Economic Outlook Based on December 2024

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Overview 2024/25

External Sector

Financial Sector Highlights

Fiscal situation

1

Overview 2024/25

Nepal's economy in 2025 is poised to face significant challenges, with private sector confidence recovering slowly. While there are no immediate fundamental weaknesses, emerging risks threaten business stability. Persistent structural issues—excessive bureaucracy, outdated regulations, weak governance, rising extremism, and rent-seeking practices—continue to erode trust among investors and consumers. Addressing these systemic problems will be essential to averting stagnation and promoting sustainable growth. One of the pressing concerns is the misalignment of financial activities with the Nepal Rastra Bank's (NRB) monetary policy, which creates hurdles for economic stability. However, the upcoming half-yearly review of the monetary policy offers hope for introducing measures to stimulate economic activity and alleviate pressures on both borrowers and lenders. Nepal's banking and financial institutions (BFIs) face twin challenges: rising non-performing assets (NPA) and capital pressures, which strain profitability and limit lending capacity. Additionally, issues such as excess liquidity, sluggish economic growth, and rising food prices further compound these challenges.

On a positive note, the government has shown a willingness to improve business confidence through initiatives like easing foreign direct investment (FDI) regulations, allowing offshore investments by eligible Nepali firms, and enhancing budgetary expenditure management for multi-year projects. If these efforts are coupled with NRB's strategic interventions to stimulate economic recovery, Nepal has significant potential for progress.

Despite these challenges, there is cautious optimism for Nepal's economic outlook over the next three quarters (2024/25). The agriculture, forestry, and fishing sectors are expected to grow steadily, reinforcing their role in rural livelihoods and food security. Manufacturing shows signs of recovery, supported by improved domestic and export demand. Transportation and storage sectors are projected to expand due to increased trade activity and logistics enhancements. Electricity, gas, and steam supply, which recently slowed due to seasonal factors, is likely to regain momentum. Meanwhile, real estate is expected to remain stable, driven by urbanization, and wholesale and retail trade are set for moderate growth as consumer activity gradually picks up. Other services are also forecast to grow, reflecting greater economic diversification. However, several sectors remain under pressure. The construction sector faces continued contraction due to obstacles in infrastructure development and private investment. Accommodation and food services, which previously benefited from tourism, are likely to see reduced growth due to seasonal and demand fluctuations. The information and communication sector is anticipated to experience a slowdown, while education and health care growth will remain constrained by limited public and private investments.

Overall, Nepal's GDP growth rate is projected to moderate, declining from 4.5% in Q2 (2023/24) to 3.4% by Q1 (2024/25). Sectoral disparities will drive this trend, with strengths in agriculture, transportation, and manufacturing countered by persistent weaknesses in energy supply, construction, and key service sectors. Although the government has set an ambitious growth target of 6% for the fiscal year, structural bottlenecks and fragile economic fundamentals suggest that actual growth may fall below 4%. To ensure economic growth and stability, Nepal must adopt a multifaceted strategy. Key priorities should include job creation, attracting both local and foreign investments, securing foreign aid, leveraging abundant natural resources, enhancing productivity, and addressing the growing trade imbalance. By focusing on these areas, Nepal can navigate current challenges and build a resilient, sustainable economy for the future. Collaborative efforts from all sectors will be vital to achieving a robust and enduring economic recovery.

Industrial Classification	2080/81 2023/24				2080/81 2023/24	
	Q1	Q2	Q3	Q4	Q1	Trend
Agriculture, forestry and fishing	1.1	3.4	2.8	4.4	3.0	Down
Mining and quarrying	6.4	-3.5	-10.3	15.9	0.4	Down
Manufacturing	0.6	-4.1	-3.6	0.9	2.3	Up
Electricity, gas, steam and air conditioning supply	23.5	26.1	47.4	-3.5	21.4	Up
Water supply; sewerage, waste management	3.9	3.1	2.4	1.7	1.0	Down
Construction	6.9	1.9	-6.3	-8.7	-0.3	Up
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.8	1.4	-2.5	2.4	0.5	Down
Transportation and storage	3.1	16.7	17.5	10.9	6.7	Down
Accommodation and food service activities	16.0	36.6	23.7	11.9	6.3	Down
Information and communication	6.9	7.9	6.4	-1.6	2.2	Up
Financial and insurance activities	9.0	6.6	5.7	10.1	5.7	Down
Real estate activities	3.0	3.0	3.0	3.0	3.1	Up
Professional, scientific and technical activities	5.4	4.1	3.9	3.3	5.1	Up
Administrative and support service activities	6.0	2.1	2.3	5.8	5.4	Down
Public administration and defence; compulsory social security	2.9	2.8	1.6	10.8	3.0	Down
Education	2.1	2.5	3.4	2.9	0.4	Down
Human health and social work activities	5.9	5.4	7.0	3.8	4.1	Down
Others services	0.6	6.4	5.3	4.4	0.7	Down
Aggregate	3.6	4.5	2.9	3.2	3.4	Up

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 6.05% Exceeded NRB target**

Nepal's economic performance across sectors in the fiscal year (2023/24) presents a mixed outlook, reflecting varied growth patterns across industries. The aggregate GDP trend shows cautious improvement, rising from 3.2% in Q4 (2023/24) to 3.4% in Q1 (2024/25). While some sectors demonstrate resilience and growth potential, others face persistent challenges that require targeted interventions. Key Sectoral Highlights:

1.Positive Trends:

1. ***Manufacturing****: After earlier contractions, the sector is showing signs of recovery, with growth improving to 2.3% in Q1 (2024/25). This reflects increasing demand and gradual stabilization in industrial production.*
2. ***Electricity, Gas, and Steam Supply****: Despite seasonal fluctuations, this sector continues to expand, contributing significantly to economic growth with 21.4% in Q1.*
3. ***Real Estate Activities****: Stability in this sector, with consistent growth at 3.0%-3.1%, highlights its role in urban development and investment stability.*
4. ***Professional, Scientific, and Technical Activities****: Growth trends indicate a steady increase in these services, rising to 5.1% in Q1.*
5. ***Human Health and Social Work Activities****: The sector shows resilience with steady growth, improving to 4.1% in Q1.*

2.Declining or Volatile Sectors:

1. ***Agriculture, Forestry, and Fishing****: Growth slowed to 3.0% in Q1, reflecting seasonal challenges and productivity constraints.*
2. ***Mining and Quarrying****: The sector continues to struggle with volatility, with growth dropping sharply to 0.4% in Q1 after a temporary recovery in Q4.*
3. ***Construction****: Persistent challenges in infrastructure projects and private investment have led to continued contraction, despite a slight recovery to -0.3% in Q1.*
4. ***Transportation and Storage****: Growth fell to 6.7% in Q1, signaling reduced activity following strong performance in earlier quarters.*
5. ***Accommodation and Food Services****: This sector, previously buoyed by tourism, saw growth tapering to 6.3% in Q1, reflecting seasonal and demand limitations.*

3.Service Sector Challenges:

1. *Key service sectors such as* ***Information and Communication****,* ***Education****, and* ***Public Administration and Defence*** *experienced slowing or negative growth, reflecting constrained investments and policy inefficiencies.*

Aggregate Outlook:

The aggregate GDP trend indicates cautious optimism, with growth improving slightly in Q1 (2024/25). However, the mixed performance across sectors underscores the need for strategic policy interventions. Strengthening growth sectors like manufacturing, energy, and health while addressing the persistent challenges in construction, agriculture, and services will be vital for sustained economic recovery.

Recommendations:

•***Boost Investments****: Prioritize infrastructure and energy projects to stimulate construction and manufacturing.*

•***Enhance Productivity****: Implement reforms in agriculture and services to address productivity gaps.*

•***Support Tourism****: Revitalize the accommodation and food services sector through targeted promotions and incentives.*

•***Strengthen Governance****: Address policy inefficiencies in public administration and key services to build investor and consumer confidence.*

While the outlook remains cautiously optimistic, achieving sustained growth will require addressing structural challenges and fostering a conducive environment for both public and private sector investments

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% improved from Dec. 2023 for 2023/24)

3.May 2024 4.9% FY 2024/25 Fresh projections
- January 2025 4 (+)% (0.90% down from May 2024)

CBS

- April 2023 2.16% 2022/23
- April 2024 3% FY 2023/24
- Oct. 2024 3.2% FY 2023/24 Estimate Q IV
- Dec. 2024 3.4% 2024/25 Estimate Q I

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. IMF reduce growth estimate from 4.9% to +4%.

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

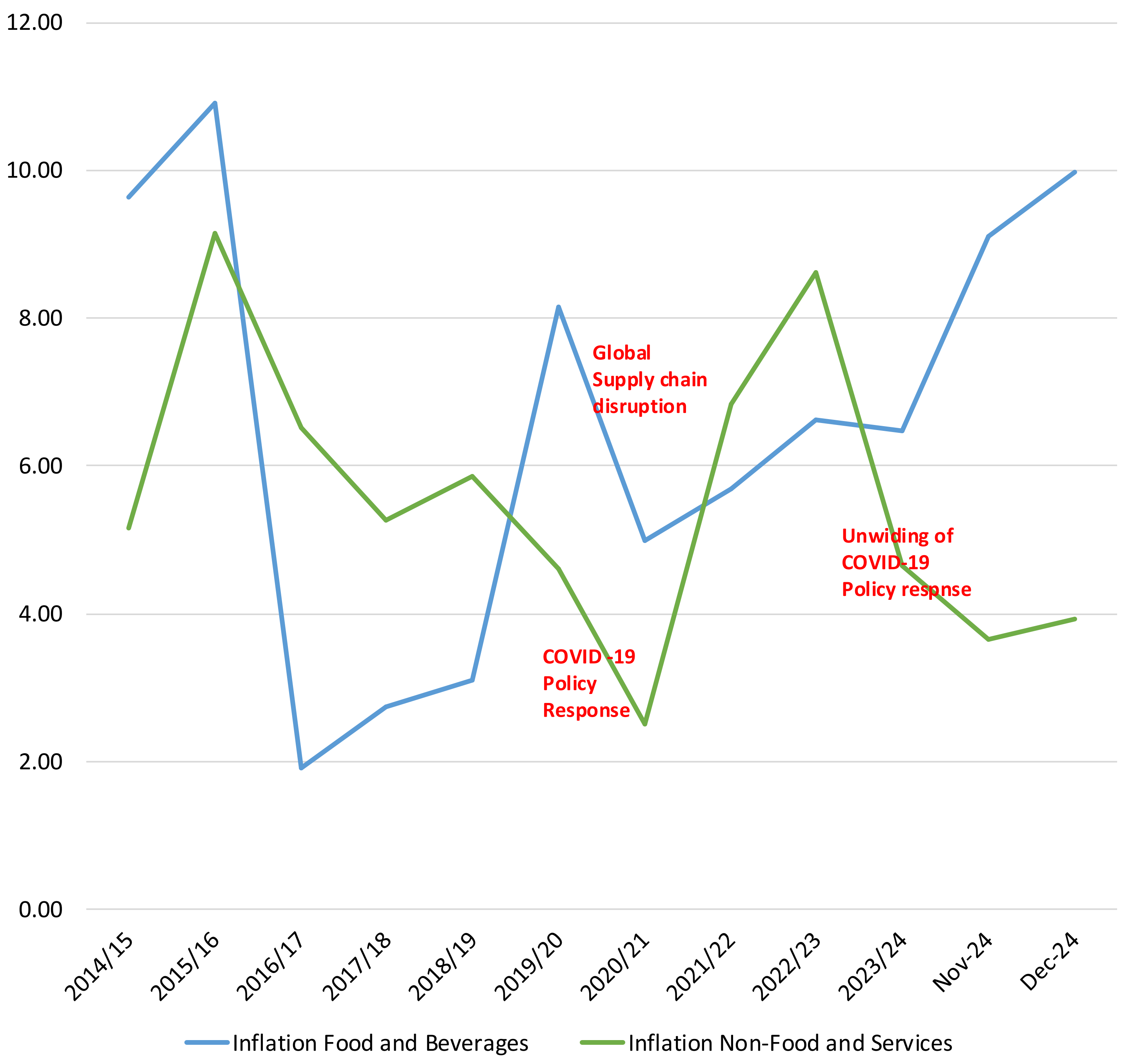
Overall inflation fluctuated significantly, peaking at 9.92% in FY 2015/16 due to the 2015 earthquake and trade blockades, while reaching its lowest at 3.60% in FY 2020/21, reflecting subdued economic activity during the COVID-19 pandemic.

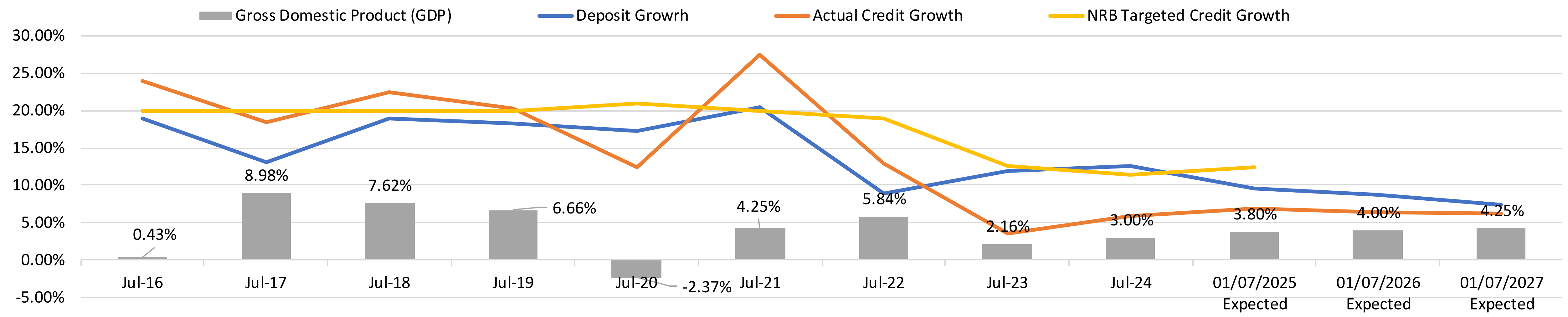
Food and beverages inflation shows greater volatility, often exceeding non-food inflation, particularly during crises such as FY 2015/16 and FY 2019/20, driven by supply chain disruptions, seasonal shortages, or rising import prices. Conversely, years like FY 2016/17 and FY 2020/21 saw food inflation dip significantly, likely due to improved agricultural output or lower global food prices.

Non-food and services inflation, however, remained relatively stable and typically lower than food inflation, except in FY 2022/23, when it surged past food inflation (8.62% vs. 6.62%), suggesting steady demand for services and non-perishable goods.

In recent trends, inflation for FY 2023/24 moderated to 5.44% compared to the previous year, though food inflation remained slightly elevated at 6.47%. Notably, food inflation spiked sharply in November and December 2024 (9.10% and 9.99%, respectively), likely due to seasonal pressures or supply disruptions, while non-food inflation stayed low at 3.65%-3.92%, reflecting limited price pressures in non-food categories.

Overall, food inflation appears more susceptible to shocks from natural disasters, supply chain disruptions, or global price fluctuations, while non-food inflation demonstrates relative stability, indicating controlled service sector pricing and steadier demand.





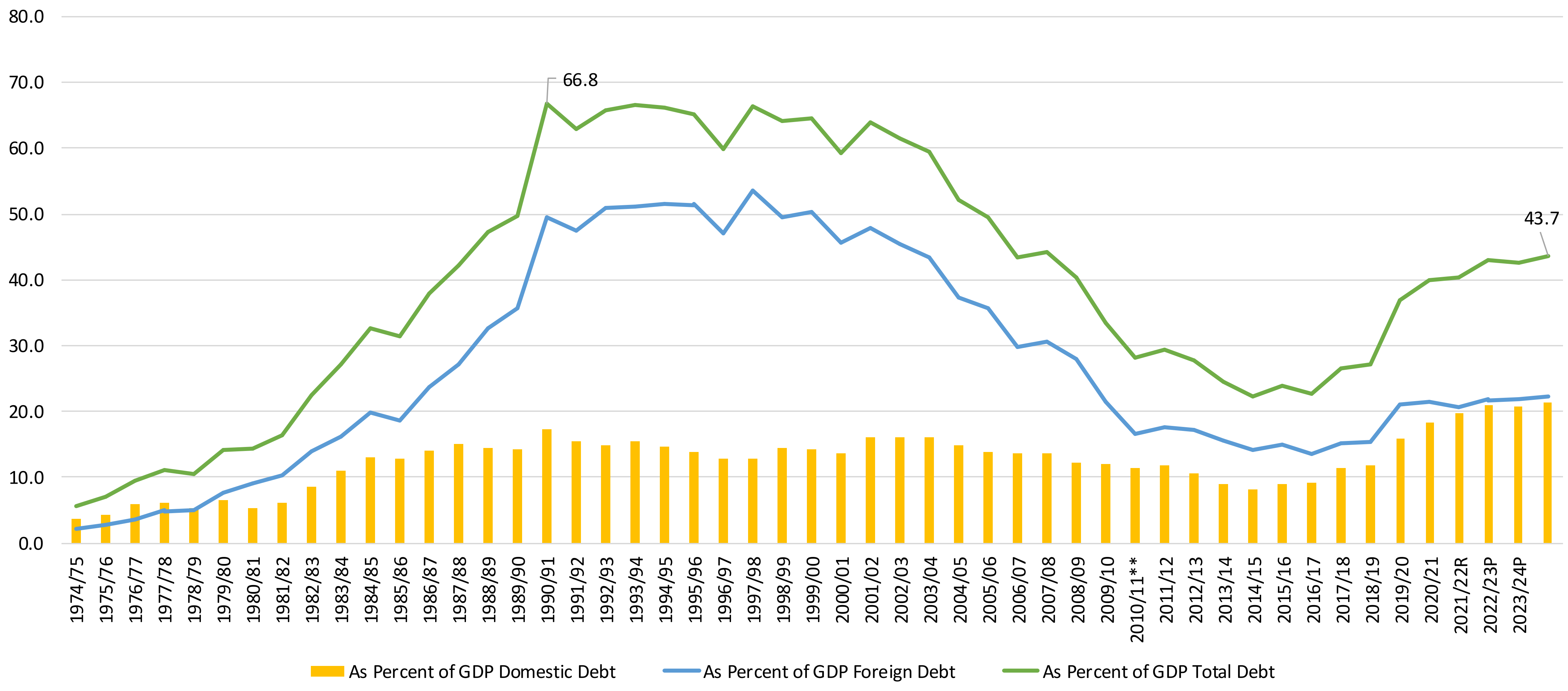
The data indicates a complex interplay between Nepal's GDP growth, deposit growth, credit expansion, and the Nepal Rastra Bank's (NRB) loan growth targets. Nepal's GDP growth has been volatile, with a sharp contraction in 2020 (-2.37%) due to the pandemic, followed by moderate recovery in subsequent years. Despite improvement, GDP growth remains subdued compared to the robust rates observed in 2017–2019, reflecting structural challenges and external pressures like inflation and reduced credit availability. Credit growth, which peaked at 27.54% in 2021, has significantly decelerated, reaching a low of 3.48% in 2023 before showing slight recovery. This slowdown is aligned with reduced deposit growth and tighter NRB credit growth targets, signaling cautious monetary policy aimed at balancing inflation control with economic sustainability.

NRB's credit growth targets have steadily declined, from 21% in 2020 to 11.50% in 2024, reflecting its focus on stabilizing inflation while managing economic expansion. While this conservative approach may ensure financial stability, it potentially constrains private-sector investment and broader economic momentum. Similarly, deposit growth has fluctuated, peaking at 20.50% in 2021 but steadily declining in recent years, with projections suggesting further reduction to 7.43% by 2027. Lower deposit growth, potentially caused by reduced economic confidence or lower real returns, limits banks' ability to expand credit, thereby slowing investment and economic activity. Interest rates, though not explicitly mentioned, likely play a critical role in this dynamic.

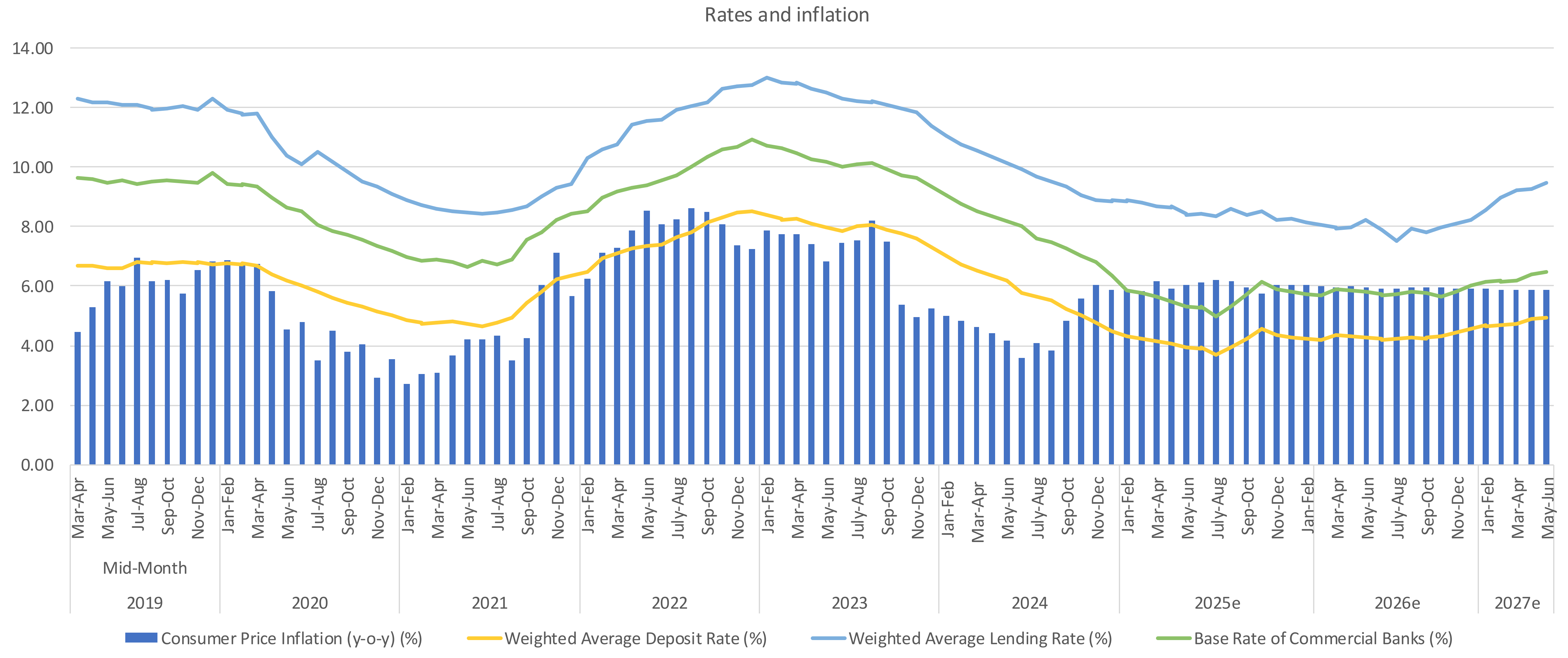
While higher rates may have discouraged borrowing, contributing to the slowdown in credit growth, lower rates could stimulate demand but risk fueling inflation. However, even with lower interest rates and surplus liquidity, credit growth remains subdued due to a loss of confidence among borrowers and pressure on lenders' capital caused by rising non-performing assets (NPAs). To address these challenges, Nepal Rastra Bank's working capital guidelines require structural reform, and a review of asset classification and provisioning norms is essential to align with the realities of muted GDP growth and ensure financial stability.

Overall, Nepal's economic outlook reflects the challenge of balancing growth and stability. The declining deposit and credit growth, coupled with cautious NRB policies, underline the need for strategic interventions. Stimulating investment in productive sectors, encouraging savings through targeted incentives, and cautiously easing monetary policy to revive credit demand are critical steps. Addressing structural constraints and fostering innovation will also be essential to enhance long-term economic resilience. Managing this balance effectively will be crucial for sustaining Nepal's economic trajectory through 2027.

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 debt remains stable with a slight increase, domestic debt increases significantly, and total debt shows an increasing trend followed by a recent rise.



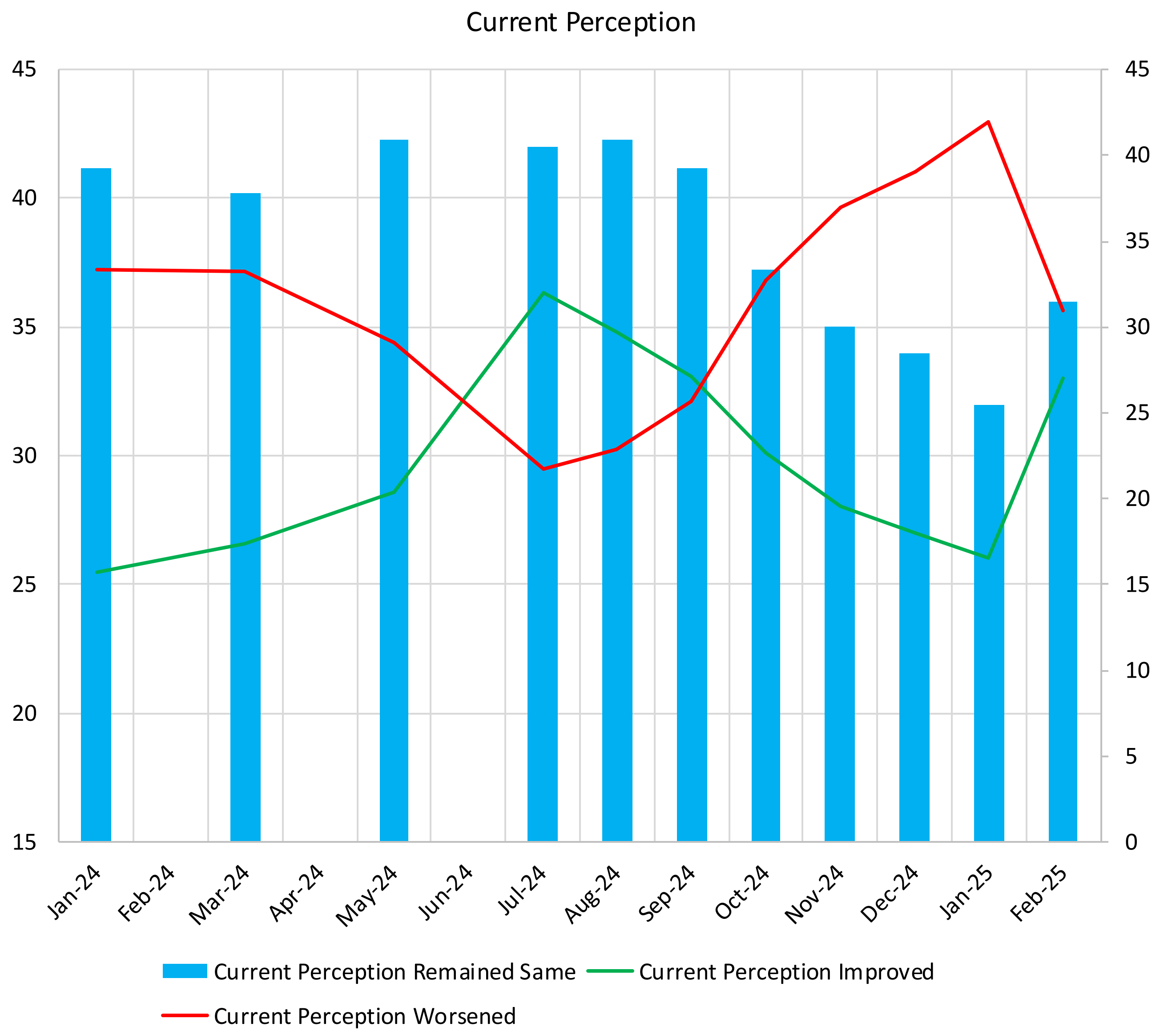
Interest rates and Inflation

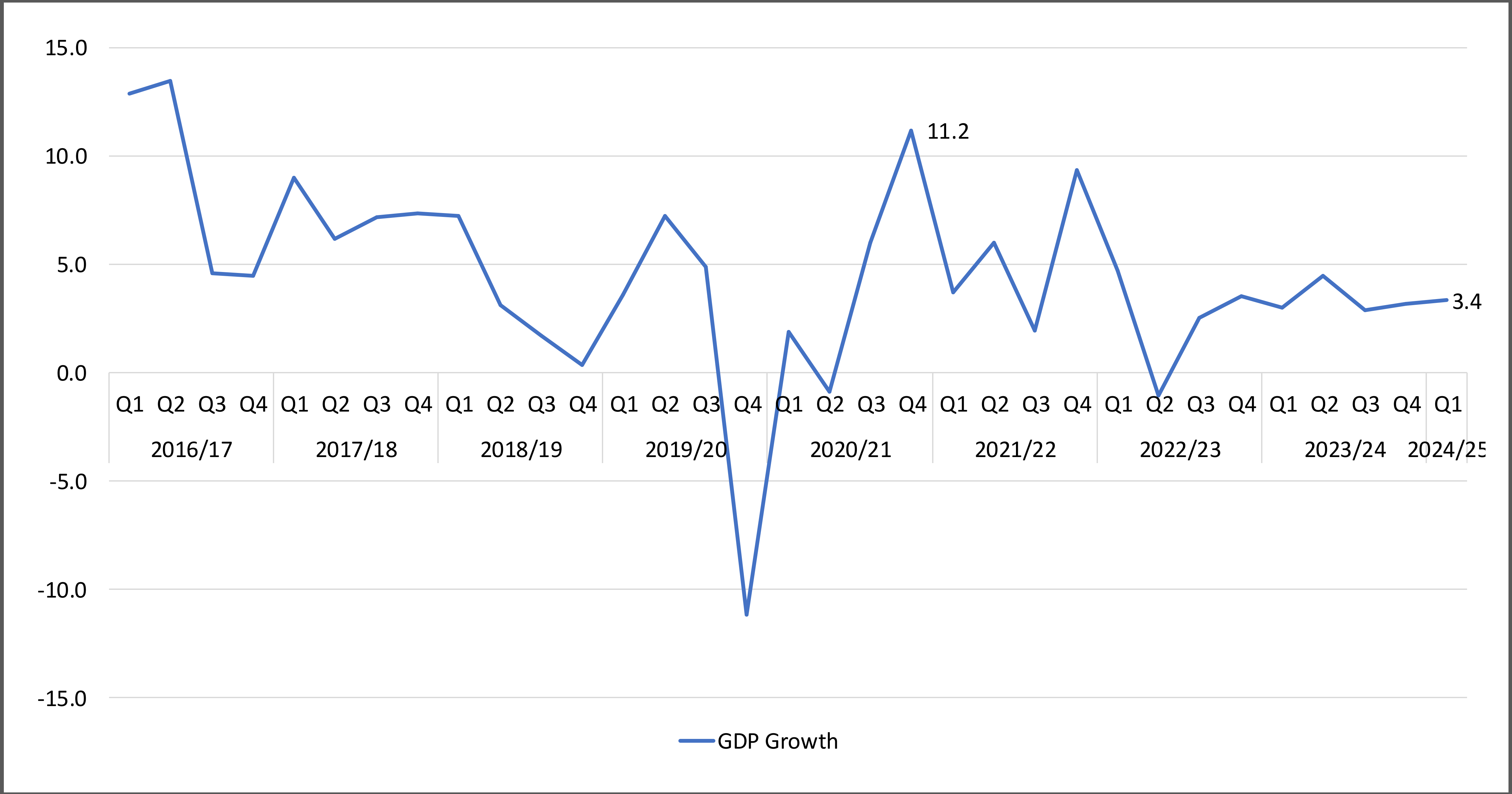


The survey data reveals shifting consumer perceptions over time, with trends indicating varying degrees of optimism, stability, and pessimism. The percentage of consumers reporting improvement peaked at 36% in July 2024, reflecting a period of heightened optimism. However, this optimism waned in subsequent months, with the "Improved" category declining to 26% by January 2025 before showing a slight rebound to 33% in February 2025.

Meanwhile, the "Remained Same" group showed relative stability throughout the period, fluctuating between 34% and 42%, with a notable dip to 32% in January 2025.

In contrast, the "Worsened" category initially held steady at 33% from January to May 2024 but saw a sharp increase toward the end of the year, peaking at 42% in January 2025. This shift in sentiment highlights a move toward pessimism in late 2024, which coincided with a decline in the "Improved" responses. February 2025, however, suggests a potential recovery, as the "Improved" category rose and "Worsened" perceptions dropped to 31%. These trends indicate that mid-2024 was marked by consumer optimism, which shifted to pessimism by the year's end, possibly influenced by economic or policy factors. The early signs of recovery in 2025 warrant close monitoring to determine if they signify a sustained positive shift or a temporary fluctuation.





15.0
10.0
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Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1
2016/17
2017/18
2018/19
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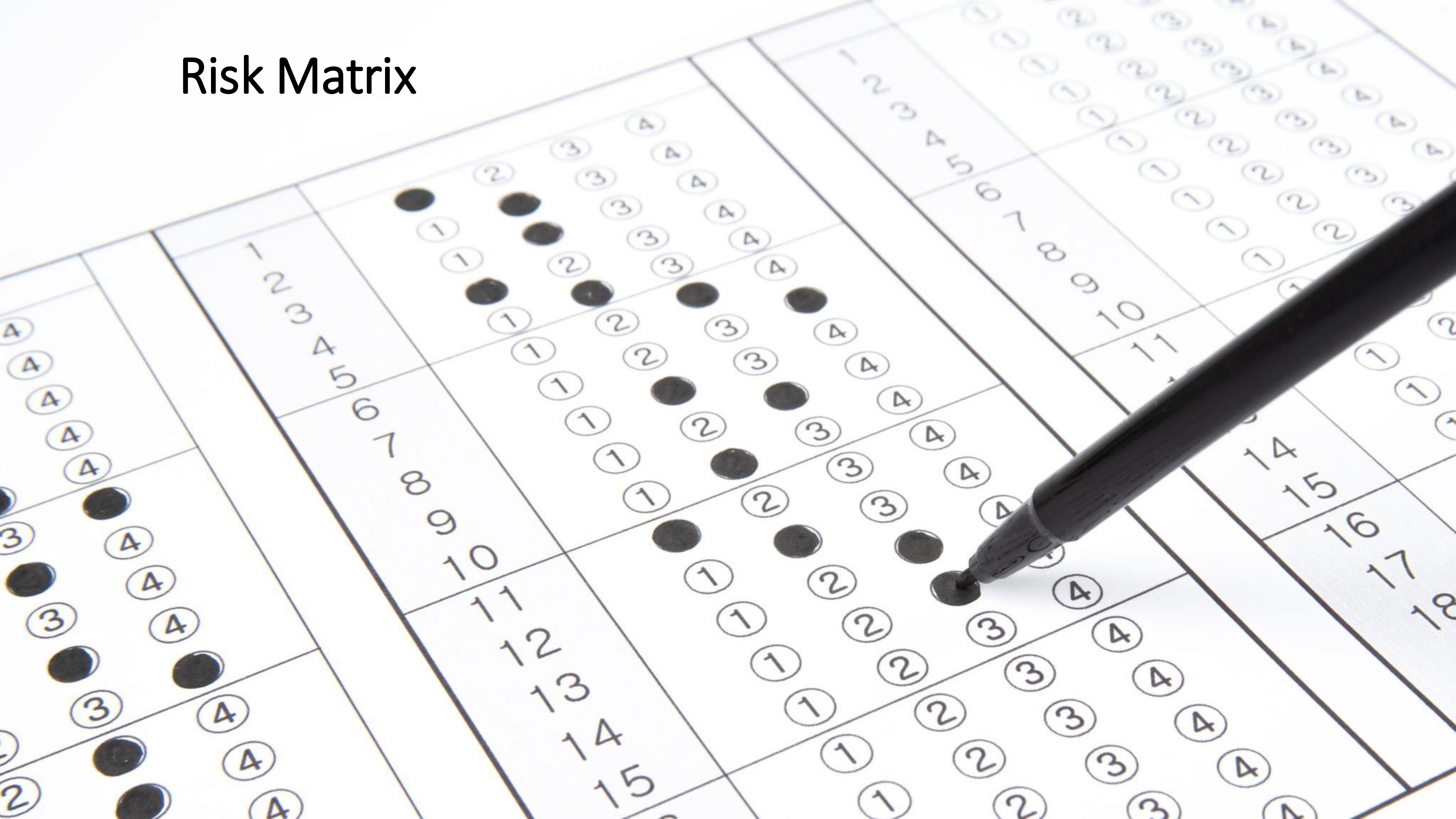
2020/21
2021/22
2022/23
2023/24
2024/25
GDP Growth

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

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.

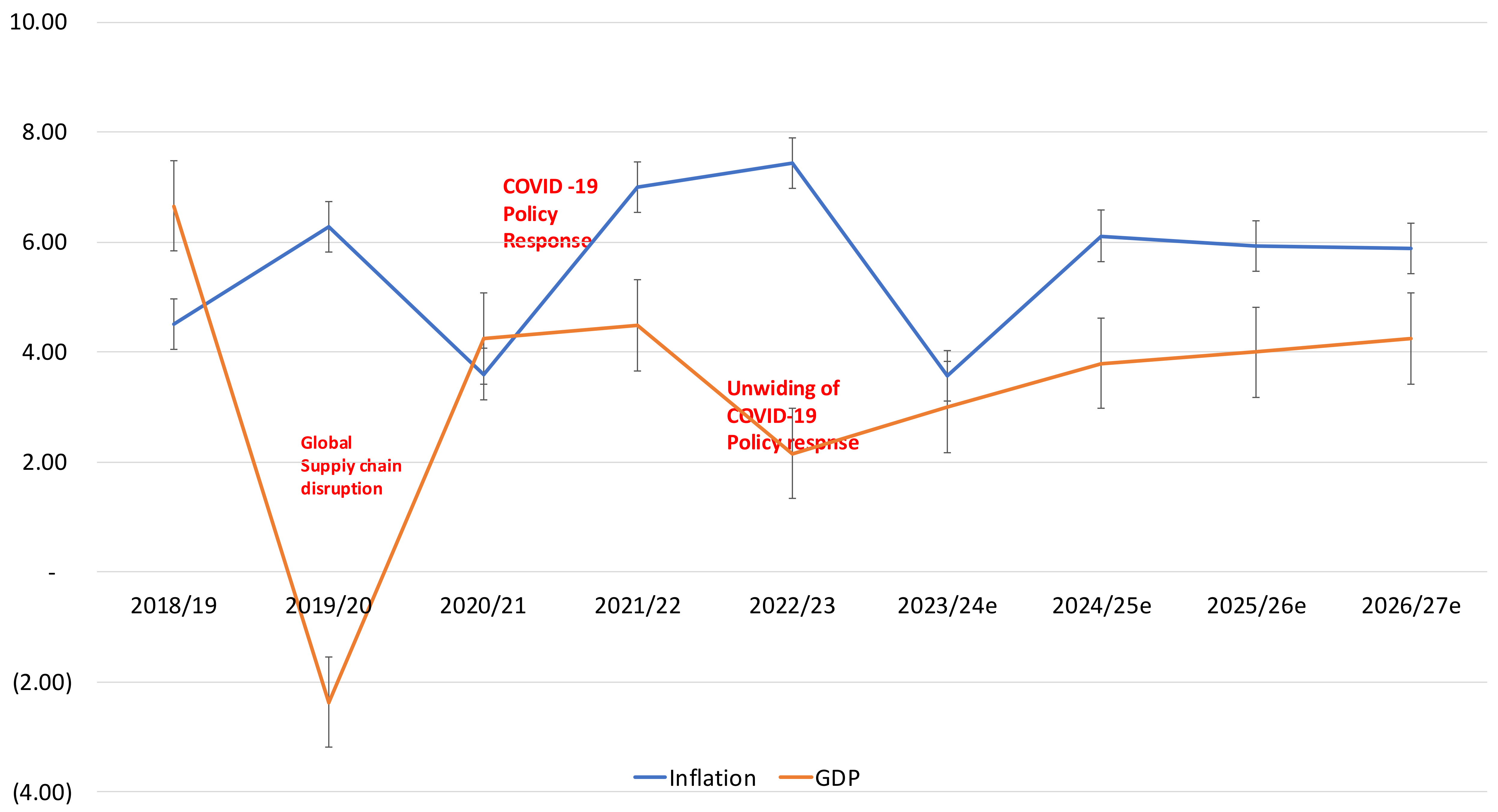
- *2019-2021: CPI fluctuated between 4.44% and 6.95%.*
- *2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.*
- *2023-2024: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 6.05% by December 2024.*

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.*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Policy
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Global
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COVID-19
Policy resprise
Inflation
GDP

2. Exports and Imports

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

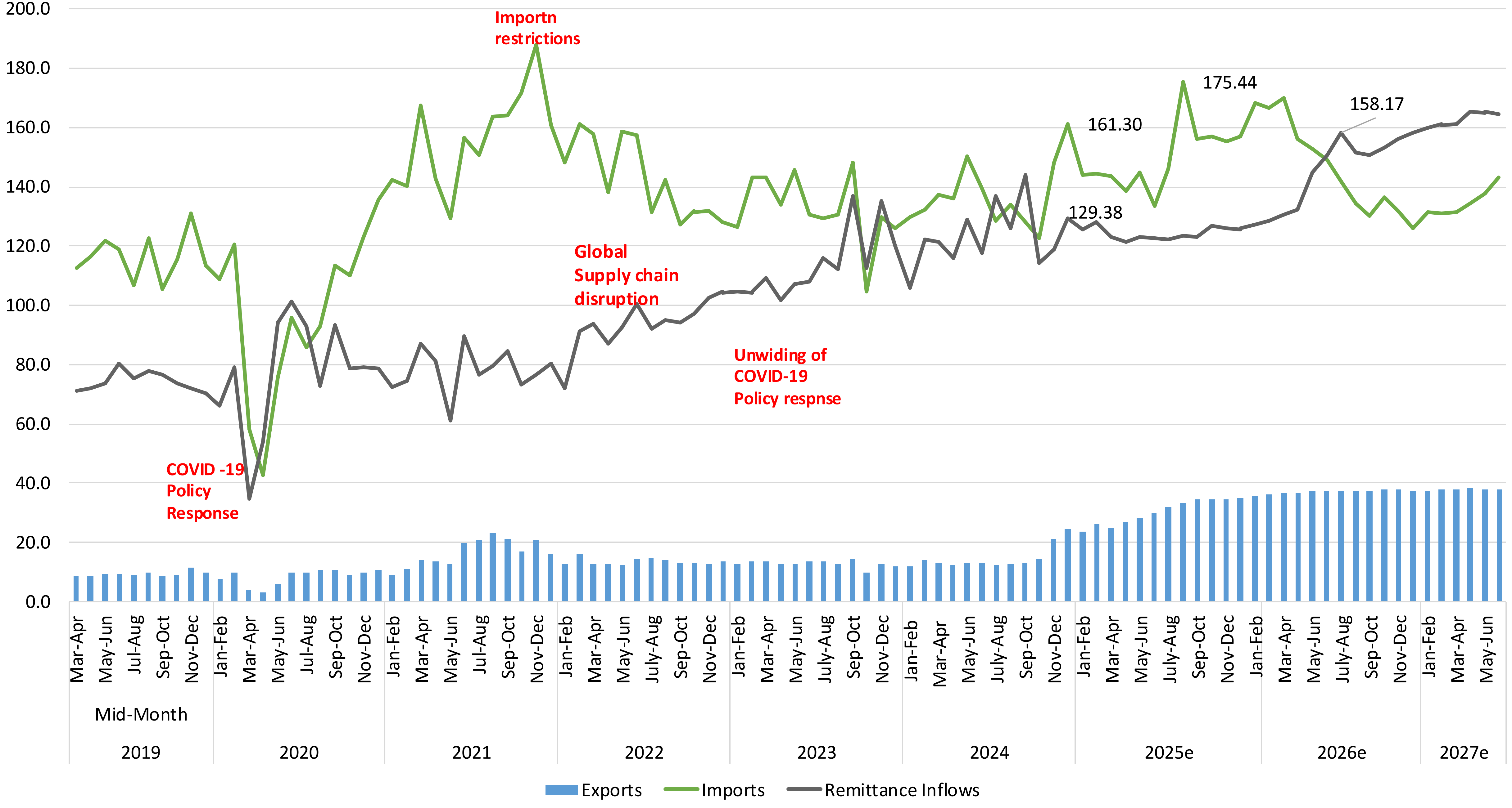
- *Exports rose steadily from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December-January 2024, before climbing further to NPR 24.7 billion by mid-January 2025. In contrast, imports saw a significant surge, increasing from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021. To mitigate this sharp rise, the Government of Nepal (GoN) implemented import restrictions. Even after these restrictions were eased, imports showed a slow recovery, resulting in a substantial unutilized foreign exchange reserve capable of covering 17 months of imports, well above the Nepal Rastra Bank's target of seven months. By mid-January 2025, imports had rebounded to NPR 161.2 billion, 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.*



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Importn restrictions
Global Supply chain disruption
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COVID -19 Policy Response
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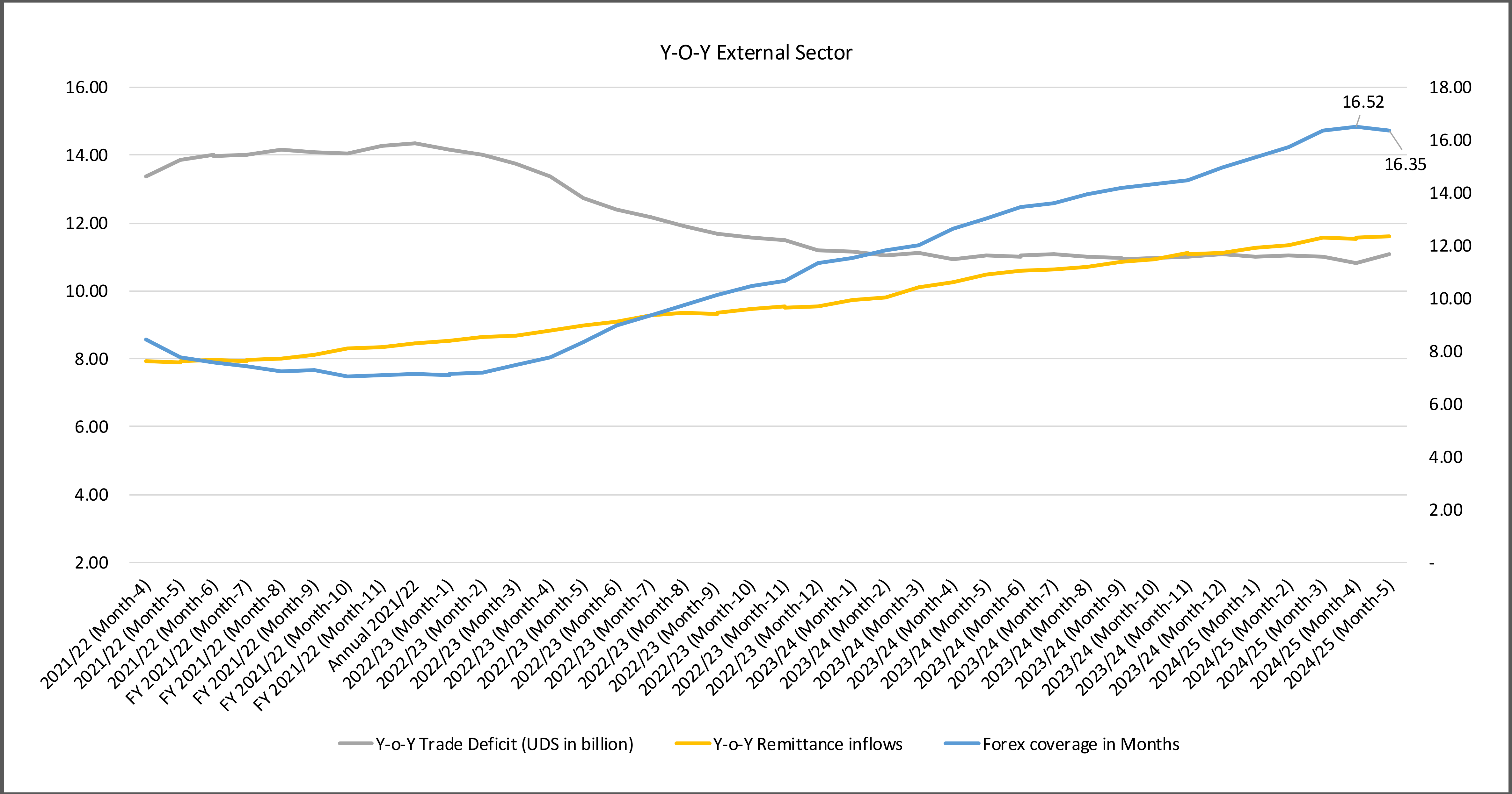
Exports
Imports
Remittance Inflows



Y-O-Y External Sector
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2021/22 (Month-5)
2021/22 (Month-6)
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FY 2021/22 (Month-8)
FY 2021/22 (Month-9)
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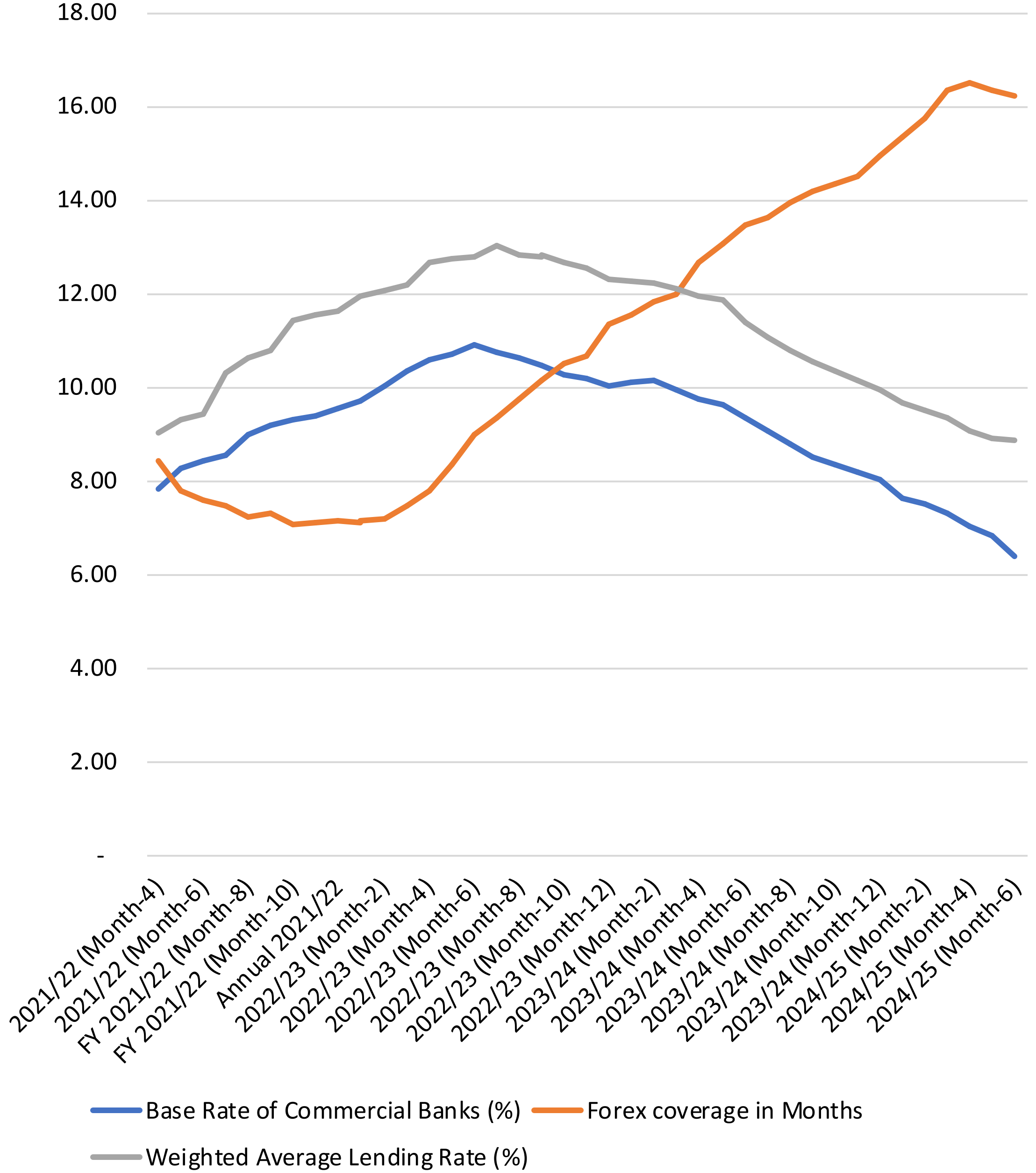
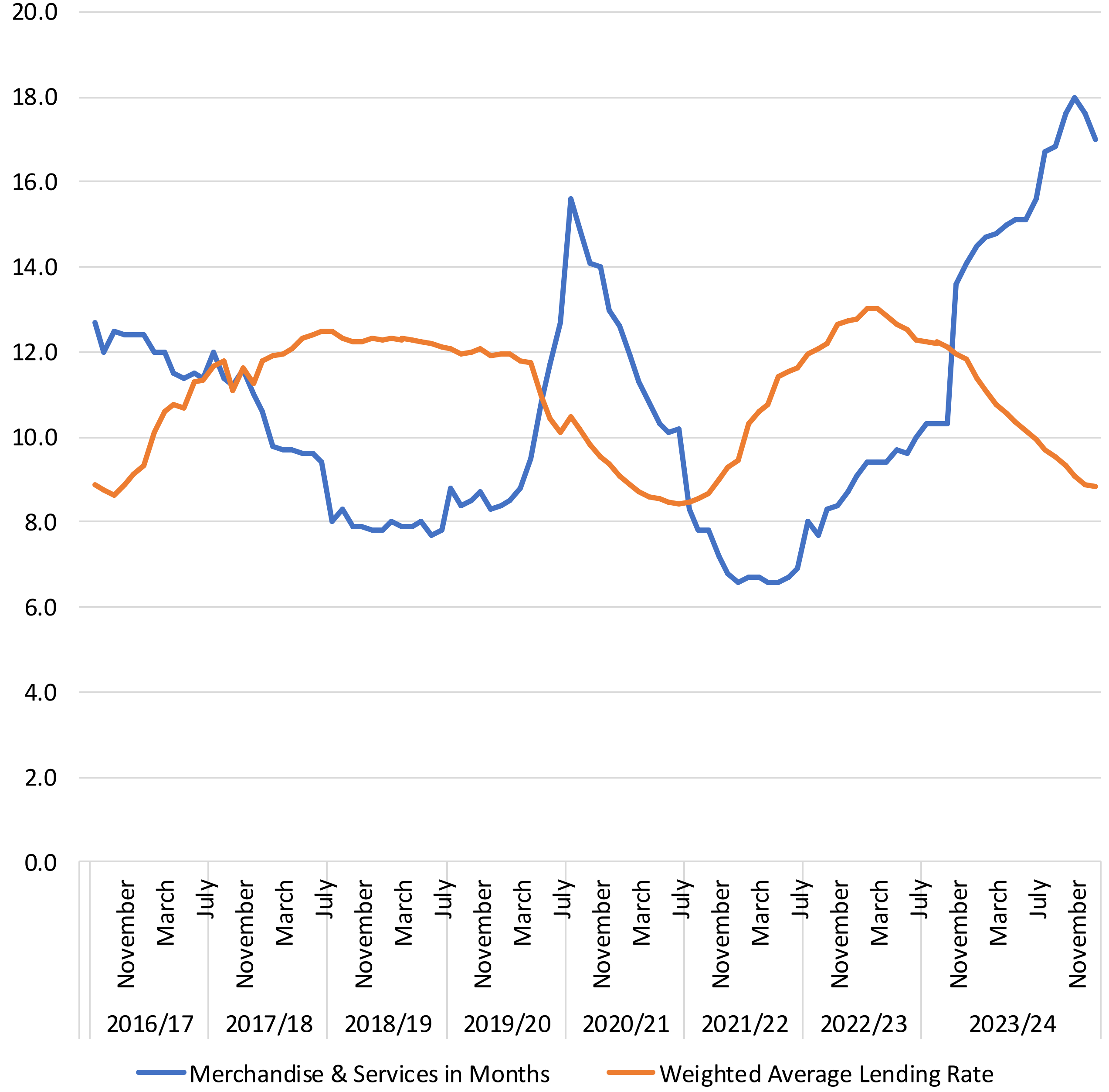
Y-o-Y Trade Deficit (UDS in billion)
Y-o-Y Remittance inflows
Forex coverage in Months

Interest rates and Extranational Sector





3. Government Expenditure

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

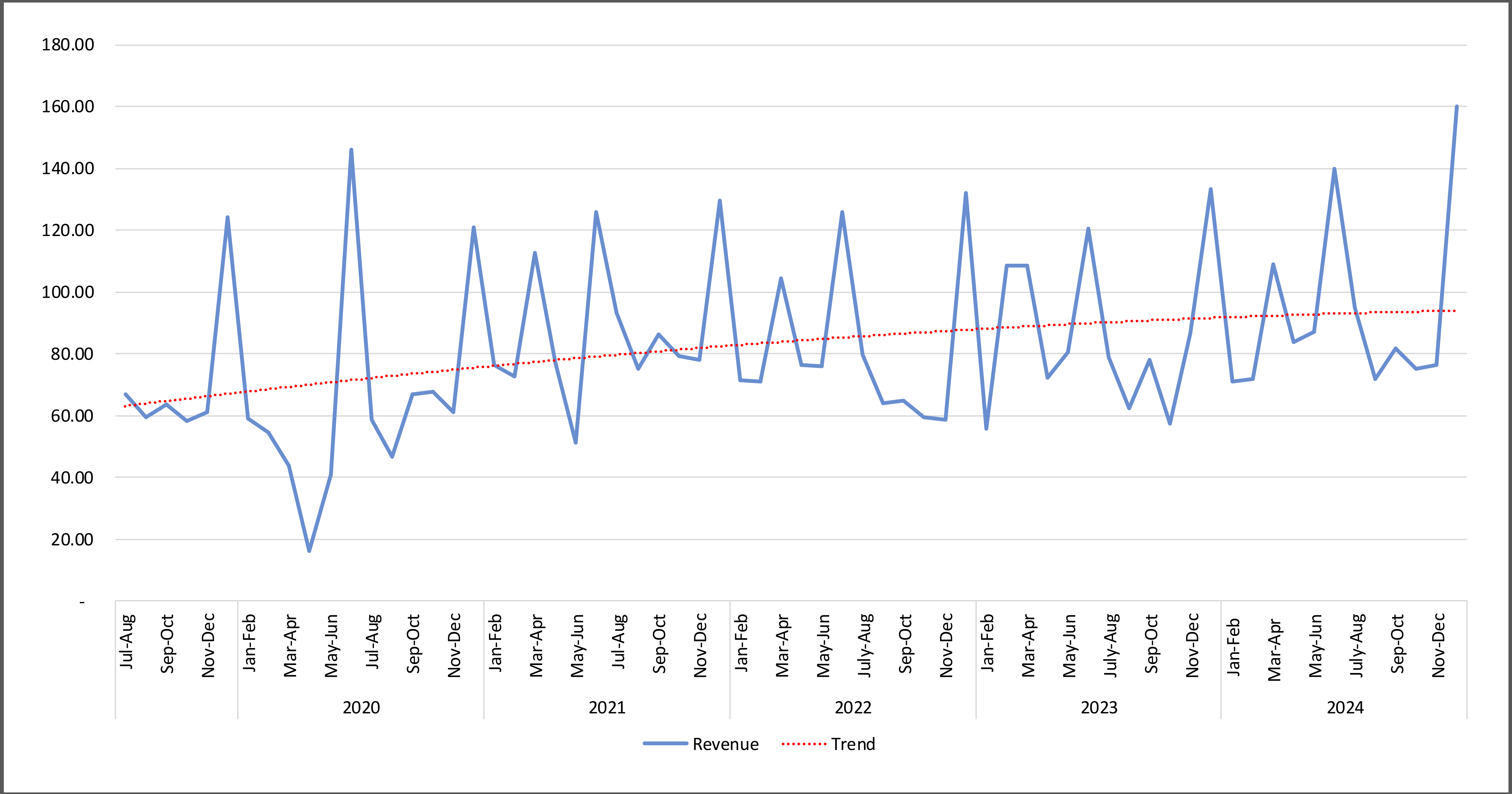
- *2019-2021: Varied widely, peaking at NPR 264.1 billion in Jun-Jul 2021.*
- *2022-2024: Continued to fluctuate, reaching NPR 107.8 billion by Mar-Apr 2024.*

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.*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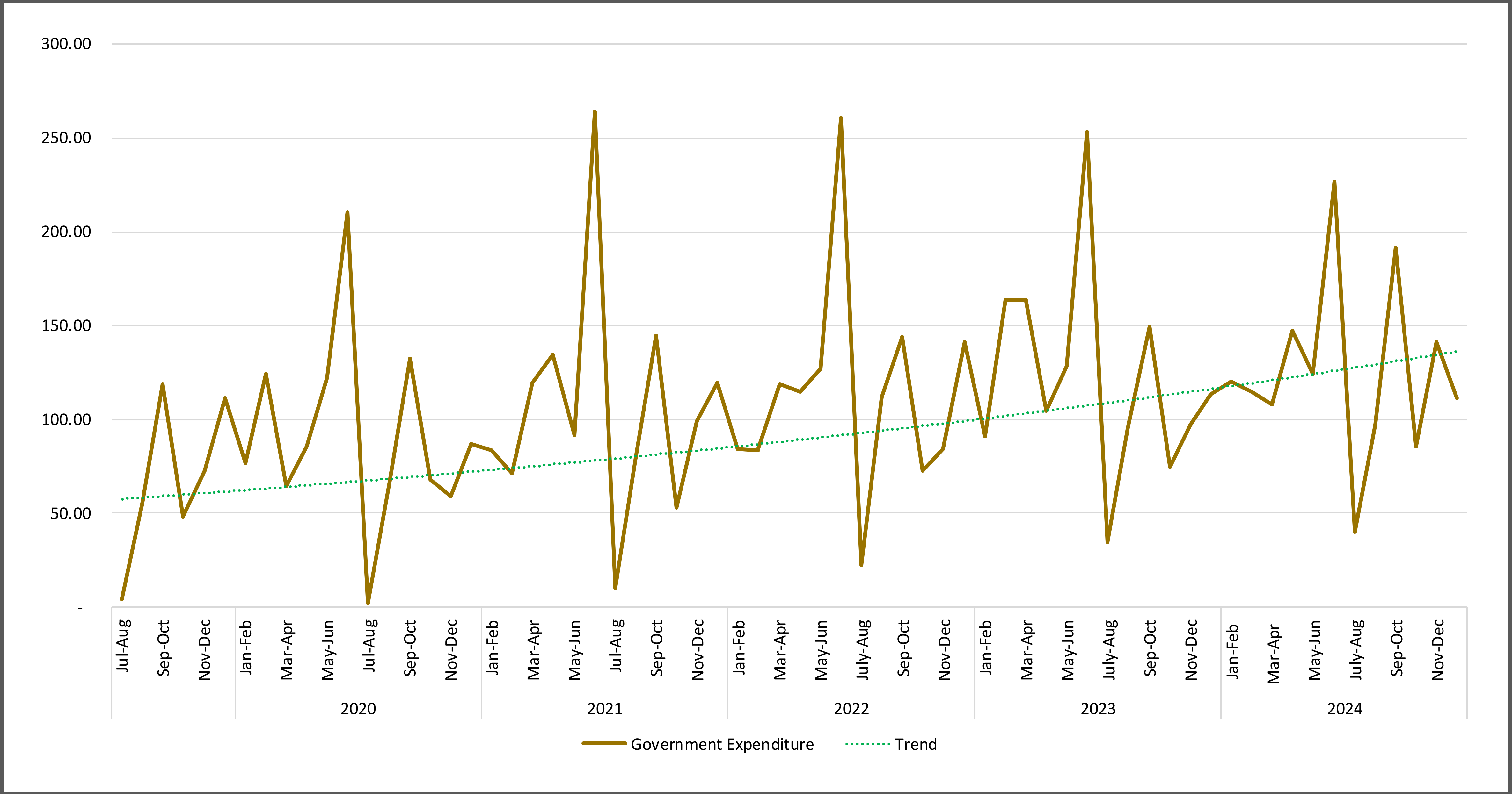
Revenue
Trend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2023
2024
Government Expenditure
Trend

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.*

Provision for Risk (Amt in billion)	Mid-July		Mid-Nov	Mid-Dec.
	2023	2024	2024	2024
Opening (Estimated)	192.82	238.24	296.20	296.20
Addition	65.95	85.52	-	31.37
Write Back	20.53	27.56		16.89
Closing	238.24	296.20	296.20	310.68
Gross Loan Loas Provision	4.66%	5.42%	5.30%	5.51%

As of mid-December 2024, Nepal's gross loan portfolio totals NPR 5,745.85 billion, with 91.47% classified as good loans (NPR 5,255.60 billion) and 8.53% as problem loans (NPR 490.25 billion). While this indicates relatively healthy loan quality, it underscores the importance of careful handling of the banking sector's risk profile. Provisions currently amount to NPR 310.68 billion (5.41% of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 179.57 billion (3.13%) in provisions would be required, raising the total provisioning requirement to 8.54%. The banking system is supported by NPR 599.45 billion in paid-up capital and statutory reserves, representing 10.43% of gross loans. Including reserves, total capital stands at NPR 783.96 billion, or 13.64% of the loan portfolio. In a stressed scenario where all problem loans become bad, net capital would decline to NPR 419.87 billion (7.31% of gross loans), and total capital would fall to NPR 604.38 billion (10.52%), demonstrating resilience but highlighting the need for vigilance.

This challenging scenario also presents opportunities for reform. With timely action, the regulator can review and update policies to fortify the financial system. Introducing robust insolvency laws to expedite loan resolution and encouraging the development of asset reconstruction companies (ARCs) could create a more efficient recovery framework. The Nepal Rastra Bank (NRB) is well-positioned to take proactive steps by re-evaluating asset classification and provisioning approaches. Transitioning to a loss-given-default model, rather than time-based provisioning norms, could better reflect actual risks. Lenders must also implement stricter asset classification guidelines and accurately assess provisioning needs to enhance preparedness.

By aligning Nepal's provisioning framework with regional best practices and fostering collaboration among stakeholders, the country can address financial challenges effectively and strengthen its banking sector. These measures would contribute to a more stable and resilient financial system capable of withstanding future shocks.

Amount in Billion	**Mid-Dec 2024**	**%age**
Gross Loan	5,745.85	100.00%
Good loan	5,255.60	91.47%
Problem loan	490.25	8.53%
Provision made	310.68	5.41%
Additional provisions required (If all problem loan become Bad)	179.57	3.13%
Paid up Capital and Statutory Reserves	599.45	10.43%
Total capital	783.96	13.64%
Paid up Capital and Statutory Reserves (If all problem loan become bad)	419.87	7.31%
Total capital (If all problem loan become bad)	604.38	10.52%

Agriculture
(7.79%)
Down

Mines
0.22%
Down

Productions
16.19%
Up

Construction
4.04%
Up

Metal Productions
1.28%
Down

Transportation
0.89%
Down

Communications and Energy
8.02%
Up

Wholesaler and Retailers
19.47%
Up

Finance, Insurance, and Real Estates
7.06%
Down

Service Industries
8.53%
Up

Consumable Loan
19.70%
Up

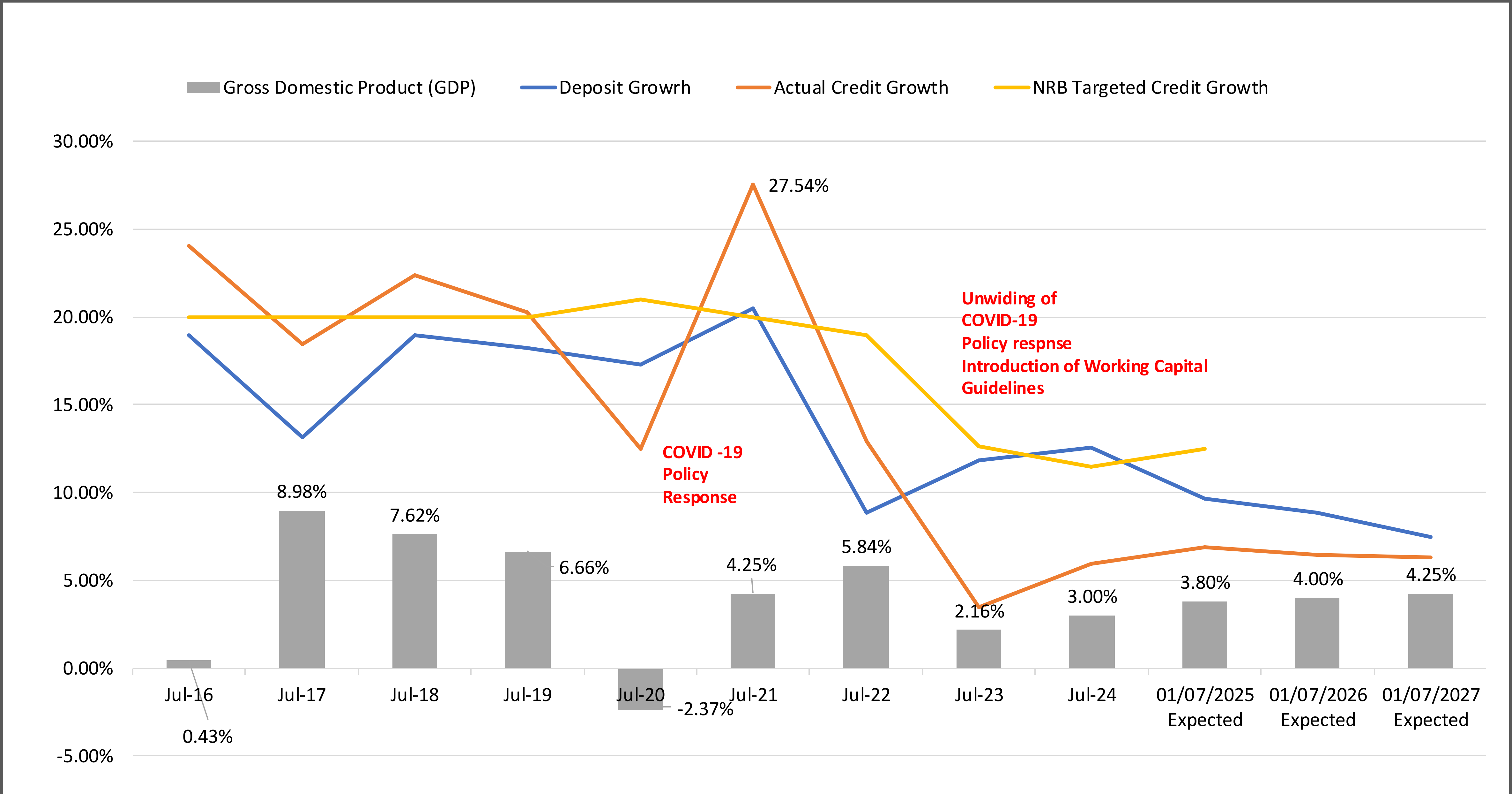
Local Government
0.02%
Down

Others
6.25%
Down

Loan Composition and Growth Trend

Gold/Silver 1.23% Up	Government Securities 0.06% Down	Non-Government Securities 1.88% Up	Fixed A/c Receipt 0.65% Down	Asset Guarantee 89.21% Up
Lands and Buildings 66.06% Up	Machinery and Tools 3.46% Up	Furniture and Fixture 0.04% Down	Vehicles 2.92% Up	Other Fixed Assets 3.27% Down
Current Assets 13.46% Up	Agricultural Products 1.11% Down	Other Non Agri Products 12.35% Up	On Bills Guarantee 0.82% Up	Domestic Bills 0.02% Up
Foreign Bills 0.79% Up	Guarantee 3.42% Down	Credit Card 0.12% Up	Others 2.63% Up	

Loan Securities Composition and Growth Trend



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%
4.00%
4.25%
0.43%
-2.37%
Jul-16
Jul-17
Jul-18
Jul-19
Jul-20
Jul-21
Jul-22
Jul-23
Jul-24
01/07/2025 Expected
01/07/2026 Expected
01/07/2027 Expected

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.*

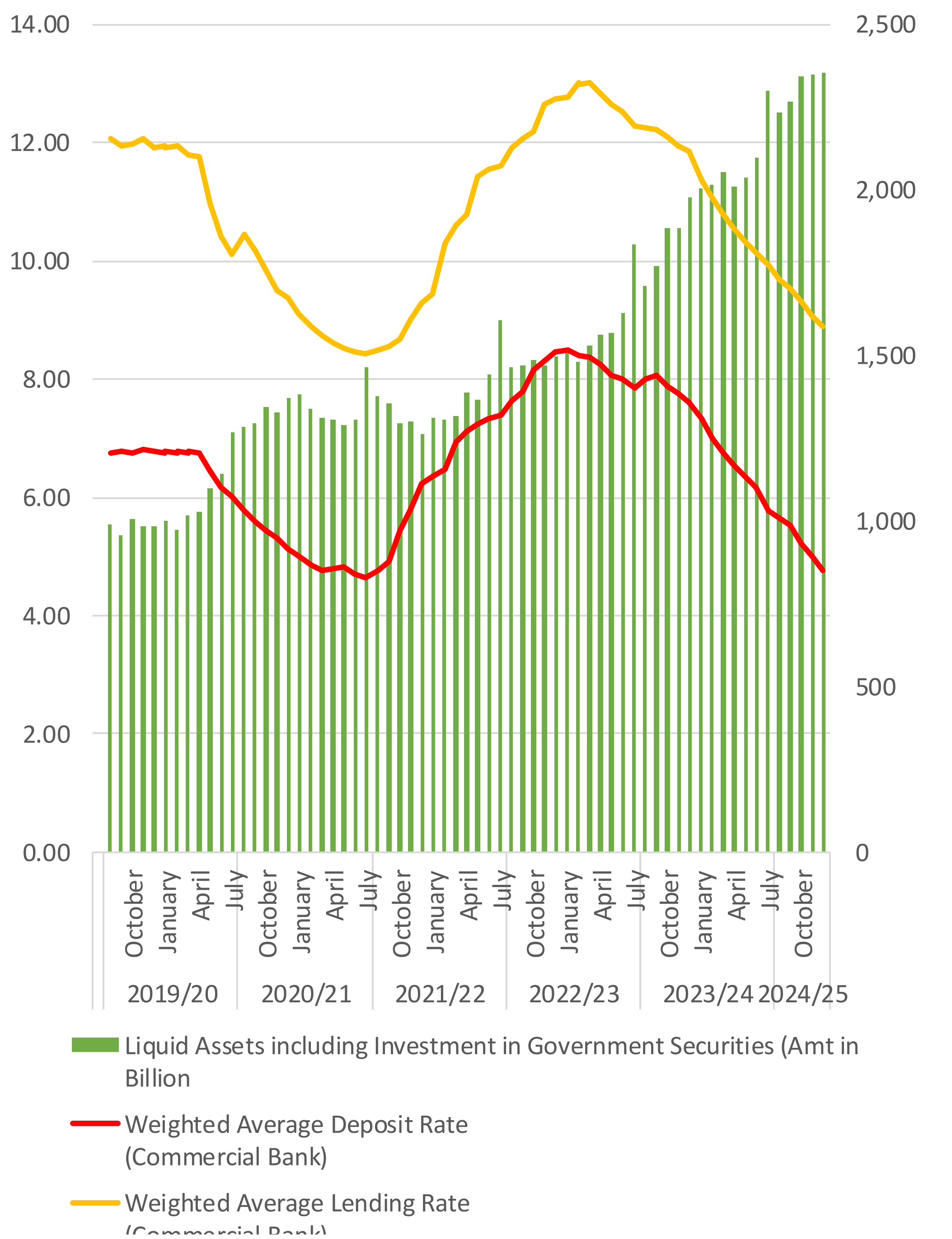
Recommendations:

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

The relationship between deposit rates, lending rates, and liquidity in Nepal's banking sector reflects critical dynamics impacting the sector's overall health and economic growth. Over the observed period, deposit and lending rates have shown a consistent decline. For instance, the weighted average deposit rate dropped from 6.77% in August 2019 to 4.78% in December 2024, while lending rates decreased from 12.08% to 8.90%. This trend indicates an easing monetary policy environment or competitive efforts by banks to reduce funding costs. Simultaneously, banks' liquid assets, including investments in government securities, rose significantly from NPR 989 billion in August 2019 to NPR 2,355 billion by December 2024. This increase in liquidity highlights a trend of banks holding more liquid assets, driven by subdued credit demand and regulatory liquidity requirements.

Despite falling interest rates, loan demand has not increased proportionately due to several factors. Economic uncertainty, such as the effects of the COVID-19 pandemic, has reduced business confidence and borrowing appetite. Structural bottlenecks like bureaucratic delays and insufficient infrastructure, combined with borrowers' risk aversion and a lack of viable investment opportunities, have further constrained loan growth. Additionally, banks' cautious approach to lending due to perceived credit risks has limited credit expansion. As a result, excess liquidity has been funneled into low-risk government securities, which yield lower returns compared to loans, compressing banks' net interest margins and affecting profitability.

To address these challenges, banks should diversify their loan portfolios by targeting emerging sectors like renewable energy, technology, and export-oriented industries. Fiscal policy measures, such as increased government spending on infrastructure and subsidies for small and medium enterprises (SMEs), can stimulate economic activity and boost credit demand. Strengthening financial intermediation by streamlining loan evaluation and disbursement processes, coupled with promoting financial literacy to encourage productive borrowing, is essential. A coordinated approach involving both fiscal and monetary policies is critical to overcoming these structural and demand-side issues, ensuring that declining interest rates translate into meaningful economic growth and financial stability.



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.*
Prompt Corrective Action	*In addition to the current PCA guidelines, the NRB should consider introducing supplementary provisions. If the net NPA level is below 7%, no further action is necessary. However, if it surpasses 7% but remains below 9%, falling within the first threshold, BFIs should refrain from approving new loans. Crossing the 9% threshold triggers the second tier, where BFIs must abstain from accepting new deposits. Should this metric reach 11% or higher, the bank will be categorized into the third tier, prompting PCA initiation.*	*Improve financial sector stability*
	Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&L) should be increased from 5% to 9%.	*Increase transperancy by allowing Loan loss proviosn as tacable expnese in ecxess of 5%*
Fiscal Policy	*Expedite post-flood infrastructure rebuilding*	*Employment creation and restored infrastructure functionality.*
Digital Transformation	*Modernize FDI and business registration systems to attract investors.*	*Simplified business processes and higher foreign investment inflows.*
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.*
GDP Base Review	*This adjustment is warranted due to four significant events post the Great Gorkha Earthquake: a trade embargo, changes in government structure, and the impact of the Covid-19 pandemic. Shifting the base year to 2020/21 will provide a fresh perspective for policy formulation and response, considering the evolving economic landscape*	*Updated base year will redline key economic performance.*
Governance	*Strengthen institutional frameworks and reduce corruption.*	*Increased efficiency in public spending and governance credibility.*

Corrective actions

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

Reform Area	***Recommendation***	***Priority***	***Workability***	***Outcome***	***Actions***
FITTA	*Streamline foreign investor processes and expand permissible investment structures.*	*High*	*Attainable*	*Effective; Attract FDI with Confidence*	*Process Initiated*
	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*	*Process Initiated*
	Amend Section 15 (1) of the FITTA shall provide fund-based approval, to support investment from Non-Resident Nepalis (NRN)	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*	*Process Initiated*
	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*	*Process Initiated*
	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*	*Process Initiated*

Reform Area	Recommendation	Priority	Workability	Outcome	Actions
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*	Process Initiated
	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*	Process Initiated
	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*	Process Initiated
Foreign Lenders	*Allow fixed interest rate tenure negotiation for long-term investments (e.g., green bonds).*	High	Attainable	*Effective; Boost Private Sector Confidence*	Process Initiated
	Clarify rules for local currency bond subscriptions by foreign investors.	High	Attainable	*Effective; Boost Private Sector Confidence*	Process Initiated
	Introduce innovative financing options such as mezzanine financing and convertible debt.	High	Attainable	*Effective; Boost Private Sector Confidence*	Process Initiated

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

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:

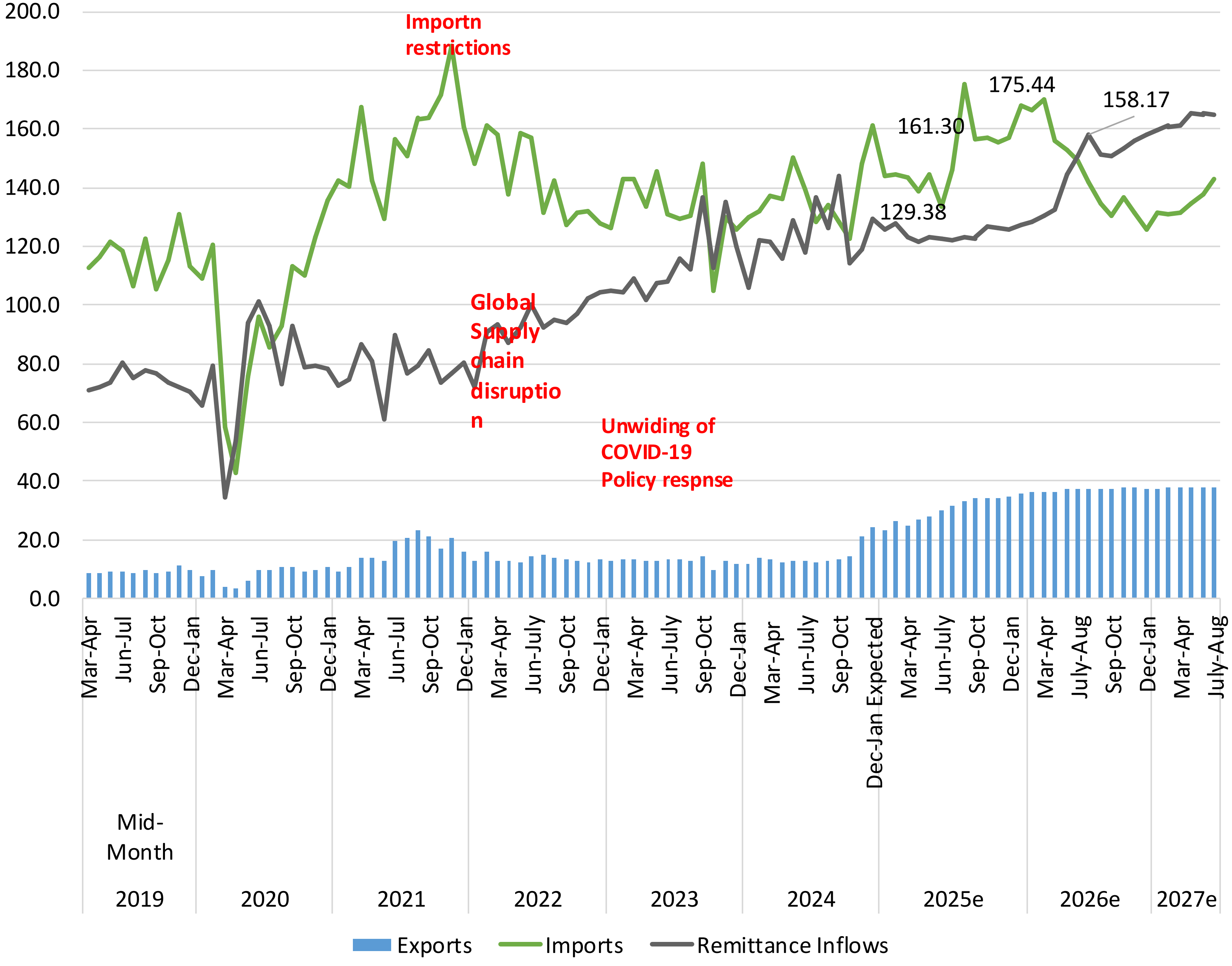
- ***Sweat Equity Acceptance**: Accept up to 40% of professional fees as sweat equity in exchange for services provided to foreign corporate entities or individuals, through technology transfer agreements or professional service agreements.*
- ***Repatriation of Equity Proceeds**: Mandate that all proceeds 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.*

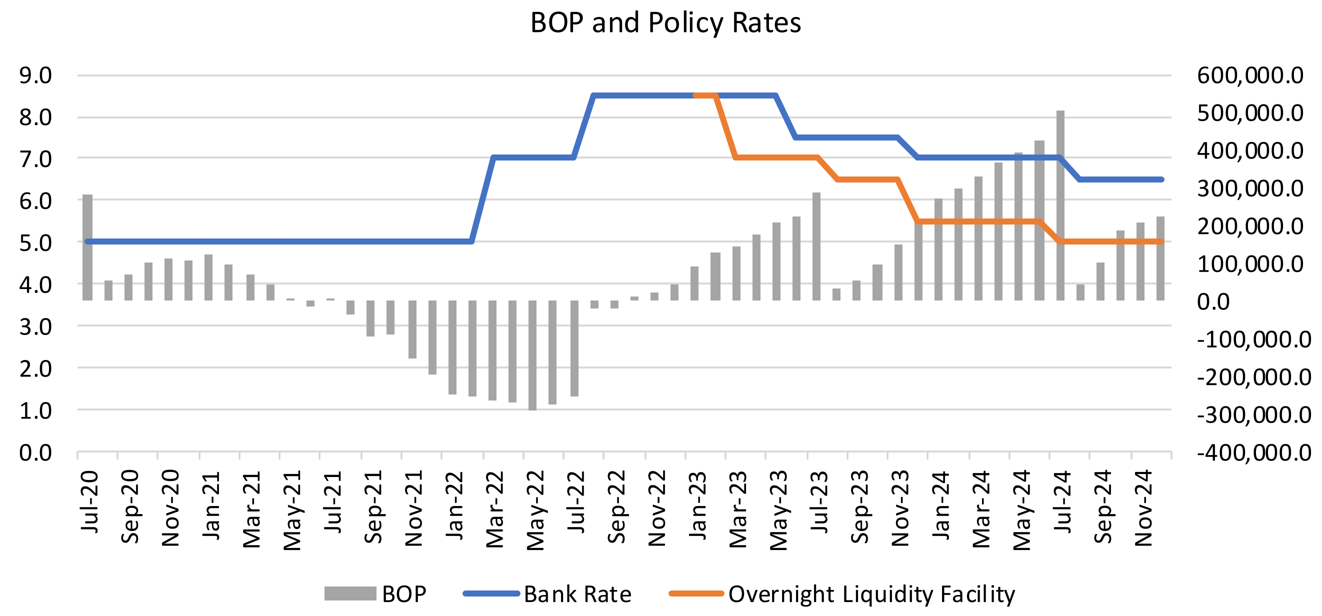
Process Initiated

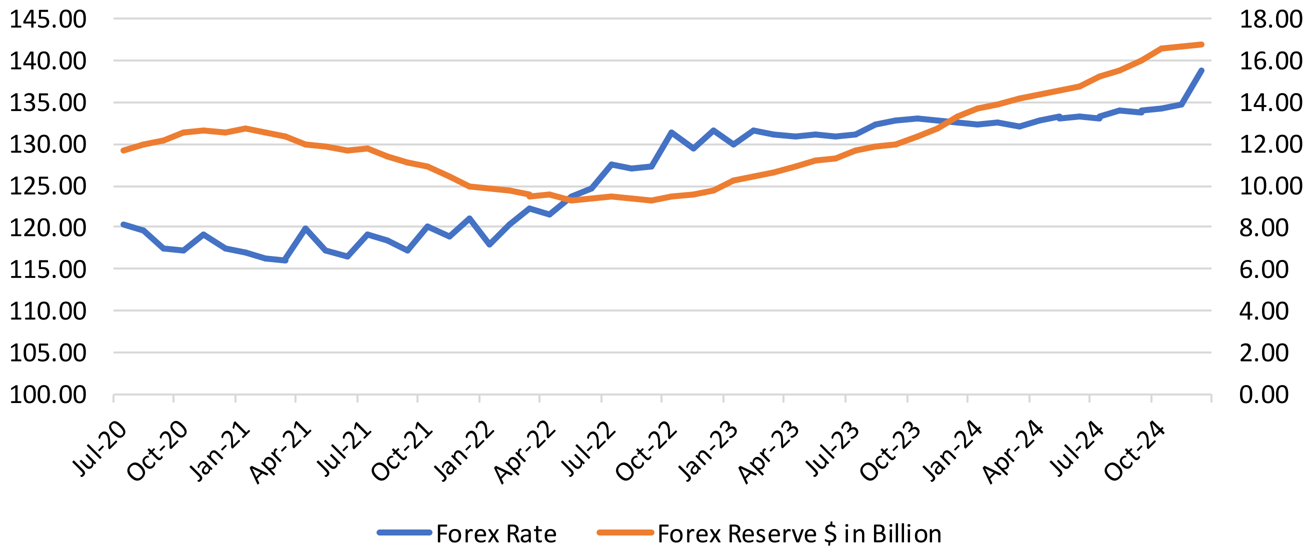
External Sector

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 225.34 billion** by December 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 138.48** by January 2025. 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													
	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	Dec-Jan Expected
Consumer Price Inflation (y-o-y) (%)	4.95	5.26	5.01	4.82	4.61	4.40	4.17	3.57	4.10	3.85	4.82	5.60	6.05	5.86
Exports	12.64	11.76	11.86	13.79	13.33	12.23	13.09	13.12	12.23	12.87	13.29	14.29	20.99	24.50
Imports	129.7	126.0	129.8	132.3	137.1	136.0	150.3	139.3	128.4	134.2	128.2	122.6	148.1	161.30
Remittance Inflows	135.3	120.0	105.8	122.2	121.4	116.0	128.9	117.8	136.9	126.2	144.2	114.3	118.8	129.38
Government Expenditure	97.4	113.6	120.1	114.8	107.8	147.5	124.4	226.7	40.2	97.3	191.6	85.8	141.1	111.50
Current Expenditure	88.8	77.4	71.7	73.1	61.9	108.5	70.3	128.8	12.4	70.6	146.9	62.7	71.0	95.37
Capital Expenditure	60.7	13.2	14.3	17.6	16.2	14.5	23.1	56.8	8.6	6.3	14.5	5.2	6.3	16.13
Revenue	86.8	133.1	70.9	71.6	109.0	83.9	87.3	139.7	94.7	71.6	81.9	75.0	76.4	160.09
Deposit Mobilization	109.1	113.3	20.1	38.7	-26.8	34.0	71.5	227.8	-43.5	78.5	135.0	-20.2	22.5	48.45
Private Sector Credit	10.7	82.6	4.6	2.3	22.7	3.0	21.6	30.1	14.1	59.3	55.3	-0.2	49.8	103
Weighted Average Deposit Rate (%)	7.62	7.32	7.01	6.74	6.53	6.35	6.17	5.77	5.66	5.53	5.24	5.01	4.78	4.46
Weighted Average Lending Rate (%)	11.85	11.38	11.08	10.78	10.55	10.34	10.15	9.93	9.68	9.52	9.33	9.07	8.90	8.90
Base Rate of Commercial Banks (%)	9.64	9.35	9.06	8.77	8.51	8.34	8.17	8.00	7.61	7.49	7.29	7.02	6.82	6.66

In 2024, Nepal's economy experienced notable shifts in key indicators. Inflation showed a gradual upward trend, increasing from 3.57% in June-July to 6.05% in Mid-December, driven by rising costs in both food and non-food items. Exports showed consistent growth, peaking at NPR 24.50 billion in mid-January 2025, with an expected rise to NPR 26.50 billion in mid - February 2025. However, imports surged more significantly, climbing from NPR 104.7 billion in Mid-November 161.30 billion billion in mid-January, with projections reaching NPR 144.4 billion mid-February, signaling a widening trade imbalance.

On the fiscal side, government revenue remained volatile but is expected to double, increasing from NPR 76.4 billion in Mid-December to NPR 160.09 billion in Mid-January. Government expenditure, however, fluctuated sharply, with total spending peaking at NPR 141.6 billion in Mid-December but dropping to a projected NPR 111.50 billion in Mid-January. Capital expenditure remained consistently low, reflecting inefficiencies in development spending, with Mid-January estimates at just NPR 16.13 billion.

Interest rates showed a declining trend throughout the year, with the base rate of commercial banks dropping from 9.74% in Mid-November to 6.82% in mid-December, and projected further decline to 6.66% in Mid-January. Weighted average deposit and lending rates also fell steadily, signaling efforts to encourage borrowing and investment. Overall, the economy is undergoing mixed developments, with rising inflation, a growing trade deficit, fluctuating government finances, and declining interest rates shaping the outlook for the months ahead.

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2022/23 (Mid-Jan.)	6.10	0.62	5.48	6.72	1.00	9.84	0.97	1 USD= 125NPR
Share % in Total Trade	90.77	9.23						
Trade deficit % GDP	13.53%						**Up**	
F.Y. 2023/24 (Mid-jan.)	5.91	0.58	5.33	6.49	1.00	10.19	1.05	1 USD= 130 NPR
Share % in Total Trade	91.06	8.94					**Up**	
Trade deficit % GDP	13.16%							
F.Y. 2081/82 (2024/25) (Mid-Jan.)	6.33	0.76	5.57	7.09	1.00	8.33	1.12	1 USD= 130 NPR
Share % in Total Trade	89.28	10.72					**Up**	
Trade deficit % GDP	11.86%							
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-3.11%	-6.45%	-2.74%	-3.42%			8.25%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	7.11%	31.03%	4.50%	9.24%			6.67%	

Our view on the current level of External vulnerabilities

Nepal's foreign trade data from mid-January of fiscal years 2022/23 to 2024/25 shows mixed trends. Total imports increased slightly from NPR 6.10 trillion in 2022/23 to NPR 6.33 trillion in 2024/25, reflecting a modest growth of 3.77%. Exports, however, grew significantly by 22.58%, rising from NPR 0.62 trillion to NPR 0.76 trillion during the same period. Despite this improvement, imports continue to dominate trade, constituting over 89% of total trade in all periods, although the share of exports increased to 10.72% in 2024/25. The trade deficit remains substantial, but its share of GDP has declined significantly from 13.53% in 2022/23 to 11.86% in 2024/25, indicating progress in addressing macroeconomic imbalances. The export-import ratio improved steadily, moving from 9.84% in 2022/23 to 8.33% in 2024/25, showcasing enhanced export performance relative to imports

Year-over-year changes highlight shifting dynamics in Nepal's trade. In 2023/24, imports declined by 3.11% and exports by 6.45%, resulting in a 3.42% drop in total trade, though the trade deficit saw a smaller reduction of 2.74%. The export-import ratio improved by 8.25%, reflecting efforts to reduce import dependency. In 2024/25, imports rebounded with a 7.11% increase, while exports surged by 31.03%, leading to a 9.24% growth in total trade and a 4.50% rise in the trade deficit. The export-import ratio further improved by 6.67%, underlining a positive shift in export dynamics. The depreciation of the Nepalese rupee from 1 USD = 125 in 2022/23 to 1 USD = 130 in 2024/25 likely influenced these trends, increasing import costs while boosting export competitiveness.

Despite ongoing challenges with a high trade deficit, the declining deficit-to-GDP ratio and improving export performance signal progress. To sustain this momentum, Nepal should prioritize export diversification, reduce dependency on imports by promoting domestic production, and balance exchange rate policies to maintain competitiveness. Strengthening trade infrastructure, reducing tariffs, and negotiating better trade terms can further enhance Nepal's trade dynamics, positioning the economy for long-term growth and stability.

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 24.14 % by mid-Jan 2025, compared to the 29.43% reported in the corresponding previous year.

Trade Deficit

In the 6th month of fiscal year 2024/25, the monthly trade deficit increased by $.07 billion, reaching $1.05 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to $14.02 billion, indicating a mild reversal from the $11.04 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 16.63 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.

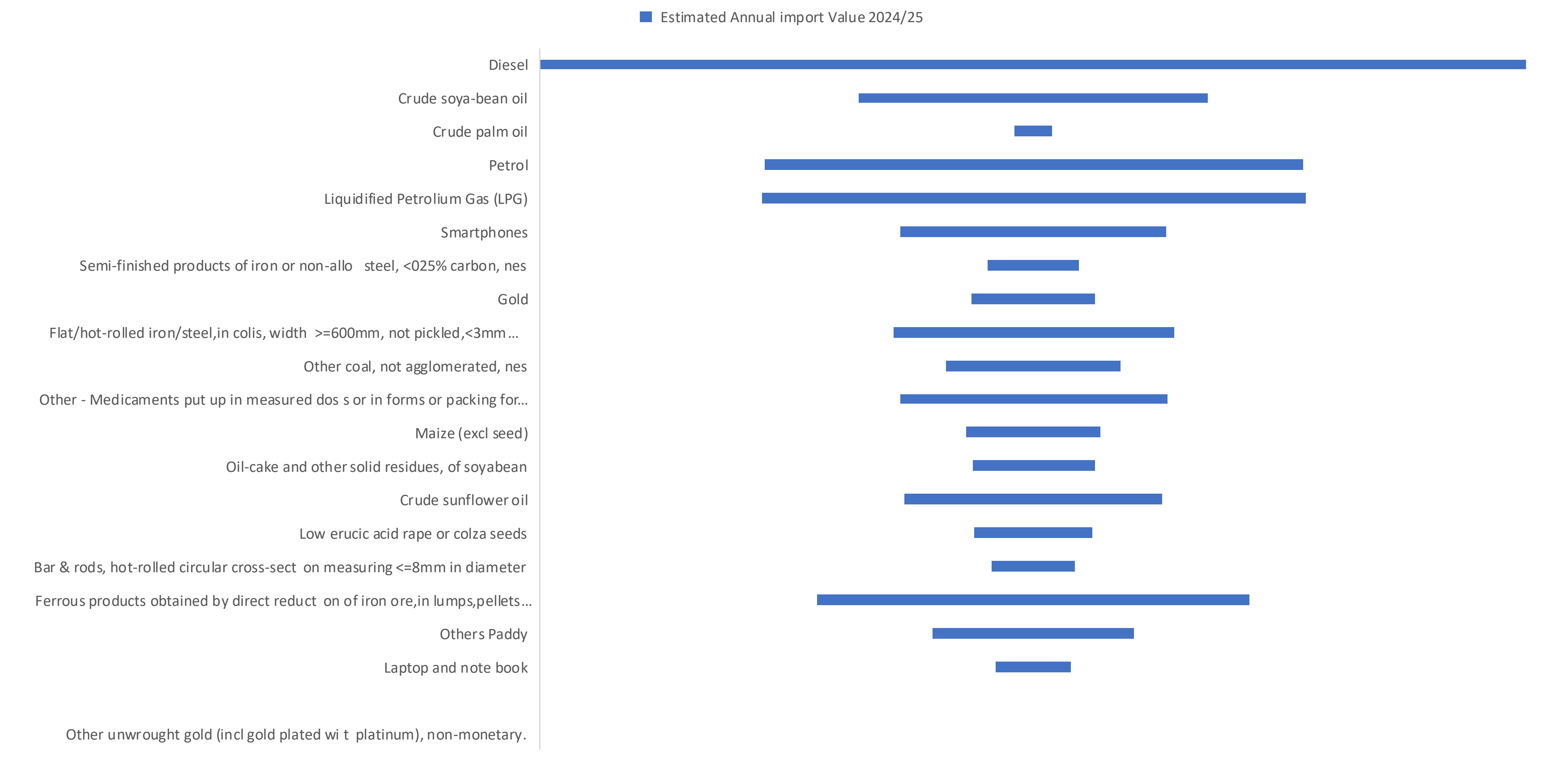
Although there has been a noticeable increase in the import of specific goods, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.

Other major Import	Value in $ million
Other Urea	74
ATF	73
Electric car, jeep & van 51KW to <=100KW	61
Garlic, fresh or chilled	48
Other potatoes, fresh or chilled	40
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	38
Diammonium hydrogenorthophosphate (diammonium phosphate)	35
Apples, fresh	33
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	33
Polypropylene, in primary forms	32
Synthetic staple fibres, of polyesters, no carded, etc	30
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	29
Wire of refined copper, maximum cross-sect onal dimension >6mm.	26
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	26
Motorcycles with piston engine of capacity exceeding 50 not exceeding 125cc	25

Major Export	Value in $ million
Soya-bean oil (excl. crude) and fractions	145.46
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	43.19
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	38.35
Big Cardamon (Alaichi) neither crushed nor ground	35.13
Other black tea (fermented) and other partly fermented tea	22.84
Single yarn, with >=85% polyester staple f bres, nprs	21.48
other Felt, whether or not impregnated, coated, covered or laminated. nes .	19.21
Rolled iron/steel, width >=600mm, plated or coated with aluminum-zinc alloys	19.03
Unbleached woven fabrics of jute or other textile bast fibre of heading 5303.	18.01
Other, with both outer plies of coniferous wood	17.71
Other yarn, <85% polyester staple fibres, ith artificial staple fibres, nprs	17.46
Mixtures of juices, unfermented, not containing added spirit.	17.00
Dog or cat food, put up for retail sale	13.89

Trade Indicators	2023/24							2024/25							
	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)	2024/25 (Month-6)	Y-o-Y	Remaks
Imports (UDS in billion)	5.91	6.91	7.92	8.98	10.03	11.18	12.25	0.99	2.02	3.01	3.95	5.09	6.33	12.67	UP
Monthly Imports	0.97	1.00	1.01	1.06	1.05	1.15	1.07	0.99	1.03	0.99	0.94	1.14	1.24		
Exports (UDS in billion)	0.58	0.67	0.77	0.88	0.97	1.07	1.17	0.09	0.19	0.30	0.41	0.57	0.76	1.35	UP
Montly Exports	0.09	0.09	0.10	0.11	0.09	0.10	0.10	0.09	0.10	0.11	0.11	0.16	0.19		
Trade Deficit (UDS in billion)	5.33	6.24	7.15	8.10	9.06	10.11	11.08	0.90	1.83	2.71	3.54	4.52	5.57	11.32	UP
Total Foreign Trade (UDS in billion)	6.49	7.58	8.69	9.86	11.00	12.25	13.42	1.08	2.21	3.31	4.36	5.66	7.09	14.02	UP
Monthly Import Revenue	0.25	0.25	0.26	0.28	0.28	0.32	0.27	0.27	0.30	0.33	0.22	0.30	0.31		
Total Import revenue	1.57	1.82	2.08	2.36	2.64	2.96	3.23	0.27	0.57	0.90	1.12	1.42	1.73	3.33	UP
Montly Remittance	0.92	0.81	0.94	0.93	0.89	0.99	0.91	1.05	0.97	1.11	0.88	0.91	1.00		
Remittance inflows	5.64	6.45	7.39	8.33	9.22	10.21	11.12	1.05	2.02	3.13	4.01	4.93	5.92	11.40	UP
Imports/Exports Ratio	10.19	10.31	10.29	10.20	10.34	10.45	10.47	11.00	10.63	10.03	9.63	8.93	8.33	9.39	Down
Exports Share to Total Trade (%)	8.94	8.84	8.86	8.92	8.82	8.73	8.72	8.33	8.60	9.06	9.40	10.07	10.72	11.93	UP
Imports Share to Total Trade (%)	91.06	91.16	91.14	91.08	91.18	91.27	91.28	91.67	91.40	90.94	90.60	89.93	89.28	88.07	Down
Monthly Trade Deficit (UDS in billion)	0.88	0.91	0.91	0.95	0.96	1.05	0.97	0.90	0.93	0.88	0.83	0.98	1.05		Down
Trade deficit % GDP	13.16%	15.40%	17.65%	17.25%	19.29%	21.53%	23.59%	1.92%	3.90%	5.77%	7.54%	9.62%	11.86%	24.10%	UP
Change in Monthly Trade Deficit %	-2.27%	3.30%	0.00%	4.21%	1.04%	8.57%	-8.25%	-7.78%	3.23%	-5.68%	-6.02%	15.31%	6.67%		
Conversion Factor	130	130	130	130	130	130	130	130	130	130	130	130	130		

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 diameter
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets...
Others Paddy
Laptop and note book
Other unwrought gold (incl gold plated wi t platinum), non-monetary.

Expected Annual Imports of Major Items (USD in million)

Description	2022/23 Annua Import Value	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	2024/25 6 month	Estimated Annual import Value 2024/25	Import Direction	Movement
Diesel	1,183	511	596	684	794	890	994	1,108	54	105	170	223	334	418	906	Decline	-22.41%
Crude soya-bean oil	274	60	66	71	83	88	100	103	10	18	41	55	103	187	321	Growth	230.91%
Crude palm oil	199	50	57	68	75	79	79	82	3	7	9	12	17	22	36	Decline	-63.64%
Petrol	514	261	299	343	387	436	484	524	44	85	128	166	203	247	496	Decline	-6.36%
Liquidified Petrolium Gas (LPG)	447	196	233	276	315	354	393	428	37	73	108	145	186	229	500	Growth	20.75%
Smartphones	188	116	134	149	167	185	203	221	27	52	76	103	117	129	246	Growth	12.38%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	49	55	63	73	79	99	107	6	9	14	19	28	39	85	Decline	-26.32%
Gold	172	83	97	124	124	169	182	182	8	8	8	11	16	52	114	Decline	-40.26%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	158	144	166	188	214	236	251	266	23	54	93	99	119	140	259	Decline	-3.60%
Other coal, not agglomerated, nes	209	83	100	118	138	152	162	176		22	32	39	56	76	161	Decline	-11.86%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	102	124	138	158	175	193	211	18	40	59	77	97	119	246	Growth	20.24%
Maize (excl seed)	127	47	55	64	78	87	102	108	6	11	14	25	37	54	124	Growth	20.00%
Oil-cake and other solid residues, of soyabean	98	72	85	100	108	117	124	130	9	19	25	36	53	63	114	Decline	-15.25%
Crude sunflower oil	139	60	74	92	97	105	119	137	20	40	55	74	86	104	237	Growth	84.62%
Low erucic acid rape or colza seeds	72	40	43	48	55	62	72	83	10	19	27	34	44	53	110	Growth	39.39%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	41	48	58	86	70	75	80	6	18	23	29	33	40	78	Decline	-2.94%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	149	174	199	233	241	270	300	29	60	93	123	161	198	399	Growth	42.61%
Others Paddy	154	40	57	66	76	86	89	93	8	12	13	20	47	80	186	Growth	129.03%
Laptop and note book	48	29	34	39	43	47	53	58	7	14	17	22	30	35	70	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 20.75%, signaling a transition from traditional fuels to cleaner energy sources, while smartphone imports are expected to rise by 12.38%, showcasing increased adoption of digital technologies. Similarly, **Crude soya-bean oil** shows remarkable growth of 230.91 %, indicating surge in export in India process **soya-bean oil** amounting to $ 145 million.*

Changing economic priorities

- *In contrast, several key commodities are witnessing a sharp decline in imports. Though Gold import has increased surged significantly during the month of January 2025 but gold import is projected to plummet by 40.62%. Diesel imports are also expected to decline by 22.41%, indicating decreased movement of industrial finished goods or a shift toward alternative energy sources. Crude palm oil imports show a significant drop of 63.34%, 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 (20%), the import of low erucic acid rape or colza seeds is projected to grow significantly by 39.39%, 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 contributed to a decline in rural demand, which is anticipated to remain below the levels observed in the fiscal year 2023/24. In the ongoing fiscal year 2024/25, weighted average lending rates have decreased by 109 basis points, settling at 8.90%, compared to their all-time low of 8.43% in July 2021. This reduction in lending rates has spurred a modest increase in urban demand for domestic capital goods, as reflected 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.

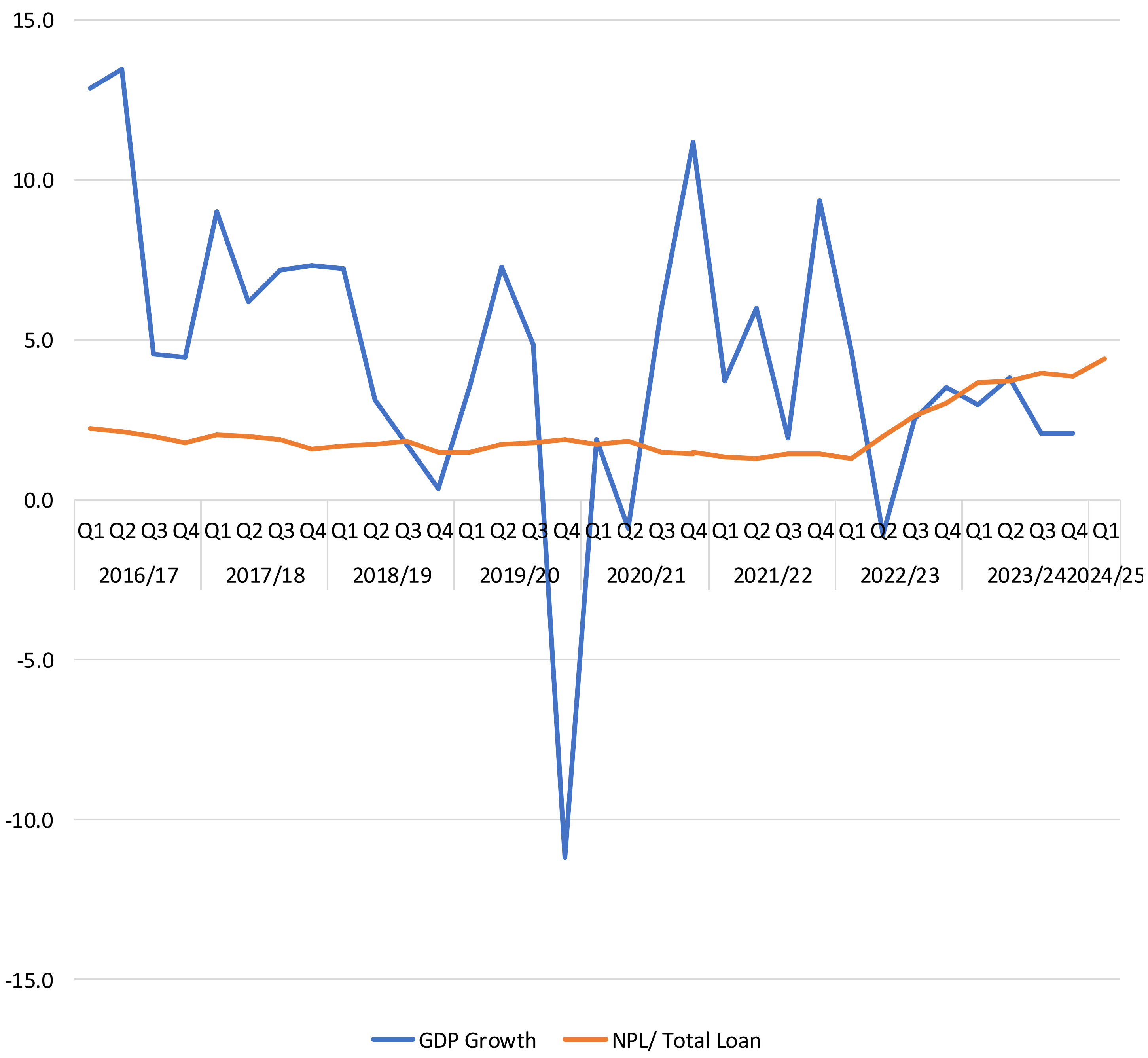
Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and 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.

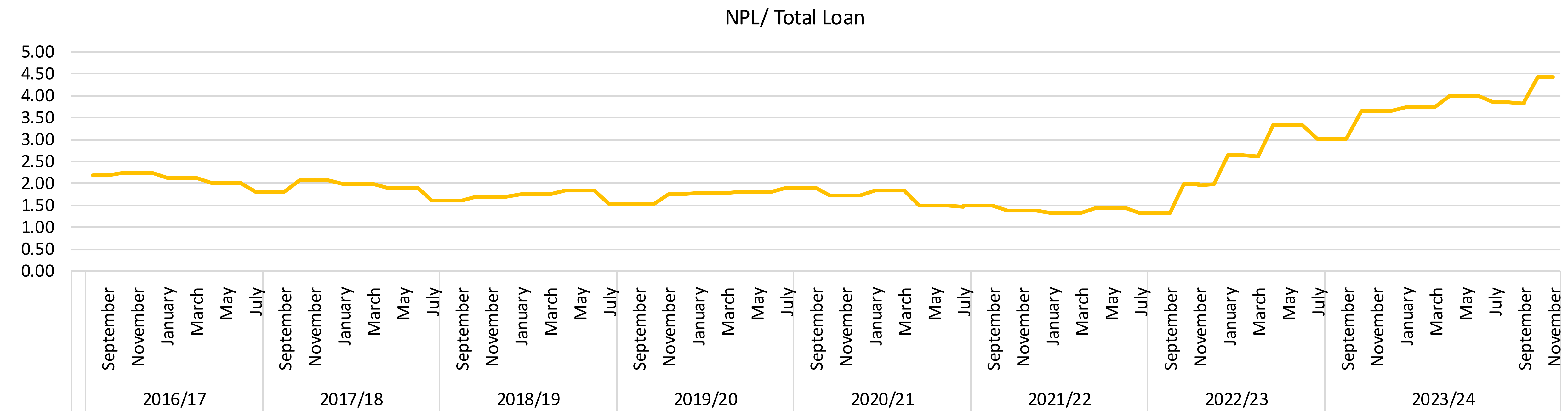
The chart presents data on GDP growth and the ratio of Non-Performing Loans (NPL) to total loans for various quarters from 2016/17 to 2024/25.

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%.

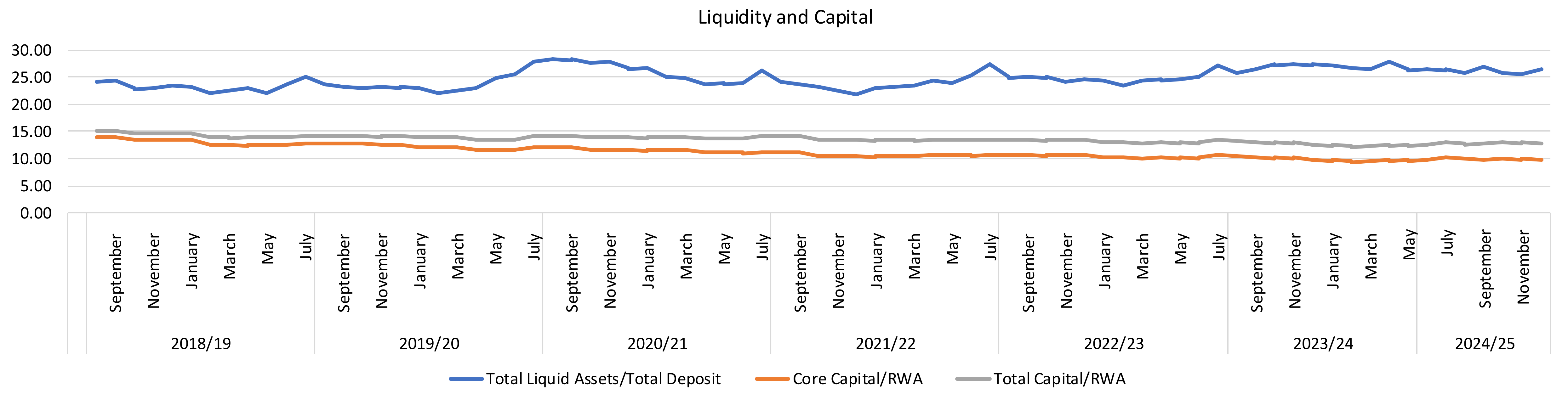
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. 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
September
November
January
March
May
July
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24



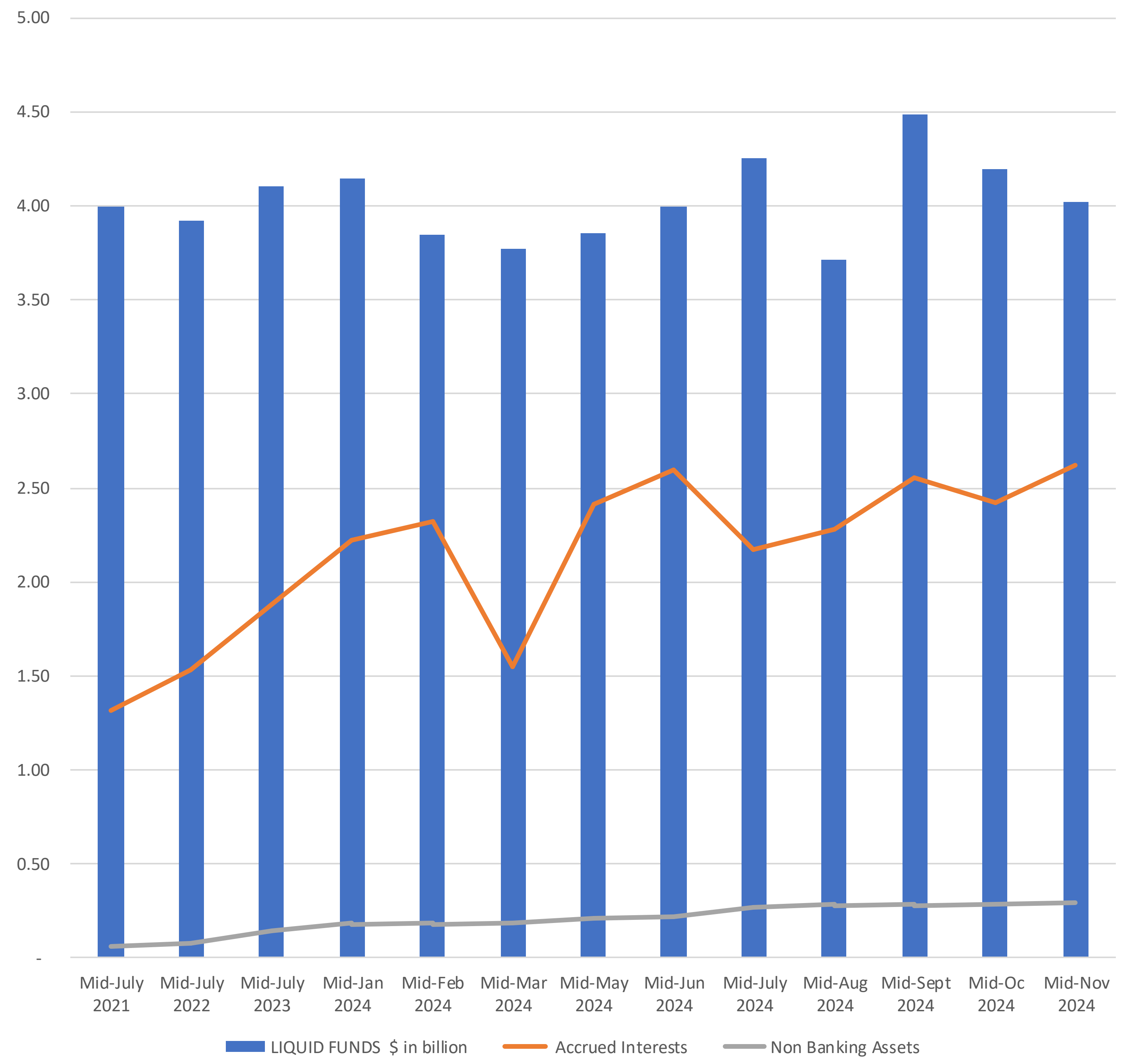
Liquidity and Capital
30.00
25.00
20.00
15.00
10.00
5.00
0.00
September
November
January
March
May
July
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Total Liquid Assets/Total Deposit
Core Capital/RWA
Total Capital/RWA

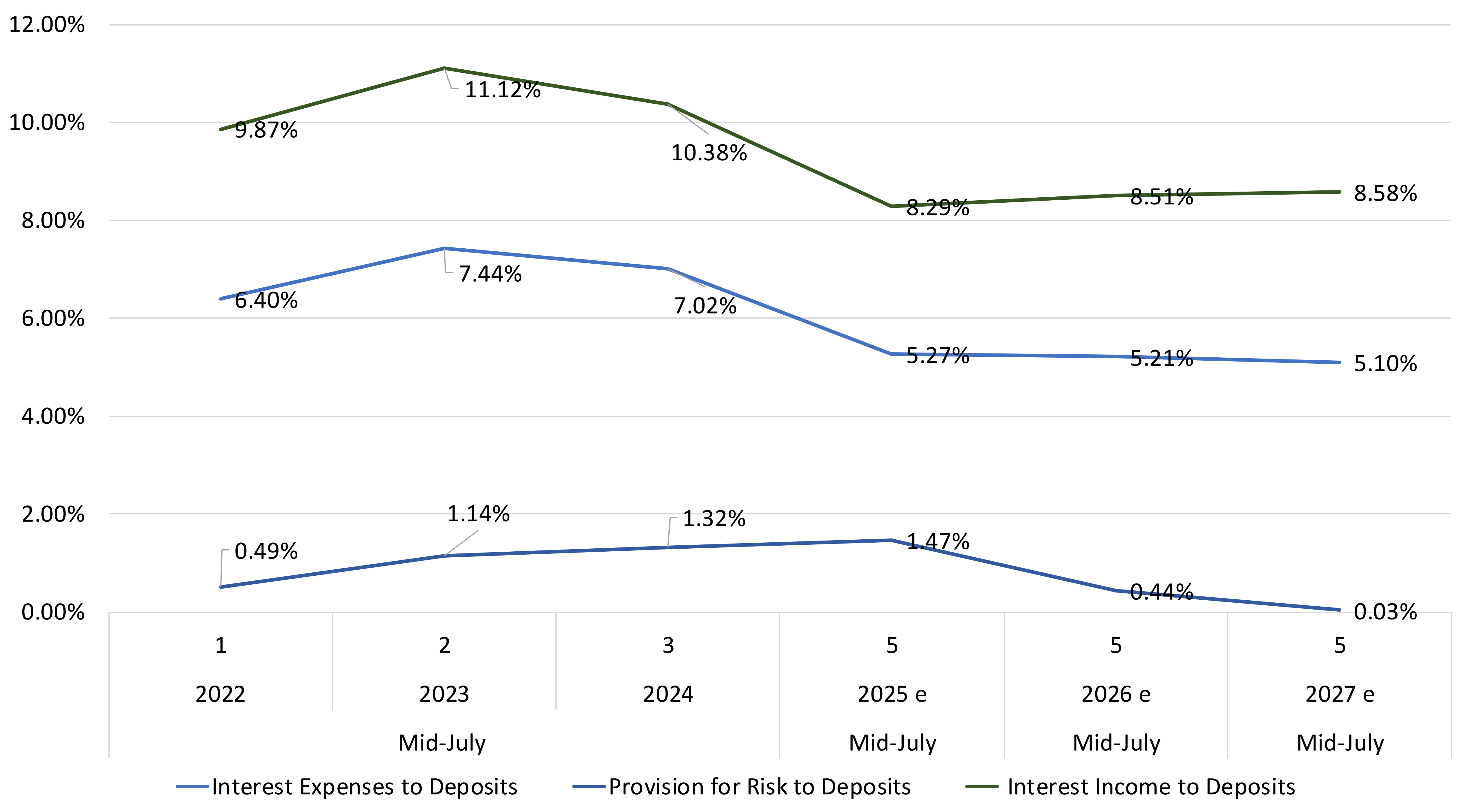
The chart illustrates trends in liquid funds, accrued interests, and non-banking assets over time. Liquid funds, represented by blue bars, remain relatively stable throughout the period, indicating minimal fluctuations in overall system liquidity.

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%
8.29%
8.51%
8.58%
6.40%
7.44%
7.02%
5.27%
5.21%
5.10%
0.49%
1.14%
1.32%
1.47%
0.44%
0.03%
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

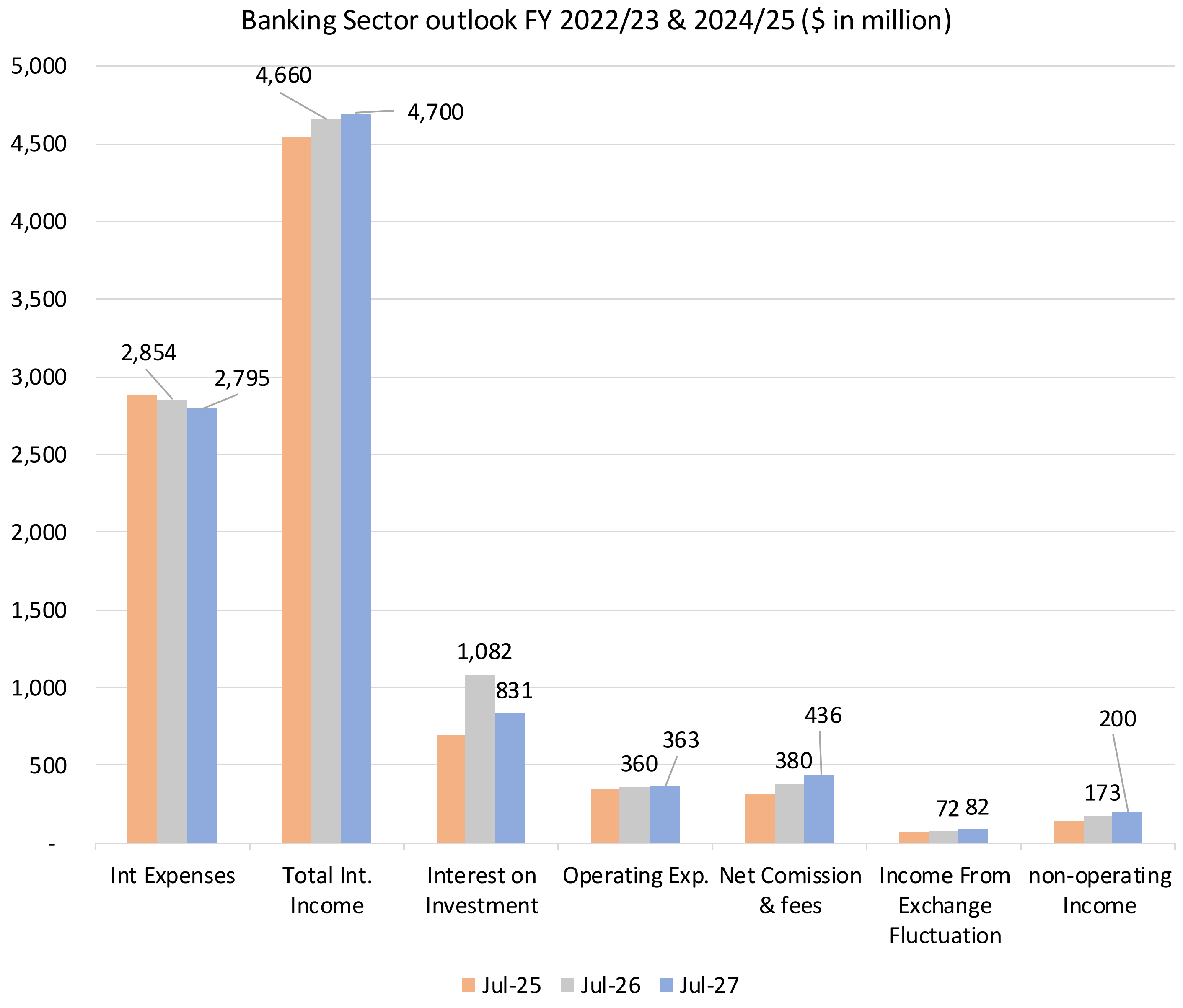
BFIs Outlook 2024/25, 2025/26 and 2026/27

Amount in $ Million													
Assets and Liability (Exchange Factor $ 1 = NPR 130)							Profit and loss						
Capital, Deposits and Risk Assets								July 2025e	Change	July 2026e	Change	July 2027e	Change
Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change	Int on Loans and Adv.	3,851	-14.90%	3,578	-7.09%	3,869	8.13%
CAPITAL FUND	6,174	10.14%	7,141	15.67%	8,313	16.42%	Total Int. Income	4,540	-12.45%	4,660	2.65%	4,700	0.85%
PAID UP CAPITAL	3,388	0.93%	3,415	0.80%	3,444	0.83%	Avg. Yield From Loan	8.43%	-15.15%	7.60%	-9.89%	8.05%	5.94%
BORROWINGS	2,179	17.60%	1,903	-12.65%	1,979	3.95%	Int Expenses	2,885	-17.74%	2,854	-1.08%	2,795	-2.06%
Borrowing from NRB	0	-90.07%	0.52	71.78%	1.86	262%	Avg. Cost of Fund	4.90%	-14.90%	4.45%	-9.10%	4.84%	8.75%
DEPOSITS	54,776	9.63%	59,607	8.82%	64,035	7.43%	NII	1,654	-1.39%	1,806	9.17%	1,904	5.44%
Current	3,369	14.69%	3,932	16.73%	4,432	12.71%	Interest Spread	3.53%	-15.50%	3.14%	-10.99%	3.07%	-2.29%
Saving	19,131	27.25%	23,366	22.14%	26,987	15.50%	Commission & fees	317	34.72%	380	19.77%	436	14.76%
Fixed	27,833	-0.68%	27,652	-0.65%	27,446	-0.74%	Ex. Fluctuation Gain	63	27.80%	72	14.65%	82	14.17%
Call	4,106	12.96%	4,295	4.62%	4,814	12.08%	Other Operating & Non-operating Income	145	107.48%	173	19.66%	200	15.18%
Others	338	-0.09%	362	6.89%	355	-1.70%	Gross Income	2,179	7.24%	2,431	11.56%	2,622	7.85%
LIQUID FUNDS	4,761	11.88%	5,614	17.91%	6,644	18.36%	Employees Exp	494	0.95%	514	3.88%	522	1.61%
GOVT. SECURITIES/OTHER	12,769	12.83%	13,916	8.98%	14,642	5.22%	Employee cost in % of Total Int. Income	10.89%	15.31%	11.02%	1.20%	11.10%	0.75%
Investment in share and other	2,555	20.47%	2,523	-1.23%	2,828	12.08%	Office Operating Exp	341	3.16%	360	5.54%	363	0.77%
LOANS & ADVANCES	42,484	6.85%	45,217	6.43%	48,074	6.32%	LLP & write-off	814	22.03%	215	-73.52%	17	-92.16%
Total Capital/RWA	13.27%	2.46%	14.10%	6.22%	15.13%	7.35%	Additional LLP to Risk Assets	1.89%	14.34%	0.53%	-72.01%	0.04%	-92.62%
CD	75.96%	-2.67%	74.60%	-1.79%	73.86%	-0.98%	Provision Written Back	366	10.00%	183	-50.00%	128	-30.00%
NPL /Total Loan	4.27%	9.58%	4.54%	6.24%	4.39%	-3.27%	PBT	896	2.10%	1,525	70.23%	1,849	21.21%
Return on Capital Employed	9.35%	-7.30%	13.75%	47.17%	17.53%	27.43%	Return on total assets	1.29%	-7.19%	2.00%	54.76%	2.20%	10.20%

Profitability of BFIs.

(Exchange Factor $ 1 = NPR 130

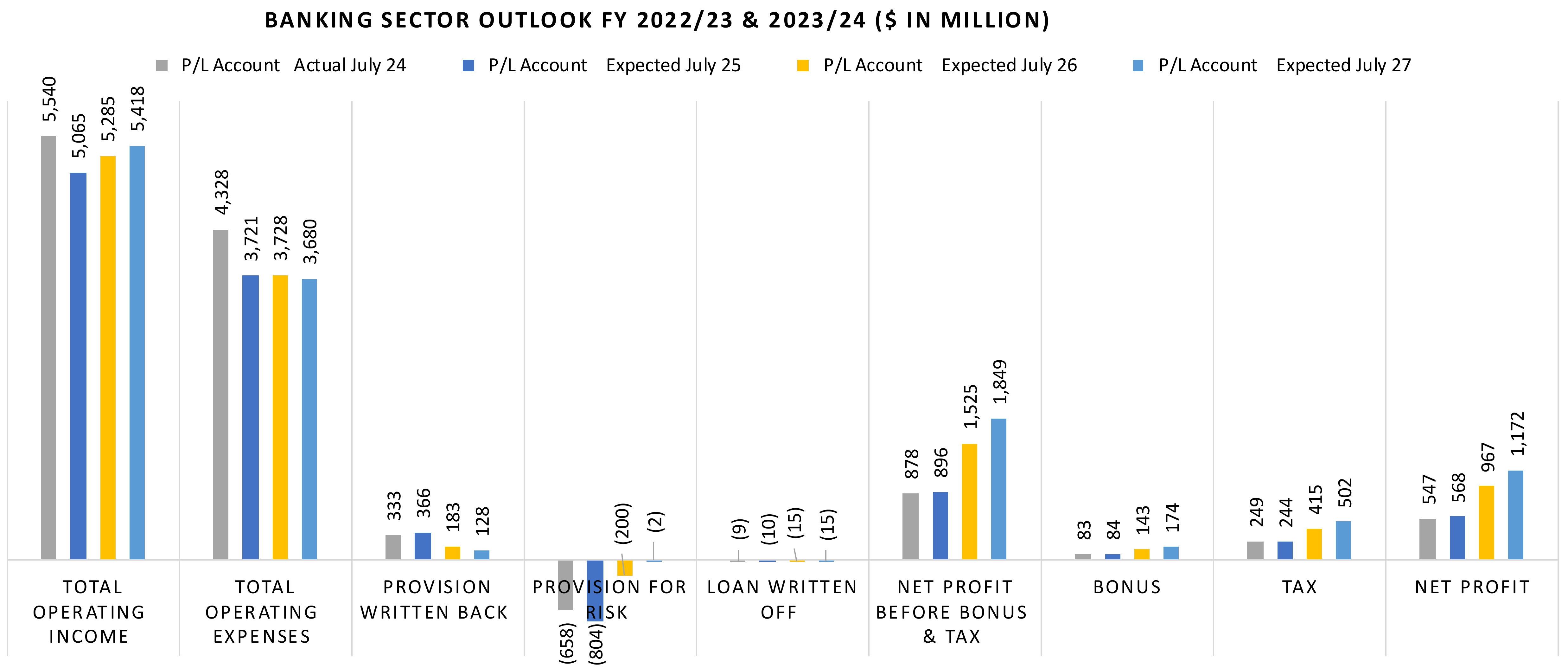
$ in million				
P/L Account				
Particulars	Actual July 24	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	5,540	5,065	5,285	5,418
Total Operating Expenses	4,328	3,721	3,728	3,680
Provision Written Back	333	366	183	128
Provision for Risk	(658)	(804)	(200)	(2)
Loan Written Off	(9)	(10)	(15)	(15)
Net Profit before Bonus & Tax	878	896	1,525	1,849
Bonus	83	84	143	174
Tax	249	244	415	502
Net profit	547	568	967	1,172



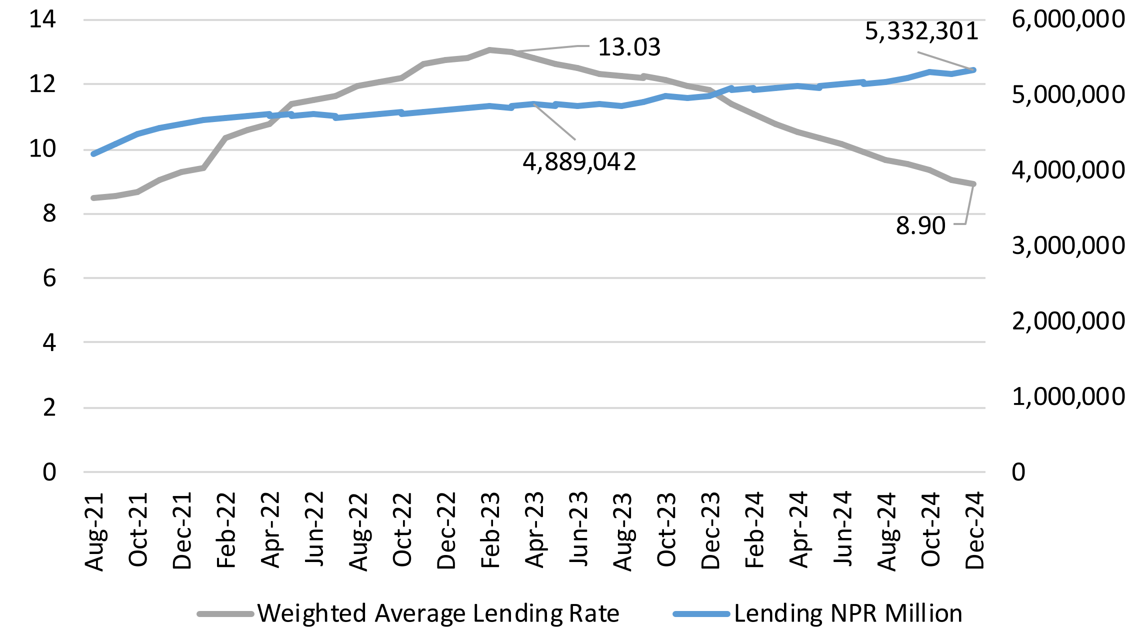
The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

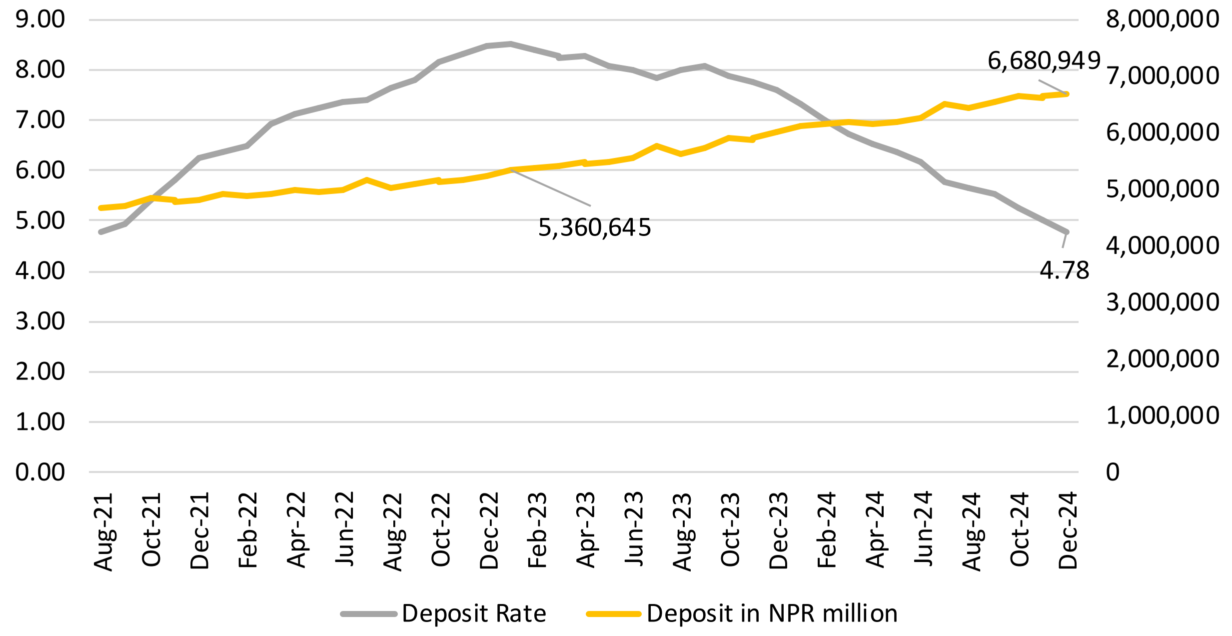
Profitability of BFIs

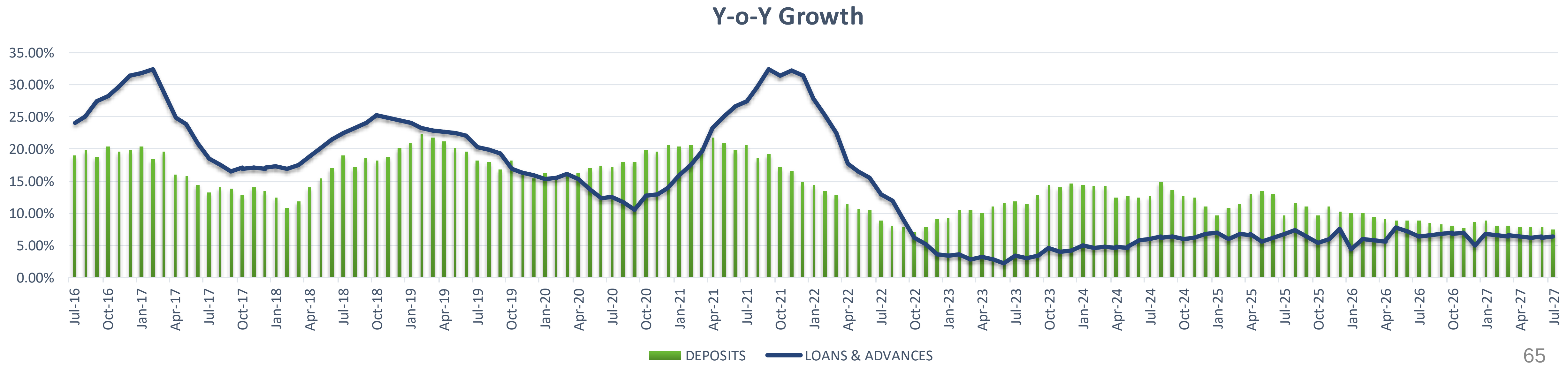
(Exchange Factor $ 1 = NPR 130)



Annual Loan and Deposit Growth







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 8.90% by Dec. 2024. On the other hand, lending in NPR million shows relatively stable growth, peaking around 54,35,175 million NPR in January 2025.*
- *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 67,29,403 million NPR by January 2025. 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.

→

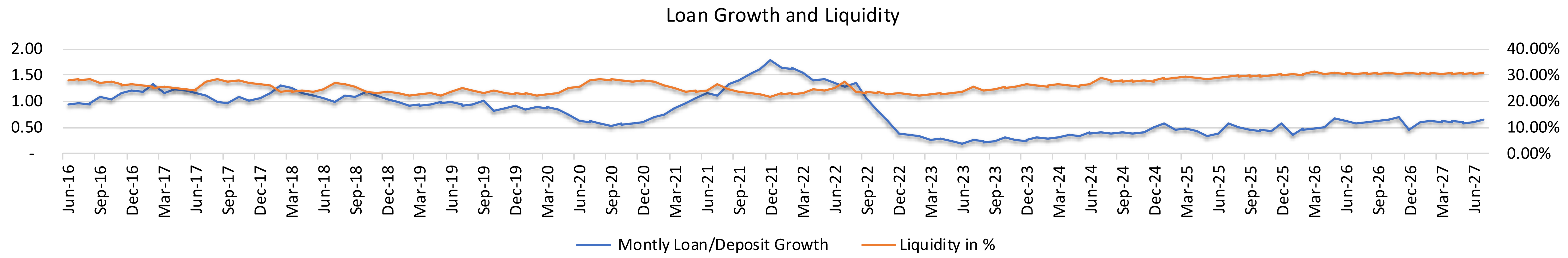
Interest rates and deposit growth:

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

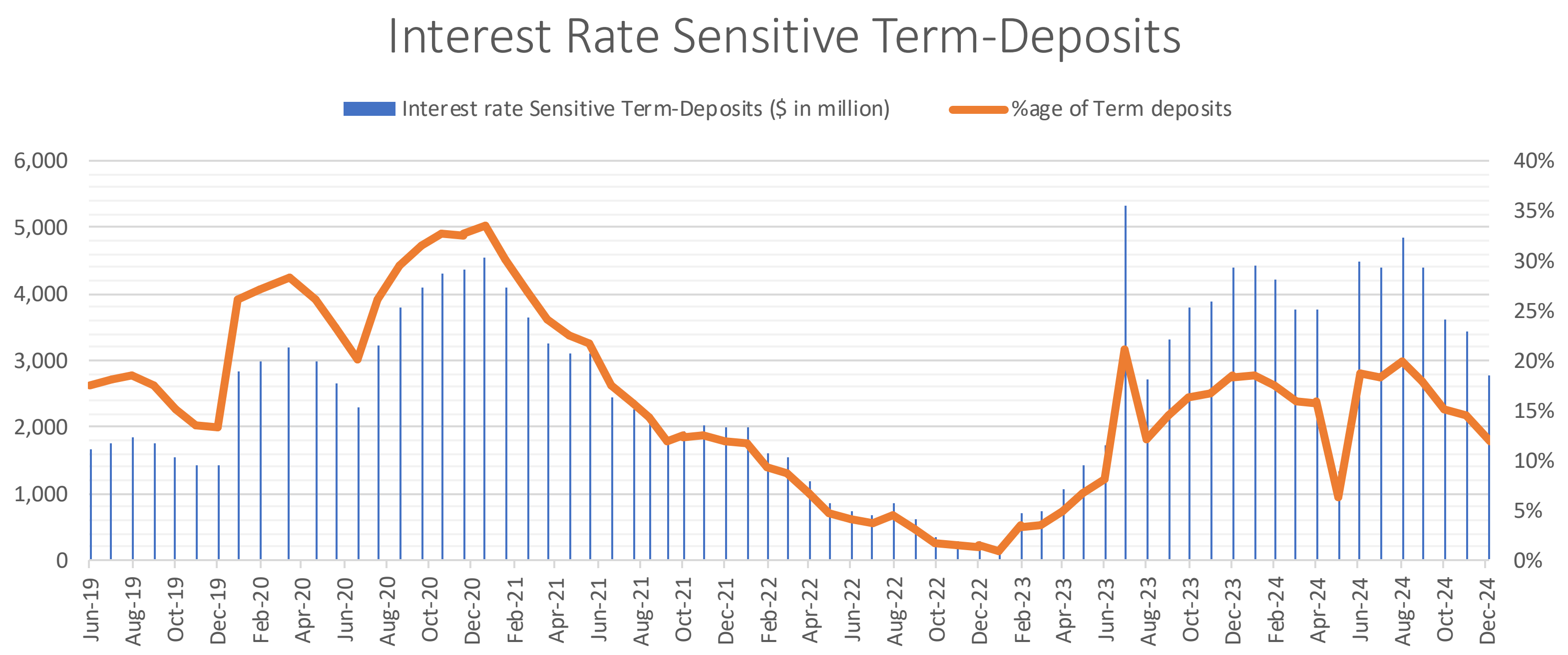
→

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

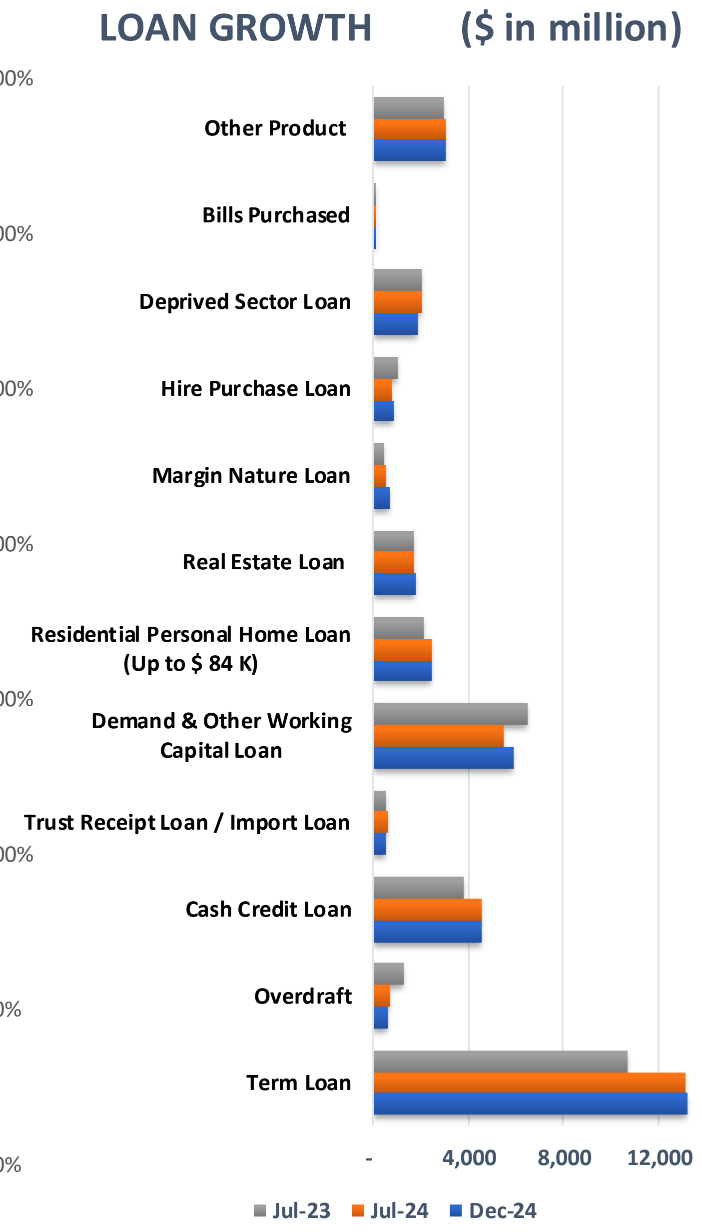


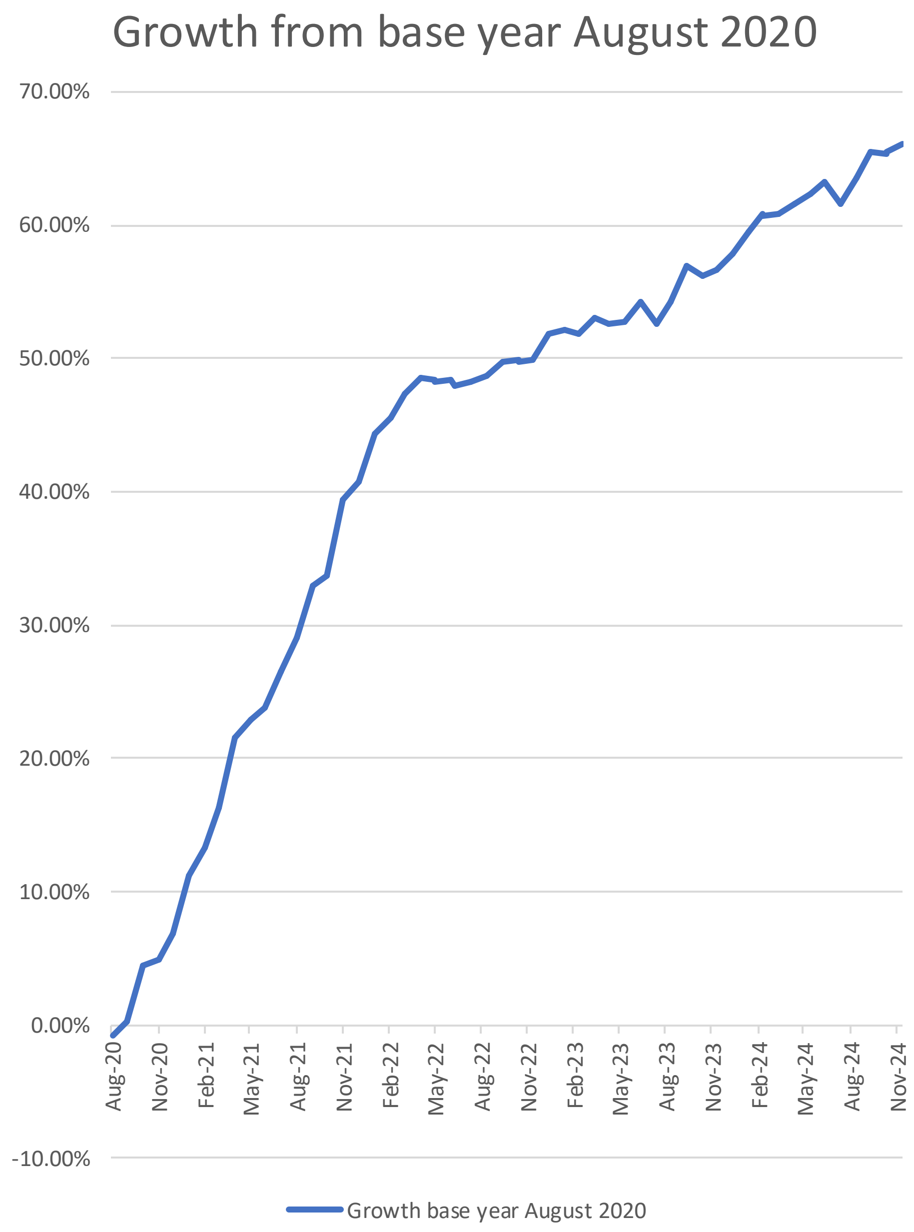
Amount in million		Maturity Amount in $ million	
Period	Deposit mix	Within next month	Within a Year
3-6 months	20%	2,766.63	10,160.75
6-12 months	37%		
1-2 yrs.'	18%		
2 yrs. and above	26%		
Total	100%	11.93%	43.81%



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

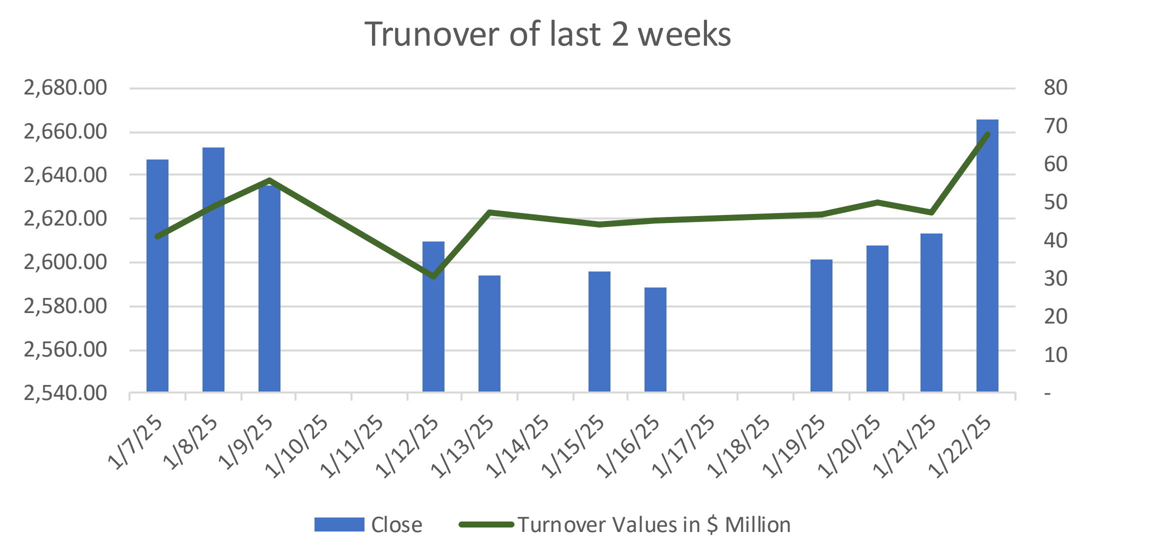
Sector wise Loan Growth of Commercial Banks

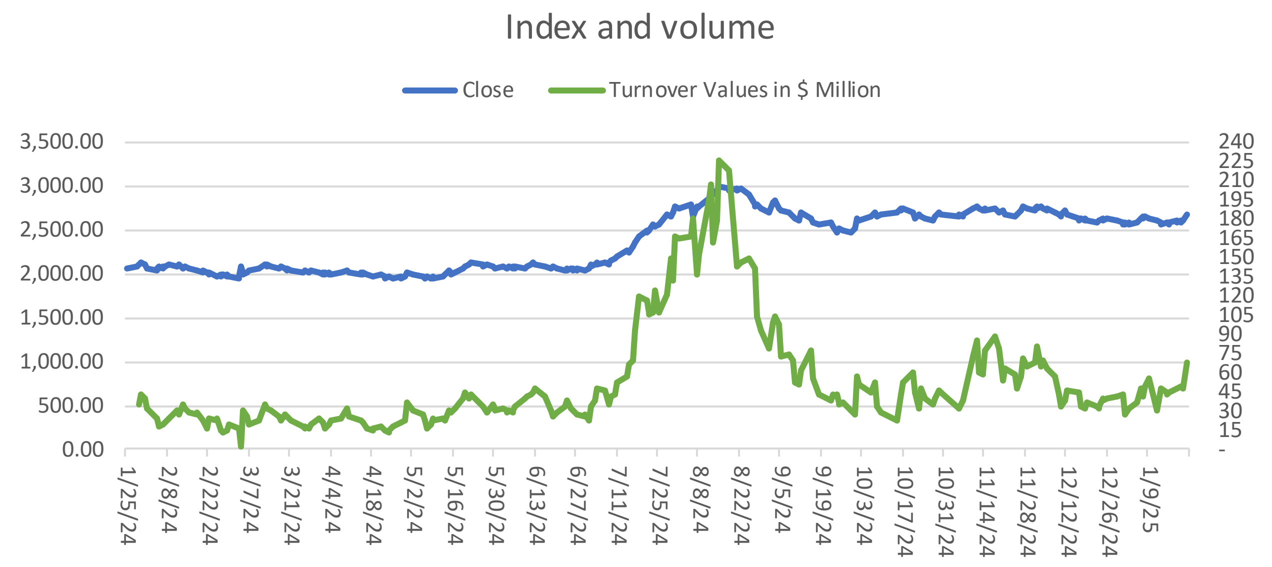


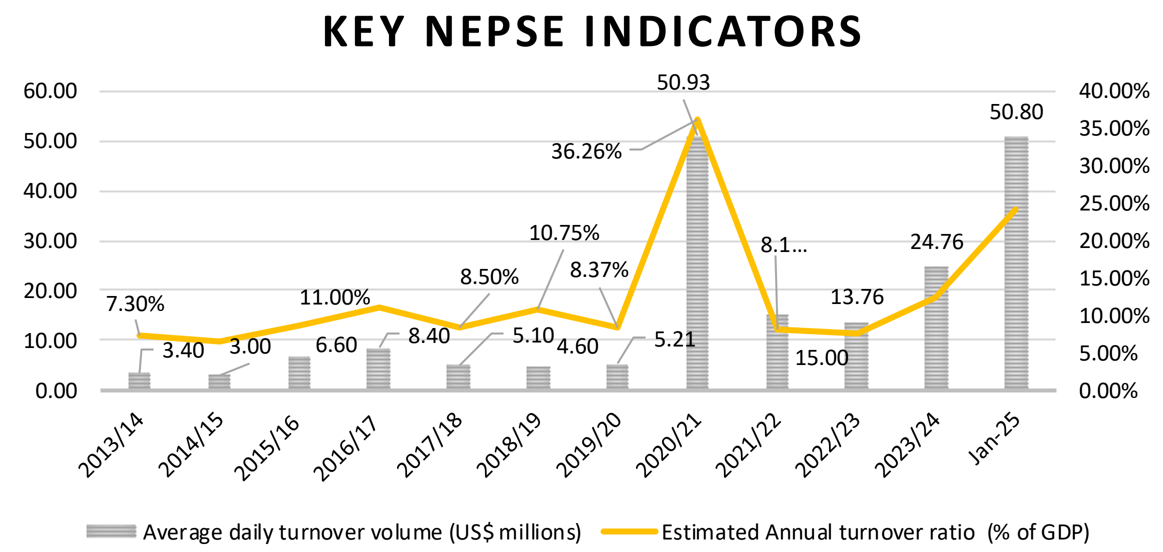


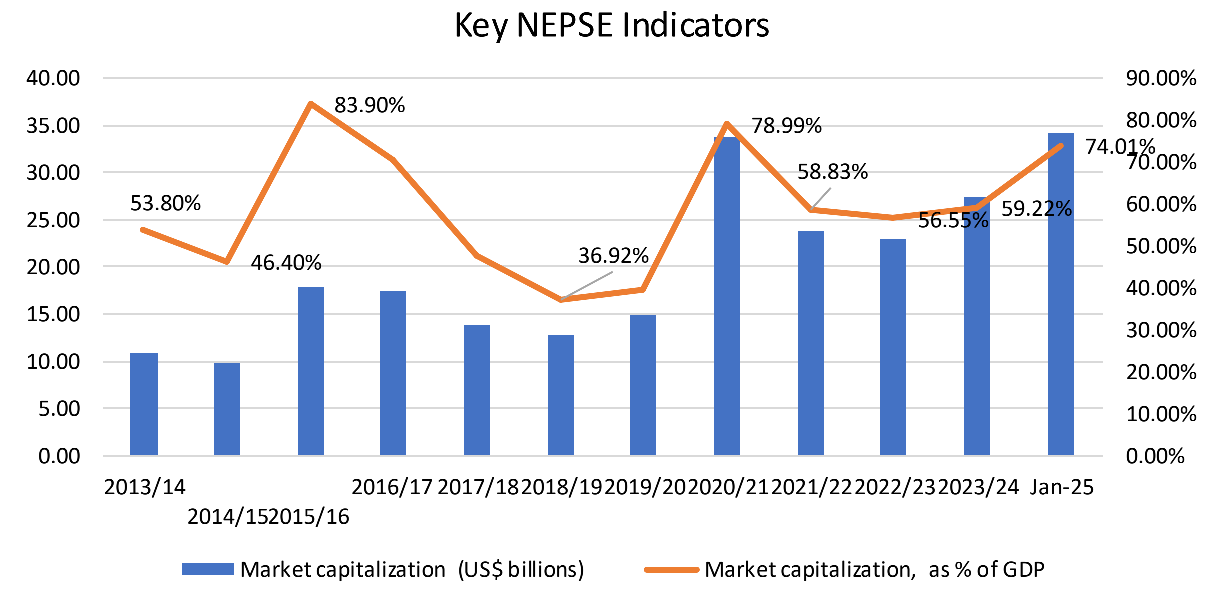
Capital Market

Capital Market

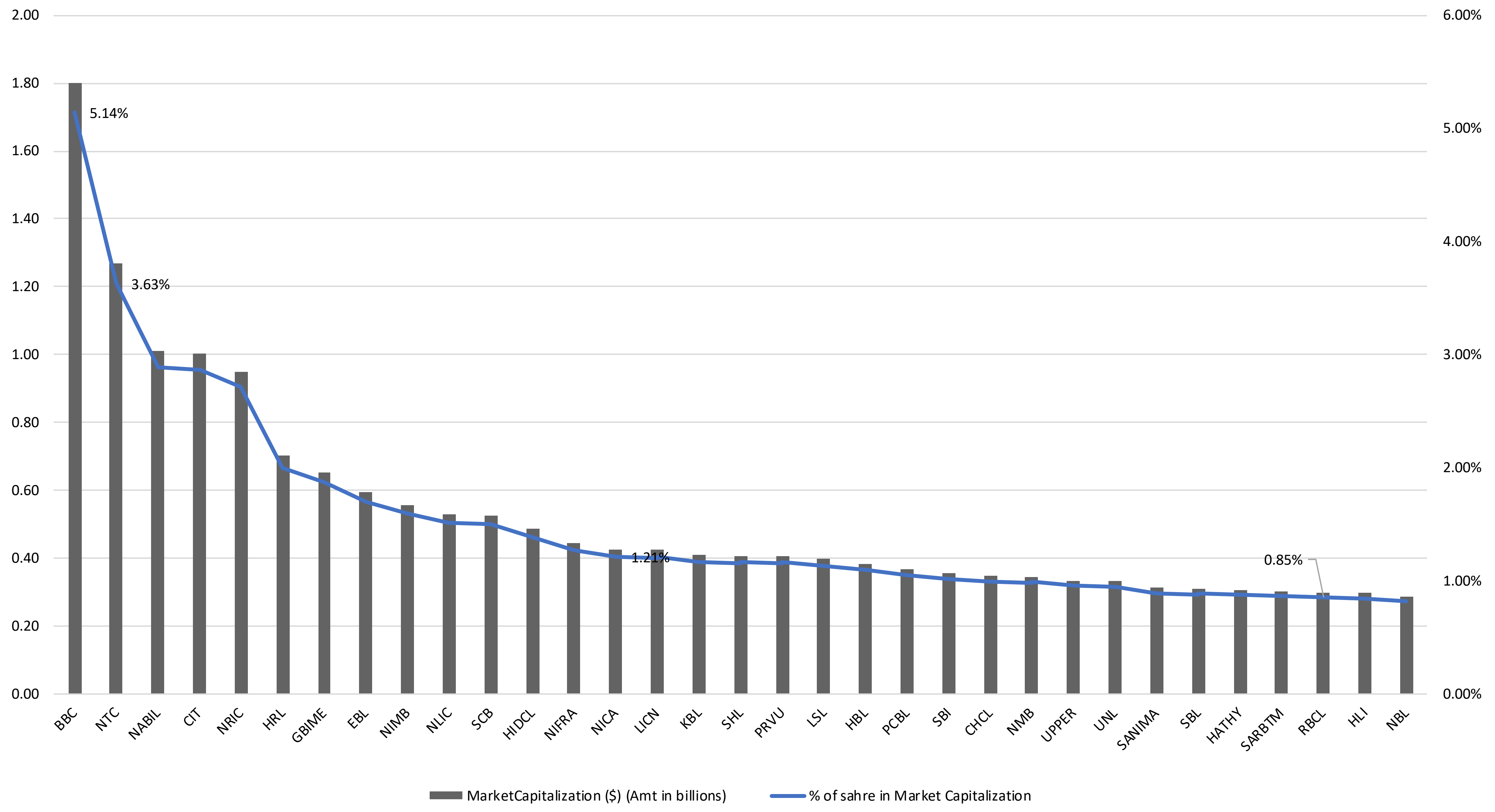


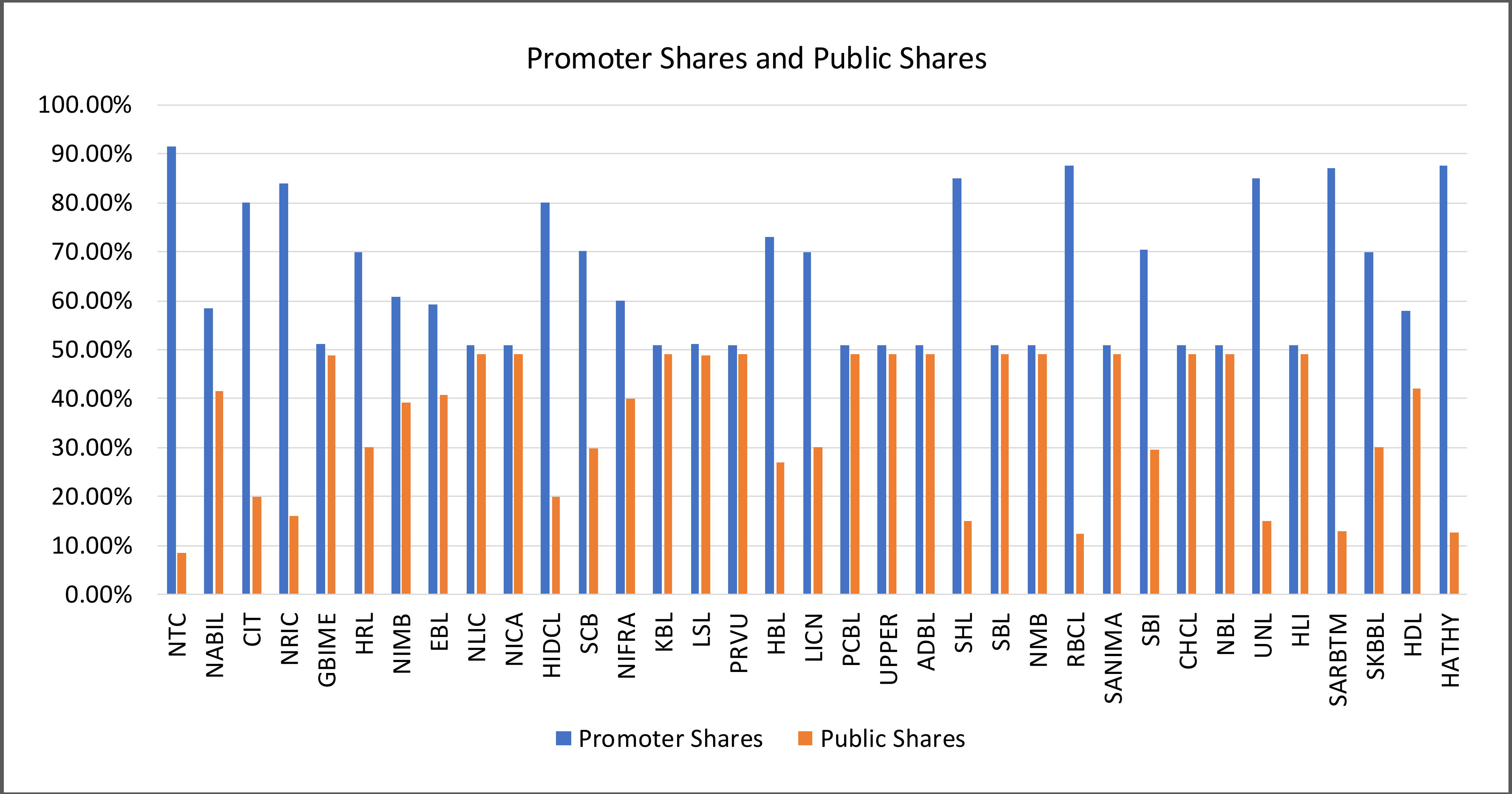






The 30 companies listed on NEPSE make up 50.14% of the total market capitalization, with the majority of their shares not available for free trade.




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%	

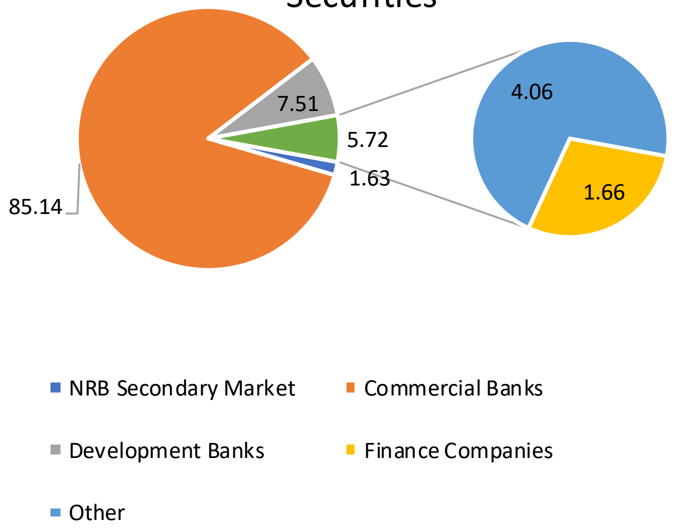
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

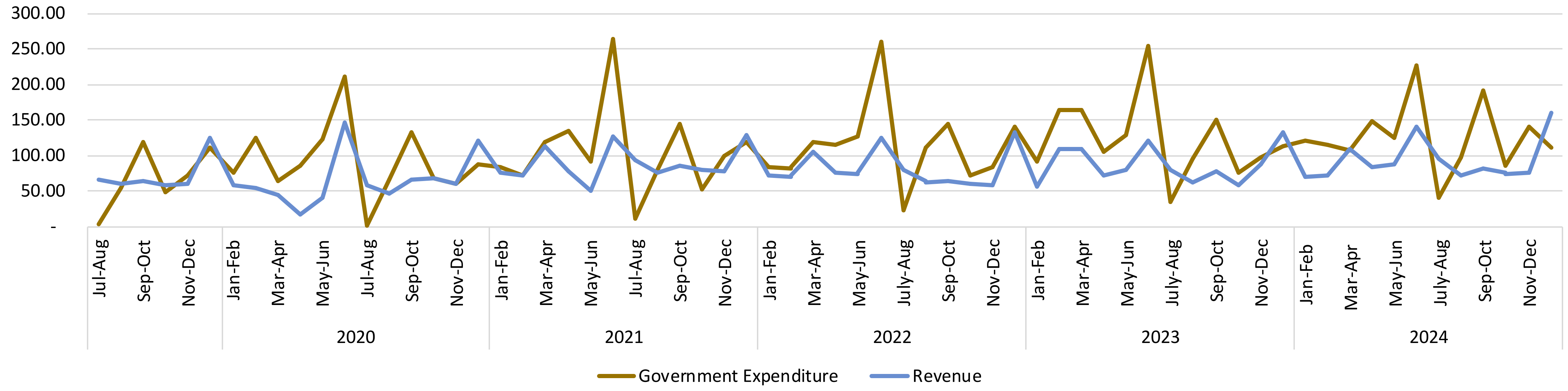
F/Y 2016/17	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	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	338	1,156	2,766	3,689	4,673	5,610						
	Revenue	815	1,398	2,086	2,798	3,410	4,703						
	Treasury Position	1,662	2,265	1,476	1,800	1,847	1,847						

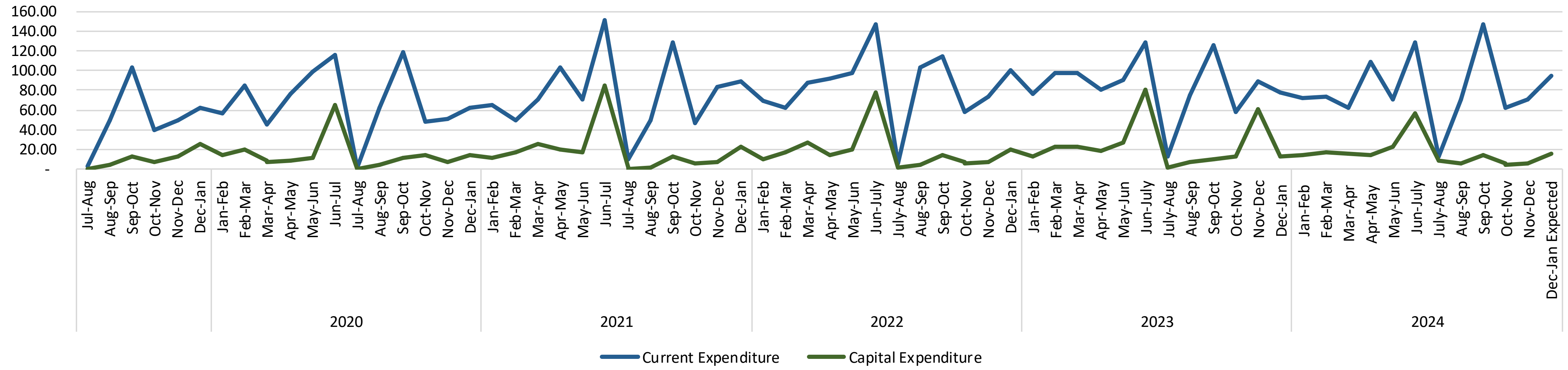
Key Economic Indicators

Particulars	Mid- Dec 2024 (USD=130 NPR)
CPI-Inflation	CPI-based inflation stood at 6.05 % year-on-year, compared to 4.95% in the same period last year.
External Trade	Imports and exports saw respective increases of 3% and 16%, while the trade deficit increased by 1.5%. In contrast, last year, imports declined by 3.3%, exports dropped by 6.1%, and the trade deficit decreased by 3%.
Remittances	Remittances grew by 4.4% in NPR terms and 2.5% in USD terms. In comparison, last year, remittances had increased by 27.6% in NPR terms and 24.5% 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 $1.73 billion compared to the previous month.**
Broad money (M2)	Broad money (M2) increased 3.3 percent. On y-o-y basis, M2 expanded 11.2 percent. In comparison, last year, broad money (M2) increased 4.7 percent. On y-o-y basis, M2 expanded 14.4 percent.
Deposits and Loans and advances	Deposits at BFIs increased 2.7 percent and private sector credit increased 3.5 percent. On y-o-y basis, deposits increased 10.9 percent and private sector credit increased 7.0 percent. In comparison, last year, Deposits at BFIs increased 4.6 percent and private sector credit increased 2.3 percent. On y-o-y basis, deposits increased 15 percent and private sector credit increased 4.5 percent.

Ownership Structure of Government Securities




300.00
250.00
200.00
150.00
100.00
50.00
-
2020
2021
2022
2023
2024
Government Expenditure
Revenue


160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
-
2020
2021
2022
2023
2024
Dec-Jan Expected
Current Expenditure
Capital Expenditure

Government Revenue

	2,023		2,024											2025
HEADS	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	January
Customs	471	612	737	847	981	1,107	1,249	1,398	1,546	122	253	400	520	661
Import Duties	379	491	592	680	785	885	995	1,110	1,225	99	206	324	419	
Green Tax	-	-	-	-	-	-	-	1	3	-	-	-	-	
Export Duty	0	0	1	1	1	1	2	2	2	1	1	1	2	
Infrastructure Tax	39	55	71	81	97	110	126	142	159	10	20	33	44	
Other incomes of Custom	6	7	1	2	2	2	3	4	5	0	1	1	2	
Agriculture Reform Duties	16	22	27	31	36	40	44	47	50	4	7	10	15	
Road Maintenance and Improvement Duty	19	25	30	35	41	47	54	61	68	6	12	20	26	
Road Construction and Maintenance Duty	10	13	15	18	19	22	26	32	33	3	7	10	13	
Value Added Tax	672	887	1,089	1,269	1,467	1,678	1,882	2,121	2,388	203	386	578	760	963
Production, Sales and Service	263	348	427	503	580	671	757	863	1,001	100	171	241	319	
Imports	409	540	662	766	888	1,007	1,124	1,258	1,387	103	215	336	441	
Excise Duties	342	436	528	604	700	803	918	1,042	1,126	93	195	307	426	532
Internal Production	246	316	387	443	517	595	686	780	840	67	137	213	304	
Excise on Imports	96	120	141	161	184	208	232	262	286	26	58	95	121	
Educational Service Tax	9	10	12	14	16	18	21	23	25	2	5	8	10	12
Income Tax	462	648	1,046	1,193	1,287	1,555	1,675	1,793	2,180	176	278	397	515	622
Income Tax	340	515	900	995	1,079	1,337	1,412	1,522	1,897	124	219	329	406	
Interest Tax	122	133	145	198	208	218	263	271	283	52	59	67	108	
Total Tax Revenue	1,956	2,594	3,412	3,927	4,451	5,162	5,745	6,377	7,266	595	1,117	1,690	2,230	2,789
Non Tax Revenue	172	202	407	438	464	592	655	693	880	133	163	220	256	
Total Revenue	2,128	2,796	3,819	4,365	4,916	5,754	6,399	7,071	8,145	729	1,280	1,910	2,486	
Other Receipts	125	136	145	165	169	171	172	174	183	17	24	37	44	
Total Receipts	2,253	2,932	3,965	4,529	5,085	5,925	6,571	7,245	8,329	746	1,304	1,946	2,531	3,121

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	2081/82 Q I 2023/24 QI	2081/82 Q I 2023/24 Q I
Agriculture, forestry and fishing	2.35	21%	2.76	21%	3.05	21%	2.96	25%
Mining and quarrying	8.84	0%	0.98	0%	2.31	0%	0.40	1%
Manufacturing	6.7	5%	-1.98	5%	-1.6	4%	2.32	5%
Electricity and gas	52.68	1%	19.89	1%	17.44	2%	21.35	4%
Water supply; sewerage and waste management	3.08	0%	3.25	0%	2.8	0%	0.98	1%
Construction	6.93	5%	-1.1	5%	-2.07	5%	-0.28	7%
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.42	13%	-3.02	12%	0.16	12%	0.50	13%
Transportation and storage	4.6	5%	1.45	6%	11.89	6%	6.70	7%
Accommodation and food service activities	12.56	1%	18.03	2%	21.84	2%	6.31	2%
Information and communication	4.19	2%	4.15	2%	4.91	2%	2.18	4%
Financial and insurance activities	6.91	6%	7.27	6%	7.8	6%	5.71	7%
Real estate activities	1.72	7%	2.18	7%	2.98	7%	3.13	8%
Professional, scientific and technical activities	3.5	1%	3.93	1%	4.15	1%	5.14	1%
Administrative and support service activities	1.58	1%	5.03	1%	4.04	1%	5.39	1%
Public administration and defence; compulsory social security	4.08	8%	5.75	9%	4.49	9%	2.97	5%
Education	4.66	7%	3.93	7%	2.71	8%	0.38	6%
Human health and social work activities	6.99	1%	6.57	2%	5.52	2%	4.10	2%
Other Services	4.48	1%	5.11	1%	4.17	1%	0.67	1%
Gross Domestic Product (GDP)	5.63	100%	1.95	100%	3.87	100%	3.37	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

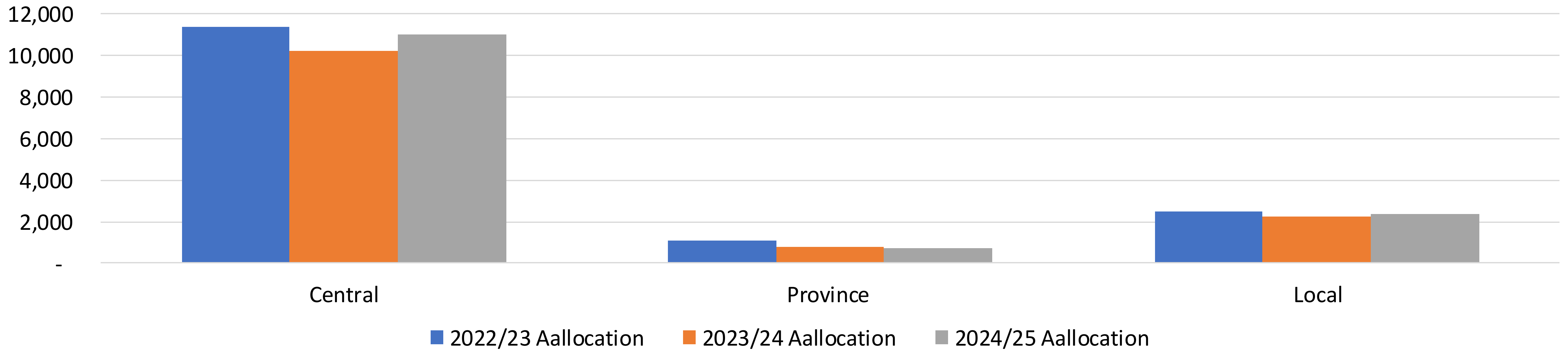
1 USD = 130 NPR			
Description	2078/79 R	2079/80 R	2080/81 P
	2021/22	2022/23	2023/24
Percapita GDP (NRs.)	1,70,506	1,81,569	1,91,888
Annual Change in nominal percapita GDP (%)	13.30	6.49	5.68
Percapita GNI (NRs.)	1,71,494	1,83,686	1,94,829
Annual Change in nominal percapita GNI (%)	13.35	7.11	6.07
Percapita 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.*

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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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