Economic Outlook Based on May 2025

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Overview 2024/25

Nepal’s Path to Growth

External Sector

Financial Sector Highlights

Fiscal situation

1

Overview 2024/25

The **World Bank Country Partnership Framework (CPF) for Nepal (FY2025–2031)**

Theme	Key Data / Facts	WBG Strategic Focus / Outcomes
Fiscal Policy	Trade taxes: 45% of tax revenue- Fiscal deficit: ~6% of GDP (FY2023)	Improve tax base- Strengthen public financial management- Reform intergovernmental fiscal transfers
Monetary Policy	Inflation target: 6.5% (actuals exceeded in recent years)- Weak monetary transmission	Support macroeconomic stability- Develop financial infrastructure- Promote credit access
Industrial Policy	Export stagnation- Manufacturing shrinking- FDI limited	Business environment reform (DPC)- Support private investment- Target tourism, hydropower, digital sectors
Health	25% of children stunted- Gender gaps in access remain	Integrate health into climate and resilience agenda- Strengthen health delivery at subnational levels
Climate Change	2nd most hazard-prone country globally- Forest cover rose to 46% (2022)	Promote green energy & hydropower- Build resilient infrastructure- Expand climate-smart financing
Education	1/3 of workforce lacks primary education- Youth NEET: 35% (47% for females)	Support quality education- Promote digital & vocational training- Strengthen school-to-work transition
Employment	82% informal employment- Women's labor participation: 24% (vs. men's 53%)	Enhance access to jobs via private sector- Promote gender inclusion- Support MSMEs and digital services
Poverty Reduction	Poverty: 0.37% (int'l extreme poverty line), 20% (national poverty line)- High in Karnali, Sudurpaschim	Reduce regional disparities- Build social protection systems- Promote jobs-led growth

The **World Bank Country Partnership Framework (CPF) for Nepal (FY2025–2031)** lays out a strategic vision centered around two main development challenges: **job-creating growth** and **resilience to natural disasters and climate change**.

- **Fiscal Policy**
  - Nepal's **public finances are vulnerable**, heavily reliant on **trade taxes** (about 45% of tax revenue), making it sensitive to external shocks.
  - The **fiscal deficit** peaked near **6% of GDP in FY2023**, following import restrictions that cut revenue.
  - The CPF calls for **broadening the tax base**, improving public financial management (PFM), and enhancing debt sustainability (current debt around **43% of GDP**, mostly concessional).
  - WB-ADB collaboration includes improving **capital expenditure effectiveness** and **fiscal decentralization** through better planning at provincial and local levels.
- **Monetary Policy**
  - While **Nepal Rastra Bank** maintains a 6.5% inflation target, recent inflation has stayed above this.
  - The CPF emphasizes **macroeconomic stability**, recommends more **flexible exchange rate management**, and improving **monetary transmission mechanisms**.
  - Recommendations include improving financial infrastructure (e.g., secured lending and credit reporting) to stimulate investment and consumption.
- **Industrial Policy**
  - Nepal’s **manufacturing sector has stagnated**, and **exports remain weak** due to high input tariffs, regulatory constraints, and logistics bottlenecks.
  - The CPF focuses on:
    - **Improving the business environment**, including reforms for FDI and SME growth.
    - **Sectoral support** for tourism, hydropower, digital industries, and urban development.
    - Promoting **industrial productivity** via regulatory simplification and infrastructure support.
  - The WB and IFC are encouraging **private capital mobilization** and PPPs in transport, logistics, and tourism.
- **Health**
  - While Nepal has made gains in maternal and child health, **stunting and health inequality** persist.
  - Health sector investments under this CPF are relatively limited but may focus on:
    - **Shock-responsive health systems**, especially for **resilience and climate risks**.
    - Addressing systemic gaps in service delivery coordination among three government tiers.
  - The CPF supports improving human capital via **health, education, and nutrition linkages**.

Climate Change

- *Nepal is the* ***second most vulnerable country*** *to multi-hazard mortality risks.*
- *The CPF builds on the* ***Country Climate and Development Report (CCDR)*** *and emphasizes:*
  - ***Green infrastructure*** *(roads, energy, urban systems).*
  - ***Sustainable hydropower*** *and regional energy trade.*
  - ***Climate-smart agriculture, forestry,*** *and disaster risk financing.*
- *Key goals include reducing exposure to air pollution and increasing household/community climate resilience.*

Education

- *Despite improved access, Nepal struggles with* ***learning outcomes, skill mismatches****, and* ***gender gaps****.*
- *The CPF supports:*
  - ***Foundational learning and digital skills****.*
  - ***TVET (Technical and Vocational Education and Training)*** *reform and youth employability programs.*
  - *Strengthening* ***school-to-work transitions*** *and subnational education delivery.*

Employment

- *82% of employment is* ***informal****; youth NEET rate is* ***35%****, and* ***47% for young women****.*
- *The CPF's "More and Better Jobs" pillar promotes:*
  - ***Labor market reform****, MSME growth, and access to finance.*
  - *Support for* ***gender-inclusive employment****, especially in tourism, digital, and care sectors.*
  - *Apprenticeships and demand-driven skill programs.*

Poverty Reduction

- *Nepal's extreme poverty (US$2.15/day) declined from 55% (1995) to 0.37% (2022).*
- *However, poverty (using the 2023 national line) remains at* ***20%****, with high rates in* ***Sudurpaschim (34.2%)*** *and* ***Karnali (26.7%)****.*
- *The CPF prioritizes* ***targeted interventions****,* ***social protection systems****, and* ***jobs-led growth****, especially for marginalized groups.*
- *Remittances, though key in poverty reduction, haven't driven productive employment.*

CPF Outcomes and Indicators (WBG Strategy)

CPF Outcome	Indicators
1. **More and Better Jobs**	- Private investment as % of GDP- Wage employment share- Students supported- Financial service access (esp. for women)
2. **Connected Communities**	- People connected to sustainable transport- People with electricity- Digital service access
3. **Green Planet and Resilient Populations**	- People with improved climate resilience- Reduced exposure to air pollution

Key Additions in IMF Sixth Review

Condition Area	Fifth Review (Mar 2025)	Sixth Review (June 2025)
Loan Portfolio Review (LPR)	*Planned and consultant under selection*	***Progress on the LPR** is now a **prior action** for Executive Board approval*
NRB Act Amendments	*Recommended*	***Drafted**, incorporating IMF's 2021 & 2023 recommendations; to be sent to Parliament*
Tax & Project Guidelines	*Not yet completed*	*Completed: Tax expenditure report + National Project Bank guidelines*
AML/CFT	*Legal amendments enacted; effectiveness phase ongoing*	*Shift to **full implementation** of AML/CFT Action Plan*
Asset Management Company	*Not specifically addressed*	*Introduced with caution; conditional on insolvency and recovery frameworks*

IMF Fifth Review (completed March 12–18, 2025)

Key Outcomes & Conditions:

- ***$41.8 M (SDR 31.4M)*** *disbursed upon Executive Board approval*
- ***Economic outlook****: Growth ~4.2 % in FY2024/25; inflation near 5 %; flood-related challenges, sluggish domestic demand*
- ***Quantitative and structural performance****:*
  - *Largest part of performance criteria met, except revenue and child welfare grants*
  - *Structural reforms included: amended AML law, strengthened oversight of public enterprises, completed audit of NRB 2023/24 accounts with international experts*
  - *Loan Portfolio Review (LPR) planned: procurement cancelled once, then relaunched to hire consultant*
- ***Policy advice****: Emphasized revenue mobilization, improved capital project execution, gradual fiscal consolidation, cautious/responsive monetary policy, strengthening NRB Act, ongoing AML/CFT reforms*

IMF Sixth Review (May 26 – June 10, 2025)

Key Outcomes & Conditions:

- ***$42.7 M (SDR 31.4M)*** *pending Executive Board approval*
- ***Economic conditions****: Growth >4 %, inflation at ~3.4 % (April 2025); recovery buoyed by hydropower, manufacturing, a strong harvest, and remittances*
- ***Completion of prior benchmarks****:*
  - *Tax expenditure report completed.*
  - *Updated National Project Bank guidelines published.*
  - *LPR roadmap finalized.*
  - *NRB Act amendments drafted, incorporating IMF's 2021 and 2023 recommendations*
- ***New conditionality****: Sixth review* ***requires further progress on the LPR****—not just planning but actual execution—before Executive Board approval*
- ***Additional cautions****:*
  - *Financial vulnerabilities persist: NPLs at 5.2 %, stressed SACCOs*
  - *Advised cautious approach to creating an Asset Management Company, contingent on stronger debt recovery and insolvency frameworks*
  - *AML/CFT reforms transitioning from legal framework to* ***implementation*** *phase*

- ***ADB Country Partnership Strategy. 2025-2029***

Key Issues Identified

Key Issues	Description
Remittance-driven economy	*Over-reliance on remittances (~25% of GDP) fuels consumption and dampens exports, manufacturing competitiveness.*
Weak private sector competitiveness	*High tariffs, logistics costs, informal enterprises (~50%), and strong real exchange rate hinder business growth.*
Low agricultural productivity	*Fragmented land, inadequate irrigation, weak rural infrastructure, limited agribusiness linkages.*
Skilled labor and education gaps	*Mismatch between education (especially TVET) and market demand; basic skill deficits.*
Institutional capacity	*Weak administrative capacity at sub-national levels due to new federal structure.*
Geographic & climate vulnerabilities	*Landlocked terrain raises trade costs; climate risks (earthquakes, floods) impact growth and resilience.*

Major Recommendations	Description
Private-sector driven green growth	*Strengthen PPPs, support youth employment, climate-smart infrastructure, digitization, and green technology.*
Structural reform & capacity-building	*Simplify business regulations, enhance logistics, and improve sub-national institutional capacity.*
Agricultural modernization	*Expand irrigation, improve rural roads, support value chains, and promote agribusiness.*
Human capital & TVET improvements	*Upgrade teacher skills, reform curricula, increase employer partnerships, and expand apprenticeship programs.*
Financial instruments & innovation	*Develop green bonds, local-currency instruments, leverage pension/insurance sectors for financing.*
Climate resilience mainstreaming	*Integrate climate-risk assessments into all projects; retrofit schools and water systems.*
Inclusive governance & federal support	*Prioritize disadvantaged groups, improve public service delivery capacity at all tiers of government.*
Coordination with partners	*Align financing with other donors (World Bank, AIIB, etc.) for greater impact and policy consistency.*

Critical Review & Suggested Actions

Area	***Suggested Action***
Implementation capacity	*Strengthen local financial management, service delivery, and project implementation capacity at sub-national level.*
Private-sector environment	*Cut trade and regulatory barriers; implement PPPs outside hydropower (e.g., logistics, agri-processing).*
Agriculture	*Invest in irrigation, cooperative farming, rural infrastructure, and support agribusiness financing.*
TVET	*Align TVET curricula with market demand; scale apprenticeship and skill-upgrading schemes.*
Financial innovation	*Support local rupee bonds, improve investor confidence, and leverage pension and insurance funds.*
Climate action	*Require climate-risk proofing for all investments; scale adaptation measures (retrofitting, water security).*
Regional trade links	*Develop trade corridors and logistics links with India and China; align with regional trade bodies.*

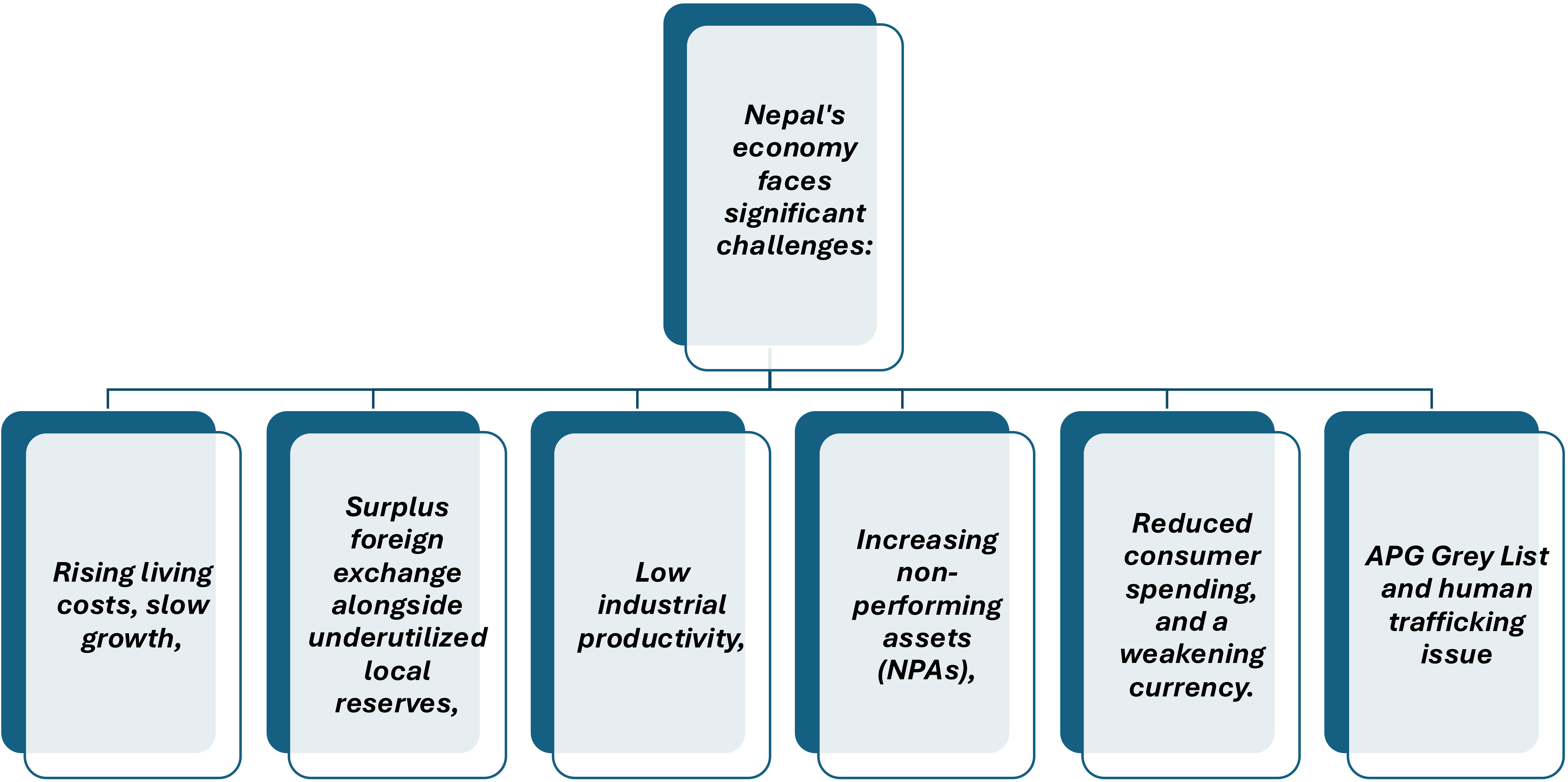
ADB's CPS is comprehensive and well aligned with national goals and global frameworks. Its strength lies in multi-sector coordination—driving growth through private investment, human capital, public service quality, and climate resilience. However, its success critically depends on strengthening local implementation capacity, delivering deep structural reforms, and transforming current dependency models—especially remittance dependence, agricultural stagnation, and weak TVET systems.

Most importantly, a sharper focus on execution—across federal structures, private sector ecosystems, vocational education, and finance innovation—will determine whether the CPS achieves its bold aims for a green, resilient, inclusive, and employment-intensive future for Nepal.

Additional areas of focus beyond the recommendations of the IMF, ADB, and World Bank

Theme	***Recommendations***
Financial Sector	*Expand access to credit via digital finance- Develop secured transaction frameworks- Improve payment systems*
AML/CFT & FATF	*Strengthen **FIU Nepal** with risk-based supervision- Enforce KYC, UBO disclosure- Build capacity across police, prosecutors, judiciary*
FATF Grey List Legacy	*Maintain post-delisting vigilance- Improve Suspicious Transaction Reports (STRs)- Enact AML laws aligned with FATF standards*
Corruption & Governance	*Enforce procurement transparency (e-GP)- Streamline land acquisition and environmental clearance- Civil service reform prioritization*
Human Trafficking	*Expand support to trafficking survivors- Increase labor attachés abroad- Track recruitment agencies & brokers*
Digital Regulation	*Update cybersecurity and privacy laws- Regulate digital lenders & fintech startups- Improve cybercrime enforcement*
Migration Policy	*Integrate labor market and migration planning- Establish returnee skill certification & employment schemes*

Market outlook


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:

***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.*

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:

Address structural issues by streamlining bureaucracy, updating outdated regulations, and strengthening governance to create a more business-friendly environment.

Export Diversification:

Develop and implement policies that enhance the export sector, focusing on products where Nepal has a competitive advantage to increase foreign exchange earnings.

Digital Transformation:

Invest in digital infrastructure and promote innovation to improve efficiency and global competitiveness.

Sustainable Development:

Incorporate environmental sustainability into economic planning to ensure long-term resilience and inclusive growth.

Strategic Monetary and Fiscal Policies:

Implement prudent financial management practices to navigate economic challenges effectively.

Outlook for Nepal: Navigating Uncertainty with Urgent Action and Long-Term Vision

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

2

Industrial Classification	2077/78	2078/79	2079/80	2080/81 R	2081/82 P	Compare to last year
	2020/21	2021/22	2022/23	2023/24	2024/25	
Agriculture, forestry and fishing	2.85	2.35	3.02	3.35	3.28	DOWN
Mining and quarrying	4.65	8.84	0.91	3.23	1.99	DOWN
Manufacturing	8.66	6.70	-1.70	-2.02	3.78	UP
Electricity and gas	4.18	52.68	19.76	10.96	13.82	UP
Water supply; sewerage and waste management	1.35	3.08	3.22	1.27	2.09	UP
Construction	7.00	6.93	-1.48	-2.20	2.21	UP
Wholesale and retail trade; repair of motor vehicles and motorcycles	6.64	7.42	-4.10	-0.36	3.30	UP
Transportation and storage	4.44	4.60	1.45	13.43	9.45	DOWN
Accommodation and food service activities	10.73	12.56	18.03	21.03	5.00	DOWN
Information and communication	3.67	4.19	4.15	4.91	4.81	DOWN
Financial and insurance activities	4.66	6.91	7.92	7.94	6.29	DOWN
Real estate activities	2.77	1.72	2.91	2.43	2.72	UP
Professional, scientific and technical activities	1.51	3.50	3.93	4.15	3.98	DOWN
Administrative and support service activities	2.30	1.58	5.03	4.04	3.97	DOWN
Public administration and defence; compulsory social security	3.38	4.08	5.46	4.27	2.24	DOWN
Education	3.92	4.66	3.93	2.15	1.98	DOWN
Human health and social work activities	6.60	6.99	6.57	5.31	4.77	DOWN
Other Services	3.38	4.48	5.64	4.27	3.92	DOWN
Agriculture, Forestry and Fishing	2.85	2.35	3.02	3.35	3.28	DOWN
Non-Agriculture	5.21	6.54	1.98	3.36	4.28	UP
Gross Domestic Product (GDP) at basic prices	4.49	5.28	2.29	3.36	3.99	UP
Taxes less subsidies on products	8.03	8.75	-0.60	6.36	9.89	UP
Gross Domestic Product (GDP)	4.84	5.63	1.98	3.67	4.61	UP

Economic Growth

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

Inflation

For FY 2024/25 the GoN set target rate of inflation at 5.5% **March 2025 inflation 3.39 within NRB target.**

Based on data from Nepal's Central Bureau of Statistics (CBS), the country's economic growth trajectory over the past decade reveals both resilience and structural challenges. The GDP for the fiscal year 2024/25 is projected to grow by 4.61%, marking a steady recovery from the pandemic-induced slump. Key drivers of this growth include the electricity and gas sector, which is projected to grow by 13.82%, reflecting ongoing expansion in hydropower and increased energy exports. The transportation and storage sector is another major contributor, with 9.45% growth, signaling recovery in logistics and infrastructure development. Tax revenues (net of subsidies) also surged by 9.89%, indicating increased economic activity or tax reforms.

The manufacturing sector, which had experienced negative growth in recent years, shows signs of recovery with a 3.78% increase. Meanwhile, the accommodation and food service sector continues to perform well, posting a 5% growth rate after peaking at 21.03% in the previous year, highlighting the ongoing rebound of Nepal's tourism industry. However, some sectors remain sluggish. Construction, traditionally a key employer, is recovering slowly (2.21%) after two years of contraction. Public services such as education (1.98%) and public administration (2.24%) show limited growth, suggesting stagnation or inefficiencies. Agriculture, forestry, and fishing – a vital sector for employment – remains stable with modest growth at 3.28%, indicating a need for modernization to enhance productivity.

The COVID-19 pandemic had a significant impact on the economy, with GDP shrinking by 2.37% in 2019/20. Sectors such as tourism, trade, and transportation were hit hardest, with accommodation and food services contracting by nearly 37%. While the economy began recovering in 2020/21 with a 4.84% growth rate, momentum slowed in subsequent years. Non-agricultural sectors are now leading the recovery, contributing to a more balanced growth profile in recent years.

Overall, Nepal's economic recovery is being driven by a combination of energy sector expansion, revived tourism, and a rebound in transportation and manufacturing. However, the data also point to ongoing challenges in agriculture, construction, and public services. Structural reforms, investment in infrastructure, and productivity-enhancing measures across sectors will be essential to sustaining long-term growth.

*Nepal's economic growth in 2024/25 is increasingly being powered by **dynamic service sectors and productive middle-tier industries**, while **growth in large traditional sectors remains muted**. Sectors like **transport, finance, energy, and ICT** are becoming new growth poles, but their scale is still developing. Meanwhile, **public sector and agriculture** dominate the structure but lack transformative momentum.*

To ensure balanced and sustainable economic development, Nepal should:

***Scale up high-growth sectors** through investment and policy support.*	***Modernize agriculture and public services** to raise productivity.*	*Strengthen **manufacturing and logistics**, which combine scale and dynamism.*	*Promote **digital, green, and inclusive growth models** to align emerging sectors with national development goals.*

Nepal's Financial and Energy Sectors at a Critical Juncture

Nepal's financial sector stands at a pivotal moment. The recent placement of the country on the FATF Grey List due to deficiencies in its anti-money laundering and counter-terrorist financing (AML/CFT) framework has underscored the urgency of comprehensive reform. At the same time, the World Bank's Country Partnership Framework (CPF) for FY2025–2031 offers a roadmap for fostering inclusive growth, strengthening institutional resilience, and advancing financial stability. Against this backdrop, the Nepal Rastra Bank (NRB) has taken a pivotal step by establishing a high-level Financial Sector Reform Committee, charged with addressing systemic gaps and guiding the financial sector towards a more resilient, trustworthy, and competitive future.

The CPF identifies a range of long-standing structural constraints within Nepal's economic landscape. Remittances comprise approximately 25.3% of GDP, highlighting their central role in the national economy, yet domestic investment and formal job creation remain subdued. Private investment has plateaued at roughly 22% of GDP, over 80% of the workforce operates in the informal sector, and women's participation in the labor market is just 24%, compared to 53% for men. Meanwhile, capital budget execution has been a persistent challenge, with only 63.5% of allocations utilized in FY2024. These indicators point to deep-seated institutional, regulatory, and financial access bottlenecks that require urgent attention. In response, NRB's Financial Sector Reform Committee has been mandated to address critical areas, including strengthening AML/CFT compliance and enforcement, aligning supervisory practices with international standards, and deepening financial inclusion. The Committee aims to design a dedicated national AML/CFT mechanism, refine legal provisions for financial and non-financial institutions, and foster stronger cross-border regulatory collaboration. It will also emphasize post-merger oversight of financial institutions, expand rural and underserved access, integrate gender-responsive financial literacy, and lay the groundwork for a more open and competitive financial sector.

These priorities are well-aligned with the World Bank's vision for a digital, climate-resilient, and inclusive financial ecosystem. Yet experience suggests that reform efforts in Nepal often stumble due to institutional fragmentation, political interference, and a lack of accountability. To break this cycle, the Committee must operate with a focus on transparency, clearly defined milestones, robust inter-agency collaboration, and strong legal underpinnings. Amendments to critical legislation, such as the NRB Act, must be prioritized to reinforce the central bank's independence and enforcement authority. With disciplined execution and sustained political will, this initiative has the potential to position Nepal's financial sector as a trusted, resilient, and investment-ready engine of growth — one that serves its people, especially women, MSMEs, and underserved communities, while aligning with global standards and best practices.

Simultaneously, Nepal's hydropower sector faces its own critical challenge. The shift from a "take or pay" to a "take and pay" model threatens to disrupt the country's long-standing strategy for harnessing its hydropower potential — estimated at over 100,000 MW — and realizing its vision of converting "water into watts" and "watts into wealth." Without predictable, secure, and transparent policies, this vision may remain an unrealized slogan rather than an economic reality.

The NRB should review its productive sector lending policies, especially the mandatory lending quotas for the hydropower sector. At a time when uncertainty surrounding the role of the sole energy off-taker threatens to categorize the sector as high-risk, such policies must be re-evaluated. To preserve and deepen investor confidence, regulatory clarity and long-term stability must be priorities. By providing a sound policy environment, Nepal can secure the financing required to fully unlock its hydropower potential, ensuring long-term energy security and robust economic growth.

Growth Projections

World Bank

1.April 2024 4.6%. FY 2024/25 projections
- Oct. 2024 5.1% (0.5% Improved form April 24 for 2024/25)
- January 2025 5.1% (no change from Oct. 2024 for 2024/25)
- April 2025 4.9% (0.2% down form January 2025)
- June 2025. 4% (0.9% down form April 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 form 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 form 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

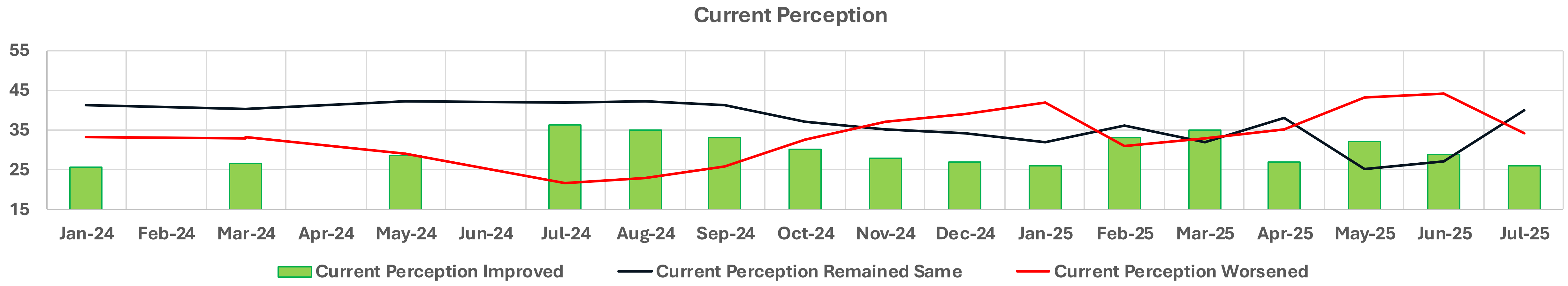
The GDP growth forecasts for Nepal provided by key institutions such as the World Bank, ADB, IMF, and CBS reveal a dynamic and often shifting outlook. These projections are revised frequently, reflecting changes in both domestic and global economic conditions. The constant adjustments show how uncertain 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.



Persistent macroeconomic instability and uncertainty in Nepal have significantly influenced public sentiment, contributing to declining consumer confidence and subdued private investment. *Despite temporary improvements in perception during mid-2024, recent survey rounds show a sharp rise in pessimism—reflecting growing concerns about the country's economic direction. To restore macroeconomic balance, authorities have adopted strict stabilization policies, including* ***monetary tightening and high interest rates****. While these measures aim to curb inflation and manage external vulnerabilities, they have also dampened domestic demand and investment enthusiasm.*

Notably, even as liquidity conditions improved and interest rates softened in early 2025, consumer perception failed to rebound, indicating persistent stagnation in aggregate demand. *This disconnect is rooted in structural challenges such as weak domestic demand driven by policy uncertainty, governance bottlenecks, and global shocks. Additionally, Nepal's over-reliance on the banking sector and its underdeveloped capital market continue to restrict access to diverse financing channels, limiting business and investment expansion.*

Moreover, ineffective public investment execution and low capital expenditure have further reinforced negative consumer sentiment*, as citizens see limited on-the-ground impact from public spending. While central banks can control the money supply, they cannot dictate consumer behavior or investor confidence. The current perception data underscores that monetary tools alone are insufficient—***confidence, transparency, and effective policy implementation*** *are critical to revive economic momentum.*

To reverse the worsening trend in consumer sentiment, Nepal requires a ***balanced approach*** *that not only ensures macroeconomic stability but also* ***stimulates aggregate demand through proactive, investment-friendly reforms****, improved capital market development, and efficient public spending.*

Impact of Macroeconomic Instability and Low Investment

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

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

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

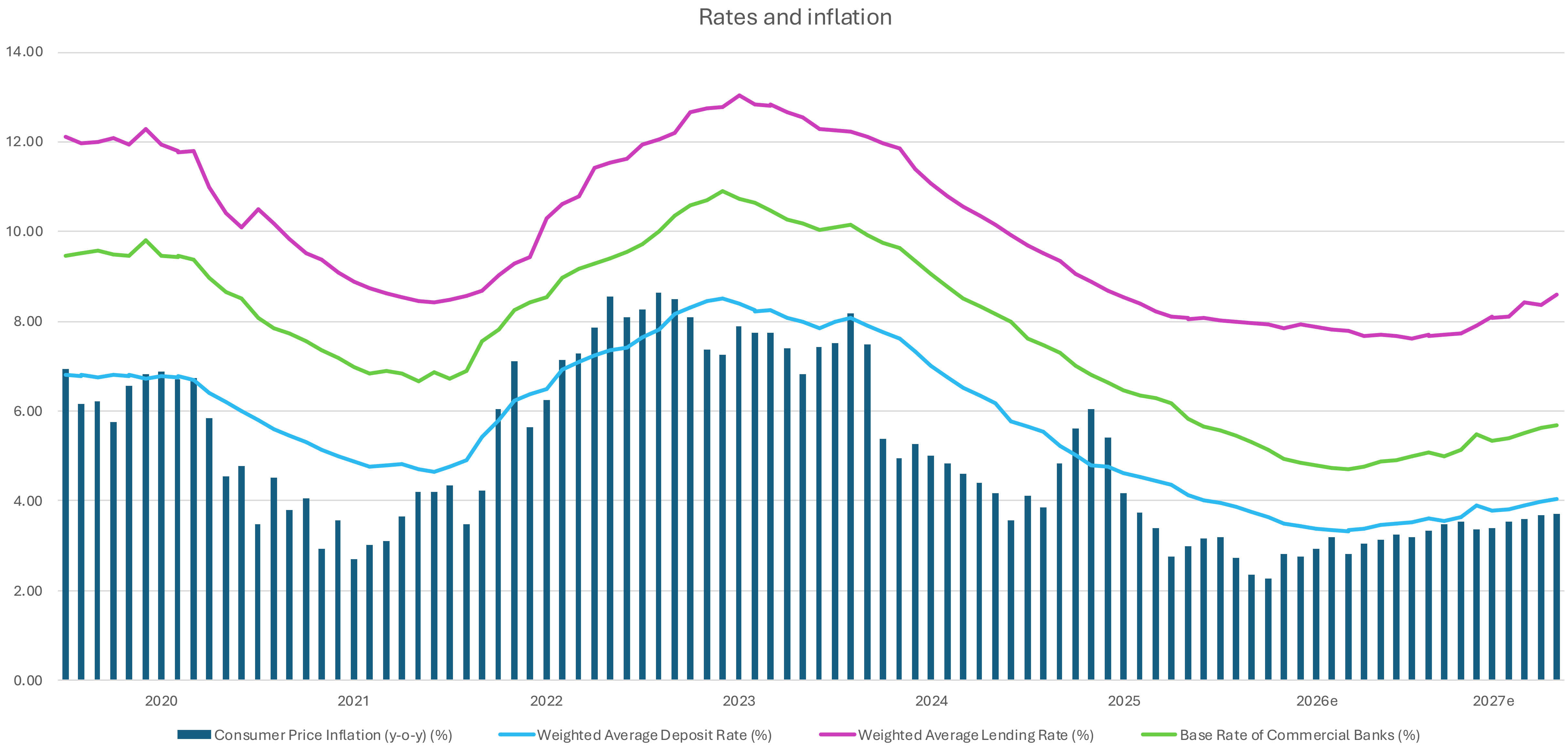
This stagnation is driven by several structural challenges, including:

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

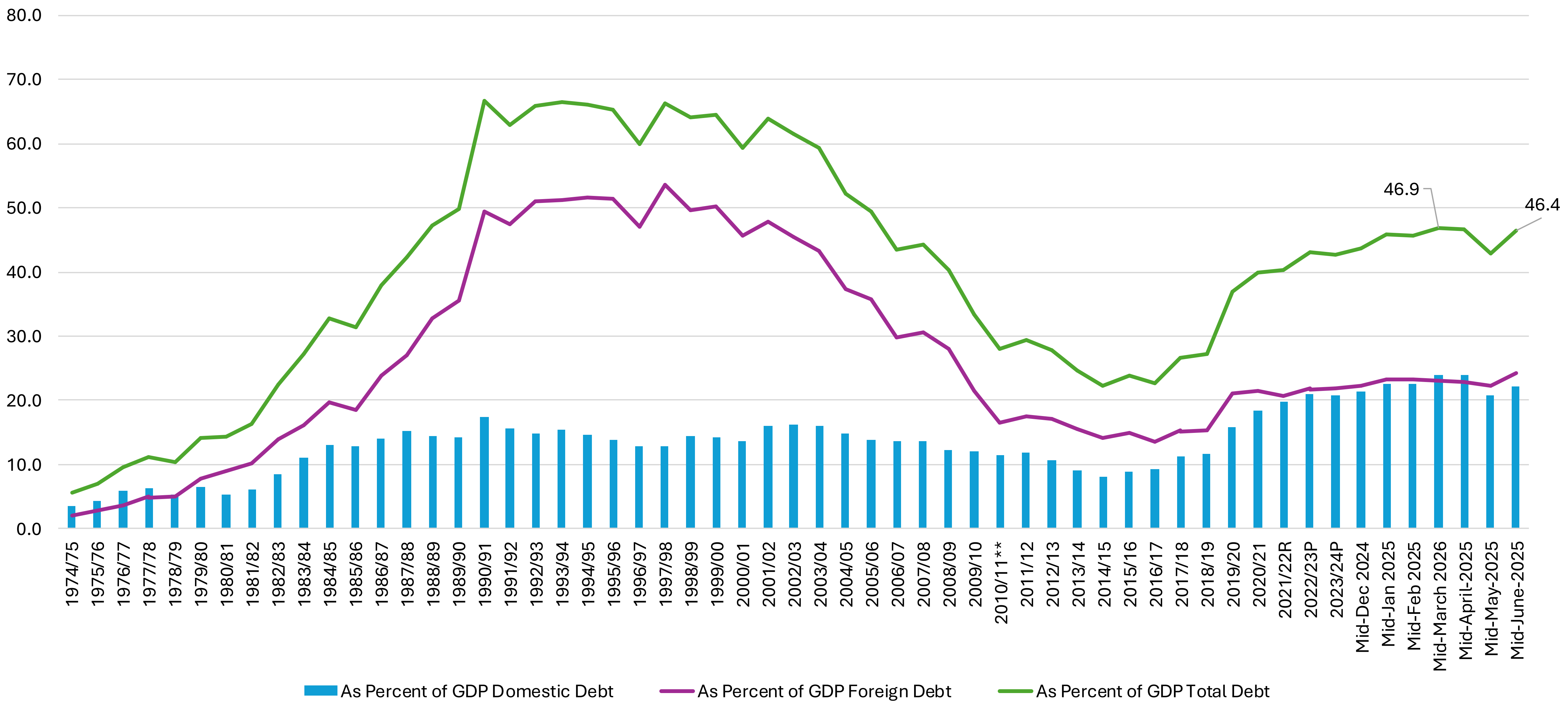
*While central banks can regulate the **money supply**, they **cannot dictate how businesses and consumers utilize available capital**. Moreover, the stringent stabilization measures have inadvertently **curtailed public investment**, further constraining long-term growth potential.*

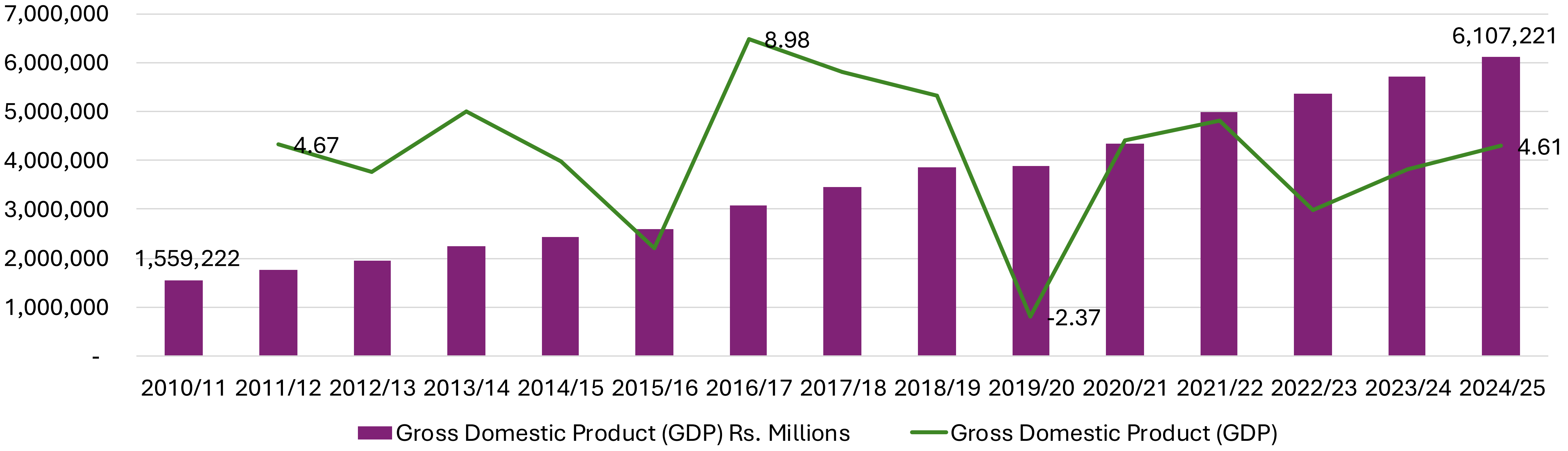
A balanced approach that stabilizes the economy while fostering investment-friendly policies is essential for sustainable development.

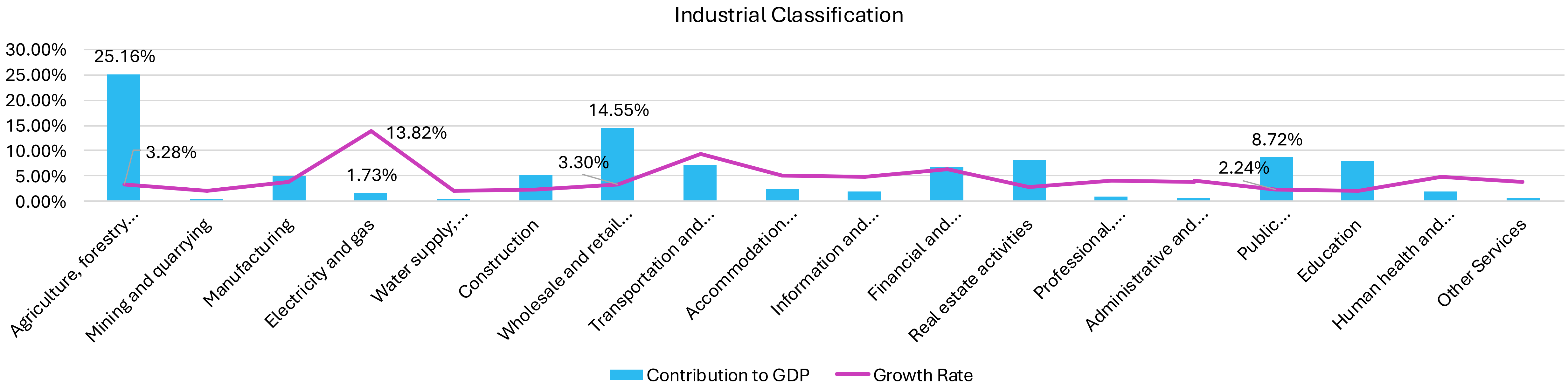
Interest rates and Inflation



Starts above 66% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 42.9% in 2019/80. Overall, foreign debt debt remains stable with a slight increase, domestic debt increases significantly, and total debt shows an increasing trend followed by a recent rise.




7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
10.00
8.00
6.00
4.00
2.00
0.00
-2.00
-4.00
1,559,222
4.67
8.98
-2.37
6,107,221
4.61
2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17 2017/18 2018/19 2019/20 2020/21 2021/22 2022/23 2023/24 2024/25
Gross Domestic Product (GDP) Rs. Millions
Gross Domestic Product (GDP)


Industrial Classification
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
25.16%
3.28%
13.82%
1.73%
14.55%
3.30%
8.72%
2.24%
Agriculture, forestry...
Mining and quarrying
Manufacturing
Electricity and gas
Water supply,...
Construction
Wholesale and retail...
Transportation and...
Accommodation...
Information and...
Financial and...
Real estate activities
Professional,...
Administrative and...
Public...
Education
Human health and...
Other Services
Contribution to GDP
Growth Rate

Risk Matrix

Risk Matrix

Risks	*Likelihood*	*Impact*	*Mitigation Measures*
Political Instability	*High*	*High*	*Strengthen governance frameworks and prioritize bipartisan support for key projects.*
Climate Disruptions	*High*	*High*	*Invest in disaster management and climate-resilient infrastructure.*
Weak Spending Execution and Revenue Mobilization	*High*	*High*	*Streamline budgetary processes and enhance accountability in capital expenditure and revenue mobalization.*
Declining Private Sector Confidence	*Medium*	*High*	*Implement tax incentives, regulatory reforms, and ease of doing business measures.*
External Shocks (e.g., remittance or export decline)	*High*	*Severe*	*Nepalese government revenue heavily relies on customs duties. However, the risk of reciprocal tariffs from trading partners and a potential reduction in grants from friendly nations could threaten fiscal stability. To mitigate these challenges, Nepal should focus on boosting local production, reducing government expenditures, downsizing the government structure, and increasing investment in research and development.*
Rising Non-Performing Assets (NPAs)	*Medium*	*High*	*Establish an Asset Management Company (AMC) to address banking sector vulnerabilities.*

Risk Matrix

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

Policy Mistakes

Monetary policy transmission

1. Interest Rate Channel

Less Effective

2. Lending Rates Channel

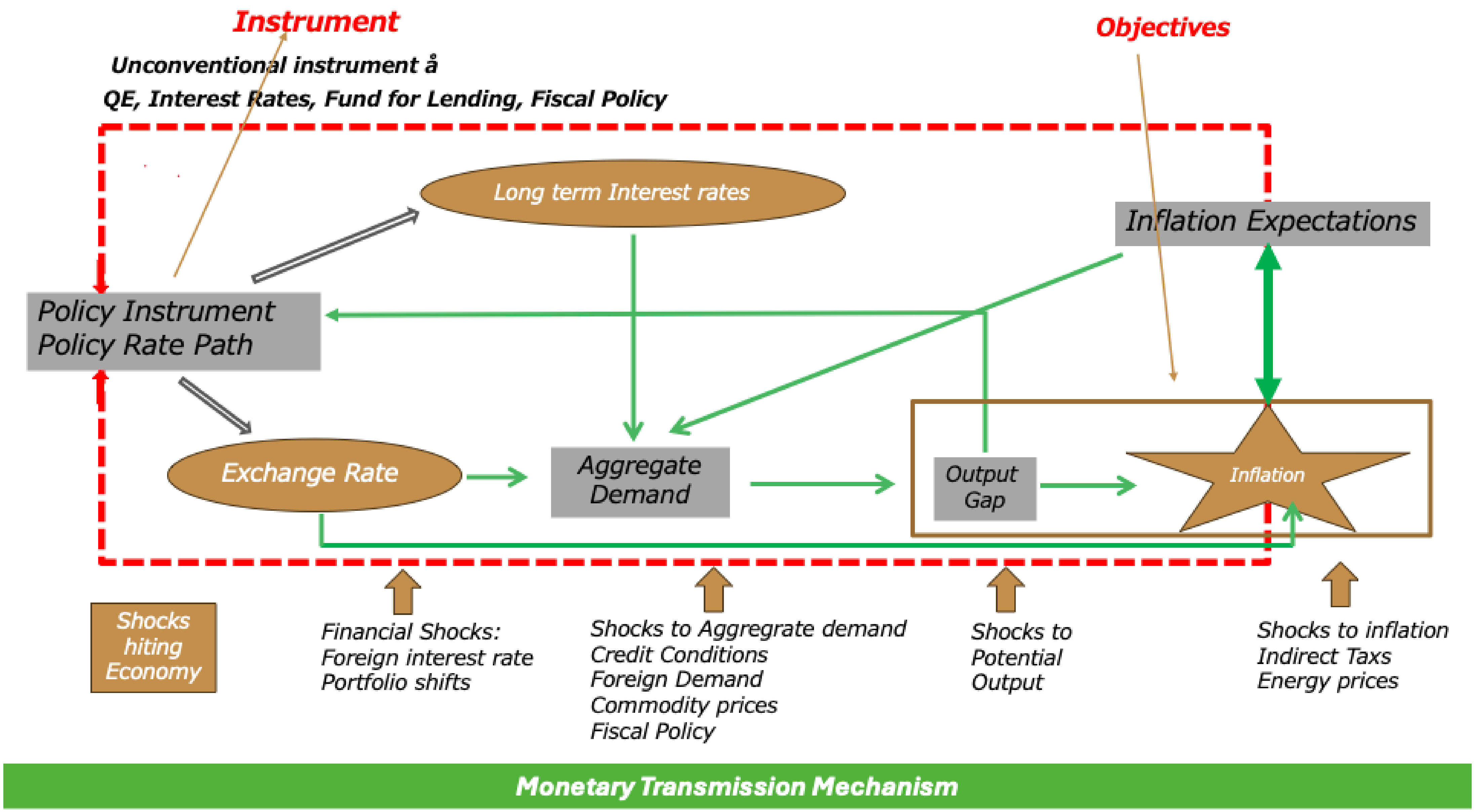
Not Effective

3. Asset Price Channel

Not Effective

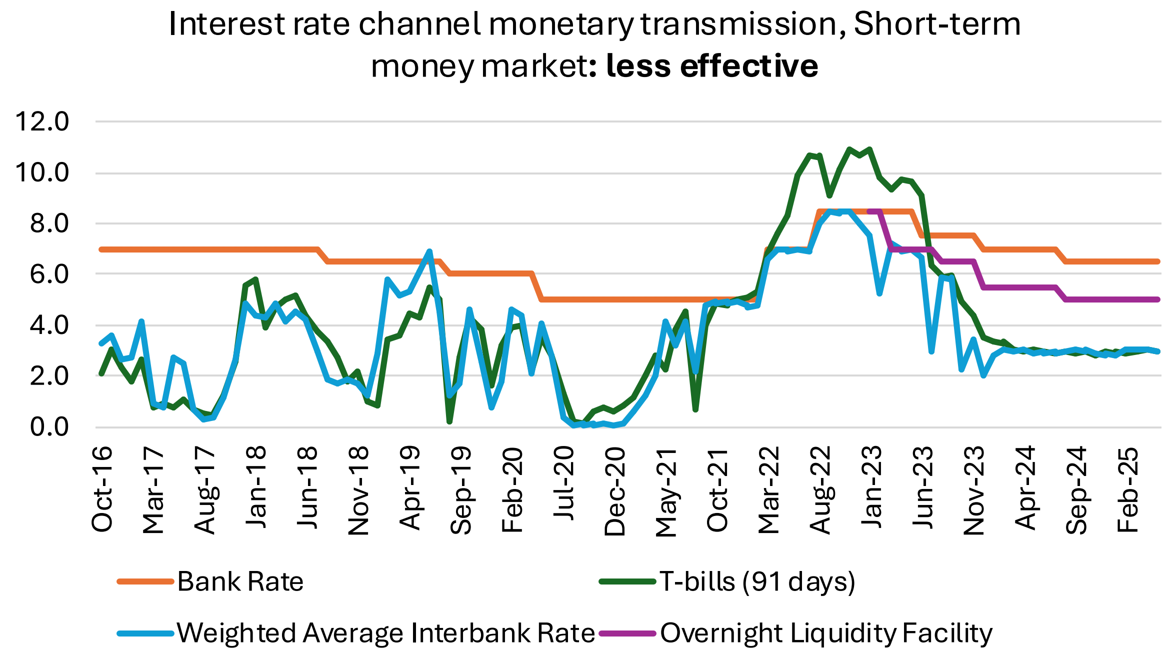
4. Exchange Rate Channel

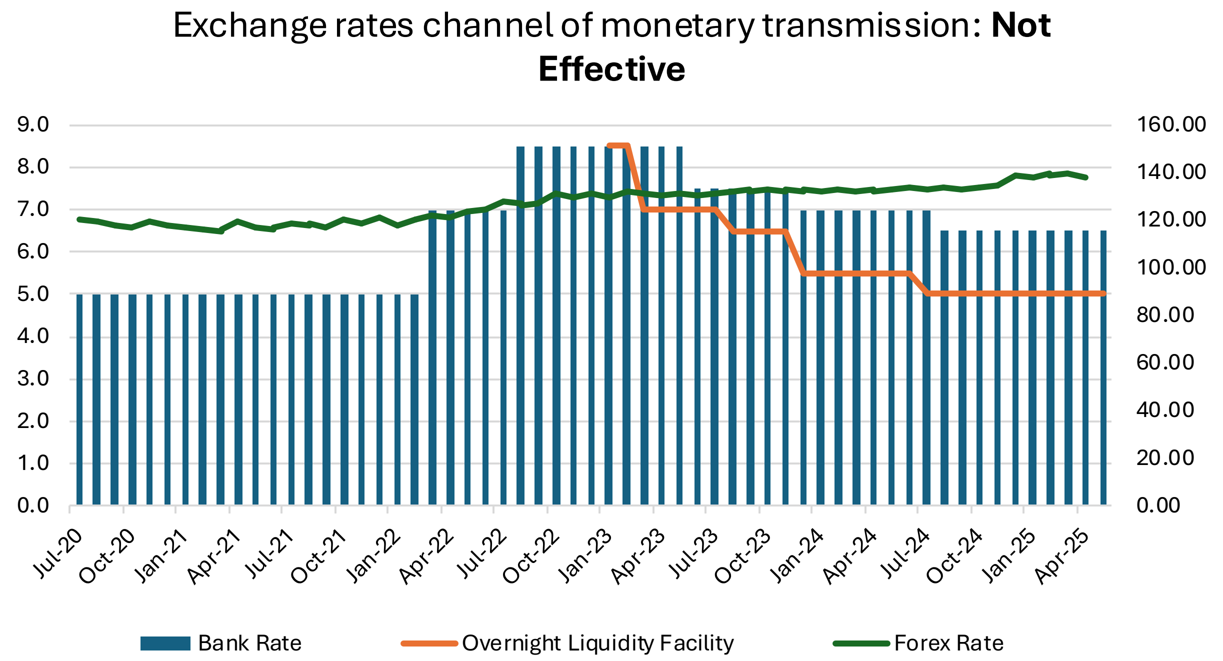
Not Effective

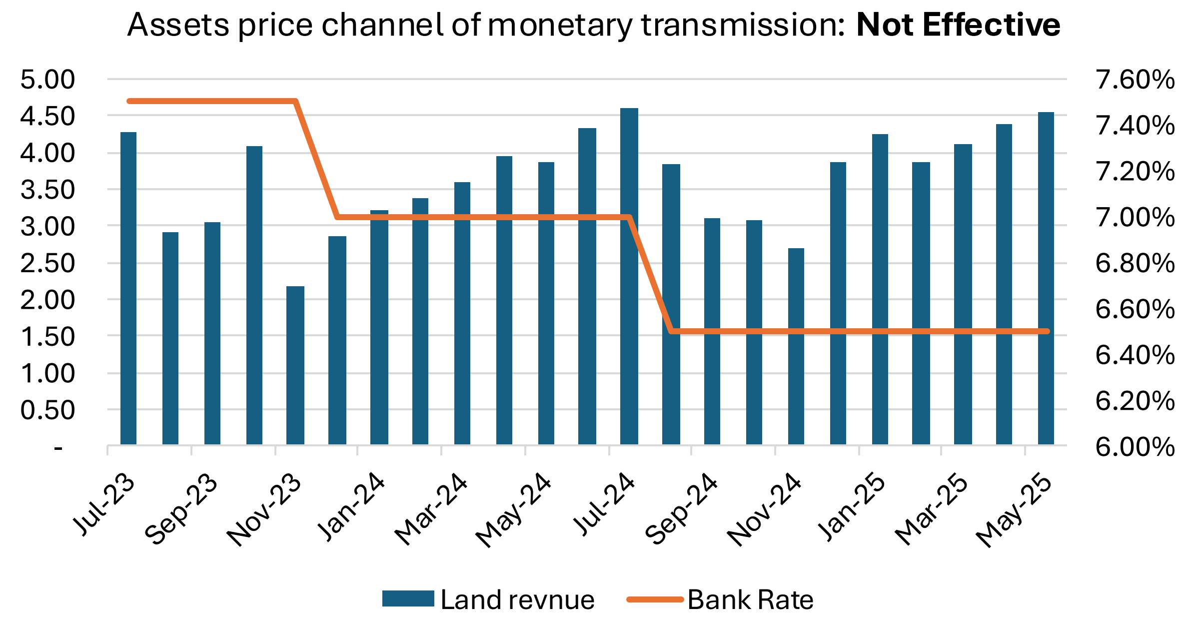

Instrument
Unconventional instrument å
QE, Interest Rates, Fund for Lending, Fiscal Policy
Objectives
Long term Interest rates
Inflation Expectations
Policy Instrument
Policy Rate Path
Exchange Rate
Aggregate Demand
Output Gap
Inflation
Shocks hiting Economy
Financial Shocks:
Foreign interest rate
Portfolio shifts
Shocks to Aggregrate demand
Credit Conditions
Foreign Demand
Commodity prices
Fiscal Policy
Shocks to Potential Output
Shocks to inflation
Indirect Taxs
Energy prices
Monetary Transmission Mechanism

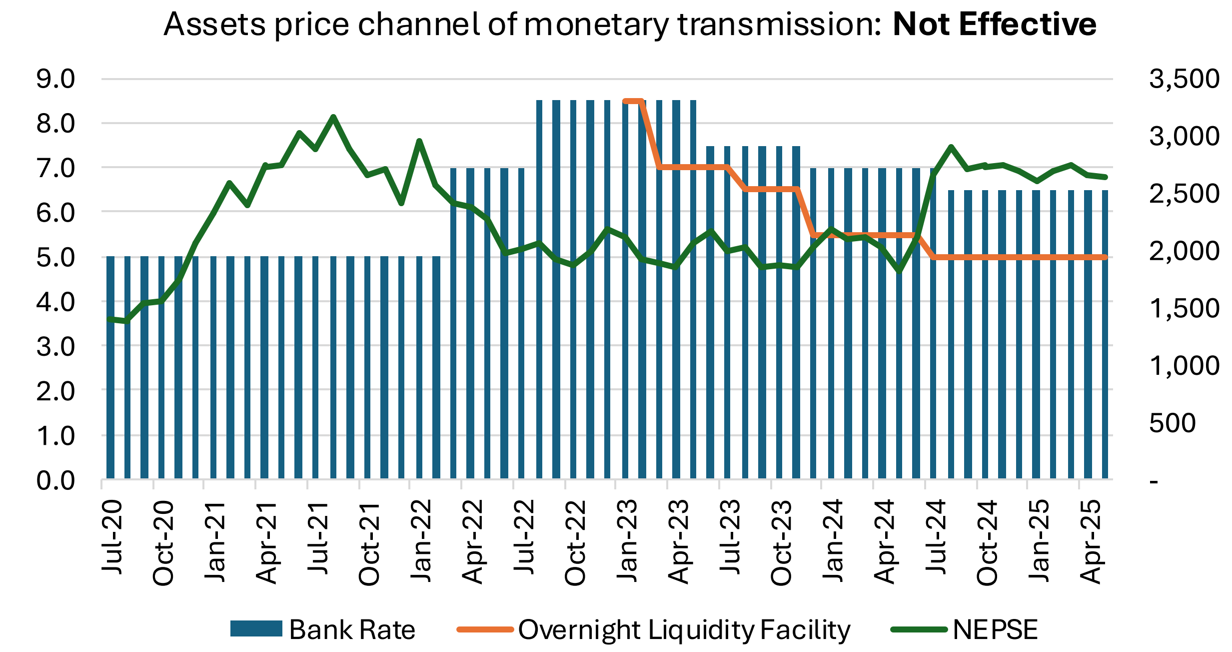
A core set of financial stability indicators for banks are:

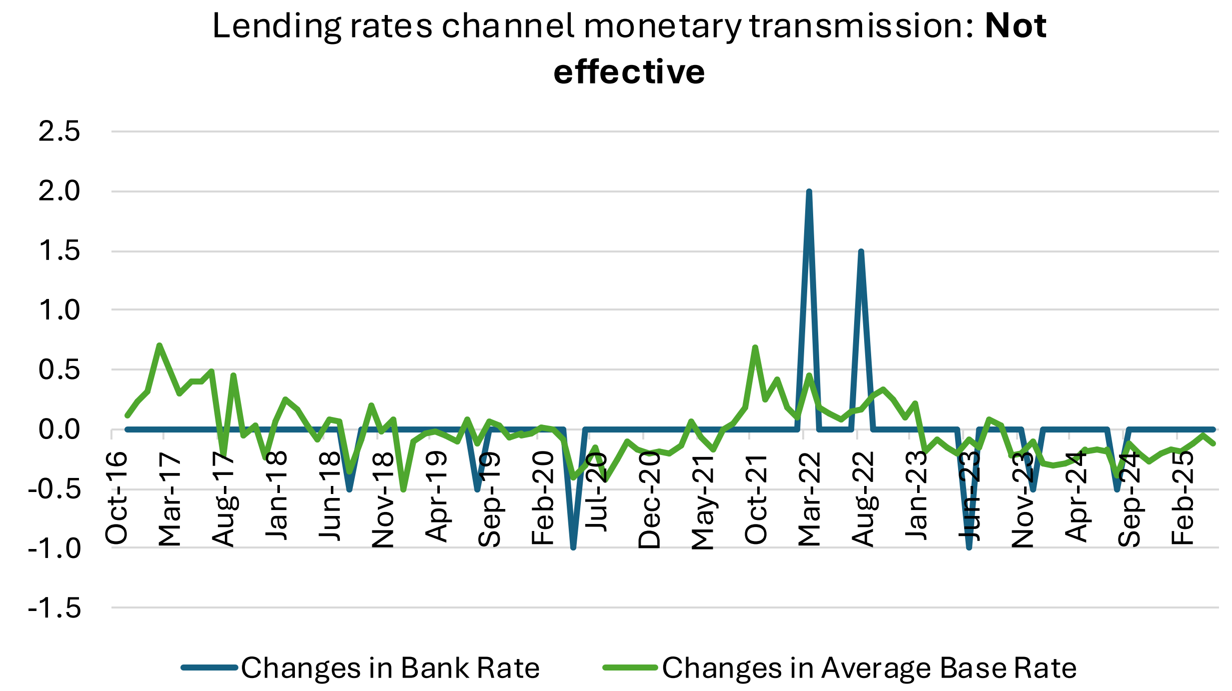
- *Capital adequacy*
  - *Under Pressure*
- *Asset quality*
  - *Deteriorating*
- *Earnings and profitability*
  - *Net Interest Merging narrowing*
- *Liquidity*
  - *Excessive increasing negative carrying cost*
- *Sensitivity to market, credit and operational risks*
  - *Increasing*


Interest rate channel monetary transmission, Short-term money market: **less effective**
12.0
10.0
8.0
6.0
4.0
2.0
0.0
Oct-16
Mar-17
Aug-17
Jan-18
Jun-18
Nov-18
Apr-19
Sep-19
Feb-20
Jul-20
Dec-20
May-21
Oct-21
Mar-22
Aug-22
Jan-23
Jun-23
Nov-23
Apr-24
Sep-24
Feb-25
Bank Rate
T-bills (91 days)
Weighted Average Interbank Rate
Overnight Liquidity Facility

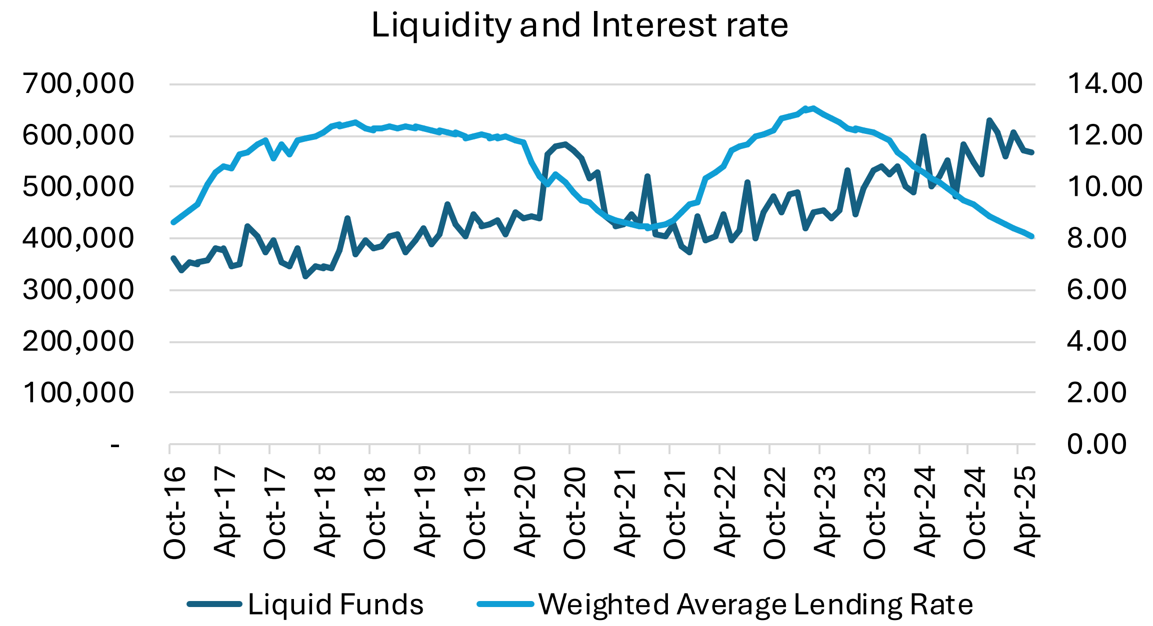

Exchange rates channel of monetary transmission: **Not Effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
0.00
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Apr-25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


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

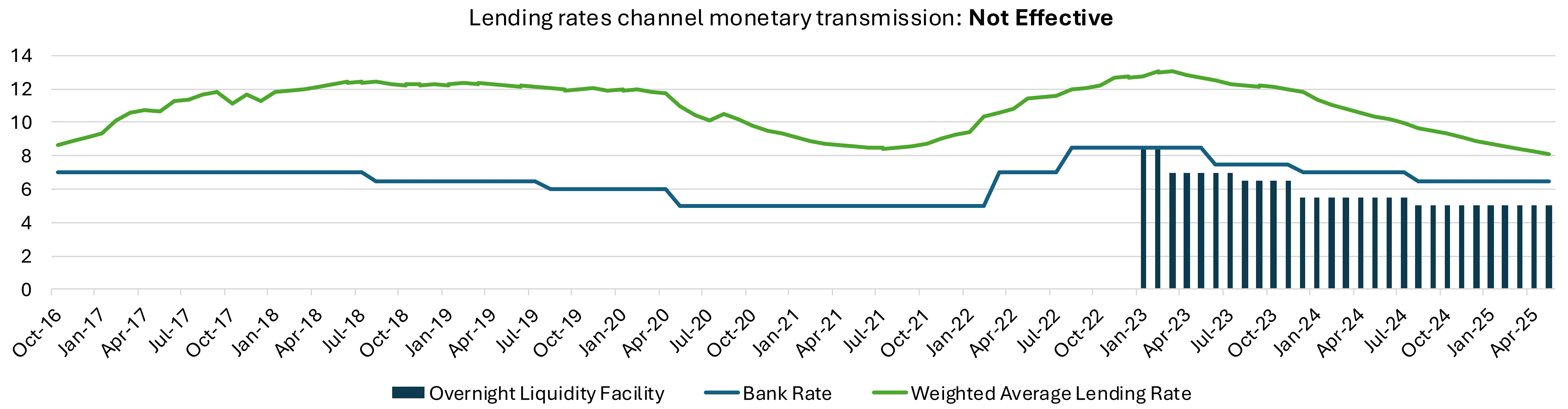

Assets price channel of monetary transmission: **Not Effective**
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
3,500
3,000
2,500
2,000
1,500
1,000
500
-
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Apr-25
Bank Rate
Overnight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



Lending rates channel monetary transmission: **Not effective**
2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
Oct-16
Mar-17
Aug-17
Jan-18
Jun-18
Nov-18
Apr-19
Sep-19
Feb-20
Jul-20
Dec-20
May-21
Oct-21
Mar-22
Aug-22
Jan-23
Jun-23
Nov-23
Apr-24
Sep-24
Feb-25
Changes in Bank Rate
Changes in Average Base Rate



Liquidity and Interest rate
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Oct-16
Apr-17
Oct-17
Apr-18
Oct-18
Apr-19
Oct-19
Apr-20
Oct-20
Apr-21
Oct-21
Apr-22
Oct-22
Apr-23
Oct-23
Apr-24
Oct-24
Apr-25
Liquid Funds
Weighted Average Lending Rate



Lending rates channel monetary transmission: **Not Effective**
14
12
10
8
6
4
2
0
Oct-16
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
Oct-20
Jan-21
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24
Apr-24
Jul-24
Oct-24
Jan-25
Apr-25
Overnight Liquidity Facility
Bank Rate
Weighted Average Lending Rate

1. Consumer Price Inflation (CPI)

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

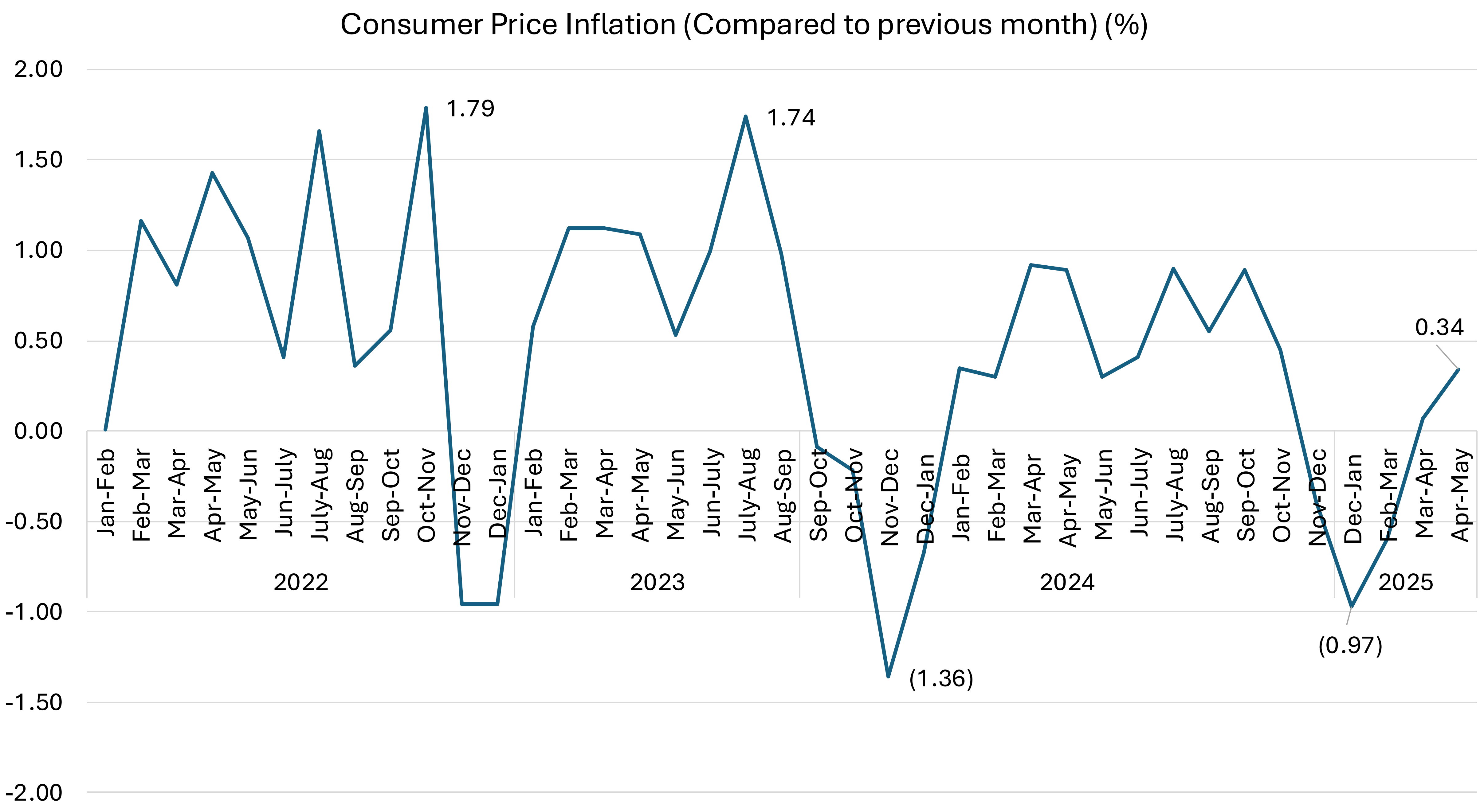
- *2019-2021: CPI fluctuated between 4.44% and 6.95%.*
- *2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.*
- *2023-2025: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 2.77% by May 2025.*

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 May 2025, the CPI declined to 2.77% from 6.05% in December 2024, primarily due to improved supply chain conditions and lower consumer demand. Persistence low inflation can be strong signal of the deflationary pressure.*

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) (%)
2.00
1.50
1.00
0.50
0.00
-0.50
-1.00
-1.50
-2.00
1.79
1.74
0.34
(1.36)
(0.97)
Jan-Feb
Feb-Mar
Mar-Apr
Apr-May
May-Jun
Jun-July
July-Aug
Aug-Sep
Sep-Oct
Oct-Nov
Nov-Dec
Dec-Jan
2022
2023
2024
2025

The Kathmandu vegetable market has experienced significant price fluctuations over the past month, with vegetables witnessing decrease in prices by 2.49%.

Compared to Asar 03, 2082, there have been significant fluctuations in the prices of vegetables and fruits in the Kalimati Fruit and Vegetable Market as of Jestha 03, 2082. Some commodities have seen sharp price increases, while others have dropped significantly.

*Notably, **local cabbage** prices rose by **140%, carrot (Terai)** by **80%**, and **green onions** by **77.78%**, indicating strong demand and possible supply constraints. Similarly, prices of **peas** (up **69.44%**), **local carrots** (**64.99%**), and **large tomatoes (Indian)** (**46.15%**) have surged substantially.*

*On the other hand, prices of certain vegetables have fallen sharply. **Mint** declined by **61.45%, string beans** by **63.08%, green bullet chilies** by **60.24%, hybrid cucumber** by **52.80%**, and **local pointed gourd (parwar)** by **52.27%**, suggesting either increased supply or reduced demand.*

*Interestingly, **small tunnel tomatoes** saw a **21.60%** price drop, while **Indian large tomatoes** increased by **46.15%**, reflecting price shifts based on supply origin. Both **Indian onions** and **red potatoes** also saw slight price increases. Among fruits, **junars** (Nepali citrus) increased by **18.42%, green grapes** by **17.54%**, and **shiitake mushrooms** by **14.64%**. In contrast, prices of **lemons, green watermelon, ginger**, and **pomegranates** decreased.*

In summary, the Kalimati market has experienced price volatility due to seasonal factors, varying supply sources, regional production patterns, and shifting consumer demand. This highlights the need for government and related agencies to focus on supply chain management and price stabilization mechanisms.

.

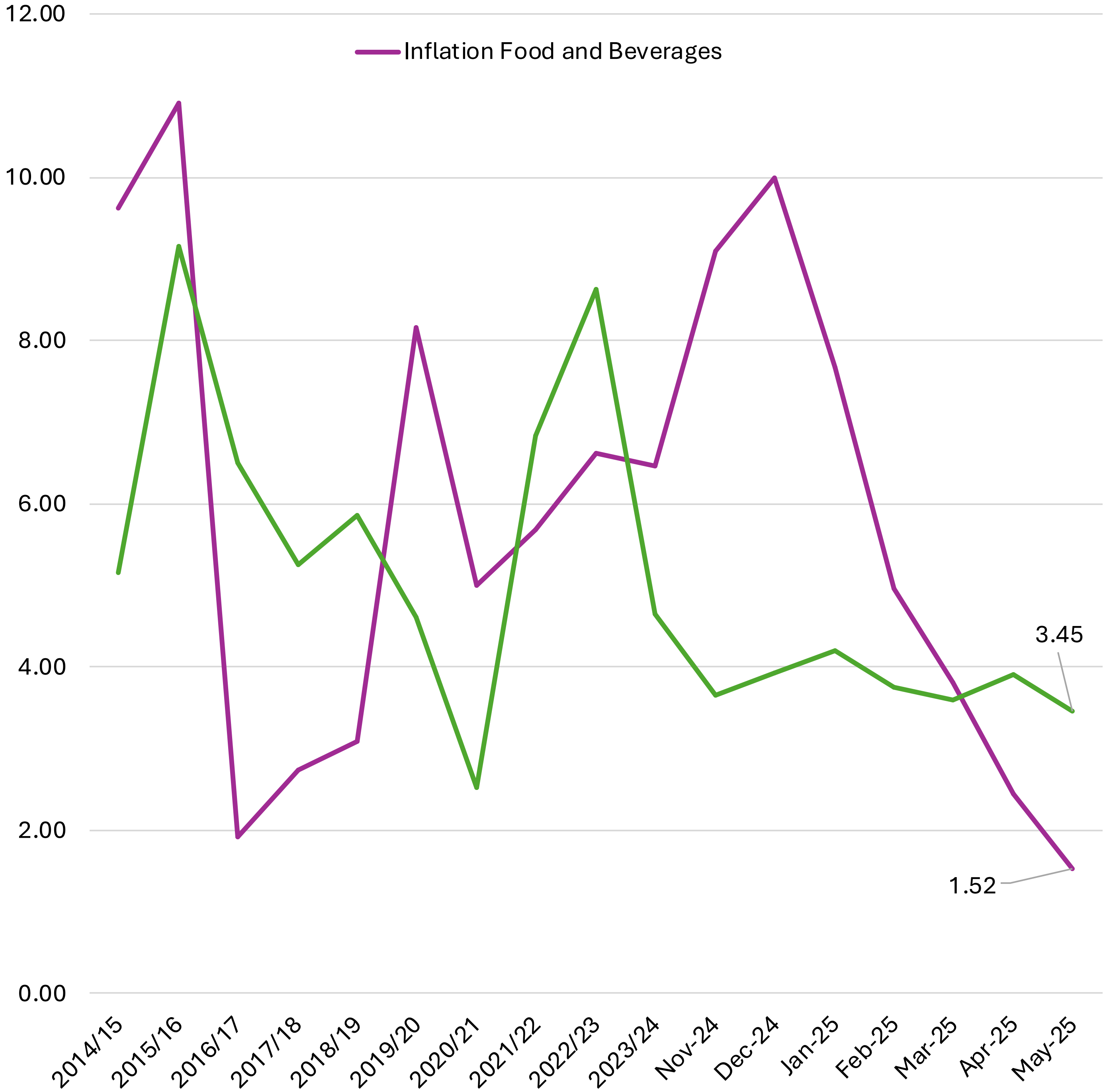
Overall inflation fluctuated significantly, peaking at 9.92% in FY 2015/16 due to the 2015 earthquake and trade blockades, while reaching its lowest at 3.60% in FY 2020/21, reflecting subdued economic activity during the COVID-19 pandemic.

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 4.19%, indicating limited price pressures in non-food categories. However, in May 2025, non-food inflation eased to 2.45%, while food inflation increased to 3.90%.

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.

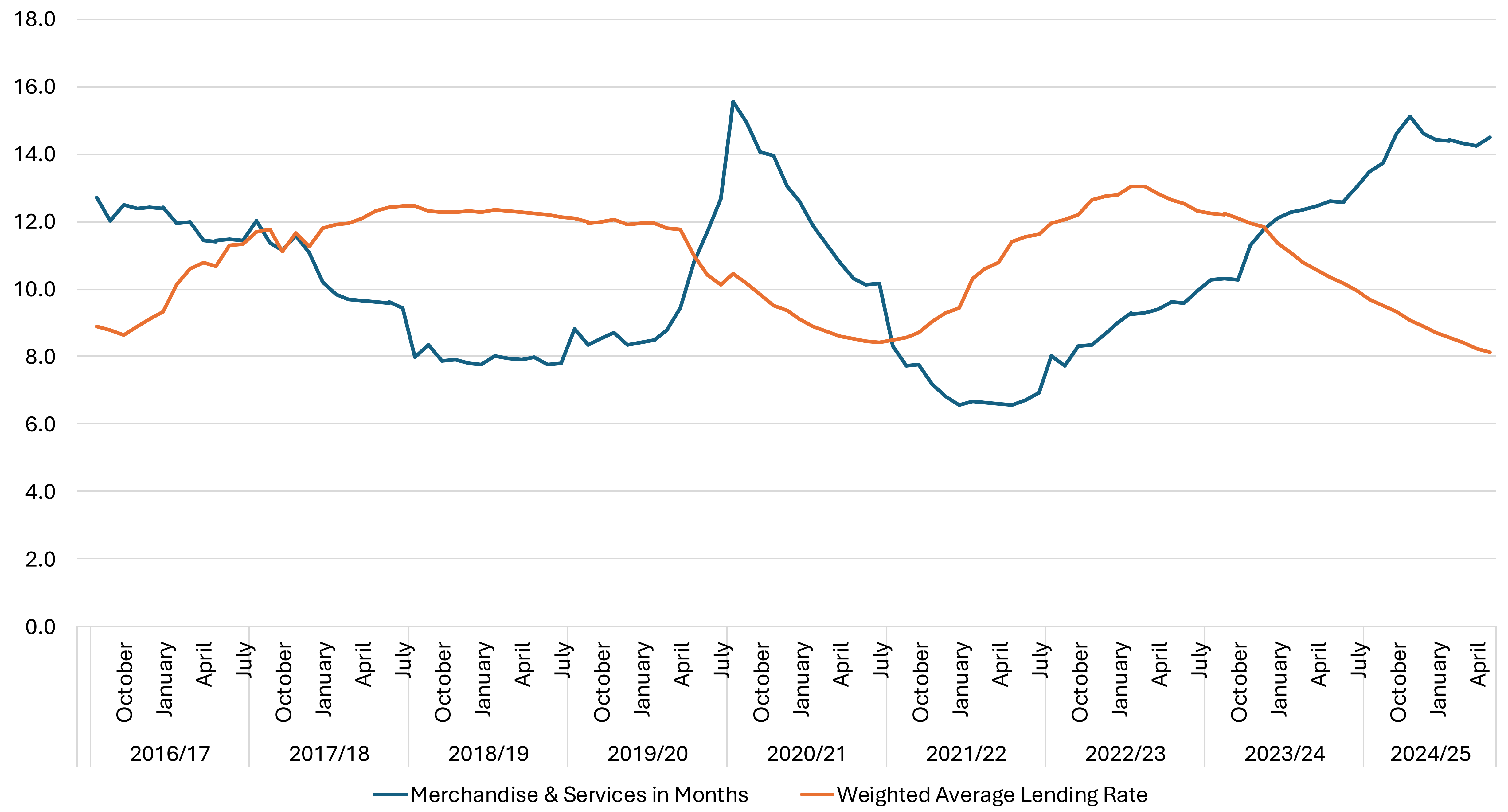
- *Exports rose steadily from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December-January 2024, before climbing further to NPR 24.7 billion by mid-January 2025. In contrast, imports saw a significant surge, increasing from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021. 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-May2025, imports had rebounded to NPR 160 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).*

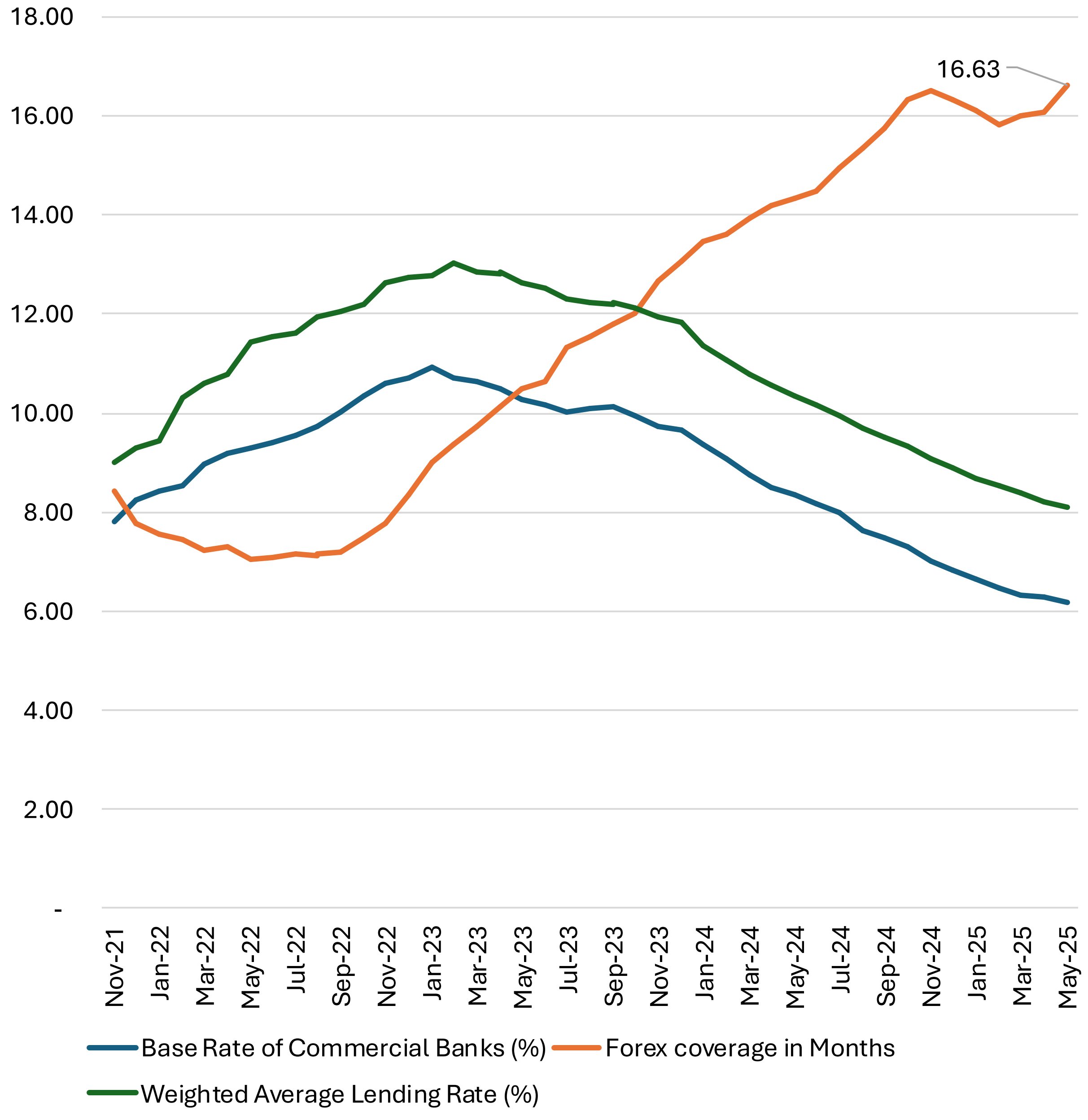
Recommendations:

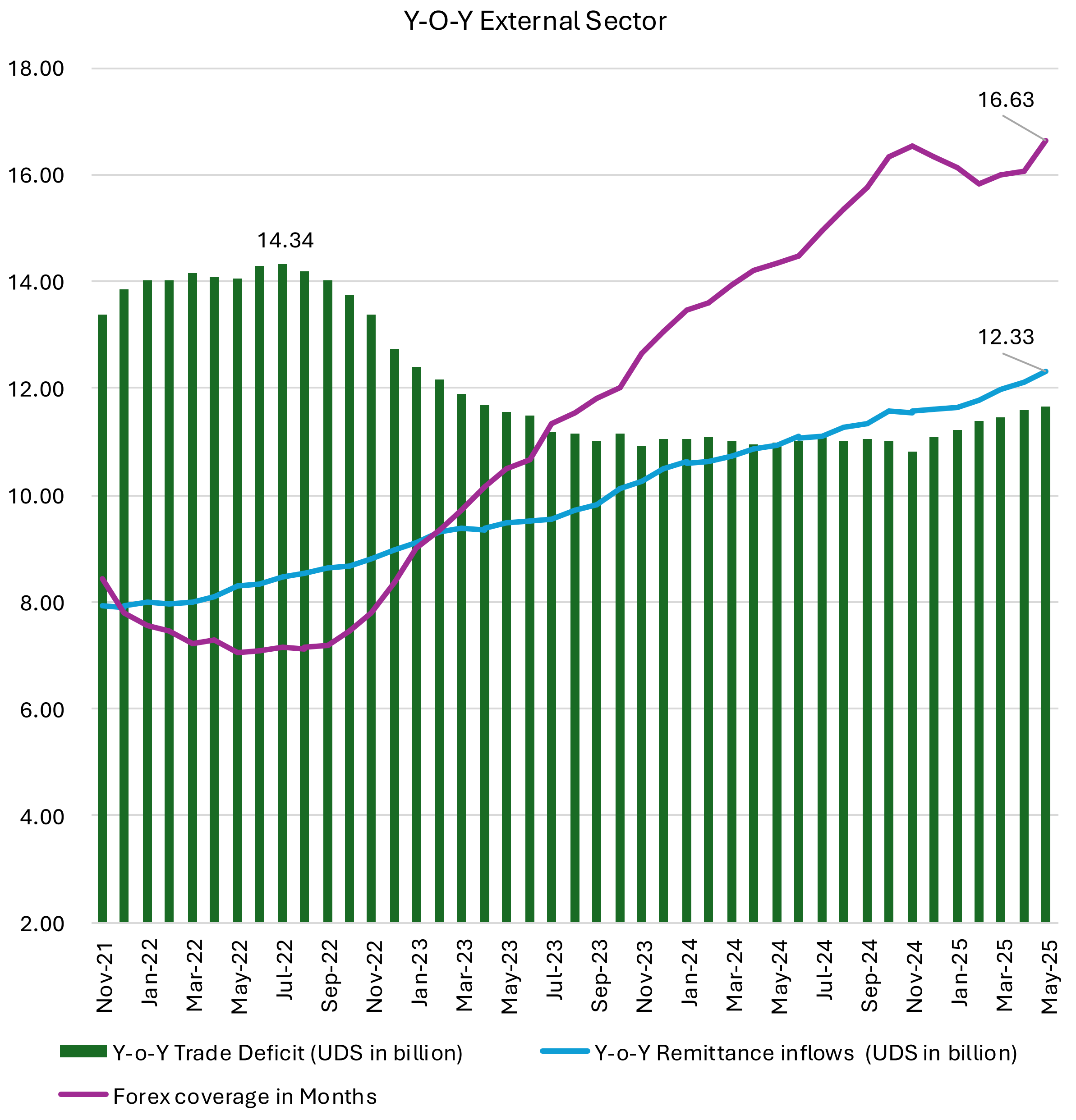
- *Develop and promote local industries to reduce import dependency.*
- *Implement balanced trade policies to ensure essential imports while fostering domestic production. To mitigate these challenges, Nepal should focus on boosting local production, reducing government expenditures, downsizing the government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



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

Interest rates and Extranational Sector





3. Government Expenditure

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

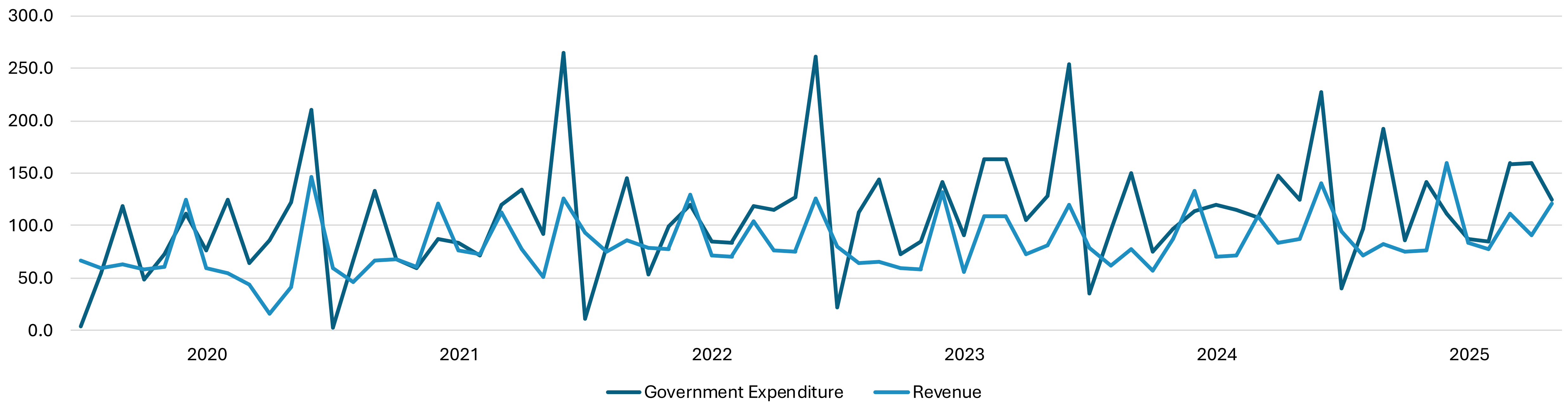
- *2019-2021: Varied widely, peaking at NPR 260.6 billion in Jun-Jul 2021.*
- *2022-2024: Continued to fluctuate, reaching NPR 226.7 billion by Jun-Jul 2024 and NPR 125 billion in June 2025.*

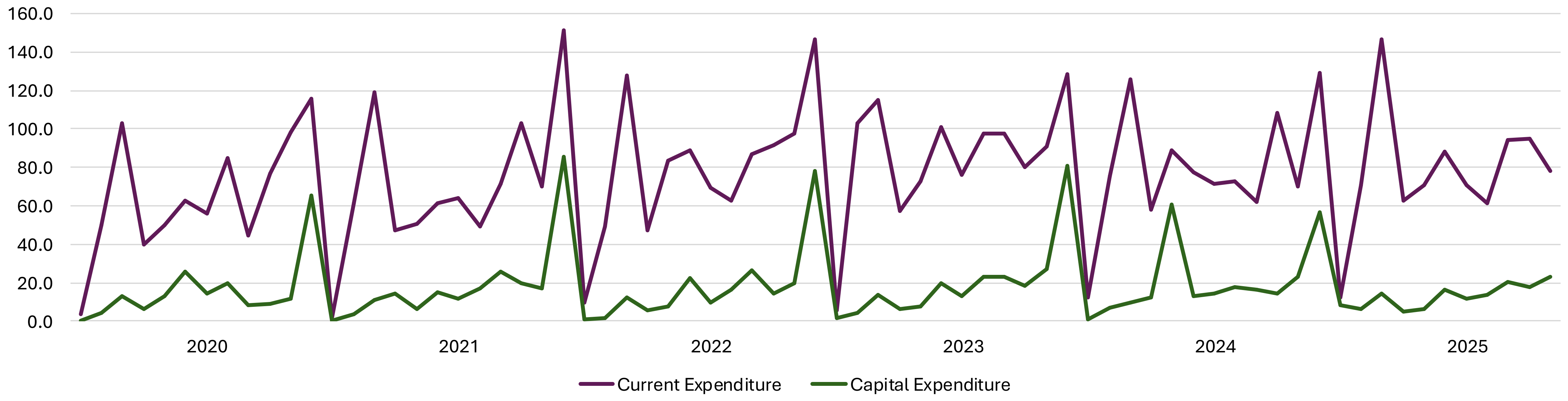
Policy Mistakes:

- *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.*


300.0
250.0
200.0
150.0
100.0
50.0
0.0
2020
2021
2022
2023
2024
2025
Government Expenditure
Revenue


160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
2020
2021
2022
2023
2024
2025
Current Expenditure
Capital Expenditure

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-April 2025, Nepal's gross loan portfolio totals NPR 5,828 billion, with 92.64% classified as good loans (NPR 5,399 billion) and 7.36% 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 293 billion (5.04% of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 135 billion (2.32%) in provisions would be required, raising the total provisioning requirement to 9.73%. 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 (7.41% 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 629 billion (10.80%), 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-Apr	%age
Gross Loan	5,828.86	100.00%
Good loan	5,399.70	92.64%
Problem Loan	429.16	7.36%
Provision made	293.69	5.04%
Additional provision required if all become Bad	135.48	2.32%
Paid up Capital and Statutory Reserves	567.16	9.73%
Total capital to loan	764.85	13.12%
Net capital If all problem loan become bad	431.69	7.41%
Total capital If all problem loan become bad	629.38	10.80%

Provision for Risk Amt in billion	Mid-July 2022	Mid-July 2023	Mid-July 2024	Mid-Apr 2025
Opening		110.30	168.12	230.01
Addition		85.63	105.41	102.40
Less Write Back		27.56	43.24	38.49
Less Recovery from Written off Loan		0.25	0.29	0.23
Closing	110.30	168.12	230.01	293.69
Gross Loan Loas Provision	2.27%	3.33%	4.26%	5.04%

Gross loan	2025			
Risk Assets Classification				
Pass Loan	4,672.27		80.16%	
Watch List	727.43	5,399.70	12.48%	92.64%
Special Mention Loan	355.53		6.10%	
Other specified Loan	73.67	429.20	1.26%	7.36%
Gross Loan	5,828.90		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

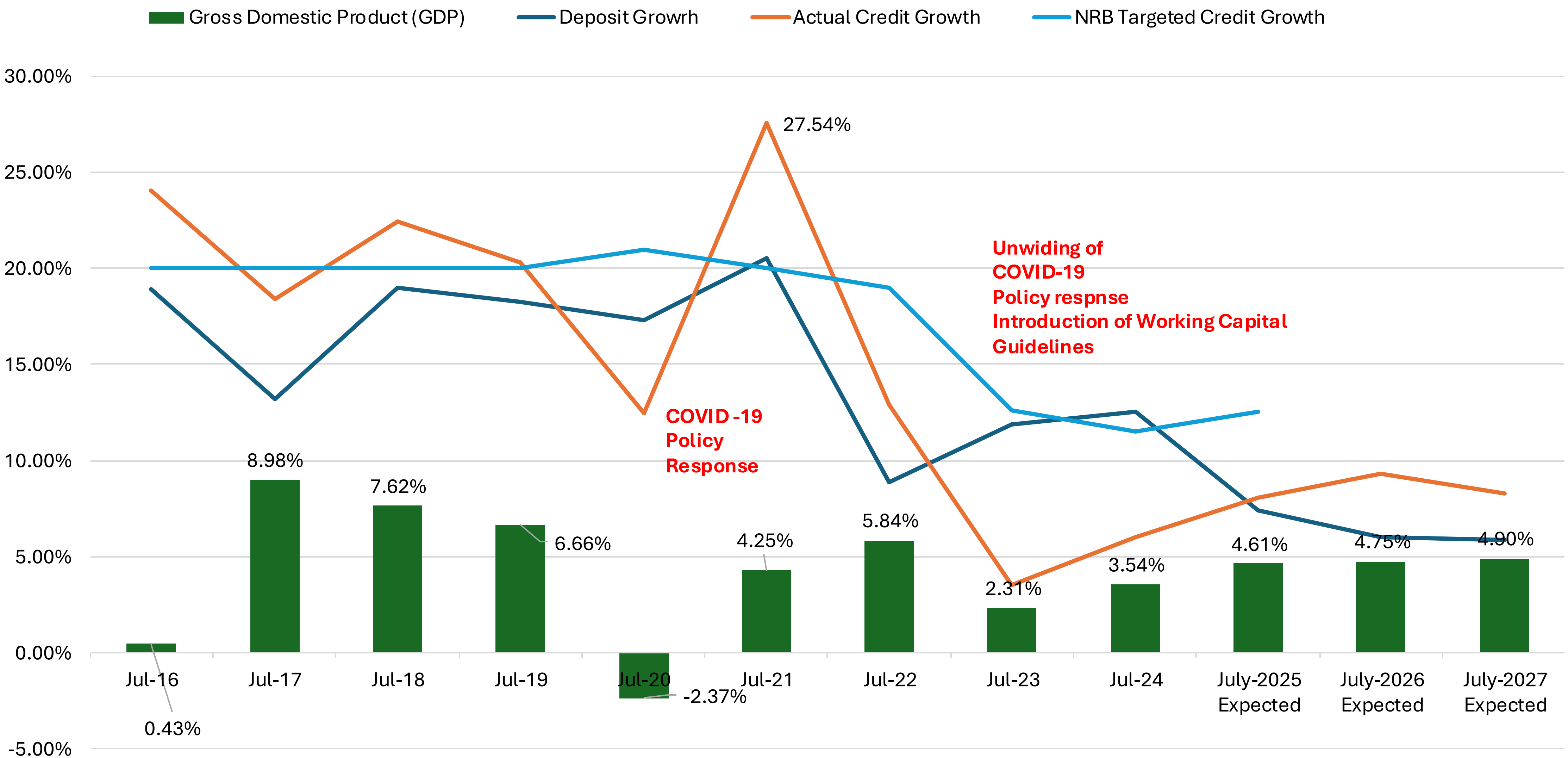
- *Define the extent and form of government financial backing for ARCs.*

Loan Composition and Growth Trend (Rs in million)

Heading	2025		
	May	Share	Trend
Agriculture	4,26,570	7.72%	Down
Mines	12,149	0.22%	Down
Productions	8,92,585	16.15%	Up
Construction	2,33,541	4.23%	Up
Metal Productions	73,755	1.33%	Down
Transportation	49,392	0.89%	Down
Communications and Energy	4,61,702	8.35%	Up
Wholesaler and Retailers	10,48,555	18.97%	Down
Finance, Insurance, and Real Estates	4,25,775	7.70%	Up
Service Industries	4,67,395	8.46%	Up
Consumable Loan	11,02,534	19.95%	Up
Local Government	1,231	0.02%	Down
Others	3,31,517	6.00%	Down

Loan Securities Composition and Growth Trend (Rs. in million)

Heading	2025		
	May	Share	Trend
Gold/Silver	76,456	1.38%	Up
Government Securities	4,625	0.08%	Up
Non Government Securities	1,17,262	2.12%	Up
Fixed A/c Receipt	37,956	0.69%	Down
Asset Guarantee	49,13,797	88.91%	Up
Lands and Buildings	35,97,613	65.10%	Up
Machinery and Tools	1,90,050	3.44%	Up
Furniture and Fixture	2,374	0.04%	Down
Vehicles	1,54,418	2.79%	Up
Other Fixed Assets	1,63,923	2.97%	Down
Current Assets	8,05,419	14.57%	Up
Agricultural Products	59,787	1.08%	Up
Other Non Agricultural Products	7,45,632	13.49%	Up
On Bills Guarantee	48,765	0.88%	Up
Domestic Bills	2,172	0.04%	Up
Foreign Bills	46,593	0.84%	Up
Guarantee	1,79,423	3.25%	Down
Credit Card	6,351	0.11%	Up
Others	1,42,064	2.57%	Up



Gross Domestic Product (GDP)
Deposit Growrh
Actual Credit Growth
NRB Targeted Credit Growth
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
27.54%
Unwiding of
COVID-19
Policy respnse
Introduction of Working Capital
Guidelines
COVID -19
Policy
Response
8.98%
7.62%
6.66%
4.25%
5.84%
2.31%
3.54%
4.61%
4.75%
4.90%
-2.37%
0.43%
Jul-16
Jul-17
Jul-18
Jul-19
Jul-20
Jul-21
Jul-22
Jul-23
Jul-24
July-2025 Expected
July-2026 Expected
July-2027 Expected

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 6.27% 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 8.11% May 2025.*
- *Base Rates of Commercial Banks: Gradually decreased over the period, indicating the impact of excess liquidity and loss of confidence in the market.*
- *Liquidity remains high, foreign reserves are strong, but average credit demand has stagnated at ~5.8% for three 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.*

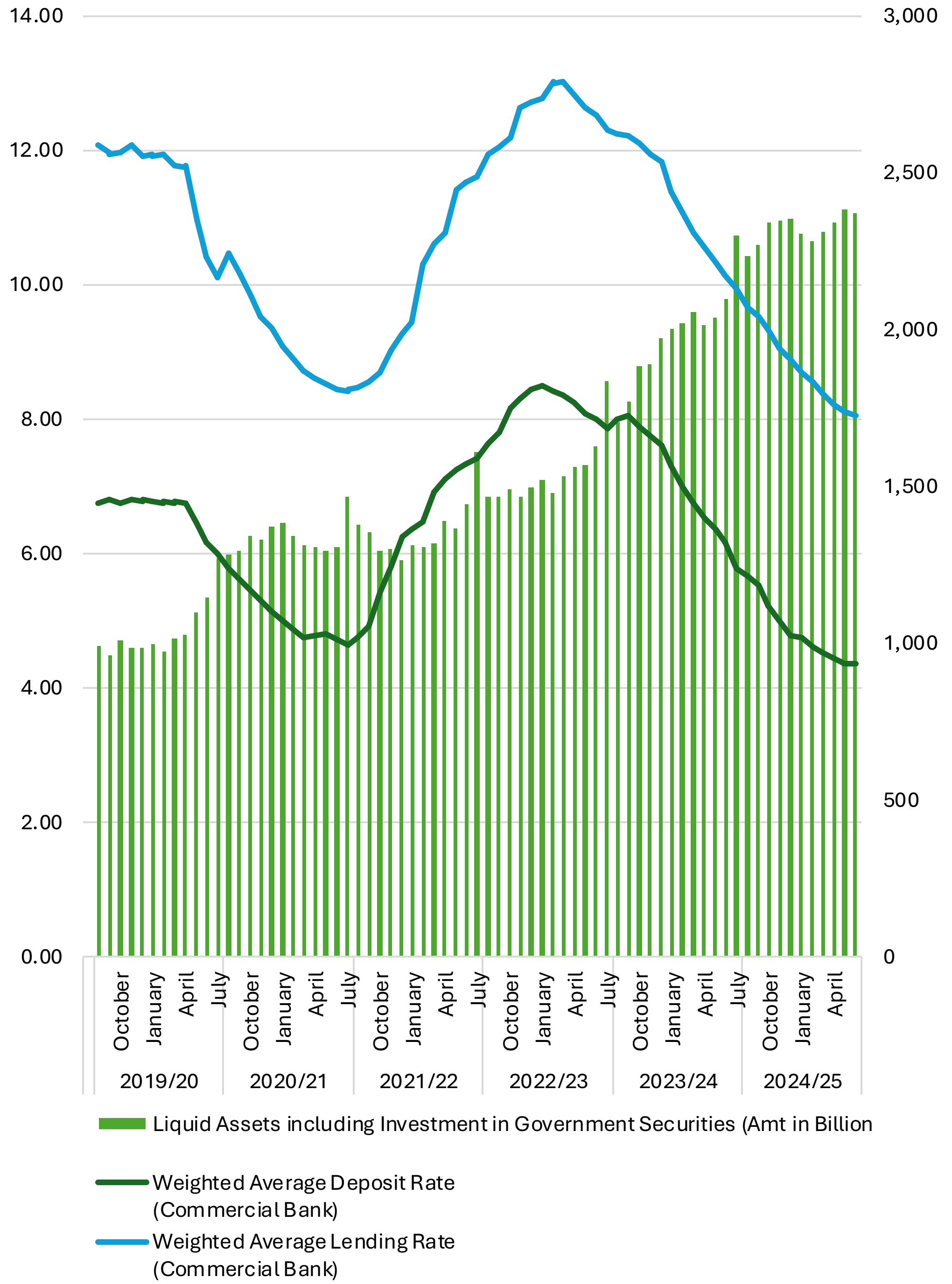
Recommendations:

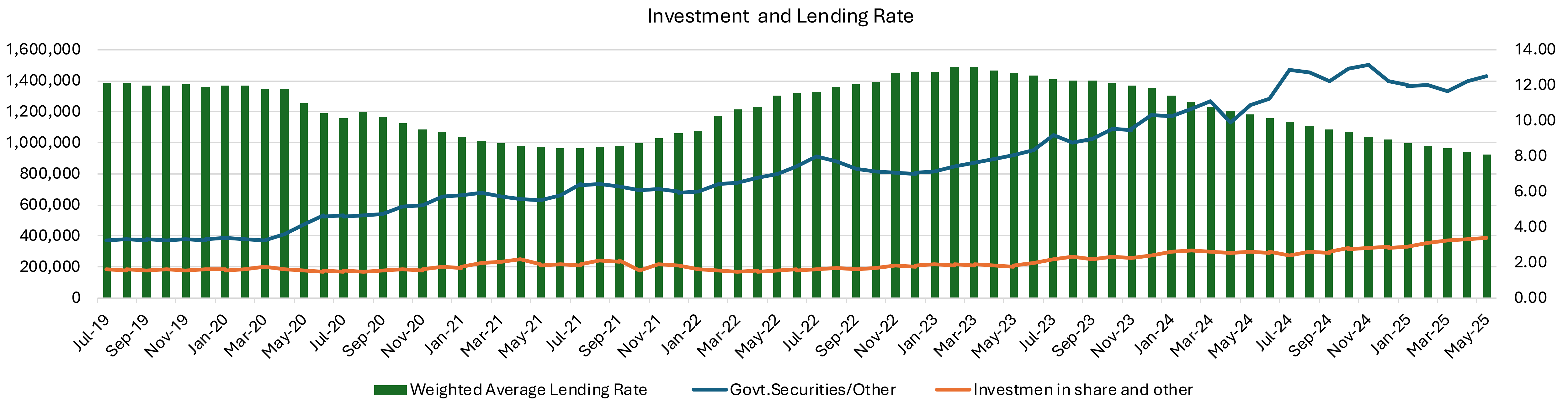
- *Balance monetary measures with structural reforms to enhance overall economic resilience.*
- *Implement targeted lending programs to support critical sectors.*

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 4.37% in June 2025, while lending rates decreased from 12.08% to 8.11%. 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 2,372 billion by June 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.




Investment and Lending Rate
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
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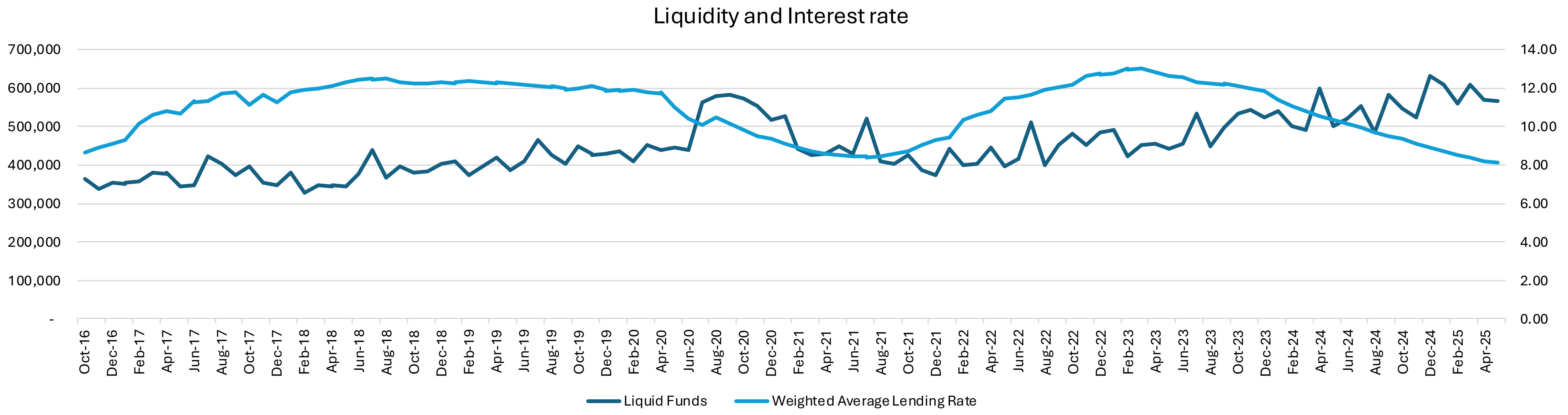
Weighted Average Lending Rate
Govt.Securities/Other
Investmen in share and other


Liquidity and Interest rate
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Oct-16
Dec-16
Feb-17
Apr-17
Jun-17
Aug-17
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Apr-25
Liquid Funds
Weighted Average Lending Rate

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.*

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.*

BAFIA Amendment Major issues

Report on Proposed Amendments to Banking and Financial Institution Act (BAFIA)

*The Government of Nepal has introduced amendments to the **Banking and Financial Institution Act (BAFIA),** particularly focusing on redefining **"Financial Interest"** and **"Related Persons"** under Section 2 and tightening prohibitions on **related party transactions** under Sections 52 and 52a.*

1. *The intent of these changes is to strengthen governance, reduce conflict of interest, and align Nepal's financial sector with international best practices. However, given the historical structure of Nepal's banking sector, where business and banking interests are often interlinked, **the implementation of these reforms could pose systemic risks, including credit stagnation, increased compliance burden, and potential disruption in capital mobilization**.*

Critically assesses their implications, and recommends a phased implementation framework to mitigate transitional risks.

Background

1. *Nepal Rastra Bank (NRB), in its role as the regulator, has consistently aimed to modernize and safeguard the stability of the financial sector. The proposed amendments under Section 2, 52, and 52a of the BAFIA are designed to prevent related-party transactions that may lead to poor credit discipline, insider lending, and governance failures.*

Content of the Proposed Amendments

Section 2: Definitions

Clause (kaya): Financial Stakeholder (Substituted)

*__"Financial Interest"__ means a person who is a director, a shareholder holding 1% or more shares or chief executive or his/her family or an individual authorized to appoint a director, or an entity or firm holding 10% or more of paid-up capital either individually or jointly, or having significant interest or control in such institution. **This includes persons or entities with less than 1% shareholding but having substantial control or influence in the financial dealings of the institution as designated by the bank from time to time."***

Clause (kana): Related Person (Substituted) “Related Person” now includes the following (abridged for clarity):

Description	*Data Availability / Remarks*	*Risk to Financial Sector Stability*
Founders, directors, officials of BFIs, or their family members having single or joint ownership of 10% or more in any entity.		*Medium*
Single or joint ownership of at least 10% in any other entity, as per Clause 3.3.1.	*Data consolidation is difficult*	*Medium*
Entities where BFI officials are involved in management or have authority to appoint or remove directors.	*Subjective, cannot be quantified*	*High*
Entities with authority to appoint or remove BFI directors, or where they are board members, office bearers, or hold 10%+ shareholding in BFIs.	*Data consolidation is difficult*	*Low*
Chief Executive Officer of a BFI.		*High*
Directors, officials of BFIs, or individuals/entities receiving guarantees from them.		*High*
Natural or legal persons with direct or indirect legal/ownership links with BFI shareholders.	*Subjective, cannot be quantified*	*Medium*
Persons or shareholders who can influence BFI management or board decisions.	*Subjective, cannot be quantified*	*Low*
Entities in which such shareholders or their relatives hold 10% or more.	*Data consolidation is difficult*	*Medium*
Entities significantly owned by BFIs or by individuals/families holding 10%+ in such entities.	*Data consolidation is difficult*	*Medium*
Entities where shareholders with significant BFI ownership serve as office bearers.	*Data consolidation is difficult*	*Medium*
Entities holding 1% or more shareholding in BFIs, individually or jointly.	*Data consolidation is difficult*	*Medium*
Entities with less than 1% BFI ownership but control over governance (e.g., directors, office bearers, or their families).	*Subjective, cannot be quantified*	*Low*
Parent company officials influencing BFI decisions, directly or indirectly.	*Subjective, cannot be quantified*	*Low*
Entities where the BFI holds 10% or more shareholding.	*Subjective, cannot be quantified*	*Low*
Entities with less than 10% BFI shareholding but influence on BFI board decisions.	*Subjective, cannot be quantified*	*Low*
Executives of BFI subsidiary companies.		*Low*
Other persons or entities as designated by Nepal Rastra Bank (NRB).		
For government-owned BFIs, any officials designated by NRB.		

Section 52 and Section 18: Prohibition on Transactions and Activities and Directorship

- ***Loan Ban:***
  - ***Banks shall not be allowed to provide any type of loan facilities to affiliated person of that bank or financial institution or to the person holding significant ownership in any bank.***

Exceptions:

- *Loans backed by 100% cash margin guarantees.*
- *Loans secured with institutional fixed deposits.*
- *Loans backed by Nepal Government or NRB bonds.*
- *Home loans, as per NRB guidelines.*

Prohibited Section 52 and Section 18:

- ***Section 52: Transactions and Activities:-*** *Related persons are barred from providing legal, tax, accounting, valuation, or auditing services to the concerned bank.*
- ***Section 18 (Cha 1**): **Directorship:-*** *The total business loans obtained by the individual concerned, their family members, or any company or institution affiliated with them, exceeding one percent of the core capital of the bank or financial institution to which the individual is being proposed for appointment as a director.*

Section 52a: Maintenance of Related Party List

- *Initial List: New institutions must prepare and submit a related persons list to NRB upon establishment.*
- *Existing Institutions: Must prepare and submit within 35 days of fiscal year end when the section comes into force.*
- *Annual Update: The list must be updated annually and any changes reported within 35 days.*

Critical Analysis and Implications

1. **Governance and Risk Management Improvements**
    1. Encourages better risk management and transparency.
    2. Aligns with Basel principles and international banking standards.
    3. Restricts undue influence by insiders and affiliated parties.

2. **Downsides and Practical Challenges**
    1. **Structural Incompatibility**
        1. Nepal's banking sector was historically built on a symbiotic relationship between bankers and businesses.
        2. Many promoters and board members are also business borrowers, making a clean separation impractical in the short term.
    2. **Credit Flow Constraints**
        1. An overly broad definition of "related persons" may restrict legitimate credit transactions, especially in SME and industrial sectors where ownership overlaps are common.
    3. **Compliance Burden**
        1. Maintaining and updating extensive related-party lists requires dedicated human and technological resources
        2. Ambiguity around what constitutes "significant influence" or "substantial control" may lead to inconsistent interpretations and regulatory friction.
    4. **Risk of Overregulation**
        1. Could discourage capital investment in banks if shareholders perceive reduced access to financial services.
        2. May push credit activities outside the formal sector, increasing systemic vulnerability
    5. **Recommendations**
        1. **Phased Implementation:** Provide a transition window (e.g., 10–15 years) for compliance and restructuring of governance practices.
        2. **Clarification Guidelines:** NRB should issue operational guidelines to define "significant influence," "substantial control," and how these will be determined.
        3. **Regulatory Sandbox:** Allow a trial phase where banks can report related party exposures while continuing operations under existing norms.
        4. **Capacity Building:** Provide training and digital infrastructure support for banks to manage compliance.
        5. **Stakeholder Consultation:** Engage banks, promoters, and private sector representatives to design a practical enforcement roadmap.

Conclusion

1. ***Banking and Financial Institution Act (BAFIA: Proposed amendments***:

   While the proposed amendments represent a bold regulatory effort to insulate banking institutions from conflicts of interest and insider control, their blanket implementation could disrupt Nepal's traditionally integrated banking-business model. To ensure reform without destabilization, a balanced approach that blends enforcement with institutional strengthening and gradual transition is essential.

2. ***"Financial Interest"*** *and* ***"Related Persons:***

   The proposed amendments to Section 2, Clause (kaya) and (kana), and the enforcement of Sections 52 and 52a of the to the ***Banking and Financial Institution Act (BAFIA),*** *in Nepal indicate a sweeping redefinition of* ***"Financial Interest"*** *and* ***"Related Persons,"*** *greatly expanding the scope of individuals and entities restricted from receiving credit or providing professional services to banks. While this aligns with global prudential norms aimed at minimizing conflict of interest and enhancing transparency, it also introduces serious downside risks for Nepal's banking sector. The rigid prohibition under Section 52 on lending to a vast and ambiguously defined network of related parties could paralyze credit flow, particularly in a banking ecosystem historically rooted in closely intertwined banker-business relationships. From inception, Nepal's banking sector has grown within a framework where promoters, shareholders, and directors often overlap with major borrowers, and the sector lacks the institutional and governance maturity to abruptly transition into a fully segregated model.*

3. ***Immediate implementation:***

   The immediate implementation of such stringent provisions without transitional safeguards, capacity development, or ownership restructuring, may lead to a credit crunch, underutilization of capital, and erosion of promoter confidence. Furthermore, the compliance burden introduced by Section 52a, requiring banks to continuously track and update complex related-party relationships, adds operational strain without commensurate support mechanisms. Thus, while the intent of the proposed act is commendable from a regulatory standpoint, the Nepalese banking sector is currently not structurally prepared for such a stark separation of banker and business, risking regulatory overreach that may stifle private sector-led growth.

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.*

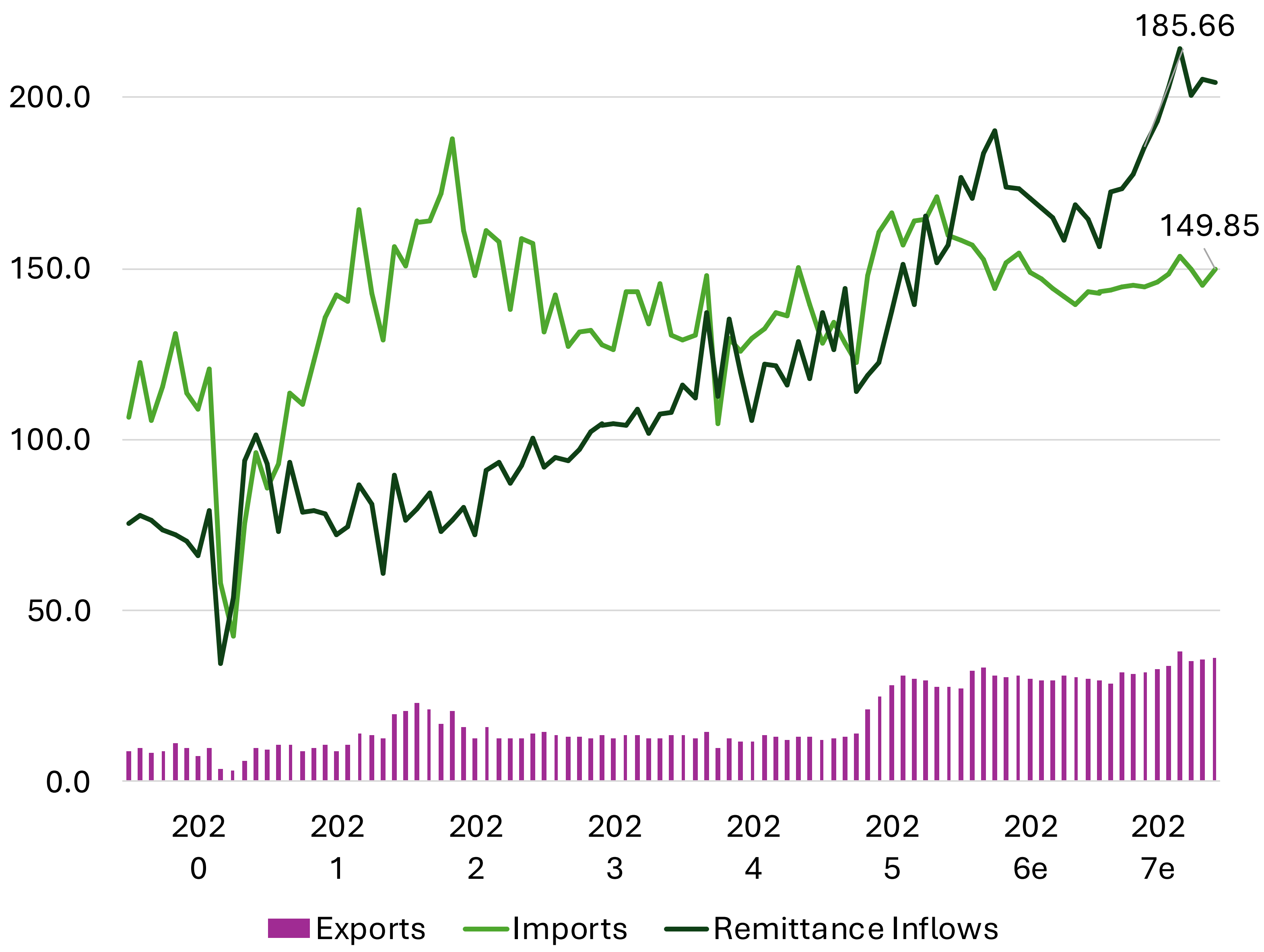
Nepal's foreign trade *balance from F.Y. 2022/23 to F.Y. 2024/25 (Mid-April) shows a persistent trade deficit, but with some encouraging signs of improvement. The trade deficit as a percentage of GDP has been gradually declining, from 20.56% in 2022/23 to 18.36% in 2024/25, indicating a slight improvement 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.*

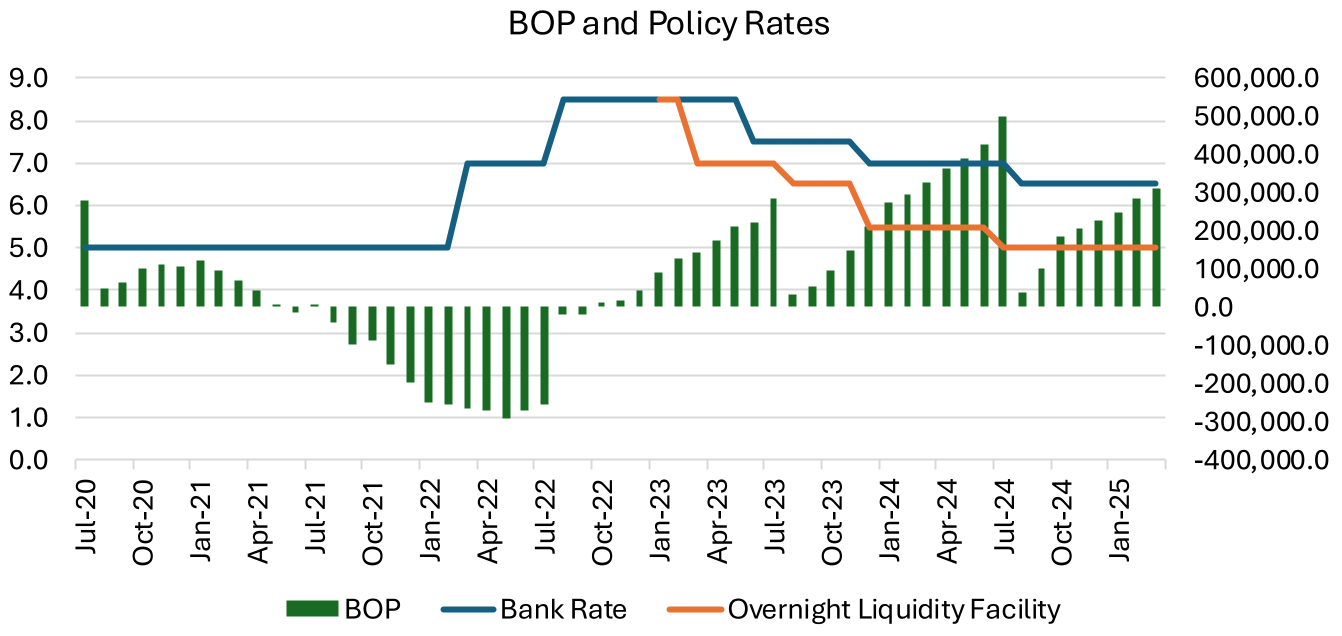
Government revenue *(Mid-April) from trade has shown a positive trend, increasing by 11.32% in 2023/24 and 11.44% in 2024/25, due to moderate tax collection and increasing import duties. Total trade declined by 2.76% in 2023/24, but rebounded strongly with a 16.84% increase in 2024/25, showing improved 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.*

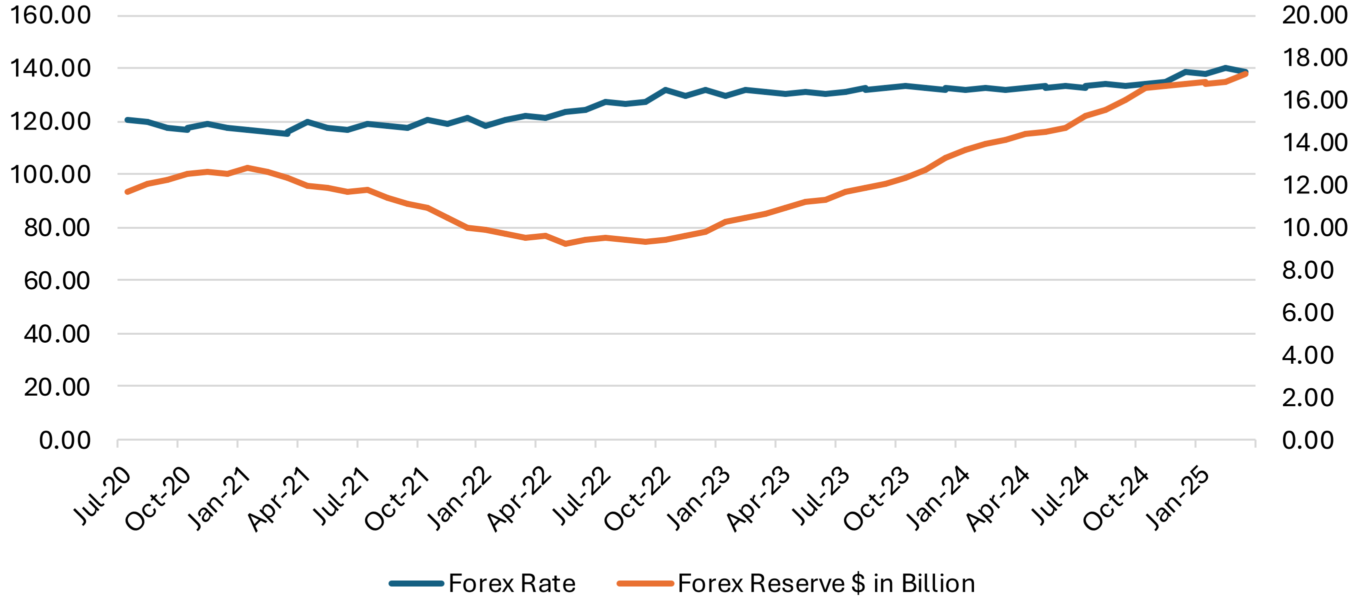
The Path Forward: Building Economic Resilience: *Nepal's persistent trade deficit remains a structural economic challenge. The country must prioritize export promotion through policy measures such as duty advantages and industry incentives. Currency depreciation alone has not been sufficient to boost 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 proceed are crucial components of Nepal's foreign exchange earnings, fluctuated during this period, impacting both the BoP and forex reserves. Overall, these trends indicate a period of monetary tightening, liquidity management, and gradual improvement in Nepal's foreign currency balance amid fluctuating economic conditions.*

Monthly indicators (NPR in billion)

Particulars Amount in NPR Billion	2024												2025				
	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun
Consumer Price Inflation (y-o-y) (%)	5.01	4.82	4.61	4.40	4.17	3.57	4.10	3.85	4.82	5.60	6.05	5.41	4.16	3.75	3.39	2.77	3.00
Exports	11.86	13.79	13.33	12.23	13.09	13.12	12.23	12.87	13.29	14.29	20.99	25.13	28.42	30.97	30.02	29.72	27.56
Imports	129.8	132.3	137.1	136.0	150.3	139.3	128.4	134.2	128.2	122.6	148.1	160.9	166.2	157.0	164.0	164.7	171.09
Remittance Inflows	105.8	122.2	121.4	116.0	128.9	117.8	136.9	126.2	144.2	114.3	118.8	122.7	137.5	151.2	139.5	165.3	151.75
Government Expenditure	120.1	114.8	107.8	147.5	124.4	226.7	40.2	97.3	191.6	85.8	141.1	111.5	87.3	84.5	159.2	159.4	125.0
Current Expenditure	71.7	73.1	61.9	108.5	70.3	128.8	12.4	70.6	146.9	62.7	71.0	88.5	70.6	61.5	94.0	95.1	78.0
Capital Expenditure	14.3	17.6	16.2	14.5	23.1	56.8	8.6	6.3	14.5	5.2	6.3	16.1	11.5	13.9	20.6	17.5	23.0
Revenue	70.9	71.6	109.0	83.9	87.3	139.7	94.7	71.6	81.9	75.0	76.4	160.0	83.2	77.5	111.1	91.0	121.0
Deposit Mobilization	20.1	38.7	-26.8	34.0	71.5	227.8	-43.5	78.5	135.0	-20.2	22.5	66.7	6.3	31.9	91.2	31.3	124.0
Private Sector Credit	4.6	2.3	22.7	3.0	21.6	30.1	14.1	59.3	55.3	-0.2	49.8	87.3	17.9	21.4	56.2	7.6	34.6
Weighted Average Deposit Rate (%)	7.01	6.74	6.53	6.35	6.17	5.77	5.66	5.53	5.24	5.01	4.78	4.75	4.62	4.54	4.45	4.37	4.14
Weighted Average Lending Rate (%)	11.08	10.78	10.55	10.34	10.15	9.93	9.68	9.52	9.33	9.07	8.90	8.69	8.55	8.40	8.22	8.11	8.07
Base Rate of Commercial Banks (%)	9.06	8.77	8.51	8.34	8.17	8.00	7.61	7.49	7.29	7.02	6.82	6.65	6.46	6.34	6.29	6.17	5.84

*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 **2.77-6%**, 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 121 billion in June)**, 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 165.3 billion in Mid-May 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
F.Y. 2022/23 (Mid-June)	11.39	1.10	10.29	12.49	1.00	10.35	2.62	1 USD= 125NPR
Share % in Total Trade	91.19	8.81						
Trade deficit % GDP	25.40%							
F.Y. 2023/24 (Mid-June)	11.18	1.07	10.11	12.25	1.00	10.45	2.96	1 USD= 130 NPR
Share % in Total Trade	91.27	8.73					Up	
Trade deficit % GDP	21.89%							
F.Y. 2081/82 (2024/25) (Mid-June)	12.65	1.90	10.75	14.55	1.00	6.66	3.36	1 USD= 130 NPR
Share % in Total Trade	86.94	13.06					Up	
Trade deficit % GDP	23.27%							
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	-1.84%	-2.73%	-1.75%	-1.92%			12.98%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	13.15%	77.57%	6.33%	18.78%			34.12%	

Our view on the current level of External vulnerabilities

*Nepal's foreign trade has shown a persistent trade deficit over the past three fiscal years, though there have been some signs of improvement. In FY 2022/23, the trade deficit stood at **12.49 billion**, accounting for **25.40% of GDP**. The following year, in FY 2023/24, the deficit slightly decreased to **12.25 billion**, reducing its share of GDP to **22.89%**. However, in FY 2024/25, the trade deficit rose again to **14.55 billion**, its proportion of GDP increase further to **23.27%**, suggesting growth activities.*

*Imports continue to dominate Nepal's trade, making up over **86.94% of total trade**. Exports declined in FY 2023/24 by **-2.73%**, falling from **1.01 billion to 1.07 billion**, but saw a significant rebound in FY 2024/25, reaching **1.90 billion**, a remarkable **77.57% growth**. Despite this improvement, Nepal's export-to-import ratio remains low at around **1:10**, highlighting the country's heavy reliance on imports. While total trade declined by **-1.75% in FY 2023/24**, it rebounded strongly in FY 2024/25, growing by **18.78 %**, signaling an overall recovery in trade activity.*

*The Nepalese Rupee has depreciated over this period, with the exchange rate rising from **1 USD = 125 NPR to 140 NPR**. This depreciation makes imports more expensive but can potentially boost exports. Meanwhile, government revenue from trade has shown consistent growth, increasing by **12.98% in FY 2023/24** and **34.12% in FY 2024/25**, indicating improved tax collection and trade regulation.*

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

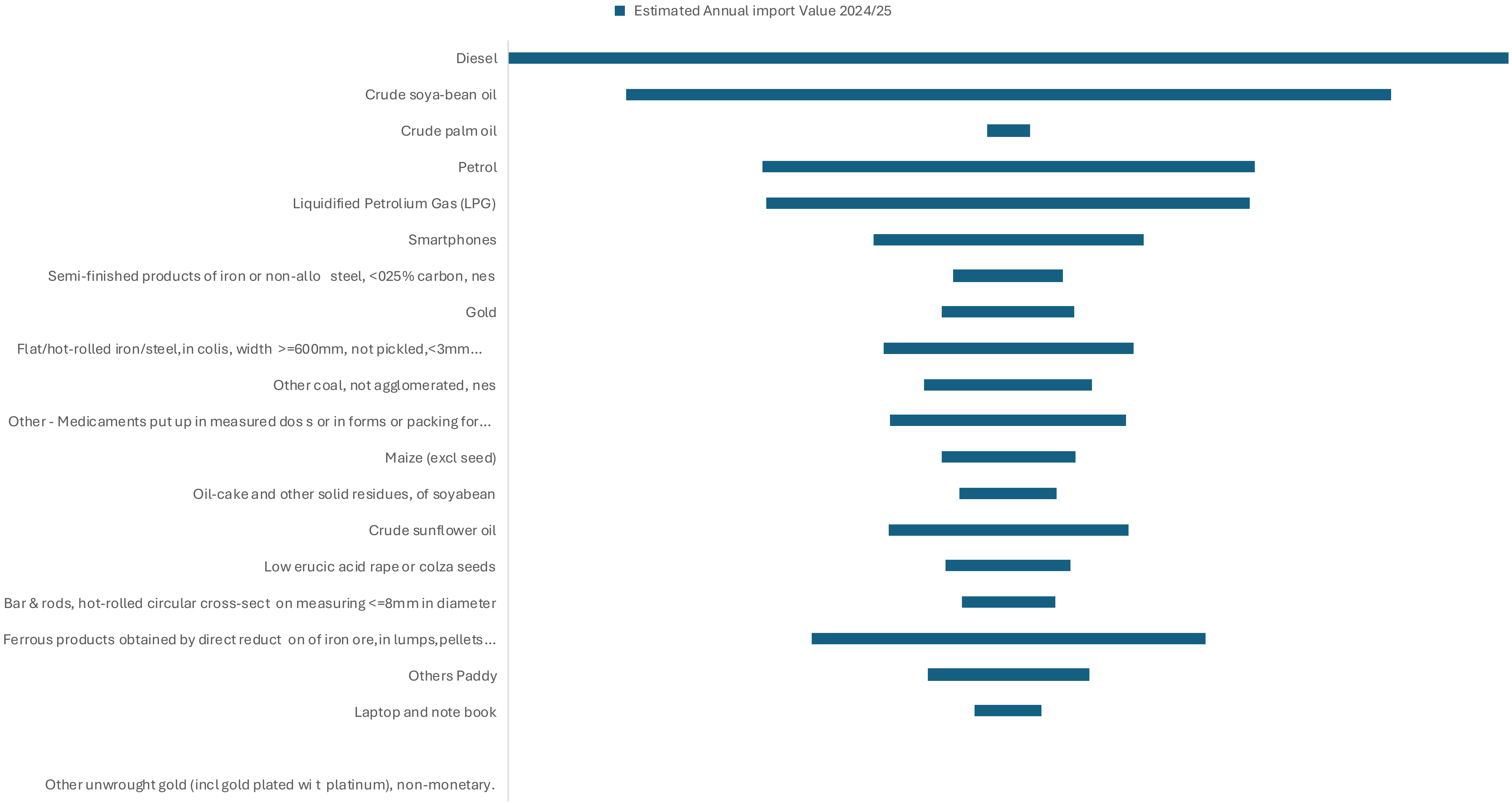
Trade to GDP	*As a positive sign of improved resilience in the external sector, the Department of Customs announced that the **Year-on-Year** trade deficit as a percentage of gross domestic product (GDP) saw a increased to 20.57 % by mid-May 2025, compared to the 19.29% reported in the corresponding previous year.*
Trade Deficit	*In the 11th month of fiscal year 2024/25, the monthly trade deficit remain constant at $1.09 billion. However, compared to the same period in FY 2023/24, there was a year-on-year increase in the trade deficit to $11.72 billion, indicating a mild reversal from the $11.01 billion recorded during the corresponding period of the previous fiscal year.*
Import Pressure	*Heavy reliance on imported raw materials, capital goods, and consumer products.* *Limited potential for export growth.* *Sending unskilled manpower abroad as a primary export.* *Limited international transportation connectivity.* *Untapped natural resources.*
Observations	*Presently, Nepal maintains strong foreign exchange reserves, which cover over 16.63 months of imports and service payments based on the year-on-year import ratio. The Nepalese economy is stable, aided by the decreasing prices of imported energy and food.* *Despite the transition in monetary policy from tightening to a more accommodative stance, there hasn't been a significant increase in aggregate demand. However, there is optimism about continued growth in remittance inflows, which is expected to provide relief to the balance of payments in the coming months.* *Although there has been a noticeable increase in the import of specific goods, the risk of a major reversal in this trend has not significantly escalated, contributing to overall economic stability.*

Other Major Import	Imports Value
Electric car, jeep & van 51KW to <=100KW	142
ATF	135
Diammonium hydrogenorthophosphate (diammonium phosphate)	96
Other Urea	94
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	79
Petroleum bitumen	74
Apples, fresh	74
Electric car, jeep & van upto 50KW	64
Polypropylene, in primary forms	62
Other soyabean	60
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	56
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	54
Polyethylene having a specific gravity >=0.94, in primary forms.	54
Synthetic staple fibres, of polyesters, no carded, etc	53
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	52
Other potatoes, fresh or chilled	51
Garlic, fresh or chilled	51
Concentrate of non-alcohalic soft drinks	47

Major Export	Exports Value
Soya-bean oil (excl. crude) and fractions	719.36
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	87.22
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	75.24
Big Cardamon (Alaichi) neither crushed nor ground	55.31
Rolled iron/steel, width >=600mm, plated o coated with aluminium-zinc alloys	39.47
Unbleached woven fabrics of jute or of oth r textile bast fibre of heading 5303.	39.26
Other yarn, <85% polyester staple fibres, ith artificial staple fibres, nprs	39.00
Mixtures of juices, unfermented, not containing added spirit.	38.03
Single yarn, with >=85% polyester staple f bres, nprs	35.72
other Felt, whether or not impregnated, coated, covered or laminated. nes .	33.07
Dog or cat food, put up for retail sale	30.71
Other black tea (fermented) and other partly fermented tea	29.84

	2023/24		2024/25													
Trade Indicators	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25 E	Y-o-Y	Remaks	%age
Imports (UDS in billion)	11.18	12.25	0.99	2.02	3.01	3.95	5.09	6.33	7.60	8.81	10.07	11.34	12.65	13.72	UP	13.15%
Monthly Imports	1.15	1.07	0.99	1.03	0.99	0.94	1.14	1.24	1.27	1.21	1.26	1.27	1.31			
Exports (UDS in billion)	1.07	1.17	0.09	0.19	0.30	0.41	0.57	0.76	0.98	1.22	1.45	1.68	1.90	2.00	UP	77.57%
Montly Exports	0.10	0.10	0.09	0.10	0.11	0.11	0.16	0.19	0.22	0.24	0.23	0.23	0.22			
Trade Deficit (UDS in billion)	10.11	11.08	0.90	1.83	2.71	3.54	4.52	5.57	6.62	7.59	8.62	9.66	10.75	11.72	UP	6.33%
Total Foreign Trade (UDS in billion)	12.25	13.42	1.08	2.21	3.31	4.36	5.66	7.09	8.58	10.03	11.52	13.02	14.55	15.72	UP	18.78%
Monthly Import Revenue	0.32	0.27	0.27	0.30	0.33	0.22	0.30	0.31	0.29	0.30	0.31	0.34	0.39			
Total Import revenue	2.96	3.23	0.27	0.57	0.90	1.12	1.42	1.73	2.02	2.32	2.63	2.97	3.36	3.56	UP	13.51%
Montly Remittance	0.99	0.91	1.05	0.97	1.11	0.88	0.91	0.94	1.06	1.16	1.07	1.27	1.17			
Remittance inflows	10.21	11.12	1.05	2.02	3.13	4.01	4.93	5.87	6.93	8.09	9.16	10.44	11.60	12.33	UP	13.62%
Imports/Exports Ratio	10.45	10.47	11.00	10.63	10.03	9.63	8.93	8.33	7.76	7.22	6.94	6.75	6.66	6.86	Down	-36.28%
Exports Share to Total Trade (%)	8.73	8.72	8.33	8.60	9.06	9.40	10.07	10.72	11.42	12.16	12.59	12.90	13.06	17.06	UP	49.50%
Imports Share to Total Trade (%)	91.27	91.28	91.67	91.40	90.94	90.60	89.93	89.28	88.58	87.84	87.41	87.10	86.94	82.94	Down	-4.74%
Monthly Trade Deficit (UDS in billion)	1.05	0.97	0.90	0.93	0.88	0.83	0.98	1.05	1.05	0.97	1.03	1.04	1.09			
Trade deficit % GDP	21.89%	23.99%	1.95%	3.96%	5.87%	7.66%	9.79%	12.06%	14.33%	16.43%	18.66%	20.91%	23.27%	25.37%	UP	6.33%
Change in Monthly Trade Deficit %	8.57%	-8.25%	-7.78%	3.23%	-5.68%	-6.02%	15.31%	6.67%	0.00%	-8.25%	5.83%	0.96%	4.59%			
Conversion Factor	130	130	130	130	130	130	130	130	130	130	130	130	130	130		

Trade Directions



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

Expected Annual Imports of Major Items (USD in million)

Description	2023/24 11 month	2023/24 Annua Import Value	2024/25 1 month	2024/25 2 month	2024/25 3 month	2024/25 4 month	2024/25 5 month	2024/25 6 month	2024/25 7 month	2024/25 8 month	2024/25 9 month	2024/25 10 month	2024/25 11 month	Estimated Annual import Value 2024/25	Import Direction	Movement
Diesel	994	1,108	54	105	170	223	334	418	511	607	702	788	889	991	Decline	-10.56%
Crude soya-bean oil	100	103	10	18	41	55	103	187	295	395	508	630	736	758	Growth	636.00%
Crude palm oil	79	82	3	7	9	12	17	22	26	30	32	35	42	44	Decline	-46.84%
Petrol	484	524	44	85	128	166	203	247	290	329	368	408	451	488	Decline	-6.82%
Liquidified Petrolium Gas (LPG)	393	428	37	73	108	145	186	229	273	315	358	399	441	480	Growth	12.21%
Smartphones	203	221	27	52	76	103	117	129	146	169	195	221	247	269	Growth	21.67%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	99	107	6	9	14	19	28	39	54	64	80	94	102	110	Growth	3.03%
Gold	182	182	8	8	8	11	16	52	80	111	132	132	132	132	Decline	-27.47%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	251	266	23	54	93	99	119	140	162	179	199	221	235	249	Decline	-6.37%
Other coal, not agglomerated, nes	162	176		22	32	39	56	76	94	110	126	141	154	167	Decline	-4.94%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	193	211	18	40	59	77	97	119	140	156	179	196	215	235	Growth	11.40%
Maize (excl seed)	102	108	6	11	14	25	37	54	54	94	106	115	126	133	Growth	23.53%
Oil-cake and other solid residues, of soyabean	124	130	9	19	25	36	53	63	71	75	81	89	93	98	Decline	-25.00%
Crude sunflower oil	119	137	20	40	55	74	86	104	132	156	174	190	207	238	Growth	73.95%
Low erucic acid rape or colza seeds	72	83	10	19	27	34	44	53	64	74	88	99	108	125	Growth	50.00%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	75	80	6	18	23	29	33	40	49	57	69	79	88	94	Growth	17.33%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	270	300	29	60	93	123	161	198	230	259	291	319	352	391	Growth	30.37%
Others Paddy	89	93	8	12	13	20	47	80	112	128	139	146	154	161	Growth	73.03%
Laptop and note book	53	58	7	14	17	22	30	35	40	45	50	56	62	68	Growth	16.98%

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 12%, signaling a transition from traditional fuels to LPG, while smartphone imports are expected to rise by 21.67%, showcasing increased adoption of digital technologies. Similarly, **Crude soya-bean oil** shows remarkable growth of 636 %, indicating surge in export in India process **soya-bean oil** amounting to $ 758 million.*

Changing economic priorities

- *In contrast, several key commodities are witnessing a sharp decline in imports. Though Gold import has remained constant during the month of June 2025 but gold import is projected to decrease by 27.47%. Diesel imports are projected to decrease by 10.56%, 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 46.84%, 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 (23.53%), the import of low erucic acid rape or colza seeds is projected to grow significantly by 50%, 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 16.98%, 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.*

FDI approved by DOI

FDI approved by DOI									
Number of FDIs Up to Mid-March 2025	Number of FDIs Up to Mid-April 2025			Number of FDIs Up to Mid-May 2025			Number of FDIs Up to Mid-June 2025		
Category	No. of Project	USD in Million	Growth in %age	No. of Project	USD in Million	Growth in %age	No. of Project	USD in Million	Growth in %age
Manufacturing	34	21.09	4.18%	39	22.48	7%	48	24.02	7%
Energy	1	0.20	0.00%	1	0.20	0%	1	0.20	0%
Agro and Forestry Based	7	5.85	0.00%	10	10.97	87%	11	11.12	1%
Tourism	189	141.44	2.68%	233	164.14	16%	266	184.19	12%
Mineral									
Service	63	268.67	56.18%	66	230.67	-14%	76	234.21	2%
Infrastructure	1	0.15	0.00%	2	0.38	150%	2	0.38	0%
ICT	185	8.55	16.95%	235	10.14	19%	313	12.11	19%
Total	480	445.97	29.81%	586	438.98	-2%	717	466.23	6%
Repatriation Amount		73.07	5.34%		73.07	0%		73.85	1%
Outflow / Inflow ratio			-18.86%			2%			-5%

Financial Sector highlights

4

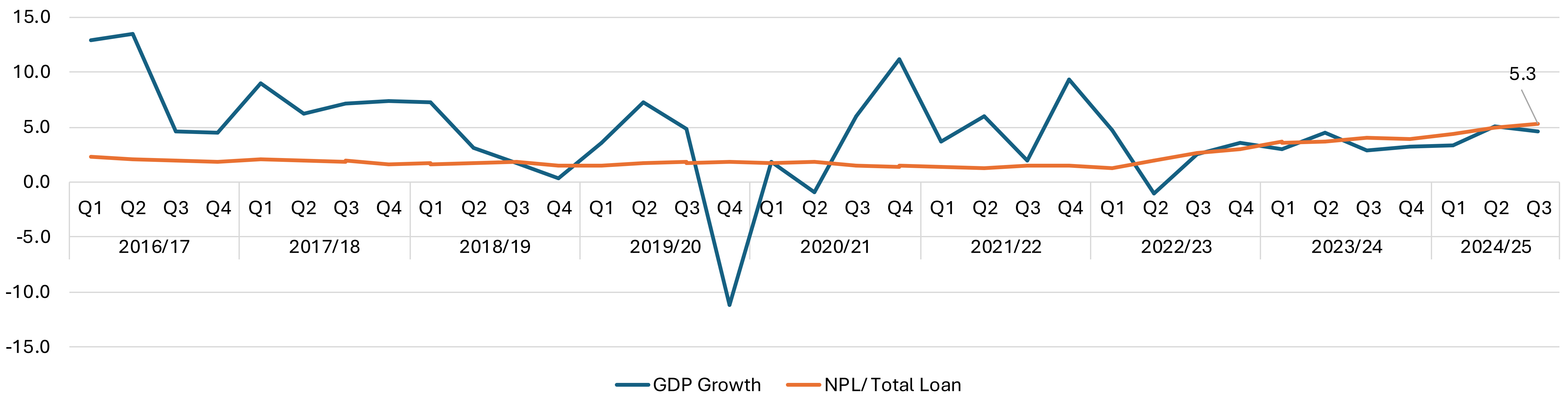
2024 "Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates"

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

Migration and urbanization have 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 183 basis points to 8.11%, slightly below the previous low of 8.22% 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.

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

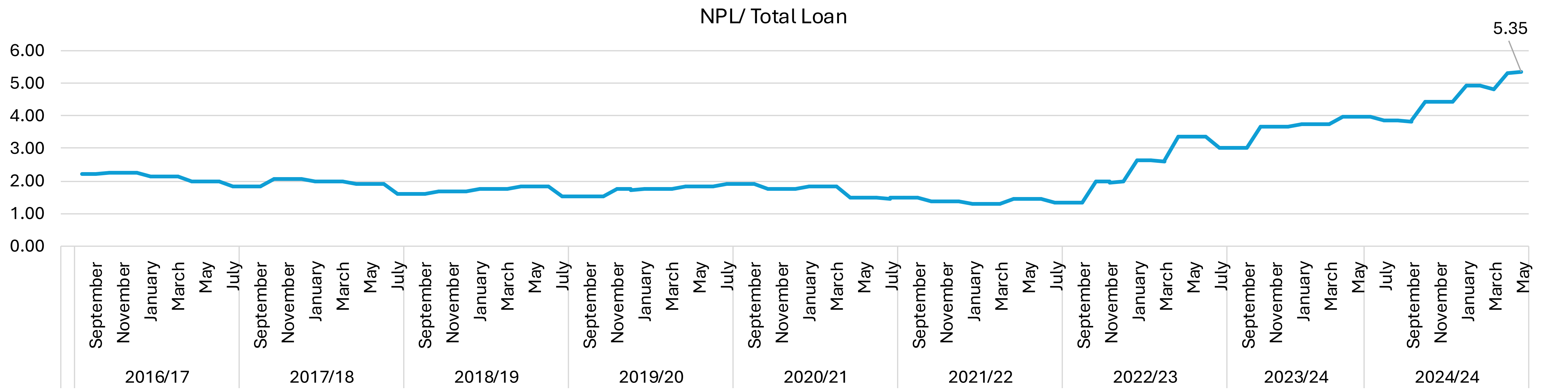
Despite the low lending rates, credit demand has remained subdued, with bank credit growth remaining stagnant. This is attributed to the elevated concentration of government securities and excess liquidity held by financial institutions. As a result, banks have persisted in adjusting their lending and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



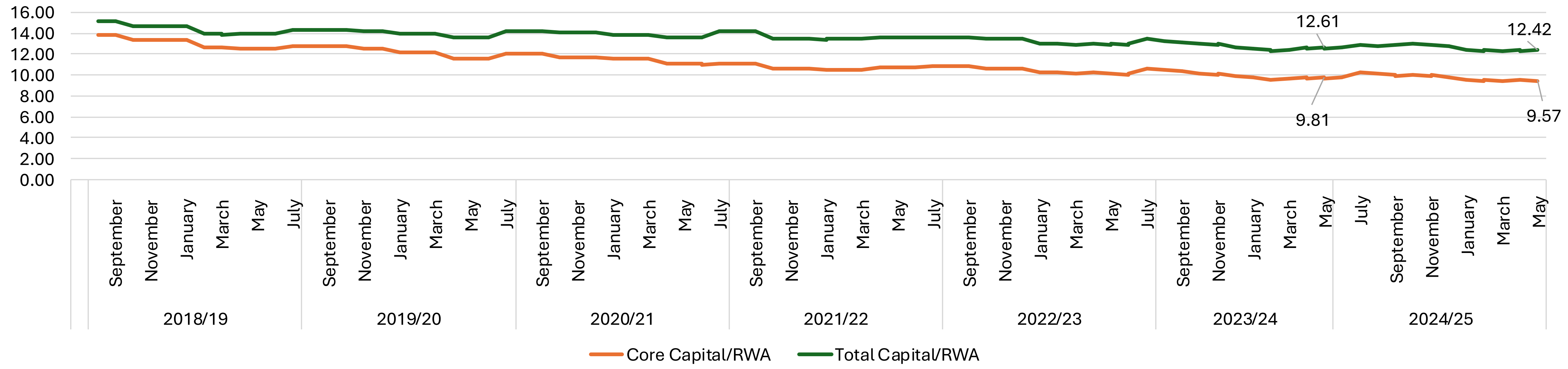
The chart presents data on GDP growth and the ratio of Non-Performing Loans (NPL) to total loans for various quarters from 2016/17 to 2024/25. Over this period, GDP growth fluctuated significantly, with the highest growth recorded in Q1 2016/17 at 12.9%, and the lowest contraction in Q4 2019/20 at -11.2%, largely due to the impact of the COVID-19 pandemic. After the sharp decline in 2019/20, the economy began to recover, although growth remained moderate and volatile. Some quarters showed slower growth or even negative growth, particularly in 2022/23. Despite this, there were signs of gradual recovery, with Q4 2020/21 marking a strong rebound at 11.2%.

The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. This increase suggests growing challenges for the banking sector in managing defaults, possibly related to post-pandemic economic stresses and inflationary pressures. In QIII 2024/25, the NPL ratio reached a high of 5.30%, signaling persistent concerns about loan repayment.

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



NPL/ Total Loan
5.35
6.00
5.00
4.00
3.00
2.00
1.00
0.00
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/24

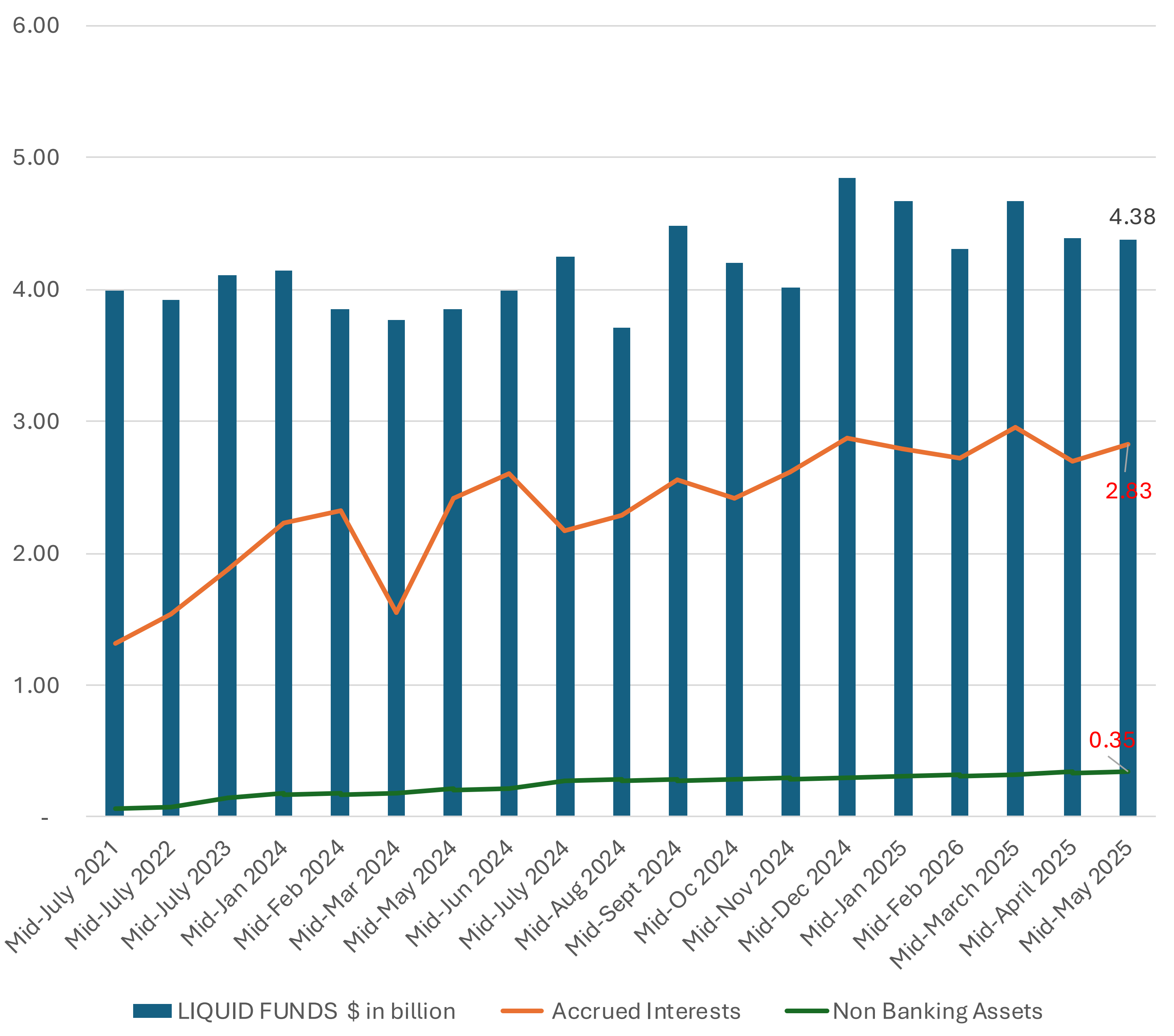


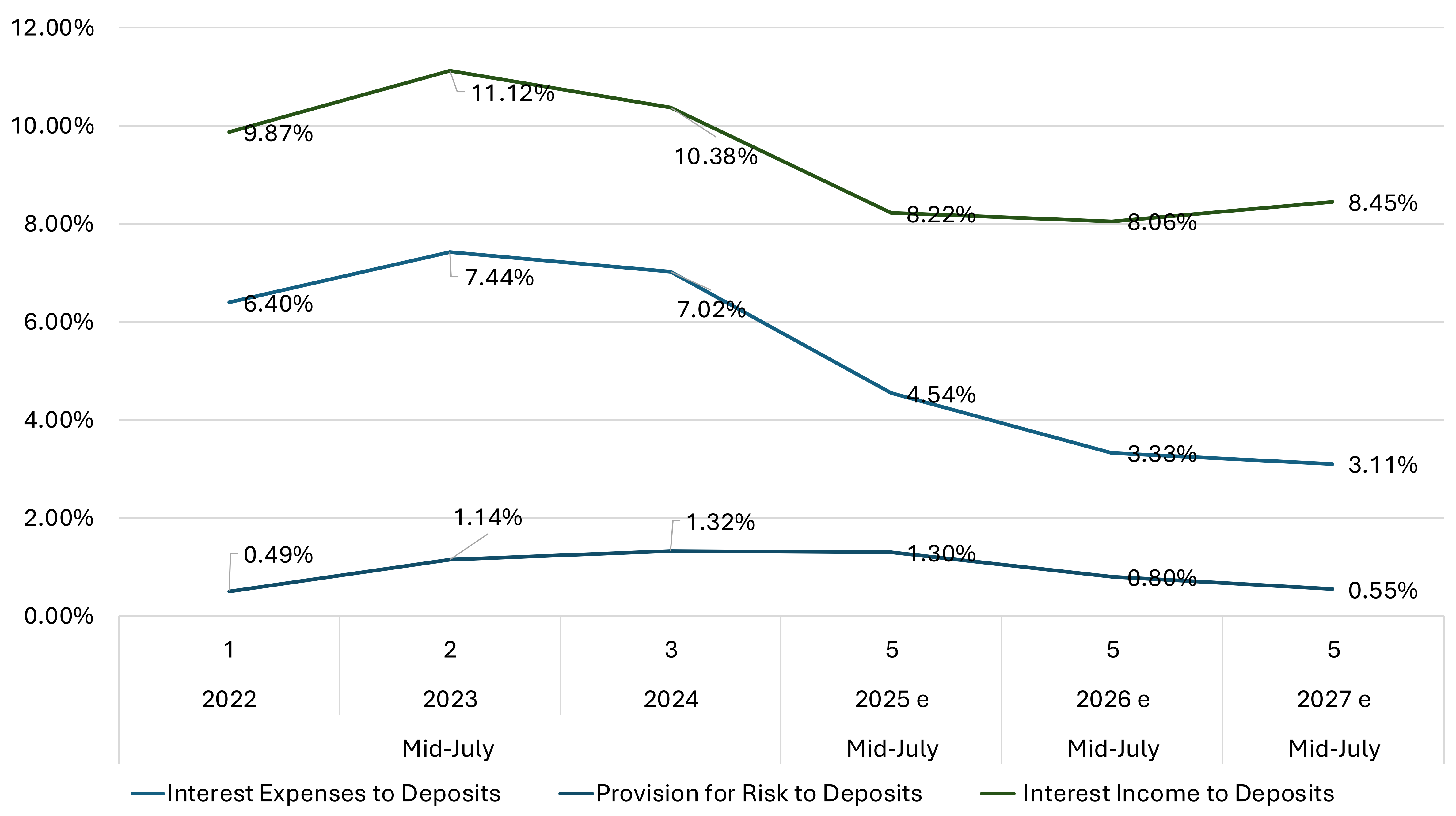
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
12.61
12.42
9.81
9.57
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
Core Capital/RWA
Total Capital/RWA

From mid-July 2021 to mid-May 2025, a steady rise in ***accrued interest****—from USD 1.32 billion to USD 2.83billion—suggests a growing volume of interest income yet to be received, driven by delayed loan repayments. This trend indicates an overoptisum 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 4.2 billion, which implies that institutions have not significantly increased their liquid reserves despite lower 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 0.35 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.*




12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
9.87%
11.12%
10.38%
8.22%
8.06%
8.45%
6.40%
7.44%
7.02%
4.54%
3.33%
3.11%
0.49%
1.14%
1.32%
1.30%
0.80%
0.55%
1
2022
2
2023
Mid-July
3
2024
5
2025 e
Mid-July
5
2026 e
Mid-July
5
2027 e
Mid-July
Interest Expenses to Deposits
Provision for Risk to Deposits
Interest Income to Deposits

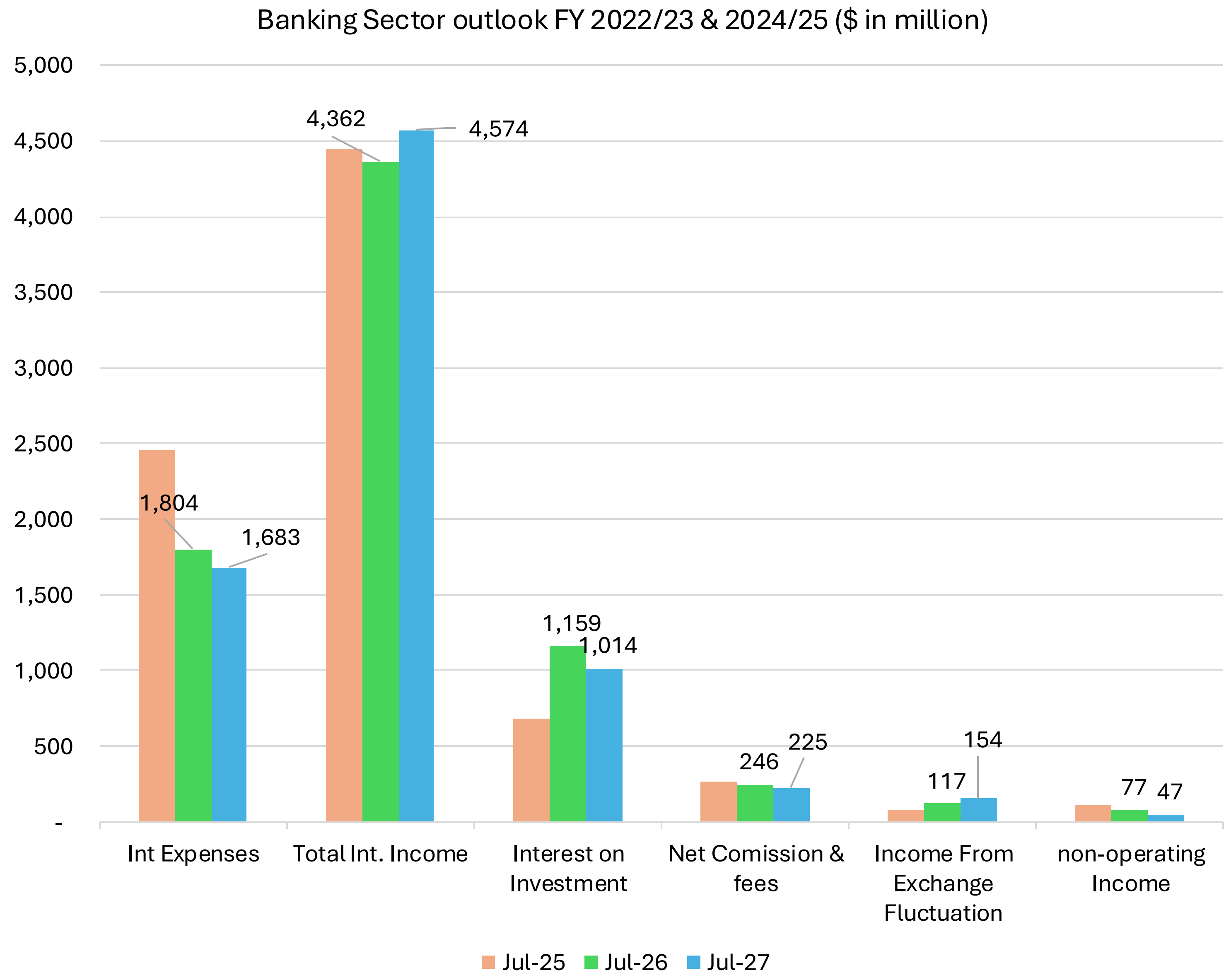
BFIs Outlook 2024/25, 2025/26 and 2026/27

Amount in $ Million													
Assets and Liability (Exchange Factor $ 1 = NPR 130)							Profit and loss						
Capital, Deposits and Risk Assets								July 2025e	Change	July 2026e	Change	July 2027e	Change
Particulars	July 2025e	Change	July 2026e	Change	July 2027e	Change	Int on Loans and Adv.	3,770	-16.70%	3,204	-15.02%	3,560	11.12%
CAPITAL FUND	5,998	7.00%	7,148	19.17%	8,586	20.12%	Total Int. Income	4,447	-14.25%	4,362	-1.89%	4,574	4.85%
PAID UP CAPITAL	3,433	2.27%	3,514	2.35%	3,594	2.29%	Avg. Yield From Loan	8.23%	-17.12%	6.53%	-20.70%	6.97%	6.72%
BORROWINGS	2,173	17.30%	2,235	2.85%	2,411	7.85%	Int Expenses	2,457	-29.94%	1,804	-26.61%	1,683	-6.69%
Borrowing from NRB	3	14.00%	2.29	-33.64%	3.11	36%	Avg. Cost of Fund	4.22%	-26.65%	2.93%	-30.59%	3.01%	2.81%
DEPOSITS	54,125	8.32%	57,231	5.74%	60,800	6.24%	NII	1,989	18.55%	2,559	28.64%	2,891	12.98%
Current	3,376	14.95%	3,848	13.98%	4,288	11.42%	Interest Spread	4.01%	-4.01%	3.60%	-10.29%	3.81%	5.95%
Saving	19,719	31.16%	24,200	22.72%	28,761	18.85%	Commission & fees	264	11.90%	246	-6.64%	225	-8.61%
Fixed	26,279	-6.22%	23,985	-8.73%	21,768	-9.24%	Ex. Fluctuation Gain	81	65.66%	117	44.67%	154	30.94%
Call	4,409	21.30%	4,824	9.41%	5,608	16.25%	Other Operating & Non-operating Income	109	55.83%	77	-28.85%	47	-39.33%
Others	342	1.01%	374	9.34%	375	0.29%	Gross Income	2,443	20.19%	3,000	22.81%	3,317	10.56%
LIQUID FUNDS	4,620	8.56%	5,082	10.01%	5,759	13.31%	Employees Exp	511	4.33%	571	11.82%	618	8.14%
GOVT. SECURITIES/OTHER	11,042	-2.43%	11,871	7.51%	12,159	2.43%	Employee cost in % of Total Int. Income	11.49%	21.67%	13.10%	13.98%	13.51%	3.14%
Investment in share and other	3,017	42.26%	3,482	15.43%	4,523	29.90%	Office Operating Exp	340	2.88%	342	0.37%	332	-2.73%
LOANS & ADVANCES	43,031	8.23%	47,099	9.45%	51,083	8.46%	LLP & write-off	714	7.03%	433	-39.31%	296	-31.75%
Total Capital/RWA	12.70%	-1.99%	13.64%	7.47%	14.78%	8.30%	Additional LLP to Risk Assets	1.64%	-1.16%	0.92%	-43.76%	0.58%	-37.07%
CD	77.85%	-0.24%	80.63%	3.57%	82.29%	2.06%	Provision Written Back	67	-80.00%	160	140.00%	196	23.00%
NPL /Total Loan	4.20%	7.69%	4.44%	5.75%	4.75%	6.93%	PBT	944	7.60%	1,813	92.05%	2,267	25.02%
Return on Capital Employed	10.14%	0.56%	16.34%	61.15%	22.54%	37.98%	Return on total assets	1.36%	-2.18%	2.37%	74.59%	2.70%	13.66%

Profitability of BFIs.

(Exchange Factor $ 1 = NPR 130

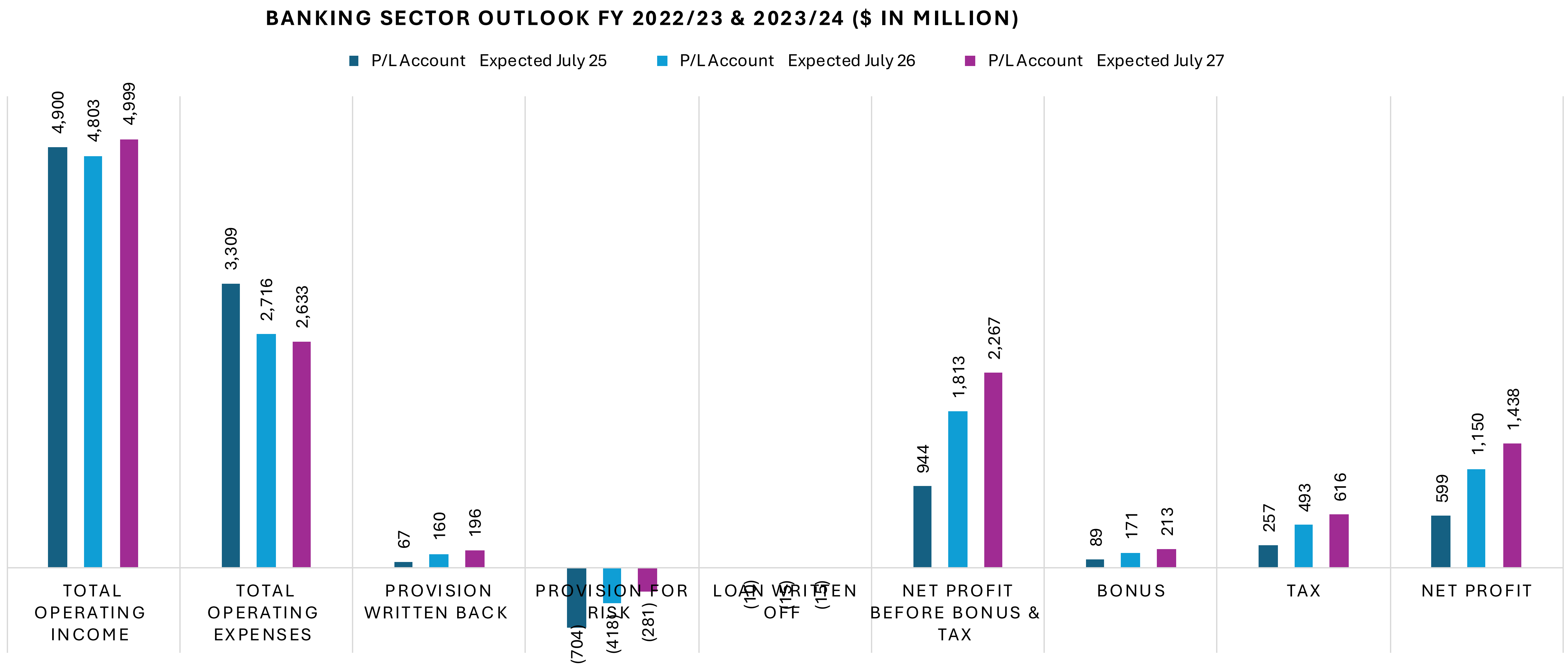
$ in million			
P/L Account			
Particulars	Expected July 25	Expected July 26	Expected July 27
Total Operating Income	4,900	4,803	4,999
Total Operating Expenses	3,309	2,716	2,633
Provision Written Back	67	160	196
Provision for Risk	(704)	(418)	(281)
Loan Written Off	(10)	(15)	(15)
Net Profit before Bonus & Tax	944	1,813	2,267
Bonus	89	171	213
Tax	257	493	616
Net profit	599	1,150	1,438



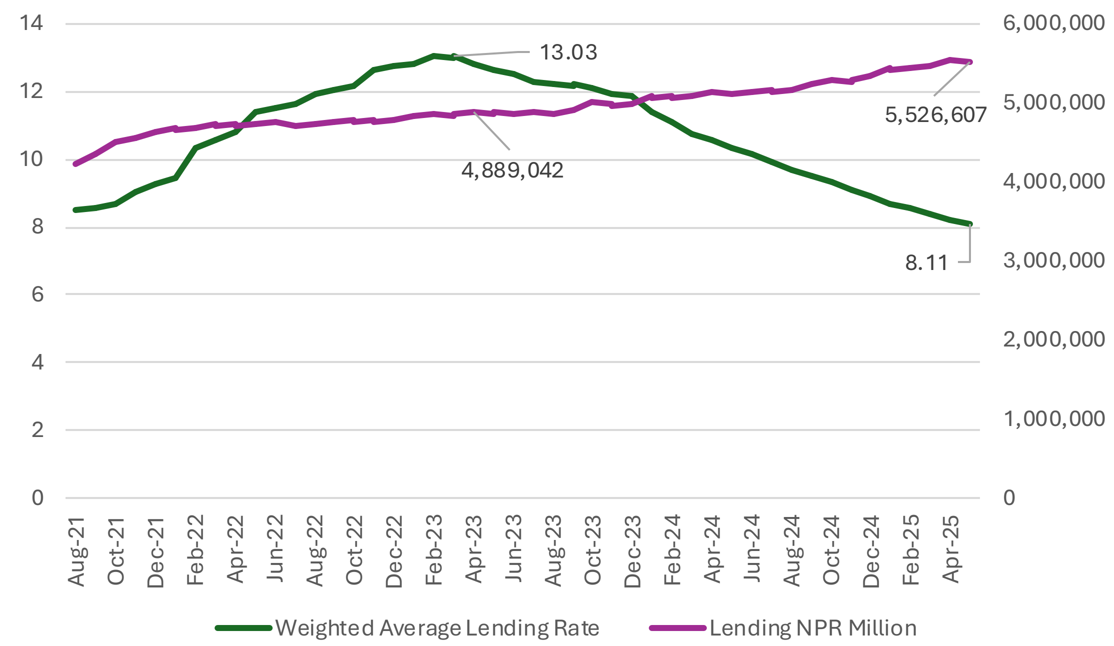
The implementation of NFRS may impact non-performing loans (NPL) and consequently affect the profitability of banking and financial institutions (BFIs).

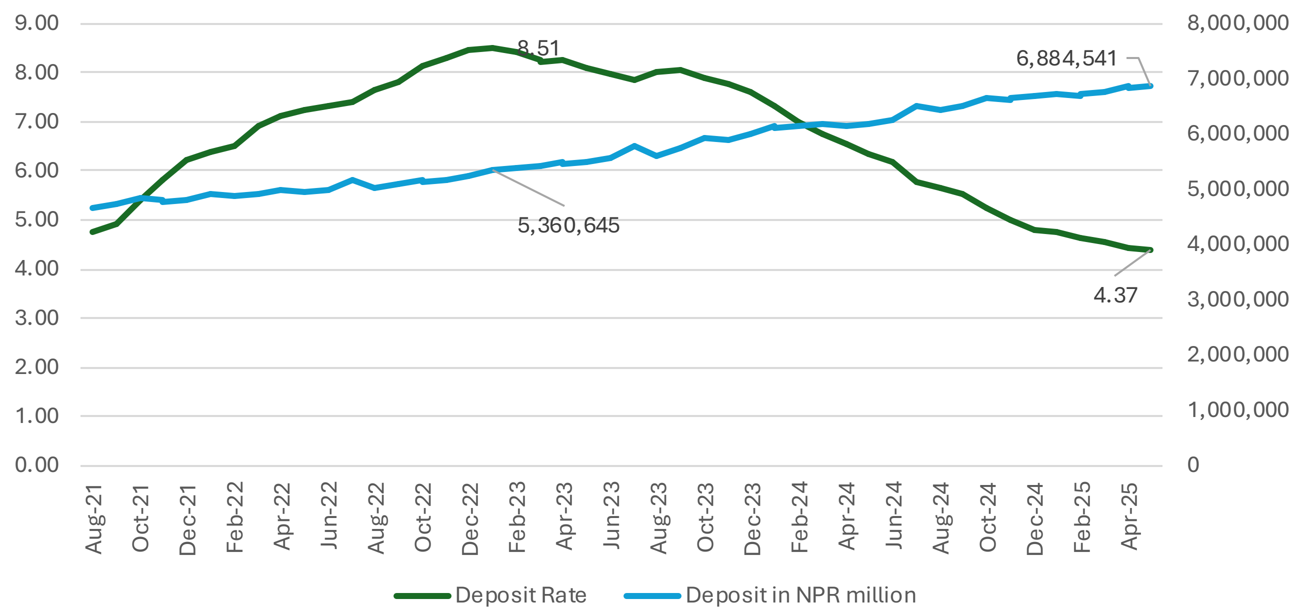
Profitability of BFIs

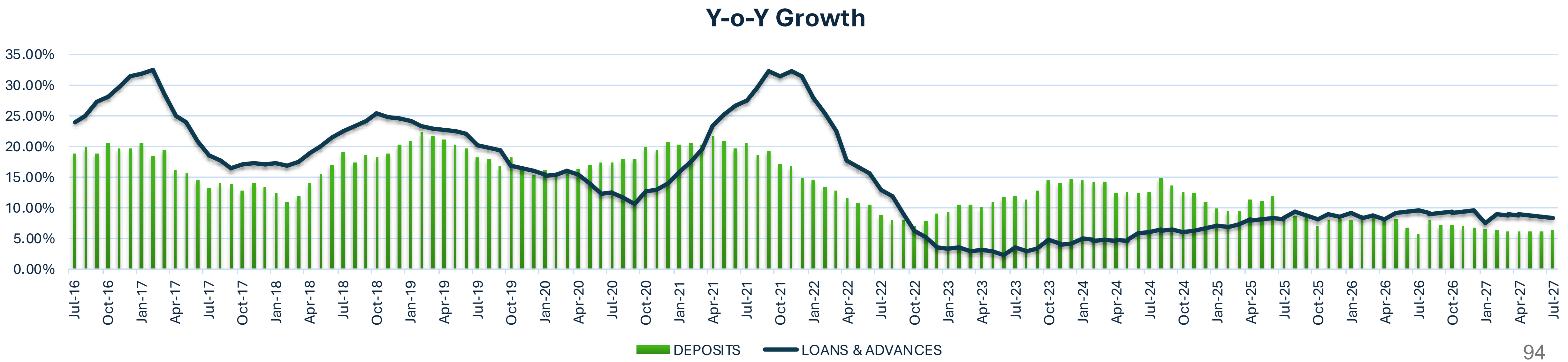
(Exchange Factor $ 1 = NPR 130)



Annual Loan and Deposit Growth







Weighted Average Lending Rate vs Lending Growth

- *The weighted average lending rate rises steadily from approximately 8.5% in August 2021 to a peak of 13.03% in January 2023. Following this peak, the rate declines consistently, reaching 8.11% by May 2025. Meanwhile, lending exhibits relatively stable growth at around NPR 5,526 billion in May 2025 but witnessed increase to NPR 5,561 billion by mid-June 2025.*
- *Lending growth initially appears less responsive to rising interest rates, remaining stable or increasing moderately despite higher rates (2021 to early 2023). After rates begin to fall in 2023, lending growth continues rising, suggesting that lower interest rates positively support lending growth. There is some inverse relationship between lending rates and lending growth, but the impact is not immediate. It suggests that businesses and consumers are more responsive to sustained rate changes over time rather than short-term fluctuations.*

Deposit Rate vs Deposit Growth

The deposit rate rises sharply from Aug 2021 (~5%) to 8.51% by early 2023. Post Jan 2023, the rate starts declining to 4.75% by Jan 2025. Deposits in NPR million increase steadily, with significant growth after early 2023, reaching a peak of NPR 7,008 billion by mid-June2025. Deposit growth appears positively correlated with higher deposit rates initially. Even as rates decline in 2023-2024, deposits continue to grow, suggesting other factors like improved economic confidence or liquidity may play a role. Higher deposit rates initially stimulate deposit growth. However, growth continues even as rates fall, indicating that deposits may not solely depend on rates but are influenced by broader economic conditions and liquidity.

Interest rates and lending growth:

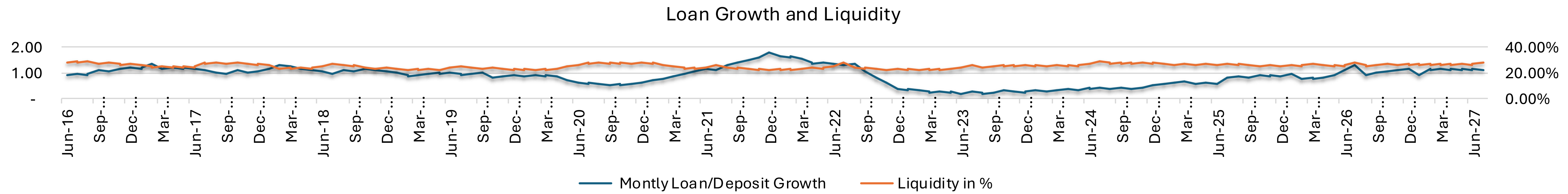
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

Interest rates and deposit growth:

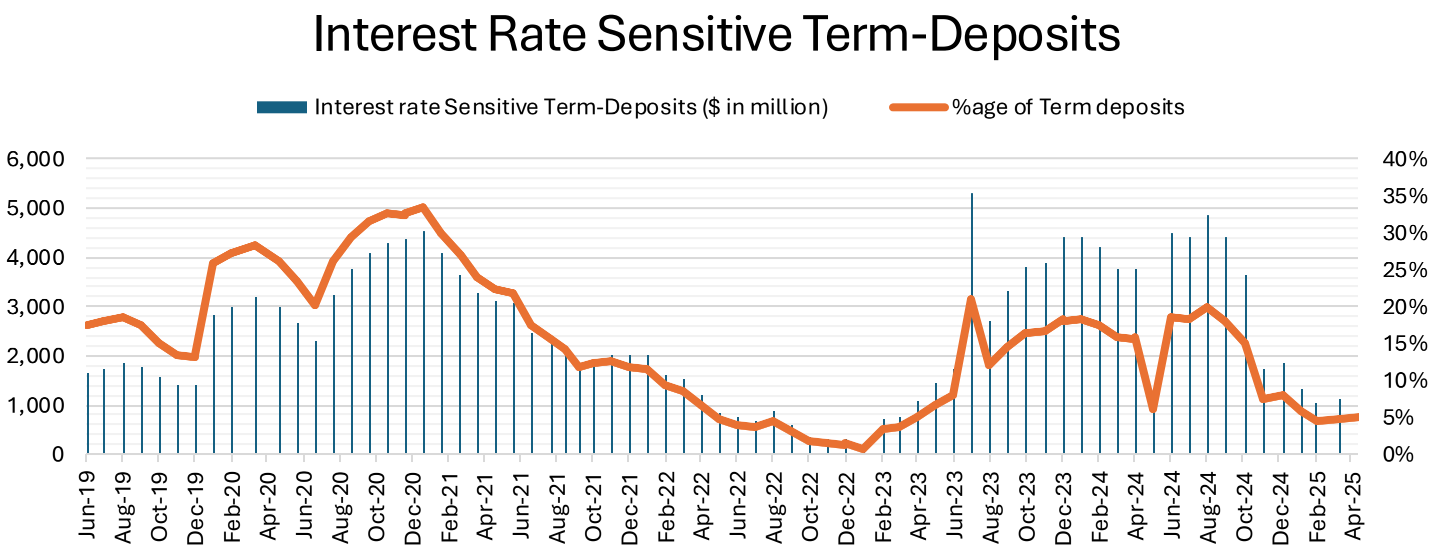
Deposit growth responds positively to higher rates but continues rising despite rate reductions, indicating a more complex relationship influenced by confidence and liquidity.

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

Liquidity

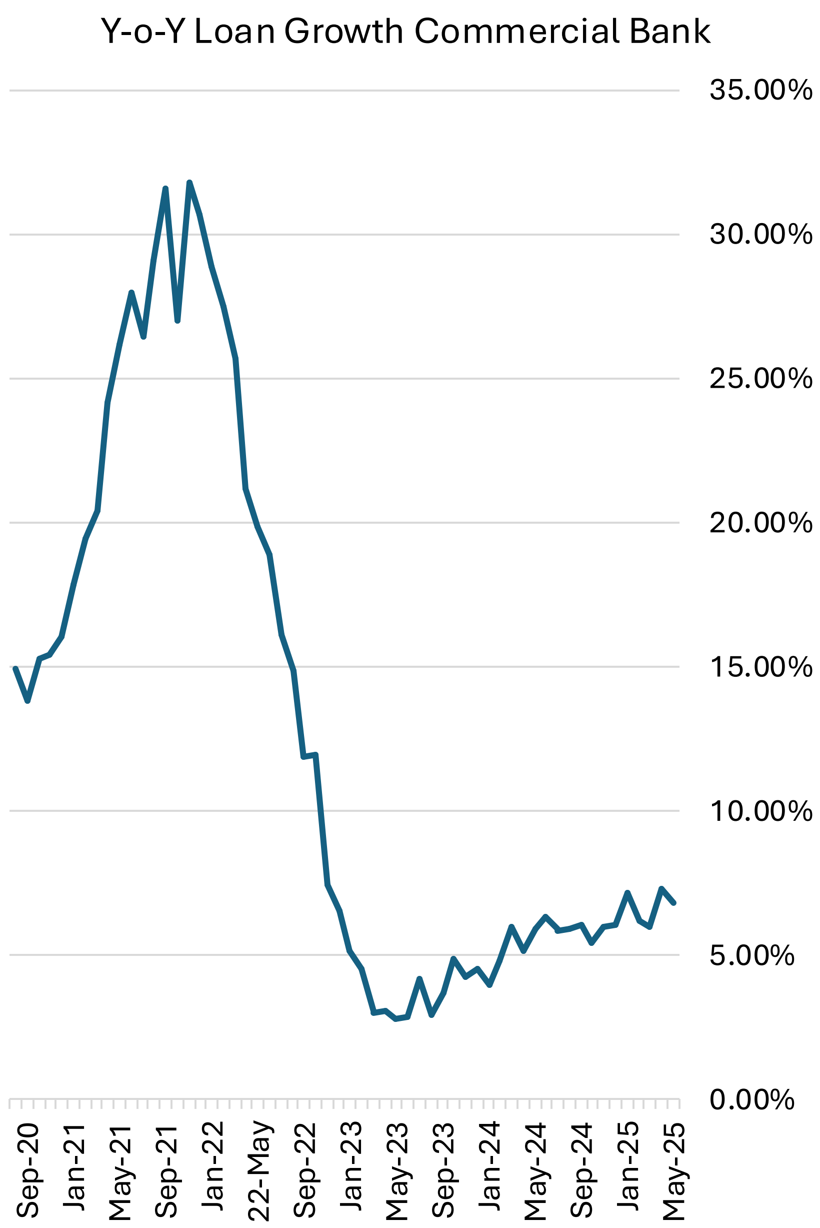


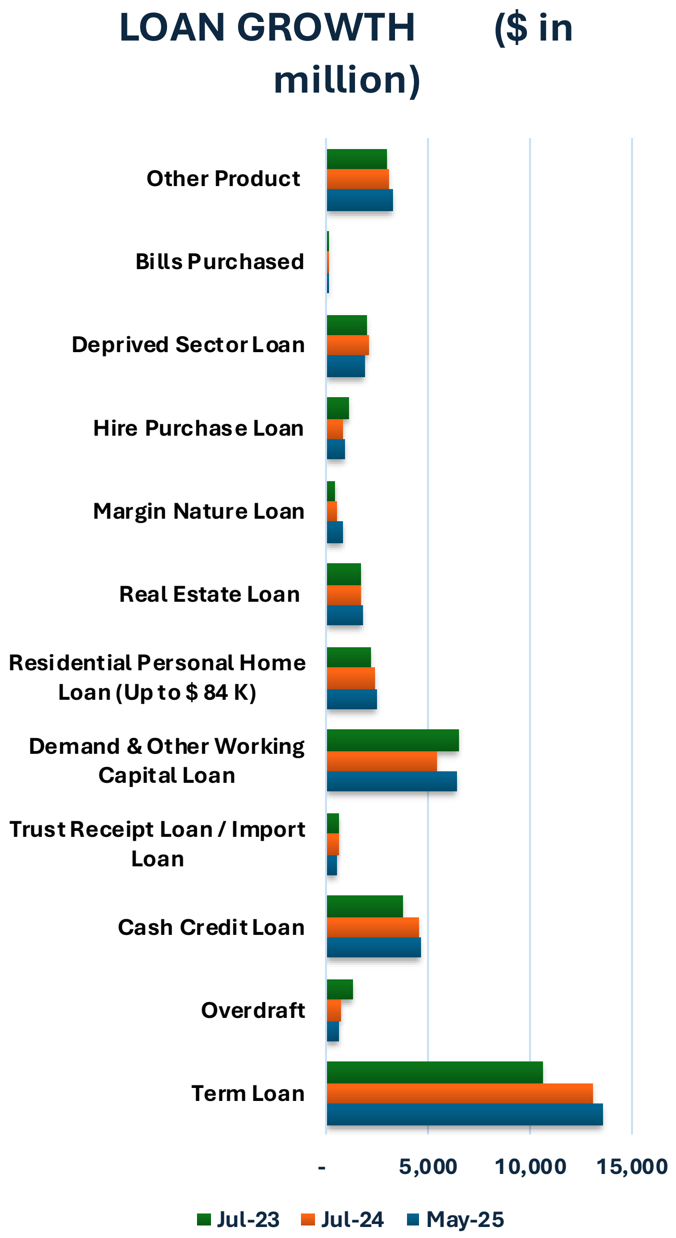
Amount in million		Net Maturity Amount in $ million		
Period	Deposit mix	Within next month	Within a Year	Total
3-6 months	19%	274.75	4,176.19	4,450.94
6-12 months	38%	673.81	8,035.79	8,709.60
1-2 yrs.	17%	681.68		3,304.61
2 yrs. and above	26%	291.27		5,645.90
Total	100%	8.33%	52.95%	100%

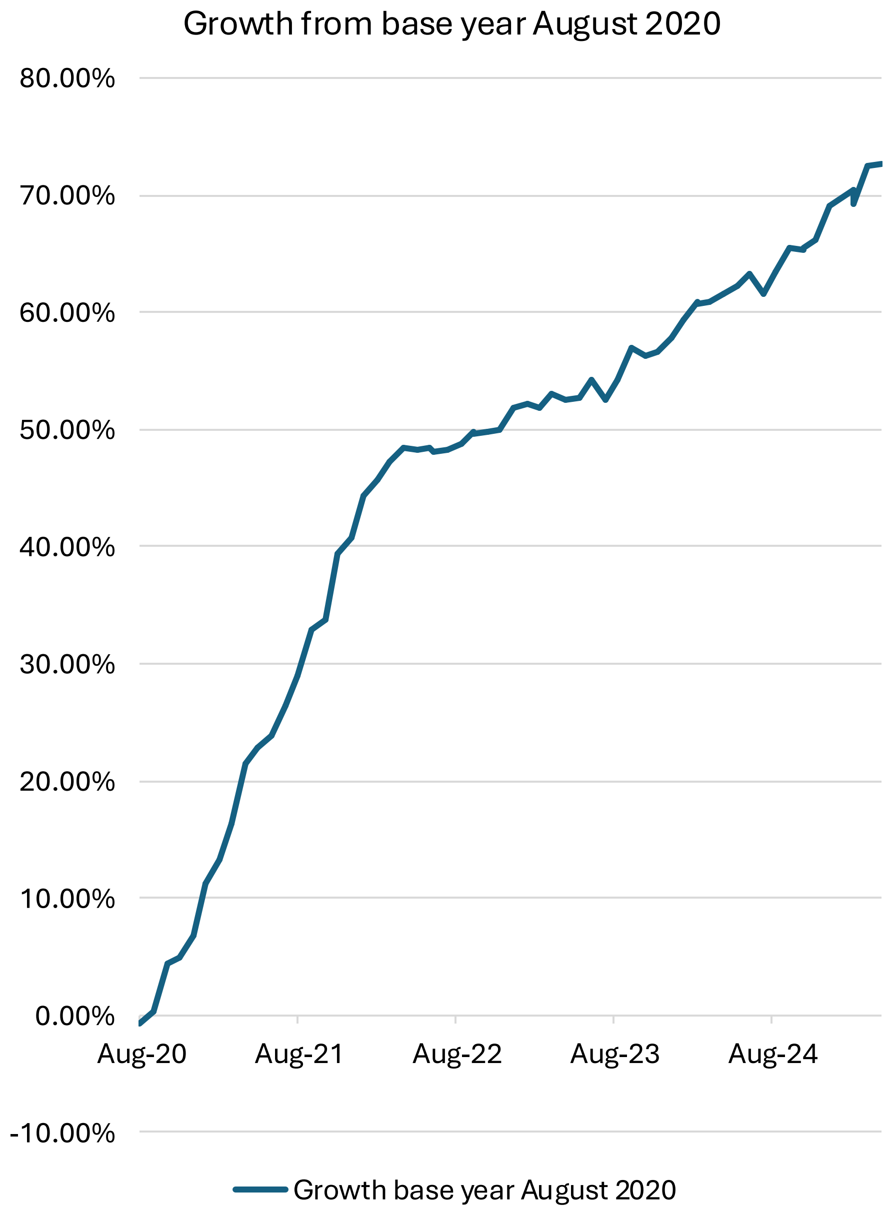


Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period. The deposit mix of the Nepalese banking sector over the past several months reveals 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

Impact of IPO Delays by SEBON on Market Trust and Governance Concerns

The Securities Board of Nepal (SEBON) currently faces significant scrutiny due to extended delays in the approval of Initial Public Offering (IPO) applications, as evidenced by the IPO pipeline data as of 2082.01.28. These delays, observed across multiple sectors and types of companies, have increasingly created mistrust in the capital market, raising serious concerns about regulatory mismanagement and potential rent-seeking behavior.

An analysis of the pipeline data reveals that the delays are not isolated to one segment of the market. IPOs across all categories—including hydropower, manufacturing, hospitality, investment companies, and insurance—have been pending for extended periods. The number of shares offered ranges from under 100,000 to over 30 million, with corresponding issue amounts ranging from NPR 10 million to over NPR 6 billion. Despite the variation in size and sector, delays are prevalent across the board, suggesting systemic inefficiencies within SEBON's approval mechanism.

Furthermore, many IPO applications date back over 12 to 18 months, some with little to no movement despite the submission of responses and required documentation by the issuing companies. This stagnation has created the perception of a regulatory bottleneck that is not just administrative but potentially influenced by non-transparent practices. The inconsistency in processing timelines has led stakeholders to question whether certain companies receive undue favor, reinforcing fears of rent-seeking behavior among regulators.

The dominance of ordinary equity share issues in the pipeline—commonly sought after by retail and institutional investors alike—means that delays in their approval have an outsized impact on market sentiment. Investors are left uncertain about capital allocation, and companies are unable to capitalize on favorable market conditions. Such inefficiencies discourage broader participation in the market and undermine the goal of financial inclusion.

SEBON's inaction and lack of timely communication have not only delayed capital formation but also damaged its institutional credibility. The perception that approvals may depend on informal networks or discretionary influence rather than objective criteria further deteriorates trust. This environment of uncertainty and suspicion is detrimental to Nepal's evolving capital markets.

Recommendations

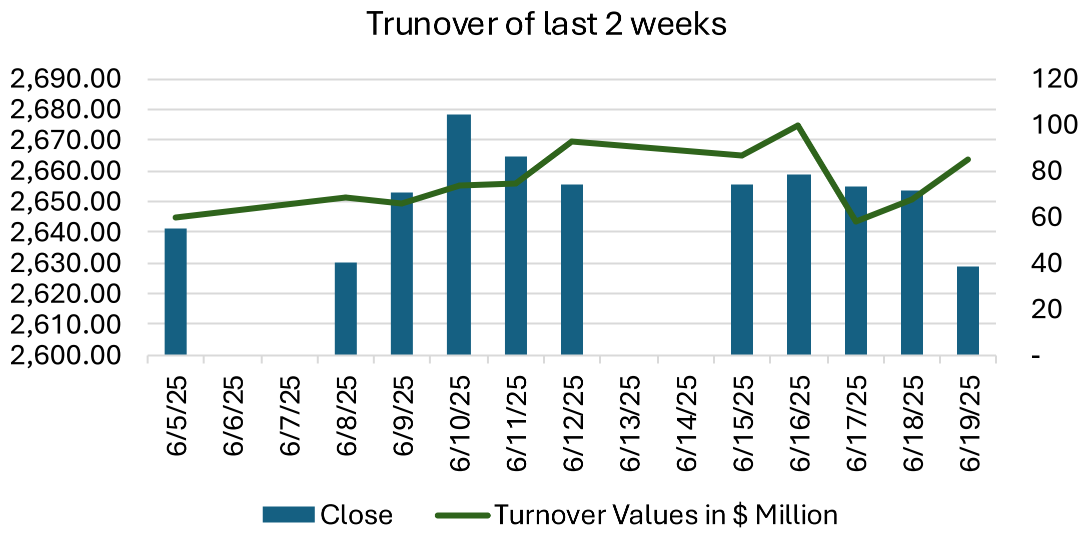
SEBON's prolonged indecision in processing IPO applications has become a significant obstacle to market growth. It has fostered widespread doubt about regulatory governance, amplified concerns about rent-seeking behavior, and discouraged participation from both issuers and investors.

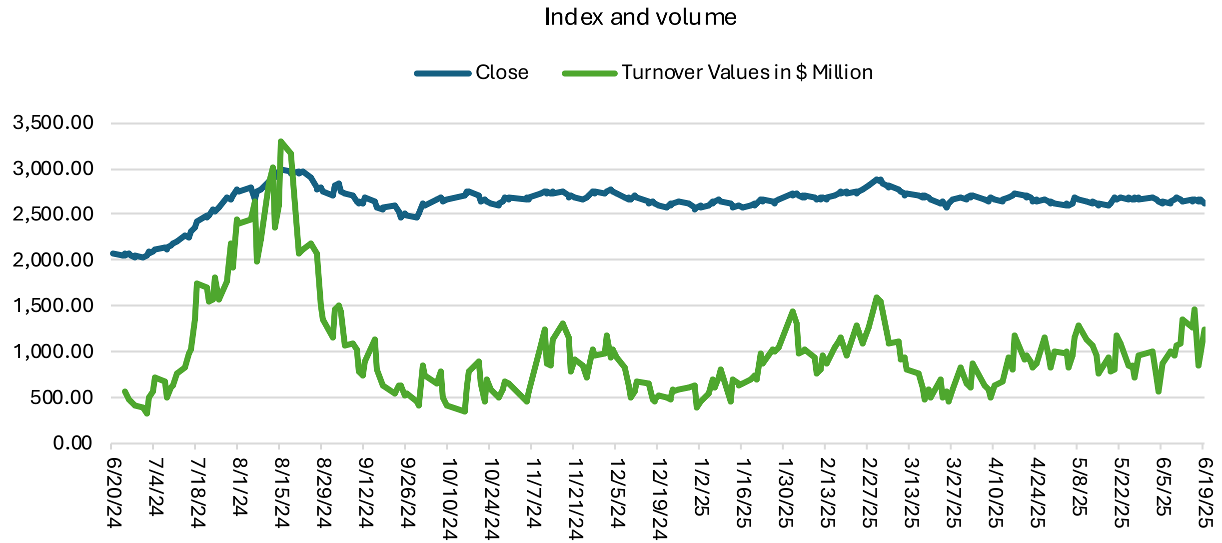
To restore trust and improve market efficiency, SEBON must:

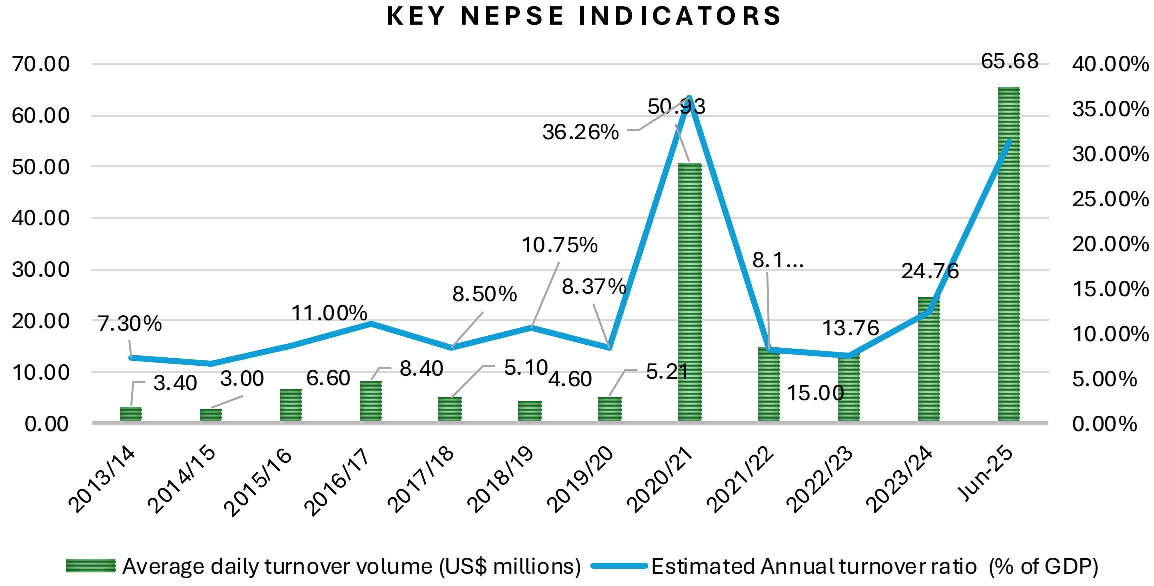
- *Implement a transparent, time-bound IPO approval process.*
- *Increase accountability within the regulatory framework.*
- *Introduce digital tools to streamline tracking and evaluation.*

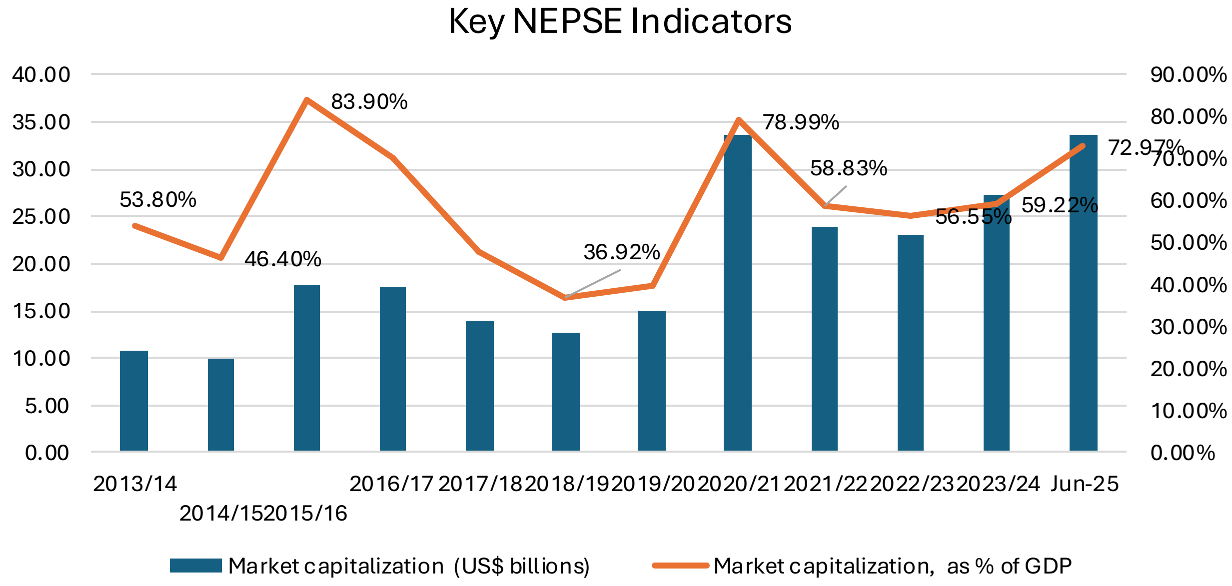
Without urgent reforms, the credibility and effectiveness of SEBON as a regulator will continue to decline, putting the integrity of Nepal's capital market at risk.

Capital Market

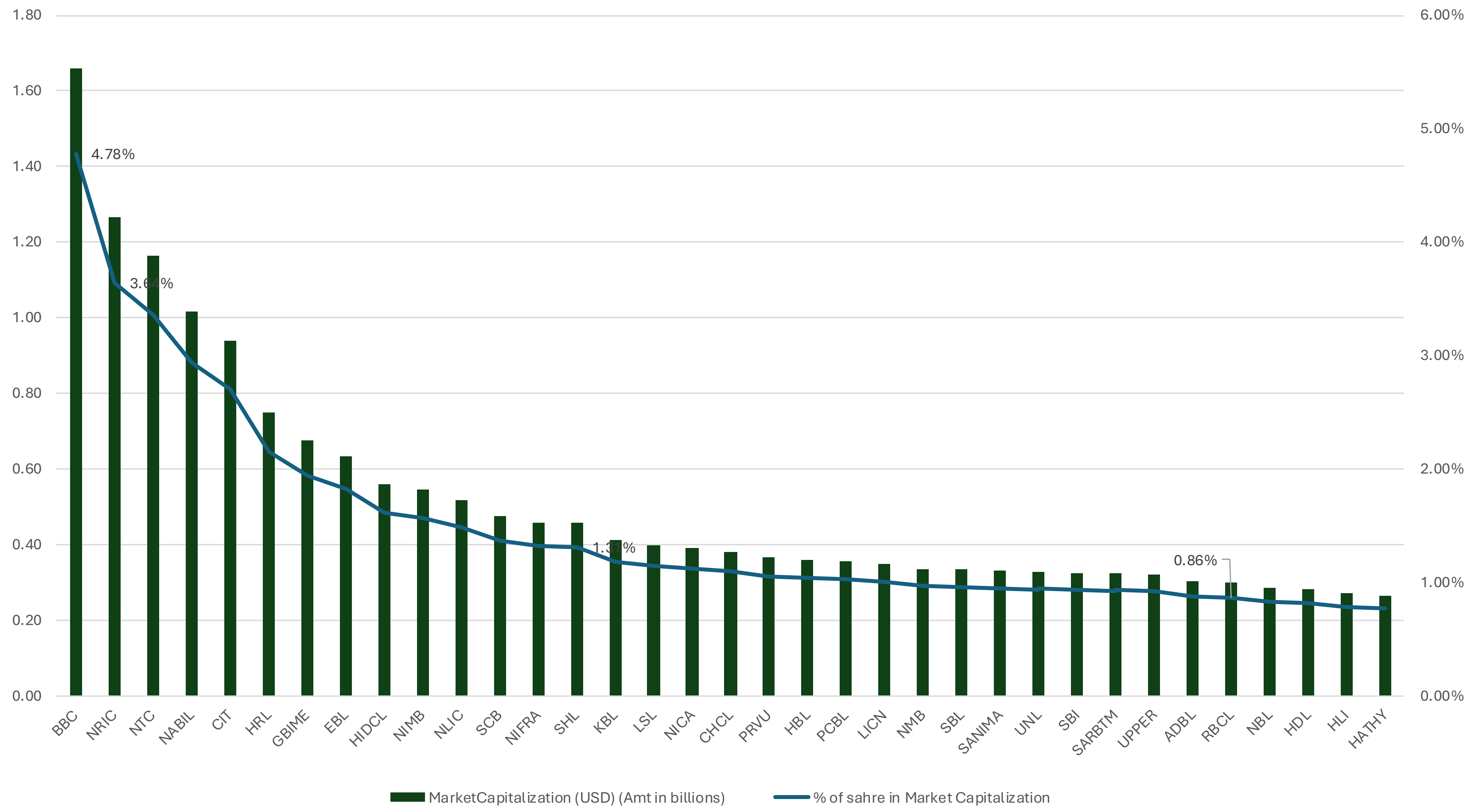


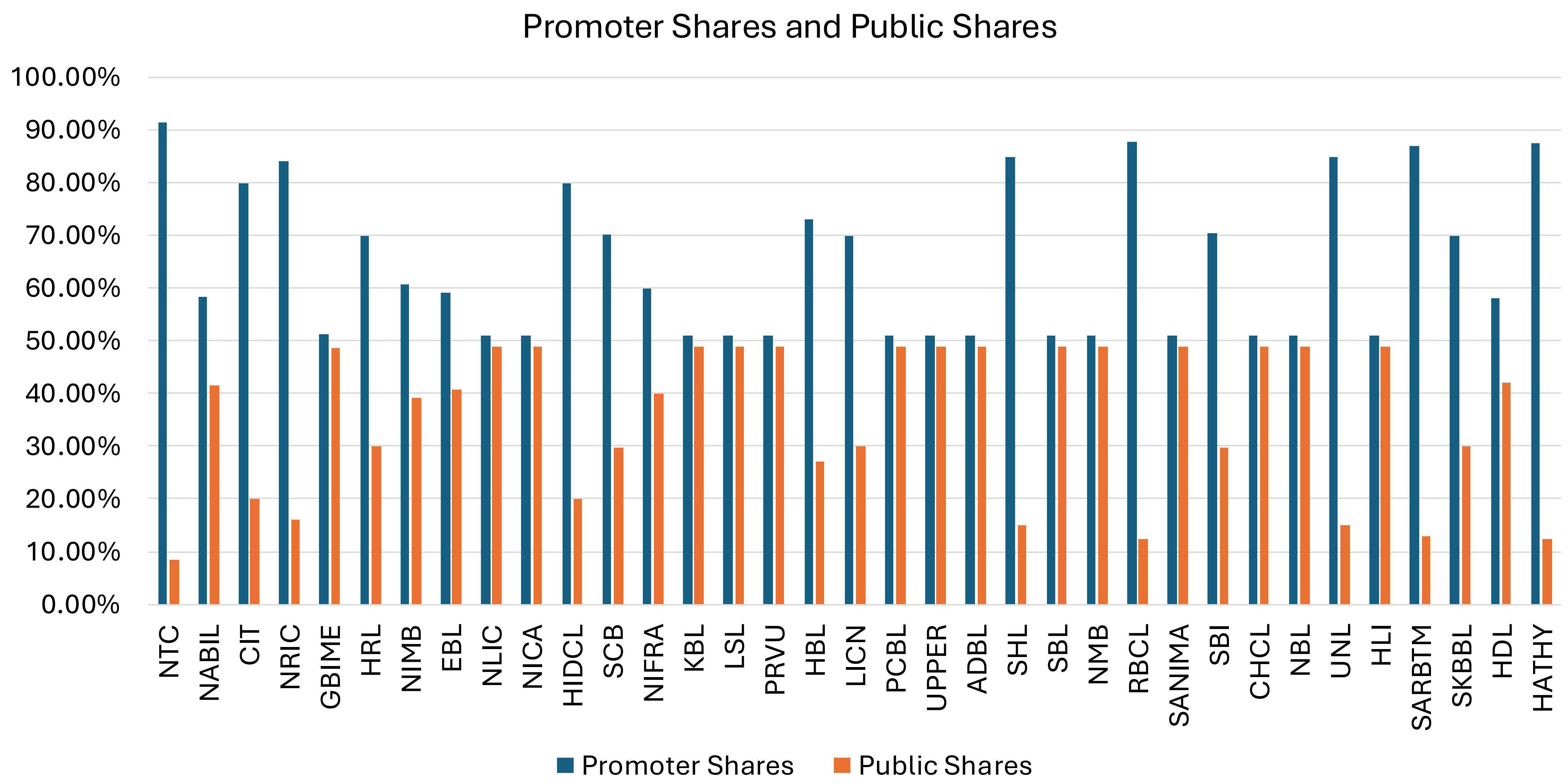






The 35 companies listed on NEPSE make up 52.17 % of the total market capitalization, with the majority of their shares not available for free trade.





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

5

Fiscal Situation

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

Government Receipts & Payments Status	Annual Budget	19/06/2025	% age
1. Revenue (USD in million)	10,917.72	7,925.39	72.59%
a) Tax Revenue	9,878.54	7,164.51	72.53%
b) Non Tax Revenue	1,039.18	760.88	73.22%
2. Grants	402.51	135.44	33.65%
3. Other Receipts	-	89.63	
Total Receipt	11,320.23	8,150.46	72.00%
2. Total Expenditure from Treasury	14,310.02	10,035.77	70.13%
a. Recurrent	8,774.34	6,680.91	76.14%
b. Capital	2,710.42	1,139.68	42.05%
c. Financing	2,825.27	2,215.18	78.41%
Deficit	(2,989.80)	(1,885.31)	
% of GDP	6.48%	4.08%	

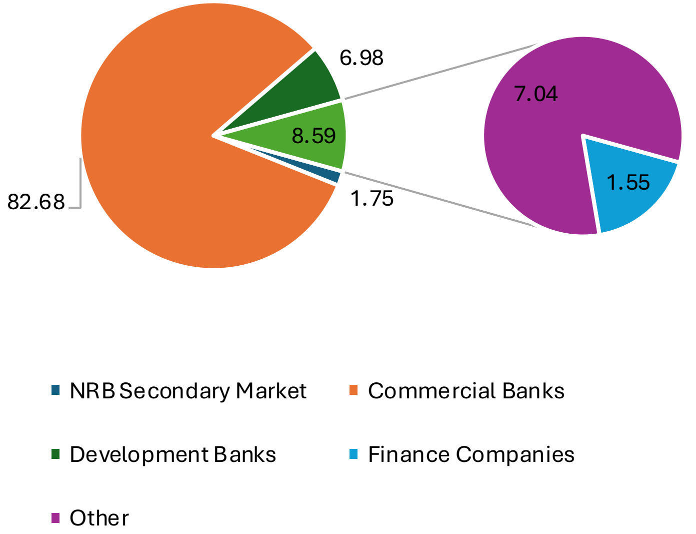
Government of Nepal Treasury (USD= 119 NPR) (USD in million)

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	8,391	9,730	1,07,810	
	Revenue	815	1,398	2,086	2,798	3,410	4,703	5,544	6,212	7,189	7,752	87,762	
	Treasury Position	1,662	2,265	1,476	1,800	1,847	2,502	2,942	3,297	3,124	3,033		

Key Economic Indicators

Indicator	2023/24 (to May 2024)	2024/25 (to May 2025)
CPI-based Inflation (y-o-y)	4.40%	2.77%
Trade	Imports ↓2.4%; Exports ↓3.6%; Trade Deficit ↓2.3%	Imports ↑13.1%; Exports ↑72.7%; Trade Deficit (not stated)
Remittances	↑19.2% (NPR), ↑17.1% (USD)	↑13.2% (NPR), ↑10.5% (USD)
Balance of Payments	Surplus Rs. 392.64 billion	Surplus Rs. 438.52 billion
Gross Foreign Exchange Reserves	Rs. 1,942.40 billion (USD 14.54 billion)	USD 18.40 billion (NPR not stated)
Government Expenditure	Rs. 1,056.89 billion	Rs. 1,157.89 billion
Government Revenue	Rs. 831.93 billion	Rs. 922.43 billion
Broad Money (M2)	↑8.1%; y-o-y expansion: 12.4%	↑6.6%; y-o-y expansion: 11.4%
BFI Deposits	↑7.8%; y-o-y: 12.8%	↑6.2%; y-o-y: 11.4%
Private Sector Credit	↑4.7%; y-o-y: 5.2%	↑7.3%; y-o-y: 8.4%

Ownership Structure of Government Securities



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

	2,024									2025					
HEADS ($ in million) I USD= NPR 130	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Customs	981	1,107	1,249	1,398	1,546	122	253	400	520	826	968	1,109	1,259	-	
Import Duties	785	885	995	1,110	1,225	99	206	324	419	659	772	885	1,006	-	
Green Tax	-	-	-	1	3	-	-	-	-	-	-	-	-	-	
Export Duty	1	1	2	2	2	1	1	1	2	3	3	3	4	-	
Infrastructure Tax	97	110	126	142	159	10	20	33	44	76	90	103	118	-	
Other incomes of Custom	2	2	3	4	5	0	1	1	2	3	3	3	4	-	
Agriculture Reform Duties	36	40	44	47	50	4	7	10	15	28	34	39	43	-	
Road Maintenance and Improvement Duty	41	47	54	61	68	6	12	20	26	38	44	50	57	-	
Road Construction and Maintenance Duty	19	22	26	32	33	3	7	10	13	19	22	25	28	-	
Value Added Tax	1,467	1,678	1,882	2,121	2,388	203	386	578	760	1,191	1,405	1,616	1,845	-	
Production, Sales and Service	580	671	757	863	1,001	100	171	241	319	498	586	674	776	-	
Imports	888	1,007	1,124	1,258	1,387	103	215	336	441	693	818	942	1,069	-	
Excise Duties	700	803	918	1,042	1,126	93	195	307	426	641	731	838	954	-	
Internal Production	517	595	686	780	840	67	137	213	304	468	535	616	704	-	
Excise on Imports	184	208	232	262	286	26	58	95	121	174	196	222	250	-	
Educational Service Tax	16	18	21	23	25	2	5	8	10	14	16	18	23	-	
Income Tax	1,287	1,555	1,675	1,793	2,180	176	278	397	515	1,092	1,230	1,333	1,643	-	
Income Tax	1,079	1,337	1,412	1,522	1,897	124	219	329	406	968	1,064	1,159	1,461	-	
Interest Tax	208	218	263	271	283	52	59	67	108	124	167	174	182	-	
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	6,376	7,059
Non Tax Revenue	464	592	655	693	880	133	163	220	256	540	594	627	671	719	754
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	7,096	7,813
Other Receipts	169	171	172	174	183	17	24	37	44	60	62	72	75	210	221
Total Receipts	5,085	5,925	6,571	7,245	8,329	746	1,304	1,946	2,531	4,365	5,007	5,613	6,470	7,306	8,034

Gross Value Added by Industrial Division

(at current prices)

					Rs. millions		
Industrial Classification	2077/78	2078/79	2079/80	2080/81 R	2081/82 P		2081/82 P
Industrial Classification	2020/21	2021/22	2022/23	2023/24	2024/25		2024/25
Agriculture, forestry and fishing	9,58,495	10,40,816	11,43,101	12,48,694	13,53,729	UP	25.16
Mining and quarrying	20,448	23,254	24,009	24,020	24,776	UP	0.46
Manufacturing	2,07,444	2,40,471	2,43,679	2,49,252	2,67,803	UP	4.98
Electricity and gas	42,047	64,281	76,908	84,187	93,237	UP	1.73
Water supply; sewerage and waste management	20,728	21,092	21,735	22,052	22,788	UP	0.42
Construction	2,22,588	2,57,108	2,76,190	2,72,725	2,81,639	UP	5.24
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,79,684	6,70,329	6,69,055	7,07,522	7,82,958	UP	14.55
Transportation and storage	1,96,380	2,57,062	3,18,739	3,42,873	3,87,578	UP	7.20
Accommodation and food service activities	58,779	68,230	92,682	1,21,423	1,32,546	UP	2.46
Information and communication	82,693	88,002	92,741	97,832	1,04,251	UP	1.94
Financial and insurance activities	2,53,284	2,89,599	3,33,778	3,31,032	3,57,655	UP	6.65
Real estate activities	3,33,612	3,54,183	4,02,323	4,24,376	4,46,100	UP	8.29
Professional, scientific and technical activities	37,098	40,772	45,408	49,982	52,084	UP	0.97
Administrative and support service activities	29,121	30,390	33,060	36,038	38,768	UP	0.72
Public administration and defence; compulsory social security	2,87,656	3,73,328	4,67,358	4,81,098	4,69,164	DOWN	8.72
Education	2,96,664	3,37,839	3,95,230	4,31,635	4,23,513	DOWN	7.87
Human health and social work activities	65,279	74,163	90,993	94,877	1,02,638	UP	1.91
Other Services	22,933	25,066	30,401	33,787	38,363	UP	0.71

High-Growth Sectors: Small but Rapidly Expanding

*Several smaller sectors posted **impressive growth rates**, indicating **dynamic shifts** in emerging industries:*

- ***Electricity and gas** saw the **highest growth rate at 13.82%**, though it contributes only **1.73% (NPR 93.24 billion)** to GDP.*
- ***Transportation and storage** grew by **9.45%**, contributing a significant **7.20% (NPR 387.58 billion)** — both a fast-growing and sizeable sector.*
- ***Financial and insurance activities** expanded by **6.29%**, with a **6.65% share (NPR 357.66 billion)**, suggesting healthy sectoral modernization and financial deepening.*
- ***Accommodation and food services** grew by **5.00%**, though still relatively small at **2.46% (NPR 132.55 billion)**.*
- ***Information and communication** rose by **4.81%**, contributing **1.94% (NPR 104.25 billion)**.*
- ***Human health and social work** grew by **4.77%**, reflecting post-pandemic recovery in health*

*These sectors, although not the largest in value, point to a **shift toward services, logistics, and utilities**, showing a **diversification of growth sources** beyond traditional agriculture and trade.*

Mid-Sized Productive Sectors: Stable, Foundational Growth

*A cluster of **productive sectors** with both moderate size and growth rate form the **core of Nepal's structural economic transition**:*

***Manufacturing** (NPR 267.80 billion, 4.98% of GDP) grew by **3.78%**, reflecting modest industrial growth.*	***Construction** (NPR 281.64 billion, 5.24%) grew by **2.21%**.*	***Wholesale and retail trade** (NPR 782.96 billion, 14.55%) saw **3.30% growth**, maintaining its dominant role in value addition.*

*These sectors are **key drivers of employment and investment**, and their **steady expansion** supports infrastructure, trade, and industrialization goals.*

Traditional Large Sectors: Slow or Declining Performance

*The **largest sectors by value** showed either **slow growth or contraction**, highlighting challenges in transforming the economic base:*

- ***Agriculture, forestry, and fishing** remains the largest sector at **NPR 1,353.73 billion (25.16%)**, but grew by only **3.28%** — a low rate relative to its economic weight.*
- ***Real estate activities** contributed **NPR 446.10 billion (8.29%)** but grew by just **2.72%**.*
- ***Public administration and defence** (NPR 469.16 billion, 8.72%) and **education** (NPR 423.51 billion, 7.87%) both saw minimal growth of **2.24%** and **1.98%**, respectively — likely reflecting tighter public budgets or reduced fiscal momentum.*

*Despite their large contribution to GDP, these sectors are **no longer the main engines of growth**, signaling potential saturation or policy constraints.*

	Heading	Annual						
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
A	Real Sector (growth and ratio in percent)							
	Real GDP at basic price	-2.4	4.5	5.3	2.3	3.4	4.0	
	Real GDP at purchasers' price	-2.4	4.8	5.6	2.0	3.7	4.6	
	Nominal GDP at purchasers' price	0.8	11.9	14.3	7.8	6.4	7.0	
	Gross National Income (GNI)	0.9	11.2	14.4	8.5	6.9	6.7	
	Gross National Disposable Income (GNDI)	0.5	10.8	12.4	11.0	8.5	7.4	
	Gross Capital Formation / GDP	30.4	35.2	37.6	31.1	30.4	28.1	
	Gross Fixed Capital Formation / GDP	30.5	29.3	29.0	24.6	24.3	24.1	
	Gross Domestic Savings / GDP	5.7	6.4	6.6	7.2	6.2	6.6	
	Gross National Savings / GDP	32.2	31.5	29.6	33.9	35.4	36.2	
	Gross Domestic Product(Current Price) (Rs in billion)	3888.7	4352.6	4976.6	5367.0	5709.1	6107.2	
	Heading	Annual					Mid-May	
		2019/20	2020/21	2021/22	2022/23	2023/24	2023/24	2024/25
B	Public Finance (growth and ratio in percent)							
	Revenue Growth (%)	0.2	16.0	14.1	-9.3	7.1	10.0	10.9
	Expenditure Growth (%)	-1.7	9.7	9.5	8.5	-0.9	0.9	9.6
	Domestic Debt (Rs. in billion)	613.2	800.3	984.3	1,129.1	1,180.9	1,190.1	1,262.8
	External Debt (Rs. in billion)	819.7	934.1	1,025.8	1,170.2	1,252.3	1,170.2	1,253.2
	Revenue / GDP	21.6	22.4	22.4	18.9	19.0	14.69%	15.52%
	Recurrent Expenditure / GDP	20.2	19.4	19.2	18.8	16.7	14.67%	14.47%
	Capital Expenditure / GDP	4.9	5.3	4.3	4.4	3.4	2.47%	2.52%
	Domestic Debt / GDP	15.8	18.4	19.8	21.0	20.7		22.2%
	External Debt / GDP	21.1	21.5	20.6	21.8	22.0		24.2%

Budget Review

2025-2026

Key Index for 2025-2026

Particulars	***Amount***
Growth Rate	*6%*
Inflation	*5.5%*

Economic policy must be driven by pragmatism, not populism. Nepal needs clarity, consistency, and conviction in its financial governance.

1

2

3

4

Key Indicators

- *The Government of Nepal has unveiled a budget of USD 14,879.62 million for the fiscal year 2025/26, representing a 5.58% increase over the previous year. Anchored by a GDP growth target of 6.0% and an inflation ceiling of 5.5%, the budget presents an ambitious yet measured economic outlook in the context of evolving domestic and global challenges.*

Allocation

- *Of the total allocation, USD 5,781.48 million (38%) has been earmarked for current expenditure, USD 3,090.06 million (20.77%) for capital expenditure, USD 2,842.74 million (19.10%) for financial provisioning, and USD 3,165.34 million (21.27%) for intergovernmental fiscal transfers—reflecting a 2.19% increase in transfers to subnational governments.*

Revenue

- *On the revenue front, the government anticipates USD 9,962.12 million from tax revenue, a 4.34% rise from the prior year, with foreign grants projected at USD 404.90 million. To address the fiscal deficit, which is estimated at USD 4,512.60 million (an 8.76% increase), the government plans to mobilize USD 1,770.18 million through external loans and USD 2,742.42 million from domestic sources.*

Observation

- *Overall, the budget underscores the government's commitment to economic recovery, strategic infrastructure investments, and structural reforms in the financial sector. Framed within a fiscally responsible approach, the budget seeks to navigate current macroeconomic pressures while fostering growth, resilience, and renewed confidence across the public and private sectors.*

The objectives of the budget:

Growth	Investment	Technology	Ensure	Promote
Achieve high, inclusive, and sustainable economic growth to reduce poverty,	*Promote entrepreneurship and attract both public and private investment to create employment opportunities,*	*Enhance economic efficiency and growth by increasing the use of technology,*	*Ensure social justice through social protection and development,*	*Promote quality public services and good governance.*

The priorities of the budget

Promotion	Infrastructure	Social sector	Balance	Services
• *Promotion of entrepreneurship, employment, production, and productivity,*	• *Investment expansion in result-oriented quality physical infrastructure,*	• *Quality improvement in the social sector*	• *Balanced development and effective delivery of social protection,*	• *Citizen-centric services, control of corruption, and improvement in governance.*

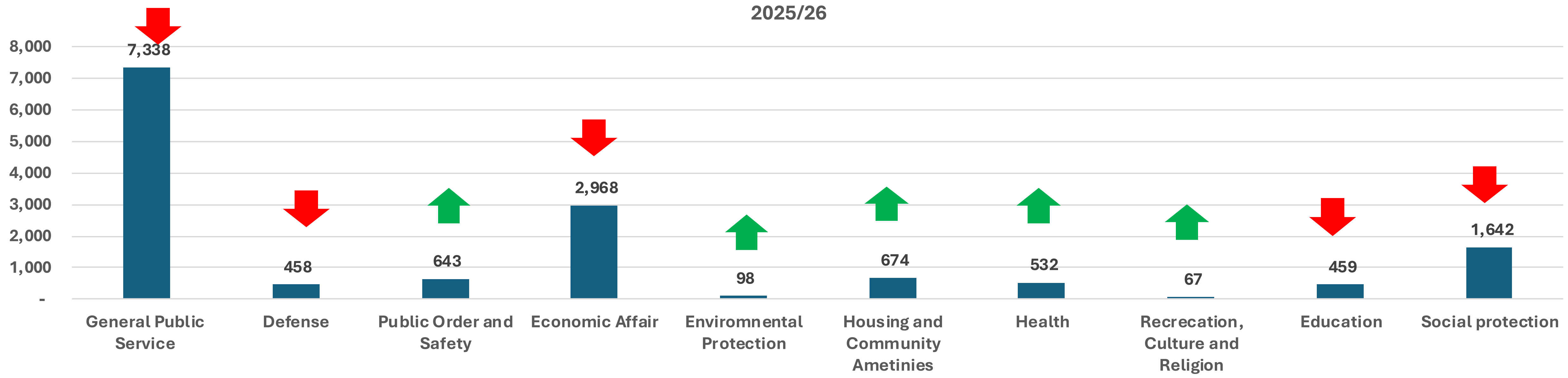
Budget Allocation and Source 2025/26

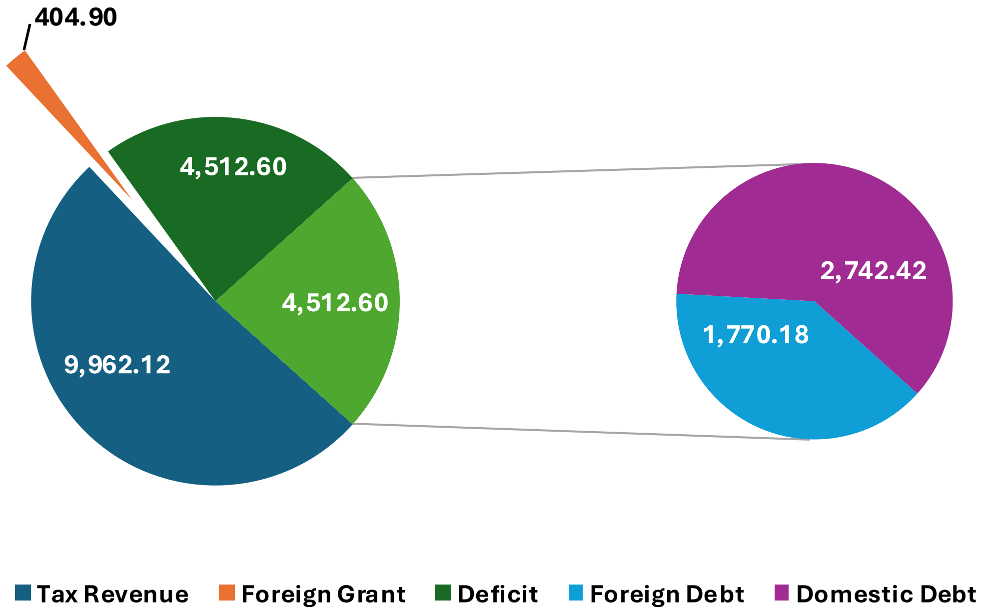
	Exchange Factor 1 USD = NPR 120		1 USD= NRP 132		1 USD= NRP 132								
Allocated Budget	Budget Amount ($ Million) 2022/23 4	Revised Amount ($ Million) 2022/23 5	Budget ($ Million) 2023/24 6	Revised Amount 7	Budget Amount ($ Million) 2024/25 8	Budget ($ Million) 2024/25 (Half-Yearly Review 9	Change. (9/8)	Estimated at the end of FY2024/25 10	Variance (10/9)	Revised 2024/25 10	Change as compared with Budget 2024/25. (10-8)/8	Budget 2025/26 11	Change as compared with FY 2024/25 (11-8)/8
Current Expenditure	6,278.36	5,336.60	5,618.92	5,194.73	5,543.85	5,007.41	90.32%	4,911.82	88.60%	4,911.82	-11.40%	5,781.48	4.29%
Capital Expenditure	3,169.87	2,152.88	2,288.44	1,631.11	2,669.35	2,268.95	85.00%	2,226.54	83.41%	2,226.54	-16.59%	3,090.06	15.76%
Financial Provisioning	1,918.48	1,693.83	2,329.19	1,875.40	2,782.46	2,757.07	99.09%	2,716.11	97.62%	2,716.11	-2.38%	2,842.74	2.17%
Intergovernmental Fiscal Transfer	3,581.94	3,358.33	3,030.96	2,892.37	3,097.55	2,790.32	90.08%	2,739.20	88.43%	2,739.20	-11.57%	3,165.34	2.19%
Total	14,948.65	12,541.65	13,267.52	11,593.60	14,093.20	12,823.74	90.99%	12,593.68	89.36%	12,593.68	-10.64%	14,879.62	5.58%

	Exchange Factor 1 USD = NPR 120				1 USD= NRP 132		1 USD= NRP 132							
Revenue Sources	Budget Amount ($ Million) 2021/22	Revised Amount ($ Million) 2021/22	Budget Amount ($ Million) 2022/23 1	Revised Amount ($ Million) 2022/23. 2	Budget Amount ($ Million) 2023/24 3	Revised Amount ($ Million) 2023/24 4	Budget Amount ($ Million) 2024/25 5	Budget ($ Million) 2024/25 (Half-Yearly Review 6	Change (6/5)	Estimated at the end of FY2024/25 7	Variance (7/5)	Revised Amount ($ Million) 2024/25 8	Change as compared with Budget 2024/25 (8-5)/5	Budget 2025/26. 9	Change as compared with FY 2024/25 (9-5)/5
Tax Revenue	8,540.89	8,487.72	10,334.32	8,666.67	9,459.24	8,449.20	9,547.75	8,676.27	90.87%	8,299.07	86.92%	8,544.48	-10.51%	9,962.12	4.34%
Foreign Grant	528.14	206.74	462.15	320.49	378.36	224.38	396.41	277.49	70.00%	111.00	28.00%	264.35	-33.31%	404.90	2.14%
Deficit	4,660.78	3,368.19	4,152.18	3,554.50	3,429.92	2,920.03	4,149.04	3,869.98	93.27%	2,746.60	66.20%	3,784.85	-8.78%	4,512.60	8.76%
Foreign Debt	2,577.44	1,440.65	2,018.84	1,421.16	1,611.74	1,101.85	1,649.04	1,369.98	83.08%	246.60	14.95%	1,284.85	-22.09%	1,770.18	7.35%
Domestic Debt	2,083.33	1,927.53	2,133.33	2,133.33	1,818.18	1,818.18	2,500.00	2,500.00	100.00%	2,500.00	100.00%	2,500.00	0.00%	2,742.42	9.70%
Total Budget	13,729.80	12,062.64	14,948.64	12,541.65	13,267.52	11,593.60	14,093.20	12,823.74	90.99%	12,593.68	89.36%	12,593.68	-10.64%	14,879.62	5.58%

Sectoral Distribution (in $ million)

	General Public Service	Defense	Public Order and Safety	Economic Affair	Environmental Protection	Housing and Community Ametinies	Health	Recrecation, Culture and Religion	Education	Social protection	Exchnage Factor
2021/22	4,034	414	484	3,684	105	671	1,180	56	1,500	1,582	1 USD = nPR 120
%age	**29.38%**	**3.01%**	**3.53%**	**26.83%**	**0.76%**	**4.88%**	**8.59%**	**0.41%**	**10.93%**	**11.53%**	
2022/23	4,779	462	545	3,890	92	738	1,027	80	1,641	1,694	
%age	**31.97%**	**3.09%**	**3.65%**	**26.02%**	**0.61%**	**4.94%**	**6.87%**	**0.54%**	**10.98%**	**11.34%**	100.00%
Allocation	Down	Down	Down	Down	Down	Down	Down	Down	Down	Down	
2023/24	4,777	434	539	2,962	65	500	779	50	1,498	1,663	1 USD = nPR 132
%age	**36.00%**	**3.27%**	**4.07%**	**22.32%**	**0.49%**	**3.77%**	**5.87%**	**0.38%**	**11.29%**	**12.53%**	100.00%
Allocation	Up	Up	Up	Down	Down	Down	Down	Down	Up	Up	
2024/25	7,067	442	569	2,903	64	508	434	45	440	1,621	1 USD = nPR 132
%age	**50.15%**	**3.13%**	**4.04%**	**20.60%**	**0.46%**	**3.60%**	**3.08%**	**0.32%**	**3.12%**	**11.50%**	100.00%
Allocation	Up	Down	Down	Down	Down	Down	Down	Down	Down	Down	
2025/26	7,338	458	643	2,968	98	674	532	67	459	1,642	1 USD = nPR 132
%age	**49.32%**	**3.08%**	**4.32%**	**19.95%**	**0.66%**	**4.53%**	**3.57%**	**0.45%**	**3.09%**	**11.04%**	100.00%
Allocation	Down	Down	Up	Down	Up	Up	Up	Up	Down	Down	


2025/26
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
-
7,338
458
643
2,968
98
674
532
67
459
1,642
General Public Service
Defense
Public Order and Safety
Economic Affair
Enviromnental Protection
Housing and Community Ametinies
Health
Recrecation, Culture and Religion
Education
Social protection


404.90
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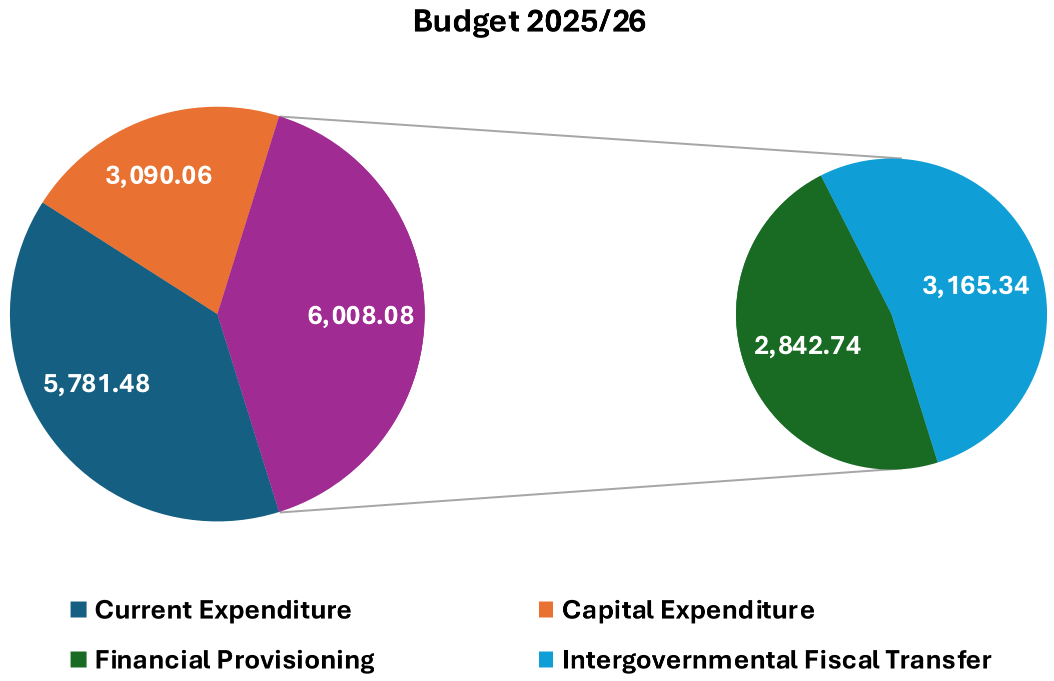
4,512.60
9,962.12
2,742.42
1,770.18
Tax Revenue
Foreign Grant
Deficit
Foreign Debt
Domestic Debt


Budget 2025/26
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6,008.08
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3,165.34
2,842.74
Current Expenditure
Capital Expenditure
Financial Provisioning
Intergovernmental Fiscal Transfer

Fiscal Transfers for Fiscal Equalization and Infrastructure Support

Fiscal Equalization Grants:

- *Based on the recommendation of the National Natural Resources and Fiscal Commission:*
  - ***Provinces** will receive **USD 459.55. million***
  - ***Local governments** will receive **USD 674.02 million***

Conditional Grants:

- *For **provincial governments**: **USD 229.92 million***
- *For **local governments**: **USD 1,601.97 million***
- *Total conditional grants amount to **USD 1831.89 million**.*

Complementary Grants for Infrastructure Projects:

- ***Provinces**: **USD 24.28 million**.*
- ***Local governments**: **USD 76.21 million**.*

Special Grants:

- ***Provinces**: **USD 24.77 million**.*
- ***Local governments: USD 74.09 million**.*

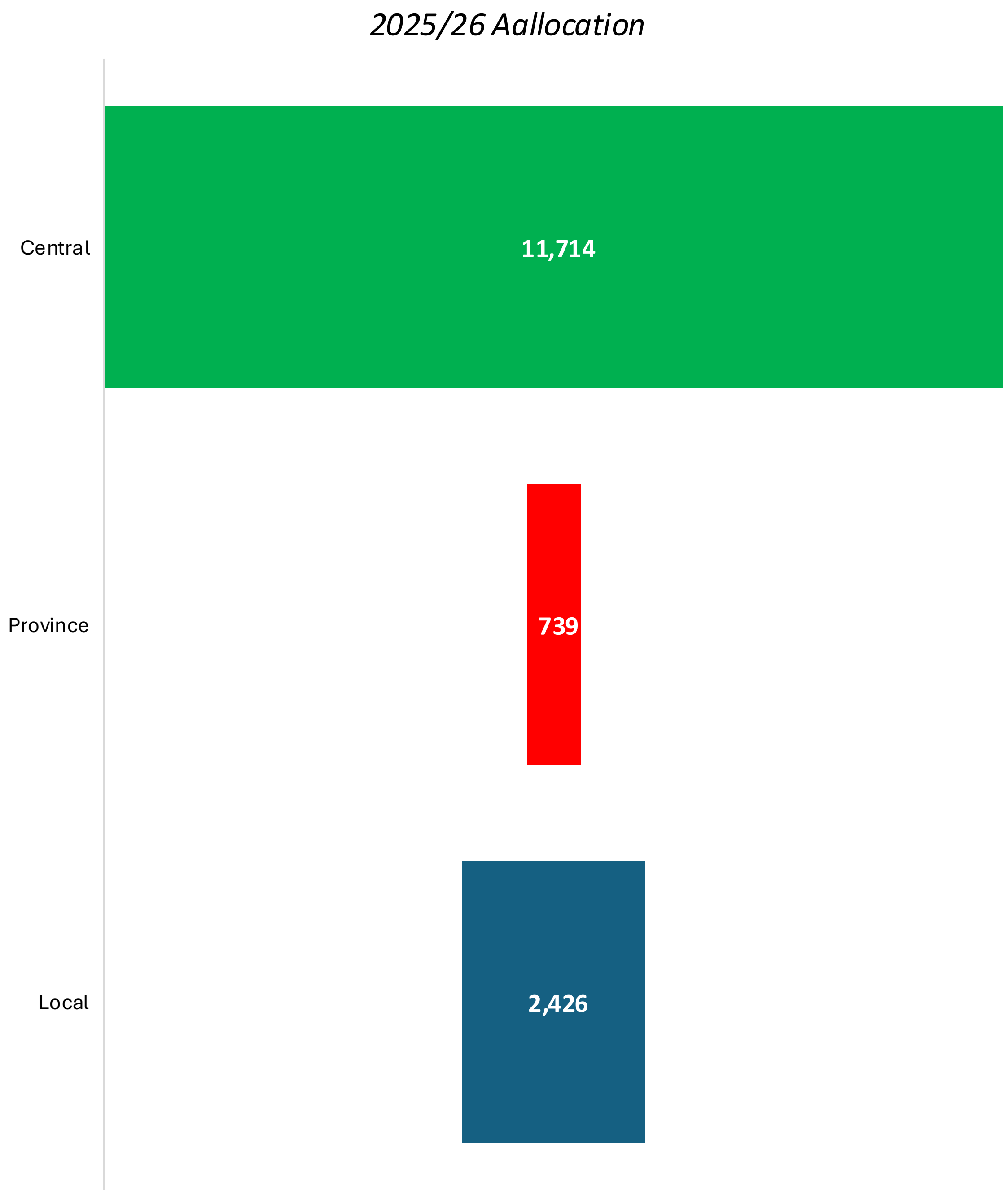
Transfers will be made based on performance in implementing conditional, complementary, and special grants.

Revenue Sharing:

- *A total of USD 1,250 m**illion** will be transferred to provinces and local levels from revenue sharing mechanisms.*

Overall Transfer Estimate:

- *Combining revenue sharing and grants, the total transfer to provinces and local governments in the upcoming fiscal year is estimated at **USD 4,415.38 million.***



Financial Sector Reform and Development

Strengthening Institutions:	*Capacity of financial regulatory bodies will be enhanced.* *Institutional good governance will be ensured through stronger risk management.*
Improving Capital Access:	*Reforms will be made to ease access to capital and credit.* *New tools for risk mitigation in the financial sector will be introduced with legal and policy frameworks.*
Legal and Institutional Reforms:	*Laws related to Nepal Rastra Bank and Nepal Insurance Authority will be reformed.* *Securities Board of Nepal's capacity will be strengthened to protect investors.* *Infrastructure and institutional capacity of the Nepal Stock Exchange will be improved.*
Strategic Implementation:	*The Second Financial Sector Reform Strategy will be implemented.* *An Asset Management Company will be established to manage NPLs and non-banking assets.*
Business Recovery Support:	*Support for distressed businesses through:* • *Loan rescheduling,* • *Additional working capital, and* • *Interest subsidies.*
KYC and Digital Integration:	*A centralized KYC system will be implemented.* *KYC data will be integrated with the national ID and shared digitally with relevant agencies.*
Credit Expansion:	*Private sector credit flow will be expanded.* *Working capital loans will be facilitated by managing sector-specific risks.*
New Neo Bank:	*A Neo Bank will be established in FY 2082/83 (2025/26).* *Financial access in rural areas will be expanded through physical, mobile, and branchless banking.*
Insurance Sector Expansion:	• *Insurance coverage will include natural disasters, accidents, and cyber risks.* • *Reinsurance mechanisms will be introduced for savings and loan protection.* • *Insurance access in rural areas will be promoted.*
Green Financing:	• *Green Taxonomy will be adopted to support green and sustainable development.* • *Private capital will be mobilized through Green Development Funds.* • *Local currency-linked bonds will be issued to raise funds internationally.*
Capital Market Reforms:	• *Investments in listed companies and priority industries will be facilitated through equity, debt, and hybrid instruments.* • *Institutional investors (e.g., EPF, CIT, SSF) will be allowed to invest in private equity and venture capital.*
Secondary Market Operations:	• *A secondary market for government bonds will be introduced.* • *Non-Resident Nepalis (NRNs) will be allowed to participate in secondary market trading.*
Employment and SME Support:	• *A unified interest subsidy program will be implemented to boost production, employment, and self-employment.* • *Microfinance institutions' governance and internal controls will be improved.* • *Distressed microfinance borrowers will be supported with concessional loans.*
Foreign Investment Facilitation:	• *Foreign exchange risk management will be strengthened.* • *Hedging services will be introduced with necessary regulatory approval.*
Legal Reforms:	• *Legal framework for collateral transactions will be improved.* • *The Bankruptcy Act will be amended.* • *Incentives will be provided to channel remittances into the formal banking sector and productive uses.*
Digital Inclusion:	• *All government beneficiaries will be integrated into a digital system for financial services.*
Illicit Asset Control:	• *Illegal digital currencies (e.g., crypto) and foreign currencies will be confiscated and deposited into the national treasury.* • *Strong enforcement against possession and use of illicit assets will be implemented.*

Money Laundering Prevention (AML/CFT)

Strategic Removal from Watchlist:

- *A national strategy and action plan on anti-money laundering (AML) and counter-financing of terrorism (CFT) will be implemented.*
- *Goal: Ensure Nepal's timely removal from the FATF grey list and prevent future re-inclusion.*

National Risk Assessment:

- *Rapid completion of the national risk assessment related to AML/CFT.*
- *Focus on accelerating investigation and prosecution of serious financial crimes.*

Institutional Strengthening:

- *Enhance the capacity and coordination of key regulatory and enforcement bodies including:*
  - *Nepal Rastra Bank (NRB),*
  - *Securities Board of Nepal (SEBON),*
  - *Nepal Insurance Authority,*
  - *Cooperative Regulatory Authority.*
- *Strengthen mechanisms for investigation and enforcement actions.*

Economic Planning and Statistics

Integrated Planning and Coordination:

- *An integrated national project bank and project management information system will be implemented.*
  - *This aims to eliminate duplication of projects across federal, provincial, and local governments in accordance with Nepal's constitutional authority structure, project screening report, and project standards.*
- *Coordination and collaboration will be enhanced among all levels of government for the conservation and sustainable use of natural resources.*
- *Interoperability will be established among the project bank, medium-term expenditure framework, and ministry-level budgeting systems.*

Statistical and Data Reforms:

- *The National Economic Census 2082 (2025/26) will be conducted.*
- *The national accounting framework will be updated.*
- *Statistical profiles of the federal, provincial, and local governments will be prepared.*
- *Capacity for big data processing will be enhanced.*
- *The implementation of open data standards will be accelerated.*

Budget has Prioritize

Budget aim to balance available resources with impactful spending, while prioritizing measures to mitigate the effects of weak demand and low economic confidence. Emphasis should also be placed on economic recovery, sustainable growth, and empowering the general public.

01 Economic Recovery

- Revitalize key sectors impacted by the ongoing crisis, including agriculture, tourism, industry, and construction.
- Reform the tax system and increase revenue through asset monetization.
- Formulate strategic plans to exit the FATF grey list and prepare for smooth graduation from Least Developed Country (LDC) status.
- Formulation of a strategic plan to resolve challenges and restore stability in the financial system

02 Health

- Build and upgrade health infrastructure across the country.
- Enhance the capacity and skills of healthcare workers.
- Strengthen public health systems to reduce risks from future disease outbreaks.

03 Employment Creation and Social Security

- Expand employment opportunities, ensure food and housing security, and enhance social protection systems. Review Social security payment framework
- Provide skills training and upskilling programs for migrant workers.
- Establish a comprehensive labor database to support job creation and labor market planning.

04 Qualitative and Practical education

- Develop a modern, practical, and high-quality education system with strong integration of information technology.
- Introduce problem-based learning approaches to foster critical thinking.
- Focus on producing a skilled and job-ready workforce.

05 Infrastructure Development

- Expedite the completion of ongoing and high-impact infrastructure projects.
- Upgrade power transmission networks and improve road infrastructure.
- Mobilize investment and participation from the Nepali diaspora in infrastructure development.

06 Implementation of federalism

- Strengthen the implementation of federal governance with a focus on inclusive, accessible, and high-quality public services.
- Promote accountability, transparency, and efficiency across all levels of government.

Macroeconomic and Fiscal Outlook

- ***Realistic Growth and Revenue Targets***
  - *GDP growth target of **6.0%** is ambitious given global and domestic uncertainties.*
  - *Weak aggregate demand may limit revenue generation; thus, a **4.34% revenue growth** target is appropriate.*

External Financing Considerations

- *Target to mobilize **USD 1,770 million in foreign loans** appears ambitious.*
  - *Disbursement depends on project progress—**capital budget absorption capacity must be enhanced**.*
  - ***USD 404 million in foreign grants** may be difficult to realize under current conditions.*

Fiscal Risks and Liquidity Concerns

- ***Liquidity and Credit Market Pressures***
  - ***Domestic borrowing**, if not managed carefully, may stress the financial system.*
  - *Combined with a **widening trade deficit** and **rising non-performing loans**, liquidity shortages and **higher interest rates** are likely.*

Call for Strategic Focus

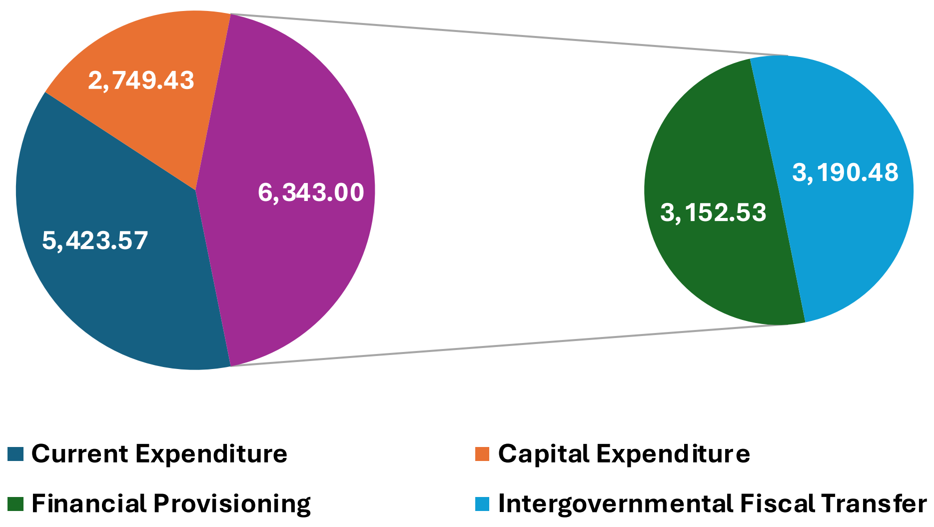
- *Budget has tried to **balance resources with impactful spending**.*
- *Focus on **economic recovery, confidence building, and public empowerment** is essential to drive sustainable growth.*

The estimated and actual budget allocations and sources for the fiscal year 2025/26 remain closely aligned, with only minor variations observed.

Expected Budget Allocation for 2025- 2026

Budget Allocation	Expected Budget 2025/26	Change as compared with FY 2024/25
Current Expenditure	5,423.57	-2.17%
Capital Expenditure	2,749.43	3.00%
Financial Provisioning	3,152.53	13.30%
Intergovernmental Fiscal Transfer	3,190.48	3.00%
Total	14,516.00	3.00%

Budget Allocation



Expected Index for 2025-2026

Particulars	Amount
Growth Rate	5.3%
Inflation	4.0%

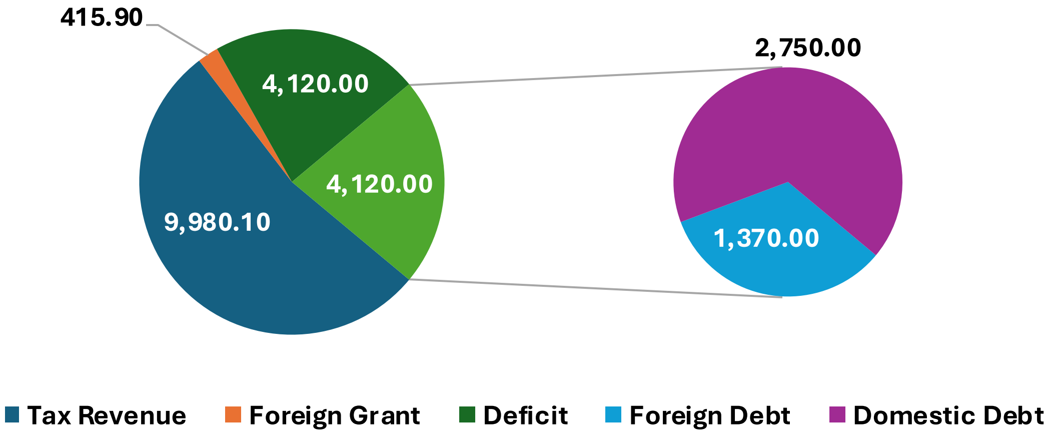
Budget should focus on:

- Prioritizes public expenditure for creation of socio-economic infrastructure in health care and primary education
- Prepare a plan to reduce trade deficit and improve governance and reduce corruption
- Creation of jobs through various government schemes and modernisation of agriculture and monetizing government assets
- Reduction of administrative cost
- Ensure proper sharing of revenue between provinces and local levels
- Initiate legal reform to improve business confidence and support backward and forward linkage of business

Expected Sources of Funds

Revenue Sources	Expected Budget 2025/26	Change as compared with FY 2024/25
Tax Revenue	9,980.10	4.53%
Foreign Grant	415.90	4.92%
Deficit	4,120.00	-0.70%
Foreign Debt	1,370.00	-16.92%
Domestic Debt	2,750.00	10.00%
Total Budget	14,516.00	3.00%

Sources of Funds



Conversion Rate: 1 USD= NRs 132

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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