FY
2026/27

Nepal Budget Expectation

Fiscal Year 2026/27

Reform Agenda, Fiscal Strategy & Economic Outlook

Based on: Economic Outlook March 2026 | Private Sector Budget Expectations | RSP Manifesto

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Expected Macroeconomic Context FY 2026/27

~ 6.0%

GDP Growth Target

Up from 5.3% in 2025/26

~ 5.5%

Inflation Projection

Moderate recovery scenario

~NPR 670bn

Fiscal Deficit

~NPR 1,820bn

Total Budget Size

Transitional phase

Macroeconomic Assumptions

Real GDP Growth: 5.2% (moderate recovery)
Nominal GDP: ~NPR 6,500–6,600 billion
Inflation: 5.5% (consumption-skewed)
Revenue Target: NPR 1,150bn (restrained)
Remittance Growth: Moderate / decelerating
Exchange Rate: 1 USD ≈ NPR 145–153

Structure of Growth

Private Sector Consumption: 84%
Government Consumption: 7%
Gross Fixed Capital Form.: 28%
Net Exports: Negative (structural deficit)

⚠ **Investment-led shift urgently needed**

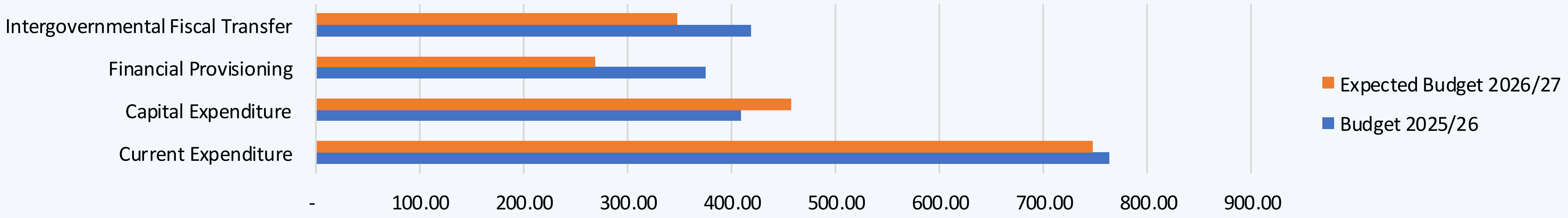
Expected Budget Allocation & Revenue Sources 2026/27

EXPENDITURE ALLOCATION

Head	NPR (bn)	Change
Current Expenditure	735	-2.5% est.
Capital Expenditure	457	+12% est.
Financial Provisioning	268	-28.4% est.
Intergovt. Transfers	347	-16.8% est.
Total	**1,820**	**+3.7% est.**

REVENUE & FINANCING SOURCES

Source	NPR (bn)	Change
Tax Revenue	1,150	-12.5% est.
Foreign Grants	76	High (42%)
Domestic Borrowing	377	+4.2% est
Foreign Borrowing	**217**	**-7.3% est.**
Fiscal Deficit	670	+3.1 est.



Budget Priorities 2026/27

01 IT & Digital Economy

Declare IT a National Strategic Industry. Target USD 1.5bn in exports via digital parks in all 7 provinces. Shift from "in-line" to "online" service delivery.

02 Economic Recovery

Revitalize agriculture, tourism, industry & construction. Reform tax system, monetize assets, exit FATF grey list, and prepare for LDC graduation.

03 Youth Employment

1 million jobs over 5 years. Expand TVET, innovation hubs, startup financing. Priority: ICT, tourism, renewables & agro-processing.

04 Infrastructure Development

25,000 MW hydropower. Road & transmission upgrades. SEZs and logistics corridors. PPP model for accelerated capital delivery.

05 Health & Education

Build health infrastructure, strengthen public systems. Practical, IT-integrated education with problem-based learning for job-ready workforce.

06 Financial Sector Reform

Stabilize banking sector, address rising NPLs, develop capital markets, expand digital financial inclusion and AML/CFT compliance.

Fiscal Position & Risk Assessment

Baseline Scenario

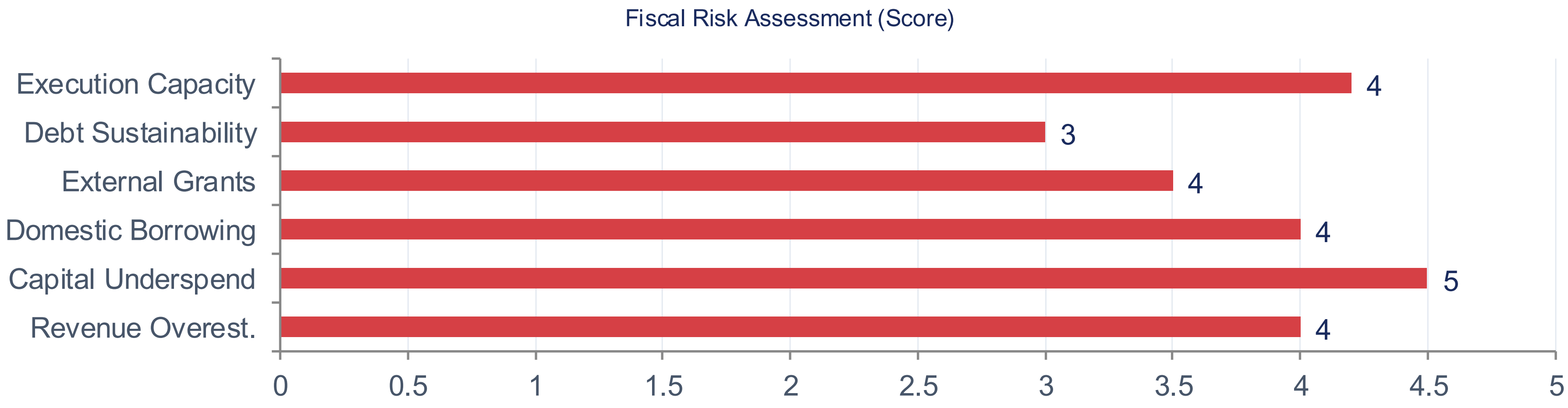
Fiscal Deficit: 5.8% GDP
Public Debt: 48% GDP
GDP Growth: 4.5%

Adverse Scenario

Fiscal Deficit: 7.9% GDP
Public Debt: 55% GDP
GDP Growth: 2.3%

Reform Scenario

Fiscal Deficit: 3.5% GDP
Public Debt: 40% GDP
GDP Growth: 6.0%



Structural Reform Agenda

Short-Term
0–1 Year

- Amend FITTA, PPP Act & NRN Act
- Amend NRB Act & BAFIA Act
- Launch Project Preparation Facility
- Introduce digital procurement & e-GP
- Announce fiscal consolidation roadmap
- Import dependency to import Substitutions
- Improve Dispute Resolution System
- Operationalize AML/CFT mechanism
- Ensure that PPP related fiscal commitments and contingent liabilities (FCCLs) are properly assessed, approved, and managed
- Amend Section 57 of Income Tax At and reduce Corporate & Individual rates
- Amend laws to allow arbitration for tax disputes rather than criminal investigations.

Medium-Term
1–3 Years

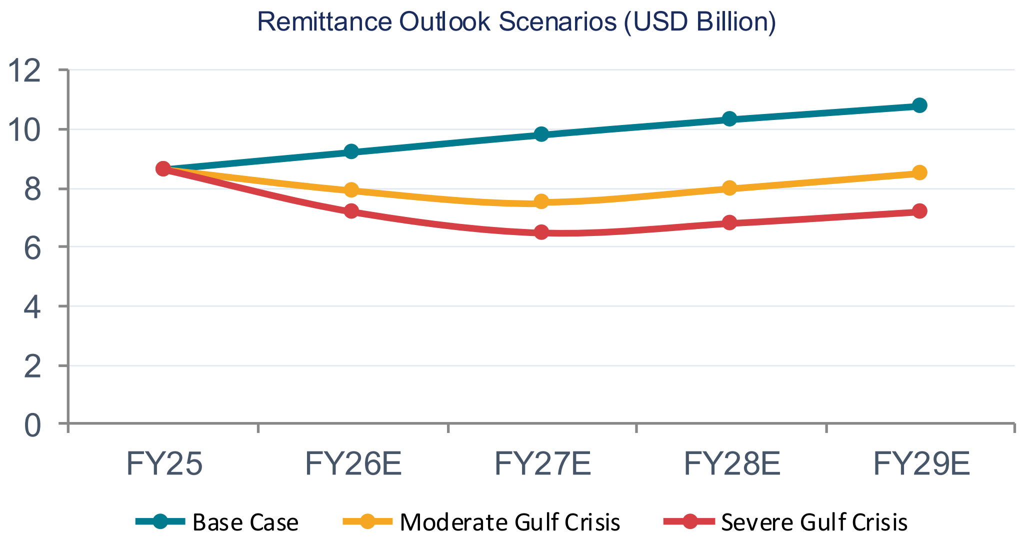
- Full PPP pipeline operational
- Capital markets & corporate bonds
- Diaspora investment ecosystem (bonds)
- TVET realignment with labor market
- Financial sector merger & NPL resolution
- Develop of a new unified insolvency law
- Amendment to the civil procedure rules: relating to the handling and disposal of commercial matters with a view to making certain provisions more efficient, such as the handling of injunctions and fast-tracking smaller cases
- Amendment to Companies Act
- Clarify rules for local currency bond subscriptions by foreign investors.
- Expand Double Taxation Avoidance Agreements (DTAAs) and Bilateral Investment Treaties.

Long-Term
3–5 Years

- Private sector-led infrastructure
- Export diversification (IT, tourism)
- LDC graduation preparedness plan
- Regional trade corridor integration
- Energy export-oriented growth model

External Sector Outlook & Remittance Risk

USD 22.76bn	Surplus	+33% YoY	21% GDP
Forex Reserves	**Current Acct.**	**Remittances**	**Trade Deficit**
18 months import cover	Rs 493bn (BOP Rs 572bn)	USD 8.6bn inflows	Export-import ratio 1:6.7

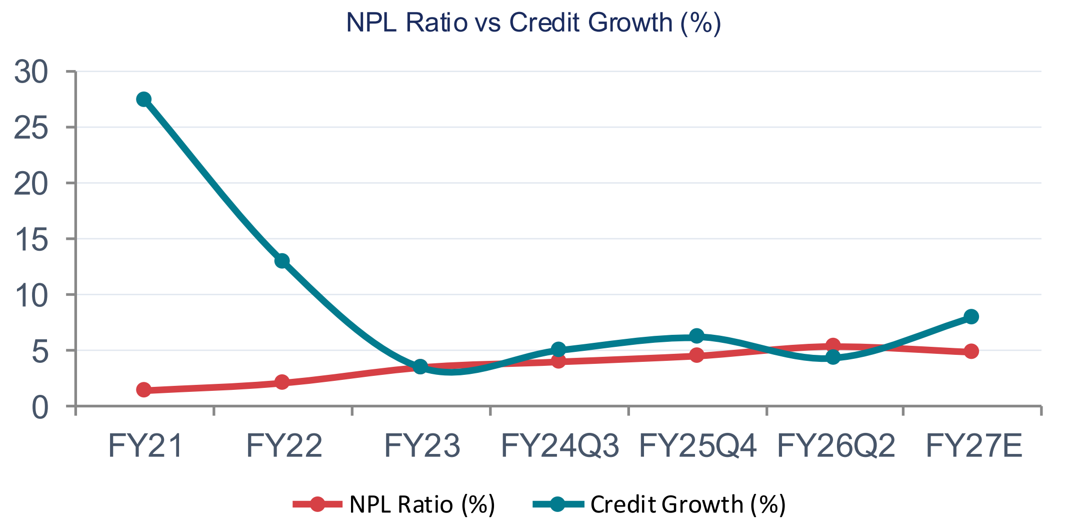


Gulf Crisis Transmission Risks

- Job losses → lower remittances
- Tourism decline & travel disruption
- Higher energy/fuel import costs
- Reduced FDI & foreign aid
- NPR depreciation pressure
- Fiscal revenue shortfall

~1.8 million Nepalis in Gulf countries
Avg. monthly remittance: NPR 20,467

Financial Sector Outlook



6.9%

Lending Rate

Low, stimulus mode

5.42%

NPL Ratio

Above 4.23% target

4.4%

Pvt. Credit Growth

vs 12% target

6.6%

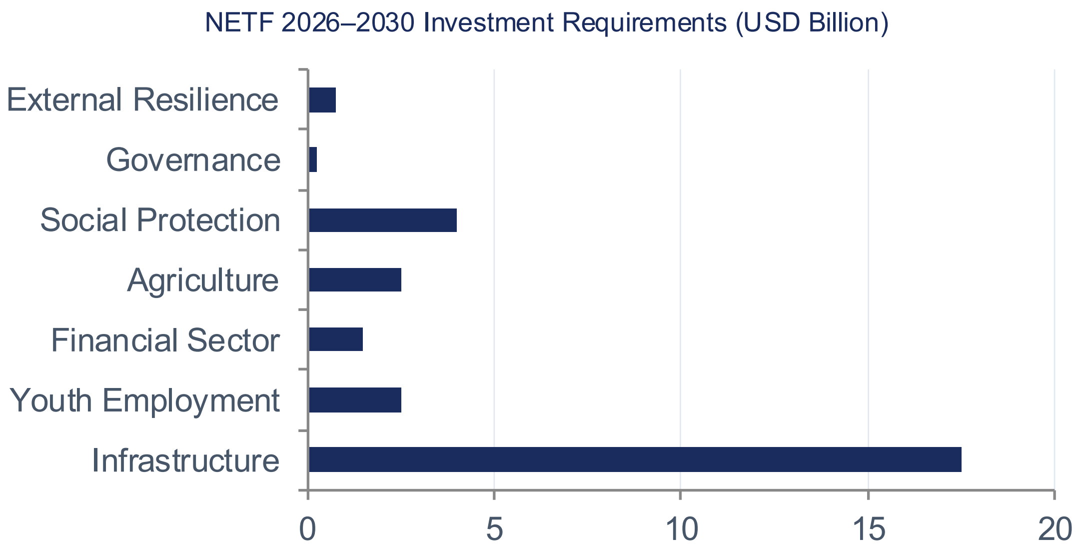
Deposit Growth

Rs 7.78 trillion

Key Recommendations

Introduce Prompt Corrective Action (PCA) with NPA thresholds (7%, 9%, 11%). Raise P&L provisioning to 9%. Strengthen NPA resolution via Asset Reconstruction Companies. Align with Basel III. Monetary easing must be complemented by targeted credit measures for productive sectors. Amend NRB Act to strengthen independence and enforcement authority.

Investment Climate & Diaspora Mobilization



Diaspora Investment Potential

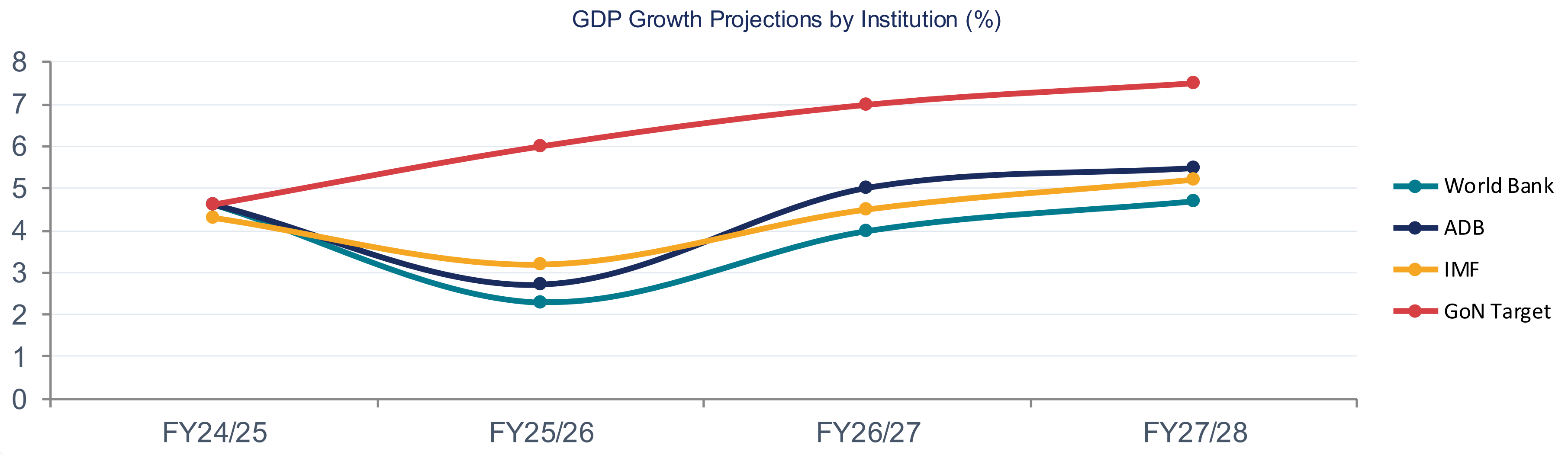
Diaspora Population: 6.5–7.5 million
Migrant Workers: 3.4–3.8 million
Annual Savings Potential: USD 14–30bn
Mobilizable (10–20%): USD 3–6bn/year

Key Instruments:
- Diaspora Bonds
- NRN Investment Funds
- Blended Finance Vehicles
- AIF Act (Rs 100bn authorized)

Blended Financing Strategy: Govt 30% | Private Sector 25% | Diaspora 25% | Development Partners 20%

Total estimated 5-year funding requirement: USD 21–28 billion. Annual financing gap: USD 5–6 billion. Key sources: Multilaterals (IMF, WB, ADB), bilateral partners, PPP, diaspora bonds, domestic revenue reform.

Growth Projections & Economic Outlook



Gulf Crisis & Remittances

Gulf tensions threaten USD 8.6bn remittance base; 1.8mn workers at risk

LDC Graduation 2026

Loss of trade preferences; higher borrowing costs post-Nov 2026

Capital Execution Gap

Only 23.6% of capital budget spent; reduces GDP by 0.5–0.7pp

Financial Sector Stress

NPL at 5.42%; rising accrued interest; cooperative sector crisis

Strategic Outlook & Policy Recommendations

Fiscal Credibility

Binding fiscal rules, deficit anchors at 3–4% GDP, rationalize recurrent spending, protect capital budget.

Revenue Reform

Broaden tax base via digitization, address 30% compliance gap, reduce reliance on import taxes.

Capital Execution

Target 80%+ utilization. Launch Project Prep Facility. Real-time monitoring. Simplify procurement laws.

Private Investment

Regulatory predictability, FITTA reform, automatic FDI thresholds, simplify repatriation provisions.

Export Diversification

IT exports (USD 1.5bn target), hydropower, agro-processing, tourism. Reduce structural 1:10 trade imbalance.

Social Protection

Targeted youth employment programs, TVET reform, NRN Act, 100-day quick wins to restore public confidence.

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

Summary & The Path Forward

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STABILIZE

Short-Term

- Fiscal deficit anchor (3–4% GDP)
- Capital budget execution ≥80%
- Financial sector NPL resolution
- Gulf risk contingency planning
- Restore investor confidence

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REFORM

Medium-Term

- FITTA, NRB Act, BAFIA reform
- NRN Act, Diaspora investment ecosystem
- Export diversification strategy
- PPP pipeline activation
- LDC graduation transition plan

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TRANSFORM

Long-Term

- USD 1.5bn IT export target
- 7–8% sustained GDP growth
- 1 million productive jobs
- Reduce remittance dependence
- USD 90–100bn GDP by 2030