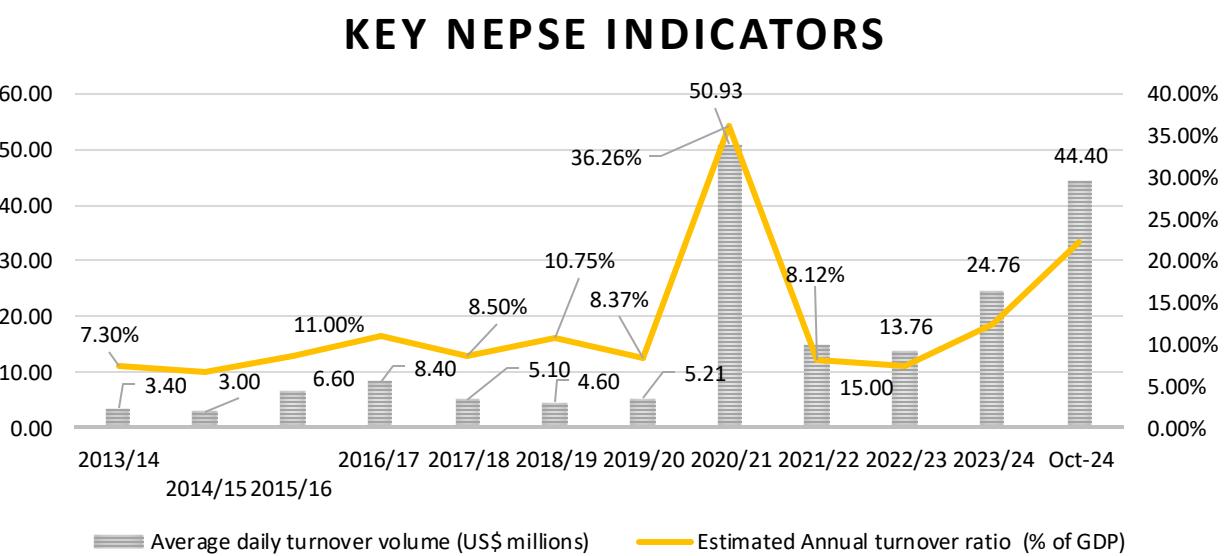
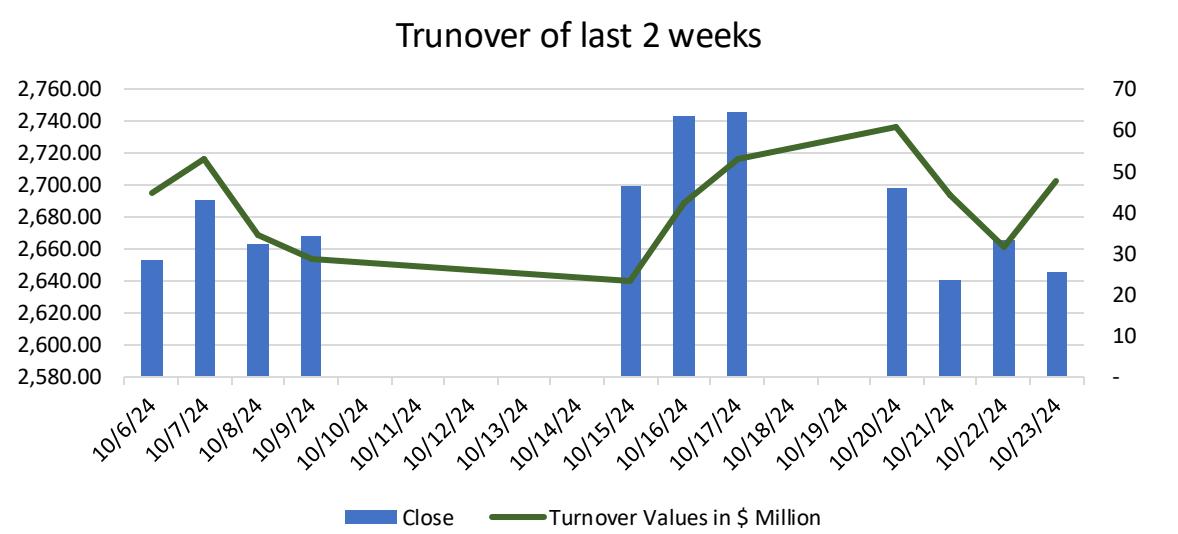
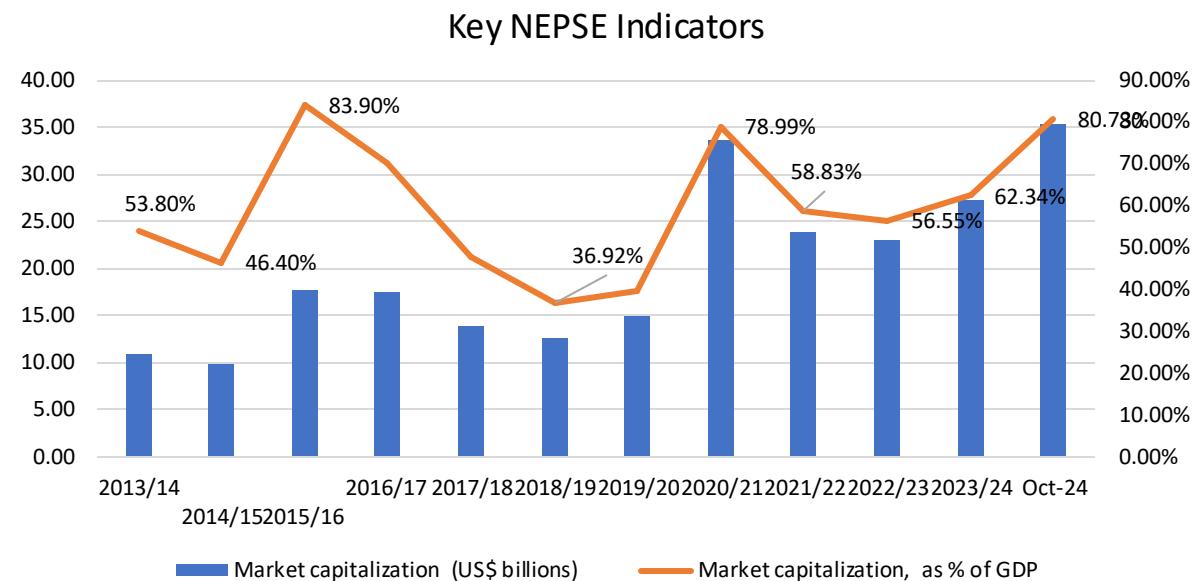
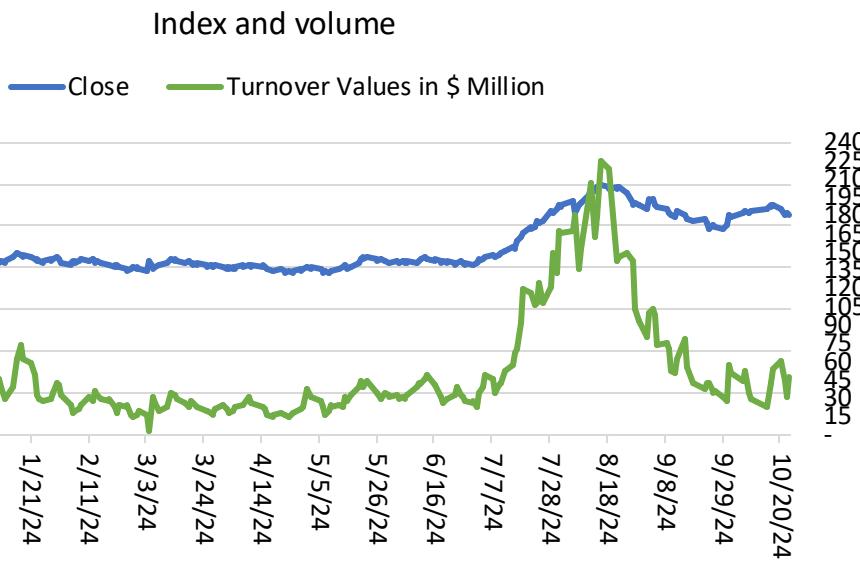


Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

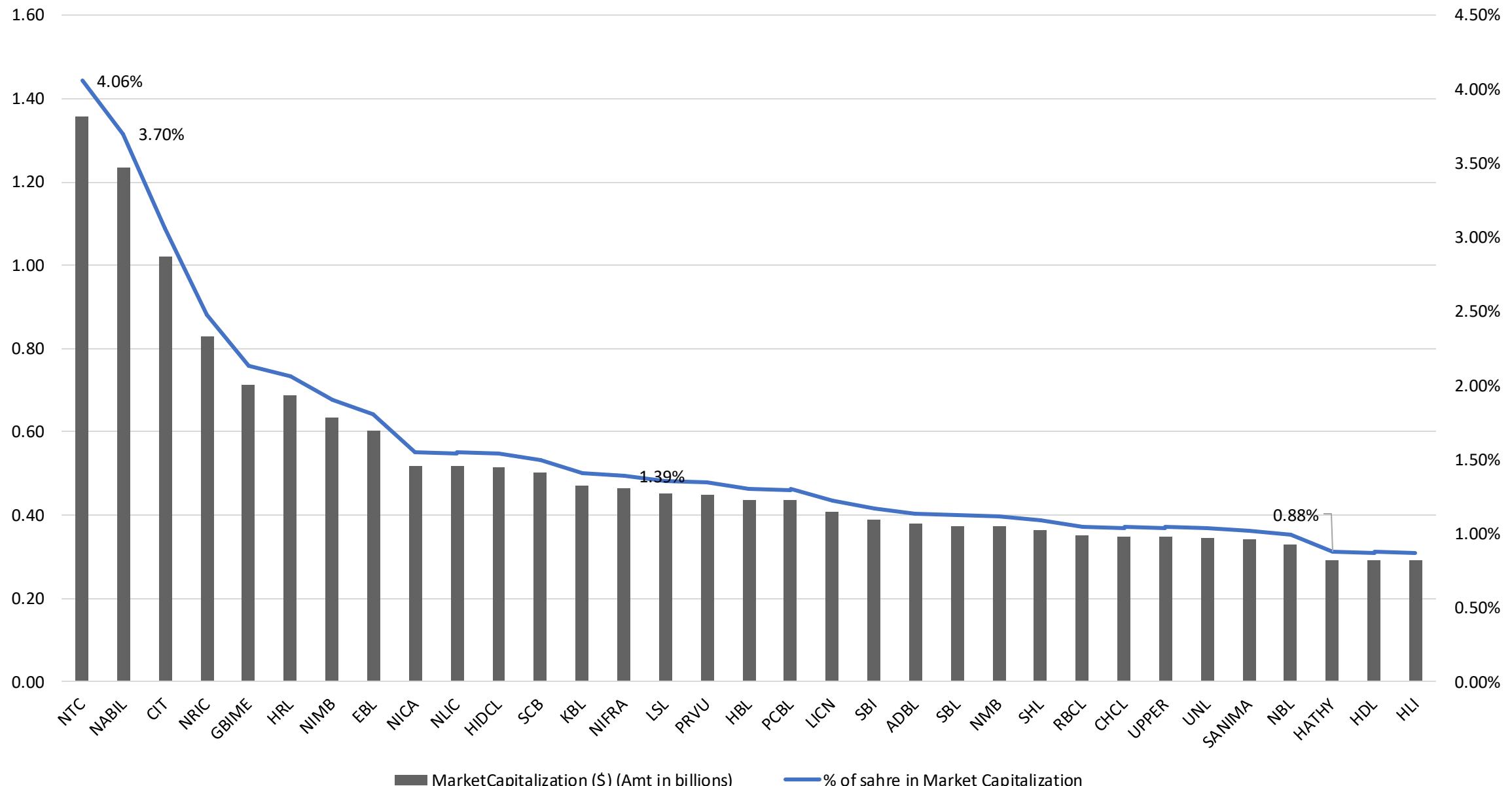
Sector wise Loan Growth of Commercial Banks



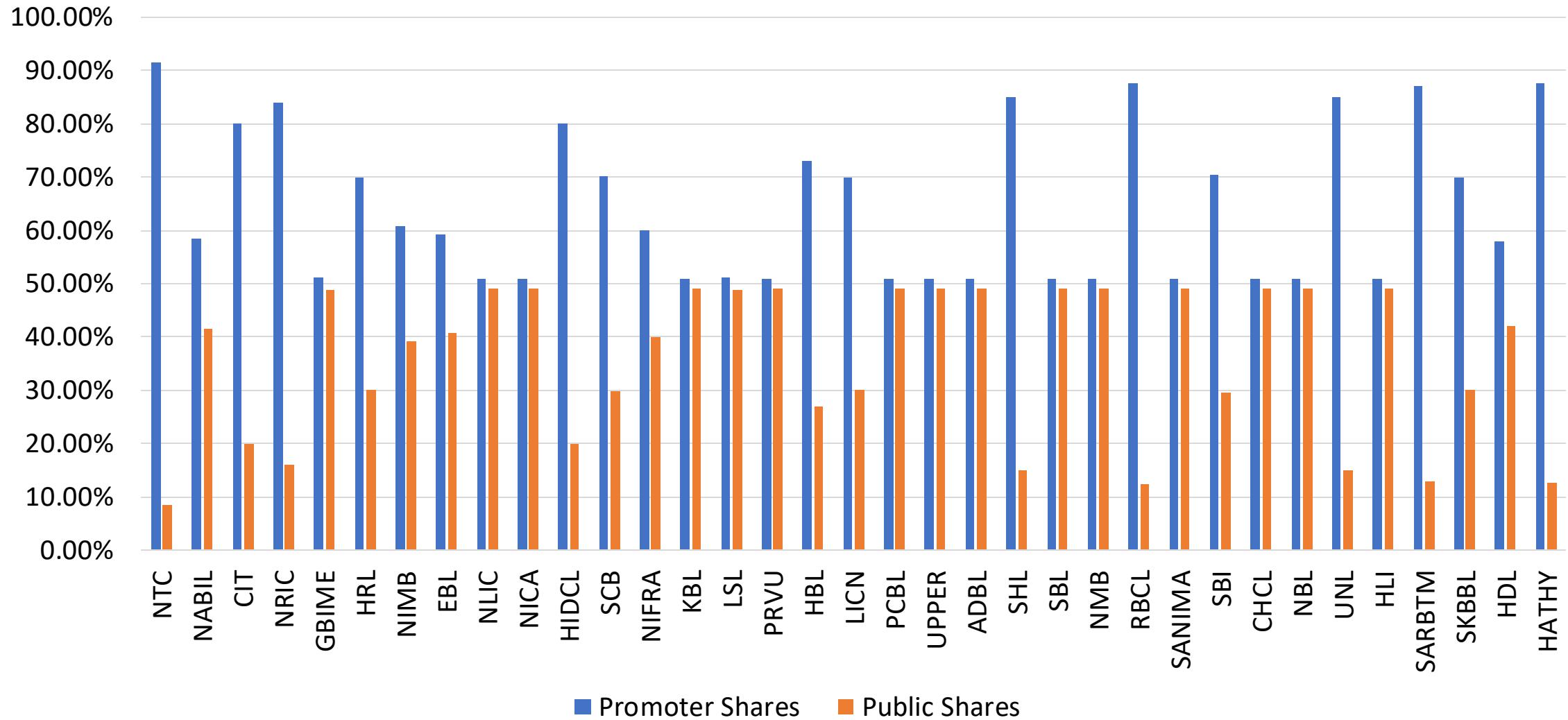
Capital Market



The 31 companies listed on NEPSE make up 51.10% of the total market capitalization, with the majority of their shares not available for free trade.



Promoter Shares and Public Shares



4

Fiscal Situation

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

Government Receipts & Payments Status		Annual Budget	22/10/2024	% age
1. Revenue (USD in million)	10,917.72	2,000.93	18.33%	
a) Tax Revenue	9,878.54	1,777.62	17.99%	
b) Non Tax Revenue	1,039.18	223.31	21.49%	
2. Grants	402.51	-	0.00%	
3. Other Receipts	-	37.20		
Total Receipt	11,320.23	2,038.13	18 %	
2. Total Expenditure from Treasury	14,310.02	2,664.03	18.62%	
a. Recurrent	8,774.34	1,855.35	21.15%	
b. Capital	2,710.42	229.95	8.48%	
c. Financing	2,825.27	578.72	20.48%	
Deficit	(2,989.80)	(625.90)		
% of GDP	6.82%	-1.43%		

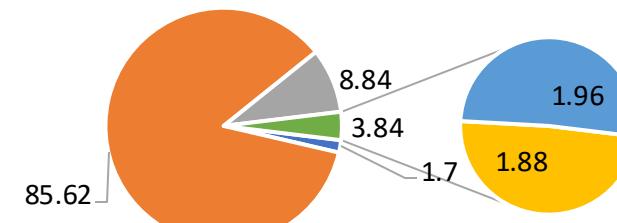
Key Economic Indicators

Particulars	Mid- September 2024 (USD=130 NPR)
CPI-Inflation	CPI-based inflation remained 3.85 percent on y-o-y basis.
External Trade	Imports increased 1.1 percent and exports decreased 5.1 percent
Remittances	Remittances increased 15.2% in NPR term and 13.2% in USD terms.
Balance of Payments (BOP)	NRB initially published the BOP summary following the IMF's fifth edition manual (BPM5). Since August 2020, NRB has transitioned to using the sixth edition (BPM6), aligning the new format with the standard components from BPM5. BOP improve to \$0.78 billion compared to the previous month.
Broad money (M2)	Broad money (M2) increased 0.4 percent. On y-o-y basis, M2 expanded 13.9 percent.
Deposits and Loans and advances	Deposits at BFIs increased 0.5 percent and private sector credit increased 1.4 percent. On y-o-y basis, deposits increased 13.8 percent and private sector credit increased 6.6 percent.

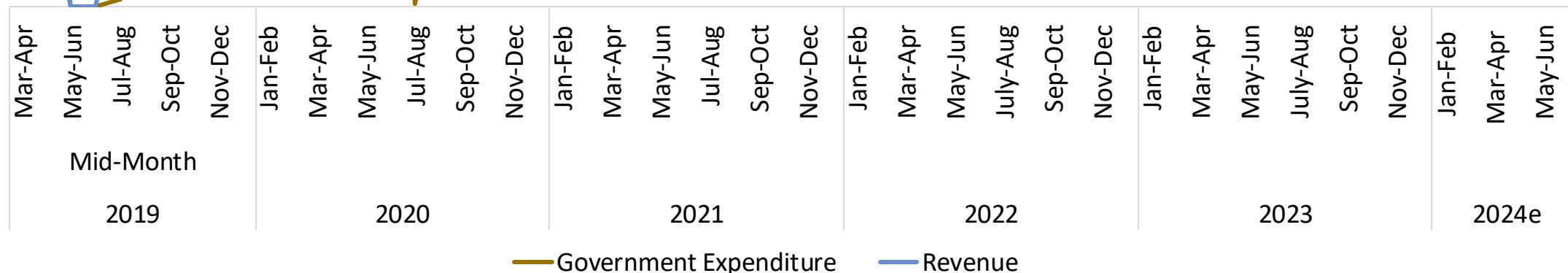
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

F/Y 2016/17	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
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	3,773	4,709	5,685	5,685	6,498	7,328	8,543	9,709	11,361
	Revenue*	663	1,186	1,841	3,054	4,172	4,768	4,768	5,370	6,286	6,991	7,724	8,898
	Treasury Position	1,756	1,614	1,441	1,579	1,989	1,809	1,809	1,722	2,636	2,351	2,114	834
F/Y 2024/25	Expenditure	1,156	1,156	2,766									
	Revenue*	1,398	1,398	2,086									
	Treasury Position	1,662	2,265										

Ownership Structure of Government Securities



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



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

Gross Domestic product by Expenditure Approach						
(at current prices)						
1 USD = 130 NPR	2078/79	2079/80 R	percentage of GDP	percentage of GDP	2080/81 P	percentage of GDP
Description	2021/22	2022/23			2023/24	
Gross Domestic Product (GDP)	38,281	41,143	100.00	100.00	43,883	100.00
Final Consumption Expenditure	35,761	38,095	93%	93%	40,541	92%
Government consumption	3,220	2,735	8%	7%	2,762	6%
Collective Consumption	2,038	2,313	5%	6%	2,226	5%
Individual Consumption	1,182	422	3%	1%	535	1%
Private consumption	31,858	34,603	83%	84%	36,954	84%
Food	15,589	16,740	41%	41%	17,958	41%
Non-food	5,927	6,459	15%	16%	6,820	16%
Services	10,341	11,403	27%	28%	12,177	28%
Nonprofit institutions serving households	683	757	2%	2%	825	2%
Actual final consumption expenditure of household	33,723	35,782	88%	87%	38,315	87%
Gross Capital Formation	14,411	13,025	38%	32%	13,396	31%
Gross Fixed Capital Formation(GFCF)	11,094	10,317	29%	25%	10,730	24%
General Government	2,276	3,047	6%	7%	3,078	7%
State Owned Enterprises	514	615	1%	1%	753	2%
Private	8,304	6,655	22%	16%	6,900	16%
Change in Stock *	3,317	2,708	9%	7%	2,666	6%
Net Exports of Goods and Services	(13,616)	(11,408)	-36%	-28%	(11,302)	-26%
Imports	16,182	14,269	42%	35%	14,787	34%
Goods	14,411	12,175	38%	30%	12,204	28%
Services	1,771	2,094	5%	5%	2,583	6%
Exports	2,566	2,861	7%	7%	3,485	8%
Goods	1,627	1,413	4%	3%	1,543	4%
Services	939	1,449	2%	4%	1,942	4%
GDP	36,555	39,712	95%	97%	42,636	97%
Statistical Discrepancies	1,726	1,430	5%	3%	1,248	3%

Gross National Disposable Income and Saving (at current prices)						
1 USD = 130 NPR						
Description	2078/79 R	percentage of GDP	2079/80 R	percentage of GDP	2080/81 P	percentage of GDP
	2021/22		2022/23		2023/24	
Gross Domestic Product (GDP)	38,281	100	41,143	100	43,883	100
Compensation of Employees	13,303	35%	14,633	36%	15,613	36%
Taxes less subsidies on production and imports	5,560	15%	4,707	11%	5,057	12%
Taxes less subsidies on production	17	0%	18	0%	21	0%
Taxes less subsidies on products	5,543	14%	4,689	11%	5,037	11%
Operating Surplus/Mixed Income, Gross	19,419	51%	21,802	53%	23,213	53%
Primary Income Receivable	442	1%	740	2%	973	2%
Primary Income Payable	220	1%	260	1%	301	1%
Gross National Income (GNI)	38,503	101%	41,622	101%	44,556	102%
Current transfers Receivable	8,658	23%	10,433	25%	12,095	28%
Current transfers Payable	59	0%	60	0%	244	1%
Gross National Disposable Income (GNDI)	47,102	123%	51,995	126%	56,406	129%
Final Consumption Expenditure	35,761	93%	38,095	93%	40,541	92%
Gross Domestic Saving	2,520	7%	3,048	7%	3,342	8%
Gross National Saving	11,341	30%	13,900	34%	15,865	36%
Gross Capital Formation	14,411	38%	13,025	32%	13,396	31%
Lending/Borrowing (Resource gap) (+/-)	(4,795)	-13%	-555	-1%	1,221	3%

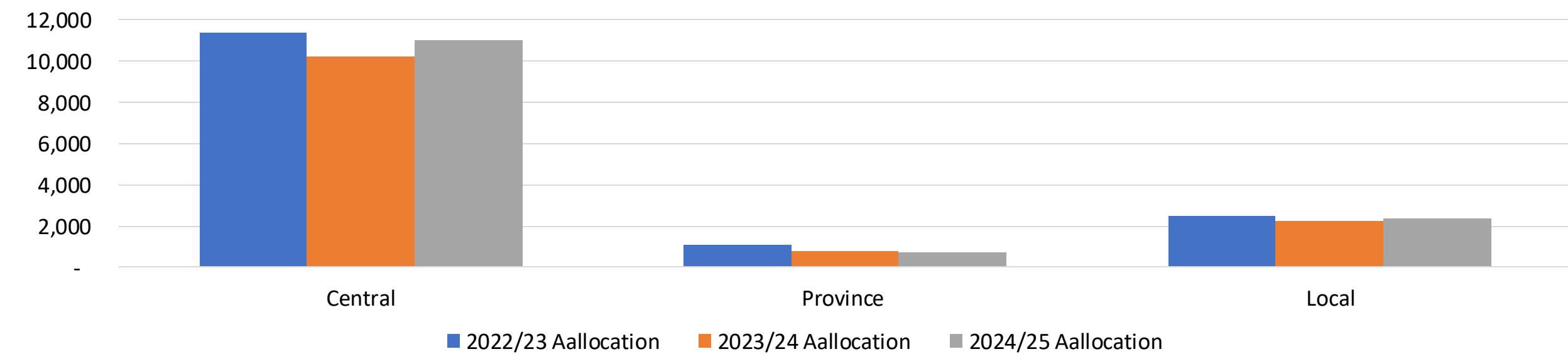
Summary of Macro Economic Indicators				
1 USD = 130 NPR				
Description	2078/79 R	2079/80 R	2080/81 P	2023/24
	2021/22	2022/23	2023/24	2023/24
Per capita GDP (NRs.)		1,70,506	1,81,569	1,91,888
Annual Change in nominal per capita GDP (%)		13.30	6.49	5.68
Per capita GNI (NRs.)	1,71,494	1,83,686	1,94,829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

Budget Sources

	Exchange Factor 1 USD = NPR 120							Variance	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	Change	Budget Amount (\$ Million) 2023/24	Revised Amount (\$ Million) 2023/24	Change	Budget Amount (\$ Million) 2024/25	Change 2023/24 Revised and 2024/25 Budget		
Revenue Sources														
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
Environmental Protection	105	0.76%	92	0.61%	65	0.49%	64	0.46%	Down	Down
Housing and Community Amenities	671	4.89%	738	4.94%	500	3.77%	508	3.60%	Up	Down
Health	1,180	8.60%	1,027	6.87%	779	5.87%	434	3.08%	Down	Down
Recreation, Culture and Religion	56	0.41%	80	0.54%	50	0.38%	45	0.32%	Down	Down
Education	1,500	10.94%	1,641	10.98%	1,498	11.29%	440	3.12%	Down	Down
Social protection	1,582	11.54%	1,694	11.34%	1,663	12.53%	1,621	11.50%	Down	Down
Total	13,709	100%	14,949	100%	13,268	100%				
Exchnage Factor	USD 1 = NPR 120				USD 1 = NPR 132					

Sectoral distribution

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

Observations

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



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

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

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

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

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

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

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

Nepal requires an immediate economic rescue plan to revive its economy.

The plan should aim to restore fiscal balance, ensure financial stability, and control inflation.

Importance of Fiscal Balance

Fiscal balance is crucial for sustainable economic growth. It involves managing government revenues and expenditures to prevent budget deficits. Ensuring fiscal balance fosters investor confidence and supports long-term economic stability.

Ensuring Financial Stability

Financial stability is essential for a robust economy. It involves maintaining stability in the banking sector, preventing financial crises, and ensuring smooth credit flows. Upholding financial stability boosts investor trust and encourages economic investment.

Anchoring Inflation

Controlling inflation is vital for economic health. Excessive inflation erodes purchasing power and destabilizes the economy. Anchoring inflation to a reasonable limit supports price stability and fosters economic growth.

Components of the Emergency Economic Plan

Fiscal Measures: Implementing prudent fiscal policies to manage government finances and reduce budget deficits. Financial Sector Reforms: Strengthening regulatory frameworks and enhancing oversight to ensure stability in the banking sector. Monetary Policy Actions: Implementing measures to control inflation through appropriate monetary policy tools.

Immediate Action Steps

Assessing the current economic situation and identifying priority areas for intervention. Formulating and implementing policies swiftly to address fiscal imbalances, ensure financial stability, and control inflation. Collaboration between government agencies, financial institutions, and international partners to implement the plan effectively.

Benefits of the Plan

Stimulating economic growth and creating employment opportunities. Restoring investor confidence and attracting foreign investment. Enhancing the overall economic resilience of Nepal in the face of future challenges.

Conclusion

An emergency economic plan is essential for Nepal to overcome its economic challenges. By maintaining fiscal balance, financial stability, and controlling inflation, Nepal can jump-start its economy and pave the way for sustainable growth and development.

Thank You!

Best regards,
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