Economic Outlook Based on November 2024

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Overview 2024/25

External Sector

Financial Sector Highlights

Fiscal situation

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Overview 2024/25

Nepal's economy in 2025 is likely to encounter significant challenges, not due to immediate fundamental weaknesses but because of waning confidence within the private sector and growing risks to business stability. Key issues such as excessive bureaucracy, outdated regulations, weak governance, rising extremism, and rent-seeking practices continue to undermine both investor and consumer trust. Addressing these structural problems is imperative to avoid economic stagnation and promote sustainable growth.

Although inflationary pressures have moderated, consumer price inflation (CPI) is expected to range between 4.75% and 5.5% in 2025, with food price volatility continuing to present a significant risk. On a positive note, exports have demonstrated substantial progress, rising to NPR 20.80 billion in December 2024, a significant increase from NPR 8.6 billion in early 2019. Nevertheless, imports remain elevated at NPR 148.20 billion, maintaining considerable pressure on Nepal's trade deficit. Private sector credit grew minimally in 2024, highlighting a slow and uneven recovery in lending activities following prior disruptions in credit availability.

On the fiscal front, government spending reached NPR 141 billion during November-December 2024, but capital expenditure lagged at only NPR 6.4 billion. Revenue collection amounted to NPR 76 billion, which, while steady, remains inadequate to address rising social security obligations and administrative costs. This fiscal shortfall continues to exacerbate the government's debt burden.

Interest rates have trended downward, with the weighted average lending rate expected to decline to 8.25% and base rate falling to 7.00% by December 2024. However, deposit rates also decreased to 4.99%, reducing incentives for savings mobilization. Despite the softer interest rate environment, domestic demand remains subdued, and private consumption has shown little improvement, thereby constraining domestic economic momentum. Domestic economic drivers, including private consumption and gross fixed investment, have shown limited sequential progress. While gains in energy production are promising, they have been offset by sluggish manufacturing activity and a weakening services sector. Although the government has set an ambitious growth target of 6% for this fiscal year, persistent structural bottlenecks and weak economic fundamentals suggest actual growth may fall below 4%.

To stimulate economic growth, Nepal must prioritize job creation, attract local and foreign investment, secure foreign aid, harness its natural resources, boost productivity, and address its trade imbalance. These strategic actions will be essential to overcoming current challenges and laying the foundation for sustainable economic development.

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%

November inflation 5.60%

Exceeded NRB target

*The GDP growth trends over the last two fiscal years highlight varying sectoral performances. Stable contributors like **Agriculture, Forestry, and Fishing** showed consistent growth, while **Electricity, Gas, Steam, and Air Conditioning Supply** and **Accommodation and Food Service Activities** demonstrated potential as key drivers despite some quarterly fluctuations.*

*In 2023/24, a comparison of Q3 and Q4 reveals that most sectors experienced a slowdown in Q4, including **Transportation and Storage**, **Accommodation and Food Services**, and **Electricity Supply**, while a few, like **Agriculture** and **Real Estate**, showed modest improvements.*

***Electricity Sector:** After robust growth in Q3 of 2023/24 (47.4%), the sector witnessed a sharp fall, entering a negative trajectory in Q4 (-3.5%). Howvever, the **Tourism sector**, reflected in Accommodation and Food Services, indicates a strong recovery post-pandemic, with growth momentum driven by increased international and domestic travel. On the downside, sectors like **Construction** and **Manufacturing** struggled, pointing to challenges in infrastructure development and industrial growth.*

*To drive the economy forward in the next fiscal year, Nepal could focus on enhancing the **energy sector** for sustainable growth and leveraging **tourism** to boost services and hospitality. Addressing challenges in **construction** and **manufacturing** with targeted policies could further stabilize economic performance.*

Industrial Classification	2022/23				2023/24				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4 vs Q3
Agriculture, forestry and fishing	3.1	2.5	3.9	1.8	2.3	3.4	3.1	3.2	Up
Mining and quarrying	-3.9	1.2	-2.7	9.0	10.5	1.5	-5.3	3.3	Up
Manufacturing	-2.6	-3.5	-1.3	-0.4	0.6	-4.2	-3.6	1.1	Up
Electricity, gas, steam and air conditioning supply	35.0	11.5	-21.6	36.1	23.5	26.1	47.4	-3.5	Down
Water supply; sewerage, waste management	1.8	3.7	2.8	4.8	3.9	3.1	2.4	1.7	Down
Construction	4.4	-16.8	-5.5	13.7	12.6	2.0	-6.6	-13.4	Down
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.5	-14.3	-1.9	7.3	-0.4	1.4	-2.4	2.0	Up
Transportation and storage	2.1	1.2	1.0	1.3	3.1	16.7	17.5	10.9	Down
Accommodation and food service activities	53.7	-1.1	5.3	27.5	15.8	36.4	23.7	12.3	Down
Information and communication	6.2	4.1	4.7	1.6	6.9	7.9	6.4	-1.6	Down
Financial and insurance activities	16.3	10.8	21.0	-13.4	10.1	8.2	7.0	6.2	Down
Real estate activities	2.2	2.2	2.2	2.2	3.0	3.0	3.0	3.0	Up
Professional, scientific and technical activities	3.7	3.3	4.1	4.6	5.4	4.1	3.9	3.3	Down
Administrative and support service activities	4.8	5.9	4.4	5.1	6.0	2.1	2.3	5.8	Up
Public administration and defence; compulsory social security	5.1	5.6	12.2	0.5	2.9	2.8	1.6	10.8	Up
Education	2.7	6.6	3.7	2.8	2.1	2.5	3.4	2.9	Down
Human health and social work activities	10.7	6.1	5.0	4.7	5.9	5.4	7.0	3.8	Down
Others services	10.1	3.4	4.1	3.0	0.6	6.4	5.3	4.4	Down
Aggregate	4.6	-1.1	2.6	3.7	4.5	4.6	3.1	2.1	Down

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 form April 24 for 2024/25)

3.April 2024 5.3 % FY 2025/26 Fresh projections

- Oct 2024 5.5 %. (0.2% Improved form 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%mproved from Dec. 2023 for 2023/24)

3.May 2024 4.9% FY 2024/25 Fresh projections

CBS

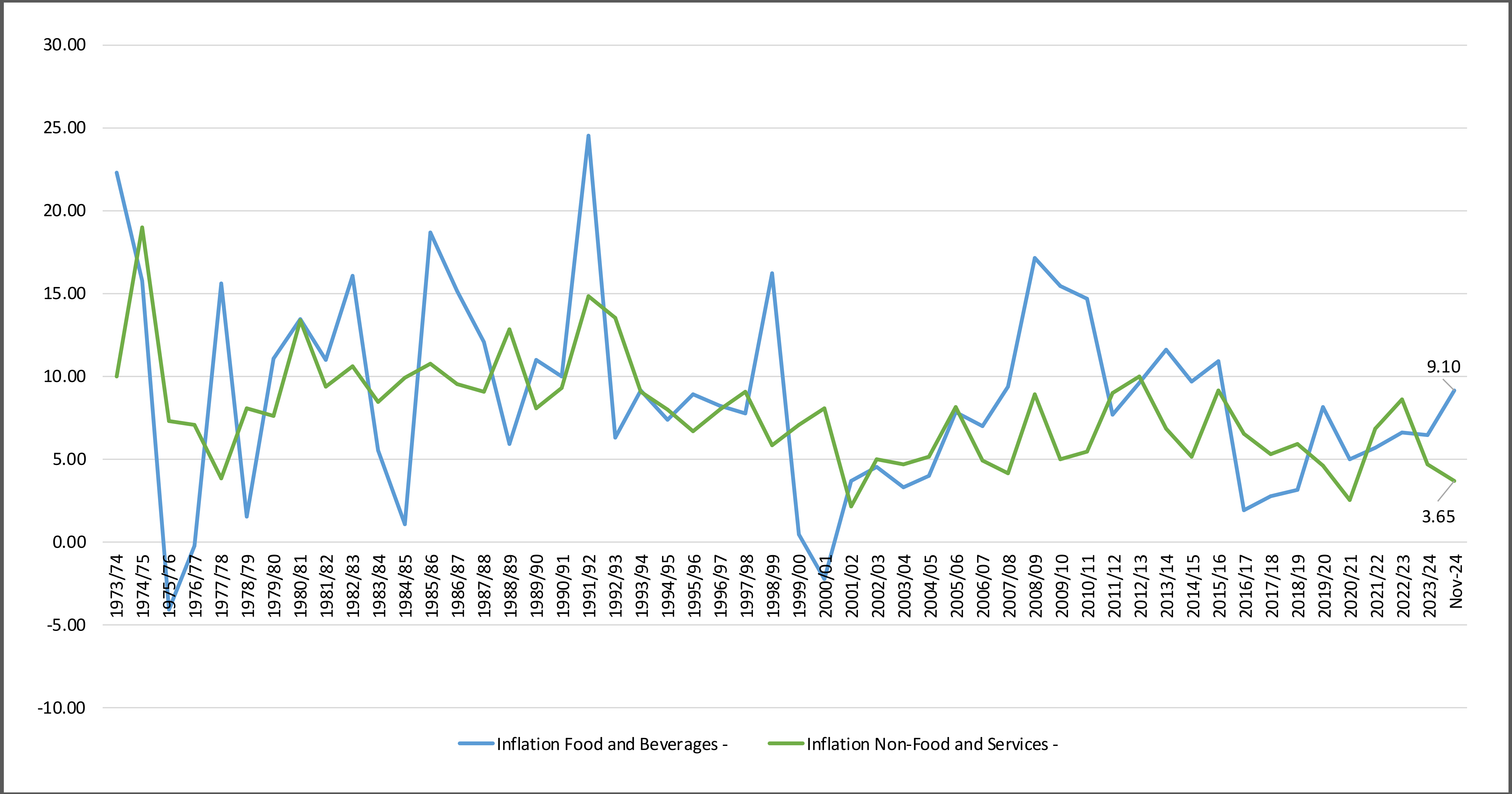
- April 2023 2.16% 2022/23
- April 2024 3% FY 2023/24

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.


30.00
25.00
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
1973/74
1974/75
1975/76
1976/77
1977/78
1978/79
1979/80
1980/81
1981/82
1982/83
1983/84
1984/85
1985/86
1986/87
1987/88
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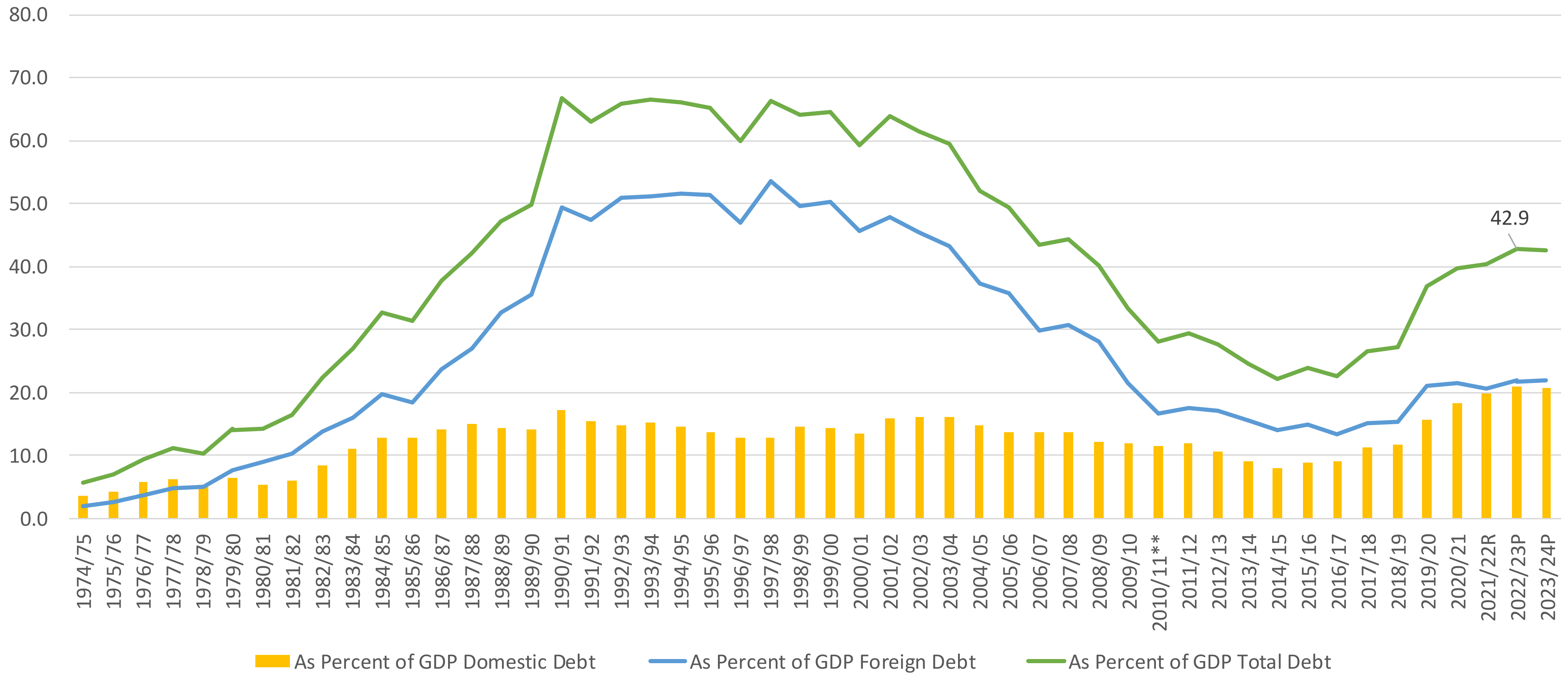
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Nov-24
9.10
3.65
Inflation Food and Beverages -
Inflation Non-Food and Services -

The graph illustrates the interplay between inflation, GDP growth, and interest rates over time, emphasizing their interdependence and trends. High inflation often aligns with low or negative GDP growth, as evidenced in 2019/20 when inflation rose to 6.28% and GDP contracted by -2.37%, reflecting economic disruptions and the impact of COVID-19. Similarly, in 2022/23, inflation peaked at 7.44%, while GDP growth slowed to 2.16%, indicating stagflation-like conditions driven by geopolitical factors. In contrast, lower inflation rates are associated with stronger GDP performance, such as in 2018/19, when inflation was 4.51% and GDP grew by 6.66%.

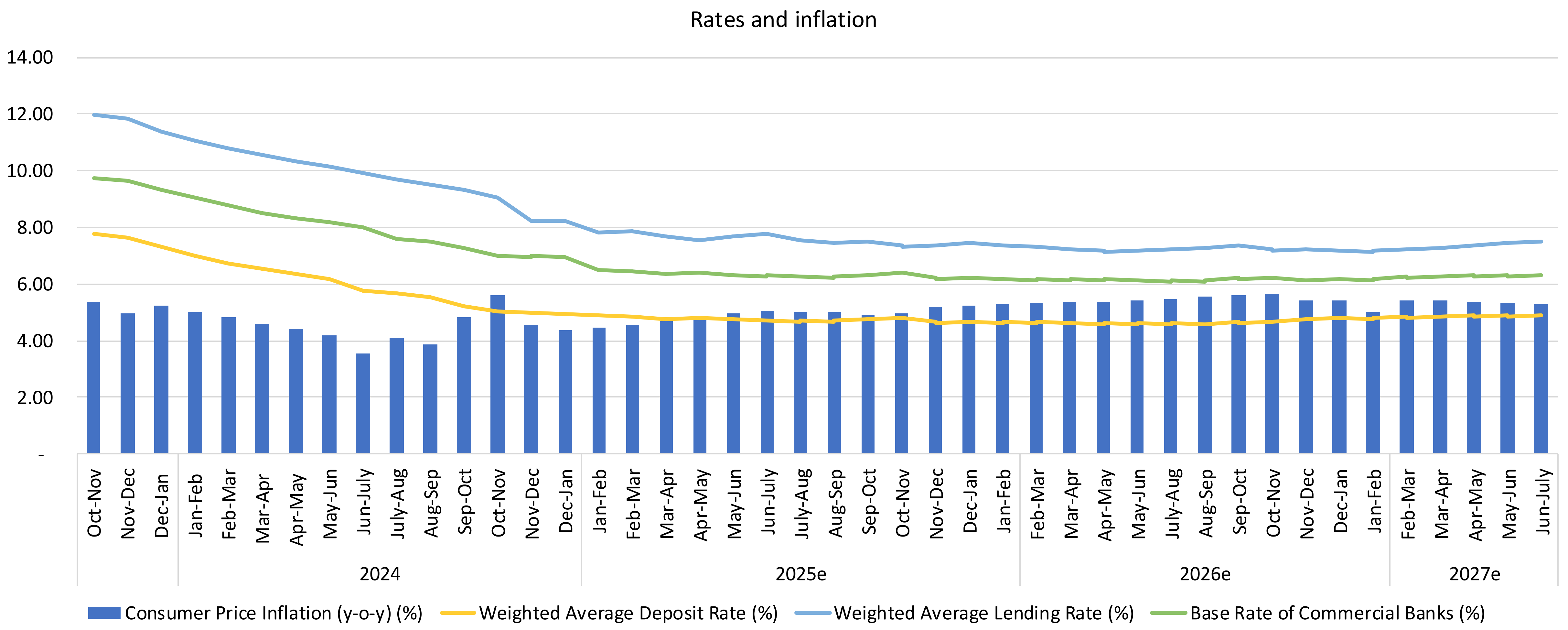
Interest rates also exhibit a clear relationship with inflation, rising during periods of elevated inflation, such as 12.30% in 2022/23, and declining during periods of stabilization, with a projected rate of 7.79% in 2024/25. This pattern reflects a monetary tightening approach during high inflation and easing policies during stabilization to support economic recovery. However, slow economic recovery is further hindered by low market confidence and increasing non-performing assets (NPAs). Forecasts for 2024/25 to 2026/27 indicate weak private sector demand, with inflation stabilizing between 5.03% and 5.48%, GDP gradually improving from 3.80% to 4.25%, and interest rates declining to 6.30% by 2026/27.

While lower inflation and interest rates may stimulate economic activity, the persistence of inflation above 5% poses risks to real incomes and consumption. Overall, the data highlights the complex challenge of achieving price stability while fostering economic recovery in Nepal.

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

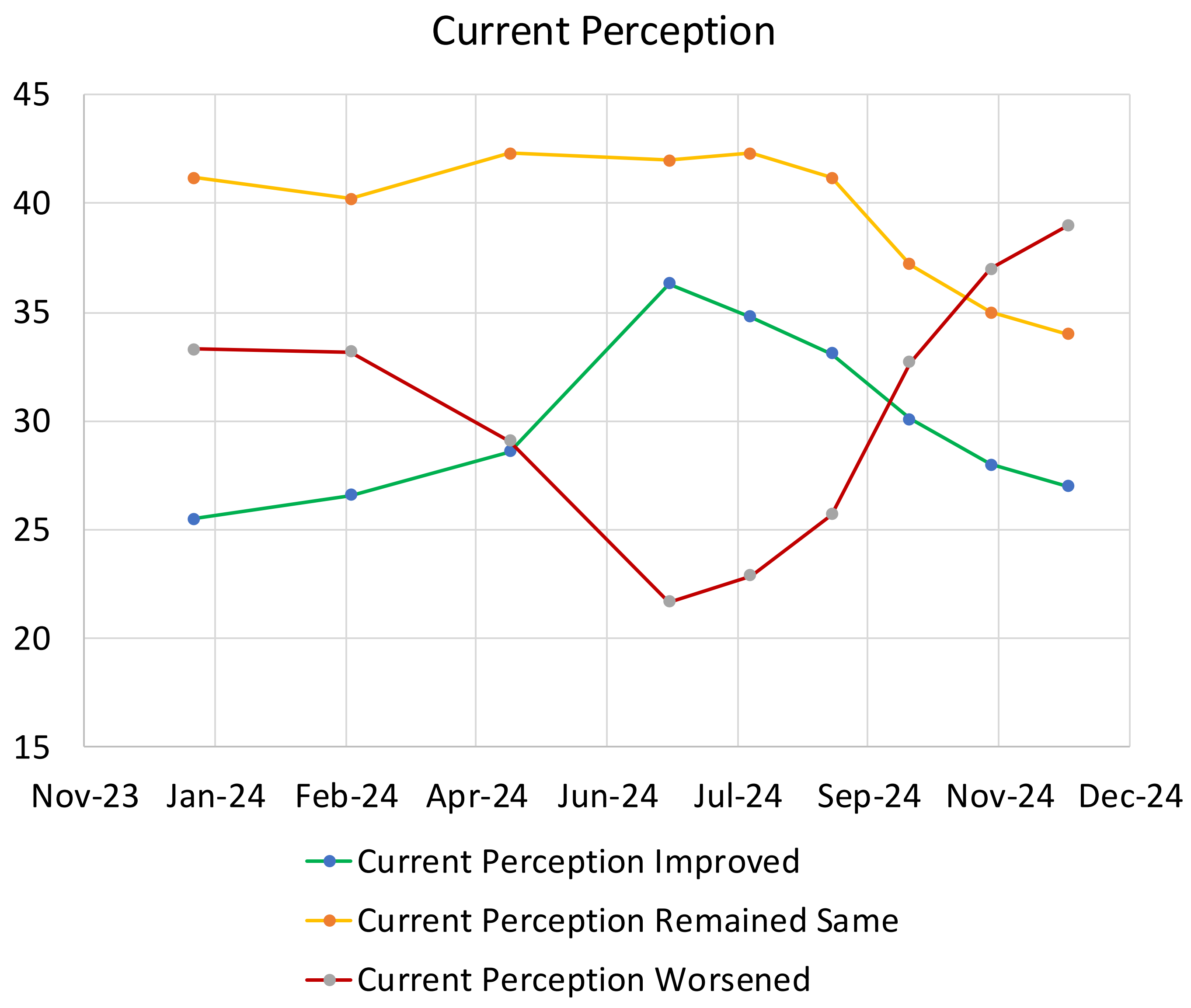


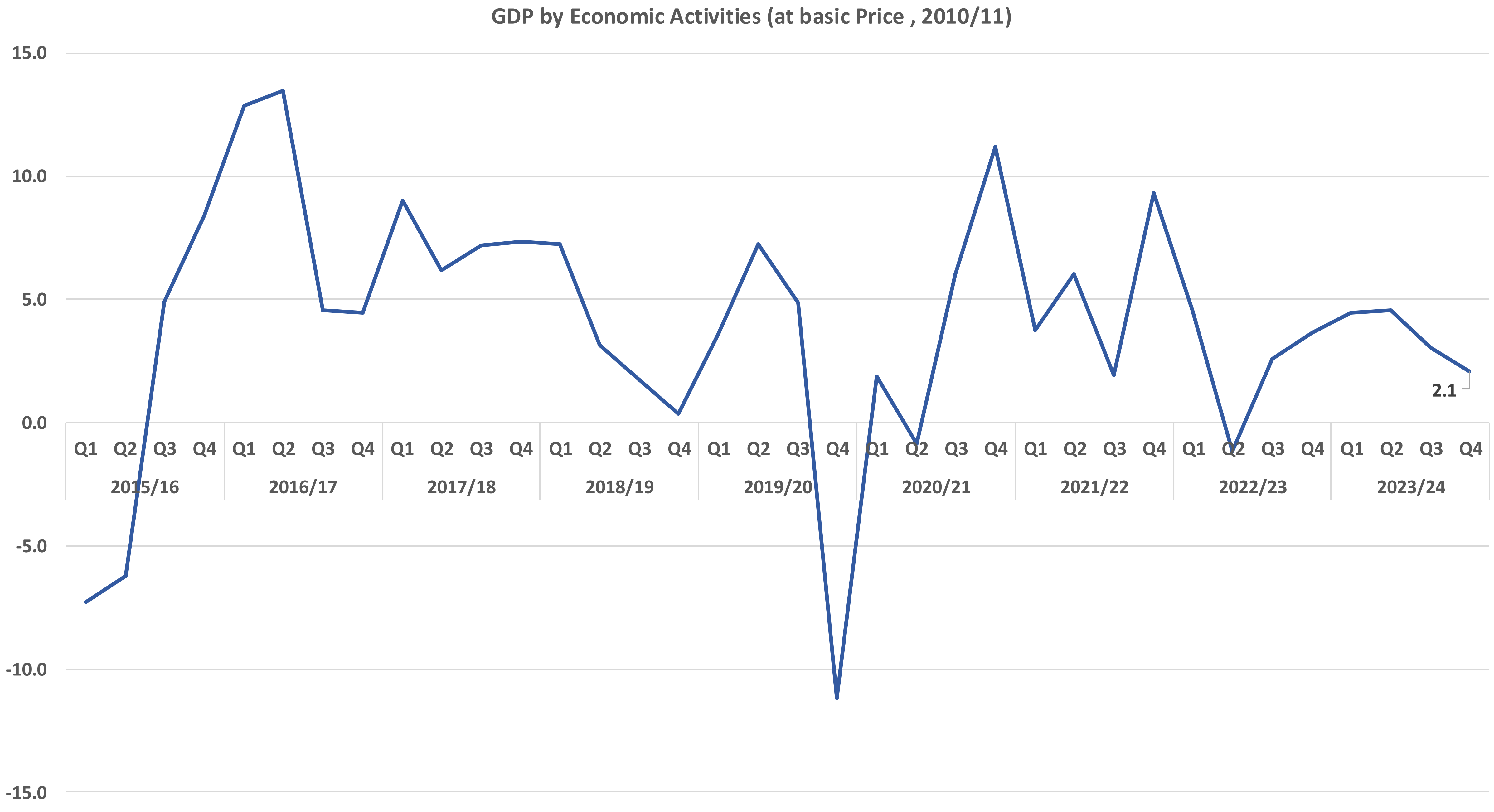
Interest rates and Inflation



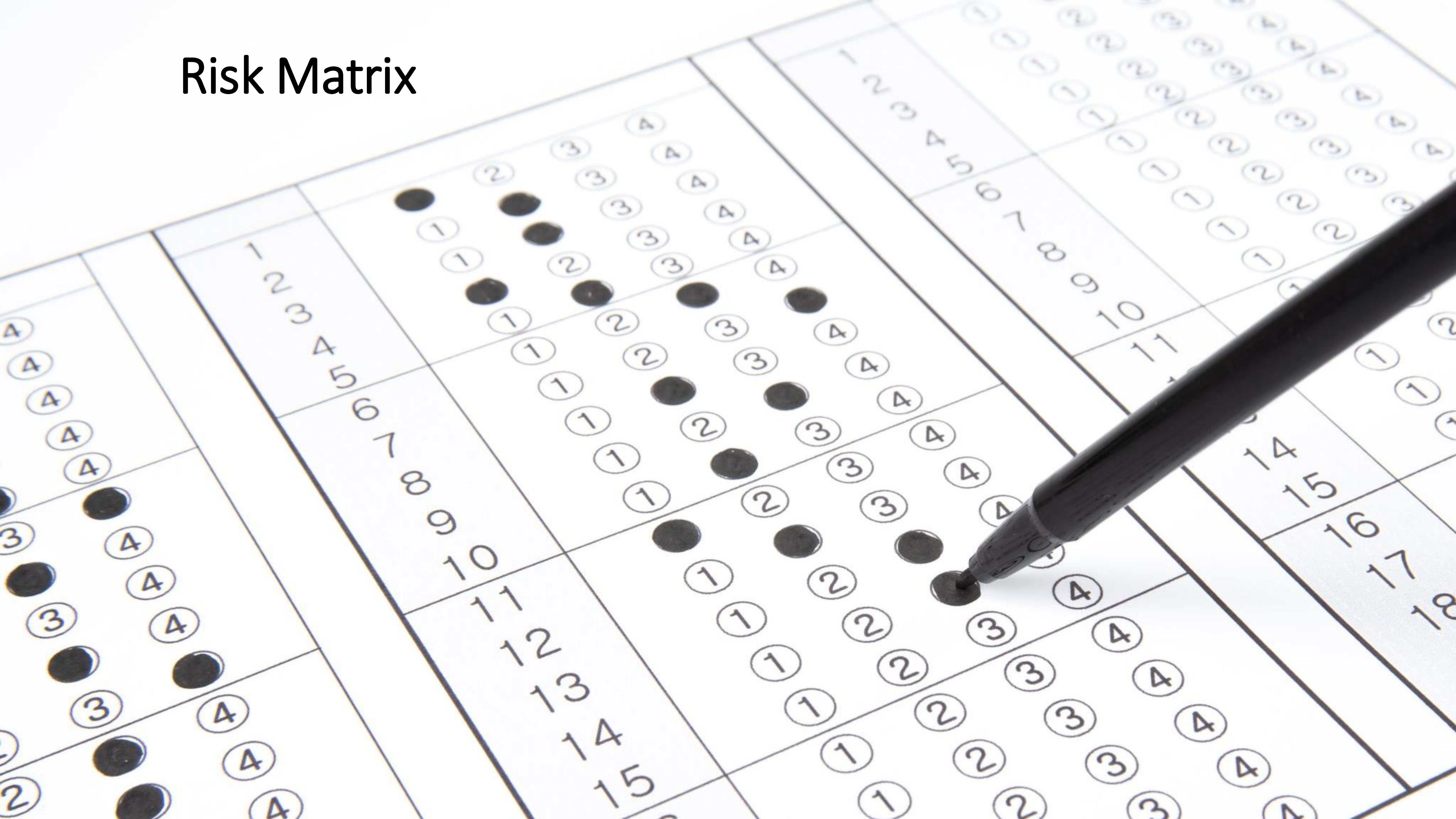
The Consumer Perception Survey for 2024 reveals fluctuating consumer sentiment regarding economic conditions throughout the year. Optimism, measured by the percentage of respondents who felt conditions improved, increased steadily from 26% in January to a peak of 36% in July, reflecting positive developments or seasonal influences. However, this optimism declined gradually after August, dropping to 27% by December, signaling waning confidence as the year progressed. Meanwhile, a significant proportion of respondents consistently believed conditions remained unchanged, with this sentiment ranging between 40% and 42% for most of the year before falling slightly to 34% in December.

On the other hand, the perception of worsening conditions decreased from 33% in January to a low of 22% in July but rose sharply from September onward, peaking at 39% in December. This shift indicates increasing pessimism and economic concerns in the latter months of the year, potentially driven by inflation, economic uncertainties, or declining market confidence. Overall, consumer sentiment shifted from mid-year optimism to end-of-year pessimism, highlighting the fragile nature of consumer confidence.




GDP by Economic Activities (at basic Price , 2010/11)
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
Q1 Q2 Q3 Q4
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2.1

Risk Matrix



Risk Matrix

Risks	***Likelihood***	***Impact***	***Mitigation Measures***
Political Instability	*High*	*High*	*Strengthen governance frameworks and prioritize bipartisan support for key projects.*
Climate Disruptions	*High*	*High*	*Invest in disaster management and climate-resilient infrastructure.*
Weak Spending Execution	*High*	*Medium*	*Streamline budgetary processes and enhance accountability in capital expenditure.*
Declining Private Sector Confidence	*Medium*	*High*	*Implement tax incentives, regulatory reforms, and ease of doing business measures.*
External Shocks (e.g., remittance or export decline)	*Medium*	*High*	*Diversify export markets and strengthen trade agreements with India and China.*
Rising Non-Performing Assets (NPAs)	*Medium*	*High*	*Establish an Asset Management Company (AMC) to address banking sector vulnerabilities.*

Policy Mistakes

Policy Mistakes

1. Consumer Price Inflation (CPI)

Consumer price inflation exhibited considerable volatility from 2019 to 2024. The initial years saw relatively high inflation rates, which moderated slightly during the pandemic but surged again in the subsequent years.

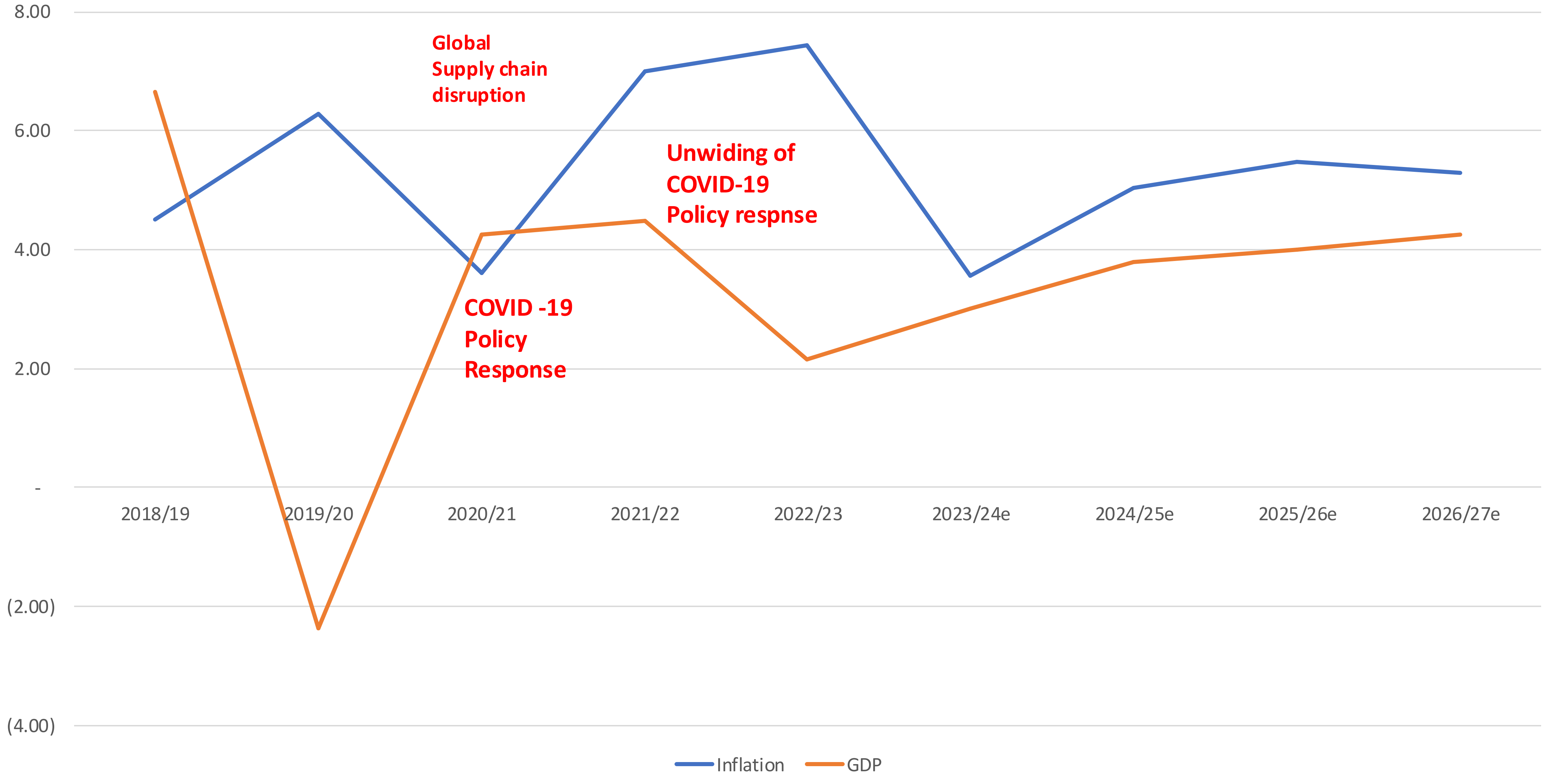
- *2019-2021: CPI fluctuated between 4.44% and 6.95%.*
- *2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.*
- *2023-2024: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 5.60% by November 2024.*

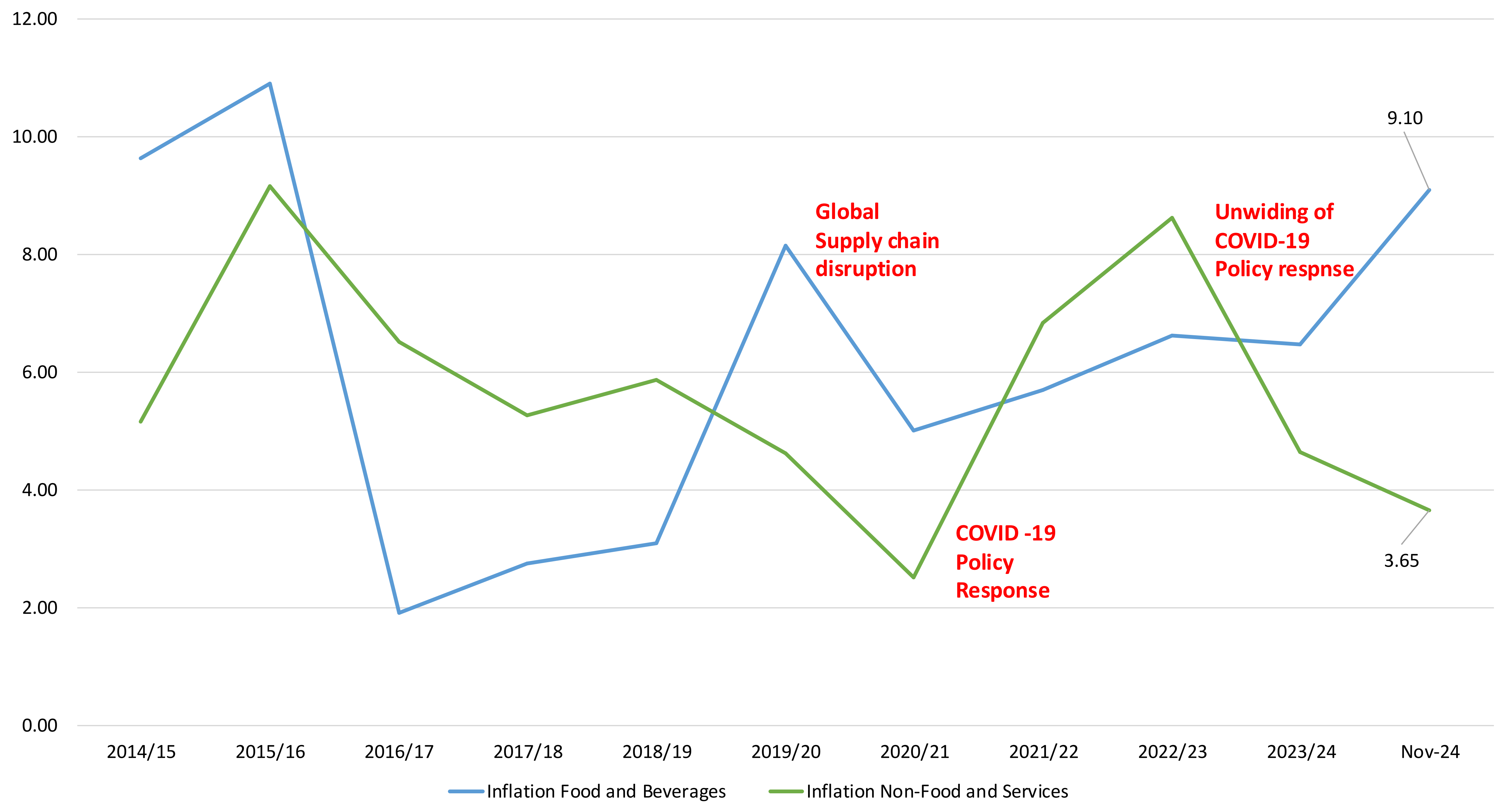
Policy Mistakes:

- ***Reactive Inflation Control:*** *Sudden adjustments in interest rates aimed at controlling inflation have contributed to economic instability. Nepal's Consumer Price Index (CPI) is heavily influenced by price movements in the Indian market, rendering it largely independent of the Nepal Rastra Bank's (NRB) policy rate. In November, the CPI rose to 5.50%, driven by supply chain disruptions caused by natural calamities.*

Recommendations:

- *Gradual and predictable adjustments to interest rates to manage inflation more effectively.*
- *Implement supply-side policies to address structural causes of inflation.*


8.00
6.00
4.00
2.00
-
(2.00)
(4.00)
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24e
2024/25e
2025/26e
2026/27e
Global
Supply chain
disruption
Unwiding of
COVID-19
Policy respnse
COVID -19
Policy
Response
Inflation
GDP


12.00
10.00
8.00
6.00
4.00
2.00
0.00
9.10
3.65
Global
Supply chain
disruption
Unwiding of
COVID-19
Policy respnse
COVID -19
Policy
Response
2014/15
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Nov-24
Inflation Food and Beverages
Inflation Non-Food and Services

2. Exports and Imports

The trade dynamics of Nepal showed significant variations, with exports growing inconsistently and imports experiencing sharp fluctuations.

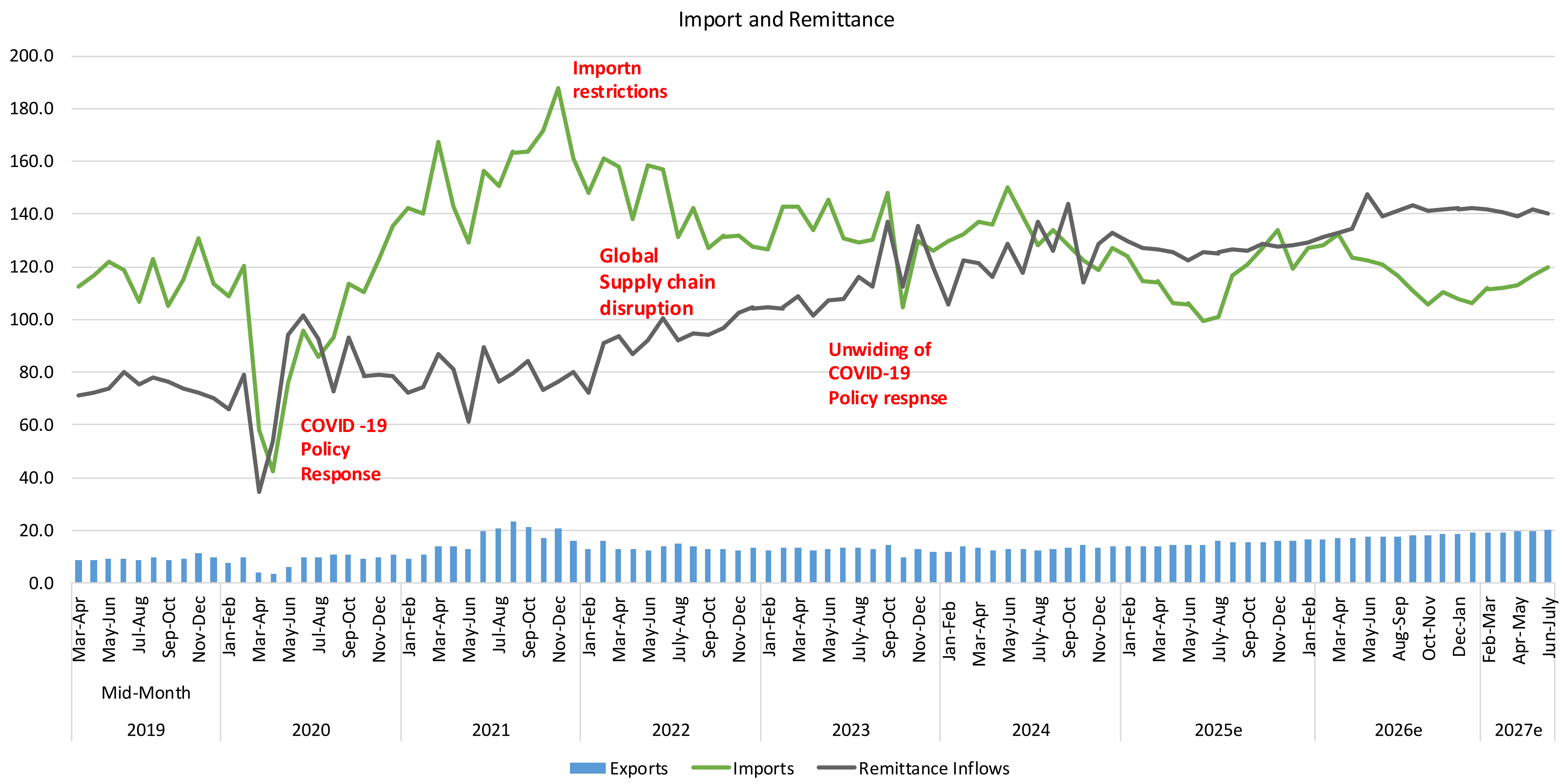
- *Exports grew steadily from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December-January 2024, before surging further to NPR 20.8 billion. In contrast, imports experienced significant increases, rising from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021. To address this sharp rise, the Government of Nepal (GoN) imposed import restrictions. Despite these measures, imports rebounded to NPR 148.20 billion by December 2024, indicating a partial recovery.*

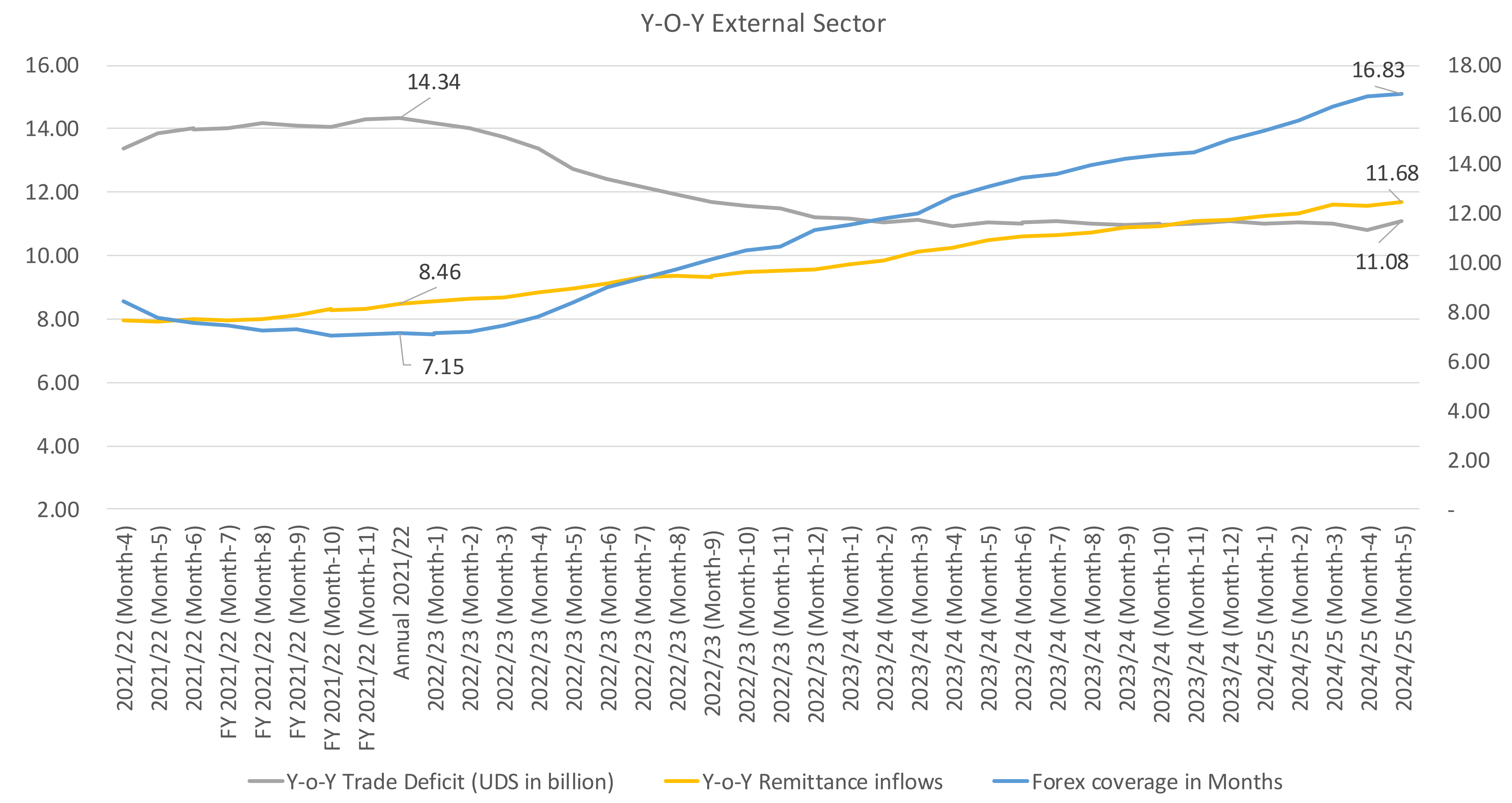
Policy Mistakes:

- *Overreliance on import restrictions proved to be a short-term solution, causing supply chain disruptions without providing a sustainable resolution to the trade deficit. The ongoing currency depreciation and rising costs are expected to continue exerting pressure on the balance of payments (BOP).*

Recommendations:

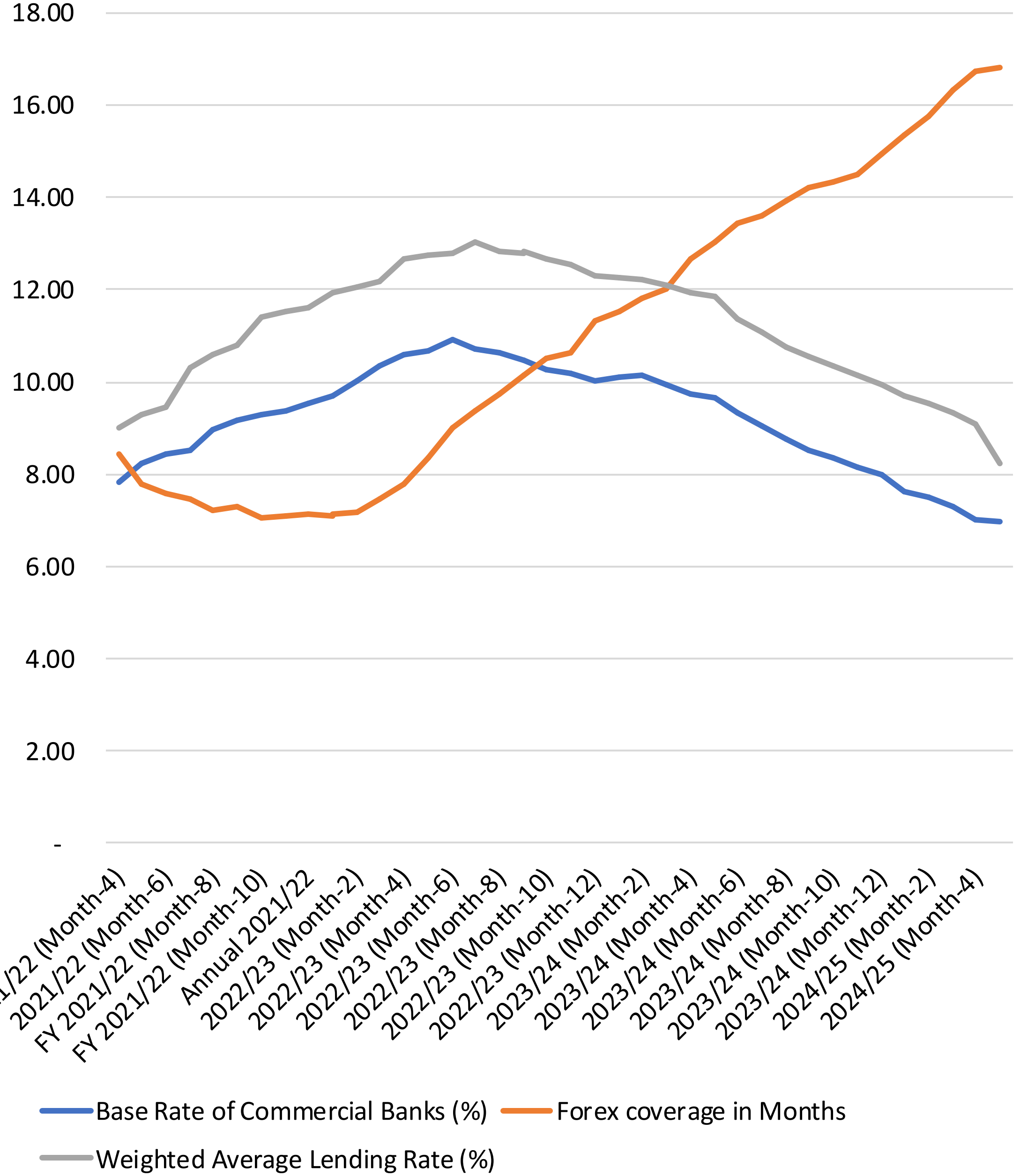
- *Develop and promote local industries to reduce import dependency.*
- *Implement balanced trade policies to ensure essential imports while fostering domestic production.*

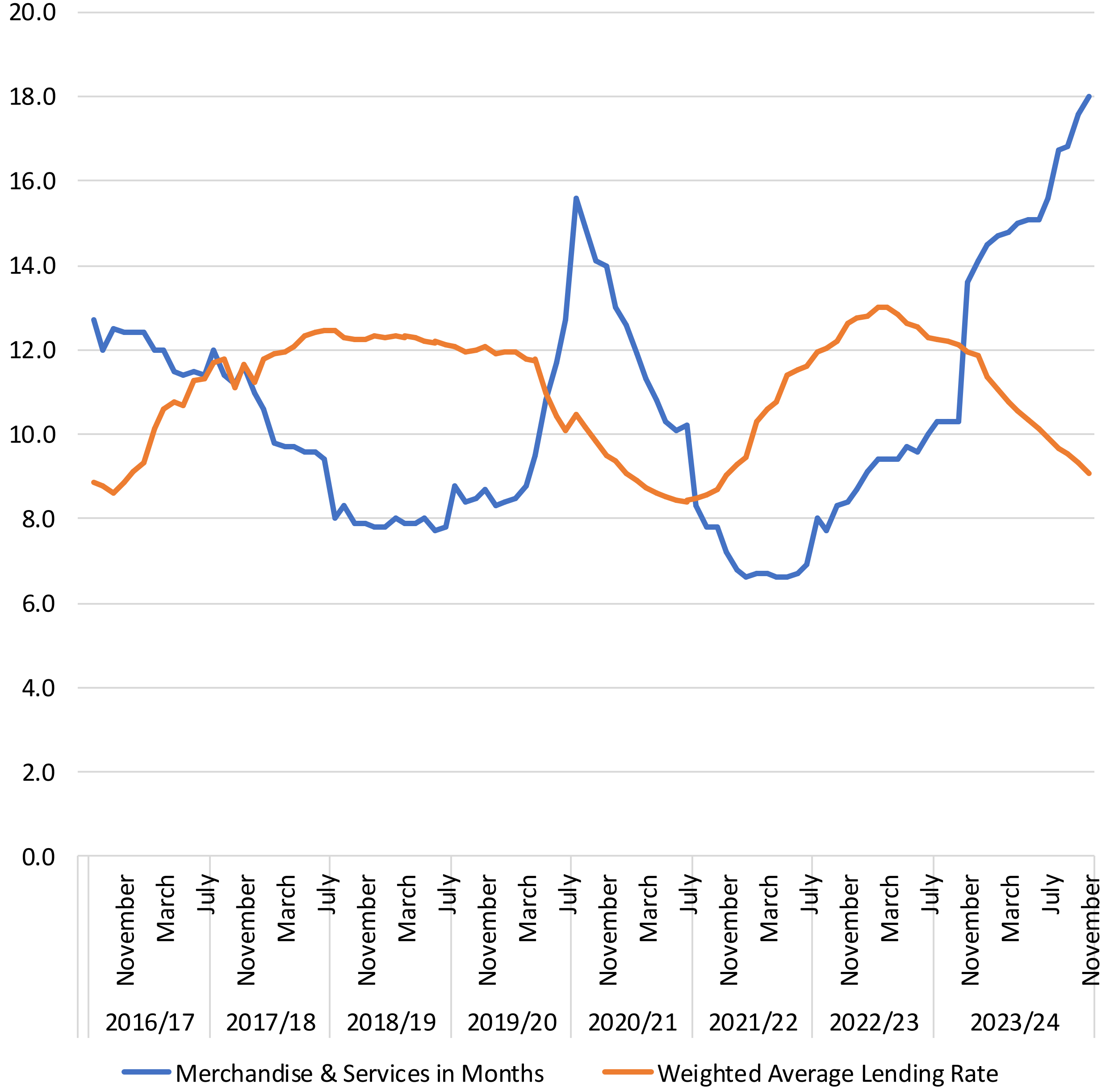

Import and Remittance
200.0
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
Importn restrictions
Global Supply chain disruption
Unwiding of COVID-19 Policy respnse
COVID -19 Policy Response
Mid-Month
2019
2020
2021
2022
2023
2024
2025e
2026e
2027e
Exports
Imports
Remittance Inflows



Y-O-Y External Sector
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
14.34
8.46
7.15
16.83
11.68
11.08
2021/22 (Month-4)
2021/22 (Month-5)
2021/22 (Month-6)
FY 2021/22 (Month-7)
FY 2021/22 (Month-8)
FY 2021/22 (Month-9)
FY 2021/22 (Month-10)
FY 2021/22 (Month-11)
Annual 2021/22
2022/23 (Month-1)
2022/23 (Month-2)
2022/23 (Month-3)
2022/23 (Month-4)
2022/23 (Month-5)
2022/23 (Month-6)
2022/23 (Month-7)
2022/23 (Month-8)
2022/23 (Month-9)
2022/23 (Month-10)
2022/23 (Month-11)
2022/23 (Month-12)
2023/24 (Month-1)
2023/24 (Month-2)
2023/24 (Month-3)
2023/24 (Month-4)
2023/24 (Month-5)
2023/24 (Month-6)
2023/24 (Month-7)
2023/24 (Month-8)
2023/24 (Month-9)
2023/24 (Month-10)
2023/24 (Month-11)
2023/24 (Month-12)
2024/25 (Month-1)
2024/25 (Month-2)
2024/25 (Month-3)
2024/25 (Month-4)
2024/25 (Month-5)
Y-o-Y Trade Deficit (UDS in billion)
Y-o-Y Remittance inflows
Forex coverage in Months

Interest rates and Extranational Sector





3. Government Expenditure

Government expenditure showed considerable volatility, particularly during the pandemic, with significant increases aimed at economic stabilization.

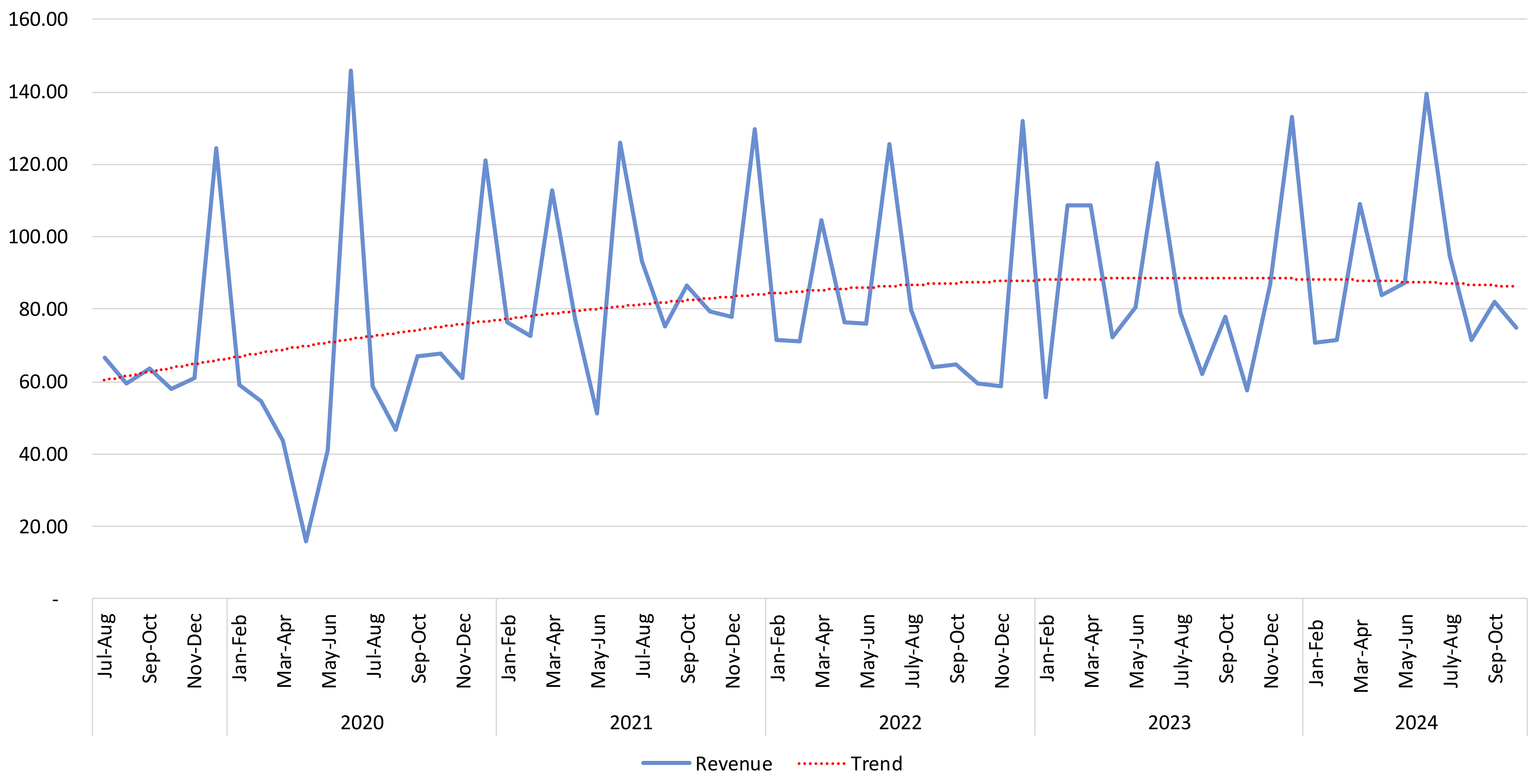
- *2019-2021: Varied widely, peaking at NPR 264.1 billion in Jun-Jul 2021.*
- *2022-2024: Continued to fluctuate, reaching NPR 107.8 billion by Mar-Apr 2024.*

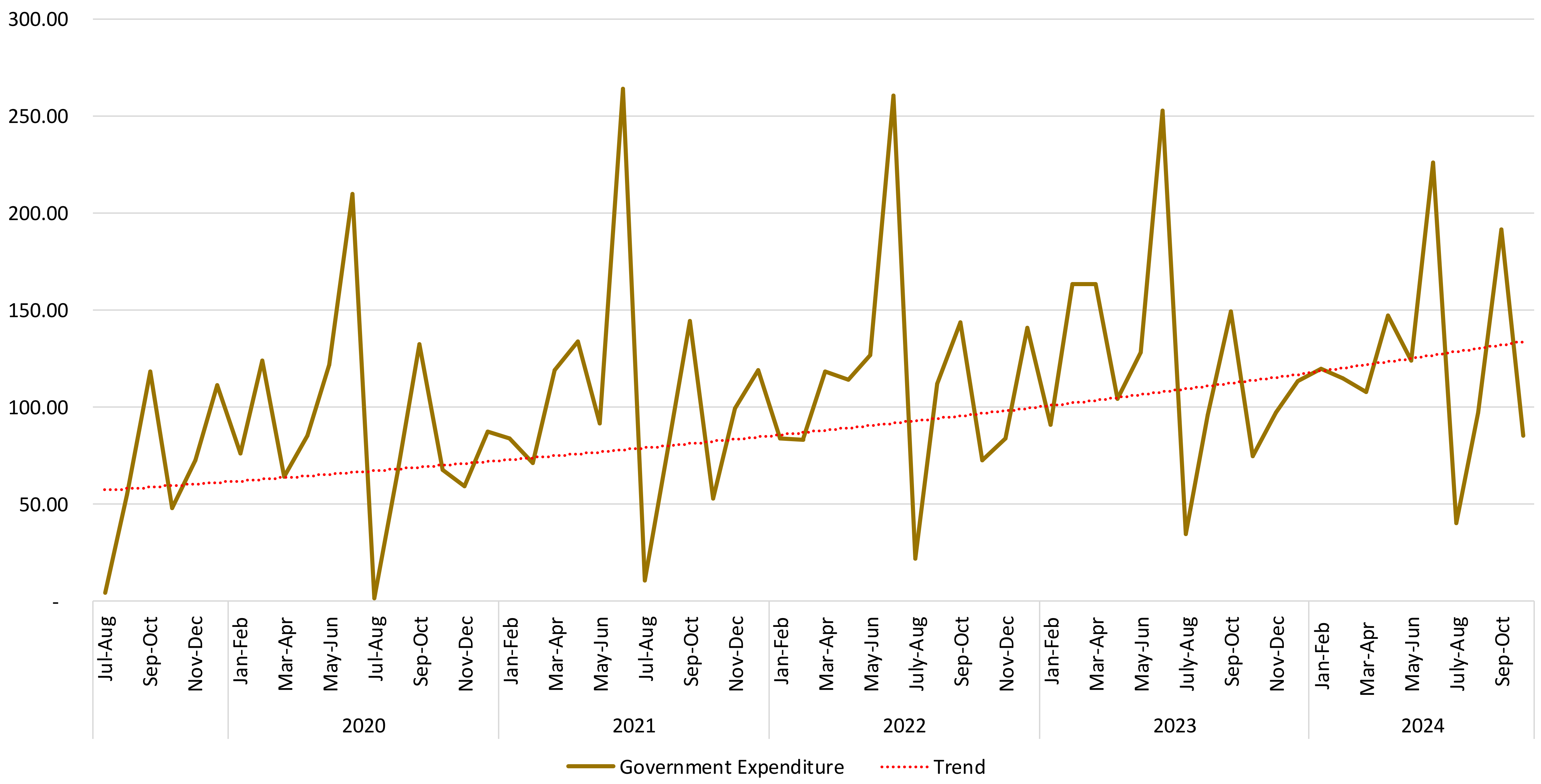
Policy Mistakes:

- *Inconsistent fiscal stimulus, marked by delays and erratic implementation, has undermined its effectiveness in stabilizing the economy. High administrative costs and growing social security commitments have increased debt burdens and reduced revenue collection, further straining government spending.*

Recommendations:

- *Ensure timely and consistent fiscal interventions to support economic stability.*
- *Focus on efficient allocation and utilization of government resources.*


160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
-
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
2020
2021
2022
2023
2024
Revenue
Trend


300.00
250.00
200.00
150.00
100.00
50.00
-
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
2020
2021
2022
2023
2024
Government Expenditure
Trend

4. Private Sector Credit and Deposit Mobilization

Private sector credit and deposit mobilization showed high variability, reflecting changes in economic confidence and policy impacts.

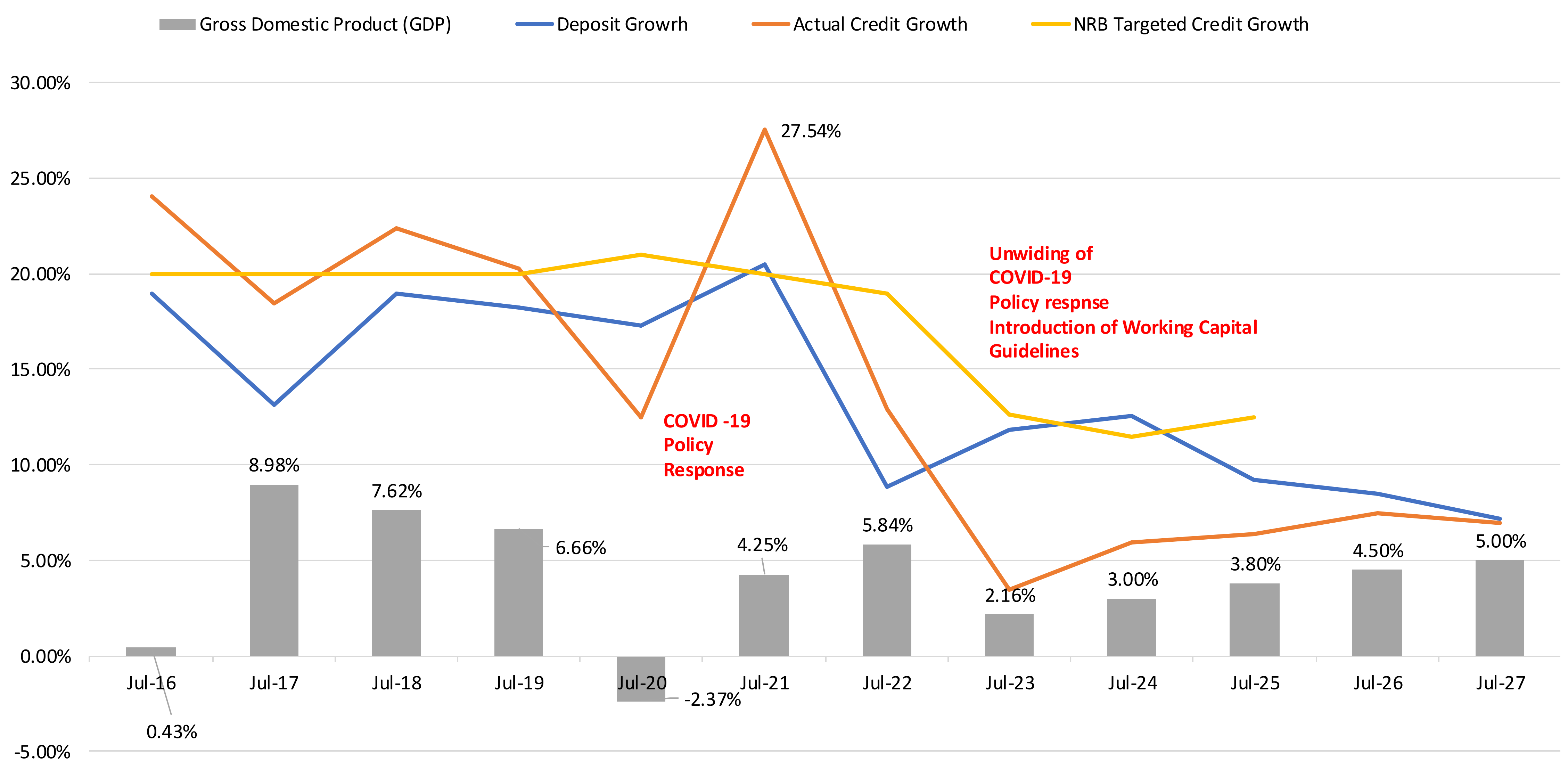
- *Private Sector Credit: Saw periods of contraction and growth, with notable increases during economic recovery phases.*
- *Deposit Mobilization: Experienced similar volatility, with significant peaks and troughs.*

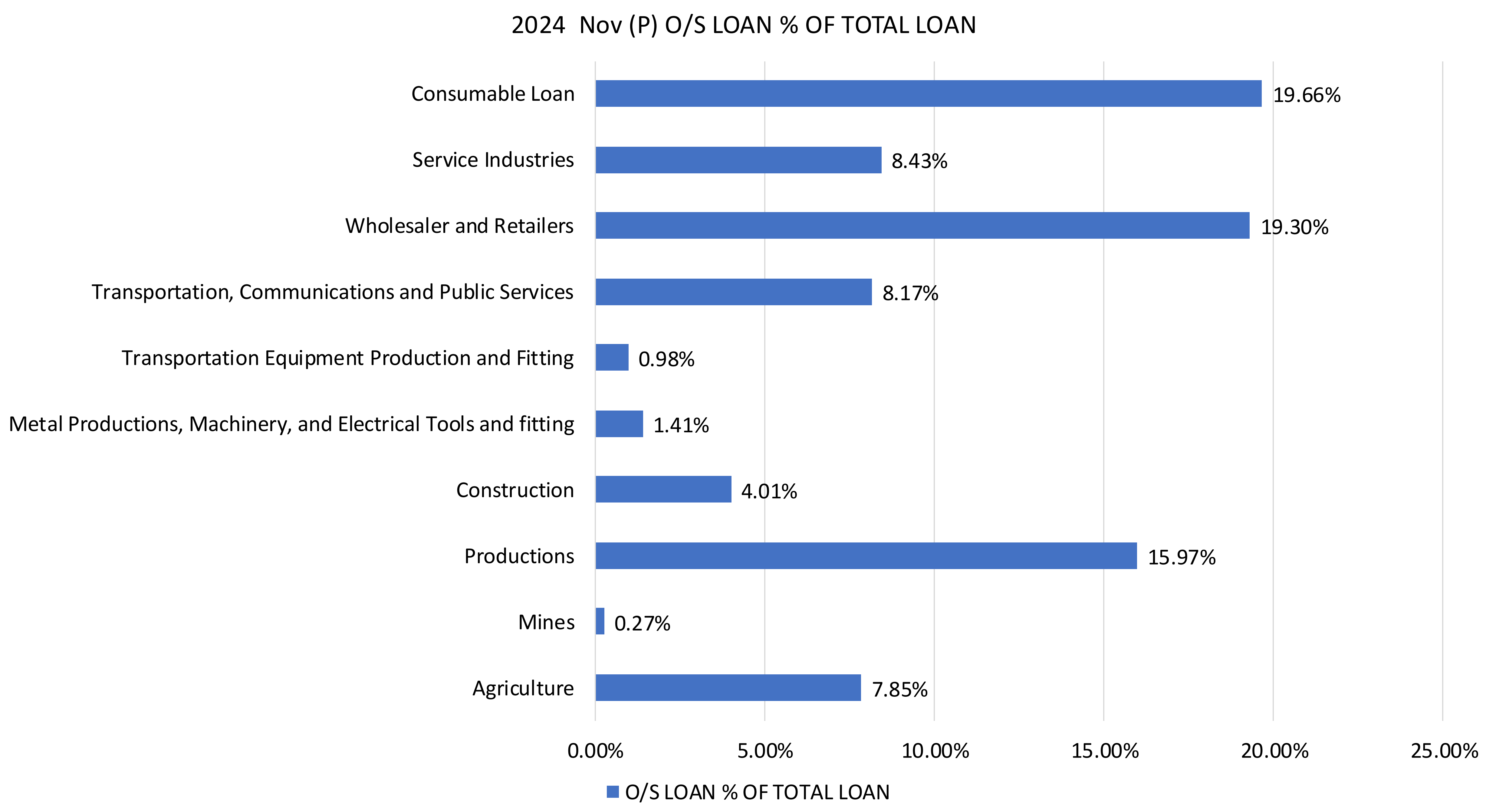
Policy Mistakes:

- *Sudden policy changes, such as the rapid implementation of working capital guidelines, caused short-term disruptions in credit availability. Increasing non-performing assets (NPA) have added pressure on capital, while diminished confidence among both lenders and borrowers has further strained domestic demand.*

Recommendations:

- *Introduce policy changes with phased rollouts to minimize disruptions.*
- *Engage stakeholders in policy development to ensure smooth transitions.*


Gross Domestic Product (GDP)
Deposit Growrh
Actual Credit Growth
NRB Targeted Credit Growth
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
27.54%
Unwiding of
COVID-19
Policy respnse
Introduction of Working Capital
Guidelines
COVID -19
Policy
Response
8.98%
7.62%
6.66%
4.25%
5.84%
2.16%
3.00%
3.80%
4.50%
5.00%
0.43%
-2.37%
Jul-16
Jul-17
Jul-18
Jul-19
Jul-20
Jul-21
Jul-22
Jul-23
Jul-24
Jul-25
Jul-26
Jul-27


2024 Nov (P) O/S LOAN % OF TOTAL LOAN
Consumable Loan
19.66%
Service Industries
8.43%
Wholesaler and Retailers
19.30%
Transportation, Communications and Public Services
8.17%
Transportation Equipment Production and Fitting
0.98%
Metal Productions, Machinery, and Electrical Tools and fitting
1.41%
Construction
4.01%
Productions
15.97%
Mines
0.27%
Agriculture
7.85%
0.00%
5.00%
10.00%
15.00%
20.00%
25.00%
O/S LOAN % OF TOTAL LOAN

5. Interest Rates

Interest rates exhibited a general upward trend, particularly post-pandemic, as the NRB attempted to control inflation and stabilize the economy.

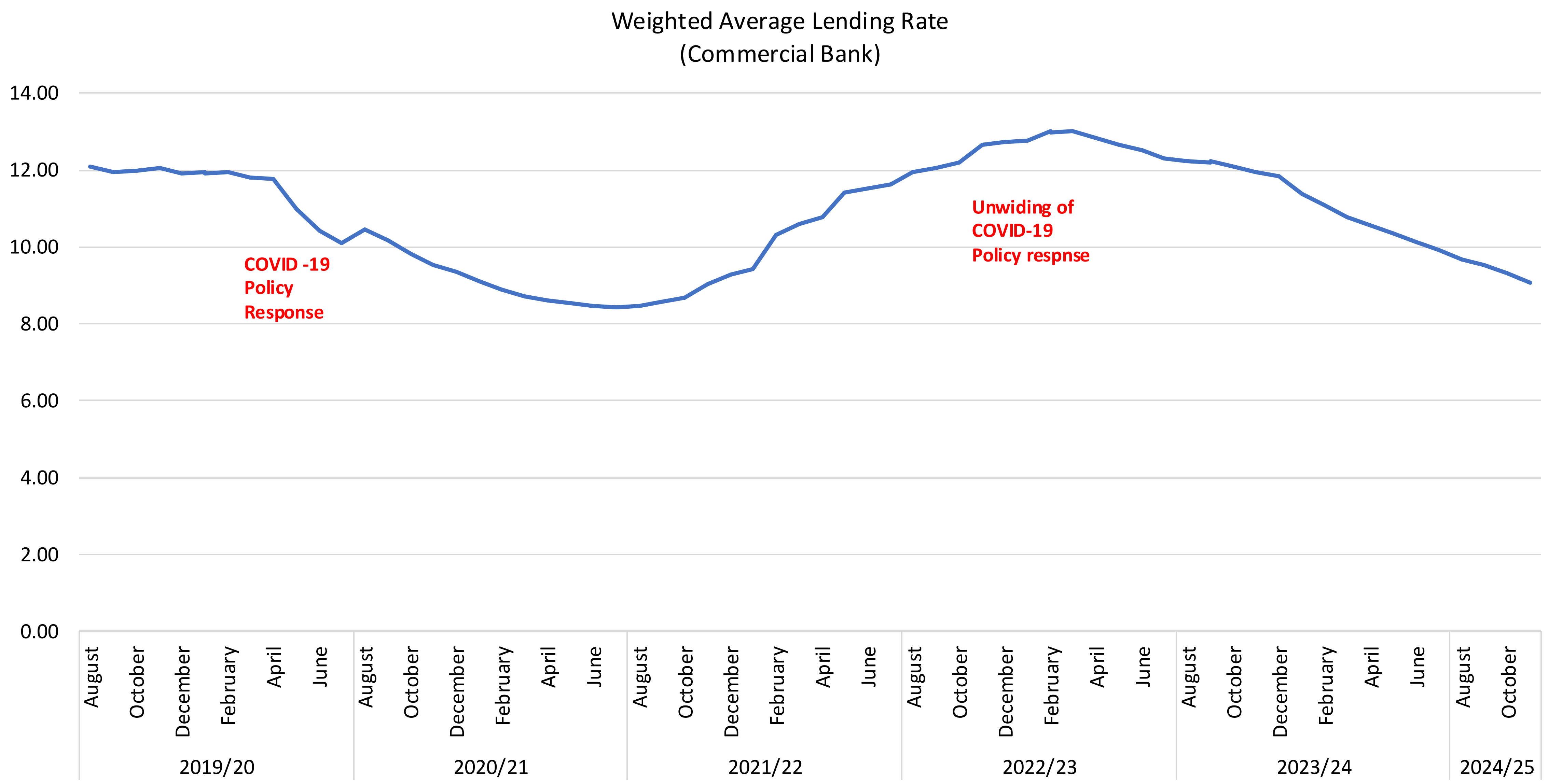
- *Deposit Rates: Increased from approximately 6.70% in early 2019 to around 8.08% by April-May 2023, before declining to 5.01% in November. Despite the lower rates and surplus liquidity, the market continues to experience a credit crunch.*
- *Lending Rates: Rose from about 12.30% in early 2019 to nearly 12.55% by April-May 2023, but have since dropped to 7.02% November.*
- *Base Rates of Commercial Banks: Gradually increased over the period, indicating the impact of a tighter monetary policy stance.*

Policy Mistakes:

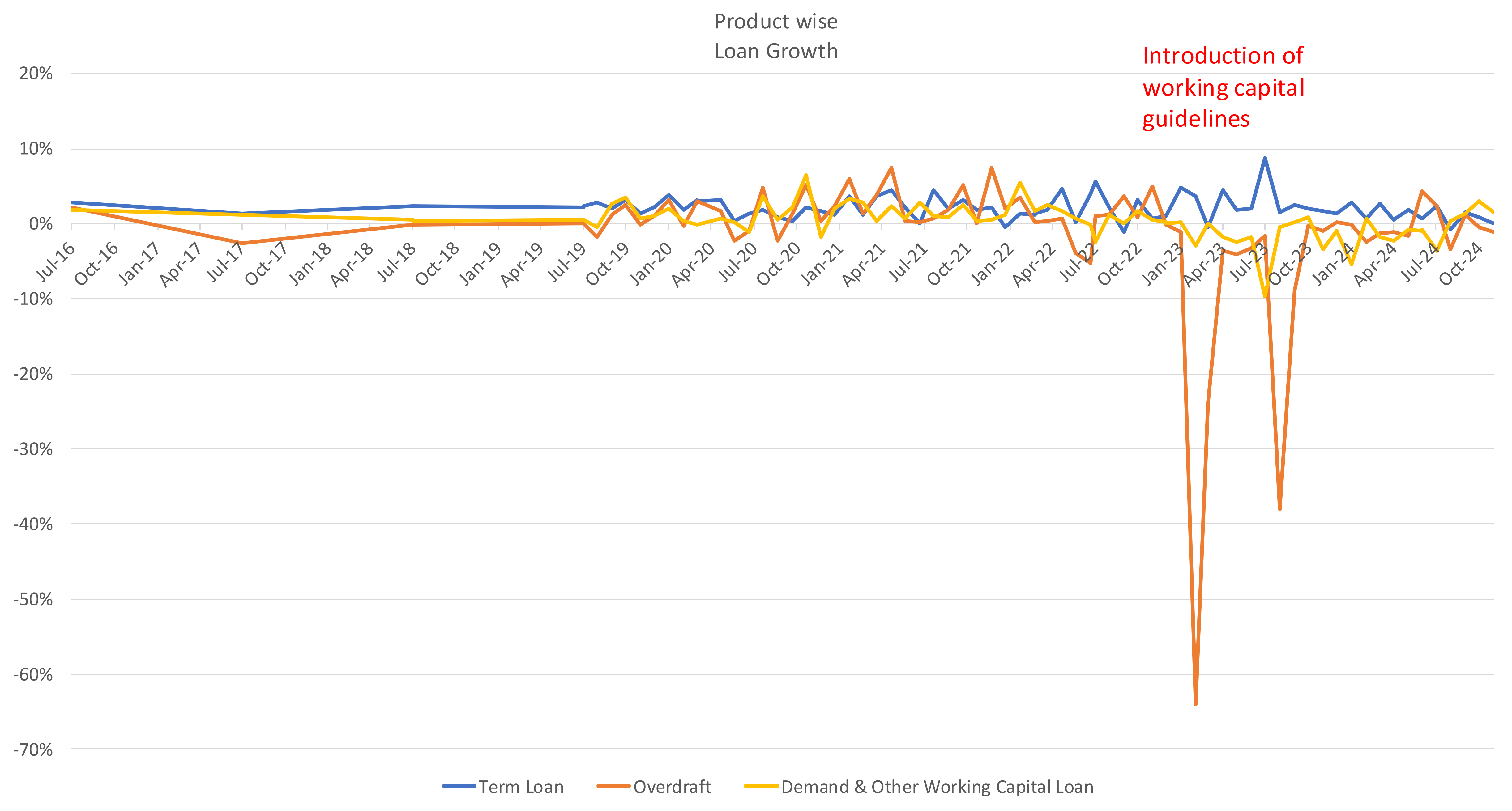
- *Overemphasis on Monetary Measures: Relying solely on interest rate adjustments without tackling broader economic challenges proves insufficient. Excessive focus on working capital guidelines, risk weightage, and asset classification fails to align with the subdued growth dynamics of the economy.*

Recommendations:

- *Balance monetary measures with structural reforms to enhance overall economic resilience.*
- *Implement targeted lending programs to support critical sectors.*



Weighted Average Lending Rate
(Commercial Bank)
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
COVID -19
Policy
Response
Unwiding of
COVID-19
Policy respnse
August
October
December
February
April
June
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25


Product wise
Loan Growth
Introduction of
working capital
guidelines
20%
10%
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
Jul-16
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
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Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Term Loan
Overdraft
Demand & Other Working Capital Loan


Product wise
Loan Growth
15%
10%
5%
0%
-5%
-10%
-15%
Jul-16
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
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Oct-21
Jan-22
Apr-22
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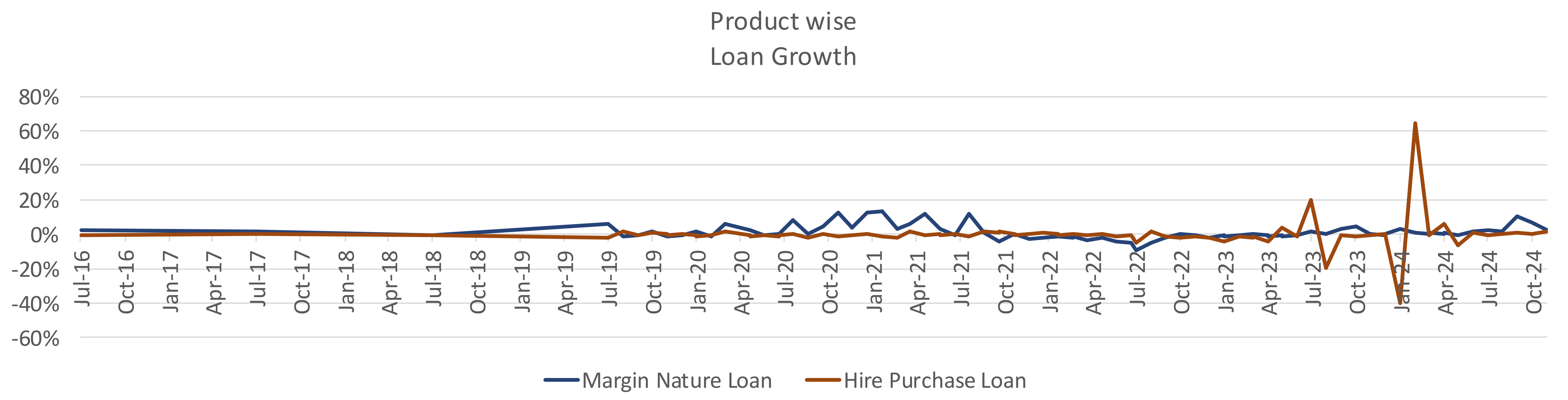
Jul-24
Oct-24
Residential Personal
Real Estate Loan


Product wise
Loan Growth
80%
60%
40%
20%
0%
-20%
-40%
-60%
Jul-16
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
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Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Margin Nature Loan
Hire Purchase Loan

Reforms agenda

Policy Action Chart

Immediate-Term Actions (0–12 Months)

Policy Area	***Action***	***Expected Outcome***
Monetary Policy	*Reduce policy rates to stimulate investment and demand.*	*Increased credit flow to private sectors and MSMEs.*
Fiscal Policy	*Expedite post-flood infrastructure rebuilding*	*Employment creation and restored infrastructure functionality.*
Private Sector Support	*Offer tax breaks for MSMEs and revive export industries with targeted subsidies.*	*Improved private sector confidence and export competitiveness.*
Climate Resilience	*Allocate funds to immediate disaster management projects.*	*Minimized economic damage from extreme weather events.*

Medium-Term Actions (1–3 Years)

Policy Area	***Action***	***Expected Outcome***
Infrastructure	*Invest in hydropower projects targeting annual export of electricity worth NPR 100 billion.*	*Boost in export revenue and trade deficit reduction.*
Trade Policy	*Negotiate favorable trade agreements with India and China.*	*Increased market access for Nepali products and reduced trade deficit.*
Banking Sector Reform	*Implement AMC for managing NPAs and enhance financial stability.*	*Reduced banking sector vulnerabilities and credit flow normalization.*
Financial Inclusion	*Develop schemes to integrate rural communities into the formal banking system.*	*Greater economic participation and savings mobilization.*

Long-Term Actions (3–5 Years)

Policy Area	***Action***	***Expected Outcome***
Structural Reforms	*Update GDP base year from 2010/11 to 2020/21 for accurate economic planning.*	*Improved policy formulation and realistic economic targets.*
Export Diversification	*Focus on high-value agricultural exports and IT services.*	*Increased global competitiveness and export earnings.*
Digital Transformation	*Modernize FDI and business registration systems to attract investors.*	*Simplified business processes and higher foreign investment inflows.*
Governance	*Strengthen institutional frameworks and reduce corruption.*	*Increased efficiency in public spending and governance credibility.*

Corrective actions

Reform Area	Recommendation	Priority	Workability	Outcome
PPPI Act 2019	*Enable OIBN to recruit staff competitively from outside civil service; strengthen civil service investment facilitation expertise.*	*High*	*Attainable*	*Effective: Boost Private Sector Confidence*
	Establish a framework for managing PPP-related fiscal commitments and contingent liabilities (FCCLs).	*High*	*Attainable*	*Effective: Boost Private Sector Confidence*
Tax Laws	*Amend laws to allow arbitration for tax disputes rather than criminal investigations.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Align Section 57 of the Income Tax Act with international norms (tax collection upon company sale).	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Eliminate retrospective taxation and clarify conflicting tax laws.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Expand Double Taxation Avoidance Agreements (DTAAs) and Bilateral Investment Treaties.	*High*	*Attainable*	*Effective; Attract FDI with Confidence*

Reform Area	***Recommendation***	***Priority***	***Workability***	***Outcome***
FITTA	*Streamline foreign investor processes and expand permissible investment structures.*	*High*	*Attainable*	*Effective; Attract FDI with Confidence*
	The provision in relation to investment approval for NRN investors shall be granted through automatic route envisages by Section 42 of FITTA to Non-Resident Nepalis (NRN)	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*
	Amend Section 15 (1) of the FITTA shall provide fund-based approval, to support investment fromNon-Resident Nepalis (NRN)	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*
	Amend Section 2(c) of FITTA Definition of NRN to support investment from Non-Resident Nepalis (NRN)	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*
	Amend Section 11(1), 15 (1), 20 (6), 42 of FITTA to support investment from Non-Resident Nepalis (NRN)	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*

Reform Area	Recommendation	Priority	Workability	Outcome
Security Registration and Issuance Regulations, 2073	*Amend clause 9 of Security Registration and Issuance Regulations, 2073 to support investment companies formed through joint collaboration between the Government of Nepal and Non-Resident Nepalis (NRN).*	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*
	Borrowers with a loan exposure of NRP 1 billion or more and a credit rating of AA or higher should be mandated to issue commercial paper. To enable this, SEBON, in coordination with NRB, is urged to develop comprehensive guidelines and implement a streamlined approval process for commercial paper issuance. This measure will deepen market participation and create an alternative resource planning avenue for creditworthy borrowers.	*High*	*Attainable*	*Effective; Increase Access to Finance*
	Bonds in Local Currency *Exempt institutions like ADB and IFC from restrictions on offshore local currency bonds issuance.*	*High*	*Attainable*	*Effective; Increase Access to Finance*
Foreign Lenders	*Allow fixed interest rate tenure negotiation for long-term investments (e.g., green bonds).*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Clarify rules for local currency bond subscriptions by foreign investors.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Introduce innovative financing options such as mezzanine financing and convertible debt.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*

Reform Area	Recommendation	Priority	Workability	Outcome
Withholding Tax	*Equalize withholding tax rates for DFIs and Multilaterals; reduce withholding tax on interest payments.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
Investor Exit	*Clarify NRB policies for partial exits by foreign BFIs.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Remove ambiguities regarding lock-in periods for foreign investors.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
Ease of Doing Business	*Develop a unified insolvency law with efficient restructuring and liquidation regimes.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Amend civil procedure rules to fast-track commercial cases and injunctions.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Strengthen commercial mediation and arbitration mechanisms.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*
	Amend Companies Act to enable online registration and decentralized services.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*

Establishing a Regulatory Framework for Sweat Equity in Foreign Company

Nepalese professionals are increasingly involved in providing consultancy services to international organizations and startups, often receiving compensation in the form of sweat equity—shares granted in exchange for services. However, the absence of a clear regulatory framework leads to legal and financial uncertainty.

Proposed Action:

Regulators should formally recognize sweat equity arrangements and mandate that all proceeds from the sale of such equity, including capital gains, be repatriated to Nepal

Expected Impact:

This policy will empower Nepalese professionals by legitimizing sweat equity as a mode of compensation, while simultaneously boosting the national economy through the inflow of repatriated funds.

Decission needed

The Government of Nepal should publish a Gazette under Section 5, Subsection 2 of The Act Restricting Investment Abroad, 1964 (2021 BS) to create a regulatory framework for sweat equity.

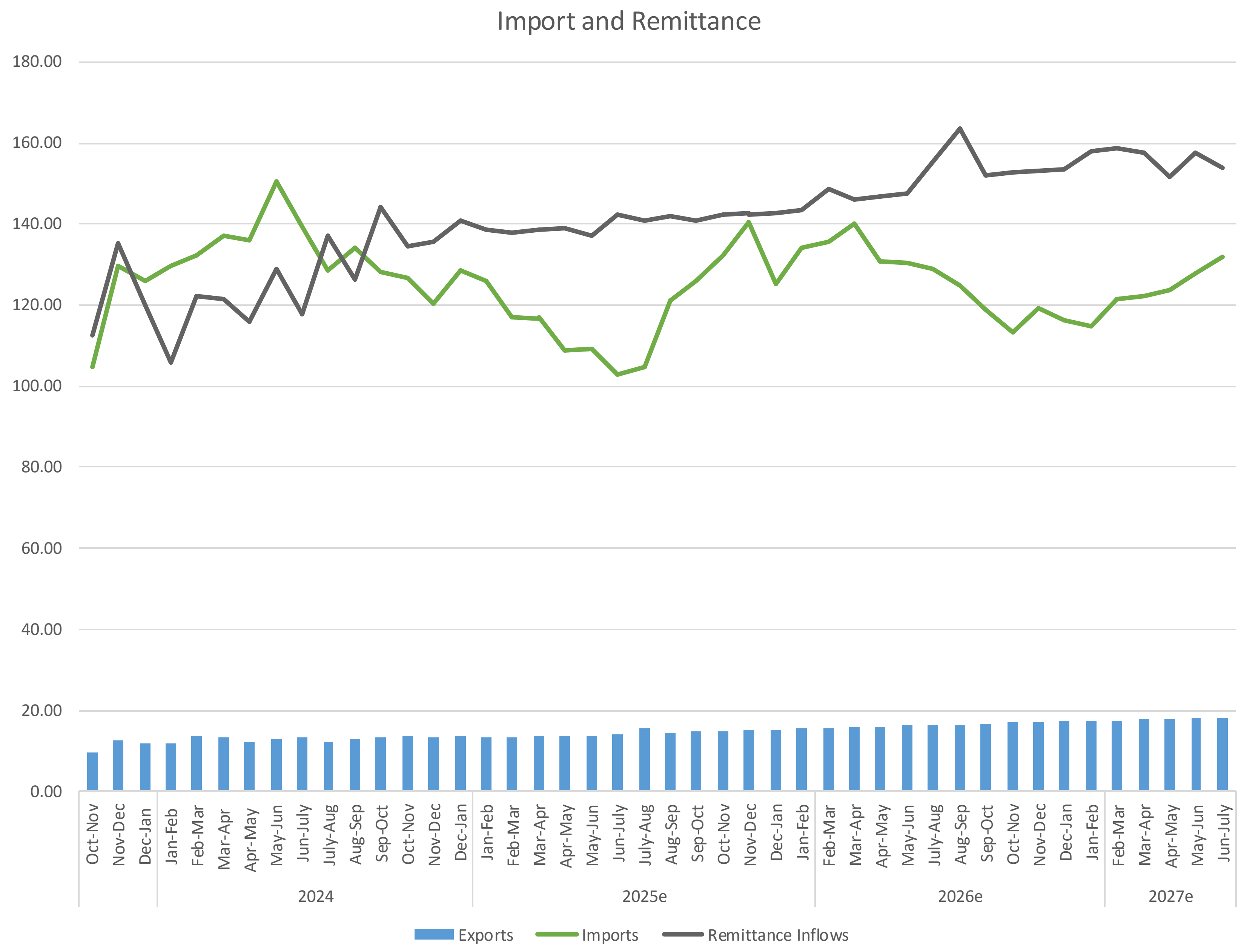
The Gazette under Section 5, Subsection 2 should allow Nepalese firms and individuals to:

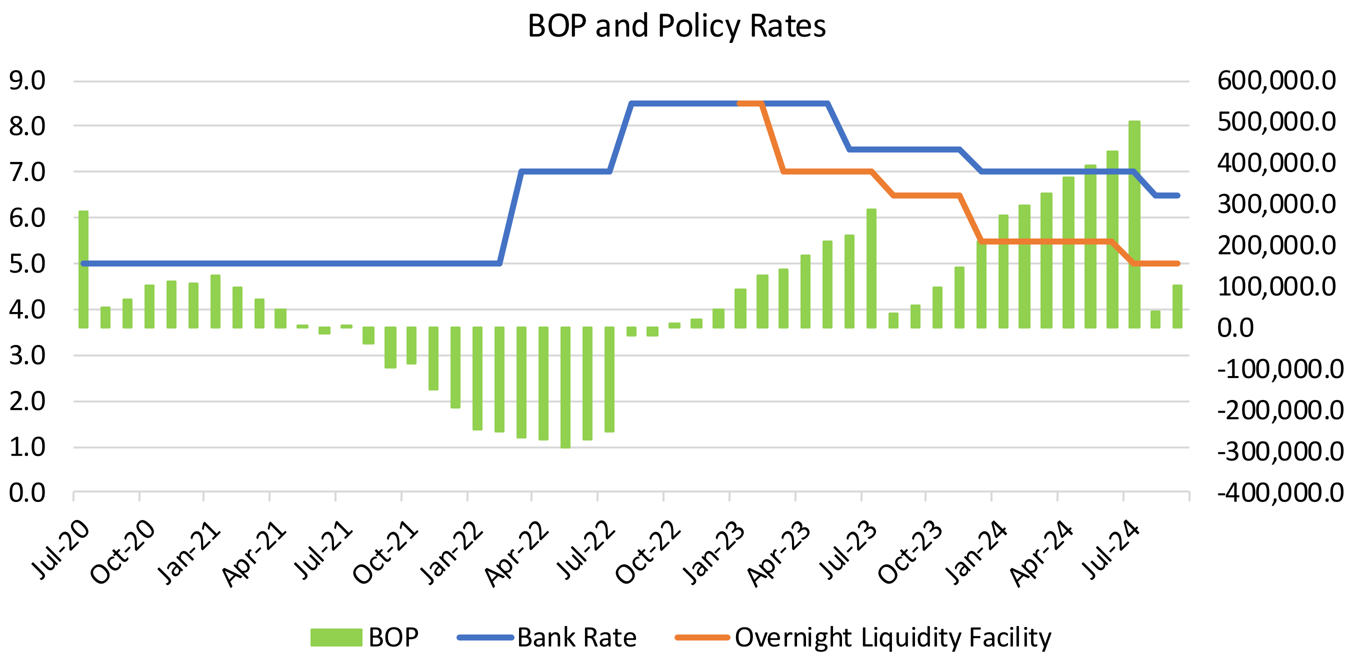
- ***Sweat Equity Acceptance****: Accept up to 40% of professional fees as sweat equity in exchange for services provided to foreign corporate entities or individuals, through technology transfer agreements or professional service agreements.*
- ***Repatriation of Equity Proceeds****: Mandate that all proceeds from the sale of sweat equity, including capital gains, must be remitted to Nepal after the closure of the deal.*
- ***Cash Compensation****: Require that 60% of the fees be received in cash, ensuring a balanced flow of monetary income alongside equity-based earnings.*

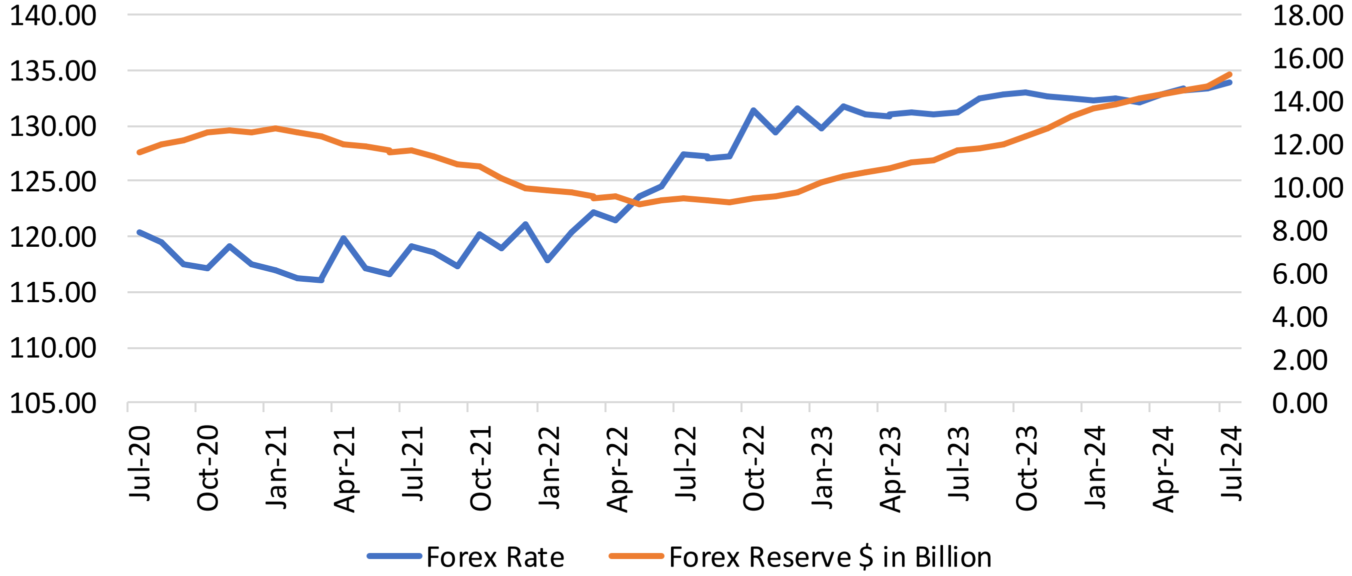
External Sector

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 **5.6%** by Nov. 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. 40 billion** in Nov. 2020 to significant deficits starting in July 2021, reaching lows of around **NPR -292.24 billion** in May 2022. However, by 2023, the BoP began to recover, ultimately achieving a surplus of **NPR 205.83 billion** by Nov. 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 135.42** by November 2024. Remittances and export proceed 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	2024													
	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec expected
Consumer Price Inflation (y-o-y) (%)	5.38	4.95	5.26	5.01	4.82	4.61	4.40	4.17	3.57	4.10	3.85	4.82	5.60	4.94
Exports	9.69	12.64	11.76	11.86	13.79	13.33	12.23	13.09	13.12	12.23	12.87	13.29	14.29	20.80
Imports	104.7	129.7	126.0	129.8	132.3	137.1	136.0	150.3	139.3	128.4	134.2	128.2	122.6	148.20
Remittance Inflows	112.6	135.3	120.0	105.8	122.2	121.4	116.0	128.9	117.8	136.9	126.2	144.2	114.3	128.76
Government Expenditure	75.1	97.4	113.6	120.1	114.8	107.8	147.5	124.4	226.7	40.2	97.3	191.6	85.8	141.0
Current Expenditure	57.8	88.8	77.4	71.7	73.1	61.9	108.5	70.3	128.8	12.4	70.6	146.9	62.7	134.6
Capital Expenditure	12.2	60.7	13.2	14.3	17.6	16.2	14.5	23.1	56.8	8.6	6.3	14.5	5.2	6.4
Revenue	57.5	86.8	133.1	70.9	71.6	109.0	83.9	87.3	139.7	94.7	71.6	81.9	75.0	76.0
Deposit Mobilization	-3.9	109.1	113.3	20.1	38.7	-26.8	34.0	71.5	227.8	-43.5	78.5	135.0	-20.2	17.45
Private Sector Credit	-9.6	10.7	82.6	4.6	2.3	22.7	3.0	21.6	30.1	14.1	59.3	55.3	-0.2	12.02
Weighted Average Deposit Rate (%)	7.76	7.62	7.32	7.01	6.74	6.53	6.35	6.17	5.77	5.66	5.53	5.24	5.01	4.99
Weighted Average Lending Rate (%)	11.96	11.85	11.38	11.08	10.78	10.55	10.34	10.15	9.93	9.68	9.52	9.33	9.07	8.25
Base Rate of Commercial Banks (%)	9.74	9.64	9.35	9.06	8.77	8.51	8.34	8.17	8.00	7.61	7.49	7.29	7.02	7.00

Our view on the current level of External vulnerabilities

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2022/23 (Mid-Dec.)	5.11	0.52	4.59	5.63	1.00	9.83	0.97	1 USD=125NPR
Share % in Total Trade	90.76	9.24						
Trade deficit % GDP	11.33%						-	
F.Y. 2023/24 (Mid-Dec)	4.94	0.49	4.45	5.43	1.00	10.08	1.05	1 USD= 130 NPR
Share % in Total Trade	90.98	9.02					Up	
Trade deficit % GDP	10.98%							
F.Y. 2081/82 (2024/25) (Mid-Dec)	5.09	0.57	4.52	5.66	1.00	8.93	1.12	1 USD= 130 NPR
Share % in Total Trade	89.93	10.07					Up	
Trade deficit % GDP	9.62%							
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-3.33%	-5.77%	-3.05%	-3.55%			8.25%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	3.04%	16.33%	1.57%	4.24%			6.67%	

Nepal's foreign trade data over the last three fiscal years reveals a gradual improvement in the country's trade dynamics, despite ongoing challenges. Total imports saw a marginal decline in F.Y. 2023/24 compared to F.Y. 2022/23 but recovered slightly in F.Y. 2024/25. On the other hand, exports demonstrated significant growth, with a 16.33% rise in F.Y. 2024/25, reflecting positive export performance. Consequently, the trade deficit as a percentage of GDP has shown a declining trend, reducing from 11.33% in F.Y. 2022/23 to 9.62% in F.Y. 2024/25. This indicates a gradual improvement in the trade balance, supported by better export figures. The export-to-import ratio remains low across the years, signaling that exports still account for a small fraction of imports.

Total trade, after a slight decline in F.Y. 2023/24, experienced a recovery with 4.24% growth in F.Y. 2024/25. Revenue collection also saw steady growth, increasing by 8.25% in F.Y. 2023/24 and 6.67% in F.Y. 2024/25, possibly due to enhanced fiscal measures or improved trade efficiency. However, the Nepali rupee's depreciation, from 1 USD = 125 NPR in F.Y. 2022/23 to 1 USD = 130 NPR in F.Y. 2024/25, poses challenges by potentially increasing import costs. The share of exports in total trade decline slightly, rising from 10.08 % in F.Y. 2022/23 to 8.93% in F.Y. 2024/25, indicating lack of diversifying the trade composition. Overall, while Nepal's trade scenario reflects efforts to boost exports and manage trade deficits, the economy continues to face challenges such as high reliance on imports and currency depreciation.

Trade to GDP

As a positive sign of improved resilience in the external sector, the Department of Customs announced that the year-on-year trade deficit as a percentage of gross domestic product (GDP) saw a decreased to 23.74 % by mid-Dec. 2024, compared to the 29.45% reported in the corresponding previous year.

Trade Deficit

In the second month of fiscal year 2024/25, the monthly trade deficit increased by $0.05 billion, reaching $0.98 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to $12.40 billion, indicating a mild reversal from the $11.05 billion recorded during the corresponding period of the previous fiscal year.

Import Pressure

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

Observations

Presently, Nepal maintains strong foreign exchange reserves, which cover over 16.82 months of imports and service payments based on the year-on-year import ratio. The Nepalese economy is stable, aided by the decreasing prices of imported energy and food.

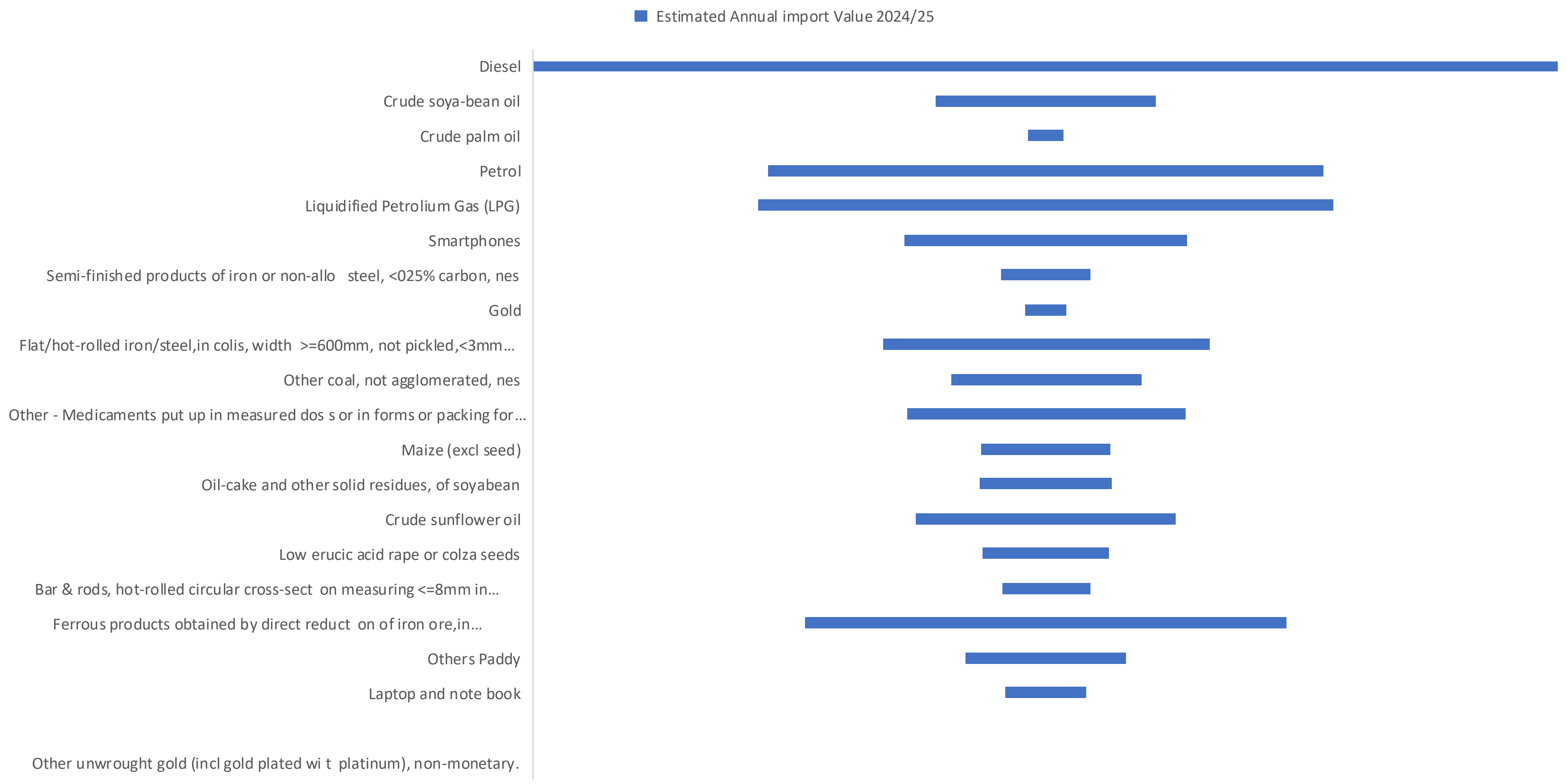
Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming months.

Although there has been a noticeable increase in the import of specific goods, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.

Description	Unit	Quantity	Value
Other Urea	Kg	16,59,33,815	74
ATF	KL	89,545	63
Electric car, jeep & van 51KW to <=100KW	PCS	2,757	53
Garlic, fresh or chilled	Kg	4,06,57,872	41
Other potatoes, fresh or chilled	Kg	18,13,23,071	35
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	Kg	1,12,88,413	30
Diammonium hydrogenorthophosphate (diammonium phosphate)	Kg	4,31,41,000	29
Apples, fresh	Kg	3,62,73,141	29
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	Kg	5,25,05,300	28
Polypropylene, in primary forms	Kg	2,31,92,321	26
Synthetic staple fibres, of polyesters, no carded, etc	Kg	2,40,64,410	26
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	Kg	2,68,41,615	24
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	PCS	30,523	23
Motorcycles with piston engine of capacity exceeding 50 not exceeding 125cc	PCS	30,836	23
Wire of refined copper, maximum cross-sect onal dimension >6mm.	Kg	22,61,903	23
Electric car, jeep & van upto 50KW	PCS	1,490	21
Dried Red Lentils, Unskinned, unsplit (Whole)	Kg	2,68,36,619	20
Polyethylene having a specific gravity >=0.94, in primary forms.	Kg	1,74,84,451	20
Unassembled Motorcycles with piston engine of capacity exceedubg 125 not exced 200 CC	PCS	17,526	19
Petroleum bitumen	Kg	3,45,68,676	18
Lubricating Oil	LTR	81,97,544	18
Other preparations of a kind used in animal feeding, nes	Kg	1,34,72,364	18
Electric conductors, nes, for a voltage >1 00 V.	MTR	74,47,566	17

	2023/24								2024/25						
Trade Indicators	2023/24 (Month-5)	2023/24 (Month-6)	2023/24 (Month-7)	2023/24 (Month-8)	2023/24 (Month-9)	2023/24 (Month-10)	2023/24 (Month-11)	Annual 2023/24	2024/25 (Month-1)	2024/25 (Month-2)	2024/25 (Month-3)	2024/25 (Month-4)	2024/25 (Month-5)	Y-o-Y	Remaks
Imports (UDS in billion)	4.94	5.91	6.91	7.92	8.98	10.03	11.18	12.25	0.99	2.02	3.01	3.95	5.09	12.40	UP
Monthly Imports	1.00	0.97	1.00	1.01	1.06	1.05	1.15	1.07	0.99	1.03	0.99	0.94	1.14		
Exports (UDS in billion)	0.49	0.58	0.67	0.77	0.88	0.97	1.07	1.17	0.09	0.19	0.30	0.41	0.57	1.25	UP
Montly Exports	0.10	0.09	0.09	0.10	0.11	0.09	0.10	0.10	0.09	0.10	0.11	0.11	0.16		
Trade Deficit (UDS in billion)	4.45	5.33	6.24	7.15	8.10	9.06	10.11	11.08	0.90	1.83	2.71	3.54	4.52	11.15	UP
Total Foreign Trade (UDS in billion)	5.43	6.49	7.58	8.69	9.86	11.00	12.25	13.42	1.08	2.21	3.31	4.36	5.66	13.65	UP
Monthly Import Revenue	0.27	0.25	0.25	0.26	0.28	0.28	0.32	0.27	0.27	0.30	0.33	0.22	0.30		
Total Import revenue	1.32	1.57	1.82	2.08	2.36	2.64	2.96	3.23	0.27	0.57	0.90	1.12	1.42	3.30	UP
Montly Remittance	1.04	0.92	0.81	0.94	0.93	0.89	0.99	0.91	1.05	0.97	1.11	0.88	0.99		
Remittance inflows	4.72	5.64	6.45	7.39	8.33	9.22	10.21	11.12	1.05	2.02	3.13	4.01	5.00	11.40	UP
Imports/Exports Ratio	10.08	10.19	10.31	10.29	10.20	10.34	10.45	10.47	11.00	10.63	10.03	9.63	8.93	9.92	Down
Exports Share to Total Trade (%)	9.02	8.94	8.84	8.86	8.92	8.82	8.73	8.72	8.33	8.60	9.06	9.40	10.07	11.21	UP
Imports Share to Total Trade (%)	90.98	91.06	91.16	91.14	91.08	91.18	91.27	91.28	91.67	91.40	90.94	90.60	89.93	88.79	Down
Monthly Trade Deficit (UDS in billion)	0.90	0.88	0.91	0.91	0.95	0.96	1.05	0.97	0.90	0.93	0.88	0.83	0.98		Down
Trade deficit % GDP	10.98%	13.16%	15.40%	17.65%	17.25%	19.29%	21.53%	23.59%	1.92%	3.90%	5.77%	7.54%	9.62%	23.74%	UP

Trade Directions


Estimated Annual import Value 2024/25
Diesel
Crude soya-bean oil
Crude palm oil
Petrol
Liquidified Petrolium Gas (LPG)
Smartphones
Semi-finished products of iron or non-allo steel, <025% carbon, nes
Gold
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm...
Other coal, not agglomerated, nes
Other - Medicaments put up in measured dos s or in forms or packing for...
Maize (excl seed)
Oil-cake and other solid residues, of soyabean
Crude sunflower oil
Low erucic acid rape or colza seeds
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in...
Ferrous products obtained by direct reduct on of iron ore,in...
Others Paddy
Laptop and note book
Other unwrought gold (incl gold plated wi t platinum), non-monetary.

Expected Annual Imports of Major Items (USD in million)

Description	2022/23 Annua Import Value	2023/24 5 month	2023/24 6 month	2023/24 7 month	2023/24 8 month	2023/24 9 month	2023/24 10 month	2023/24 11 month	2023/24 Annua Import Value	2024/25 1 month	2024/25 2 month	2024/25 3 month	2024/25 4 month	2024/25 5 month	Estimated Annual import Value 2024/25	Import Direction	Movement
Diesel	1,183	415	511	596	684	794	890	994	1,108	54	105	170	223	334	892	Decline	-19.52%
Crude soya-bean oil	274	55	60	66	71	83	88	100	103	10	18	41	55	103	193	Growth	87.27%
Crude palm oil	199	44	50	57	68	75	79	79	82	3	7	9	12	17	32	Decline	-61.36%
Petrol	514	220	261	299	343	387	436	484	524	44	85	128	166	203	484	Decline	-7.73%
Liquidified Petrolium Gas (LPG)	447	159	196	233	276	315	354	393	428	37	73	108	145	186	501	Growth	16.98%
Smartphones	188	105	116	134	149	167	185	203	221	27	52	76	103	117	246	Growth	11.43%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	38	49	55	63	73	79	99	107	6	9	14	19	28	79	Decline	-26.32%
Gold	172	77	83	97	124	124	169	182	182	8	8	8	11	16	38	Decline	-79.22%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	158	111	144	166	188	214	236	251	266	23	54	93	99	119	285	Growth	7.21%
Other coal, not agglomerated, nes	209	59	83	100	118	138	152	162	176		22	32	39	56	167	Decline	-5.08%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	84	102	124	138	158	175	193	211	18	40	59	77	97	244	Growth	15.48%
Maize (excl seed)	127	35	47	55	64	78	87	102	108	6	11	14	25	37	114	Growth	5.71%
Oil-cake and other solid residues, of soyabean	98	59	72	85	100	108	117	124	130	9	19	25	36	53	117	Decline	-10.17%
Crude sunflower oil	139	52	60	74	92	97	105	119	137	20	40	55	74	86	227	Growth	65.38%
Low erucic acid rape or colza seeds	72	33	40	43	48	55	62	72	83	10	19	27	34	44	111	Growth	33.33%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	34	41	48	58	86	70	75	80	6	18	23	29	33	78	Decline	-2.94%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	115	149	174	199	233	241	270	300	29	60	93	123	161	420	Growth	40.00%
Others Paddy	154	31	40	57	66	76	86	89	93	8	12	13	20	47	141	Growth	51.61%
Laptop and note book	48	24	29	34	39	43	47	53	58	7	14	17	22	30	73	Growth	25.00%

Nepal's import data

- *Nepal's import data for the fiscal years 2022/23, 2023/24, and projected 2024/25 reveals significant shifts in trade patterns across various commodities, reflecting evolving economic dynamics.*

Shifting consumer preferences

- *Certain goods, such as crude soybean oil, liquefied petroleum gas (LPG), and smartphones, exhibit steady growth, highlighting rising consumer demand and modernization. For instance, LPG imports are projected to grow by 16.98%, signaling a transition from traditional fuels to cleaner energy sources, while smartphone imports are expected to rise by 11.43%, showcasing increased adoption of digital technologies. Similarly, crude sunflower oil shows remarkable growth of 39.53%, indicating shifting consumer preferences toward healthier alternatives.*

Changing economic priorities

- *In contrast, several key commodities are witnessing a sharp decline in imports. Gold imports are projected to plummet by 79.22%, possibly due to reduced demand or policy restrictions. Diesel imports are also expected to decline by 19.52%, indicating decreased movement of industrial finished goods or a shift toward alternative energy sources. Crude palm oil imports show a significant drop of 61.36%, likely reflecting changes in import policies or reduced consumption. These trends suggest changing economic priorities and consumption patterns, which may help in narrowing trade deficits.*

Agricultural imports

- *Agricultural imports reveal a mixed trend. While maize imports are expected to increase slightly (5.71%), the import of low erucic acid rape or colza seeds is projected to grow significantly by 33.33%, potentially due to changing consumer preferences or favorable import policies. These shifts highlight ongoing diversification in Nepal's agricultural trade.*

Technology sector

- *In the technology sector, imports of laptops and notebooks are anticipated to grow by 25%, reflecting Nepal's increasing focus on digital transformation and tech adoption. Combined with the growth in smartphone imports, this points to the country's growing emphasis on digitization and modernization.*

Overall

- *Overall, the data reflects Nepal's economic transformation, characterized by declining imports of high-value commodities like gold and diesel and growing demand for industrial inputs, clean energy, and technology. The decline in diesel imports suggests subdued activity in transportation and finished goods distribution, while the rise in industrial raw material imports points to increased production and infrastructure projects. These trends indicate that Nepal's growth is becoming more industrially driven, potentially laying the foundation for long-term economic expansion and structural change.*

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 317 bps As a result, there has been a modest increase in urban demand for domestic capital goods, as indicated by various economic indicators.

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

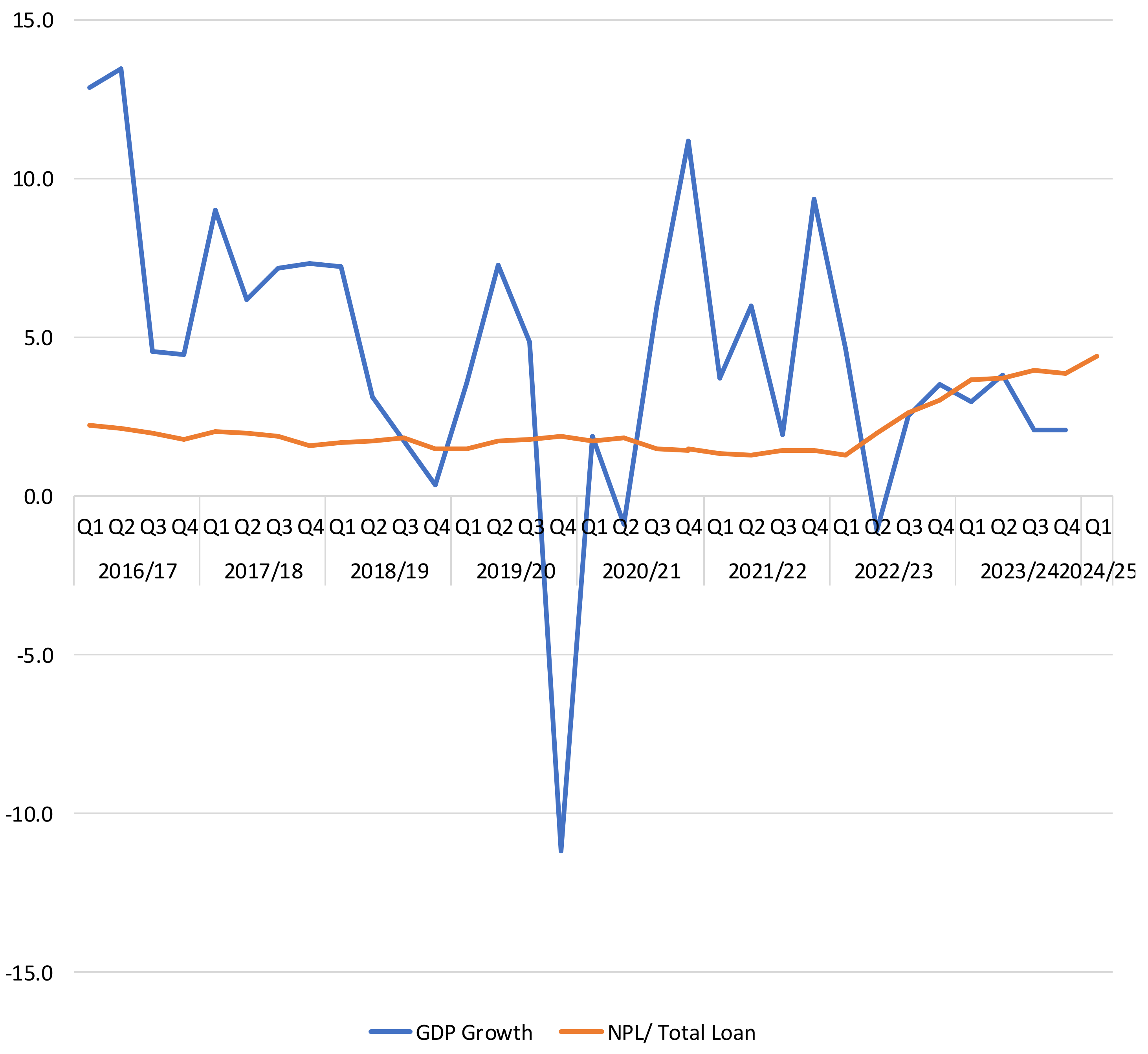
Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and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

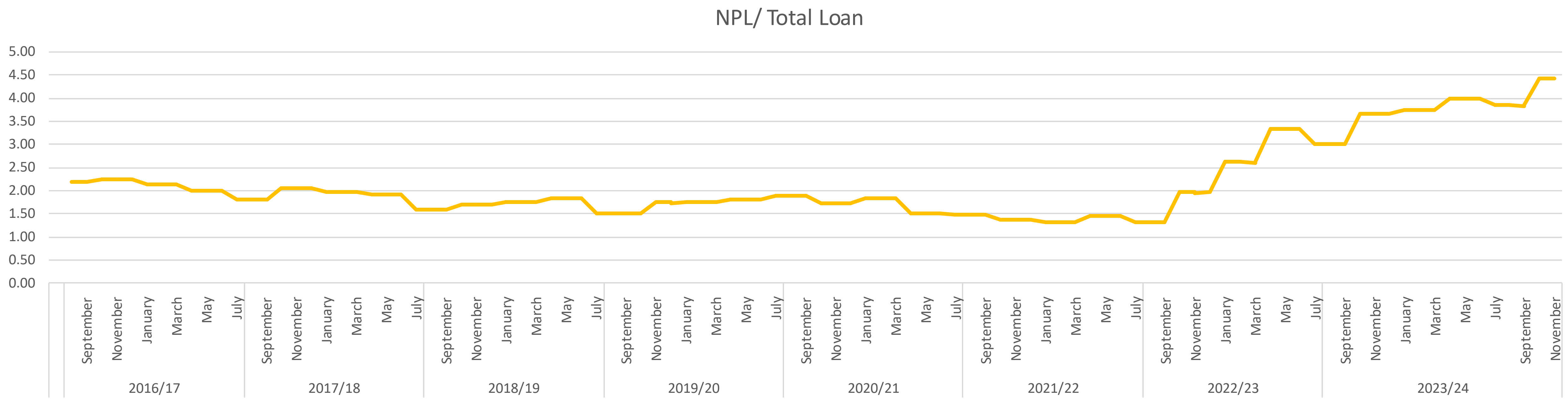
The chart presents data on GDP growth and the ratio of Non-Performing Loans (NPL) to total loans for various quarters from 2016/17 to 2024/25.

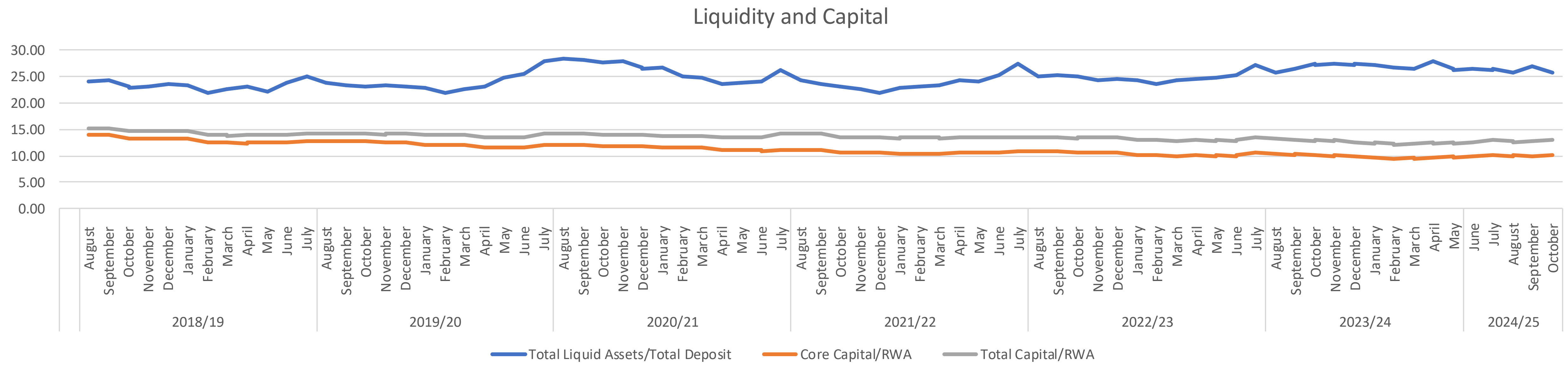
Over this period, GDP growth fluctuated significantly, with the highest growth recorded in Q1 2016/17 at 12.9%, and the lowest contraction in Q4 2019/20 at -11.2%, largely due to the impact of the COVID-19 pandemic. After the sharp decline in 2019/20, the economy began to recover, although growth remained moderate and volatile. Some quarters showed slower growth or even negative growth, particularly in 2022/23. Despite this, there were signs of gradual recovery, with Q4 2020/21 marking a strong rebound at 11.2%.

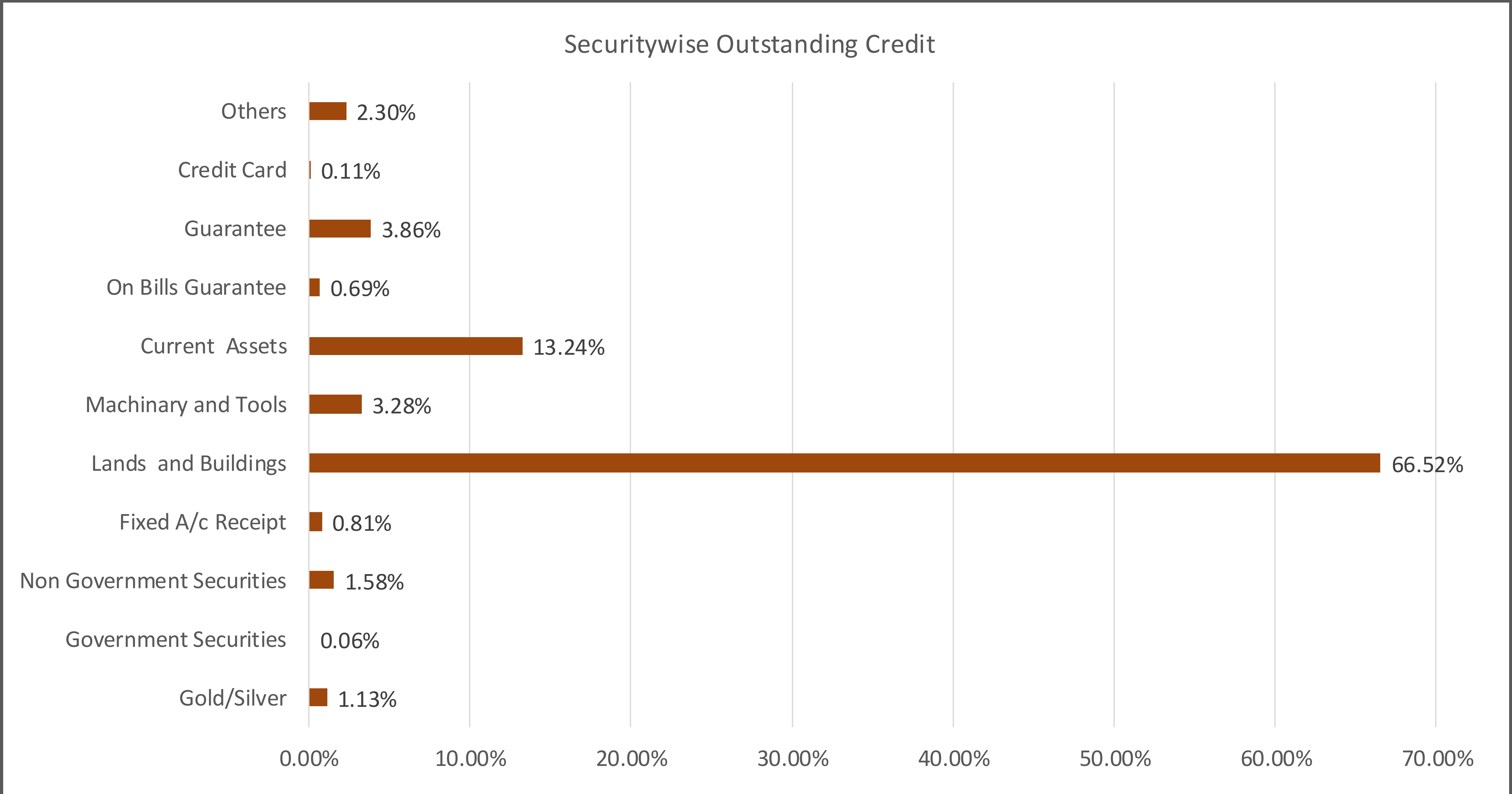
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. This increase suggests growing challenges for the banking sector in managing defaults, possibly related to post-pandemic economic stresses and inflationary pressures. In Q1 2024/25, the NPL ratio reached a high of 4.42%, signaling persistent concerns about loan repayment.

The data suggests a correlation between economic performance and banking sector stability. Periods of high GDP growth generally align with lower NPL ratios, reflecting a healthier economic and banking environment, while times of economic contraction tend to correspond with higher NPL ratios, indicating stress within the banking sector.




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


Liquidity and Capital
30.00
25.00
20.00
15.00
10.00
5.00
0.00
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Total Liquid Assets/Total Deposit
Core Capital/RWA
Total Capital/RWA

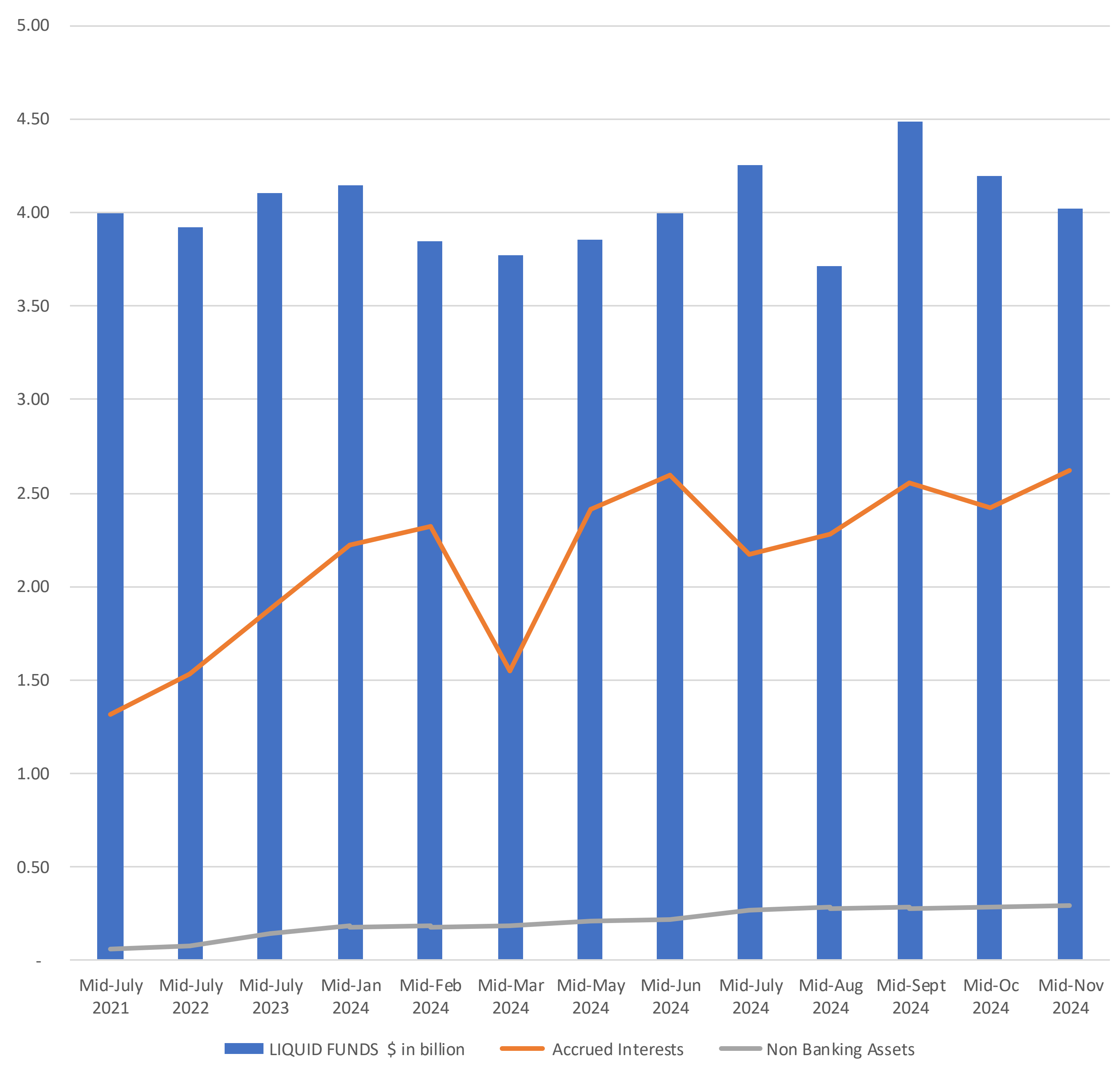

Securitywise Outstanding Credit
Others 2.30%
Credit Card 0.11%
Guarantee 3.86%
On Bills Guarantee 0.69%
Current Assets 13.24%
Machinary and Tools 3.28%
Lands and Buildings 66.52%
Fixed A/c Receipt 0.81%
Non Government Securities 1.58%
Government Securities 0.06%
Gold/Silver 1.13%
0.00%
10.00%
20.00%
30.00%
40.00%
50.00%
60.00%
70.00%

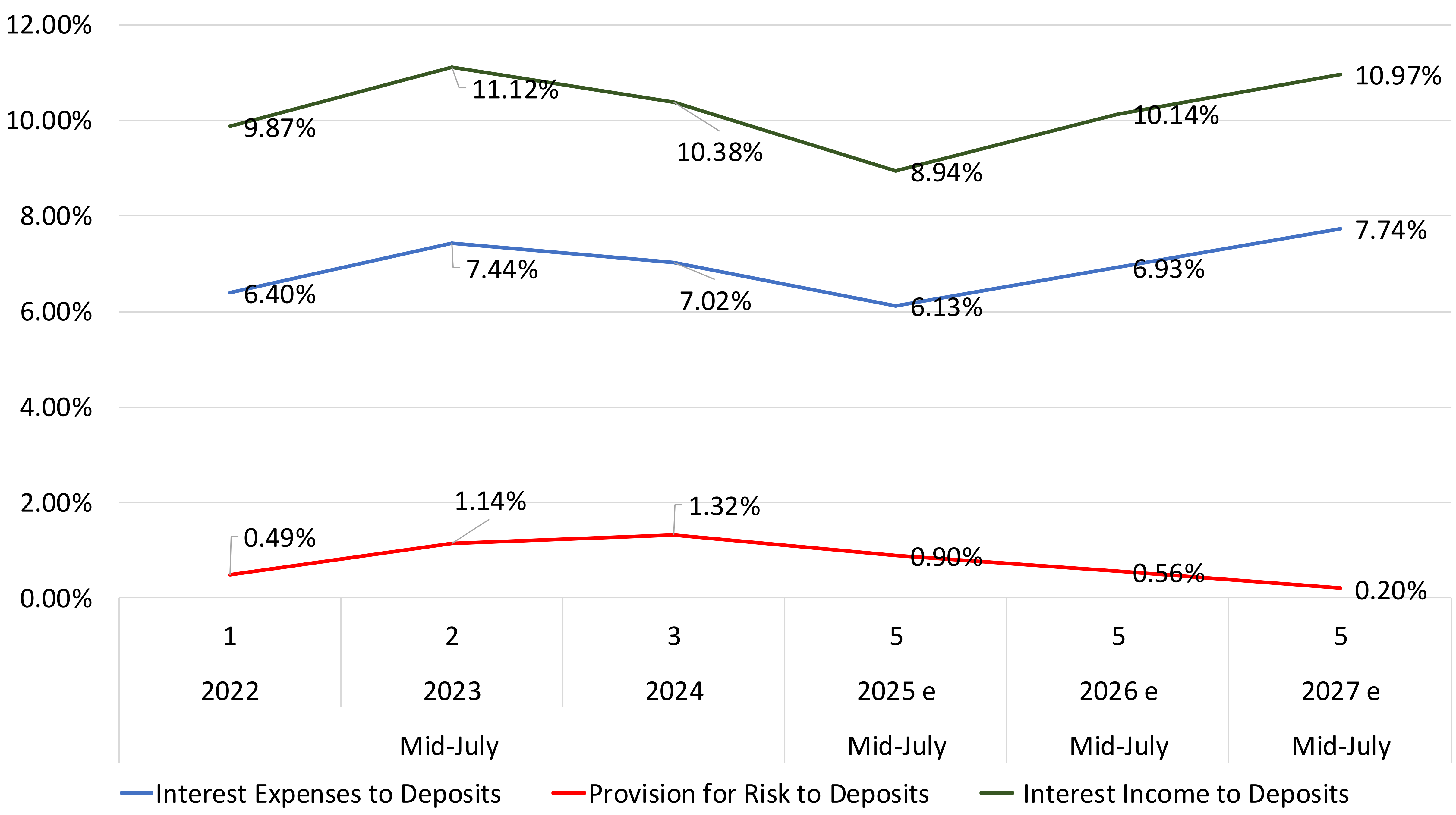
The chart illustrates trends in liquid funds, accrued interests, and non-banking assets over time. Liquid funds, represented by blue bars, remain relatively stable throughout the period, indicating minimal fluctuations in overall system liquidity.

Accrued interests, shown by the orange line, demonstrate a general upward trend with notable dips, such as in mid-March 2024, followed by recoveries. This pattern suggests sensitivity to lending rates, loan repayments, or policy adjustments affecting interest accumulation. Meanwhile, non-banking assets, depicted by the gray line, exhibit a consistent incremental rise, reflecting growing instances of failed auctions of collateral tied to defaulted loans.

The relationship between accrued interests and non-banking assets reveals that the gradual increase in non-banking assets aligns with the upward trajectory of accrued interests, highlighting a direct link between the expansion of non-banking asset purchases by BFIs (Banking and Financial Institutions) and reduced cash realization from performing loans. The persistent growth in non-banking assets suggests widespread loan defaults and borrower financial stress, which appear unaffected by short-term fluctuations in accrued interests. This indicates a degree of independence between immediate interest rate changes and loan default dynamics.

Collectively, these trends point to unproductive resource utilization, as rising non-banking assets reflect inefficiencies in collateral management and debt recovery. The fluctuations in accrued interests further suggest that corporate cash cycles are being disrupted by the economic slowdown, exacerbating financial instability within the system.




12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
9.87%
11.12%
10.38%
8.94%
10.14%
10.97%
6.40%
7.44%
7.02%
6.13%
6.93%
7.74%
0.49%
1.14%
1.32%
0.90%
0.56%
0.20%
1
2
3
5
5
5
2022
2023
2024
2025 e
2026 e
2027 e
Mid-July
Mid-July
Mid-July
Mid-July
Interest Expenses to Deposits
Provision for Risk to Deposits
Interest Income to Deposits

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

Amount in $ Million

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

Capital, Deposits and Risk Assets

Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change
CAPITAL FUND	6,140	9.53%	7,047	14.78%	8,193	16.26%
PAID UP CAPITAL	3,383	0.76%	3,404	0.64%	3,427	0.67%
BORROWINGS	2,023	9.15%	1,621	-19.87%	1,543	-4.77%
Borrowing from NRB	0	-90.07%	0.52	71.78%	1.74	239%
DEPOSITS	54,583	9.24%	59,220	8.50%	63,454	7.15%
Current	3,085	5.03%	3,423	10.96%	3,695	7.96%
Saving	18,128	20.58%	21,303	17.52%	23,869	12.04%
Fixed	29,537	5.41%	30,967	4.84%	32,437	4.75%
Call	3,504	-3.59%	3,185	-9.10%	3,128	-1.81%
Others	329	-2.97%	341	3.94%	326	-4.67%
LIQUID FUNDS	3,984	-6.38%	4,032	1.20%	4,193	3.99%
GOVT. SECURITIES/OTHER	14,190	25.39%	16,491	16.21%	18,352	11.29%
Investment in share and other	2,441	15.10%	2,323	-4.84%	2,494	7.36%
LOANS & ADVANCES	42,301	6.39%	45,458	7.46%	48,612	6.94%
Total Capital/RWA	13.43%	3.68%	14.23%	5.93%	15.37%	8.07%
CD	76.01%	-2.60%	75.66%	-0.45%	75.63%	-0.04%
NPL /Total Loan	4.05%	3.81%	4.31%	6.47%	3.72%	-13.81%
Return on Capital Employed	8.83%	-12.38%	13.07%	47.98%	15.82%	21.00%

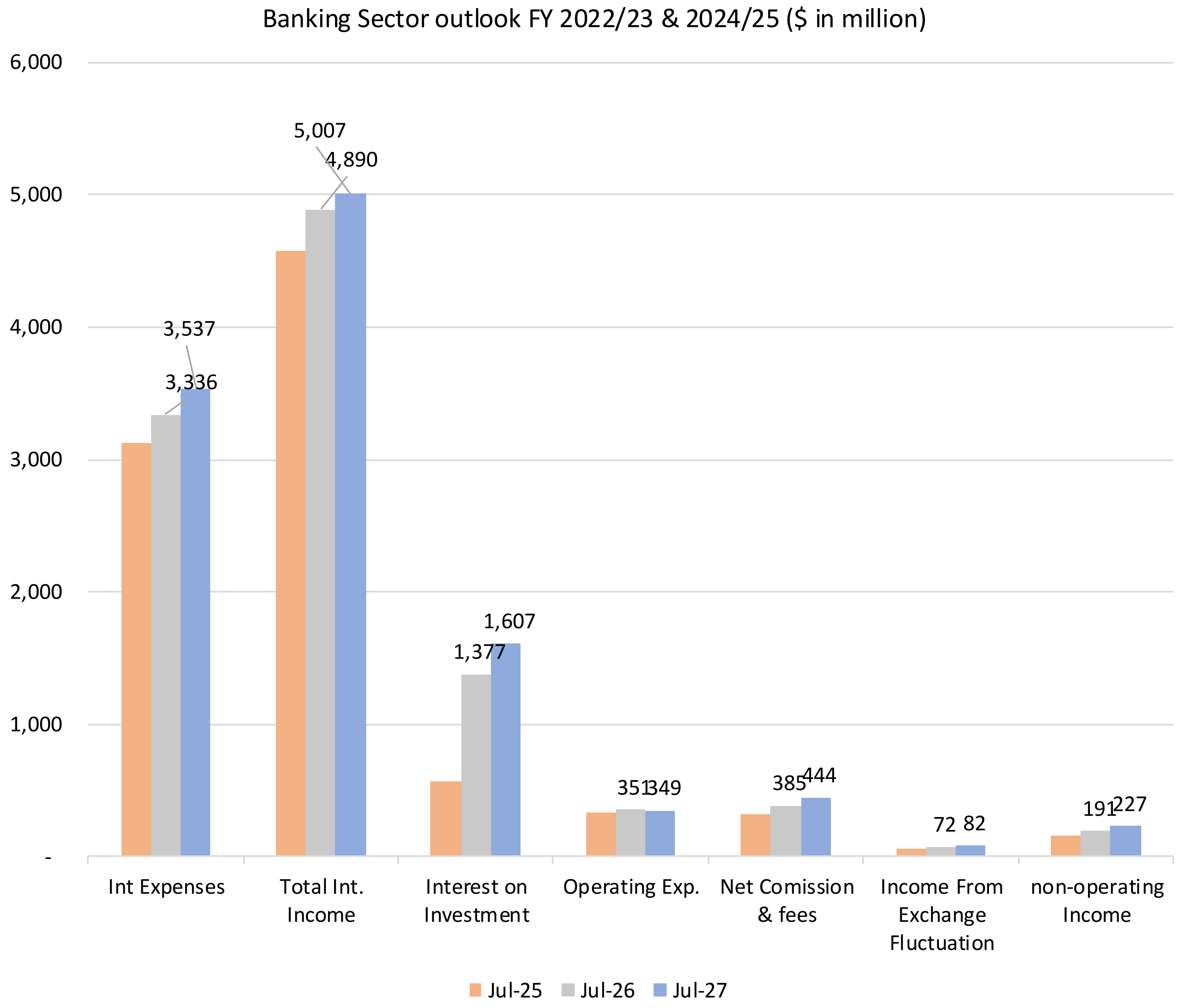
Profit and loss

	July 2025e	Change	July 2026e	Change	July 2027e	Change
Int on Loans and Adv.	4,020	-11.17%	3,513	-12.61%	3,400	-3.21%
Total Int. Income	4,582	-11.63%	4,890	6.71%	5,007	2.41%
Avg. Yield From Loan	7.79%	-21.58%	6.96%	-10.74%	6.60%	-9.49%
Int Expenses	3,123	-10.98%	3,336	6.82%	3,537	6.03%
Avg. Cost of Fund	5.26%	-8.57%	4.84%	-7.96%	4.70%	-0.85%
NII	1,460	-13.01%	1,554	6.48%	1,471	-5.36%
Interest Spread	2.53%	-39.49%	2.11%	-16.52%	1.90%	-28.85%
Commission & fees	320	35.87%	385	20.42%	444	15.26%
Ex. Fluctuation Gain	63	27.80%	72	14.65%	82	14.17%
Other Operating & Non-operating Income	154	121.04%	191	23.97%	227	18.48%
Gross Income	1,997	-1.75%	2,203	10.32%	2,224	0.95%
Employees Exp	494	0.92%	513	3.85%	521	1.58%
Employee cost in % of Total Int. Income	10.79%	14.21%	10.50%	-2.68%	10.41%	-0.80%
Office Operating Exp	337	1.73%	351	4.19%	349	-0.51%
LLP & write-off	723	8.41%	387	-46.41%	73	-81.08%
Additional LLP to Risk Assets	1.69%	1.86%	0.95%	-43.81%	0.17%	-82.31%
Provision Written Back	399	20.00%	479	20.00%	527	10.00%
PBT	842	-4.03%	1,430	69.85%	1,807	26.34%
Return on total assets	1.21%	-12.76%	1.87%	54.41%	2.15%	14.85%

Profitability of BFIs.

(Exchange Factor $ 1 = NPR 130

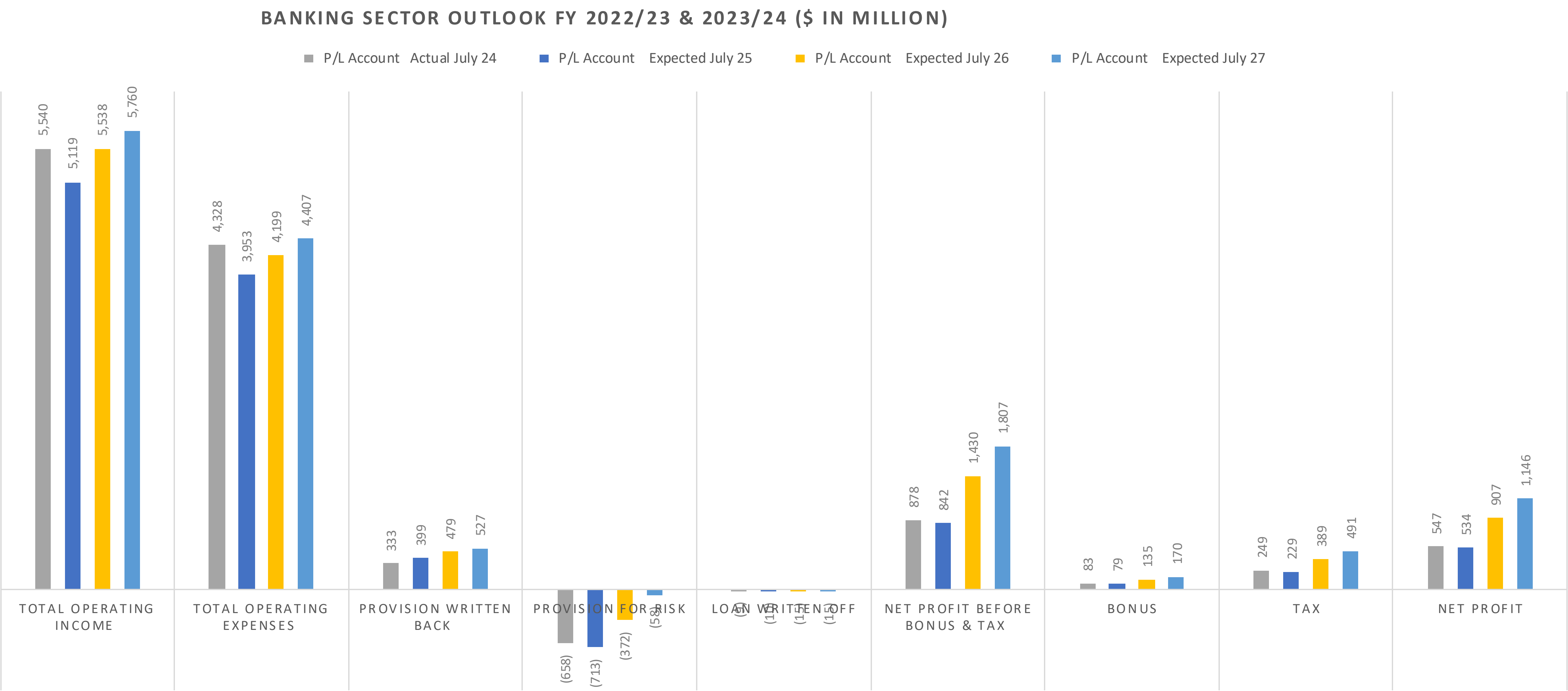
$ in million				
P/L Account				
Particulars	Actual July 24	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	5,540	5,119	5,538	5,760
Total Operating Expenses	4,328	3,953	4,199	4,407
Provision Written Back	333	399	479	527
Provision for Risk	(658)	(713)	(372)	(58)
Loan Written Off	(9)	(10)	(15)	(15)
Net Profit before Bonus & Tax	878	842	1,430	1,807
Bonus	83	79	135	170
Tax	249	229	389	491
Net profit	547	534	907	1,146



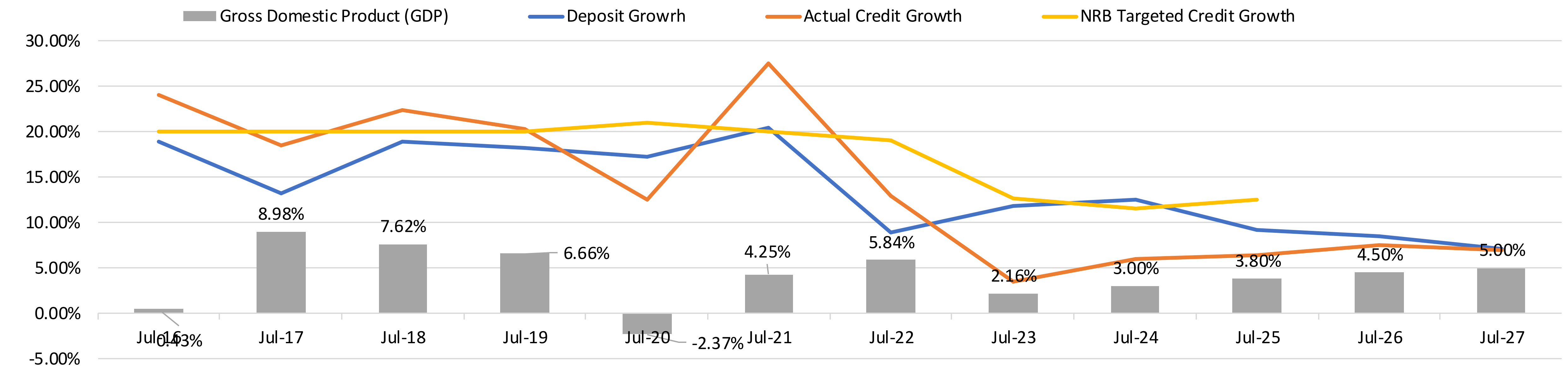
The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

Profitability of BFIs

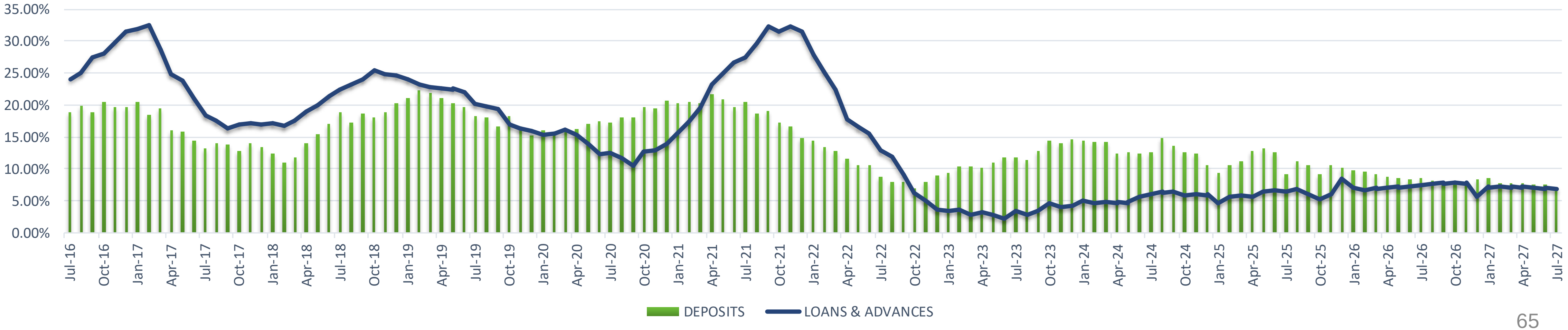
(Exchange Factor $ 1 = NPR 130)

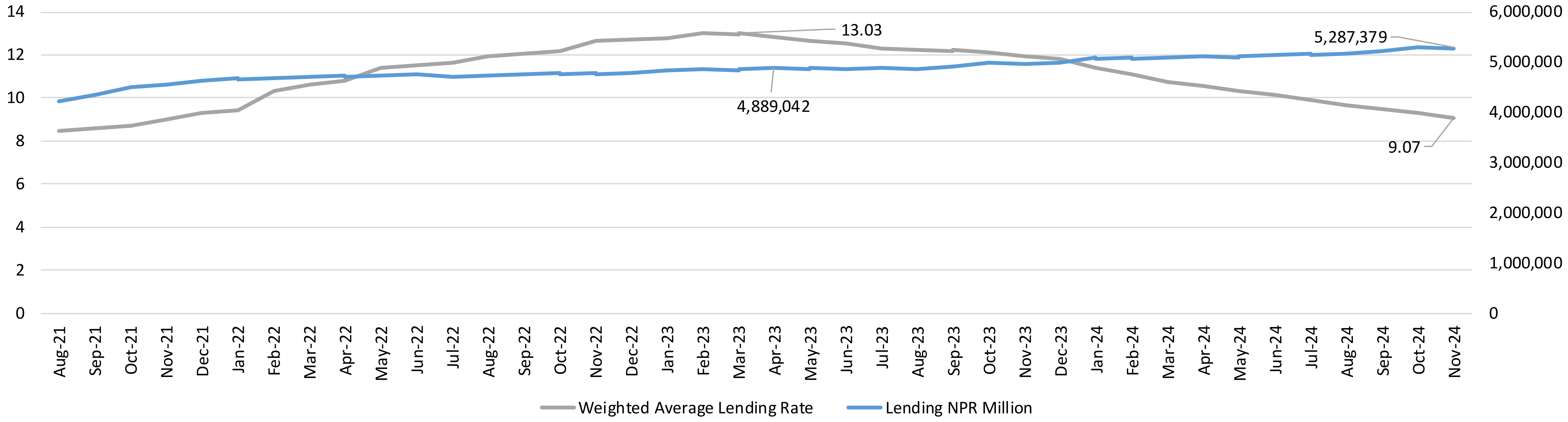


Annual Loan and Deposit Growth and LLP



Y-o-Y Growth





14
12
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8
6
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4,000,000
3,000,000
2,000,000
1,000,000
0
13.03
5,287,379
4,889,042
9.07
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
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Jan-24
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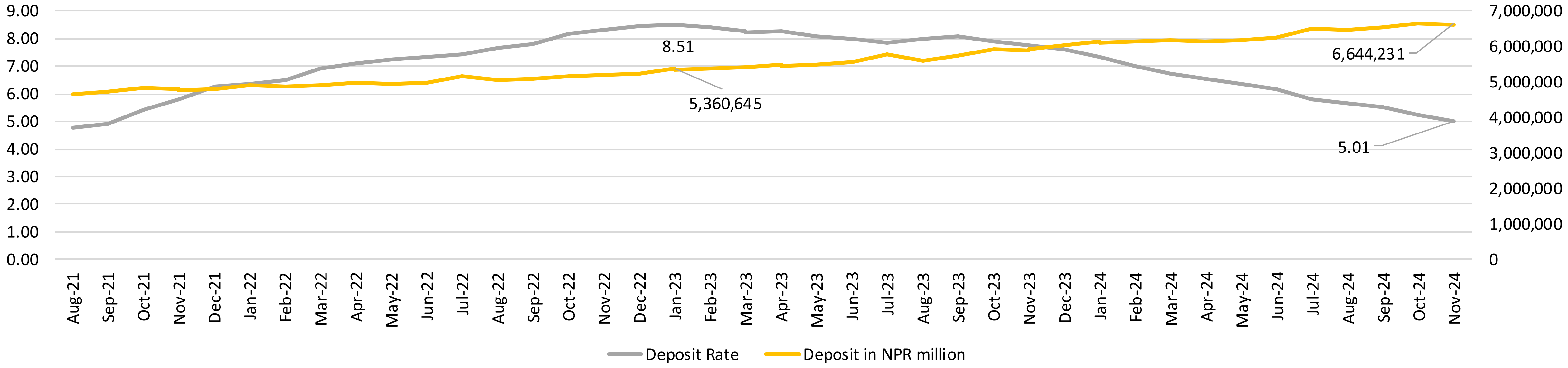
Nov-24
Weighted Average Lending Rate
Lending NPR Million



9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
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7,000,000
6,000,000
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3,000,000
2,000,000
1,000,000
0
8.51
5,360,645
6,644,231
5.01
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
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May-24
Jun-24
Jul-24
Aug-24
Sep-24
Oct-24
Nov-24
Deposit Rate
Deposit in NPR million

Weighted Average Lending Rate vs Lending Growth

- *The weighted average lending rate increases steadily from Aug 2021 (~8.5%) to a peak in Jan 2023 (13.03%). After Jan 2023, the rate declines steadily to 9.07% by Nov 2024. On the other hand, lending in NPR million shows relatively stable growth, peaking around 52,87,379 million NPR in late 2024.*
- *Lending growth initially appears less responsive to rising interest rates, remaining stable or increasing moderately despite higher rates (2021 to early 2023). After rates begin to fall in 2023, lending growth continues rising, suggesting that lower interest rates positively support lending growth. There is some inverse relationship between lending rates and lending growth, but the impact is not immediate. It suggests that businesses and consumers are more responsive to sustained rate changes over time rather than short-term fluctuations.*

Deposit Rate vs Deposit Growth

The deposit rate rises sharply from Aug 2021 (~5%) to 8.51% by early 2023. Post Jan 2023, the rate starts declining to 5.01% by Nov 2024. Deposits in NPR million rise steadily, with significant growth after early 2023, peaking at 66,44,231 million NPR by Nov 2024. Deposit growth appears positively correlated with higher deposit rates initially. Even as rates decline in 2023-2024, deposits continue to grow, suggesting other factors like improved economic confidence or liquidity may play a role. Higher deposit rates initially stimulate deposit growth. However, growth continues even as rates fall, indicating that deposits may not solely depend on rates but are influenced by broader economic conditions and liquidity.

Interest rates and lending growth:

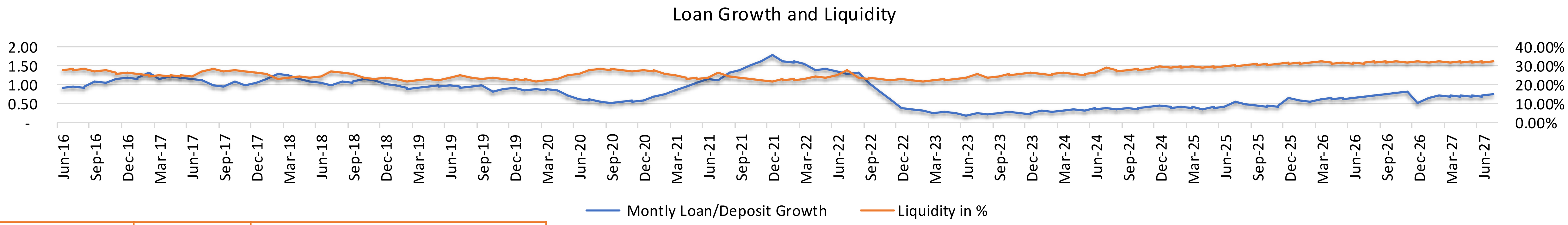
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

Interest rates and deposit growth:

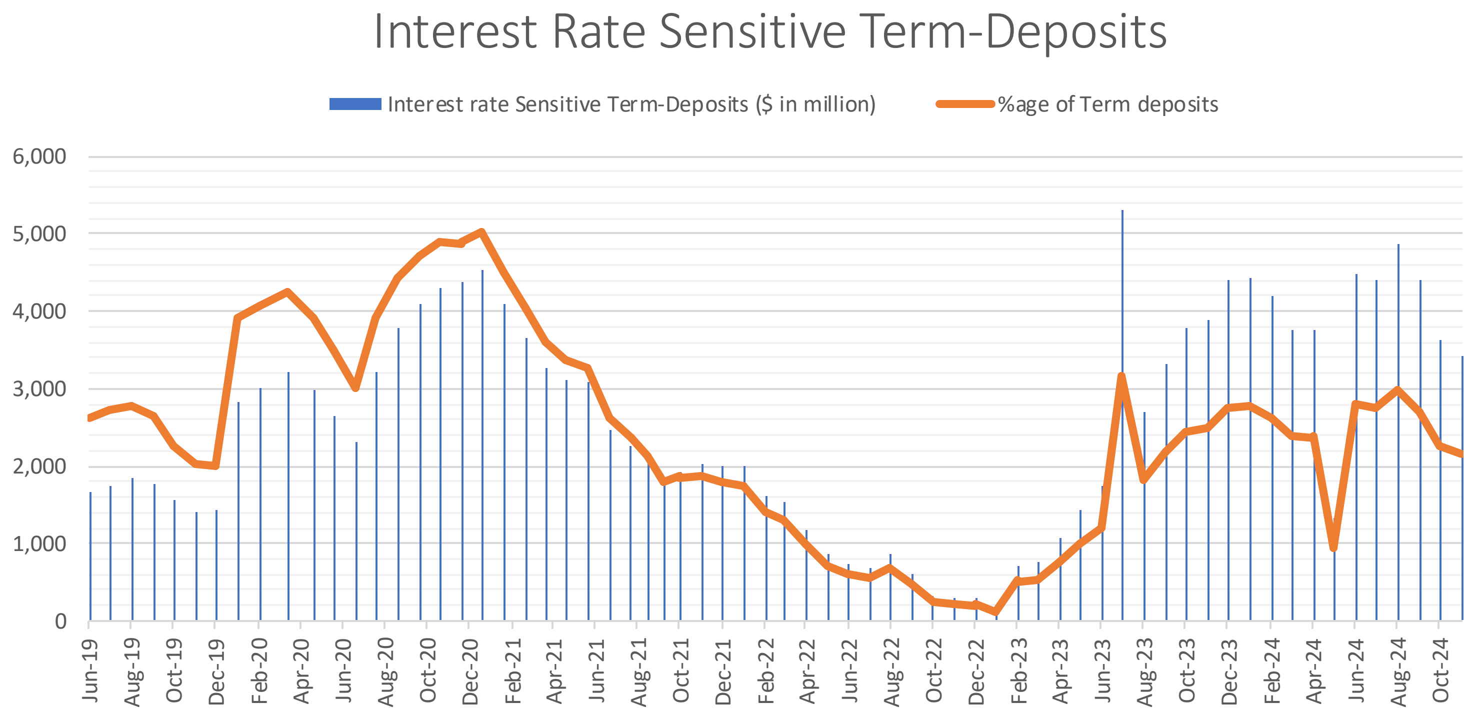
Deposit growth responds positively to higher rates but continues rising despite rate reductions, indicating a more complex relationship influenced by confidence and liquidity.

In summary, while interest rates influence growth in deposits and lending, the relationship is not perfectly direct. External economic factors, confidence, and liquidity conditions also play a major role in determining overall growth.

Liquidity

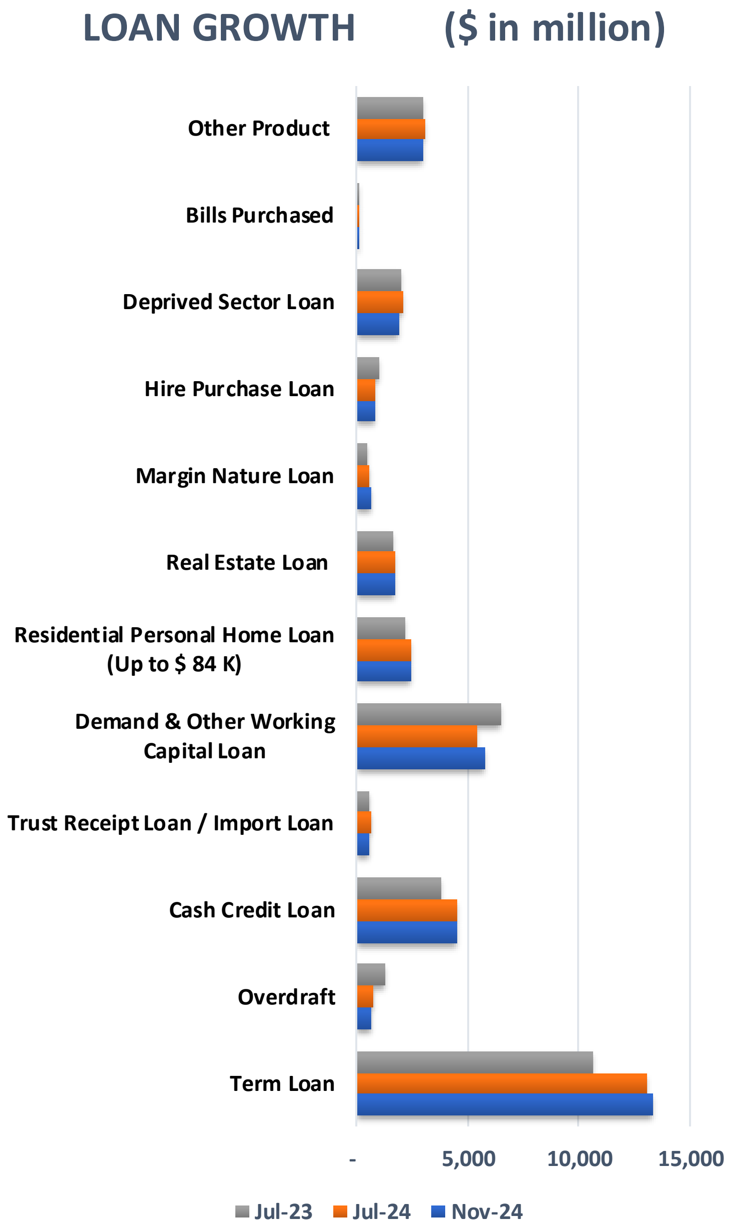


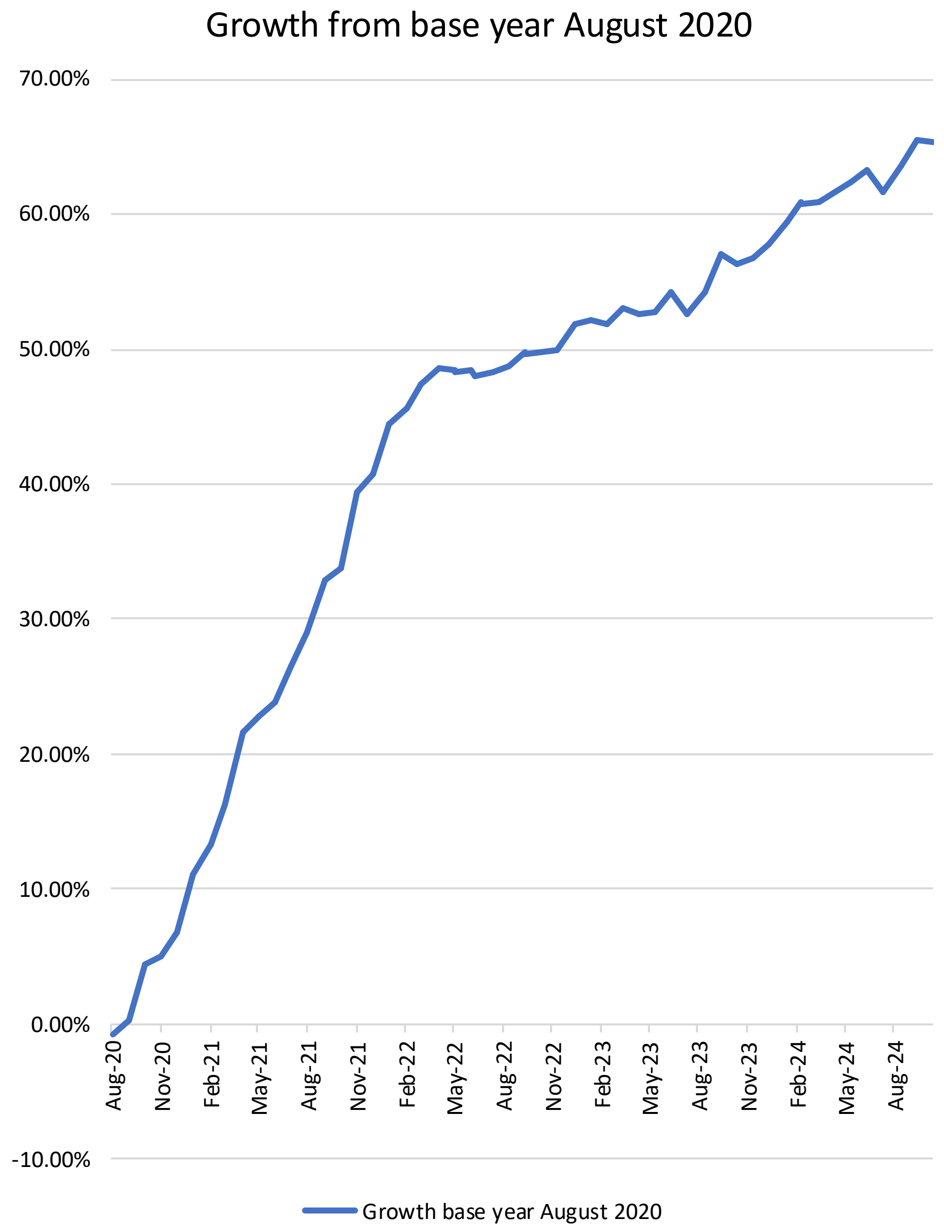
Amount in million		Maturity Amount in $ million	
Period	Deposit mix	Within next month	Within a Year
3-6 months	20%	3,430.28	10,678.57
6-12 months	35%		
1-2 yrs.'	19%		
2 yrs. and above	25%		
Total	100%	14.23%	44.87%

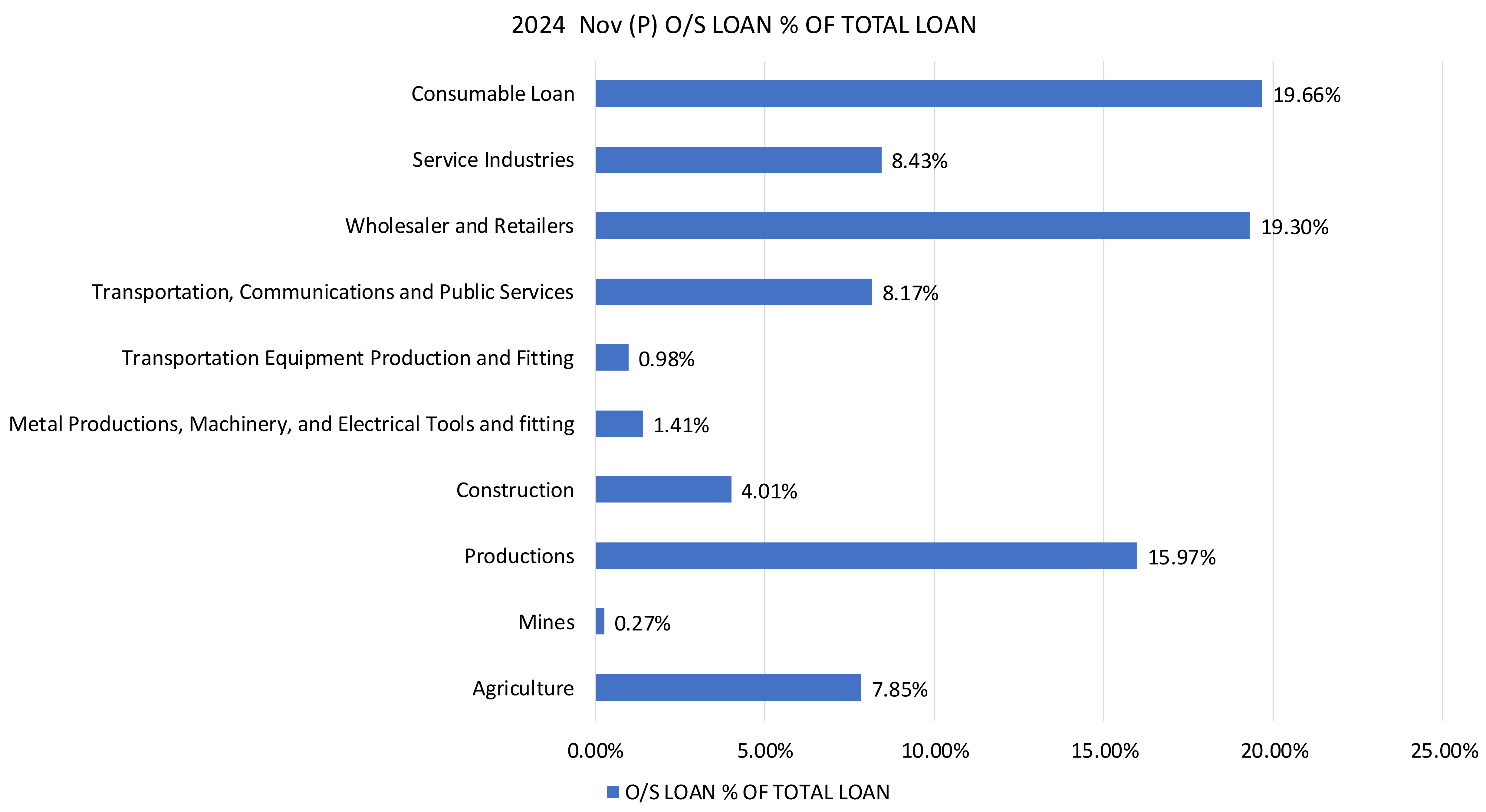


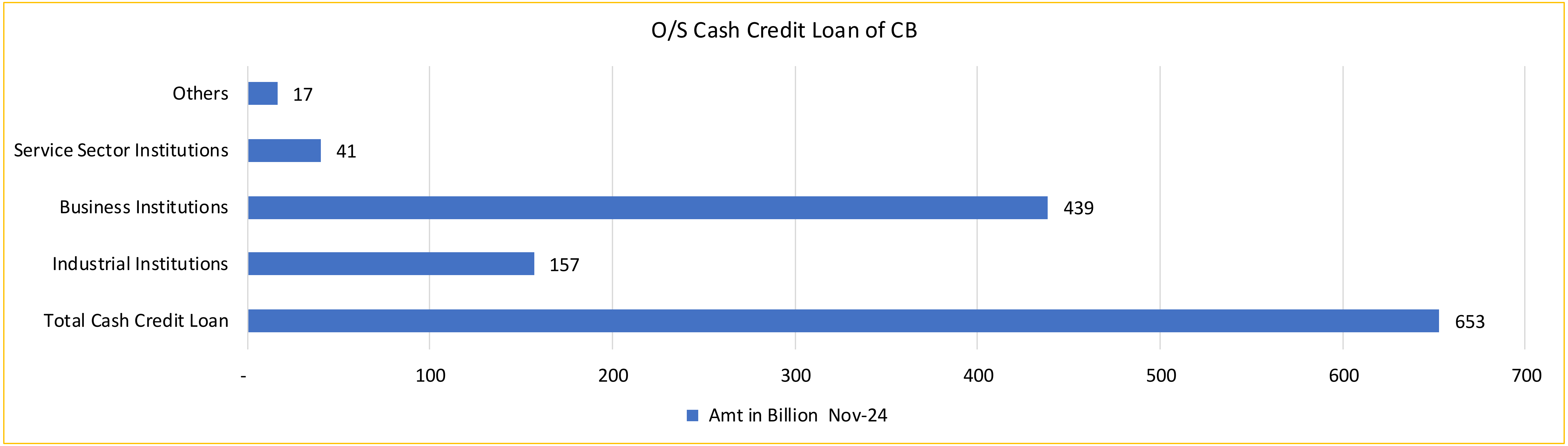
Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

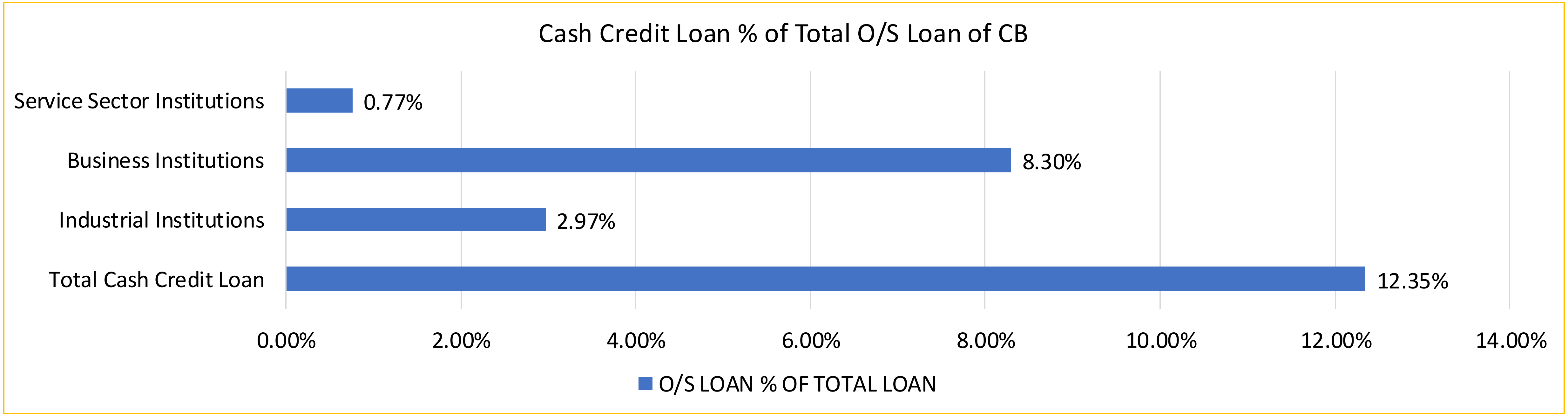
Sector wise Loan Growth of Commercial Banks

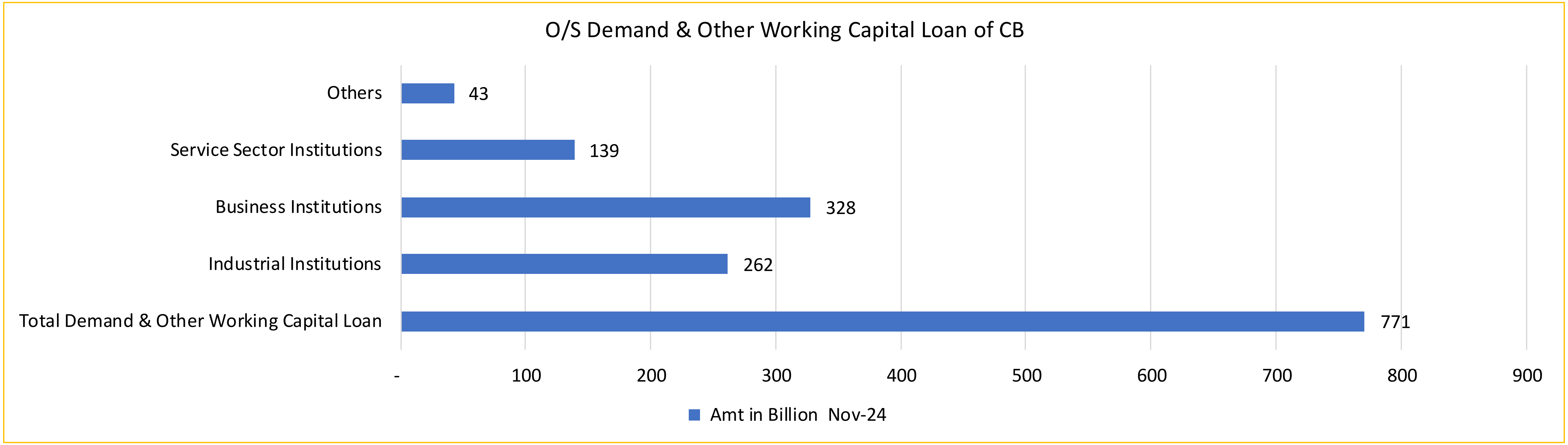


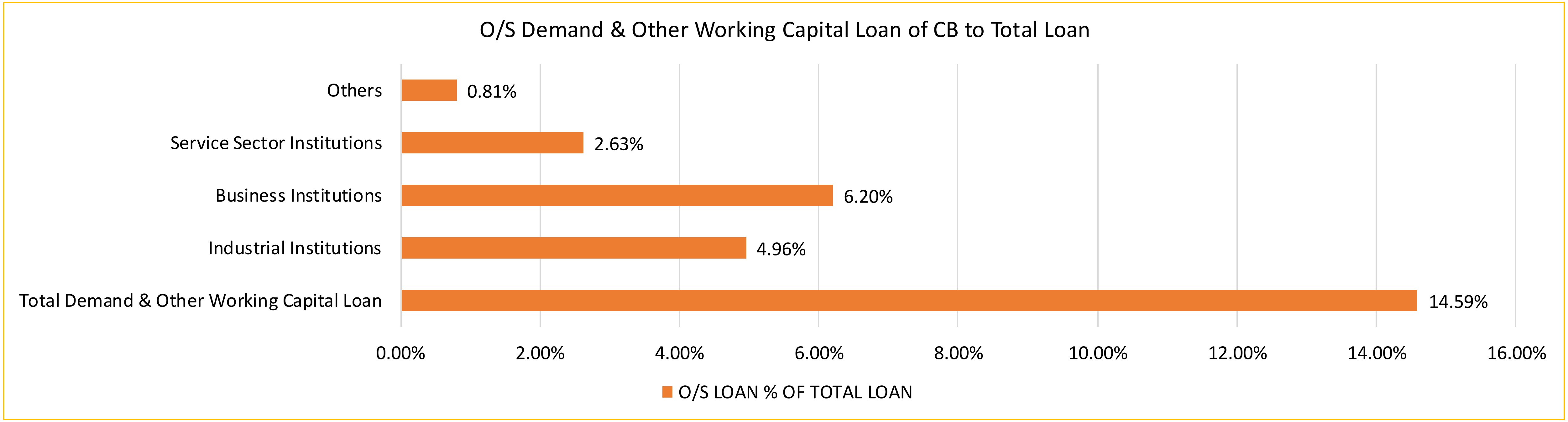



2024 Nov (P) O/S LOAN % OF TOTAL LOAN
Consumable Loan
19.66%
Service Industries
8.43%
Wholesaler and Retailers
19.30%
Transportation, Communications and Public Services
8.17%
Transportation Equipment Production and Fitting
0.98%
Metal Productions, Machinery, and Electrical Tools and fitting
1.41%
Construction
4.01%
Productions
15.97%
Mines
0.27%
Agriculture
7.85%
0.00%
5.00%
10.00%
15.00%
20.00%
25.00%
O/S LOAN % OF TOTAL LOAN


O/S Cash Credit Loan of CB
Others
17
Service Sector Institutions
41
Business Institutions
439
Industrial Institutions
157
Total Cash Credit Loan
653
-
100
200
300
400
500
600
700
Amt in Billion Nov-24

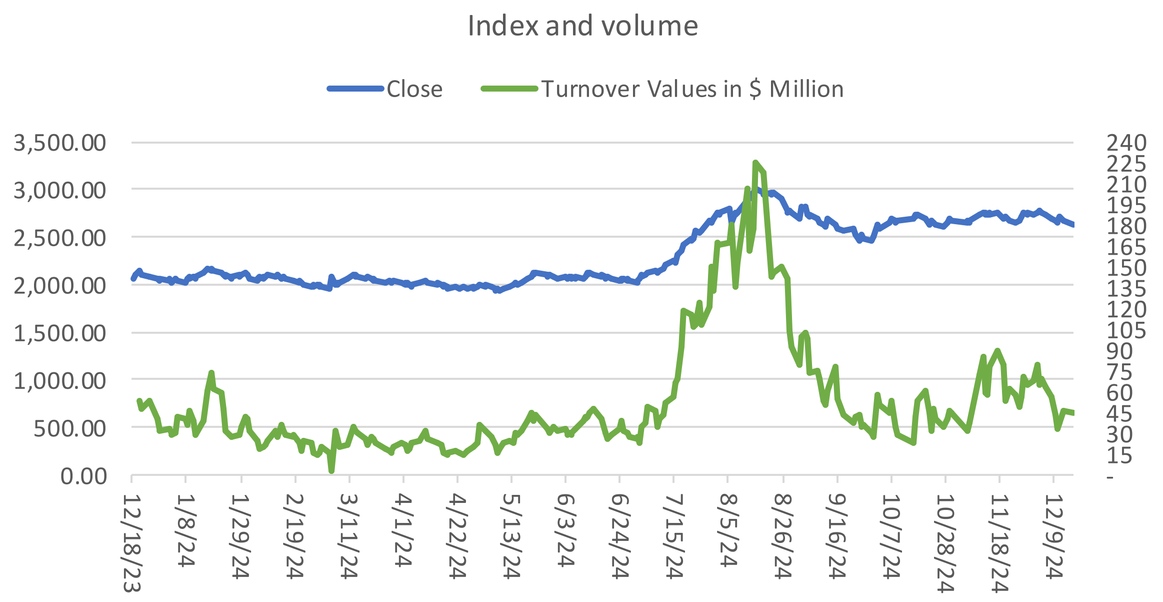

Cash Credit Loan % of Total O/S Loan of CB
Service Sector Institutions
0.77%
Business Institutions
8.30%
Industrial Institutions
2.97%
Total Cash Credit Loan
12.35%
0.00%
2.00%
4.00%
6.00%
8.00%
10.00%
12.00%
14.00%
O/S LOAN % OF TOTAL LOAN

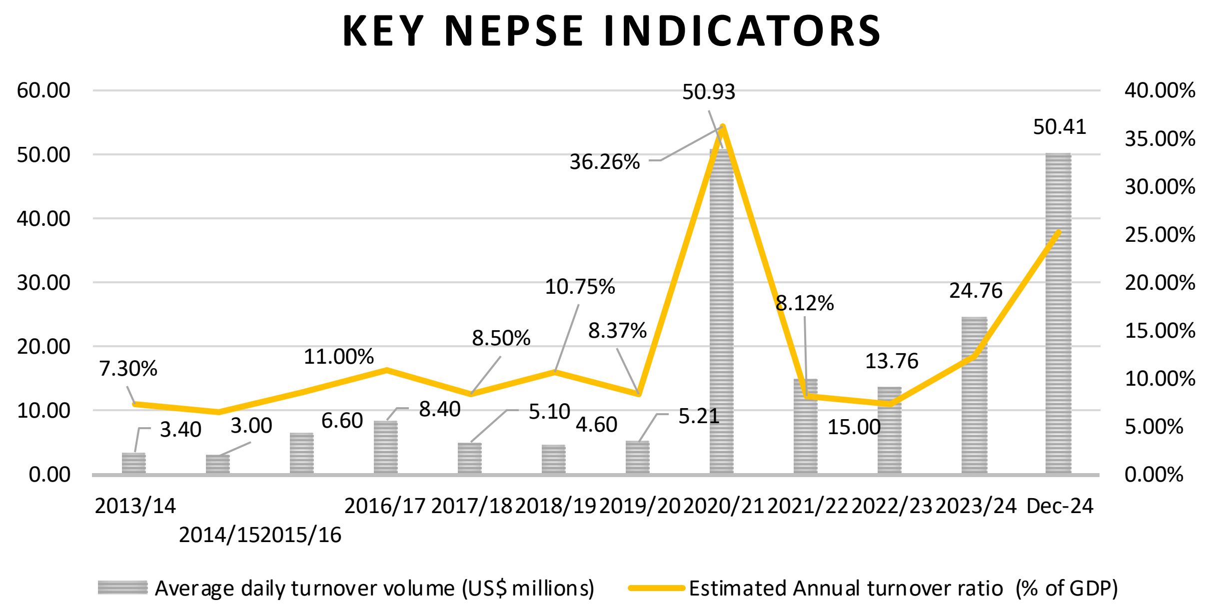

O/S Demand & Other Working Capital Loan of CB
Others
43
Service Sector Institutions
139
Business Institutions
328
Industrial Institutions
262
Total Demand & Other Working Capital Loan
771
-
100
200
300
400
500
600
700
800
900
Amt in Billion Nov-24

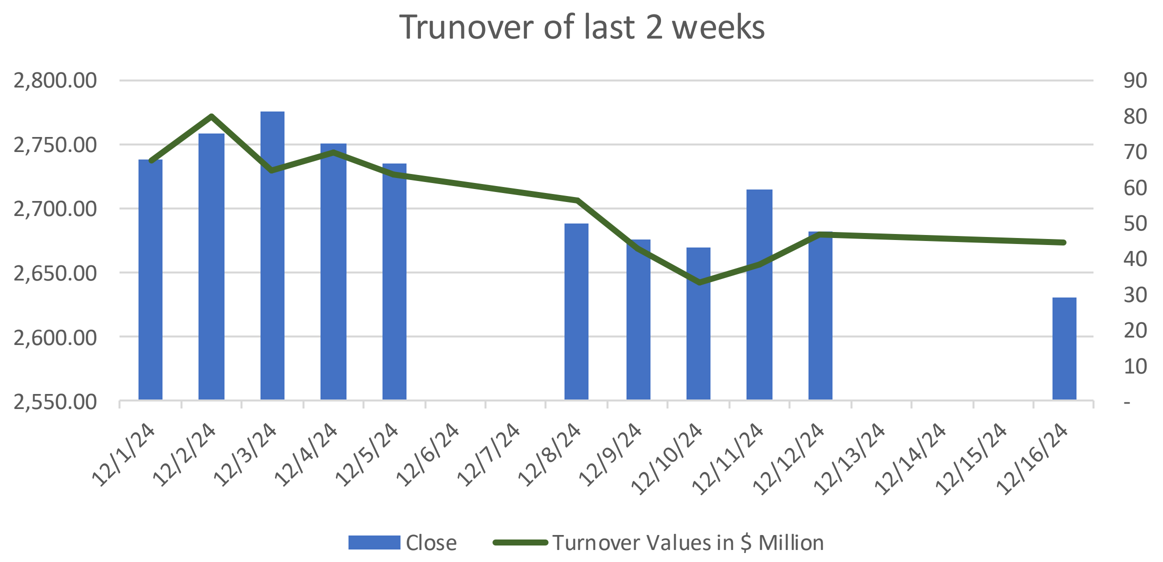

O/S Demand & Other Working Capital Loan of CB to Total Loan
Others
0.81%
Service Sector Institutions
2.63%
Business Institutions
6.20%
Industrial Institutions
4.96%
Total Demand & Other Working Capital Loan
14.59%
0.00%
2.00%
4.00%
6.00%
8.00%
10.00%
12.00%
14.00%
16.00%
O/S LOAN % OF TOTAL LOAN

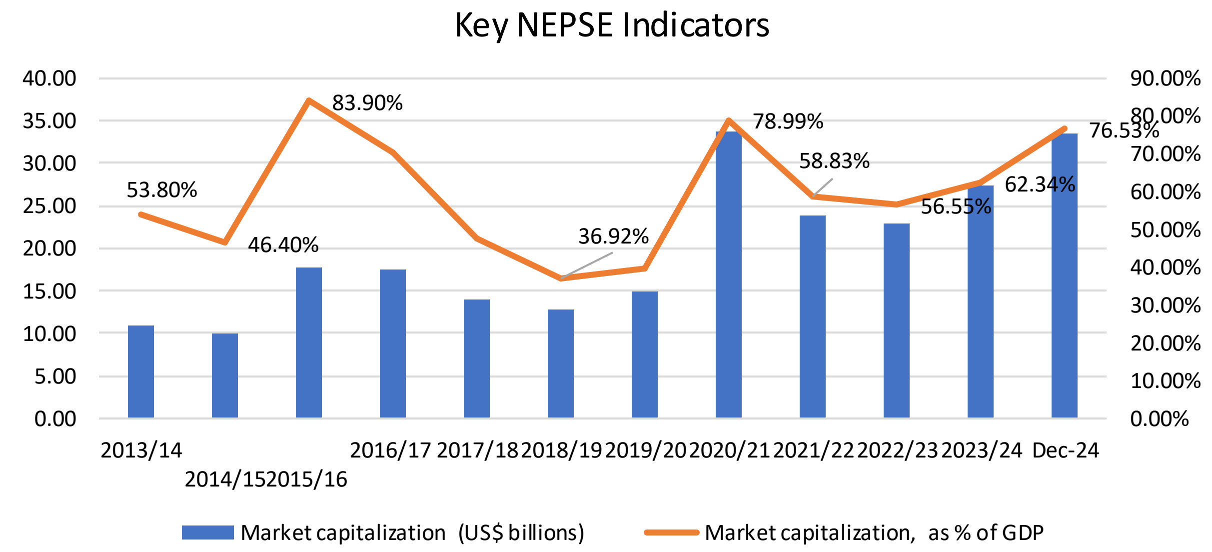
Capital Market

Capital Market

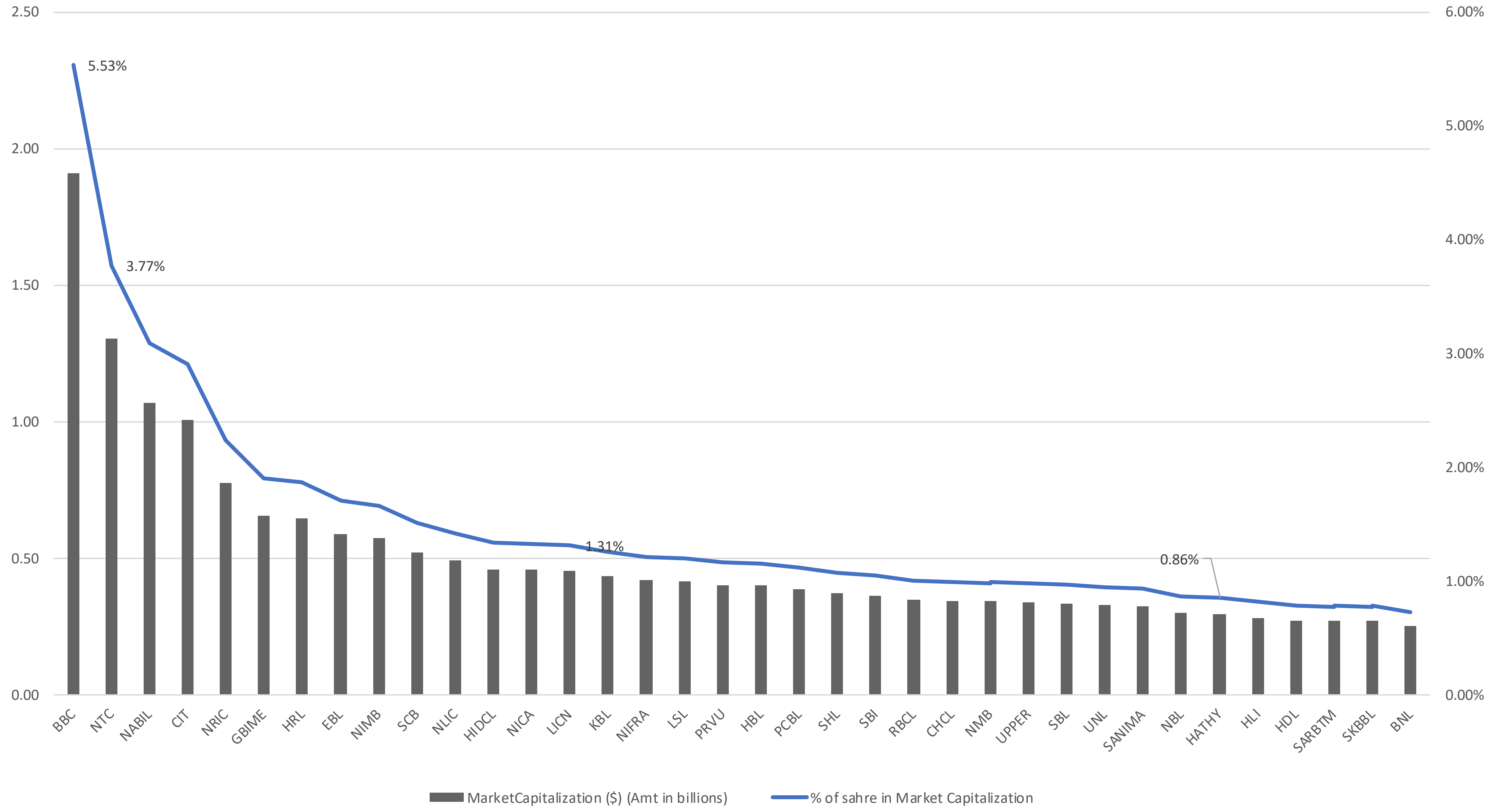


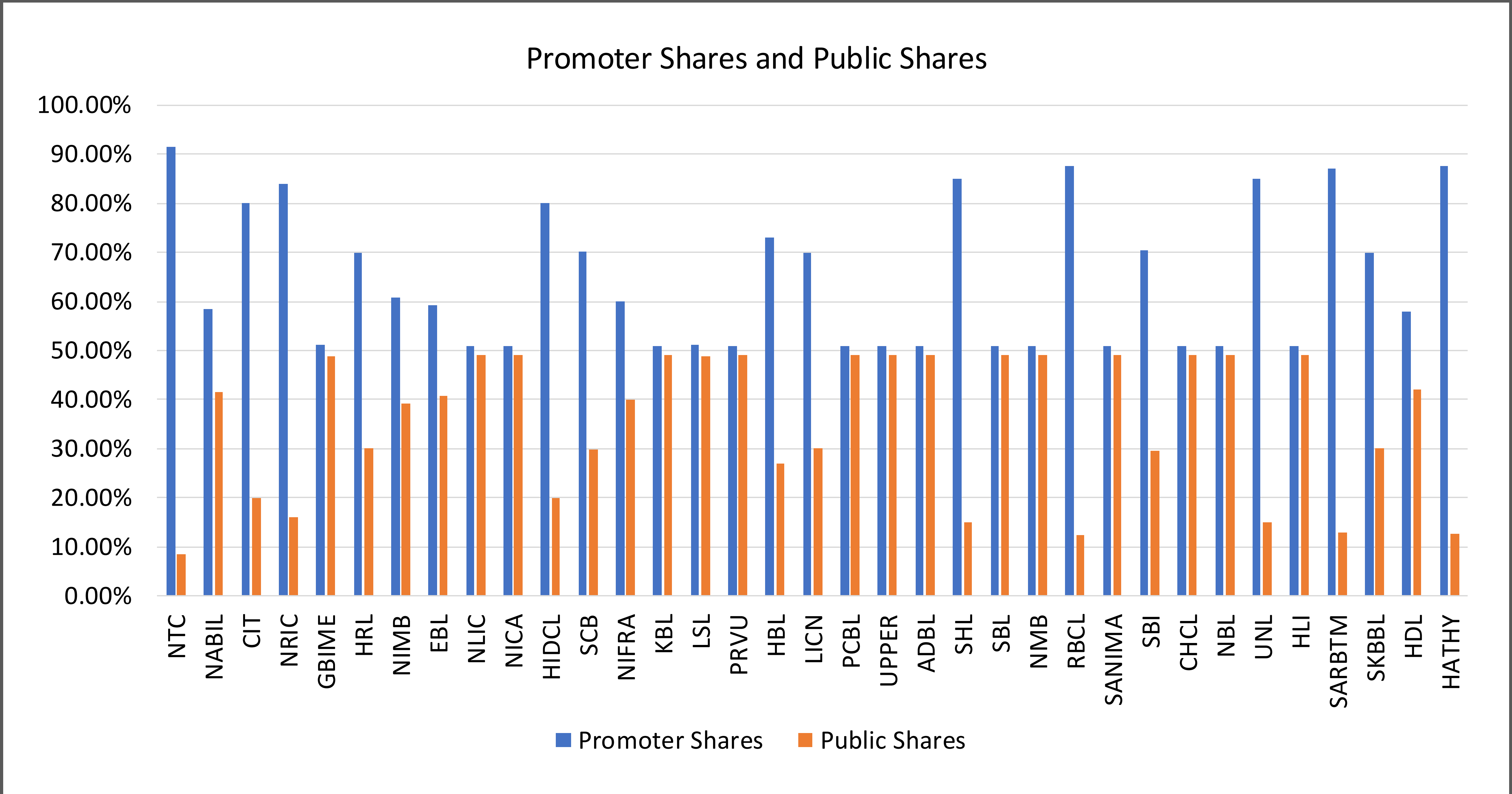






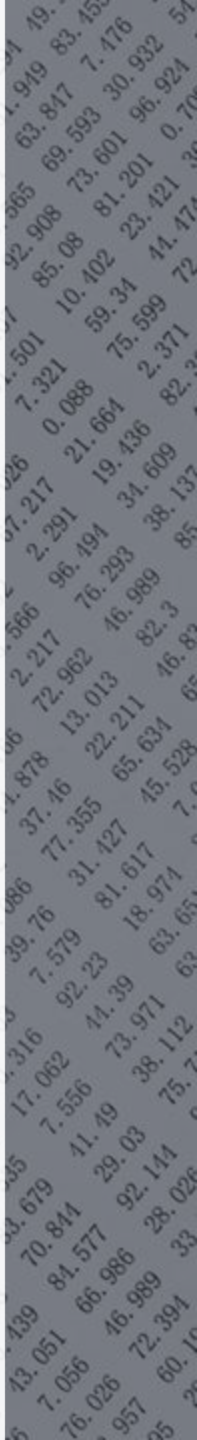
The 36 companies listed on NEPSE make up 53.24% of the total market capitalization, with the majority of their shares not available for free trade.




Promoter Shares and Public Shares
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
NTC
NABIL
CIT
NRIC
GBIME
HRL
NIMB
EBL
NLIC
NICA
HIDCL
SCB
NIFRA
KBL
LSL
PRVU
HBL
LICN
PCBL
UPPER
ADBL
SHL
SBL
NMB
RBCL
SANIMA
SBI
CHCL
NBL
UNL
HLI
SARBTM
SKBBL
HDL
HATHY
Promoter Shares
Public Shares

4

Fiscal Situation



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

Government Receipts & Payments Status	Annual Budget	15/12/2024	% age
1. Revenue (USD in million)	10,917.72	3,073.84	28.15%
a) Tax Revenue	9,878.54	2,789.08	28.23%
b) Non Tax Revenue	1,039.18	284.76	27.40%
2. Grants	402.51	-	0.00%
3. Other Receipts	47.49	-	
Total Receipt	11,367.72	3,073.84	27.04%
2. Total Expenditure from Treasury	14,310.02	4,277.83	29.89%
a. Recurrent	8,774.34	2,796.55	31.87%
b. Capital	2,710.42	313.85	11.58%
c. Financing	2,825.27	1,167.43	41.32%
Deficit	(2,942.30)	(1,203.99)	
% of GDP	6.71%	-2.75%	

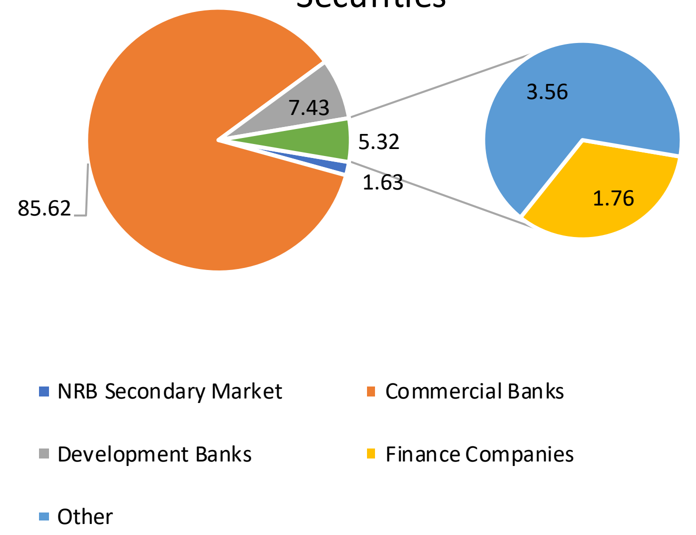
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

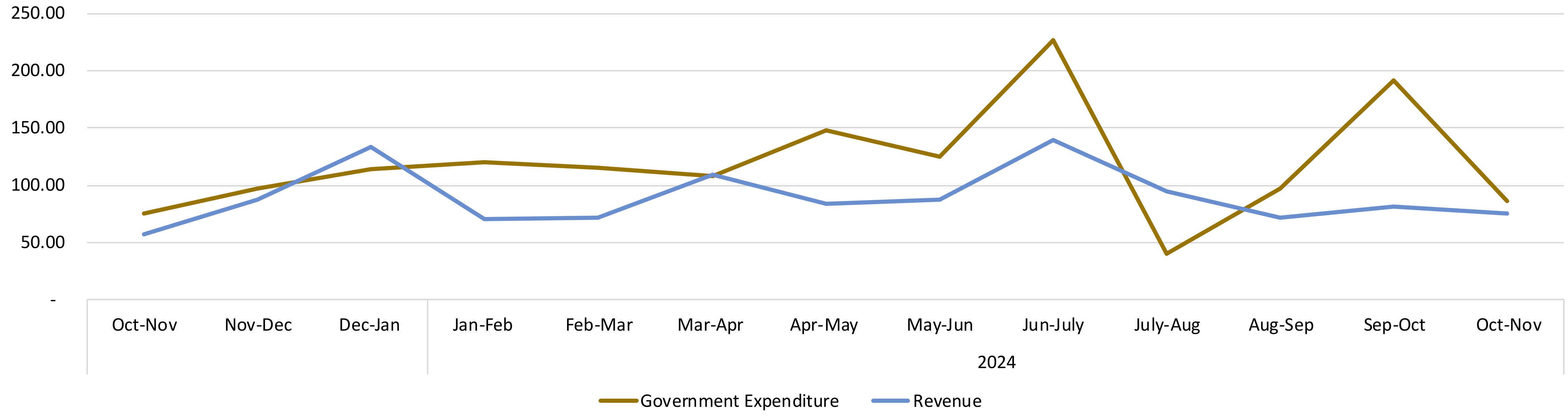
F/Y 2016/17	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	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	3,379	1,156	2,766	3,689								
	Revenue*	7,962	1,398	2,086	2,798								
	Treasury Position	1,662	2,265	1,476									

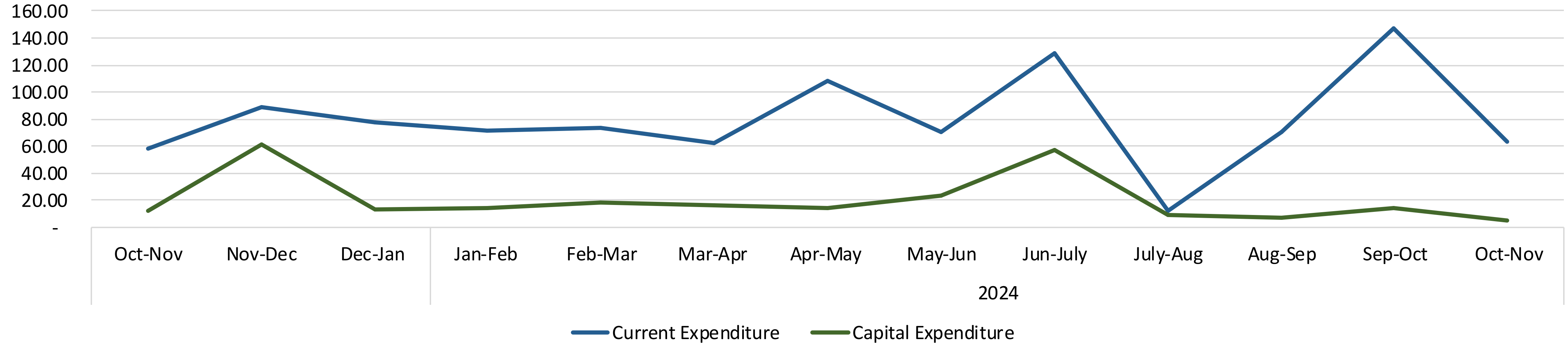
Key Economic Indicators

Particulars	Mid- Nov 2024 (USD=130 NPR)
CPI-Inflation	CPI-based inflation stood at 5.60% year-on-year, compared to 5.38% in the same period last year.
External Trade	Imports and exports saw respective increases of 0.2% and 4.2%, while the trade deficit fell by 0.3%. In contrast, last year, imports declined by 3.8%, exports dropped by 7.7%, and the trade deficit decreased by 3.3%.
Remittances	Remittances grew by 9.1% in NPR terms and 7.5% in USD terms. In comparison, last year, remittances had increased by 26.4% in NPR terms and 23.1% 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 $1.58 billion compared to the previous month.**
Broad money (M2)	Broad money (M2) increased 3.0 percent. On y-o-y basis, M2 expanded 12.1 percent. .
Deposits and Loans and advances	Deposits at BFIs increased 2.3 percent and private sector credit increased 2.5 percent. On y-o-y basis, deposits increased 12.6 percent and private sector credit increased 6.2 percent.

Ownership Structure of Government Securities




250.00
200.00
150.00
100.00
50.00
-
Oct-Nov
Nov-Dec
Dec-Jan
Jan-Feb
Feb-Mar
Mar-Apr
Apr-May
May-Jun
Jun-July
July-Aug
Aug-Sep
Sep-Oct
Oct-Nov
2024
Government Expenditure
Revenue


160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
-
Oct-Nov
Nov-Dec
Dec-Jan
Jan-Feb
Feb-Mar
Mar-Apr
Apr-May
May-Jun
Jun-July
July-Aug
Aug-Sep
Sep-Oct
Oct-Nov
2024
Current Expenditure
Capital Expenditure

Government Revenue

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

Annual Growth Rate of GDP by Economic Activities

(at constant prices)

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

Gross Value Added by Industrial Division

(at current prices)

1 USD = 130 NPR						
Industrial Classification	2078/79 2021/22	percentage of GDP	2079/80 R 2022/23	percentage of GDP	2080/81 P 2023/24	percentage of GDP
Agriculture, forestry and fishing	8,006	21%	8,718	21%	9,359	21%
Mining and quarrying	179	0%	185	0%	183	0%
Manufacturing	1,850	5%	1,881	5%	1,893	4%
Electricity and gas	494	1%	592	1%	703	2%
Water supply; sewerage and waste management	162	0%	168	0%	172	0%
Construction	1,978	5%	2,134	5%	2,100	5%
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,156	13%	5,136	12%	5,375	12%
Transportation and storage	1,977	5%	2,452	6%	2,828	6%
Accommodation and food service activities	525	1%	713	2%	941	2%
Information and communication	677	2%	713	2%	754	2%
Financial and insurance activities	2,228	6%	2,567	6%	2,649	6%
Real estate activities	2,724	7%	3,004	7%	3,235	7%
Professional, scientific and technical activities	314	1%	349	1%	384	1%
Administrative and support service activities	234	1%	254	1%	277	1%
Public administration and defence; compulsory social security	2,872	8%	3,635	9%	3,741	9%
Education	2,599	7%	3,040	7%	3,303	8%
Human health and social work activities	570	1%	700	2%	725	2%
Other Services	193	1%	214	1%	223	1%
Gross Domestic Product (GDP) at basic prices	32,738	86%	36,453	89%	38,847	89%
Taxes less subsidies on products	5,543	14%	4,689	11%	5,037	11%
Taxes on Products	5,562	15%	4,706	11%	5,052	12%
Subsidies on Products	19	0%	17	0%	15	0%
Gross Domestic Product (GDP)	38,281	100%	41,143	100%	43,883	100%

Gross Domestic product by Expenditure Approach

(at current prices)

1 USD = 130 NPR

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

Gross National Disposable Income and Saving

(at current prices)

1 USD = 130 NPR

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

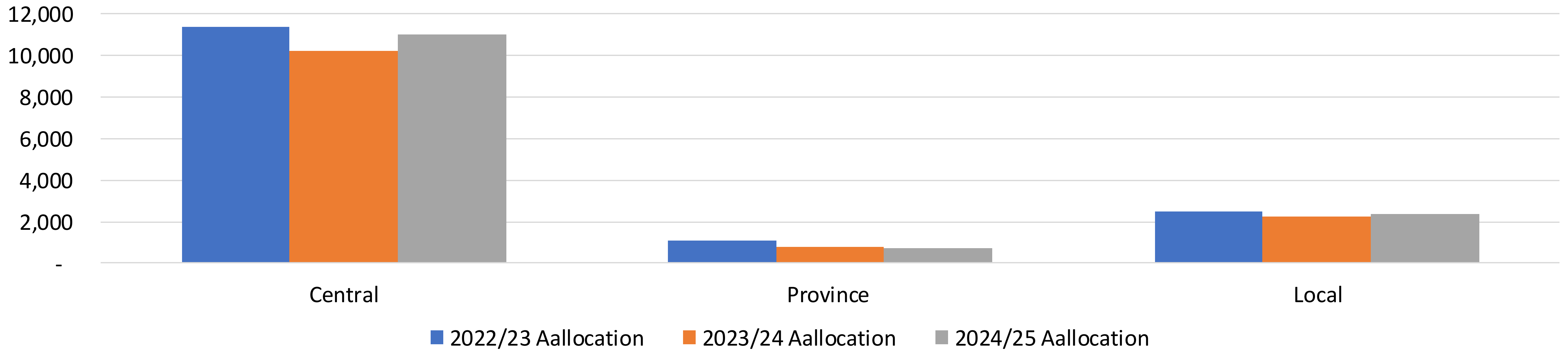
Summary of Macro Economic Indicators			
1 USD = 130 NPR			
Description	2078/79 R	2079/80 R	2080/81 P
	2021/22	2022/23	2023/24
Percapita GDP (NRs.)	1,70,506	1,81,569	1,91,888
Annual Change in nominal percapita GDP (%)	13.30	6.49	5.68
Percapita GNI (NRs.)	1,71,494	1,83,686	1,94,829
Annual Change in nominal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

Budget Sources

	Exchange Factor 1 USD = NPR 120							1 USD= NRP 132				1 USD= NRP 132	
Revenue Sources	Actual Budget Amount ($ Million) 2020/21	Budget Amount ($ Million) 2021/22	Revised Amount ($ Million) 2021/22	Actual Amount ($ Million) 2021/22	Budget Amount ($ Million) 2022/23	Revised Amount ($ Million) 2022/23	Variance	Budget Amount ($ Million) 2023/24	Change	Revised Amount ($ Million) 2023/24	Change	Budget Amount ($ Million) 2024/25	Change 2023/24 Revised and 2024/25 Budget
Tax Revenue	7,211.40	8,540.89	8,487.72	8,216.69	10,334.32	8,666.67	-16.14%	9,459.24	9.15%	8,449.20	-10.68%	9,547.75	13.00%
Foreign Grant	304.01	528.14	206.74	229.07	462.15	320.49	-30.65%	378.36	18.06%	224.38	-40.70%	396.41	76.67%
Deficit	3,307.90	4,660.78	3,368.19	3,027.74	4,152.18	3,554.50	-14.39%	3,429.92	-3.50%	2,920.03	-14.87%	4,149.04	42.09%
Foreign Debt	1,441.24	2,577.44	1,440.65	1,089.11	2,018.84	1,421.16	-29.61%	1,611.74	13.41%	1,101.85	-31.64%	1,649.04	49.66%
Domestic Debt	1,866.67	2,083.33	1,927.53	1,938.63	2,133.33	2,133.33	0.00%	1,818.18	-14.77%	1,818.18	0.00%	2,500.00	37.50%
Total	10,823.32	13,729.80	12,062.64	11,473.50	14,948.64	12,541.65	-16.10%	13,267.52	5.79%	11,593.60	-12.62%	14,093.20	21.56%

Budget Allocations

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



Sectoral distribution 2024/25

Areas of Budget allocation	2021/22		2022/23		2023/24		2024/25		Compare to last year	
	Amount in $ Mn	in % age	Amount in $ Mn	in % age	Amount in $ Mn	in % age	Amount in $ Mn	in % age	In figure	In %
General Public Service	4,034	29.42%	4,779	31.97%	4,777	36.00%	7,067	50.15%	Up	Up
Defense	414	3.02%	462	3.09%	434	3.27%	442	3.13%	Up	Down
Public Order and Safety	484	3.53%	545	3.65%	539	4.07%	569	4.04%	Up	Down
Economic Affair	3,684	26.87%	3,890	26.02%	2,962	22.32%	2,903	20.60%	Down	Down
Enviromnental Protection	105	0.76%	92	0.61%	65	0.49%	64	0.46%	Down	Down
Housing and Community Ametinies	671	4.89%	738	4.94%	500	3.77%	508	3.60%	Up	Down
Health	1,180	8.60%	1,027	6.87%	779	5.87%	434	3.08%	Down	Down
Recrecation, Culture and Religion	56	0.41%	80	0.54%	50	0.38%	45	0.32%	Down	Down
Education	1,500	10.94%	1,641	10.98%	1,498	11.29%	440	3.12%	Down	Down
Social protection	1,582	11.54%	1,694	11.34%	1,663	12.53%	1,621	11.50%	Down	Down
Total	13,709	100%	14,949	100%	13,268	100%				
Exchnage Factor	USD 1 = NPR 120				USD 1 = NPR 132					

Sectoral distribution

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

Observations

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

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

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

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

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

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

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

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

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

Thank You!

Best regards,
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