

IMPACT OF GLOBAL ECONOMIC AND POLITICAL SITUATION ON THE NEPALESE ECONOMY (2025–26)

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Key Global Trends (2025)

According to **CareEdge Global Economy Updates (June & December 2025 editions)** and the **Jan 2026 Global Economy Chartbook**, the global economy shows the following broad trends:

Indicator	2024	2025 Estimate	2026 Outlook	Trend
Global GDP Growth	3.2%	~2.9%	~3.0%	Moderating
US GDP Growth	2.5%	~2.1%	~1.8–2.0%	Slowing
Euro Area Growth	0.8%	~1.2%	~1.5%	Gradual recovery
China Growth	5.2%	~4.6–4.8%	~4.5%	Structural slowdown
Global Inflation	6.8%	~5.0%	~4.2%	Cooling
Oil Prices (Brent avg.)	\$82/bbl	\$75–85/bbl	Stable range	Volatile
Global Interest Rates	Peak levels	Gradual easing	Easing cycle	Transitioning

Transmission Channels: How Global Conditions Affect Nepal

Nepal is highly exposed through:

Remittances

Tourism

Imports (fuel & goods)

External financing

Foreign employment markets

Linking Global Trends to Nepal's Economy

- **Global Disinflation & Domestic Inflation**

- Global inflation easing (from ~5.7% to ~4.2%) provides room for Nepalese inflation to remain subdued (~2.42% mid-Jan 2026).
- Easing commodity price pressures (oil, food) globally reduce import price shocks for Nepal.

- **Sluggish Global Growth & External Demand**

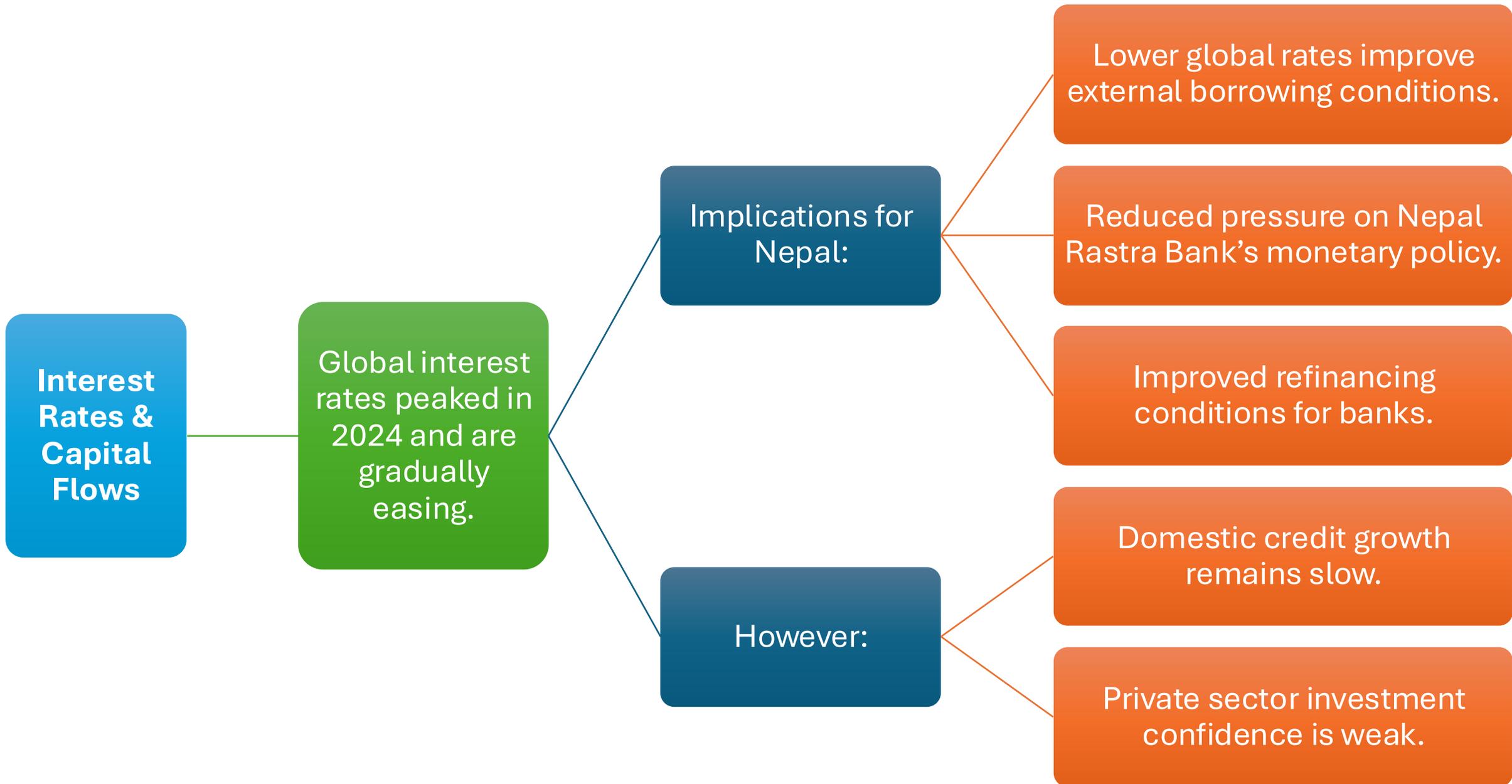
- Slow global growth (~3.3%) and trade uncertainty lower global demand.
- Nepal's export sectors and manufacturing of tradable goods face headwinds. Tourism receipts is recovering.

- **Capital Flows & FDI**

- Global risk aversion amid geopolitical uncertainty can constrain external investment flows.
- CareEdge data shows FDI in Nepal declined (Rs 2.5 bn), indicating risk-averse capital environment.
- Nepal managed to maintain **Sovereign** Rating at BB-

- **Remittances & Exchange Resilience**

- Remittances (~26–33% of GDP) remain central despite global fluctuations, buoying Nepal's external position (record reserves).



Nepal Economic Data from CareEdge Ratings

CareEdge Ratings publishes country-focused updates on Nepal's economy:
Key Indicators (From Nepal Economy Update – December 2025)

Indicator	Latest Status / Trend
Inflation (Y-o-Y)	1.1% (mid-Nov, lower than 1.5% last month) → very low inflation driven by declining food prices.
Food & Beverage Prices	-3.3% y-o-y (deflationary) → indicates easing cost pressures.
Non-Food & Services Inflation	~3.7% → moderate pressure from non-food sectors
Current Account Surplus	Rs 279.7 billion → up from Rs 147.8b last year.
Net Capital Transfers	Rs 6.2 billion → strong growth vs. prior year.
Balance of Payments Surplus	Rs 318.4 billion → increased external buffer.
Foreign Direct Investment (FDI)	Rs 2.5 billion → softened vs. Rs 5.8b last year.
Tourist Arrivals	410,000 (1.8% y-o-y) → weak recovery.

Political & Economic Drivers

Continued geopolitical tensions (Ukraine, Middle East)

Supply chain realignments

US tariff uncertainty (2025 policy shifts)

China property sector stress

High global debt levels

Monetary tightening transitioning toward cautious easing

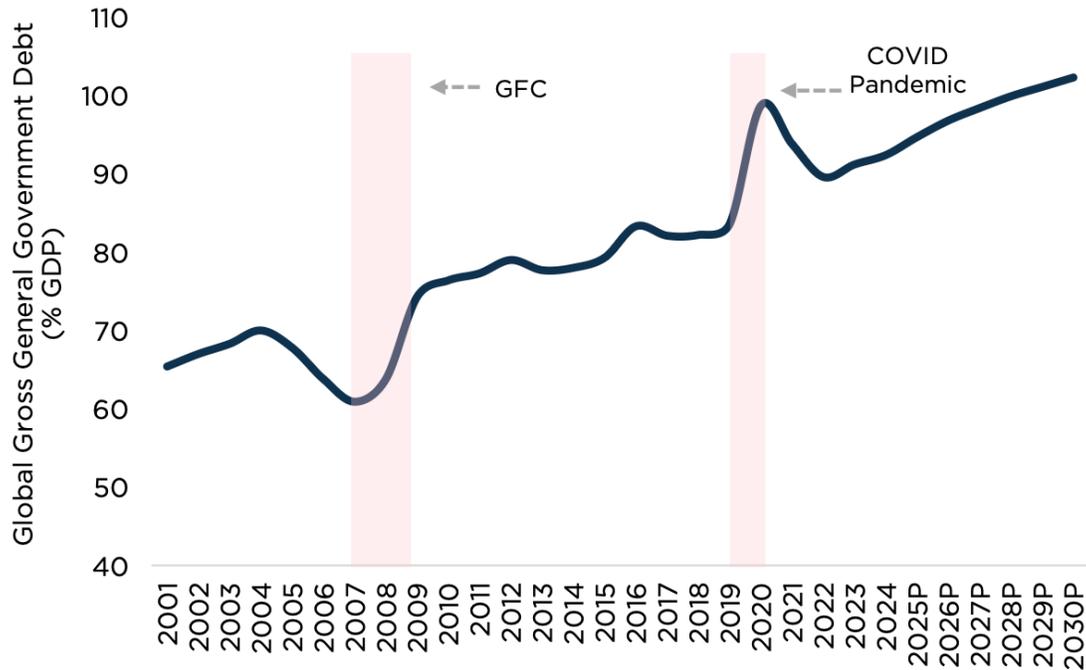


Overall Assessment:

Global growth is slowing but not collapsing. Inflation is moderating, and central banks are cautiously shifting toward rate cuts.

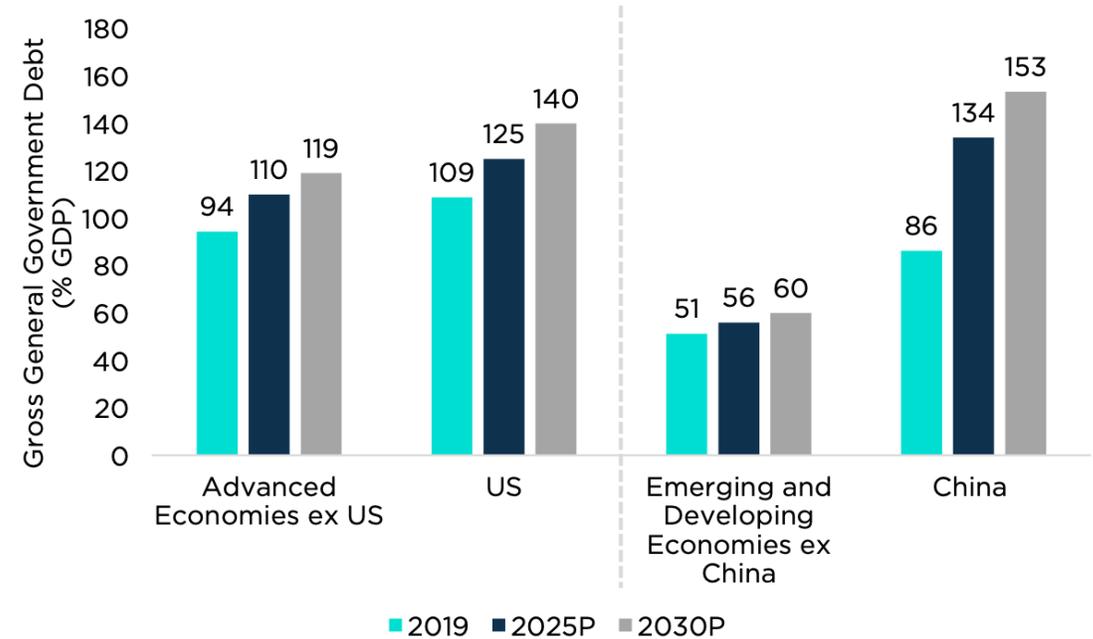
Global Debt to Surge, Primarily Led by US and China

Global Debt to GDP to Surpass Pandemic Peak by End of Decade



Source: IMF, CGIL
Note: P= Projections

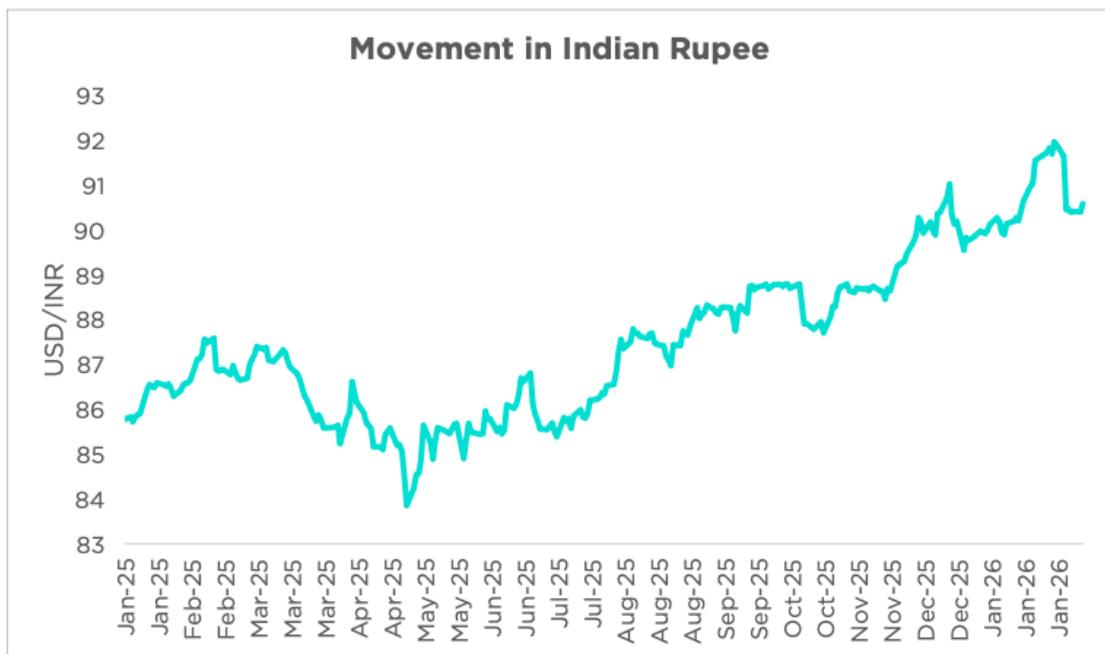
General Government Debt to Continue to Rise



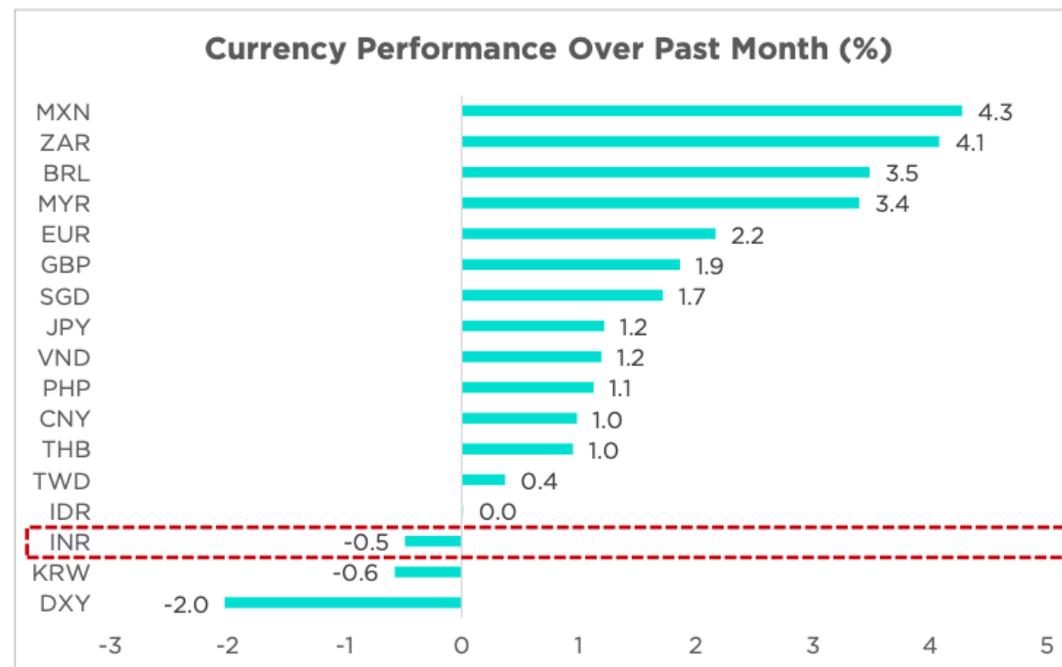
Source: IMF, CGIL
Note: P= Projections

- Global government debt is expected to be above 100% by the end of the decade.
- US and China are the key drivers, contributing more than 50% of the increase in global government debt.

Rupee Appreciates After Trade Deals

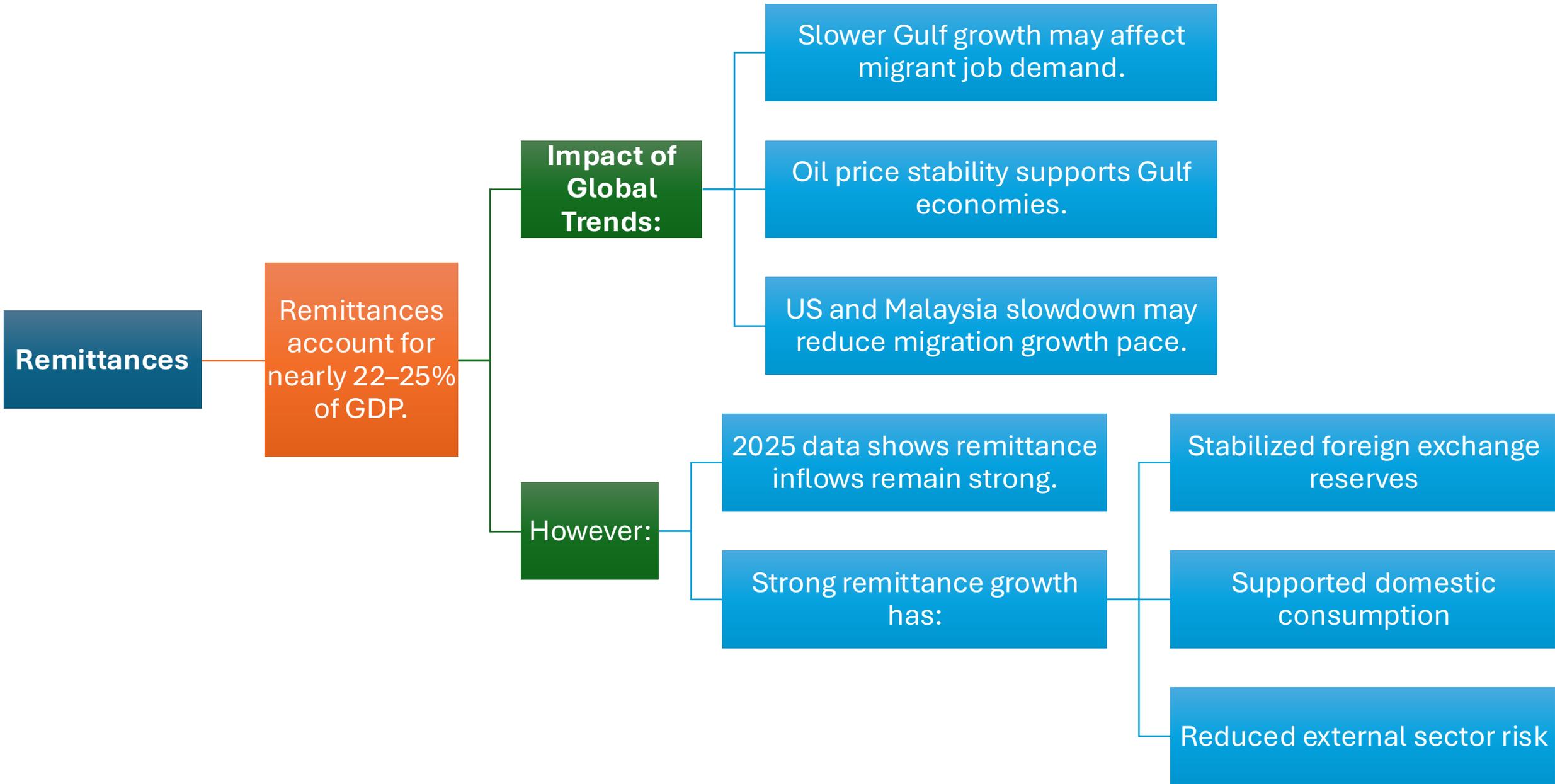


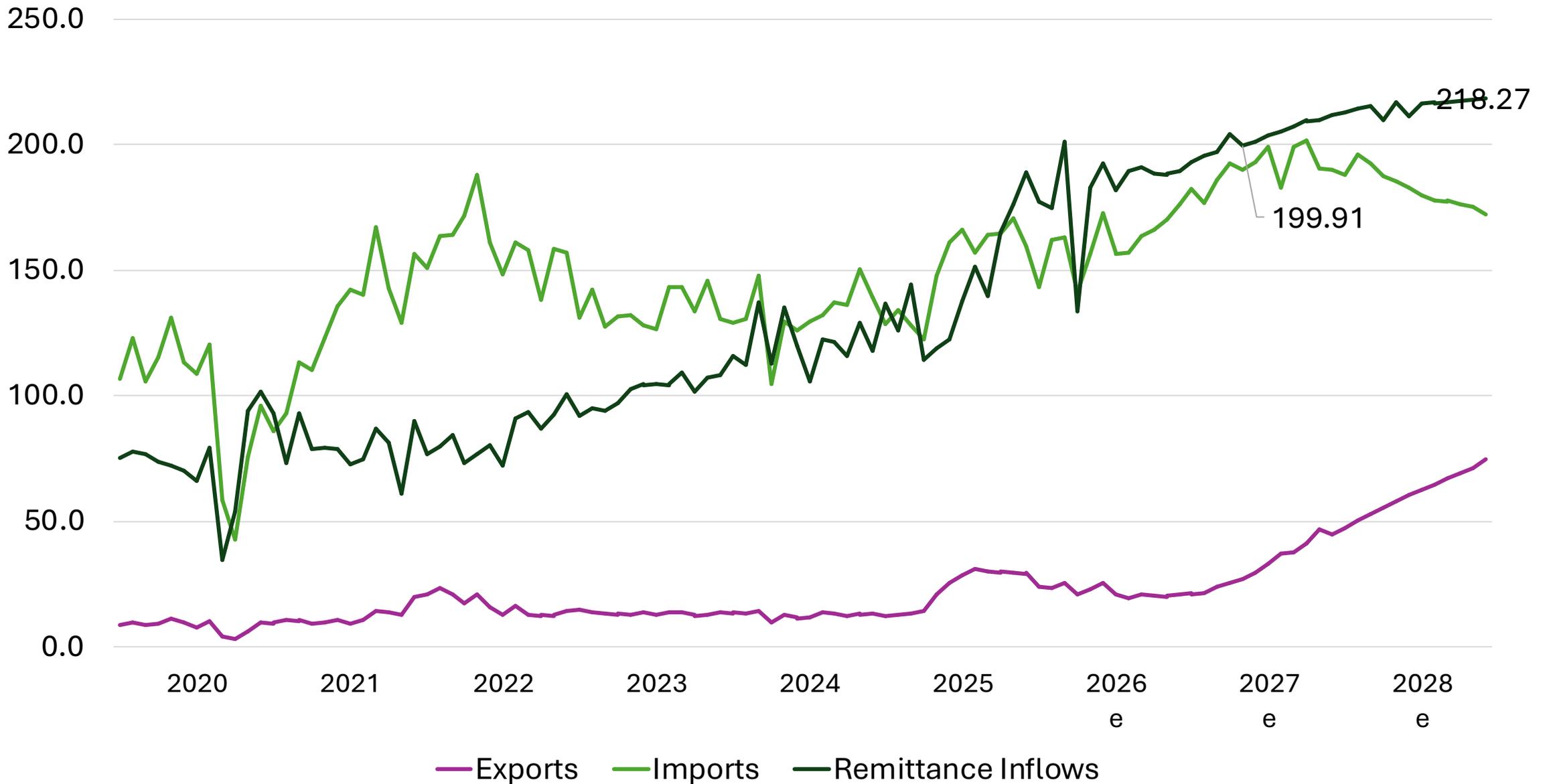
Source: CEIC, CareEdge. Data as of 10 February



Source: Haver, CareEdge; Data as of 10 February. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while the performance of other currencies is measured against the USD

- The USD/INR strengthened from recent lows of around 92 to approximately 90.6 (as of 15th Feb) following the trade deal with the US and the FTA with the European Union.
- Despite this recovery, the rupee remains about 0.5% weaker against the dollar compared to its level a month ago.
- Easing trade uncertainties are likely to support a revival in foreign investment inflows, providing greater stability to the rupee.
- This could allow the RBI to scale back its forex interventions, which had intensified over the past few month.
- Weakness in dollar index continued amid rising expectation of Fed rate as inflation slowed sharply in January to 2.4% from 2.7% in the previous two months.
- We maintain our FY27-end USD/INR forecast at 89-90, underpinned by a softer dollar and a manageable CAD.





Nepal imports petroleum, food grains, machinery, and consumer goods.

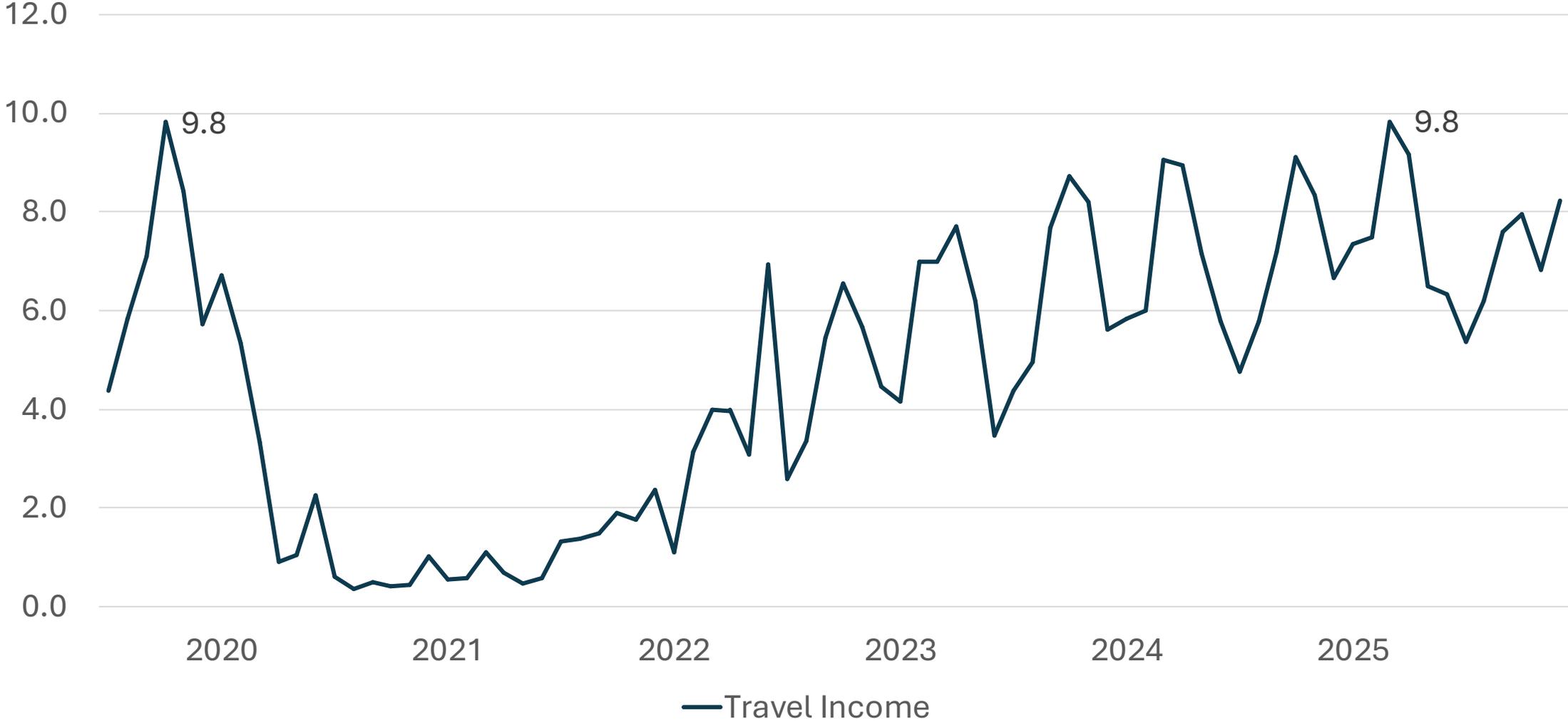
Inflation & Import Costs

Factor	Global Trend	Impact on Nepal
Oil Prices	Volatile but stable	Controls inflation risk
Global Food Prices	Softening	Lower imported inflation
USD Strength	Strong but easing	FX pressure moderate

Global travel recovery (post-pandemic normalization) has improved Nepal's tourism:

Indicator	2022	2023	2024	2025
Tourist Arrivals	~614,000	~1 million	Near pre-COVID levels	~1 million

Travel Income in NPR Bn



Fiscal Situation:

Mid-Term Budget Review Insights

Nepal's fiscal position remains under pressure.

Budget Execution Snapshot (FY 2025/26 Mid-Term)

Category	Allocation	Mid-Term Spending	Concern
Recurrent Expenditure	High	On track	Rising burden
Capital Expenditure	Moderate	<40%	Chronic underperformance
Revenue Collection	Below target	Sluggish	Weak domestic demand
Fiscal Deficit	Controlled but rising risk	Moderate	Revenue risk

Structural Issues

- Low capital spending efficiency
- Revenue shortfalls
- High dependence on import-based taxes
- Limited industrial expansion

We note that policy clarity, regulatory reforms, and investment facilitation are critical for growth acceleration.

Sector-Wise Impact Analysis

- **Banking Sector**

- Liquidity has improved.
- Non-performing loans (NPLs) rising moderately.
- Credit growth sluggish.
- Real estate sector slowdown affecting collateral quality.

Global rate easing may help stabilize banking confidence.

Trade & External Sector

Indicator	Status 2025/26
Trade Deficit	Narrowed
Current Account	Surplus
Forex Reserves	Strong
Import Growth	Moderate

Investment Climate

Challenges:

- Political instability
- Regulatory delays
- Slow capital spending
- Private sector risk aversion

Opportunities:

- Hydropower exports to India
- Tourism expansion
- Digital economy growth
- Infrastructure financing under regional partnerships

Risk Assessment (2025–26)

Risk	Probability	Impact on Nepal
Global recession	Moderate	Remittance slowdown
Oil price spike	Medium	Inflation pressure
China slowdown	High	Lower tourism & trade
US rate cuts delayed	Medium	FX volatility
Domestic political instability	High	Investment slowdown

Overall Economic Outlook for Nepal (2025–26)

- **Positive Factors**

- Strong remittance inflow
- Healthy foreign exchange reserves
- Moderate inflation
- Improving current account
- Global inflation cooling

- **Negative Factors**

- Weak capital expenditure
- Revenue shortfall
- Sluggish private investment
- Structural dependence on imports
- Political uncertainty

Nepal's Macroeconomic Situation (Mid-Term Budget Review & Outlook)

Based on Nepal's **FY 2024/25 Mid-Term Budget Review** and economic commentary from the **Financial Outlook**, the Nepalese economy is in a stabilization phase.

Indicator	FY 2022/23	FY 2023/24	FY 2024/25 (Mid-Term)	Trend
GDP Growth	1.9%	3.9%	~4.0–4.5% target	Recovering
Inflation	7.7%	5.4%	~5–6%	Moderating
Remittance Growth	+4.4%	+12%	Strong double-digit	Strong
Foreign Exchange Reserves	~\$9.5 bn	~\$11 bn	>12 months import cover	Improved
Current Account	Deficit	Surplus	Surplus	Strong
Capital Expenditure Execution	Low	Moderate	Under 40% (mid-term)	Weak

Particulars (Amount in NPR Billion)	Nov-Dec	Dec-Jan 26	Monthly Movement (Jan)	Yearly Movement (Jan 26)	Monthly Movement	Yearly Movement
Consumer Price Inflation (y-o-y) (%)	1.63	2.42	0.79	(1.74)	Unfavorable	Favorable
Consumer Price Inflation (Compared to previous month) (%)	0.13	-0.20	-0.33	0.40	Favorable	Unfavorable
Food and Beverage (%)	-0.24	-1.11	-0.87	1.15	Favorable	Unfavorable
Non-Food and Service (%)	0.33	0.29	-0.04	(0.03)	Favorable	Favorable
Exports	23.01	25.51	2.50	(2.91)	Unfavorable	Favorable
Imports	156.74	172.83	16.10	6.62	Favorable	Favorable
Travel Income	6.82	8.24	1.42	0.88	Favorable	Favorable
Travel Spending	13.23	16.59	3.37	2.63	Favorable	Favorable
Remittance Inflows	183.18	192.62	9.44	55.12	Favorable	Favorable
Government Expenditure	95.58	125.00	29.42	37.75	Favorable	Favorable
Current Expenditure	77.06	89.00	11.94	18.38	Favorable	Favorable
Capital Expenditure	8.56	15.00	6.44	3.52	Favorable	Favorable
Revenue	79.75	171.00	91.25	87.75	Favorable	Favorable
Land revenue	4.85	5.01	0.16	0.76	Favorable	Favorable

Particulars (Amount in NPR Billion)	Nov-Dec	Dec-Jan 26	Monthly Movement (Jan)	Yearly Movement (Jan 26)	Monthly Movement	Yearly Movement
Deposit Mobilization	59.52	135.58	76.06	129.29	Favorable	Favorable
Private Sector Credit	37.20	95.22	58.02	77.32	Favorable	Favorable
Weighted Average Deposit Rate (%)	3.66	3.56	-0.10	(1.06)	Favorable	Favorable
Weighted Average Lending Rate (%)	7.26	7.12	-0.14	(1.43)	Favorable	Favorable
Base Rate of Commercial Banks (%)	5.38	5.29	-0.09	(1.17)	Favorable	Favorable
Forex Reserve	2,212.95	2,250.00	37.05	5,285.86	Favorable	Favorable
BOP NPR	421.89	501.24	79.34	172.63	Favorable	Favorable
Liquid Funds	665.85	672.99	7.15	65.03	Favorable	Favorable
Govt. Securities/Other	1,876.05	1,951.17	75.11	581.02	Unfavorable	Favorable
Investment in share and other	421.06	430.05	8.99	100.61	Favorable	Favorable

Dimension	World Bank	Asian Development Bank	International Monetary Fund	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB)	Government of Nepal (GoN)
GDP Growth Outlook	~2% FY26 (4–5% medium term; short-term volatility possible)	~3% FY26 (4–5% medium term; supported by domestic demand, tourism & infrastructure)	~3% FY 26 (~4% medium term; with macro-stability emphasis)	Sensitive to political shocks	~2.5% FY26 (Mid-term potential >6–7% with deep reform)	~4–5% projection in monetary reports	Budget target often ~6%+ (ambitious relative to actual)
Inflation (CPI)	~5–6% Moderating, stable	~5% Manageable inflation	~4–5% Anchored; low-to-moderate	Secondary	Not primary concern	Target ~6% ceiling; inflation recently ~2% range	Aims for price stability within NRB framework
Fiscal Deficit	~4–5% of GDP capital under-execution	Improve capital efficiency	Fiscal consolidation priority	Debt trajectory key	Calls for fiscal restructuring	Coordinates liquidity to support fiscal stance	Budget deficit ~4–5% of GDP; revenue under pressure
Public Debt	~42–45% GDP manageable	~42–45% GDP manageable	Sustainable with discipline	Central rating factor	Risk without structural growth	Monitors domestic debt & liquidity impact	~43–45% GDP; mix of domestic & concessional external
Foreign Exchange Reserves	~\$11–12B; 10–11 months import cover	Stable buffer	Strong external position	Supports rating	Stable but not transformative	~\$22B; comfortable reserve coverage	Relies on remittance & import management
Remittances	~\$9–10B (~23–25% GDP)	Core demand driver	BOP anchor	Supports rating	Overdependence vulnerability	Key external stability driver	Major consumption & FX source

Dimension	World Bank	Asian Development Bank	International Monetary Fund	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB)	Government of Nepal (GoN)
Exports – Merchandise	~\$2.0–2.2B (<7% GDP)	Trade recovery supportive	Diversification needed	Limited rating driver	Must scale aggressively /linked to tariff regime	Export growth improving but small base	Policy focus on trade diversification
Exports – IT/Services	~\$0.8–1.0B emerging	Growing contributor	Structural opportunity	Positive but small	High-priority scaling sector	Encourages digital payments & fintech	Promotes IT export policy incentives
Trade Deficit	~\$12–14B	Structural imbalance persists	Manageable via remittance inflow	Monitored	Structural export weakness	Import compression policies when needed	Persistent structural trade gap
Banking Sector / NPLs	NPLs ~4–5%; credit slow	Credit easing to support growth	Financial reform under ECF	Asset quality risk	Banking & capital constraints limiting corporate expansion	NPL ~4–5%; liquidity easing, rate cuts	Works with NRB on financial stability
Capital Market Development	Improve investment climate	Infrastructure financing	Institutional reform	Governance impact	Deep capital market reform essential	Regulatory oversight role	SEBON reforms, IPO pipeline focus
Election Impact – Short Term	Investment delay risk	Limited focus	Reform continuity critical	Political instability risk	Reform momentum may stall	Monetary stability focus during transition	Pre-election spending pressure possible
Election Impact – Opportunity	Stable govt boosts predictability	Infrastructure commitments may rise	Post-election credibility vital	Governance continuity improves rating	Elections must deliver structural reform mandate	Maintain financial stability	Policy reset & reform legitimacy
Structural Reform Emphasis	Private investment & governance	Productivity & infrastructure	Fiscal & institutional reform	Governance & prudence	50 firms ≥\$5B; 500 firms ≥\$500M; \$100B+ GDP vision	Financial sector stability & monetary discipline	Industrial policy, hydropower, export promotion

**Key
Takeaways:**

External
vulnerability
has reduced
compared to
2022.

Remittance-
driven stability
remains the
backbone of
the economy.

Fiscal
weakness and
low capital
spending are
major
domestic
constraints.

Global
slowdown may
reduce growth
momentum but
is unlikely to
trigger
systemic crisis.

Structural
reforms and
investment
facilitation are
essential for
sustainable
growth.

Integrated Strategic Policy Insights

Policy Imperatives Reinforced by CareEdge Data:

Inflation & Price Stability:

- Maintain prudent monetary stance to anchor inflation expectations.

Export Diversification:

- Enhance non-tourism exports to cushion against external demand shocks.

Investment Climate Enhancement:

- Improve regulatory environment to attract FDI and private investment.

Leverage External Buffers:

- Use surplus reserves and current account strength to stabilize exchange rates and support growth policies.

Tourism Sector Resilience:

- Target differentiated tourism offerings to accelerate recovery.

Questions

<https://kala-legal.com/navigating-the-financial-horizon-explore-financial-outlook-with-kala-legal/>