Economic Outlook Based on January 2025

Kala Legal

Protecting your creations

Overview 2024/25

Nepal's Path to Growth

External Sector

Financial Sector Highlights

Fiscal situation

1

Overview 2024/25

Nepal's economy faces significant challenges: rising living costs, slow growth, surplus foreign exchange alongside underutilized local reserves, low industrial productivity, increasing non-performing assets (NPAs), reduced consumer spending, and a weakening currency. Key Challenges

Rising Living Costs:	• *Inflation has rendered essential goods and services increasingly unaffordable.*
Slow Economic Growth:	• *Structural inefficiencies hinder Nepal's economic potential.*
Underutilized Resources:	• *Surplus foreign exchange reserves coexist with unproductive local resources.*
Low Industrial Productivity:	• *Limited innovation and skill gaps impede industrial growth.*
Overleveraged Corporate Sector:	• *Rapid expansion, overreliance on borrowing from BFIs, and long cash conversion periods from corporate trading activities.*
Non-Performing Assets (NPAs):	• *Growing NPAs jeopardize the financial sector's stability.*
Reduced Consumer Spending:	• *Declining purchasing power has weakened demand and overall economic activity.*
Weakening Currency:	• *Depreciation of the Nepalese rupee raises import costs and strains the economy.*

Nepal's economic landscape, highlighting key challenges and opportunities:

Structural Issues*: Persistent challenges such as excessive bureaucracy, outdated regulations, and weak governance are identified as barriers to business stability.*

Emerging Risks*: The emerging risks that could threaten business stability, underscoring the need for proactive measures.*

Strategic Policies*: The importance of implementing strategic monetary and fiscal policies to navigate economic challenges.*

Nepal faces several deep-rooted structural challenges that impede business stability and economic progress. Key issues include:

1. ***Excessive Bureaucracy & Outdated Regulations**: Complex administrative procedures and outdated policies slow down decision-making, discouraging investment and innovation.*
2. ***Weak Governance & Institutional Capacity**: Inefficient public institutions and regulatory bodies hinder policy implementation and economic reforms.*
3. ***Declining Investment Levels**: Both foreign direct investment (FDI) and domestic investment remain low due to policy uncertainty and infrastructure deficits.*
4. ***Low Productivity & Efficiency**: Outdated production techniques, weak labor market policies, and inadequate skills development limit industrial and agricultural productivity.*
5. ***Sluggish Export Growth & High Import Dependence**: Limited value addition, high production costs, and weak trade facilitation prevent Nepal from enhancing its export competitiveness, leading to a widening trade deficit.*
6. ***Energy Sector Inefficiencies**: Despite significant hydropower potential, Nepal struggles with unreliable energy supply, slow project implementation, and transmission bottlenecks.*

Emerging Risks to Business Stability: *The emerging risks that could threaten business stability, underscoring the need for proactive measures.*

1. *Several emerging risks that pose challenges to economic stability and long-term growth. A key concern is the* ***insufficient investment in fundamental growth drivers****, such as workforce skills, technological capabilities, and human development. This underinvestment has significantly limited Nepal's ability to sustain economic expansion, reduce unemployment, and enhance productivity.*

   Beyond infrastructure, Nepal must focus on developing a highly skilled workforce to attract knowledge-intensive investments. Despite a large and youthful labor pool, gaps in technical expertise and vocational training hinder its competitiveness in IT, manufacturing, and R&D. As AI reshapes global industries, skill development is more critical than ever. To stay competitive, Nepal must invest in STEM education (a teaching method that integrates science, technology, engineering, and mathematics), industry-driven training programs, and stronger collaboration between academia and the private sector. While modern facilities and teaching capacity exist, universities like TU allocate limited seats for IT, business, and medical education, forcing many students to pursue studies abroad.

2. *Addressing these risks requires* ***proactive policy interventions****, including greater investment in education, vocational training, research and development, and healthcare. Strengthening these foundational areas will be crucial for fostering a resilient and competitive economy.*

***Strategic Policies**: Implementing well-designed **monetary and fiscal policies** is essential for navigating economic challenges and fostering sustainable growth.*

Key policy actions include:

- ***Tax Reforms**: Simplify tax regulations, broaden the tax base, and introduce targeted incentives to encourage investment in high-growth industries. Align Income Tax Act with international norms.*
- ***Trade Policy:** Negotiate favorable trade agreements with India and China. Increased market access for Nepali products and reduced trade deficit.*
- ***Investment Promotion**: Revise investment policies to attract Foreign Direct Investment (FDI) in priority sectors such as infrastructure, manufacturing, technology, and renewable energy.*
- ***Monetary Stability**: Strengthen monetary policies by effectively managing interest rates, ensuring currency stability, and maintaining inflation control to support long-term economic resilience. Introduce innovative financing options such as mezzanine financing and convertible debt.*

A balanced approach to fiscal discipline and investment-friendly policies will help create stable and competitive economic environment.

Despite these challenges, our resilience has always been our foundation. From rebuilding after the earthquakes and political unrest to overcoming, the COVID-19 pandemic, Nepal has proven its strength. Although Nepal has overcome challenges in the past, this time feels different, and a quick recovery may not be on the horizon. Some analysts believe a swift recovery is unlikely, so regulators and businesses must rethink their strategies. We must recognize that some aggressive business strategies will only yield results in the long term. If the downturn continues, the government and regulators must ease the transition to the next phase of growth. We can unlock Nepal's vast potential with decisive actions and the right strategic reforms.

The recent past has left economic agents confused, as both regulators and market players struggled to predict and respond to risks appropriately. A policy misstep now could become the biggest error in decades. As seen in some economies, mishandling the crisis could create lasting risks, shifting the focus from financial to economic contagion. It's time for a shift in mindset. The Nepalese economy needs a surge of positive sentiment. Authorities must consider bold policy measures to steer the economy back on course, without compromising long-term goals. After a long period of uncertainty, Nepalese economic leaders must work "very hard" to restore investor confidence. This will not be easy. Without swift corrective actions and a change in market behavior, we risk deeper economic crises in the short term.

Now is the time to focus on increasing productivity, rebuilding trust, and boosting confidence. Let's strengthen our economic resilience and turn these challenges into opportunities for a brighter future. The journey starts today—let's unite and make it happen!

Strategic Plan for Nepal’s Economic Growth

Nepal can implement the following strategies and action plans to strengthen its economic resilience, enhance competitiveness, and achieve sustainable growth

REGULATORY AND GOVERNANCE REFORMS

EXPORT DIVERSIFICATION & TRADE PROMOTION

DIGITAL TRANSFORMATION & INNOVATION

SUSTAINABLE DEVELOPMENT & GREEN ECONOMY

FISCAL & MONETARY POLICY FOR ECONOMIC STABILITY

Strategies for Nepal's Economic Development

Regulatory and Governance Reforms:	***Export Diversification:***	***Digital Transformation:***	***Sustainable Development:***	***Strategic Monetary and Fiscal Policies:***
Address structural issues by streamlining bureaucracy, updating outdated regulations, and strengthening governance to create a more business-friendly environment.	*Develop and implement policies that enhance the export sector, focusing on products where Nepal has a competitive advantage to increase foreign exchange earnings.*	*Invest in digital infrastructure and promote innovation to improve efficiency and global competitiveness.*	*Incorporate environmental sustainability into economic planning to ensure long-term resilience and inclusive growth.*	*Implement prudent financial management practices to navigate economic challenges effectively.*

Regulatory and Governance Reforms

- ***Strategy:***
  - *Nepal must streamline bureaucratic processes, modernize regulations, and improve governance to create a more business-friendly environment and attract investment.*
- ***Action Plan:***
  1. ***Regulatory Overhaul****: Conduct a comprehensive review of existing economic policies and eliminate outdated and redundant regulations.*
  2. ***Ease of Doing Business****: Establish a* ***one-window clearance system*** *to simplify business registration, licensing, and compliance.*
  3. ***Public-Private Partnerships (PPP)****: Foster PPP models to develop key economic sectors such as infrastructure, energy, and manufacturing.*
  4. ***Anti-Corruption & Transparency Measures****: Strengthen institutions like the National Vigilance Centre and implement digital governance to reduce corruption.*
  5. ***Decentralization & Local Empowerment****: Empower provincial and local governments with financial and policy-making autonomy for faster economic decision-making.*

Export Diversification & Trade Promotion

- ***Strategy:***
  - *Enhance Nepal's export potential by identifying new markets, improving trade policies, and increasing the production of value-added goods.*
- ***Action Plan:***
  - ***Sector-Specific Support****: Provide financial incentives and policy support for high-potential exports, including textiles, handicrafts, tea, herbs, and IT services.*
  - ***Bilateral & Regional Trade Agreements****: Strengthen trade ties with India, China, and SAARC nations by negotiating favorable trade agreements.*
  - ***Trade Infrastructure Development****: Modernize border points, dry ports, and customs procedures to facilitate smoother trade.*
  - ***Export Credit & Insurance****: Establish an export credit facility to provide low-interest financing and risk coverage for exporters.*
  - ***Brand Nepal Campaign****: Launch international marketing campaigns to position Nepalese products in global markets.*

Digital Transformation & Innovation

- ***Strategy:***
- *Accelerate digitalization across industries to boost productivity, improve governance, and attract investment in the technology sector.*
- ***Action Plan:***
  - ***5G & Digital Infrastructure****: Expand high-speed internet access, especially in rural areas, to enable a digital economy.*
  - ***Tech Hubs & Startup Ecosystem****: Establish special economic zones (SEZs) focused on IT, AI, and software development.*
  - ***E-Governance****: Implement paperless government services, e-taxation, and blockchain-based land registration.*
  - ***Cybersecurity & Digital Literacy****: Develop cybersecurity laws and conduct nationwide digital literacy programs.*
  - ***Fintech & Digital Banking****: Promote mobile banking, e-commerce, and financial technology startups.*
  - ***STEM education:*** *Nepal must invest in STEM education, industry-driven training programs, and stronger collaboration between academia and the private sector.*

Sustainable Development & Green Economy

- ***Strategy:***
- *Promote environmentally friendly economic growth by leveraging Nepal's natural resources sustainably.*
- ***Action Plan:***
  - ***Hydropower Expansion**: Accelerate the development of hydroelectric projects and establish cross-border electricity trade with India, Bangladesh and China.*
  - ***Renewable Energy Investments**: Provide incentives for solar, wind, and biomass energy solutions.*
  - ***Eco-Tourism Development**: Promote responsible tourism that balances conservation and economic growth.*
  - ***Sustainable Agriculture**: Support organic farming, introduce climate-resilient crops, and reduce chemical dependency.*
  - ***Green Financing**: Encourage banks and financial institutions to provide green bonds and low-interest loans for sustainable projects.*
  - ***Streamline foreign investment:** Streamline foreign investor processes and expand permissible investment structures.*

Fiscal & Monetary Policy for Economic Stability

- ***Strategy:***
- *Implement sound macroeconomic policies to ensure financial stability, control inflation, and support growth.*
- ***Action Plan:***
  - ***Tax Reforms**: Reduce tax complexities, expand the tax base, and provide incentives for high-growth industries.*
  - ***Inflation Control Measures**: Strengthen monetary policies by managing interest rates and ensuring currency stability.*
  - ***Investment-Friendly Laws**: Update investment policies to attract foreign direct investment (FDI) in priority sectors.*
  - ***Debt Management Framework**: Develop a strategy to manage external and internal debts effectively.*
  - ***Social Security & Welfare Expansion**: Strengthen safety nets for vulnerable populations to reduce poverty and inequality.*
  - ***Insolvency law:** Develop a unified insolvency law with efficient restructuring and liquidation regimes.*

- ***Nepal's economy in 2025:***
  - *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. 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.*

- ***The positive note :***
  - *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.*

- ***Cautious optimism:***
  - *Despite these challenges, there is cautious optimism for Nepal's economic outlook over the next two 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.*

- ***Growth and stability:***
  - *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.*

- ***High-Level Economic Sector Reform Recommendation Commission***
  - *The committee has submitted an interim report, but it largely addresses ambiguous issues with broad and general recommendations. It highlights the need for urgent measures to stabilize and strengthen the economy, emphasizing the settlement of government liabilities, support for distressed borrowers, and stricter regulation of the cooperative sector through improved operational frameworks and loan limits. The primary focus is on immediate actions to enhance economic resilience and dynamism. While we hope the report contributes significantly to economic recovery, we remain cautious that it may overlook larger economic challenges and fall short of providing effective solutions to the ongoing crisis.*

- ***GDP growth:***
  - *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. To sustain long-term growth, Nepal must focus on boosting investment, increasing domestic savings, and developing a skilled workforce to attract high-value industries such as IT, manufacturing, and R&D. Strengthening economic resilience through policy reforms and enhanced infrastructure will be crucial for maintaining sustainable growth. 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%.*

2

Nepal's Path to Growth

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% **January 2025 inflation 5.41 within 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)
- January 2025 3.9%. (0.6% up from April 2024 for 2023/24)

2.April 2024 4.6%. FY 2024/25 projections
- Oct. 2024 5.1% (0.5% Improved form April 24 for 2024/25)
- January 2025 5.1% (no change from Oct. 2024 for 2024/25)

3.April 2024 5.3 % FY 2025/26 projections
- Oct 2024 5.5 %. (0.2% Improved from April 24 for FY 2025/26)
- January 2025 5.5% (no change from Oct. 2024 for 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 projections
- Sept. 2024. 3.90. 0.60% up from previous for FY 2023/24

3.April 2024. 4.8% - FY 2024/25 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 projections
- January 2025 4 (+)% (0.90% down from May 2024)

CBS

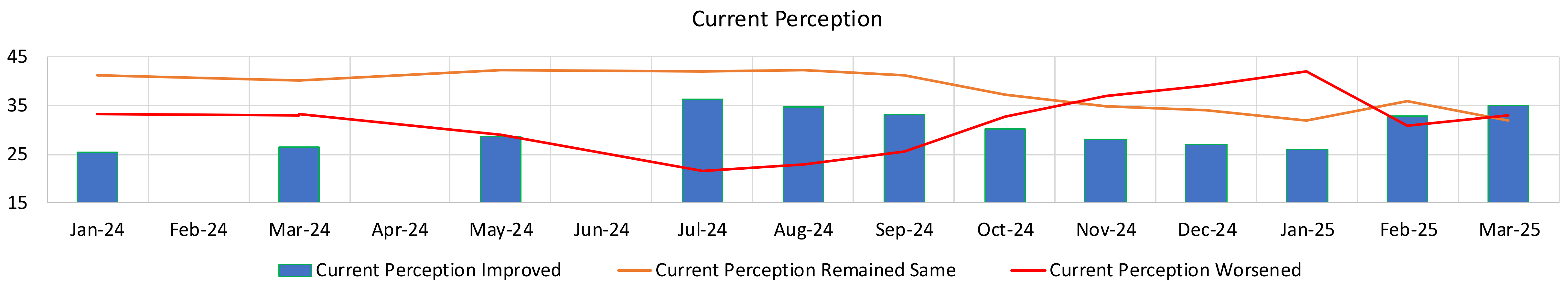
- April 2023 2.16% 2022/23
- April 2024 3% FY 2023/24
- Oct. 2024 3.2% FY 2023/24 Estimate Q IV
- Jan 2025 3.4% 2024/25 Estimate Q I

Don't let numbers mislead you! The economic growth forecasts for Nepal from key institutions, including the World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF), and National Statistics Office (NSO), exhibit substantial variation over a short period. This underscores the potential for misleading figures and highlights the need for caution when using these projections to inform policy decisions and growth strategies.

For FY 2023/24, forecasts have fluctuated significantly, reflecting economic uncertainty. The WB initially projected 3.9% growth in January 2024 but later revised it downward to 3.3% in April. ADB, on the other hand, adjusted its estimate from 3.6% in April to 3.9% in September. Similarly, the IMF forecasted 3.5% in December 2023 but later raised it to 3.9% in May 2024. NSO's estimates also changed, shifting from 3.0% in April to 3.2% in October.

Projections for FY 2024/25 are more optimistic but still vary among institutions. The WB increased its forecast from 4.6% in April to 5.1% in October, maintaining this figure in January 2025. ADB also raised its estimate from 4.8% in April to 4.9% in September. However, the IMF initially projected 4.9% in May 2024 but later lowered its forecast to 4.0% in January 2025. Meanwhile, NSO's estimate for early 2025 stands at 3.4%.

These variations in forecasts demonstrate the complexity of Nepal's macroeconomic environment, shaped by both domestic and global factors. While medium-term growth appears promising, frequent revisions indicate ongoing uncertainty, reinforcing the need for careful interpretation of these figures in policymaking and economic planning.

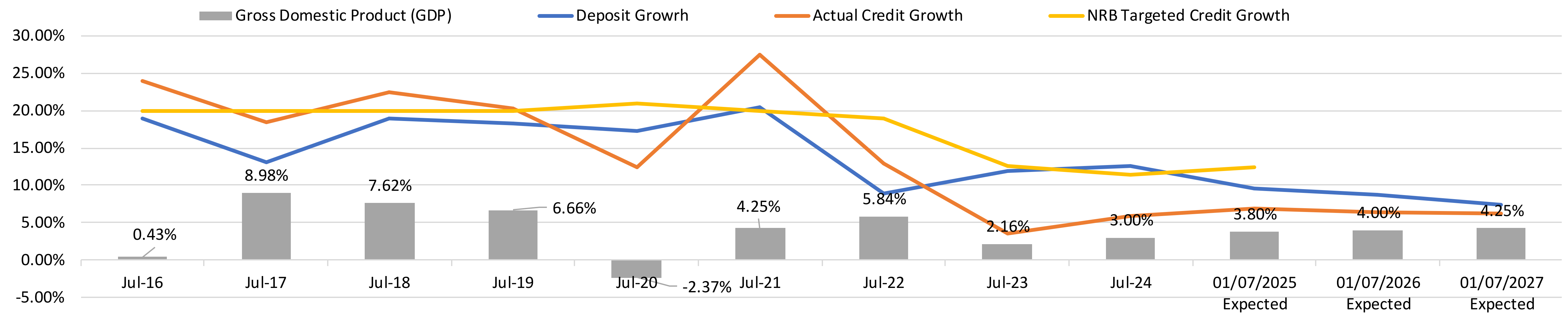


*The survey data reveals shifting consumer perceptions over time, with trends reflecting changes in optimism, stability, and pessimism. Consumer optimism peaked in **July 2024**, when **36%** of respondents reported improvement. This optimism remained relatively high in **August (35%)** and **September (33%)** before gradually declining toward the end of the year. By **January 2025**, the percentage of consumers reporting improvement dropped to **26%**, marking a low point. However, a recovery was observed in the following months, with **33%** in **February** and **35%** in **March 2025**.*

*Meanwhile, the "**Remained Same**" category fluctuated between **32% and 42%** throughout the period. Stability was at its highest in **May and July 2024 (42%)**, while the lowest point was recorded in **January 2025 (32%)**. A brief increase to **36% in February** was followed by another dip to **32% in March 2025**, indicating continued fluctuations in consumer sentiment.*

*In contrast, the "**Worsened**" category remained steady at **33%** in early 2024 but began rising toward the end of the year. Pessimism peaked in **January 2025 at 42%**, coinciding with the lowest optimism levels. However, consumer sentiment improved slightly in the following months, as pessimism declined to **31% in February** before edging back up to **33% in March 2025**.*

*These trends indicate that **mid-2024 was a period of strong optimism**, with improvement rates reaching their highest point while pessimism was at its lowest (**22% in July**). However, by the **end of 2024**, sentiment had shifted toward pessimism, possibly due to economic or policy-related factors. The early signs of recovery in **2025**, marked by a rise in optimism and a decline in pessimism, suggest a potential turnaround, though it remains to be seen whether this trend will be sustained.*



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.

Impact of Macroeconomic Instability and Low Investment

*Persistent **macroeconomic instability and uncertainty** have significantly contributed to declining private investment levels.*

*In efforts to restore stability, authorities have implemented **strict stabilization measures**, including **monetary contraction and high interest rates** to curb demand pressures.*

*However, despite ample liquidity and relatively low interest rates, Nepal's economy continues to suffer from **stagnant aggregate demand**.*

This stagnation is driven by several structural challenges, including:

- ***Weak Domestic Demand**: Influenced by non-economic factors such as policy uncertainty, governance issues, and external shocks.*
- ***Over-reliance on the Banking Sector**: Limited access to alternative financing mechanisms restricts business expansion.*
- ***Underdeveloped Capital Market**: The lack of a robust stock market and corporate bond market limits investment opportunities.*
- ***Low Capital Expenditure**: Inefficient public investment planning and slow project execution hinder economic growth.*

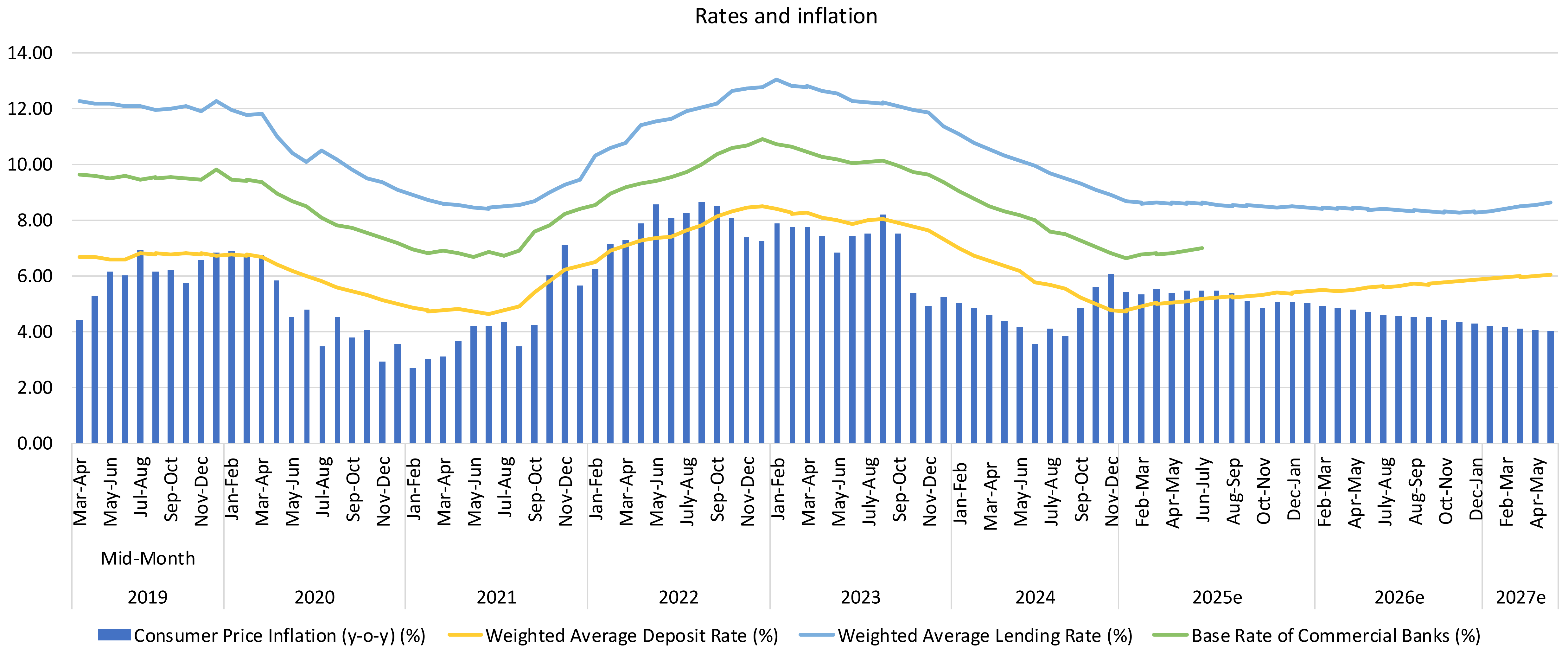
*While central banks can regulate the **money supply**, they **cannot dictate how businesses and consumers utilize available capital**. Moreover, the stringent stabilization measures have inadvertently **curtailed public investment**, further constraining long-term growth potential.*

A balanced approach that stabilizes the economy while fostering investment-friendly policies is essential for sustainable development.

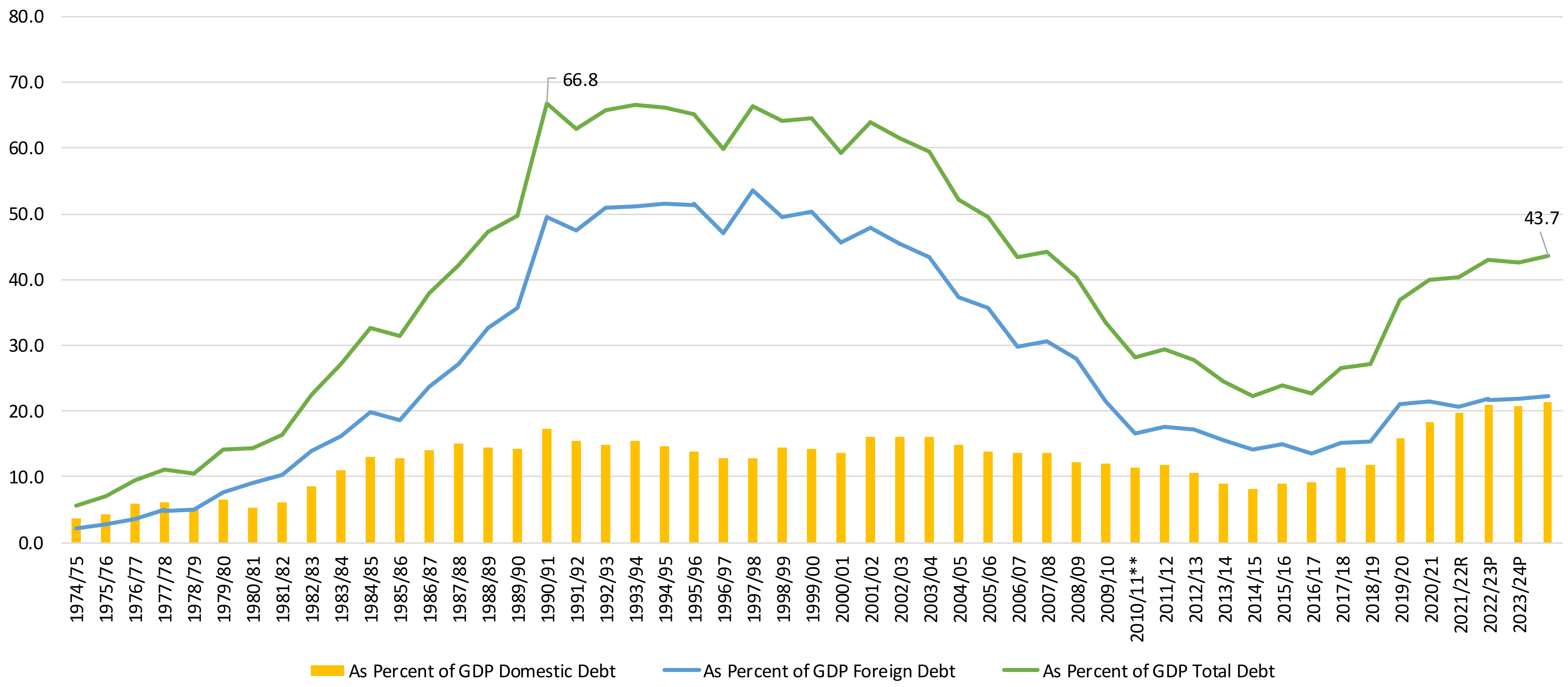
Industrial Classification	2080/81 2023/24				2080/81 2023/24	
	Q1	Q2	Q3	Q4	Q1	Trend
Agriculture, forestry and fishing	1.1	3.4	2.8	4.4	3.0	Down
Mining and quarrying	6.4	-3.5	-10.3	15.9	0.4	Down
Manufacturing	0.6	-4.1	-3.6	0.9	2.3	Up
Electricity, gas, steam and air conditioning supply	23.5	26.1	47.4	-3.5	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

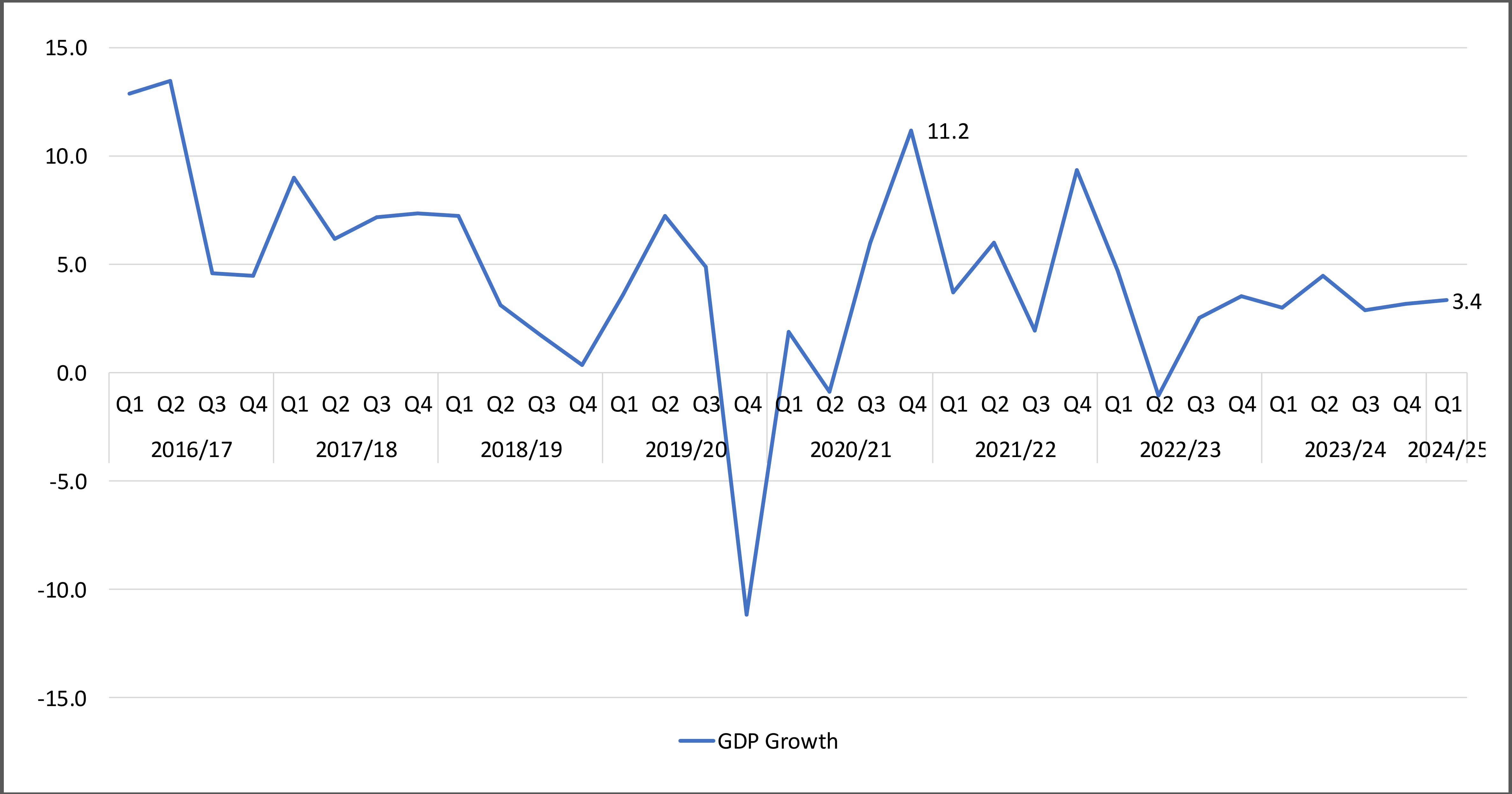
Interest rates and Inflation

We assumed the Base rate will be abolished from July 2025

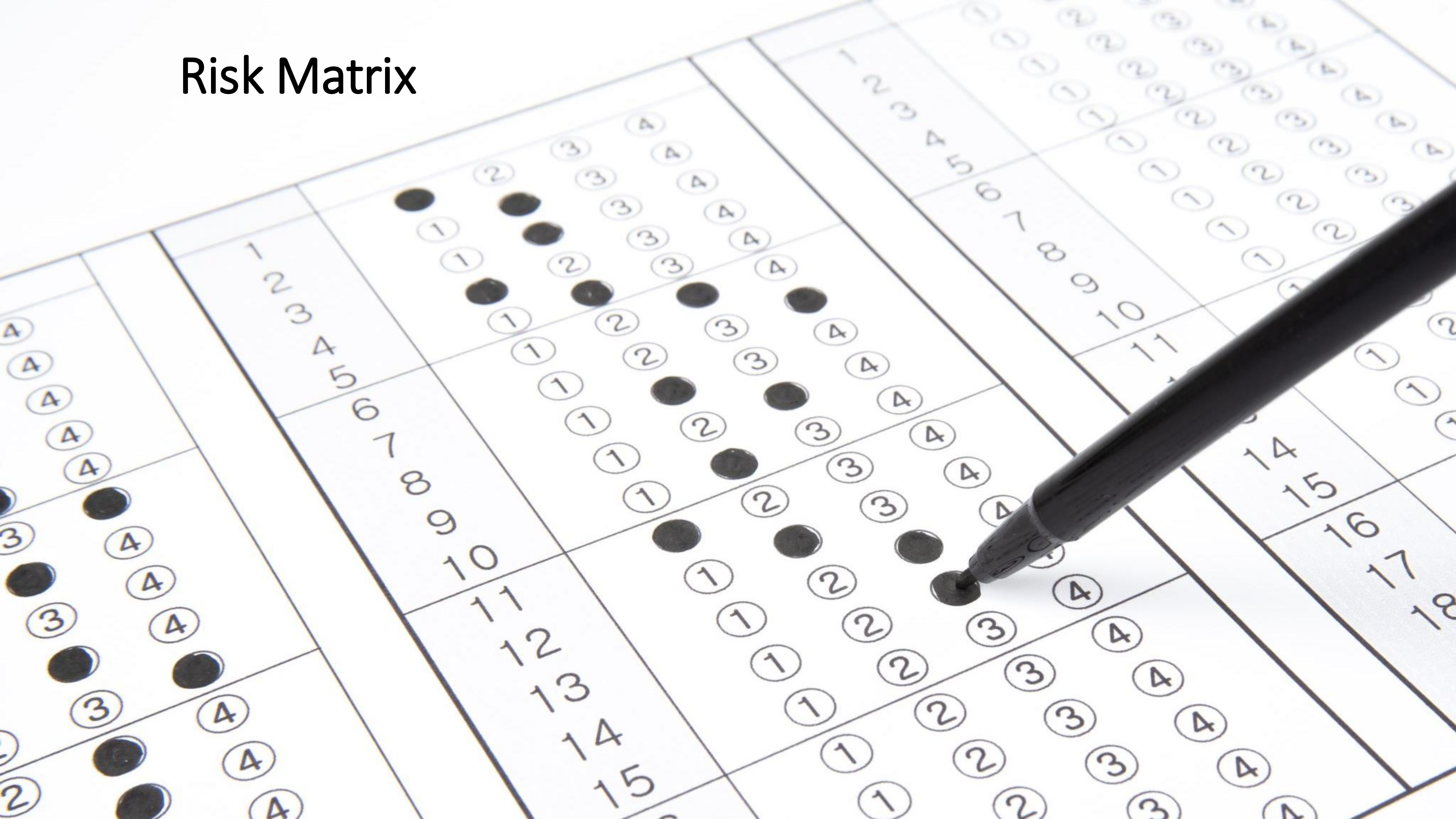


Starts above 80% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 42.9% in 2019/80. Overall, foreign debt debt remains stable with a slight increase, domestic debt increases significantly, and total debt shows an increasing trend followed by a recent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




15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
11.2
3.4
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
2019/20
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)	*High*	*Severe*	*Nepalese government revenue heavily relies on customs duties. However, the risk of reciprocal tariffs from trading partners and a potential reduction in grants from friendly nations could threaten fiscal stability. To mitigate these challenges, Nepal should focus on boosting local production, reducing government expenditures, downsizing the government structure, and increasing investment in research and development.*
Rising Non-Performing Assets (NPAs)	*Medium*	*High*	*Establish an Asset Management Company (AMC) to address banking sector vulnerabilities.*

Risk Matrix

Condition		Related effect	Trend	Risk
Low Investment/low domestic income/ High migration	Sluggish wholesale and retail operations.	Aggregate demand	Decline	High
	High unemployment	Aggregate demand	Decline	High
	Slow Corporate cash recovery/low productivity	Firm Investment	Decline	High
	Failure of SACCOs	Disposable saving	Decline	High
Trade war	Increasing commodities prices	Import Bill	Increase	High
	Energy Price	Cost of production	Increase	High
Interest Rates outlook	Excess Liquidity	Deposit rates go below inflation	Decline	High
Informal Economy	Erode trust among investors and consumers	Government Revenue	Decline	High
FDI inflow Outlook	Excessive bureaucracy, outdated regulations, weak governance	FDI inflows	Decline	High
Level of loan Default	NPA reaching all time high	Pressure on Capital	Increase	High
Demand for Working capital	Low consumer confidence	Unutilized liquidity	Low	High
Inflation outlook	Lower consumer demand	Cost of living	Decline	Low

Policy Mistakes

Monetary policy transmission

1. Interest Rate Channel

Less Effective

2. Lending Rates Channel

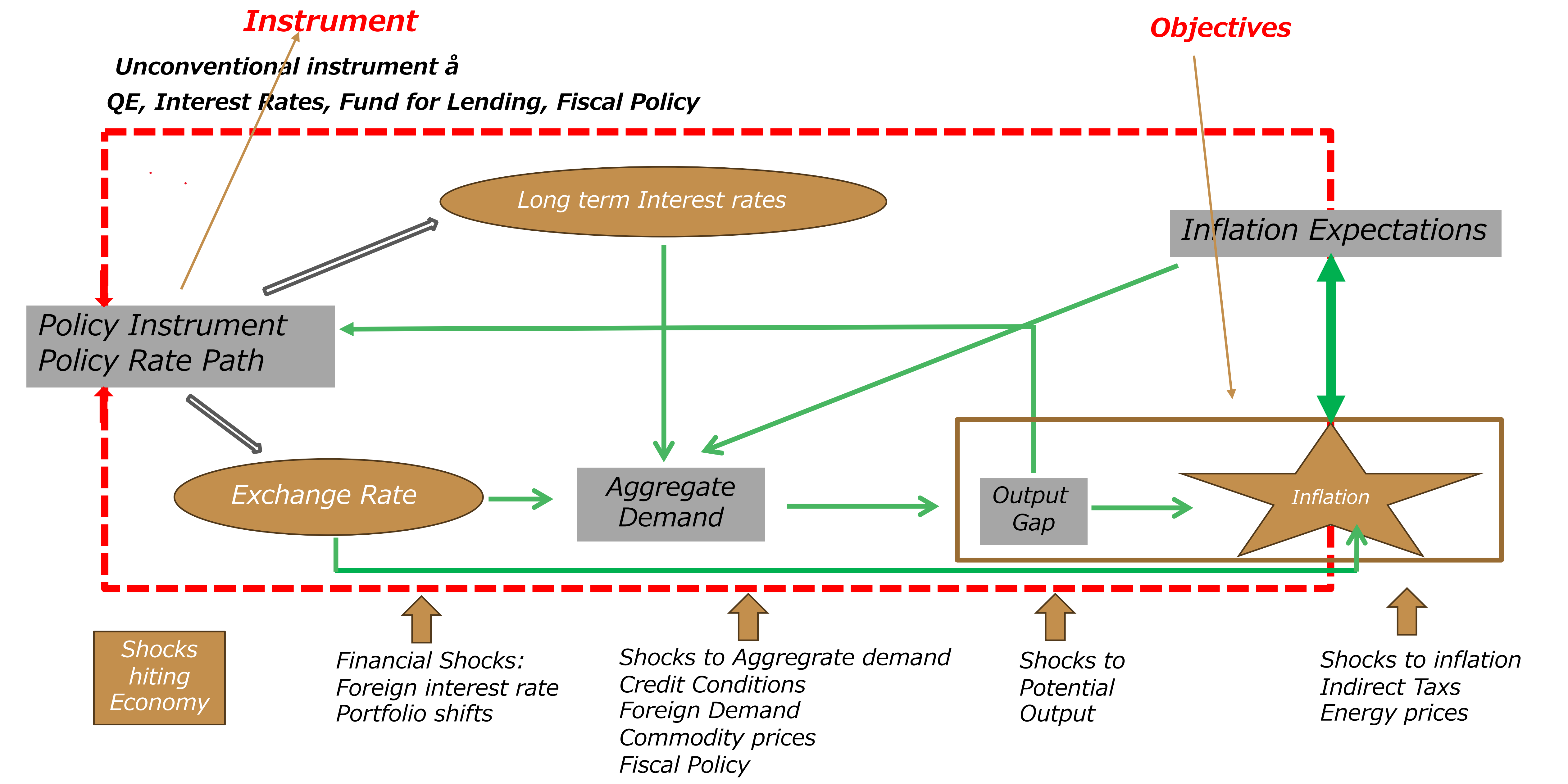
Not Effective

3. Asset Price Channel

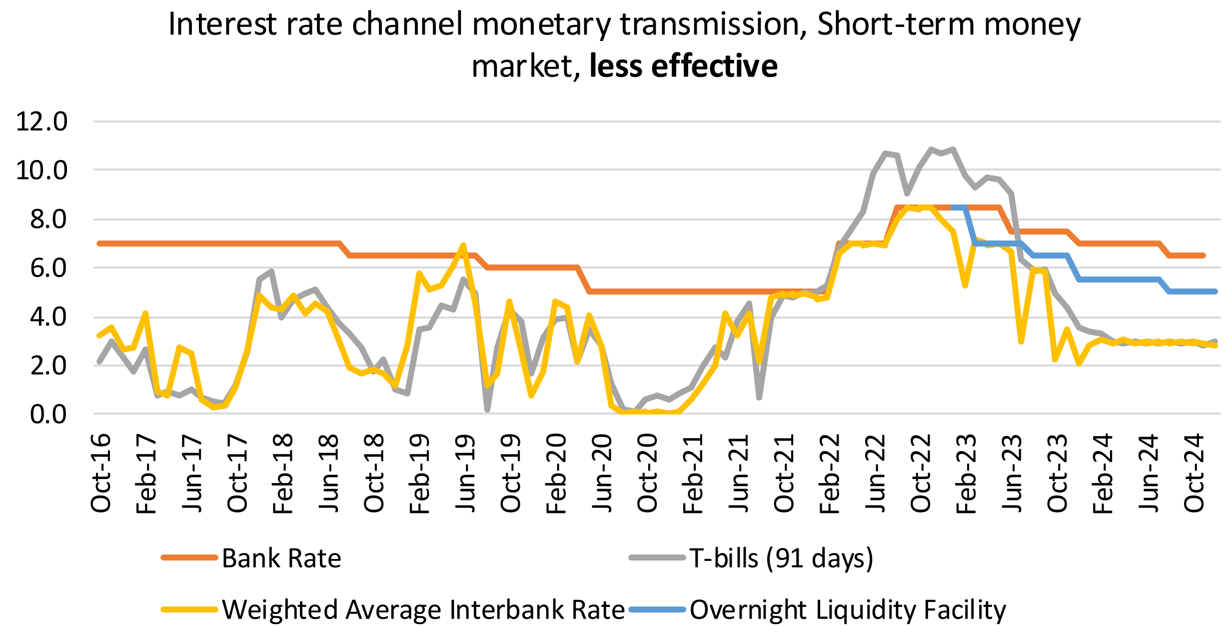
Not Effective

4. Exchange Rate Channel

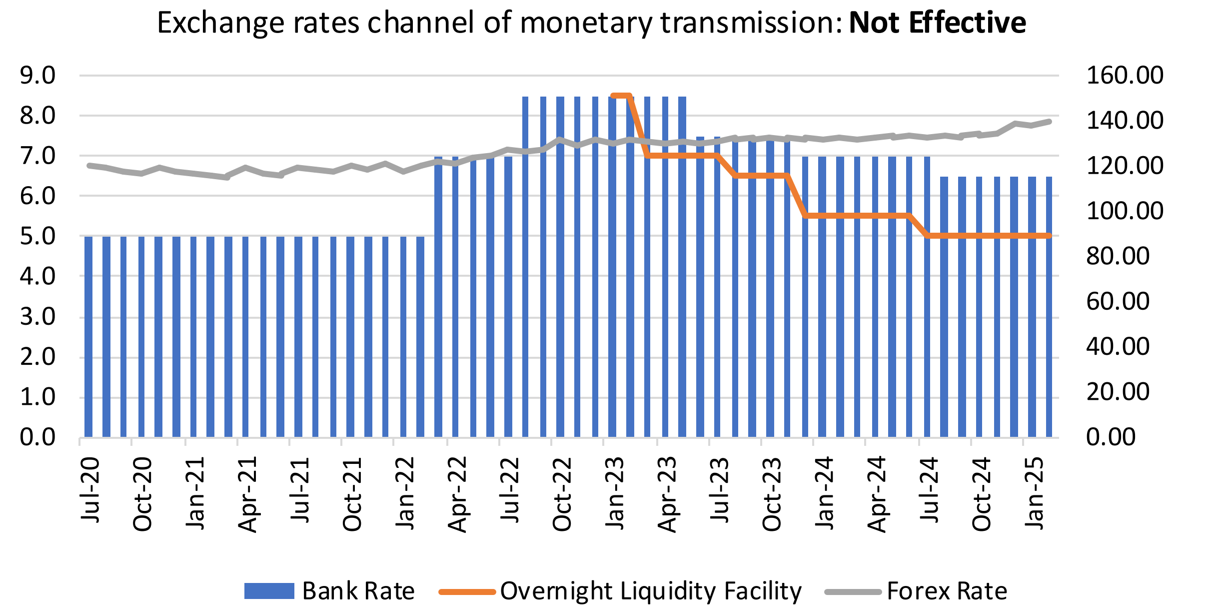
Not Effective



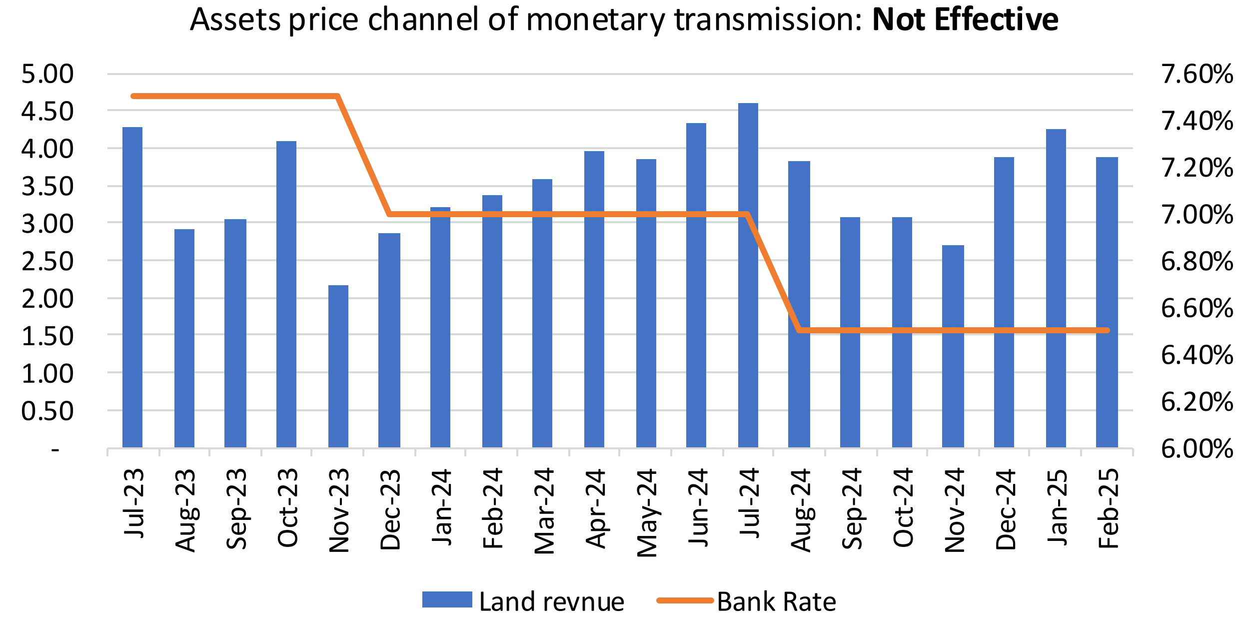
Monetary Transmission Mechanism



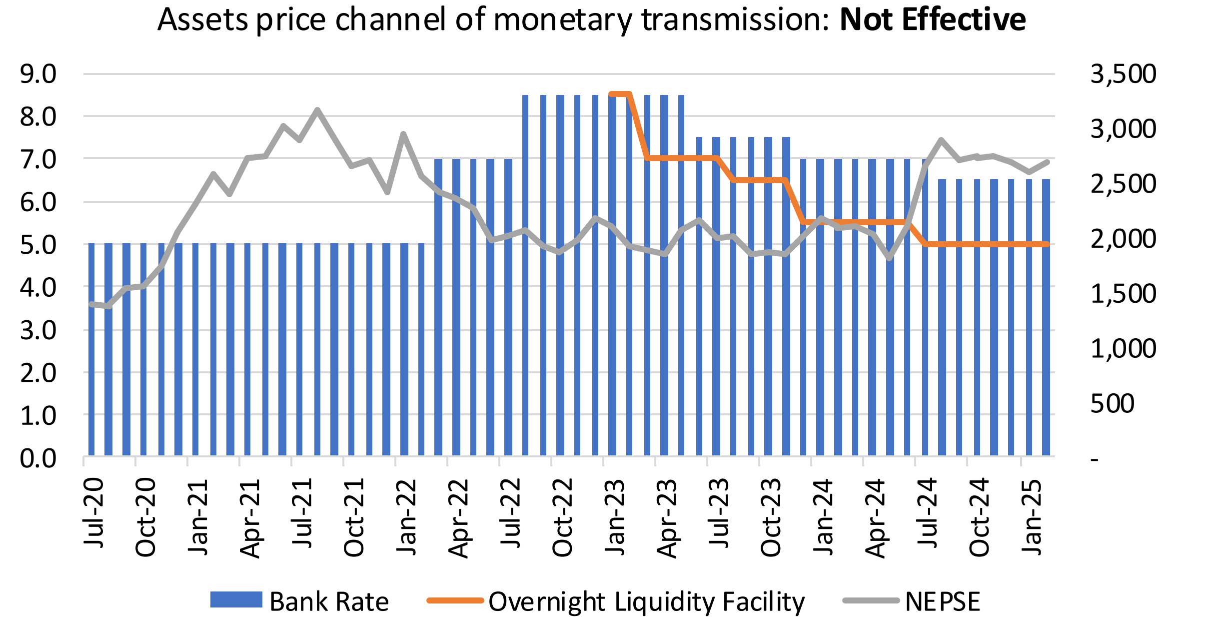
Interest rate channel monetary transmission, Short-term money market, **less effective**
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Oct-16
Feb-17
Jun-17
Oct-17
Feb-18
Jun-18
Oct-18
Feb-19
Jun-19
Oct-19
Feb-20
Jun-20
Oct-20
Feb-21
Jun-21
Oct-21
Feb-22
Jun-22
Oct-22
Feb-23
Jun-23
Oct-23
Feb-24
Jun-24
Oct-24
Bank Rate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



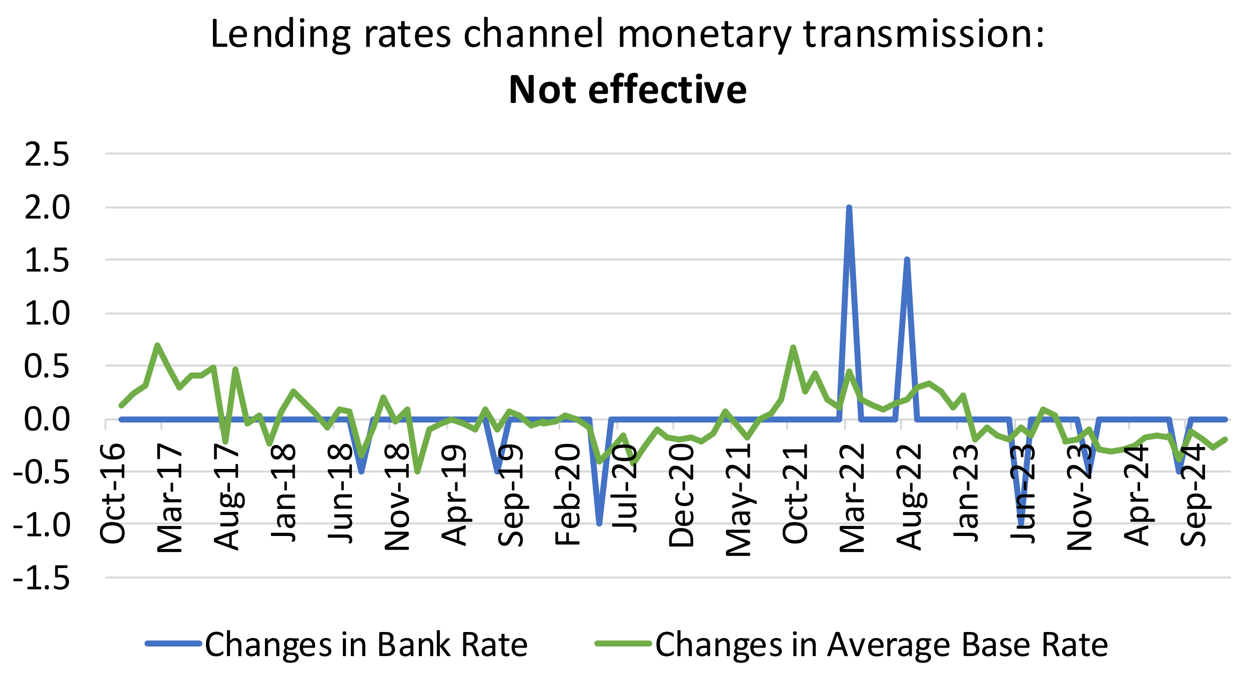
Exchange rates channel of monetary transmission: **Not Effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
0.00
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Bank Rate
Overnight Liquidity Facility
Forex Rate

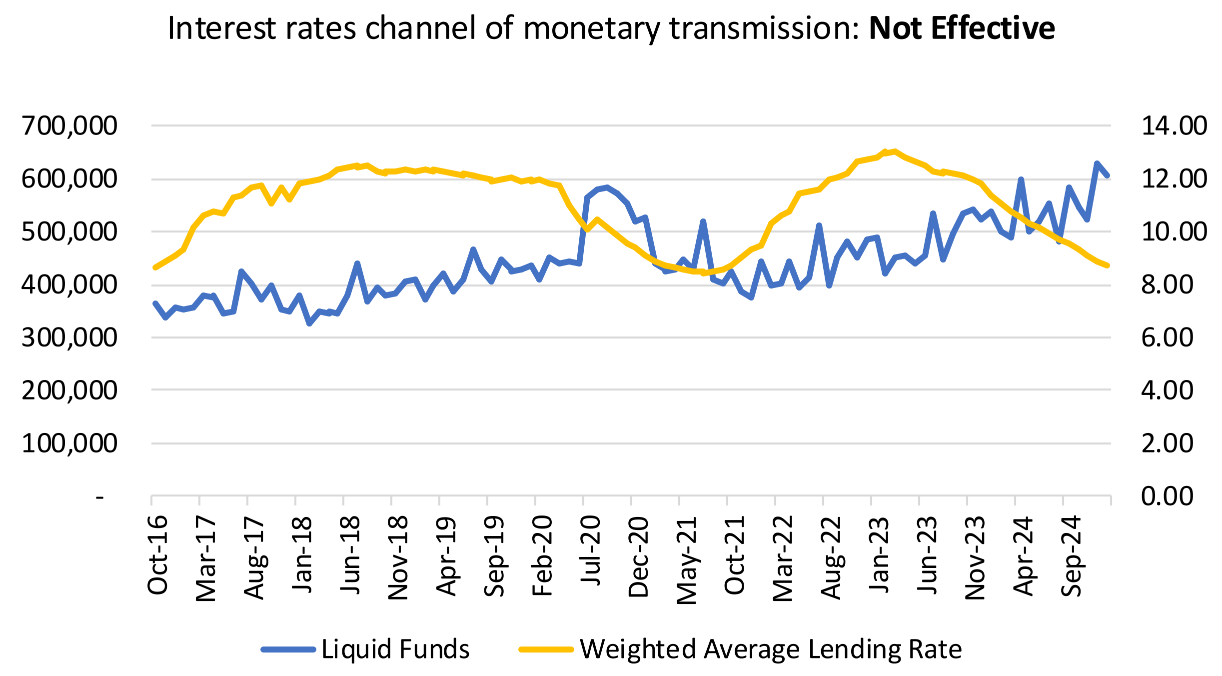


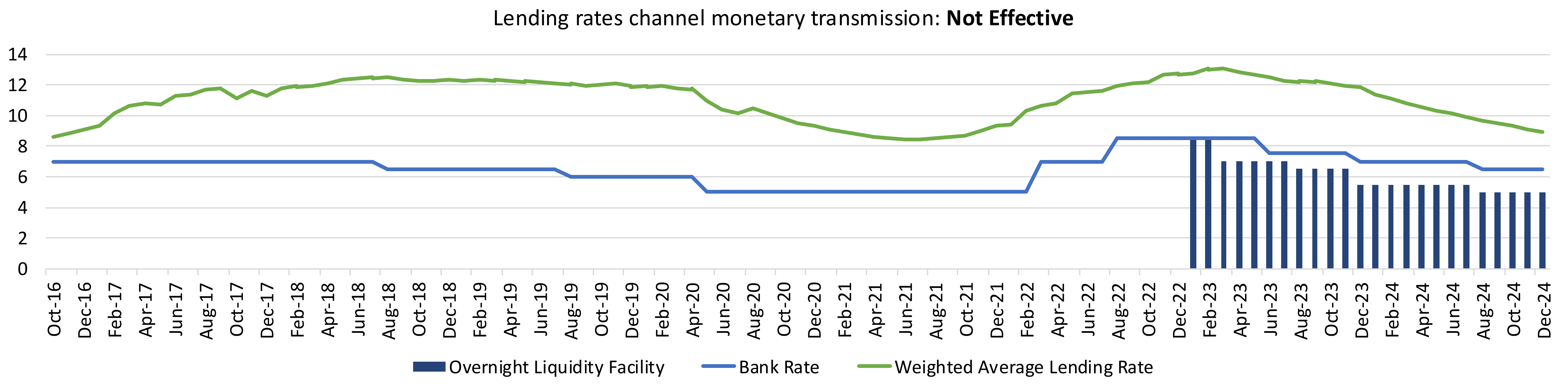
Assets price channel of monetary transmission: **Not Effective**
5.00
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
-
7.60%
7.40%
7.20%
7.00%
6.80%
6.60%
6.40%
6.20%
6.00%
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
May-24
Jun-24
Jul-24
Aug-24
Sep-24
Oct-24
Nov-24
Dec-24
Jan-25
Feb-25
Land revnue
Bank Rate



Assets price channel of monetary transmission: **Not Effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
3,500
3,000
2,500
2,000
1,500
1,000
500
-
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Bank Rate
Overnight Liquidity Facility
NEPSE


Lending rates channel monetary transmission:
Not effective
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
Oct-16
Mar-17
Aug-17
Jan-18
Jun-18
Nov-18
Apr-19
Sep-19
Feb-20
Jul-20
Dec-20
May-21
Oct-21
Mar-22
Aug-22
Jan-23
Jun-23
Nov-23
Apr-24
Sep-24
Changes in Bank Rate
Changes in Average Base Rate


Interest rates channel of monetary transmission: Not Effective
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Oct-16
Mar-17
Aug-17
Jan-18
Jun-18
Nov-18
Apr-19
Sep-19
Feb-20
Jul-20
Dec-20
May-21
Oct-21
Mar-22
Aug-22
Jan-23
Jun-23
Nov-23
Apr-24
Sep-24
Liquid Funds
Weighted Average Lending Rate


Lending rates channel monetary transmission: Not Effective
14
12
10
8
6
4
2
0
Oct-16
Dec-16
Feb-17
Apr-17
Jun-17
Aug-17
Oct-17
Dec-17
Feb-18
Apr-18
Jun-18
Aug-18
Oct-18
Dec-18
Feb-19
Apr-19
Jun-19
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Aug-21
Oct-21
Dec-21
Feb-22
Apr-22
Jun-22
Aug-22
Oct-22
Dec-22
Feb-23
Apr-23
Jun-23
Aug-23
Oct-23
Dec-23
Feb-24
Apr-24
Jun-24
Aug-24
Oct-24
Dec-24
Overnight Liquidity Facility
Bank Rate
Weighted Average Lending Rate

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 interest rate adjustments intended to control inflation have added to economic instability. Nepal's Consumer Price Index (CPI) is largely driven by price fluctuations in the Indian market, making it relatively unresponsive to the Nepal Rastra Bank's (NRB) policy rate. In January 2025, the CPI declined to 5.41% from 6.05% in December 2024, primarily due to improved supply chain conditions.*

Recommendations:

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

The Kathmandu vegetable market has experienced significant price fluctuations over the past year, with most vegetables witnessing a decline in prices.

Major price drops exceeding 50% were observed in local and imported cabbage, various types of cauliflower, green onion, green garlic, hybrid pumpkins, and leafy greens like rayo saag. These declines can be attributed to increased domestic production, seasonal availability, and possibly lower consumer demand. Other vegetables, including Indian and Terai tomatoes, carrots, different varieties of ghee simi, bitter gourd, ladyfinger, cucumbers, kiwi, and ginger, saw a moderate decline of 20-50%. This trend may be influenced by increased imports from India, shifts in consumer preferences, and improved transportation infrastructure reducing supply chain costs.

Meanwhile, staple vegetables such as Nepali large tomatoes, local and Indian potatoes, Indian onions, dry garlic, and bullet green chilies have remained relatively stable in price, suggesting a balanced supply and demand. However, certain vegetables and fruits have experienced notable price increases. Red and hybrid radish, ripe pumpkin, Fuji apples, bananas, green and black grapes, strawberries, and pomegranates have all risen by 10-50%, possibly due to seasonal shortages, increased transportation costs, or import dependency. The most extreme price hikes were observed in celery and parsley, with increases of over 100%, likely due to supply chain disruptions or rising demand in niche markets.

Overall, the general trend suggests an oversupply of many vegetables, leading to price reductions, while premium and imported fruits have seen a rise in prices. Essential staples have maintained relative stability, reflecting their steady demand.

These market dynamics suggest that the Nepal Rastra Bank (NRB) and the Government of Nepal (GoN) should closely monitor seasonal patterns, import trends, and logistical factors to better anticipate price movements and implement appropriate policy measures to align with inflation targets effectively.

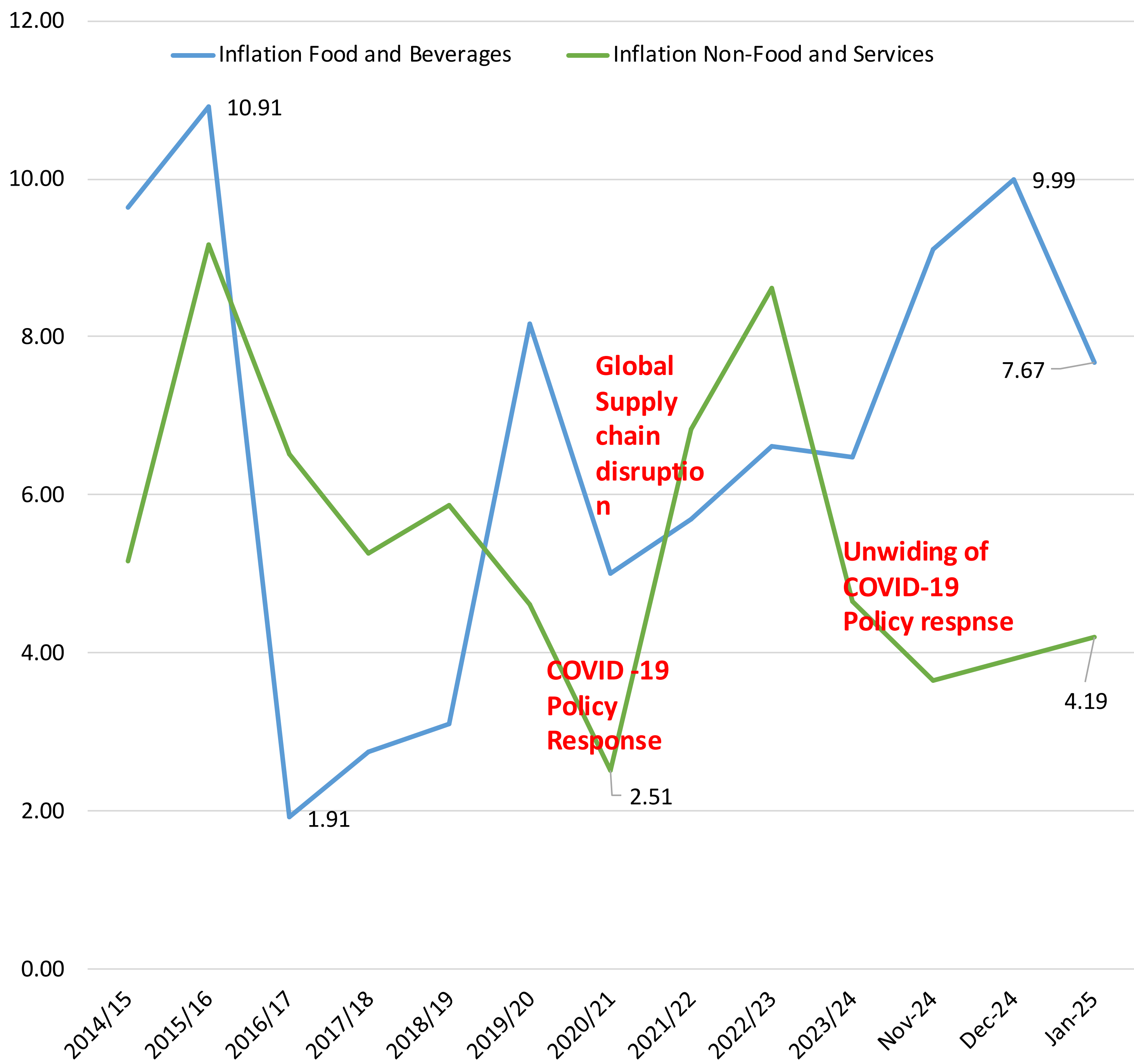
Overall inflation fluctuated significantly, peaking at 9.92% in FY 2015/16 due to the 2015 earthquake and trade blockades, while reaching its lowest at 3.60% in FY 2020/21, reflecting subdued economic activity during the COVID-19 pandemic.

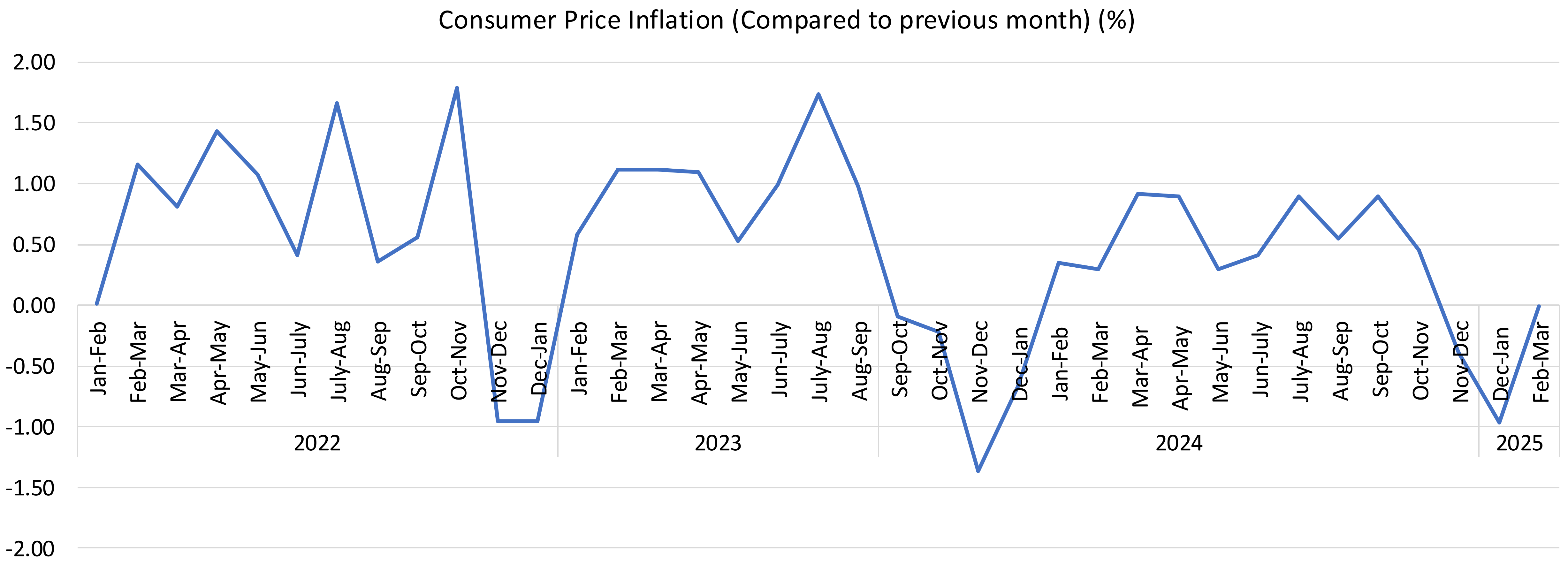
Food and beverages inflation shows greater volatility, often exceeding non-food inflation, particularly during crises such as FY 2015/16 and FY 2019/20, driven by supply chain disruptions, seasonal shortages, or rising import prices. Conversely, years like FY 2016/17 and FY 2020/21 saw food inflation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

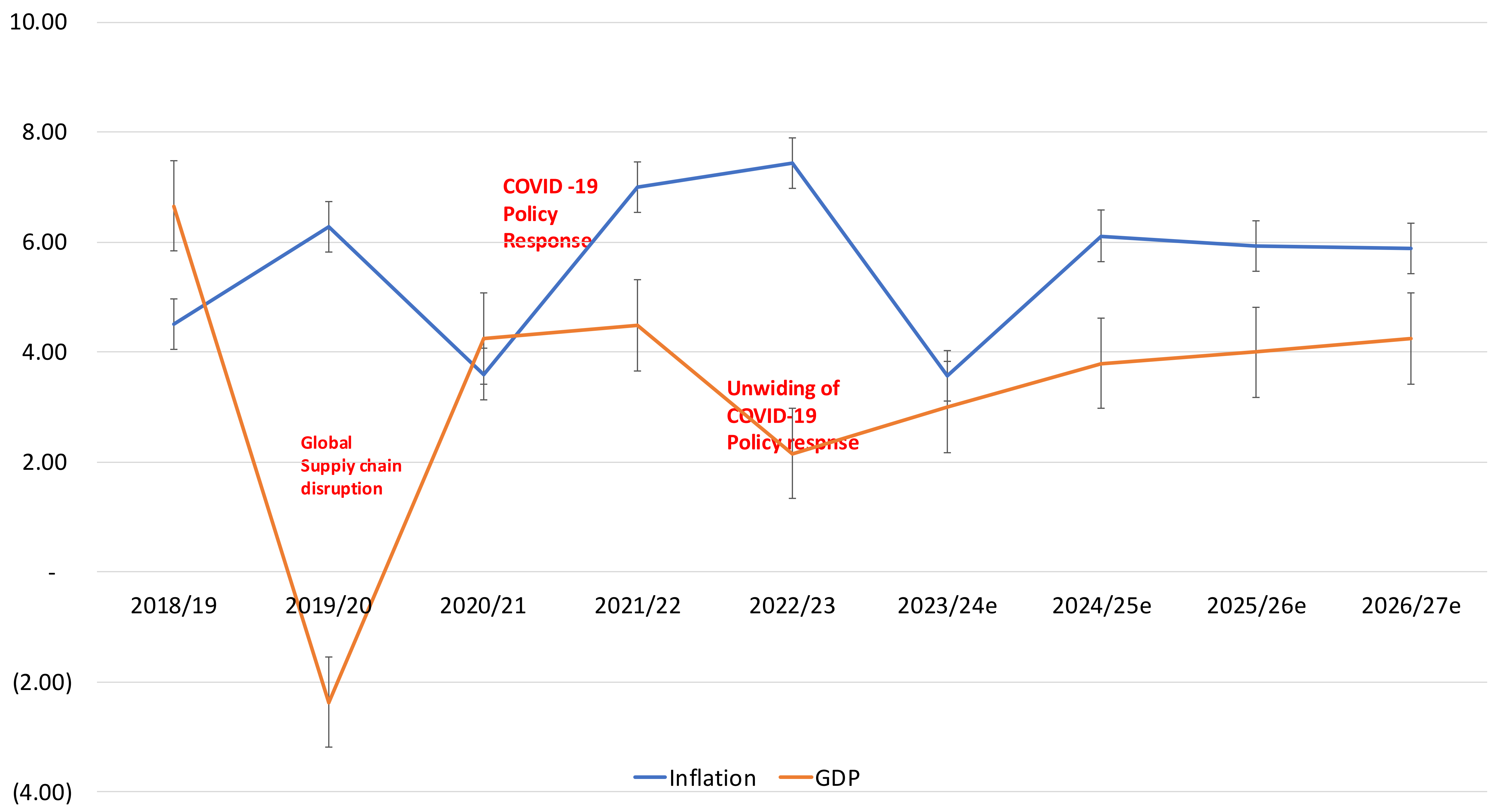
In FY 2023/24, inflation moderated to 5.44% compared to the previous year, though food inflation remained elevated at 6.47%. Notably, food inflation spiked sharply in November and December 2024, reaching 9.10% and 9.99%, respectively, likely due to seasonal factors or supply disruptions. In contrast, non-food inflation remained low, ranging between 3.65% and 3.92%, indicating limited price pressures in non-food categories. However, in January 2025, non-food inflation rose to 4.19%, while food inflation eased to 7.67%.

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.





*Over the last 30 days, Nepal's vegetable prices have shown significant fluctuations, primarily due to seasonal supply changes. Key items like carrots (down **70.59%**), tomatoes (down **40.94%**), and green garlic (down **51.61%**) saw sharp declines, indicating increased market availability. Potatoes, onions, and leafy greens also experienced moderate price drops. Meanwhile, some items, such as bitter gourd (**up 31.58%**) and green chilies (**up 30.77%**), became more expensive, likely due to reduced supply. Certain fruits like avocados and strawberries saw seasonal price hikes. Several staple items, including pumpkins, radishes, and mushrooms, remained stable. Overall, price movements reflect seasonal harvest patterns, supply chain factors, and shifting consumer demand.*



10.00
8.00
6.00
4.00
2.00
-
(2.00)
(4.00)
COVID -19
Policy
Response
Global
Supply chain
disruption
Unwiding of
COVID-19
Policy resprise
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24e
2024/25e
2025/26e
2026/27e
Inflation
GDP

2. Exports and Imports

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

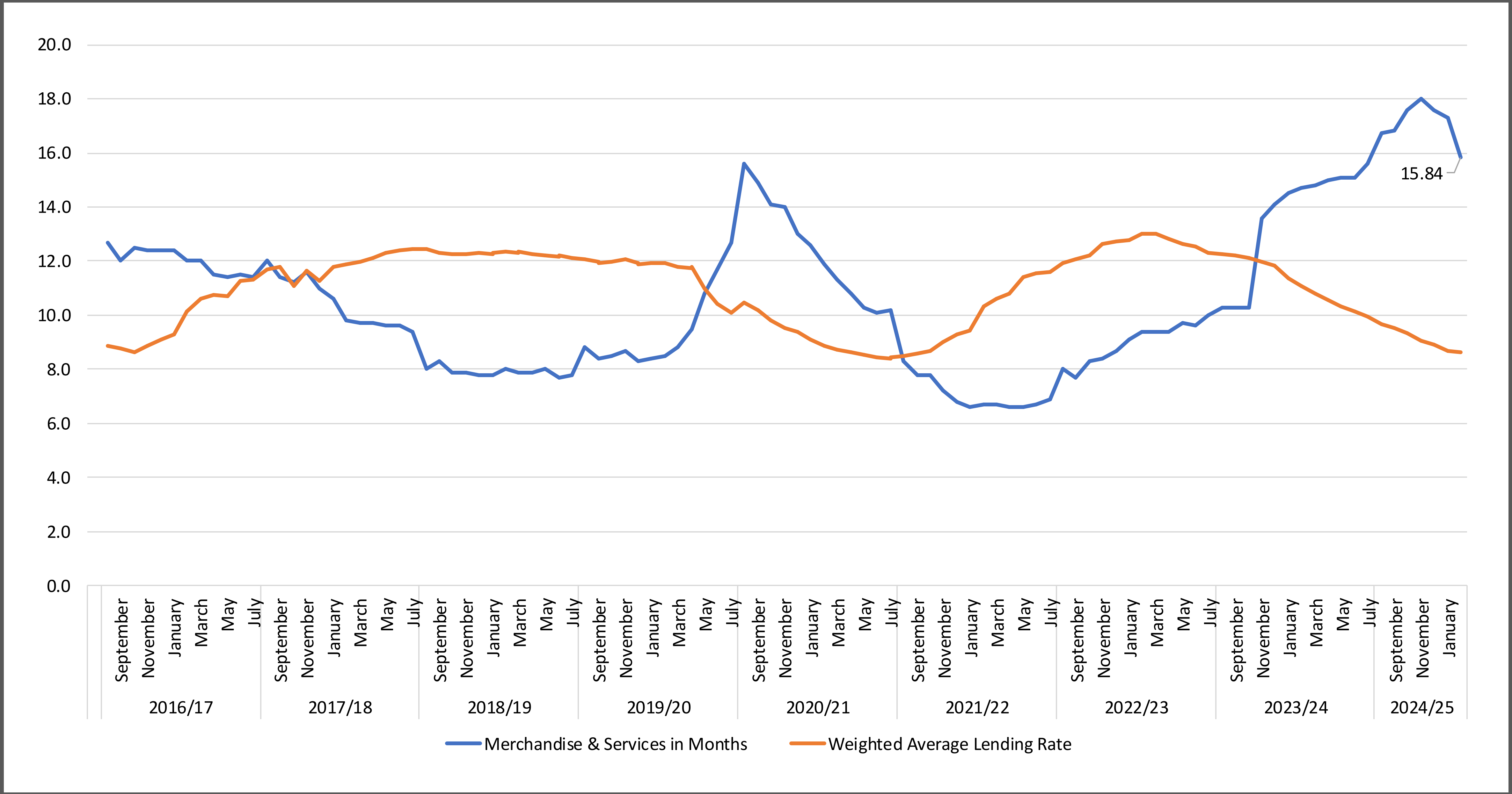
- *Exports rose steadily from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December-January 2024, before climbing further to NPR 24.7 billion by mid-January 2025. In contrast, imports saw a significant surge, increasing from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021. 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:

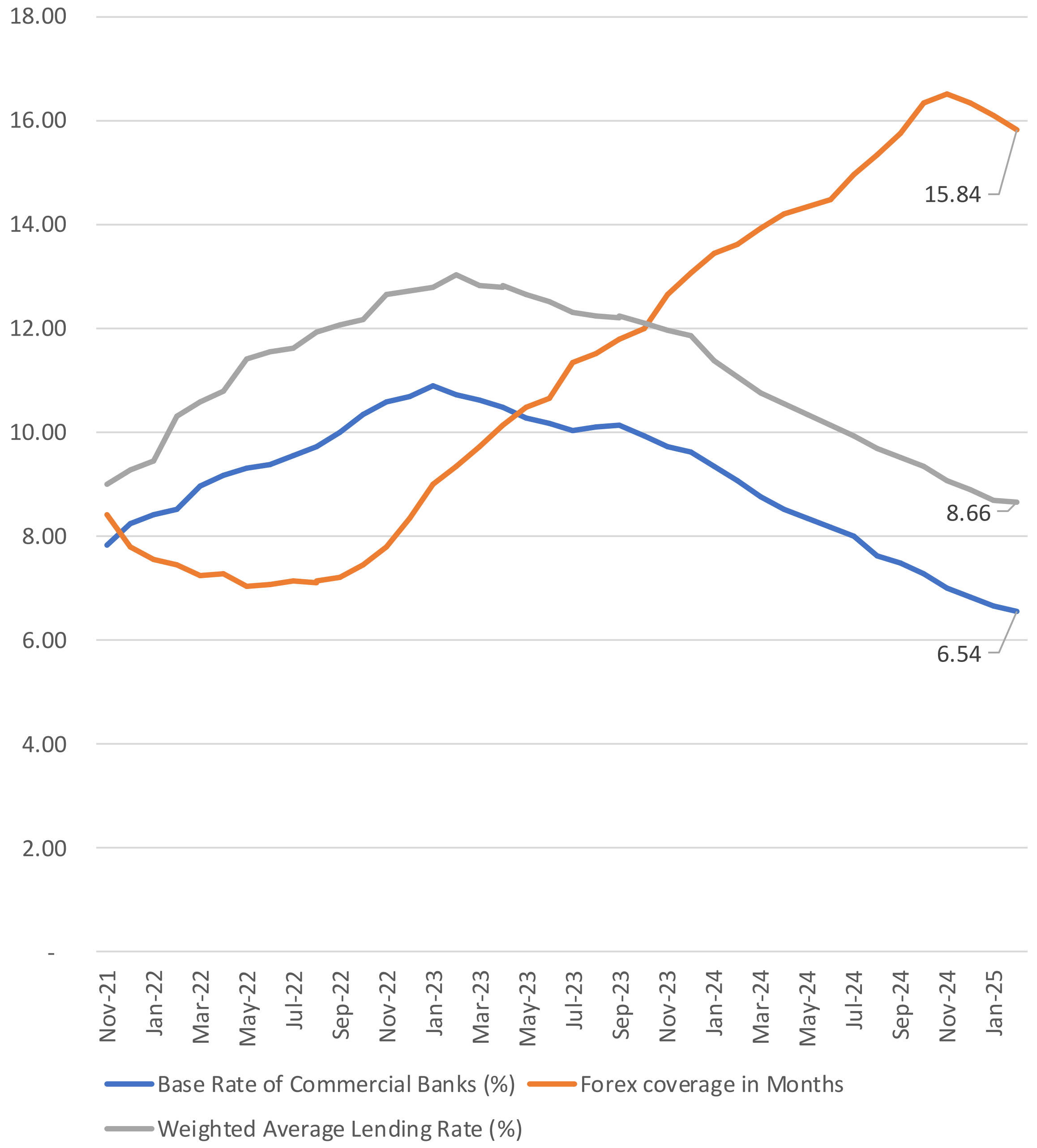
- *Overreliance on import restrictions proved to be a short-term solution, causing supply chain disruptions without providing a sustainable resolution to the trade deficit. The ongoing currency depreciation and rising costs are expected to continue exerting pressure on the balance of payments (BOP).*

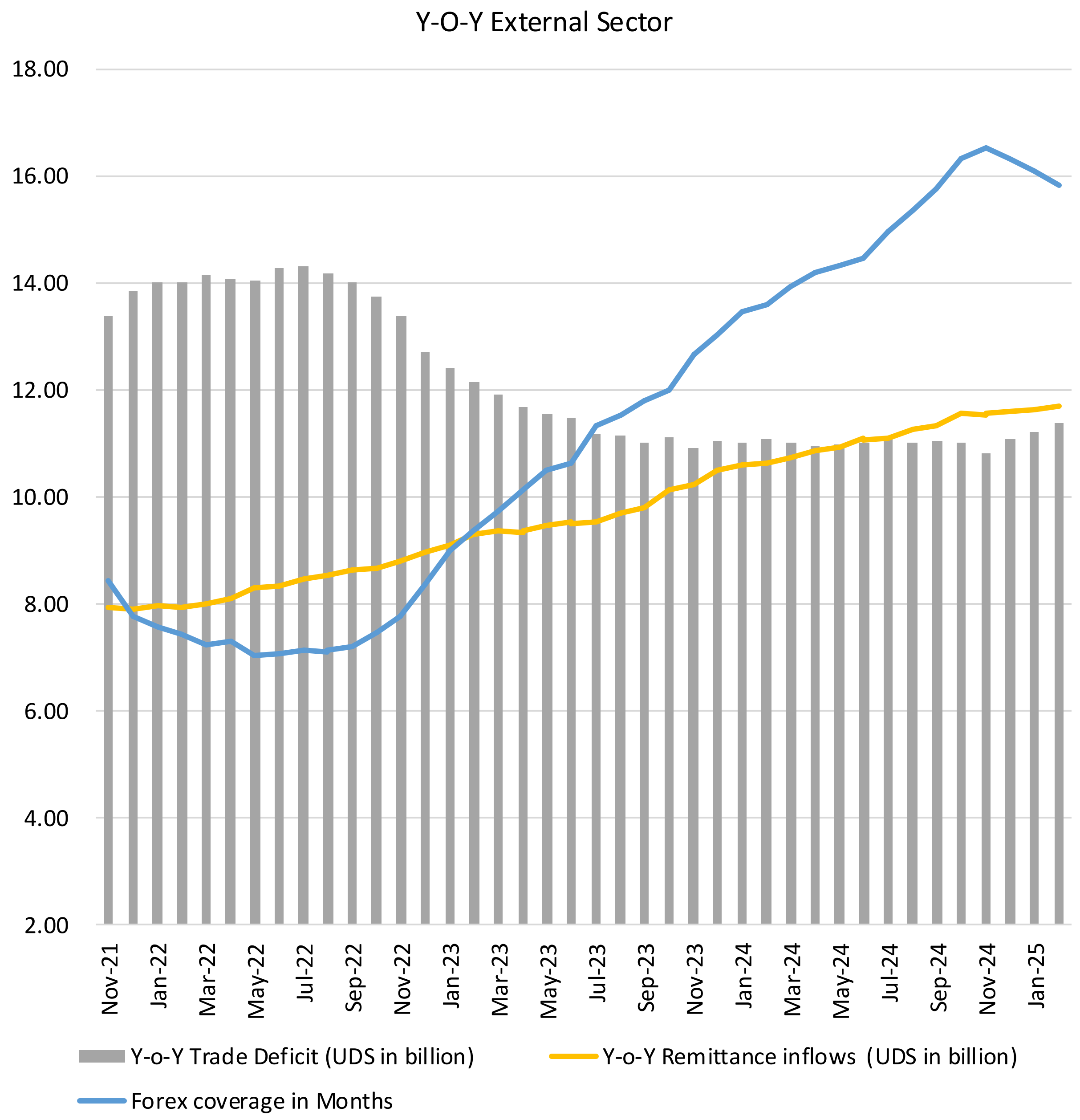
Recommendations:

- *Develop and promote local industries to reduce import dependency.*
- *Implement balanced trade policies to ensure essential imports while fostering domestic production. To mitigate these challenges, Nepal should focus on boosting local production, reducing government expenditures, downsizing the government structure, and increasing investment in research and development.*


20.0
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
15.84
September
November
January
March
May
July
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Merchandise & Services in Months
Weighted Average Lending Rate

Interest rates and Extranational Sector





3. Government Expenditure

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

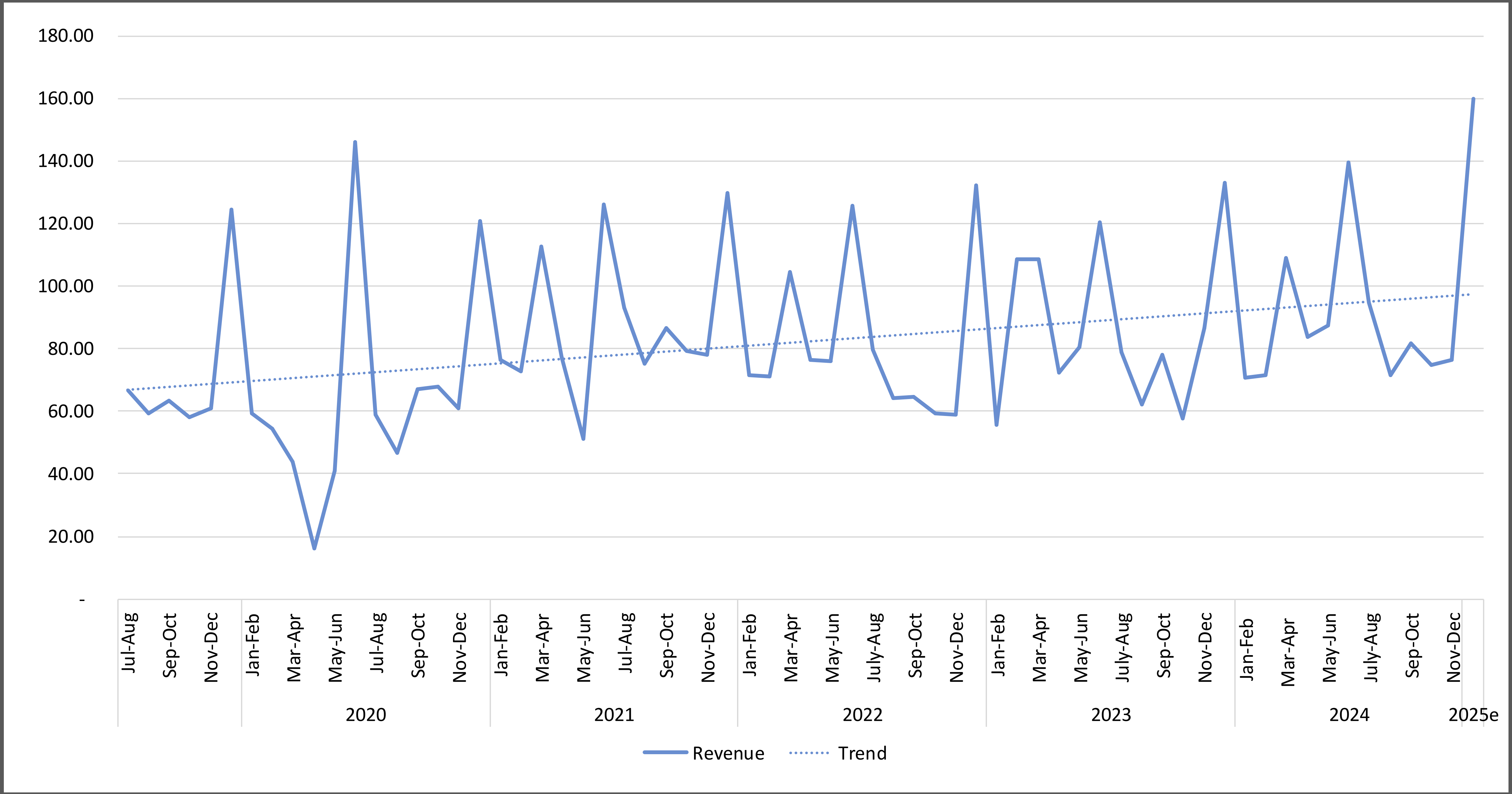
- *2019-2021: Varied widely, peaking at NPR 260.6 billion in Jun-Jul 2021.*
- *2022-2024: Continued to fluctuate, reaching NPR 226.7 billion by Jun-Jul 2024 and 111.5 billion in Dec-Jan 2025.*

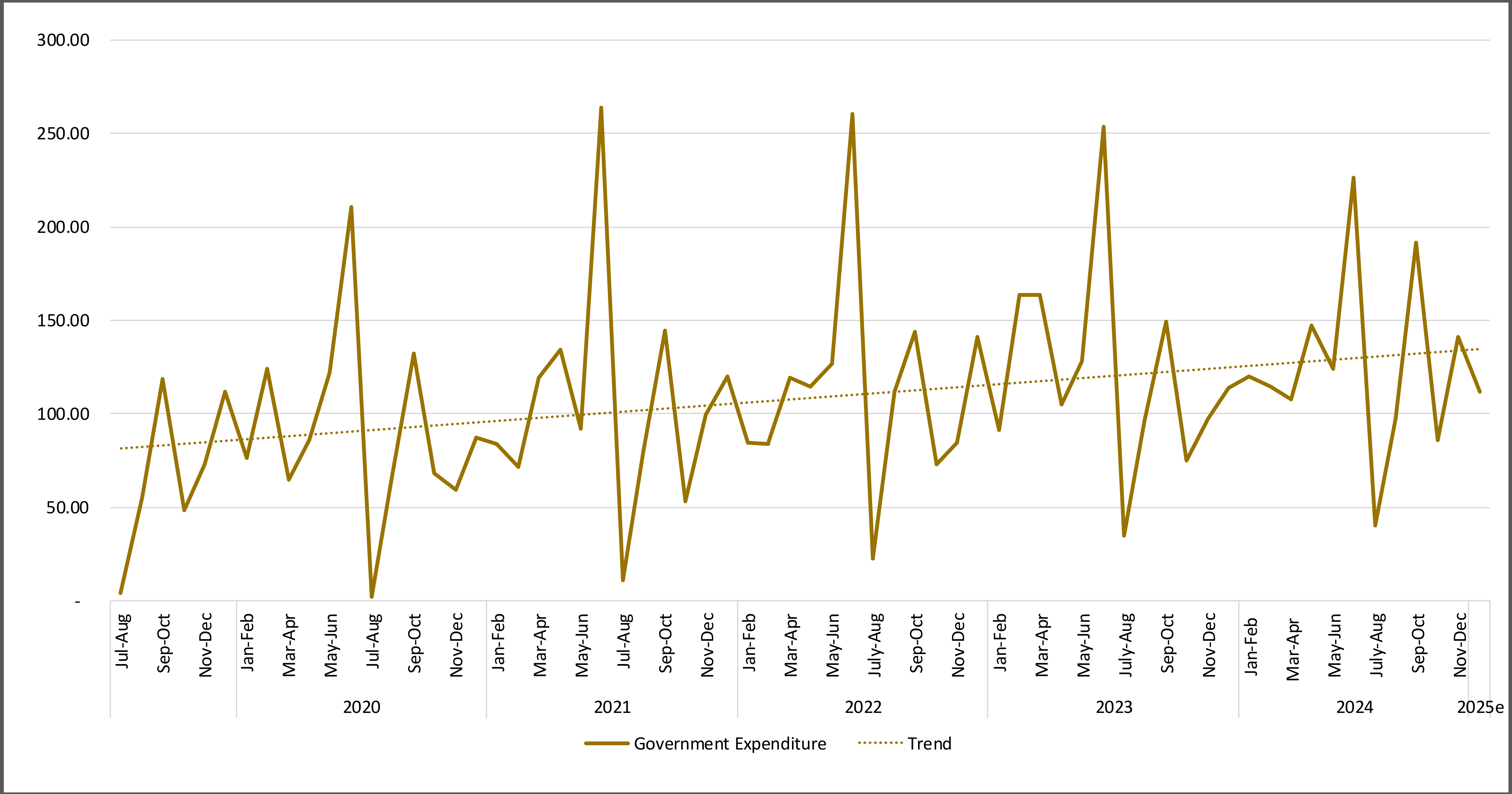
Policy Mistakes:

- *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.*


180.00
160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
-
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
2020
2021
2022
2023
2024
2025e
Revenue
Trend



300.00
250.00
200.00
150.00
100.00
50.00
-
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
2020
2021
2022
2023
2024
2025e
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.*
- *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.*

	Mid-July			Mid-Jan
Provision for Risk Amt in billion	2022*	2023	2024	2025
Opening		155.49	200.66	258.33
Addition		65.95	85.52	54.96
Write Back		20.53	27.56	18.25
Recovery from Written off Loan		0.25	0.29	0.10
Closing *Estimated	155.49	200.66	258.33	294.94
Gross Loan Loas Provision	3.18%	3.95%	4.76%	5.15%

As of mid-January 2025, Nepal's gross loan portfolio totals NPR 5,731.20 billion, with 91.80% classified as good loans (NPR 5,261.44 billion) and 8.20% as problem loans (NPR 469.76 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 294.94 billion (5.15% of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 174.82 billion (3.05%) in provisions would be required, raising the total provisioning requirement to 8.27%. The banking system is supported by NPR 567.68 billion in paid-up capital and statutory reserves, equivalent to 9.90% of gross loans. With additional reserves, total capital reaches NPR 764.82 billion, or 13.34% of the loan portfolio. In a stressed scenario where all problem loans turn bad, net capital would drop to NPR 392.85 billion (6.85% of gross loans), falling below the minimum capital threshold. When Tier 1 capital breaches this threshold, banks lose their lending capacity, reducing investment and slowing economic activity. However, total capital would remain at NPR 590.00 billion (10.29%), demonstrating resilience while emphasizing 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-Jan 2025	%age
Gross Loan	5,731.20	100.00%
Good loan	5,261.44	91.80%
Problem Loan	469.76	8.20%
Provision made	294.94	5.15%
Additional provision required if all problem loan become Bad	174.82	3.05%
Paid up Capital and Statutory Reserves	567.68	9.90%
Total capital	764.82	13.34%
Net capital If all problem loan become bad	392.85	6.85%
Total capital If all problem loan become bad	590.00	10.29%

Agriculture
7.70%
Down

Mines
0.21%
Down

Productions
16.33%
Up

Construction
4.12%
Up

Metal Productions
1.33%
Down

Transportation
0.89%
Down

Communications and Energy
8.02% Up

Wholesaler and Retailers
19.28%
Down

Finance, Insurance, and Real Estates
7.87%
Up

Service Industries
8.43%
Up

Consumable Loan
19.72%
Up

Local Government
0.02%
Down

Others
6.06%
Down

Loan Composition and Growth Trend

Gold/Silver
1.26%
Up

Government Securities
0.09%
Up

Non Government Securities
1.95%
Up

Fixed A/c Receipt
0.67%
Down

Asset Guarantee
88.96%
Up

Lands and Buildings
64.94%
Up

Machinery and Tools
3.41%
Up

Furniture and Fixture
0.04%
Down

Vehicles
2.88%
Up

Other Fixed Assets
3.23%
Down

Current Assets
14.45%
Up

Agricultural Products
1.13%
Up

Other Non Agricultural Products
13.33%
Up

On Bills Guarantee
0.83%
Up

Domestic Bills
0.02%
Up

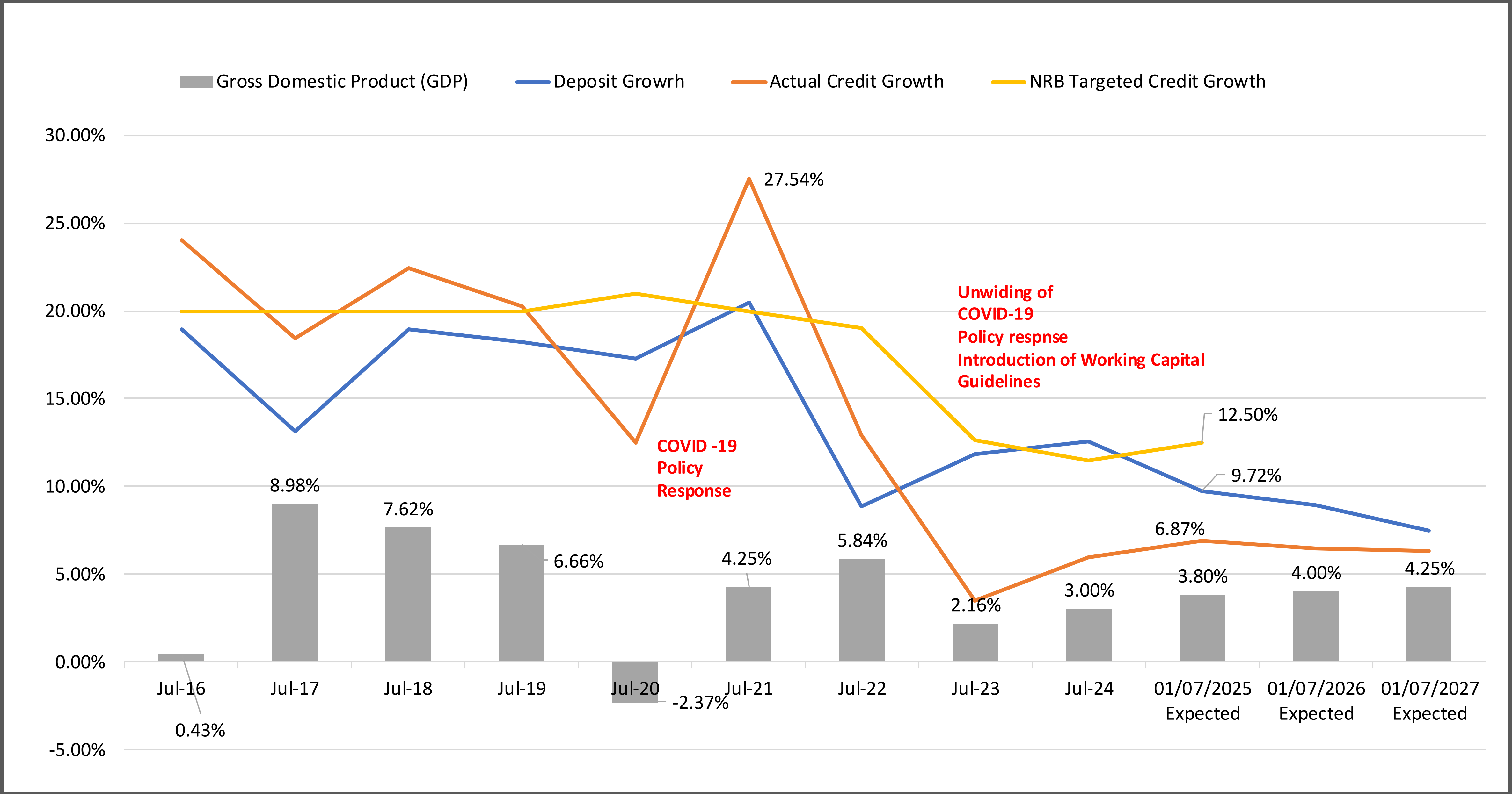
Foreign Bills
0.81%
Up

Guarantee
3.60%
Down

Credit Card
0.11%
Up

Others 2.52%
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
12.50%
COVID -19
Policy
Response
9.72%
8.98%
7.62%
6.66%
4.25%
5.84%
6.87%
3.80%
4.00%
4.25%
3.00%
2.16%
-2.37%
0.43%
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 4.75% in January 2025. 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 8.69% January 2025.*
- *Base Rates of Commercial Banks: Gradually increased over the period, indicating the impact of a tighter monetary policy stance.*
- *Liquidity remains high, foreign reserves are strong, but credit demand has stagnated at ~5% for two years. Rising NPAs are eroding banking capital, and Tier 1 capital is nearing the minimum threshold. Businesses are highly leveraged, limiting new investments.*

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.*

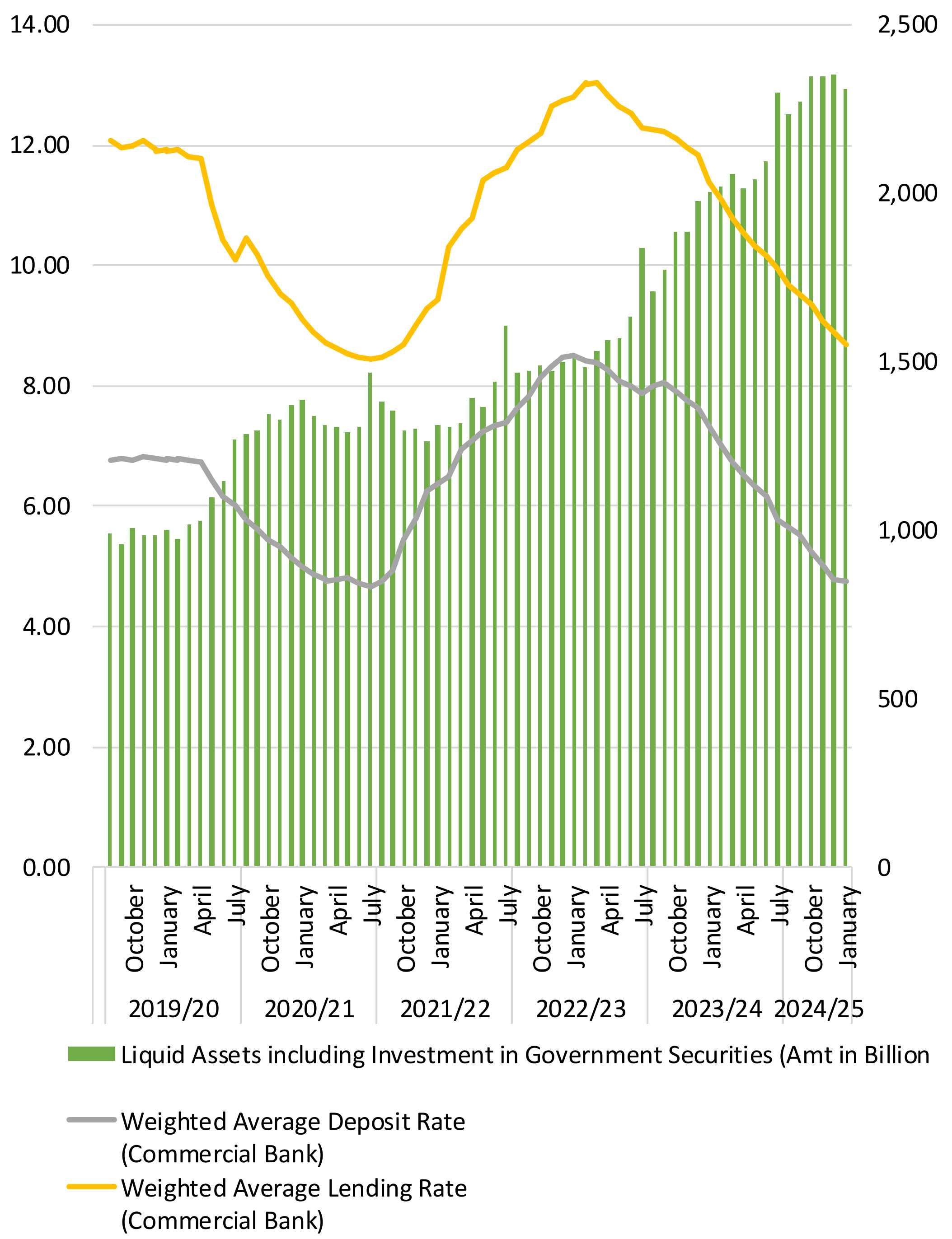
Recommendations:

- *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 January 2025, while lending rates decreased from 12.08% to 8.69%. 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 2,307 billion by January 2025. 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

Targeted Stimulus: *Implement targeted stimulus measures to revive sectors hardest hit by the pandemic and policy changes. This includes providing financial support and incentives for industries such as tourism, hospitality, and small businesses.*

Infrastructure Investment: *Prioritize investments in infrastructure projects to stimulate economic activity and create employment opportunities. Infrastructure development not only boosts short-term growth but also lays the foundation for long-term prosperity.*

Diversification Strategies: *Encourage diversification strategies to reduce reliance on sectors susceptible to external shocks. Promoting innovation and supporting emerging industries can enhance economic resilience and mitigate vulnerabilities.*

Regulatory Clarity: *Provide clarity and consistency in regulatory frameworks to support lending activities and foster a conducive environment for credit growth. Clear guidelines and streamlined processes can enhance the efficiency of credit allocation and promote investment.*

Policy Coordination: *Enhance coordination between fiscal and monetary authorities to ensure a cohesive approach to inflation management. Coordinated policies, including targeted fiscal measures and appropriate monetary interventions, can effectively address inflationary pressures.*

Forward Guidance: *Provide clear and transparent forward guidance on monetary policy to guide market expectations and promote stability. Clear communication from central banks can help manage interest rate expectations and minimize market volatility.*

Policy Flexibility: *Maintain policy flexibility to respond to evolving economic conditions. Central banks should stand ready to adjust interest rates in line with changing economic indicators, ensuring an appropriate balance between growth and inflation objectives.*

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 transparency by allowing Loan loss proviosn as tacable expnese in ecxess of 5%*
NPA management	*Introduce regulatory reforms and update the LLP directive to align with the current economic landscape and growth objectives.*	*Improve financial sector stability*
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	*Establish an AMC to manage NPAs and strengthen 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.*

Reform
in progress

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*
Revenue Leakage (Investigation and Control), Act	*The decriminalization process for corporate noncompliance commenced with amendments to Section 12(4), 13(A), and 20(3)(4) of the Revenue Leakage (Investigation and Control) Act.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*	*Process Initiated*

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*
FITTA	***Subsection 1 of Section 3 has been amended*** *to allow foreign investment in any industry other than those industry mentioned in the schedule of act*	*High*	*Attainable*	*Effective; Attract FDI with Confidence*	*Process Initiated*
	Subsection 2 of Section 7A has been amended *to allow foreign Foreign currency earnings from technology transfer can be invested abroad in limited liability partnership firms, investment funds, or similar limited liability entities, provided that such investments comply with prevailing foreign exchange laws.*	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*	*Process Initiated*
	Sub-section 6(3) of Section 2 has been amended *to expand the definition of technology transfer to include management and technical services, information technology, marketing and market research, finance, accounting and auditing, engineering, outsourcing, human resource outsourcing, digital data processing and migration, design services, and technical skills or knowledge.*	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*	*Process Initiated*
	Section 9A added: *A foreign investor may invest in the equity of an industry by investing in a Venture Capital Fund with approval from the SEBON*	*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*
Provision for Cancellation of Company Registration **Section 136(A)**	*If a company has not conducted any business, is non-operational, or has failed to submit the required information or pay the necessary penalties as per relevant regulations, it may apply for registration cancellation.* *A fine or an amount equal to 0.5% of the company's paid-up capital (whichever is lower) must be paid along with the required details when filing for cancellation.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*	*Process Initiated*
Companies Act	*A certified copy of the Non-Resident Nepali (NRN) citizenship certificate has been added as a requirement for company registration for non-resident Nepali founders.*	*High*	*Attainable*	*Effective; Attract FDI form Diaspora with Confidence*	*Process Initiated*

Reform Area	Recommendation	Priority	Workability	Outcome	Actions
	Equalize withholding tax rates for DFIs and Multilaterals; reduce withholding tax on interest payments.	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*	*Process Initiated*
Arbitration Act	*Section 13(A) added: The parties may settle the dispute by resorting to the rapid arbitration service as prescribed by contract or agreement.*	*High*	*Attainable*	*Effective; Boost Private Sector Confidence*	*Process Initiated*
	Section 30(4) added: When a party challenges and seeks to invalidate an arbitrator's ruling, the court shall not consider the arbitrator's evidence or re-evaluate the evidence used in the arbitrator's decision-making process.	*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 3, 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

3

External Sector

The Silent Killer: *Currency depreciation is silently reshaping Nepal's economic landscape, eroding purchasing power, discouraging investment, and straining an already fragile system. Addressing these structural challenges is essential for long-term stability. Despite signs of recovery in customs revenue, Nepal's import-driven economy faces a growing concern: the depreciation of the Nepalese rupee. Since 2020, the NPR has weakened from 1 USD = 119 to 1 USD = 139 in 2025, marking a 16.6% decline. This depreciation has increased import costs while providing only marginal improvements in export competitiveness. The export growth recorded in the second quarter of FY 2024/25 appears to be driven more by duty advantages than by currency depreciation.*

Economic Trends and Challenges: *Recent economic trends further underscore these challenges. In January 2025, imports increased by 7.1%, exports surged by 31.8%, yet the trade deficit widened by 4.5%. In contrast, 2024 saw declining imports (-3.1%), falling exports (-6.5%), and a 2.27% reduction in the trade deficit. Another concerning trend is the slowing growth of remittances in NPR terms despite continued currency depreciation and increasing outward migration. In January 2025, remittances grew by just 4.1% in NPR terms and 1.1% in USD terms, compared to significantly higher growth of 25.3% (NPR) and 22.6% (USD) in January 2024.*

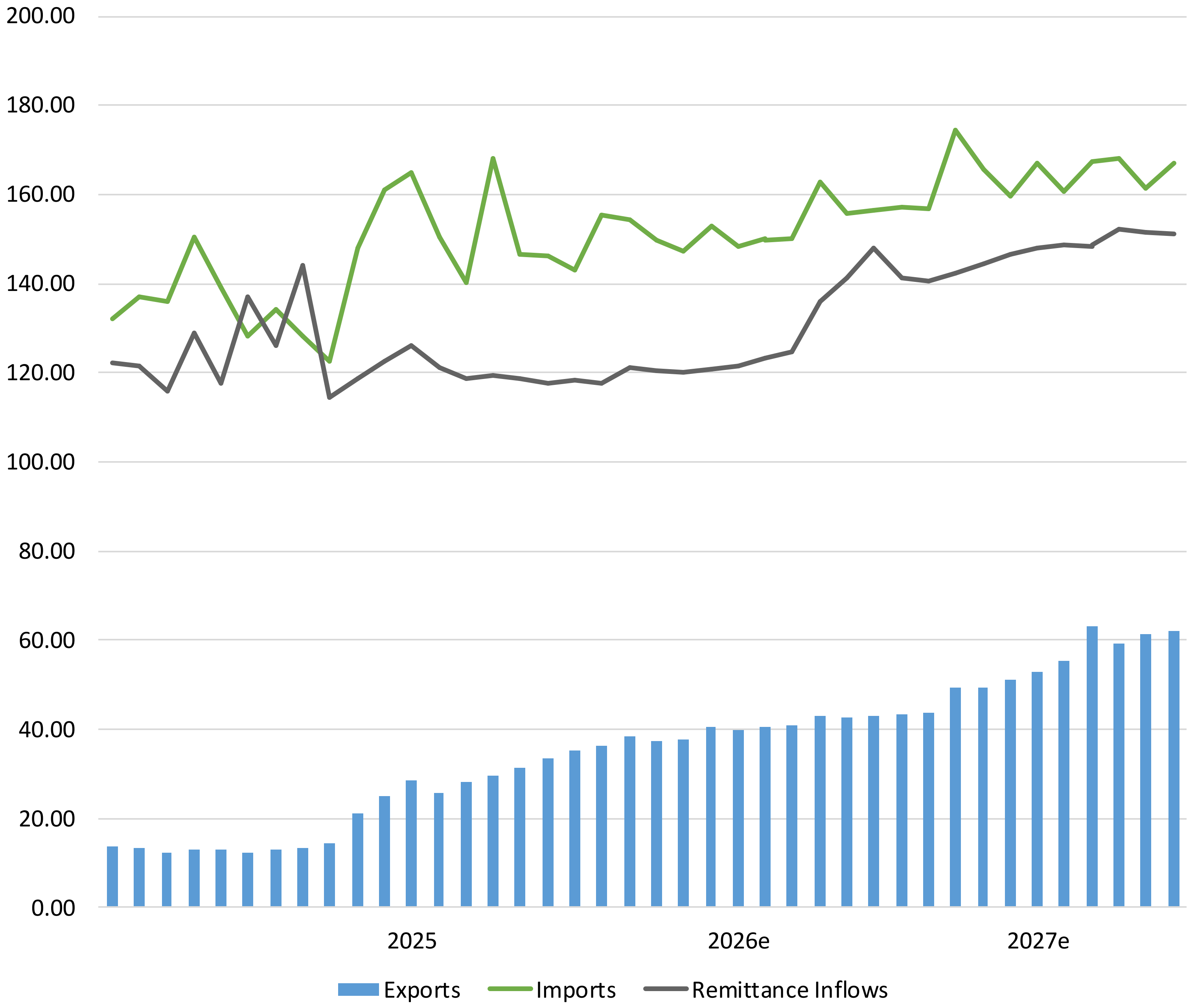
The Widening Trade Deficit (Half-Yearly Data): *Nepal's import trends have shown consistent growth over the years, rising from $5.56 billion in the first half of 2020/21 to $6.33 billion in the first half of 2024/25. While imports surged significantly in 2021 and 2022, growth slowed in 2023 and 2024, possibly due to economic challenges, currency depreciation, and government policies aimed at controlling imports. Monthly fluctuations in import data suggest seasonal demand shifts and external economic conditions. Exports, on the other hand, remain significantly lower than imports, increasing from $0.42 billion in the first half of 2020/21 to $0.75 billion in the first half of 2024/25. While there has been some growth, the increase is marginal compared to imports, leading to a widening trade deficit. The slow export growth highlights Nepal's limited capacity to boost high-value exports despite currency depreciation. The trade deficit has persisted and expanded over time, growing from $5.05 billion in the first half of 2020/21 to $5.57 billion in the first half of 2024/25. The import-to-export ratio has consistently remained high, averaging between 8:1 to 11:1, underscoring Nepal's heavy reliance on imports and weak export performance. With the trade deficit now comprising 24.1% of GDP as of January 2025, external sector vulnerabilities continue to deepen.*

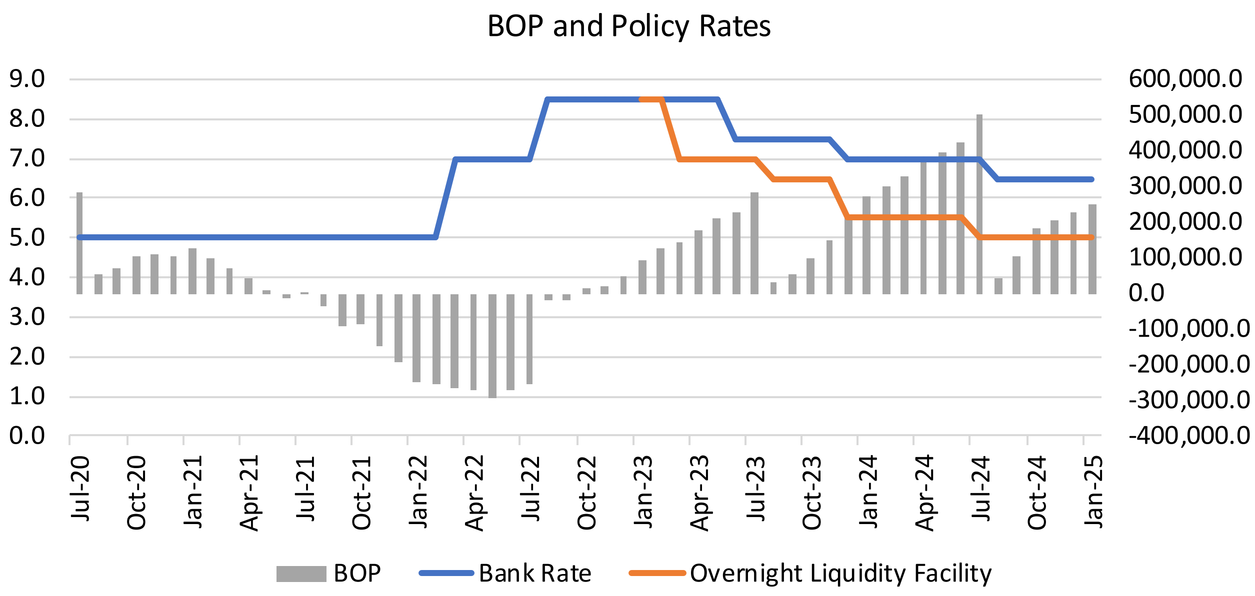
Revenue and Remittances: A Mixed Picture: *Government revenue from imports has exhibited volatility, with fluctuations in monthly collections. Despite the rising import volume, revenue growth has not kept pace, likely due to tax adjustments, reduced tariff rates, or underreporting of trade. These inefficiencies in revenue collection persist despite increased trade activity. Remittance inflows have played a crucial role in Nepal's economy, growing from $3.99 billion in the first half of 2020/21 to $5.87 billion in the first half of 2024/25. However, the growth rate of remittances has slowed in recent years, possibly indicating market saturation. Despite currency depreciation, the expected surge in remittance growth in local currency terms has not materialized, suggesting limited benefits from exchange rate fluctuations.*

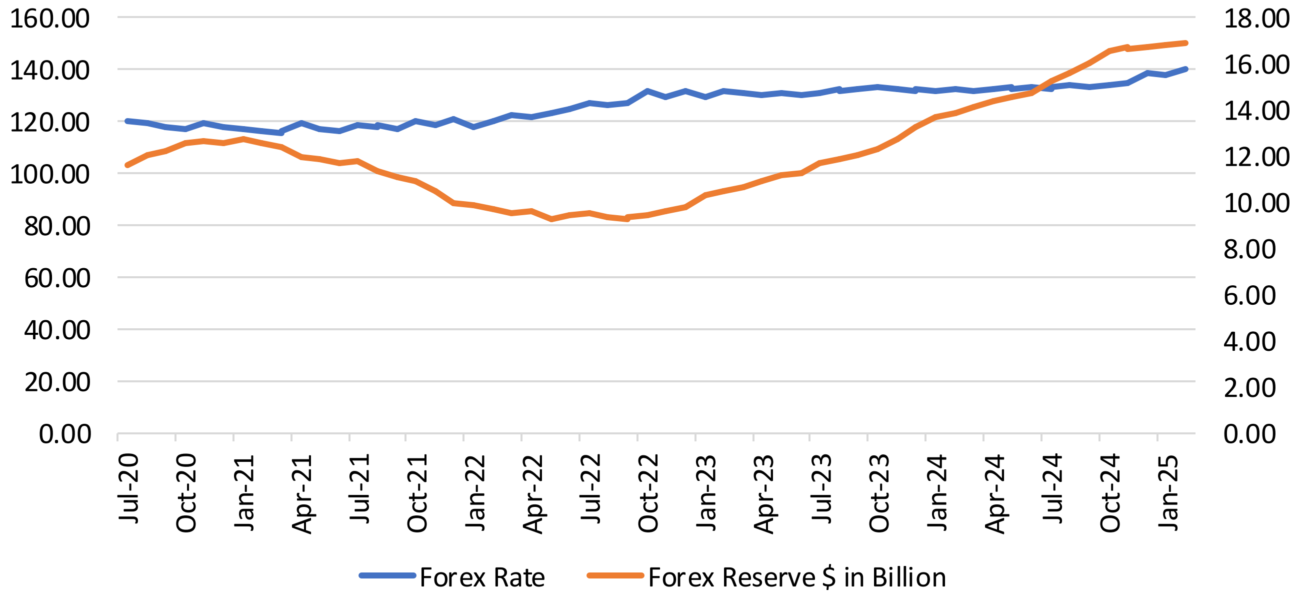
The Path Forward: Building Economic Resilience: *Nepal's persistent trade deficit remains a structural economic challenge. The country must prioritize export promotion through policy measures such as duty advantages and industry incentives. Currency depreciation alone has not been sufficient to boost exports, underscoring the need for structural reforms to enhance production capacity. Additionally, diversifying revenue sources and improving domestic production will be essential for sustainable economic growth and reducing external vulnerabilities. Strengthening Nepal's economic foundation requires proactive policy measures, investment-friendly reforms, and a long-term vision for economic resilience.*

Imports and Remittance outlook. (NPR in billion)

The initial results appeared promising, but this seemingly strong performance masked deeper structural weaknesses that remained unresolved. Nevertheless, we remain optimistic that authorities will refine policies to tackle these challenges. Additionally, we anticipate that electricity exports will contribute to improving overall export performance.







*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 249.26 billion** by January 2025.*

*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 140.04** by February 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 indicators (NPR in billion)

Particulars Amount in NPR Billion	2024 Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	2025 Jan-Feb *e
Consumer Price Inflation (y-o-y) (%)	5.01	4.82	4.61	4.40	4.17	3.57	4.10	3.85	4.82	5.60	6.05	5.41	5.33
Exports	11.86	13.79	13.33	12.23	13.09	13.12	12.23	12.87	13.29	14.29	20.99	25.13	28.1
Imports	129.8	132.3	137.1	136.0	150.3	139.3	128.4	134.2	128.2	122.6	148.1	160.9	165.
Remittance Inflows	105.8	122.2	121.4	116.0	128.9	117.8	136.9	126.2	144.2	114.3	118.8	122.7	126.12
Government Expenditure	120.1	114.8	107.8	147.5	124.4	226.7	40.2	97.3	191.6	85.8	141.1	111.5	87.3
Current Expenditure	71.7	73.1	61.9	108.5	70.3	128.8	12.4	70.6	146.9	62.7	71.0	88.5	75.8
Capital Expenditure	14.3	17.6	16.2	14.5	23.1	56.8	8.6	6.3	14.5	5.2	6.3	16.1	11.5
Revenue	70.9	71.6	109.0	83.9	87.3	139.7	94.7	71.6	81.9	75.0	76.4	160.0	83.2
Deposit Mobilization	20.1	38.7	-26.8	34.0	71.5	227.8	-43.5	78.5	135.0	-20.2	22.5	66.7	(10.20)
Private Sector Credit	4.6	2.3	22.7	3.0	21.6	30.1	14.1	59.3	55.3	-0.2	49.8	87.3	2.40
Weighted Average Deposit Rate (%)	7.01	6.74	6.53	6.35	6.17	5.77	5.66	5.53	5.24	5.01	4.78	4.75	4.77
Weighted Average Lending Rate (%)	11.08	10.78	10.55	10.34	10.15	9.93	9.68	9.52	9.33	9.07	8.90	8.69	8.66
Base Rate of Commercial Banks (%)	9.06	8.77	8.51	8.34	8.17	8.00	7.61	7.49	7.29	7.02	6.82	6.65	6.54

Nepal's key economic indicators show mixed trends across various sectors. ***Consumer price inflation*** *fluctuated over the year, starting at* ***4.82% in February-March****, dipping to* ***3.57% in June-July****, and then rising again to* ***5.33% by January-February 2025****, indicating moderate inflationary pressure.* ***Exports*** *have shown strong growth, rising from* ***13.79 billion NPR in February-March to 28.60 billion NPR in January-February****, reflecting improved trade performance. However,* ***imports*** *have also surged, increasing from* ***132.3 billion NPR to 165.10 billion NPR*** *over the same period, worsening the trade deficit.*

Remittance inflows *have remained stable, fluctuating between* ***114.3 billion NPR and 144.2 billion NPR****, providing vital support to Nepal's economy.* ***Government expenditure*** *peaked in June-July at* ***226.7 billion NPR****, mainly driven by* ***capital expenditure****, but later declined to* ***87.3 billion NPR in January-February 2025****. Revenue collection has been inconsistent, reaching* ***160 billion NPR in December-January*** *before falling to* ***83.2 billion NPR*** *in the following period.*

On the banking side, ***interest rates have consistently declined****, with the* ***weighted average deposit rate*** *dropping from* ***6.74% to 4.77%****, and the* ***lending rate*** *falling from* ***10.78% to 8.66%****. The* ***base rate of commercial banks*** *has also decreased from* ***8.77% to 6.54%****, reflecting a more relaxed monetary policy. Overall, Nepal's economy is experiencing* ***rising trade activity, stable remittance inflows, and declining interest rates****, which could support economic growth. However, the* ***rising import bill, fluctuating government spending, and liquidity concerns*** *pose potential risks that need to be addressed.*

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2022/23 (Mid-Feb.)	7.07	0.72	6.35	7.79	1.00	9.82	1.63	1 USD= 125NPR
Share % in Total Trade	90.76	9.24						
Trade deficit % GDP			15.67%					
F.Y. 2023/24 (Mid-Feb.)	6.91	0.67	6.24	7.58	1.00	10.31	1.82	1 USD= 130 NPR
Share % in Total Trade	91.16	8.84					Up	
Trade deficit % GDP			15.40%					
F.Y. 2081/82 (2024/25) (Mid-Feb.)	7.60	0.98	6.62	8.58	1.00	7.76	2.02	1 USD= 130 NPR
Share % in Total Trade	88.58	11.42					Up	
Trade deficit % GDP			14.10%					
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-2.26%	-6.94%	-1.73%	-2.70%			11.66%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	9.99%	46.27 %	6.09%	13.19%			10.99%	

Our view on the current level of External vulnerabilities

*Nepal's foreign trade has shown a persistent trade deficit over the past three fiscal years, though there have been some signs of improvement. In FY 2022/23, the trade deficit stood at **6.35 billion**, accounting for **15.67% of GDP**. The following year, in FY 2023/24, the deficit slightly decreased to **6.24 billion**, reducing its share of GDP to **15.40%**. However, in FY 2024/25, the trade deficit rose again to **6.62 billion**, though its proportion of GDP fell further to **14.10%**, suggesting economic growth.*

*Imports continue to dominate Nepal's trade, making up over **88% of total trade**. Exports declined in FY 2023/24 by **-6.94%**, falling from **0.72 billion to 0.67 billion**, but saw a significant rebound in FY 2024/25, reaching **0.98 billion**, a remarkable **46.27% growth**. Despite this improvement, Nepal's export-to-import ratio remains low at around **1:10**, highlighting the country's heavy reliance on imports. While total trade declined by **-2.70% in FY 2023/24**, it rebounded strongly in FY 2024/25, growing by **13.19%**, signaling an overall recovery in trade activity.*

*The Nepalese Rupee has depreciated over this period, with the exchange rate rising from **1 USD = 125 NPR to 140 NPR**. This depreciation makes imports more expensive but can potentially boost exports. Meanwhile, government revenue from trade has shown consistent growth, increasing by **11.66% in FY 2023/24** and **10.99% in FY 2024/25**, indicating improved tax collection and trade regulation.*

*Overall, while Nepal continues to struggle with a large trade deficit, recent trends suggest **a positive shift in export growth and economic expansion**. The rising imports remain a concern, but the declining trade deficit as a percentage of GDP and the improvement in total trade suggest a **gradual strengthening of Nepal's foreign trade dynamics**.*

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 24.40 % by mid-Feb 2025, compared to the 29.43% reported in the corresponding previous year.*

Trade Deficit

In the 7th month of fiscal year 2024/25, the monthly trade deficit remain constant at $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 $11.46 billion, indicating a mild reversal from the $10.63 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 15.84 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.

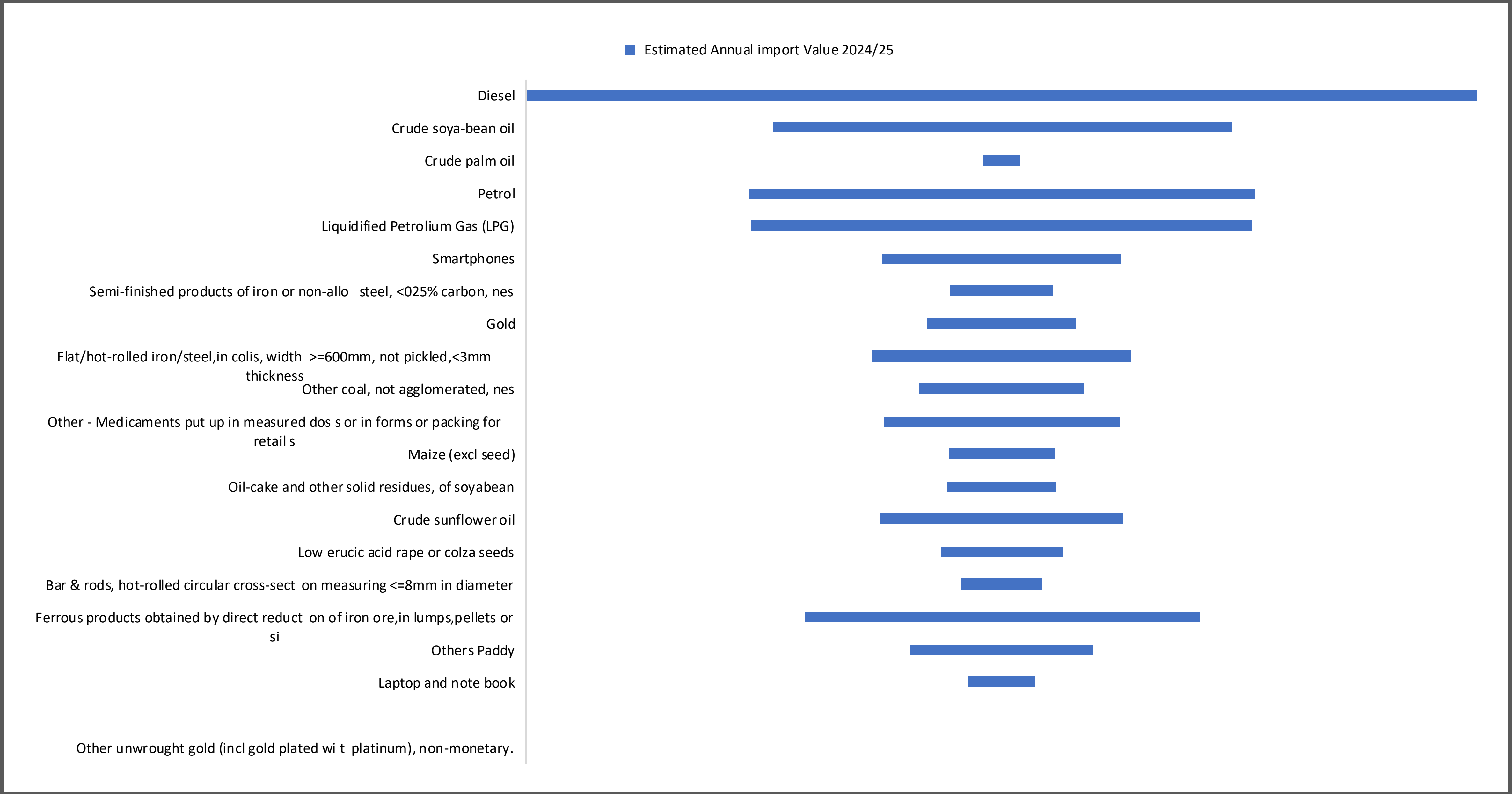
Although there has been a noticeable increase in the import of specific goods, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.

Other major Import	Unit	Quantity	Imports Value
ATF	KL		85
Other Urea	Kg		74
Diammonium hydrogenorthophosphate (diammonium phosphate)	Kg		70
Electric car, jeep & van 51KW to <=100KW	PCS	3,491	67
Garlic, fresh or chilled	Kg		48
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	Kg		48
Other potatoes, fresh or chilled	Kg		42
Polypropylene, in primary forms	Kg		39
Apples, fresh	Kg		38
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	Kg		36
Synthetic staple fibres, of polyesters, no carded, etc	Kg		35
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	Kg		35
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	PCS	40,197	31
Electric car, jeep & van upto 50KW	PCS	2,159	30
Polyethylene having a specific gravity >=0.94, in primary forms.	Kg		29
Wire of refined copper, maximum cross-sect onal dimension >6mm.	Kg		29
Other soyabean	Kg		28
Petroleum bitumen	Kg		28
Motorcycles with piston engine of capacity exceeding 50 not exceeding 125cc	PCS	35,602	27

Major Export	Unit	Import Value
Soya-bean oil (excl. crude) and fractions	Kg	249.35
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	LTR	50.59
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	SQM	49.76
Big Cardamon (Alaichi) neither crushed nor ground	Kg	41.52
Other black tea (fermented) and other partly fermented tea	Kg	24.49
Single yarn, with >=85% polyester staple f bres, nprs	Kg	24.08
Rolled iron/steel, width >=600mm, plated o coated with aluminium-zinc alloys	Kg	23.01
Unbleached woven fabrics of jute or of oth r textile bast fibre of heading 5303.	SQM	22.31
other Felt, whether or not impregnated, coated, covered or laminated. nes .	Kg	21.76
Other yarn, <85% polyester staple fibres, ith artificial staple fibres, nprs	Kg	21.73

	2023/24					2024/25									
Trade Indicators	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Y-o-Y	Remaks	%age
Imports (UDS in billion)	7.92	8.98	10.03	11.18	12.25	0.99	2.02	3.01	3.95	5.09	6.33	7.60	12.94	UP	5.63%
Monthly Imports	1.01	1.06	1.05	1.15	1.07	0.99	1.03	0.99	0.94	1.14	1.24	1.27			
Exports (UDS in billion)	0.77	0.88	0.97	1.07	1.17	0.09	0.19	0.30	0.41	0.57	0.76	0.98	1.48	UP	26.50%
Montly Exports	0.10	0.11	0.09	0.10	0.10	0.09	0.10	0.11	0.11	0.16	0.19	0.22			
Trade Deficit (UDS in billion)	7.15	8.10	9.06	10.11	11.08	0.90	1.83	2.71	3.54	4.52	5.57	6.62	11.46	UP	3.43%
Total Foreign Trade (UDS in billion)	8.69	9.86	11.00	12.25	13.42	1.08	2.21	3.31	4.36	5.66	7.09	8.58	14.42	UP	7.45%
Monthly Import Revenue	0.26	0.28	0.28	0.32	0.27	0.27	0.30	0.33	0.22	0.30	0.31	0.29			
Total Import revenue	2.08	2.36	2.64	2.96	3.23	0.27	0.57	0.90	1.12	1.42	1.73	2.02	3.43	UP	6.19%
Montly Remittance	0.94	0.93	0.89	0.99	0.91	1.05	0.97	1.11	0.88	0.91	0.94	0.97			
Remittance inflows	7.39	8.33	9.22	10.21	11.12	1.05	2.02	3.13	4.01	4.93	5.87	6.84	11.50	UP	3.47%
Imports/Exports Ratio	10.29	10.20	10.34	10.45	10.47	11.00	10.63	10.03	9.63	8.93	8.33	7.76	8.74	Down	-16.49%
Exports Share to Total Trade (%)	8.86	8.92	8.82	8.73	8.72	8.33	8.60	9.06	9.40	10.07	10.72	11.42	12.91	UP	48.13%
Imports Share to Total Trade (%)	91.14	91.08	91.18	91.27	91.28	91.67	91.40	90.94	90.60	89.93	89.28	88.58	87.09	Down	-4.60%
Monthly Trade Deficit (UDS in billion)	0.91	0.95	0.96	1.05	0.97	0.90	0.93	0.88	0.83	0.98	1.05	1.05			
Trade deficit % GDP	17.65%	17.25%	19.29%	21.53%	23.59%	1.92%	3.90%	5.77%	7.54%	9.62%	11.86%	14.10%	24.40%	UP	3.43%

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 thickness
Other coal, not agglomerated, nes
Other - Medicaments put up in measured dos s or in forms or packing for retail s
Maize (excl seed)
Oil-cake and other solid residues, of soyabean
Crude sunflower oil
Low erucic acid rape or colza seeds
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si
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 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	2024/25 7 month	Estimated Annual import Value 2024/25	Import Direction	Movement
Diesel	1,183	596	684	794	890	994	1,108	54	105	170	223	334	418	511	951	Decline	-20.37%
Crude soya-bean oil	274	66	71	83	88	100	103	10	18	41	55	103	187	295	460	Growth	416.36%
Crude palm oil	199	57	68	75	79	79	82	3	7	9	12	17	22	26	37	Decline	-70.45%
Petrol	514	299	343	387	436	484	524	44	85	128	166	203	247	290	508	Decline	-4.09%
Liquidified Petrolium Gas (LPG)	447	233	276	315	354	393	428	37	73	108	145	186	229	273	501	Growth	25.16%
Smartphones	188	134	149	167	185	203	221	27	52	76	103	117	129	146	241	Growth	11.43%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	55	63	73	79	99	107	6	9	14	19	28	39	54	105	Decline	-2.63%
Gold	172	97	124	124	169	182	182	8	8	8	11	16	52	80	150	Decline	-22.08%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	158	166	188	214	236	251	266	23	54	93	99	119	140	162	260	Decline	-3.60%
Other coal, not agglomerated, nes	209	100	118	138	152	162	176		22	32	39	56	76	94	165	Decline	-10.17%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	124	138	158	175	193	211	18	40	59	77	97	119	140	238	Growth	19.05%
Maize (excl seed)	127	55	64	78	87	102	108	6	11	14	25	37	54	54	106	Decline	-2.86%
Oil-cake and other solid residues, of soyabean	98	85	100	108	117	124	130	9	19	25	36	53	63	71	109	Decline	-23.73%
Crude sunflower oil	139	74	92	97	105	119	137	20	40	55	74	86	104	132	244	Growth	111.54%
Low erucic acid rape or colza seeds	72	43	48	55	62	72	83	10	19	27	34	44	53	64	124	Growth	63.64%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	48	58	86	70	75	80	6	18	23	29	33	40	49	82	Growth	2.94%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	174	199	233	241	270	300	29	60	93	123	161	198	230	397	Growth	48.70%
Others Paddy	154	57	66	76	86	89	93	8	12	13	20	47	80	112	183	Growth	177.42%
Laptop and note book	48	34	39	43	47	53	58	7	14	17	22	30	35	40	68	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 25.16%, signaling a transition from traditional fuels to cleaner energy sources, while smartphone imports are expected to rise by 11.43%, showcasing increased adoption of digital technologies. Similarly, **Crude soya-bean oil** shows remarkable growth of 416.23 %, indicating surge in export in India process **soya-bean oil** amounting to $ 249.35 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 22.08%. Diesel imports are also expected to decline by 20.37%, indicating decreased movement of industrial finished goods or a shift toward alternative energy sources. Crude palm oil imports show a significant drop of 70.45%, 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 63.34%, 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

4

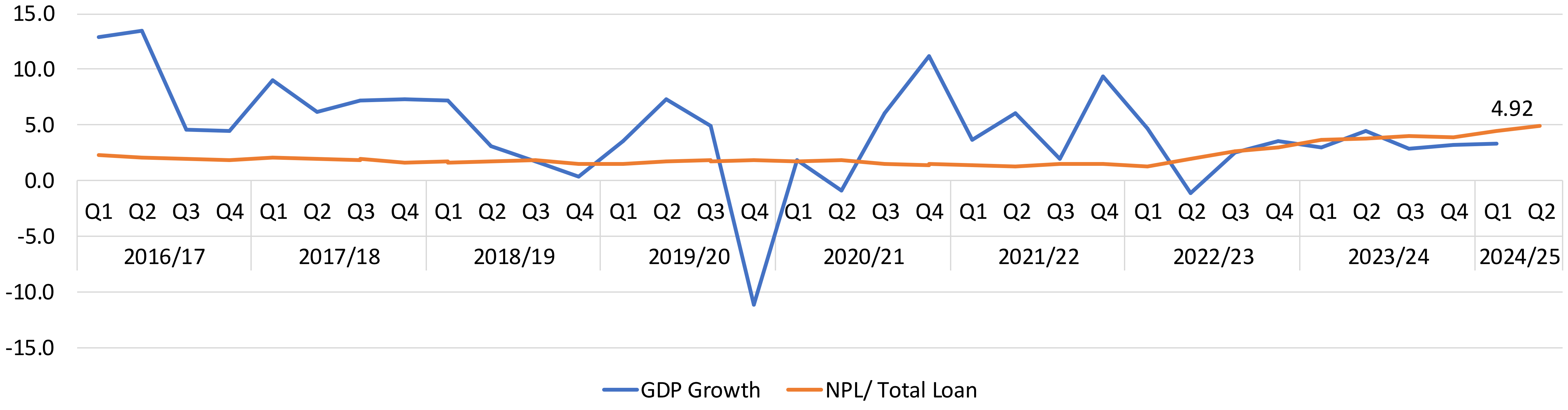
2024 “Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates”

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 8.69%, 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.

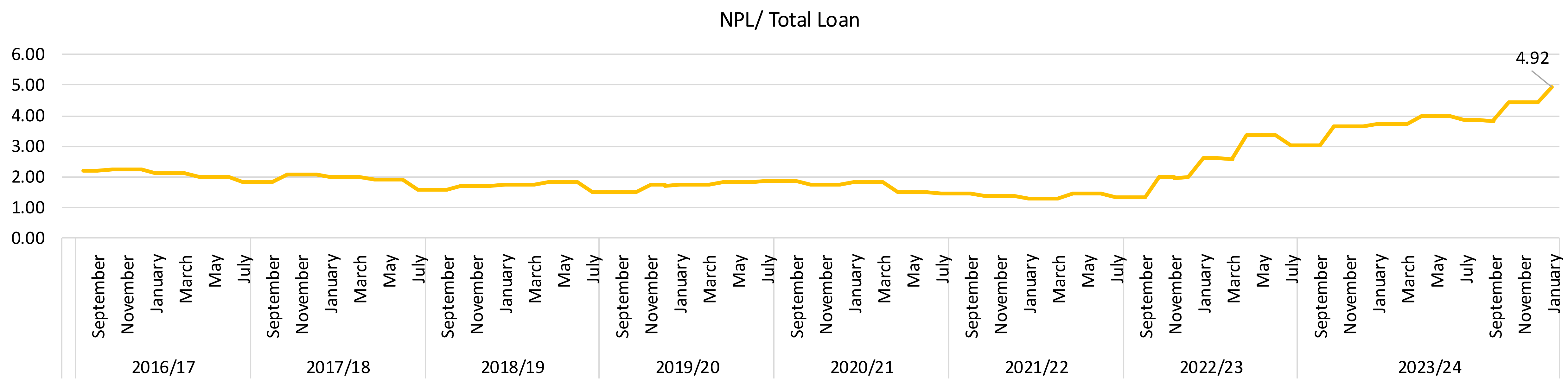
Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and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

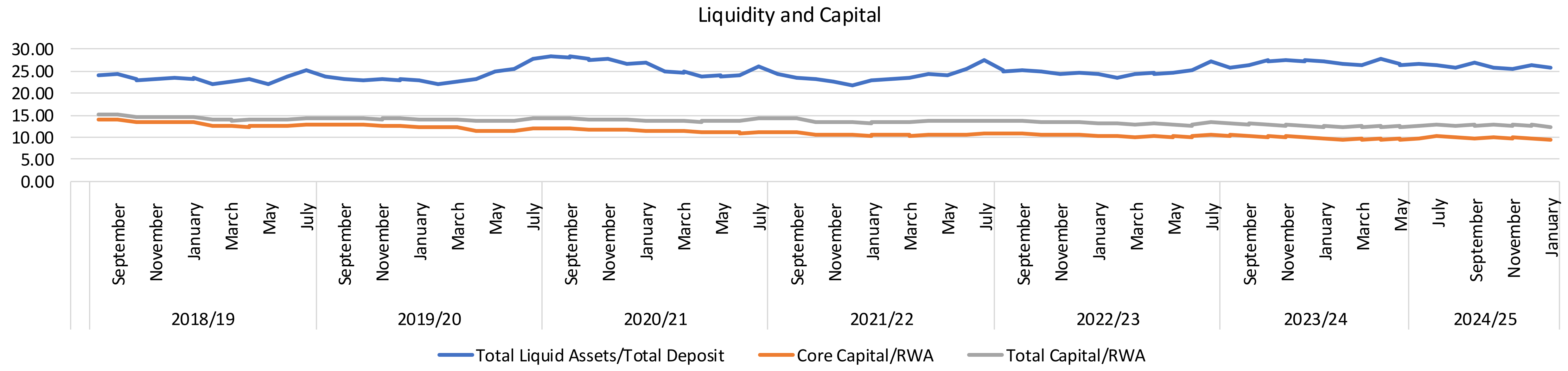


The chart presents data on GDP growth and the ratio of Non-Performing Loans (NPL) to total loans for various quarters from 2016/17 to 2024/25. Over this period, GDP growth fluctuated significantly, with the highest growth recorded in Q1 2016/17 at 12.9%, and the lowest contraction in Q4 2019/20 at -11.2%, 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 QII 2024/25, the NPL ratio reached a high of 4.92%, 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
6.00
5.00
4.00
3.00
2.00
1.00
0.00
4.92
September
November
January
March
May
July
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24

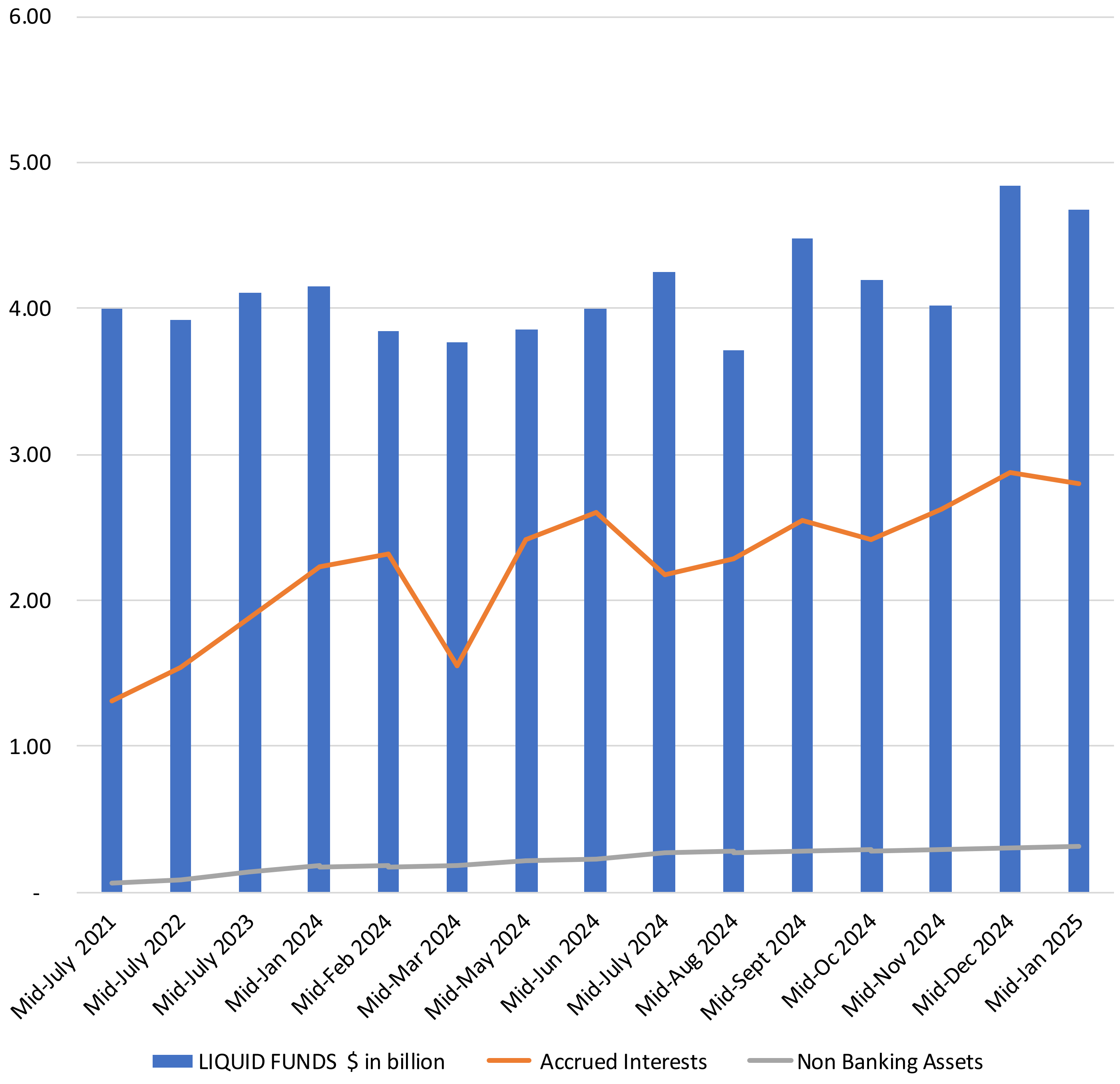

Liquidity and Capital
30.00
25.00
20.00
15.00
10.00
5.00
0.00
September
November
January
March
May
July
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Total Liquid Assets/Total Deposit
Core Capital/RWA
Total Capital/RWA

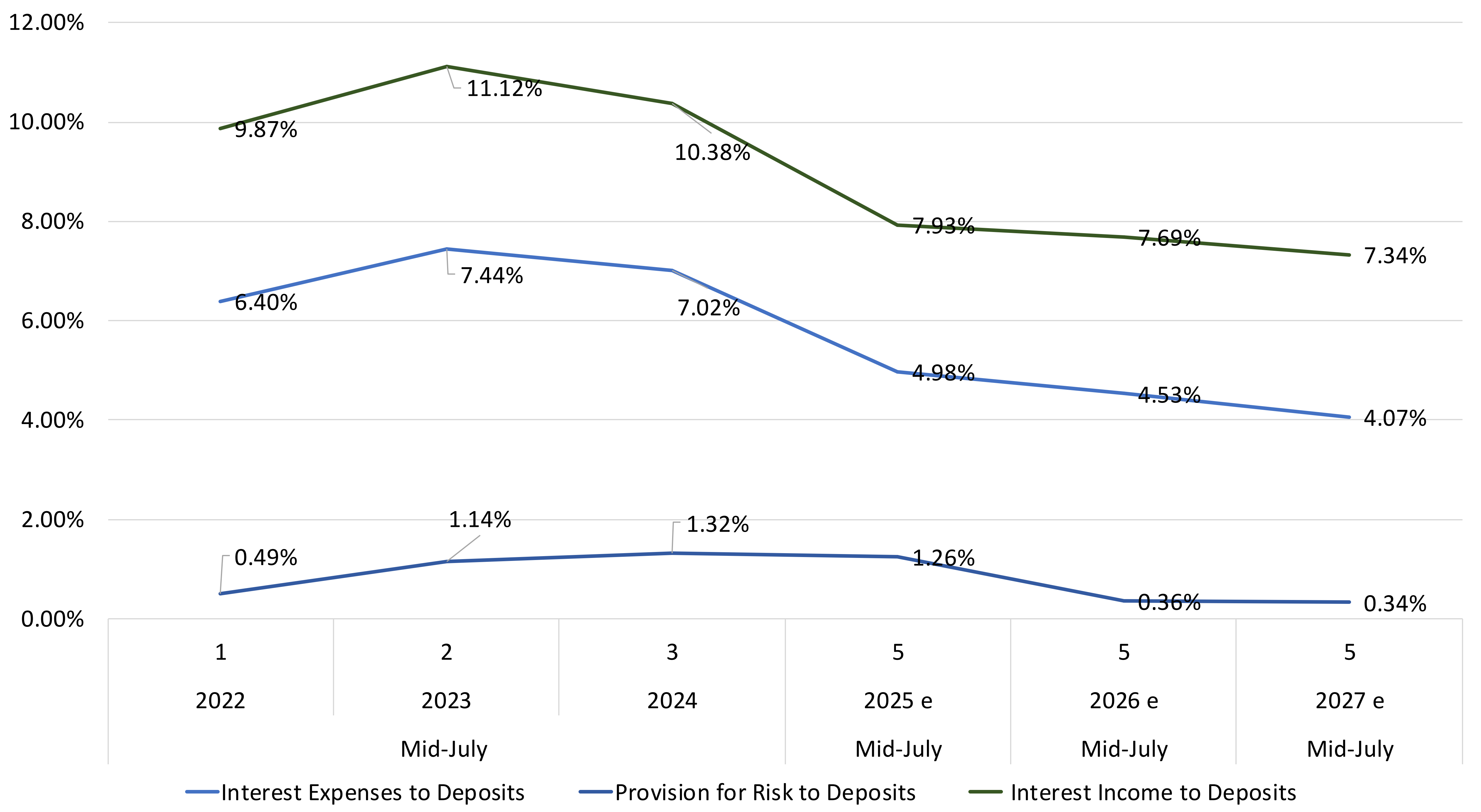
The chart illustrates trends in liquid funds, accrued interests, and non-banking assets over time. Liquid funds, represented by blue bars, remain relatively stable throughout the period, indicating minimal fluctuations in overall system liquidity.

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 shows that as non-banking assets gradually increase, accrued interests follow an upward trend. This suggests a direct connection between the expansion of non-banking asset purchases by BFIs (Banking and Financial Institutions) and reduced cash realization from performing loans. The persistent rise in non-banking assets indicates widespread loan defaults and financial distress among borrowers, seemingly unaffected by short-term fluctuations in accrued interests. This highlights a certain degree of independence between immediate interest rate changes and loan default patterns. Additionally, it points to a decline in investor confidence. Given these challenges, there is an urgent need for regulatory reforms and an update to the LLP directive to better align with the current economic landscape and growth objectives.

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%
7.93%
7.69%
7.34%
6.40%
7.44%
7.02%
4.98%
4.53%
4.07%
0.49%
1.14%
1.32%
1.26%
0.36%
0.34%
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

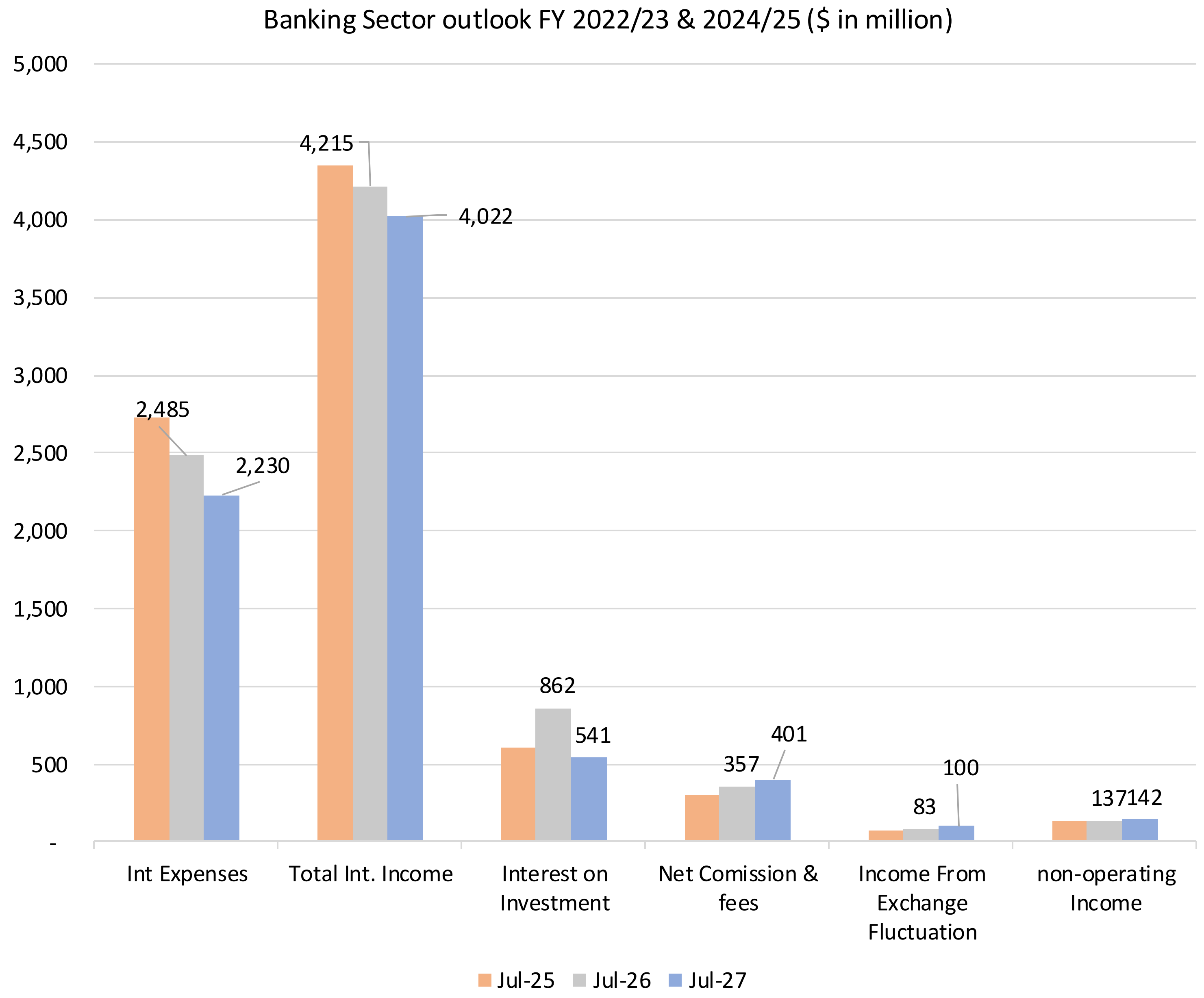
Assets and Liability (Exchange Factor $ 1 = NPR 130)						
Capital, Deposits and Risk Assets						
Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change
CAPITAL FUND	6,028	7.54%	6,912	14.66%	7,928	14.69%
PAID UP CAPITAL	3,414	1.70%	3,470	1.63%	3,527	1.64%
BORROWINGS	2,262	22.10%	2,064	-8.75%	2,229	7.95%
Borrowing from NRB	1	-66.91%	0.52	-48.46%	1.37	165%
DEPOSITS	54,822	9.72%	59,701	8.90%	64,178	7.50%
Current	3,689	25.60%	4,541	23.09%	5,321	17.18%
Saving	19,033	26.60%	23,250	22.16%	26,839	15.44%
Fixed	27,369	-2.33%	26,682	-2.51%	25,970	-2.67%
Call	4,394	20.90%	4,870	10.83%	5,698	17.00%
Others	336	-0.64%	357	6.25%	349	-2.31%
LIQUID FUNDS	4,953	16.40%	6,035	21.84%	7,304	21.03%
GOVT. SECURITIES/OTHER	11,878	4.96%	12,178	2.52%	12,105	-0.60%
Investment in share and other	2,624	23.76%	2,656	1.20%	3,052	14.93%
LOANS & ADVANCES	42,490	6.87%	45,230	6.45%	48,093	6.33%
Total Capital/RWA	12.94%	-0.07%	13.59%	4.95%	14.33%	5.45%
CD	75.85%	-2.81%	74.40%	-1.91%	73.58%	-1.09%
NPL /Total Loan	4.22%	8.34%	4.48%	5.93%	4.46%	-0.29%
Return on Capital Employed	7.12%	-29.34%	12.99%	82.32%	15.99%	23.15%

Profit and loss						
	July 2025e	Change	July 2026e	Change	July 2027e	Change
Int on Loans and Adv.	3,744	-17.26%	3,353	-10.44%	3,480	3.79%
Total Int. Income	4,350	-16.12%	4,215	-3.09%	4,022	-4.59%
Avg. Yield From Loan	8.28%	-16.63%	7.12%	-14.08%	7.24%	1.67%
Int Expenses	2,729	-22.20%	2,485	-8.96%	2,230	-10.25%
Avg. Cost of Fund	4.63%	-19.57%	3.87%	-16.40%	3.88%	0.36%
NII	1,620	-3.42%	1,730	6.79%	1,792	3.53%
Interest Spread	3.65%	-12.58%	3.25%	-11.14%	3.28%	0.88%
Commission & fees	307	30.13%	357	16.54%	401	12.26%
Ex. Fluctuation Gain	68	39.16%	83	22.25%	100	19.59%
Other Operating & Non-operating Income	132	89.06%	137	3.97%	142	3.27%
Gross Income	2,127	4.67%	2,308	8.51%	2,434	5.45%
Employees Exp	494	0.95%	512	3.47%	519	1.52%
Employee cost in % of Total Int. Income	11.37%	20.36%	12.14%	6.77%	12.91%	6.40%
Office Operating Exp	348	5.28%	375	7.77%	386	2.78%
LLP & write-off	737	10.60%	207	-71.91%	149	-28.03%
Additional LLP to Risk Assets	1.71%	3.34%	0.51%	-70.24%	0.31%	-39.08%
Provision Written Back	120	-64.00%	180	50.00%	221	23.00%
PBT	667	-24.01%	1,394	109.05%	1,601	14.85%
Return on total assets	0.96%	-30.92%	1.83%	90.05%	1.91%	4.41%

Profitability of BFIs.

(Exchange Factor $ 1 = NPR 130

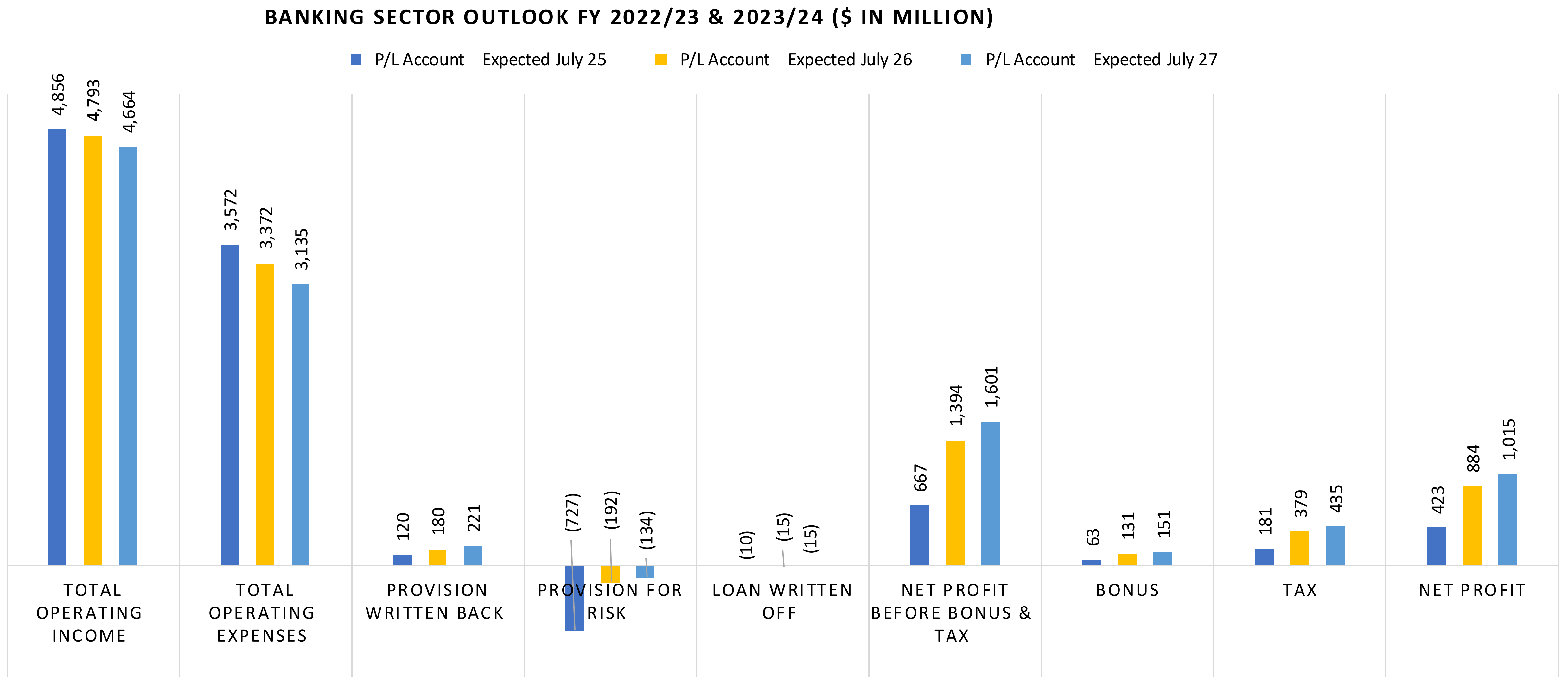
P/L Account			
Particulars	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	4,856	4,793	4,664
Total Operating Expenses	3,572	3,372	3,135
Provision Written Back	120	180	221
Provision for Risk	(727)	(192)	(134)
Loan Written Off	(10)	(15)	(15)
Net Profit before Bonus & Tax	667	1,394	1,601
Bonus	63	131	151
Tax	181	379	435
Net profit	423	884	1,015



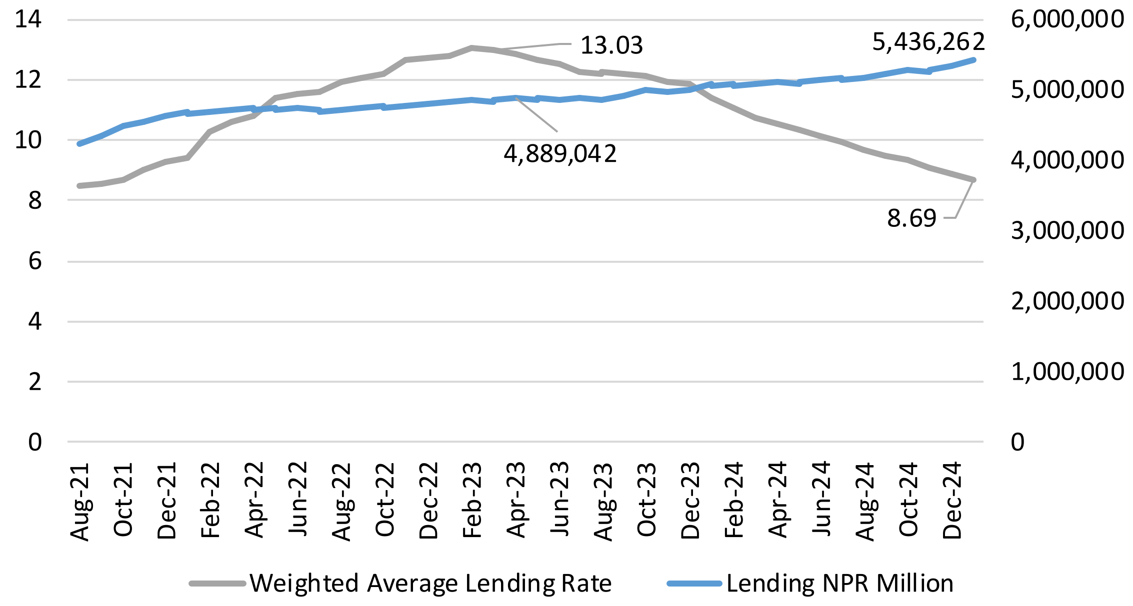
The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

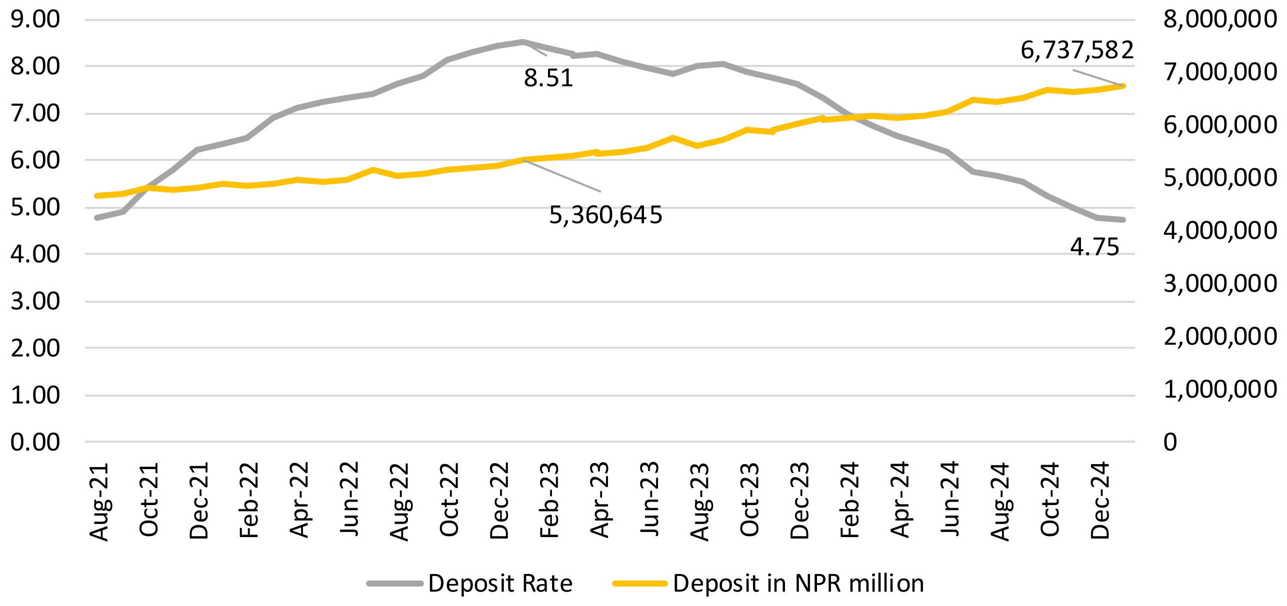
Profitability of BFIs

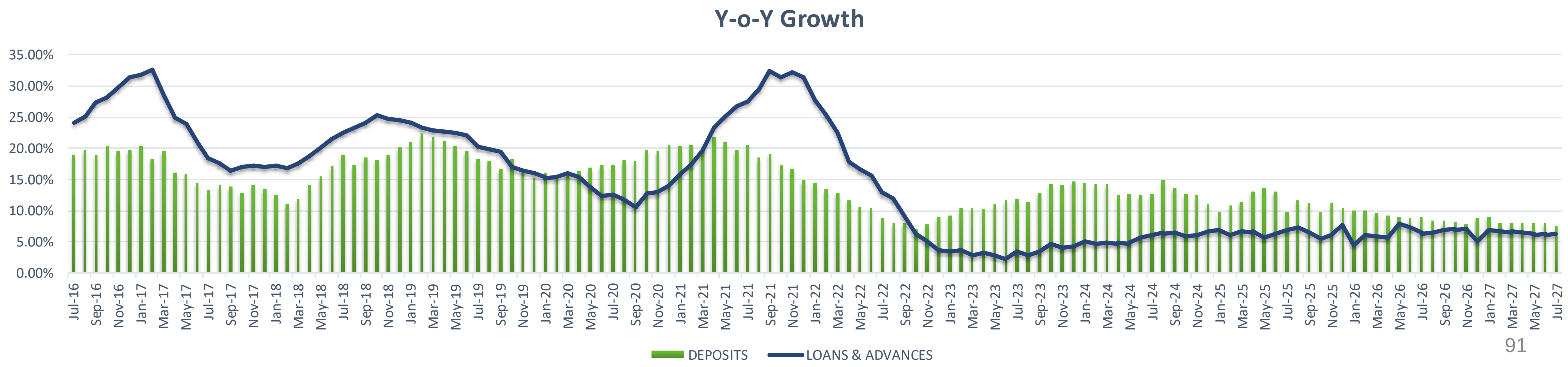
(Exchange Factor $ 1 = NPR 130)



Annual Loan and Deposit Growth







Weighted Average Lending Rate vs Lending Growth

- *The weighted average lending rate rises steadily from approximately 8.5% in August 2021 to a peak of 13.03% in January 2023. Following this peak, the rate declines consistently, reaching 8.69% by January 2025. Meanwhile, lending exhibits relatively stable growth, peaking at around NPR 5,436 billion in January 2025 and slightly increasing to NPR 5,438 billion by mid-February.*
- *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 4.75% by Jan 2025. Deposits in NPR million increase steadily, with significant growth after early 2023, reaching a peak of NPR 6,737 billion by mid-January 2025 before slightly declining to NPR 6,727 billion by mid-February. 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:

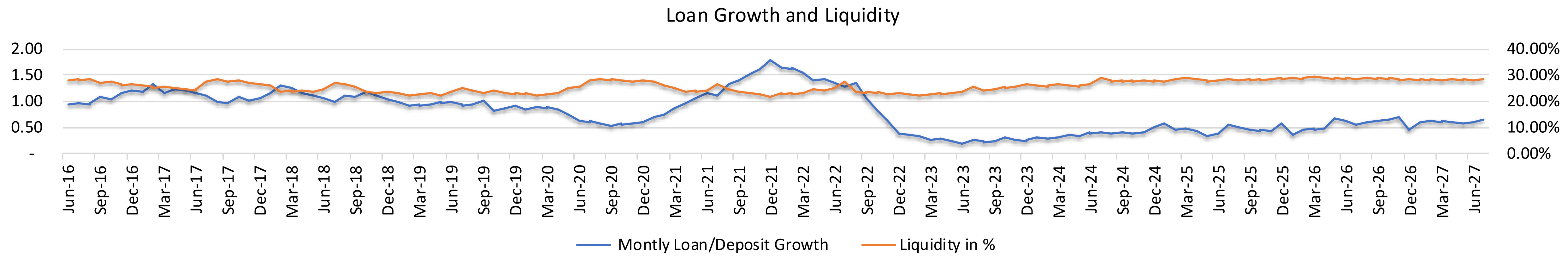
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

Interest rates and deposit growth:

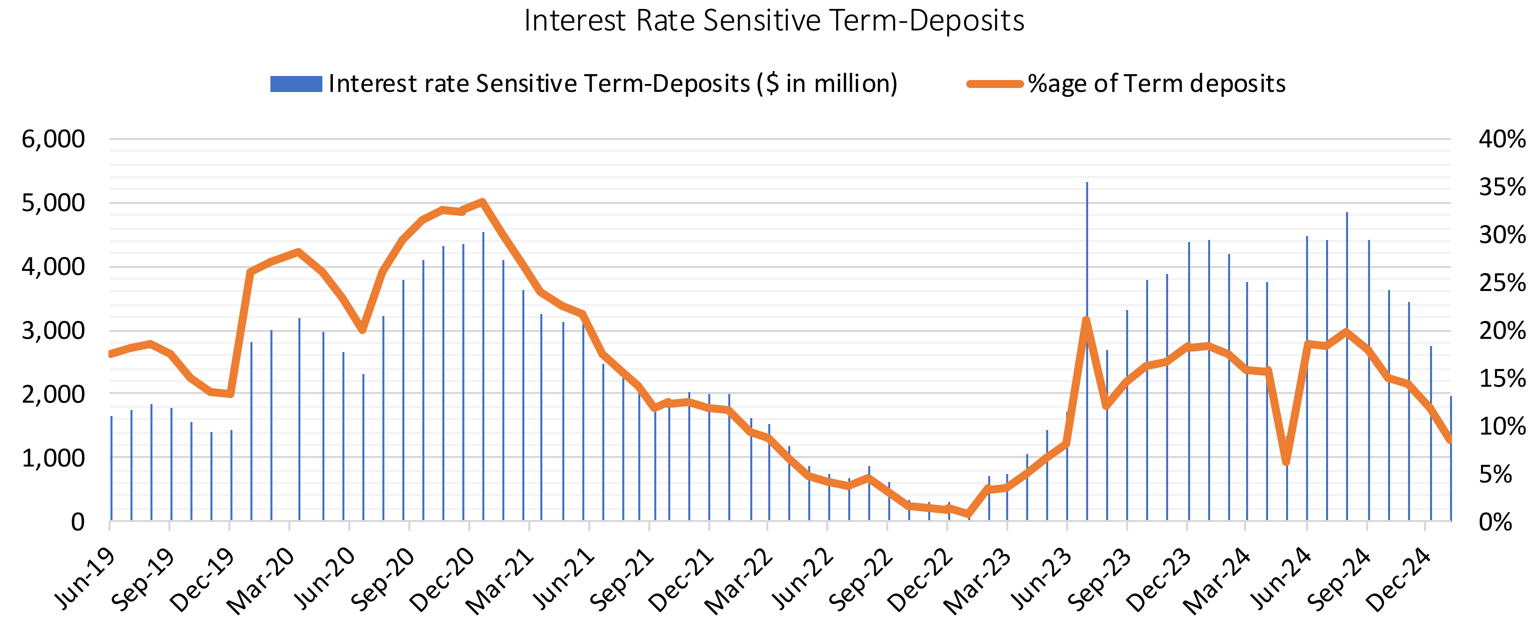
Deposit growth responds positively to higher rates but continues rising despite rate reductions, indicating a more complex relationship influenced by confidence and liquidity.

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

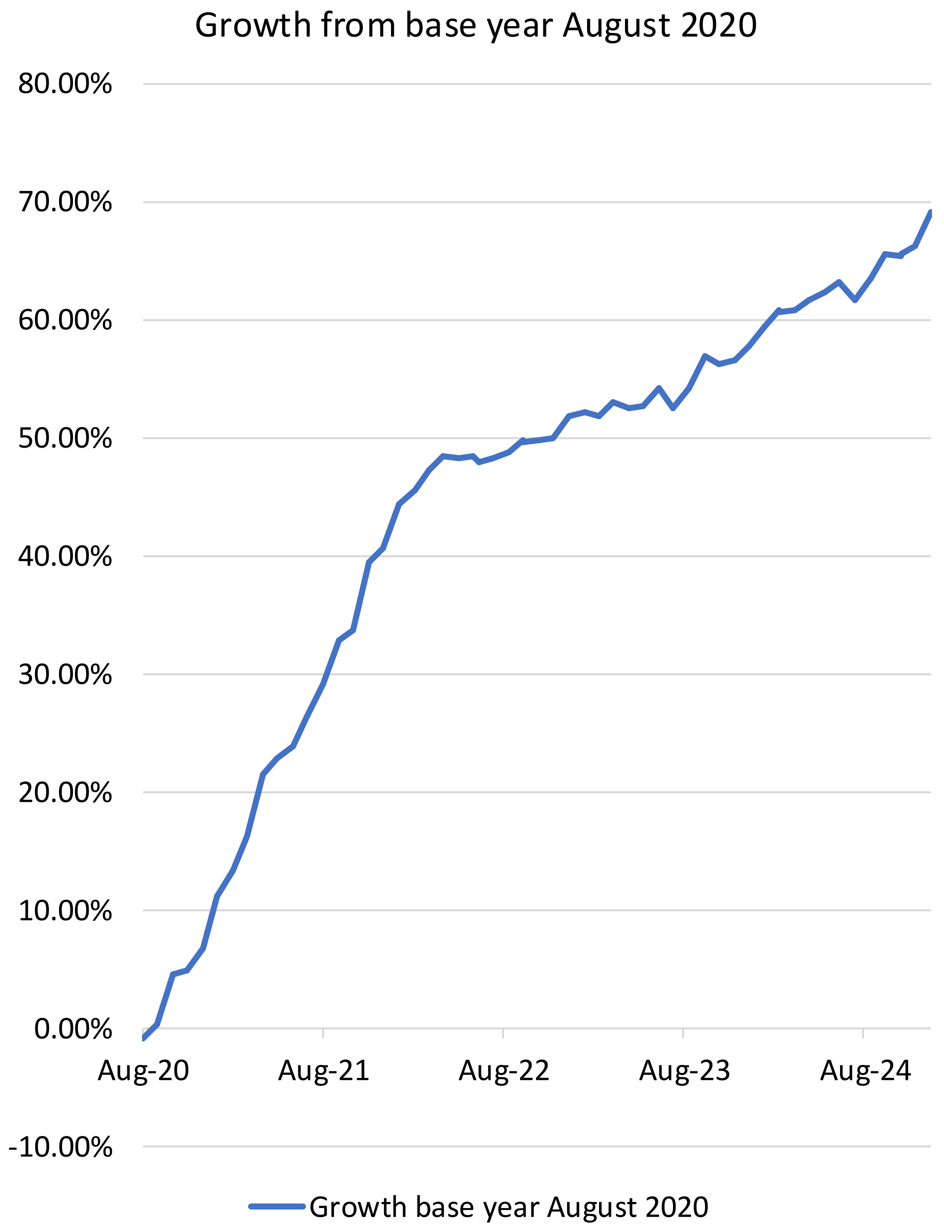


Amount in million		Maturity Amount in $ million	
Period	Deposit mix	Within next month	Within a Year
3-6 months	21%	1,964.46	10,074.75
6-12 months	36%		
1-2 yrs.'	18%		
2 yrs. and above	26%		
Total	100%	8.47%	43.45%



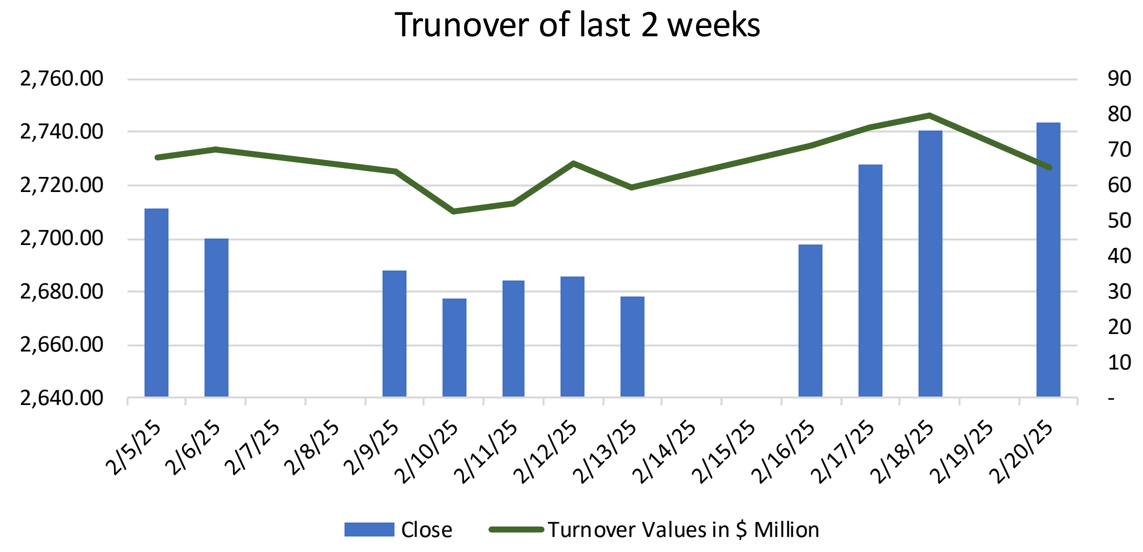
Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period.

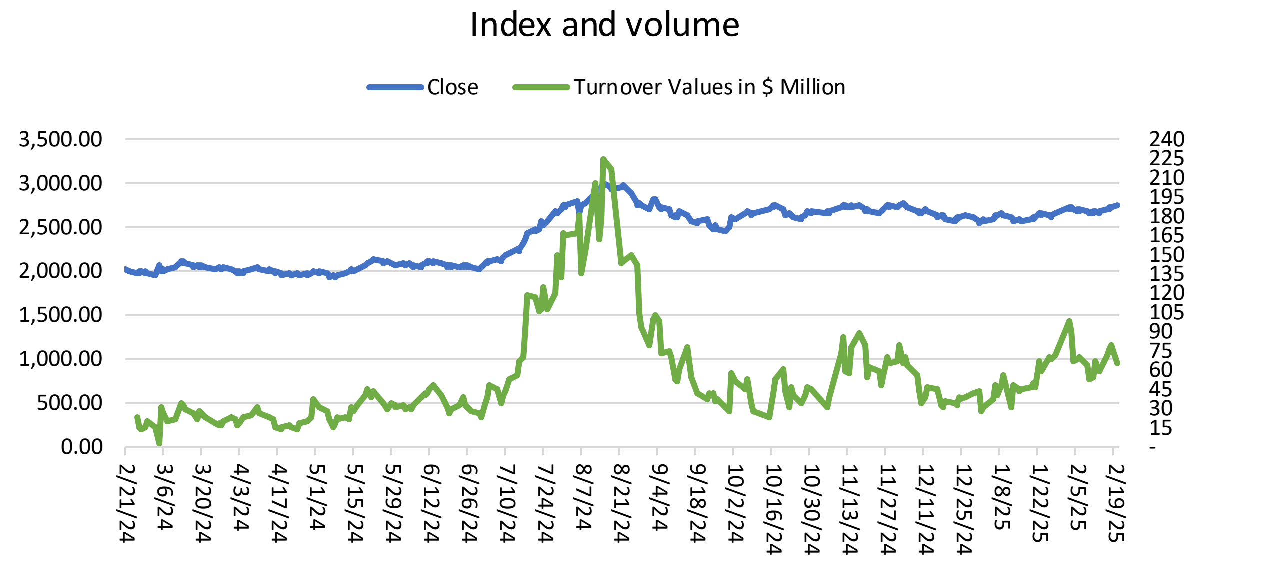
Sector wise Loan Growth of Commercial Banks

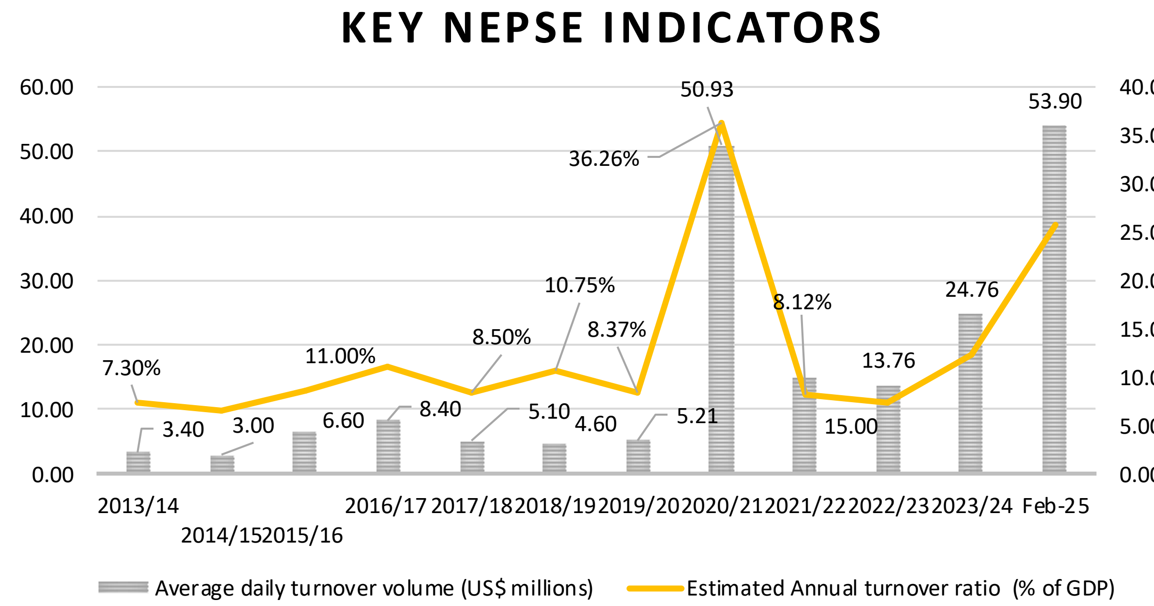


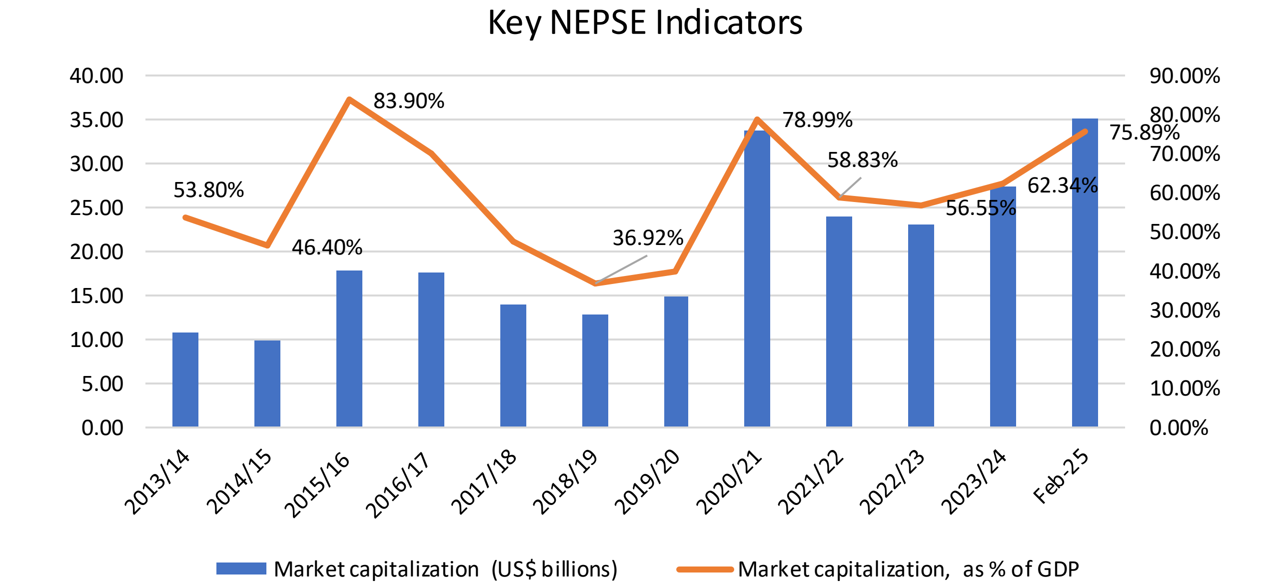
Capital Market

Capital Market

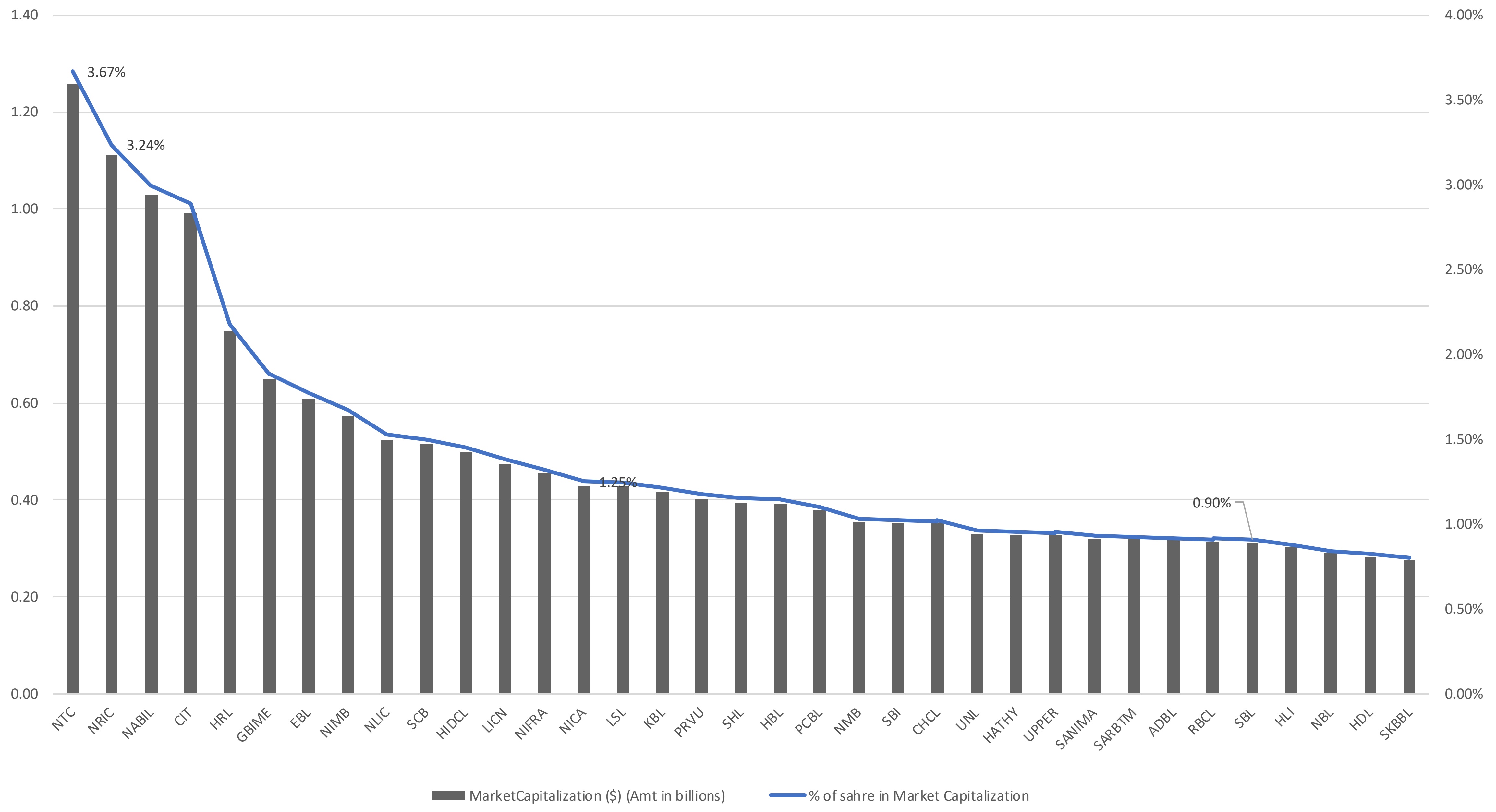


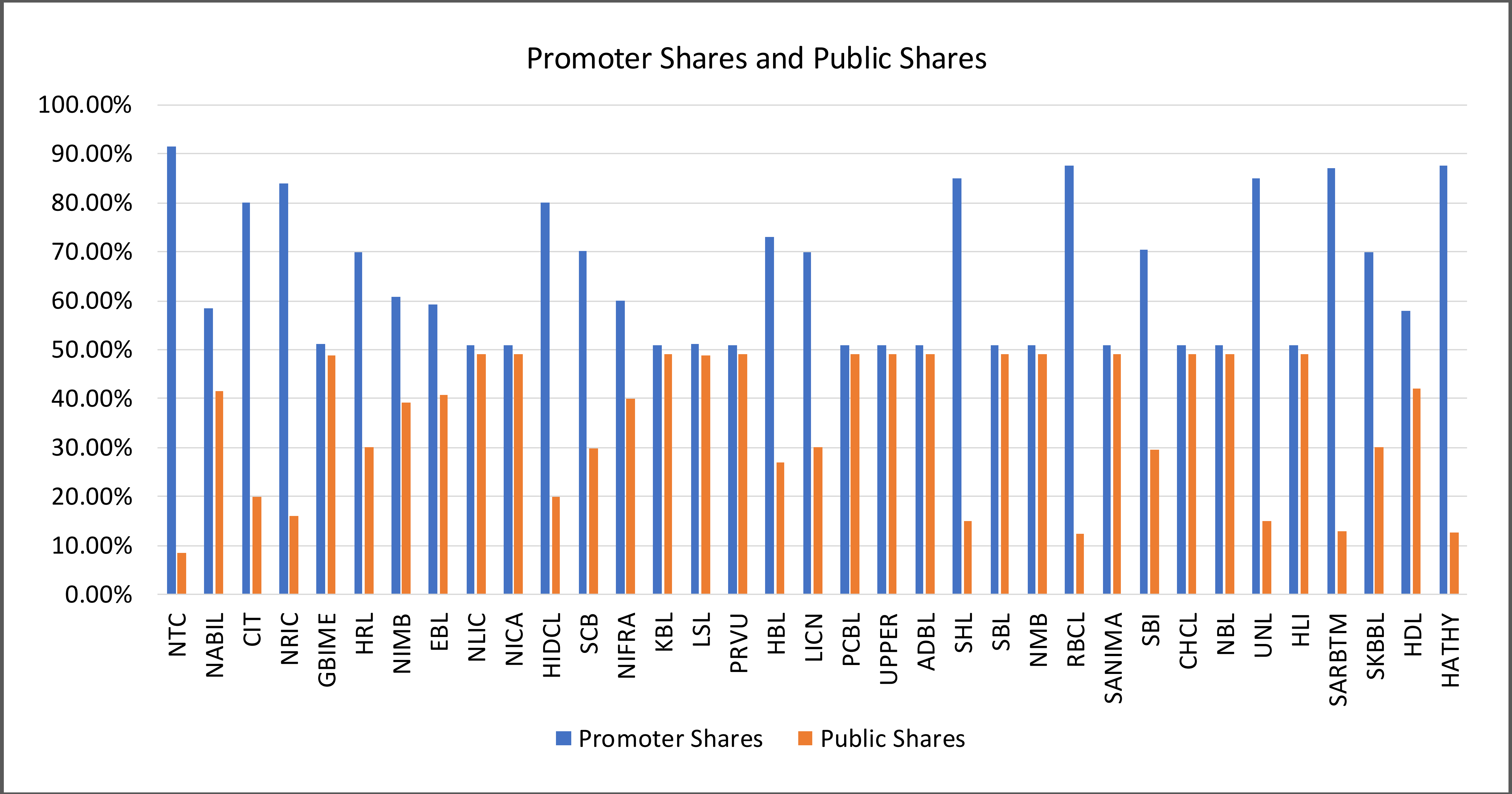






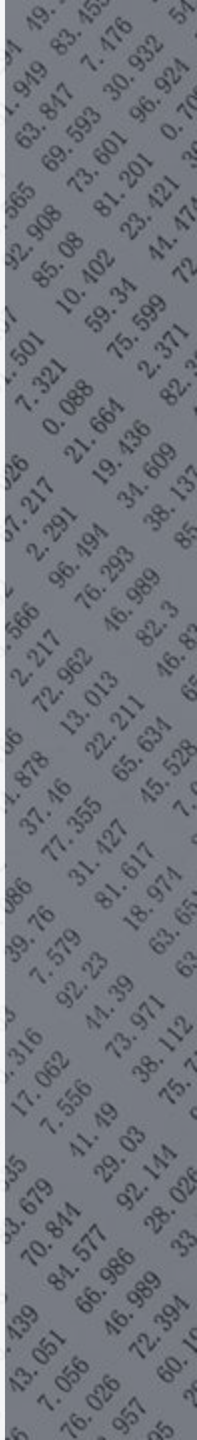
The 35 companies listed on NEPSE make up 49.63 % of the total market capitalization, with the majority of their shares not available for free trade.




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

5

Fiscal Situation



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

Government Receipts & Payments Status	Annual Budget	16/02/2025	% age
1. Revenue (USD in million)	10,917.72	4,990.65	45.71%
a) Tax Revenue	9,878.54	4,394.76	44.49%
b) Non Tax Revenue	1,039.18	595.89	57.34%
2. Grants	402.51	68.72	17.07%
3. Other Receipts	-	62.16	
Total Receipt	11,320.23	5,121.53	45.24%
2. Total Expenditure from Treasury	14,310.02	5,874.14	41.05%
a. Recurrent	8,774.34	4,078.35	46.48%
b. Capital	2,710.42	535.70	19.76%
c. Financing	2,825.27	1,260.09	44.60%
Deficit	(2,989.80)	(752.61)	
% of GDP	6.82%	1.72%	

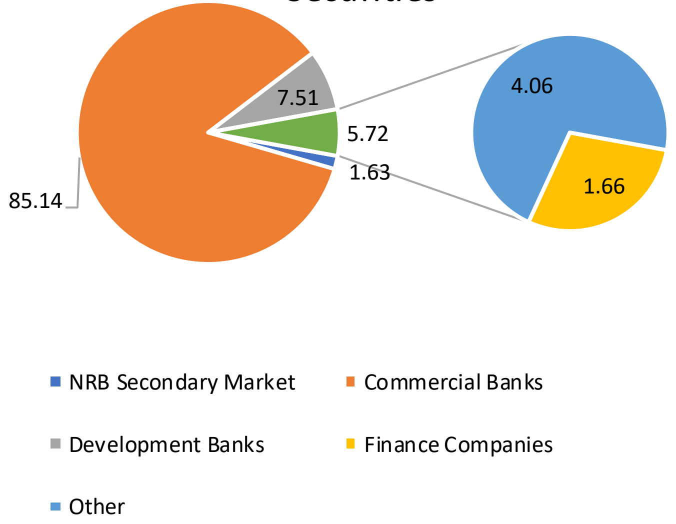
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

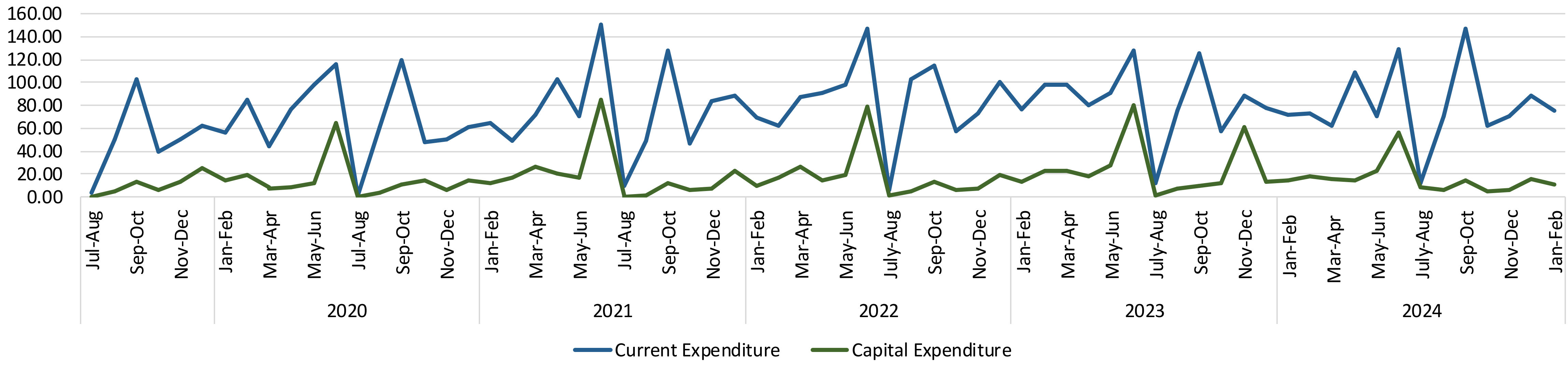
F/Y 2016/17	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	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	5,874					
	Revenue	815	1,398	2,086	2,798	3,410	4,703	4,990					
	Treasury Position	1,662	2,265	1,476	1,800	1,847	2,502						

Key Economic Indicators

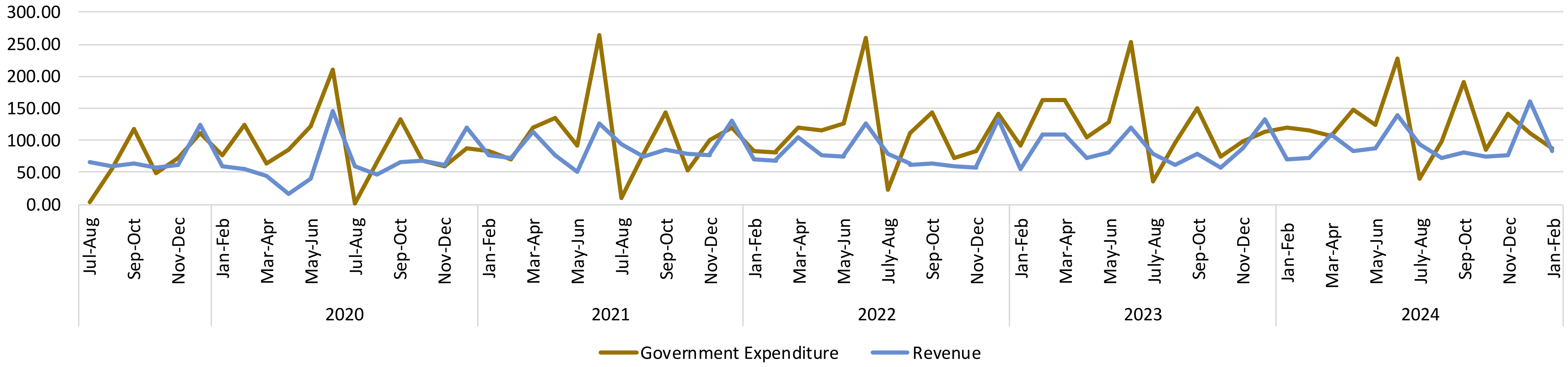
Particulars	***Mid- Jan 2025** (USD=130 NPR)*
CPI-Inflation	*CPI-based inflation stood at 5.41 % year-on-year, compared to 5.26% in the same period last year.*
External Trade	*Imports and exports saw respective increases of 7.1% and 31.8%, while the trade deficit increased by 4.5%. In contrast, last year, imports declined by 3.1%, exports dropped by 6.5%, and the trade deficit decreased by 2.27%.*
Remittances	*Remittances grew by 4.1% in NPR terms and 1.1% in USD terms. In comparison, last year, remittances had increased by 25.3% in NPR terms and 22.6% 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 shrink to $1.91 billion compared to the previous month $2.29 billion.***
Broad money (M2)	*Broad money (M2) increased 3.9 percent. On y-o-y basis, M2 expanded 10.2 percent. In comparison, last year, Broad money (M2) increased 6.4 percent. On y-o-y basis, M2 expanded 14.3 percent*
Deposits and Loans and advances	*Deposits at BFIs increased 3.7 percent and private sector credit increased 5.2 percent. On y-o-y basis, deposits increased 9.9 percent and private sector credit increased 7.0 percent. In comparison, last year, Deposits at BFIs increased 6.6 percent and private sector credit increased 4 percent. On y-o-y basis, deposits increased 14.9 percent and private sector credit increased 4.9 percent.*

Ownership Structure of Government Securities





160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
0.00
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
2020
2021
2022
2023
2024
Current Expenditure
Capital Expenditure



300.00
250.00
200.00
150.00
100.00
50.00
0.00
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
Jul-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
Mar-Apr
May-Jun
July-Aug
Sep-Oct
Nov-Dec
Jan-Feb
2020
2021
2022
2023
2024
Government Expenditure
Revenue

Government Revenue in $ million

HEADS ($ in million)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-25	% of Jan 2024	Trend
										2,024		2025		
Customs	737	847	981	1,107	1,249	1,398	1,546	122	253	400	520	826	112%	Up
Import Duties	592	680	785	885	995	1,110	1,225	99	206	324	419	659	111%	Up
Green Tax	-	-	-	-	-	1	3	-	-	-	-	-	0%	
Export Duty	1	1	1	1	2	2	2	1	1	1	2	3	439%	Up
Infrastructure Tax	71	81	97	110	126	142	159	10	20	33	44	76	106%	Up
Other incomes of Custom	1	2	2	2	3	4	5	0	1	1	2	3	176%	Up
Agriculture Reform Duties	27	31	36	40	44	47	50	4	7	10	15	28	107%	Up
Road Maintenance and Improvement Duty	30	35	41	47	54	61	68	6	12	20	26	38	127%	Up
Road Construction and Maintenance Duty	15	18	19	22	26	32	33	3	7	10	13	19	126%	Up
Value Added Tax	1,089	1,269	1,467	1,678	1,882	2,121	2,388	203	386	578	760	1,191	109%	Up
Production, Sales and Service	427	503	580	671	757	863	1,001	100	171	241	319	498	117%	Up
Imports	662	766	888	1,007	1,124	1,258	1,387	103	215	336	441	693	105%	Up
Excise Duties	528	604	700	803	918	1,042	1,126	93	195	307	426	641	121%	Up
Internal Production	387	443	517	595	686	780	840	67	137	213	304	468	121%	Up
Excise on Imports	141	161	184	208	232	262	286	26	58	95	121	174	123%	Up
Educational Service Tax	12	14	16	18	21	23	25	2	5	8	10	14	117%	Up
Income Tax	1,046	1,193	1,287	1,555	1,675	1,793	2,180	176	278	397	515	1,092	104%	Up
Income Tax	900	995	1,079	1,337	1,412	1,522	1,897	124	219	329	406	968	108%	Up
Interest Tax	145	198	208	218	263	271	283	52	59	67	108	124	85%	Down
Total Tax Revenue	3,412	3,927	4,451	5,162	5,745	6,377	7,266	595	1,117	1,690	2,230	3,765	110%	Up
Non Tax Revenue	407	438	464	592	655	693	880	133	163	220	256	540	133%	Up
Total Revenue	3,819	4,365	4,916	5,754	6,399	7,071	8,145	729	1,280	1,910	2,486	4,305	113%	Up
Other Receipts	145	165	169	171	172	174	183	17	24	37	44	60	41%	Down
Total Receipts	3,965	4,529	5,085	5,925	6,571	7,245	8,329	746	1,304	1,946	2,531	4,365	110%	Up

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

Industrial Classification	2080/81 2023/24 Q1	2080/81 2023/24 Q2	2080/81 2023/24 Q3	2080/81 2023/24 Q4	2080/81 2023/24 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	Up
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

Industrial Classification	2080/81 2023/24				2081/82 2024/25	percentage of GDP
	Q1	Q2	Q3	Q4	Q1	
Agriculture, forestry and fishing	1,40,428	2,08,342	1,65,278	1,87,349	1,44,588	24.87%
Mining and quarrying	4,100	4,099	3,851	5,362	4,116	0.71%
Manufacturing	30,879	31,347	32,423	31,899	31,595	5.43%
Electricity, gas, steam and air conditioning supply	21,431	14,411	9,269	18,097	26,007	4.47%
Water supply; sewerage, waste management	4,804	4,226	4,189	4,347	4,852	0.83%
Construction	43,391	35,053	38,992	44,453	43,270	7.44%
Wholesale and retail trade; repair of motor vehicles & motorcycles	75,468	90,775	87,169	93,858	75,843	13.05%
Transportation and storage	37,712	40,579	37,087	24,471	40,237	6.92%
Accommodation and food service activities	10,452	11,581	11,385	10,042	11,111	1.91%
Information and communication	24,322	24,583	23,221	21,899	24,852	4.27%
Financial and insurance activities	36,343	31,844	40,673	36,408	38,419	6.61%
Real estate activities	47,234	47,234	47,220	47,244	48,714	8.38%
Professional, scientific and technical activities	5,437	5,550	5,554	5,605	5,717	0.98%
Administrative and support service activities	4,174	4,282	4,393	4,523	4,399	0.76%
Public administration and defence; compulsory social security	28,963	29,343	30,596	32,104	29,823	5.13%
Education	35,325	36,378	35,045	37,096	35,458	6.10%
Human health and social work activities	9,027	8,627	8,612	9,006	9,397	1.62%
Other Services	2,920	2,959	2,982	3,001	2,940	0.51%
Total	5,62,409	6,31,214	5,87,939	6,16,764	5,81,339	100.00%

Gross Domestic product by Expenditure Approach

(at current prices)

1 USD = 130 NPR. $ in million

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. $ in million

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%

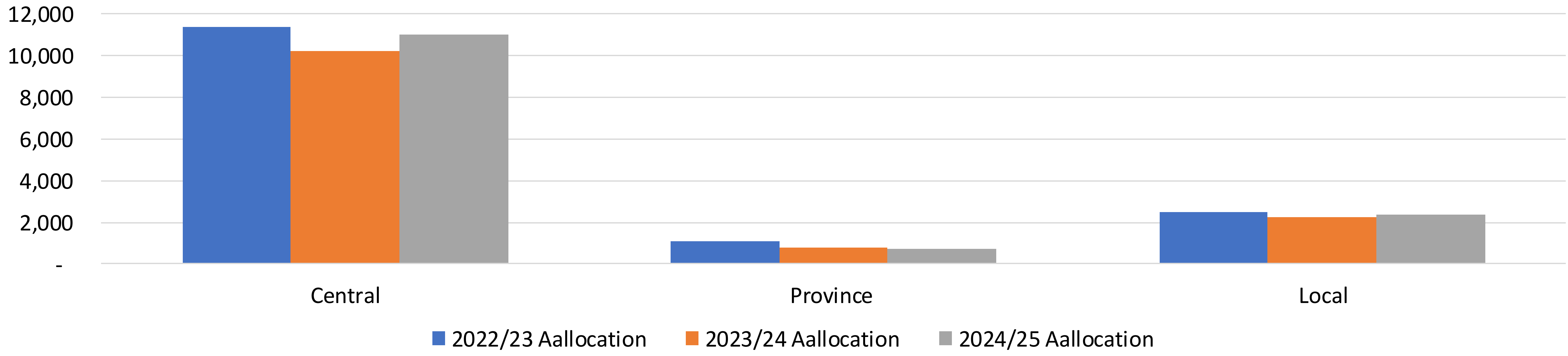
Heading	Annual						
	2019/20	2020/21	2021/22	2022/23	2023/24		
Real Sector (growth and ratio in percent)							
Real GDP at basic price	-2.4	4.5	5.3	2.3	3.5		
Real GDP at purchasers' price	-2.4	4.8	5.6	2.0	3.9		
Nominal GDP at purchasers' price	0.8	11.9	14.3	7.5	6.7		
Gross National Income (GNI)	0.9	11.2	14.4	8.1	7.0		
Gross National Disposable Income (GNDI)	0.5	10.8	12.4	10.4	8.5		
Gross Capital Formation / GDP	30.4	35.2	37.6	31.7	30.5		
Gross Fixed Capital Formation / GDP	30.5	29.3	29.0	25.1	24.5		
Gross Domestic Savings / GDP	5.7	6.4	6.6	7.4	7.6		
Gross National Savings / GDP	32.2	31.5	29.6	33.8	36.2		
Gross Domestic Product(Current Price) (Rs in billion)	3888.7	4352.6	4976.6	5348.5	5704.8		
Heading	Annual					Mid-January	
	2019/20	2020/21	2021/22	2022/23	2023/24	2023/24	2024/25
Revenue Growth (%)	0.2	16.0	14.1	-9.3	7.1	8.2	12.7
Expenditure Growth (%)	-1.7	9.7	9.5	8.5	-0.9	-1.7	17.8
Domestic Debt (Rs. in billion)	613.2	800.3	984.3	1,129.1	1,180.9	1,193.9	1,213.7
External Debt (Rs. in billion)	819.7	934.1	1,025.8	1,170.2	1,252.3	1,170.2	1,253.2
Revenue / GDP	21.6	22.4	22.4	18.9	19.0		
Recurrent Expenditure / GDP	20.2	19.4	19.2	18.8	16.7		
Capital Expenditure / GDP	4.9	5.3	4.3	4.4	3.4		
Domestic Debt / GDP	15.8	18.4	19.8	21.1	20.7		
External Debt / GDP	21.1	21.5	20.6	21.9	22.0		

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 1	Revised Amount ($ Million) 2022/23. 2	Variance	Budget Amount ($ Million) 2023/24 3	Change (3-2)/2	Revised Amount ($ Million) 2023/24 4	Variance	Budget Amount ($ Million) 2024/25 5	Change (5-4)/4	Budget ($ Million) 2024/25 (Half-Yearly Review 6	Change (6/5)
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%	8,676.27	90.87%
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%	277.49	70.00%
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%	3,869.98	93.27%
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%	1,369.98	83.08%
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%	2,500.00	100.00%
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%	12,823.74	90.99%

Budget Allocations

	Exchange Factor 1 USD = NPR 120						1 USD= NRP 132				1 USD= NRP 132			
Allocated Budget	Actual Budget Amount ($ Million). 2020/21 1	Budget Amount ($ Million) 2021/22 2	Actual Amount ($ Million) 2021/22. 3	Budget Amount ($ Million) 2022/23 4	Revised Amount ($ Million) 2022/23 5	Variance (5-4)/4	Budget ($ Million) 2023/24 6	Change. (5-6)/5	Revised Amount 7	Variance (7-6)6	Budget Amount ($ Million) 2024/25 8	Change (8-7)/7	Budget ($ Million) 2024/25 (Half-Yearly Review 9	Change. (9/8)
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%	5,007.41	90.32%
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%	2,268.95	85.00%
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%	2,757.07	99.09%
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%	2,790.32	90.08%
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%	12,823.74	90.99%



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%.

Key Observations:

- ***Revenue Growth Target***
  - *Achieving the targeted 13% revenue growth in 2024/25 remains challenging, given the recent trends. Despite increasing tax revenue projections, actual collections have consistently fallen short, with 2023/24 witnessing a 10.68% shortfall. The half-yearly review for 2024/25 suggests further downward revisions, making it imperative to improve tax compliance and economic activities to meet revenue targets.*
- ***Foreign Loan Mobilization***
  - *Foreign loan mobilization has been inconsistent. In 2022/23, only 70.39% of the budgeted foreign loans were realized. A similar trend continued in 2023/24, with actual disbursement 31.64% below projections. The government's ambitious target of $1,649.04 million in 2024/25 is at risk, as the half-yearly review indicates a potential realization of only 83.08%, highlighting the need for improved project execution and negotiation strategies.*
- ***Domestic Borrowing Pressure***
  - *With a planned borrowing of $2,500 million for 2024/25, the highest in recent years, domestic debt dependency is increasing. The financial sector may face stress, as higher government borrowing could crowd out private sector credit availability.*
- ***Foreign Grants Unrealistic***
  - *Foreign grants have persistently fallen short of targets. In 2022/23, only 69.35% of the budgeted grants were received. The shortfall widened in 2023/24, with actual grants down by 40.70%. The 2024/25 budget expects a 76.67% increase in foreign grants, yet the half-yearly review suggests only 70% of the target may be realized. This trend raises concerns over the reliability of grant projections in budget planning.*

Key Observations:

- ***Provincial and Local Allocations***
- *Allocations to provincial and local governments have been reduced. The budget for intergovernmental fiscal transfers declined from $3,581.94 million in 2022/23 to $3,030.96 million in 2023/24 (-9.75%). The 2024/25 budget projects a modest increase to $3,097.55 million, though mid-year estimates indicate further reductions. This decline may impact local development projects and service delivery.*
- ***Decentralized Development***
- *The government aims to enhance decentralized development by prioritizing national projects at sub-national levels. However, budget reductions at the provincial and local levels may hinder effective implementation. Strengthening fiscal discipline and improving coordination between central and local governments will be essential for successful regional development.*
- ***Non-Resident Nepalese Engagement***
- *The government has introduced policies to attract investment from Non-Resident Nepalese (NRNs). Increased participation of NRNs in the national economy could drive capital inflows, promote technology transfer, and enhance economic resilience. Effective implementation of these policies will be crucial to achieving tangible results.*

Comparative Analysis of Budget Allocations and Expenditures

Current Expenditure

- *The 2022/23 budget initially allocated $6,278.36 million, later revised to $5,336.60 million (-15%). In 2023/24, the budget increased slightly to $5,618.92 million, though actual spending fell short at $5,194.73 million (-7.55%). The 2024/25 budget projects $5,543.85 million, but the half-yearly review suggests a further decline to $5,007.41 million, indicating a utilization rate of only 90.32%.*

Capital Expenditure

- *Capital expenditure has seen inconsistent trends. The 2022/23 budget of $3,169.87 million was revised down to $2,152.88 million (-32.08%). Despite an increase in 2023/24 to $2,288.44 million, actual spending declined to $1,631.11 million (-28.72%). The 2024/25 budget allocation of $2,669.35 million suggests a recovery, but the mid-year review indicates a downward revision to $2,268.95 million, with only 85% utilization expected.*

Financial Provisioning

- *Financial provisioning fluctuated significantly. The revised 2022/23 budget dropped by 11.71% to $1,693.83 million. In 2023/24, the budget rose sharply to $2,329.19 million (+37.51%), though actual spending was 19.48% lower. The 2024/25 budget stands at $2,782.46 million, with a minor reduction in the mid-year review, suggesting 99.09% utilization.*

Intergovernmental Fiscal Transfers

- *Transfers to provincial and local governments were reduced. The 2022/23 budget was $3,581.94 million but later revised to $3,358.33 million (-6.24%). In 2023/24, the allocation decreased to $3,030.96 million (-9.75%), with actual disbursement at $2,892.37 million. The 2024/25 budget is set at $3,097.55 million, though the mid-year review suggests a further decline to $2,790.32 million (90.08% of the allocated budget).*

Total Expenditure	*Total expenditure in 2022/23 was initially $14,948.65 million, later revised down to $12,541.65 million (-16.10%). In 2023/24, the budget increased to $13,267.52 million, but actual spending was only $11,593.60 million (-12.62%). The 2024/25 budget is set at $14,093.20 million, though the mid-year review suggests it may be revised down to $12,823.74 million (90.99% realization).*
Revenue Trends	*Tax revenue collection has consistently fallen short. The 2022/23 budgeted target of $10,334.32 million was revised to $8,666.67 million (-16.14%). In 2023/24, the budget stood at $9,459.24 million (+9.15%), but actual collection was $8,449.20 million (-10.68%). The 2024/25 budget aims for $9,547.75 million (+13%), but the mid-year review projects a downward revision to $8,676.27 million (90.87% realization).*
Debt Mobilization	*The fiscal deficit has fluctuated significantly. The 2022/23 deficit was budgeted at $4,152.18 million but revised to $3,554.50 million (-14.39%). In 2023/24, the deficit was budgeted at $3,429.92 million, but actual figures showed a 14.87% decline. The 2024/25 deficit projection is $4,149.04 million (+42.09%), though the mid-year review suggests a revision to $3,869.98 million (93.27% realization).*
Foreign debt	*Foreign debt mobilization has been inconsistent. In 2022/23, the budgeted $2,018.84 million was revised to $1,421.16 million (-29.61%). In 2023/24, the budget stood at $1,611.74 million, but actual disbursement was only $1,101.85 million (-31.64%). The 2024/25 target is $1,649.04 million, though the mid-year review suggests a downward revision to $1,369.98 million (83.08% realization).*
Conclusion	*The budget analysis highlights significant discrepancies between allocations, actual spending, and revenue collection. While the government aims for fiscal stability, challenges persist in revenue realization, expenditure efficiency, and debt mobilization. Strengthening financial management, improving capital expenditure utilization, and fostering private and NRN investments will be critical for achieving sustainable economic growth.*

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

Thank You!

Best regards,
Kala Legal
Protecting your creations

https://www.linkedin.com/company/kala-legal/