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Economic Outlook Based on March 2026

Abstract

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Section 1 Overview 2024/25

1) Nepal: Political and Economic Outlook (2026–2027)

Stability, Elections, and the Test of Reform Credibility

Nepal has entered a decisive political and economic phase marked by heightened uncertainty, fiscal vulnerability, and institutional strain. Youth-led (Gen Z) protests exposed deep-rooted governance weaknesses and structural economic frustrations. The unrest disrupted public service delivery, damaged infrastructure, and weakened administrative effectiveness at a critical moment—just ahead of constitutionally mandated national elections and Nepal's scheduled graduation from Least Developed Country (LDC) status in November 2026.

However, the recent electoral outcome has fundamentally reshaped the political landscape. The Rastriya Swatantra Party (RSP) has secured a landslide victory, signaling a strong public mandate for political renewal, institutional reform, and improved governance.

According to Fitch Ratings, the decisive electoral mandate reduces near-term political uncertainty and increases the prospects for policy stability, regulatory predictability, and improved governance credibility. At the same time, Fitch notes that the party's election manifesto is ambitious, meaning the credibility of reforms will depend heavily on disciplined implementation and macro-fiscal prudence.

a) Political Outlook: Reform Mandate and Governance Expectations

The RSP victory represents more than a routine electoral shift; it is effectively a referendum on governance credibility.

Voters have expressed strong dissatisfaction with:

1. Persistent corruption perceptions
2. Weak execution of past reforms
3. Fiscal slippages and inconsistent economic policies
4. Limited responsiveness to youth and urban economic concerns

A strong electoral mandate could reduce the policy fragmentation that has historically constrained economic reforms in Nepal. However, reform credibility will depend on whether political momentum translates into institutional capability and administrative execution.

b) Reform Opportunities and Implementation Risks

Despite the strong political mandate, several risks remain:

1. Limited governing experience among new political actors
2. High public expectations for rapid change
3. Institutional capacity constraints
4. Fiscal pressures that limit expansionary policy options

Fitch highlights that the government's reform program must be supported by credible fiscal anchors and macroeconomic discipline to sustain investor confidence.

c) Economic Outlook: Macroeconomic Stability but Structural Fragility

Recent macroeconomic data from the February 2026 Macroeconomic Report of Nepal Rastra Bank suggest that Nepal's economy remains broadly stable but structurally vulnerable. Key indicators include:

1. External Sector Strength
 - Gross foreign exchange reserves reached approximately Rs 3.02 trillion (about USD 22.76 billion).
 - These reserves are sufficient to cover about 21.3 months of merchandise imports and 18 months of total imports, indicating strong external buffers.
2. Remittance Surge

Remittance inflows increased sharply, rising over 33 percent to around USD 8.6 billion during the review period. Remittances continue to be the primary stabilizing force in Nepal's external accounts, though they also highlight structural dependence on foreign labor migration.
3. Balance of Payments and Current Account
 - Nepal recorded a current account surplus of about Rs 493 billion.
 - The balance of payments surplus exceeded Rs 572 billion, reflecting strong inflows from remittances and tourism recovery.
4. Fiscal Position

Government finances remain under pressure:

- Government expenditure reached Rs 926 billion during the review period.
- Revenue mobilization stood at approximately Rs 747 billion.

Capital expenditure remains structurally weak, reducing the growth multiplier of public investment.

5. Banking and Liquidity Conditions

- Bank deposits increased 6.6 percent, reaching roughly Rs 7.78 trillion.
- Private-sector credit expanded modestly at around 4.4 percent, reflecting cautious lending and subdued investment demand.

Overall, the macroeconomic environment remains stable but fragile, with growth constrained by weak domestic investment and structural fiscal pressures.

d) Structural Pressures: Youth, Migration, and Growth

Several long-term structural challenges continue to shape Nepal's economic outlook:

1. Corruption and weak governance structures
2. Regional inequality and uneven development
3. Subdued private-sector investment
4. Youth unemployment estimated at over 22 percent
5. High outward migration reducing domestic labor supply

While remittances stabilize the economy, they also mask underlying labor-market weaknesses and productivity constraints. Without strong domestic investment and job creation, political dissatisfaction may persist regardless of electoral outcomes.

e) Institutional Stability and Democratic Credibility

With elections concluded and a clear mandate established, Nepal's immediate priority is institutional stabilization and economic policy continuity. Key priorities include:

1. Maintaining administrative continuity
2. Preserving financial-sector stability
3. Avoiding abrupt regulatory changes
4. Strengthening anti-money-laundering and financial compliance frameworks

This is particularly important as Nepal approaches LDC graduation in November 2026, which will reshape trade preferences and development financing.

f) Strategic Outlook: What Nepal Now Needs

At this stage, Nepal does not require disruptive or experimental reforms.

What the economy needs most is:

1. Policy predictability
2. Fiscal discipline
3. Institutional strengthening
4. Transparent communication
5. Consistent reform implementation

A credible economic roadmap should prioritize:

1. Clear fiscal deficit and debt targets
2. Strengthening revenue administration
3. Improving capital expenditure execution
4. Enhancing public debt management
5. Expanding SME financing and youth employment programs
6. Creating a stable and predictable regulatory environment for private investment

g) The Real Test: From Mandate to Delivery

The RSP landslide victory provides Nepal with a rare window of political stability. Markets, investors, and development partners will now focus less on political rhetoric and more on policy delivery and execution capacity.

The decisive variable will not be the scale of reform promises—but discipline in implementation. If managed prudently, this political transition could mark the beginning of a new phase of institutional credibility, regulatory predictability, and sustainable economic reform for Nepal.

2) Gulf Crisis and Nepalese Economy

The post-election phase in Nepal has unfolded amid a fragile but gradually stabilizing macroeconomic environment, while external vulnerabilities—particularly from the Gulf and broader global economy—continue to pose significant risks. The government’s medium-term vision (2026–2030) targets 7–8% sustained GDP growth, creation of 1 million productive jobs, reduced dependence on remittances, and stronger private sector participation. However, these goals remain highly contingent on external stability, as Nepal’s economy continues to rely heavily on remittance inflows and imported goods.

Data from the presentation highlights the depth of this structural dependence. Nepal’s diaspora population is estimated at 6.5–7.5 million, with approximately 3.4–3.8 million migrant workers, of which around 1.8 million are concentrated in Gulf countries. With an average monthly remittance of NPR 20,467 per worker, remittances form a critical backbone of household income, foreign exchange reserves, and overall economic stability. This concentration significantly amplifies Nepal’s exposure to any downturn in Gulf economies.

The Gulf crisis affects Nepal through multiple transmission channels, creating both direct and indirect macroeconomic pressures:

Gulf Crisis Transmission Channels: How Global Conditions Affect Nepal

- 1. Foreign Employment Markets**
 Nepal’s primary exposure is through labor migration. A slowdown in Gulf economies—particularly in construction and infrastructure—can lead to rising unemployment among Nepali workers. This directly translates into reduced remittance inflows, weakening household income and national foreign exchange reserves.
- 2. Tourism Sector**
 Global uncertainty and regional instability can reduce tourist arrivals and restrict international movement. Given Nepal’s growing reliance on tourism as a source of foreign exchange, this can dampen service sector growth and limit recovery momentum.
- 3. Imports (Fuel, Goods, Fertilizer)**
 Nepal’s heavy dependence on imports makes it vulnerable to global supply shocks. Disruptions or price increases in fuel and fertilizers can reduce agricultural productivity and increase costs for industries, thereby lowering overall economic output.
- 4. External Financing**
 A global or Gulf-specific downturn may reduce foreign direct investment (FDI), exports, and foreign aid inflows. This constrains capital availability for development projects and limits the government’s ability to finance growth-oriented investments.
- 5. Fiscal Imbalance**
 Reduced economic activity and imports can lead to lower government revenue collection, particularly from customs duties and indirect taxes. This creates fiscal pressure, limiting public spending capacity at a time when economic stimulus may be required.
- 6. Inflationary Pressure**
 External shocks often lead to higher energy prices and increased costs of production and distribution. Supply-side disruptions in essential goods and services can further fuel inflation, eroding purchasing power and increasing the cost of living.
- 7. Currency (Rupee) Pressure**
 A decline in foreign exchange inflows—particularly remittances—can put downward pressure on the Nepali rupee. Rapid depreciation would increase the cost of imports, further exacerbating inflation and external sector instability.

These transmission channels demonstrate how external shocks can permeate through the entire economy, from macro-level indicators to household welfare. Scenario analysis from the presentation further illustrates the scale of potential disruption:

Estimated Job Loss Scenarios and Economic Impact

Scenario Type	Severity Level	Estimated Job Loss (Migrant Workers)	Remittance Impact	Domestic Economic Effect
Gulf Crisis	Mild Shock	5–10% (≈90,000–180,000 workers)	Slight decline	Limited consumption impact
	Moderate Shock	15–25% (≈270,000–450,000 workers)	Noticeable decline	Reduced spending, rising unemployment
	Severe Shock	30–50% (≈540,000–900,000 workers)	Sharp decline	Major contraction, BOP stress
Global Crisis	Mild Shock	3–7% (≈100,000–250,000 workers)	Minor decline	Localized slowdown
	Moderate Shock	10–20% (≈350,000–700,000 workers)	Moderate decline	Broad economic slowdown

Scenario Type	Severity Level	Estimated Job Loss (Migrant Workers)	Remittance Impact	Domestic Economic Effect
	Severe Shock	25–40% (≈900,000–1.5 million workers)	Significant decline	Systemic economic stress

The impact of these shocks is most visible at the household level, where reduced remittance inflows directly affect income and consumption patterns:

Household Income Impact Under Reduced Remittance Scenarios

Impact Area	Mild Shock	Moderate Shock	Severe Shock
Household Income	Decline of 5–10%	Decline of 15–25%	Decline of 30–50%
Consumption Spending	Slight reduction	Significant cut in discretionary spending	Sharp contraction to basic needs
Education	Minor adjustment	Reduced private education spending	Increased dropout risk
Healthcare	Slight postponement	Reduced access to quality care	Increased health vulnerability
Housing & Assets	Slower improvement	Delayed investments	Distress asset sales
Poverty & Inequality	Limited increase	Rising poverty levels	Reversal of poverty gains
Financial Stability	Stable savings	Declining savings	Rising indebtedness

At the sectoral level, declining household income would reduce demand across retail, construction, education, and healthcare sectors, while also tightening liquidity in the banking system due to lower remittance deposits.

Compounding these external vulnerabilities is Nepal’s impending graduation from Least Developed Country (LDC) status. While this marks an important development milestone, it also entails the gradual loss of preferential trade access, concessional financing, and special international support measures. The “cost of graduation” includes reduced export competitiveness and higher borrowing costs, which could strain Nepal’s external and fiscal positions—particularly if coinciding with a global or Gulf crisis.

In conclusion, the post-election economic transition in Nepal is taking place in a highly uncertain global environment. The Gulf crisis, transmitted through multiple economic channels, poses significant risks to employment, remittances, and macroeconomic stability. When combined with the structural challenges of LDC graduation, these risks highlight the urgent need for policy reforms focused on economic diversification, domestic job creation, export promotion, and strengthening fiscal and external resilience.

3) Diesel Consumption, Pricing, and Macroeconomic Impact in Nepal

Nepal’s economy remains structurally dependent on diesel, particularly in transport, construction, and trade. The sharp rise in diesel prices in 2026—by approximately 70–75% within a short period—has exposed deeper macroeconomic vulnerabilities. Despite rising costs, diesel consumption continues to grow steadily, driven by credit expansion and demand in non-productive sectors.

This reflects a broader structural pattern: Nepal’s growth model is consumption-led, import-dependent, and energy-intensive, with limited linkage to industrial production and productivity gains.

a) Diesel Price Dynamics (2026 Shock)

Period (2026)	Diesel Price (NPR/litre)	Change
January	~136	Baseline
March	~150–167	Gradual increase
Early April	~180–204	Accelerated rise
Mid-April	~234–237	~70–75% increase

Analysis:

The price surge reflects Nepal’s full exposure to international oil markets. As a fully import-dependent economy for petroleum products, domestic prices transmit global shocks almost immediately, creating economy-wide cost pressures.

b) Diesel Consumption and Credit Trends

Year	Diesel Consumption	Growth rate	Credit growth	Diesel Growth
2073/74	1,297,066	7.62	22.41%	
2074/75	1,597,551	6.66	20.28%	23.17%
2075/76	1,702,157	-2.37	12.46%	6.55%

Year	Diesel Consumption	Growth rate	Credit growth	Diesel Growth
2076/77	1,473,536	4.84	27.54%	-13.43%
2077/78	1,696,202	5.63	12.91%	15.11%
2078/79	1,723,557	1.98	3.48%	1.61%
2080/81	1,411,440	3.67	5.97%	-18.11%
2081/82	1,466,285	4.61	8.18%	3.89%

Interpretation:

Diesel consumption shows a steady upward trend and is more closely correlated with credit expansion than GDP growth. This suggests that economic activity is being driven by financing of demand and logistics, rather than productivity or industrial output.

c) Diesel–Credit–GDP Relationship

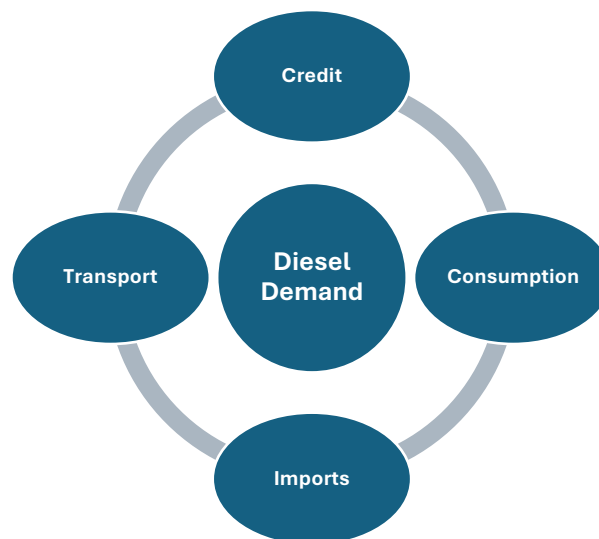
Fiscal Year	Diesel Growth (%)	Credit Growth (%)	GDP Growth (%)
2073/74	-	22.41	7.62
2074/75	23.17%	20.28	6.66
2075/76	6.55%	12.46	-2.37
2076/77	-13.43%	27.54	4.84
2077/78	15.11%	12.91	5.63
2078/79	1.61%	3.48	1.98
2080/81	-18.11%	5.97	3.67
2081/82	3.89%	8.18	4.61

Key Insight:

Diesel demand remains resilient even during low GDP growth, confirming a circulation-driven economic structure.

d) Structural Economic Diagnosis

Current Growth Cycle



Implication

Strong activity in trade, logistics, and construction

Weak transmission to manufacturing and exports

Diesel consumption reflects economic movement, not economic transformation

e) Economic Transmission Channels

Channel	Mechanism	Impact Area	Effect Without Shock	Effect With Diesel Shock
Inflation Channel	Higher transport & logistics costs	CPI, food prices	Moderate inflation	● Sharp cost-push inflation
External Sector	Higher fuel import bill	BoP, FX reserves	Stable surplus	● Pressure on reserves & imports
Growth Channel	Cost of production rises	GDP composition	Consumption-led growth	● Slower real growth
Financial Channel	Credit cost & demand shift	Banking sector	Moderate lending	● Credit risk & lower demand
Employment Channel	Margin compression in firms	Jobs, wages	Stable employment	● Job losses risk
Fiscal Channel	Subsidy/NOC losses	Budget deficit	Manageable deficit	● Fiscal stress increases
Industrial Channel	Energy cost for production	Manufacturing	Already weak	● Further deindustrialization risk
Supply Chain Channel	Transport disruption	Goods availability	Stable	● Supply bottlenecks
Rupee Stability Channel	Higher import demand for fuel	Exchange rate	Stable	● Depreciation pressure

f) Risk Matrix

Risk Category	Description	Probability	Impact	Risk Level
Fuel Price Shock	Global oil volatility	High	Very High	● Critical
Inflation Surge	Cost-push inflation	High	High	● Critical
External Imbalance	Import-driven pressure	High	High	● Critical
Growth Slowdown	Demand compression	Medium	High	● High
Industrial Weakness	Low manufacturing growth	Medium	High	● High
Fiscal Pressure	Subsidy / NOC losses	Medium	Medium	● Moderate

g) Vulnerability Index (Diesel Dependency)

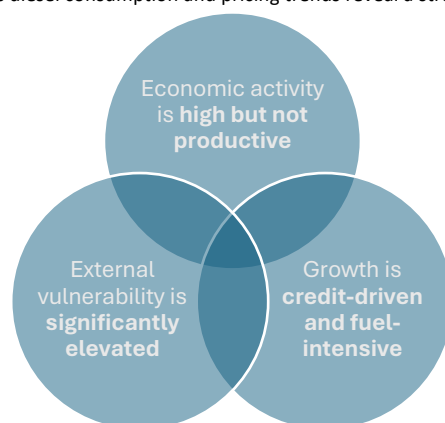
Dimension	Weight	Score	Weighted Score
Import Dependence	25%	5	1.25
Price Exposure	20%	5	1.00
Sectoral Dependence	20%	4	0.80
Credit Structure	15%	4	0.60
Industrial Base	10%	2	0.20
Energy Substitution	10%	3	0.30

Total Score: 4.15 / 5 (Highly Vulnerable Economy)

h) Policy Recommendations

Immediate	<ul style="list-style-type: none"> ● Calibrate fuel pricing to smooth volatility ● Targeted support for transport and agriculture ● Strengthen inflation coordination between MoF and NRB
Medium-Term	<ul style="list-style-type: none"> ● Redirect credit toward industrial and export sectors ● Limit excessive consumption-driven lending
Long-Term	<ul style="list-style-type: none"> ● Electrify transport (EV adoption) ● Utilize hydropower to replace diesel ● Align industrial policy with energy transition

- i) Strategic Conclusion: Nepal's diesel consumption and pricing trends reveal a structural imbalance:



Without structural reform, diesel consumption will continue to reflect an economy that is moving—but not transforming. A coordinated policy response from the Ministry of Finance and Nepal Rastra Bank is essential to shift Nepal toward a resilient, production-oriented, and energy-efficient growth model.

4) Fertilizer Distribution Status in Nepal (FY 2024/25 and FY 2025/26)

Nepal's fertilizer distribution system during FY 2024/25 operated under a subsidy-intensive and import-dependent framework, primarily managed by Krishi Samagri Company Limited (KSCL) and the Salt Trading Corporation (STC). Despite continued government efforts to ensure supply through large-scale procurement, the system exhibited a persistent pattern of moderate aggregate availability but structural inefficiencies in distribution and timing, which directly affected farmers' access during peak agricultural seasons.

At the beginning of FY 2024/25, the fertilizer system held an opening stock of 123,933 metric tons (MT), including 79,803 MT of urea, 37,600 MT of DAP, and 6,530 MT of potash (MOP). During the fiscal year, total procurement reached 346,642 MT, with a relatively balanced allocation between urea (163,602 MT) and DAP (172,850 MT), while potash imports remained comparatively low at 10,190 MT. This brought total fertilizer availability to 470,575 MT, indicating a reasonably strong supply position in aggregate terms.

However, actual distribution (sales) during the fiscal year stood at 334,976 MT, comprising 192,478 MT of urea, 131,250 MT of DAP, and 11,248 MT of potash. This distribution level is consistent with national estimates of total fertilizer use (approximately 330,000–380,000 MT), but remains significantly below the country's estimated annual requirement of around 550,000 MT, implying a structural supply gap. At the same time, the dominance of urea in both procurement and distribution highlights a continued nutrient imbalance, with insufficient use of potash and relatively underutilized DAP.

By the end of FY 2024/25, the system recorded a closing stock of 135,599 MT, including 50,927 MT urea, 79,200 MT DAP, and 5,472 MT potash. The high carryover of DAP is particularly notable and suggests inefficiencies in demand forecasting, distribution planning, or farmer-level uptake patterns. This reinforces the conclusion that Nepal's fertilizer challenge is not purely one of insufficient supply, but rather one of ineffective timing and allocation across regions and cropping cycles.

The early months of FY 2025/26 further illustrate this structural issue. During July–August 2025, fertilizer distribution was limited to 36,377 MT, which is relatively low given the importance of timely fertilizer availability during planting periods. Consequently, stock levels remained high at 99,222 MT as of August 2025, with 64,023 MT of DAP alone, indicating continued imbalance in stock utilization. Meanwhile, cumulative procurement (net of earlier use) reached 298,940 MT, and the projected available balance for FY 2025/26 rose to 398,162 MT, suggesting that supply accumulation continues even as distribution efficiency lags.

From a broader policy perspective, this situation reflects a paradox in Nepal's fertilizer sector. On one hand, the government continues to allocate substantial fiscal resources—nearly NPR 28 billion annually—to ensure fertilizer availability. On the other hand, farmers continue to face uncertainty due to delays in delivery, regional imbalances, and seasonal shortages. The reliance on international tender-based procurement and logistics through Indian ports further compounds the problem, exposing the system to delays, price volatility, and supply chain disruptions.

In essence, FY 2024/25 demonstrates that Nepal's fertilizer system is quantitatively moderate but operationally inefficient. The key challenge is not only increasing supply but ensuring that fertilizers are delivered in the right quantity, at the right time, and in the right nutrient mix. Without addressing these structural inefficiencies, additional procurement alone is unlikely to resolve persistent farmer dissatisfaction or improve agricultural productivity.

Category	Urea (MT)	DAP (MT)	Potash (MT)	Total (MT)
Opening Balance 2024/25	79,803	37,600	6,530	123,933
Purchase	163,602	172,850	10,190	346,642
Total Availability	243,405	210,450	16,720	470,575
Sales (FY 2024/25)	192,478	131,250	11,248	334,976
Closing Balance 2024/25	50,927	79,200	5,472	135,599
Sales (July–August 2025)	20,508	15,177	692	36,377
Stock (August 2025)	30,419	64,023	4,780	99,222
Purchase till April 2026 (Gross)	—	—	—	301,065
Projected Balance 2025/26	—	—	—	400,287

The government set an annual fertilizer procurement target of around 550,000 metric tons (MT) to meet growing demand driven by intensified agricultural activity and evolving cropping patterns. In practice, however, imports during the fiscal year reached only about 330,000 to 340,000 MT, leaving a substantial shortfall of nearly 200,000 MT (approximately 35–40%). This persistent gap between requirement and supply remains a defining feature of Nepal’s fertilizer landscape, contributing to recurring shortages, particularly during critical periods such as the paddy transplantation season.

At the same time, the experience of FY 2024/25 suggests that the challenge is not solely one of insufficient supply, but of systemic inefficiency. Despite relatively high overall availability, issues such as delayed procurement, misalignment with seasonal demand, imbalanced nutrient distribution, accumulation of carryover stocks, and logistical constraints continue to limit the effectiveness of the distribution system. Going forward, meaningful reform will require a shift in focus—from simply increasing import volumes to strengthening procurement planning, demand forecasting, supply chain management, and promoting balanced fertilizer use to ensure timely and efficient delivery to farmers.

5) Comparative Assessment of RSP Manifesto and Government Reform Program

1. Conceptual Distinction: Political Vision vs Policy Execution

The RSP manifesto outlines an ambitious reform agenda that is being implemented through a pragmatic, phased government approach prioritizing governance, anti-corruption, and institutional stabilization as the foundation for broader economic transformation. While this sequencing is appropriate given Nepal’s limited administrative capacity and fiscal constraints, the macroeconomic environment remains fragile, with a high-risk profile (MRI 4.0/5) driven by remittance dependence, financial sector vulnerabilities, and external exposure.

At the same time, implementation feasibility remains moderate to low (Attainability Index 2.7/5), particularly for large-scale reforms in infrastructure, employment, and industrial policy, which require stronger capacity and financing. With substantial investment needs and a persistent financing gap, successful delivery of the manifesto will depend on sustained governance credibility, financial sector stabilization, and effective mobilization of external and private resources, positioning Nepal as a high-risk but potentially high-reward reform economy.

2. A clear distinction exists between the RSP Manifesto and the Government Administrative Reform Program, reflecting different roles within the reform ecosystem.

Dimension	RSP Manifesto	Government Reform Program
Nature	Political vision and commitments	Executive policy and implementation framework
Scope	Broad, structural transformation agenda	Targeted administrative and governance reforms
Timeframe	Medium-term (2026–2030)	Immediate to short-term (100 days–1 year)
Orientation	Transformational	Operational and institutional
Accountability	Political	Administrative and legal

The manifesto articulates what Nepal aims to become, while the government program defines how and when change begins.

3. Introduction and Context

Nepal’s current political transition presents a rare convergence of public demand for reform and political willingness to act. The reform agenda emphasizes governance, anti-corruption, employment generation, and private-sector-led growth.

However, early government actions indicate a sequenced reform strategy, prioritizing:

1. Administrative discipline
2. Governance credibility

3. Institutional stabilization before scaling broader economic transformation.

4. This report evaluates:
- i. Alignment between political commitments and policy execution
 - ii. Macroeconomic risks and structural constraints
 - iii. Implementation feasibility
 - iv. Financing requirements

i. Policy Alignment: Strategic Ambition vs Operational Reality

The reform trajectory reflects deliberate sequencing rather than policy divergence.

Key Observations

- a) Governance and anti-corruption reforms are advancing rapidly
- b) Digital systems are being introduced incrementally
- c) Economic transformation pillars remain in early stages

Alignment Assessment

Reform Area	Manifesto Commitment	Government Action	Alignment
Governance & Anti-Corruption	Structural reforms, asset tracking	Administrative tightening	High
Digital Governance	Full digital transformation	Initial rollout	High
Bureaucratic Reform	Merit-based system	Partial depoliticization	Medium
Economic Reform	Private-sector-led growth	Limited early action	Medium-Low
Youth Employment	1 million jobs	Not yet operational	Low
Infrastructure	Large-scale investment	Not prioritized yet	Low
Fiscal Reform	Efficiency & expansion	Early reprioritization	Medium

The gap reflects capacity and fiscal constraints, not a shift in policy direction.

ii. Macroeconomic Risk Assessment

Nepal's economy remains structurally fragile, with vulnerabilities across fiscal, financial, and external sectors.

Key Risk Drivers

- a) Heavy reliance on remittances
- b) Persistent trade deficits
- c) Rising non-performing loans (NPLs)
- d) Weak capital expenditure execution
- e) Limited domestic revenue growth
- f) Exposure to global oil prices and Gulf labor markets

Macroeconomic Risk Index (MRI)

Risk Category	Indicator	Score (1–5)	Assessment
Fiscal Risk	Revenue gap, deficit pressure	4	High
Financial Risk	NPLs, credit slowdown	4	Vulnerable
External Risk	Remittance dependence	5	Highly exposed
Inflation Risk	Imported inflation	3	Moderate
Investment Risk	Weak private investment	4	Structural constraint

Composite MRI: 4.0 / 5 (High Risk)

Nepal operates in a fragile macroeconomic environment, requiring careful reform sequencing.

iii. Attainability Index (Implementation Feasibility)

Feasibility is constrained by:

- a) Administrative capacity
- b) Fiscal limitations
- c) Political economy factors
- d) Institutional readiness

Assessment

Reform Area	Capacity	Fiscal Space	Score (1–5)	Assessment
Governance Reform	High	Moderate	4	Achievable
Digital Systems	Moderate	Moderate	3	Gradual rollout
Financial Sector Reform	Moderate	High	3	Feasible
Fiscal Reform	Moderate	Low	2	Politically sensitive
Infrastructure	Low	Very Low	2	External financing needed
Employment Programs	Low	Low	2	Limited capacity
Industrial Policy	Low	Low	2	Long-term effort

Composite Score: 2.7 / 5 (Moderate-Low Feasibility)

Governance reforms are feasible in the short term, while economic transformation faces binding constraints.

iv. Fiscal and Financing Constraints

Estimated Investment Needs (2026–2030)

Sector	Requirement (USD)
Infrastructure & Energy	15–20 billion
Agriculture & Climate	3–4 billion
Youth Employment & Skills	2–3 billion
Governance & Digital Systems	0.3–0.5 billion
Financial Sector Support	0.5 billion

Total Requirement: USD 21–28 billion

Fiscal Reality

- a) Limited revenue growth
- b) High recurrent expenditure
- c) Weak capital execution
- d) Rising debt pressures

Estimated financing gap: USD 5–6 billion/per year

5. Resource Mobilization Strategy

A blended financing model is essential:

Key Sources

- a) Diaspora financing instruments
- b) Multilateral institutions (IMF, World Bank, ADB)
- c) Bilateral development partners
- d) Public-Private Partnerships (PPP)
- e) Domestic revenue reforms
- f) Aid/Grant from friendly countries

Financing success depends heavily on credibility, governance reform, and policy stability.

6. Strategic Risk–Feasibility Matrix

Reform Area	Risk Level	Feasibility	Strategic Approach
Governance	Low	High	Immediate implementation
Financial Sector	High	Medium	Controlled reform
Fiscal Reform	High	Low	Gradual consolidation
Infrastructure	High	Low	PPP and donor-led
Employment	Medium	Low	Targeted interventions

7. Integrated Macroeconomic Framework

Growth Scenarios

Scenario	Growth Rate
No Reform	~3.5%
Partial Reform	4.5–5.5%
Full Implementation	6–7%

8. Structural Shift Required

Driver	Current	Target
Consumption	High	Moderate
Investment	Low	High
Exports	Weak	Expanding

9. Debt Sustainability Outlook

Scenario	Debt-to-GDP (2030)	Risk
No Reform	~70%	High
Moderate Reform	~65%	Moderate
High Growth	55–60%	Sustainable

Sustained growth is the primary determinant of debt sustainability.

10. Strategic Insights

- a) Governance-First Strategy is Rational
- b) Early focus on governance builds credibility and institutional capacity.
- c) Economic Transformation Requires External Support
- d) Domestic resources alone are insufficient for structural change.
- e) Expectation Gap is a Major Risk
- f) Public demand for rapid change exceeds implementation capacity.
- g) Financial Sector is the Critical Bottleneck
- h) Banking sector stress directly constrains investment and growth.

11. Policy Implications for Development Partners

Opportunities

- a) Strong reform mandate
- b) Early governance improvements
- c) Emerging investment pipeline

Risks

- a) Fiscal constraints
- b) Limited implementation capacity
- c) External sector vulnerabilities

12. Final Synthesis

Nepal's transformation pathway is credible but conditional.

Success Depends On

- a) Sustained governance reform
- b) Financial sector stabilization
- c) Fiscal discipline
- d) Export diversification
- e) Coordinated international support

13. Bottom Line

Nepal represents a high-risk, high-reward reform economy. With disciplined sequencing and adequate financing, Nepal can:

- a) Restore investor confidence
- b) Accelerate economic growth

- c) Reduce structural vulnerabilities
- d) Deliver inclusive and sustainable development

6) Birds-Eye View of Economic Outlook of Nepal

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
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

Dimension	World Bank	Asian Development Bank	International Monetary Fund	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB)	Government of Nepal (GoN)
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

7) Budget Expectations & Fiscal Strategy (FY 2020/21 – 2025/26 and Outlook to 2026/27)

From Expansionary Budgeting to Credible, Execution-Based Fiscal Reform

The Budget Expectation for FY 2026/27 represents a strategic evolution from the previous year’s focus on stability toward a more aggressive, reform-oriented framework aligned with the RSP manifesto. While the 2025/26 budget was anchored in pragmatism and a 5.3% growth target, the 2026/27 vision targets a 7.0% GDP growth by shifting the national economic identity. This new paradigm prioritizes IT as a cornerstone industry, aiming for USD 1.5 billion in exports through the establishment of digital parks in all seven provinces. By declaring IT a "National Strategic Industry," the budget seeks to create a sustainable alternative to remittance, while simultaneously modernizing the civil service through a "Not in Line, but Online" digital transformation that targets the elimination of bureaucratic corruption and middlemen.

1. Macroeconomic Context and Fiscal Reality

Nepal’s fiscal trajectory over the past several years reflects a persistent structural imbalance between ambitious budget formulation and weak execution capacity. As observed in recent trends and policy directions from the Ministry of Finance Nepal and the National Planning Commission Nepal, budgets are typically expansionary at the outset but undergo mid-year rationalization—primarily through compression of capital expenditure. This pattern has undermined fiscal credibility and weakened development outcomes.

At the macro level, the economy remains consumption-driven, heavily supported by remittance inflows, while productive investment and export capacity remain limited. As a result, fiscal policy has not translated effectively into sustainable growth, and increasing reliance on domestic borrowing is beginning to create systemic risks.

2. Macroeconomic Assumptions (FY 2026/27)

The FY 2026/27 projections are based on a moderate recovery scenario supported by real growth of 5.2 percent and inflation of around 5.5 percent. Despite this, the structure of growth remains heavily skewed toward consumption rather than investment.

Indicator	Value	Remarks
Real GDP Growth	5.2%	Moderate
Inflation	5.5%	Stable
Nominal Growth	~10.8%	Combined

Structure of Growth:

Component	Share	Driver
Consumption	~65%	Remittance
Investment	~28%	Public capital
Government	~12%	Fiscal policy
Net Exports	Negative	Import dependence

This composition underscores the need to shift toward investment-led growth supported by efficient public spending.

3. Fiscal Position (FY 2026/27 – Expected Scenario)

The expected fiscal framework presents a more realistic but stressed outlook. Total expenditure is projected at NPR 1,820 billion, while revenue is expected to reach only NPR 1,150 billion, resulting in a fiscal deficit of NPR 670 billion, or approximately 6.27 percent of GDP. This level of deficit is significantly above a sustainable threshold and indicates continued structural imbalance.

Indicator	Value
Total Expenditure	NPR 1,820 Bn
Total Revenue	NPR 1,150 Bn
Fiscal Deficit	NPR 670 Bn
Deficit (% GDP)	~6.27%

The financing structure is heavily skewed toward domestic borrowing, which raises concerns about liquidity pressure and crowding out of private sector investment.

Source	Share	Amount
Domestic Borrowing	76.86%	NPR 460 Bn
External Loans	20.90%	NPR 140 Bn
Grants	10.44%	NPR 70 Bn

4. Historical Fiscal Trends and Forward Outlook

Over the past six years, Nepal's fiscal data reveals a clear pattern of budget expansion without corresponding execution efficiency. While tax revenue has increased in nominal terms, actual collections have consistently fallen short of targets. Similarly, total budget allocations have grown significantly, but actual spending remains weak, especially in capital expenditure.

Category \$ in Mn	FY20/21	FY22/23 Rev	FY23/24 Rev	FY24/25 Rev	FY25/26 Budget	Mid-Term FY25/26	Achievement %	FY26/27 Expected
Tax Revenue	7,211	8,667	8,449	8,544	9,962	3,881	38.95%	8,714
Foreign Grant	304	320	224	264	405	55	13.52%	575
Fiscal Deficit	3,308	3,555	2,920	3,785	4,513	1,527	33.85%	4,499
Domestic Debt	1,867	2,133	1,818	2,500	2,742	1,347	49.13%	2,858
Foreign Debt	1,441	1,421	1,102	1,285	1,770	180	10.16%	1,640
Total Budget	10,823	12,542	11,594	12,594	14,880	5,463	36.71%	13,788

The expected FY 2026/27 figures suggest a modest correction, with a reduction in total budget size but continued fiscal pressures.

5. Expenditure Composition and Execution

Expenditure trends further reinforce the structural imbalance. Recurrent expenditure continues to dominate, while capital expenditure—despite higher allocations—remains severely under-executed.

Category \$ in Mn	FY20/21	FY24/25 Rev	FY25/26 Budget	Mid-Term FY25/26	Achievement %	FY26/27 Expected
Current Expenditure	3,764	4,912	5,781	2,246	38.85%	5,657
Capital Expenditure	1,907	2,227	3,090	374	12.12%	3,463
Financial Provisioning	1,865	2,716	2,843	1,164	40.95%	2,034
Fiscal Transfers	3,288	2,739	3,165	1,444	45.63%	2,633
Total	10,823	12,594	14,880	5,229	35.14%	13,788

The extremely low capital execution rate significantly reduces the effectiveness of fiscal policy in driving economic growth.

6. Debt Sustainability Assessment

Public debt has been rising steadily and is projected to approach nearly 48 percent of GDP by FY 2083/84. While still within manageable limits, the trajectory indicates increasing vulnerability.

Indicator	FY2081/82	FY2082/83	FY2083/84
Debt (NPR Bn)	2,300	2,550	~3,000
Debt-to-GDP	43%	44%	~47–48%

Debt sustainability depends on maintaining growth rates above borrowing costs, which requires improving the productivity of public spending.

7. Structural Gaps and Risks

The analysis reveals several deep-rooted structural gaps, including persistent revenue overestimation, low capital expenditure efficiency, heavy reliance on domestic borrowing, and declining external grants. These challenges collectively weaken fiscal resilience and economic growth.

Area	Key Issue
Revenue	Overestimation and weak compliance
Capital Spending	Extremely low execution (~12%)
Budget Credibility	Frequent revisions
Borrowing	High domestic reliance
Grants	Declining trend
Governance	Weak project selection

8. Risk–Mitigation Framework

Addressing these risks requires a coordinated set of policy interventions focused on fiscal discipline, revenue reform, and expenditure efficiency.

Risk	Impact	Mitigation
High Deficit	Debt pressure	Fiscal rules (<5% GDP)
Revenue Shortfall	Fiscal gap	Tax reform and digitization
Capital Inefficiency	Low growth	Project prioritization
Domestic Borrowing	Crowding out	External concessional financing
External Pressure	BoP risk	Phased capital spending

9. Capital Efficiency and Growth Link

Capital expenditure has a significantly higher multiplier effect compared to recurrent spending. However, Nepal's low execution rate has reduced its potential contribution to growth.

Poor capital execution is estimated to reduce annual GDP growth by 0.5–0.7 percentage points, highlighting the importance of improving implementation capacity.

10. Scenario Analysis

Scenario	Growth	Deficit	Debt
Reform Scenario	5.5–6%	<5%	~45%
Current Trend	~4.5%	~6%	Rising
Populist Scenario	Short-term spike	>6.5%	Unsustainable

11. Strategic Reform Agenda

To restore fiscal sustainability and enhance growth, Nepal must undertake a comprehensive reform program focused on discipline, efficiency, and realism.

- Introduce binding fiscal rules to limit deficits and debt
- Rationalize budget allocations by reducing low-priority projects
- Strengthen revenue systems through digitization and base expansion
- Shift financing toward concessional external sources

- Improve project readiness and execution monitoring

12. Forward Outlook (FY 2026/27)

The FY 2026/27 outlook reflects a transitional phase, with a slight contraction in total budget and a modest increase in capital allocation. However, without structural reforms, execution risks and fiscal pressures will persist.

13. Conclusion

Nepal's fiscal challenge is fundamentally one of credibility and effectiveness rather than resource scarcity. The current trajectory—characterized by high deficits, weak execution, and rising debt—can only be reversed through decisive reforms.

The shift from “expansionary budgeting” to “effective budgeting” is essential for achieving sustainable, investment-driven growth. If implemented effectively, the proposed reforms can stabilize debt, improve fiscal outcomes, and unlock Nepal's long-term economic potential.

8) MoF's Gen Z protest assessment

The Ministry of Finance published an assessment that examines the youth-led protests that erupted across Nepal in September 2025 (Bhadra 23–24, 2082 BS). What began as demonstrations against corruption and restrictions related to digital platforms quickly evolved into a nationwide expression of deep frustration among young citizens regarding governance, economic opportunity, and institutional accountability. The protests spread across major urban centers and eventually affected 262 local governments in 54 districts, causing significant disruption to public institutions and infrastructure. The unrest resulted in more than 70 deaths and an estimated NPR 84 billion in damages, ultimately triggering the resignation of the Prime Minister and the formation of an interim government.

The report concludes that the Gen-Z movement reflects a deeper erosion of trust in political leadership and public institutions. Many young people perceive governance systems as dominated by patronage networks, political privilege, and weak accountability mechanisms. Frustrations have been amplified by poor public service delivery, lack of transparency, slow administrative processes, and the politicization of state institutions. At the same time, restrictions on digital platforms and online expression heightened tensions, as Gen-Z citizens view digital freedom as an essential component of democratic participation and civic engagement.

Economic factors also played a critical role in driving the protests. Nepal's youth face limited domestic employment opportunities, persistent underemployment, and growing pressure to migrate abroad for work. Even educated young people often struggle to secure jobs that match their skills, highlighting a structural mismatch between the education system and labor market demand. Rising living costs, economic uncertainty, and limited opportunities for entrepreneurship have further deepened dissatisfaction among the younger generation.

Despite the disruption and economic losses caused by the unrest, the report notes that the movement also generated a renewed national debate about governance reform and accountability. It emphasizes that the protests should be understood not merely as a spontaneous youth uprising but as a structural response to systemic governance failures and economic exclusion. To rebuild trust, the report recommends comprehensive reforms including stronger anti-corruption measures, merit-based public appointments, improved public service delivery, policies that promote job creation and entrepreneurship, protection of digital freedoms, and greater institutionalized participation of youth in policymaking and governance processes.

9) Recent Macroeconomic Developments (March 2026)

Particulars Amount in NPR Billion	Monthly Movement (Feb)	Monthly Movement (March)	Yearly Movement (Feb 26)	Yearly Movement (March 26)	Monthly Movement	Yearly Movement
Consumer Price Inflation (y-o-y) (%)	0.83	0.37	(0.50)	0.23	Unfavorable	Unfavorable
Consumer Price Inflation (Compared to previous month) (%)	0.41	0.23	0.14	0.09	Unfavorable	Unfavorable
Food and Beverage (%)	1.38	0.40	0.67	(0.06)	Unfavorable	Favorable
Non Food and Service (%)	(0.12)	0.13	(0.15)	0.17	Unfavorable	Unfavorable
Exports	0.62	(3.16)	(4.84)	(7.06)	Favorable	Favorable
Imports	11.63	(18.70)	27.48	1.80	Unfavorable	Favorable
Travel Income	(2.45)	1.61	(1.70)	(2.45)	Favorable	Unfavorable
Travel Spending	(0.89)	8.15	(16.52)	1.58	Favorable	Favorable
Remittance Inflows	5.46	(9.45)	46.89	49.10	Unfavorable	Favorable
Government Expenditure	(13.80)	14.00	26.70	(33.97)	Favorable	Unfavorable
Current Expenditure	(13.80)	4.50	13.70	(14.26)	Favorable	Unfavorable
Capital Expenditure	(0.70)	0.45	0.38	(5.81)	Favorable	Unfavorable
Revenue	(83.40)	(5.34)	10.11	(28.80)	Unfavorable	Unfavorable

Particulars Amount in NPR Billion	Monthly Movement (Feb)	Monthly Movement (March)	Yearly Movement (Feb 26)	Yearly Movement (March 26)	Monthly Movement	Yearly Movement
Deposit Mobilization	(119.35)	32.06	(15.65)	(42.95)	Favorable	Unfavorable
Private Sector Credit	(70.85)	(2.68)	3.02	(34.52)	Unfavorable	Unfavorable
Weighted Average Deposit Rate (%)	(0.06)	(0.06)	(1.03)	(1.00)	Favorable	Unfavorable
Weighted Average Lending Rate (%)	(0.12)	(0.10)	(1.40)	(1.32)	Favorable	Favorable
Base Rate of Commercial Banks (%)	(0.17)	(0.02)	(1.21)	(1.19)	Favorable	Favorable
Forex Reserve	339.13	318.79	5,573.99	5,490.87	Unfavorable	Unfavorable
BOP NPR	71.49	85.62	216.83	262.36	Favorable	Favorable
Liquid Funds	(264.80)	25.46	71.38	49.25	Favorable	Favorable
Govt. Securities/Other	236.59	1.61	537.97	579.93	Favorable	Favorable
Investment in share and other	26.17	19.52	108.59	90.04	Favorable	Favorable
Land revenue in Rs billion	0.16	(1.02)	1.30	0.03	Unfavorable	Favorable

Macroeconomic and Financial Sector Update (Feb. 2026 to March 2026)

Nepal's macroeconomic position reflects a two-speed recovery, where improving annual indicators are offset by short-term weakening in key domestic drivers. The data suggests that while macro-stability is largely intact, the quality and sustainability of growth remain uneven, with heavy reliance on external inflows and limited domestic demand momentum.

Inflation dynamics indicate easing price pressures, but not yet to comfortable levels. Year-on-year consumer price inflation has moderated significantly from negative territory in February to a modest positive 0.23% in March, suggesting a recovery in price levels. However, both monthly and yearly indicators are still marked as unfavorable, reflecting persistent underlying inflationary concerns. Food and beverage inflation, which had been a major driver, shows improvement on a yearly basis (turning slightly negative in March), indicating easing supply-side pressures. In contrast, non-food and services inflation remains structurally sticky, signaling demand-side rigidity and cost-push factors still present in the economy.

External sector trends are relatively encouraging. Although exports continue to contract both monthly and annually, the pace of decline appears to be stabilizing, hence marked favorable. Imports show a sharp monthly contraction in March after a spike in February, which is favorable from a balance-of-payments perspective. Travel income remains weak year-on-year despite a monthly recovery, while travel spending has increased, reflecting rising outbound expenditure. Remittance inflows, a critical pillar of Nepal's economy, show strong year-on-year growth (around 49%), despite a monthly dip in March—indicating resilience but also volatility in short-term flows.

Fiscal operations highlight structural weaknesses. Government expenditure rebounded strongly in March after a sharp contraction in February, suggesting delayed fiscal execution. However, the year-on-year decline—especially in capital expenditure—points to chronic underperformance in development spending. Revenue collection is particularly concerning, with both monthly and yearly declines, reflecting weak economic activity and possible inefficiencies in tax administration. This imbalance between expenditure and revenue raises fiscal sustainability concerns.

Financial sector indicators suggest tightening conditions with some easing in interest rates. Deposit mobilization improved sharply in March, but remains weak on a yearly basis. Private sector credit continues to contract both monthly and annually, signaling subdued business confidence and weak investment demand. Interest rates—both deposit and lending—are declining, which is favorable for stimulating credit demand, but the transmission appears weak given continued credit contraction.

External stability indicators present a relatively strong position. Foreign exchange reserves remain robust despite a slight monthly decline, and the balance of payments continues to show a healthy surplus, supported largely by remittances and controlled imports. Liquidity conditions have improved significantly in March after a contraction in February, indicating better financial system stability. Government securities and investments in shares show strong growth, suggesting a shift toward financial assets and possibly speculative or portfolio-driven activity.

Real estate and land revenue show mixed signals. Land revenue declined monthly but remains slightly positive on a yearly basis, indicating subdued activity in the property market, which aligns with tighter credit conditions and reduced disposable income.

Overall interpretation:

Nepal's economy is in a transitional phase of stabilization, where external sector strength (remittances, BOP surplus) is compensating for domestic weaknesses—notably low revenue mobilization, weak credit growth, and underperforming capital expenditure. Inflation is moderating but still structurally present, while financial conditions are easing without translating into real sector expansion. This suggests that without stronger fiscal execution and private sector confidence, growth recovery may remain fragile and externally dependent.

The recovery is being driven in the near term by remittance inflows, easing interest rates, and relatively strong external buffers. However, escalating geopolitical tensions—particularly conflict in the Gulf—are exerting dual pressure on Nepal by dampening remittance prospects while increasing external payment obligations. At the same time, domestic demand, private sector credit growth, and public investment remain subdued and uneven. A fundamental structural concern persists: the imbalance between consumption and production, evident in rising imports alongside weak export performance.

Policy implications:

- a) Monetary easing should be complemented by targeted credit measures to channel financing toward productive sectors.
- b) Fiscal policy must shift its focus from budget allocation to effective execution, especially in capital expenditure.
- c) Structural reforms should prioritize export diversification and import substitution to reduce external dependence.
- d) Reviving tourism and directing remittance inflows into productive investment will be critical for medium-term sustainability.

In essence, while Nepal is gradually moving toward macroeconomic stability, failure to address these structural constraints risks trapping the economy in a low-growth, high-dependency equilibrium.

10) Nepal Economic Transformation Framework (NETF) 2026–2030

Suggested Strategic Roadmap and 100-Day Reform Agenda for an RSP-Led Government

a) Context and Strategic Opportunity

Nepal stands at a critical turning point in its development trajectory. The country faces structural economic challenges including low private investment, high youth migration, fiscal pressures, governance weaknesses, and dependence on remittances. At the same time, Nepal possesses significant opportunities in hydropower, tourism, digital services, agriculture modernization, and regional connectivity.

The electoral mandate supporting reform-oriented governance reflects strong public demand for transparency, accountability, employment generation, and economic modernization. The reform agenda promoted by the Rastriya Swatantra Party (RSP) emphasizes institutional integrity, private-sector-led growth, youth empowerment, and efficient public administration.

The Nepal Economic Transformation Framework (NETF) 2026–2030 provides an integrated policy roadmap to translate this mandate into measurable economic outcomes. The framework combines:

- 1) Long-term structural reforms for economic transformation
- 2) Immediate actions during the first 100 days of government
- 3) Fiscal realism and financing strategies
- 4) Clear implementation benchmarks and accountability mechanisms

b) Strategic Vision (2026–2030)

Transform Nepal into a transparent, resilient, investment-friendly and youth-driven economy capable of:

1. Achieving 7–8% sustained annual GDP growth
2. Generating over one million productive jobs
3. Strengthening macroeconomic stability
4. Expanding export capacity and regional integration
5. Reducing dependence on remittances
6. Building strong institutions that support inclusive and sustainable growth

c) Strategic Pillars of Economic Transformation (2026–2030)

1. Governance Reform and Anti-Corruption

Objective: Restore trust in public institutions and ensure rule-based governance.

Key Reforms

- a) Establish an Independent Anti-Corruption Authority with prosecutorial powers
- b) Implement digital public procurement and e-governance systems
- c) Introduce whistleblower protection mechanisms
- d) Ensure transparency in appointments to regulatory and constitutional bodies
- e) Eliminate political interference in public institutions and state-owned enterprises

Expected Outcomes

- i. Strengthened governance credibility
- ii. Increased investor confidence
- iii. Improved public sector efficiency

Estimated Funding Requirement:

USD 200–300 million

2. Youth Employment and Human Capital Development

Objective: Reduce unemployment and reverse large-scale youth migration.

Key Reforms

- a) Creation of 1 million jobs over five years
- b) Expansion of technical and vocational education linked to market demand
- c) Establish startup financing mechanisms and innovation hubs
- d) Strengthen diaspora investment and knowledge transfer programs

Priority sectors:

- I. ICT and digital services
- II. Tourism and hospitality
- III. Renewable energy
- IV. Agro-processing industries

Estimated Funding Requirement:

USD 2–3 billion

3. Financial Sector Stability and Reform

Objective: Ensure a stable and efficient financial system supporting productive investment.

Key Reforms

- a) Strengthen banking supervision and regulatory oversight
- b) Address rising non-performing loans and financial sector vulnerabilities
- c) Improve credit flow to productive sectors such as industry and agriculture
- d) Develop capital markets for long-term financing
- e) Expand digital financial inclusion

Estimated Funding Requirement:

USD 1-2 billion

4. Fiscal Reform and Public Financial Management

Objective: Improve revenue mobilization and public expenditure efficiency.

Key Reforms

- a) Broaden the tax base and reduce tax evasion
- b) Rationalize government expenditures
- c) Improve execution of capital spending
- d) Strengthen fiscal coordination among federal, provincial, and local governments

Fiscal Challenge

Nepal faces a projected fiscal financing gap of approximately USD 5–6 billion over five years. Addressing this gap will require both fiscal discipline and innovative financing strategies.

5. Infrastructure and Industrial Transformation

Objective: Improve productivity, connectivity, and industrial competitiveness.

Strategic Investments

- a) Development of 25,000 MW hydropower capacity
- b) National highway and transport modernization
- c) Digital infrastructure expansion
- d) Logistics corridors and cross-border trade facilities
- e) Special Economic Zones (SEZs) and industrial parks

Financing Approach

- i. Public-Private Partnerships (PPP)
- ii. Multilateral financing
- iii. Infrastructure investment funds (Diaspora/DFIs)

Estimated Funding Requirement:

USD 15–20 billion

6. External Sector Resilience and Geopolitical Risk Management

Objective: Reduce vulnerability to global economic shocks.

Key Measures

- a) Export diversification

- b) Strengthening tourism recovery and promotion
 - c) Protection and welfare of migrant workers in Gulf and other regions
 - d) Monitoring remittance trends and external shocks
 - e) Contingency planning for energy price volatility
- Estimated Funding Requirement:
USD 600– 900 million

7. Private Sector Development and Investment Climate Reform

Objective: Restore investor confidence and encourage domestic and foreign investment.

Key Reforms

- a) Predictable regulatory frameworks and policy stability
- b) Simplified business registration and licensing processes
- c) Strengthened commercial dispute resolution mechanisms
- d) Institutionalized public-private dialogue platforms

Estimated Funding Requirement:
USD 200– 400 million

8. Agriculture Modernization, Environment and Climate Resilience

Objective: Ensure food security and sustainable rural livelihoods.

Key Reforms

- a) Climate-resilient agriculture systems
- b) Expansion of irrigation infrastructure
- c) Agro-processing industries and value chain development
- d) Renewable energy expansion
- e) Sustainable forest and land management

Estimated Funding Requirement:
USD 2–3 billion

9. Social Protection and Inclusive Growth

Objective: Protect vulnerable populations and ensure equitable development.

Key Programs

- a) Targeted cash transfer systems
- b) Food security programs
- c) Pilot universal health coverage initiatives
- d) Expansion of child nutrition programs

Estimated Funding Requirement:
USD 3– 5 billion.

10. Financial Integrity and International Compliance

Objective: Strengthen international financial credibility.

Key Reforms

1. Strengthen anti-money laundering and counter-terrorism financing systems
2. Improve financial intelligence monitoring
3. Align legal frameworks with international compliance standards

Estimated Funding Requirement:
USD 200– 400 million

11. Immediate 100-Day Reform Agenda

To demonstrate political commitment and deliver early results, the government should implement the following priority actions during the first 100 days.

Pillar	Key Action	Performance Indicator
Governance	Establish Anti-Corruption Authority and launch digital procurement system	Authority operational and procurement portal active

Pillar	Key Action	Performance Indicator
Youth Employment	Launch National Youth Employment Task Force and startup financing program	50,000 jobs pipeline initiated
Financial Sector	Conduct comprehensive banking sector health assessment and review regulatory framework	NPAs monitored and credit flows improved
Fiscal Reform	Reprioritize budget spending and implement tax compliance program	Revenue improvement plan adopted
Infrastructure	Approve and fast-track top five national infrastructure projects	Implementation units established
External Sector	Establish remittance monitoring and risk management unit	Early warning mechanism operational
Legal Reform	Amend investment laws and regulations to improve business environment	Reform legislation introduced
Private Sector	Streamline business licensing through digital platforms	Pilot e-governance system launched
Agriculture	Launch climate-resilient agriculture pilot programs	Pilot districts operational
Social Protection	Expand targeted cash transfer and food security coverage	Coverage exceeds 10% of vulnerable households
Financial Integrity	Conduct AML/CFT gap assessment and legislative reforms	Compliance roadmap prepared
Governance Reform	Eliminate political interference in regulatory institutions	Institutional independence measures adopted

Estimated Financing for the 100-Day Reform Package including the regular expenditure

Total estimated funding requirement:

USD 5–7 billion

This funding will combine domestic fiscal measures and external support.

12. Resource Mobilization Strategy

To address fiscal constraints and financing needs, the government should adopt a diversified resource mobilization strategy.

Key Sources

1. Reallocation of existing government budget
2. Increased private sector investment
3. Development partner financing
4. Infrastructure public-private partnerships
5. Diaspora investment instruments
6. Innovative financing mechanisms

Potential partners include international financial institutions and bilateral development agencies.

13. Implementation Principles

Successful implementation of the NETF will rely on five core principles:

1. Strong political leadership and policy continuity
2. Evidence-based policymaking supported by expert advisory teams
3. Coordination with development partners and financial institutions
4. Active engagement with private sector and civil society
5. Transparent monitoring and evaluation through measurable KPIs

14. Conclusion

Nepal has a historic opportunity to transition from a remittance-dependent economy to a productive, investment-driven and innovation-led economic model.

The Nepal Economic Transformation Framework (2026–2030) provides both a strategic vision and an operational blueprint to achieve this transition. By implementing this roadmap, an RSP-led government can:

1. Restore public trust and investor confidence
2. Deliver visible governance reform
3. Generate employment and opportunities for youth
4. Accelerate private sector growth
5. Strengthen fiscal and financial stability
6. Build resilience against external economic shocks

This framework therefore represents a practical pathway for Nepal's economic transformation and sustainable prosperity over the coming decade.

11) Beyond Remittance: Creating a Diaspora Investment Ecosystem in Nepal

Nepal's engagement with its diaspora is at a critical inflection point, where the transition from remittance dependence to structured investment mobilization is both necessary and achievable. To achieve the national ambition of a USD 100 billion economy by 2030 will require sustained annual growth of 10–12%, implying a rapid scaling of investment across sectors. Given domestic capital constraints, the Non-Resident Nepali (NRN) community represents a strategic reservoir of finance, knowledge, and global connectivity that can help bridge this gap—if effectively mobilized through a credible ecosystem.

However, diaspora engagement remains constrained by structural bottlenecks. The investment climate is often perceived as unpredictable, with policy inconsistencies, regulatory opacity, and procedural inefficiencies discouraging long-term commitments. Institutional fragmentation and the absence of a coordinated facilitation mechanism further complicate entry for diaspora investors. Moreover, the lack of bankable projects and tailored financial instruments limits the conversion of diaspora interest into actual investment flows. These challenges collectively reinforce a trust deficit, which is perhaps the most binding constraint in scaling diaspora participation.

a) Diaspora Investment Mobilization Scenarios

Scenario	Diaspora Participation Level	Estimated Investment Contribution	Potential GDP Impact	Key Assumptions
Conservative	Low (status quo engagement)	Limited inflows	Marginal GDP acceleration	Continued policy gaps, weak pipeline
Moderate	Targeted engagement	Moderate inflows	Supports 1–2% additional growth	Partial reforms, sectoral focus
Transformational	High, ecosystem-driven	Significant capital mobilization	Strong multiplier effect enabling 10–12% growth	Full reforms, strong governance, bankable projects

These scenarios demonstrate that diaspora capital, when aligned with broader economic reforms, can play a catalytic role in achieving Nepal's growth targets.

b) Key Economic Indicators and Targets

Indicator	Current (Approx)	2030 Target
GDP	~\$43 billion	\$100 billion
FDI investment inflow	<\$57 million/year	\$3–5 billion/year
Remittance shares in GDP	~25%	<15%
Export value	~\$2 billion	\$10–15 billion

These indicators illustrate the scale of transformation required. While remittances have historically supported household consumption, over-reliance on remittances poses a risk to sustainable growth. Transitioning these funds into productive investment is critical to achieve the 2030 economic vision.

c) Key Barriers to Diaspora Engagement

Barrier Category	Specific Issues	Potential Impact
Legal & Policy	Unclear NRN Act provisions, inconsistent regulations	Reduces diaspora confidence in long-term investment
Institutional	Fragmented agencies, lack of a one-stop platform	Delays and inefficiencies in project approvals
Financial	Limited diaspora-targeted instruments	Lowers capital mobilization potential
Governance & Transparency	Risk of misallocation or fraud	Weakens trust and deters participation
External & Political	Global shocks, political/legal uncertainty	Volatile flows and reduced investment commitment

These barriers collectively create a high-friction environment, preventing the diaspora from transitioning into long-term strategic investors.

d) Risk Impact Assessment

Risk Type	Description	Economic Impact
Regulatory Risk	Frequent policy changes, unclear rules	Investment delays and withdrawal
Political Risk	Instability or policy reversal	Reduced long-term commitments
Financial Risk	Currency fluctuation, liquidity issues	Lower returns, capital flight concerns

Risk Type	Description	Economic Impact
Operational Risk	Bureaucratic inefficiencies	Increased cost of doing business
Reputational Risk	Lack of transparency	Weakens diaspora trust and engagement

e) Three Pillars of Diaspora Investment Ecosystem

Pillar	Focus Area	Strategic Actions
Policy & Legal Framework	Stability and clarity	Reform NRN Act and other Acts to ensure economic and repatriation rights, streamline approvals
Institutional Mechanism	Facilitation and coordination	Establish Diaspora Investment Authority, one-stop investment window, strengthen inter-agency coordination
Financial & Investment Platform	Capital mobilization	Develop diaspora Rupee Denominated Forex Bonds, co-investment funds, and sector-specific vehicles

These pillars collectively define the foundation of a functional diaspora investment ecosystem.

f) Risk Mitigation Strategies

Strategy Area	Key Measures	Risk Addressed
Policy Certainty	Long-term investment policies, legal guarantees	Regulatory and political risks
Financial Instruments	Blended finance, guarantees, hedging tools	Financial risks
Institutional Strengthening	Single-window system, digital platforms	Operational risks
Transparency & Governance	Strong monitoring, public reporting	Reputational risks

g) Other Risks

Risk	Description	Mitigation Measures
Over-reliance on remittances	Large inflows remain unproductive	Require clear investment proposals for large NRN funds
Governance & Transparency	Misallocation or fraud in large projects	Transparent bidding, independent audits, public disclosure of diaspora fund usage
External Shocks	Global downturns or regional instability	Diversify diaspora base, build FX reserves, maintain macro stability
Political/Legal Uncertainty	Frequent changes in law or citizenship debates	Build cross-party consensus, issue clear guidelines on NRN rights

In conclusion, Nepal's diaspora engagement challenge is less about the availability of capital and more about the absence of a credible, structured ecosystem. The data and analysis from the presentation clearly suggest that without reforms, diaspora contributions will remain incremental. However, with targeted interventions across policy, institutions, and financial innovation, diaspora capital can become a transformative force—supporting Nepal's ambition of rapid, sustained, and inclusive economic growth.

12) FDI sector reform

a) Macroeconomic and Structural Constraints

Nepal's economic structure reveals a fundamental imbalance between consumption and investment. While remittance inflows support household consumption and external stability, they contribute minimally to productive capital formation. Investment efficiency remains low, with an estimated incremental capital-output ratio (ICOR) of 5–6 compared to an optimal range of 3–4. The fiscal structure is heavily skewed toward recurrent expenditure, which accounts for 80–85 percent of the national budget, crowding out capital investment. Consequently, capital expenditure remains low at 15–20 percent of the budget, and even this allocation suffers from weak execution, with significant spending occurring only toward the end of the fiscal year.

The infrastructure deficit further constrains economic growth, increasing logistics costs, reducing competitiveness, and limiting job creation. Public investment is insufficient to meet demand, while private sector participation remains limited due to regulatory barriers, legal uncertainty, and underdeveloped financial markets. These constraints collectively trap Nepal in a low-investment, low-growth equilibrium.

b) FDI and Investment Climate Reform

Foreign direct investment in Nepal remains among the lowest in South Asia, primarily due to procedural complexity, policy uncertainty, and weak investor protection mechanisms. Investors face challenges related to approval delays, unclear tax policies, difficulties in profit repatriation, and ambiguity in exit provisions. Addressing these issues requires comprehensive reform of the Foreign Investment and Technology Transfer Act (FITTA), including the introduction of automatic approval thresholds, simplification of entry and exit processes, and expansion of permissible investment structures.

Equally important is tax reform, which should prioritize the elimination of retrospective taxation, the introduction of tax arbitration mechanisms, and the harmonization of conflicting provisions across laws. Strengthening the public-private partnership (PPP) framework through amendments to the PPPI Act, including the establishment of a fiscal risk management system and viability gap funding mechanisms, will further enable

private sector participation. Together, these reforms can significantly enhance investor confidence and increase FDI inflows by three to five times over the medium term.

c) Diaspora Investment Ecosystem

Nepal's diaspora represents a transformative yet underutilized source of capital, knowledge, and global connectivity. With an estimated population of 7–8 million and annual savings potential ranging from USD 14–30 billion, even a modest mobilization of 10–20 percent of these savings could generate USD 3–6 billion in annual investment flows. Currently, however, diaspora contributions are largely limited to remittances, with minimal participation in formal investment channels.

To unlock this potential, Nepal must establish a comprehensive diaspora investment ecosystem. This includes the creation of dedicated financial instruments such as diaspora bonds, NRN investment funds, and blended finance vehicles, as well as institutional mechanisms such as a Diaspora Investment Authority and a digital one-stop platform for investment facilitation. Legal reforms are critical to this effort, particularly the enactment of a robust Non-Resident Nepali (NRN) Act that guarantees property rights, simplifies repatriation procedures, and enables flexible investment structures. By aligning these reforms with broader FDI and financial market policies, Nepal can transform diaspora engagement from remittance flows to productive capital investment.

d) Economic Diplomacy and Global Engagement

Economic diplomacy is a critical but underleveraged tool in Nepal's development strategy. The country's Honorary Consul General Network, spanning more than 60 countries, provides direct access to global investors, business communities, and policymakers. However, this network has not been systematically utilized for economic objectives such as investment promotion, trade expansion, tourism development, and aviation connectivity.

A structured economic diplomacy strategy should focus on activating this network through targeted investment roadshows, trade missions, tourism campaigns, and bilateral business engagements. By positioning diplomatic missions as economic facilitators rather than purely political representatives, Nepal can significantly enhance its global visibility and attract investment across priority sectors such as hydropower, tourism, information technology, and infrastructure. This approach offers a high-impact, low-cost mechanism to expand Nepal's economic footprint globally.

e) Infrastructure and Capital Budget Reform

Improving infrastructure delivery is central to Nepal's growth strategy. The current system is characterized by weak project preparation, inefficient procurement processes, delays in land acquisition, and fragmented institutional responsibilities. Projects often enter the budget without adequate feasibility studies or readiness, leading to delays and cost overruns.

Reform efforts should focus on establishing a Project Preparation Facility to ensure that only bankable projects are approved, strengthening digital monitoring systems for real-time tracking of expenditures, and simplifying procurement laws to enable faster and more transparent contract management. Increasing the share of capital expenditure to at least 25–30 percent of the budget, while improving utilization rates to above 85 percent, will significantly enhance public investment efficiency. These reforms will not only reduce delays and costs but also create a more conducive environment for private and foreign investment.

f) Integrated Financing Strategy

Closing Nepal's infrastructure financing gap requires a shift toward a blended financing model that combines public resources with private, diaspora, and development partner investments. Under this model, the government would contribute approximately 30 percent of total investment, while diaspora and private sector participation would each account for around 25 percent, and development partners would provide the remaining 20 percent. This diversified approach reduces fiscal pressure while maximizing investment scale and efficiency.

Financial market development is essential to support this strategy, including the introduction of local currency bonds, infrastructure investment trusts, and innovative instruments such as mezzanine financing and convertible debt. Mobilizing institutional investors such as pension funds and insurance companies will further expand the availability of long-term capital.

g) Implementation Roadmap and Impact

In the short term, priority actions include legal reforms related to FITTA, tax policy, and the NRN Act, as well as the launch of diaspora bonds and the activation of the economic diplomacy network. Medium-term efforts should focus on scaling PPP pipelines, strengthening capital markets, and building institutional capacity. Over the long term, Nepal should aim to transition toward an export-oriented, private sector-led growth model.

If successfully implemented, this integrated strategy can increase GDP growth to 8–10 percent annually, raise investment levels to 35–40 percent of GDP, and attract USD 3–6 billion in annual FDI and diaspora investment. By 2030, Nepal can achieve a GDP of USD 90–100 billion, create up to two million jobs, and reduce remittance dependency to below 15 percent of GDP.

h) Conclusion and Strategic Message

Nepal's development challenge is not a lack of resources, but a lack of coordinated strategy and effective execution. By aligning FDI reform, diaspora engagement, economic diplomacy, and infrastructure development into a unified framework, Nepal can unlock significant investment potential and accelerate its transition to a high-growth economy.

The path forward requires decisive action: reforming policies, strengthening institutions, mobilizing global networks, and ensuring accountability in execution. Moving beyond remittances toward an investment-driven model is not only desirable but essential for sustainable and inclusive economic transformation.

i) Call to Action

Nepal must act now to reposition itself as a competitive investment destination. By mobilizing its diaspora, activating its diplomatic network, and implementing bold structural reforms, the country can unlock over USD 10 billion annually in productive investment and achieve long-term economic prosperity.

j) International Best Practices in Investment Policy and Infrastructure Financing

The review of investment laws and policies highlights that successful economies have built robust, predictable, and investor-friendly regulatory frameworks to mobilize large-scale capital for infrastructure and economic development. A key international best practice is the establishment of comprehensive and well-coordinated legal systems governing investment, capital markets, foreign exchange, taxation, and dispute resolution. Countries such as United States, United Kingdom, and Singapore have developed integrated legal ecosystems where securities laws, company regulations, and financial market rules operate cohesively. This reduces regulatory uncertainty and enhances investor confidence, enabling efficient capital mobilization.

Another critical best practice is the development of deep and diversified financial markets. Advanced economies rely heavily on capital markets—particularly bond markets—to finance infrastructure. Institutional investors such as pension funds, insurance companies, and sovereign wealth funds play a central role in providing long-term financing aligned with infrastructure project lifecycles. For instance, in countries like Canada and United States, pension and insurance funds allocate significant portions of their portfolios to infrastructure assets due to their stable, long-term returns. This contrasts with underdeveloped markets where reliance on bank financing limits the scale and tenor of investment.

A further best practice is the active promotion of alternative investment vehicles. Economies such as India and Singapore have established regulatory frameworks for Alternative Investment Funds (AIFs), private equity, and venture capital, which channel risk capital into infrastructure and emerging sectors. These frameworks provide flexibility, tax efficiency, and regulatory clarity, attracting both domestic and international investors. The presence of such instruments broadens the investor base and reduces dependence on public financing.

Efficient foreign investment regimes are another hallmark of successful economies. Countries like Vietnam and Bangladesh have implemented simplified foreign exchange regulations, streamlined approval processes, and liberalized sectoral entry conditions. Importantly, many developed economies do not impose restrictive minimum investment thresholds, allowing smaller investors to participate. This inclusivity increases capital inflows and fosters a more dynamic investment environment.

Tax policy also plays a decisive role in shaping investment outcomes. Competitive and predictable tax regimes are used globally to enhance after-tax returns for investors. Best-performing markets ensure that capital gains taxes, dividend taxes, and withholding taxes are structured to incentivize long-term investment. In comparison to regional benchmarks, jurisdictions with favorable tax-adjusted returns tend to attract higher levels of portfolio and direct investment.

Dispute resolution and contract enforcement mechanisms represent another area of strong international practice. Countries with effective arbitration laws and independent judicial systems—such as United Kingdom and Singapore—provide investors with confidence that contractual rights will be protected. Modern arbitration frameworks aligned with global standards reduce legal risks and transaction costs, making these jurisdictions more attractive for large-scale investments.

Public-Private Partnership (PPP) frameworks also demonstrate significant variation across countries. Leading economies have institutionalized PPP mechanisms with clear guidelines, risk-sharing frameworks, and dedicated agencies. These frameworks extend beyond a single sector and are applied across transport, urban infrastructure, energy, and social sectors. In contrast to limited and sector-specific PPP deployment, international best practice emphasizes diversification and scalability of PPP models.

Finally, a consistent theme across successful economies is proactive policy evolution. Governments regularly update laws and regulations to reflect market developments, technological changes, and investor needs. This adaptive approach ensures that regulatory frameworks remain relevant and competitive globally. Countries that have achieved sustained investment growth—such as Vietnam—have done so through continuous reforms, simplification of procedures, and strong institutional coordination.

In summary, international best practices emphasize integrated legal frameworks, deep capital markets, institutional investor participation, flexible investment vehicles, liberalized foreign investment regimes, competitive taxation, strong dispute resolution systems, scalable PPP models, and continuous policy reform. These elements collectively create an enabling environment that attracts long-term capital and supports sustainable economic growth.

k) Integrated Strategy for Accelerating Growth, FDI, and Job Creation in Nepal

Nepal's infrastructure gap is not merely a financing issue—it is a systemic constraint driven by three interlinked failures:

1. Fiscal Constraint
 - Capital expenditure remains ~15–20% of total budget
 - Capital expenditure-to-GDP: ~4–5% (declining trend)
 - Recurrent expenditure dominates (~80–85%)
2. Fiscal space narrowing due to:
 - Rising administrative costs (federalism transition)
 - Debt servicing obligations
 - Weak revenue growth (~22% of GDP)
3. Execution Constraint
 - Capital budget utilization: ~60–70% (average)
 - Foreign-aided project utilization: <40%
 - Time overrun in major infrastructure projects: 2–5x planned duration
 - Cost escalation: often >50–100%
4. Investment Climate Constraint
 - FDI inflow: <1% of GDP (very low compared to peers)
 - PPP pipeline weak and inconsistent
 - Legal uncertainty (tax, repatriation, dispute resolution)

1) Strategic Conclusion

1. Nepal is caught in a low-investment equilibrium trap:
 - Low capital spending
 - Weak infrastructure
 - Low private investment
 - Slow growth
 - Low revenue and low capital spending

2. Infrastructure Financing Gap

a. National Infrastructure Demand vs Supply

Indicator	Estimate
Annual infrastructure need	\$0–13 billion (~30–40% of GDP)
Current annual investment	~\$2.5–3 billion
Financing gap	~\$7–13 billion/year
Public sector share	~58%
Private sector share	<20%
PPP contribution (historical)	~\$2.5 billion (since 1990s)

b. Sectoral Investment Needs (Estimated)

Sector	Share of Need	Key Gap
Energy (Hydropower, Transmission)	~40%	Transmission bottlenecks
Transport (Roads, Airports)	~30%	Connectivity gaps
Urban Infrastructure	~15%	Rapid urbanization
Water & Sanitation	~10%	Service delivery deficits
Digital Infrastructure	Growing	Underinvestment

c. Economic Impact of Infrastructure Gap

- Reduces GDP growth by ~2–3 percentage points annually
- Increases logistics costs (one of highest in South Asia)
- Limits export competitiveness
- Constrains job creation (especially in manufacturing & tourism)

3. Capital Budget: Structure & Performance

a. Budget Composition

Category	Share
Recurrent Expenditure	80–85%
Capital Expenditure	15–20%
Financing (Debt servicing etc.)	Rising trend

b. Capital Expenditure Trends

Indicator	Status
Capital/GDP ratio	~4–5%
Growth trend	Volatile, declining in real terms
Execution timing	~40% spent in last quarter

c. Sources of Capital Budget

Source	Role	Constraint
Tax Revenue	Main source	Mostly used for recurrent spending
External Loans	Infrastructure financing	Dependent on execution capacity
Grants	Concessional support	Underutilized
Domestic Borrowing	Deficit financing	Limited fiscal space
Private/FDI	Potential growth driver	Constrained by legal/regulatory barriers

d. Infrastructure & Capital Financing Gap

Indicator	Status	Implication
Annual infrastructure need	~\$13 billion	Large unmet demand
Current investment supply	~\$2.6 billion	~80% financing gap
Government contribution	~58%	Over-reliance on public finance
PPP contribution	Limited (~\$2.5B since 1990)	Underdeveloped PPP ecosystem
Capital expenditure	~15–20% of budget	Low development priority
Capital utilization	~60–70%	Inefficiency

e. Utilization Challenges

Key Causes:

- i. Delayed procurement approvals
- ii. Weak project readiness
- iii. Frequent budget reallocations
- iv. Political interference
- v. Weak coordination across federal/provincial/local levels

f. Foreign Aid Utilization

Indicator	Status
Disbursement rate	<40%
Pipeline delays	High
Main bottlenecks	Procurement + safeguards + coordination

g. Integrated Infrastructure, Capital Budget & Investment Reform Matrix

Core Challenges	Capital Budget	Strategic Actions (Policy + Legal Reforms)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
1. Low capital expenditure priority	Capital expenditure only ~15–20% of budget; declining share of GDP	<ul style="list-style-type: none"> • Increase capital spending to 25%+ • Rebalance from recurrent investment • Introduce infrastructure pipeline 	<ul style="list-style-type: none"> • Provide concessional financing • Support fiscal restructuring 	<ul style="list-style-type: none"> • Reprioritize budget • Control recurrent expenditure growth
2. Poor capital budget utilization	Only ~60–70% utilization; end-year spending surge	<ul style="list-style-type: none"> • Link budget to project readiness • Strengthen execution systems • Digital expenditure tracking 	<ul style="list-style-type: none"> • Support PIM reforms & digital systems • Provide implementation TA 	<ul style="list-style-type: none"> • Improve spending discipline • Enforce accountability for delays
3. Weak project preparation	Projects enter budget without DPR readiness	<ul style="list-style-type: none"> • Establish Project Preparation Facility (PPF) • Standardize feasibility studies 	<ul style="list-style-type: none"> • Fund feasibility studies • Provide technical expertise 	<ul style="list-style-type: none"> • Approve only bankable projects • Build technical capacity
4. Procurement & contract inefficiency	Major contributor to under-utilization	<ul style="list-style-type: none"> • Simplify procurement laws • Standard EPC/turnkey contracts 	<ul style="list-style-type: none"> • Provide global procurement practices • Capacity building 	<ul style="list-style-type: none"> • Reform Public Procurement Act • Ensure transparency
5. Land acquisition & regulatory delays	Causes time overruns and cost escalation	<ul style="list-style-type: none"> • Single-window clearance • Pre-acquisition of land 	<ul style="list-style-type: none"> • Support land digitization systems 	<ul style="list-style-type: none"> • Reform land laws • Improve coordination
6. Weak PPP framework & limited private investment	Heavy reliance on public financing	<ul style="list-style-type: none"> • Amend PPPI Act 2019 (staffing flexibility, FCCL framework) • Strengthen PPP pipeline 	<ul style="list-style-type: none"> • Support PPP structuring • Provide risk guarantees 	<ul style="list-style-type: none"> • Strengthen Investment Board Nepal • Manage fiscal risks
7. Tax and legal uncertainty discouraging investment	Limits private capital mobilization	<ul style="list-style-type: none"> • Allow tax arbitration instead of criminalization • Eliminate retrospective taxation • Expand DTAAAs 	<ul style="list-style-type: none"> • Provide tax policy advisory • Support legal harmonization 	<ul style="list-style-type: none"> • Amend tax laws • Ensure policy stability
8. Weak foreign investment framework (FITTA constraints)	Low FDI inflow affects capital formation	<ul style="list-style-type: none"> • Streamline FITTA processes • Automatic route for NRN investment • Expand investment structures 	<ul style="list-style-type: none"> • Support regulatory reforms • Promote diaspora investment programs 	<ul style="list-style-type: none"> • Amend FITTA provisions • Facilitate entry, operation, exit
9. Limited access to finance & capital markets	Overdependence on public funds	<ul style="list-style-type: none"> • Enable local currency bonds for foreign investors • Introduce mezzanine finance, convertible debt 	<ul style="list-style-type: none"> • Support bond market development • Provide blended finance instruments 	<ul style="list-style-type: none"> • Reform NRB & SEBON regulations • Deepen capital markets
10. Investor exit barriers & regulatory ambiguity	Discourages long-term investment	<ul style="list-style-type: none"> • Clarify exit rules & lock-in periods • Enable partial exits 	<ul style="list-style-type: none"> • Provide advisory on investment frameworks 	<ul style="list-style-type: none"> • Reform NRB policies • Ensure predictable exit regime
11. Weak dispute resolution & insolvency system	Slows investment and project completion	<ul style="list-style-type: none"> • Introduce unified insolvency law • Strengthen arbitration & mediation 	<ul style="list-style-type: none"> • Support legal system modernization 	<ul style="list-style-type: none"> • Amend civil procedures • Fast-track commercial cases
12. Low aid utilization & external financing inefficiency	Foreign-funded capital utilization <40%	<ul style="list-style-type: none"> • Improve project readiness for donor projects • Strengthen coordination 	<ul style="list-style-type: none"> • Align funding with readiness • Provide implementation support 	<ul style="list-style-type: none"> • Improve absorption capacity • Reduce bureaucratic delays
13. Institutional capacity constraints	Weak execution across agencies	<ul style="list-style-type: none"> • Professionalize PMUs • Reduce staff turnover 	<ul style="list-style-type: none"> • Provide embedded experts • Training programs 	<ul style="list-style-type: none"> • Build technical workforce • Strengthen institutions
14. Untapped diaspora investment potential	Missed financing opportunity	<ul style="list-style-type: none"> • Enable NRN investment platforms • Introduce diaspora funds 	<ul style="list-style-type: none"> • Facilitate diaspora investment vehicles 	<ul style="list-style-type: none"> • Create enabling legal framework

Core Challenges	Capital Budget	Strategic Actions (Policy + Legal Reforms)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
15. Emerging areas (sweat equity, innovation financing)	Not captured in current system	<ul style="list-style-type: none"> • Legalize sweat equity framework • Mandate repatriation of gains 	<ul style="list-style-type: none"> • Support innovation ecosystem 	<ul style="list-style-type: none"> • Issue regulatory framework (gazette)

4. Core Structural Constraints

- a. Project Preparation Failure
Projects enter budget without:
 - i. Detailed Project Reports (DPRs)
 - ii. Environmental clearances
 - iii. Land acquisition completed
 Result: “Budgeted but not implementable” projects
- b. Procurement Inefficiency
 - i. Multi-layer approval process
 - ii. Frequent bid cancellations
 - iii. Weak contractor capacity
 - iv. Dispute-prone contracts
- c. Land Acquisition Bottlenecks
 - i. Legal disputes
 - ii. Compensation delays
 - iii. Fragmented land records
- d. Institutional Fragmentation

Overlapping mandates:
 - i. Ministries
 - ii. Investment Board Nepal
 - iii. Provincial governments
 Lack of a unified infrastructure pipeline
- e. Financial Sector Limitations
 - i. Banks face exposure limits
 - ii. Lack of long-term financing instruments
 - iii. Underdeveloped bond market
- f. Legal & Regulatory Constraints
From your FDI reform document:
 - i. Criminalization of tax disputes
 - ii. Unclear exit provisions
 - iii. Restrictions on investment structures
 - iv. Delays in profit repatriation

5. Integrated Reform Matrix

Challenge	Detailed Issues	Strategic Actions	DP Role	GoN Role
Capital allocation	Low share, high recurrent	Increase to 25–30%; fiscal rules	Budget support	Fiscal discipline
Budget utilization	Delays, inefficiency	Real-time monitoring dashboard	Digital systems	Enforce accountability
Project preparation	Weak DPRs	Project Preparation Facility	Fund feasibility	Approve ready projects
Procurement	Delays, disputes	EPC/turnkey contracts	Global standards	Reform procurement law
PPP ecosystem	Weak pipeline	Amend PPPI Act; risk framework	PPP advisory	Strengthen IB Nepal
Tax system	Uncertainty	Arbitration, DTAA expansion	Policy advisory	Legal reform
FDI framework	Entry/exit barriers	FITTA reform; NRN route	Investment promotion	Regulatory reform
Capital markets	Limited instruments	Bonds, mezzanine finance	Market development	SEBON/NRB reform
Exit barriers	Lock-in, ambiguity	Partial exit allowed	Advisory	Policy clarity
Dispute resolution	Slow courts	Arbitration, insolvency law	Legal TA	Judicial reform

6. Integrated Reform Matrix (Expanded)

Core Challenges	Strategic Actions (Policy Recommendations)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
1. Fragmented project selection & over-programming	<ul style="list-style-type: none"> • Prioritize high-impact, bankable projects • Establish national project pipeline • Introduce project “gatekeeping” system 	<ul style="list-style-type: none"> • Support project screening frameworks • Provide analytical tools for prioritization 	<ul style="list-style-type: none"> • Limit politically driven project approvals • Align projects with national growth strategy
2. Weak project preparation (feasibility, costing, design)	<ul style="list-style-type: none"> • Create Project Preparation Facility (PPF) • Standardize feasibility & costing • Ensure DPR readiness before budgeting 	<ul style="list-style-type: none"> • Provide technical assistance (TA) for feasibility studies • Fund project preparation facilities 	<ul style="list-style-type: none"> • Ensure only “ready projects” enter budget • Build in-house technical expertise
3. Budget fragmentation & low capital expenditure efficiency	<ul style="list-style-type: none"> • Link budget to project readiness • Introduce performance-based budgeting • Strengthen (Medium Term Expenditure Framework) MTEF 	<ul style="list-style-type: none"> • Support PIM reforms • Provide budget execution advisory 	<ul style="list-style-type: none"> • Improve capital expenditure discipline • Reduce under-spending and fund diversion
4. Procurement delays & weak contract management	<ul style="list-style-type: none"> • Simplify procurement laws • Scale e-procurement systems • Standardize contracts (EPC/turnkey) 	<ul style="list-style-type: none"> • Support procurement reform • Provide global best practices • Build contract management capacity 	<ul style="list-style-type: none"> • Reform Public Procurement Act • Ensure transparent and time-bound procurement
5. Land acquisition & environmental clearance delays	<ul style="list-style-type: none"> • Establish single-window clearance • Pre-acquire land before project approval • Fast-track environmental approvals 	<ul style="list-style-type: none"> • Provide advisory on safeguards & land systems • Support digital land systems 	<ul style="list-style-type: none"> • Reform land acquisition laws • Improve inter-agency coordination
6. Institutional capacity constraints	<ul style="list-style-type: none"> • Strengthen Project Management Units (PMUs) • Professionalize project management • Introduce performance accountability 	<ul style="list-style-type: none"> • Provide training and capacity-building programs • Deploy embedded technical experts 	<ul style="list-style-type: none"> • Build skilled human resources • Reduce frequent staff transfers
7. Weak monitoring & accountability systems	<ul style="list-style-type: none"> • Develop real-time project monitoring systems • Use digital dashboards • Strengthen audit & evaluation 	<ul style="list-style-type: none"> • Support digital MIS systems • Introduce global monitoring frameworks 	<ul style="list-style-type: none"> • Ensure transparency and public disclosure • Enforce accountability mechanisms
8. Financing constraints & limited PPP development	<ul style="list-style-type: none"> • Scale PPP frameworks • Use blended finance • Develop infrastructure bonds 	<ul style="list-style-type: none"> • Provide concessional financing • Offer guarantees & risk-sharing tools • Support PPP structuring 	<ul style="list-style-type: none"> • Strengthen PPP policy framework • Improve investment climate • Mobilize private sector participation
9. Multi-level governance & coordination issues	<ul style="list-style-type: none"> • Clarify roles across federal, provincial, local levels • Strengthen coordination mechanisms 	<ul style="list-style-type: none"> • Support federal governance frameworks • Provide institutional design support 	<ul style="list-style-type: none"> • Improve inter-governmental coordination • Define clear accountability lines

7. Legal & Investment Reform

- a. PPP Reform
 - i. Fiscal risk management unit
 - ii. Viability Gap Funding (VGF)
 - iii. Standardized concession agreements
- b. Tax Reform
 - i. Replace criminal penalties with civil resolution
 - ii. Introduce advance tax rulings
 - iii. Remove retrospective taxation
- c. FITTA Reform
 - i. Automatic approval below threshold
 - ii. Allow multi-layered investment structures
 - iii. Simplify repatriation procedures
- d. Financial Market Reform
 - i. Corporate bond market activation

- ii. Infrastructure investment trusts (InvITs)
 - iii. Blended finance mechanisms
- e. Exit Reform
- i. Define lock-in clearly (3–5 years typical)
 - ii. Allow secondary market exit
 - iii. Simplify capital repatriation

8. Financing Strategy

- a. Public Financing Reform
- Increase capital spending by:
- i. Rationalizing subsidies
 - ii. Reducing administrative overhead

b. Private Financing Mobilization

Instrument	Application
PPP	Energy, transport
Bonds	Urban infrastructure
Blended finance	Climate, green energy
Diaspora bonds	Remittance leverage

- c. Institutional Investors
- Mobilize:
- i. Employees Provident Fund (EPF)
 - ii. Citizen Investment Trust (CIT)
 - iii. Insurance funds

9. Reform Roadmap (Time-Based)

- a. Short-Term (0–2 Years)
- i. Amend tax & FITTA laws
 - ii. Launch Project Preparation Facility
 - iii. Introduce digital monitoring system
 - iv. Enable corporate bonds
- b. Medium-Term (2–5 Years)
- i. Full PPP pipeline operational
 - ii. Strengthen capital markets
 - iii. Institutional capacity building
- c. Long-Term (5–10 Years)
- i. Private sector-led infrastructure model
 - ii. Regional investment integration
 - iii. Export-oriented infrastructure

10. Role of Stakeholders

- a. Development Partners (DPs)
- i. Provide:
 - 1. Concessional financing
 - 2. Technical assistance
 - 3. Risk guarantees
 - ii. Support:
 - 1. Policy reform
 - 2. Capacity building
 - 3. PPP structuring

- b. Government of Nepal (GoN)
 - i. Lead:
 - 1. Legal reforms
 - 2. Budget prioritization
 - 3. Institutional strengthening
 - ii. Ensure:
 - 1. Policy stability
 - 2. Transparency
 - 3. Execution accountability

11. Expected Economic Impact (If Reforms Implemented)

Indicator	Impact
GDP Growth	+2–4 percentage points
FDI Inflows	2–3x increase
Job Creation	Large-scale (construction + services)
Infrastructure Delivery Time	Reduced by 30–50%
Capital Utilization	Increase to >85%

12. Final Strategic Message

Nepal does not suffer from a lack of ideas or funding sources.

The real constraint is system inefficiency across:

- a. Public finance
- b. Project execution
- c. Investment environment

13. Transformational Shift

FROM:

- a. Budget-driven projects
- b. Public-only financing
- c. Delayed implementation

TO:

- d. Pipeline-driven investment
- e. Private + public financing
- f. Time-bound delivery

14. Closing Insight

If Nepal aligns capital budget reform + infrastructure governance + investment climate, it can unlock \$10+ billion FDI annually, accelerating its transition to a high-growth, investment-driven economy.

13) The Financial Sector Strategy 2025/26-2029/30

A strong, resilient, inclusive, and progressive financial sector for sustainable economic prosperity.

Objectives

The objectives of this strategy are as follows:

1. To develop a capable and efficient financial sector to support sustainable and inclusive economic growth.
2. To maintain financial stability by making the financial system secure, strong, resilient, and trustworthy.
3. To promote good governance by ensuring transparency and accountability in the financial sector.
4. To develop and expand environmentally friendly and technology-driven financial services.
5. To develop an inclusive financial system through financial literacy, access to finance, and financial consumer protection.

Guiding Principles

To achieve the above vision and objectives, the following guiding principles have been adopted:

1. Healthy competition, good governance, and stability in the financial sector.
2. Complementary roles of the public, private, and cooperative sectors.
3. Advanced and secure use of information technology.
4. Institutional capacity strengthening of the financial sector.

5. Inclusive and environmentally friendly financial services.
6. Adoption of research, innovation, and best practices.
7. Protection of consumer interests.

Strategic Pillars

Under the guiding principles set out in this strategy, and in order to achieve its vision and objectives, four major strategic pillars have been established.

1. Sustainable and Inclusive Economic Development
2. Financial Access and Inclusion
3. Financial Literacy and Consumer Protection
4. Financial Sector Strengthening and Financial Stability

These pillars are based on financial infrastructure and capacity development and aim to promote sustainable and inclusive economic development, financial access and inclusion, financial literacy and consumer protection, as well as financial sector strengthening and financial stability.

Key Strategic Themes Across All Sectors

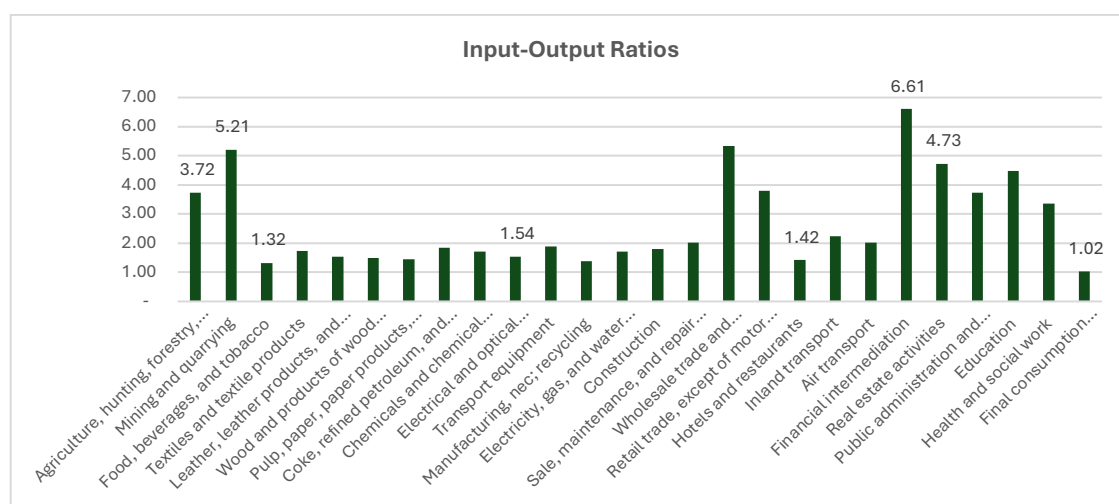
1. Financial Stability First – Risk-based supervision, macroprudential tools, and stronger capital frameworks.
2. Inclusion & Access Expansion – Targeting underserved regions and vulnerable populations.
3. Digital Transformation – Open banking, AI, cybersecurity, fintech ecosystem development.
4. Green & Sustainable Finance – Climate-aligned financing and ESG integration.
5. Governance & Transparency – Stronger disclosure, accountability, and consumer trust.

Sector-Wise Strategies and Action Points

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
1. Banking Sector (BFIs)	Strengthening resilience and productive lending	(a) Increase credit to productive sectors (agriculture, MSMEs, tourism, energy, export sectors) (b) Strengthen risk-based supervision and capital adequacy (c) Improve NPL management and recovery framework (d) Promote green and climate finance (e) Expand digital banking, e-KYC, and open banking (f) Strengthen corporate governance and fit-and-proper criteria
	Financial Stability	(a) Strengthen macroprudential tools (b) Enhance stress testing and early warning systems (c) Improve crisis management and resolution frameworks
2. Insurance Sector	Expansion and Risk Management	(a) Expand insurance coverage nationwide, especially microinsurance (b) Promote agricultural and disaster risk insurance (c) Strengthen solvency and capital frameworks (d) Enhance actuarial capacity and risk-based supervision (e) Strengthen consumer protection mechanisms
3. Capital Market (Securities Sector)	Market Deepening and Diversification	(a) Diversify instruments (corporate bonds, municipal bonds, green bonds, derivatives) (b) Encourage IPOs and SME listings (c) Develop secondary bond markets (d) Modernize trading, clearing, and settlement systems (e) Strengthen disclosure and transparency standards
	Investor Protection	(a) Enhance regulatory oversight by SEBON (b) Strengthen grievance redress systems (c) Improve financial literacy among investors
4. Non-Bank Financial Institutions (NBFIs)	Regulation and Governance	(a) Strengthen supervision of finance companies and microfinance institutions (b) Improve capital adequacy and risk management (c) Strengthen corporate governance and reporting standards
	Financial Inclusion	(a) Expand microfinance outreach to rural and underserved areas (b) Promote digital microfinance platforms
5. Cooperative Financial Institutions	Reform and Stability	(a) Strengthen regulatory and supervisory framework (b) Introduce risk-based monitoring (c) Improve transparency and reporting (d) Promote consolidation of weak cooperatives
6. Payment Systems & Digital Finance	Digital Transformation	(a) Expand digital payment ecosystem nationwide (b) Promote interoperability among payment systems (c) Strengthen cybersecurity frameworks (d) Promote QR-based and mobile payments (e) Implement digital ID and e-KYC systems

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
7. Financial Inclusion	Access Expansion	(a) Increase branchless banking and agent banking (b) Expand services to women, youth, marginalized groups (c) Promote credit guarantee mechanisms for MSMEs (d) Develop financial inclusion index and monitoring tools
8. Financial Literacy & Consumer Protection	Awareness & Safeguards	(a) Integrate financial literacy into school curricula (b) Nationwide awareness campaigns • Strengthen complaint handling mechanisms (c) Improve transparency in pricing and disclosure (d) Establish stronger consumer protection laws
9. Pension & Provident Funds	Sustainability and Governance	(a) Strengthen actuarial assessments (b) Improve fund management practices (c) Diversify investment portfolios (d) Enhance digital service delivery
10. Green & Sustainable Finance (Cross-Cutting)	Climate Resilience	(a) Develop green finance taxonomy (b) Promote ESG reporting standards • Incentivize renewable energy and climate adaptation financing (c) Mobilize international climate finance
11. Institutional Capacity & Governance (Cross-Cutting)	Regulatory Strengthening	(a) Strengthen coordination among NRB, SEBON, Insurance Authority, and Cooperative regulator (b) Capacity building of supervisors (c) Upgrade data systems and analytics (d) Align with international standards (Basel, IOSCO, IAIS)

14) Input-Output



Nepal’s Input–Output chart provide a snapshot of the economy’s production, consumption, and trade linkages. Analysis of sectoral output, household demand, exports, imports, and value-added reveals both structural strengths and vulnerabilities. These findings are critical for designing strategies that boost resilience, promote self-reliance, and diversify exports in alignment with Nepal’s long-term growth agenda.

A. Key Findings

1) Structural Strengths

- Large Output Sectors: Agriculture, Construction, Wholesale Trade, Financial Services, Retail Trade, and Public Administration dominate total output. Together they account for more than half of national production.
- Household-driven Demand: Most sectors are highly consumption-oriented, with household demand contributing 40–70% of output in services, retail, and agriculture.
- Value-Added Intensity: Sectors like Real Estate, Financial Services, Business Services, and Education show high value-added shares (60–80%), indicating strong domestic contribution with limited import dependency.

2) Vulnerabilities

- High Import Dependence: Air Transport, Petroleum, Chemicals, and Electricity show import shares exceeding 30–50% of output, exposing the economy to external price shocks.
- Weak Export Orientation: Exports remain small relative to output (generally <10%), except for Food & Beverages, Transport Services, and selected manufacturing subsectors.

- c) Low Investment Penetration: Except for Construction (which absorbs large GFCF flows), most industries show minimal investment shares—suggesting undercapitalization.
- d) Agriculture Paradox: While Agriculture contributes the largest share of output, its value-added intensity is declining, and productivity growth is weak compared to services.

B. Other Major issues

Indicator	Up to (Mid- March 2026)	Authorities Projections and observation	Why It Doesn't Translate to Improvement
Government Revenue Expenditure	Revenue Rs. 886 billion (59.88% of the target) Expenditure Rs 1,599.57 billion (53.97% of the target) Capital Expenditure 23.58%	Rs 14,800 billion (32.4% increase from actual collections)	Shortfalls due to inefficiencies; Low capital spending (under 24% of budget) limits impact on infrastructure and jobs.
Remittances	Rs. 1,638 billion (+40% corresponding previous year period)	Stable but under pressure	Supports consumption, not investment, deceleration risks reserves.
Private Sector Loans	+4.4 % y-o-y (Rs. 223.5 billion)	12% y-o-y (Monetary Policy target)	Offset by rising NPLs (4.4-4.9%), restricting expansion.
Bad Loans (NPLs)	5.42%	~4.23% target	Indicates borrower distress and banking risks, curbing credit expansion. Borrower distress erodes banking stability.
GDP Growth	Expected 2.5-3.5 %	6% target	Modest and uneven; reliant on volatile sectors, not broad-based. Uneven sectors; below pre-pandemic levels.
Forex Reserves	Rs. 3413 billion (+27.49%) from mid-July 2025	~Rs. 1,060 billion (Monetary Policy target to cover 7 months imports)	Vulnerable to remittance slowdowns/shocks. Driven by remittances; vulnerable to external shocks and declining inflows.
Liquidity	Excess absorbed Rs. 33,599.40 billion	High (Rs. 2,007-55,355 billion)	Weak demand prevents productive credit flow. Leads to low rates but weak demand prevents investment.
Interest Rates	Lending 6.9%, Deposit 3.5%, Interbank 2.75%	Lending 7.4-8.5%, Deposit 4.19-3.78%	Reflects stagnation, not vibrancy. Reflects low demand, not vibrancy; doesn't spur borrowing amid risks.
Inflation	3.62% (CPI), Food and non-food increased at 3.6% and 3.63%.	5-8% (est.), Food and nonfood likely to spikes 10-15.99% and 10-15%	Signals weak activity; volatility affects poor. Food prices still pressure vulnerable groups.

Recent macroeconomic indicators up to mid-March 2026 suggest that, while Nepal maintains a degree of short-term stability, underlying structural inefficiencies continue to constrain meaningful economic improvement.

Fiscal performance remains below expectations. Government revenue has reached Rs. 886 billion, representing 59.88% of the annual target, while total expenditure stands at Rs. 1,599.57 billion (53.97% of the target). Notably, capital expenditure remains critically low at 23.58% of the allocated budget. Despite projections to increase revenue to approximately Rs. 1,480 billion (a 32.4% rise), persistent inefficiencies in revenue mobilization and delays in capital spending continue to weaken the government's ability to stimulate economic activity, generate employment, and deliver infrastructure outcomes.

External sector stability continues to be supported by strong remittance inflows, which reached Rs. 1,638 billion, reflecting a 40% year-on-year increase. However, this inflow remains predominantly consumption-driven, with limited channeling into productive sectors. While projections indicate relative stability, emerging pressures—including potential declines in outmigration—pose risks to reserve sustainability and external sector resilience.

Monetary indicators point to weak credit expansion despite ample liquidity. Private sector lending has grown by only 4.4% year-on-year (Rs. 223.5 billion), significantly below the 12% monetary policy target. At the same time, non-performing loans have risen to 5.42%, exceeding the target threshold of approximately 4.23%. This reflects increasing borrower distress and heightened financial sector risks, which in turn constrain banks' lending capacity and risk appetite.

Economic growth remains subdued, with GDP projected at 2.5–3.5%, well below the 6% target. The recovery is uneven and largely dependent on a narrow set of sectors, indicating the absence of broad-based economic momentum and continued vulnerability to sector-specific shocks.

Foreign exchange reserves have increased significantly to Rs. 3,413 billion (up 27.49% since mid-July 2025), comfortably exceeding the monetary policy benchmark required to cover seven months of imports. However, this strength is largely remittance-driven, leaving the external position exposed to potential shocks arising from global economic conditions and fluctuations in migrant income flows.

Liquidity conditions further highlight structural imbalances. The central bank has absorbed excess liquidity amounting to Rs. 33,599.40 billion, yet this has not translated into increased productive investment. Weak credit demand continues to limit the transmission of monetary easing into real sector growth. Interest rates remain low—lending at 6.9%, deposit at 3.5%, and interbank at 2.75%—not as a reflection of strong macroeconomic fundamentals, but due to subdued business confidence and limited borrowing appetite.

Inflation has remained contained at 3.62%, with food and non-food inflation at 3.6% and 3.63%, respectively—below the projected range of 5–8%. While this suggests price stability, it also reflects weak aggregate demand. At the same time, volatility in food prices continues to pose risks to vulnerable populations, with potential spikes in food and non-food inflation estimated in the range of 10–15%.

Overall, the current macroeconomic environment reflects a pattern of stability without momentum. Key indicators—while not signaling immediate distress—fail to translate into robust growth due to structural constraints, weak investment demand, and limited effectiveness of fiscal and monetary transmission mechanisms. Addressing these challenges will require coordinated policy efforts focused on improving capital expenditure efficiency, strengthening financial sector resilience, and redirecting resources toward productive sectors of the economy.

A. Policy Priorities

1. Enhancing Self-Reliance

- a. Economic recovery: The recent loss of public and private assets due to political unrest and flash floods has underscored the urgency of rebuilding administrative systems, restoring private sector confidence, and addressing critical infrastructure needs.
- b. Energy Security: Prioritize domestic hydropower and renewable generation to reduce import dependency in petroleum and electricity.
- c. Chemical & Fertilizer Industries: Develop localized production capacity to reduce reliance on imports critical for agriculture and manufacturing.
- d. Transport Linkages: Invest in domestic maintenance and aviation service facilities to reduce the foreign exchange drain from air transport.

2. Export Diversification

- a. Agro-processing and Food Industries: Strengthen value chains in high-potential products (tea, coffee, spices, processed food) for regional markets.
- b. Service Exports: Expand ICT, business services, and higher education exports, leveraging Nepal’s skilled youth.
- c. Tourism & Air Transport: Position aviation and hospitality as bundled export services, supported by quality and regulatory upgrades.

3. Investment Mobilization

- a. Infrastructure-focused Capital Formation: Channel GFCF into construction, logistics, and energy infrastructure to crowd in private investment.
- b. Alternative Investment Funds (AIFs): Expand capital market instruments to attract diaspora financing into productive sectors.
- c. Sector-specific Incentives: Introduce fiscal and credit support for industries with high value-added and export potential.

B. Strategic Recommendations

Priority Area	Recommended Action	Expected Impact
Economic recovery	Rebuilding administrative systems, restoring private sector confidence, and addressing critical infrastructure needs.	Expected Government Debts requirement 12% of GDP for reconstruction (excluding private sector debts demand)
Energy & Petroleum	Scale hydropower, introduce biofuels, reduce petroleum imports	Lower trade deficit, energy security
Manufacturing	Develop agro-processing, chemical & fertilizer plants	Higher self-reliance, export base expansion
Services	Promote ICT, education exports, health tourism	Diversified export portfolio
Agriculture	Boost productivity through inputs, irrigation, and storage	Reduce food imports, improve food security
Investment Climate	Expand blended finance, AIFs, PPPs	Mobilize private and diaspora capital
Trade Policy	Negotiate market access under NTTP and SAFTA	Enhance export competitiveness

Nepal's input-output structure highlights a household-driven, import-sensitive economy with limited export diversification. Strategic reforms must focus on reducing import dependency in critical sectors, expanding export-ready industries, and mobilizing investment for productive transformation. A coordinated push across energy, agro-processing, services, and infrastructure will create resilience and unlock Nepal's growth potential.

2) The proposed Alternative Investment Fund (AIF) Act and Nepal Development Fund

The proposed Alternative Investment Fund (AIF) Act seeks to establish a sovereign-backed financing institution to mobilize long-term capital for Nepal's large-scale development and infrastructure projects. With an authorized capital of Rs. 100 billion and an initial paid-up capital of Rs. 25 billion, the Fund will be structured with majority ownership (51%) by the Government of Nepal, complemented by contributions from institutional investors such as the Employees' Provident Fund, Citizens' Investment Trust, Social Security Fund (25%), and insurance companies (24%). Over time, the state's shareholding will gradually dilute to encourage greater private and foreign participation. The AIF is designed to bridge the country's vast financing gap, as Nepal requires investments exceeding Rs. 100 trillion in the coming decade, while current annual flows remain limited to Rs. 2–3 trillion. To achieve this, the Fund will mobilize resources through equity, debt, blended finance instruments, bonds, debentures, guarantee schemes, pooled "fund of funds" models, and a dedicated Remittance Investment Fund targeting NRN and migrant savings. Investments will prioritize sectors such as energy generation, transmission and distribution, transport infrastructure (roads, railways, tunnels, airports, ropeways), industrial zones and SEZs, urban development, IT and digital economy projects, tourism, and other high-return ventures with strong employment and economic multipliers. However, the Fund will exclude projects below Rs. 1 billion, those with weak financial viability, or those involving conflicts of interest.

The AIF will operate as an autonomous statutory body with a Board of Directors chaired by the Finance Secretary and include representatives from key ministries, institutional investors, insurers, and independent experts, while its operations will be managed by a Chief Executive Officer supported by specialized subcommittees on investment, audit, and risk management. Strong governance, due diligence, conflict of interest disclosure, and adherence to ESG principles will guide its operations. Strategically, the AIF is envisioned as a transformative financing mechanism to complement traditional banking, reduce Nepal's infrastructure financing gap, attract private and foreign capital including NRN investments, and support national priorities such as the 16th Plan's target of generating 40,000 MW of electricity. Ultimately, the Act aims to provide Nepal with a sustainable, long-term investment platform to drive economic growth, employment generation, and structural transformation.

3) Briefing Note for Sovereign Rating

Nepal is currently rated **'BB-'** with a **Stable Outlook** by Fitch Ratings, placing it in the speculative category but indicating a stable capacity to meet its external obligations. In its March 2026 update, Fitch highlights that the post-election political landscape—particularly the parliamentary majority secured by the Rastriya Swatantra Party—has eased near-term political risks by reducing the likelihood of frequent government changes and policy discontinuity. This development is expected to improve policy predictability and create a more conducive environment for reform implementation, which has historically been a major constraint in Nepal's sovereign credit profile.

Despite this improvement, Fitch emphasizes that the trajectory of Nepal's sovereign rating will depend heavily on the government's ability to translate its strong mandate into effective policy execution. While Nepal benefits from key structural strengths such as relatively low and concessional public debt, comfortable foreign exchange reserves, and steady remittance inflows that support external stability, these are offset by persistent structural weaknesses. These include governance challenges, weak institutional capacity, low capital expenditure efficiency, and limited economic diversification. Additionally, emerging risks in the financial sector, particularly rising non-performing loans, could pose challenges if not managed proactively.

The broader macroeconomic environment also presents vulnerabilities, as Nepal remains highly dependent on remittances and is exposed to external shocks, including global economic fluctuations and regional labor market disruptions. Limited export capacity and a narrow industrial base further constrain long-term growth potential. As a result, while the immediate outlook has improved due to reduced political uncertainty, sustained progress in governance reforms, fiscal management, and structural transformation will be critical for any future rating upgrade.

Conversely, failure to implement reforms or a deterioration in fiscal or external indicators could exert downward pressure on the rating. Overall, the current assessment underscores that Nepal stands at a pivotal juncture, where political stability offers an opportunity to strengthen economic fundamentals, but the realization of this potential will depend on credible and consistent policy delivery.

A. Nepal Fiscal Risk Statement and Strategies 2025

The Fiscal Risk Statement (FRS) 2025, published by the Ministry of Finance, highlights potential deviations in fiscal outcomes due to macroeconomic shocks, specific contingent liabilities, and institutional weaknesses. It uses the IMF Fiscal Risk Assessment Tool (FRAT) to quantify risks and propose mitigation strategies.

1. Macroeconomic Risks

Indicator	Avg. Value	Std. Dev. / Volatility	Fiscal Impact	Risk Level
GDP Growth	4%	±2.7 pp	−0.7% of GDP revenue loss; +3.2 pp debt increase	Medium
Inflation	6.9%	±2.2%	Medium (higher spending, slightly higher revenues)	Medium
Interest Rate	7–8% (domestic)	~1% change sensitivity	+0.2% of GDP cost if rates rise 1%	Low

Exchange Rate	4.3% volatility	Moderate	Limited (due to concessional debt)	Low
Debt-to-GDP	22.7% (2016/17) → 42.7% (2023/24)	Projected ~50% by 2028/29	Stable; low distress risk	Low

Mitigation Tools: borrowing limits (5.5% of GDP for domestic debt), medium-term expenditure framework (MTEF), fiscal rules, debt ceilings, stabilization funds.

2. Specific Risks

i) Forecasting Errors

Indicator	Forecast Error	% of GDP	Risk Assessment
Tax Revenue	NPR 550 bn/yr	7.2%	High, Probable
Foreign Grants	~50% over-forecast	1.5–2%	Medium, Probable

Mitigation: better analytics, independent reviews, fiscal buffers.

ii) Natural Disasters

Event	Frequency	Fiscal Cost	Risk Assessment
Floods/Landslides	Frequent	Up to 2% of GDP	Low Impact, Probable
Earthquakes	Infrequent	22.8% of GDP (2015)	High Impact, Possible

Mitigation: disaster funds, insurance, resilient infrastructure, contingency financing.

iii) Sub-National Governments (SNGs)

Risk Indicator	Value	Notes
Dependence on federal transfers	>75% revenue	Structural
Spending execution gaps	Significant underspending	Development delays
Outstanding arrears	NPR 2.7 bn (provinces), NPR 7.3 bn (local)	Fiscal burden

Mitigation: Sub-National Government (SNG) Fiscal Risk Monitoring System, Sub-national Treasury Regulatory Application (SuTRA), better Public Financial Management (PFM), borrowing limits.

iv) Government Guarantees

Item	Value	% of GDP	Notes
Outstanding Guarantees	NPR 51.6 bn	0.9%	Mostly Nepal Airlines
Potential Calls	NPR 7 bn/yr	0.1%	Low likelihood

Mitigation: 1% of GDP ceiling, guarantee fees, monitoring, contingency reserves.

v) Public Enterprises (PEs)

Item	Value	% of GDP	Notes
Total Assets	NPR ~3,000 bn	51%	Large footprint
Total Liabilities	NPR ~1,950 bn	33%	High exposure
Net Fiscal Flow (2 yrs)	NPR 102.5 bn positive	-	Mixed performance
Loss-Making PEs	Nepal Airlines, NEA (intermittent)	Medium risk	

Mitigation: restructuring, PPP revival, stronger governance, digital reporting.

vi) Public-Private Partnerships (PPPs)

Indicator	Status	Risk
Active PPPs	Limited portfolio	Low
Risks	Weak structuring, capacity gaps, disclosure issues	Emerging

Mitigation: PPP law, transparent procurement, registry, risk-based fees.

3. Institutional Risks

Risk Factor	Assessment	Mitigation
Forecasting Errors	High impact, probable	Strengthen models, independent review, fiscal buffers
Public Financial Management (PFM)	Weak execution, arrears	PFM reforms, digital systems
Intergovernmental Coordination	Gaps in fiscal rules	Harmonized frameworks, monitoring

4. Consolidated Risk Matrix

Risk Category	Impact	Likelihood	Overall Rating
GDP Volatility	Medium	Possible	Moderate
Inflation	Medium	Possible	Moderate
Interest Rate	Low	Possible	Low
Exchange Rate	Low	Remote	Low
Debt	Low	Remote	Low
Forecast Errors	High	Probable	Critical
Floods/Landslides	Low	Probable	Moderate
Earthquakes	High	Possible	Critical
Sub-National Governments	Low	Low	Low
Guarantees	Low	Remote	Low
Public Enterprises	Medium	Possible	Moderate
PPPs	Low	Remote	Low

5. Fiscal Risk Statement 2025 – Nepal

Risk Area	Key Challenges	Policy & Structural Reforms	Lead Agency	Success Metrics (by FY26/27)
Macroeconomic & Debt	GDP growth volatility (± 2.7 pp), inflation $\sim 7\%$, debt rising to $\sim 50\%$ GDP	Amend Financial Procedures and Fiscal Responsibility Act 2019 with fiscal rules & buffer fund Annual The Medium-Term Debt Management Strategy (MTDS) with risk limits Extend yield curve, smooth redemptions	MoF, NRB, Parliament	Buffer $\geq 0.5\%$ GDP Debt stable $\leq 50\%$ GDP

Risk Area	Key Challenges	Policy & Structural Reforms	Lead Agency	Success Metrics (by FY26/27)
Forecasting & Institutional	Tax forecast error NPR 550 bn (7.2% GDP); optimistic grants	Create Independent Fiscal Council Publish forecast error report Use real-time digital tax/customs data	MoF, IRD, NPC	Tax forecast error <5% (MAPE) Public forecast reports published
Natural Disasters & Climate	Floods (~2% GDP), Earthquakes (2015: 22.8% GDP loss)	Adopt Disaster Risk Financing (DRF) strategy (buffers, Catastrophe Deferred Drawdown Option (Cat-DDO), insurance) Climate-proof all new projects Disaster contingency fund	MoF, National Disaster Risk Reduction and Management Authority (NDRRMA), NPC	Emergency funds disbursed <14 days 80% projects climate-screened
Sub-National Governments	High transfer dependence, arrears (NPR 10 bn+)	Issue uniform SNG fiscal rules & debt registry Roll out SuTRA 2.0 with commitment controls	MoF, Financial Comptroller General Office (FCGO), Ministry of Federal Affairs and General Administration (MoFAGA)	Arrears <0.1% GDP Capital execution >85%
State-Owned Enterprise (SOE) & Contingent Liabilities	SOE liabilities 33% GDP, weak governance; guarantees NPR 51.6 bn	Pass SOE Governance Act (boards, IFRS audits) Restructure loss-making SOEs (Nepal Airlines) Guarantee ceiling 1% GDP, risk-based fees	MoF Public Enterprises Division (PE Division), IBN	>90% SOEs NFRS-audited Net fiscal flow positive Guarantee provisions ≥60% of expected losses
PPPs & Public Investment	Weak structuring, hidden liabilities	Amend PPP Act with Value for Money (VfM) & affordability caps Establish PPP Unit & Project Preparation Facility (PPF)	IBN, MoF, NPC	100% PPPs VfM-tested PPP liabilities <0.5% GDP

B. World Bank (April 2026) Economic Update

According to the World Bank's April 2026 update, Nepal's economic growth is projected to moderate significantly to around 2.3% in FY 2025/26, down from 4.6% in FY 2024/25. This slowdown is primarily attributed to the combined effects of the ongoing Middle East conflict and the lingering impacts of domestic disruptions, including the September 2025 unrest.

The external environment is expected to weigh on Nepal through multiple channels, including higher energy prices, weaker tourism activity, and potential risks to remittance inflows. The services sector—particularly tourism—is projected to be the most affected, while private investment remains subdued due to weakened business confidence.

Despite the slowdown in growth, Nepal's external sector remains relatively strong. The current account surplus is expected to widen, supported by continued remittance inflows, and foreign exchange reserves are projected to remain above the minimum adequacy threshold. However, this stability is largely consumption-driven and masks underlying structural weaknesses, including low investment and limited export diversification.

On the fiscal side, the deficit is projected to increase to around 2.8% of GDP in FY26, driven by higher spending needs related to reconstruction, elections, and economic support measures, alongside slower revenue growth due to weaker imports and reduced activity in key sectors such as tourism and insurance. Public debt is expected to rise moderately but remain within manageable levels. (World Bank)

Inflation is expected to remain broadly contained within the central bank's target range, supported by moderating global commodity prices, although food price pressures may persist due to domestic supply constraints.

Looking ahead, growth is expected to recover to around 4–4.7% in FY27–FY28, supported by reconstruction activities, hydropower expansion, and election-related spending.

However, the outlook remains subject to significant downside risks, including prolonged geopolitical tensions, natural disasters, political uncertainty, rising financial sector stress, and continued structural constraints such as low foreign investment and weak project execution capacity. (World Bank)

Overall Assessment:

The World Bank highlights that Nepal's economy is entering a phase of slower, fragile growth, where short-term external stability coexists with deeper structural weaknesses. Sustained recovery will depend on improving investment conditions, strengthening fiscal execution, and reducing vulnerability to external shocks.

C. World Bank November 2025 Economic Performance and Outlook

1. Recent Developments (FY25)

1. **Economic Growth:** Real GDP growth picked up to 4.6% in Fiscal Year 2025 (FY25), recovering from 3.7% in FY24. This rebound was driven primarily by industrial sectors like manufacturing, construction, and hydropower generation.
2. **Inflation and Monetary Policy:** Headline inflation declined to 4.1% in FY25, falling below the Nepal Rastra Bank's (NRB) 5% ceiling.
3. **External Sector and Reserves:** The current account surplus widened significantly to 6.7% of GDP in FY25, driven by record-high remittance inflows (28.2% of GDP). This contributed to robust foreign exchange reserves, which reached an import coverage of 15.4 months.
4. **Fiscal and Financial Status:** The fiscal deficit narrowed to a nine-year low of 2% of GDP. However, the domestic financial sector saw Non-Performing Loans (NPLs) climb to 4.6%.

2. Economic Outlook and Challenges (FY26-FY27)

1. **Projected Growth Slowdown:** Real GDP growth is projected to slow sharply to 2.1% in FY26 in the baseline scenario, reflecting the impact of recent unrest and heightened political and economic uncertainty.
2. **Recovery:** Growth is expected to recover to 4.7% in FY27, supported by reconstruction efforts.
3. **Fiscal Position:** The fiscal deficit is projected to widen to 2.8% of GDP in FY26, due to increased spending for reconstruction, elections, and outstanding liabilities.
4. **Debt:** Public debt is projected to increase to 45.2% of GDP in FY26 but is expected to stabilize thereafter, keeping Nepal at low risk of debt distress.

3. Key Downside Risks and Upside Potential

The outlook is subject to mixed risks, which include:

Key Downside Risks

1. **Climate and Political Instability:** A rising frequency of natural disasters and persistent political uncertainty could continue to weigh heavily on economic activity.
2. **Financial Sector Strain:** The domestic financial sector is vulnerable to higher Non-Performing Loans (NPLs).
3. **International Compliance Issues:** Nepal's continued presence on the Financial Action Task Force (FATF) Grey List poses a risk to international financial dealings and investor confidence.
4. **Infrastructure Damage:** Damage to public infrastructure from natural disasters or other factors could lead to disruptions to essential public services and core administrative processes.

1. Upside Potential

A stronger economic recovery is possible if a successful political transition occurs and the government implements sustained macroeconomic management policies. These factors could significantly strengthen investor sentiment and support economic growth.

4. Special FOCUS: Reforms to Accelerate Public Investment

The special focus chapter addresses the structural challenge of persistently low execution of infrastructure projects, which has constrained growth and led to a deterioration of the public capital stock. Consolidated capital spending stood at only 7.9% of GDP in FY24, below the country's estimated infrastructure needs of 10%–15%.

The report identifies and provides recommendations for key bottlenecks in Public Investment Management (PIM) at the federal level:

1. **Project Readiness:** Long delays in processes like:
 1. **Tree Cutting Clearances:** Typically take 22–24 months, partly due to manual surveys and poor quality of Environmental Impact Assessments (EIAs).
 2. **Land Acquisition:** Takes an average of two to three years due to inefficient processes and valuation disputes.

2. Budget Execution: Capital expenditure execution remains sluggish and is heavily concentrated at the end of the fiscal year (over half of capital spending occurred in the final quarter in FY25), raising concerns about project quality.
3. Procurement: Nepal has the highest average procurement processing time in the South Asia Region, taking an average of 231 business days for World Bank-funded contracts.

The report recommends implementing the reforms proposed by the High-Level Economic Reform Commission to address these structural issues, focusing on accelerating public capital investments, simplifying tax policy, and tackling corruption.

D. 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) outlines a strategic vision focused on two major development challenges: generating employment-driven growth and building resilience to natural disasters and climate change. The CPF identifies key areas for intervention under four broad policy domains: fiscal policy, monetary policy, industrial policy, and health.

Under fiscal policy, the CPF highlights that Nepal’s public finances remain vulnerable, with nearly 45% of tax revenue derived from trade taxes, making it highly susceptible to external shocks. The fiscal deficit peaked near 6% of GDP in FY2023, largely due to import restrictions. The CPF recommends broadening the tax base, strengthening public financial management, and ensuring debt sustainability, with the current debt standing at about 43% of GDP (mostly concessional). It also promotes improved capital expenditure effectiveness and fiscal decentralization, especially at the provincial and local levels, through collaboration between the World Bank and ADB.

On monetary policy, the CPF supports macroeconomic stability and advocates for more flexible exchange rate management and enhanced monetary transmission mechanisms. Despite Nepal Rastra Bank’s inflation target of 6.5%, actual inflation has remained persistently above this level. The CPF emphasizes strengthening financial infrastructure, including secured lending frameworks and credit reporting systems—to bolster investment and consumption.

Regarding industrial policy, Nepal faces stagnation in the manufacturing sector and weak export performance, primarily due to high tariffs, regulatory hurdles, and logistical inefficiencies. The CPF stresses the need to improve the business environment, particularly through reforms aimed at attracting foreign direct investment (FDI) and fostering SME growth. It also promotes sectoral support for tourism, hydropower, digital industries, and urban development, along with initiatives to boost industrial productivity through regulatory simplification and infrastructure development. The World Bank and the International Finance Corporation (IFC) are pushing for private capital mobilization and public-private partnerships (PPPs), particularly in the transport, logistics, and tourism sectors.

In the health sector, although Nepal has made progress in maternal and child health, persistent issues of stunting and health inequality remain. Health investments under the CPF are relatively limited but strategically targeted. They focus on developing shock-responsive health systems to address climate-related and disaster risks and improving service delivery coordination across the three tiers of government. Additionally, the CPF aims to enhance human capital through integrated efforts in health, education, and nutrition.

The World Bank’s Country Partnership Framework (CPF) for Nepal also places strong emphasis on four interconnected priority areas: climate change, education, employment, and poverty reduction—each critical for achieving long-term resilience and inclusive development. In the area of climate change, Nepal is identified as the second most vulnerable country to multi-hazard mortality risks. The

CPF builds on the findings of the Country Climate and Development Report (CCDR) and emphasizes the development of green infrastructure, including roads, energy, and urban systems. It also promotes sustainable hydropower and regional energy trade, as well as climate-smart agriculture, forestry, and disaster risk financing. A key objective is to reduce exposure to air pollution and enhance household and community climate resilience.

On education, despite improved access, Nepal continues to face challenges related to learning outcomes, skill mismatches, and gender disparities. The CPF supports foundational learning and digital skills, along with the reform of Technical and Vocational Education and Training (TVET) to improve youth employability. It also focuses on strengthening the school-to-work transition and enhancing subnational education delivery systems. In the area of employment, the CPF highlights that 82% of employment in Nepal remains informal, with youth not in education, employment, or training (NEET) at 35%, and even higher at 47% for young women. Under its “More and Better Jobs” pillar, the CPF promotes labor market reform, MSME growth, and improved access to finance. It also emphasizes support for gender-inclusive employment in sectors such as tourism, digital, and care work, while encouraging apprenticeships and demand-driven skill development programs.

Regarding poverty reduction, Nepal has made remarkable progress in reducing extreme poverty (measured at US\$2.15/day), which declined from 55% in 1995 to just 0.37% in 2022. However, using the national poverty line of 2023, poverty still affects 20% of the population, with disproportionately high rates in Sudurpashchim (34.2%) and Karnali (26.7%) provinces. The CPF prioritizes targeted interventions, robust social protection systems, and jobs-led growth, particularly aimed at marginalized groups. While remittances have played a key role in poverty alleviation, they have not led to sustained productive employment, highlighting the need for deeper structural reforms.

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

E. The Sixth Review of the IMF and Government of Nepal’s Commitment

The comparison between the 2025 IMF Staff Report on ECF Extension and the 2026 Staff-Level Agreement (7th Review and Article IV Consultation) shows a clear evolution in the IMF’s assessment of Nepal—from a program-extension and risk-management phase toward a transition phase focused on sustaining reforms and reviving growth. In 2025, the IMF emphasized the need to extend the ECF program due to delays in reform implementation, highlighting fiscal pressures, weak capital expenditure execution, and financial sector vulnerabilities. By 2026, the IMF acknowledged that most quantitative targets had been met and key reforms were progressing, but it shifted concern toward slowing growth (around 3–3.5 percent), weak private sector confidence, and execution gaps, despite low inflation (around 2.4 percent in early 2026).

Macroeconomically, Nepal’s recovery trajectory remains uneven. Growth improved from around 2 percent in FY2023 to about 4.3 percent in FY2025, but the IMF now expects moderation due to domestic uncertainty and investment delays. Inflation has declined and remains within target, while external stability is supported by strong remittance inflows and adequate reserves. However, revenue mobilization remains modest and capital spending continues to underperform, constraining growth momentum.

From a policy perspective, the IMF’s recommendations have shifted noticeably. In 2025, the focus was on macroeconomic stabilization—fiscal discipline, strengthening revenue administration, and addressing banking sector risks. In 2026, the emphasis has moved toward growth-oriented reforms, including accelerating capital expenditure, improving governance, and restoring private sector confidence. A key structural priority highlighted in 2026 is the amendment of the Nepal Rastra Bank (NRB) Act, alongside continued financial sector reforms such as loan portfolio reviews and Basel alignment.

At the same time, governance reforms have evolved from being program conditionality (2025) to becoming a central pillar for growth and investment climate improvement (2026). The IMF also places stronger emphasis on political stability and policy continuity following recent economic disruptions and the 2026 political transition, recognizing that uncertainty has delayed investment decisions and weakened confidence.

Comparative Macroeconomic Indicators (IMF Assessment)

Indicator	2025 IMF Assessment	2026 IMF Assessment
GDP Growth	~4.3% recovery, below potential	Slowing to ~3–3.5%

Inflation	~4% within NRB target	~2.4% (low demand-driven)
Growth Outlook	Recovery phase	Moderation with risks
Fiscal Performance	Revenue improving, but weak spending execution	Revenue modest, capital spending revised downward
Financial Sector	Rising vulnerabilities (NPLs, supervision gaps)	Continued risks; reforms ongoing
External Sector	Strong remittance support	Stable, but demand remains weak

Key Risks, Recommendations, and Commitments

Area	Key Risks (IMF)	IMF Recommendations	Government / NRB Commitment
Growth & Investment	Slowing growth; weak private sector confidence	Accelerate capital expenditure; improve investment climate	Commitment to improve project execution and policy stability
Fiscal Sector	Weak revenue growth; under-execution of budget	Strengthen revenue mobilization; improve spending efficiency	Continued fiscal discipline and PFM reforms
Financial Sector	Rising NPLs; banking sector vulnerabilities	Strengthen supervision; complete asset quality review	NRB implementing loan portfolio review and regulatory tightening
Monetary Policy	Weak credit demand; low transmission	Maintain accommodative but cautious stance	NRB adopting flexible and expansionary policy stance
Governance & Institutions	Delays in structural reforms; policy uncertainty	Pass NRB Act amendment; strengthen regulatory frameworks	Commitment to legal and institutional reforms under ECF
Political Economy	Post-election uncertainty affecting confidence	Ensure policy continuity and reform momentum	New government expected to maintain reform agenda

Overall Assessment

In summary, the IMF’s assessment of Nepal transitions from a “completion of reform program” narrative in 2025 to a “post-program sustainability and growth challenge” narrative in 2026. While macroeconomic stability has improved—with lower inflation, stable external balances, and broadly satisfactory program performance—the IMF highlights that the next phase of Nepal’s economic reform must focus on execution, institutional strengthening, and restoring private sector confidence. The success of this transition will depend heavily on the government’s ability to sustain reforms beyond the ECF program and on the Nepal Rastra Bank’s continued efforts to strengthen financial sector stability and regulatory credibility.

F. ADB Nepal Outlook (April 2026)

The Asian Development Bank projects Nepal’s economic growth to slow to around 2.7% in FY 2025/26, down from 4.6% in the previous fiscal year, reflecting both external and domestic pressures.

The slowdown is primarily driven by political uncertainty, the lingering effects of domestic unrest, and the ongoing Middle East conflict, which is affecting oil prices, tourism, and remittance inflows—key pillars of Nepal’s economy.

All major sectors are expected to weaken. Agriculture is impacted by weather-related shocks and lower paddy production, while industry and construction face delays in capital spending and weak investor confidence. The services sector—especially tourism, trade, and real estate—is also projected to decelerate due to reduced demand and external disruptions.

Despite the growth slowdown, the external sector remains relatively strong, with the current account surplus projected to widen to around 7.2% of GDP, supported by moderate remittance inflows and exports. However, this is partly offset by rising import costs, particularly due to higher global oil prices, and potential losses in tourism earnings.

Inflation is expected to remain moderate at around 3.7% in FY 2026, rising to about 4.5% in FY 2027 as domestic demand gradually recovers.

Looking ahead, growth is projected to rebound to around 5% in FY 2026/27, supported by improved domestic demand, recovery in tourism, and increased hydropower exports.

However, the outlook remains highly uncertain, with key downside risks including prolonged geopolitical tensions, volatility in oil prices, weakening remittances (particularly from Gulf countries), weak capital expenditure execution, financial sector vulnerabilities, and climate-related shocks.

Overall Assessment:

ADB characterizes Nepal’s economy as entering a short-term slowdown with potential recovery, where external stability persists but growth is constrained by structural weaknesses, low investment, and high exposure to external shocks.

G. ADB Country Partnership Strategy. 2025-2029:

1. ADB Country Partnership Strategy. 2025-2029 Key Issues in Nepal’s Development Context Nepal’s economy is significantly remittance-driven, with remittances contributing approximately 25% of GDP. While this inflow supports household consumption and reduces poverty, it also discourages domestic production and undermines the competitiveness of the export and manufacturing sectors. This over-reliance has made the economy vulnerable to external shocks and limited long-term sustainable growth.
2. The country also suffers from weak private sector competitiveness. High tariffs and logistics costs, coupled with a strong real exchange rate, have created an unfriendly business environment. Moreover, around 50% of enterprises operate informally, limiting access to finance, regulatory protection, and productivity-enhancing opportunities.
3. Agricultural productivity remains low due to fragmented land holdings, insufficient irrigation coverage, poor rural infrastructure, and limited connections between farming and agribusiness markets. This has constrained income growth in rural areas and reduced the sector’s potential to support broader economic development.
4. There are also significant gaps in education and skilled labor. The current education system, particularly Technical and Vocational Education and Training (TVET), is misaligned with market needs, leading to a mismatch in supply and demand for labor. Additionally, basic skill deficits continue to hinder workforce readiness and employability.
5. At the institutional level, Nepal faces challenges in administrative capacity, especially at the sub-national level. The transition to a new federal governance structure has exposed weaknesses in coordination, planning, and service delivery across provincial and local governments.
6. Lastly, geographic and climate vulnerabilities pose persistent risks. Nepal’s landlocked status increases trade costs, while its exposure to natural disasters—such as earthquakes and floods—threatens economic resilience and development gains. Addressing these multifaceted challenges is critical for achieving sustainable and inclusive growth.

7. Critical Review and Suggested Actions for Nepal’s Development Agenda

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

- a. To address the pressing development challenges, Nepal must take targeted actions across key policy and implementation areas. A primary concern is the country’s limited implementation capacity at the sub-national level. Strengthening local financial management systems, improving service delivery, and enhancing project implementation capabilities are essential to ensure effective federalism and accelerate development outcomes.
- b. Improving the private-sector environment is also critical. This requires reducing trade and regulatory barriers that hinder business activity, while expanding public-private partnerships (PPPs) beyond the traditional focus on hydropower. Sectors such as logistics and agro-processing offer strong potential for PPP-based development.
- c. In agriculture, increasing productivity and rural income demands significant investment in irrigation systems, promotion of cooperative farming models, and the expansion of rural infrastructure. In parallel, financing support for agribusinesses must be strengthened to connect farmers to markets and value chains.
- d. Nepal’s Technical and Vocational Education and Training (TVET) system must be realigned with market demand. Updating curricula to match evolving industry needs and scaling up apprenticeships and skill-upgrading programs will help close the labor market mismatch and enhance workforce readiness.

- e. To advance financial innovation, Nepal should promote the development of local currency (rupee-denominated) bond markets, boost investor confidence, and mobilize long-term capital from pension and insurance funds. These reforms can provide sustainable financing options for infrastructure and development projects.
- f. On climate action, the government must integrate climate-risk proofing into all public and private investments. Scaling up adaptation efforts—such as retrofitting infrastructure and ensuring water security, will be crucial in building long-term resilience to climate shocks.
- g. Lastly, enhancing regional trade linkages will require the development of efficient trade corridors and logistics networks with India and China. Strengthening Nepal’s alignment with regional trade bodies will further facilitate cross-border commerce and economic integration.

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.

H. Additional Areas of Focus beyond IMF, ADB, and World Bank recommendations

While the guidance from institutions like the IMF, ADB, and World Bank provides a strong foundation for economic reform in Nepal, several additional areas require targeted attention to ensure long-term resilience and inclusive development.

1. In the **financial sector**, there is a pressing need to expand access to credit, particularly through digital financial platforms. Strengthening secured transaction frameworks and modernizing payment systems will enhance financial inclusion and support private sector growth.
2. On **AML/CFT and FATF compliance**, Nepal must reinforce the capacity of the Financial Intelligence Unit (FIU-Nepal) by adopting a risk-based supervision approach. This includes stricter enforcement of Know Your Customer (KYC) norms, full disclosure of Ultimate Beneficial Ownership (UBO), and capacity building across law enforcement, prosecutors, and the judiciary to combat financial crimes effectively.
3. Following its removal from the **FATF Grey List**, Nepal must remain vigilant by improving the quality and timeliness of Suspicious Transaction Reports (STRs), and ensuring that new anti-money laundering (AML) legislation is fully aligned with global FATF standards to avoid relapse and restore global financial credibility.
4. To address **corruption and governance** challenges, the government should enforce transparency in public procurement through expanded use of the electronic Government Procurement (e-GP) platform. Streamlining land acquisition and environmental clearance processes is also crucial for accelerating infrastructure development. Moreover, prioritizing civil service reforms is necessary to enhance administrative efficiency and service delivery.
5. In tackling **human trafficking**, Nepal should expand support services for survivors and increase the presence of labor attachés in destination countries to protect migrant workers. Additionally, monitoring and regulation of recruitment agencies and brokers must be strengthened to prevent exploitation and trafficking.
6. With the rapid growth of the digital economy, **digital regulation** must be updated. This includes enacting robust cybersecurity and privacy laws, regulating digital lenders and fintech startups, and improving cybercrime enforcement mechanisms to safeguard consumers and ensure responsible innovation.
7. Lastly, a forward-looking **migration policy** should integrate labor market planning with migration strategies. Developing returnee skill certification systems and employment programs for returning migrant workers will help reintegrate talent and reduce long-term dependency on foreign labor markets.

Section 2 Market outlook

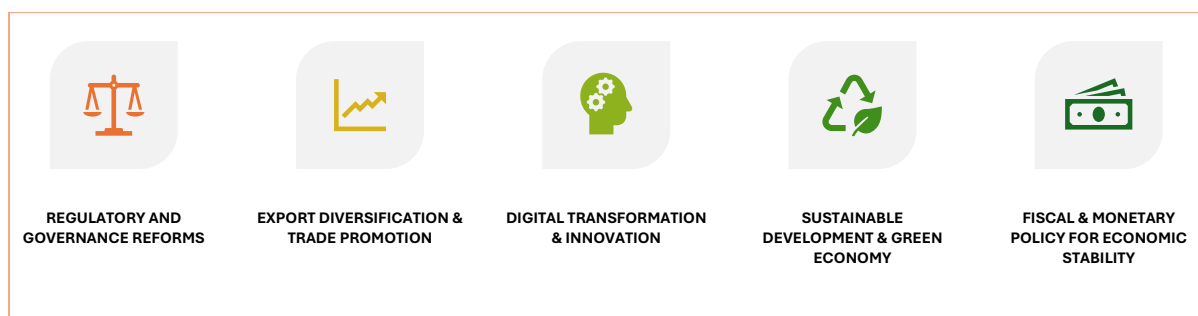
1) Growth trend

- 1) 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.

- 2) 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.
- 3) 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.
- 4) Overall, Nepal's economic recovery after the September protest and flash flood should be driven by a combination of private sector supportive fiscal and accommodative nonmonetary stance. The loss suffered by the energy sector needs proper attention, revived tourism needs some economic boost, and the reconstruction effort on damaged road infrastructure and government administrative buildings may speed up government sector demand. However, private sector confidence needs to be improved by regulatory reform in transportation and manufacturing. However, ongoing challenges in agriculture, construction, and public services may slow the growth. Structural reforms, investment in infrastructure, and productivity-enhancing measures across sectors will be essential to sustaining long-term growth.

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.

2) Strategic Plan for Nepal's Economic Growth



3) Strategies for Nepal's Economic Development

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

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

- As Nepal finds itself at a pivotal crossroads. Mounting political and 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. 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:

i) Financing Reconstruction in a Commercial Way

In light of the devastation caused during the recent protests and the limited fiscal space available to the Government, it may be worth considering an innovative financing mechanism for the timely reconstruction of damaged properties. Instead of relying exclusively on direct budgetary allocations, the Government could monetize select assets and invite private investors, both domestic and foreign, to provide upfront financing for reconstruction. The Government could then gradually repay investors over a 10–15 year horizon, with interest linked to the prevailing 365-day Treasury bond rate. Such an approach could:

- Conserve government resources for other pressing social and developmental priorities.
- Accelerate reconstruction by reducing delays often associated with lengthy procurement processes.
- Secure long-term quality, with private partners responsible for structural maintenance for at least five years.

There are precedents of similar approaches internationally:

- United Kingdom:** Public–Private Partnerships (PPPs) under the Private Finance Initiative have funded schools, hospitals, and transport infrastructure through long-term repayment models.
- India:** Cities like Pune and Ahmedabad have successfully raised municipal bonds and adopted PPP models for infrastructure, with costs recovered through government payments or user charges.
- Philippines:** Following Typhoon Haiyan, hybrid PPPs were mobilized for rapid reconstruction of public facilities.
- Kenya:** Road annuity programs enabled private contractors to finance roads, with government repayment spread over 8–10 years, benchmarked to bond rates.

A tailored model of this kind could be piloted in Nepal's reconstruction program. It would not only bridge the immediate resource gap but also strengthen public–private trust, while ensuring sustainable quality and efficiency in delivery.

- 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

- vii) Reduce over-reliance on import-based taxation by creating a fairer, growth-oriented tax regime that promotes investment and entrepreneurship.
- viii) Strengthen Public Financial Management
- ix) Improve efficiency, transparency, and targeting of government spending to maximize impact and maintain fiscal discipline.
- x) Rebuild Confidence and Stability
- xi) 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.

Industrial Classification	2077/78	2078/79	2079/80	2080/81	2081/82	2082/83		
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/26	Y-o-Y
	Q4	Q4	Q4	Q4	Q4	Q1	Q2	Trend
Agriculture, forestry and fishing	5.3	0.5	1.8	5.8	2.8	1.4	2.21	Down
Mining and quarrying	39.7	10.3	7.2	16.5	0.4	3.8	3.12	Down
Manufacturing	31.5	10.5	0.4	1.2	0.8	1.5	2.19	Down
Electricity, gas, steam and air conditioning supply	-10.6	88.4	33.2	-8.6	14.0	14.9	22.74	Up
Water supply; sewerage, waste management	-1.0	8.4	4.0	1.0	1.9	1.1	0.55	Down
Construction	42.6	7.0	13.8	-8.9	2.7	3.3	2.86	Down
Wholesale and retail trade; repair of motor vehicles & motorcycles	11.5	40.6	6.2	1.8	5.6	3.9	4.11	Up
Transportation and storage	7.3	-4.6	2.7	11.4	10.1	1.4	9.65	Down
Accommodation and food service activities	126.7	29.1	27.1	13.8	3.9	2.1	5.18	Down
Information and communication	12.6	7.4	1.6	-1.6	4.8	2.1	3.05	Down
Financial and insurance activities	6.7	11.2	-17.3	8.6	17.2	7.1	12.51	Up
Real estate activities	2.8	1.7	2.9	2.4	2.7	1.8	1.84	Down
Professional, scientific and technical activities	1.5	4.6	4.4	4.3	4.4	5.5	5.28	Up
Administrative and support service activities	0.4	2.9	5.5	5.7	5.7	5.5	3.89	Up
Public administration and defence; compulsory social security	17.3	1.9	-0.4	11.1	4.1	1.4	1.11	Down
Education	18.5	4.2	2.7	2.7	3.1	2.7	1.16	Down
Human health and social work activities	2.9	10.0	3.9	6.3	6.1	1.2	1.88	Up
Others services	9.5	5.6	4.3	3.4	5.7	1.6	3.24	Down
Aggregate	11.4	9.2	3.3	3.3	4.8	3.0	4.05	Up

5) Economic Growth and Inflation

- GoN set GDP growth target rate at 6% for FY 2025/26: Expected to remain low at 3%
- For FY 2025/26 the GoN set target rate of inflation at 5.5% February 2025 inflation 3.25% within NRB target.

6) Growth Projections

- The growth outlook for Nepal has undergone notable revisions across major international financial institutions—World Bank, Asian Development Bank, International Monetary Fund, and the Central Bureau of Statistics Nepal—reflecting evolving domestic and external economic conditions. The World Bank initially projected a moderate recovery, revising Nepal's FY 2024/25 growth upward from 4.6 percent in April 2024 to 5.1 percent by October 2024 and maintaining this level through January 2025. However, subsequent updates indicate a downward correction, with projections reduced to 4.9 percent in April 2025 and further to 4.0 percent by June 2025. Similarly, the FY 2025/26 outlook was initially optimistic at 5.5 percent but was later sharply downgraded to 2.1 percent by October 2025, signaling heightened concerns over economic momentum and external vulnerabilities.
- The Asian Development Bank followed a comparable trajectory. It upgraded FY 2023/24 growth from 3.6 percent to 3.9 percent and projected FY 2024/25 growth at 4.9 percent in September 2024. However, this optimism weakened by April 2025, with the forecast reduced to 4.4 percent. For FY 2025/26, ADB initially projected 5.1 percent growth, but by December 2025, this was significantly revised downward to 3.0 percent. ADB further reduced the growth forecast to 2.7% on April 2026 suggesting a deterioration in macroeconomic conditions and slower-than-expected recovery.

3. The International Monetary Fund presented a more volatile assessment. After a sharp downgrade to 0.8 percent for FY 2022/23, it revised FY 2023/24 growth upward to 3.9 percent by May 2024. For FY 2024/25, projections fluctuated—declining to around 4.0 percent in January 2025 before improving slightly to 4.2 percent in March 2025. The IMF maintained a relatively optimistic medium-term outlook, projecting 5.2 percent growth for FY 2025/26 in October 2025, although this was later revised downward to a range of 3.0–3.5 percent by February 2026, indicating increasing uncertainty.
4. In contrast, the Central Bureau of Statistics shows a more stable and somewhat optimistic domestic assessment. Growth estimates for FY 2023/24 improved gradually from 3.2 percent to 3.4 percent, while FY 2024/25 estimates peaked at 5.1 percent in the second quarter before moderating to 4.6 percent by the third quarter and stabilizing at 4.8 percent by early 2026. However, CBS projections for FY 2025/26 indicate a slowdown to around 3.0 percent in the first quarter and slight improvement in QII to 4%, however Q II and Q IV will likely witness slowdown due to external pressure aligning more closely with the downward revisions seen in international forecasts.
5. Overall, the consistent pattern across institutions highlights an initial post-pandemic recovery followed by growing pessimism due to both domestic structural constraints and external shocks. While multilateral institutions initially anticipated stronger growth, repeated downward revisions suggest weakening demand, slower capital formation, and rising global uncertainties. The convergence of forecasts toward the 3–4 percent range for FY 2025/26 underscores a cautious outlook, emphasizing the need for policy interventions to restore growth momentum and macroeconomic stability.

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)
➤ Oct. 2025	↓2.1% (3.3% dwon from April 2025)

ADB

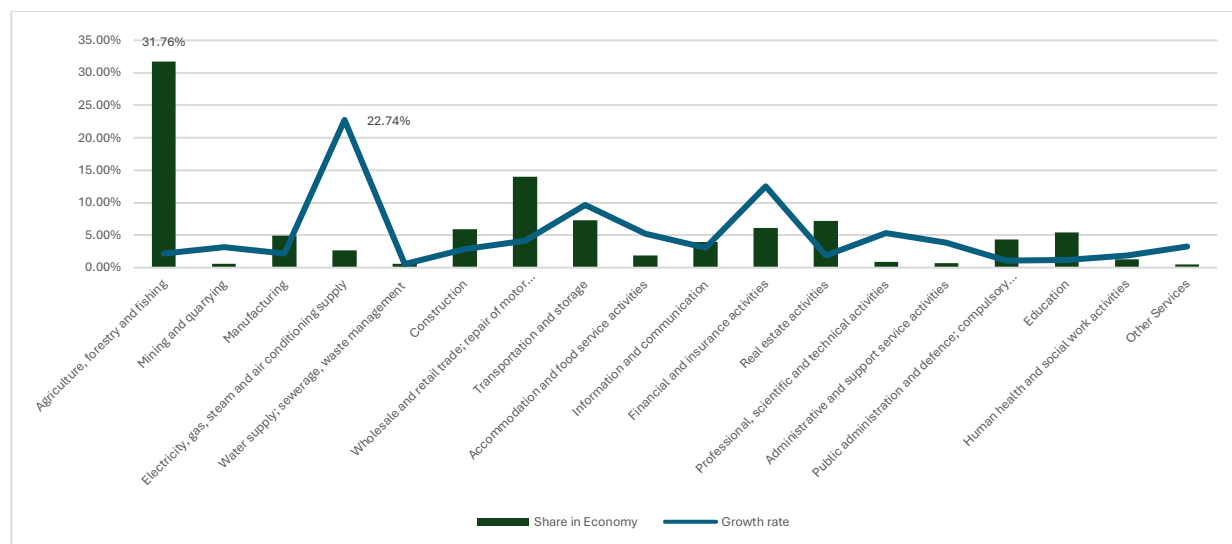
1. April 2024.	3.6% - FY 2023/24 projections
➤ Sept. 2024.	3.90. 0.60% up from previous for FY 2023/24
2. April 2024.	4.8% - FY 2024/25 projections
➤ Sept 2024.	4.9% 0.1% up from April 2024 for 2024/25
➤ April; 2025	↓ 4.4% 0.5% down form Sept 2024 for 2024/25
3. April 2025	5.1% FY 2025/26 Projection
4. December 2025	3% ↓2.% down form April 2025
5. April 2026.	2.7% ↓0.7.% down form Decemebr 2025

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)
➤ Oct 2025.	5.2% Satable outlook for 2025/26
• February 2026	3 to 3.5%% ↓2.2% down form Oct. 2025

CBS

• 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
• July 2025	4.6% 2024/25 Estimate Q III
• January 2026	4.8% 2024/25 Estimate Q IV
• Januray 2026.	3.2% 2025/26 Estimate Q I
• April 2026.	4.0% 2025/26 Estimate Q II



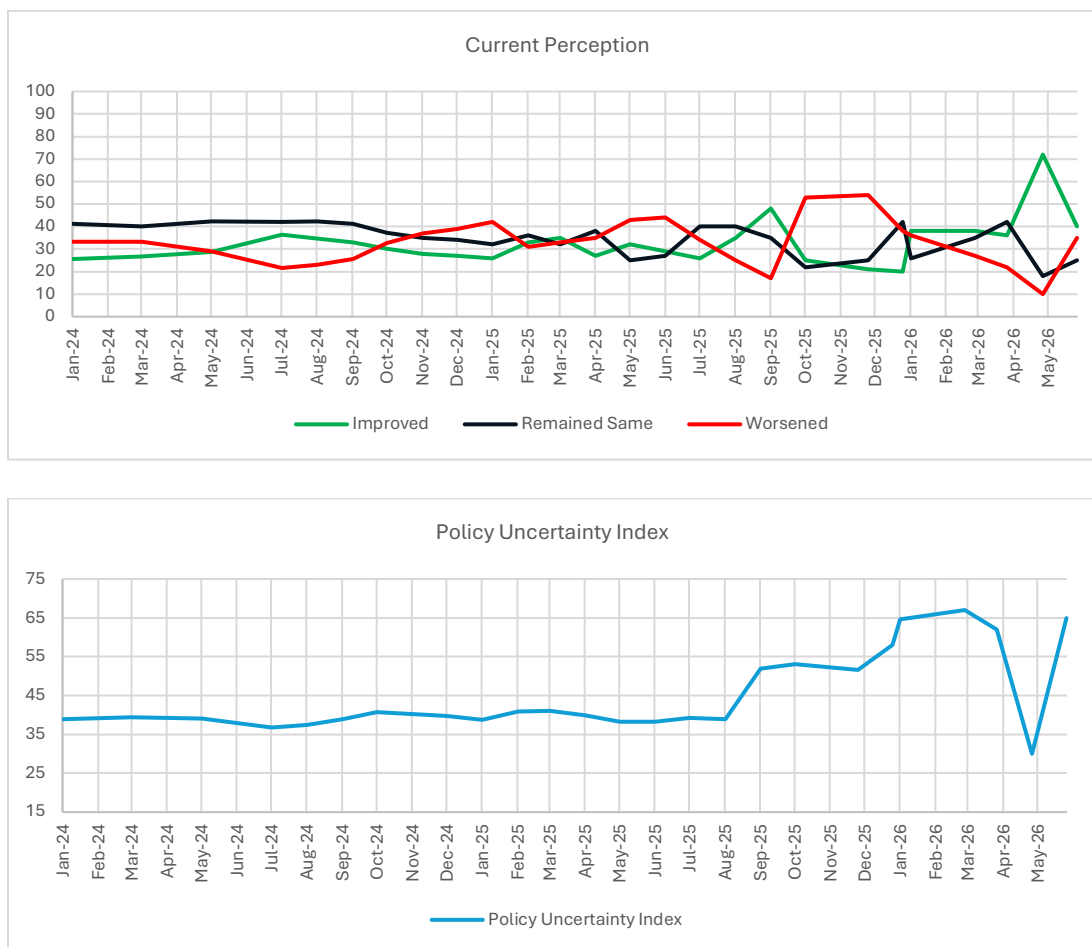
6. Nepal's economic growth in 2024/25 is increasingly being powered by dynamic service sectors and productive middle-tier industries, while growth in large traditional sectors remains muted. Sectors like transport, finance, energy, and ICT are becoming new growth poles, but their scale is still developing. Meanwhile, public sector and agriculture dominate the structure but lack transformative momentum.
7. To ensure balanced and sustainable economic development, Nepal should:
 - i) Scale up high-growth sectors through investment and policy support.
 - ii) Modernize agriculture and public services to raise productivity.
 - iii) Strengthen manufacturing and logistics, which combine scale and dynamism
 - iv) Promote digital, green, and inclusive growth models to align emerging sectors with national development goals

7) Nepal's Financial and Energy Sectors at a Critical Juncture

1. **Nepal's financial sector stands at a pivotal moment. The 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.
2. 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.
3. 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.

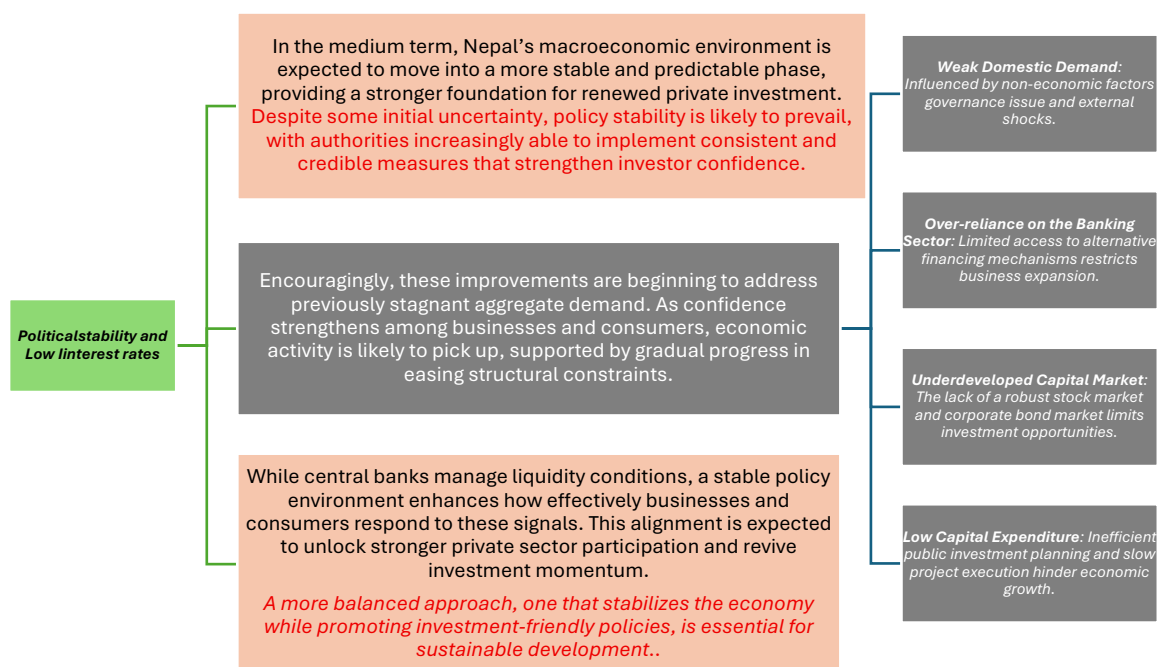
8) Consumer perception



Analyzing consumer perception alongside the Policy Uncertainty Index (PUI) from January 2024 to March 2026 reveals clear trends in sentiment relative to political and policy stability. Historically, the proportion of consumers reporting improved conditions fluctuated between 20% and 48%, with optimism rising in months of relative stability and dipping when uncertainty was high. Periods of elevated PUI, particularly from October 2025 to March 2026 when the index reached 52–67, coincided with peaks in negative sentiment, with “worsened” perceptions climbing to as high as 54%. This demonstrates a strong inverse relationship between policy uncertainty and consumer confidence, highlighting the sensitivity of market sentiment to governance and reform signals.

Following the recent election, the anticipated April 2026 survey shows a dramatic shift in consumer perception. With expectations of a stable and strong government and proactive fiscal and monetary reforms, the share of consumers reporting improved conditions is projected to surge to 72%, the highest in the survey’s history, while those reporting worsened conditions are expected to drop to 10%. The PUI is projected to fall sharply to 30, reflecting reduced uncertainty and signaling renewed confidence in government policy and market governance. Neutral perceptions are expected to decline to 18%, suggesting a broad-based shift toward optimism.

This post-election improvement indicates that consumers respond strongly to political stability and credible reform measures. The reduction in PUI appears to be a key driver of the surge in confidence, implying that maintaining transparent and effective policy communication will be critical to sustaining positive sentiment. Overall, the April 2026 survey underscores the significant impact of governance and policy predictability on consumer perception, suggesting that strong budgetary and monetary measures can meaningfully boost market confidence and economic activity. **However, markets expect consumer sentiment to shift sharply from improving to deteriorating, while the policy uncertainty index is likely to rise from recent multi-month lows back to pre-election levels.**



Nepal’s macroeconomic environment is entering a more stable and predictable phase, creating a stronger foundation for renewed private investment. With improving policy stability, authorities are increasingly able to implement consistent and credible measures that reinforce investor confidence. Supportive monetary policy, including relatively low interest rates and ample liquidity, is expected to play a key role in stimulating demand.

Encouragingly, these improvements are beginning to address previously stagnant aggregate demand. As confidence strengthens among businesses and consumers, economic activity is likely to pick up, supported by gradual progress in easing structural constraints.

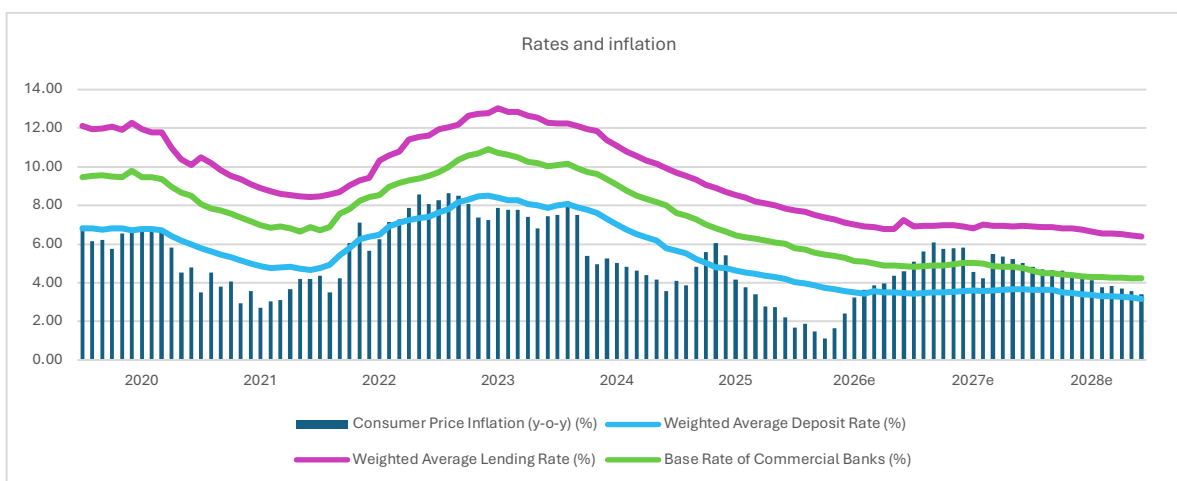
At the same time, policy coordination is improving. While central banks manage liquidity conditions, a stable policy environment enhances how effectively businesses and consumers respond to these signals. This alignment is expected to unlock stronger private sector participation and revive investment momentum.

Looking ahead, a balanced and forward-looking policy approach—anchored in stability and reinforced by investment-friendly reforms—positions Nepal for a more resilient and sustainable growth trajectory.

Policy Support Matrix

Challenge Area	Policy Support Lever	Expected Impact	Outlook
Weak Domestic Demand	Accommodative monetary policy, fiscal support	Increased consumption and business activity	Strengthening
Limited Financing Access	Financial sector reforms, credit diversification	Improved access to capital for SMEs and businesses	Improving
Underdeveloped Capital Market	Capital market reforms, regulatory enhancement	Expanded investment opportunities and funding sources	Gradually Expanding
Low Capital Expenditure	Efficient public investment, project acceleration	Higher infrastructure development and multiplier effects	Gaining Momentum
Policy Uncertainty	Enhanced policy consistency and governance	Stronger investor confidence and private investment	Stabilizing

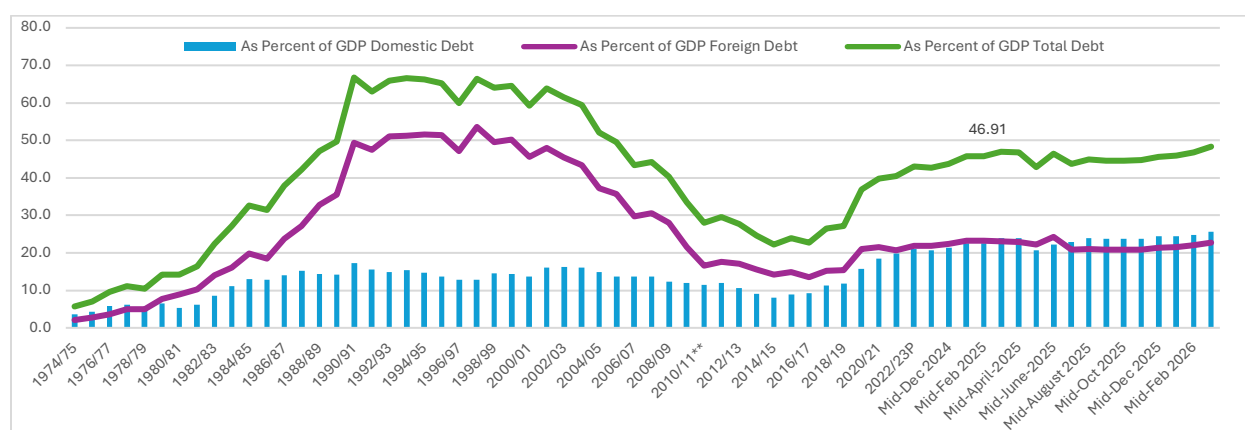
9) Interest rates and Inflation



Interest rates remain low, and inflation is expected to stabilize; however, credit growth is likely to remain subdued.

10) Debts to GDP

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



11) Risk Matrix

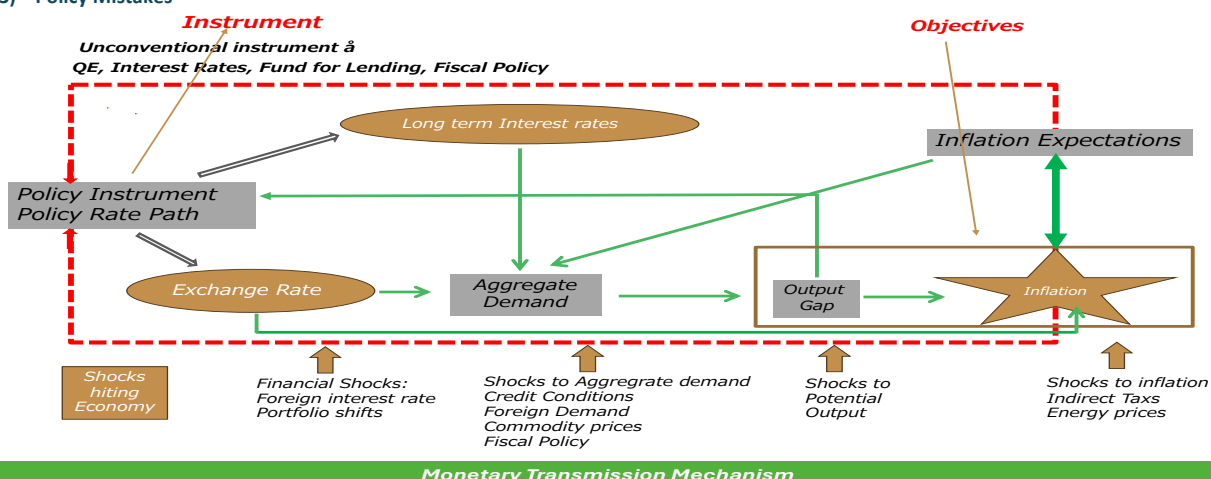
Risks	Likelihood	Impact	Mitigation Measures
Political Instability	Medium	Medium	Strengthen governance frameworks and prioritize key projects.
Increasing debts burden	High	High	For every 0.7% decline in GDP, the debt level increases by approximately 3.5. Monetize Government Assets
Climate Disruptions	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 moralization.
Declining Private Sector Confidence	Medium	Medium	Implement tax incentives, regulatory reforms, and ease of doing business measures.
External Shocks (e.g., remittance or export decline)	Severe	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	Recalibrate the loan loss provisioning norms and establish AMC

12) Factor of risk

	Condition	Related effect	Trend	Risk
Low Investment/low domestic income/ High migration	Weak wholesale and retail operations.	Aggregate demand	Decline	Low
	High unemployment	Aggregate demand	Decline	High
	Increasing Corporate cash recovery/low productivity	Firm Investment	Decline	High
	Failure of SACCOs	Disposable saving	Decline	High
Gulf Crisis	Increasing commodities prices	Import Bill	Increase	High
	Host Countries Labor demand	Remittance	Decline	Medium
	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

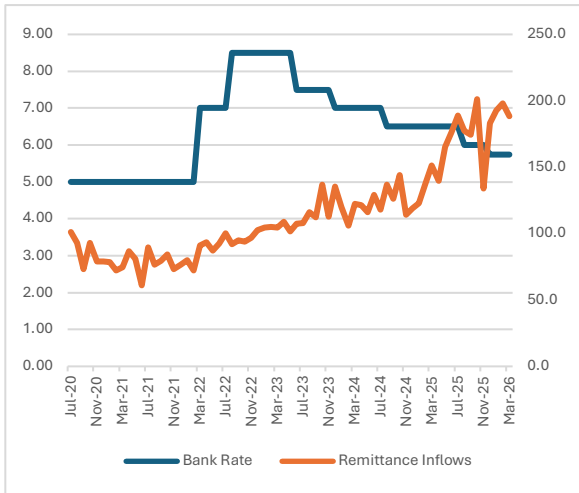
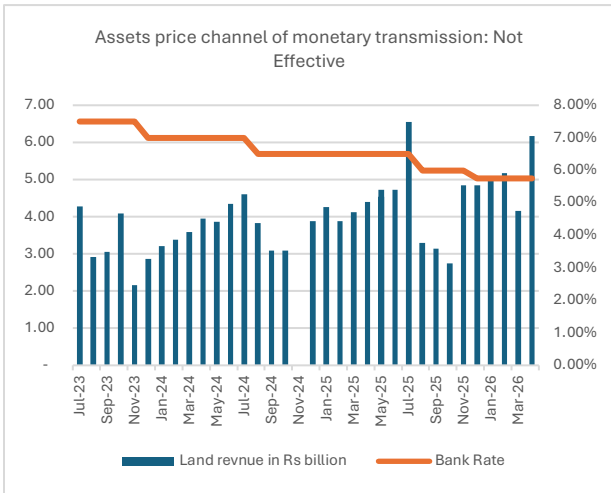
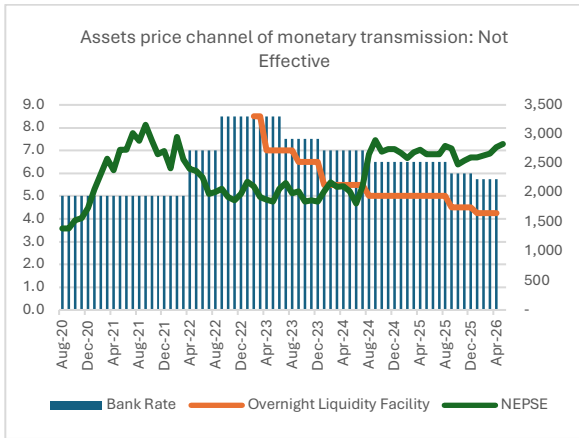
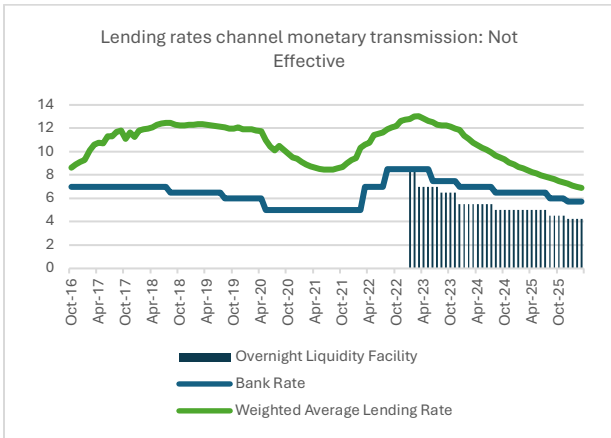
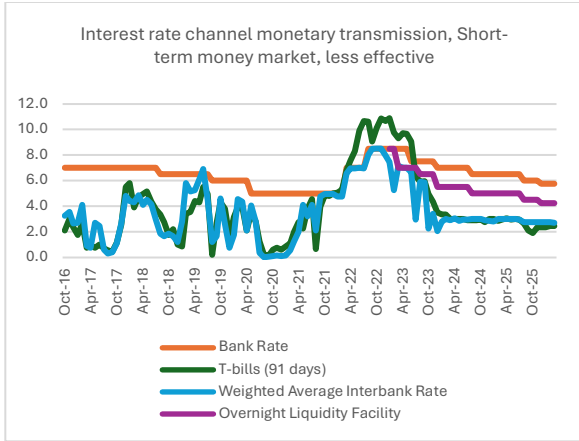
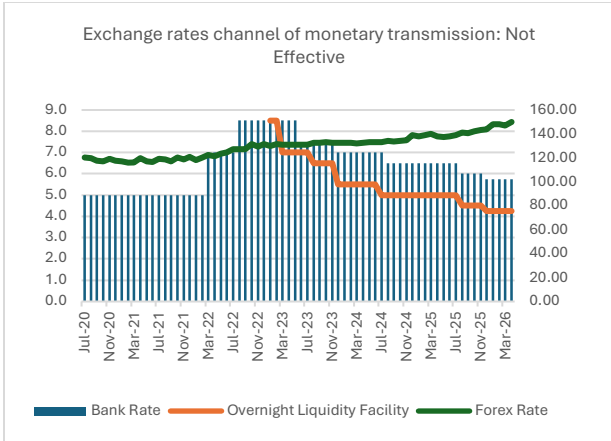
These risks, individually and collectively, pose significant threats to Nepal’s economic resilience. Immediate, coordinated policy actions are necessary to strengthen institutional capacity, diversify the economic base, and protect fiscal and financial stability. Leadership commitment, strategic investments, and evidence-based policymaking will be key to navigating these challenges.

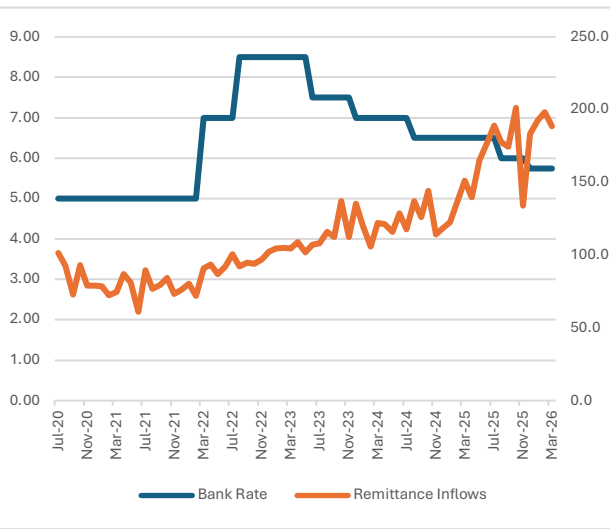
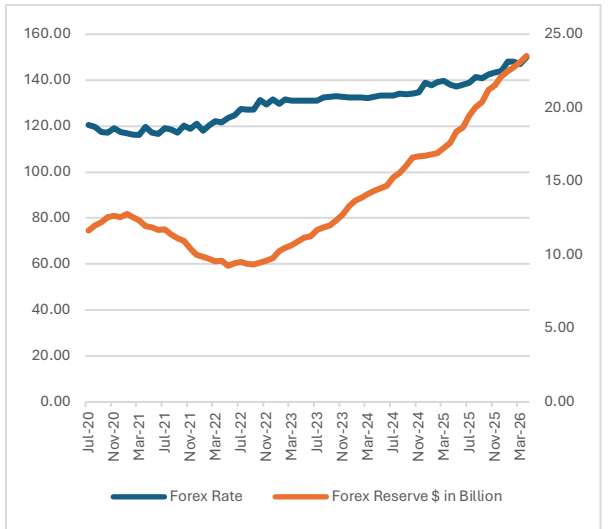
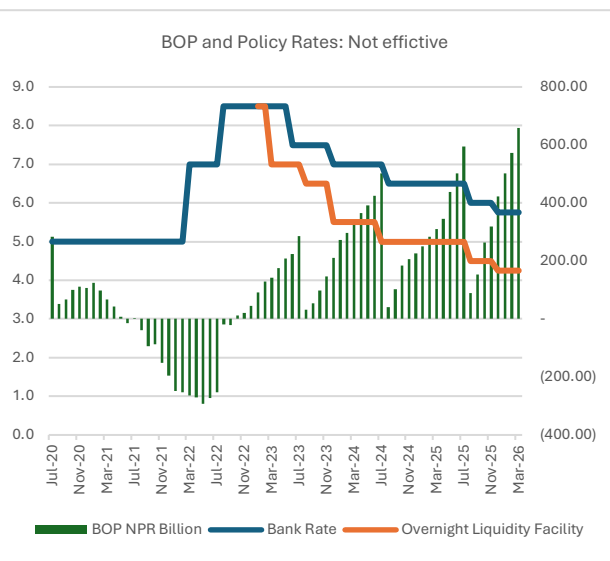
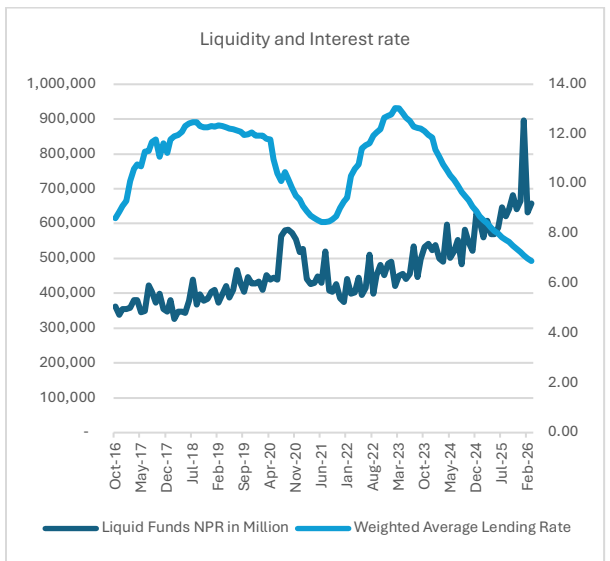
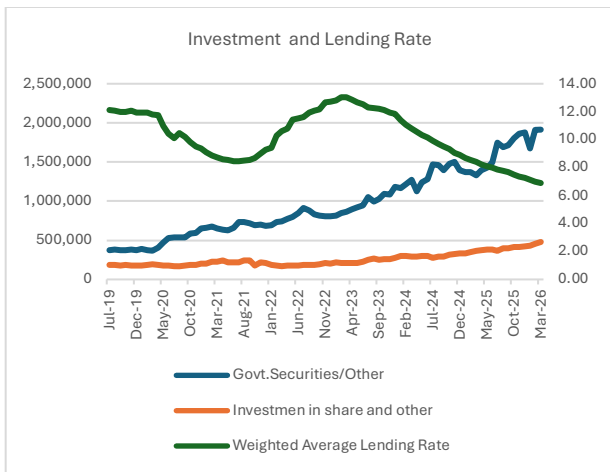
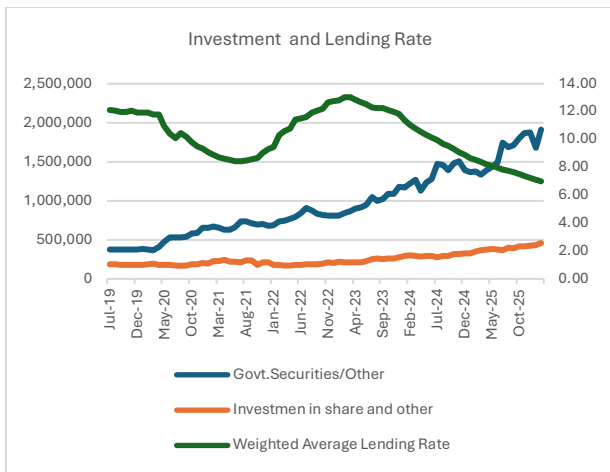
13) Policy Mistakes



a) 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





b) Consumer Price Inflation (CPI)

1. Consumer Price Inflation (CPI)

Consumer price inflation exhibited considerable volatility from 2019 to 2025. The initial years saw relatively high inflation rates, which moderated slightly during the pandemic but surged again in the subsequent years.

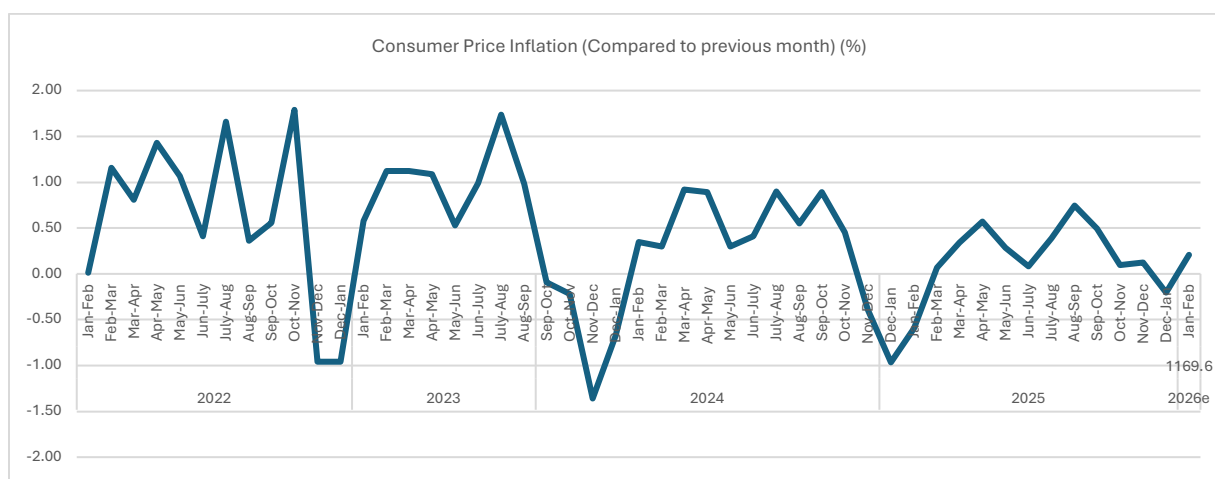
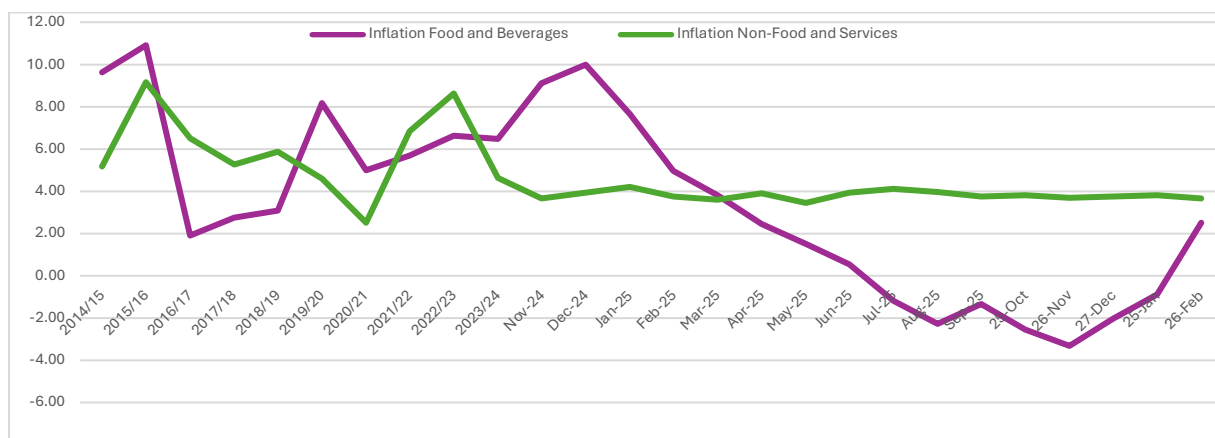
- 2019-2021: CPI fluctuated between 4.44% and 6.95%.
- 2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.
- 2023-2025: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 1.47% by October 2025 and surged to 3.25% in February 2026

Policy Mistakes:

Abrupt interest rate adjustments aimed at curbing inflation have contributed to economic instability. Nepal's Consumer Price Index (CPI) is largely influenced by price movements in the Indian market, limiting the effectiveness of the Nepal Rastra Bank (NRB)'s policy rate in controlling domestic inflation. In January 2026, year-on-year CPI declined to 2.42 percent from 5.41 percent in January 2025, mainly due to improved supply chain conditions and subdued consumer demand. However, on a month-on-month basis, inflation increased by 34 percent in February 2026 compared to January 2026. Persistently low inflation may also signal emerging deflationary pressures, which could further dampen investment, consumption, and overall economic growth if not addressed through balanced policy measures.

Recommendations:

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



c) The Kathmandu vegetable market

The comparative wholesale price data from the Kalimati Fruits and Vegetables Market Development Committee indicates that between Chaitra 09, 2082 and Baishakh 11, 2083, Kathmandu's vegetable market experienced an overall price decline of 8.88%, reflecting a strong seasonal supply response.

The market shows a clear downward trend in most fresh vegetables, driven by increased arrivals from the Terai harvest. Prices of key seasonal items—such as gourds, beans, leafy greens, and okra—fell sharply, in many cases by 50% to over 80%, highlighting the impact of supply surges and limited storage capacity. Leafy vegetables like mustard greens and coriander also declined significantly, reinforcing the seasonal glut.

At the same time, a few staple commodities recorded moderate increases. Tomato prices rose modestly (around 3–14%), while potatoes increased more strongly (up to 25%), indicating relatively tighter supply-demand conditions. Onion prices remained broadly stable due to consistent import flows.

In the high-value and premium segment, price movements were mixed, with some items experiencing sharp increases due to demand pressures and limited supply, while others declined significantly as seasonal supply improved.

High-Value Items: Price Movement Summary

Category	Commodity	Price Change (%)	Trend
Increase	Avocado	+114.29%	Strong demand, limited supply
	Lime (Kagati)	+61.70%	Seasonal shortage
	Celery	+54.55%	Niche demand growth
	Koiralo	+48.65%	Limited availability
	Pomegranate	+20.00%	Import-driven demand
	Kiwi	+21.43%	Premium consumption
	Banana	+12.50%	Stable demand
Decrease	Bottle gourd	-83.93%	Seasonal oversupply
	Green beans	-79.09%	Harvest surge
	Long beans	-77.45%	Supply glut
	Pumpkin (green)	-73.53%	Seasonal peak
	Sponge gourd	-72.22%	High arrivals
	Bitter gourd	-60.00%	Weak demand + high supply
	Okra	-51.28%	Seasonal correction

Overall, the data reflects a **typical seasonal adjustment cycle** in Kathmandu's vegetable market: widespread price declines due to increased domestic production, alongside selective price increases in high-value or supply-constrained commodities. This pattern underscores the continued influence of **seasonality, supply chain limitations, and import dependence** in shaping short-term price dynamics.

d) Overall inflation

- 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 March 2026, non-food inflation increased by 3.6%, while food inflation decreased by 3.63%. We may witness further inflationary pressure during coming month.

- e) 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.

e) **Export and Import**

2. Exports and Imports

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

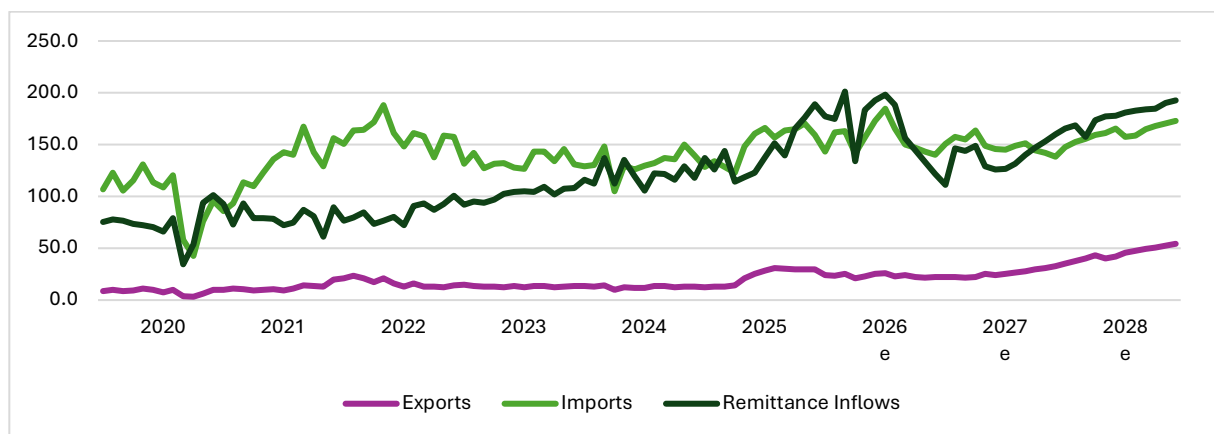
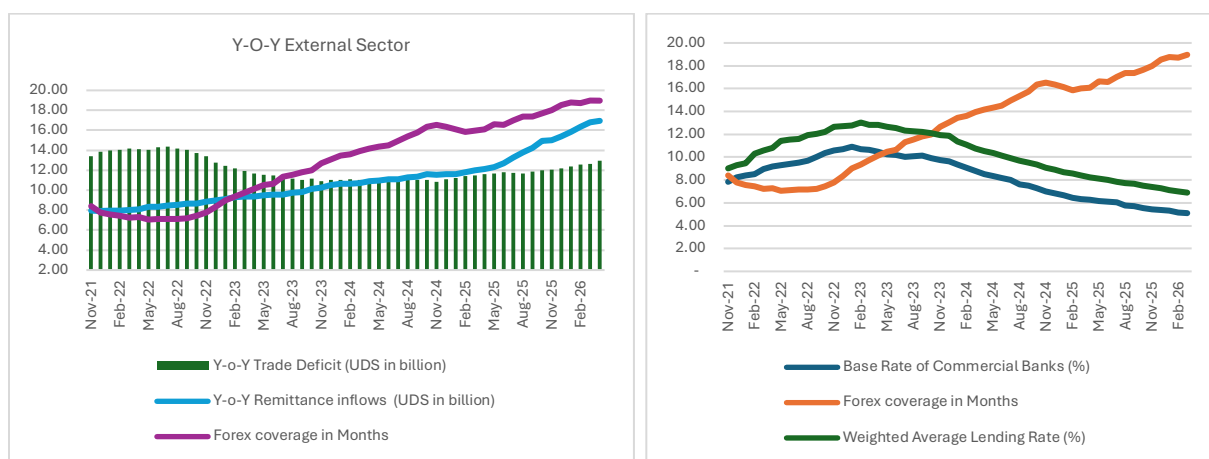
- Exports have shown a consistent upward trend, rising from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December–January 2024, and further climbing to NPR 24.7 billion by mid-January 2025. In contrast, imports experienced a substantial surge—from NPR 112.5 billion in early 2019 to NPR 188.1 billion by December 2021. To contain this sharp rise, the Government of Nepal (GoN) introduced import restrictions. Although these measures were later relaxed, imports recovered slowly, leading to a large accumulation of foreign exchange reserves sufficient to cover 17 months of imports—well above the Nepal Rastra Bank’s benchmark of seven months. By mid-April 2026, imports increased to NPR 201 billion from previous month 166 billion, while exports increase to NPR 31 billion from previous month NPR 26 billion. Looking ahead, imports are expected to rise in the coming months, driven by increased demand during the wedding seasons.

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.



f) Government Expenditure

3. Government Expenditure

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

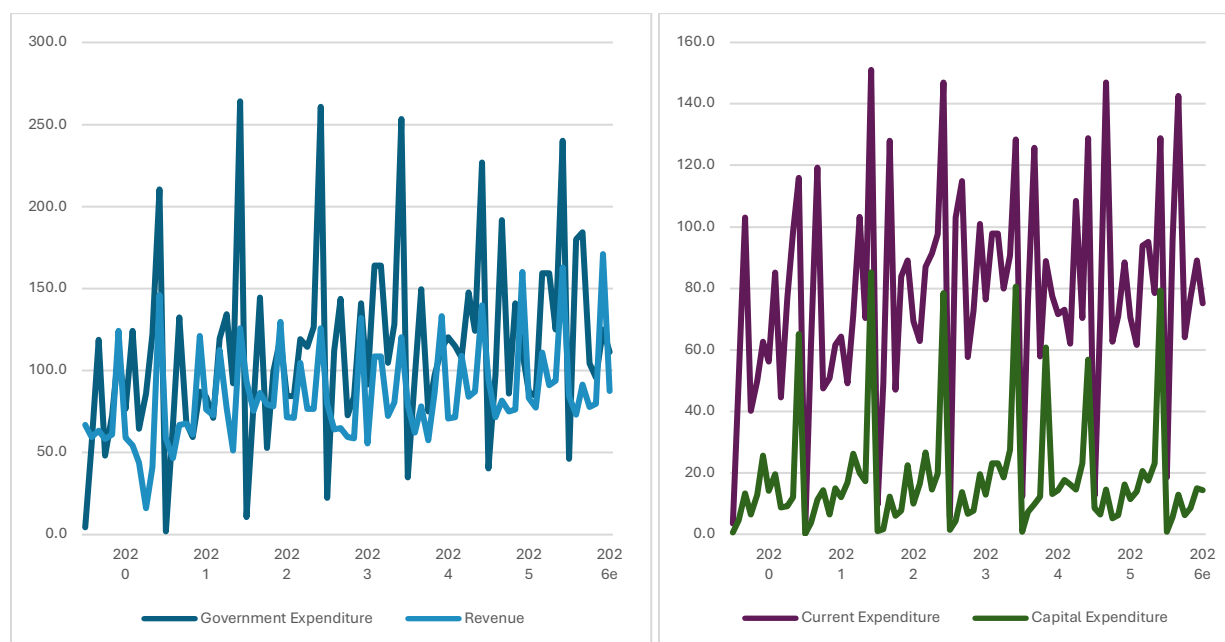
Over the last four years (2023–2026), Nepal's fiscal trends continue to reflect a structural imbalance between expenditure and revenue, with clear evidence of fiscal bunching and weak capital execution. Total government expenditure repeatedly peaks in the final months of each fiscal year, reaching around NPR 240–260 billion (e.g., 2023 and 2025), while remaining significantly lower in the early months. Revenue collection has improved moderately, with monthly peaks rising to about NPR 160–171 billion in recent years, but still falls short of matching expenditure surges, maintaining a persistent fiscal gap. The composition of spending remains heavily skewed toward current (revenue) expenditure, which consistently accounts for around 75–85% of total spending (e.g., exceeding NPR 140 billion in peak months), while capital expenditure remains low and volatile, typically below NPR 20 billion in most months and only rising sharply to NPR 70–80 billion toward year-end. Despite some improvement in revenue mobilization, the continued dominance of recurrent spending and inconsistent capital investment highlight ongoing constraints in fiscal effectiveness and development impact.

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.*



g) Private sector Credit

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 the end of FY 2024/25.

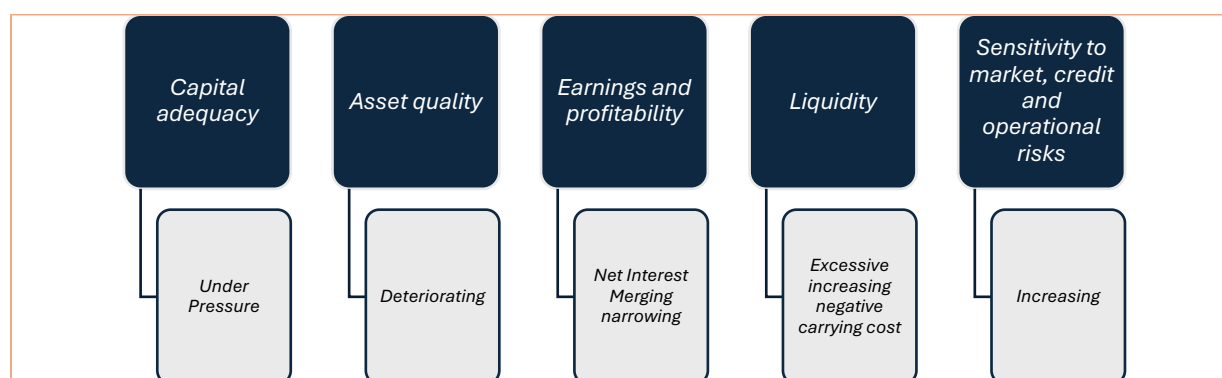
Policy Mistakes:

- 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.
- The stability of the financial sector has emerged as a cornerstone of Nepal's economic recovery. The rise in loan defaults and credit stress following the Gen Z protest underscores the urgent need for systematic loan portfolio reviews, a reassessment of stringent asset classification norms, and better alignment of NPA management with regional standards. Revising the asset gradation framework and easing the 100% loan loss provision requirement, by extending it to a three-year period for continued NPAs, would help release trapped capital. This, in turn, would enable banks to deploy excess liquidity, issue new loans, and reinvigorate private-sector investment.

1. A core set of financial stability indicators for banks:

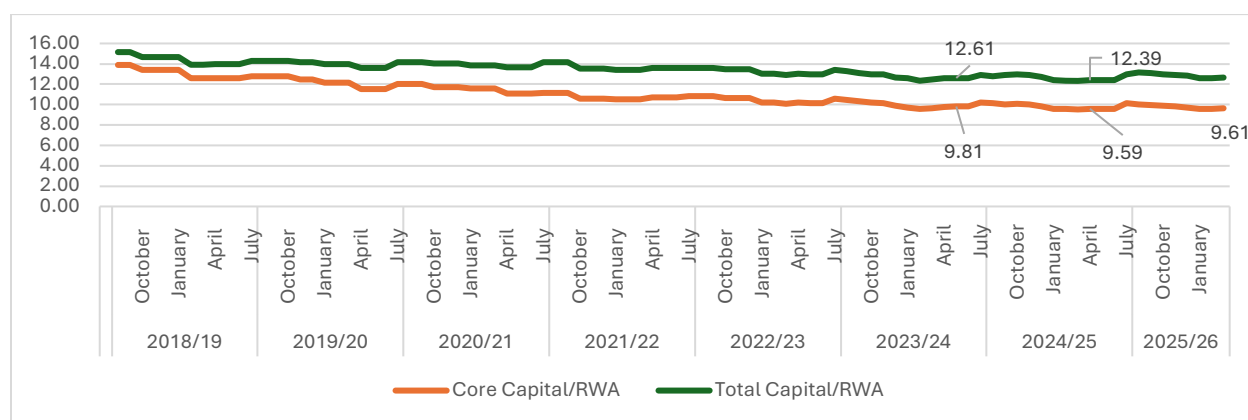


2. If all problem, loan become bad

Amount in Rs Billion	Mid-March	%age	Gross RWA
Gross Loan	5,796.65	100.00%	6,523
Good loan	5,368.39	92.61%	
Problem Loan	428.26	7.39%	
Provision made	339.61	5.86%	
Additional provision required if all become Bad	88.64	1.53%	

Paid up Capital and Statutory Reserves	603.39	10.41%	9.25%
Total capital to loan	824.52	14.22%	12.64%
Net capital If all problem loan becomes bad	514.75	8.88%	7.89%
Total capital If all problem loan becomes bad	735.87	12.69%	11.28%

- As of mid-Feb 2026, Nepal's gross loan portfolio totals NPR 5,797 billion, with 92.61 % classified as good loans (NPR 5,368 billion) and 7.39 % as problem loans (NPR 428 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 340 billion (5.86 % of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 89 billion in provisions would be required, raising the total provisioning requirement to 7.39%.
- The banking system is supported by NPR 603 billion in paid-up capital and statutory reserves, equivalent to 10.41% of gross loans. With additional reserves, total capital reaches NPR 825 billion, or 14.22% of the loan portfolio. In a stressed scenario where all problem loans turn bad, net capital would drop to NPR 515 billion (8.88% 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 736 billion (12.69%), 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.



3. Total Loan Loss Provision

Rs in billion	Mid-July				Mid-March
	2022	2023	2024	2026	
Provision for Risk					284.03
Opening		110.30	168.12	230.01	88.29
Addition		85.63	105.41	112.88	32.32
Less Write Back		27.56	43.24	58.46	0.38
Less Recovery from Written off Loan		0.25	0.29	0.41	339.61
Closing	110.30	168.12	230.01	284.03	5.53%
Gross Loan Loss Provision	2.27%	3.33%	4.26%	4.83%	284.03

4. Risk Assets Classification

Gross loan	2026				
Risk Assets Classification	Mid-March				
Pass Loan	4,853.10	4,853.10		83.72%	
Watch List	515.16	515.16	5,368.25	8.89%	92.61%
Special Mention Loan	361.91	361.91		6.24%	
Other specified Loan	66.48	66.48	428.39	1.15%	7.39%
Gross Loan	5,796.65	5,796.65		100.00%	100.00%

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

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.

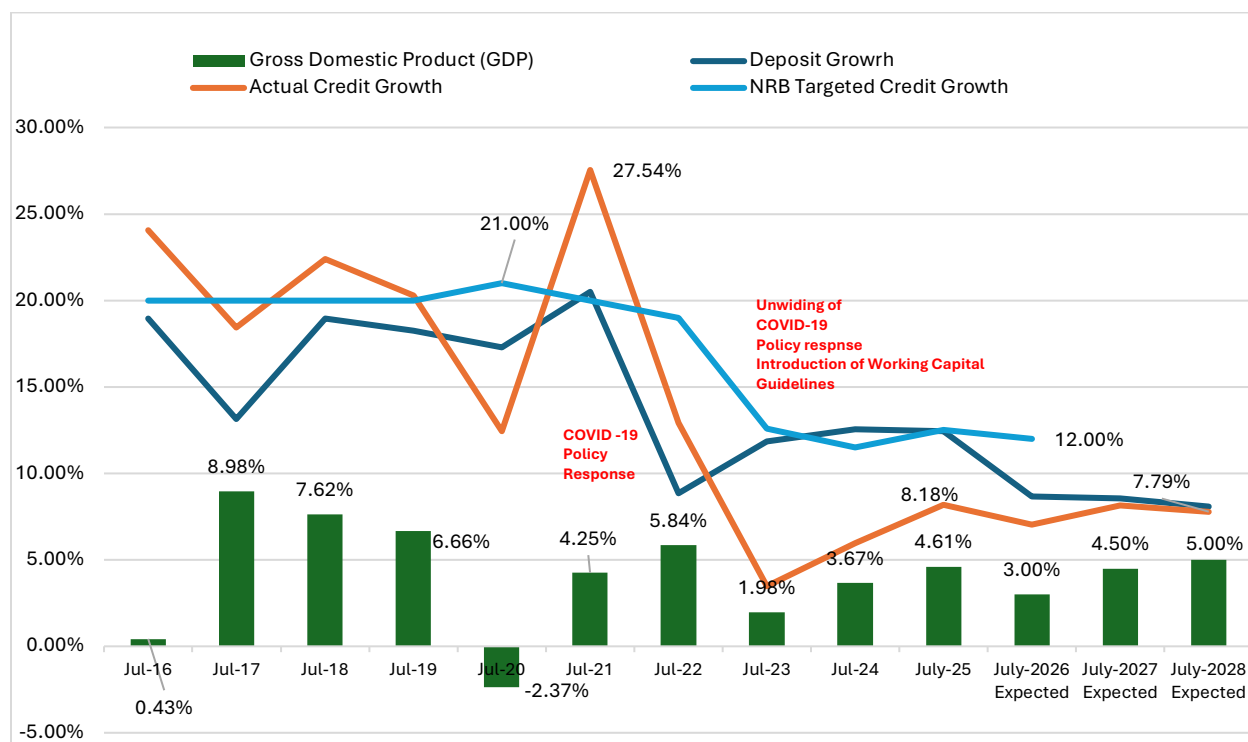
h) Commercial Bank's Loan Composition and Growth Trend

Heading (Rs. in million)	2026			
	March	Share	Trend	Growth
Agriculture	409,593	7.05%	Down	-1.43%
Mines	13,134	0.23%	Up	2.30%
Productions	933,479	16.06%	Up	4.82%
Construction	251,708	4.33%	Up	8.69%
Metal Productions	76,981	1.32%	Up	3.80%
Transportation	52,979	0.91%	Up	0.00%
Communications and Energy	513,487	8.83%	Up	6.80%
Wholesaler and Retailers	1,041,439	17.91%	Up	0.65%
Finance, Insurance, and Real Estates	429,044	7.38%	Down	-1.85%
Service Industries	497,164	8.55%	Up	1.08%
Consumable Loan	1,273,202	21.90%	Up	10.65%
Local Government	1,229	0.02%	Down	0.26%
Others	320,468	5.51%	Down	-4.45%
Total	5,813,909	100.00%	Up	3.65%

i) Loan Securities Composition and Growth Trend

H Heading (Rs. in million)	2026			
	March	Share	Trend	Growth
Gold/Silver	109,194	1.88%	Up	26.14%
Government Securities	4,592	0.08%	Down	-0.40%
Non-Government Securities	143,476	2.47%	Up	9.88%
Fixed A/c Receipt	37,316	0.64%	Down	-11.56%
Asset Guarantee	5,135,193	88.33%	Up	3.67%
Lands and Buildings	3,707,423	63.77%	Up	2.22%
Machinery and Tools	206,033	3.54%	Up	5.50%
Furniture and Fixture	2,538	0.04%	Up	18.32%
Vehicles	163,820	2.82%	Up	6.01%
Other Fixed Assets	184,055	3.17%	Up	12.48%
Current Assets	871,323	14.99%	Up	7.48%
Agricultural Products	65,005	1.12%	Up	7.05%
Other Non-Agricultural Products	806,317	13.87%	Up	7.52%
On Bills Guarantee	56,720	0.98%	Up	10.62%
Domestic Bills	4,630	0.08%	Down	-20.42%
Foreign Bills	52,089	0.90%	Up	14.43%
Guarantee	171,783	2.95%	Down	-12.19%
Credit Card	7,451	0.13%	Up	18.05%
Others	148,184	2.55%	Up	7.34%
Total	5,813,909	100.00%	Up	3.65%

j) Growth Trend



- a. 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.
- b. 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.
- c. 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.
- d. 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.
- e. 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% in FY 2026), actual credit growth remains tepid. **The expected figures for FY 2025/26–FY 2027/28 indicate a gradual recovery in credit growth, but still below historical norms. Interestingly, the projected credit growth (around 7.5%) remains consistent to the deposit growth (around 8.25% 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.**
- f. 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.

k) Interest Rates

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 6.90% March 2026.
- **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.

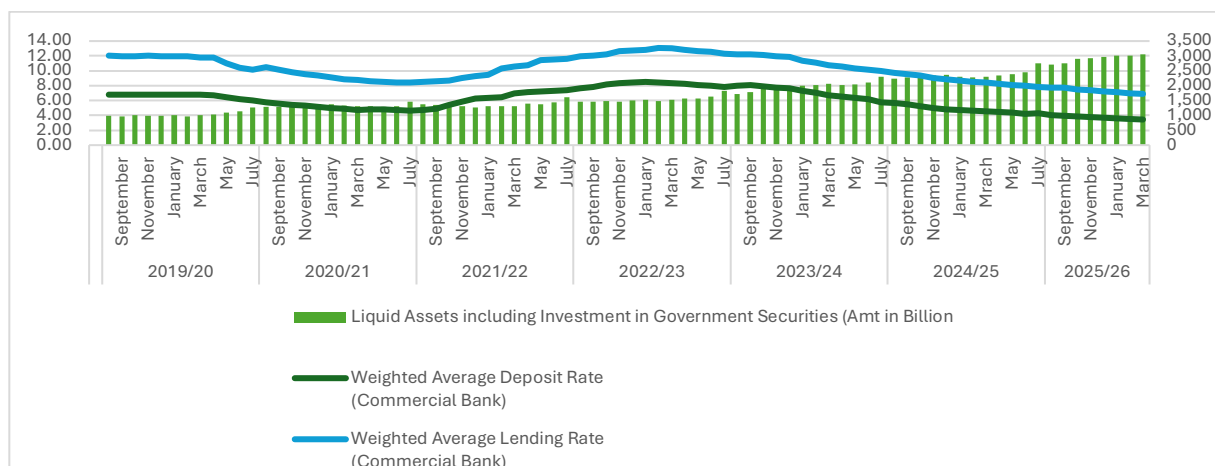
Recommendations:

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

- a. 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 3.4% in March 2026, while lending rates decreased from 12.08% to 6.9%. This trend indicates an easing monetary policy environment or competitive efforts by banks to reduce funding costs.**

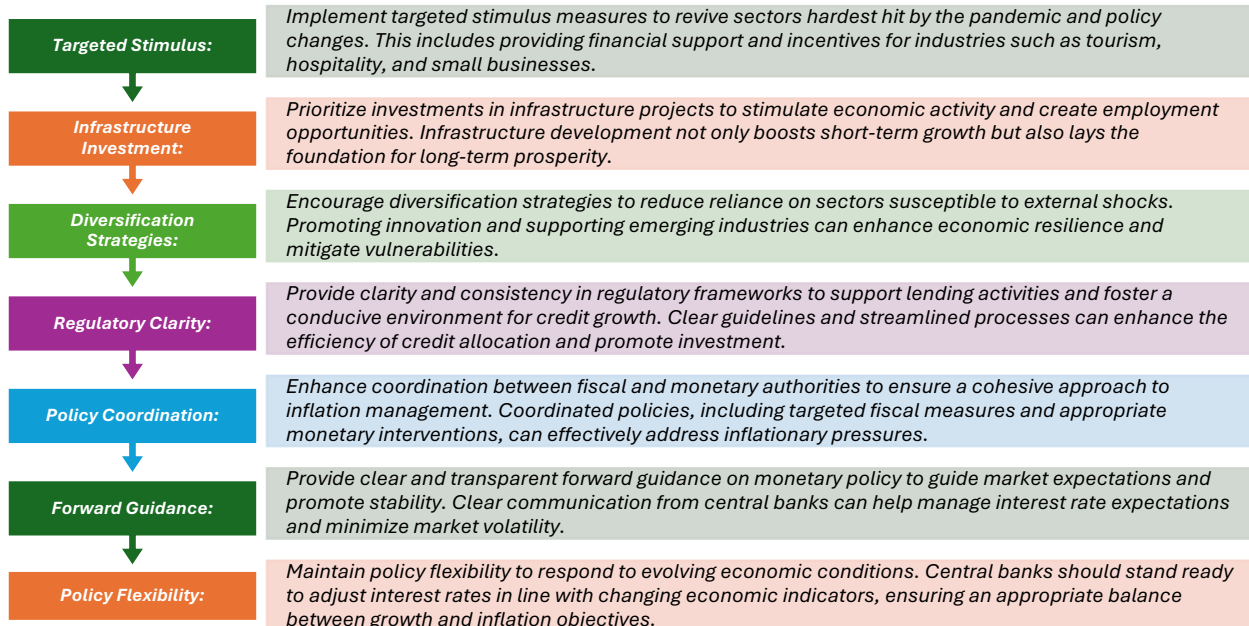
Simultaneously, banks' liquid assets, including investments in government securities, rose significantly from NPR 989 billion in August 2019 to NPR 3,002 billion by February 2026. This increase in liquidity highlights a trend of banks holding more liquid assets, driven by subdued credit demand and regulatory liquidity requirements.

- b. 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.
- c. 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.



Section 3 Reforms agenda

1) Key Considerations:



1) *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.:*

- a. **Strict Implementation of AML Regulations:**
Strengthen oversight to prevent financial crimes while maintaining a balanced approach that does not overburden legitimate businesses.
- b. **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.
- c. **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.
- d. **Enhanced Coordination Among Agencies:**
Establish a centralized digital platform for AML reporting, allowing banks, financial institutions, and businesses to submit reports efficiently without duplication.
- e. **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**.

1) **Nepal Rastra Bank Act 2058 vs. Proposed Nepal Rastra Bank Bill 2082 (Third Amendment)**

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
1	Legal Foundation	Establishes NRB as central bank of Nepal with defined objectives and functions	Retains core structure but amends multiple provisions for modernization	Reform-oriented amendment rather than replacement
2	Institutional Objective	Monetary stability, financial system regulation, currency issuance, forex management	Reaffirms objectives with stronger emphasis on autonomy, financial stability, and modernization	Broader and more contemporary policy orientation
3	Central Bank Autonomy	Provides operational independence but allows notable government interface in financial matters	Strengthens autonomy through clearer safeguards, refined appointment provisions, and governance clarity	Enhanced institutional and functional independence
4	Appointment of Governor & Deputy Governors	General provisions regarding qualifications and appointment	More explicit and detailed qualification, experience, and eligibility requirements. However, this approach narrows the pool of highly skilled professionals who can qualify, particularly at the boundaries of exceptional talent.	Improved transparency and professionalism in leadership selection
5	Board Governance Structure	Governor-led Board with government representation	Strengthened governance standards and clearer delineation of roles	Enhanced accountability and governance discipline
6	Internal Audit & Oversight	Standard audit mechanism	Stronger internal audit system and structured accountability provisions	Improved internal control framework
7	Reporting & Transparency	Annual reporting requirements	Annual audit within defined timeline; monthly balance sheet publication requirement	Greater transparency and public disclosure
8	Legal Protection	General legal protections	Explicit legal immunity for actions taken in good faith	Institutional protection against undue litigation
9	Currency Issuance	Authorizes issuance of banknotes and coins	Recognizes banknotes, coins, and digital currency as legal tender	Formal recognition of digital currency
10	Digital Currency & Fintech	No explicit provision for digital currency	Enables digital currency issuance and digital financial infrastructure	Major modernization reform
11	Banking Supervision	Supervisory authority over BFIs (traditional compliance-based approach)	Introduces risk-based supervision framework	Aligns with global post-crisis regulatory standards

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
12	Resolution Framework	Limited clarity on structured bank resolution	Clearer resolution and special administration mechanisms	Stronger systemic risk management
13	Financial Stability Mandate	Implicit within supervisory role	More explicit focus on systemic stability and crisis management	Institutionalization of macro-prudential oversight
14	Government Financing	Permits overdraft and purchase of government securities	Refines limits, timelines, and conditions for overdraft and securities purchase	Strengthened fiscal-monetary discipline
15	Relationship with Government	Operates as banker and advisor to Government	Clarifies financial obligations, payment timelines, and federal alignment	Reduced ambiguity in fiscal relations
16	Federal Structure	Drafted under unitary system (pre-federal constitution)	Aligns references to Federal, Provincial, and Local Governments	Constitutional alignment with federal system
17	Financial Inclusion	Implied support through regulatory framework	Explicit support for inclusive banking and financial access expansion	Stronger developmental orientation
18	Sustainable Development	No explicit reference to SDGs	Recognizes broader role in sustainable and inclusive development	Alignment with global sustainability agenda
19	Publication of Financial Statements	Periodic reporting	Defined deadlines for audit completion and balance sheet publication	Improved transparency timeline discipline
20	Institutional Modernization	Traditional central banking framework	Incorporates digital payments, fintech oversight, modern supervision	Transition to 21st-century central banking model

Summary of Structural Evolution

Dimension	Act 2058	Proposed Bill 2082	Overall Direction
Autonomy	Moderate	Strengthened	Greater independence
Governance	Foundational	Refined & strengthened	Improved accountability
Digitalization	Absent	Explicitly integrated	Digital transformation
Supervision	Compliance-based	Risk-based	Modern regulatory regime
Crisis Management	Limited clarity	Structured resolution tools	Stronger financial stability
Transparency	Standard reporting	Timely and frequent disclosure	Enhanced transparency
Federal Alignment	Unitary context	Federal system aligned	Constitutional compliance
Development Orientation	Implicit	Explicit (inclusion & sustainability)	Broader developmental role

1) Policy Risk Assessment Matrix

Risk Rating Scale

- **Probability (P):** Low / Medium / High
- **Impact (I):** Low / Medium / High
- **Overall Risk Level:** Based on combined probability and impact

S.N.	Reform Area	Key Policy Risk	Nature of Risk	Probability	Impact	Overall Risk	Mitigation Measures	Policy Implication
1	Strengthened Central Bank Autonomy	Political resistance or pressure on appointment process	Governance / Political	Medium	High	High	Transparent appointment criteria, parliamentary oversight, fixed tenure protection	Risk of delayed implementation or politicization
2	Risk-Based Supervision	Capacity gaps in supervisory staff	Institutional / Technical	High	High	High	Capacity building, international technical assistance, phased implementation	Transition risk in regulatory enforcement

S.N.	Reform Area	Key Policy Risk	Nature of Risk	Probability	Impact	Overall Risk	Mitigation Measures	Policy Implication
3	Bank Resolution Framework	Legal disputes from shareholders of troubled banks	Legal / Financial Stability	Medium	High	High	Clear resolution triggers, judicial clarity, legal safeguards	Short-term litigation risk but long-term stability gain
4	Digital Currency Introduction	Cybersecurity threats and technological vulnerabilities	Technological / Operational	High	High	Very High	Strong cyber framework, pilot testing, global best practices, redundancy systems	Systemic digital risk exposure
5	Digital Legal Tender Recognition	Disruption to traditional banking liquidity	Financial Market	Medium	Medium	Medium	Gradual rollout, liquidity monitoring tools	Managed digital transition required
6	Government Overdraft Restrictions	Fiscal stress if government faces liquidity shortage	Fiscal-Monetary	Medium	High	High	Strengthen fiscal discipline, debt management reforms	Improved macro discipline but political sensitivity
7	Enhanced Transparency & Reporting	Market volatility from frequent disclosures	Market Reaction	Low	Medium	Low-Medium	Communication strategy, forward guidance	Improves credibility overall
8	Federal Alignment	Coordination gaps with provincial/local governments	Institutional Coordination	Medium	Medium	Medium	Clear intergovernmental financial protocols	Transitional coordination risk
9	Financial Inclusion Mandate	Expansion of weakly regulated digital financial actors	Regulatory Arbitrage	Medium	Medium	Medium	Proportionate regulation, licensing reforms	Balancing innovation & stability
10	Strengthened Internal Audit	Internal resistance to stricter accountability	Organizational	Medium	Medium	Medium	Change management strategy	Cultural adjustment phase
11	Legal Immunity for Officials	Potential misuse of protection clause	Governance / Ethical	Low	Medium	Low-Medium	Clear definition of “good faith” actions	Protects decisiveness but needs safeguards
12	Expanded Financial Stability Mandate	Overlapping authority with other regulators	Institutional Conflict	Medium	Medium	Medium	Formal coordination mechanisms (e.g., Financial Stability Committee)	Requires inter-agency clarity
13	Alignment with International Standards	Compliance burden on domestic banks	Regulatory Burden	Medium	Medium	Medium	Gradual compliance timeline	Short-term cost, long-term credibility gain
14	Increased Autonomy in Monetary Policy	Reduced fiscal dominance may create short-term fiscal pressure	Macroeconomic	Medium	High	High	Strong fiscal-monetary coordination framework	Improves macro stability long term
15	Monthly Balance Sheet Publication	Misinterpretation by markets or media	Communication Risk	Low	Medium	Low-Medium	Strengthen macro communication capacity	Transparency enhances credibility

2) Risk Heat Categorization

Risk Level	Areas Identified
Very High	Digital currency cybersecurity risk
High	Autonomy reform, risk-based supervision capacity, resolution framework litigation, fiscal overdraft tightening
Medium	Federal coordination, financial inclusion expansion, international compliance burden
Low–Medium	Transparency communication risk, legal immunity safeguards

3) Strategic Risk Outlook

Risk Category	Short-Term Risk	Medium-Term Outlook	Long-Term Impact
Institutional	Adjustment resistance	Governance stabilization	Stronger institutional credibility
Technological	Cyber vulnerability	Infrastructure strengthening	Digital financial leadership
Fiscal-Monetary	Political sensitivity	Improved coordination	Enhanced macro stability
Financial Stability	Litigation & transition stress	Better crisis management	Reduced systemic risk

4) Quantitative Risk Scoring Model

Methodology

a) Scoring Scale

Score	Probability (P)	Impact (I)
1	Very Low	Negligible
2	Low	Minor
3	Moderate	Moderate
4	High	Major
5	Very High	Severe / Systemic

b) Risk Score Formula

(Risk Score (R)) = P x I) Maximum possible score = 25

c) Risk Classification

Risk Score	Risk Category
1–5	Low
6–10	Moderate
11–15	High
16–20	Very High
21–25	Critical

5) Quantitative Risk Matrix

S.N.	Reform Area	Probability (P)	Impact (I)	Risk Score (R = P×I)	Risk Category
1	Central Bank Autonomy Reform	3	4	12	High
2	Risk-Based Supervision Implementation	4	4	16	Very High
3	Bank Resolution Framework Litigation	3	4	12	High
4	Digital Currency Cybersecurity Risk	5	5	25	Critical
5	Digital Liquidity Disruption	3	3	9	Moderate
6	Government Overdraft Restriction	3	4	12	High
7	Transparency & Monthly Disclosure	2	3	6	Moderate
8	Federal Coordination Risk	3	3	9	Moderate
9	Financial Inclusion Regulatory Arbitrage	3	3	9	Moderate
10	Internal Governance Resistance	3	3	9	Moderate

S.N.	Reform Area	Probability (P)	Impact (I)	Risk Score (R = P×I)	Risk Category
11	Legal Immunity Misuse	2	3	6	Moderate
12	Institutional Overlap with Other Regulators	3	3	9	Moderate
13	International Compliance Burden on Banks	3	3	9	Moderate
14	Reduced Fiscal Dominance (Macro Tension)	3	4	12	High
15	Market Misinterpretation of Data	2	2	4	Low

6) **Weighted Risk Index (Overall Reform Risk Indicator)**

a) **Aggregate Risk Score**

- a. Total Risk Score = **160**
Number of Risk Factors = **15**
- b. Average Risk Score} = 160 / 15 = 10.67

b) **Overall Reform Risk Level**

- a. Average Score: **10.67** → **Moderate–High Risk**

7) **4Risk Concentration Analysis**

High & Critical Risk Areas

Reform Area	Score	Priority Level
Digital Currency Cybersecurity	25	Immediate Priority
Risk-Based Supervision	16	Structural Priority
Autonomy Reform	12	Political Priority
Government Overdraft Tightening	12	Fiscal Priority
Bank Resolution Litigation	12	Legal Priority
Fiscal Dominance Reduction	12	Macroeconomic Priority

8) **Sensitivity Analysis**

Scenario A: Strong Implementation Capacity

- Probability scores reduced by 1 point for institutional risks
- Revised Average Risk = 8.9
→ **Moderate Risk**

Scenario B: Political & Technological Weakness

- Probability increased by 1 point for high-risk categories
- Revised Average Risk = 13.5
→ **High Risk**

9) **Quantitative Risk Profile by Category**

Risk Category	Average Score	Risk Intensity
Technological	17.0	Very High
Fiscal-Monetary	12.0	High
Governance	10.0	Moderate–High
Regulatory	10.5	Moderate–High
Communication	5.0	Low–Moderate

10) **Policy Interpretation**

- The highest quantified systemic risk lies in digital currency implementation (cyber and operational risk).
- Institutional transition risks (risk-based supervision and resolution framework) are structurally significant but manageable.
- Fiscal-monetary tightening presents political economy risk but enhances long-term macro stability.

11) **Strategic Recommendation Based on Quantitative Model**

Priority Tier	Action Required
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Tier 1 (Critical)	Establish Cybersecurity & Digital Currency Taskforce
Tier 2 (Very High)	Intensive supervisory capacity-building program
Tier 3 (High)	Fiscal-monetary coordination protocol
Tier 4 (Moderate)	Phased regulatory transition & communication strategy

12) Overall Quantitative Assessment

The Proposed NRB Bill 2082 carries a Moderate–High aggregate reform risk (10.67/25), primarily driven by technological modernization and supervisory transition. However, with structured mitigation, the long-term institutional gain outweighs short-term quantified risks.

Aspect	Nature of Change
Legal Character	Amendment-based modernization
Institutional Strength	Strengthened
Regulatory Framework	Modernized
Monetary Authority	Expanded to digital domain
Governance Standards	Enhanced
Transparency & Accountability	Improved
Systemic Stability Framework	Strengthened
Alignment with Global Standards	Significantly Improved

2) BIFIA Amendment

Nepal should proactively leverage the opportunity created by the Reserve Bank of India's (RBI) new provision that allows Authorised Dealer (AD) banks to extend lending in Indian Rupees (INR) to persons resident outside India. The RBI, under the Foreign Exchange Management Act, has been steadily liberalizing its framework to promote cross-border trade settlements in INR and local currencies. As part of this initiative, India aims to enhance INR liquidity and make it accessible to neighbouring economies. In line with this, AD banks in India and their overseas branches will now be permitted to provide INR-denominated loans to residents and financial institutions in Bhutan, Nepal, and Sri Lanka to support cross-border trade and related transactions.

The forthcoming regulatory amendments are expected to formalize this decision, offering Nepal a timely opportunity to deepen its financial linkages, ease trade settlements, and reduce transaction costs through greater use of INR financing mechanisms.



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.**

a. **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.**

b. Critical Analysis and Implications

1. Governance and Risk Management Improvements
 - i. Encourages better risk management and transparency.
 - ii. Aligns with Basel principles and international banking standards.
 - iii. Restricts undue influence by insiders and affiliated parties.
2. Downsides and Practical Challenges
 - i. 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.
 - ii. 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.
 - iii. 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.
 - iv. 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
 - v. 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.
- c. Conclusion
 1. 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. 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.
 3. 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.
 4. 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.

3) Human Trafficking and Transportation (Control) Act, 2064

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.

4) Prompt Corrective Action (PCA)

1. In addition to the existing Prompt Corrective Action (PCA) guidelines, the NRB should consider introducing supplementary provisions to address the growing risks in the banking sector. If the net NPA level remains below 7%, no further intervention is necessary; however, once it exceeds 7% but stays below 9%, BFI should be restricted from sanctioning new loans. Crossing the 9% threshold would trigger the second tier, requiring BFIs to refrain from accepting new deposits, while a net NPA of 11% or above should place the institution under formal PCA measures. To complement these measures, the allowable provisioning charged to the Profit and Loss (P&L) statement under the Income Tax Act should be raised from the current 5% to 9%, ensuring that banks maintain adequate buffers against potential losses. At the same time, the NRB should conduct a comprehensive review of the risk weightage assigned to different assets and liabilities on the balance sheet, recalibrating them in line with their inherent risks so that regulatory requirements more accurately reflect actual exposures, thereby fostering prudence and long-term financial stability.
2. The need for such reforms has become increasingly urgent in the context of Nepal's rising levels of non-performing assets (NPAs) and the associated risk of blacklisting by international monitoring bodies. Over the past few years, economic slowdown, sluggish private sector credit absorption, and weak corporate governance have contributed to a steady build-up of stressed assets in BFIs. At the same time, lapses in compliance and inadequate supervisory responses have heightened Nepal's vulnerability to being flagged for weak financial discipline and governance. If left unaddressed, this trend not only erodes public confidence in the banking system but also increases the risk of Nepal being blacklisted, which would severely undermine its international credibility, deter foreign investment, and isolate its financial sector from global markets. Strengthened PCA measures, higher provisioning requirements, and a recalibrated risk-weighting framework are therefore critical steps to restore resilience and prevent systemic instability.

5) NRN Act

3. The Bill to Amend and Consolidate Laws Relating to Non-Resident Nepalis (NRNs) needs to consider the following:

A. Provisions relating to Nepali citizens holding a Non-Resident Nepali (NRN) Identity Card (excluding persons of Nepali origin)

Since Nepali citizens residing abroad who hold an NRN Identity Card (excluding persons of Nepali origin) legally remain Nepali citizens, their property rights shall inherently remain equivalent to those of Nepali citizens. Accordingly, the Act should include the following provisions:

A(1). Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin) shall enjoy all rights equivalent to resident Nepali citizens.

A(2). In the case of Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin), income tax shall be levied in accordance with prevailing provisions of the Income Tax Act applicable to resident individuals, except for individuals residing in countries with which Nepal has concluded a Double Taxation Avoidance Agreement.

A(3). Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin) shall be allowed to invest in movable and immovable property in Nepal as foreign investors, in accordance with the provisions of the Foreign Investment and Technology

Transfer Act.

B. Provisions relating to investment by “NRN Citizenship” holders and persons of Nepali origin holding an NRN Identity Card

B(1). Individuals holding “NRN Citizenship” or persons of Nepali origin holding an NRN Identity Card shall be permitted to invest in movable and immovable property in Nepal on par with resident Nepali citizens. The repatriation of such investment and income shall be governed in accordance with the regulations prescribed by Nepal Rastra Bank.

B(2). Individuals holding NRN citizenship or persons of Nepali origin holding an NRN Identity Card shall also be permitted to invest in movable and immovable property as foreign investors, in accordance with the provisions of the Foreign Investment and Technology Transfer Act.

B(3). Individuals holding NRN citizenship and persons of Nepali origin holding an NRN Identity Card shall be linked to the National Identity system, and a National Identity Card (NID) shall also be issued to such individuals.

B(3). Special provisions should be made for foreign citizen spouses, including eligibility under the NRN Citizenship framework.

Section 4 External Sector

1. **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 = 142 in 2025, marking a 19.33% 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.
2. 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 (-1.21%) but rebounded in 2024/25 (+13.31%), maintaining a high share of over 86.7% of total trade. Exports, on the other hand, fell by 3.30% in 2023/24 but saw a significant 82.05% growth in 2024/25, increasing their share of total trade to 13.13%. 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.
3. **Exchange Rate Policy and Regime Choices in Nepal: Stability, Constraints, and the Way Forward**

Exchange rate policy plays a central role in shaping macroeconomic stability, trade competitiveness, capital flows, and long-term growth. In Nepal, the exchange-rate regime is not merely a technical policy choice, but a structural anchor deeply embedded in the country’s economic relationship with India.

Historical Context and Current Regime

Nepal has maintained a fixed peg of NPR 1.60 to INR 1 since 1993. This arrangement reflects strong economic integration with India, underpinned by an open 1,400-kilometer border, free movement of labor and capital, and India’s long-standing position as Nepal’s dominant trading partner.

The peg has provided an important nominal anchor. By aligning Nepal’s inflation closely with that of India, it has contributed to price stability and reduced exchange-rate uncertainty for trade, remittances, and cross-border transactions. The foreign exchange market itself has evolved from a tightly regulated system prior to the 1990s into a relatively deep and efficient market.

Macroeconomic Implications

While the fixed exchange-rate regime has supported stability, it has also coincided with persistent structural challenges. Nepal continues to record large and recurring trade deficits, slow per capita income growth relative to India, and increasing reliance on remittance inflows to sustain the external sector.

Empirical evidence presented in the analysis suggests that currency depreciation, when it has occurred, has not led to meaningful improvements in exports or the trade balance. Imports tend to rise following depreciation, while exports show limited responsiveness, reflecting supply-side constraints rather than price competitiveness alone. This raises questions about the effectiveness of exchange-rate adjustments in the absence of broader structural reforms.

Exchange-Rate Equilibrium and Influencing Factors

We have examined several factors influencing the equilibrium exchange rate in Nepal, including inflation differentials, remittance and capital inflows, public debt levels, interest-rate differentials, terms of trade, structural changes in production, and speculative pressures. Together, these factors point to the possibility of real exchange-rate misalignment, particularly in an economy with weak export capacity and limited industrial diversification.

In small developing economies, maintaining a mildly undervalued exchange rate can support exports. However, achieving multiple objectives—price stability, external balance, and growth—with a single policy instrument is inherently challenging.

Exchange-Rate Regime Options

1. Given these constraints, Nepal faces a limited but important set of policy choices:
2. Maintain the current peg with INR, preserving stability and predictability
3. Adopt a crawling peg, allowing gradual and controlled adjustments to parity
4. Move toward a managed exchange-rate regime, potentially based on a basket of currencies reflecting major economic partners
5. Consider rigid arrangements, such as a currency board or currency union, acknowledging significant political and institutional challenges
6. Explore a shift in the peg to another major currency, as a longer-term strategic option

A fully flexible exchange-rate regime was assessed as impractical in the near term. Nepal's open border with India and high frequency of cross-border transactions mean that excessive exchange-rate volatility could be destabilizing for households, firms, and financial institutions.

Policy Recommendations and Way Forward

The central policy message is that exchange-rate policy cannot be viewed in isolation. No exchange-rate regime—fixed, crawling, or flexible—can sustainably correct external imbalances without parallel improvements in export competitiveness, productivity, industrial capacity, and fiscal discipline.

In the near to medium term, preserving exchange-rate stability remains essential. At the same time, policymakers should consider gradually expanding flexibility within the existing framework, while focusing on structural reforms that strengthen the real economy. Export diversification, investment in productive capacity, improved logistics, and institutional reforms are critical to reducing dependence on remittances and narrowing trade deficits.

Conclusion

Nepal's exchange-rate regime must strike a careful balance between stability and adaptability. While the current peg has served as a valuable anchor, long-term external sustainability will depend less on the choice of regime and more on the country's ability to address structural constraints, enhance competitiveness, and align macroeconomic policy with growth-oriented reforms.

1) Imports and Remittance outlook.

The remittance outlook shows continued importance for the economy, but with increasing vulnerability and slower growth ahead. Based on the observed trend, remittance inflows have risen steadily over time and are projected to continue increasing toward the late 2020s, reaching roughly the upper range seen in recent years.

However, this growth is expected to moderate compared to the past, reflecting a transition from rapid expansion to a more mature phase. Structural factors such as limited new migration opportunities and changing labor demand in destination countries—particularly in the Gulf—are likely to constrain future growth.

The outlook becomes more uncertain when accounting for potential Gulf crises, as a large share of migrants and remittance inflows are concentrated in countries like the UAE and Qatar. In a mild crisis scenario, remittances may experience a short-term decline but recover relatively quickly. Under a moderate scenario, the decline could be more pronounced, with a drop of around 8–10 percent and a recovery period extending over several years. In a severe scenario involving substantial job losses in the Gulf, remittances could fall sharply by 15–20 percent or more, leading to a lasting structural break and a lower long-term trajectory.

Overall, the most realistic outlook is one of continued but slower growth, accompanied by periodic volatility driven by external shocks. While remittances will remain a key pillar of the economy, their reliability is increasingly at risk due to heavy dependence on a narrow set of destination countries. Without diversification of labor markets and improvements in domestic economic capacity, remittance inflows are likely to stabilize at a lower growth path, making the economy more exposed to external disruptions.

2) Monthly indicators

Particulars Amount in NPR Billion	2025								2026		
	Apr-May	May-Jun	Jun-Jul	July-Aug	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar
Consumer Price Inflation (y-o-y) (%)	2.77	2.72	2.20	1.68	1.87	1.47	1.11	1.63	2.42	3.25	3.62
Consumer Price Inflation (Compared to previous month) (%)	0.57	0.28	0.08	0.39	0.74	0.50	0.09	0.13	-0.20	0.21	0.43
Food and Beverage (%)	0.57	0.06	-0.17	0.62	1.43	0.67	0.07	-0.24	-1.11	0.27	0.67
Non Food and Service (%)	0.58	0.41	0.22	0.26	0.37	0.41	0.11	0.33	0.29	0.17	0.30
Exports	29.72	29.66	29.46	23.93	23.39	25.47	20.71	23.01	25.51	26.13	22.97
Imports	164.7	170.6	159.3	143.0	162.11	162.9	141.37	156.74	172.83	184.46	165.76
Travel Income	9.2	6.5	6.3	5.4	6.21	7.6	7.96	6.82	8.24	5.79	7.39
Travel Spending	14.4	18.9	20.5	21.7	25.61	17.3	11.15	13.23	16.59	15.70	23.85
Remittance Inflows	165.3	176.3	189.1	177.4	174.67	201.2	133.82	183.18	192.62	198.08	188.64
Government Expenditure	159.4	125.1	240.2	46.3	180.17	184.4	104.3	95.6	125.0	111.2	125.2
Current Expenditure	95.1	78.4	128.8	18.5	95.71	142.6	64.10	77.1	89.0	75.2	79.7
Capital Expenditure	17.5	23.0	79.3	0.7	5.62	12.8	6.13	8.6	15.0	14.3	14.8
Revenue	91.0	93.7	162.7	84.5	73.06	91.5	77.60	79.8	171.0	87.6	82.3
Deposit Mobilization	31.3	117.8	293.9	-55.8	144.44	185.9	3.66	59.5	135.6	16.2	48.3
Private Sector Credit	7.6	38.9	16.1	-2.9	52.17	33.7	-17.9	37.2	95.2	24.4	21.7
Weighted Average Deposit Rate (%)	4.37	4.29	4.19	4.02	3.96	3.85	3.74	3.7	3.6	3.5	3.4
Weighted Average Lending Rate (%)	8.11	7.99	7.85	7.76	7.66	7.50	7.38	7.3	7.1	7.0	6.9
Base Rate of Commercial Banks (%)	6.17	6.09	6.02	5.78	5.72	5.56	5.44	5.38	5.29	5.12	5.10

Nepal's macroeconomic indicators show a clear disinflationary trend throughout 2025, followed by mild reflationary signs toward early 2026. Year-on-year consumer price inflation steadily declined from 3.39 percent in March-April to 1.11 percent in Oct–Nov, before rising sharply to 3.62 percent in March 2026. Monthly inflation witnessed increment by 0.43 percent in Mid-March, largely driven by food price corrections, as the Food and Beverage index increase sharply by 3.60 percent during the same period. Non-food and services inflation remained relatively stable at 3.63, indicating that overall price surge was primarily supply-constraint in food items. Externally, imports consistently exceeded exports, keeping the trade deficit wide, with imports decrease at NPR 166 billion in Jan-Feb against exports of NPR 23 billion. However, strong remittance inflows— decrease moderately to NPR 199 billion in Mid-March—continued to cushion the external imbalance. Travel income remained moderate and relatively stable, while travel spending fluctuated, narrowing somewhat compared to earlier months.

3) Our view on the current level of External vulnerabilities

Nepal's foreign trade balance over the past four fiscal years shows a persistent dependence on imports, with imports consistently accounting for over 80% of total trade. In F.Y. 2023/24, exports represented only 9.1% of trade, resulting in a wide trade deficit of 1.80 (4.44% of GDP). The situation worsened in 2023/24 as exports fell by 9%, pushing the export–import ratio to 1:11, though the deficit as a share of GDP eased slightly to 3.96%.

A notable turnaround occurred in 2024/25, when exports doubled and their share in total trade decline by 5%, improving the export–import ratio to 1:11 imports also rising by 1%. Revenue collections increased steadily across the period, supported by higher imports and exchange rate depreciation from NPR 125 to NPR 145 per USD. Overall, while the trade deficit persists, the rebound in exports in 2024/25 signals some positive momentum toward reducing external imbalance, though Nepal's structural reliance on imports remains the key vulnerability.

F.Y. 2025/26 Mid-March

- Imports rose to \$ 11.47 billion (up 13%), but exports surged to \$ 1.71 billion (a 23% jump).
- As a result, the trade deficit widened to \$ 9.7 billion, but relative to GDP it stabilized at 21%.
- Export share in total trade slightly decreased from previous year 13% to 12.97%.
- The export-import ratio improved sharply to 1:6.71, showing better diversification in trade.
- Import revenue 2.80, 6.46% increase from the previous year.

Current year shows a remarkable recovery in exports, while imports also grew. The export contribution to trade doubled, making the trade structure more balanced, although the deficit persists.

- a) Persistent Trade Deficit – Nepal continues to run a structural trade deficit, though as % of GDP it has slightly improved.
- b) Exports Rebound in 2025/26 – as in 2024/25, exports doubled in 2025/26, showing potential gains from policy reforms, improved competitiveness, or favorable external demand.
- c) High Import Dependency – Imports consistently account for over 86% of total trade, underscoring vulnerability to external shocks and foreign exchange pressure.
- d) Exchange Rate Depreciation Effect – The fall in the NPR from 125 to 145per USD increased import costs but boosted customs revenue collection.
- e) Revenue Growth Linked to Trade – Government revenue from foreign trade is rising, but it is still highly dependent on import volumes rather than export-led growth.

Foreign Trade Balance of Nepal \$ in billion	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2023/24 (Mid-April)	8.98	0.88	8.10	9.86	1.00	10.20	2.36	1 USD= 125NPR
Share % in Total Trade	91.08	8.92						
Trade deficit % GDP	17.54%						-	
F.Y. 2024/25 (Mid-April)	10.07	1.45	8.62	11.52	1.00	6.94	2.63	1 USD= 130 NPR
Share % in Total Trade	87.41	12.59					Up	
Trade deficit % GDP	18.66%							
F.Y.2025/26 (Mid- April)	11.47	1.71	9.76	13.18	1.00	6.71	2.80	1 USD= 130 NPR
Share % in Total Trade	87.03	12.97					Up	
Trade deficit % GDP	21.13%							
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	12.14%	64.77%	6.42%	16.84%			11.44%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	13.90%	17.93%	13.23%	14.41%			6.46%	

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 an increased to 26.87% by mid-Dec. 2025, compared to the 26.23 % reported in the immediate previous month.

Trade Deficit

In the eleven months of FY 2025/26, the monthly trade deficit widens to USD 1.31 billion. However, on a year-on-year basis, the cumulative trade deficit widened to USD 12.89 billion, marking a marginal increase from USD 12.61 billion recorded in the previous month and suggesting a slight reversal of the recent improving trend.

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.

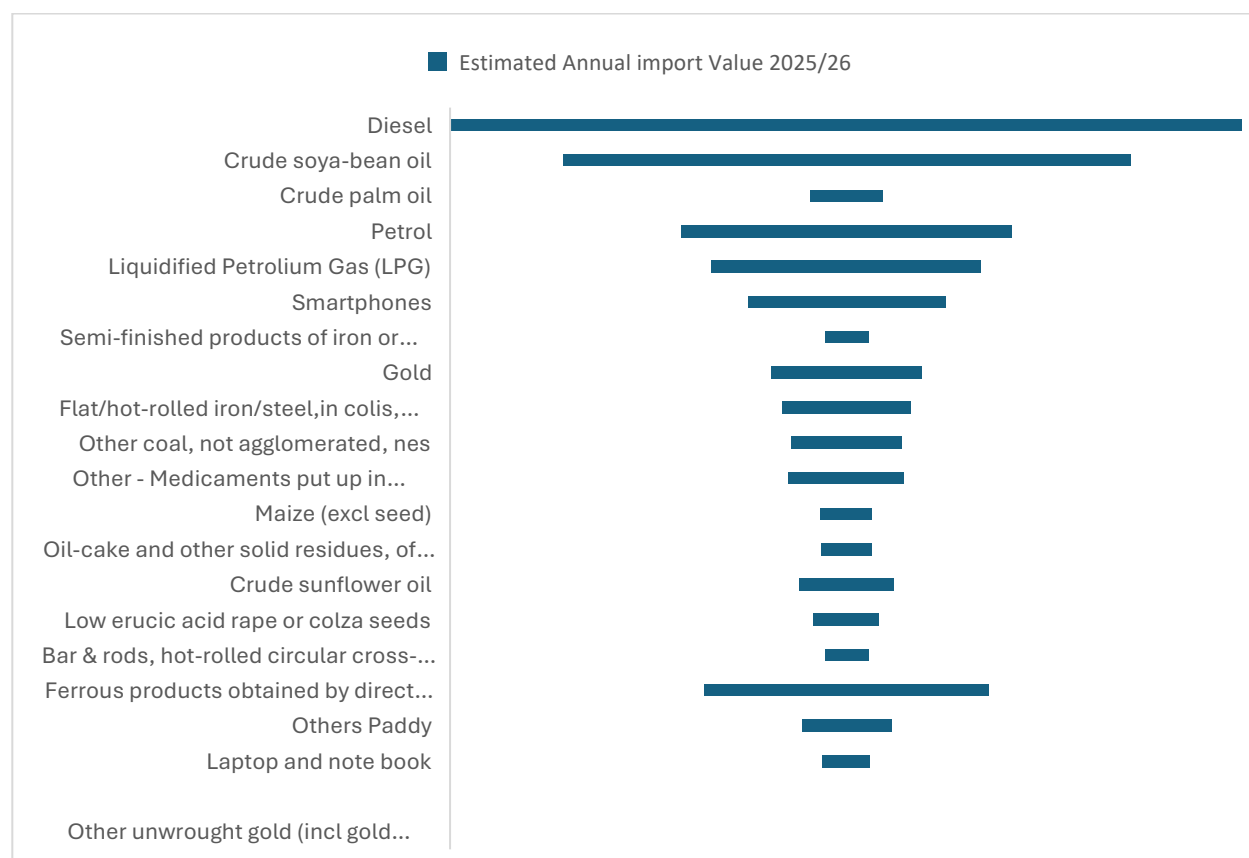
Observations

Presently, Nepal maintains strong foreign exchange reserves, which cover over 18.97 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.

4) Trade Directions

Trade Indicators	Feb-26	Mar-26	Apr-26	Y-o-Y	Remarks	%age
Conversion Factor 1 USD = NPR 130						
Imports (UDS in billion)	8.64	9.92	11.47	15.28	UP	11.43%
Monthly Imports	1.42	1.28	1.55			
Exports (UDS in billion)	1.29	1.47	1.71	2.39	UP	22.22%
Monthly Exports	0.20	0.18	0.24			
Trade Deficit (UDS in billion)	7.35	8.45	9.76	12.89	UP	10.29%
Total Foreign Trade (UDS in billion)	9.94	11.39	13.18	17.67	UP	12.37%
Monthly Import Revenue	0.33	0.31	0.33			
Total Import revenue	2.16	2.47	2.80	3.85	UP	5.26%
Monthly Remittance	1.52	1.45	1.20			
Remittance inflows	9.79	11.24	12.44	16.52	UP	29.45%
Imports/Exports Ratio	6.68	6.75	6.71	6.39	Down	-1.18%
Exports Share to Total Trade (%)	13.02	12.91	12.97	18.54	UP	60.07%
Imports Share to Total Trade (%)	86.98	87.09	87.03	81.46	Down	-5.74%
Monthly Trade Deficit (UDS in billion)	1.22	1.10	1.31			
Trade deficit % GDP	15.91%	18.29%	21.13%	27.47%	UP	6.05%
Change in Monthly Trade Deficit %	Feb-26	Mar-26	Apr-26	Y-o-Y	Remarks	%age

The country grapples with a persistent trade deficit, as imports consistently outstrip exports, though the deficit's growth is slowing, and its share of GDP is declining, signaling potential stabilization in trade dynamics. The trade indicators dataset for the fiscal years 2024/25 to 2025/26 reveals a persistent trade imbalance characterized by a significant trade deficit, with imports consistently outpacing exports. Monthly imports fluctuated between \$0.80 billion and \$1.59 billion, stabilizing around \$1.0–\$1.16 billion in recent months.



5) Expected Annual Imports of Major Items

Description \$ in million Conversion Factor 1 USD = NPR 130	2023/24 Annual Import Value	Annual Import Value 2024/25	Apr-26	Estimated Annual import Value 2025/26	Import Direction	Monthly Movement 2024 VS 2025	EXPT. Annualized Movement 2025/26
Diesel	1,108	990	795	1,144	Growth	13.25%	15.56%
Crude soya-bean oil	103	838	744	820	Growth	46.46%	-2.21%
Crude palm oil	82	52	74	105	Growth	131.25%	102.45%
Petrol	524	493	388	479	Growth	5.43%	-2.93%
Liquidified Petroleum Gas (LPG)	428	481	320	390	Decline	-10.61%	-18.89%
Smartphones	221	273	260	285	Growth	33.33%	4.56%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	107	106	63	64	Decline	-21.25%	-39.75%
Gold	182	132	181	217	Growth	37.12%	64.77%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	266	254	171	186	Decline	-14.07%	-26.94%
Other coal, not agglomerated, nes	176	166	143	160	Growth	13.49%	-3.58%
Other - Medicaments put up in measured dos s or in forms or packing for retail s	211	233	161	168	Decline	-10.06%	-27.76%
Maize (excl seed)	108	141	66	75	Decline	-37.74%	-46.52%
Oil-cake and other solid residues, of soyabean	130	98	77	74	Decline	-4.94%	-24.03%
Crude sunflower oil	137	223	112	137	Decline	-35.63%	-38.49%
Low erucic acid rape or colza seeds	83	115	80	96	Decline	-9.09%	-16.70%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	80	90	59	64	Decline	-14.49%	-29.05%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	300	375	328	412	Growth	12.71%	9.77%
Others Paddy	93	157	122	130	Decline	-12.23%	-17.04%
Laptop and note book	58	68	60	70	Growth	20.00%	3.32%

Other Major Imports

Description Conversion Factor 1 USD = NPR 130	Amount in \$ million	Imports Value
Diammonium hydrogenorthophosphate (diammonium phosphate)		185
Fertilizer Grade		172
Unwrought silver (incl silver plated with gold or platinum)		150
ATF		123
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC		85
Electric car, jeep & van 51KW to <=100KW		80
Powder of silver		78
Apples, fresh		74
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed		70
Dyed kintted or crocheted fabrics of synth tic fibres, nes.		58

Description	Conversion Factor 1 USD = NPR 130	Amount in \$ million	Imports Value
Other potatoes, fresh or chilled			54
Polypropylene, in primary forms			54
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed			52
Petroleum bitumen			52
Wire of refined copper, maximum cross-sectional dimension >6mm.			50
Non-alloy pig iron containing, =<05% phosphorus, in pigs, blocks or other primer			50

Major Export (Conversion Factor 1 USD = NPR 130). Amount in \$ million	Export value
Soya-bean oil (excl. crude) and fractions	697.84
Big Cardamon (Alaichi) neither crushed nor ground	82.32
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	57.26
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	53.44
Refined bleached deodorized palm olein	39.22
Unbleached woven fabrics of jute or of other textile bast fibre of heading 5303.	36.86
Other Felt, whether or not impregnated, coated, covered or laminated. nes .	30.53
Other yarn, <85% polyester staple fibres, with artificial staple fibres, nprs	28.56
Mixtures of juices, unfermented, not containing added spirit.	28.36
Single yarn, with >=85% polyester staple fibres, nprs	26.70
Dog or cat food, put up for retail sale	24.91
Shawls, scarves, mufflers, mantillas, veil , etc, of wool or fine animal hair	21.30
Other pasta, nes	20.74
Oil-cake of low erucic acid rape or colza seeds	20.68
Woven fabrics obtained from synthetic stri or the like	20.49
Other black tea (fermented) and other partly fermented tea	20.30
Veneer sheets and sheets for plywood and other wood, =<6mm thick, nes	19.30
Other, with both outer plies of coniferous wood	17.66
Sacks and bags, used for packing goods, of jute or of other textile bast fibres	16.48
Women's or girls' trousers, breeches, etc, of cotton	14.37

Nepal's import pattern for FY 2025/26 (estimated) reflects a dual shock adjustment—on one hand, supply-side disruptions linked to the Gulf crisis and global logistics constraints, and on the other, demand moderation due to low consumers' confidence. The data shows a clear divergence between energy security-driven imports, consumption resilience, and construction/industrial slowdown.

Energy imports are rebounding despite ongoing volatility, underscoring Nepal's structural dependence on external fuel supplies. Diesel imports are projected to rise sharply to USD 1.14 billion, reflecting a 15.6% annualized increase and reversing last year's decline, largely driven by price surges amid Gulf-related supply risks. Petrol imports, in contrast, remain relatively stable with a marginal decline of 2.93%, suggesting controlled consumption alongside a gradual shift toward electric vehicles. LPG imports are expected to contract significantly by 18.89%, pointing to supply constraints and possible demand compression at the household level. Meanwhile, coal imports remain broadly stable, declining slightly by 3.58%, which reflects steady industrial energy demand despite external uncertainties.

Edible oil imports show a mixed yet strategically important trend, shaped more by re-export dynamics and price arbitrage than by domestic consumption. Crude palm oil imports are set to rebound strongly by 102.45%, while soybean oil imports remain elevated despite a modest decline of 2.2%, indicating that the Gulf crisis may begin to affect supply following the exceptional surge seen in 2024/25. In contrast, sunflower oil imports have dropped sharply by 38.5%, highlighting substitution effects and shifting trade margins in response to disrupted global supply chains.

Consumer electronics imports indicate resilient urban demand, with smartphones (+4.6%) and laptops (+3.3%) maintaining growth momentum. This suggests that remittance-supported consumption is still holding, even under external shocks, though growth has moderated compared to the previous year's surge. Gold imports have surged significantly (+64.8%), reflecting both safe-haven demand amid global uncertainty and possible informal capital flight hedging. This trend is consistent with crisis-period behavior, where households and traders shift toward physical assets.

In contrast, construction and industrial raw materials show a pronounced contraction, signaling weakening domestic investment. Imports of semi-finished steel (-39.8%), flat-rolled steel (-26.9%), and rods (-29.0%) have all declined sharply. Even though direct reduced iron shows some growth (+9.8%), the broader pattern indicates sluggish infrastructure and real estate activity, likely due to tighter credit conditions and policy uncertainty.

Agricultural and feed-related imports also show contraction, pointing to both demand-side weakness and some degree of domestic substitution. Maize imports have dropped significantly (-46.5%), and soybean oilcake (-24.0%) reflects reduced livestock and poultry sector expansion. Similarly, paddy imports (-17.0%) suggest either improved domestic harvests or import compression due to foreign exchange management. Pharmaceutical imports declining (-27.8%) is notable and could indicate normalization after post-pandemic stocking or tighter import controls rather than reduced healthcare demand.

Overall Trend Assessment

The adjusted import outlook suggests that Nepal is entering a phase of selective import compression with strategic expansion:

1. **Expansion zones:** Energy (diesel), gold, palm oil, and selective industrial inputs (DRI)
2. **Stable zones:** Consumer electronics, coal
3. **Compression zones:** Construction materials, agriculture inputs, LPG, pharmaceuticals

Macroeconomic Interpretation

The Gulf crisis has primarily affected expectations and precautionary behavior, boosting fuel and gold imports rather than causing an outright supply collapse.

1. Domestic economic slowdown is more visible than external disruption, particularly in construction and industrial imports.
2. Remittance-backed consumption remains resilient, preventing a broad-based import contraction but face downside risk.
3. Policy-driven import management and foreign exchange considerations are clearly shaping the decline in non-essential and bulk commodities.

Forward Outlook

If the Gulf crisis persists, Nepal may see:

1. Continued upward pressure on fuel imports and prices, worsening the trade deficit
2. Further shift toward gold as a hedge asset
3. Delayed recovery in construction imports, unless monetary easing resumes
4. Gradual normalization in edible oil trade as arbitrage opportunities stabilize

In sum, Nepal's import structure is rebalancing under stress, with energy security and financial hedging dominating, while real-sector investment signals remain weak.

6) Nepal's FDI Landscape: A Look at Progress and Persistent Challenges

Nepal is actively positioning itself as a prime investment destination, as highlighted in the "FDI Trends and Investor Guideline 2025" report. With a BB- sovereign credit rating from Fitch Ratings and legal reforms like the new Investment Related Act, the government is making strides to attract foreign capital. The establishment of the One Stop Service Centre (OSSC) is a commendable step toward streamlining processes. Recent data shows strong FDI commitments, with India, China, and the USA leading the way, demonstrating growing international interest. Top FDI Commitments (FY 2081/82)

- India: 3,745.54 million NRs.
- China: 3,212.19 million NRs.
- USA: 1,511.23 million NRs.

However, a closer look reveals a significant gap between these commitments and actual investment inflows. The flow of capital-intensive FDI remains a persistent challenge. While the government has introduced new legal frameworks, the lack of timely issuance of corresponding regulations often creates a climate of uncertainty for investors.

Why is Nepal still lagging its neighbors?

- **Political and Bureaucratic Hurdles:** Frequent political instability and a slow, cumbersome bureaucracy create a "wait-and-see" approach among investors, despite government efforts.
- **Infrastructure Deficit:** Poor transportation infrastructure and land acquisition issues increase the cost and complexity of setting up large-scale projects, making Nepal less competitive compared to countries like India and China with more developed infrastructure.

- **Lack of Implementation:** While new laws and acts are passed, the slow pace of implementation and inconsistent enforcement of regulations erode investor confidence. This is particularly true for complex projects that require coordination across multiple government agencies.
- **Small Domestic Market:** Nepal's relatively small market size does not always justify the large-scale, capital-intensive projects that investors in sectors not vulnerable to demand shock might consider.

To truly unlock its potential, Nepal must focus on bridging the gap between policy and practice. By translating legal reforms into tangible, efficient processes, and by prioritizing the development of robust infrastructure, the country can move beyond mere commitments to attract the sustained, high-impact investments its needs for long-term growth.

FDI Approved by the Department of Industry (Mid-April 2026)

Category	No. of Project	Amount in USD Mn	Monthly Growth in %age
Manufacturing	38	19.58	0.79%
Energy	2	1.80	27.14%
Agro and Forestry Based	16	169.91	0.82%
Tourism	164	88.17	4.18%
Mineral	2	0.88	100.00%
Service	47	29.97	7.40%
Infrastructure	-	-	0.00%
ICT	346	11.21	11.54%
Total	615	321.53	2.78%
Repatriation Amount	-	129.37	3.38%
Outflow / Inflow ratio	-	0.40	0.59%

Section 5 Financial Sector highlights

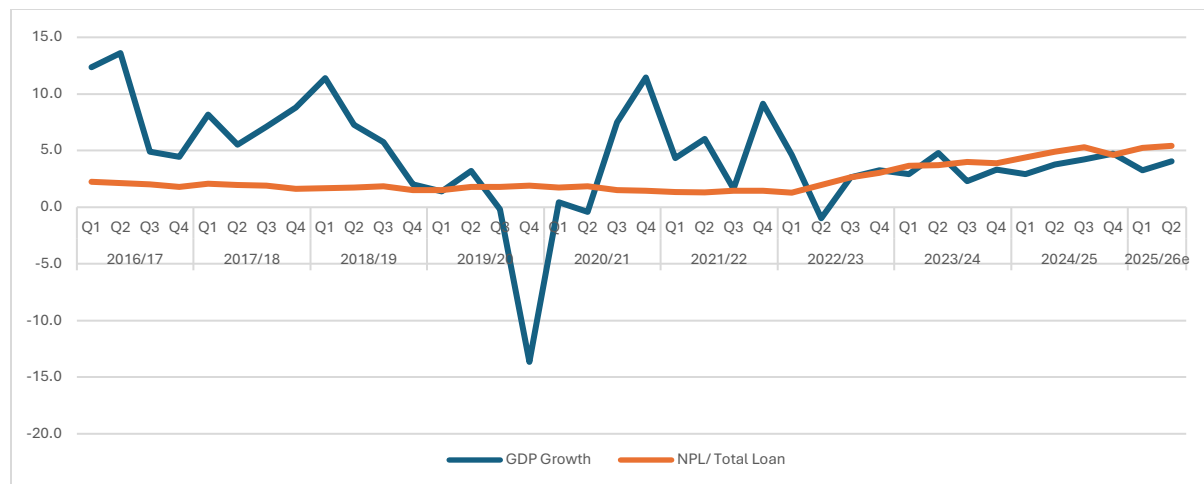
1) Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates

Economic activity in Nepal remains subdued despite a few encouraging signs. As of March 2026, consumer spending has shown only a marginal uptick, largely supported by higher remittance inflows and a modest decline in borrowing costs. However, the manufacturing sector—central to industrial growth—continues to face supply-side constraints due to limited new investment and ongoing production disruptions. The September unrest and flash floods further compounded these challenges, causing significant loss of life and property, eroding business confidence, and disrupting regional trade and logistics. In this fragile environment, there is a growing expectation for coordinated fiscal and monetary stimulus to restore confidence, revive private sector activity, and stabilize the broader economic outlook.

Consumer confidence in May 2026 is expected to ease from its recent peak, reflecting weakening private sector sentiment amid the criminalization of corporate offenses. Nevertheless, the investment outlook appears more positive, supported by improving political stability, a gradual recovery in corporate credit demand—particularly in the manufacturing sector—an anticipated acceleration in government capital expenditure, and a more accommodative policy stance. These factors are helping repair balance sheets across banks and businesses, while rising capacity utilization and modest improvements in overall business sentiment are reinforcing this emerging momentum.

Despite lower lending rates, credit demand has remained subdued, with bank credit growth largely stagnant. This is mainly due to the high concentration of government securities and excess liquidity within financial institutions. In response, banks have continued to lower lending and deposit rates to stimulate demand for credit. This trend has resulted in a notable decline in weighted average interest rates, although it has yet to translate into a meaningful expansion in private sector borrowing.

At the same time, migration and urbanization trends have continued to suppress rural demand, which is expected to remain below levels recorded in FY 2024/25. In the current fiscal year (2025/26), the weighted average lending rate has fallen significantly to 6.9% in mid-time from a peak of 13.03% observed in February 2023. This sharp decline in borrowing costs has contributed to a modest recovery in urban demand, particularly for domestically produced capital goods, as reflected in recent economic indicators.



2) Non-Performing Loans (NPL)

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%.

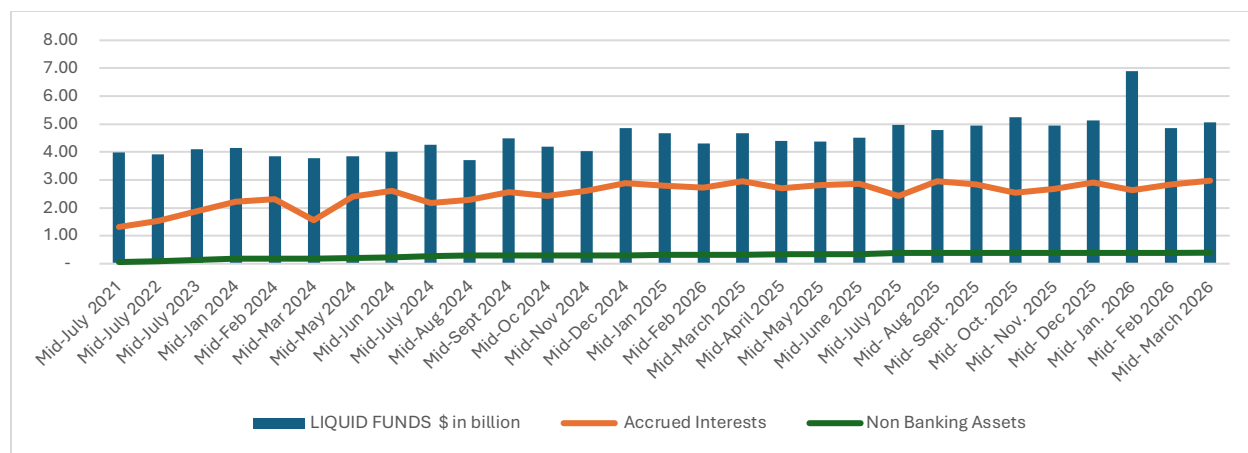
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. This increase suggests growing challenges for the banking sector in managing defaults, possibly related to post-pandemic economic stresses and inflationary pressures. In Q4 of 2024/25, the NPL ratio reached moderate high of 4.62%, signaling some correction from immediate previous quarter high of 5.30%. Q2 of 2025/26 NPL surged to 5.42%. However, during Q3 NPL is expected to decrease to 5.10%

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.

From mid-July 2021 to mid-March 2026, accrued interest rose steadily from USD 1.32 billion to USD 2.97 billion (USD 2.86 billion as of Mid-Feb 2026), indicating a growing stock of interest income yet to be realized, largely due to delayed loan repayments. Although a slight moderation is observed after August 2025. Even with the slight moderation this, the overall trend points to over-optimism in credit expansion and signals underlying stress in loan recovery and asset quality.

In contrast, liquid funds have shown fluctuations without a consistent upward trend, hovering around USD 4 to 7 billion (5.05 billion March 2026), which implies that institutions have significantly amount of Liquidity has been mop-up by NRB.

Meanwhile, non-banking assets, rising gradually from USD 0.06 billion to USD 0.39 billion (0.39 billion in February 2026), 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.



3) BFs Outlook 2024/25, 2025/26, 2026/27 and 2027/28

Assets and Liability (Exchange Factor \$ 1 = NPR 130)						
Capital, Deposits and Risk Assets. USD in million						
Particulars	July 2026e	Change	July 2027e	Change	July 2028e	Change
CAPITAL FUND	6,567	10.10%	6,826	3.94%	7,097	3.98%
PAID UP CAPITAL	3,642	6.72%	3,908	7.31%	4,168	6.66%
BORROWINGS	1,636	-9.55%	1,391	-14.94%	1,148	-17.49%
Borrowing from NRB	4	6.63%	8	131%	41	394%
DEPOSITS	61,042	8.65%	66,261	8.55%	71,615	8.08%
Current	3,604	-11.25%	4,079	13.17%	4,150	1.74%
Saving	28,528	38.72%	35,983	26.13%	9,046	-74.86%
Fixed	22,548	-16.42%	18,248	-19.07%	44,091	141.63%
Call	5,942	41.18%	7,478	25.85%	9,046	20.97%
Others	419	13.50%	474	13.08%	529	11.49%
LIQUID FUNDS	5,894	18.38%	6,485	10.02%	7,044	8.62%
GOVT. SECURITIES/OTHER	15,802	17.84%	17,607	11.43%	19,964	13.38%
Investment in share and other	3,483	23.94%	4,801	37.81%	6,569	36.84%
LOANS & ADVANCES	46,043	7.05%	49,792	8.14%	53,669	7.79%
Total Capital/RWA	12.44%	-0.11%	11.63%	-6.50%	10.89%	-6.38%
CD	74.37%	-1.19%	74.32%	-0.07%	74.31%	-0.01%
NPL /Total Loan	4.63%	0.15%	4.65%	0.45%	4.87%	4.90%
Return on Capital Employed	9.32%	-8.89%	19.24%	106.48%	19.41%	0.89%

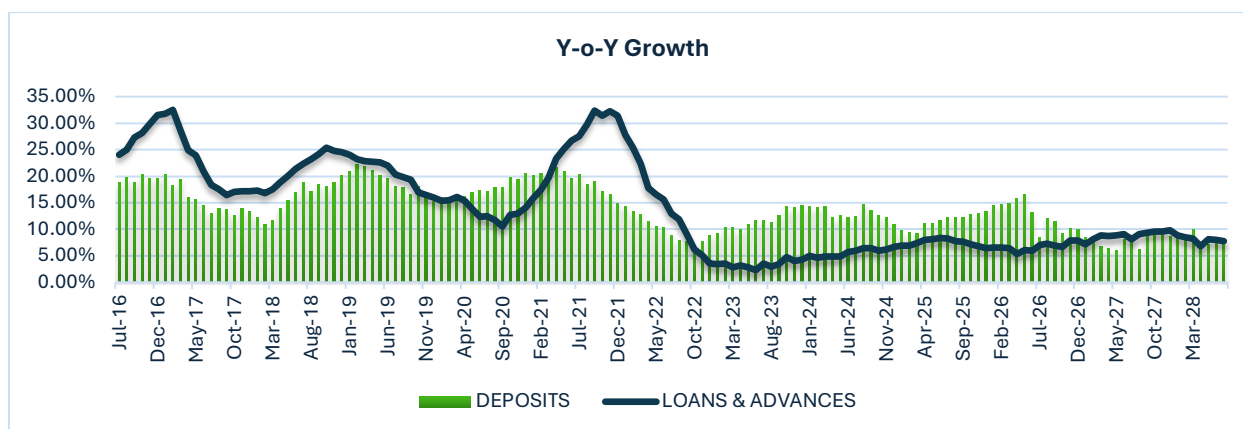
	July 2026e	Change	July 2027e	Change	July 2028e	Change
Int on Loans and Adv.	3,279	-11.33%	3,826	16.67%	4,428	15.74%
Total Int. Income	4,017	-7.93%	5,251	30.71%	5,332	1.55%
<u>Avg. Yield From Loan</u>	6.84%	-15.40%	7.68%	12.38%	8.25%	7.38%
Int Expenses	2,331	-13.48%	2,864	22.87%	3,175	10.85%
Avg. Cost of Fund	3.55%	-20.37%	4.32%	21.71%	4.43%	2.56%
NII	1,686	1.04%	2,387	41.54%	2,157	-9.62%
Interest Spread (cash basis)	2.98%	-17.85%	3.36%	12.95%	3.82%	13.57%
Commission & fees	289	9.63%	291	0.82%	297	1.84%
Ex. Fluctuation Gain	85	14.16%	96	13.95%	109	13.36%

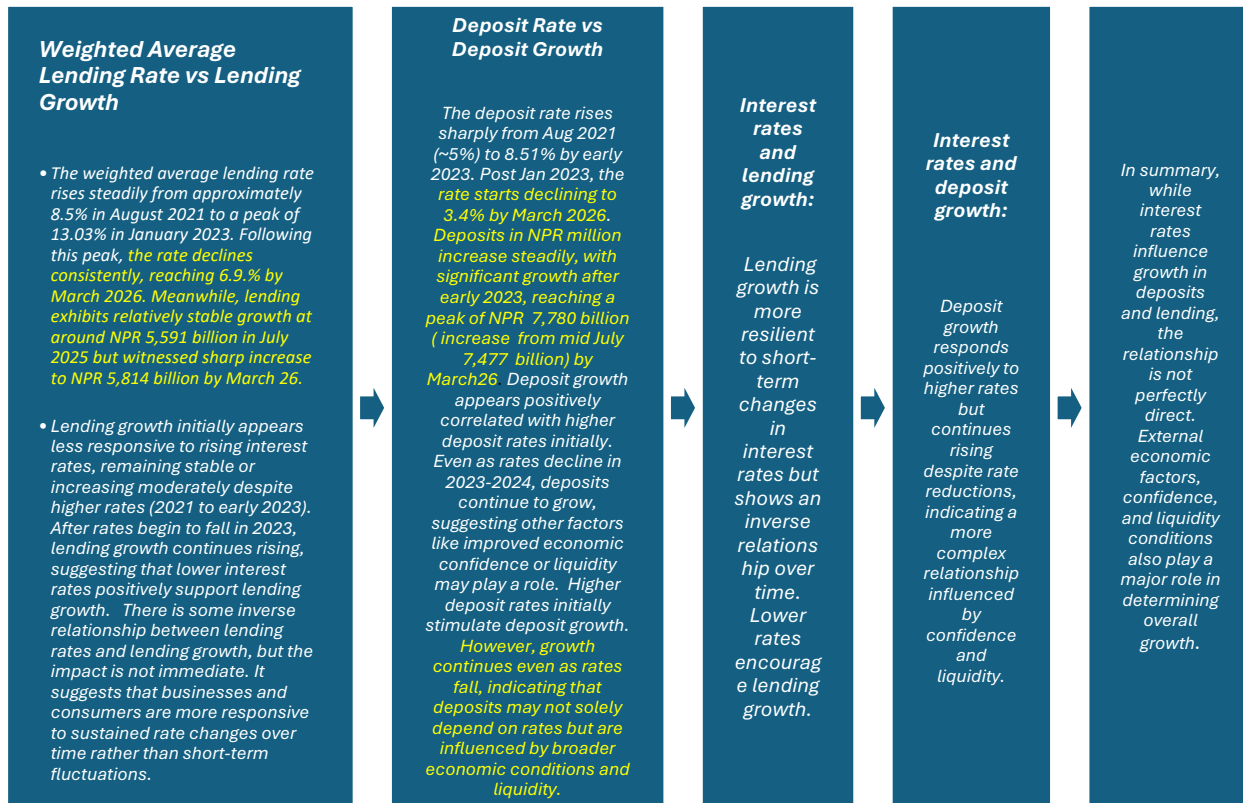
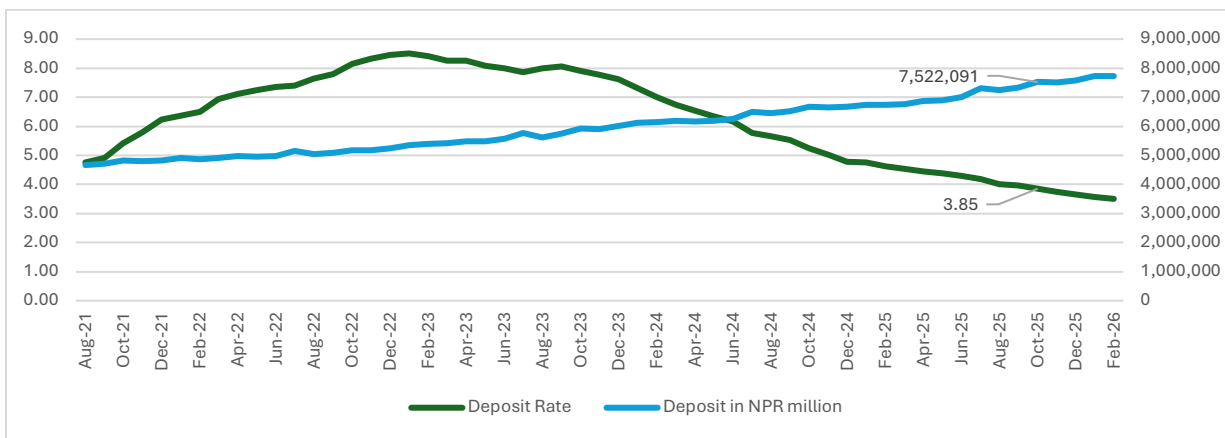
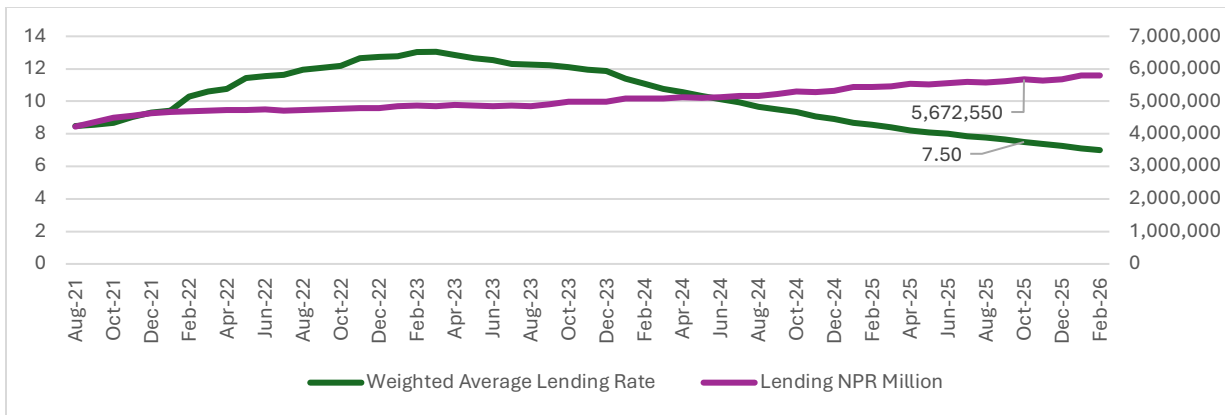
Other Operating & Non-operating Income	107	-1.81%	85	-20.75%	59	-30.82%
Gross Income	2,166	2.43%	2,859	31.96%	2,621	-8.31%
Employees Exp	539	2.85%	540	0.22%	566	4.70%
Employee cost in % of Total Int. Income	13.42%	11.71%	10.29%	-23.33%	10.61%	3.10%
Office Operating Exp	337	0.70%	360	6.96%	401	11.47%
LLP & write-off	678	-10.72%	223	-67.13%	122	-45.18%
Additional LLP to Risk Assets	1.47%	-21.25%	0.45%	-69.60%	0.23%	-49.14%
Provision Written Back	337	-25.00%	304	-10.00%	607	100.00%
PBT	950	0.31%	2,039	114.61%	2,139	4.90%
Return on total assets	1.24%	-8.81%	2.43%	95.10%	2.32%	-4.63%

P/L Account			
Particulars	Expected July 26	Expected July 27	Expected July 28
Total Operating Income	4,498	5,723	5,796
Total Operating Expenses	3,207	3,765	4,142
Provision Written Back	337	304	607
Provision for Risk	(663)	(208)	(102)
Loan Written Off	(15)	(15)	(20)
Net Profit before Bonus & Tax	950	2,039	2,139
Bonus	89	192	201
Tax	258	554	581
Net profit	603	1,293	1,357

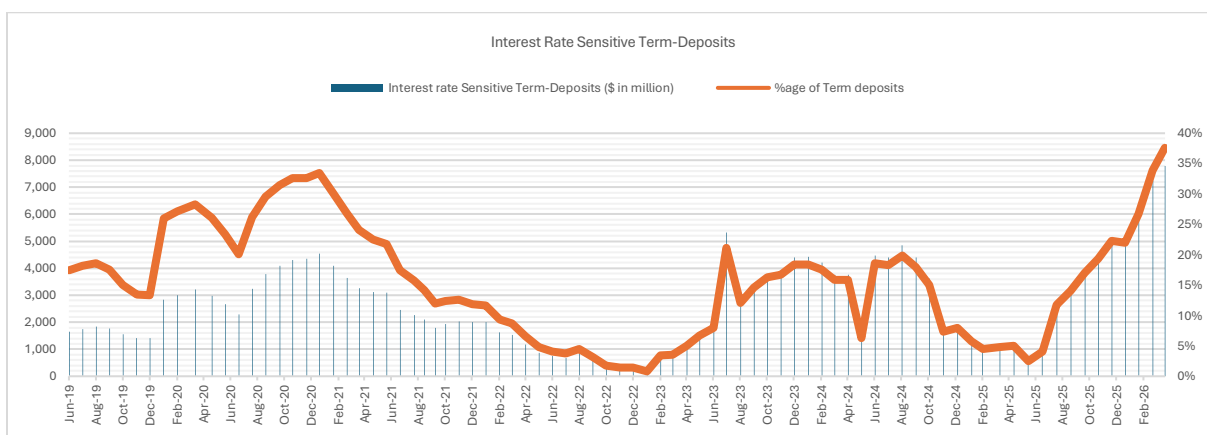
The profit and loss forecast for July 26 to July 28 indicates a period of rising income and strengthening profitability, supported by declining risk provisions. Total operating income is projected to increase from \$4,498 million on July 26 to \$5,796 million by July 28, while operating expenses are expected to remain manageable, expected to increase to \$4,142 million on July 28. Provisions for risk are forecasted to decrease to 102 million on 28.

Loan write-offs are expected to remain minimal, ranging between \$ 15 million and \$20 million. As a result, net profit before bonus and tax is projected to rise from \$950 million to a peak of \$2,039 million on July 27, slightly high at \$2,139 million on July 28. After adjusting for bonuses and tax obligations, net profit is forecasted to increase from \$603 million to a high of \$1,357 million on July 28, with significant surge expected on million on July 26. Overall, the outlook suggests strong profit growth, with peak performance expected on July 28, driven by higher income and lower provisions, though rising costs and taxes may soften gains toward the end of the period.



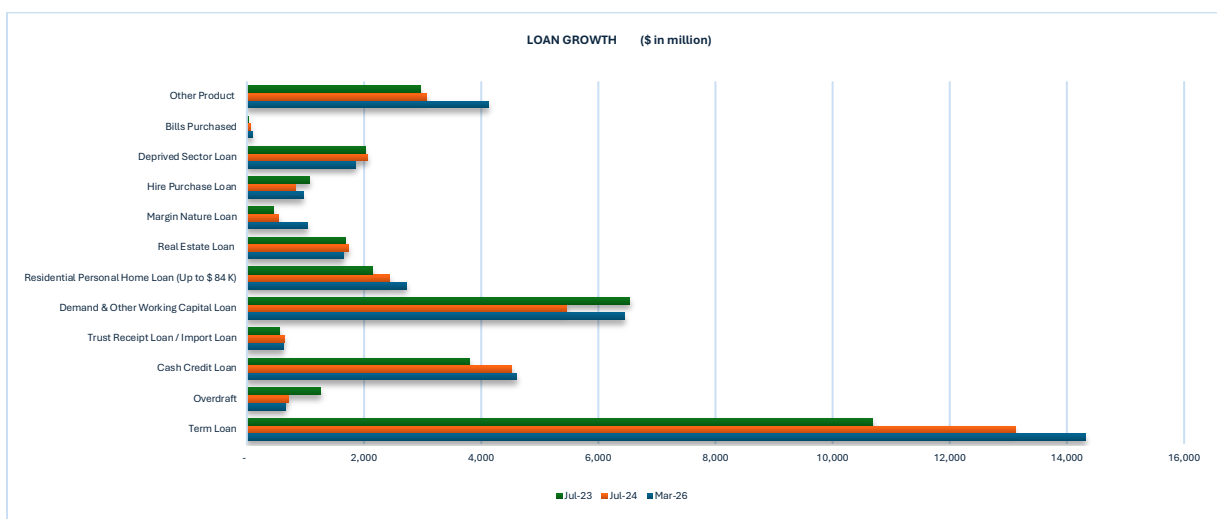


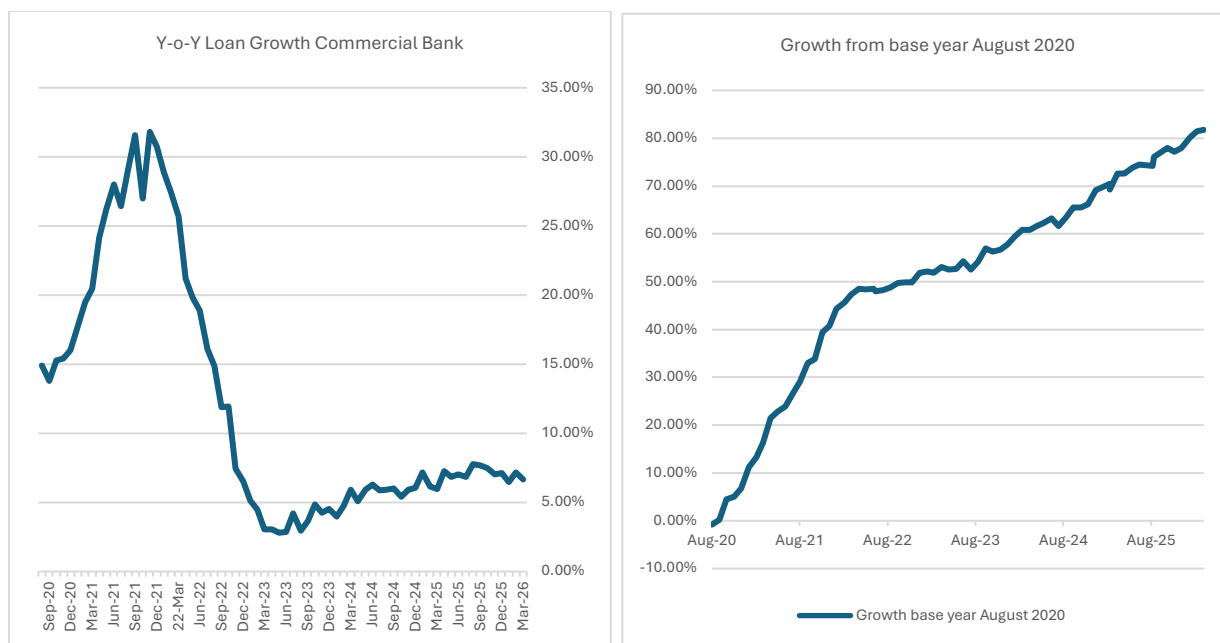
Amount in million	Deposit mix	Net Maturity Amount in \$ million		
		Within next month	Within a Year	Total
3-6 months	17%	694.86	2,967.41	3,662.27
6-12 months	33%	3,209.81	3,784.51	6,994.32
1-2 yrs.'	22%	440.21		4,249.39
2 yrs. and above	28%	2,904.37		3,140.53
Total	100%	33.89%	31.56%	100%



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 July 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.

4) Sector wise Loan Growth of Commercial Banks





Section 6 Insurance Sector

1) Insurance and Financial Sector Performance: FY 2024/25

Nepal’s financial sector, comprising both the insurance industry and the banking system, faced a challenging year in FY 2024/25 marked by a surge in claims, property damage, and credit losses arising from the Gen Z protest and widespread flooding. Despite these shocks, the insurance sector demonstrated resilience, recording strong growth in premium collection, coverage, and capital formation, while the banking sector grappled with significant disruptions to borrowers and physical infrastructure.

2) Insurance Sector Overview

Nepal’s insurance sector has demonstrated robust and sustained growth in recent periods, contributing not only to financial sector deepening but also to broader economic resilience and social protection. Key indicators—including premium collection, investment mobilization, claims settlement, and insurance density—show a strong upward trajectory, although structural gaps in penetration and diversification remain.

a) Key Data Table

Indicator	Previous Period	Latest Period	Growth (%)
Total Premium (NPR Billion)	120.94	141.99	~17%
Life Insurance Premium	96.64	113.71	~17.7%
Non-Life Premium	24.30	28.27	~16.3%
Insurance Density (NPR per capita)	6,447	7,396	14.7%
Total Investment (NPR Billion)	729.45	829.40	13.7%
Life Insurance Investment	649.12	759.66	17.0%
Non-Life Investment	80.33	69.74	-13.2%
Life Insurance Claims (NPR Billion)	65.47	78.98	20.6%
Non-Life Claims (NPR Billion)	18.09	25.26	39.6%
Employment (Number)	11,951	12,336	3.2%

b) Trend Analysis

The insurance sector is experiencing double-digit growth in premium collection, signaling expanding market coverage and increasing public awareness. Life insurance continues to dominate, accounting for nearly 80% of total premiums, reflecting a gradual shift toward long-term savings and financial security instruments.

A notable trend is the sharp increase in non-life insurance claims (nearly 40%), which suggests rising exposure to risks such as natural disasters, health emergencies, and asset-related losses. This indicates both improved claims servicing capacity and increasing vulnerability to external shocks.

On the investment side, the sector has accumulated approximately NPR 829 billion, reinforcing its role as a major institutional investor in Nepal's financial system. Life insurers are driving this expansion, while the decline in non-life investment may reflect portfolio adjustments or liquidity management pressures.

The rise in insurance density by nearly 15% highlights gradual improvement in per capita coverage. However, compared to regional benchmarks, overall insurance penetration remains relatively low, indicating significant room for expansion.

c) Social Impact

The growth of Nepal's insurance sector is generating meaningful social and economic benefits:

1. **Household Financial Protection:** Life insurance is helping families manage financial shocks associated with death or long-term risks, reducing vulnerability and potential poverty relapse.
 2. **Risk Mitigation:** Non-life insurance is playing a crucial role in cushioning the financial impact of disasters, accidents, and health-related expenditures.
 3. **Employment Generation:** The sector supports over 12,000 direct jobs, contributing to the expansion of Nepal's service economy.
 4. **Long-Term Capital Formation:** Insurance funds are being channeled into government securities and financial instruments, supporting infrastructure financing and national investment capacity.
 5. **Financial Inclusion:** Expansion of insurance services into semi-urban and rural areas is gradually strengthening financial inclusion, although a large segment of the population still remains uninsured.
- d) Conclusion

Overall, Nepal's insurance sector is transitioning from a growth-driven phase to a more mature and deepening phase. While strong gains in premiums, investments, and claims settlement reflect sectoral progress, the next stage of development will depend on:

1. Expanding coverage in underserved and rural segments
2. Enhancing product diversification, especially in agriculture and microinsurance
3. Strengthening risk management frameworks
4. Accelerating digital transformation
5. Improving regulatory effectiveness

With the right policy and market interventions, the insurance sector has the potential to become a key pillar of financial stability, social protection, and long-term investment in Nepal's economy.

Section 7 Capital Market

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

- a) 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.
- b) 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.
- c) 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.
- d) The dominance of ordinary equity shares 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.

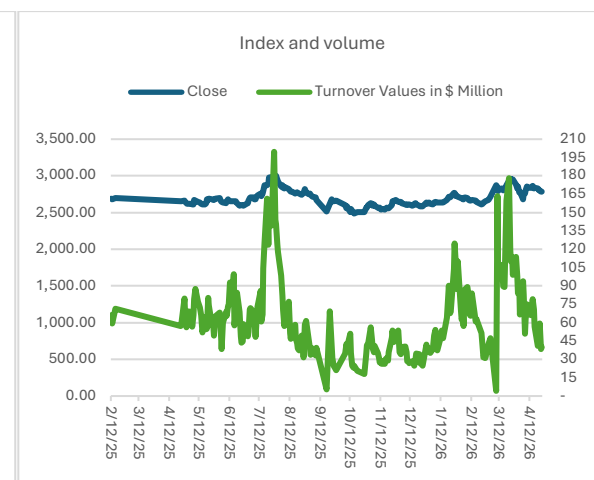
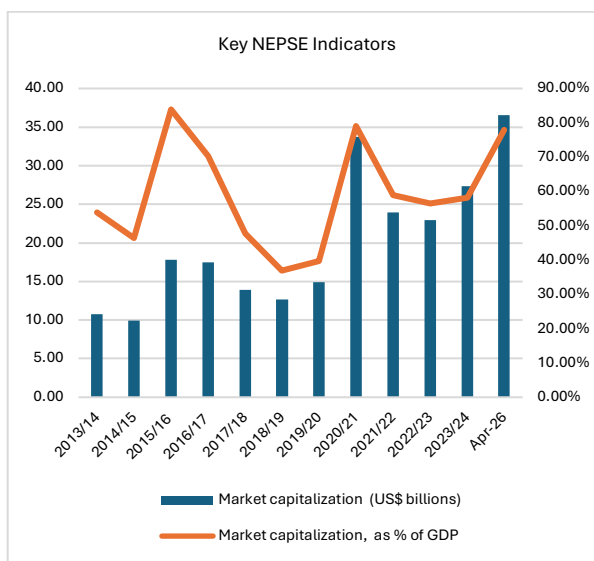
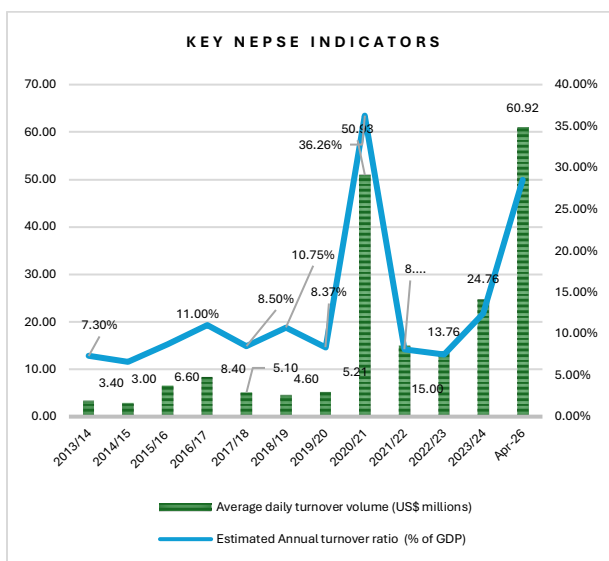
e) SEBON's inaction and lack of timely communication have not only delayed capital formation but also damaged its institutional credibility. The perception that approvals may depend on informal networks or discretionary influence rather than objective criteria further deteriorates trust. This environment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

f) Recommendations

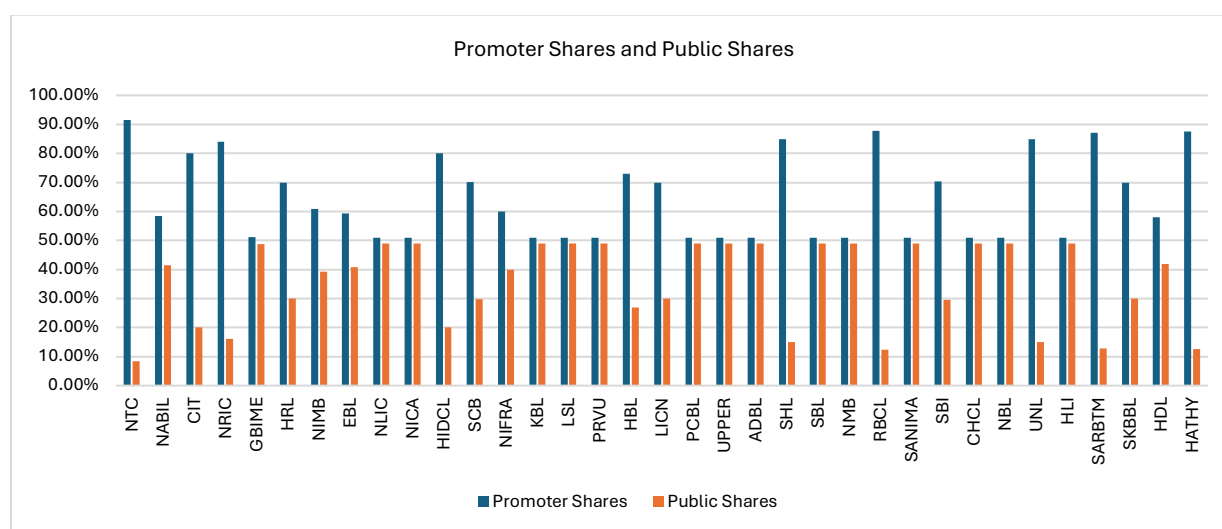
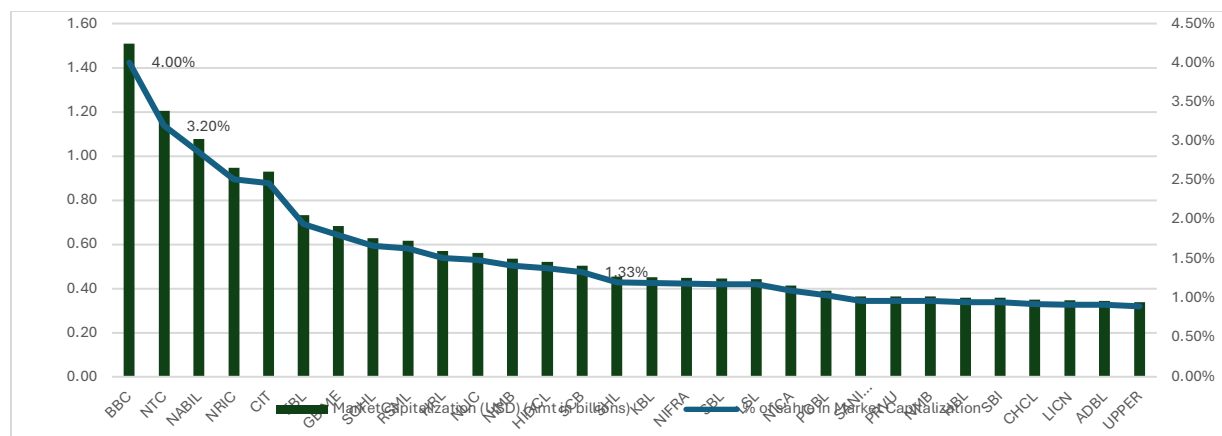
SEBON's prolonged indecision in processing IPO applications has become a significant obstacle to market growth. It has fostered widespread doubt about regulatory governance, amplified concerns about rent-seeking behavior, and discouraged participation from both issuers and investors.

- a) To restore trust and improve market efficiency, SEBON must:
- b) Implement a transparent, time-bound IPO approval process.
- c) Increase accountability within the regulatory framework.
- d) 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.



The 30 companies listed on NEPSE make up 45.77 % of the total market capitalization, with most of their shares not available for free trade.



Section 8 Fiscal Situation

1) Government of Nepal Receipts & Payments Status

Government Receipts & Payments Status Exchange rate 1 USD=NPR 130	Annual Budget	4/23/26	% age
1. Revenue (USD in million)	11,384.62	7,016.30	61.63%
a) Tax Revenue	10,196.80	6,329.63	62.07%
b) Non Tax Revenue	1,187.82	686.67	57.81%
2. Grants	411.13	130.75	31.80%
3. Other Receipts	-	41.62	
Total Receipt	11,795.75	7,188.67	60.94%
2. Total Expenditure from Treasury	15,108.54	8,408.69	55.66%
a. Recurrent	9,084.46	5,945.37	65.45%
b. Capital	3,137.60	792.85	25.27%
c. Financing	2,886.48	1,670.48	57.87%
Deficit	(3,312.79)	(1,220.02)	
% of GDP	7.06%	2.60%	

2) Government Treasury position

3) (Exchange Factor \$ 1 = NPR 119). (USD in million)

	Mid-Month	August	September	October	November	December	January	February	March	April	May	June	July
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	7,053	8,391	9,730	10,781	12,799
	Revenue	815	1,398	2,086	2,798	3,410	4,703	5,544	6,209	7,189	7,752	8,776	10,250
	Treasury Position	1,662	2,265	1,476	1,800	1,847	2,502	2,942	3,297	3,124	3,033	2,857	1,099
F/Y 2024/25	Expenditure	389	1,514	3,064	4,743	5,133	6,597	7,117	8,170				
	Revenue	716	1,344	2,128	2,798	3,415	4,812	5,588	6,280				
	Treasury Position	1,905	2,148	1,470	1,706	2,126	2,911	3,141	3,173				

4) Gross Value Added by Industrial Division

Seasonally Adjusted (Quarter on Quarter) Growth Rate of QGDP and QGVA by Economic Activities (at basic Price, 2010/11)

Industrial Classification	2081/82				2082/83		Trend
	2024/25				2025/26		
	Q2	Q3	Q4	Q1 ^R	Q2 ^P		
Agriculture, forestry and fishing	2.9	3.6	2.8	1.36	2.21	Down	
Mining and quarrying	3.7	6.1	0.4	5.42	3.12	Down	
Manufacturing	5.2	6.3	0.8	2.16	2.19	Down	
Electricity, gas, steam and air conditioning supply	7.9	13.2	14.0	17.33	22.74	UP	
Water supply; sewerage, waste management	2.3	2.4	1.9	1.11	0.55	Down	
Construction	4.5	5.8	2.7	4.91	2.86	Down	
Wholesale and retail trade; repair of motor vehicles & motorcycles	3.0	3.5	5.6	3.97	4.11	UP	
Transportation and storage	10.3	8.3	10.1	1.36	9.65	Down	
Accommodation and food service activities	5.5	1.8	3.9	2.12	5.18	Down	
Information and communication	6.1	5.8	4.8	2.10	3.05	Down	
Financial and insurance activities	3.4	4.1	17.2	7.08	12.51	UP	
Real estate activities	2.7	2.7	2.7	1.83	1.84	Down	
Professional, scientific and technical activities	4.0	4.3	4.4	5.52	5.28	UP	
Administrative and support service activities	3.1	4.9	5.7	5.46	3.89	UP	
Public administration and defence; compulsory social security	2.1	3.5	4.1	1.45	1.11	Down	
Education	2.1	2.4	3.1	2.66	1.16	Down	
Human health and social work activities	0.2	0.8	2.4	-2.22	1.88	UP	
Other services	3.8	3.4	5.7	1.63	3.24	Down	
Aggregate	3.8	4.2	4.7	3.24	4.05	UP	

Seasonally Adjusted QGDP and QGVA by Economic Activities (at constant basic Price, 2010/11, in million Rs.)

Industrial Classification	2081/82			2082/83			
	2024/25			2025/26			
	Q2	Q3	Q3	Q1	Q2	Trend	Share
Agriculture, forestry and fishing	Q2	Q3	Q4	Q1^R	Q2^P	Trend	Share
Mining and quarrying	181188	182834	185290	181262	185758	Up	28.98%
Manufacturing	4306	4391	4926	4490	4452	Up	0.69%
Electricity, gas, steam and air conditioning supply	32458	33138	33127	33091	33172	Up	5.18%
Water supply; sewerage, waste management	16195	17274	18107	19314	19924	Up	3.11%
Construction	4420	4438	4435	4427	4445	Up	0.69%
Wholesale and retail trade; repair of motor vehicles & motorcycles	40878	41184	42249	42222	41972	Up	6.55%
Transportation and storage	86407	88605	91369	89317	90202	Up	14.07%
Accommodation and food service activities	38596	39182	39510	39241	41674	Up	6.50%
Information and communication	11247	11107	11467	11518	11842	Up	1.85%
Financial and insurance activities	24863	24964	24402	24890	25554	Up	3.99%
Real estate activities	38099	39471	40447	40302	41842	Up	6.53%
Professional, scientific and technical activities	48382	48764	49102	49066	49256	Up	7.68%
Administrative and support service activities	5725	5804	5879	5937	6030	Up	0.94%
Public administration and defence; compulsory social security	4461	4551	4652	4621	4649	Up	0.73%
Education	30617	31141	31637	30143	31007	Up	4.84%
Human health and social work activities	36723	36355	37178	36619	37067	Up	5.78%
Other Services	8771	8878	9082	8598	8940	Up	1.39%
Total	3085	3126	3167	3077	3185	Up	0.50%

5) Macroeconomic Sectoral Performance

The latest sectoral data indicate that the economy entered FY 2082/83 with **broad-based real sector**, shows mix scenario reflecting marginal improvement by **2% in Q2**, despite continued expansion in nominal output. The slowdown is concentrated in **large and medium-weight sectors**, including agriculture, wholesale trade, construction, finance, and public administration.

While total output remains structurally concentrated in agriculture and trade, growth momentum is emerging from smaller, productivity-enhancing sectors such as electricity and information & communication. However, their relatively small GDP shares limit their immediate macroeconomic impact.

The economy is therefore characterized by:

1. Structural dependence on low-productivity sectors
2. Weak cyclical recovery in construction and finance
3. Fiscal-driven contraction in public administration
4. Emerging strength in energy and ICT
5. Negative short-term growth despite nominal expansion

This pattern suggests a **fragile recovery phase**, requiring coordinated fiscal, monetary, and structural interventions.

1. Sectoral Structure: Large, Medium, and Small Segments

a. Large Sectors (Share > 7% of GDP)

Sector	Share	Q2 2082/83 Growth
Agriculture	28.98%	2.21%
Wholesale & Retail Trade	14.7%	4.11%

Sector	Share	Q2 2082/83 Growth
Real Estate	7.84%	-0.3%

Key Observations

- i. These three sectors contribute over 51% of total GDP.
- ii. All recorded sign of improvement growth in Q2.
- iii. Agriculture remains the dominant driver but showed contraction.
- iv. Trade slowdown reflects weak domestic demand.
- v. Real estate remains flat, indicating subdued asset market activity.
- vi. The contraction in these large sectors largely explains the aggregate downturn.

b. Medium Sectors (4%–7%)

Sector	Share	Q1 Growth
Construction	6.55%	2.6%
Financial & Insurance	6.53%	12.51%
Transportation	6.50%	9.65%
Education	5.78%	1.16%
Manufacturing	5.18%	2.19%
Public Administration	4.84%	1.11%

Key Observations

- a. Most **medium sectors are improving**.
 - a. Construction remains volatile, reflecting investment weakness.
 - b. Financial services show sharp improvement.
 - c. Manufacturing growth remains marginal and structurally weak.
 - d. Public administration shows **marginal improvement, likely reflecting fiscal adjustment** or delayed public spending.

Medium sectors are currently not serving as growth multipliers.

c. Small Sectors (<4%)

Sector	Share	Q2 Growth
Information & Communication	3.99%	+3.05%
Electricity & Energy	3.11%	+22.74%
Professional Services	0.94%	+5.28%
Administrative Services	0.73%	+3.89%
Accommodation & Food	1.85%	5.18%

Key Observations

- a. Electricity and ICT are the fastest-growing sectors.
- b. These sectors are productivity-enhancing and future-oriented.
- c. However, their small economic weight limits macro impact.

Growth drivers are present but not yet systemically significant.

2. Fast vs. Slow Growing Sectors**Fast Growing**

- Electricity & energy (+22.74%)
- Information & communication (+3.05%)

Moderate Growth

- Professional services
- Administrative services

Contracting Sectors

- Public administration
- Construction

- Financial services
- Agriculture
- Trade
- Health

The contraction across core sectors reflects broad-based softness rather than isolated sectoral shock.

3. Nominal Output and Structural Implications

Total sectoral value increased steadily through FY 2081/82, reaching 634,662 before moderating to 623,976 in Q1 2082/83. This indicates:

- Nominal expansion continued.
- Real growth slowed.
- Base effects and structural stagnation may be influencing results.
- Investment momentum remains subdued.

The divergence between nominal and real performance suggests inflation moderation but weak real activity.

4. Structural Assessment

- High Dependence on Agriculture and Trade**
Nearly half of GDP remains tied to traditional sectors. Productivity gains remain limited.
- Weak Industrial Transformation**
Manufacturing accounts for only 5.26% of GDP and shows limited expansion. Mining remains marginal.
- Investment Cycle Not Fully Recovered**
Construction and finance contraction signals limited private capital formation.
- Emerging Modern Sectors**
Energy and ICT show resilience and represent structural transformation potential.

5. Macroeconomic Outlook

Given current trends:

- Short-term growth remains vulnerable.
- Fiscal restraint or execution delays may weigh on recovery.
- Credit conditions and private investment will determine trajectory.
- Agriculture performance will significantly influence overall GDP.
- Energy exports and ICT expansion offer medium-term upside.

Without revival in construction, finance, and trade, aggregate growth may remain subdued in early FY 2082/83.

Policy Implications

- Short-Term Stabilization**
 - Accelerate public capital expenditure.
 - Facilitate credit flow to productive sectors.
 - Support agriculture modernization before next production cycle.
- Medium-Term Growth Drivers**
 - Promote manufacturing competitiveness.
 - Encourage private investment through regulatory clarity.
 - Expand energy production and cross-border power trade.
 - Strengthen digital economy ecosystem.
- Structural Reform**
 - Diversify away from agriculture dependence.
 - Reduce real estate concentration risk.
 - Increase productivity in medium-weight sectors.

6. Conclusion

The economy is at a transitional phase. While nominal output has expanded, real growth has weakened due to contraction in large and medium sectors. The current structure remains consumption- and agriculture-heavy, with limited industrial depth. However, expanding energy and ICT sectors provide a foundation for gradual structural transformation.

A coordinated strategy combining fiscal acceleration, credit support, and industrial policy will be essential to restore sustainable growth momentum.

6) Government Revenue

Amount in USD million (Exchange Factor 1 UAS = 130 NPR)

HEADS	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	Compared to Last year
Total Tax Revenue	12,118	1,916	2,512	2,940	3,970	4,610	5,205	6,144	7.34%
Non Tax Revenue	98	15	27	185	471	505	544	673	0.32%
Total Revenue	12,216	1,931	2,539	3,125	4,442	5,116	5,748	6,818	6.61%
Other Receipts	91	16	23	66	85	132	137	161	114.01%
Total Receipts	12,307	1,948	2,562	3,192	4,527	5,247	5,885	6,978	7.85%

7) Key Indicators

Indicator	2023/24 (up to March 2025)	2024/25 (up to March 2026)
CPI-based Inflation (y-o-y)	4.16%	3.62%
Trade	Imports ↑10.1%; Exports ↑46.5 %;	Imports ↑20.8 %; Exports ↑12.5 %;
Remittances	↑7.1 % (NPR), ↑5.3 % (USD)	↑37.7% (NPR), ↑31% (USD)
Balance of Payments	Surplus Rs. 284.41 billion	Surplus Rs. 668 billion
Gross Foreign Exchange Reserves	USD ↑17.05 billion	↑USD 23.07 billion
Government Expenditure	Rs. 754.85 billion	Rs. 929 billion
Government Revenue	Rs. 642.85 billion	Rs. 747 billion
Broad Money (M2)	y-o-y expansion: 10.1%	y-o-y expansion: 15%
BFI Deposits	↑3.8 y-o-y; ↑9.7%	↑6.6%; y-o-y: 15%
Private Sector Credit	↑5.6 y-o-y; ↑7.3%	↑4.4%; y-o-y: 6.7 %

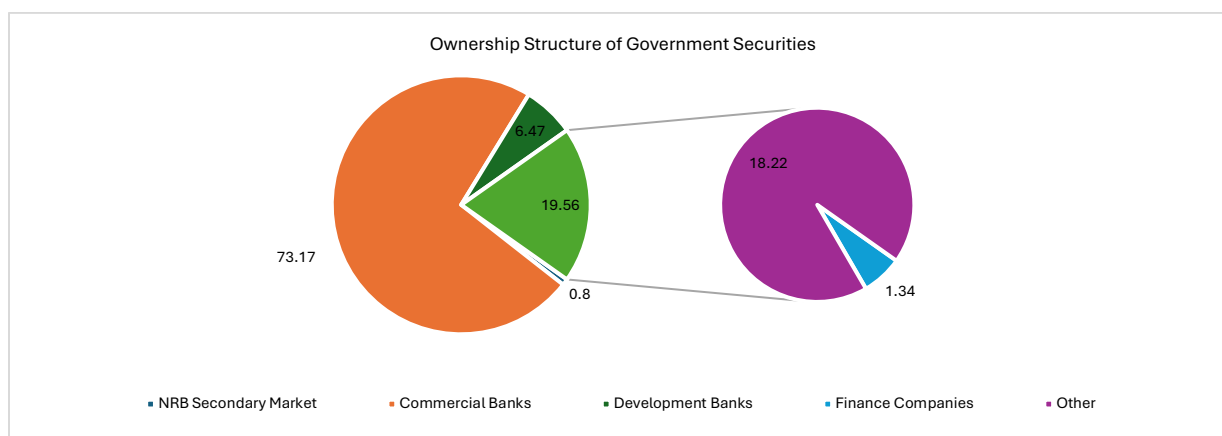
Heading	Annual									Mid-March	
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2024/25	2025/26
Prices Change (percent)											
CPI (y-o-y)	2.71	4.58	6.02	4.78	4.19	8.08	7.44	3.57	2.20	3.75	3.62
Food CPI (y-o-y)	-0.87	3.91	6.27	5.73	5.94	6.70	7.01	4.04	-1.19	3.34	3.60
Non-food CPI (y-o-y)	5.60	5.10	5.83	4.04	3.04	9.01	7.72	3.26	4.12	3.97	3.63
CPI Annual / Period Average	4.47	4.15	4.64	6.15	3.60	6.32	7.74	5.44	4.06	4.72	2.13
National Wholesale Price Index (y-o-y)	0.90	2.10	5.40	5.60	8.21	12.74	4.98	4.41	1.05	4.43	3.64

Economic Outlook Based on March 2026

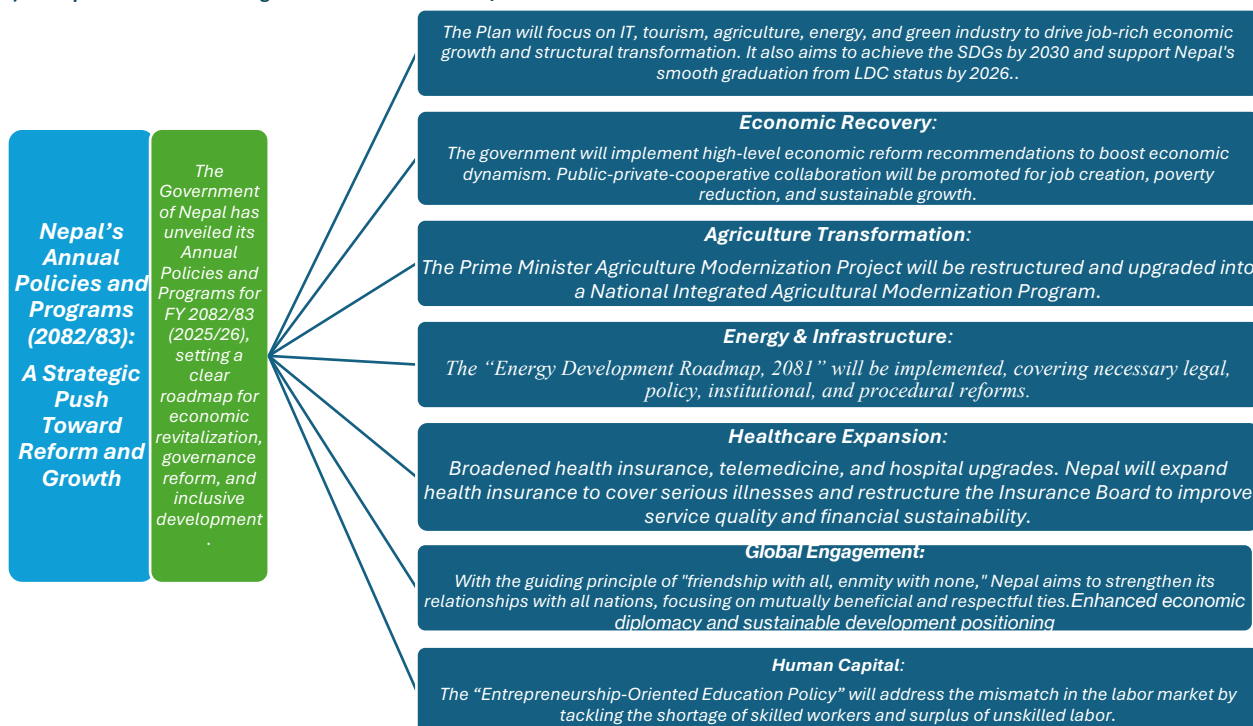
National Wholesale Price Index Annual / Period Average	2.66	1.73	6.23	6.87	7.61	9.51	8.47	3.92	3.84	4.44	3.28
Salary and Wage Rate Index (y-o-y)	13.44	6.77	9.09	7.48	2.76	9.09	8.71	3.56	2.63		
Salary and Wage Rate Index Annual / Period Average	14.44	6.19	9.26	9.49	1.60	6.65	9.90	5.09	2.85		
External Sector (growth in percent)											
Export (Rs. in billion)	73.05	81.36	97.11	97.71	141.1	200.0	157.1	152.4	277.0	158.2	191.1
Import (Rs. in billion)	990.11	1245.10	1418.54	1196.80	1539.84	1920.4	1611.7	1593.0	1804.1	1145.6	1289.3
Export Growth	4.2	11.4	19.4	0.6	44.4	41.7	-21.4	-3.0	81.8	57.2	20.8
Import Growth	28.0	25.8	13.9	-15.6	28.7	24.7	-16.1	-1.2	13.3	11.2	12.5
BOP(-Deficit) (Rs. in billion)	82.1	1.0	-67.40	282.4	1.2	-252.4	285.8	502.5	594.5	310.4	658.3
Current Account Balance (Rs. in billion)	-10.1	-246.8	-267.0	-33.8	-333.7	-623.4	-45.9	221.7	409.2	197.0	552.8
Workers' Remittances (Rs. in billion)	695.5	755.1	879.4	875.0	961.1	1007.3	1240.7	1445.3	1723.3	1053.0	1449.7
Gross Foreign Exchange Reserves (Rs. in billion)	1079.4	1102.6	1038.9	1401.8	1399.0	1215.8	1539.4	2041.1	2677.7	2409.3	3413.8
Gross Foreign Exchange Reserves (USD in million)	10494.2	10084.0	9500.0	11646.1	11752.6	9512.6	11708.8	15270.9	19502.4	17265.7	23075.4
Financial Sector (growth and interest rate in percent)											
Broad Money (M2) (y-o-y)	15.5	19.4	15.8	18.1	22.7	6.8	11.2	12.9	12.5	9.9	14.5
Narrow Money (M1) (y-o-y)	13.1	17.6	8.6	17.8	22.8	-9.3	1.2	-1.7	22.0	3.3	20.7
Domestic Credit (y-o-y)	20.6	26.5	24.0	14.0	27.1	14.5	8.9	6.1	6.2	3.9	3.5
Claims on Private Sector (y-o-y)	18.0	22.3	19.1	12.6	26.3	13.3	4.6	6.1	8.1	7.3	6.3
Reserve Money (y-o-y)	20.1	8.1	-1.5	26.7	5.2	-11.4	12.1	7.7	16.1	18.7	6.2
91-day T-bills Rate*	0.71	3.74	4.97	1.27	4.55	10.66	6.35	3.00	2.95	2.93**	2.47**
364-day T-bills Rate*	2.10	0.00	4.78	2.26	4.16	10.19	7.00	3.19	2.98	3.00**	2.59**
Weighted Average Interbank Rate of Commercial Banks*	0.64	2.96	4.52	0.35	4.12	6.99	2.98	2.99	2.92	3.00**	2.69**
Weighted Average Deposit Rate of Commercial Banks*	6.15	6.49	6.60	6.01	4.65	7.41	7.86	5.77	4.19	4.54**	3.45**
Weighted Average Lending Rate of Commercial Banks*	11.33	12.47	12.13	10.11	8.43	11.62	12.30	9.93	7.85	8.40**	6.90**
Base Rate*	9.89	10.47	9.57	8.50	6.86	9.54	10.03	8.00	6.02	6.34**	5.10**
Total Deposits (Rs. in billion)	2299.8	2742.1	3235.1	3839.7	4662.7	5082.8	5710.0	6452.4	7263.9	6729.6	7745.9
BFI's Credit to Private Sector (Rs. in billion)	1959.0	2399.8	2866.2	3209.8	4084.8	4621.1	4797.0	5074.0	5497.7	5378.8	5741.2
NEPSE Index (Closing)	1582.7	1212.4	1259.0	1362.4	2883.4	2009.5	2097.1	2240.4	2794.8	2736.5	2820.5
Market Capitalization/GDP	60.3	41.5	40.6	46.1	92.2	57.7	57.4	62.3	76.3	79.6	77.7
Public Finance (growth and ratio in percent)											
Revenue Growth (%)	26.2	18.6	15.5	0.2	16.0	14.1	-9.3	7.1	10.5	12.7	3.70
Expenditure Growth (%)	39.3	29.9	2.1	-1.7	9.7	9.5	8.5	-2.0	9.3	4.7	10.4

Economic Outlook Based on March 2026

Outstanding Domestic Debt (Rs. in billion)	283.7	390.9	453.0	613.2	800.3	984.3	1129.1	1180.9	1268.2	1311.7	1343.0
Outstanding External Debt (Rs. in billion)	414.0	525.4	594.9	819.7	934.1	1025.8	1170.2	1257.9	1401.4	1360.5	1530.2
Revenue / GDP	19.9	21.0	21.8	21.6	22.4	22.4	18.8	19.0	19.6		
Recurrent Expenditure / GDP	16.9	20.2	18.6	20.2	19.4	19.2	18.5	16.3	16.1		
Capital Expenditure / GDP	6.8	7.8	6.3	4.9	5.3	4.3	4.4	3.4	3.6		
Domestic Debt / GDP	9.2	11.3	11.7	15.8	18.4	19.8	21.0	20.7	20.8		
External Debt / GDP	13.5	15.2	15.4	21.1	21.5	20.6	21.8	22.0	22.9		



8) Nepal's Policies and Programs for Fiscal Year 2025/26



9) Economic and institutional reform - budget 2025/26



Economic Revitalization & Fiscal Reform

The government will implement high-level economic reform recommendations to boost economic dynamism. Public-private-cooperative collaboration will be promoted for job creation, poverty reduction, and sustainable growth.

Emphasis on reducing trade deficits through productivity-driven import substitution.



Assets Management Company & Financial Sector Restructuring

A national **Assets Management Company** will be established to manage non-performing assets and improve financial sector health.

Reforms to address distressed banks and ensure sectoral stability are prioritized.



Digital Banking & Fintech Ecosystem

A **Digital Bank** will be promoted to expand financial inclusion and increase digital payment access across Nepal

Policy direction favors fintech integration, cybersecurity, and regulatory innovation.



Agricultural Modernization

The Prime Minister Agriculture Modernization Project will be restructured and upgraded into a **National Integrated Agricultural Modernization Program**.



Infrastructure, Energy, and Trade

Universal access to clean and renewable energy will be ensured. The **“Energy Development Roadmap, 2081”** will be implemented, covering necessary legal, policy, institutional, and procedural reforms.

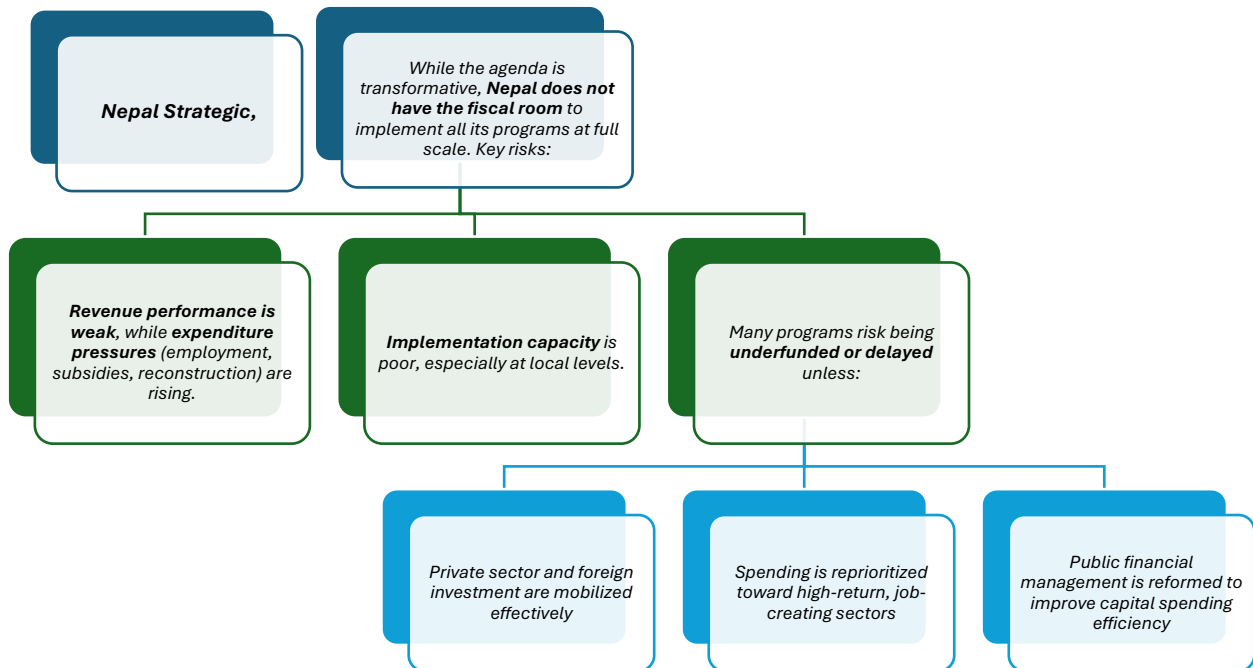


Health, Human Capital & Governance

Strengthen the training programs for healthcare professionals.

Education reform aligned with labor market needs, including national skill standards.

Governance reforms include local-level judicial strengthening and harmonized federal laws.



10) Midterm Budget review 2025/26

Between FY2020/21 and FY2025/26, Nepal's fiscal envelope expanded substantially, rising from approximately USD 10.8 billion to USD 14.9 billion—a 37 percent increase (average annual growth of about 7 percent). This expansion reflects post-pandemic recovery measures, federal fiscal decentralization, and continued infrastructure ambitions.

Despite this growth, fiscal performance has been characterized by:

- (a) Persistent capital expenditure under-execution (17–32% variance)
- (b) Structural fiscal deficits averaging USD 3.3–4.5 billion annually
- (c) Increasing reliance on domestic borrowing (up to 72% of total financing in FY2025/26)
- (d) Declining external grants (below 3% of total resources)
- (e) Rising recurrent rigidity (38–40% of total expenditure)

The central fiscal challenge is not revenue size alone, but execution capacity, expenditure composition, and fiscal credibility.

Absent structural reforms, fiscal multipliers remain subdued (estimated at 0.8 overall), limiting potential medium-term growth to approximately 4–5 percent. Strengthening capital absorption and revenue administration could create fiscal space equivalent to 2 percent of GDP by FY2028.

1) Fiscal Aggregates and Trends

Budget Expansion and Revisions

Nepal's budget framework shows a consistent pattern of optimistic initial allocations followed by mid-year rationalization.

Fiscal Year	Initial Budget (USD m)	Revised/Est. (USD m)	Revision (%)
2020/21	10,823	—	—
2021/22	13,730	12,063	-12%
2022/23	14,949	12,542	-16%
2023/24	13,268	11,594	-13%
2024/25	14,093	12,594	-11%
2025/26	14,880	12,790 (proj.)	-14%

Revenue growth assumptions typically range between 10–15 percent, yet actual collections underperform by 10–16 percent. Mid-year expenditure compression—primarily in capital spending—undermines fiscal credibility and disrupts development planning

2) Expenditure Composition and Structural Constraints

1. Rigid Expenditure Structure

FY2025/26 expenditure composition:

Category	Amount (USD m)	Share (%)
Current Expenditure	5,781	38.8
Capital Expenditure	3,090	20.8
Financial Provisioning	2,843	19.1
Intergovernmental Transfers	3,165	21.3
Total	14,880	100

Recurrent spending increased from USD 3,764m in FY2020/21 to USD 5,781m in FY2025/26 due to:

- Wage bill expansion
- Social protection commitments
- Federal administrative costs

This structural rigidity reduces fiscal flexibility during revenue shortfalls.

2. Capital Expenditure Underperformance

Capital spending remains chronically under-executed:

Fiscal Year	Capital Variance
2022/23	-32%
2023/24	-29%
2024/25	-17%
2025/26 (Mid-Year)	12% execution

Key bottlenecks include:

- Procurement delays (60% of projects delayed >6 months)
- Weak project readiness (pipeline maturity below 30%)
- Federal coordination gaps (subnational execution <50%)

Given that infrastructure multipliers (1.5–2.5) exceed recurrent multipliers (0.5–1.0), persistent capital underperformance likely reduces annual GDP growth by approximately 0.5–0.7 percentage points.

3. Revenue Performance and Financing

Revenue Trends

Tax revenue grew from USD 7,211m (FY2020/21) to USD 9,962m (FY2025/26 budget). However:

- Collections consistently underperform targets
- Tax effort remains around 18% of GDP
- Compliance gap estimated at approximately 30%

Foreign grants have declined by roughly 50% from post-COVID peaks, reducing external fiscal buffers.

4. Financing Structure (FY2025/26 Budget)

Source	Amount (USD m)	Share (%)
Tax Revenue	9,962	67
Foreign Grants	405	2.7
Foreign Debt	1,770	11.9
Domestic Debt	2,742	18.4
Total	14,880	100

Domestic borrowing now finances approximately 60–72 percent of the fiscal deficit, up from 56 percent in FY2020/21.

Risks include:

- Shortened average maturity (~3 years)
- Higher rollover risk
- Crowding out of private investment (estimated up to 1% of GDP)
- Rising interest burden

3) Fiscal Deficit and Debt Dynamics

FY2025/26 fiscal deficit is projected at approximately USD 4.5 billion, or about 5 percent of GDP.

Public debt stands near USD 30 billion (~42% of GDP).

Debt servicing currently absorbs approximately 8 percent of total revenues.

Stress Simulation (Illustrative)

Under a 20 percent negative revenue shock:

- Debt servicing could rise to 15 percent of revenues by FY2028/29
- Debt-to-GDP ratio could exceed 55 percent under adverse conditions

Debt sustainability remains manageable under baseline assumptions (growth 5%, interest 6%), but vulnerabilities are increasing.

4) Macroeconomic Implications

a) Growth

Capital under execution constrains infrastructure-led growth acceleration.

b) Liquidity and Interest Rates

Expanded domestic borrowing tightens liquidity, potentially increasing lending rates by up to 2 percentage points.

- c) Investor Confidence
Repeated budget revisions correlate with wider spreads (~50 basis points).
- d) Fiscal Multipliers
High recurrent share reduces overall multiplier impact, limiting medium-term potential growth.

5) Risk Assessment Matrix

Risk	Likelihood	Impact	Mitigation
Capital underperformance	High	High	Project pipeline reform, PPP acceleration
Revenue shortfall	Medium-High	High	Contingency buffer (2% GDP)
Borrowing cost spike	Medium	Medium-High	Active debt operations strategy
Grant volatility	High	Medium	Domestic revenue roadmap
Federal rigidity	High	Medium	Expenditure rationalization

a) Medium-Term Scenarios (FY2026–FY2029)

a) Baseline Scenario

- Deficit: 4.8% of GDP
- Debt: 48% of GDP
- Adverse Scenario
- Deficit: 6.5%
- Debt: 55%

b) Reform Scenario

- Deficit: 3%
- Debt: 40%
- Growth acceleration through improved capital absorption

b) Policy Priorities

a) Short-Term (FY2026)

- Introduce real-time budget execution dashboards
- Allocate 0.5% of budget to revenue IT modernization
- Strengthen procurement oversight and project screening
- Establish contingency reserve buffer

b) Medium-Term Structural Reforms

- Medium-Term Fiscal Framework (MTFF) with credible deficit and debt anchors
- Cap wage bill at sustainable levels (≈10% of GDP benchmark)
- Develop domestic bond market and lengthen maturity profile
- Strengthen VAT digital compliance and customs modernization
- Conduct civil service and expenditure rationalization audit

c) Estimated Reform Gains

- Raising capital execution to 80%: +1 percentage point to GDP growth
- Implementing MTFF anchors: –1 percentage point borrowing cost
- Combined effect: fiscal space equivalent to 2% of GDP by FY2028

c) Authorities' Position

Authorities acknowledge execution weaknesses as a primary constraint and report ongoing reforms in:

- Digital tax administration
- Procurement modernization
- Monitoring systems
- Federal coordination mechanisms

d) Conclusion

Nepal's fiscal framework is at a structural inflection point.

While macroeconomic stability remains intact and debt levels are manageable, medium-term sustainability requires:

- Improved execution capacity

- Realistic revenue forecasting
- Stronger fiscal discipline
- Balanced debt management
- Reprioritization toward growth-enhancing capital investment

The challenge is institutional and structural rather than purely financial. Without reform, fiscal multipliers will remain weak and growth potential constrained. With credible structural adjustments, however, Nepal can stabilize debt dynamics, strengthen investor confidence, and unlock higher medium-term growth.

11) Economic Rescue Plan: From Stability to Credible Reform

In the aftermath of the Gen Z-led protests and the decisive electoral victory of the Rastriya Swatantra Party (RSP), Nepal stands at a critical turning point. The crisis exposed deep weaknesses in fiscal management, financial sector resilience, and governance credibility. While macroeconomic indicators—such as strong remittance inflows, a balance of payments surplus, and high foreign exchange reserves—suggest short-term stability, underlying structural vulnerabilities remain significant. The challenge is no longer just crisis containment—it is restoring credibility and converting political stability into sustained economic reform.

An integrated Economic Rescue Plan is therefore essential—not only as a stabilization mechanism, but as a credible transition framework toward disciplined governance, fiscal consolidation, and private-sector-led growth. A coordinated response, anchored in political clarity, institutional discipline, and transparent execution, can transform this moment of crisis into an opportunity for structural renewal.

Key Pillars of the Rescue Plan

1. Restoring Fiscal Credibility (From Expansion to Discipline)

Fiscal stress remains Nepal's most critical macroeconomic vulnerability despite external sector strength. Recent data from Nepal Rastra Bank highlights:

- Persistent structural deficits (~6% of GDP)
- Revenue underperformance relative to expenditure
- Continued reliance on domestic borrowing (over 70% of deficit financing)
- Weak capital expenditure execution

With post-crisis reconstruction needs and rising public expectations, fiscal policy must shift from reactive expansion to credible consolidation.

Priority Actions:

- a) Expenditure rationalization and strict prioritization of high-impact projects
- b) Protection and acceleration of capital expenditure to sustain growth multipliers
- c) Revenue administration reform (compliance, digitization, tax base expansion)
- d) Establishment of clear fiscal anchors (deficit and debt trajectory)
- e) Improved public financial management and spending transparency

Objective: Restore sovereign credibility, reduce borrowing pressures, and rebuild investor confidence.

2. Ensuring Financial Stability (Rebuilding Trust in Credit Systems)

Despite improved liquidity conditions, financial intermediation remains weak, with subdued private-sector credit growth (around 3–4%) and cautious lending behavior.

Post-unrest disruptions, policy uncertainty, and sectoral stress have:

- Increased credit risk in key sectors (SMEs, construction, tourism)
- Weakened borrower-lender confidence
- Slowed investment and domestic demand

Policy Priorities:

- a) Strengthen supervisory oversight and asset quality monitoring
- b) Introduce a transparent restructuring framework for stressed sectors
- c) Provide targeted liquidity support to viable enterprises
- d) Gradually normalize regulatory measures to avoid credit shocks
- e) Improve coordination between fiscal authorities and Nepal Rastra Bank

Objective: Restore credit flow, stabilize the banking system, and revive private investment.

3. Anchoring Macroeconomic Stability (Leveraging External Strength)

Nepal's external position is currently strong:

- Foreign exchange reserves exceeding USD 22 billion
- Import cover of over 18 months
- Large current account and balance of payments surplus
- Remittance growth exceeding 30%

However, this strength masks structural weaknesses, including import dependence and low domestic productivity.

Policy Focus:

- a) Maintain prudent monetary policy to support stability without fueling inflation
- b) Strengthen coordination between fiscal and monetary authorities
- c) Ensure stable supply of essential goods to prevent price volatility
- d) Use external buffers strategically—not as a substitute for reform

Objective: Preserve macroeconomic stability while addressing structural inefficiencies.

4. Structural Reform and Growth Revival (From Stability to Expansion)

The crisis has reaffirmed Nepal's core structural constraints:

- High youth unemployment (~22%)
- Persistent outward migration
- Weak industrial base and low private investment
- Governance and institutional inefficiencies

Reform Priorities:

- a) Launch a targeted youth employment and skills program
- b) Promote SME financing and entrepreneurship ecosystems
- c) Accelerate sectoral strategies (IT, tourism, agriculture modernization)
- d) Improve ease of doing business and regulatory predictability
- e) Leverage diaspora (NRN) investment as a catalytic growth driver
- f) Objective: Transition from remittance-led stability to investment- and productivity-driven growth.

5. Governance, Coordination, and Implementation Discipline

With a strong electoral mandate, the primary risk is no longer political fragmentation—but **implementation failure**. To ensure delivery:

- Establish a High-Level Economic Reform and Rescue Task Force
- Strengthen coordination across ministries, provincial governments, and regulators
- Introduce real-time monitoring and public reporting mechanisms
- Ensure transparency in public spending and procurement
- Maintain policy consistency to avoid regulatory reversals

Objective: Translate political stability into **institutional credibility and execution efficiency**.

6. Immediate Action Agenda (First 100 Days)

- (1) Announce a credible fiscal consolidation roadmap
- (2) Launch targeted reconstruction and business recovery support
- (3) Operationalize credit restructuring for affected sectors
- (4) Accelerate stalled capital expenditure projects
- (5) Engage development partners for concessional financing
- (6) Communicate a clear and consistent economic policy direction

Expected Outcomes

A well-executed Economic Rescue Plan will:

- a) Restore fiscal discipline and macroeconomic credibility
- b) Revive private-sector confidence and investment
- c) Strengthen financial sector stability and credit flow
- d) Anchor inflation and maintain external stability
- e) Generate employment and reduce outward migration pressures
- f) Build a foundation for **sustainable and inclusive growth**

7. Conclusion: From Mandate to Measurable Delivery

Nepal's current moment is defined not by crisis alone—but by **opportunity**. The combination of:

1. A strong political mandate (RSP victory)
2. Improved macroeconomic buffers
3. Heightened public demand for reform
 - a. creates a rare window for credible economic transformation.
 - b. An Economic Rescue Plan—anchored in fiscal discipline, financial sector stability, and transparent governance—can restore confidence and re-energize growth.

However, success will depend not on the ambition of reforms—but on:

- a. Policy consistency
- b. Institutional coordination
- c. Speed and credibility of execution

If implemented with discipline, this plan can shift Nepal from **fragile stability to durable economic resilience and reform credibility**.

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