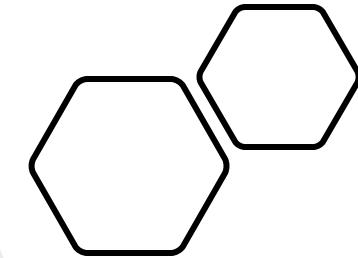


# Economic Outlook Based on March 2025



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## Overview 2024/25

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## Nepal's Path to Growth

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## External Sector

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## Financial Sector Highlights

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## Fiscal situation

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Overview 2024/25



*The summary of the  
High-Level Policy Reform  
Recommendations Report  
of Nepal (April 2025)*



## Executive Summary – Key Highlights

### Economic Background:

- Nepal's economy was severely affected by the COVID-19 pandemic. Although an annual average growth rate of 7.5% was recorded, structural weaknesses remain. Political stability and post-earthquake reconstruction played a major role in recovery, but sustaining such high growth is uncertain without reforms.

### Post-Pandemic Recovery:

- Despite rapid initial recovery, delayed rollback of relief measures, inadequate policy response, and import restrictions led to a slowdown in the economy over the past two fiscal years.

### Private Sector's Call for Reform:

- Given economic stagnation, the private sector urged the government for transformative economic reforms—not just to stimulate the short term but also to address structural bottlenecks and aim for long-term growth.

### Historical Context:

- Nepal has a long history of economic reform, especially in trade, aviation, media, electricity, insurance, and banking, but outcomes have been mixed. Comprehensive reforms in the early 1990s opened key sectors.

### Current Gaps:

- Despite some reform efforts, overall progress hasn't matched public and private sector expectations. Structural issues and weakened domestic demand (e.g., low consumption and reduced investment) are dragging growth.

### Supply-Side Reforms Needed:

- Strengthening supply-side capacity is necessary—reducing production costs, improving competitiveness, and making the investment climate favorable.

## Immediate Policy Recommendations

- Clear unpaid dues of contractors and only propose new projects if future liabilities are manageable.
- Settle pending grants and subsidies.
- **Provide targeted credit restructuring and relief to distressed borrowers.**
- Establish an asset management company to handle non-performing assets.
- **Enact credit scoring and commercial transaction monitoring legislation.**
- Support small savers in failing cooperatives by enabling immediate payout from government funds.
- Amend the Cooperative Act to strengthen financial governance.
- **Expedite reconstruction efforts in disaster-hit areas like Jajarkot and the flood-affected regions.**

## Public Finance & Governance

- Rationalize social security spending and remove overlapping subsidies.
- **Prioritize high-return projects only.**
- Avoid duplication of development efforts across federal, provincial, and local levels by introducing a centralized project bank system.
- **Amend the Intergovernmental Fiscal Transfer Act to streamline grants and subsidies.**
- Use tax revenue more effectively by reducing administrative bloat and overlapping responsibilities.
- **Restructure state-owned enterprises (SOEs), privatize where feasible, and convert viable ones into public limited companies.**

## Monetary and Fiscal Policy Suggestions

- **Maintain inflation within 4–6%.**
- Manage liquidity via active Open Market Operations and gradual interest rate adjustments.
- **Maintain foreign reserves sufficient for 5–7 months of imports.**
- Debate the possibility of adjusting the fixed exchange rate with the Indian Rupee, but only after improving competitiveness.
- **Develop secondary bond markets and reduce interest rate volatility.**
- Promote credit access to productive sectors and SMEs with stable, low-interest loans.

## Legal and Institutional Reforms

- Amend or repeal outdated and restrictive laws (e.g., those concerning black market control, royalty regulations, and export-import control).
- Create new legislation for:
  - Regulating pharmaceuticals and health materials
  - **Securing intellectual property**
  - Reforming property acquisition laws
  - **Managing construction materials sustainably**
  - Enhancing export-import mechanisms
  - **Promoting transparency and accountability in public finance**

*The High-level Economic Reform Commission's report offers an ambitious vision for reviving and restructuring Nepal's economy, but a critical analysis reveals that many of its recommendations are overly generic and lack the actionable clarity needed for effective implementation. While the report identifies key challenges—such as weakened aggregate demand, financial sector stress, and institutional inefficiencies—its proposed solutions are often expressed in broad terms, such as “improving the investment environment” or “lowering production costs.” These are important goals, but without sector-specific strategies, clearly defined implementation responsibilities, timelines, or performance indicators, they risk remaining aspirational rather than operational. Furthermore, while the report emphasizes institutional reforms like bureaucratic stability, increased administrative capacity, and streamlined intergovernmental fiscal arrangements, it does so without sufficiently addressing Nepal's underlying political-economic realities. The entrenched culture of politicized appointments, informal influence networks, and weak accountability mechanisms is a significant barrier to technocratic reform. By not acknowledging these dynamics or offering governance and incentive-based tools to address them, the report falls short of offering a realistic path to structural change.*

*Even the short-term “now for now” reforms—such as expediting contractor payments, restructuring problematic loans, and providing cooperative sector liquidity—though practical in intent, lack operational detail. For example, there is no clear mapping of fiscal space to assess whether the government can afford to settle large pending liabilities without compromising other critical expenditures. Similarly, recommendations to establish asset management companies or expand credit scoring frameworks are not accompanied by governance models, financial projections, or references to similar reforms in comparable economies, which would have strengthened their credibility.*

*The report also projects outcomes such as increasing GDP growth to 6%, creating 300,000 to 500,000 new jobs over five years, and boosting revenue by 15–20%. However, these forecasts are not backed by any economic modeling or data-driven scenario analysis. Historical trends suggest that even during more stable political periods, Nepal has struggled to reach such targets, especially in job creation, which continues to rely heavily on foreign employment. The absence of macroeconomic simulations or elasticity-based projections weakens the analytical rigor of these estimates and calls into question their feasibility. Moreover, the report does not adequately address potential trade-offs and risks. There is little discussion of how increased capital expenditure will be balanced against rising debt service costs, how public trust in cooperatives will be restored during restructuring, or how reform fatigue in the bureaucracy will be mitigated. These gaps suggest that the report underestimates the complexity of reform implementation in a politically fragmented and administratively overstretched context.*

*In conclusion, while the Commission's report is directionally sound and commendable for its holistic scope, its generic nature and lack of operational depth diminish its effectiveness as a true roadmap for reform. For the recommendations to translate into real outcomes, the government must further refine the report by prioritizing specific actions, aligning them with institutional mandates and budget allocations, and establishing a dedicated reform implementation mechanism with clear accountability. Without this, the report risks joining the long list of well-meaning but under-implemented reform agendas in Nepal's economic history.*

*Debate the possibility of adjusting the fixed exchange rate with the Indian Rupee, but only after improving competitiveness.*

*The committee has not provided details on how the debate regarding a potential adjustment to the fixed exchange rate with the Indian Rupee should be initiated, nor has it indicated what the desired outcome of such a discussion should be.*

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# Way forward

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- *Nepal, with its pegged exchange-rate regime vis-`a-vis India, don't have viable alternative for current exchange-rate policy in light of an increasing trade deficit and a slowly growing economy*
- *However, there are different choices Nepal can adopt going forward*
- *In practice, however, the choices are limited and the options available are*
  - Nepal can continue the current peg with INR*
  - Nepal can adopt crawling peg with INR (Consider existing arrangement but allow adjusting the parity level)*
  - Nepal can adopt a flexible exchange-rate regime*
  - Nepal can embark upon a rigid peg arrangement such as a currency board or a currency union*
  - Nepal can adopt managed exchange-rate regime in which the value of the domestic currency is based on a basket of currencies of the countries that have a major economic relationship with the domestic economy*
  - Nepal can shift its peg with other major currency*

# Policy of exchange rate

## Fixed rate

*This exchange rate regime is also called pegged exchange rate which is determined fixed against another counterpart currency on certain rate. Country having low GDP may follow a policy of fixed exchange rate regime.*

*Even in the excess demand and supply of currency, the rate will be managed same as determined before. Nepal has followed fixed exchange rate with Indian currency.*

## Floating rate

*This exchange rate is determined based on the market interaction of demand and supply of the currency. Increase demand may lead high exchange rate and decrease demand of currency leads to low exchange rate.*

*Recently, most of the country of the world has accepted floating exchange rate because of its fluctuation characters.*

*Large GDP generally supports floating exchange rate regime.*

## Crawling band

*Fluctuating range of market value of currency is determined by the central banks with regular correction in the exchange rate regime which does not support to cross the crawling band.*

# Policy of exchange rate

## Crawling peg

- The determination of exchange rate within small amount of fluctuation around pegged rate is crawling peg
- The currency value is allowed to go up and down to a certain limit.
- It is different than crawling band because there is wider fluctuation which cannot be found in crawling peg

## Conventional fixed peg arrangement

- Under this exchange rate regime, there is the determination of fixed exchange rate against particular currency, but this system allows fluctuating  $\pm 1\%$  around the pegged rate which can be increased up to 2% for at least three months
- Fluctuation in narrow margin is allowed from the fixed rate. Direct and indirect methods are used to maintain fixed parity of exchange rate in case of over fluctuation than normal

## Pegged exchange rate within horizontal band peg

- It is like a conventional fixed peg arrangement, but it allows fluctuation in between upper limit and lower limit
- This system has limited discretion on monetary policy for the stabilization of the exchange rate.
- Time span may be longer than conventional fixed peg arrangement

# Policy of exchange rate

## Currency board

- *This exchange rate regime is maintained under the guarantee of legislative commitment to specify the rate of domestic currency against designated foreign currency in fixed exchange rate*
- *It is completely backed by foreign asset by reducing the power of monetary authority*
- *It is the system of establishing strict foreign exchange rate regime, but we cannot forget the role of little flexibility over the period of time*

## Dollarization

- *It is the condition to give tender to foreign currency equally as domestic currency*
- *It is not always necessary to follow the US Dollar*
- *It is applicable for the acceptance of any foreign country as the currency of nation*

## No separate legal tender

- *If there is the control of foreign monetary authority instead of domestic monetary authority with formal dollarization system, it comes under this category of exchange rate*
- *It is not only the issue of legal tender of Dollar but also complete legal tender of foreign currency. It can be because of both individual acceptances of foreign country or with the effect monetary or other economic union*
- *This is the case when there is complete surrender of domestic monetary authority*

# Points to Ponder

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*Flexible exchange-rate regime is perhaps not an immediate option.*

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*The open border between Nepal and India risks the possibility of creating destabilizing effects from daily volatility in the exchange rate*

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*Shifting it peg to other major currency will be difficult choice but can be consider as food for thought*

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*Possibility of monetary integration through a currency board or a currency union would likely face tough political opposition*

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*With an open border, huge bilateral trade, and a pegged exchange-rate regime, Nepal has considerable economic integration with India and could possibly benefit from further form monetary integration*

# National Planning Commission (NPC) report on Sustainable Development Goals (SDGs), 2025

The updated SDG report published by Nepal's National Planning Commission in April 2025 comes at a critical juncture marked by growing geopolitical tensions, Nepal's upcoming graduation from the Least Developed Country (LDC) status, and a projected decline in concessional financing and grants. In this challenging context, the report seeks to re-estimate the financial needs and update the implementation strategy for achieving the Sustainable Development Goals (SDGs) by 2030. The total estimated investment required between 2024 and 2030 is USD 16.28 billion (1USD = NPR 130) —roughly 45.4% of Nepal's GDP annually— representing a 2.4 percentage point increase compared to earlier projections. The largest funding requirements are concentrated in Goal 9 (industry, innovation, and infrastructure), Goal 7 (clean energy), and Goal 1 (poverty reduction).

While the report outlines a detailed investment need, it also highlights a significant financing gap of USD 5.80 billion over the period, equivalent to 11.1% of annual GDP. This gap is expected to be more acute in critical sectors such as infrastructure, urban development, education, health, and water and sanitation. The financing strategy identifies four main sources: the public sector is expected to contribute 57.5% (with central, provincial, and local governments accounting for 70%, 9%, and 21% of this respectively), followed by the private sector at 34.35%, cooperatives and NGOs at 4.18%, and households at 3.95%.

However, the reliability of these sources is uncertain given the anticipated reduction in grants and soft loans as Nepal transitions out of LDC status. The report emphasizes the need for renewed fiscal discipline, improved revenue mobilization, expanded public-private partnerships, and better alignment of development cooperation to bridge the financing gap. Strategic reforms, including policy reprioritization, institutional strengthening, and targeted investment in high-impact SDG areas, are deemed essential. Overall, while the sources of financing have been broadly identified, the volatility of external support and domestic capacity limitations necessitate a more resilient, diversified, and forward-looking financing approach to sustain SDG momentum in a rapidly evolving geopolitical and economic landscape.



*Summary of NEPAL DEVELOPMENT  
UPDATE the world Bank*

# World Bank Outlook on Nepal – 2025

## Economic Outlook

### 1. Current Account Surplus:

Declining from **2.8%** to **2.4%** of GDP (H1FY25).

### 2. Foreign Exchange Reserves:

**\$16.8B**, covering **14.4 months** of imports.

### 3. Fiscal Deficit: **2.5% of GDP** in FY25, rising to **2.9% in FY27**.

### 4. Public Debt: Projected to rise to **43.4% of GDP** by FY27, still sustainable

Indicator	FY24	FY25 (Projected)	FY26–27 (Avg.)
Real GDP Growth	3.9%	4.5%	5.4%
Inflation	6.5% (H1FY24)	5.0%	4.4%
Agriculture Growth	2.2%	3.2%	3.3%
Industrial Growth	5.3%	↑ (electricity: +15.1%)	Strong
Services Growth	5.2% → 5.1%	Recovery led by trade	Strong

## *Structural Challenges*

### **1. Financial Sector:**

- a) Non-performing loans: **4.9% (H1FY25)** – highest on record.
- b) Private sector credit fell to **93.6% of GDP**, lowest since H1FY21.
- c) Loan-loss provisions up **15.5%**, net profits down **2.9%**.
- d) Capital adequacy ratio: **12.4%** (still above the regulatory minimum).

### **1. Public Finance:**

- a) **Revenue:** Increased to **9.3% of GDP**, supported by capital gains and excise duties.
- b) **Expenditures:** Down to **9.3% of GDP** – lowest capital spending since H1FY22.
- c) Local & provincial execution lagging: only **16–25%** of budget spent by mid-year.

# Risks to Growth

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Category	Key Risk Factors
<i>External</i>	<i>Geopolitical tension &amp; trade restrictions - Oil/commodity price spikes - Global economic slowdown impacting remittances (↓ from 12.9% to 12.4% of GDP) &amp; tourism</i>
<i>Domestic</i>	<i>High NPLs (4.9%) affecting credit - Bureaucratic reshuffles hurting policy - FATF Grey List risks (AML/CFT gaps) - Delayed capital expenditure reforms</i>
<i>Structural</i>	<i>Weak export competitiveness due to REER appreciation (+2.5%) - Low FDI (&lt;0.1% of GDP) despite high reserves</i>

# Outlook (2025 and beyond)



## GDP Growth:

Projected at 4.5% in FY25, rising from 3.9% in FY24, and averaging 5.4% over FY26–FY27.



## Key Growth Drivers:



**Services Sector:** Recovery in imports is expected to boost wholesale and retail trade.



**Industrial Sector:** Strong growth expected, particularly in **electricity and construction**, supported by hydropower expansion and pro-construction policies.



**Agriculture:** Projected to grow 3.2% in FY25, aided by good monsoon and paddy yields.



## Inflation:

Forecast to ease to 5% in FY25 and average 4.4% in FY26–27, driven by lower non-food inflation and favorable harvests.



## Current Account:

Surplus to narrow due to weaker remittances and a widening trade deficit. However, **foreign exchange reserves will remain robust**, covering ~10 months of imports by FY27.



## Fiscal Deficit:

Expected to stay at 2.5% of GDP in FY25, rising modestly to 2.9% by FY27 due to higher interest and capital spending.

While **services are recovering**, the **main economic momentum in FY25 lies in industrial (electricity) and agricultural performance**. The World Bank's emphasis on merchandise imports and services as primary drivers may **understate the real structural levers**—especially when considering Nepal's ambitions for energy exports and rural transformation.

The World Bank's April 2025 outlook highlights Nepal's exceptional progress in reducing extreme poverty, citing a fall from 55% in 1995 to just 0.37% in 2023—equivalent to approximately 105,155 people nationwide. However, this figure, while statistically impressive, warrants careful scrutiny. When broken down across provinces, this translates to roughly 15,000 people per province, 1,365 per district, and just 139 per ward—an improbably low number considering the structural poverty still visible across various regions. While national-level data reflects considerable improvement, particularly due to remittance-fueled consumption and public investment in basic services, there are reasons to question whether this 0.37% figure fully reflects on-the-ground realities.

Regional disparities remain significant, especially in geographically isolated and underdeveloped areas like Karnali and Sudurpaschim, where access to education, health care, and markets remains limited. Moreover, the data may underreport marginal populations or those hovering just above the international poverty line. Nepal's own national poverty line still identifies 20.3% of the population as poor, and the \$3.65/day poverty rate was 7.5% in 2022, projected to fall to 5.6% in 2025. These broader indicators suggest that while extreme poverty by global standards may be nearly eliminated, many Nepalis remain economically vulnerable. Therefore, the 0.37% rate should be interpreted with caution, and future analysis would benefit from triangulating international and national poverty data with subnational and multidimensional poverty indices.

On the economic growth front, the World Bank projects Nepal's GDP to grow by 4.5% in FY25, rising from 3.9% in FY24, with an average of 5.4% expected over FY26–FY27. The report identifies the services sector as the primary growth driver for FY25, attributing this to a recovery in merchandise imports that would stimulate wholesale and retail trade. However, this emphasis seems to misalign with the report's own sectoral analysis. The most robust growth contributors during the first half of FY25 were the electricity and agricultural sectors. Electricity production, in particular, expanded by 15.1% thanks to the addition of 93 MW in new hydropower capacity, while agriculture posted a solid 3.6% growth, driven by a favorable monsoon and increased paddy production. These sectors played a critical role in driving industrial growth, which reached 6.6% in H1FY25.

While the services sector did register growth, its performance was uneven. Financial services and tourism-related activities, such as accommodation and food services, declined due to rising non-performing loans and disruptions caused by the ongoing upgrade of Tribhuvan International Airport. Furthermore, merchandise imports, while potentially boosting wholesale and retail activity, actually subtract from GDP in national accounting terms. Their contribution to growth is indirect and depends on broader consumption dynamics, which remained subdued due to weak credit demand and low private sector investment. As such, the current framing underplays the structural importance of electricity and agriculture, both of which are critical to Nepal's long-term economic transformation, especially with the government's focus on energy exports and rural development.

In summary, both the reported extreme poverty figures and the identification of growth drivers in the World Bank's outlook deserve more nuanced interpretation. While Nepal's development achievements are commendable, the poverty data likely underrepresents lingering vulnerabilities, and the economic narrative may benefit from shifting more attention to the productive sectors—electricity and agriculture—that are emerging as true engines of growth.

# Asian Development Bank (ADB) forecasts

*Asian Development Bank (ADB) forecasts Nepal's economy to grow by 4.9% in FY2025, up from an estimated 3.9% in FY2024. The growth is expected to be driven by a rebound in domestic demand, higher infrastructure spending, and a recovery in tourism. Agricultural output should benefit from timely monsoons, and industrial activity is projected to rise with improved electricity generation. The services sector, especially hospitality and retail, is also set to expand with rising tourist arrivals.*

*Inflation is expected to remain within the central bank's 5.0% target, supported by stable food prices and a slight decline in Indian inflation. However, the current account, which posted a 3.9% GDP surplus in 2024 due to strong remittances and tourism, is projected to slip into a 1% GDP deficit in 2025 as remittance growth moderates.*

*Notably, the ADB outlook does not account for emerging downside risks. Recent unrest, the risk of Nepal being placed on the FATF grey list, and ongoing human trafficking issues could undermine external sector stability and dent consumer and investor confidence.*

*Furthermore, ADB has not recognized the structural weaknesses in Nepal's economy — particularly widespread corruption, entrenched rent-seeking behavior, and institutional inefficiencies — which may stall reform momentum and limit the country's medium-term growth potential.*

*The International  
Monetary Fund (IMF)  
Executive Board*

*Fifth review*



**The International Monetary Fund (IMF) Executive Board completed the fifth review under the Extended Credit Facility (ECF) Arrangement for Nepal on March 12, 2025, enabling an immediate disbursement of approximately US\$41.8 million. This brings total disbursements under the ECF to about US\$289.1 million.**



**Economic Outlook:** Nepal's economy has faced challenges due to subdued domestic demand and disruptions from the September 2024 floods. However, economic activity is expected to pick up moderately in the fiscal year 2024/25, with growth projected at 4.2%. This anticipated recovery is supported by increased capital spending, particularly on reconstruction efforts, an accommodative monetary policy stance, and additional hydropower generation.



**Monetary Policy and NRB Act :** The Nepal Rastra Bank (NRB) has maintained an accommodative monetary policy to support economic recovery. Inflation is projected to remain close to the NRB's target of about 5%, with post-flood supply-side pressures expected to be short-lived. **New conditions has been added "The MOF should submit to Parliament amendments to the NRB Act that address the key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report"**



**Banking Sector:** The IMF emphasizes the importance of strengthening financial sector resilience. This includes conducting a comprehensive review of banks' loan portfolios to identify and address vulnerabilities, enhancing regulatory and supervisory frameworks, and improving risk management practices within financial institutions. **New conditions has been added "The NRB should re-issues the regulation on asset classification, aligned with a continuous repayment period of three months for reclassification of non-restructured/non-rescheduled loans, as prescribed by the Basel Committee on Bank Supervision (BCBS) Guidelines on Prudential Treatment of Problem Assets"**



**Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT):** Progress has been made in enhancing Nepal's AML/CFT framework. The authorities are implementing reforms to align with international standards, which is crucial for maintaining financial system integrity and fostering a favorable environment for investment. Improving financial transparency, strengthening enforcement mechanisms, and enhancing coordination among regulatory bodies were recommended.



The IMF commended Nepal's commitment to implementing economic reforms despite challenges such as political uncertainty and natural disasters. Continued prudent policies and steadfast implementation of structural reforms are encouraged to safeguard macroeconomic stability and promote sustainable, inclusive growth.

*The risk outlook for Nepal has evolved significantly between the IMF's Fourth Review (2024) and Fifth Review (2025) under the Extended Credit Facility.*

*The 2024 report projected a 4.9% growth rate for FY2024/25, driven by hydropower expansion and increased public capital expenditure. However, it warned of political instability, subdued domestic demand, and rising financial sector risks. In contrast, the 2025 report revised growth down to 4.2%, citing the economic disruptions caused by the September 2024 floods, which damaged infrastructure, weakened agricultural output, and increased supply-side inflationary pressures. Similarly, financial sector risks intensified, with rising non-performing loans (NPLs), weakened bank profitability, and a worsening crisis in savings and credit cooperatives (SACCOs). The 2024 report called for stronger banking supervision and better loan classification rules, while the 2025 report emphasized urgent supervision reforms and the completion of the loan portfolio review for major banks. Additionally, public debt risks increased, as flood-related expenditures and weaker tax revenues further strained fiscal sustainability.*

*The IMF's recommendations to the Government of Nepal (GON) and Nepal Rastra Bank (NRB) also evolved in response to these shifting risks. In 2024, the focus was on maintaining fiscal discipline through tax reforms, rationalizing spending, and increasing capital investments. By 2025, the emphasis had shifted towards post-flood reconstruction, urging the government to balance urgent recovery needs with fiscal stability. Monetary policy recommendations remained largely consistent across both years, with the 2024 report advocating a cautious, data-driven approach to monetary tightening and 2025 reinforcing the need for stronger financial stability frameworks and enhanced AML/CFT (anti-money laundering and counter-terrorism financing) measures. Governance and structural reforms also evolved, with 2024 focusing on improving tax policies and public investment efficiency, while 2025 stressed urgent financial sector restructuring and better disaster risk management.*

*In terms of structural benchmarks, the 2024 report noted progress with some delays. The National Planning Commission approved the Public Investment Management Assessment (PIMA) action plan, and the Domestic Revenue Mobilization Strategy was finalized, albeit delayed from its original April 2024 deadline. Additionally, the on-site module of the Supervisory Information System (SIS) for class A banks was implemented. However, key financial governance reforms stalled, including amendments to the NRB Act, which were reset for a September 2024 deadline. The 2025 report highlighted even more significant delays and new priorities. The NRB Act amendments were further postponed to April 2025, and the audit of four major public enterprises was completed with delay. The Loan Portfolio Review (LPR) of the ten largest banks, a key financial reform, was terminated due to cost issues and re-initiated, delaying two major benchmarks into 2025.*

*A major departure between the reports is the integration of disaster risks into Nepal's economic outlook. While the 2024 report did not anticipate any significant external shocks, the 2025 report incorporates the economic consequences of the September 2024 floods, which disrupted infrastructure and dampened economic growth. Another key difference is the worsening financial sector crisis in 2025, particularly due to SACCO failures and liquidity constraints in banks, requiring urgent corrective measures. Lastly, policy priorities shifted from medium-term fiscal and financial stability in 2024 to immediate disaster recovery and financial crisis management in 2025. In conclusion, while both reports emphasize fiscal sustainability and financial resilience, the 2025 report highlights more urgent risks, necessitating immediate intervention in financial oversight, disaster recovery, and governance reforms.*

## *Comparison of Risk Assessment Matrix (RAM) in the 2024 and 2025 IMF Reports for Nepal*

*The Risk Assessment Matrix (RAM) in both the 2024 and 2025 IMF reports identifies financial sector vulnerabilities, political instability, fiscal risks, and external shocks as key threats to Nepal's economic stability. However, the 2025 report reflects a shift in risk prioritization, particularly due to the September 2024 floods, which introduced new disaster-related risks and increased financial sector concerns.*

### **1. Financial Sector Vulnerabilities**

- **2024 Report:** The IMF assessed financial sector risks as high, citing the legacy of the pandemic-related credit boom, regulatory challenges, and rising non-performing loans (NPLs). The report called for accelerating risk-based supervision and improving regulatory compliance, particularly in SACCOs.
- **2025 Report:** The risk level remains high, but the focus has expanded to address increasing forbearance in the banking sector, which could mask deeper financial vulnerabilities. The report warns that delayed recognition of bad loans may escalate into a financial crisis. To mitigate this, the IMF recommends strengthening provisioning requirements and enforcing stricter asset classifications. However, when compared to India's provisioning standards, Nepal's regulations are already more conservative. In Nepal, all loans overdue for more than 12 months require 100% provisioning, regardless of collateral status. In contrast, India follows a differentiated approach—if the loan is not backed by collateral, 100% provisioning is required after 12 months, whereas for collateral-backed loans, full provisioning is only required after 3 years.

### **2. Natural Disaster Risks**

- **2024 Report:** Classified natural disasters (earthquakes, flooding, climate shocks) as a medium likelihood risk with a high impact. The IMF recommended strengthening disaster resilience through infrastructure improvements, maintaining reserve buffers, and expanding social safety nets.
- **2025 Report:** This risk was elevated to high likelihood following the September 2024 floods, which caused extensive damage to infrastructure, agriculture, and the hydropower sector. The report emphasizes urgent fiscal measures for disaster recovery, including enhancing climate adaptation policies and leveraging concessional financing for reconstruction.

### **3. Political Instability and Social Unrest**

- **2024 Report:** The IMF assessed political risks as high, warning that policy instability could disrupt economic reforms and governance improvements. It recommended strengthening policy continuity, ensuring transparency, and improving public confidence in structural reforms.
- **2025 Report:** Political risks remain high, but the report highlights the impact of frequent government changes (five administrations since the ECF program began) and weakened fiscal discipline due to populist spending pressures. The IMF urges the government to focus on stabilizing economic policies despite political turbulence.

#### 4. Fiscal Risks: Revenue Shortfalls and Public Investment Execution

- **2024 Report:** The IMF flagged low revenue collection and poor execution of capital projects as a major fiscal risk. It recommended sticking to fiscal targets, improving tax administration, and prioritizing capital spending efficiency.
- **2025 Report:** Revenue risks increased significantly due to weaker tax performance and flood-related expenditures. The report stresses the importance of maintaining public investment while ensuring long-term debt sustainability.

#### 5. External Shocks: Commodity Price Volatility and Global Economic Slowdown

- **2024 Report:** Assessed commodity price volatility and trade disruptions as medium risks, impacting energy-intensive sectors and raising inflation concerns. The IMF advised diversifying Nepal's energy mix and import sources.
- **2025 Report:** The report maintains a medium risk assessment but highlights new external risks such as tightening global financial conditions, potential remittance slowdowns, and continued disruptions in key trading partners (India and Gulf countries).

#### Key Differences Between the 2024 and 2025 Risk Assessment Matrices

1. **Increased focus on financial sector fragility:** The 2025 report acknowledges that banking sector forbearance may be masking deeper risks, requiring urgent action to prevent a financial crisis.
2. **Elevated disaster-related risks:** The 2025 report upgrades natural disaster risks to high likelihood, citing the severe economic damage caused by the September 2024 floods.
3. **Stronger emphasis on fiscal discipline and post-flood recovery:** The 2025 report warns that flood-related spending could derail fiscal consolidation, necessitating better revenue mobilization and concessional financing.
4. **Worsening political instability:** The 2025 report highlights more frequent government changes, leading to weaker policy continuity and inconsistent economic reforms.

#### Conclusion

While both reports identify financial vulnerabilities, fiscal risks, and external shocks as major threats, the 2025 report reflects a worsening economic outlook due to natural disasters, deepening financial instability, and political uncertainty. The IMF's recommendations have shifted toward urgent disaster recovery, financial sector stabilization, and stronger fiscal discipline to navigate these escalating risks.

## ***Shortcoming:***

- *A critical shortcoming of the IMF's assessment is its reliance on desk research and data-driven models, which fail to fully capture on-the-ground realities, market sentiment, and operational barriers.*

## ***Approach:***

- *The IMF's approach does not reflect the difficulties businesses face, including credit access constraints, investor confidence issues, and the true impact of policy inconsistencies on economic activities.*

## ***Regulatory forbearance and systemic inefficiencies :***

- *Additionally, while the IMF acknowledges regulatory forbearance in the banking sector, it does not adequately address systemic inefficiencies, informal market dynamics, and liquidity challenges that businesses experience daily.*

## ***The gap:***

- *The gap between the IMF's projections and Nepal's economic ground reality remains a key concern, as policy recommendations are often framed within a theoretical macroeconomic structure that may not align with practical implementation challenges.*

# *Market outlook*

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*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.*

*APG Grey List and human trafficking issue*

## *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:

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

# 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.*

As Nepal steps into the New Year 2082, the country finds itself at a pivotal crossroads. Mounting economic headwinds—both domestic and international—are fueling uncertainty and raising the specter of another downturn. A confluence of risks is intensifying, demanding urgent and strategic action.

Foremost among the concerns is the rising probability of Nepal being downgraded to the APG Blacklist, which, along with growing international scrutiny over human trafficking, threatens to erode our financial system's credibility. These issues, if unaddressed, could seriously impact foreign investment, remittance flows, and the country's global standing.

At home, political instability and the erosion of public and investor confidence are compounding economic vulnerabilities. The government's continued dependence on import-based revenue and elevated direct and indirect tax burdens, combined with rising public expenditure and a lack of structural reforms, further strain the economic landscape.

Meanwhile, the economy is facing a troubling disconnect—muted consumer demand alongside surplus capacity. Despite historically low interest rates, productivity remains stagnant, and private sector momentum has failed to pick up.

Yet, amidst these challenges, there is room for cautious optimism. With decisive leadership and well-targeted reforms, Nepal can still course-correct and lay the foundation for sustainable growth. Immediate stabilization measures are necessary—but so too is a bold medium-term reform agenda that strengthens institutions, boosts competitiveness, and improves living standards.

## Key Recommendations for the Year Ahead:

- **Safeguard International Credibility**  
Take urgent diplomatic and legal steps to ensure compliance with APG standards and address human trafficking concerns proactively.
- **Stimulate Domestic Demand**  
Support small businesses, expand access to affordable credit, and incentivize local production to invigorate the real economy.
- **Reform the Tax Structure**  
Reduce over-reliance on import-based taxation by creating a fairer, growth-oriented tax regime that promotes investment and entrepreneurship.
- **Strengthen Public Financial Management**  
Improve efficiency, transparency, and targeting of government spending to maximize impact and maintain fiscal discipline.
- **Rebuild Confidence and Stability**  
Foster political stability, regulatory consistency, and a clear, credible reform roadmap to restore public trust and attract long-term investment.

Nepal's path forward will not be without difficulty—but with focused effort and genuine political will, 2082 can mark the beginning of a more resilient, inclusive, and prosperous economic era.

# Nepal's Path to Growth

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## 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.

### According to Central Bureau of Statistics (CBS): Key Drivers of Nepal's Economy (2023/24 – 2024/25)

#### 1. Electricity, Gas, Steam and Air Conditioning Supply

- This sector showed **consistent high growth**, with standout quarters such as Q3 2023/24 at +47.4% and Q1 2022/23 at +35.0%.
- Even in 2024/25, it grew by +21.4% in Q1 and +9.2% in Q2, indicating it remains a **core engine** of growth, likely fueled by new hydropower projects.

#### 2. Transportation and Storage

- Strong post-COVID rebound: growth of +16.7%, +17.5%, and +10.9% in Q2–Q4 of 2023/24.
- Continued strength in 2024/25 at +10.0% and +14.2%, showing increasing mobility and trade logistics.

#### 3. Accommodation and Food Service Activities

- A major rebound sector post-pandemic with growth spikes like +36.4% in Q2 2023/24 and +27.5% in Q4 2022/23.
- Though decelerating in 2024/25 (to +7.0% and +1.8%), this sector contributed significantly to past aggregate growth.

#### 4. Financial and Insurance Activities

- Recovered from volatility: after a dip in Q4 2022/23 (-15.2%), it rebounded to +17.9% in Q2 2023/24 and held steady growth in 2024/25.

### Slowing or Lagging Sectors

#### 1. Manufacturing

- Remained **negative or flat** throughout 2022/23 and 2023/24, with only modest growth in Q1 and Q2 2024/25 (+2.6% and +7.4%).
- Long-term stagnation points to structural challenges such as energy costs, productivity, and weak industrial policy.

#### 2. Construction

- Highly **volatile and underperforming**, with deep contractions: -17.0% (Q2 2022/23) and -8.6% (Q4 2023/24).
- Slight recovery in 2024/25 (+0.9% and +9.1%) but overall instability weakens its economic contribution.

#### 3. Wholesale and Retail Trade

- Growth remained weak or negative for several quarters, only recently improving to +6.1% in Q2 2024/25.
- This sector's sluggishness undermines service-led recovery expectations, especially amid uncertain import activity.

#### 4. Education

- Consistently low or declining growth, falling to +0.4% and +0.5% in Q1 and Q2 of 2024/25, pointing to weak public investment or demographic slowdown.

### Aggregate Trends

- Aggregate growth bottomed in Q2 2022/23 at -1.0% and began recovering steadily.
- Q2 2023/24 marked a **peak at 5.3%**, followed by 4.0% and 5.1% in FY 2024/25, indicating gradual economic stabilization.
- Services, led by electricity, transport, and hospitality, are fueling the recovery, while **manufacturing and construction remain drags** on momentum.

# Growth Projections

## World Bank

1. April 2024	4.6%	FY 2024/25 projections
➤ Oct. 2024	5.1%	(0.5% Improved from April 24 for 2024/25)
➤ January 2025	5.1%	(no change from Oct. 2024 for 2024/25)
➤ April 2025	4.9%	(0.2% down from January 2025)
2. 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)
➤ April 2025	↓ 5.4%	(0.1% down from January 2025)

## ADB

1. April 2024.	3.6% - FY 2023/24 projections
➤ Sept. 2024.	3.90. 0.60% up from previous for FY 2023/24
2. April 2024.	4.8% - FY 2024/25 projections
➤ Sept 2024.	4.9% 0.1% up from April 2024 for 2024/25
➤ April; 2025	↓ 4.4% 0.5% down from Sept 2024 for 2024/25
3. April 2025	5.1% FY 2025/26 Projection

## 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)
➤ March 2025	↑ 4.2%. (0.2% improved from Jan 2024 for 2024/25)

## 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
• March 2025	5.1% 2024/25 Estimate Q II

The GDP growth forecasts for Nepal provided by key institutions such as the World Bank, ADB, IMF, and CBS reveal a dynamic and often shifting outlook. These projections are revised frequently, reflecting changes in both domestic and global economic conditions. **The constant adjustments show how uncertain and volatile economic forecasting can be — and how numbers alone can sometimes be misleading without understanding the context behind them.**

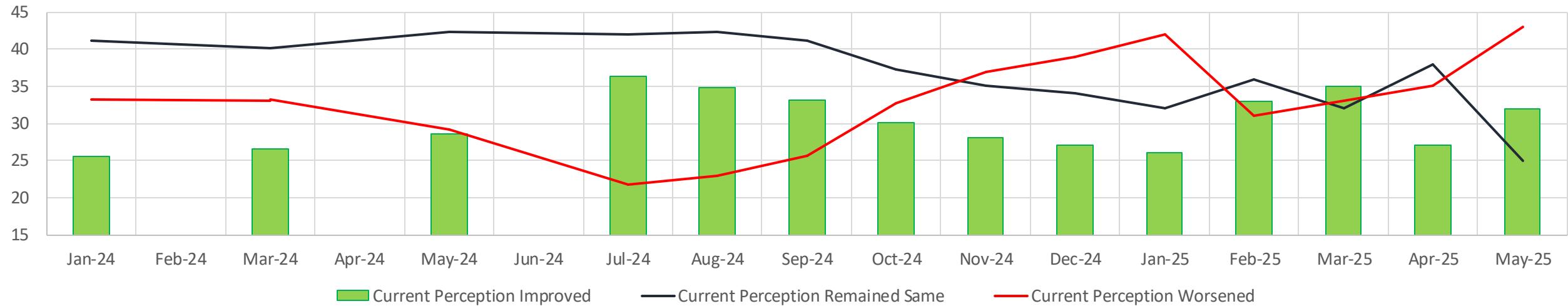
For instance, the World Bank initially projected Nepal's GDP growth for FY 2024/25 at 4.6% in April 2024. This was later revised upward to 5.1% in October 2024, only to be lowered to 4.9% by April 2025. A similar trend was observed for FY 2025/26, where forecasts peaked at 5.5% and later edged down to 5.4%. These fluctuations suggest a cautious optimism tempered by emerging economic data and possibly concerns over sustained recovery in key sectors.

ADB also adjusted its projections considerably. While it forecasted 4.9% growth for FY 2024/25 in September 2024, this estimate dropped to 4.4% by April 2025. These changes reflect the bank's sensitivity to developments such as slower-than-expected industrial growth or weaker domestic consumption. Even more stark are the revisions made by the IMF, which initially projected a robust 4.9% growth for FY 2024/25 in May 2024, but revised it down to around 4.0% in January 2025, before slightly increasing it to 4.2% in March. These changes reflect how susceptible Nepal's economy remains to external shocks, policy adjustments, and global market trends.

Meanwhile, the Central Bureau of Statistics (CBS), which bases its estimates on actual data, reported a modest recovery, with growth improving from 2.16% in FY 2022/23 to 3.2% by the end of FY 2023/24. The early quarters of FY 2024/25 showed further improvement, with Q1 and Q2 estimates at 3.4% and 5.1%, respectively. Although these figures offer a more grounded view of Nepal's growth trajectory, they still align broadly with the revised projections of other agencies.

**This volatility highlights the importance of looking beyond the figures to understand the underlying assumptions, risks, and policy environments that shape Nepal's economic future.**

## Current Perception



The consumer perception data from January 2024 to May 2025 reveals notable shifts in public sentiment regarding economic conditions in Nepal. During mid-2024, particularly in July and August, there was a visible rise in optimism, with the percentage of respondents stating that conditions had "improved" reaching 36% and 35% respectively—the highest in the survey period. At the same time, the perception of worsening conditions dropped to its lowest, at just 22% in July and 23% in August. This mid-year optimism suggests that certain economic or political developments may have positively influenced public sentiment during that time.

However, beginning in October 2024, the data shows a steady decline in consumer confidence. The share of respondents reporting that conditions had "worsened" rose from 33% in October to 43% by May 2025, the highest level recorded in the entire period. Concurrently, the proportion of people who felt things "remained the same" also declined significantly—from a steady 41–42% in early 2024 to just 25% by May 2025. This suggests a growing polarization in public sentiment, with fewer people feeling neutral and more leaning toward either positive or negative views.

Overall, the data indicates that while there was a brief period of optimism in mid-2024, consumer sentiment has become increasingly negative and uncertain into 2025. This trend may reflect broader economic or political challenges, and it highlights the need for targeted policy interventions to restore public confidence and address the underlying causes of dissatisfaction. **Consumer perceptions expected to remain notably pessimistic, with pessimism reaching 43% in May 2025.**

## 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:

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.

**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.

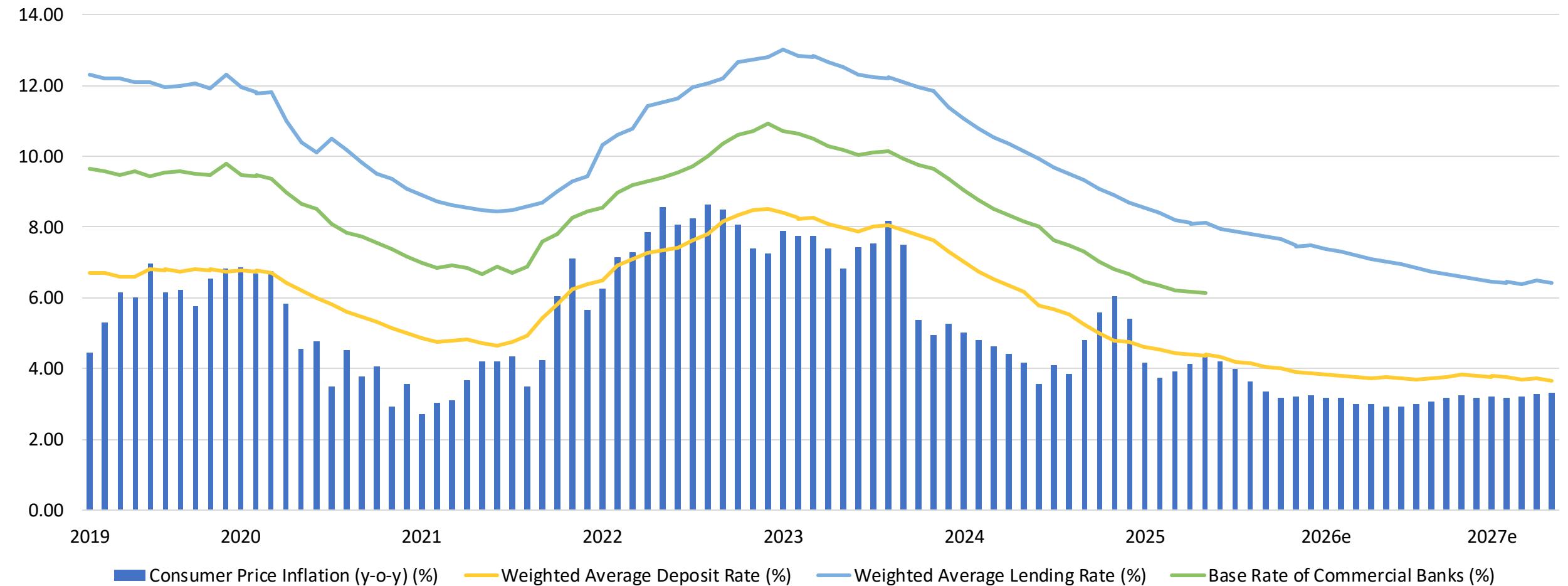
**Low Capital Expenditure:** Inefficient public investment planning and slow project execution hinder economic growth.

Industrial Classification	2080/81				2080/81	
	2023/24				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

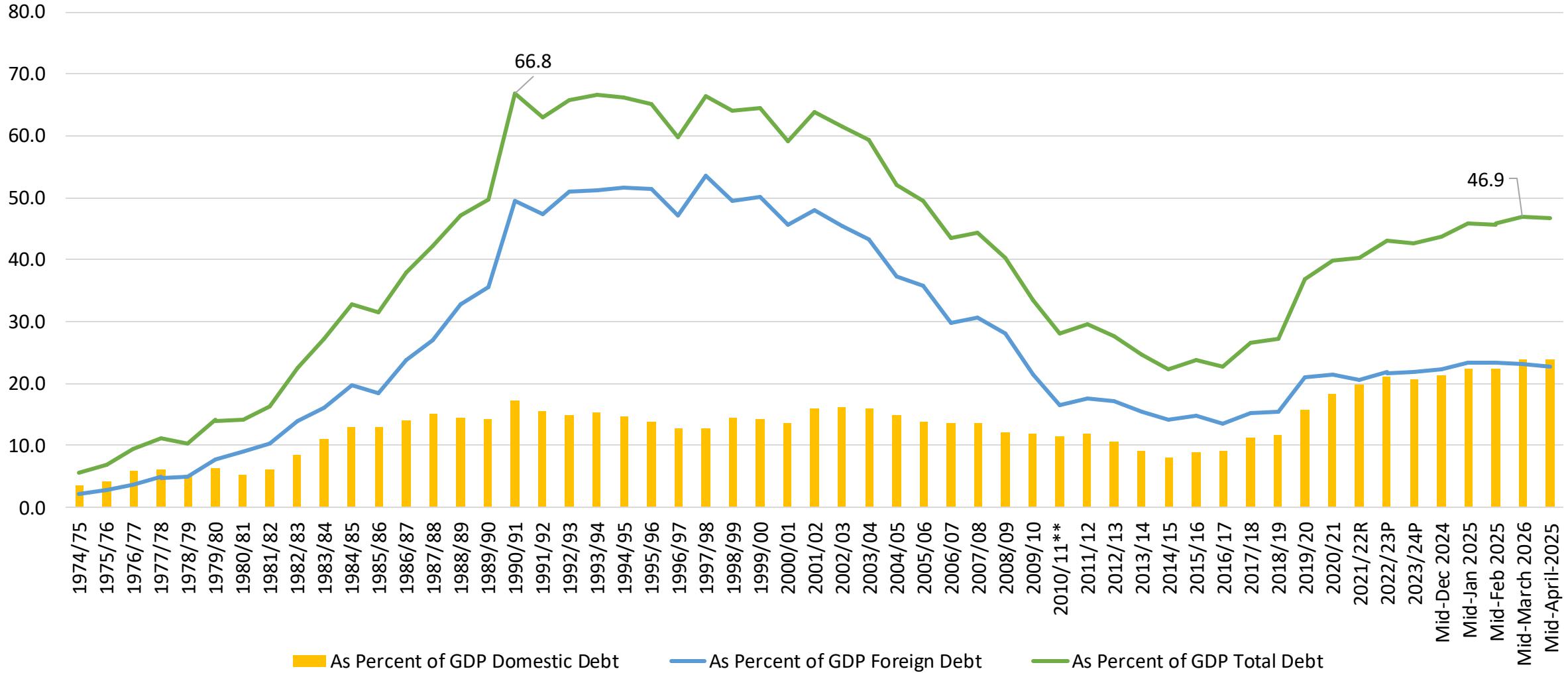
# Interest rates and Inflation

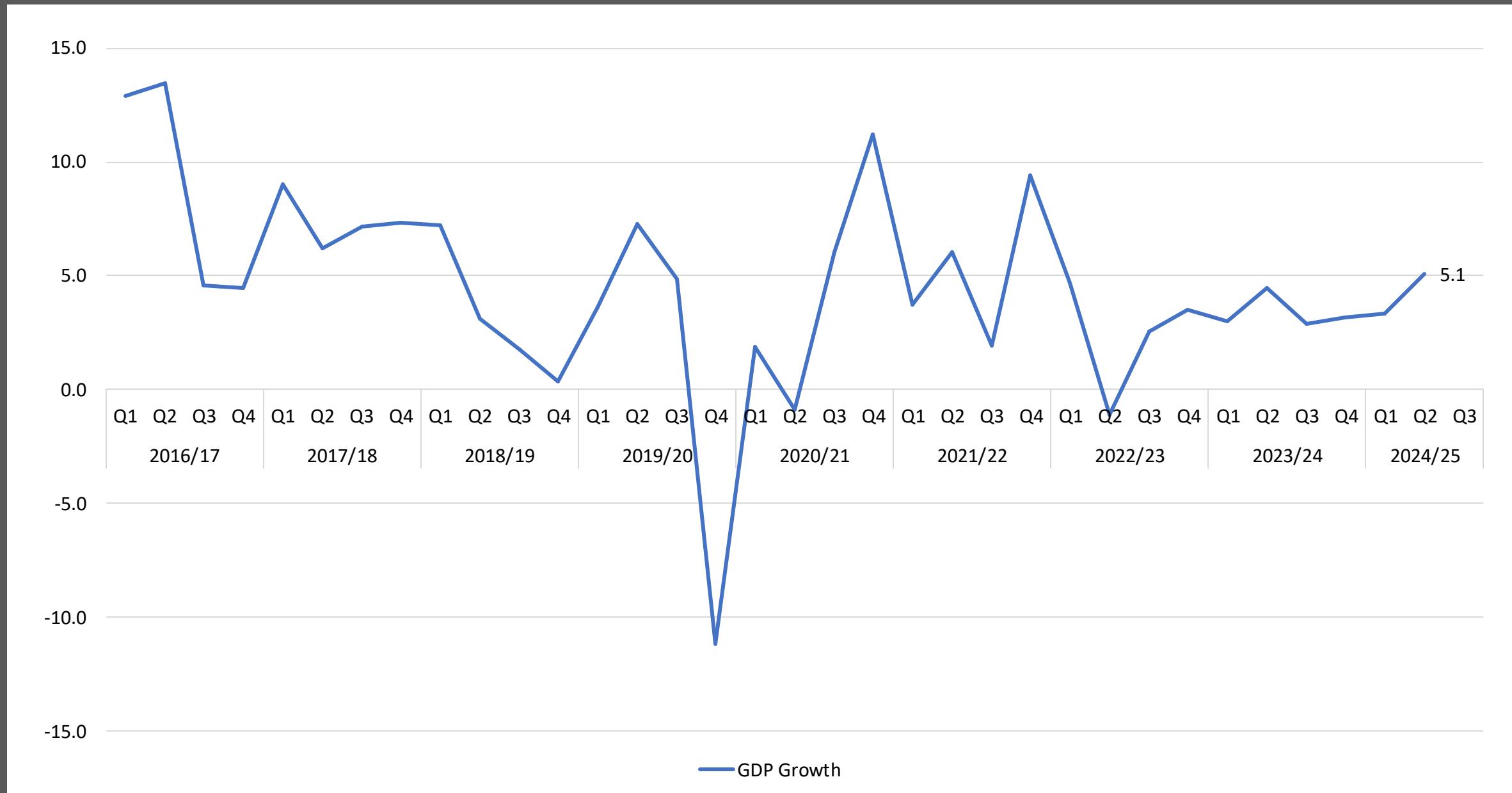
We assumed the Base rate will be abolished from July 2025

Rates and inflation

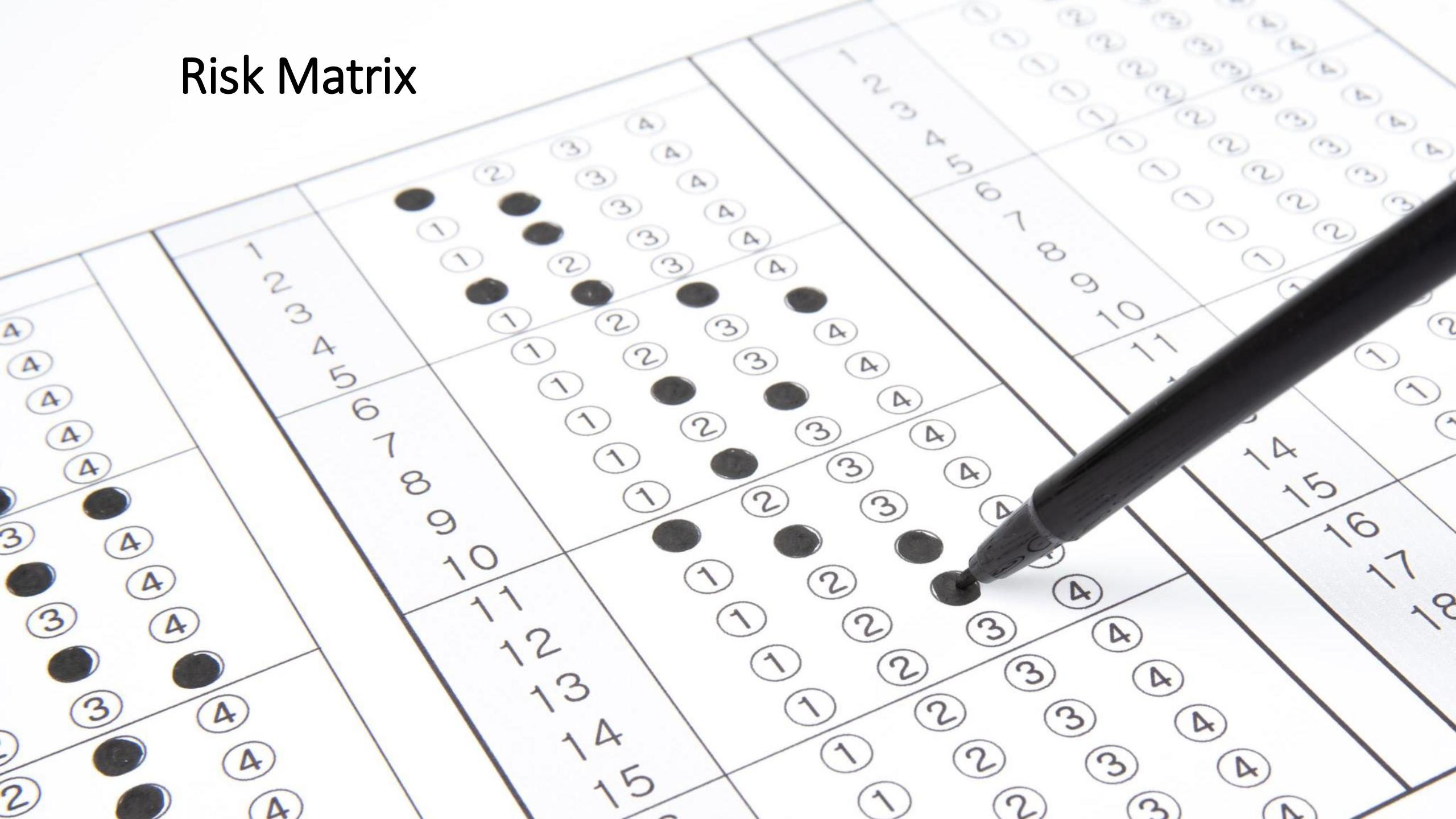


Starts above 66% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 42.9% in 2019/20. Overall, foreign debt debt remains stable with a slight increase, domestic debt increases significantly, and total debt shows an increasing trend followed by a recent rise.





# Risk Matrix



# Risk Matrix

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

# Risk Matrix

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

# Policy Mistakes

Policy  
Name  
Signature

Name  
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Date



# *Monetary policy transmission*

*1. Interest Rate Channel*

*Less Effective*

*2. Lending Rates Channel*

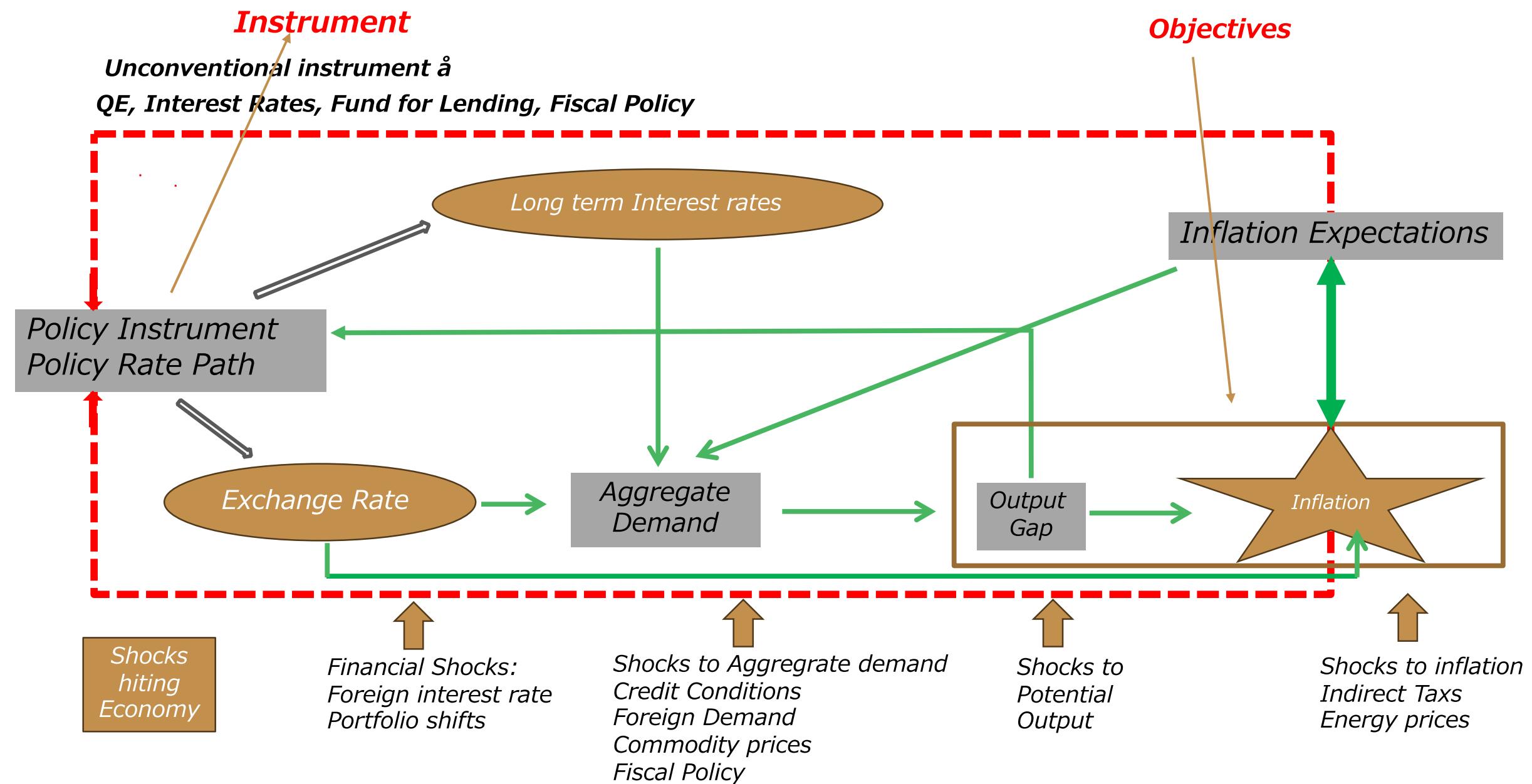
*Not Effective*

*3. Asset Price Channel*

*Not Effective*

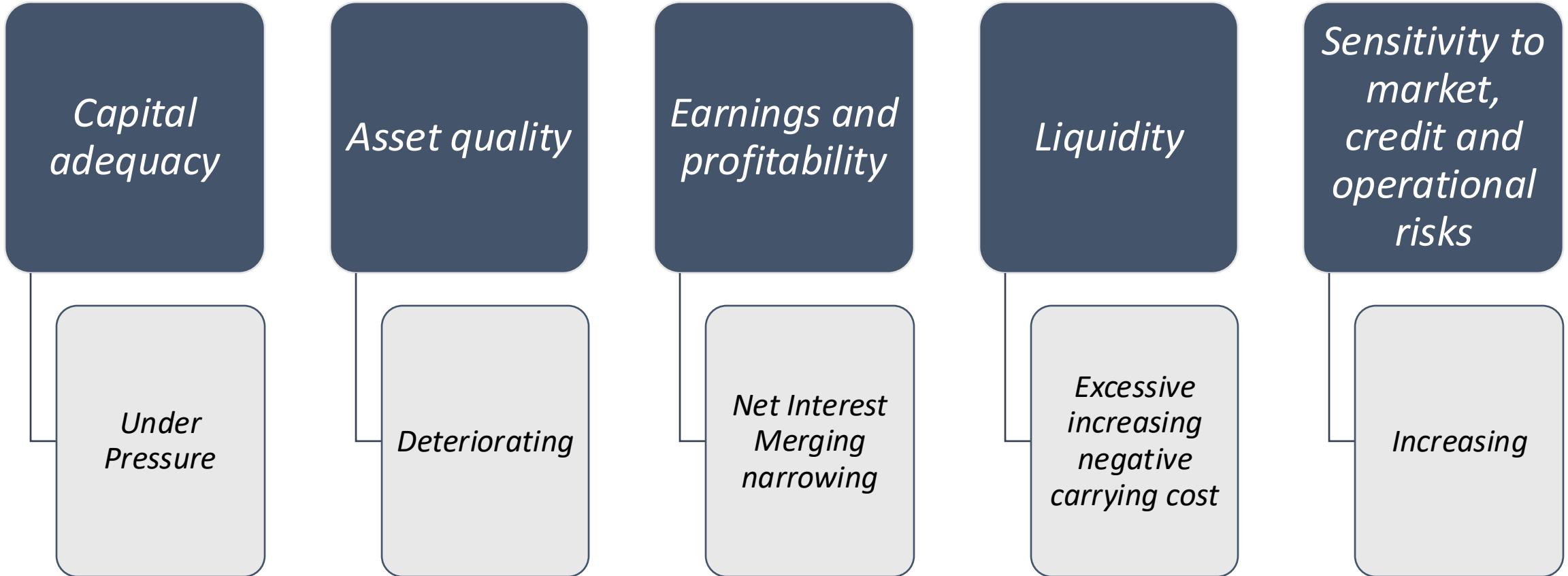
*4. Exchange Rate Channel*

*Not Effective*

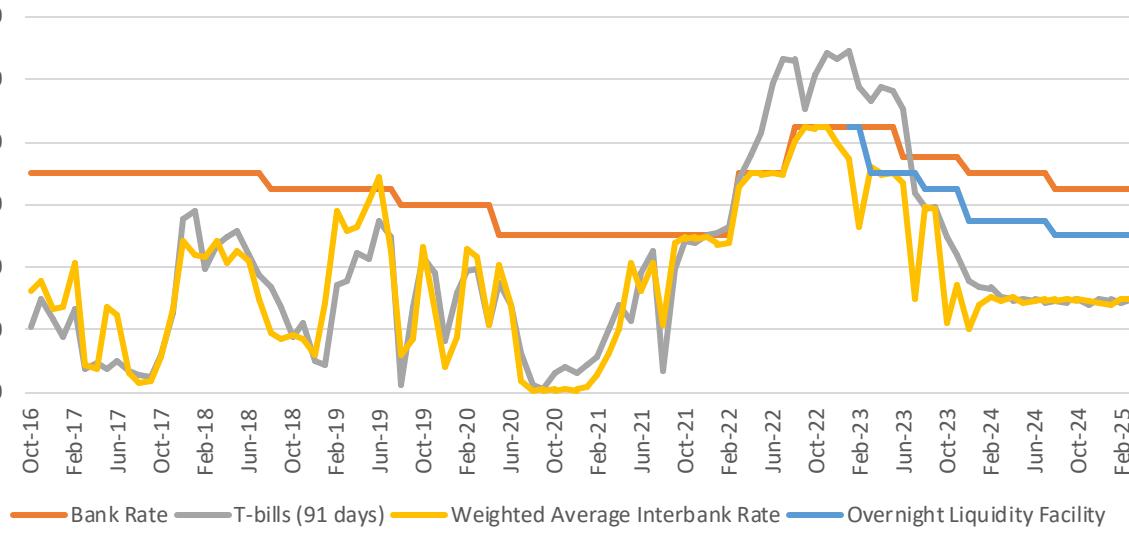


**Monetary Transmission Mechanism**

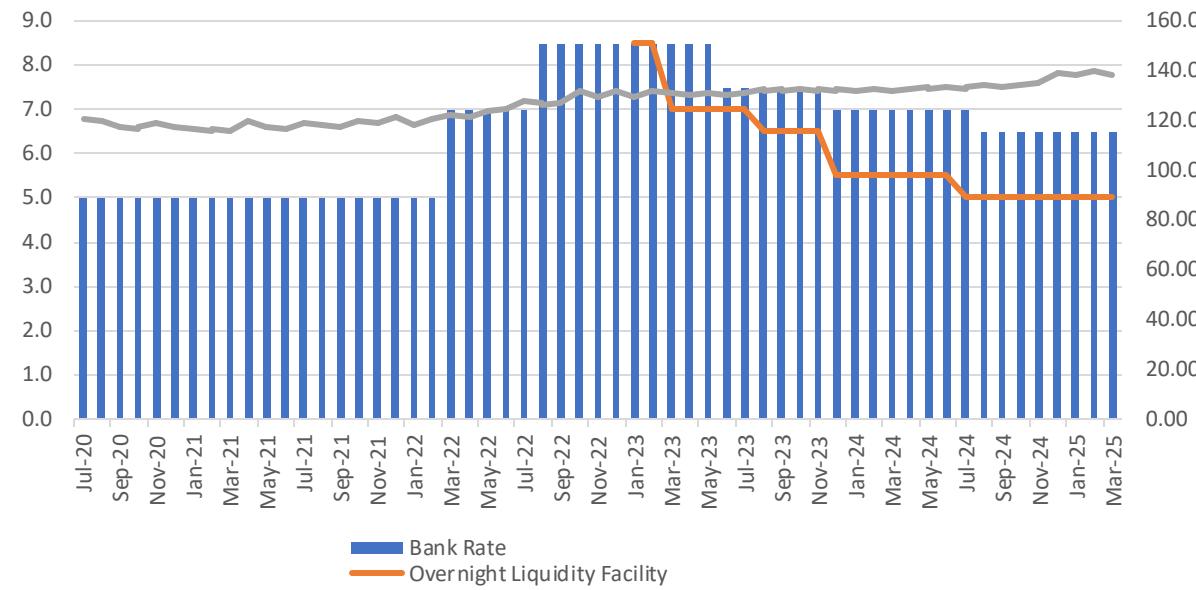
*A core set of financial stability indicators for banks are:*



### Interest rate channel monetary transmission, Short-term money market, **less effective**



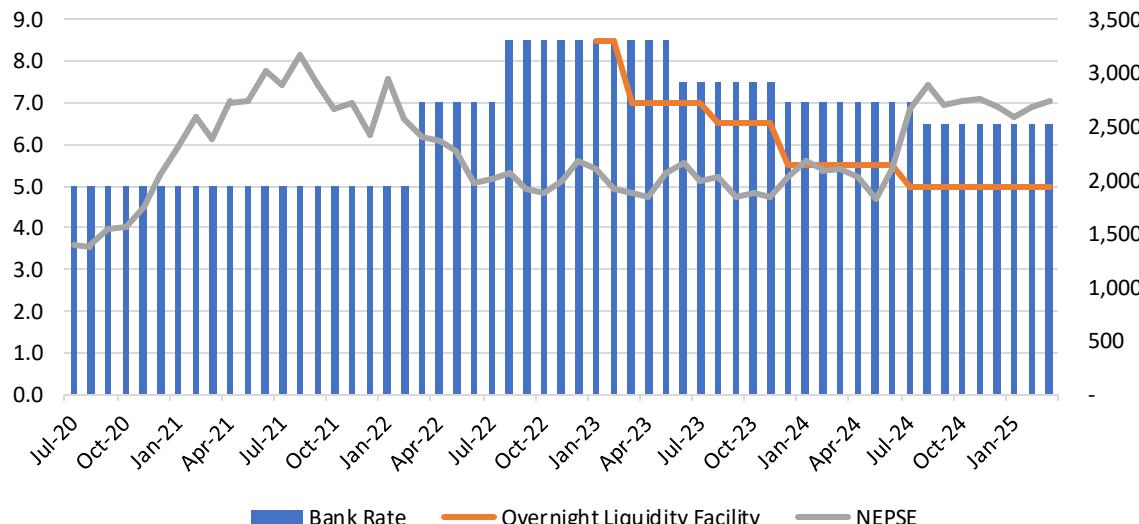
### Exchange rates channel of monetary transmission: Not Effective



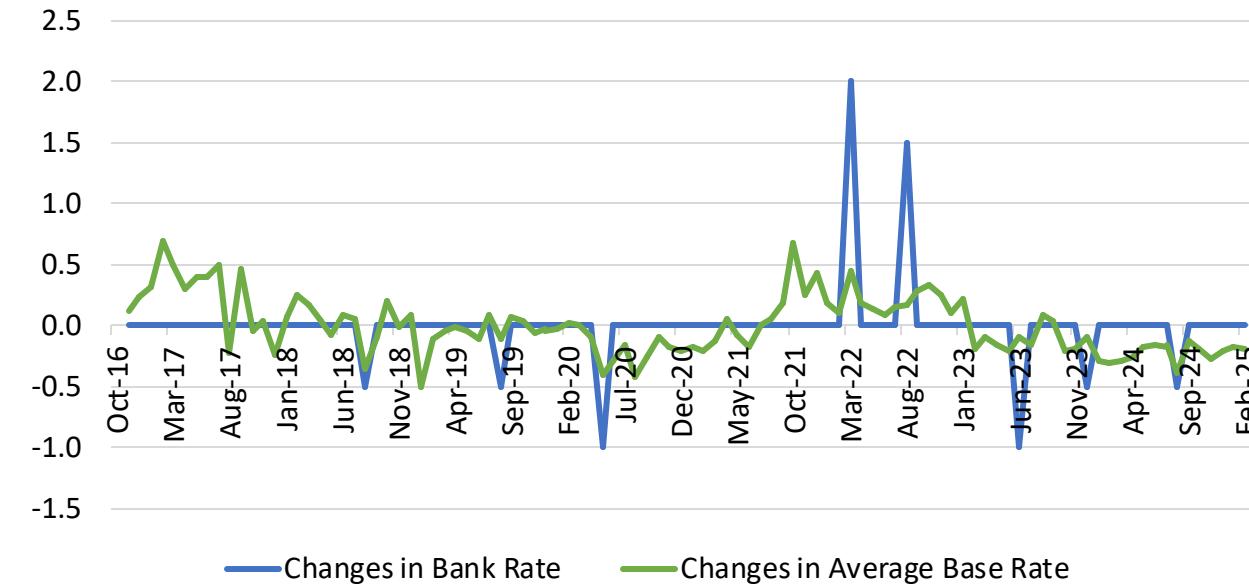
### Assets price channel of monetary transmission: Not Effective



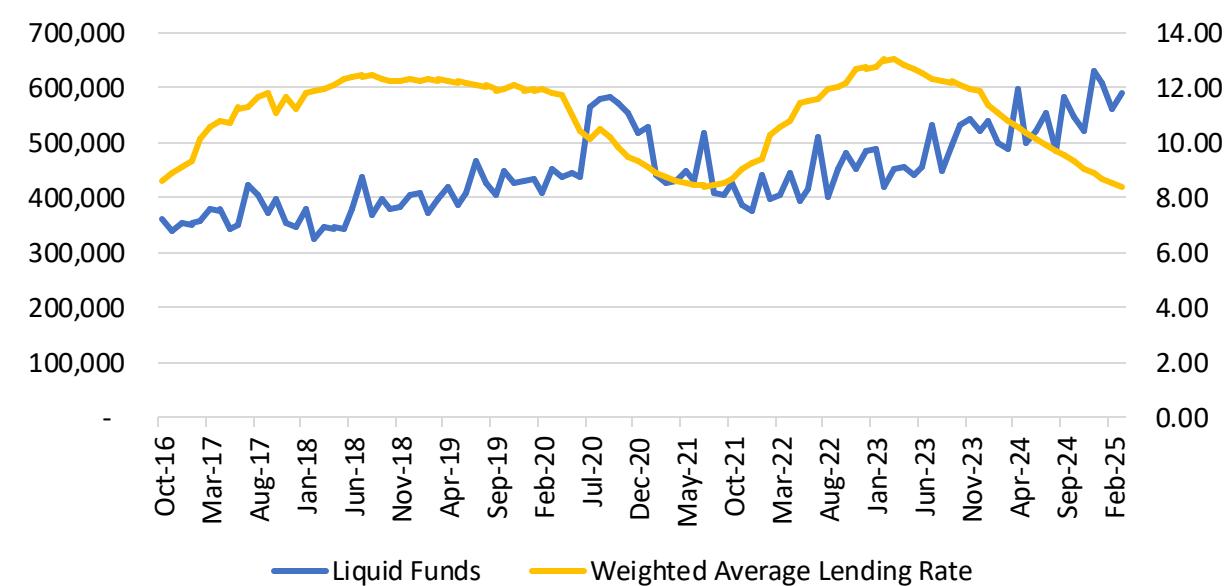
### Assets price channel of monetary transmission: Not Effective



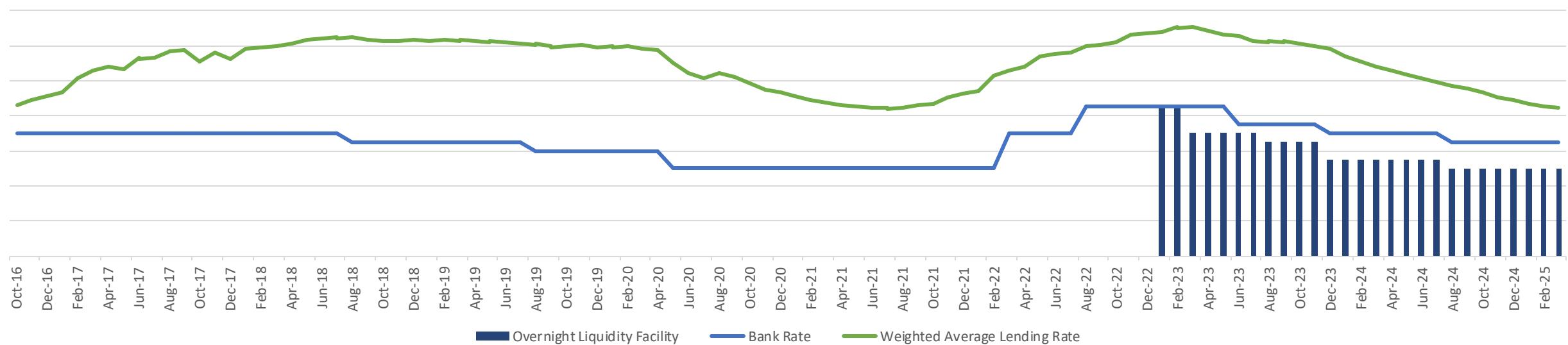
### Lending rates channel monetary transmission: **Not effective**



### Liquidity Fund and Interest rate



### Lending rates channel monetary transmission: **Not Effective**



## 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 3.75% by March 2025.

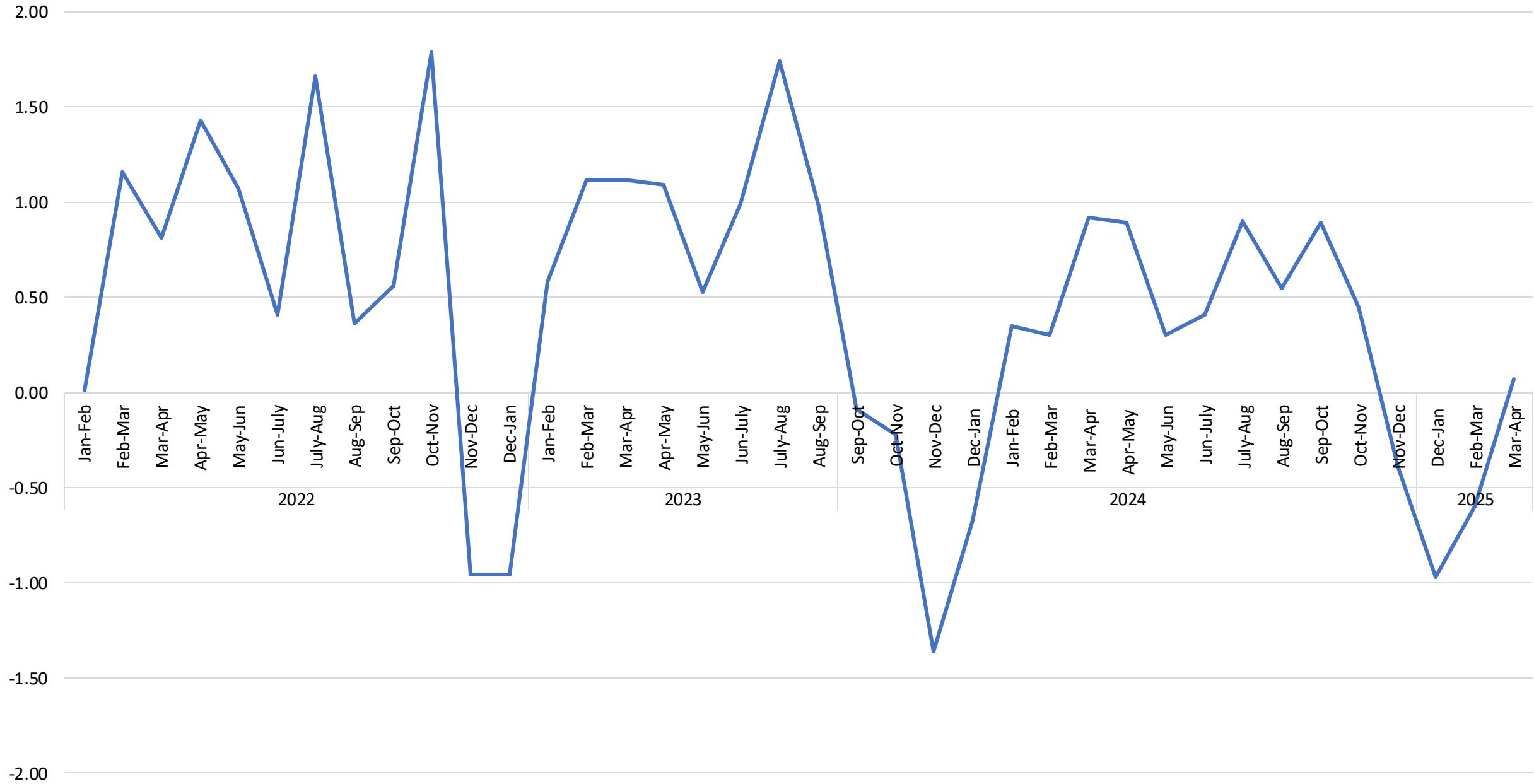
### Policy Mistakes:

- **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 March 2025, the CPI declined to 3.75% from 6.05% in December 2024, primarily due to improved supply chain conditions and lower consumer demand.

### Recommendations:

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

### Consumer Price Inflation (Compared to previous month) (%)



**The Kathmandu vegetable market has experienced significant price fluctuations over the past month, with vegetables witnessing increase in prices by 10.54%.**

The comparison of agricultural produce prices between Chaitra 08, 2081 and Baisakh 09, 2082 reveals notable market fluctuations that highlight seasonal trends, import dependencies, logistical challenges, and potential policy implications. Several vegetables and herbs experienced sharp price increases, particularly coriander (+203.04%), chamsur greens (+150%), green garlic (+72.73%), and bakula (+62.63%). These items are sensitive to seasonal availability and often face supply shortages in early summer (Baisakh), indicating a need for improved storage facilities and off-season farming practices. Similarly, significant price hikes were observed in tomatoes, hybrid and local varieties of string beans (ghiu simi), cucumber, and peas, with increases ranging from 77% to 91%. These fluctuations likely reflect seasonal transitions, combined with possible delays in imports and transportation inefficiencies.

On the other hand, several commodities experienced substantial price drops, including bitter gourd (-77.78%), parwar (-55.17%), eggplant (-44.44%), and green bullet chili (-47.62%). These decreases may indicate oversupply or a decline in demand following peak harvest periods. The inconsistency in the price movement of imported produce, such as Indian onions (down by 22%) and tomatoes (up by 22.22%), points to underlying factors such as exchange rate volatility, cross-border transport disruptions, and regional climate influences in source countries like India.

These dynamics underscore the importance of strengthening Nepal's perishable goods supply chain. Seasonality continues to play a major role in price volatility, especially for leafy greens and other short-cycle crops. Logistic constraints, particularly in rural and hilly areas, amplify market instability by affecting timely delivery and increasing post-harvest losses. The National Bank of Nepal (NRB) and Government of Nepal (GoN) should therefore prioritize targeted policy interventions.

First, establishing seasonal price buffer mechanisms and real-time price alert systems would allow early response to inflationary trends in essential vegetables. Second, temporary import policy adjustments—such as easing tariffs during lean periods—can stabilize prices without long-term trade disruption. Third, investment in cold storage infrastructure and rural transportation would significantly reduce spoilage and ensure market supply continuity. Additionally, promoting protected agriculture such as polyhouse or tunnel farming, and supporting farmer cooperatives with direct access to urban markets, would help balance supply throughout the year. Lastly, integrating perishable commodity prices into the core inflation monitoring system could improve NRB's responsiveness to food-driven inflationary pressures.

Overall, a coordinated approach involving agricultural policy, trade regulation, infrastructure development, and monetary monitoring is essential to stabilize Nepal's perishable produce market and ensure affordable food prices for consumers.

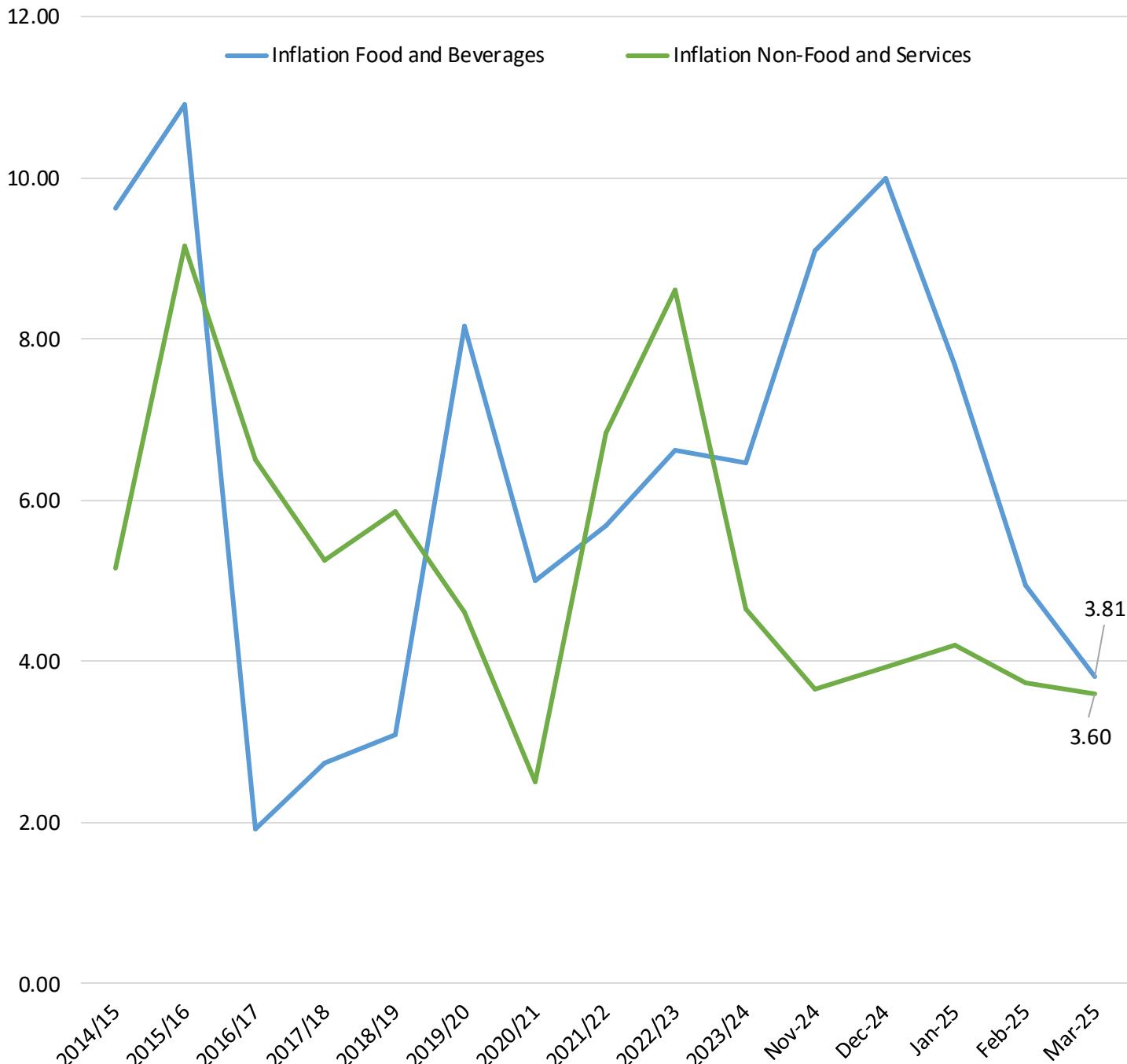
Overall inflation fluctuated significantly, peaking at 9.92% in FY 2015/16 due to the 2015 earthquake and trade blockades, while reaching its lowest at 3.60% in FY 2020/21, reflecting subdued economic activity during the COVID-19 pandemic.

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 March 2025, non-food inflation eased to 3.81%, while food inflation eased to 3.60%.

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.



## 2. Exports and Imports

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

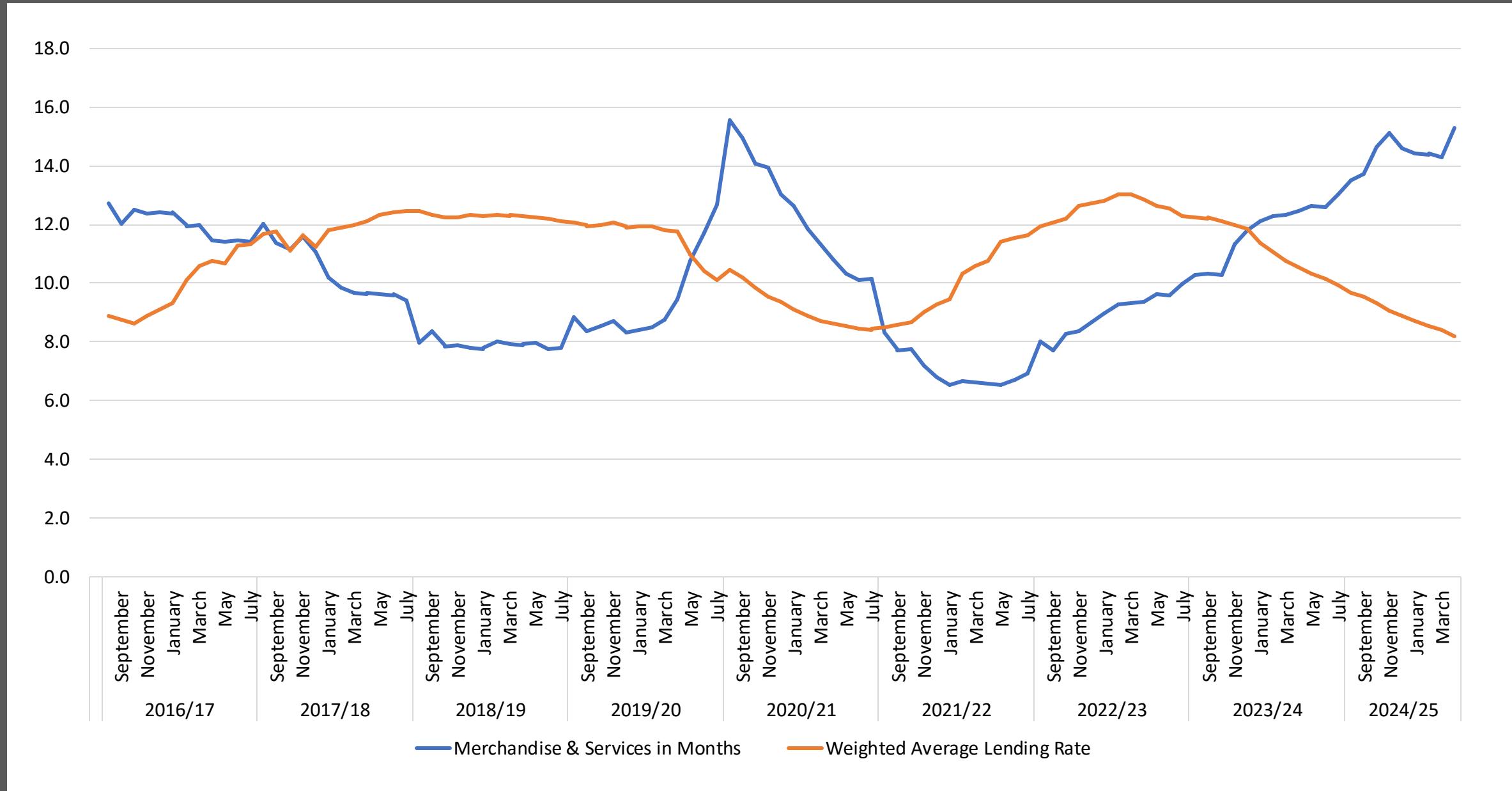
- Exports rose steadily from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December-January 2024, before climbing further to NPR 24.7 billion by mid-January 2025. In contrast, imports saw a significant surge, increasing from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021.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

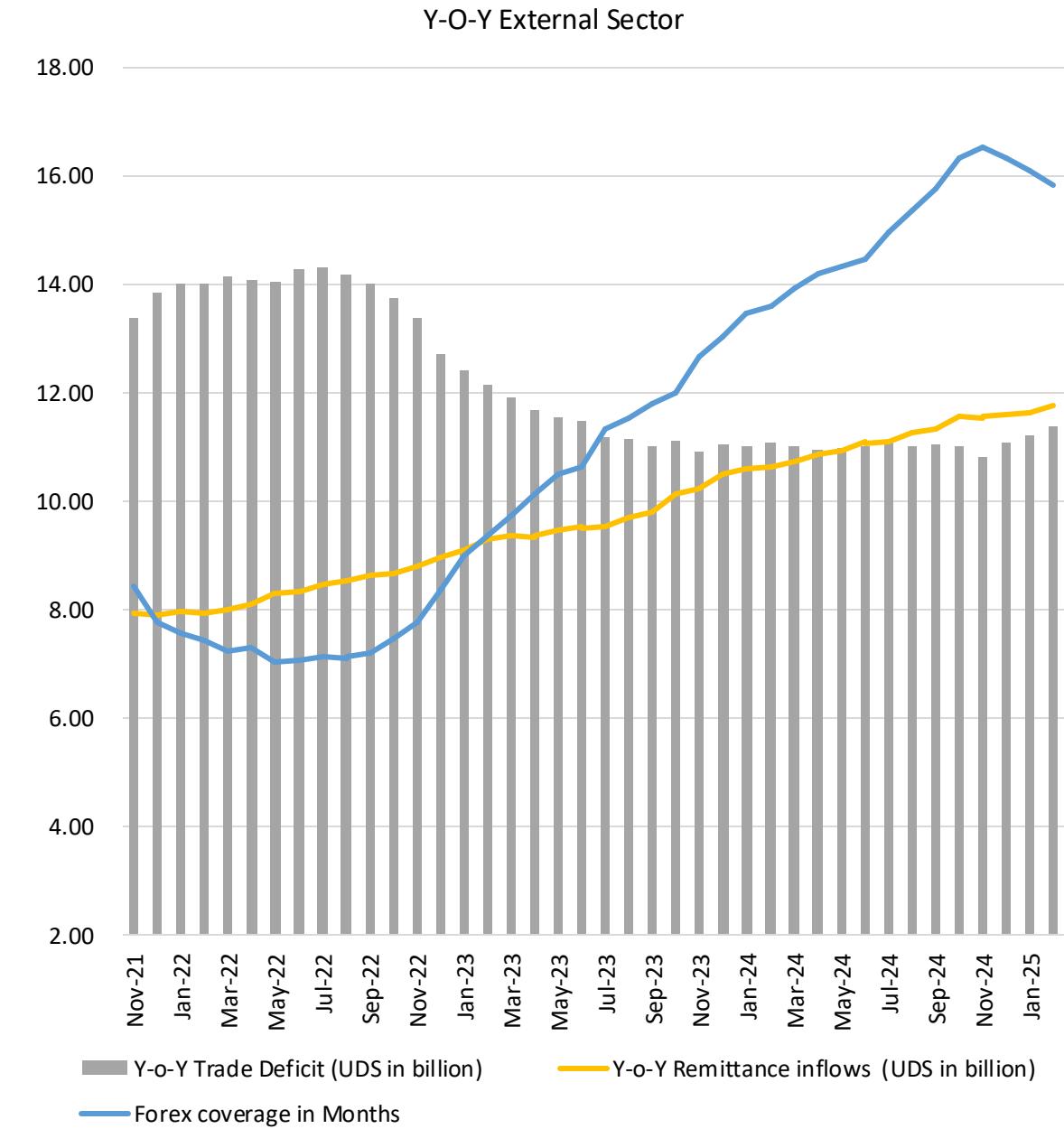
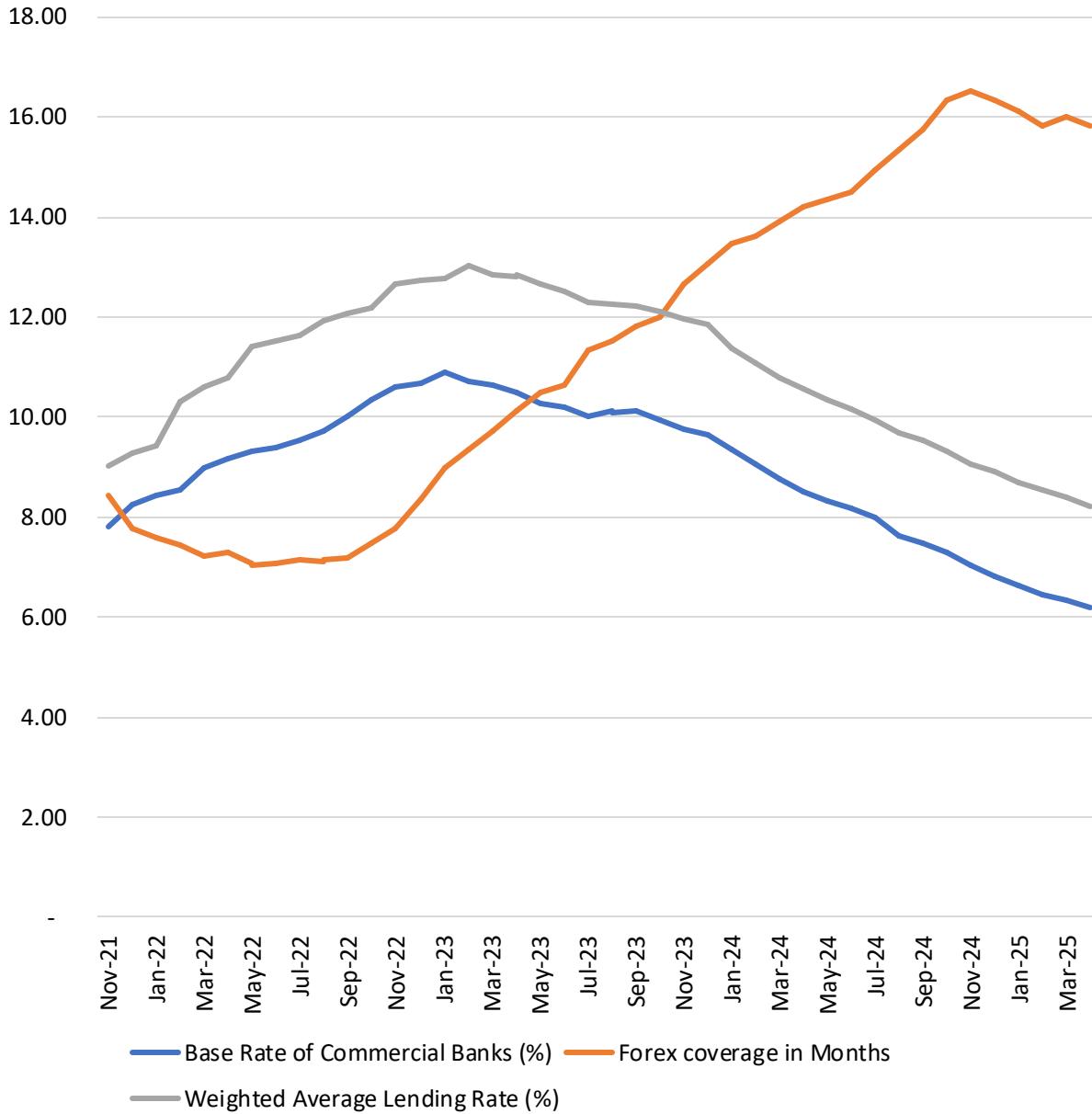
- Overreliance on import restrictions proved to be a short-term solution, causing supply chain disruptions without providing a sustainable resolution to the trade deficit. The ongoing currency depreciation and rising costs are expected to continue exerting pressure on the balance of payments (BOP).

### 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.



# 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 159 billion in April 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.*

300.00

250.00

200.00

150.00

100.00

50.00

0.00

2020

2021

2022

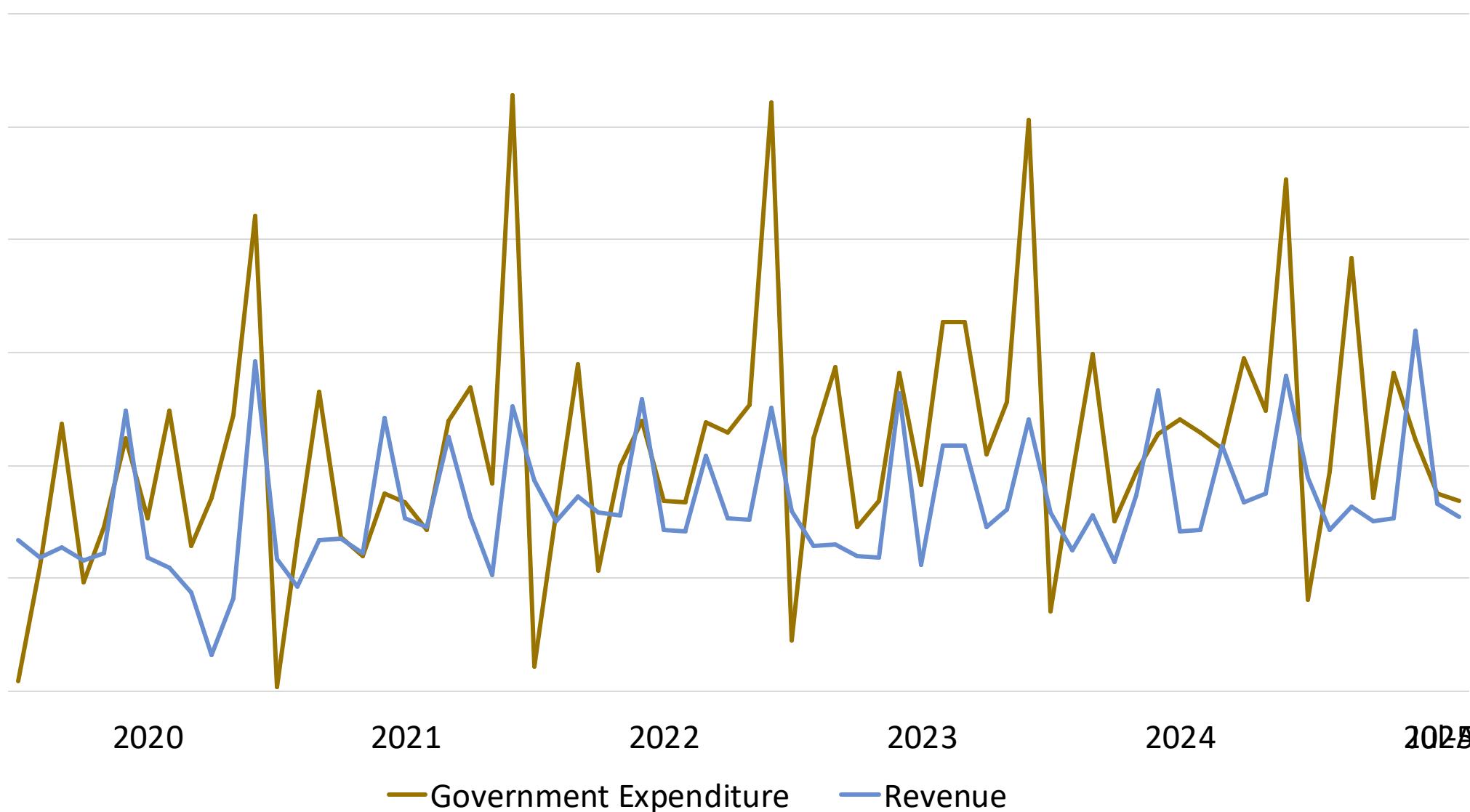
2023

2024

2025 Aug

— Government Expenditure

— Revenue



## 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.*

As of mid-March 2025, Nepal's gross loan portfolio totals NPR 5,743.99 billion, with 92.53% classified as good loans (NPR 5,314 billion) and 7.47% as problem loans (NPR 474.66 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 280.22 billion (4.88% of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 149.10 billion (2.60%) in provisions would be required, raising the total provisioning requirement to 8.30%. **The banking system is supported by NPR 567.16 billion in paid-up capital and statutory reserves, equivalent to 9.87% of gross loans. With additional reserves, total capital reaches NPR 764.85 billion, or 13.32% of the loan portfolio. In a stressed scenario where all problem loans turn bad, net capital would drop to NPR 418.06 billion (7.28% 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 515.75 billion (10.72%), 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 Rs Billion	Mid-Mar	%age
Gross Loan	5,743.99	100.00%
Good loan	5,314.66	92.53%
Problem Loan	429.33	7.47%
Provision made	280.22	4.88%
Additional provision required if all become Bad	149.10	2.60%
Paid up Capital and Statutory Reserves	567.16	9.87%
Total capital	764.85	13.32%
Net capital If all problem loan become bad	418.06	7.28%
Total capital If all problem loan become bad	615.75	10.72%

	Mid-July			Mid-Mar
Provision for Risk Amt in billion	2022	2023	2024	2025
Opening		110.30	168.12	230.01
Addition		85.63	105.41	80.30
Less Write Back		27.56	43.24	29.79
Less Recovery from Written off Loan		0.25	0.29	0.30
Closing	110.30	168.12	230.01	280.22
Gross Loan	5,743.99			
Provision	2.27%	3.33%	4.26%	4.88%

Risk Assets Classification				
Pass Loan	4,630.02		80.61%	
Watch List	684.64	5,314.66	11.92%	92.53%
Special Mention Loan	360.42		6.27%	
Other specified Loan	68.91	429.33	1.20%	7.47%
Gross Loan	5,743.99		100.00%	100.00%

Risk Assets Classification		Rs in billion		
Pass Loan	4,570.44		79.89%	
Watch List	675.76	5,246.20	11.81%	91.70%
Special Mention Loan	405.29		7.08%	
Other specified Loan	69.36	474.65	1.21%	8.30%
Gross Loan	5,720.86		100.00%	100.00%

# **Key Considerations: Can Asset Reconstruction Companies (ARCs) Help Solve Nepal's Debt Problem?**

## **1. Valuation & Market Readiness**

- Should banks accept reasonable valuations for only a fraction of their non-performing assets (NPAs)?
- Banks must mark down asset values to levels acceptable to the market and ARCs.

## **2. Transparency & Governance**

- Establish a clear and transparent methodology to prevent collusion and allegations of wrongdoing.
- Engage private sector participants through an open and competitive bidding process.

## **3. Regulatory Oversight & Financial Stability**

- Nepal Rastra Bank (NRB) should conduct periodic Asset Quality Reviews to assess financial institutions' health.
- NRB must introduce measures to improve price discovery and facilitate efficient credit risk transfer.

## **4. Legal & Structural Reforms**

- Reduce legal barriers and roadblocks that hinder asset resolution and recovery.
- Develop policies to enable ARCs to issue security receipts (SRs) or "hope notes" as part of debt resolution mechanisms.

## **5. Government & Institutional Support**

- Define the extent and form of government financial backing for ARCs.

Agriculture  
7.69%  
Down

Mines  
0.21% Down

Productions  
16.49% Up

Construction  
4.17% Up

Metal Productions  
1.33%  
Down

Transportation  
0.90%  
Down

Communications  
and Energy  
8.09% Up

Wholesaler and  
Retailers  
19.19%  
Down

Finance, Insurance,  
and Real Estates  
7.63%  
Down

Service Industries  
8.52% Up

Consumable Loan  
19.74%. Up

Local Government  
0.02%  
Down

Others 6.01%  
Down

Gold/Silver  
1.27% Up

Government  
Securities  
0.09% Up

Non Government  
Securities  
2.01% Up

Fixed A/c Receipt  
0.62%  
Down

Asset Guarantee  
89.13% Up

Lands and  
Buildings  
65.09% Up

Machinery and  
Tools  
3.41% Up

Furniture and  
Fixture  
0.05% Up

Vehicles  
2.87% Up

Other Fixed Assets  
3.26%  
Down

Current Assets  
14.45% Up

Agricultural  
Products  
1.09%  
Down

Other Non  
Agricultural  
Products  
13.35% Up

On Bills Guarantee  
0.91% Up

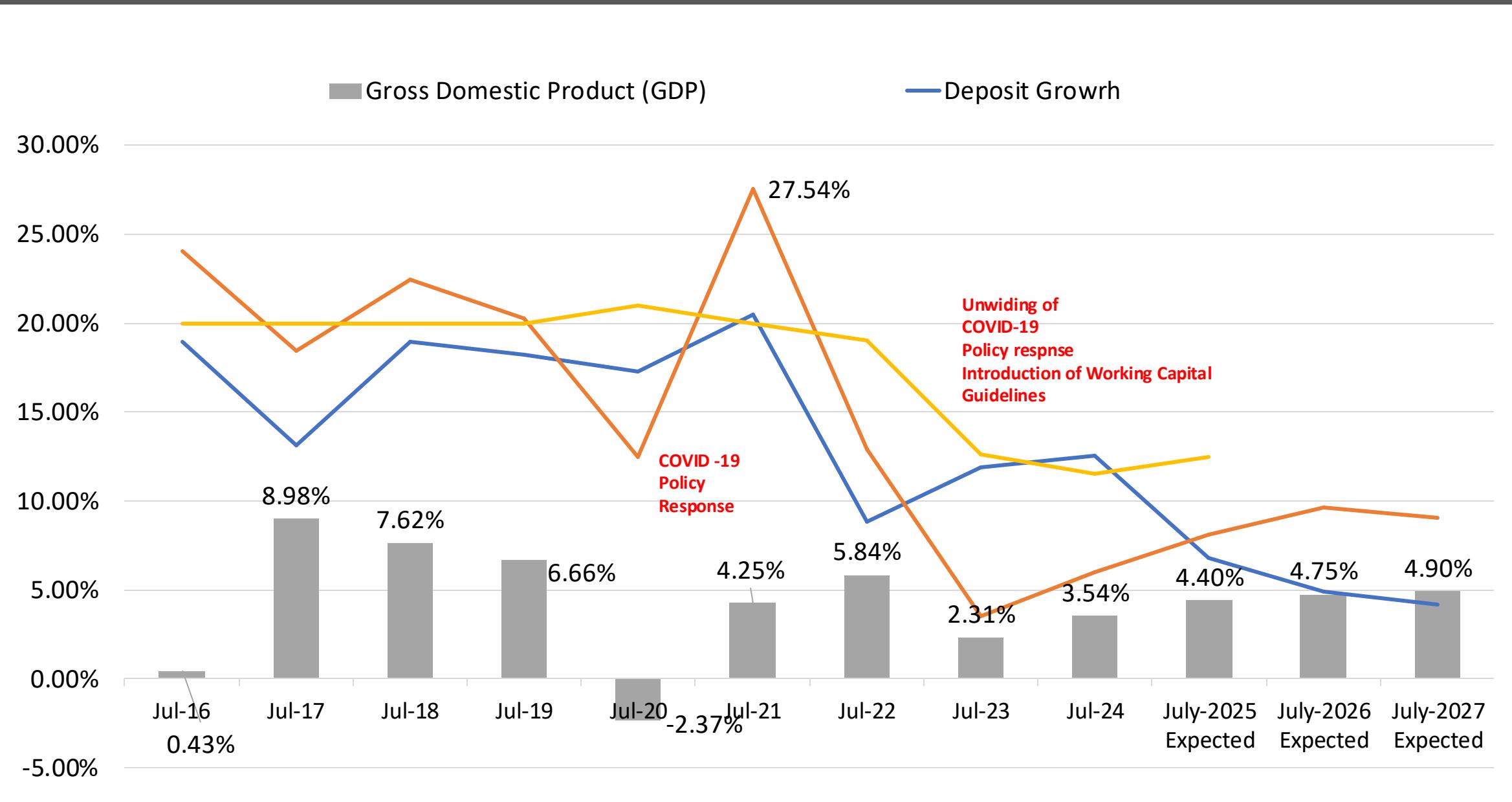
Domestic Bills  
0.02% Up

Foreign Bills  
0.89% Up

Guarantee  
3.34%  
Down

Credit Card  
0.11% Up

Others 2.52% Up



The data from FY 2016 to FY 2027 reveals not just economic trends but deeper structural and policy dynamics in Nepal's financial system. A critical analysis of the period—especially surrounding the COVID-19 pandemic—highlights how policy responses, external shocks, and domestic structural weaknesses have influenced credit growth, deposit mobilization, and broader macroeconomic stability.

During the early COVID-19 period (FY 2020), Nepal experienced a historic contraction in GDP by -2.37%, accompanied by a significant drop in credit growth to 12.46%, down from 20.28% the year before. In response, the government and the Nepal Rastra Bank (NRB) implemented aggressive monetary and fiscal stimuli to support the economy. This included refinancing facilities, interest subsidies, loan moratoriums, and relaxed regulatory measures. These interventions, while critical in the short term, had profound side effects. By FY 2021, credit growth surged to 27.54%, far exceeding the NRB's target of 20%, as banks deployed liquidity into the economy at unprecedented rates. However, the economic rebound in GDP was only moderate (4.25%), revealing a possible mismatch between credit expansion and real economic activity. Much of the credit appears to have flowed into non-productive sectors such as real estate and margin lending, inflating asset prices rather than generating broad-based economic growth.

As the COVID stimulus unwound post-FY 2021, the NRB began tightening monetary policy to rein in inflationary pressure and financial risks. This policy reversal coincided with a sharp deceleration in both credit and deposit growth. Credit growth dropped to 12.91% in FY 2022 and collapsed further to just 3.48% in FY 2023, despite a moderate GDP expansion. Deposit growth, the foundation of financial intermediation, also declined significantly, from 20.5% in FY 2021 to just 8.84% in FY 2022. This suggests not just liquidity tightening but a deeper erosion in public trust and saving capacity—partly driven by inflation, falling remittances in real terms, and economic uncertainty.

One of the key structural failures contributing to this decline is the crisis in Nepal's **savings and credit cooperatives** (SACCOS). Traditionally a significant source of local credit and deposit mobilization, these cooperatives have suffered from poor regulation, governance failures, and mismanagement of funds. The collapse or insolvency of several cooperatives in recent years has severely undermined confidence in the informal financial system, pushing more pressure onto the formal banking sector. This has likely contributed to the reluctance of both savers and borrowers, further weakening financial intermediation.

Compounding these economic issues is ongoing **political instability**. Frequent changes in government, inconsistent policy direction, and delays in budget implementation have all hampered the effectiveness of economic reforms. The absence of a credible long-term economic vision and weak institutional execution capacity have further aggravated investor uncertainty and discouraged long-term credit demand and investment. As a result, even as NRB has tried to stabilize the economy through calibrated credit growth targets (down to 11.5% by FY 2024 and projected 12.5% in FY 2025), actual credit growth remains tepid.

The expected figures for FY 2025–FY 2027 indicate a gradual recovery in credit growth, but still below historical norms. Interestingly, the projected credit growth (around 9%) remains consistently higher than deposit growth (falling to 4.19% by FY 2027), suggesting a potential structural liquidity mismatch or continued reliance on alternative funding sources such as external borrowing or NRB refinancing. This imbalance, if not managed carefully, may create systemic risks or constrain credit availability in the future.

In summary, the post-COVID period in Nepal is marked by the challenge of transitioning from stimulus-driven liquidity to a more disciplined, growth-oriented credit environment. While NRB has responded with tighter policy frameworks, the overall effectiveness is limited by broader structural issues, including political volatility, institutional mistrust following the cooperative crisis, and a fragile depositor base. For sustained recovery, Nepal will need not only macroprudential discipline but also deep structural reforms in financial governance, cooperative regulation, and political accountability to rebuild confidence in both the banking system and the broader economy.

## 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 8.40% March 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.*

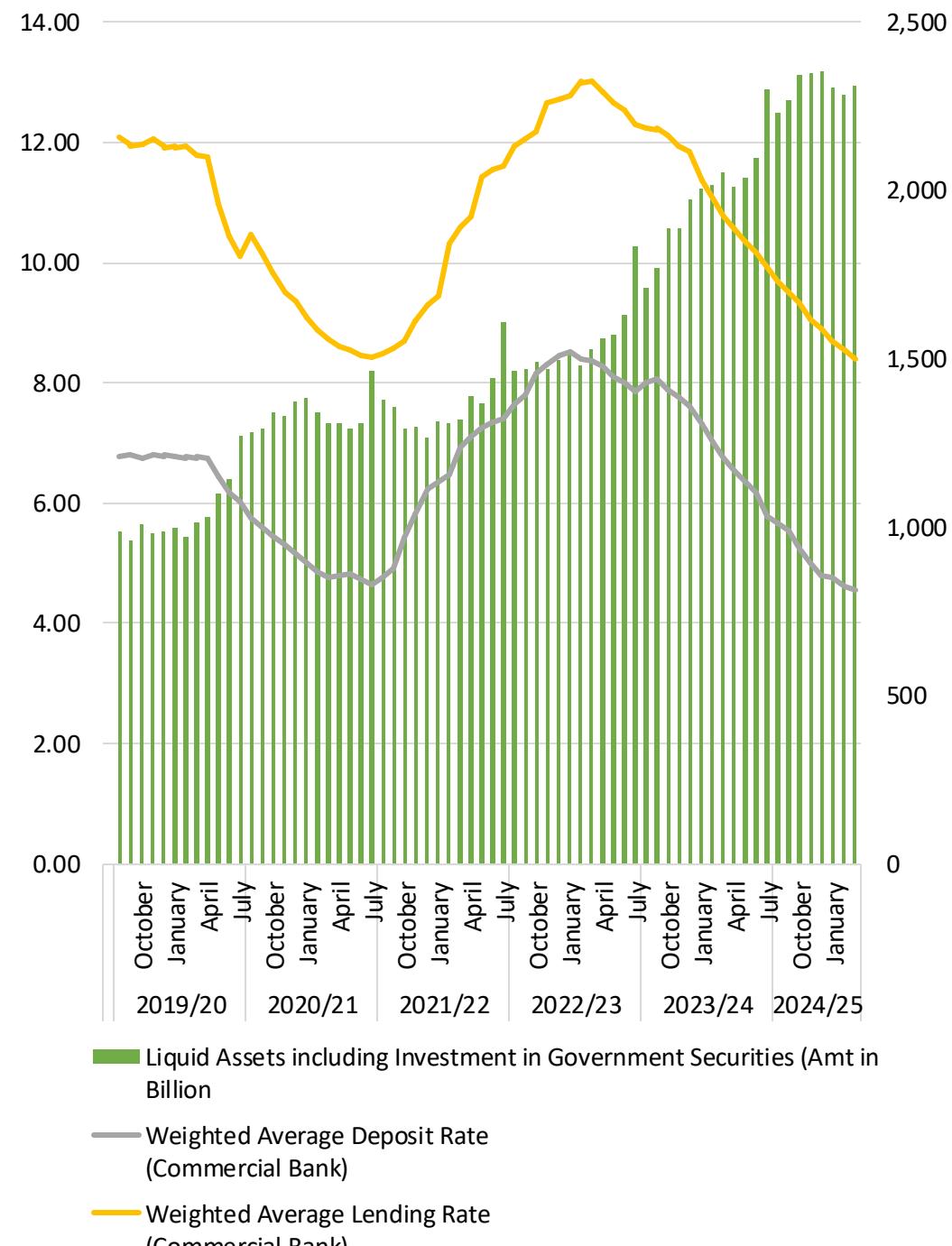
## Recommendations:

- *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 2,310 billion by March 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	<i>Reduce policy rates to stimulate investment and demand.</i>	<i>Increased credit flow to private sectors and MSMEs.</i>
Prompt Corrective Action	<i>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, BFI<sub>s</sub> should refrain from approving new loans. Crossing the 9% threshold triggers the second tier, where BFI<sub>s</sub> 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.</i>	<i>Improve financial sector stability</i>
	<i>Income Tax Act, the permissible provisions charged to the Profit and Loss statement (P&amp;L) should be increased from 5% to 9%.</i>	<i>Increase transparency by allowing Loan loss provisions as taxable expense in excess of 5%</i>
NPA management	<i>Introduce regulatory reforms and update the LLP directive to align with the current economic landscape and growth objectives.</i>	<i>Improve financial sector stability</i>
Fiscal Policy	<i>Expedite post-flood infrastructure rebuilding</i>	<i>Employment creation and restored infrastructure functionality.</i>
Digital Transformation	<i>Modernize FDI and business registration systems to attract investors.</i>	<i>Simplified business processes and higher foreign investment inflows.</i>
Private Sector Support	<i>Offer tax breaks for MSMEs and revive export industries with targeted subsidies.</i>	<i>Improved private sector confidence and export competitiveness.</i>
Climate Resilience	<i>Allocate funds to immediate disaster management projects.</i>	<i>Minimized economic damage from extreme weather events.</i>

**Policy Action Chart**  
**Immediate-Term Actions (0–12 Months)**

- a) **Regulatory Overhaul:** Conduct a comprehensive review of existing economic policies and eliminate outdated and redundant regulations.
- b) **Ease of Doing Business:** Establish a **one-window clearance system** to simplify business registration, licensing, and compliance.
- c) **Public-Private Partnerships (PPP):** Foster PPP models to develop key economic sectors such as infrastructure, energy, and manufacturing.
- d) **Anti-Corruption & Transparency Measures:** Strengthen institutions like the National Vigilance Centre and implement digital governance to reduce corruption.
- e) **Decentralization & Local Empowerment:** Empower provincial and local governments with financial and policy-making autonomy for faster economic decision-making.
- f) Ensure sector-specific incentives are integrated into financial laws for effective implementation.
- g) Amend the **Finance Bill** to align with the **Industrial Enterprises Act** to guarantee industry-related benefits.
- h) Implement **Second Generation Economic Reforms** by amending at unfair laws, **including black-market regulations**.
- i) Revise the **SAFTA Sensitive List** to promote exports.
- j) Establish a **stable industrial policy** for at least **10 years** to encourage long-term investments.
- k) Introduce **Anticipatory Bail provisions** and reform laws that intimidate industrialists, ensuring **fair hearings**.
- l) Modify the **Public Procurement Act** to award contracts based on **quality, past performance, and maintenance commitments**, rather than just the lowest bid.
- m) Promote **venture capital and private equity investments** in startups and distressed industries by amending **Section 57 of the Income Tax Act**.
- n) Revise the **contract manufacturing system** to align with the **Industrial Enterprises Act, 2016**.
- o) Allow private sector participation in **electricity transmission, distribution, and trade** through necessary legislative changes.
- p) Allow the **private sector to develop and operate industrial zones**, with the government providing **essential infrastructure (roads, electricity, water, and drainage)**.
- q) Prioritize **cement-concrete roads** for new constructions due to **lower lifecycle costs**.
- r) Amend laws to allow industries to use **excess land as collateral** and sell it when needed.
- s) Develop a **long-term plan for domestic fertilizer production**, improving the **existing DPR** and inviting private sector participation.
- t) Permit **private-sector fertilizer imports** to ensure **competitive pricing**.
- u) Implement **mandatory quality and SPS (Sanitary and Phytosanitary) testing** on all imported agricultural products.
- v) Identify and promote industries where Nepal is or can be **self-sufficient**, including **cement, paint, footwear, pharmaceuticals, textiles, garments, biscuits, noodles, poultry, woolen carpets, pashmina, carbon dioxide, oxygen gas, spirits, iron, and agro-processing**.
- w) Amend Section 113: Government will promptly pay tax refunds as soon as appropriate officials have confirmed that the taxpayer is entitled to a refund.
- x) Amend section 132: Tax auditors will be incentivized assessing and collecting the correct amount of tax under **Income Tax Act**.

## Policy Action Chart

### Immediate-Term Actions (0–12 Months)

**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.

**Enforce higher customs duties on finished goods than on raw materials**, with at least a **two-tiered system**.

**Eliminate the Customs Valuation Tariff Schedule** and integrate Nepal's **customs department with India's GST portal** for better transparency.

Accept importers' **declared values**, with a **government purchase option at 5% premium** if value is suspected. Distribute these goods via **state-run enterprises and cooperatives**.

Strengthen **customs valuation** to curb smuggling, particularly in sectors like **footwear**.

**Encourage domestic production** by discouraging imports of products that can be made locally (e.g., energy drinks, snacks, electrical cables, animal feed, tiles, pharmaceuticals, agricultural tools).

Expand **cash incentives for all exports** that bring in foreign exchange, based on value addition, volume growth, and forex inflows.

Identify **non-subsidized export goods** if full-scale subsidies are not feasible.

Simplify **foreign currency payment processes** for IT-related hardware and software imports.

Maintain a **1% income tax rate on IT service exports** for at least **10 years** to boost digital trade.

*To enhance financial transparency and prevent illicit activities, Nepal should centralize the AML reporting system under a single regulatory authority. This will streamline reporting, reduce redundancy, and ensure consistent enforcement of AML regulations across financial institutions and businesses.:*

- **Strict Implementation of AML Regulations:**

- *Strengthen oversight to prevent financial crimes while maintaining a balanced approach that does not overburden legitimate businesses.*

- **Encouraging Voluntary Reporting of Suspicious Transactions:**

- *Businesses should be incentivized to report suspicious activities proactively. A safe harbor provision can be introduced to protect businesses that voluntarily disclose transactions in good faith.*

- **Reducing Compliance Costs:**

- *Current AML compliance requirements create a heavy financial and administrative burden on businesses. Simplifying reporting procedures, digitalizing compliance processes, and providing clear guidelines will reduce costs and ensure smoother operations.*

- **Enhanced Coordination Among Agencies:**

- *Establish a centralized digital platform for AML reporting, allowing banks, financial institutions, and businesses to submit reports efficiently without duplication.*

- **Capacity Building and Awareness Programs:**

- *Train businesses and financial institutions on AML best practices, ensuring they understand regulatory expectations and compliance requirements.*



*By adopting these measures, Nepal can strengthen its AML framework while maintaining a business-friendly environment, ensuring that financial integrity and economic growth go hand in hand.*

## Medium-Term Actions (1–3 Years)

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

## Long-Term Actions (3–5 Years)

Policy Area	Action	Expected Outcome
Structural Reforms	<i>Update GDP base year from 2010/11 to 2020/21 for accurate economic planning.</i>	<i>Improved policy formulation and realistic economic targets.</i>
Export Diversification	<i>Focus on high-value agricultural exports and IT services.</i>	<i>Increased global competitiveness and export earnings.</i>
GDP Base Review	<i>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</i>	<i>Updated base year will redline key economic performance.</i>
Governance	<i>Strengthen institutional frameworks and reduce corruption.</i>	<i>Increased efficiency in public spending and governance credibility.</i>

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 envisaged by Section 42 of FITTA to Non-Resident Nepalis (NRN)	High	Attainable	Effective; Attract FDI from 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 from 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 from 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 from Diaspora with Confidence	Process Initiated

Reform Area	Recommendation	Priority	Workability	Outcome	Actions
FITTA	<b>Subsection 1 of Section 3 has been amended</b> 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
	<b>Subsection 2 of Section 7A has been amended</b> 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 from Diaspora with Confidence	Process Initiated
	<b>Sub-section 6(3) of Section 2 has been amended</b> 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 from Diaspora with Confidence	Process Initiated
	<b>Section 9A added:</b> 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 from Diaspora with Confidence	Process Initiated

Reform Area	Recommendation	Priority	Workability	Outcome	Actions
<b>Security Registration and Issuance Regulations, 2073</b>	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 from 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
<b>Foreign Lenders</b>	Allow fixed interest rate tenure negotiation for long-term investments (e.g., green bonds).	High	Attainable	Effective; Private Confidence	Boost Sector
	Clarify rules for local currency bond subscriptions by foreign investors.	High	Attainable	Effective; Private Confidence	Boost Sector
	Introduce innovative financing options such as mezzanine financing and convertible debt.	High	Attainable	Effective; Private Confidence	Boost Sector

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	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.	High	Attainable	Effective; Boost Private Sector Confidence	Process Initiated
Section 136(A)	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 from Diaspora with Confidence	Process Initiated

Reform Area	Recommendation	Priority	Workability	Outcome	Actions
Arbitration Act	Equalize withholding tax rates for DFIs and Multilaterals; reduce withholding tax on interest payments.	High	Attainable	Effective; Boost Private Sector Confidence	Process Initiated
	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

*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.*

## **Establishing a Regulatory Framework for Sweat Equity in Foreign Company**

### **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.*

### **Decision 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:*

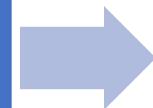
***Sweat Equity Acceptance:*** Accept up to 40% of professional fees as sweat equity in exchange for services provided to foreign corporate entities or individuals, through technology transfer agreements or professional service agreements.

***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**

The Government of Nepal has introduced amendments to the Human Trafficking and Transportation (Control) Act, 2064. Some key changes.



Here are the major amendments in the bill to amend the **Human Trafficking and Transportation (Control) Act, 2064**:

- 1. Expansion of Jurisdiction:** The amendment ensures that offenses committed by Nepali citizens outside Nepal or against Nepali citizens abroad fall under the act's jurisdiction.
- 2. Clear Definitions:** New definitions for terms like "exploitation," "provincial committee," and "district committee" are introduced to align with international standards.
- 3. Inclusion of Internal Trafficking:** The amendment includes **internal human trafficking** within Nepal under the legal framework, treating the movement of people for exploitation within Nepal as trafficking.
- 4. Protection of Victims' Identity:** The act strengthens **confidentiality measures**, preventing the disclosure of victims' identities.
- 5. Increased Punishment & Fines:**
  1. Harsher penalties, including increased **prison terms and fines** for traffickers.
  2. Higher fines and jail terms for those found guilty of child trafficking.
  3. Expanded punishment for those involved in **abetting, conspiring, or attempting** trafficking.
- 6. Asset Seizure & Passport Confiscation:** The law allows for **the freezing of assets and passports** of traffickers who are fugitives.
- 7. Legal Support for Victims:** Victims now have **the right to a translator** if they do not understand the court language.
- 8. Mandatory Rescue and Rehabilitation:** The law mandates government authorities to **rescue victims** and ensure their **rehabilitation and reintegration**.
- 9. Decentralization:** The law establishes **provincial, district, and local-level committees** to handle human trafficking cases more effectively.
- 10. International Coordination:** The amendments align Nepal's laws with **international anti-human trafficking protocols**, ensuring cross-border cooperation.

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.

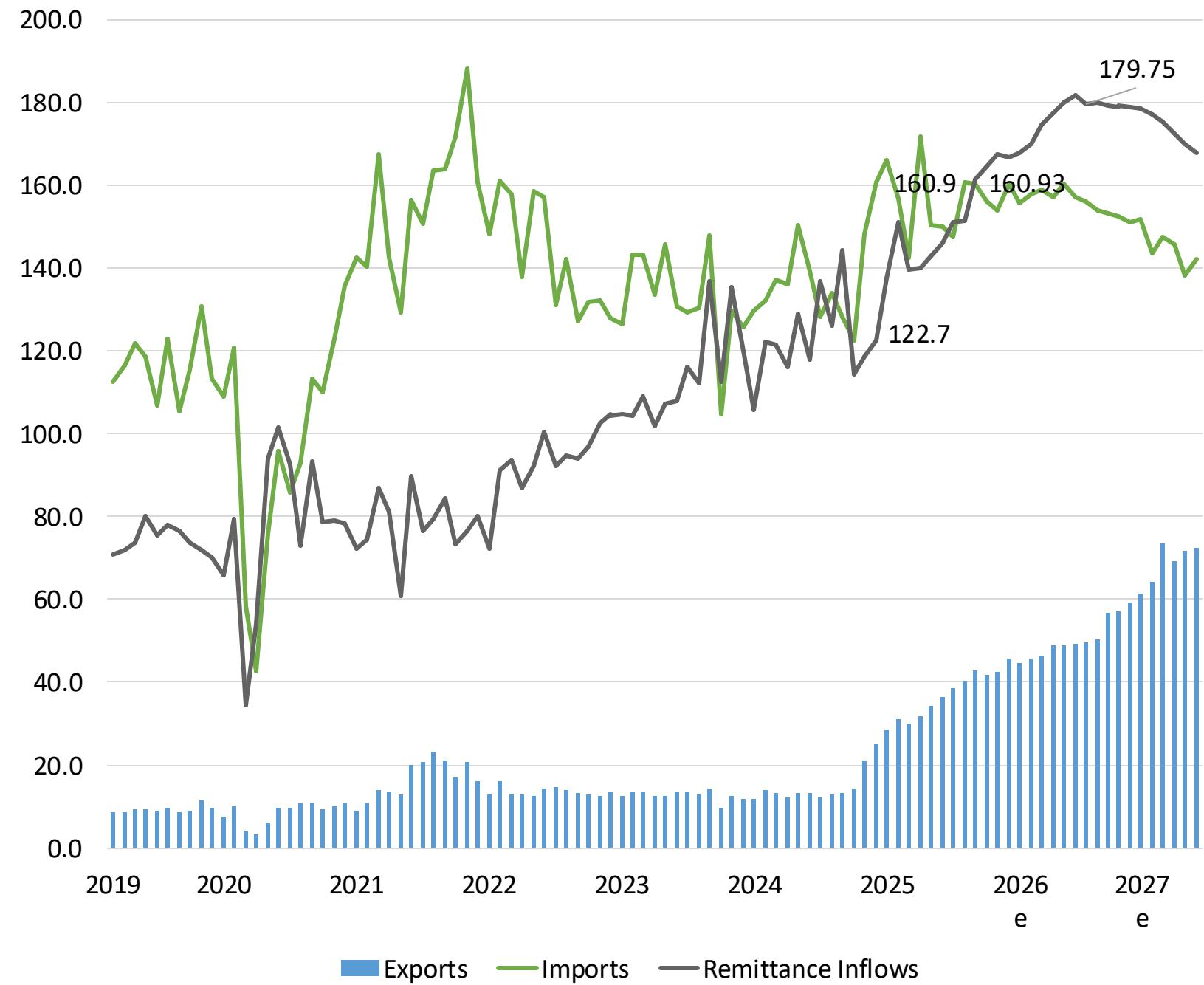
**Nepal's foreign trade** balance from F.Y. 2022/23 to F.Y. 2024/25 (Mid-April) shows a persistent trade deficit, but with some encouraging signs of improvement. The trade deficit as a percentage of GDP has been gradually declining, from 20.56% in 2022/23 to 18.36% in 2024/25, indicating a slight improvement in Nepal's external trade position. Imports, which dominate the country's trade, decreased in 2023/24 (-2.81%) but rebounded in 2024/25 (+12.14%), maintaining a high share of over 87% of total trade. Exports, on the other hand, fell by 3.30% in 2023/24 but saw a significant 64.77% growth in 2024/25, increasing their share of total trade to 12.59%. Despite this improvement, Nepal's Export-to-Import Ratio remains at 1:10, meaning the country still imports 10 times more than it exports, reflecting a continued trade imbalance.

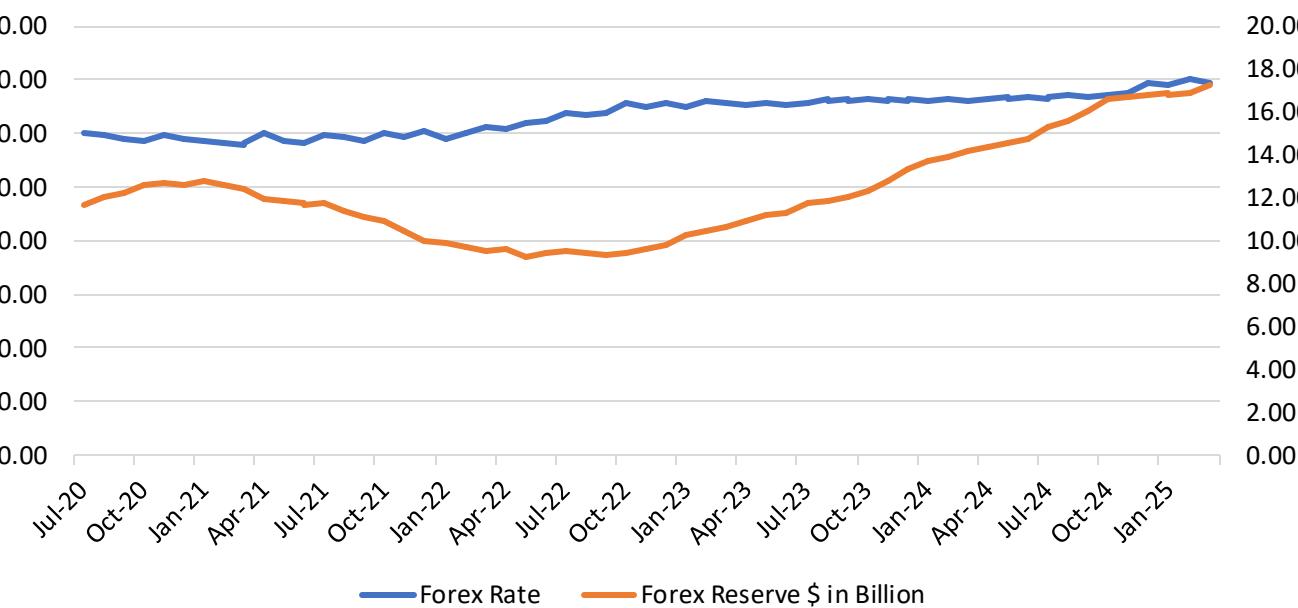
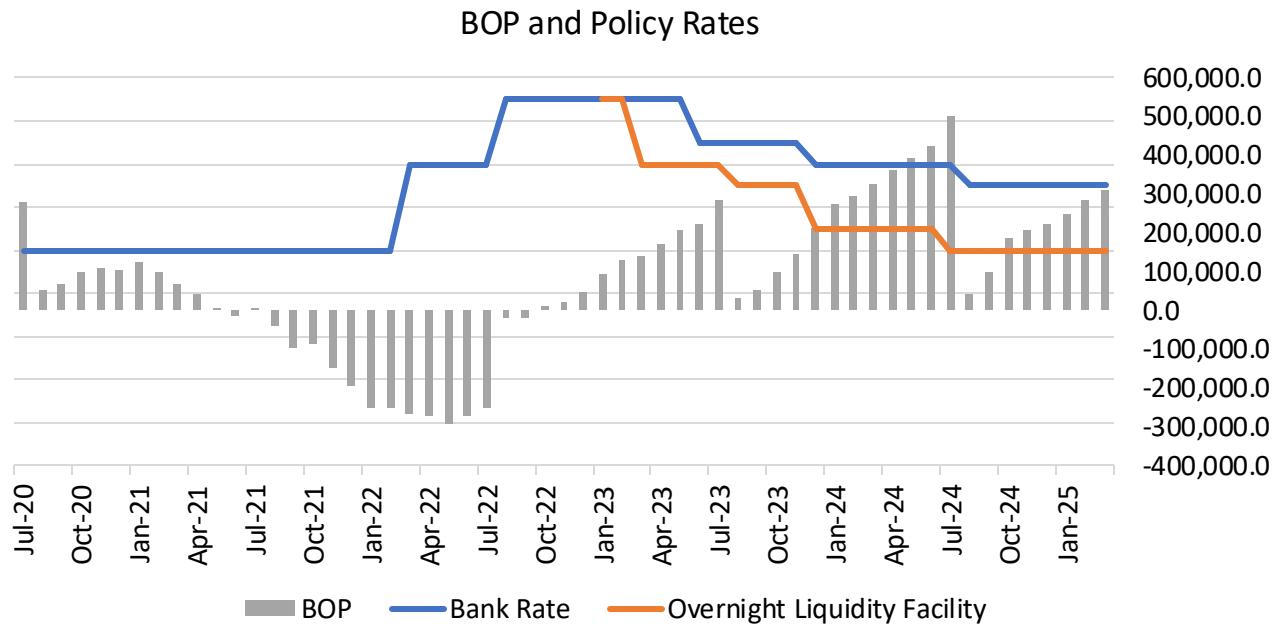
**Government revenue** (Mid-April) from trade has shown a positive trend, increasing by 11.32% in 2023/24 and 11.44% in 2024/25, due to moderate tax collection and increasing import duties. Total trade declined by 2.76% in 2023/24, but rebounded strongly with a 16.84% increase in 2024/25, showing improved trade activity. While the rise in exports and the reduction in the trade deficit as a percentage of GDP are positive developments, Nepal remains highly import-dependent, posing long-term economic challenges. To address this, Nepal needs to strengthen domestic production, diversify exports, and enhance trade infrastructure to reduce its reliance on imports and achieve a more balanced trade structure.

**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 310.37 billion** by March 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 136.50** by April 2025. Remittances and export proceeds are crucial components of Nepal's foreign exchange earnings, fluctuated during this period, impacting both the BoP and forex reserves. Overall, these trends indicate a period of monetary tightening, liquidity management, and gradual improvement in Nepal's foreign currency balance amid fluctuating economic conditions.

# Monthly indicators (NPR in billion)

Particulars Amount in NPR Billion	2024											2025		Mar-Apr E*
	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar		
Consumer Price Inflation (y-o-y) (%)	4.61	4.40	4.17	3.57	4.10	3.85	4.82	5.60	6.05	5.41	4.16	3.75		3.91
Exports	13.33	12.23	13.09	13.12	12.23	12.87	13.29	14.29	20.99	25.13	28.42	30.97		30.16
Imports	137.1	136.0	150.3	139.3	128.4	134.2	128.2	122.6	148.1	160.9	166.2	157.0		142.69
Remittance Inflows	121.4	116.0	128.9	117.8	136.9	126.2	144.2	114.3	118.8	122.7	137.5	151.2		139.54
Government Expenditure	107.8	147.5	124.4	226.7	40.2	97.3	191.6	85.8	141.1	111.5	87.3	84.5		159.2
Current Expenditure	61.9	108.5	70.3	128.8	12.4	70.6	146.9	62.7	71.0	88.5	70.6	61.5		138.6
Capital Expenditure	16.2	14.5	23.1	56.8	8.6	6.3	14.5	5.2	6.3	16.1	11.5	13.9		20.6
Revenue	109.0	83.9	87.3	139.7	94.7	71.6	81.9	75.0	76.4	160.0	83.2	77.5		116.8
Deposit Mobilization	-26.8	34.0	71.5	227.8	-43.5	78.5	135.0	-20.2	22.5	66.7	6.3	31.9		84.1
Private Sector Credit	22.7	3.0	21.6	30.1	14.1	59.3	55.3	-0.2	49.8	87.3	17.9	21.4		84.3
Weighted Average Deposit Rate (%)	6.53	6.35	6.17	5.77	5.66	5.53	5.24	5.01	4.78	4.75	4.62	4.54		4.44
Weighted Average Lending Rate (%)	10.55	10.34	10.15	9.93	9.68	9.52	9.33	9.07	8.90	8.69	8.55	8.40		8.21
Base Rate of Commercial Banks (%)	8.51	8.34	8.17	8.00	7.61	7.49	7.29	7.02	6.82	6.65	6.46	6.34		6.20

Nepal's **inflation rate** has shown significant fluctuations over the years. In 2019 and early 2020, inflation remained moderate at around 4.4% to 6.8%. However, it surged beyond 7% in 2022, peaking at 8.64% in September-October 2022 due to rising global commodity prices, supply chain disruptions, and domestic market inefficiencies. In 2023, inflation gradually declined, falling to 5.38% in March-April, reflecting better market stability and price controls. By early 2024 and 2025, inflation continued to stabilize, ranging between 3.5-6%, suggesting improved economic management and easing external pressures.

Nepal's **foreign trade** continues to be characterized by a **large trade deficit**, as **imports significantly outweigh exports**. In 2019 and 2020, exports fluctuated between **NPR 8.6 billion and NPR 11.3 billion**, showing sluggish growth. However, 2021 and 2022 witnessed a surge, with exports peaking at **NPR 25.13 billion in June-July 2022**, supported by strong demand **soya-bean oil** in India. Despite this, exports later declined in 2023 and 2024, averaging between **NPR 12-14 billion**, reflecting weakening global demand **soya-bean oil** in India. Meanwhile, **imports remained high**, reaching a peak of **NPR 188.1 billion in 2022** before declining slightly in 2023 and 2024 to around **NPR 130-166 billion**. The **export-to-import ratio** remains alarmingly low, highlighting Nepal's dependence on foreign goods. Addressing this issue requires policies aimed at **enhancing domestic production, diversifying exports, and reducing import reliance**.

**Government revenue and expenditure** trends reveal a persistent **fiscal imbalance**, where expenditure, particularly **current expenditure** (such as **salaries, pensions, and subsidies**), remains significantly higher than **capital expenditure**. Current expenditure peaked at **NPR 151.1 billion in June-July 2021**, while capital expenditure remained much lower, reaching **NPR 85.2 billion in the same period**. In 2022, government spending increased sharply, with total expenditure reaching **NPR 260.6 billion in March-April**, but capital expenditure continued to lag, causing inefficiencies in infrastructure development. Revenue collection, on the other hand, showed inconsistency, with notable increases in 2022 (**NPR 146.0 billion in June-July**) and 2025 (**NPR 160.0 billion in December-January**), likely due to improved tax enforcement and economic recovery measures. However, the large gap between revenue and expenditure indicates persistent **budget deficits**, raising concerns about fiscal sustainability.

**Remittance inflows**, a crucial component of Nepal's economy, have exhibited a strong upward trend. In 2019 and 2020, remittances hovered between **NPR 70-80 billion per month**, providing a stable flow of foreign currency. However, inflows surged in 2022 and 2023, surpassing **NPR 100 billion in several months**, with a peak of **NPR 151 billion in Mid-March 2025**. This growth underscores Nepal's **heavy reliance on remittances** for economic stability and household consumption. While remittances support foreign exchange reserves and reduce poverty, overdependence on foreign employment raises concerns about **long-term economic resilience**. To ensure sustainable growth, Nepal needs to **boost domestic employment, strengthen its industrial base, and implement policies that encourage investment in productive sectors**.

Foreign Trade Balance of Nepal	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio	Revenue	Exchange factor	Our view on the current level of External vulnerabilities
F.Y. 2022/23 (Mid-April)	9.24	0.91	8.33	10.15	1.00	10.15	2.12 1 USD = 125 NPR	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 <b>8.33 billion</b> , accounting for <b>20.56% of GDP</b> . The following year, in FY 2023/24, the deficit slightly decreased to <b>8.10 billion</b> , reducing its share of GDP to <b>17.25%</b> . However, in FY 2024/25, the trade deficit rose again to <b>8.62 billion</b> , its proportion of GDP increase further to <b>18.36%</b> , suggesting growth activities.
Share % in Total Trade	91.03	8.97						
Trade deficit % GDP			20.56%					
F.Y. 2023/24 (Mid-April)	8.98	0.88	8.10	9.86	1.00	10.20	2.36 1 USD = 130 NPR	Imports continue to dominate Nepal's trade, making up over <b>91.03% of total trade</b> . Exports declined in FY 2023/24 by <b>-5.70%</b> , falling from <b>0.91 billion to 0.88 billion</b> , but saw a significant rebound in FY 2024/25, reaching <b>1.45 billion</b> , a remarkable <b>98.35% growth</b> . Despite this improvement, Nepal's export-to-import ratio remains low at around <b>1:10</b> , highlighting the country's heavy reliance on imports. While total trade declined by <b>-2.85% in FY 2023/24</b> , it rebounded strongly in FY 2024/25, growing by <b>16.83 %</b> , signaling an overall recovery in trade activity.
Share % in Total Trade	91.08	8.92						
Trade deficit % GDP			17.25%					
F.Y. 2024/25 (2024/25) (Mid-April)	10.07	1.45	8.62	11.52	1.00	6.94	2.63 1 USD = 140 NPR	The Nepalese Rupee has depreciated over this period, with the exchange rate rising from <b>1 USD = 125 NPR</b> to <b>140 NPR</b> . <b>This depreciation makes imports more expensive but can potentially boost exports</b> . Meanwhile, government revenue from trade has shown consistent growth, increasing by <b>11.32% in FY 2023/24</b> and <b>11.44% in FY 2024/25</b> , indicating improved tax collection and trade regulation.
Share % in Total Trade	87.41	12.59						
Trade deficit % GDP			18.36%					
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-2.81%	-3.30%	-2.76%	-2.86%			11.32 %	Overall, while Nepal continues to struggle with a large trade deficit, recent trends suggest a <b>positive shift in export growth and economic expansion</b> . The rising imports remain a concern, but the declining trade deficit as a percentage of GDP and the improvement in total trade suggest a <b>gradual strengthening of Nepal's foreign trade dynamics</b> .
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	12.14%	64.77%	6.42%	16.84%			11.44 %	

## 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 24.70 % by mid-March 2025, compared to the 16.17% reported in the corresponding previous year.

## Trade Deficit

In the 8<sup>th</sup> month of fiscal year 2024/25, the monthly trade deficit remain constant at \$1.03 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to \$11.60 billion, **indicating a mild reversal** from the \$10.96 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.

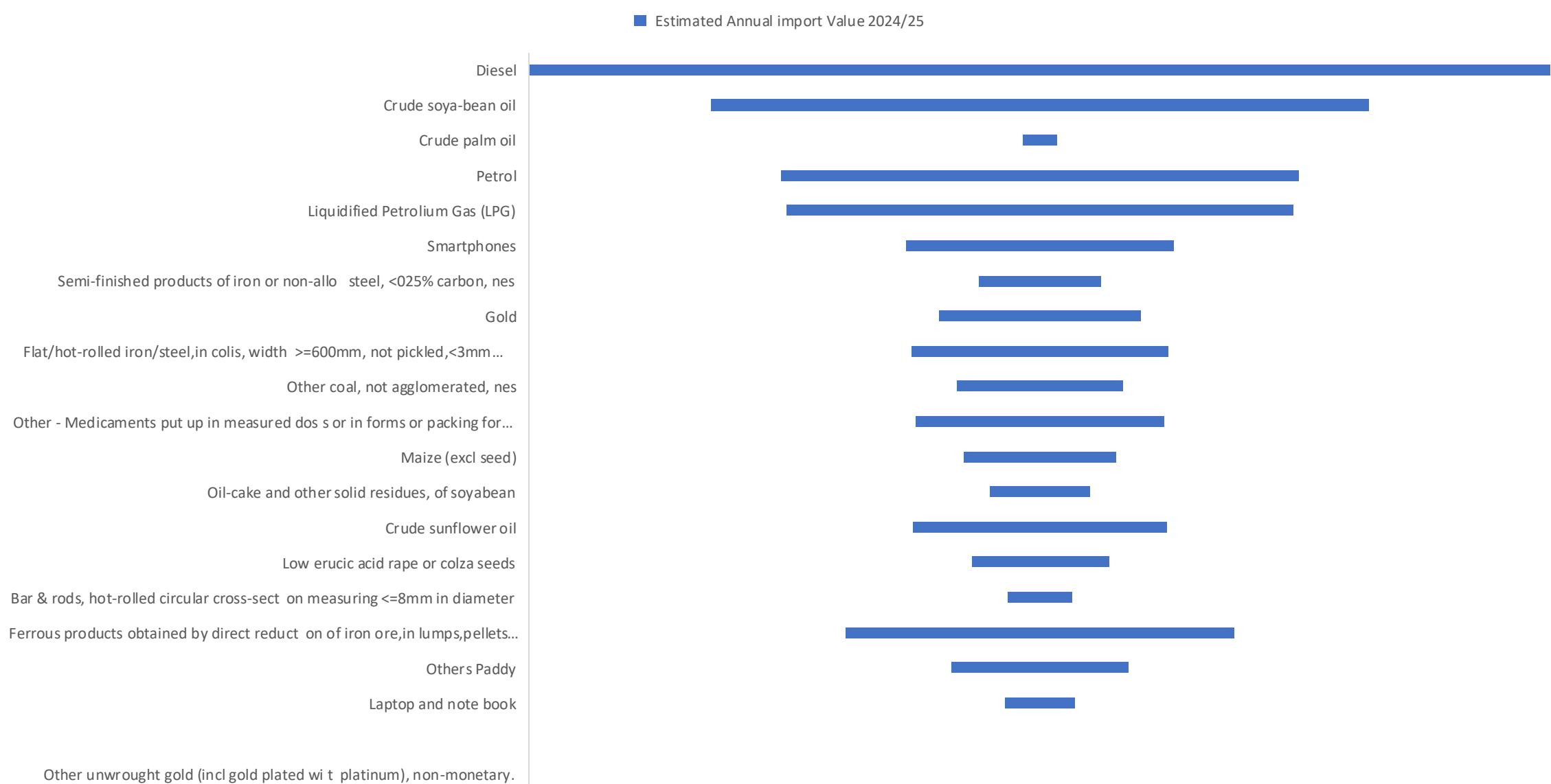
Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming 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	Imports Value
ATF	113
Electric car, jeep & van 51KW to <=100KW	84
Other Urea	74
Diammonium hydrogenorthophosphate (diammonium phosphate)	70
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	62
Apples, fresh	57
Garlic, fresh or chilled	50
Polypropylene, in primary forms	50
Other soyabean	47
Petroleum bitumen	47
Other potatoes, fresh or chilled	46
Dyed knitted or crocheted fabrics of synthetic fibres, nes.	45
Synthetic staple fibres, of polyesters, no carded, etc	45
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	45
Polyethylene having a specific gravity >=0.94, in primary forms.	40
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	39
Electric car, jeep & van upto 50KW	38
Dried Red Lentils, Unskinned, unsplit (Whole)	37
Electric conductors, nes, for a voltage >100 V.	36
Concentrate of non-alcoholic soft drinks	36

Export	Exports Value
Soya-bean oil (excl. crude) and fractions	482.94
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	71.02
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	62.29
Big Cardamon (Alaichi) neither crushed nor ground	48.16
Rolled iron/steel, width >=600mm, plated or coated with aluminium-zinc alloys	32.56
Unbleached woven fabrics of jute or of other textile bast fibre of heading 5303.	31.20
Other yarn, <85% polyester staple fibres, with artificial staple fibres, npr	30.31
Mixtures of juices, unfermented, not containing added spirit.	30.30

Trade Indicators	2023/24					2024/25					Y-o-Y	Remarks	%age			
	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25			
Imports (UDS in billion)	8.98	10.03	11.18	12.25	0.99	2.02	3.01	3.95	5.09	6.33	7.60	8.81	10.07	13.34	UP	8.90%
Monthly Imports	1.06	1.05	1.15	1.07	0.99	1.03	0.99	0.94	1.14	1.24	1.27	1.21	1.26			
Exports (UDS in billion)	0.88	0.97	1.07	1.17	0.09	0.19	0.30	0.41	0.57	0.76	0.98	1.22	1.45	1.74	UP	48.72%
Montly Exports	0.11	0.09	0.10	0.10	0.09	0.10	0.11	0.11	0.16	0.19	0.22	0.24	0.23			
Trade Deficit (UDS in billion)	8.10	9.06	10.11	11.08	0.90	1.83	2.71	3.54	4.52	5.57	6.62	7.59	8.62	11.60	UP	4.69%
Total Foreign Trade (UDS in billion)	9.86	11.00	12.25	13.42	1.08	2.21	3.31	4.36	5.66	7.09	8.58	10.03	11.52	15.08	UP	12.37%
Monthly Import Revenue	0.28	0.28	0.32	0.27	0.27	0.30	0.33	0.22	0.30	0.31	0.29	0.30	0.31			
Total Import revenue	2.36	2.64	2.96	3.23	0.27	0.57	0.90	1.12	1.42	1.73	2.02	2.32	2.63	3.47	UP	7.43%
Montly Remittance	0.93	0.89	0.99	0.91	1.05	0.97	1.11	0.88	0.91	0.94	1.06	1.16	1.07			
Remittance inflows	8.33	9.22	10.21	11.12	1.05	2.02	3.13	4.01	4.93	5.87	6.93	8.09	9.16	11.95	UP	7.52%
Imports/Exports Ratio	10.20	10.34	10.45	10.47	11.00	10.63	10.03	9.63	8.93	8.33	7.76	7.22	6.94	7.67	Down	-26.78%
Exports Share to Total Trade (%)	8.92	8.82	8.73	8.72	8.33	8.60	9.06	9.40	10.07	10.72	11.42	12.16	12.59	15.00	UP	72.05%
Imports Share to Total Trade (%)	91.08	91.18	91.27	91.28	91.67	91.40	90.94	90.60	89.93	89.28	88.58	87.84	87.41	85.00	Down	-6.88%
Monthly Trade Deficit (UDS in billion)	0.95	0.96	1.05	0.97	0.90	0.93	0.88	0.83	0.98	1.05	1.05	0.97	1.03			
Trade deficit % GDP	17.25%	19.29%	21.53%	23.59%	1.92%	3.90%	5.77%	7.54%	9.62%	11.86%	14.10%	16.16%	18.36%	24.70%	UP	4.69%



## Expected Annual Imports of Major Items (USD in million)

Description	Estimated Annual import Value																		Import Direction	Movement			
	2022/23 Annual Import		2023/24		2023/24		2023/24 Annual Import		2024/25		2024/25		2024/25		2024/25		2024/25						
	Value	9 month	2023/24	10 month	2023/24	11 month	2023/24 Value	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	2024/25	8 month	2024/25
Diesel	1,183	794	890	994	1,108	54	105	170	223	334	418	511	607	702	980	Decline	-22.17%						
Crude soya-bean oil	274	83	88	100	103	10	18	41	55	103	187	295	395	508	630	Growth	772.73%						
Crude palm oil	199	75	79	79	82	3	7	9	12	17	22	26	30	32	35	Decline	-97.73%						
Petrol	514	387	436	484	524	44	85	128	166	203	247	290	329	368	498	Decline	-8.64%						
Liquidified Petroleum Gas (LPG)	447	315	354	393	428	37	73	108	145	186	229	273	315	358	486	Growth	27.04%						
Smartphones	188	167	185	203	221	27	52	76	103	117	129	146	169	195	258	Growth	26.67%						
Semi-finished products of iron or non-allo steel, <025% carbon, nes	176	73	79	99	107	6	9	14	19	28	39	54	64	80	117	Growth	18.42%						
Gold	172	124	169	182	182	8	8	8	11	16	52	80	111	132	194	Growth	10.39%						
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	158	214	236	251	266	23	54	93	99	119	140	162	179	199	247	Decline	-13.51%						
Other coal, not agglomerated, nes	209	138	152	162	176	22	32	39	56	76	94	110	126	161	Decline	-20.34%							
Other - Medicaments put up in measured dos s or in forms or packing for retail s	190	158	175	193	211	18	40	59	77	97	119	140	156	179	239	Growth	25.00%						
Maize (excl seed)	127	78	87	102	108	6	11	14	25	37	54	54	94	106	147	Growth	80.00%						
Oil-cake and other solid residues, of soyabean	98	108	117	124	130	9	19	25	36	53	63	71	75	81	98	Decline	-45.76%						
Crude sunflower oil	139	97	105	119	137	20	40	55	74	86	104	132	156	174	246	Growth	148.08%						
Low erucic acid rape or colza seeds	72	55	62	72	83	10	19	27	34	44	53	64	74	88	133	Growth	100.00%						
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	114	86	70	75	80	6	18	23	29	33	40	49	57	69	64	Decline	-50.00%						
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	335	233	241	270	300	29	60	93	123	161	198	230	259	291	375	Growth	50.43%						
Others Paddy	154	76	86	89	93	8	12	13	20	47	80	112	128	139	170	Growth	203.23%						
Laptop and note book	48	43	47	53	58	7	14	17	22	30	35	40	45	50	67	Growth	29.17%						

## 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 27.04%, signaling a transition from traditional fuels to LPG, while smartphone imports are expected to rise by 26.67%, showcasing increased adoption of digital technologies. Similarly, **Crude soya-bean oil** shows remarkable growth of 772.73 %, indicating surge in export in India process **soya-bean oil** amounting to \$ 484.94 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 March 2025 but gold import is projected to grow by 10.39%. **Diesel imports are projected to decrease by 22.17%, suggesting reduced price and reduced movement of industrial finished goods or a transition to alternative energy sources.** However, **limited electricity generation could lead to increased industrial reliance on diesel.** Crude palm oil imports show a significant drop of 97.73%, 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 100%, 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 29.17%, 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.*

Number of FDIs Up to Feb 2025				Number of FDIs Up to March 2025			
Category	No. of Project	USD in Million	Amount in NPR	No. of Project	USD in Million	Amount in NPR	%age
Manufacturing	30	20.25	2,63,20,50,200.00	34	21.09	2,74,20,50,200.00	4.18%
Energy	1	0.20	2,55,00,000.00	1	0.20	2,55,00,000.00	0.00%
Agro and Forestry Based	7	5.85	76,10,00,000.00	7	5.85	76,10,00,000.00	0.00%
Tourism	180	137.75	17,90,75,90,000.00	189	141.44	18,38,75,90,000.00	2.68%
Mineral	0	-		0	-		
Service	54	172.03	22,36,37,30,000.00	63	268.67	34,92,77,30,000.00	56.18%
Infrastructure	1	0.15	2,00,00,000.00	1	0.15	2,00,00,000.00	0.00%
ICT	154	7.31	95,05,03,200.00	185	8.55	1,11,16,03,200.00	16.95%
Total	427	343.54	44,66,03,73,400.00	480	445.97	57,97,54,73,400.00	29.81%
Repatriation Amount		69.37	9,01,83,55,992.99		73.07	9,49,96,95,989.53	5.34%
Outflow / Inflow ratio			20.19%			16.39%	-18.86%

# Financial Sector highlights

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

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

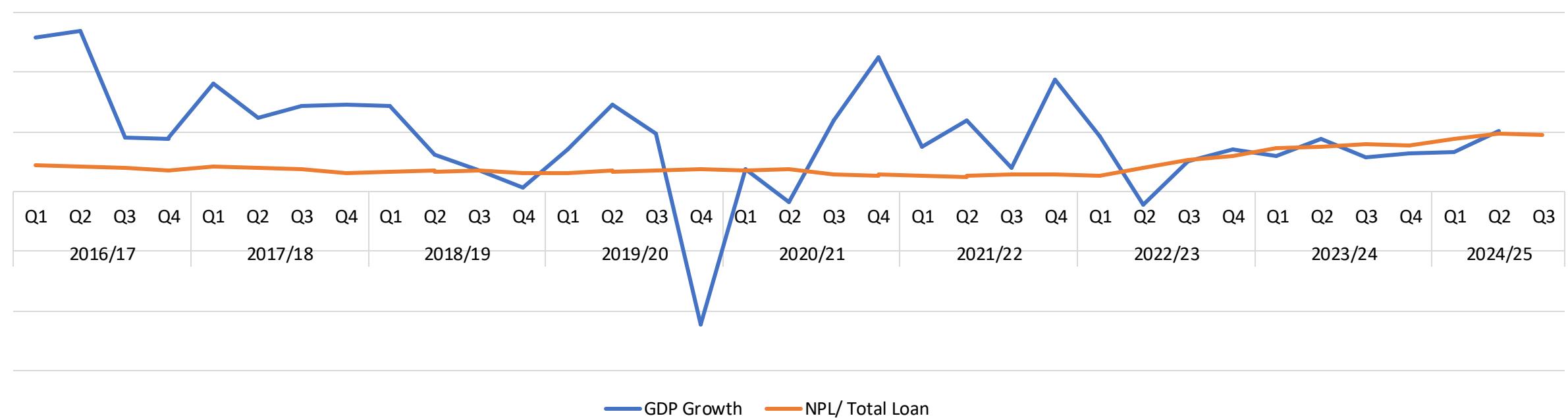


Migration and urbanization have led to a weakening of rural demand, which is expected to remain below the levels recorded in fiscal year 2023/24. In the current fiscal year 2024/25, the weighted average lending rate has declined by 153 basis points to 8.40%, slightly below the previous low of 8.43% observed in July 2021. This decline in borrowing costs has supported a modest uptick in urban demand for domestic capital goods, as evidenced by key economic indicators.

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



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

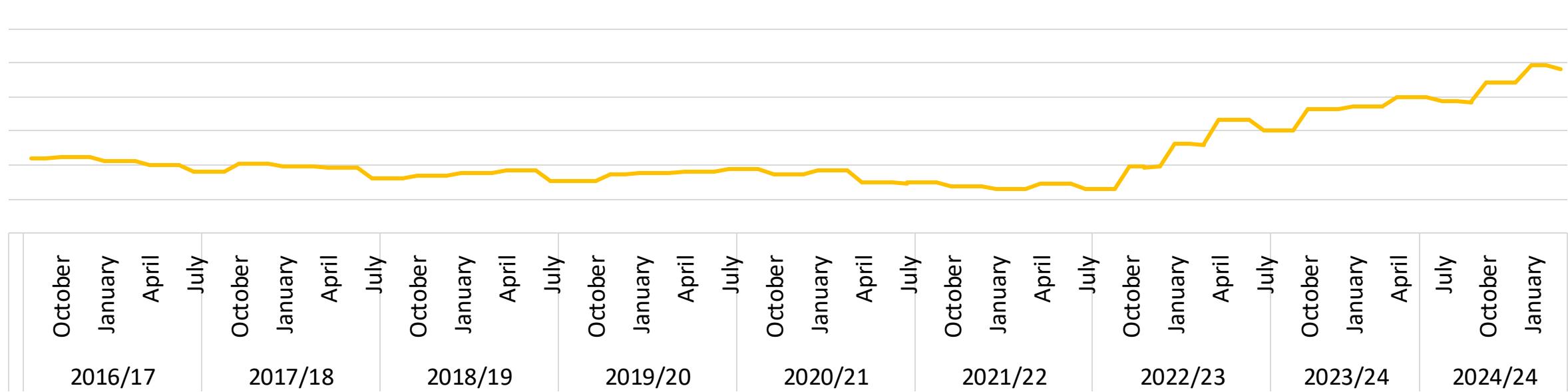


The chart presents data on GDP growth and the ratio of Non-Performing Loans (NPL) to total loans for various quarters from 2016/17 to 2024/25. Over this period, GDP growth fluctuated significantly, with the highest growth recorded in Q1 2016/17 at 12.9%, and the lowest contraction in Q4 2019/20 at -11.2%, 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%.

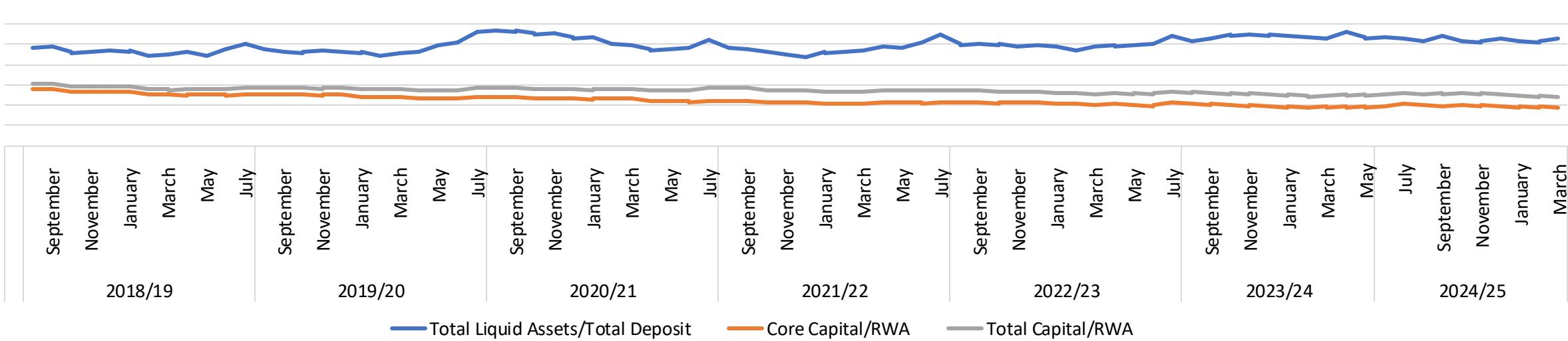
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. This increase suggests growing challenges for the banking sector in managing defaults, possibly related to post-pandemic economic stresses and inflationary pressures. In QIII 2024/25, the NPL ratio reached a high of 4.80%, 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



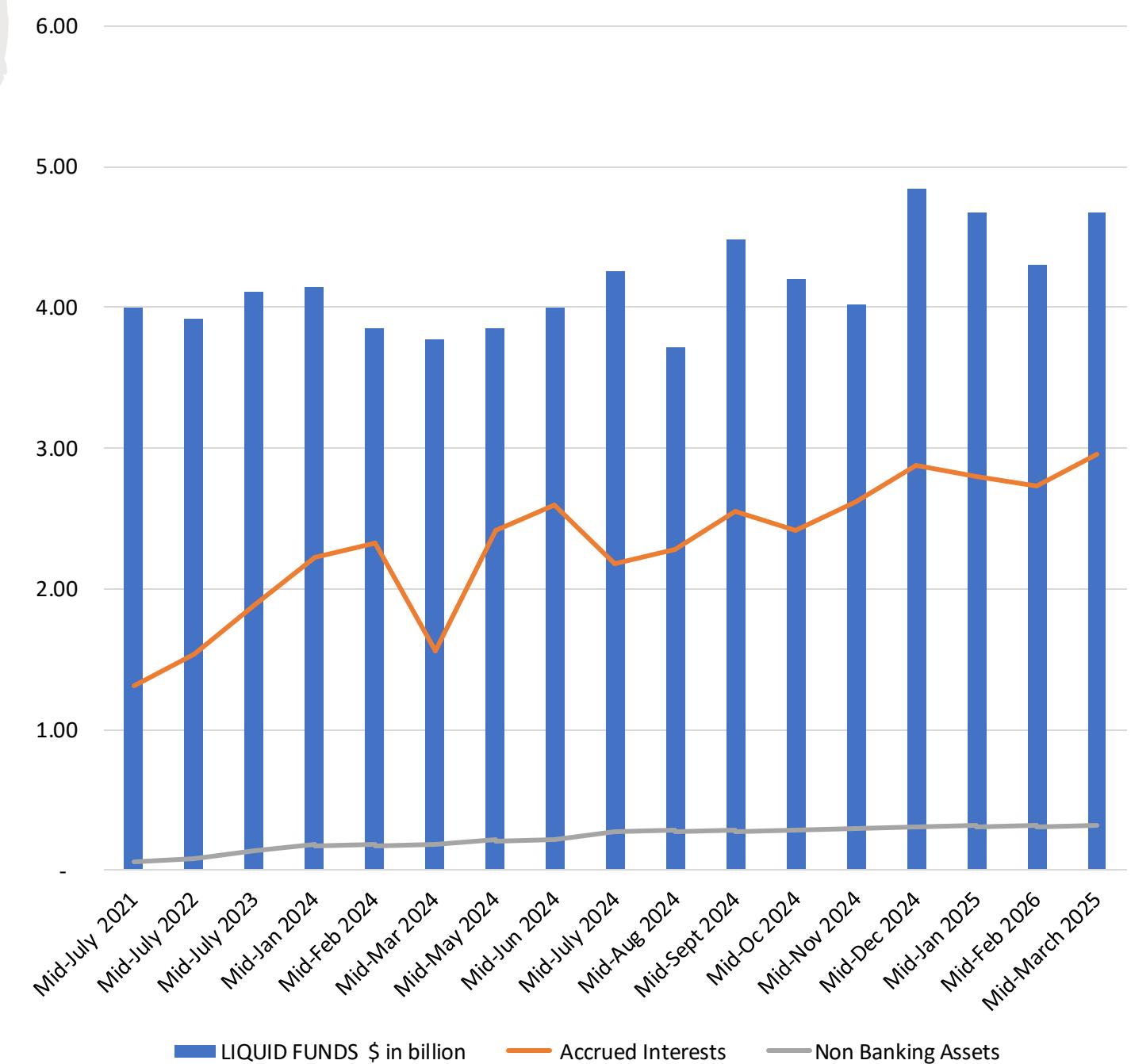
## Liquidity and Capital

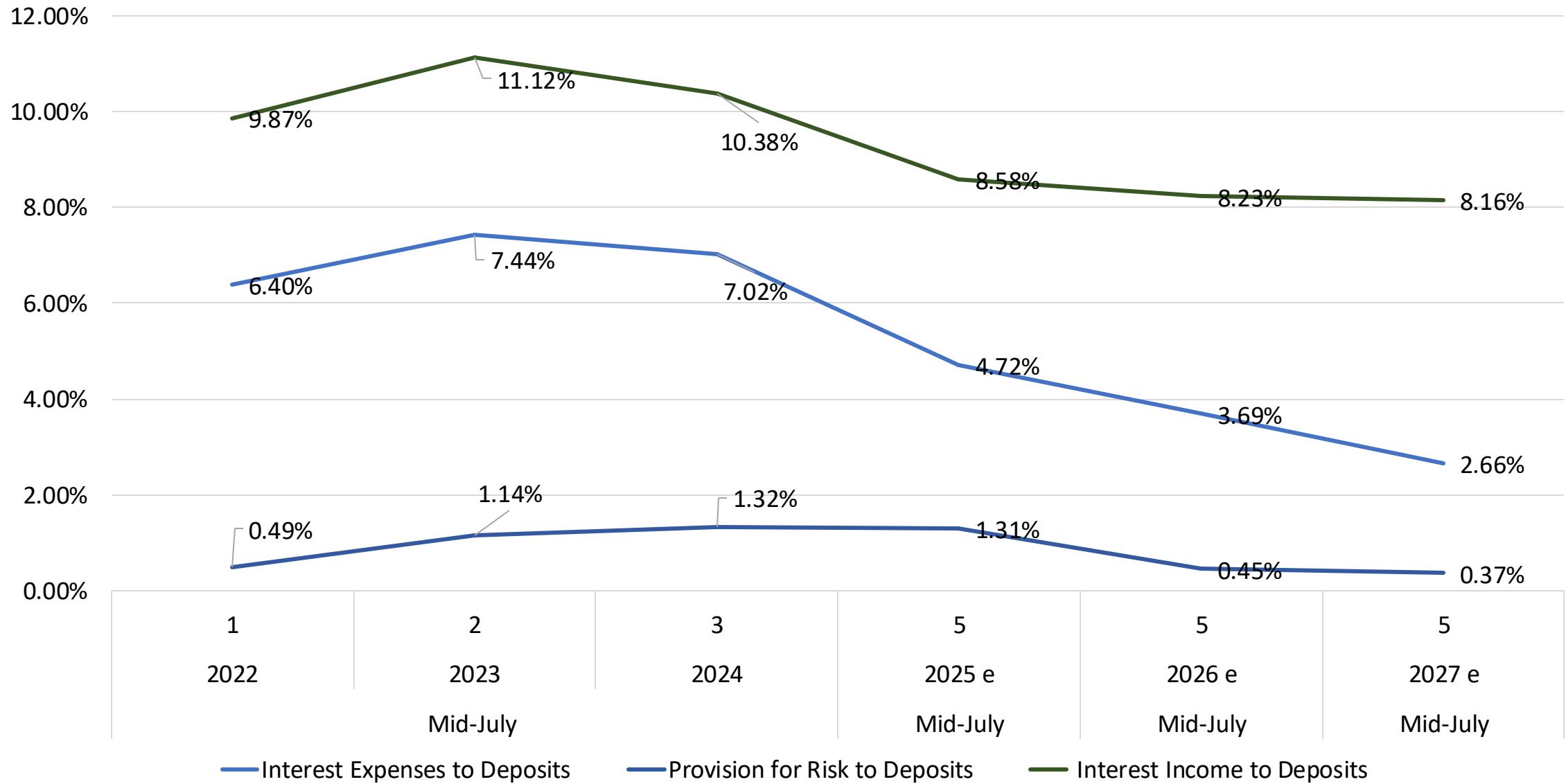


From mid-July 2021 to mid-March 2025, a steady rise in **accrued interest**—from USD 1.32 billion to USD 2.96 billion—suggests a growing volume of interest income yet to be received, driven by delayed loan repayments. This trend indicates an overoptimism in credit operations and also reflects potential stress in loan recovery.

In contrast, **liquid funds** have shown fluctuations without a consistent upward trend, hovering around USD 4 billion, which implies that institutions have not significantly increased their liquid reserves despite higher credit deployment. This may point to tighter liquidity buffers or a deliberate shift in asset allocation away from cash-equivalents.

Meanwhile, **non-banking assets**—rising gradually from USD 0.06 billion to USD 0.32 billion—reflect increased holdings in foreclosed properties or other non-core assets, typically acquired through loan defaults. The concurrent rise in accrued interest and non-banking assets, alongside relatively stagnant liquid assets, suggests that financial institutions are facing higher credit risk and delayed recoveries, which could be putting pressure on their balance sheet resilience and liquidity position.





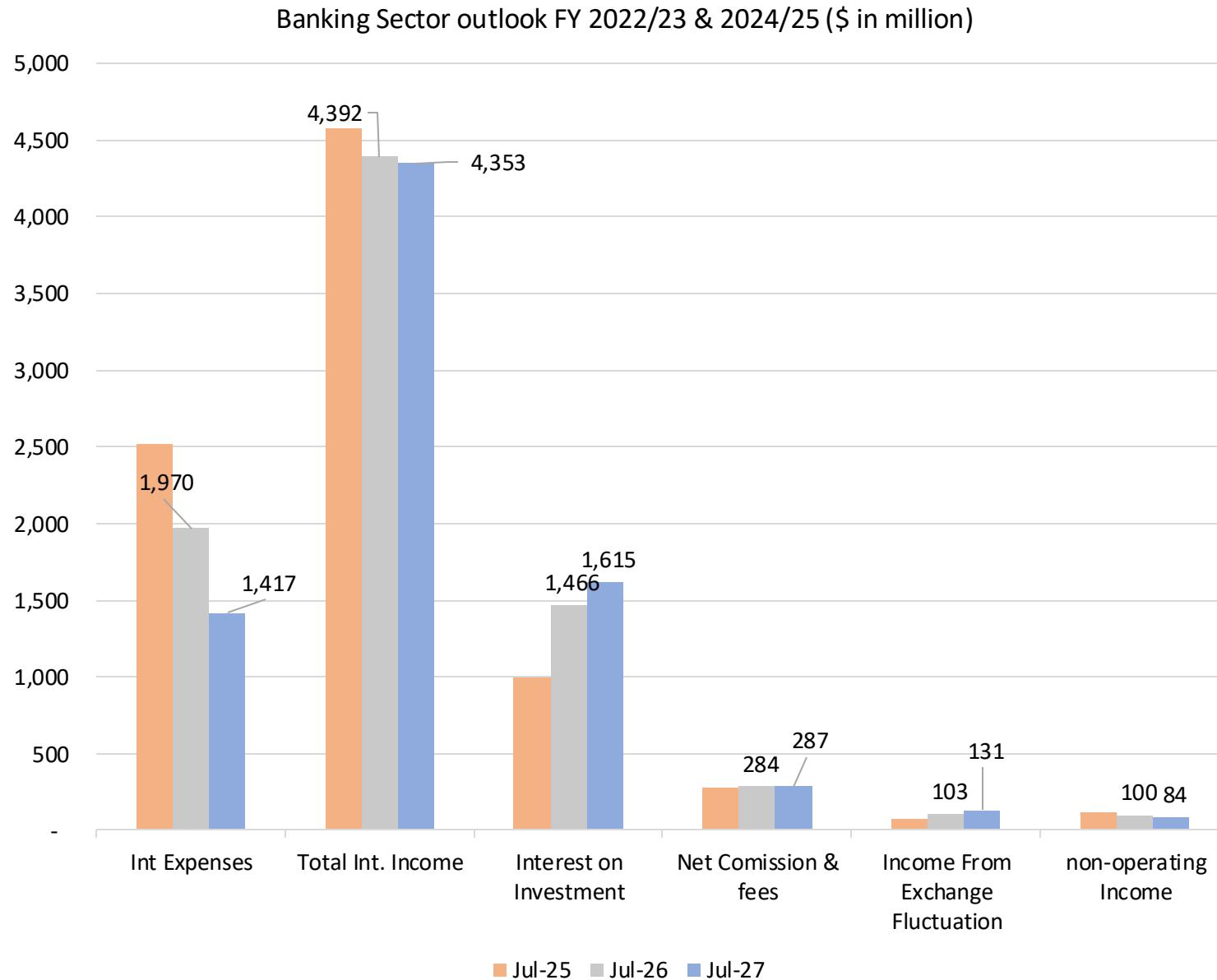
# BFIs Outlook 2024/25, 2025/26 and 2026/27

Amount in \$ Million															
Assets and Liability (Exchange Factor \$ 1 =NPR 130)					Profit and loss										
Capital, Deposits and Risk Assets															
Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change	Int on Loans and Adv.	July 2025e	Change	July 2026e	Change	July 2027e	Change	July 2027e	Change
CAPITAL FUND	6,235	11.23%	7,305	17.16%	8,657	18.50%	Total Int. Income	4,578	-11.71%	4,392	-4.06%	4,353	-0.90%		
PAID UP CAPITAL	3,435	2.32%	3,519	2.45%	3,603	2.38%	Avg. Yield From Loan	7.82%	-21.27%	5.96%	-23.77%	5.33%	-10.64%		
BORROWINGS	2,446	31.98%	2,467	0.87%	2,863	16.04%	Int Expenses	2,517	-28.23%	1,970	-21.77%	1,417	-28.06%		
Borrowing from NRB	3	12.71%	2.23	-34.66%	2.95	32%	Avg. Cost of Fund	4.39%	-23.78%	3.27%	-25.44%	2.75%	-15.78%		
DEPOSITS	53,361	6.80%	55,992	4.93%	58,337	4.19%	NII	2,061	22.81%	2,422	17.56%	2,936	21.18%		
Current	3,402	15.83%	3,907	14.84%	4,376	12.00%	Interest Spread	3.44%	-17.81%	2.69%	-21.63%	2.56%	-4.91%		
Saving	18,535	23.29%	21,800	17.61%	24,456	12.18%	Commission & fees	276	17.36%	284	2.89%	287	0.80%		
Fixed	26,502	-5.43%	24,618	-7.11%	22,772	-7.50%	Ex. Fluctuation Gain	76	55.80%	103	35.48%	131	26.93%		
Call	4,583	26.09%	5,301	15.67%	6,372	20.19%	Other Operating & Non-operating Income	116	66.50%	100	-13.63%	84	-16.16%		
Others	339	0.22%	366	7.83%	362	-0.95%	Gross Income	2,530	24.48%	2,911	15.07%	3,438	18.10%		
LIQUID FUNDS	4,847	13.91%	5,798	19.61%	6,931	19.55%	Employees Exp	486	-0.71%	489	0.51%	484	-0.92%		
GOVT. SECURITIES/OTHER	10,570	-6.60%	9,242	-12.56%	7,729	-16.37%	Employee cost in % of Total Int. Income	10.62%	12.47%	11.13%	4.77%	11.13%	-0.02%		
Investment in share and other	2,857	34.72%	3,164	10.77%	3,934	24.32%	Office Operating Exp	461	39.41%	672	45.75%	845	25.75%		
LOANS & ADVANCES	42,969	8.07%	47,100	9.61%	51,370	9.07%	LLP & write-off	709	6.38%	242	-65.87%	198	-18.43%		
Total Capital/RWA	13.27%	2.44%	13.91%	4.83%	14.83%	6.61%	Additional LLP to Risk Assets	1.63%	-1.63%	0.51%	-68.41%	0.38%	-25.21%		
CD	78.62%	0.74%	82.20%	4.56%	85.82%	4.41%	Provision Written Back	120	-64.00%	180	50.00%	221	23.00%		
NPL /Total Loan	4.14%	6.25%	4.41%	6.42%	4.49%	1.84%	PBT	993	13.11%	1,687	69.99%	2,132	26.33%		
Return on Capital Employed	10.25%	1.69%	14.87%	45.09%	19.91%	33.82%	Return on total assets	1.43%	2.83%	2.21%	54.54%	2.54%	14.85%		

# Profitability of BFIs.

(Exchange Factor \$ 1 = NPR 130

\$ in million			
P/L Account			
Particulars	Expected July 25	Expected July 26	Expected July 27
<b>Total Operating Income</b>	<b>5,047</b>	<b>4,880</b>	<b>4,855</b>
<b>Total Operating Expenses</b>	<b>3,465</b>	<b>3,131</b>	<b>2,747</b>
<b>Provision Written Back</b>	<b>120</b>	<b>180</b>	<b>221</b>
<b>Provision for Risk</b>	<b>(699)</b>	<b>(227)</b>	<b>(183)</b>
<b>Loan Written Off</b>	<b>(10)</b>	<b>(15)</b>	<b>(15)</b>
<b>Net Profit before Bonus &amp; Tax</b>	<b>993</b>	<b>1,687</b>	<b>2,132</b>
<b>Bonus</b>	<b>93</b>	<b>159</b>	<b>200</b>
<b>Tax</b>	<b>270</b>	<b>459</b>	<b>579</b>
<b>Net profit</b>	<b>629</b>	<b>1,070</b>	<b>1,352</b>

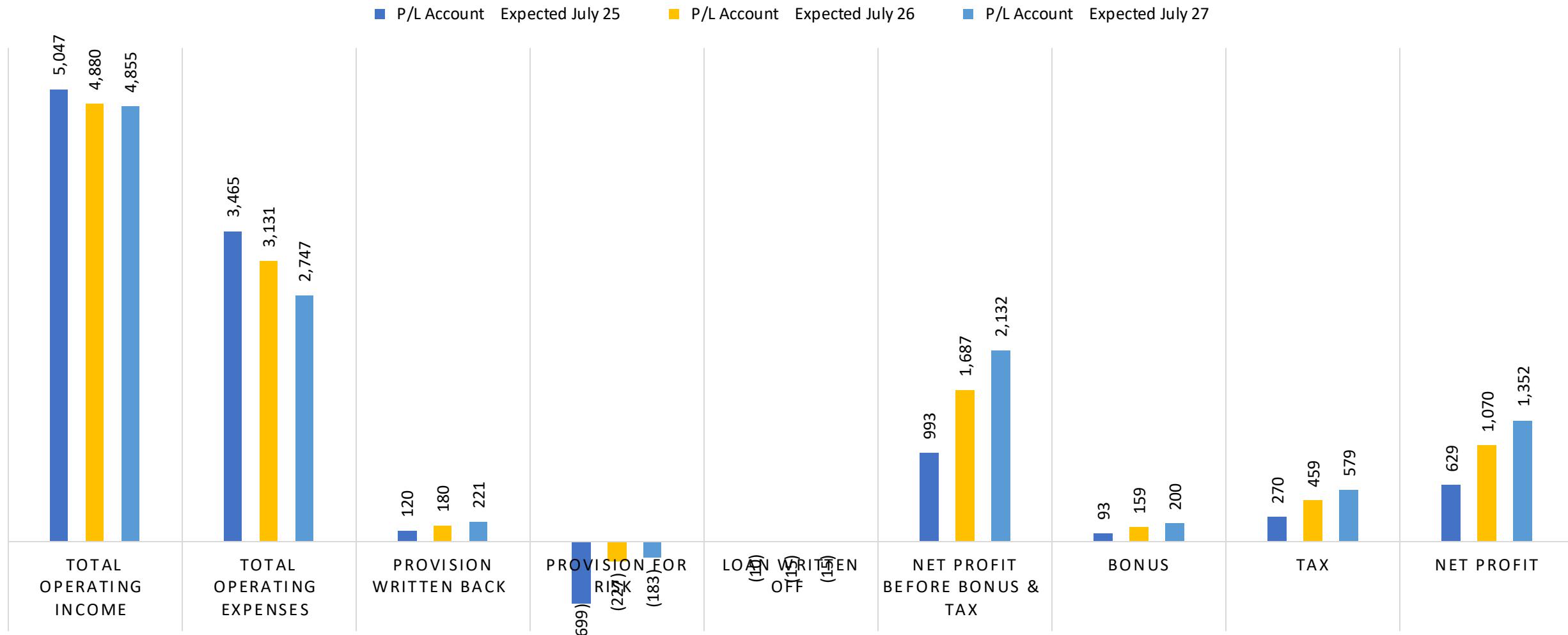


The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

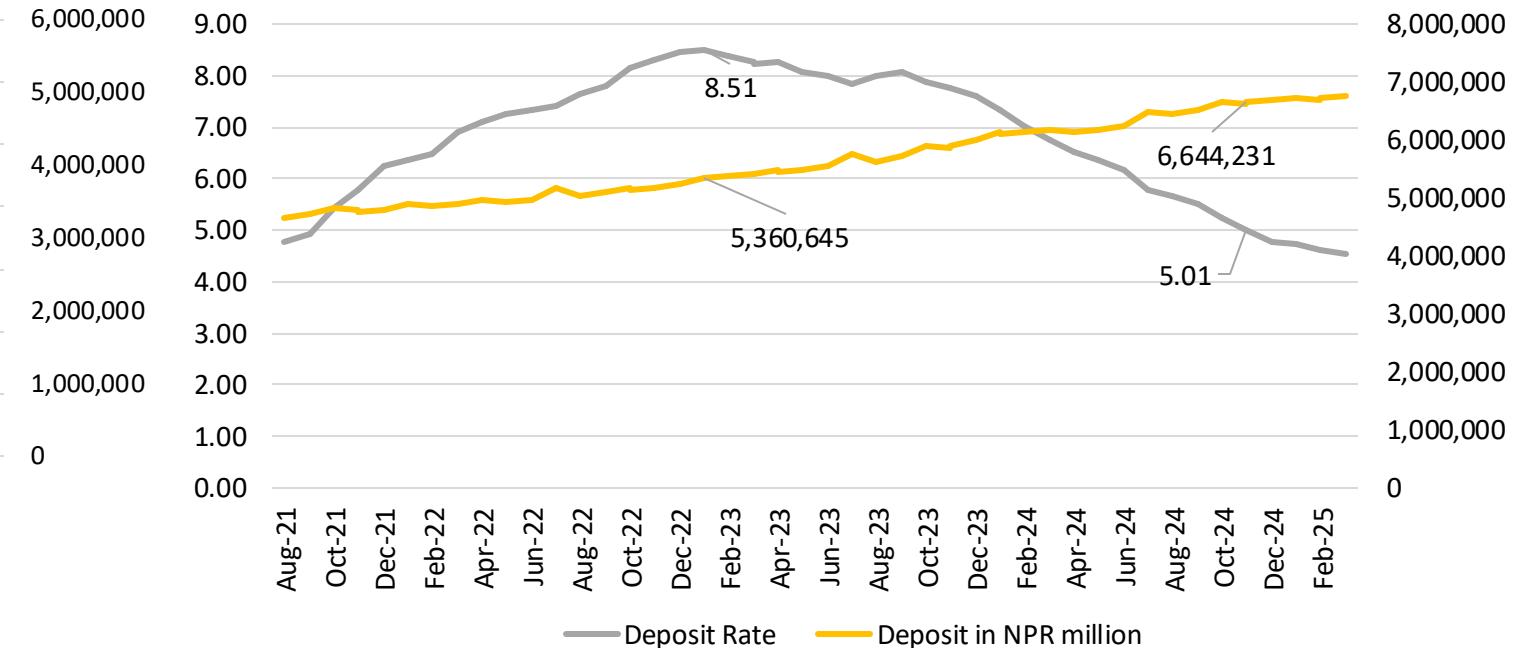
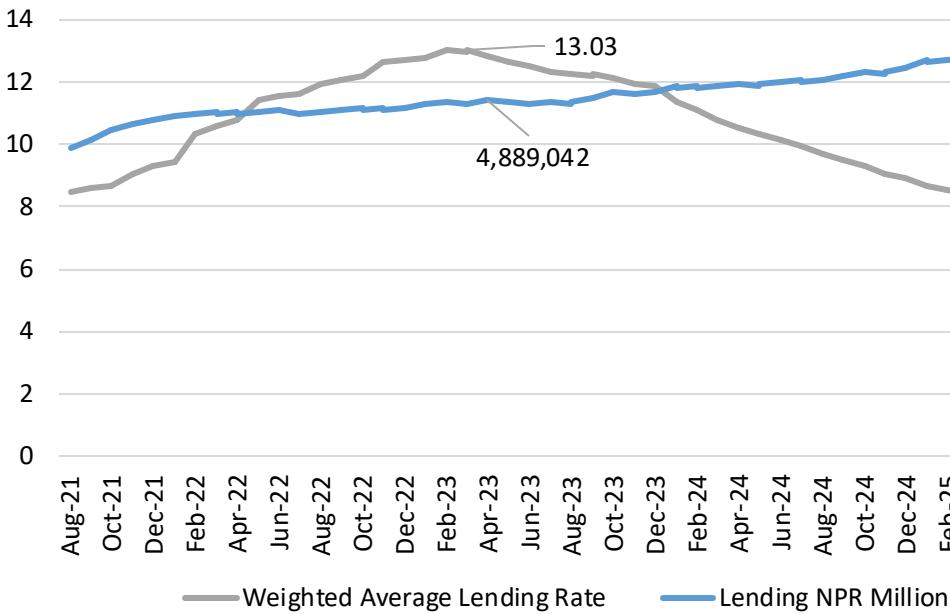
## Profitability of BFIs

(Exchange Factor \$ 1 = NPR 130)

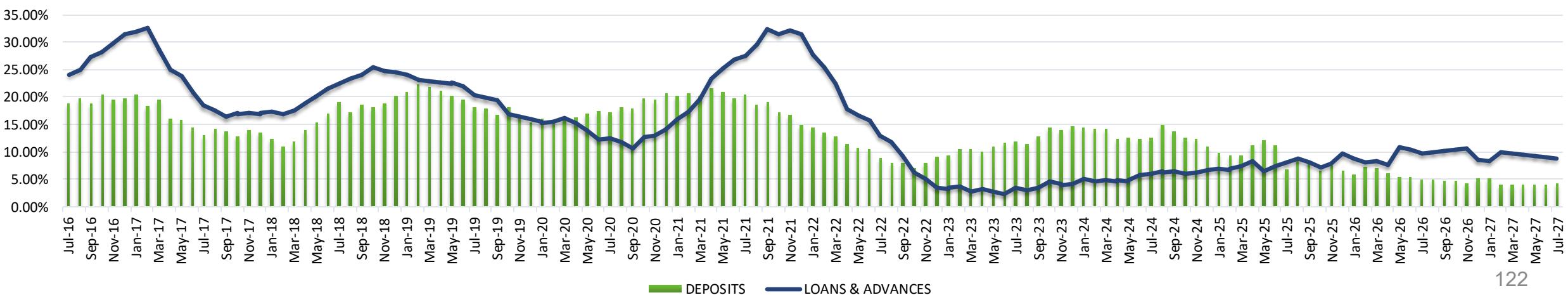
BANKING SECTOR OUTLOOK FY 2022/23 & 2023/24 (\$ IN MILLION)



# Annual Loan and Deposit Growth



## Y-o-Y 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 5,465 billion in March 2025 and jumping to NPR 5,549 billion by mid-April.

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 6,755 billion by mid-March 2025 before slightly declining to NPR 6,853 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.

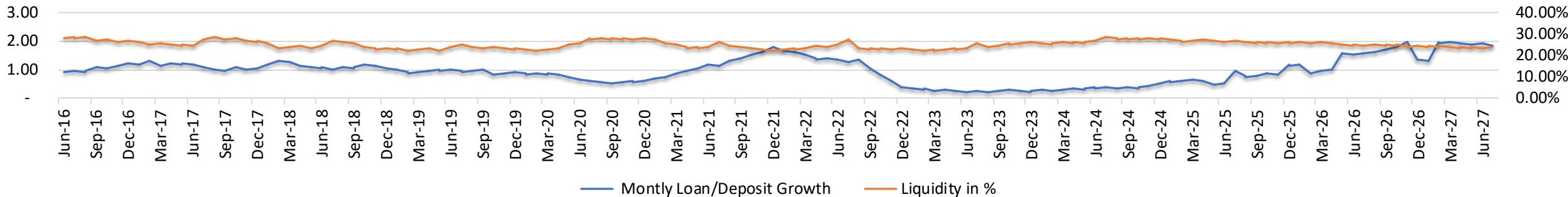
## Interest rates and deposit growth:

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.

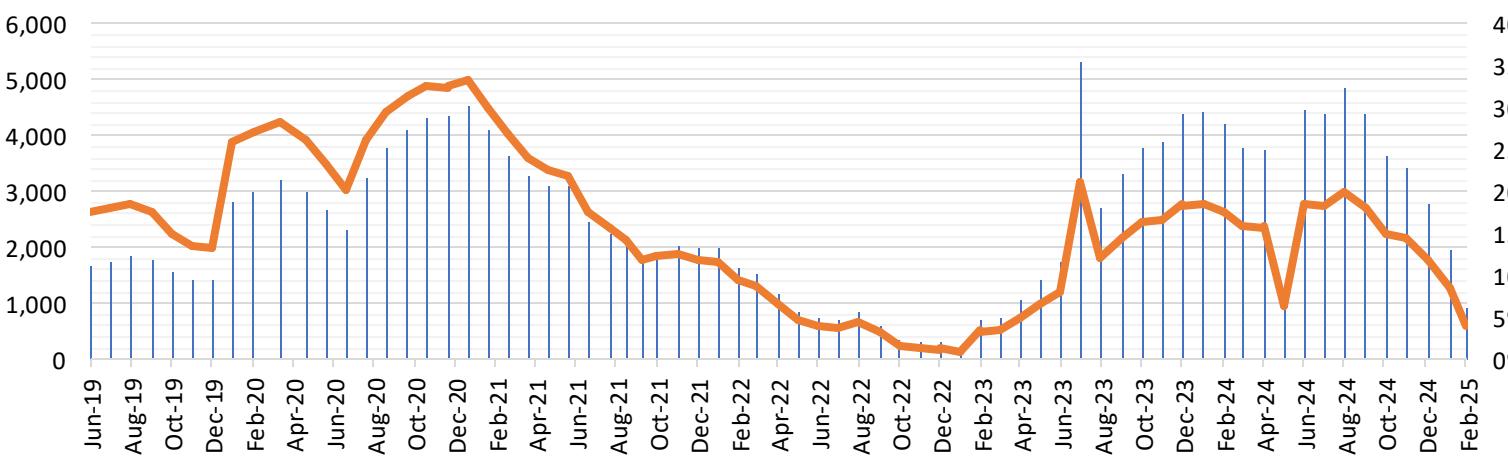
# Liquidity

Loan Growth and Liquidity



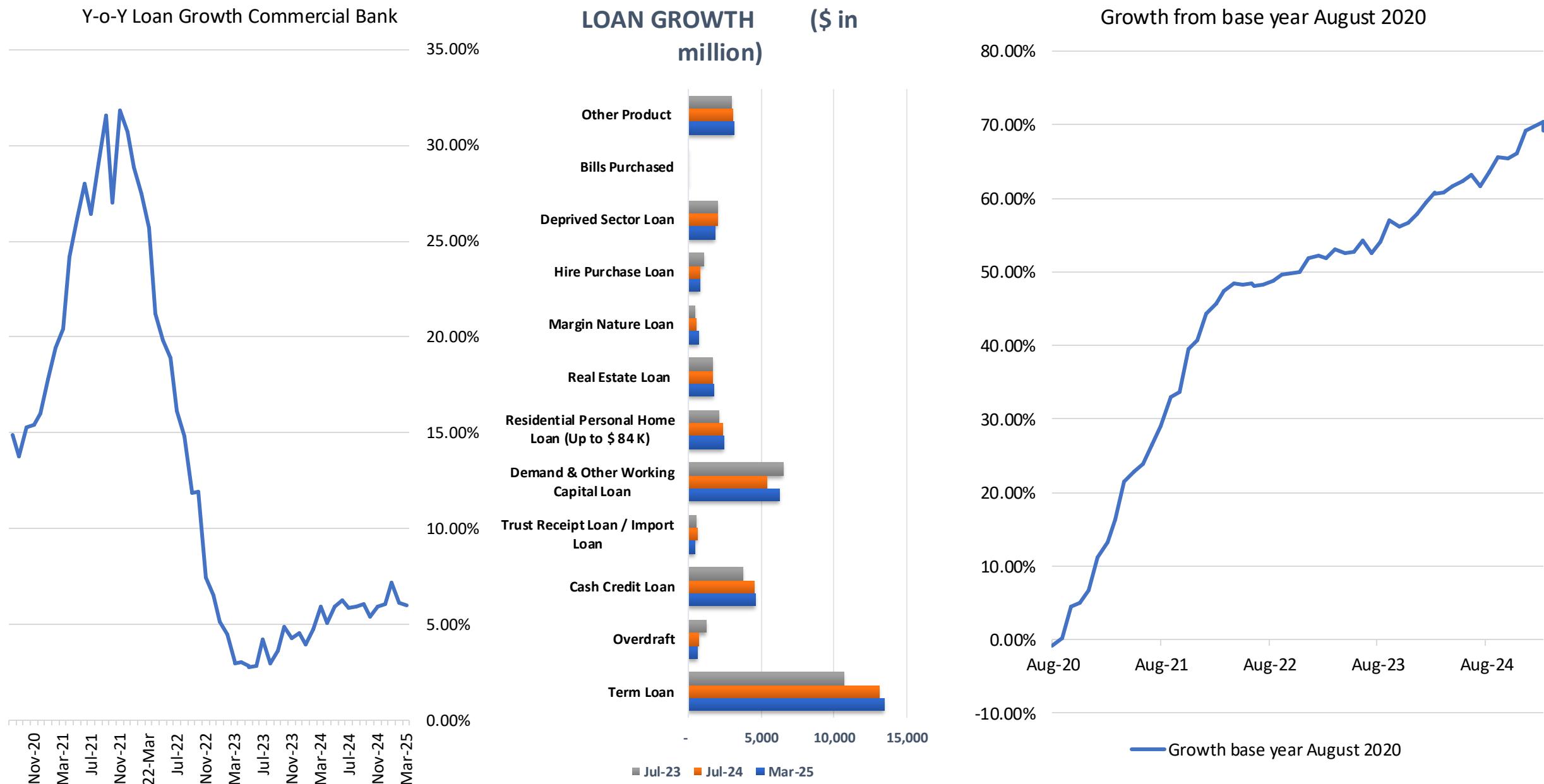
Amount in million	Period	Net Maturity		Amount in \$ million
		Deposit mix	Within next month	
3-6 months		20%		
6-12 months		37%		
1-2 yrs.'		17%	-	13,076.33
2 yrs. and above		26%		
Total		100%	0.00%	56.83%

Interest Rate Sensitive Term-Deposits



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. The deposit mix of the Nepalese banking sector over the past several months reveals a clear shift in depositor behavior, largely influenced by declining interest rates on fixed deposits. From August 2023 to April 2025, there has been a noticeable increase in saving deposits, both in absolute terms and as a proportion of total deposits. This trend suggests that depositors are gradually favoring more flexible savings accounts over long-term fixed deposits, likely due to the narrowing interest rate differential.

# Sector wise Loan Growth of Commercial Banks

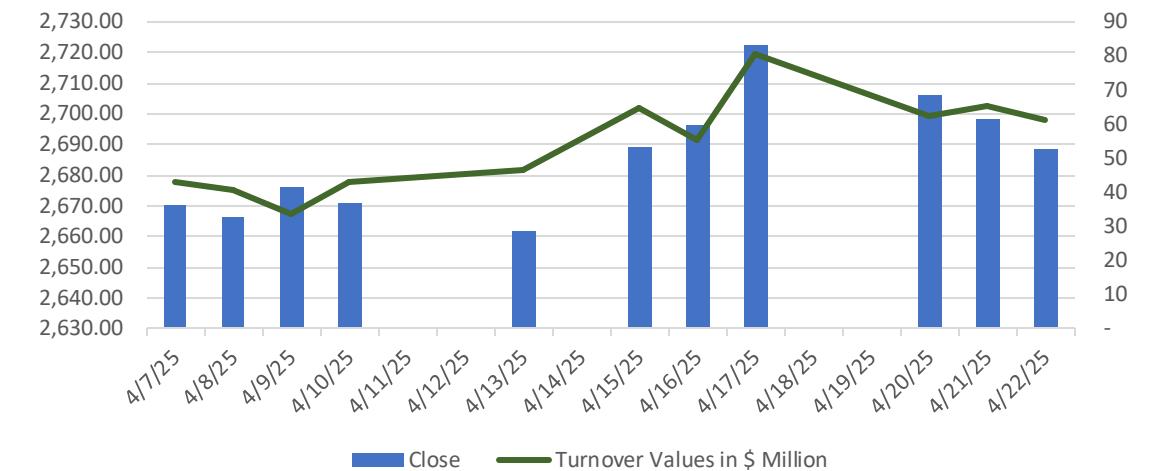




Capital Market

# Capital Market

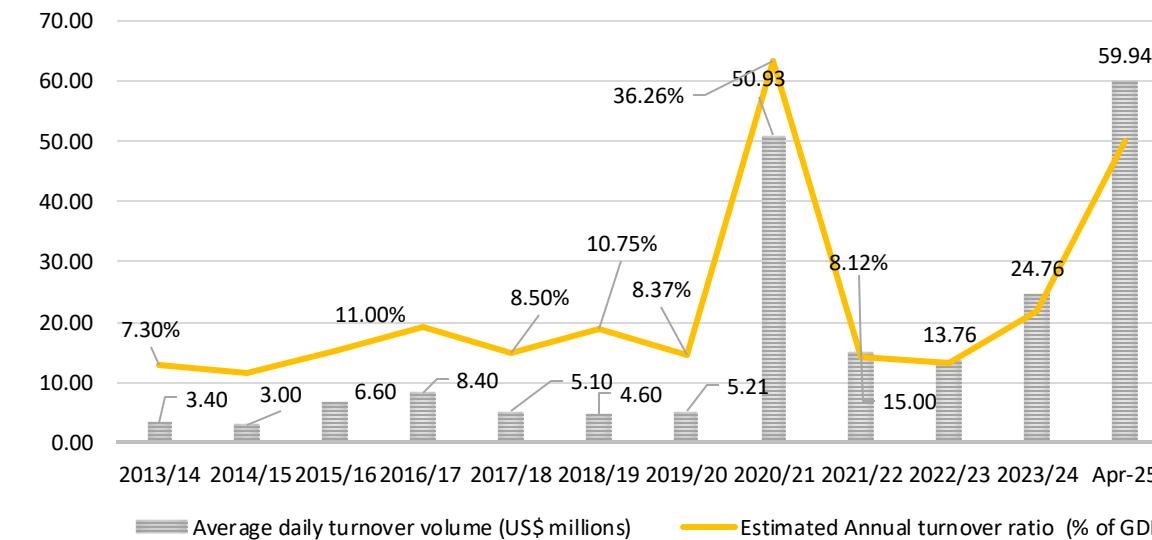
Trunover of last 2 weeks



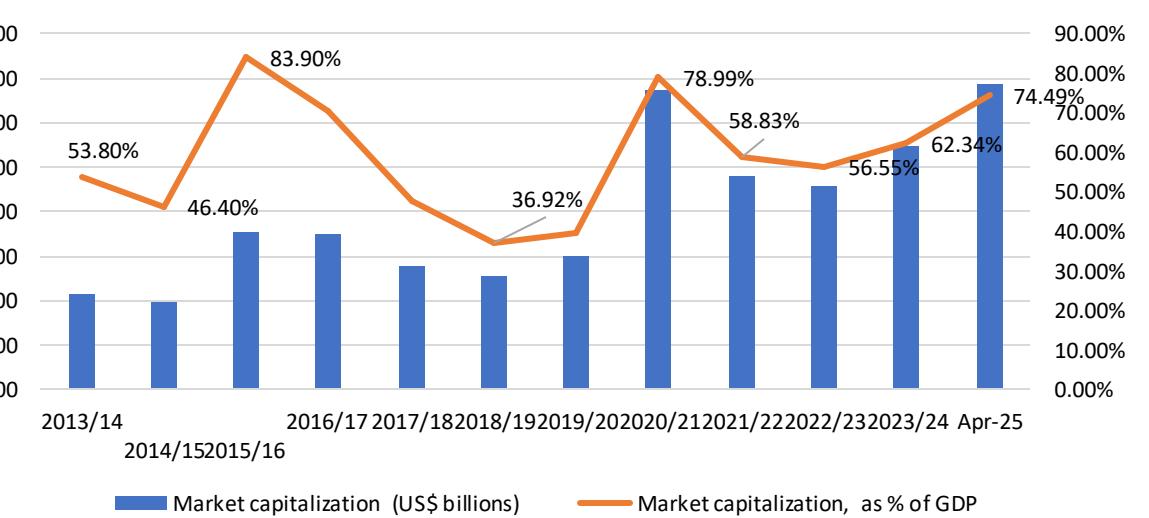
Index and volume



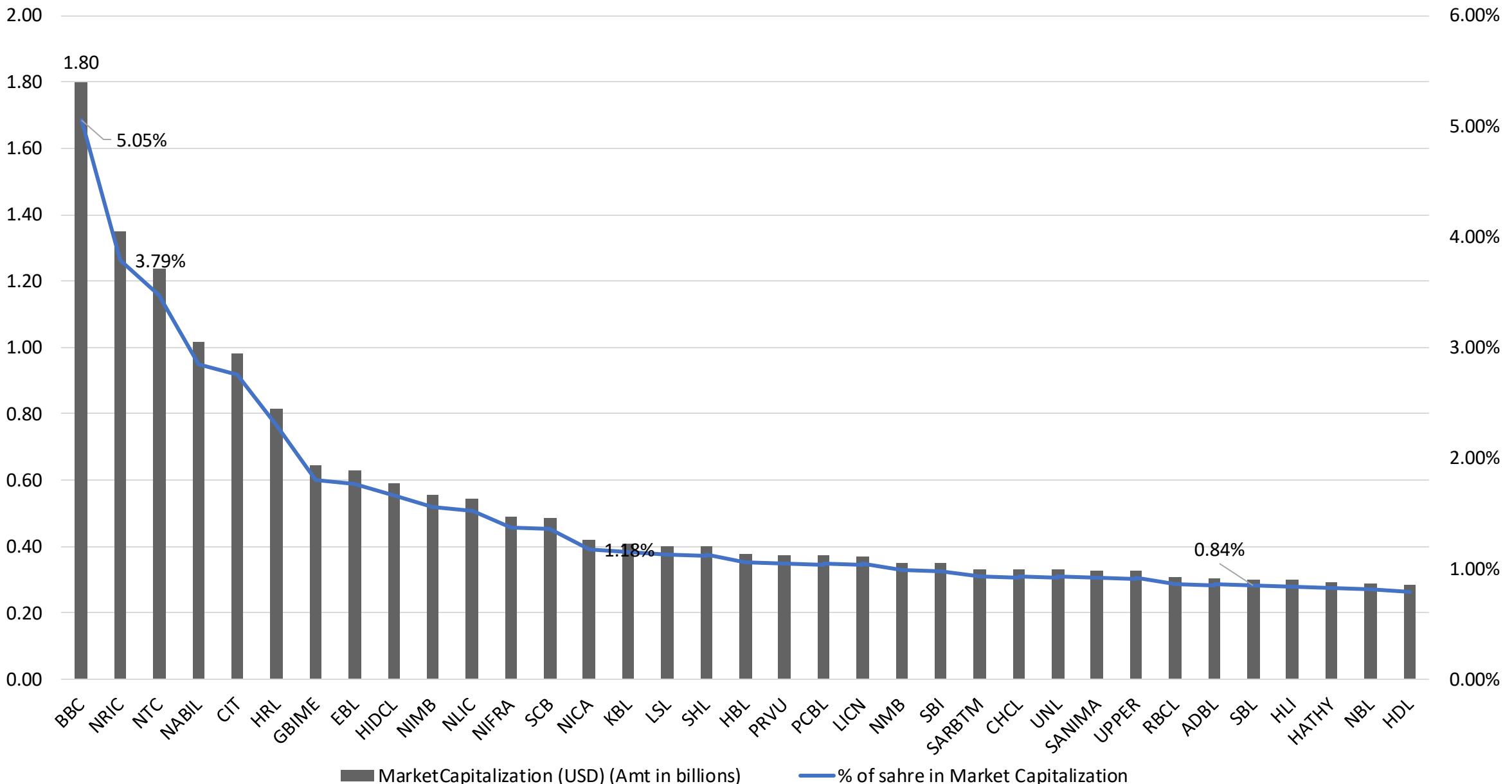
## KEY NEPSE INDICATORS



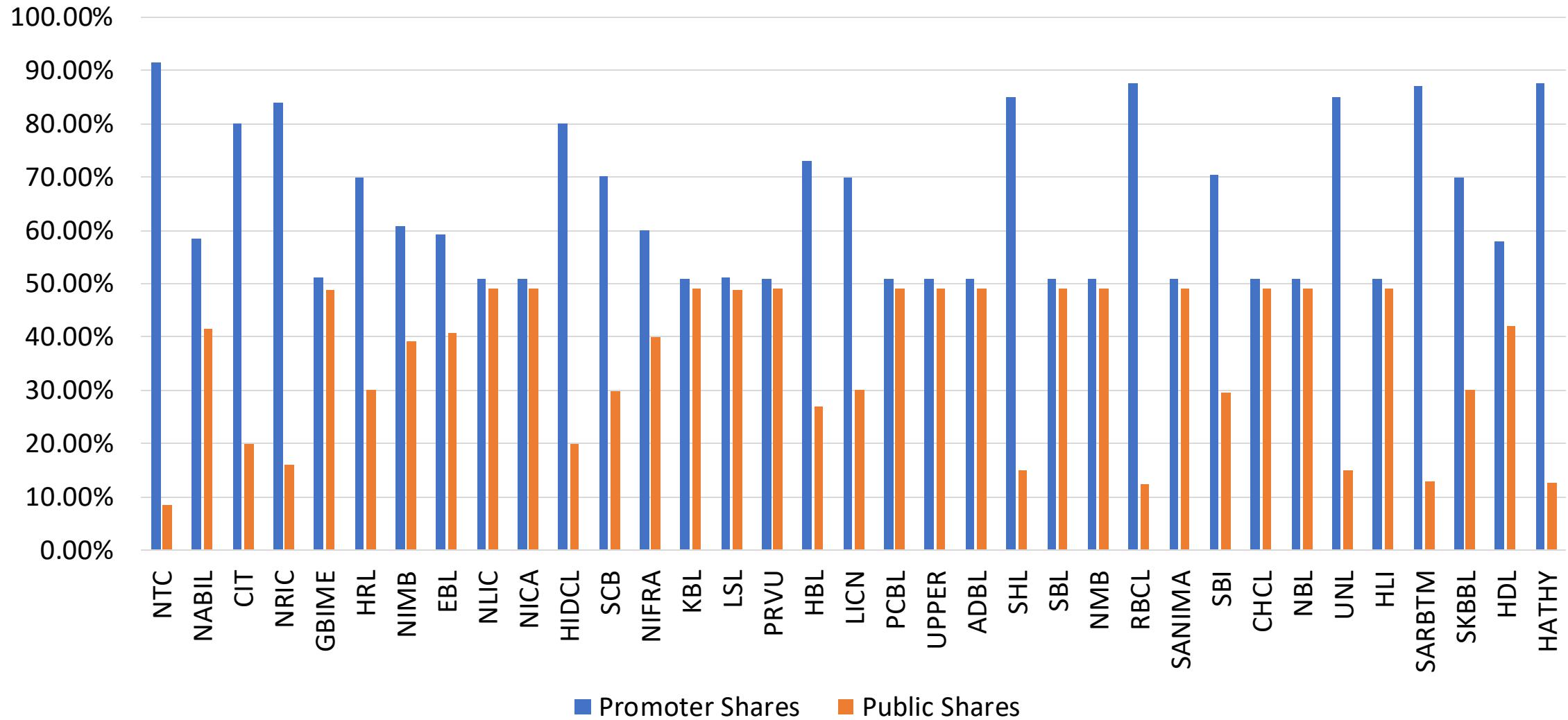
## Key NEPSE Indicators



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



## Promoter Shares and Public Shares



# 5

## Fiscal Situation

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

Government Receipts & Payments Status	Annual Budget	21/04/2025	% age
1. Revenue (USD in million)	10,917.72	6,514.94	59.67%
a) Tax Revenue	9,878.54	5,832.66	59.04%
b) Non Tax Revenue	1,039.18	682.27	65.65%
2. Grants	402.51	114.92	28.55%
3. Other Receipts	-	75.49	
Total Receipt	11,320.23	6,705.34	59.23%
2. Total Expenditure from Treasury	14,310.02	7,902.38	55.22%
a. Recurrent	8,774.34	5,340.53	60.87%
b. Capital	2,710.42	809.77	29.88%
c. Financing	2,825.27	1,752.08	62.01%
Deficit	(2,989.80)	(1,197.04)	
% of GDP	6.82%	2.73%	

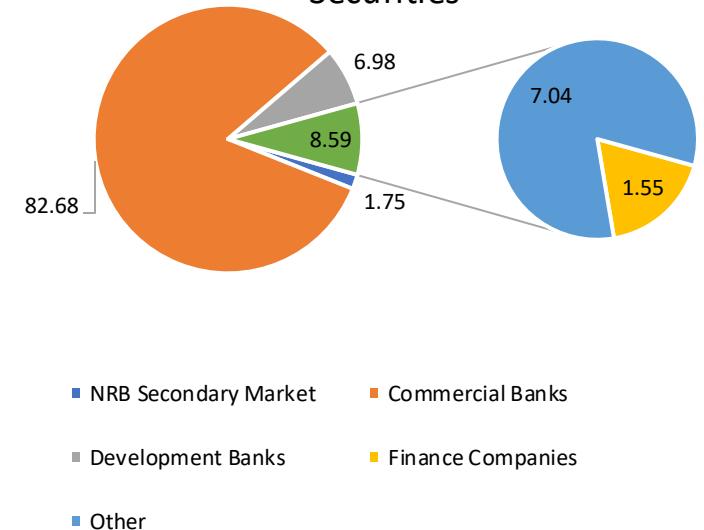
Key Economic Indicators

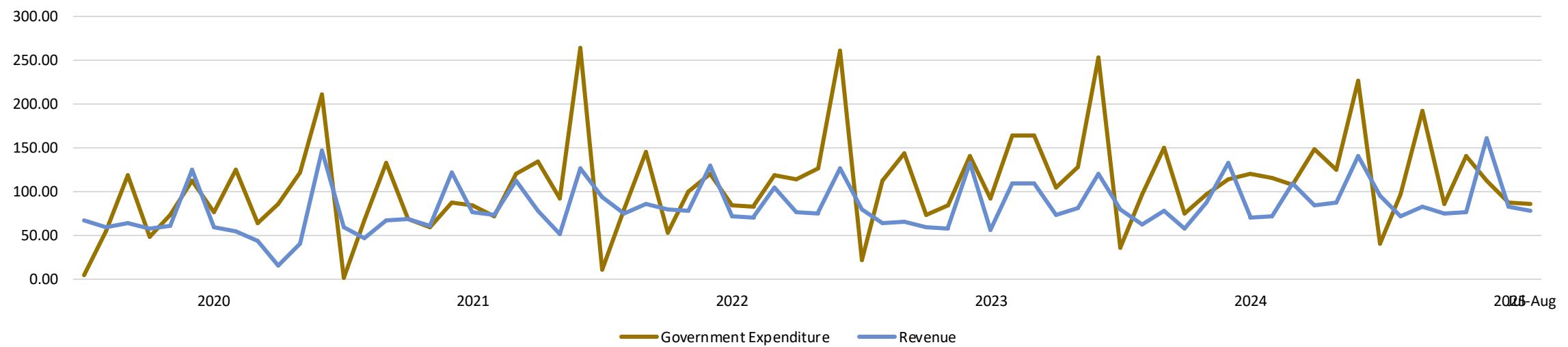
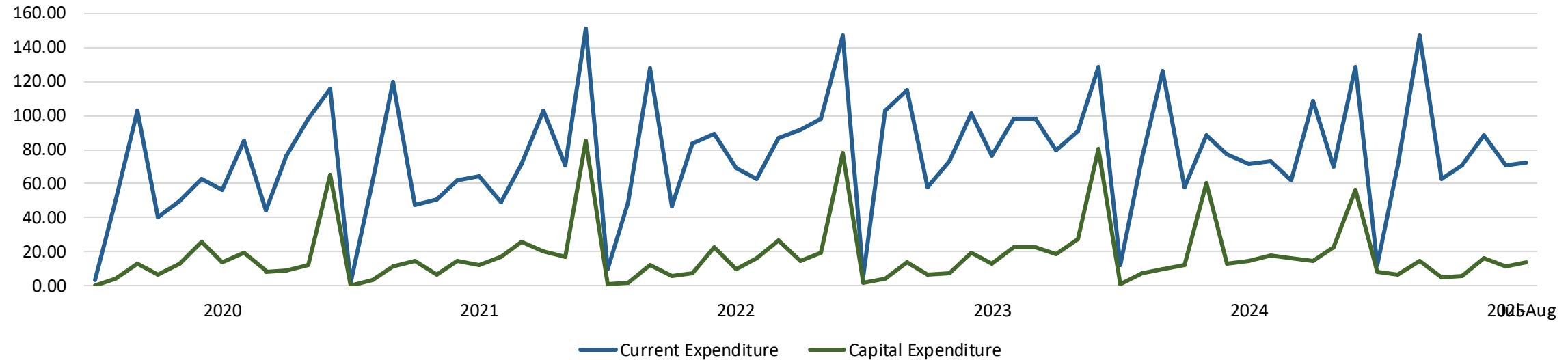
Particulars	Mid- Feb 2025 (USD=130 NPR)
<b>CPI-Inflation</b>	CPI-based inflation stood at 3.75 % year-on-year, compared to 4.82 % in the same period last year.
<b>External Trade</b>	Imports and exports increased 11.2 percent and 57.2 percent respectively. . Last year imports decreased 2.7 percent, exports decreased 4.0 percent and trade deficit decreased 2.5 percent.
<b>Remittances</b>	Remittances increased 9.4 percent in NPR terms and 6.9 percent in USD terms., last year, remittances increased 21.6 percent in NPR terms and 19.1 percent in USD terms.
<b>Balance of Payments (BOP)</b>	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. <b>BOP shrink to \$2.38 billion compared to the previous month \$2.19 billion.</b>
<b>Broad money (M2)</b>	Broad money (M2) increased 4.8 percent. On y-o-y basis, M2 expanded 9.9 percent., last year, Broad money (M2) increased 7.7 percent. On y-o-y basis, M2 expanded 14.0 percent.
<b>Deposits and Loans and advances</b>	Deposits at BFIs increased 4.3 percent and private sector credit increased 6 percent. On y-o-y basis, deposits increased 9.5 percent and private sector credit increased 7.7 percent, last year, Deposits at BFIs increased 7.6 percent and private sector credit increased 4.2 percent. On y-o-y basis, deposits increased 14.6 percent and private sector credit increased 5.2 percent.

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

F/Y 2016/17	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
F/Y 2022/23	Expenditure	180	1,048	2,888	3,596	4,707	5,505	5,505	6,449	7,460	8,805	9,813	11,579
	Revenue	670	1,209	2,253	2,747	3,857	4,325	4,325	4,897	5,746	6,355	6,594	8,043
	Treasury Position	2,473	2,238	1,536	1,533	1,673	1,722	1,722	1,602	1,608	1,516	1,426	605
F/Y 2023/24	Expenditure	287	942	2,289	3,773	4,709	5,685	5,685	6,498	7,328	8,543	9,709	11,361
	Revenue	663	1,186	1,841	3,054	4,172	4,768	4,768	5,370	6,286	6,991	7,724	8,898
	Treasury Position	1,756	1,614	1,441	1,579	1,989	1,809	1,809	1,722	2,636	2,351	2,114	834
F/Y 2024/25	Expenditure	338	1,156	2,766	3,689	4,673	5,610	6,343	7,068				
	Revenue	815	1,398	2,086	2,798	3,410	4,703	5,544	6,212				
	Treasury Position	1,662	2,265	1,476	1,800	1,847	2,502	2,942	3,297				

Ownership Structure of Government Securities





# Government Revenue in \$ million ( Exchange Factor 1 UAS = 130 NPR)

HEADS (\$ in million)	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-25	Feb-25	Mar-25	Apr-25	Compared to Last year	Trend
Customs	981	1,107	1,249	1,398	1,546	122	253	400	520	826	968				
Import Duties	785	885	995	1,110	1,225	99	206	324	419	659	968				
Green Tax	-	-	-	1	3	-	-	-	-	-	-				
Export Duty	1	1	2	2	2	1	1	1	2	3	-				
Infrastructure Tax	97	110	126	142	159	10	20	33	44	76	-				
Other incomes of Custom	2	2	3	4	5	0	1	1	2	3	-				
Agriculture Reform Duties	36	40	44	47	50	4	7	10	15	28	-				
Road Maintenance and Improvement Duty	41	47	54	61	68	6	12	20	26	38	-				
Road Construction and Maintenance Duty	19	22	26	32	33	3	7	10	13	19	-				
Value Added Tax	1,467	1,678	1,882	2,121	2,388	203	386	578	760	1,191	1,405				
Production, Sales and Service	580	671	757	863	1,001	100	171	241	319	498	586				
Imports	888	1,007	1,124	1,258	1,387	103	215	336	441	693	818				
Excise Duties	700	803	918	1,042	1,126	93	195	307	426	641	731				
Internal Production	517	595	686	780	840	67	137	213	304	468	535				
Excise on Imports	184	208	232	262	286	26	58	95	121	174	196				
Educational Service Tax	16	18	21	23	25	2	5	8	10	14	16				
Income Tax	1,287	1,555	1,675	1,793	2,180	176	278	397	515	1,092	1,230				
Income Tax	1,079	1,337	1,412	1,522	1,897	124	219	329	406	968	1,064				
Interest Tax	208	218	263	271	283	52	59	67	108	124	167				
Total Tax Revenue	4,451	5,162	5,745	6,377	7,266	595	1,117	1,690	2,230	3,765	4,351	4,914	5,724	111%	Up
Non Tax Revenue	464	592	655	693	880	133	163	220	256	540	594	627	671	113%	Up
Total Revenue	4,916	5,754	6,399	7,071	8,145	729	1,280	1,910	2,486	4,305	4,945	5,541	6,395	111%	Up
Other Receipts	169	171	172	174	183	17	24	37	44	60	62	142	186	109%	Up
Total Receipts	5,085	5,925	6,571	7,245	8,329	746	1,304	1,946	2,531	4,365	5,007	5,683	6,581	111%	Up

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

Industrial Classification	2023/24				2024/25		Trend
	Q1	Q2	Q3	Q4	Q1	Q2	
Agriculture, forestry and fishing	1.2	3.0	3.0	4.5	3.8	3.2	Down
Mining and quarrying	6.4	-3.5	-10.3	15.9	0.9	9.5	Up
Manufacturing	0.7	-4.0	-3.5	0.7	2.6	7.4	Up
Electricity, gas, steam and air conditioning supply	23.5	26.1	47.4	-3.5	21.4	9.2	Down
Water supply; sewerage, waste management	3.9	3.1	2.4	1.7	1.0	0.5	Down
Construction	0.2	9.6	-6.2	-8.6	0.9	9.1	Up
Wholesale and retail trade; repair of motor vehicles & motorcycles	-0.8	1.2	-2.4	2.4	0.8	6.1	Up
Transportation and storage	3.1	16.7	17.5	10.9	10.0	14.2	Up
Accommodation and food service activities	15.8	36.4	23.7	12.3	7.0	1.8	Down
Information and communication	6.9	7.9	6.4	-1.6	2.2	4.9	Up
Financial and insurance activities	7.3	17.9	0.4	7.7	5.7	6.6	Up
Real estate activities	3.0	3.0	3.0	3.0	3.1	3.1	Down
Professional, scientific and technical activities	3.6	3.9	4.5	4.6	3.9	3.0	Down
Administrative and support service activities	4.5	2.3	2.6	6.8	4.7	3.5	Down
Public administration and defence; compulsory social security	2.9	2.8	1.6	10.8	3.0	2.2	Down
Education	2.1	2.5	3.4	2.9	0.4	0.5	Up
Human health and social work activities	5.9	5.4	7.0	3.8	4.1	3.1	Down
Others services	0.6	6.4	5.3	4.4	0.7	0.7	Up
Aggregate	3.0	5.3	2.6	3.1	4.0	5.1	Up

Industrial Classification	2080/81				2081/82				
	2023/24				2024/25				
	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture, forestry and fishing	1,40,561	2,07,476	1,65,637	1,87,723	1,45,912	2,14,164		32.0%	
Mining and quarrying	4,100	4,099	3,851	5,362	4,137	4,490		0.7%	
Manufacturing	30,892	31,365	32,446	31,846	31,692	33,684		5.0%	
Electricity, gas, steam and air conditioning supply	21,431	14,411	9,269	18,097	26,007	15,735		2.4%	
Water supply; sewerage, waste management	4,804	4,226	4,189	4,347	4,852	4,247		0.6%	
Construction	40,649	37,693	39,038	44,510	40,999	41,112		6.1%	
Wholesale and retail trade; repair of motor vehicles & motorcycles	75,492	90,616	87,235	93,927	76,120	96,187		14.4%	
Transportation and storage	37,712	40,579	37,087	24,471	41,467	46,330		6.9%	
Accommodation and food service activities	10,437	11,565	11,386	10,071	11,172	11,779		1.8%	
Information and communication	24,322	24,583	23,221	21,899	24,852	25,794		3.9%	
Financial and insurance activities	35,902	35,493	38,801	35,073	37,932	37,831		5.7%	
Real estate activities	47,234	47,234	47,220	47,244	48,705	48,701		7.3%	
Professional, scientific and technical activities	5,350	5,542	5,591	5,664	5,556	5,711		0.9%	
Administrative and support service activities	4,112	4,290	4,403	4,567	4,304	4,439		0.7%	
Public administration and defence; compulsory social security	28,963	29,343	30,596	32,104	29,823	29,989		4.5%	
Education	35,325	36,378	35,045	37,096	35,480	36,566		5.5%	
Human health and social work activities	9,027	8,627	8,612	9,006	9,397	8,893		1.3%	
Other Services	2,920	2,959	2,982	3,001	2,940	2,982		0.4%	
Total	5,59,232	6,36,479	5,86,609	6,16,007	5,81,348	6,68,632		100.0%	

### Selected Macroeconomic Indicators

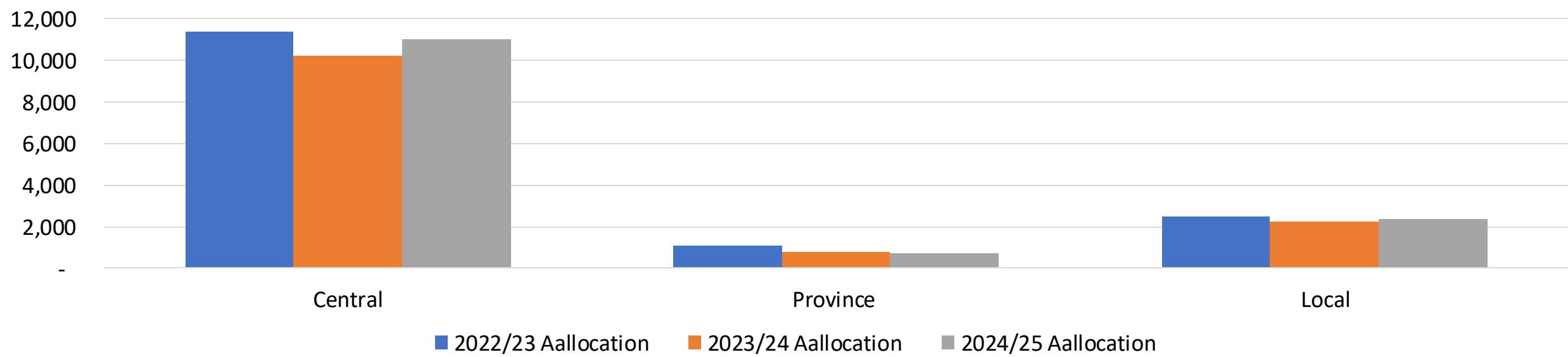
	Heading	Annual						
		2019/20	2020/21	2021/22	2022/23\$	2023/24\$\$		
<b>A</b>	<b>Real Sector (growth and ratio in percent)</b>							
	Real GDP at basic price	-2.4	4.5	5.3	2.3	3.5		
	Real GDP at purchasers' price	-2.4	4.8	5.6	2.0	3.9		
	Nominal GDP at purchasers' price	0.8	11.9	14.3	7.5	6.7		
	Gross 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-March		
		2019/20	2020/21	2021/22	2022/23	2023/24	2023/24	2024/25
<b>E</b>	<b>Public Finance (growth and ratio in percent)</b>							
	Revenue Growth (%)	0.2	16.0	14.1	-9.3	7.1	9.7	12.7
	Expenditure Growth (%)	-1.7	9.7	9.5	8.5	-0.9	2.9	4.7
	Domestic Debt (Rs. in billion)	613.2	800.3	984.3	1129.1	1180.9	1197.3	1311.7
	External Debt (Rs. in billion)	819.7	934.1	1025.8	1170.2	1252.3	1170.2	1253.2
	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						Variance	1 USD= NRP 132				1 USD= NRP 132			
	Actual Budget Amount (\$ Million) 2020/21	Budget Amount (\$ Million) 2021/22	Revised Amount (\$ Million) 2021/22	Actual Amount (\$ Million) 2021/22	Budget Amount (\$ Million) 2022/23	Revised Amount (\$ Million) 2022/23.		Budget Amount (\$ Million) 2023/24	Change (3-2)/2	Revised Amount (\$ Million) 2023/24	Variance	Budget Amount (\$ Million) 2024/25	Change (5-4)/4	Budget (\$ Million) 2024/25 (Half-Yearly Review 6	Change (6/5)
Revenue Sources															
Tax Revenue	7,211.40	8,540.89	8,487.72	8,216.69	10,334.32	8,666.67	-16.14%	9,459.24	9.15%	8,449.20	-10.68%	9,547.75	13.00%	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			
	Actual Budget Amount (\$ Million). 2020/21	Budget Amount (\$ Million) 2021/22	Actual Amount (\$ Million) 2021/22.	Budget Amount (\$ Million) 2022/23	Revised Amount (\$ Million) 2022/23	Variance (5-4)/4	Budget (\$ Million) 2023/24	Change. (5-6)/5	Revised Amount	Variance (7-6)6	Budget Amount (\$ Million) 2024/25	Change (8-7)/7	Budget (\$ Million) 2024/25 (Half-Yearly Review)	Change. (9/8)	
Allocated Budget	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
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
Environmental Protection	105	0.76%	92	0.61%	65	0.49%	64	0.46%	Down	Down
Housing and Community Amenities	671	4.89%	738	4.94%	500	3.77%	508	3.60%	Up	Down
Health	1,180	8.60%	1,027	6.87%	779	5.87%	434	3.08%	Down	Down
Recreation, Culture and Religion	56	0.41%	80	0.54%	50	0.38%	45	0.32%	Down	Down
Education	1,500	10.94%	1,641	10.98%	1,498	11.29%	440	3.12%	Down	Down
Social protection	1,582	11.54%	1,694	11.34%	1,663	12.53%	1,621	11.50%	Down	Down
Total	13,709	100%	14,949	100%	13,268	100%				
Exchnage Factor	USD 1 = NPR 120				USD 1 = NPR 132					

## Sectoral distribution

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

## 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,  
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Protecting your creations

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