KALA LEGAL

Economic Outlook Based on May 2026

Abstract

At Kala Legal, we provide expert guidance to investors navigating evolving markets, helping them leverage opportunities while addressing legal and regulatory complexities.

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Table of Contents

Section 1 Overview 2025/26

1) The background

1. Economic Outlook and Strategic Priorities: Fostering Confidence and Sustainable Growth

A review of recent economic indicators through FY 2025/26 suggests a period of transition, prompting a closer look at market dynamics and sentiment. Notably, private sector credit growth has remained moderate despite a highly liquid banking environment. This trend highlights a shared, measured approach currently adopted by both investors and financial institutions. Several interconnected factors characterize this current market environment:

1. **Shifting Market Sentiments:** Business and consumer outlooks are navigating a landscape of evolving economic and policy frameworks.
2. **Consolidation of Capital:** The private sector is currently prioritizing the consolidation of existing operations over immediate, large-scale expansion.
3. **Risk-Aware Credit Facilitation:** Financial institutions are maintaining a highly prudent approach to lending, with a strategic focus on preserving asset quality and managing risk effectively.

2. Nepal is at the intersection of Governance and Economic Vitality: - "Fault Lines: Understanding the Hidden Fractures"

Many of the most enduring challenges in economic development, governance, and investment do not arise solely from either the public or private sector. Rather, they often emerge at the intersection where these two sectors interact and influence one another.

Governments and businesses perform distinct yet complementary functions in the economy. Sustainable growth depends on the effective performance of both, supported by a constructive and collaborative relationship. However, policy uncertainty, regulatory complexities, information gaps, and occasionally misaligned incentives can create friction within this critical interface, affecting confidence, efficiency, and long-term investment decisions.

Accordingly, the objective of reform should not be to prioritize one sector over the other. Instead, meaningful and lasting reforms should focus on strengthening the quality of engagement between public and private stakeholders, enhancing institutional trust, improving transparency and accountability, and establishing mechanisms that facilitate effective dialogue and cooperation.

In many respects, the most significant fault lines are not between the public and private sectors themselves, but within the systems, processes, and institutions that connect them. Addressing these underlying structural gaps may be among the most important prerequisites for achieving sustainable economic transformation and inclusive development.

From a strategic perspective, economic confidence is closely linked to the predictability, responsiveness, and effectiveness of institutional governance. Political stability provides an essential foundation; however, its true value is realized when it enables sustained economic growth, encourages innovation, supports capital formation, generates productive employment, and promotes social inclusion.

Ultimately, the effectiveness of a governance framework is best reflected in its ability to create an enabling environment for entrepreneurship, domestic and foreign investment, and citizen empowerment. Stability achieves its fullest purpose when economic progress translates into broad-based prosperity, expanded opportunities, and improved quality of life for all segments of society.

3. Moving Forward: A Collaborative Path to Prosperity

For both policymakers and business leaders, the immediate opportunity lies in moving beyond basic stability toward actively enhancing market confidence and policy predictability. By fostering a transparent and encouraging regulatory environment, stakeholders can unlock the full potential of the private sector, enabling it to invest, innovate, and contribute meaningfully to a prosperous and equitable society.

4. From Incrementalism to Transformation: Charting Nepal's Path to Sustainable Prosperity

Nepal stands at a critical macroeconomic crossroads. Over the past decade, the country's economic growth has averaged an anemic **4.2%**. In stark contrast, comparable Asian economies like Vietnam have expanded at rates that yield per capita incomes nearly four times higher than Nepal's current average of approximately **$1,548**.

The mathematical reality of compounding growth means that the gap between a 4.2% trajectory and a sustained **6.5–7%** growth path represents the difference between chronic youth emigration and vibrant domestic job creation. To bridge this gap and unlock a $100 billion economy, Nepal must pivot from a legacy mindset focused on the "country of our childhood" toward a future-proof development model built on swift execution, structural trust, and radical regulatory easing.

a) Regional Air Quality, Environment, and the Transport "Mask"

A common pitfall in national policy is viewing clean transport, sustainable urbanization, and air quality management as isolated domestic mandates. In reality, local efforts act as a mere "mask" if regional dynamics are ignored.

Nepal cannot resolve transboundary air pollution or climate vulnerabilities on its own. If neighboring countries do not align their environmental trajectories, individual domestic restrictions risk making Nepal's industries economically unviable and uncompetitive, all while the population continues to suffer from severe public health crises. Environmental sustainability is inherently a regional connectivity issue requiring binding cross-border accountability and shared green technologies.

b) Evidence-Based Agriculture Over Slogans

The push for "chemical-free" or "zero-chemical" agriculture must graduate from a political slogan into an empirical research agenda. Together, government, academia, and the private sector must gather concrete evidence to evaluate whether fully organic systems are truly viable at scale.

The agricultural evaluation framework must simultaneously satisfy three strict conditions:

- **Nutritional Security & Public Health:** Guaranteeing nutrient-dense food supplies that protect both consumer and farmer health.
- **Food Security:** Ensuring macro-yield volumes are sufficient to feed the nation without relying entirely on imports.
- **Ecological & Soil Authority:** Restoring long-term soil productivity, protecting biodiversity, and eliminating toxic runoff.

c) Dismantling the Compliance Burden to Fuel Private Growth

Historically, South Asian economies have been throttled by overwhelming bureaucratic inertia. For example, India identified more than **62,000 regulatory compliance requirements** across its states and has embarked on a massive legislative cleanup, repealing over 1,200 obsolete statutes to unleash private enterprise.

Nepal urgently needs a similar regulatory overhaul to achieve true policy certainty. Private sector dynamism has driven South Asia's wealth for centuries; during its historical peaks, private enterprise generated over **25%** of global wealth. To reopen this "Golden Road" to prosperity, the government must dramatically reduce licensing delays—eradicating anomalies where citizens must wait two years for a basic driver's license—and establish an enabling, predictable business environment.

d) Closing the "Aspirations Gap" and Demanding Accountability

As proposed by François Bourguignon, the former Chief Economist of the World Bank, governments must look beyond blunt GDP percentages and actively measure the **"aspirations gap"** of their populations. This metric assesses whether economic growth is translating into real opportunity, equity, institutional accountability, and public trust.

Metric Focus	Traditional Model	Aspirational Model
Primary Indicator	GDP Growth Rate	Opportunity & Inclusion Index
Evaluation Base	Input/Budget Spent	Outcome-Based Performance
Public Trust	Assumed / Ignored	Actively Measured via Service Delivery

Closing this gap requires robust, outcome-based performance evaluation systems for both corporate entities and state institutions. Government ministries should be judged not by the inputs they consume or budgets they allocate, but by the tangible, real-world public service outcomes experienced by citizens daily.

e) The Four-Stakeholder Trust Model

True national progress occurs when four key pillars of society collaborate on a foundation of mutual trust: **Government, Business, Academia, and Civil Society**.

Unfortunately, institutionalized mistrust remains the dominant state of play in South Asia. To counter this, Nepal can adapt models currently being pioneered at the sub-national level in India. By establishing collaborative platforms at the provincial and district levels—utilizing the local municipality or district as the fundamental unit of change—all four stakeholders can engage in direct dialogue. This shifts local governance toward collective problem-solving and mutual accountability focused on long-term development outcomes.

f) Accelerating Digital Public Infrastructure (DPI)

The future digital ecosystem will not be built by the state alone, nor can it be left entirely to unregulated market forces. It requires deep public-private collaboration to scale digital services, secure cybersecurity frameworks, and build seamless digital payment systems. On the public side, the World Bank is supporting comprehensive digital governance reforms to streamline state services. On the private side, the International Finance Corporation (IFC) recently backed a $29 million state-of-the-art data center project in Kathmandu, blending public strategic alignment with private capital.

Nepal's tech landscape is already demonstrating immense potential: the country currently exports nearly $800 million to $1 billion in IT services annually. Bolstering this momentum requires immediate, robust legislative action, including the swift passage of a comprehensive Data Protection Act and a modern Cybersecurity Policy.

g) Overcoming Structural Constraints and Retrospective Taxation

Nepal's current investment ecosystem suffers from severe, self-inflicted bottlenecks. On the infrastructure front, vital irrigation and connectivity projects suffer from devastating delays: a project that takes 10 years to construct under the "National Pride" banner can drag out to an alarming 40-year implementation timeline at current operational speeds.

Furthermore, private and Foreign Direct Investment (FDI) in Nepal remains among the lowest in the emerging world—hovering at a mere 1/25th of the emerging market average over the last decade. Capital remains constrained, bound by collateral-based, short-term bank lending that limits long-term industrial scaling. This capital scarcity is worsened by high-risk tax practices.

Critical Policy Barrier: There are few places in the world where tax regulations are altered today and applied retroactively to corporate earnings from one to five years ago. This practice fundamentally destroys international investor confidence.

To attract both domestic and foreign capital, Nepal must codify absolute legal certainty, establish modern double-taxation treaties, and create predictable, transparent asset repatriation mechanisms for closed capital accounts.

h) Blended Finance for Mega-Projects

Nepal's pipeline of transformational mega-projects—including transmission lines, connectivity corridors, and large-scale hydropower facilities—carries a projected cost of **$8 billion to $9 billion**. In an era of global inflation, relying exclusively on public money to fund these complex, high-risk developments are impossible. The future of large-scale development lies in **Blended Finance** and Public-Private Partnerships (PPPs). As demonstrated by recent international models in the region (such as the World Bank and IBRD operations in Bhutan), international institutions like the IFC do not simply cherry-pick isolated deals. Instead, they operate "upstream" to provide advisory services, deploying innovative financial tools to de-risk investments:

- **Concessional Windows:** Utilizing facilities like the IDA Private Sector Window to supply subsidized public capital.
- **Risk-Sharing & Guarantees:** Deploying partial credit guarantees via domestic and international commercial banks (such as Standard Chartered) to de-risk investments.
- **Local Currency Financing:** Developing local currency-denominated debt instruments to protect projects from foreign exchange volatility.

5. Observable Signals for Nepal's Next 18 Months

To determine whether Nepal is genuinely moving from incremental adjustments to a true structural transformation, observers should watch for three concrete, verifiable signals over the next 18 months:

1. **Remittance Redirection**
   Nepal's economy receives an immense influx of **$2 million in remittances every single hour** (over $620,000 every 20 minutes). The ultimate litmus test is whether the state creates viable financial instruments to divert this liquidity away from short-term consumption and real estate speculation, and into productive, long-term domestic infrastructure equity.

2. **Civil Aviation Reform**
   To realize its potential as an international tourism destination, Nepal must execute the long-overdue, structural split of its **Civil Aviation Authority** into separate regulatory and operational entities. This is a clear, non-negotiable metric of governance capacity.

3. **A Shift in Public Discourse**
   The overarching tone of national policy must fundamentally shift. Public discourse, media narratives, and political debates must stop framing the private sector as a predatory problem to be tightly controlled and instead treat private enterprise as an indispensable partner for job creation, poverty reduction, and national modernization.

2) Monetary Policy Expectation: FY 2026/27

1. Policy Context

Nepal's macroeconomic environment has been characterized by a prolonged economic slowdown over recent fiscal cycles. Historical data shows that while nominal policy cuts were introduced, the broader monetary transmission mechanisms remained severely paralyzed. For FY 2026/27, the monetary policy prioritizes should direct measures to alleviate the growing capital constraints faced by the banking sector while simultaneously strengthening the overall financial ecosystem. By overhauling rigid Loan Loss Provisioning (LLP) rules, instituting disciplined large-exposure credit guidelines, and forcing corporate diversification into the debt capital markets, the central bank aims to transition the economy from systemic stagnation into risk-mitigated growth.

2. Diagnosing Past Transmission Failures

As analyzed in the previous year's Monetary policy, traditional monetary adjustments failed to stimulate the real economy due to systematic blockages across key channels:

- **The Lending Rates Channel (Not Effective):** Despite surplus liquidity and nominal interest rate cuts, credit growth historically stalled at a dismal **5.83%**, far below the target of **11.5%**. Banks faced severe capital pressure and inherent asset quality constraints (bad loans), making them structurally unable or reluctant to expand credit. Furthermore, a rigid deposit mix heavily skewed toward long-term deposits prevented deposit costs from adjusting to policy rate cuts.
- **Maturity Profile Risks:** Furthermore, the divergent maturity profiles of fixed deposits and risk assets have heightened repricing risks and exacerbated asset-liability mismatches (ALM).
- **The Interest Rate Channel (Less Effective):** Reductions in the policy rate has not stimulate credit demand because core lending barriers remained unaddressed.
- **The Asset Price Channel (Not Effective):** Low consumer and market confidence, paired with subdued lending growth, insulated real estate and asset markets from the benefits of lower interest rates.
- **The Exchange Rate Channel (Not Effective):** Due to the fixed peg with the Indian Rupee (INR), the foreign exchange rate remained independent of domestic reserves, isolating BOP and remittance dynamics from policy rate adjustments.

Strategic Directive for FY 2026/27: Policy focus must shift entirely from passive rate cuts to **capital base optimization** and **structural corporate financing overhauls**.

3. High-Potential Growth Sectors to Fuel

To counter historical trends where GDP growth fell short of targets (dropping below 4% against a 6% projection), the unlocked credit under the FY 2026/27 policy will be prioritized toward high-momentum sectors identified in recent quarterly trends:

- Electricity, Gas, Steam & Air Conditioning: Exhibiting substantial growth surges of up to 37.1%, indicating immense potential for industrial development through energy bond investments.
- Accommodation and Food Service Activities: Maintaining substantial double-digit growth (reaching 19.1% to 29.1%), representing a vital driver linked to tourism and domestic consumption.
- Transportation and Storage: Demonstrating solid positive momentum at 15.0%, critical for expanding trade logistics and infrastructure efficiency.

4. Financial System Strengthening & Market Discipline

CareEdge Ratings Mumbai expects the revised framework to enhance rating penetration, strengthen credit discipline among borrowers, and promote more risk-sensitive lending practices among banks. The reduction in risk weights for AA and BBB-rated exposures is estimated to unlock approximately INR 33,000 crore and INR 25,000 crore in regulatory capital, respectively. This is expected to expand lending capacity, enable higher exposure limits, and support longer debt tenures, while also providing an additional buffer for commercial banks ahead of the implementation of Expected Credit Loss (ECL)-based provisioning from April 1, 2027.

Synopsis

1. The Reserve Bank of India's (RBI) circular - Capital Charge for Credit Risk – Standardised Approach Directions, 2026 was published on April 27, 2026 (effective from April 01, 2027) for commercial banks, in line with the 'Basel III framework' (Basel III: Finalising post-crisis reforms) published in December 2017.

2. The circular establishes a clear regulatory framework that links banks' Capital Adequacy Requirements (CAR) to external credit ratings issued by Eligible Credit Rating Agencies (CRAs). Under the Directions, banks are required to use external credit ratings to assign risk weights to a wide range of exposures, including corporates, banks, and specialised lending, subject to specified conditions.

3. The framework also introduces the use of one year average Observed Default Rate (ODRs) published by CRAs to determine whether base risk weights remain applicable or need to be increased for the rated exposure of a specific CRA due to a higher than threshold ODR. Since ODRs of CRAs will influence the capital adequacy requirement of lenders, consistency and quality of ratings of CRAs would be viewed objectively.

4. The RBI has reduced risk weights for three of the six rating categories, subject to the ODR caveat for the quality of CRA ratings. These three categories together account for 43% of the total live-rated debt; hence, this reduction in risk weights is expected to lead to a significant release of capital for lenders while also benefiting borrowers in terms of lower interest rates, higher exposure and/or extending debt tenure.

5. For AA and BBB band-rated entities, significant capital relief is envisaged, with the reduction in risk weights expected to release more than Rs 58,000 crore of regulatory capital of the commercial banks.

6. The revised circular also covers issuer non-cooperating ratings of CRAs. As per the new framework, once a borrower is classified as an issuer not cooperating (INC), banks shall determine the applicable risk weight based on all other available ratings, subject to a floor of 100%, escalating to 150% if non-cooperation from any CRA continues beyond six months. This is likely to lead to faster resolution in more than 10% of more than 23,000 INC portfolio of CRAs, either through cooperation on the ratings or their withdrawal.

7. Base Risk Weight Mapping of Ratings and ODR Range

Long Term Rating	ODR Range (%)	Old Risk Weights (%)	New Risk Weights (%)
AAA	< 0.05%	20%	20%
AA	**0.05 – 0.10%**	**30%**	**20%**
A	0.10 – 0.20%	50%	50%
BBB	**0.20 – 0.40%**	**100%**	**75%**
BB	**0.40 – 1.00%**	**150%**	**100%**
B and below	> 1.00%	150%	150%
Unrated^	-	100%	100%

^150% in case of exposure above Rs 500 crore

8. Disincentive for medium and large exposures to remain unrated

Under the new framework, external credit ratings are the primary basis for risk differentiation, and lenders can no longer rely on internal ratings to assign risk weights for capital adequacy requirements above the threshold specified in the circular. As a result, unrated borrowers—mainly of good credit quality—will be at a disadvantage, since banks will be required to apply prescribed risk weights for unrated exposures. Unrated corporate exposures shall attract a 100% risk weight, and exposures exceeding Rs 500 crore (system-wide) shall attract a 150% risk weight, significantly increasing capital costs compared to earlier norms. This is likely to create a disincentive for both categories: entities with exposures below Rs 500 crore that could potentially secure an investment-grade rating—since a rated exposure would attract a lower risk weight—and entities with exposure above Rs 500 crore, as these would be subject to a higher risk weight of 150%.

To maintain credit discipline while freeing up trapped capital, the central bank will inject strict, transparent guardrails into corporate lending:

A. Mandatory Credit Ratings

- **Borrowing Threshold:** Mandatory credit ratings will be strictly enforced for all corporate borrowings above NPR 250 million and framework that links banks' Capital Adequacy Requirements (CAR) to external credit ratings issued by Eligible Credit Rating Agencies (CRAs).
- **Problem Loan Restructuring**: This rating mandate extends to workout arrangements and the formal restructuring of problem loans exceeding the same threshold. While Nepal Rastra Bank (NRB) previously introduced the draft Stress Resolution Framework Guidelines for public consultation, the formal finalization of the policy remains pending. Expeditious implementation of this framework would provide crucial, timely relief to financially stressed enterprises and support broader economic recovery.
  Impact: This measure enhances lending capacity of BFIs, corporate transparency, improves risk assessment, strengthens market discipline within the financial sector, and promotes risk-based pricing for large corporate borrowers.

B. Corporate Debt Market Deepening

To reduce the corporate sector's excessive dependence on bank financing and deepen the domestic debt market, a diversification mandate will be imposed:

- The 10% Debenture Rule: Large corporate borrowers with total bank debt exposure above NPR 2 billion will be encouraged to raise at least 10 percent of their financing through capital market instruments such as bonds or debentures.
- Impact: This mechanism structurally diversifies funding sources, mitigates concentration risks within Banks and Financial Institutions (BFIs), and catalyzes a vibrant domestic debt market. Over time, it will drive retail investor participation and generate additional government revenue through Capital Gains Tax (CGT).

5. Provisioning Overhaul & Graduated NPA Framework

To fix the lending gridlock caused by bad loans and capital pressure, the central bank will transition from its conservative framework (which mandates a rigid 100% provisioning within 1 year of default regardless of collateral to a risk-adjusted, graduated framework modeled). Rather than implementing a flat 100% penalty at year one, banks will recognize defaults immediately but apply tiered provisioning based on delinquency duration and underlying collateral valuation:

a) 1 day to 3 months overdue: 5% provisioning (Early detection & tracking phase)
b) 3 to 6 months overdue: 25% provisioning (Sub-standard asset adjustment)
c) 6 to 12 months overdue: 50% provisioning (Doubtful Classification - Stage 1)
d) 12 to 36 months overdue: 75% provisioning (Doubtful Classification - Stage 2)
e) **More than 36 months overdue:** 100% provisioning *(Full Loss asset categorization)*

6. Projected Macroeconomic and Fiscal Impacts of Provisioning Overhaul

By redefining the **NPR 349 billion** currently locked in static loan loss provisions, the policy injects substantial liquidity and capital efficiency into the economy:

Macro Indicator	Current Bottleneck	Projected Reform Impact
BFI Core Capital Base	Constrained by immediate 100% provisioning rules	**+ NPR 105 Billion** injected directly into Tier 1 and Tier 2 capital
Government Revenue	Limited by LLP status	**+ NPR 45 billion** via corporate tax on reserves + new CGT from debenture trade
Lending Capacity	Slow credit growth (5.83%) due to capital constraints	Potentially unleashes **+ NPR 700 billion** in private sector credit expansion

The upcoming implementation of the Domestic Systemically Important Banks (D-SIB) framework in the next fiscal year will introduce heightened capital requirements, potentially placing additional pressure on the capital adequacy ratios of the designated institutions

7. Prudential Safeguards & Capital Preservation Strategy

To ensure that provisioning relaxation does not result in loose credit standards or aggressive cash drainouts, a multi-layered profit preservation mechanism should be deployed:

Write-back Capital Realized
|
▼

| Years 1 & 2: Regulatory Reserve |
| (0% Cash Outflow; Multiplies Risk Cushions) |

|
▼ (Post Year 2)

| Capitalized via Stock-Only Dividends |
| (Bonus shares retain capital within the BFI) |

Tier 1 & 2 Capital Alignment: In line with earlier initiatives to alleviate core capital stress, these regulatory reserves will be permitted to count toward Tier 1 capital up to 50% of Tier 1 capital. This ensures maximum leverage for domestic credit expansion.

8. **Asset Management Company (AMC):** The central bank will finalize the process to establish a specialized Asset Management Company (AMC). The AMC will actively acquire distressed real estate and construction assets, offloading bad loans from BFI balance sheets and maintaining overall market confidence. However, according to IMF "To be effective, the AMC will first require improvements to the debt recovery framework, including the insolvency law, and improvements in the real estate market to dispose of repossessed collateral. The AMC must require timely loss recognition by the banks, establish a sufficiently discounted acquisition price, give precedence to cash recoveries, and designate a sunset date to incentivize loan workouts."

9. Supplementary Regulatory Response Adjustments

- **Credit & Market Flexibility:** Eliminate the upper margin lending limit of NPR 200 million for institutional investors to revive capital market liquidity. Expand the maximum threshold for the regulatory retail portfolio to NPR 25 million to support small-scale business operators.
- **Prudential Forbearance:** Maintain systemic relief for the construction and energy sectors via targeted loan repayment moratoriums, and reduce loan loss provisions for high-quality, non-delinquent loans down to 1.10%.
- **Systemic Transparency:** Complete the full integration of tax office submissions with the banking system's credit assessment channels to curb artificial asset overvaluations and reduce underlying credit risks.

10. Policy Expectations

- **Policy Stance:** Driven by adequate forex reserves and rising inflation risks that may exceed targets, the NRB is expected to maintain flexible/accommodative monetary policy stance, while remaining mindful of low economic growth.
- **Rate Review:** Existing arrangements for the bank rate, CRR, and SLR are expected to remain unchanged while NRB likely to review interest rate corridor.

11. Strategic Policy Areas for Regulatory Review:

- **Secondary Market Development:** Facilitate the structured establishment of a robust secondary market to enhance liquidity and price discovery for debt instruments.
- **Liquidity Risk Management:** Re-evaluate Non-Deliverable Forward (NDF) and Net Open Position (NOP) limits to optimize systemic liquidity and foreign exchange management.
- **Optimization of Non-Banking Assets (NBAs):** Propose targeted amendments to the Bank and Financial Institutions Act (BAFIA) to streamline the utilization, monetization, or disposal of acquired non-banking assets.

- **Realignment of Deprived Sector Lending (DSL):** Review and harmonize DSL directives with the recent budget announcement to route these credit flows efficiently through Sana Kisan Laghubitta Bittiya Sanstha.
- **Digital Payment Interoperability:** Advance QR code interoperability standards to strengthen the digital payment ecosystem and drive financial inclusion.
- **Mitigation of Financial Fraud & Mule Accounts:** Introduce enhanced regulatory frameworks to mitigate account fraud, including streamlined provisions for closing zero-balance accounts and facilitating digital account closure mechanisms.

3) FATF Grey List

Since making a high-level political commitment in February 2025 to work with the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering (APG), Nepal has undertaken measures to strengthen the effectiveness of its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework. Notably, the country has addressed the remaining technical compliance gaps related to targeted financial sanctions concerning terrorist financing (TF) and proliferation financing (PF).

Despite this progress, Nepal remains under enhanced monitoring and is expected to continue implementing its FATF Action Plan to address a number of strategic deficiencies. Key priority areas include strengthening the national understanding of money laundering and terrorist financing risks; enhancing risk-based supervision of commercial banks, higher-risk cooperatives, casinos, dealers in precious metals and stones (DPMS), and the real estate sector; and demonstrating effective action against materially significant illegal money or value transfer service (MVTS) and hundi operators without undermining financial inclusion objectives.

In addition, Nepal is expected to improve the capacity and coordination of competent authorities responsible for anti-money laundering enforcement, demonstrate a measurable increase in money laundering investigations and prosecutions, and strengthen efforts to identify, trace, restrain, seize, and where appropriate, confiscate the proceeds and instrumentalities of crime in line with the country's risk profile.

The successful implementation of these reforms will be critical not only for Nepal's eventual removal from the FATF's increased monitoring process but also for enhancing the integrity, transparency, and international credibility of its financial system.

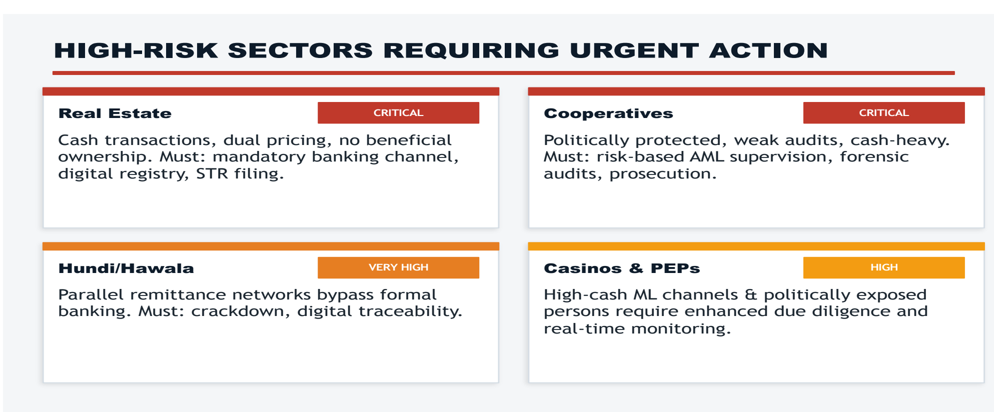
Nepal's placement on the FATF Grey List in February 2025 carries implications far beyond administrative procedures. It affects the country's investment climate, banking relationships, remittance flows, and overall economic confidence. Every month of delay comes with increasing costs:

- Correspondent banks may impose additional compliance requirements on Nepali institutions.
- Foreign investors may adopt a more cautious approach.
- The remittance inflows could face higher transaction costs and tighter scrutiny.
- Sovereign risk perceptions may rise.

The challenge is not the absence of legal frameworks. Nepal already has the necessary laws in place. The critical issue is effective enforcement and implementation. Recent assessments by the Asia/Pacific Group have identified concerns relating to real estate transactions, informal money transfer channels, high-value sectors, and weak enforcement of anti-money laundering measures. Available data from FIU-Nepal also indicates a significant increase in suspicious transaction reports and enforcement-related activities since 2023.

However, the current momentum must be sustained. Countries that successfully exited the Grey List did so through consistent, coordinated, and measurable enforcement actions. Nepal now faces a limited but important window of opportunity. The focus should shift from policy commitments to demonstrable implementation, institutional coordination, and credible outcomes.

This requires all relevant institutions — regulators, enforcement agencies, ministries, financial institutions, and the private sector — to work in close alignment and with urgency. The issue ultimately extends beyond compliance alone. It is about preserving Nepal's financial credibility, safeguarding economic stability, and maintaining international confidence in the country's financial system.



4) Sovereign Fund

1. Unraveling the Distinction Between Assets and Wealth

In recent years, the concept of establishing a Sovereign Wealth Fund (SWF) in Nepal has gained traction, particularly as the country's foreign exchange reserves have reached unprecedented levels. Some policymakers and commentators have proposed that a portion of these reserves could be channeled into a sovereign investment fund to generate higher returns and finance long-term development initiatives.

While the intention behind this proposal is commendable, it is crucial to exercise caution. Simply having large foreign exchange reserves does not automatically translate into equivalent investable sovereign wealth.

2. The key challenge lies in comprehending the financial position of Nepal Rastra Bank (NRB).

As of Ashadh 2082, NRB's Statement of Financial Position revealed foreign currency assets amounting to approximately Rs. 2.56 trillion. These assets primarily comprised balances held with foreign banks, term deposits, foreign securities, IMF-related assets, and gold certificates. On the surface, these figures may appear to represent a substantial pool of national wealth available for investment.

However, it is essential to recognize that the asset side of the balance sheet only provides a partial picture.

The same balance sheet also reveals substantial liabilities that have emerged as a result of reserve accumulation. NRB reported approximately Rs. 750 billion in currency in circulation, Rs. 388 billion in deposits held by banks and financial institutions, Rs. 70 billion in government deposits, Rs. 654 billion due to banks and financial institutions, and other domestic and foreign liabilities. Notably, the total local-currency liabilities alone exceeded Rs. 1.86 trillion, while foreign-currency liabilities amounted to nearly Rs. 40 billion.

This economic reality underscores a critical point: foreign exchange reserves are not standalone assets. They are largely mirrored by liabilities that have already been created within the domestic financial system.

When remittances enter Nepal, exporters sell foreign currency, external loans are received, or foreign aid is disbursed, the National Bank of Nepal (NRB) acquires foreign assets. In return, Nepalese rupees are injected into the economy through currency issuance, commercial bank reserves, and other monetary liabilities. Consequently, the reserves have already been monetized and crystallized into obligations reflected on the central bank's balance sheet.

3. Foreign exchange reserves serve a fundamentally different role compared to sovereign wealth.

The primary objective of reserves is to maintain external sector stability, ensure currency convertibility, preserve confidence in the financial system, and provide protection against external shocks. Their investment mandate prioritizes liquidity and safety over return maximization.

Sovereign Wealth Funds (SWFs), on the other hand, are typically financed from genuine fiscal savings. Globally, successful SWFs are capitalized through budget surpluses, natural resource revenues, privatization proceeds, or other government-owned fiscal assets. These resources represent net public wealth accumulated by the treasury rather than assets held against monetary liabilities.

4. Using NRB reserves to capitalize a Sovereign Wealth Fund necessitates careful consideration.

First, policymakers should distinguish between gross reserves and net sovereign wealth. A country may have substantial reserve assets while simultaneously carrying significant monetary liabilities that support those assets.

Second, transferring reserve assets into long-term investments could reduce reserve adequacy and limit the central bank's flexibility in responding to external shocks or balance-of-payments pressures.

Third, such a move risks blurring the institutional boundary between fiscal management and monetary management. Central banks are responsible for monetary and financial stability, while governments are responsible for managing public wealth and undertaking long-term investments.

5. None of this implies that Nepal should abandon the idea of establishing a Sovereign Wealth Fund. On the contrary, a well-designed fund could become an important vehicle for intergenerational savings and strategic national investments.

However, a more sustainable approach would be to capitalize the fund through future fiscal surpluses, hydropower export revenues, natural resource royalties, privatization proceeds, dividends from state-owned enterprises, and other treasury-owned assets. These represent genuine sovereign wealth because they are not already pledged against monetary liabilities.

The policy debate should therefore focus not on the headline size of foreign exchange reserves but on the net economic position reflected in the central bank's balance sheet. The existence of Rs. 2.16 trillion in foreign assets does not automatically mean Nepal possesses Rs. 2.16 trillion in investable sovereign wealth. Much of those reserves support existing monetary liabilities and fulfill essential macroeconomic functions.

6. The crucial question

Before utilizing foreign exchange reserves for a Sovereign Wealth Fund, policymakers must answer a simple but crucial question: Are we investing surplus national wealth, or are we reallocating assets that have already been matched by liabilities?

The distinction is not merely accounting—it is fundamental to preserving monetary stability, maintaining confidence in the financial system, and ensuring the long-term success of any future Sovereign Wealth Fund.

Foreign Assets (≈ Rs. 2.16 trillion) ≠ Sovereign Wealth (Rs. 2.16 trillion) because these assets are offset by:

a) Currency in circulation: ≈ Rs. 780 billion
b) Bank deposits at NRB: ≈ Rs. 388 billion
c) Government deposits: ≈ Rs. 70 billion
d) Due to banks and BFIs: ≈ Rs. 654 billion
e) Other domestic and foreign liabilities: > Rs. 100 billion

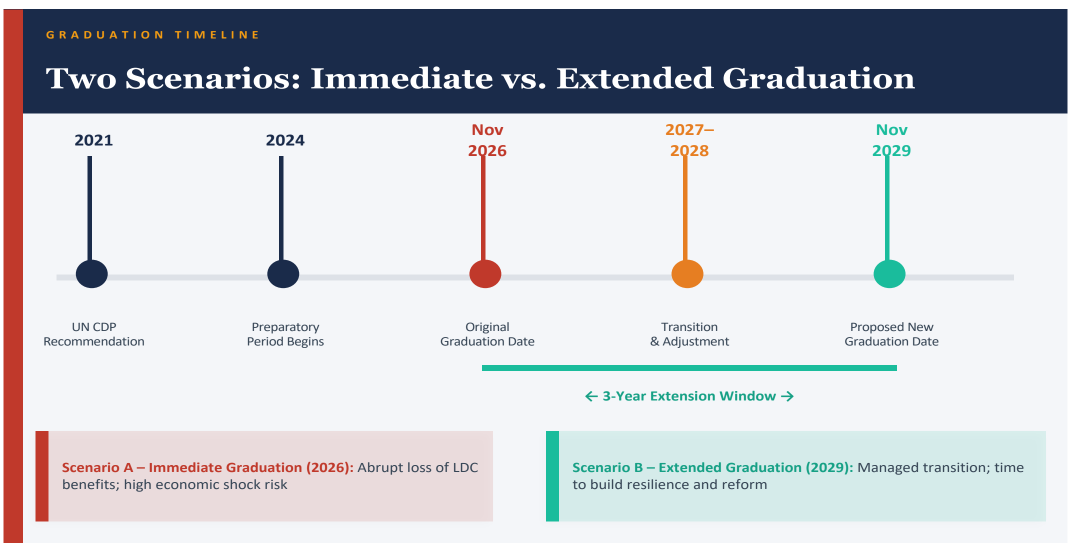
The Reserve assets and sovereign wealth are conceptually and economically different.

5) 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—Government of Nepal has requested for time extension for Least Developed Country (LDC) status till November 2029.

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.



SCENARIO A — IMMEDIATE GRADUATION (NOV 2026)

Economic Outlook Without Extension

01 Export Shock

Duty-free access under EU EBA and UK GSP LDC ends. Garments, carpets, tea face 8–12% tariff hike instantly. Estimated 4–5% decline in export earnings (~USD 40–50M/yr).

02 Fiscal Stress

Annual aid grants drop by USD 100–200M. Budget deficit widens by 0.5–1% of GDP. Infrastructure projects face financing gaps of USD 2–3 billion.

03 Jobs at Risk

50,000–100,000 export sector jobs threatened. Industries unable to quickly meet GSP+ compliance standards may downsize or relocate production.

04 Climate Vulnerability

Nepal loses automatic access to LDC climate funds (LDCF, SCCF). Must compete with middle-income nations for climate adaptation financing despite being highly climate-vulnerable.

05 Loss of WTO Flexibility

Export subsidy exemptions under WTO LDC rules end. Production costs rise. Technology transfer provisions reduce. Industrial modernization slows significantly.

06 Human Capital Gap

Reduced eligibility for LDC-targeted scholarships, training programs, and capacity-building. Diplomatic support and UN participation funding decreases, raising government expenditure.

SCENARIO B — EXTENDED GRADUATION (NOV 2029)

Opportunities & Benefits of a 3-Year Extension

01 Trade Adjustment Period

Retain EU EBA and UK GSP LDC preferences. Time for exporters to diversify markets, meet GSP+ standards, and upgrade production capacity to compete post-graduation.

02 Fiscal Breathing Room

Continue receiving priority grant-based ODA. Sustain concessional loan access from WB IDA and ADB. Reduce risk of infrastructure financing gaps disrupting key projects.

03 Employment Protection

Protect 50,000–100,000 export-sector jobs during a structured transition. Allows industries time for productivity investment and workforce upskilling.

04 Climate Finance Access

Continue accessing LDC-priority climate funds (LDCF, SCCF) to implement the National Adaptation Plan and build resilience against floods, droughts, and glacial lake outbursts.

05 Structural Reform Window

Time to advance GSP+ compliance, strengthen institutions, liberalize trade, diversify exports beyond garments to ICT, tourism, and hydropower.

06 Human Capital Building

Continued access to LDC scholarships, capacity-building programs, and UN diplomatic support. Reduces government expenditure while building long-term national capability.

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.
   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.

3. 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.

4. 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

1. The RSP landslide victory provides Nepal with a rare window of political stability.
2. 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.

6) 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
	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.

7) 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
Mid-June	~237–225	~65–75% increase

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 (KL)**	**GDP Growth rate**	**Credit growth**	**Diesel Growth**	**Value Rs Billion**
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%**	
2076/77	**1,473,536**	**4.84**	**27.54%**	**-13.43%**	
2077/78	**1,696,202**	**5.63**	**12.91%**	**15.11%**	**91.9**
2078/79	**1,723,557**	**1.98**	**3.48%**	**1.61%**	**153.7**
2080/81	**1,411,440**	**3.67**	**5.97%**	**-18.11%**	**144.0**
2081/82	**1,466,285**	**4.61**	**8.18%**	**3.89%**	**115.6**
2081/82 (11 months)	**1,312,905**	**4.61**	**6.93%**		**128.7**
2082/83 (11 months)	**1,264,878**	**3.85**	**5.92%**	**-3.66%**	**152.8**

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

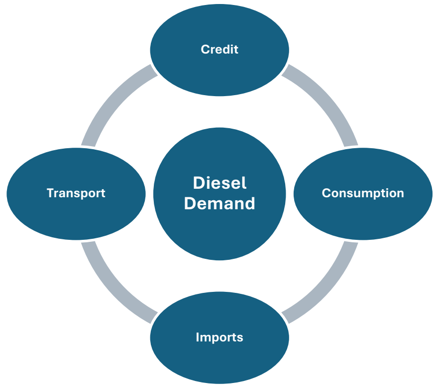
c) Diesel–Credit–GDP Relationship

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**
2082/83 (11 months)	**-3.66**	5.92	**3.85**

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

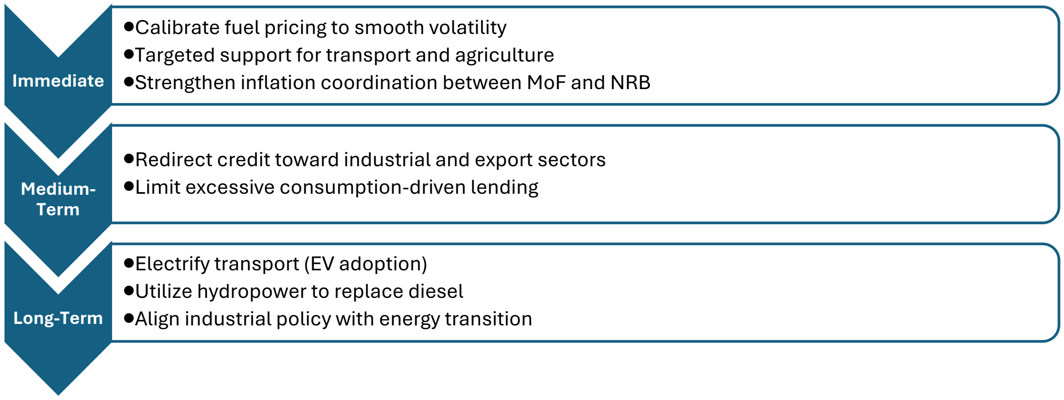
Risk Category	Description	Probability	Impact	Risk Level
Fuel Price Shock	Global oil volatility	High	Very High	🔴 Critical
Inflation Surge	Cost-push inflation	High	High	🔴 Critical
External Imbalance	Import-driven pressure	High	High	🔴 Critical
Growth Slowdown	Demand compression	Medium	High	🟠 High
Industrial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

g) Vulnerability Index (Diesel Dependency)

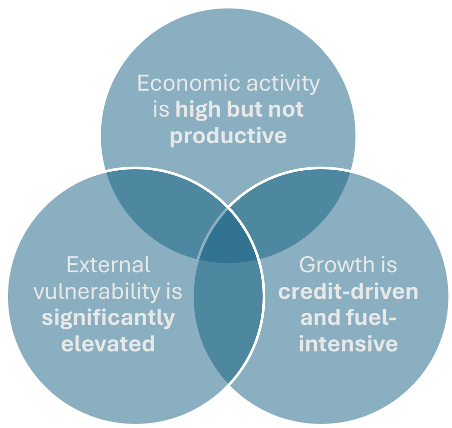
Dimension	Weight	Score	Weighted Score
Import Dependence	25%	5	1.25
Price Exposure	20%	5	1.00
Sectoral Dependence	20%	4	0.80
Credit Structure	15%	4	0.60
Industrial Base	10%	2	0.20
Energy Substitution	10%	3	0.30

Total Score: 4.15 / 5 (Highly Vulnerable Economy)

h) Policy Recommendations



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.

8) Nepal Fertilizer Distribution Analysis (FY 2024/25–FY 2025/26 Mid-Year)

Nepal's fertilizer distribution system continues to operate under a **highly subsidy-dependent and import-driven framework**, primarily managed by Krishi Samagri Company Limited (KSCL) and Salt Trading Corporation (STC). Despite sustained fiscal support and increasing procurement volumes, the system remains constrained by **structural inefficiencies in procurement timing, seasonal allocation, and nutrient balance**, resulting in recurring supply-demand mismatches during critical agricultural periods. (Ministry of Agriculture and Livestock Development)

1. FY 2024/25: Supply Expansion with Structural Inefficiencies

During FY 2024/25, the fertilizer system maintained a relatively strong aggregate supply position. The opening stock stood at **123,933 MT**, and total procurement reached **346,642 MT**, resulting in total availability of **470,575 MT**.

However, actual distribution was **334,976 MT**, leaving a closing stock of **135,599 MT**, indicating significant inefficiency in stock utilization and timing.

Key Composition Highlights

- Urea dominated both procurement and consumption (192,478 MT distributed)
- DAP showed high accumulation (79,200 MT closing stock)
- Potash remained structurally underutilized (11,248 MT distributed)

Structural Interpretation

While aggregate supply was broadly adequate, the system faced:

- Seasonal misalignment in distribution
- Demand forecasting weaknesses

- Nutrient imbalance (urea-heavy consumption pattern)
- Persistent gap vs national requirement (~550,000 MT)

This confirms that Nepal's fertilizer constraint is not only supply-based but also **systemic and operational**.

2. FY 2025/26 (Mid-Year): Rising Imports but Persistent Distribution Gaps

Recent FY 2025/26 data show a continued increase in procurement and imports, but with limited improvement in distribution efficiency.

Updated System Position (FY 2025/26)

- Imports/procurement: ~480,000–500,000 MT (estimated pipeline realization)
- Government target: ~600,000 MT annually
- Shortfall: ~100,000–150,000 MT vs requirement

Mid-Year Stock and Distribution Signals

- Fertilizer stock levels fluctuating between 39,000–109,000 MT
- Distribution during peak months remains weak
- Seasonal shortages persist despite adequate aggregate availability

A notable feature is continued reliance on imports from India and international tenders, with logistics and procurement cycles creating delays in timely delivery.

3. Integrated Fertilizer Balance (FY 2024/25 + FY 2025/26 Early Data)

Category	FY 2024/25 (MT)	FY 2025/26 Mid-Year Trend
Total Availability	470,575	Rising toward ~500,000+
Total Distribution	334,976	Lower seasonal efficiency
Closing/Carryover Stock	135,599	80,000–110,000 (fluctuating)
Estimated Requirement	~550,000	~600,000
Structural Gap	150,000–200,000	100,000–150,000

4. Systemic Issues Across Both Years

a) Persistent Demand-Supply Gap

Despite rising imports, Nepal consistently faces:

- 15–40% structural deficit vs requirement
- Seasonal shortages during paddy transplantation periods
- Heavy reliance on emergency procurement

b) Nutrient Imbalance

The system remains heavily skewed toward:

- Urea dominance
- Underutilization of potash
- Irregular DAP absorption and accumulation

This reflects weak soil-specific or crop-specific fertilizer planning.

c) Distribution Inefficiency (Core Bottleneck)

Across both years, the key issue is not supply volume but:

- Delayed procurement cycles
- Poor seasonal alignment
- Weak provincial distribution coordination
- Accumulation of unused stock in off-peak months

d) Import and Logistics Dependence

The system is highly exposed to:

- International tender delays
- Indian transit and port logistics constraints
- Global fertilizer price volatility
- Shipping and supply chain disruptions

5. Policy and Fiscal Context

The Government of Nepal continues to allocate approximately:

- **NPR 28 billion annually** in fertilizer subsidies

Despite this, inefficiencies persist due to structural constraints rather than funding shortages. The fiscal burden is increasingly directed toward maintaining supply continuity rather than improving system efficiency.

6. Key Structural Diagnosis

Across FY 2024/25 and FY 2025/26, Nepal's fertilizer system can be characterized as:

"Quantitatively improving but operationally inefficient."
Core conclusion:

- Supply is broadly adequate in aggregate terms
- Distribution timing is misaligned with agricultural cycles
- Nutrient composition is imbalanced
- Procurement systems are slow and reactive rather than predictive

7. Strategic Implications

To address these structural inefficiencies, reforms must shift focus from:

From:

- Increasing import volumes alone

To:

- Demand forecasting and real-time planning
- Provincial and seasonal allocation systems
- Balanced fertilizer promotion (NPK optimization)
- Logistics and procurement cycle reform
- Digital tracking of fertilizer movement and consumption

8. Conclusion

The combined FY 2024/25–FY 2025/26 evidence shows that Nepal's fertilizer system is no longer constrained primarily by scarcity. Instead, it is constrained by **timing, allocation efficiency, and institutional coordination failures**. Without addressing these structural bottlenecks, additional fiscal spending or increased imports will have limited impact on reducing seasonal shortages or improving agricultural productivity outcomes.

9) 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. The basis of evaluation:

i. Alignment between political commitments and policy execution
ii. Macroeconomic risks and structural constraints
iii. Implementation feasibility
iv. Financing requirements

5. 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.

i. 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.

ii. 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.

iii. 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

6. 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.

7. 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

8. Integrated Macroeconomic Framework

Growth Scenarios

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

9. Structural Shift Required

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

10. 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.

11. 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.

12. 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

13. 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

14. 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

10) Birds-Eye View of Economic Outlook of Nepal

Dimension	World Bank	Asian Development Bank (ADB)	IMF (2026 Article IV + ECF Review)	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB – FY 2082/83 Ten Months)	Government of Nepal (GoN)
GDP Growth Outlook	~2.2–2.8% FY26; recovery constrained by weak investment and capital execution	~2.7–3.0% FY26; rebound to ~5% in FY27 as shocks fade (Asian Development Bank)	~3.0–3.5% FY26; below potential due to weak demand & project delays (IMF)	Sensitive to growth stagnation and fiscal stress	~2.5–3.0% short-term; medium-term upside >6–7% if reforms accelerate	~3–3.5% implicit trend (moderate recovery; credit subdued but stable external sector)	~6%+ target (FY 2082/83 budget ambition; execution gap persists)
Inflation (CPI)	~4.5–6.0% (moderating global commodity pressure)	~4.5% FY26 (food price volatility due to shocks) (Asian Development Bank)	~2.4–5.0% anchored within NRB target band (IMF)	Secondary rating driver	Not primary concern	~4–5% range observed; lower-than-target inflation due to subdued demand	~6% ceiling policy framework
Fiscal Deficit	~4–5% GDP; capital spending under-execution	Fiscal discipline emphasized; efficiency-led consolidation	Revenue mobilization + spending efficiency required	Debt trajectory key rating anchor	Structural inefficiency in fiscal execution highlighted	Weak capital expenditure absorption continues; liquidity supportive stance	~4–5% GDP; revenue pressure persists
Public Debt	~42–45% GDP sustainable but rising domestic share	~42–45% GDP stable with growth support	Sustainable but requires fiscal discipline	Central sovereign rating sensitivity factor	Risk increases without export-led growth	~43–46% GDP; FX valuation & domestic borrowing rising	Rising domestic debt dependence
Foreign Exchange Reserves	~$11–12B; ~10–11 months import cover	Strengthening external buffer (Asian Development Bank)	Stable and adequate external position	Supports sovereign stability rating	Stable but non-transformational	Rising reserves; import cover ~7–10 months depending on import compression cycle	Strong reliance on remittances + import management
Remittances	~$9–10B (core macro stabilizer)	Main demand driver	Structural balance-of-payments anchor	Strong positive credit factor	Structural overdependence risk	Strong inflow-driven reserve accumulation; key external stabilizer	Core consumption and FX source
Merchandise Exports	~$2.0–2.3B; weak diversification	Gradual recovery possible	Structural export constraint	Weak rating contribution	Needs aggressive scaling	Limited expansion; structural bottleneck persists	Export promotion priority
IT / Services Exports	~$0.9–1.2B emerging sector	High-growth potential	Structural transformation opportunity	Small but positive	Strategic high-growth sector	Digital payments + fintech expansion underway	Policy incentives introduced
Trade Deficit	~$12–14B structural gap	Persistent imbalance	Managed via remittances	External vulnerability factor	Structural macro imbalance	Persistent but offset by remittance surplus	Chronic deficit issue

Dimension	World Bank	Asian Development Bank (ADB)	IMF (2026 Article IV + ECF Review)	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB – FY 2082/83 Ten Months)	Government of Nepal (GoN)
Banking Sector / NPLs	NPL ~4–5%; credit slowdown persists	Credit easing to support growth	Financial sector reform required (ECF focus) (IMF)	Asset quality risk rising	Credit constraint limiting private sector expansion	NPL rising to ~5.4% system stress; credit growth moderate	Financial stability priority
Capital Market Development	Weak depth, structural reform needed	Infrastructure financing focus	Institutional strengthening required	Governance sensitivity factor	Deep reform needed for capital formation	Liquidity supported equity market recovery	NEPSE reform + IPO pipeline
Election / Political Cycle Impact (Short-term)	Investment delay risk	Neutral to mildly positive	Reform continuity critical	Political risk factor	Policy uncertainty risk	Stable liquidity stance maintained	Pre-election fiscal pressure
Election / Political Cycle Impact (Opportunity)	Stability improves investment climate	Infrastructure push possible	Post-election credibility boost	Governance improvement supports rating	Reform acceleration opportunity	Monetary stability maintained	Policy reset potential
Structural Reform Focus	Governance + private investment	Productivity + infrastructure	Fiscal + institutional reforms (NRB Act, AML, banking) (IMF)	Governance & institutional discipline	50 firms ≥$5B; 500 firms ≥$500M; $100B+ GDP vision	Financial stability + regulatory tightening	Industrial policy, hydropower, export promotion

11) Budget & Outlook to 2026/27

NEPAL BUDGET FY 2026/27: Ambitious Reform Agenda Facing an Execution Challenge

Nepal's FY 2026/27 (2083/84) Budget of Rs. 2.124 trillion is the largest in the nation's history, representing a 25.2 percent increase over the previous fiscal year. The budget seeks to accelerate economic growth to 7 percent, improve infrastructure delivery, modernize agriculture, promote information technology, attract foreign investment, and strengthen private sector participation in economic development.

The budget contains several positive structural reforms, including improvements in investment legislation, tax incentives, capital market reforms, digital governance initiatives, and measures to improve the ease of doing business. These reforms signal a shift toward a more market-oriented and investment-friendly economic framework. However, the budget is being implemented against a backdrop of weak fiscal execution. FY 2025/26 witnessed significant underperformance in revenue collection, capital expenditure, foreign grant utilization, and economic growth. Consequently, the primary challenge facing the FY 2026/27 budget is not policy design but implementation capacity.

The overall assessment is that the budget is credible in intent but challenging in execution. Its success will depend upon improvements in capital expenditure management, revenue mobilization, governance reforms, and the restoration of confidence among investors and development partners.

a) Economic Context

The Nepalese economy enters FY 2026/27 with mixed signals.
Positive developments include:

- Inflation averaging approximately 2.1 percent.
- Stable foreign exchange reserves.
- Continued remittance inflows.
- A manageable external sector position.
- Improved private sector sentiment compared with previous years.

However, several structural weaknesses remain:

- GDP growth below target.
- Persistent underutilization of capital expenditure.
- Weak public investment effectiveness.
- Slow project execution.
- Revenue collection shortfalls.

- Low productivity growth.

These challenges provide the context within which the FY 2026/27 budget must be evaluated.

b) FY 2025/26 Budget Performance Review

The implementation record of FY 2025/26 serves as the most important indicator of future budget credibility.
FY 2025/26 Budget Performance

Indicator	Budget Target	Estimated Outcome	Achievement
Total Budget	Rs 1,964 Bn	Rs 1,670 Bn	86.4%
Revenue Collection	Rs 1,315 Bn	Rs 1,152 Bn	86.3%
Capital Expenditure	Rs 407 Bn	Rs 212 Bn	52.0%
GDP Growth	6.0%	3.85%	64.2%
Foreign Grants	Rs 53.4 Bn	Rs 30.9 Bn	58.0%
Foreign Loans	Rs 233.4 Bn	Rs 142 Bn	61.0%

The overall verdict on FY 2025/26 is severely under-executed. Capital spending remained particularly weak, while revenue collection fell significantly below target. As a result, growth expectations were not realized.

Key reasons for underperformance include:

- Procurement delays.
- Treasury constraints.
- Weak project readiness.
- Political transitions.
- Weak contract management.
- FATF grey-list related disruptions.

c) FY 2026/27 Budget Overview

The FY 2026/27 budget allocates Rs. 2.124 trillion, exceeding the National Planning Commission ceiling and representing the largest fiscal expansion in Nepal's history. Key Budget Targets

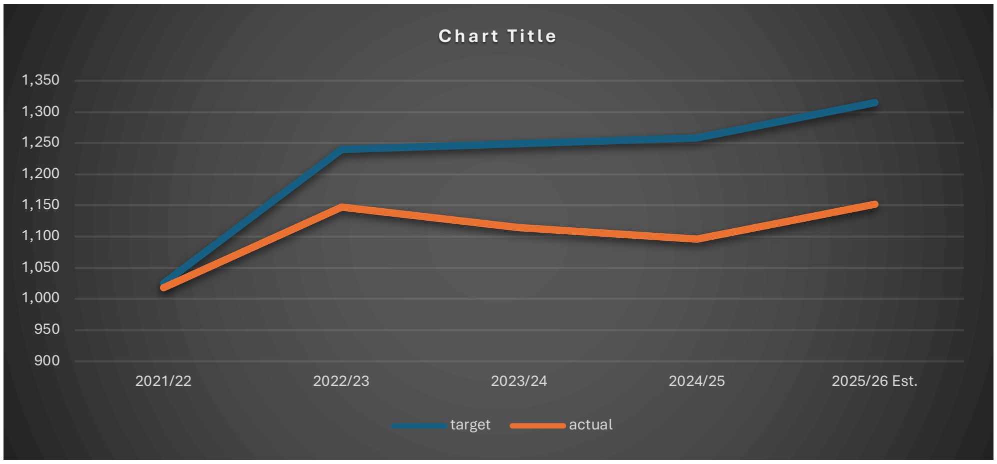
Indicator	FY 2026/27
Total Budget	Rs 2.124 Trillion
Revenue Target	Rs 1.405 Trillion
GDP Growth Target	7.0%
Capital Expenditure	Rs 431 Billion
Fiscal Deficit	5.2% GDP
Domestic Borrowing	Rs 410 Billion
Public Debt	47–50% GDP

The government aims to achieve higher growth through increased investment in infrastructure, energy, agriculture, technology, and industrial development.

d) Capital Expenditure: Nepal's Critical Constraint

The most important challenge facing Nepal's public finances remains the inability to convert budget allocations into completed projects.
Capital Expenditure Performance: Five-year average utilization remains approximately 57 percent.

Fiscal Year	Budget (Rs Bn)	Actual Utilization (Rs Bn)	Utilization Rate
2021/22	303	218	72%
2022/23	380	220	58%
2023/24	302	184	61%
2024/25	353	201	57%
2025/26 (Est.)	407	212	52%



To achieve the government's targeted 7 percent growth rate, capital expenditure utilization would likely need to increase toward 80 percent. Without reforms in procurement, project preparation, and implementation monitoring, the FY 2026/27 capital allocation may face the same challenges as previous years.

Recommended reforms include:

- Mandatory e-procurement.
- Project Preparation Facility (PPF).
- Performance-based contracts.
- Sunset provisions for stalled projects.
- Real-time project monitoring systems.
- Public-private partnership acceleration.

e) Revenue Realism and Fiscal Sustainability

The FY 2026/27 budget assumes revenue growth of approximately 23.7 percent. This assumption appears optimistic given recent performance trends.

Revenue Target versus Actual Collection

Fiscal Year	Revenue Target (Rs Bn)	Actual Revenue (Rs Bn)
2021/22	1,025	1,018
2022/23	1,240	1,147
2023/24	1,249	1,115
2024/25	1,258	1,096
2025/26 (Est.)	1,315	1,152
2026/27 Target	1,405	—

The repeated pattern of overestimating revenue suggests that fiscal projections remain disconnected from administrative capacity and actual economic activity.

Fiscal Risk Indicators

Indicator	Assessment
Revenue Growth Requirement	High Risk
Fiscal Deficit (5.2% GDP)	Above prudent level
Public Debt (47–50% GDP)	Near sustainability threshold
Domestic Borrowing	Crowding-out risk
Treasury Deficit	Ongoing fiscal pressure

A growing structural imbalance is emerging as mandatory expenditures increasingly exceed recurring revenues.

f) Private Sector Confidence and Investment Climate

The FY 2026/27 budget introduces several reforms aimed at improving Nepal's investment climate.

Positive Measures

- Income tax threshold doubled to Rs. 1 million.
- Reduction in top personal income tax rates.
- Finalization of capital gains tax framework.
- Easier foreign investment repatriation.
- Introduction of LLP legislation.
- One-stop digital investment approval systems.
- Commercial arbitration mechanisms.
- Simplification of company law provisions.
- Elimination of excise duties on numerous products.

These reforms signal a more business-friendly policy environment.

Continuing Concerns

Despite these reforms, investors continue to identify major constraints:

- Regulatory inconsistency.
- Weak contract enforcement.
- Delayed government payments.
- Infrastructure bottlenecks.
- Labour market rigidities.
- Policy uncertainty.
- FATF grey-list implications.

Consequently, business confidence may best be characterized as cautiously optimistic and conditional on delivery.

g) Development Partner Support and External Risks

Nepal's development partners remain supportive but increasingly emphasize reform implementation.

Development Partner Assessment

Institution	Assessment
IMF	Conditional support under ECF programme
World Bank	Strong pipeline but weak absorption
ADB	Support linked to reform implementation
US/India	Stable but implementation dependent

A major concern remains Nepal's continued presence on the FATF grey list.

Foreign grant mobilization remains significantly below budget assumptions, making FATF compliance and eventual exit one of the most important policy priorities for FY 2026/27.

h) Governance and Political Economy Risks:- Several institutional risks continue to threaten successful budget implementation.

Risk Assessment Matrix

Risk Area	Probability	Impact
Revenue Mobilization	High	Critical
Capital Execution	High	Critical
Foreign Grant Inflows	High	High
Debt Sustainability	Medium	High
SOE Reform	High	Medium
Private Investment Response	Medium	High
Climate Risks	Medium	High
Political Stability	Low	High

Governance quality, procurement efficiency, and public financial management remain the most significant determinants of budget success.

i) Overall Analytical Scorecard

Dimension	FY 2025/26 Grade	FY 2026/27 Outlook
Capital Execution	C–	Critical Challenge
Revenue Realism	B+	Over-Ambitious
Sectoral Priorities	B	A–
Fiscal Sustainability	BB–	BB+
Development Partner Support	C–	B+
Private Sector Confidence	C–	B+
Governance & PFM	D	C–
Reform Agenda Quality	C	BBB+

The budget's priorities are broadly correct and aligned with recommendations from international institutions and private sector stakeholders. However, implementation capacity remains the primary weakness.

j) Conclusion

The FY 2026/27 budget represents one of the most reform-oriented and investment-friendly budgets Nepal has presented in recent years. The emphasis on infrastructure, technology, agriculture, private investment, and institutional reform is strategically sound and reflects an understanding of Nepal's long-term development needs.

However, the budget is also structurally ambitious. Revenue projections are optimistic, fiscal deficits remain elevated, and capital expenditure targets assume implementation improvements that have historically proven difficult to achieve.

The success of the budget will ultimately depend on four critical factors:

- Achieving a breakthrough in capital expenditure execution.
- Improving revenue mobilization and fiscal discipline.
- Exiting the FATF grey list and restoring development finance confidence.
- Sustaining political commitment to governance and institutional reforms.

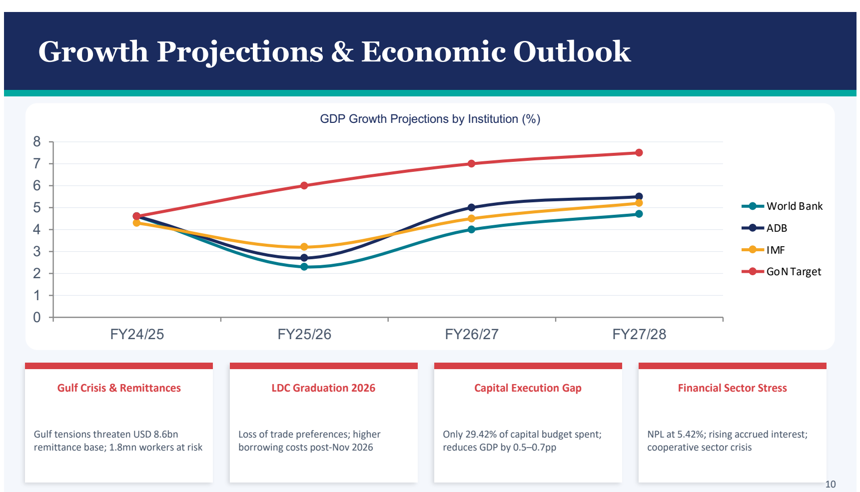
If these objectives are achieved, the FY 2026/27 budget could become a turning point in Nepal's economic development trajectory. If not, the budget risks becoming another ambitious fiscal document constrained by implementation shortcomings.

k) Final Assessment

Rating: BB (Positive Reform Direction, High Execution Risk)

The FY 2026/27 budget is ambitious, reform-oriented, and strategically well-directed. Its success, however, will be determined not by the quality of its intentions but by the effectiveness of its execution.

l) Outlook (FY 2026/27)



12) MoF's Gen Z protest assessment

The Ministry of Finance published an assessment 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.

13) Recent Macroeconomic Developments (May 2026)

Particulars Amount in NPR Billion	Monthly Movement (April 26)	Monthly Movement (May'26)	Yearly Movement (April 26)	Yearly Movement (May 26)	Monthly Movement	Yearly Movement
Consumer Price Inflation (y-o-y) (%)	0.85	0.57	1.70	2.32	Unfavorable	Unfavorable
Consumer Price Inflation (Compared to previous month) (%)	0.73	(0.04)	0.59	0.84	Favorable	Unfavorable
Food and Beverage (%)	0.46	0.04	0.56	1.11	Unfavorable	Unfavorable
Non Food and Service (%)	0.88	(0.09)	0.61	0.69	Favorable	Unfavorable
Exports	8.86	(5.80)	2.11	(3.63)	Favorable	Unfavorable
Imports	35.48	0.90	36.59	31.53	Favorable	Favorable

Particulars Amount in NPR Billion	Monthly Movement (April 26)	Monthly Movement (May'26)	Yearly Movement (April 26)	Yearly Movement (May 26)	Monthly Movement	Yearly Movement
Travel Income	1.32	1.38	(0.45)	3.60	Favorable	Favorable
Travel Spending	(3.61)	(7.74)	5.88	(6.44)	Unfavorable	Unfavorable
Remittance Inflows	21.11	47.74	44.45	81.18	Favorable	Favorable
Government Expenditure	8.17	(19.81)	(26.00)	(11.49)	Unfavorable	Unfavorable
Current Expenditure	25.68	(38.25)	10.24	(11.23)	Unfavorable	Unfavorable
Capital Expenditure	2.96	(0.06)	0.23	(5.36)	Unfavorable	Unfavorable
Revenue	56.74	(36.73)	47.98	8.62	Unfavorable	Favorable
Deposit Mobilization	85.36	(63.92)	102.32	(48.05)	Unfavorable	Unfavorable
Private Sector Credit	46.72	(68.37)	60.77	(38.89)	Unfavorable	Unfavorable
Weighted Average Deposit Rate (%)	(0.05)	(0.05)	(0.97)	(0.95)	Favorable	Unfavorable
Weighted Average Lending Rate (%)	(0.13)	(0.04)	(1.34)	(1.27)	Favorable	Favorable
Base Rate of Commercial Banks (%)	(0.04)	(0.09)	(1.11)	(1.12)	Favorable	Favorable
Forex Reserve	478.79	636.47	5,447.43	5,149.67	Unfavorable	Unfavorable
BOP NPR	72.81	132.40	312.12	292.64	Favorable	Favorable
Liquid Funds	64.09	(90.30)	150.57	61.88	Unfavorable	Favorable
Govt. Securities/Other	(11.44)	142.41	507.81	614.08	Favorable	Favorable
Investment in share and other	22.38	13.77	123.27	129.86	Favorable	Favorable
Land revenue	2.02	(0.92)	1.77	0.70	Unfavorable	Favorable

Macroeconomic and Financial Sector Update (May 2026)

The May 2026 macroeconomic data presents a picture of stability at the surface, but with visible structural imbalances underneath. Inflation remains relatively low, though it is gradually edging upward. Year-on-year consumer price inflation increased from **1.70 bps in April 2026 to 2.23 bps in May 2026**, reflecting mild but broad-based price pressures. Food inflation rose from **0.56 bsp to 1.11 bps**, while non-food inflation also inched up from **0.61 bps to 0.69bps.** Although the monthly CPI movement improved slightly from **0.59 bps to 0.84 bps**, the overall trend suggests a slow normalization of prices after a prolonged low-inflation phase.

The external sector remains the strongest pillar of macroeconomic stability. Remittance inflows recorded a remarkable expansion, rising to **NPR 81.18 billion (year-on-year movement)**, while travel income improved to **NPR 3.60 billion**, signaling gradual recovery in tourism earnings. As a result, the balance of payments remained strongly positive at **NPR 292.64 billion**, supporting external liquidity. However, this strength is heavily concentrated in remittances rather than diversified export earnings, limiting its long-term resilience.

Trade performance, however, continues to show structural weakness. Exports declined by **3.63% year-on-year**, despite a monthly improvement of **-5.80%**, indicating volatility and lack of sustained momentum. Imports, on the other hand, expanded significantly, rising to **NPR 31.53 billion year-on-year**, with monthly growth of **0.90%**. This widening divergence between exports and imports reinforces Nepal's persistent trade deficit structure, where external stability is increasingly financed by remittance inflows rather than export competitiveness.

The fiscal sector remains one of the weakest components of the macroeconomic framework. Government expenditure contracted by **11.49% year-on-year**, with current expenditure falling by **11.23%** and capital expenditure declining by **5.36%**. This reflects weak budget execution and reduced public investment activity. While revenue collection increased by **8.62% year-on-year**, reaching **NPR 47.98 billion movement in May 2026**, the contraction in spending suggests fiscal policy is not actively supporting growth. The continued decline in capital expenditure is particularly concerning as it directly constrains infrastructure development and private sector crowding-in.

The financial sector reflects subdued domestic economic activity despite abundant liquidity. Deposit mobilization contracted sharply by **48.05% year-on-year**, while private sector credit growth also fell by **38.89%**, signaling weak investment demand and cautious business sentiment. Even though interest rates have eased significantly—deposit rates declined by **0.95 percentage points**, lending rates by **1.27 percentage points**, and base rates by **1.12 percentage points**—credit transmission remains weak, indicating that lower borrowing costs alone are insufficient to revive investment appetite.

Liquidity conditions in the banking system remain comfortable, but are increasingly channeled into low-risk assets rather than productive lending. Liquid funds increased by **NPR 61.88 billion year-on-year**, while investment in government securities and other instruments surged by **NPR 614.08 billion**. Investment in shares and other financial assets also rose by **NPR 129.86 billion**, reflecting a preference for financial asset allocation over real sector financing.

Foreign exchange reserves remain robust, supported by strong external inflows. Reserves stood at **NPR 5,149.67 billion (year-on-year movement)**, while the balance of payments surplus of **NPR 292.64 billion** further strengthened external buffers. However, the reserve buildup is largely driven by remittances rather than export earnings, limiting its developmental multiplier effect on the domestic economy.

Finally, the real estate-related revenue indicator shows mild stabilization. Land revenue increased marginally by **0.70% year-on-year**, indicating that land and property transactions are gradually recovering after a prolonged slowdown, though the momentum remains weak.

Overall, Nepal's economy in May 2026 is characterized by strong external stability and low inflation, supported by a **BOP surplus of NPR 292.64 billion** and foreign reserves exceeding **NPR 5,149.67 billion**. However, this stability is offset by weak domestic demand, with private sector credit contracting by **38.89%**, government capital expenditure falling by **5.36%**, and exports declining by **3.63%**. The key policy challenge is therefore not stability, but rebalancing—shifting from remittance-driven external comfort toward investment-led and export-oriented growth.

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.

14) 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
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.

15) 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
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.

16) 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)

l) 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	• Increase capital spending to 25%+ •Rebalance from recurrent investment • Introduce infrastructure pipeline	• Provide concessional financing • Support fiscal restructuring	• Reprioritize budget • Control recurrent expenditure growth
2. Poor capital budget utilization	Only ~60–70% utilization; end-year spending surge	• Link budget to project readiness • Strengthen execution systems • Digital expenditure tracking	• Support PIM reforms & digital systems • Provide implementation TA	• Improve spending discipline • Enforce accountability for delays
3. Weak project preparation	Projects enter budget without DPR readiness	• Establish Project Preparation Facility (PPF) • Standardize feasibility studies	• Fund feasibility studies • Provide technical expertise	• Approve only bankable projects • Build technical capacity
4. Procurement & contract inefficiency	Major contributor to under-utilization	• Simplify procurement laws • Standard EPC/turnkey contracts	• Provide global procurement practices • Capacity building	• Reform Public Procurement Act • Ensure transparency
5. Land acquisition & regulatory delays	Causes time overruns and cost escalation	• Single-window clearance • Pre-acquisition of land	• Support land digitization systems	• Reform land laws • Improve coordination

Core Challenges	Capital Budget	Strategic Actions (Policy + Legal Reforms)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
6. Weak PPP framework & limited private investment	Heavy reliance on public financing	• Amend PPPI Act 2019 (staffing flexibility, FCCL framework) • Strengthen PPP pipeline	• Support PPP structuring • Provide risk guarantees	• Strengthen Investment Board Nepal • Manage fiscal risks
7. Tax and legal uncertainty discouraging investment	Limits private capital mobilization	• Allow tax arbitration instead of criminalization • Eliminate retrospective taxation • Expand DTAAs	• Provide tax policy advisory • Support legal harmonization	• Amend tax laws • Ensure policy stability
8. Weak foreign investment framework (FITTA constraints)	Low FDI inflow affects capital formation	• Streamline FITTA processes • Automatic route for NRN investment • Expand investment structures	• Support regulatory reforms • Promote diaspora investment programs	• Amend FITTA provisions • Facilitate entry, operation, exit
9. Limited access to finance & capital markets	Overdependence on public funds	• Enable local currency bonds for foreign investors • Introduce mezzanine finance, convertible debt	• Support bond market development • Provide blended finance instruments	• Reform NRB & SEBON regulations • Deepen capital markets
10. Investor exit barriers & regulatory ambiguity	Discourages long-term investment	• Clarify exit rules & lock-in periods • Enable partial exits	• Provide advisory on investment frameworks	• Reform NRB policies • Ensure predictable exit regime
11. Weak dispute resolution & insolvency system	Slows investment and project completion	• Introduce unified insolvency law • Strengthen arbitration & mediation	• Support legal system modernization	• Amend civil procedures • Fast-track commercial cases
12. Low aid utilization & external financing inefficiency	Foreign-funded capital utilization <40%	• Improve project readiness for donor projects • Strengthen coordination	• Align funding with readiness • Provide implementation support	• Improve absorption capacity • Reduce bureaucratic delays
13. Institutional capacity constraints	Weak execution across agencies	• Professionalize PMUs • Reduce staff turnover	• Provide embedded experts • Training programs	• Build technical workforce • Strengthen institutions
14. Untapped diaspora investment potential	Missed financing opportunity	• Enable NRN investment platforms • Introduce diaspora funds	• Facilitate diaspora investment vehicles	• Create enabling legal framework
15. Emerging areas (sweat equity, innovation financing)	Not captured in current system	• Legalize sweat equity framework • Mandate repatriation of gains	• Support innovation ecosystem	• 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	• Prioritize high-impact, bankable projects • Establish national project pipeline • Introduce project "gatekeeping" system	• Support project screening frameworks • Provide analytical tools for prioritization	• Limit politically driven project approvals • Align projects with national growth strategy
2. Weak project preparation (feasibility, costing, design)	• Create Project Preparation Facility (PPF) • Standardize feasibility & costing • Ensure DPR readiness before budgeting	• Provide technical assistance (TA) for feasibility studies • Fund project preparation facilities	• Ensure only "ready projects" enter budget • Build in-house technical expertise
3. Budget fragmentation & low capital expenditure efficiency	• Link budget to project readiness • Introduce performance-based budgeting • Strengthen (Medium Term Expenditure Framework) MTEF	• Support PIM reforms • Provide budget execution advisory	• Improve capital expenditure discipline • Reduce under-spending and fund diversion
4. Procurement delays & weak contract management	• Simplify procurement laws • Scale e-procurement systems • Standardize contracts (EPC/turnkey)	• Support procurement reform • Provide global best practices • Build contract management capacity	• Reform Public Procurement Act • Ensure transparent and time-bound procurement

Core Challenges	Strategic Actions (Policy Recommendations)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
5. Land acquisition & environmental clearance delays	• Establish single-window clearance • Pre-acquire land before project approval • Fast-track environmental approvals	• Provide advisory on safeguards & land systems • Support digital land systems	• Reform land acquisition laws • Improve inter-agency coordination
6. Institutional capacity constraints	• Strengthen Project Management Units (PMUs) • Professionalize project management • Introduce performance accountability	• Provide training and capacity-building programs • Deploy embedded technical experts	• Build skilled human resources • Reduce frequent staff transfers
7. Weak monitoring & accountability systems	• Develop real-time project monitoring systems • Use digital dashboards • Strengthen audit & evaluation	• Support digital MIS systems • Introduce global monitoring frameworks	• Ensure transparency and public disclosure • Enforce accountability mechanisms
8. Financing constraints & limited PPP development	• Scale PPP frameworks • Use blended finance • Develop infrastructure bonds	• Provide concessional financing • Offer guarantees & risk-sharing tools • Support PPP structuring	• Strengthen PPP policy framework • Improve investment climate • Mobilize private sector participation
9. Multi-level governance & coordination issues	• Clarify roles across federal, provincial, local levels • Strengthen coordination mechanisms	• Support federal governance frameworks • Provide institutional design support	• 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.

17) 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.

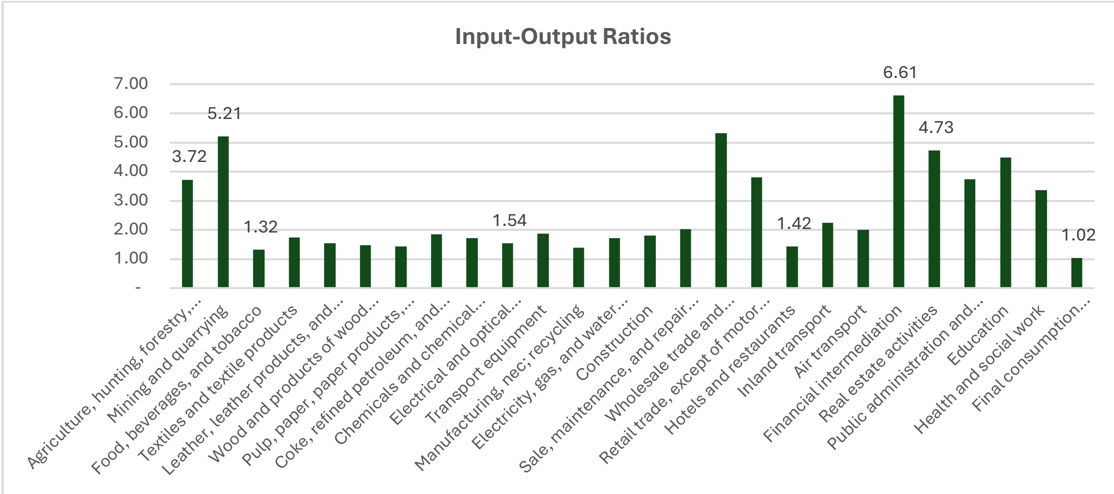
Key Strategic Themes Across All Sectors
1. Financial Stability First – Risk-based supervision, macroprudential tools, and stronger capital frameworks.
2. Inclusion & Access Expansion – Targeting underserved regions and vulnerable populations.
3. Digital Transformation – Open banking, AI, cybersecurity, 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

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
		(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
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)

18) 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

a) 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.

b) Household-driven Demand: Most sectors are highly consumption-oriented, with household demand contributing 40–70% of output in services, retail, and agriculture.

c) 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

a) High Import Dependence: Air Transport, Petroleum, Chemicals, and Electricity show import shares exceeding 30–50% of output, exposing the economy to external price shocks.

b) 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.

19) Nepal Industrial Capacity Utilization Analysis

The latest industrial survey conducted by the Nepal Rastra Bank (NRB) reveals that Nepal's manufacturing sector continues to operate significantly below its installed production capacity. The average capacity utilization across surveyed industries stood at **42.11% during the review period**, marginally lower than **42.94% recorded in the previous period**. This indicates that more than half of Nepal's industrial capacity remains idle, reflecting weak domestic demand, underinvestment, import competition, high operating costs, and persistent structural bottlenecks. (NRB Economic Activities Survey, FY 2082/83 Mid-Year)

1. Overall Capacity Utilization

Indicator	Previous Period (%)	Current Period (%)	Change
Average Industrial Capacity Utilization	42.94	42.11	-0.83 pp

The slight decline suggests that industrial recovery remains fragile despite improved liquidity in the banking sector, lower interest rates, and rising remittance inflows. The inability of industries to fully utilize existing production facilities highlights a continued gap between productive capacity and market demand.

2. High-Capacity Utilization Industries

Several industries demonstrated relatively strong operational performance.

Industry/Product	Capacity Utilization (%)
Garment Manufacturing	95.74
Miscellaneous Manufacturing	90.00
Hydropower Generation	82.74
Tire & Tube Manufacturing	76.20
Instant Noodles (Chauchau)	70.06
Biscuit Industry	69.95
Vegetable Oil (Mustard Oil)	69.23
Alcoholic Beverages	68.47
Jute Products	64.19

The garment industry recorded the highest utilization rate at nearly 96%, indicating strong demand from both domestic and export markets. Hydropower plants also operated above 80% utilization, reflecting increased electricity generation and growing energy demand. Consumer goods industries such as noodles, biscuits, alcoholic beverages, and jute products similarly maintained relatively healthy utilization levels due to stable consumption patterns.

3. Moderate Capacity Utilization Industries

Several major manufacturing sectors operated within the 30–50% utilization range.

Industry/Product	Capacity Utilization (%)
Soybean Oil	41.15
Mustard Oil	41.09
Animal Feed	44.85
Beer Production	45.61
Sugar Industry	36.26
Paint Industry	49.76
Processed Leather	35.57
Steel Products	29.73
Cement Industry	29.80

These industries appear capable of expanding production without substantial new investment. The relatively low utilization indicates excess installed capacity and subdued market absorption.

4. Severely Underutilized Industries

A number of industries are operating at critically low levels, raising concerns about profitability and sustainability.

Industry/Product	Capacity Utilization (%)
Vanaspati Ghee	0.62
Brick Industry	6.00
Dry Syrup Pharmaceuticals	9.23
Synthetic Textile Fabric	12.15
Transformer Manufacturing	15.65
Cigarette Industry	18.74
Ointment Production	18.40
Paper Industry	22.15
GI Wire	22.05
Plastic Products	31.25

The extremely low utilization in vanaspati ghee, bricks, synthetic textiles, pharmaceuticals, and transformers suggests significant overcapacity or weak demand. In some cases, imported substitutes, reduced construction activity, or regulatory constraints may be limiting production.

5. Construction-Linked Industries Remain Weak

The survey highlights continuing weakness in sectors closely tied to construction and infrastructure.

Industry	Capacity Utilization (%)
Cement	29.80
Iron and Steel Products	29.73
GI Wire	22.05
Electric Cables	28.35
Plywood	24.34
Bricks	6.00

These figures reflect the prolonged slowdown in private construction, delayed public capital expenditure, sluggish real estate activity, and lower industrial investment. Nepal's cement industry alone possesses installed capacity far exceeding domestic demand, resulting in utilization below 30%.

6. Food and Consumer Goods Industries

Food-processing industries generally performed better than heavy industries.

Product	Capacity Utilization (%)
Noodles	70.06
Biscuits	69.95
Alcohol	68.47
Flour Mills	54.64
Processed Tea	52.29
Animal Feed	44.85
Dairy Processing	28.69
Sugar	36.26

The stronger performance of food and beverage industries reflects the resilience of household consumption, supported by remittance income and stable population demand.

7. Industrial Outlook and Economic Implications

The NRB survey presents a mixed picture of Nepal's industrial sector. While consumer-oriented industries, hydropower, garments, and selected agro-processing industries are performing relatively well, most manufacturing segments continue to suffer from substantial excess capacity. The persistence of capacity utilization around 42% suggests that the industrial sector remains constrained by weak investment sentiment, slow construction activity, inadequate market expansion, and increasing competition from imports.

8. Low-capacity utilization has several economic implications:

1. **Reduced profitability and cash flow**, limiting firms' ability to invest and expand.
2. **Lower employment generation**, as firms operate below optimal production levels.
3. **Weak demand for bank credit**, despite abundant liquidity in the financial system.
4. **Lower productivity and competitiveness**, as fixed costs are spread over smaller output volumes.
5. **Pressure on industrial loans**, particularly in construction-linked sectors such as cement, steel, and building materials.

9. Key Takeaway

The NRB survey indicates that Nepal's industrial sector is currently operating at **only 42.11% of installed capacity**, highlighting a significant output gap. The strongest performers are garments, hydropower, tires, noodles, and beverages, while construction-related industries, textiles, pharmaceuticals, paper, and bricks remain severely underutilized. For industrial utilization to improve meaningfully, stronger domestic demand, accelerated public infrastructure spending, export market expansion, and a more investment-friendly business environment will be essential. Such improvements would allow industries to leverage existing capacity before undertaking further capital expansion.

B. Other Major issues

Indicator	Up to (Mid- May 2026)	**Authorities Projections and observation**	Why It Doesn't Translate to Improvement
Government Revenue Expenditure	Revenue Rs. 988 billion (66.79% of the target) Expenditure Rs 1,173 billion 59.75% of the target) Capital Expenditure 27.91%	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. 1,916 billion (+41.2% corresponding previous year period)	Stable but under pressure	Supports consumption, not investment, deceleration risks reserves.
Private Sector Loans	+5.7% y-o-y (Rs. 315 billion)	12% y-o-y (Monetary Policy target)	Offset by rising NPLs (4.4-5.4%), restricting expansion.
Bad Loans (NPLs)	5.93%	~4.23% target	Indicates borrower distress and banking risks, curbing credit expansion. Borrower distress erodes banking stability.
GDP Growth	Expected 3.85 %	6% target	Modest and uneven; reliant on volatile sectors, not broad-based. Uneven sectors; below pre-pandemic levels.
Forex Reserves	Rs. 3,704 billion (+38.3%) 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. 37,226 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 6.73%, Deposit 3.35%, 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	5.04% (CPI), Food and non-food increased at 4.63% and 5.26%.	5-8% (est.), Food and nonfood likely to spikes 7-9.85% and 9-12%	Signals weak activity; volatility affects poor. Food prices still pressure vulnerable groups.

Recent macroeconomic indicators up to mid-May 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. 988 billion, representing 66.79% of the annual target, while total expenditure stands at Rs. 1,173 billion (59.75% of the target). Notably, capital expenditure remains critically low at 27.91% 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. 1,916 billion, reflecting a 41.2% 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. The impact of the gulf ware will be felt in the coming months.

Monetary indicators point to weak credit expansion despite ample liquidity. Private sector lending has grown by only 5.7% year-on-year (Rs. 315 billion), significantly below the 12% monetary policy target. At the same time, non-performing loans have risen to 5.93%, 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 3.85%, 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. 3,704 billion (up 38% 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. 37,226 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 6.73%, deposit at 3.35%, 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 5.04%, with food and non-food inflation at 4.63 % and 5.26%, 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 NTPP 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.

20) 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 like N.R.N. Nepal Development Fund. 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.

21) 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.

22) 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 ~7%, debt rising to ~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 ≥0.5% GDP Debt stable ≤50% GDP
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

Risk Area	Key Challenges	Policy & Structural Reforms	Lead Agency	Success Metrics (by FY26/27)
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

23) 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.

24) 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.

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

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

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

26) IMF Nepal ECF: 6th vs. 7th vs. June 2026 Final Review – Key Comparison Report

The IMF's assessment of Nepal under the Extended Credit Facility (ECF) evolved across three stages—from cautious optimism (Sixth Review, Oct 2025) to downgraded growth and heightened risk awareness (Seventh Review, Feb 2026), and finally to a confirmed but still subdued outlook in the June 2026 Article IV and Board conclusion. While macroeconomic stability and external buffers remained broadly intact, the final review highlights that growth recovery is delayed, financial sector stress persists, and governance/institutional reforms are now central to medium-term stability. (IMF)

Key Economic Data Comparison

Indicator	Sixth Review (Oct 2025)	Seventh Review (Feb 2026)	June 2026 IMF Final (Article IV / Board)	Key Change
FY2024/25 Real GDP Growth	4.3%	—	—	Baseline year
FY2025/26 Real GDP Growth	5.2% projection	3.0 – 3.5%	~3.0% (confirmed, below potential)	Sharp downgrade sustained
Inflation (y/y)	~4–5% expected	2.4% (Jan 2026)	Rising from lows, ~NRB target (~5%)	From low inflation to normalization
Banking Sector NPLs	~4.4% (rising)	5.4% (Jan 2026)	Elevated; financial stress persists	Continued deterioration
International Reserves	Strong	Stronger	Strong and adequate buffers	Stable improvement
Capital Spending Execution	Weak	Persistently weak	Still weak; execution bottlenecks remain	No structural improvement

Key Differences Summary

Aspect	Sixth Review (Oct 2025)	Seventh Review (Feb 2026)	June 2026 Final IMF Assessment
Growth Outlook	Recovery expected driven by investment rebound	Significant downgrade due to uncertainty	Growth stabilized at low 3% range, below potential
Main Risks	Fiscal execution, financial sector stress	Political uncertainty, confidence shock	Domestic uncertainty easing but structural constraints persist
External Position	Stable and improving	Strong reserves	Strong buffers sustained (remittances, tourism support)
Financial Sector	Early stress signals	Rising NPLs, SACCO concerns	Financial vulnerabilities remain key macro risk
Policy Focus	Fiscal + financial stabilization	Governance + investment execution	Institutional reforms + medium-term growth foundation

1. **Growth Outlook:** From Optimism to Structural Weakness

The Sixth Review expected a clear cyclical recovery, driven by:
- Post-disruption normalization
- Capital expenditure acceleration
- Private sector revival

However, this did not materialize.

By the Seventh Review and confirmed in June 2026:
- Growth is revised down to ~3%, well below potential (IMF)
- Recovery is constrained by weak investment sentiment
- Public investment inefficiency remains unresolved
- Private sector confidence remains fragile despite political transition improvements

The IMF now characterizes growth as stable but subdued rather than cyclical recovery-driven.

2. Inflation, External Stability, and Demand Conditions

Inflation has remained lower than earlier expectations, reflecting weak demand pressures.

June 2026 Key assessment:

- Inflation expected to gradually normalize toward NRB's ~5% target
- No major price instability risks in the short term
- External buffers remain strong due to:
  - Robust remittances
  - Tourism recovery
  - Controlled import growth

Thus, Nepal's macro stability is increasingly external-led rather than domestic-demand driven.

3. Financial Sector Stress: Core Structural Risk

Across all three reviews, financial sector vulnerability has intensified.

Key trajectory:
- Rising Non-Performing Loans (NPLs)
- Weak credit discipline in parts of banking and cooperatives sector
- Capital adequacy pressures emerging

By June 2026, IMF emphasizes:

- Need for stronger resolution frameworks
- Full implementation of Loan Portfolio Review (LPR) findings
- Structural strengthening of supervision under Nepal Rastra Bank
- Urgent improvements in asset classification and provisioning standards

Financial sector risk is now considered a primary constraint on growth transmission, not just a stability concern.

4. Fiscal Policy and Public Investment

A consistent finding across all reviews is:
- Fiscal space exists, but execution capacity is weak.
- June 2026 assessment confirms:
- Public capital spending remains under-executed
- Project delays are systemic

Budget credibility gap persists between allocation and implementation
This limits:
- Growth multiplier effects
- Infrastructure expansion
- Private investment crowd-in

5. Risk Environment Evolution

Risk Type	Sixth Review	Seventh Review	June 2026 Final
Political Risk	Moderate	High	Lower but still relevant
Financial Sector Risk	Rising	High	High and structural
Investment Risk	Execution delays	Confidence shock	Structural bottlenecks
External Risk	Moderate	Moderate	Moderate (remittances supportive)

Overall, political risks have eased slightly, but structural economic risks have become dominant.

6. Reform Progress and Policy Direction

Across all phases, IMF notes satisfactory but incomplete reform execution.

Key progress areas:

- Customs modernization strategy
- Loan Portfolio Review implementation
- Basel alignment in banking supervision
- Revenue mobilization improvements

However, June 2026 shifts the emphasis toward:

- Governance and institutional quality
- Anti-corruption diagnostics
- Public investment management reforms
- Central bank legal strengthening through NRB Act amendments

The reform agenda is increasingly institutional rather than cyclical.

7. Final Reform Commitments (GoN – June 2026 Context)

Key commitments reinforced in the final review include:

a) Governance and service delivery reform blueprint
b) IMF-supported governance and corruption diagnostics
c) Strengthening independence and legal framework of Nepal Rastra Bank
d) Full implementation of Loan Portfolio Review (LPR) findings
e) Anti-money laundering strengthening to support FATF grey list exit
f) Establishment of Asset Management Company (AMC) under global best practice standards

Conclusion

The IMF's three-stage assessment of Nepal under the ECF shows a clear structural transition in narrative:

From expected recovery (Sixth Review)

- To downgraded and risk-heavy outlook (Seventh Review)
- To stabilized but structurally constrained growth path (June 2026 Final Review)

Core message of June 2026 IMF assessment:

"Nepal has achieved macroeconomic stability but has not yet solved its core constraints—low investment efficiency, financial sector stress, and governance bottlenecks." Future growth will depend less on stabilization policies and more on institutional reform depth, execution capacity, and financial sector restructuring.

8. New Commitments by Government of Nepal (GoN)

In the Seventh Review, the GoN made several notable commitments, with a strong new emphasis on governance:

a) Formulation of a blueprint on improving governance and service delivery.
b) Commitment to IMF Technical Assistance (TA) on Governance and Corruption Diagnostics.
c) Submission of the Nepal Rastra Bank (NRB) Act amendments to Parliament (critical for central bank independence and resolution framework).
d) Implementation of Loan Portfolio Review (LPR) recommendations to strengthen bank balance sheets.
e) Continued efforts on revenue mobilization, public investment efficiency, anti-money laundering (to exit FATF grey list), and establishment of an Asset Management Company following international best practices.

Overall, the transition from the Sixth to the Seventh Review reflects a reality check on Nepal's reform implementation amid political headwinds. Sustained focus on governance improvements, financial sector cleanup, and efficient capital spending will be essential for restoring stronger and more inclusive growth.

27) 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.

28) ADB Country Partnership Strategy. 2025-2029:

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

Area	***Suggested Action***
Implementation capacity	***Strengthen local financial management, service delivery, and project implementation capacity at sub-national level.***

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

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.

29) 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.

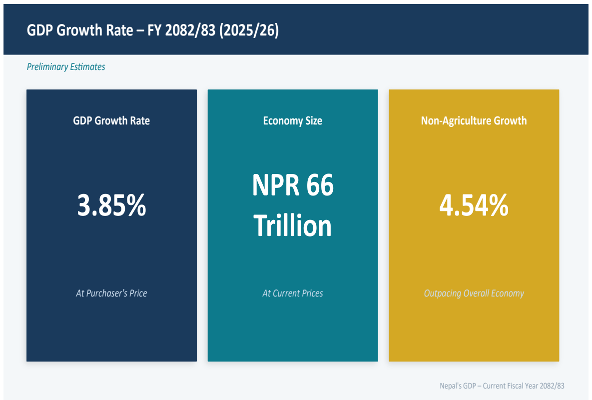
5. In tackling **human trafficking**, Nepal should expand support services for survivors and increase the presence of labor attachés in destination countries to protect migrant workers. Additionally, monitoring and regulation of recruitment agencies and brokers must be strengthened to prevent exploitation and trafficking.

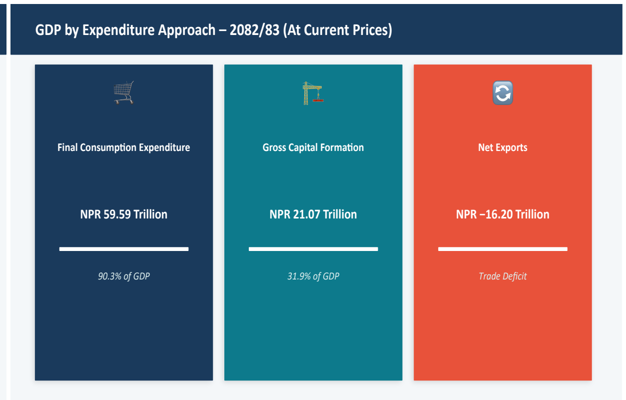
6. With the rapid growth of the digital economy, **digital regulation** must be updated. This includes enacting robust cybersecurity and privacy laws, regulating digital lenders and fintech startups, and improving cybercrime enforcement mechanisms to safeguard consumers and ensure responsible innovation.

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. Report on Nepal's GDP Estimates for FY 2082/83 (2025/26) (Preliminary)

Nepal's National Accounts estimates for the fiscal year 2082/83 have been released on a preliminary basis following the standard three-year revision cycle (Preliminary → Revised → Final). The estimates adhere to the System of National Accounts (SNA) 2008 framework with the current base year set at FY 2067/68 (2010/11). Data for the first six to eight months of the fiscal year were used as actual figures, while the remaining period was projected using statistical methods. The estimation assumes normal economic operations across all sectors without major external shocks such as natural disasters, financial crises, or pandemics.

2. Overall GDP Growth

According to the preliminary estimates, Nepal's GDP at basic prices is projected to reach NPR 5,795 billion in FY 2082/83, while GDP at purchaser's prices is expected to stand at NPR 6,600 billion. The overall growth momentum shows a mixed picture. Agriculture sector growth has slowed significantly to 1.58% compared to 3.05% in the revised estimate for the previous year. In contrast, the non-agriculture sector is expected to grow at a healthy 4.54%, up from 4.12% in 2081/82. This indicates that economic growth is being primarily driven by non-agricultural activities.

3. Sectoral Structure and Performance

The sectoral composition of GDP reveals that Agriculture, Forestry & Fishing remains the largest sector with a 24.03% share, though its growth has decelerated. The Wholesale & Retail Trade; Vehicle Repair sector follows with a 14.09% share and a solid 4.51% growth. Education accounts for 9.22% of GDP, while Real Estate Activities contribute 8.07%.

Notable high-growth sectors in 2082/83 include Electricity, Gas & Steam, which recorded an impressive 20.93% growth, and Financial & Insurance Services at 9.16%. Other strong performers were Transportation & Storage (5.79%), Information & Communication (5.53%), and Administrative & Support Services (4.52%). On the other hand, Public Administration, Defense & Social Security showed minimal growth of just 0.23%, reflecting subdued expansion in government services.

4. Key Economic Indicators

Several important macroeconomic indicators show improvement in the preliminary estimates for 2082/83. Gross Domestic Savings as a percentage of GDP is projected to rise to 9.71% from 6.89% in the previous year, while Gross National Savings is expected to reach a healthy 44.77%. Gross Fixed Capital Formation is also anticipated to increase to 26.26% of GDP, indicating stronger investment activity. Per capita GDP growth (at constant prices) is estimated at 2.90%, while per capita GNI and GNDI growth stand at 3.12% and 5.71% respectively. Remittances from foreign employment continue to play a vital role, rising to 33.02% of GDP. The trade deficit remains significant, with imports of goods and services at 34.52% of GDP against exports of 9.97%. The exchange rate is projected at NPR 144 per USD, reflecting some depreciation from the previous year.

Overall, the preliminary estimates present a picture of moderate economic growth led by non-agricultural sectors and supported by strong remittance inflows and improving savings and investment rates, though challenges persist in the agriculture sector and external trade balance. These figures will be subject to revision as more complete data becomes available.

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

- **REGULATORY AND GOVERNANCE REFORMS**
- **EXPORT DIVERSIFICATION & TRADE PROMOTION**
- **DIGITAL TRANSFORMATION & INNOVATION**
- **SUSTAINABLE DEVELOPMENT & GREEN ECONOMY**
- **FISCAL & MONETARY POLICY FOR ECONOMIC STABILITY**

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

1. 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.

2. 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.

3. 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.

4. 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.

5. 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:

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

   There are precedents of similar approaches internationally:
   (1) **United Kingdom**: Public–Private Partnerships (PPPs) under the Private Finance Initiative have funded schools, hospitals, and transport infrastructure through long-term repayment models.
   (2) **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.
   (3) **Philippines**: Following Typhoon Haiyan, hybrid PPPs were mobilized for rapid reconstruction of public facilities.
   (4) **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.

   (1) Safeguard International Credibility
   (2) Take urgent diplomatic and legal steps to ensure compliance with APG standards and address human trafficking concerns proactively.
   (3) Stimulate Domestic Demand
   (4) Support small businesses, expand access to affordable credit, and incentivize local production to invigorate the real economy.
   (5) Reform the Tax Structure
   (6) Reduce over-reliance on import-based taxation by creating a fairer, growth-oriented tax regime that promotes investment and entrepreneurship.
   (7) Strengthen Public Financial Management
   (8) Improve efficiency, transparency, and targeting of government spending to maximize impact and maintain fiscal discipline.
   (9) Rebuild Confidence and Stability
   (10) 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	2078/79	2079/80	2080/81	2081/82 R	2082/83 P
	2021/22	2022/23	**2023/24**	**2024/25**	**2025/26**
Agriculture, forestry and fishing	2.35	3.02	3.10	3.05	1.58
Mining and quarrying	8.84	0.91	3.35	1.39	3.52
Manufacturing	6.70	-1.70	-2.02	2.27	2.83
Electricity and gas	52.68	19.76	11.61	12.71	20.93
Water supply; sewerage and waste management	3.08	3.22	1.27	2.05	1.99
Construction	6.93	-1.48	-2.20	0.96	2.21

Industrial Classification	2078/79	2079/80	2080/81	2081/82 R	2082/83 P
	2021/22	2022/23	**2023/24**	**2024/25**	**2025/26**
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.42	-4.10	-0.31	3.88	4.51
Transportation and storage	4.60	1.45	13.43	7.07	5.79
Accommodation and food service activities	12.56	18.03	21.03	4.61	3.12
Information and communication	4.19	4.15	4.91	4.88	5.53
Financial and insurance activities	6.91	7.92	9.96	7.55	9.16
Real estate activities	1.72	2.91	2.20	2.77	2.69
Professional, scientific and technical activities	3.50	3.93	4.15	4.03	3.27
Administrative and support service activities	1.58	5.03	4.48	3.73	4.52
Public administration and defence; compulsory social security	4.08	5.46	2.25	3.00	0.23
Education	4.66	3.93	2.98	2.36	1.50
Human health and social work activities	6.99	6.57	6.13	4.69	4.04
Other Services	4.48	5.64	5.43	4.06	2.65
Agriculture, Forestry and Fishing	2.35	3.02	3.10	3.05	1.58
Non-Agriculture	6.54	1.98	3.49	4.12	4.54
Gross Domestic Product (GDP) at basic prices	***5.28***	***2.29***	**3.38**	**3.80**	**3.68**
Taxes less subsidies on products	8.75	-0.60	6.32	9.77	5.26
Gross Domestic Product (GDP)	***5.63***	***1.98***	**3.68**	**4.43**	**3.85**

5) Economic Growth and Inflation

1. GoN set GDP growth target rate at 6% for FY 2025/26: Expected to remain low at 3.85%
2. For FY 2025/26 the GoN set target rate of inflation at 5.5%, May 2025 inflation 5.04% within NRB target.

6) Growth Projections

1. 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.

2. 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

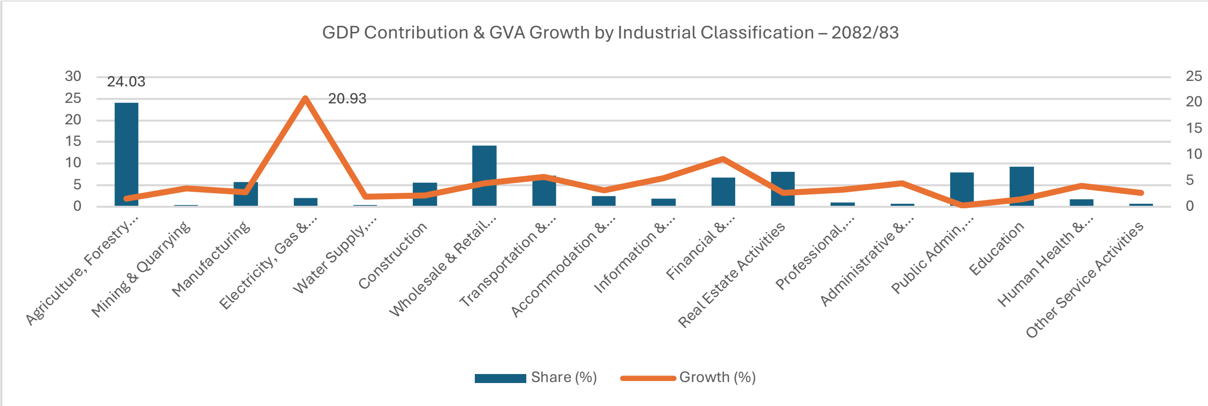
5. April 2026. — 2.7% ↓0.7.% down form Decemebr 2025

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
- April 2026. — 3.8 2025/26 Annual Estimate



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

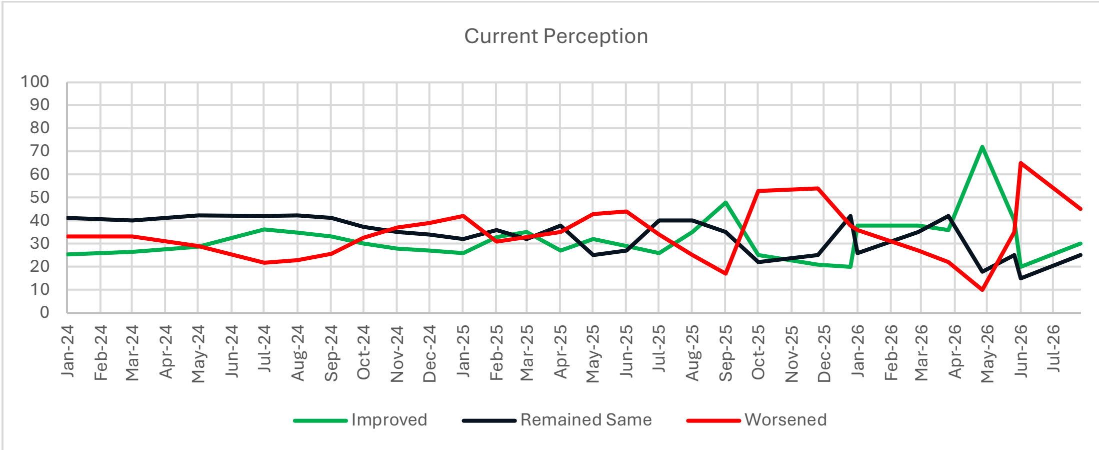
1. Nepal's financial sector stands at a pivotal moment. The placement of the country on the FATF Grey List due to deficiencies in its anti-money laundering and counter-terrorist financing (AML/CFT) framework has underscored the urgency of comprehensive reform. At the same time, the World Bank's Country 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.

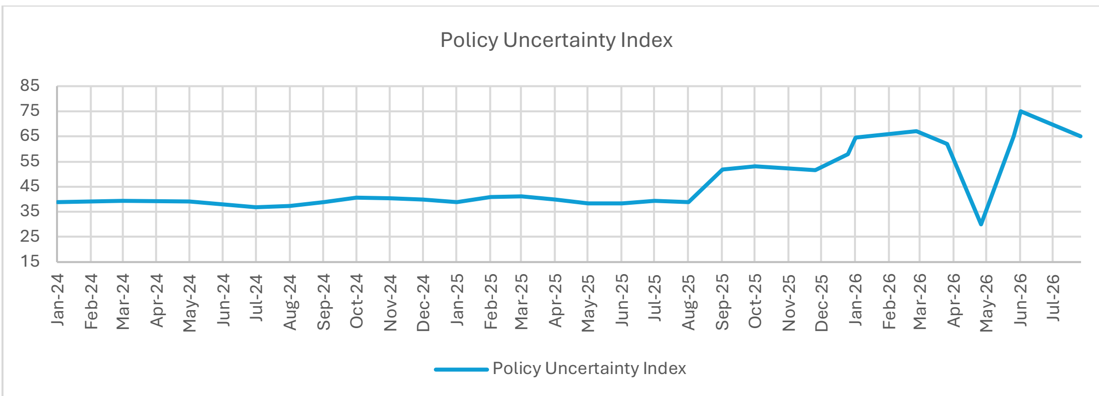
2. The CPF identifies a range of long-standing structural constraints within Nepal's economic landscape. Remittances comprise approximately 25.3% of GDP, highlighting their central role in the national economy, yet domestic investment and formal job creation remain subdued. Private investment has plateaued 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.

4. 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





1. Overall Trend: Strong Inverse Relationship with Structural Breaks

Across most of 2024 and 2025, consumer sentiment and the PUI exhibit a broadly inverse relationship: rising uncertainty generally aligns with weaker “improved” perceptions and higher “worsened” responses. During 2024, the PUI remained relatively stable in the 37–41 range, while consumer optimism fluctuated moderately between 26% and 36%, indicating a low-volatility but cautious environment. This relationship becomes more pronounced in 2025, where sentiment swings widen significantly as policy uncertainty increases. Notably, when PUI rises above 50 in late 2025, consumer sentiment deteriorates sharply, confirming heightened sensitivity to governance signals.

2. 2024–Mid 2025: Gradual Deterioration under Stable but Unsupportive Confidence

From January 2024 to June 2025, the economy shows a slow erosion of confidence:

- “Improved” perception moves from 26–29% (early 2024) down to 26–29% (mid-2025) with volatility.
- “Worsened” perception rises from 33% to a peak of 44% (June 2025).
- PUI remains relatively anchored around 37–41, suggesting uncertainty is not the main shock driver; rather, it is likely structural economic constraints and weak reform momentum.

This phase reflects a confidence deficit without extreme policy shocks.

3. Late 2025: Sharp Volatility and Confidence Collapse

The period from **September 2025 to December 2025** marks a major turning point:

Month	Improved	Worsened	PUI
Sep-25	**48**	**17**	**52**
Oct-25	**25**	**53**	**53**
Nov-25	**21**	**54**	**52**
Dec-25	**20**	**38**	**58**

Key dynamics:

- September 2025 shows a temporary optimism spike (48%), likely expectation-driven.
- This is immediately followed by a confidence collapse in Oct–Nov 2025, where “worsened” peaks at 54%.

- PUI rises sharply to 52–58, confirming a strong policy shock / uncertainty regime.

This period demonstrates a classic **sentiment overreaction cycle**, where expectations quickly reverse under unresolved policy ambiguity.

4. Early 2026: Election-Driven Optimism and Policy Repricing

A major structural shift occurs in early 2026, culminating in April 2026:

Month	Improved	Worsened	PUI
Jan-26	38	36	65
Feb-26	38	27	67
Mar-26	36	22	62
Apr-26	72	10	30

This is the most significant inflection point in the entire series:

- Consumer optimism surges to a historical high of 72% in April 2026
- "Worsened" drops sharply to 10%
- PUI collapses from 62–67 to 30

This reflects a strong **post-election confidence reset**, driven by expectations of:

- Policy stability
- Fiscal and monetary coordination
- Reform credibility

This phase clearly demonstrates that **political clarity can override accumulated uncertainty**, rapidly shifting sentiment.

5. Mid 2026: Fragile Recovery and Rapid Reversal

However, the improvement proves short-lived:

Month	Improved	Worsened	PUI
May-26	40	35	65
Jun-26	20	65	75
Jul-26	30	45	65

Key observation:

- By May 2026, optimism normalizes quickly.
- By June 2026, sentiment collapses again: "worsened" jumps to 65%, the highest in the entire series.
- PUI spikes to 75, indicating renewed and severe uncertainty.
- July 2026 shows partial stabilization but still weak sentiment.

This indicates that the April optimism was expectation-driven rather than institutionally anchored.

6. Key Insights

a) Strong but Non-linear Relationship Between PUI and Sentiment

While there is a clear inverse correlation in most periods, the relationship is **non-linear and regime-dependent**:

- Stable uncertainty (2024–mid 2025): moderate sentiment movement
- High uncertainty (late 2025 & mid 2026): sharp sentiment breakdowns
- Political reset (April 2026): temporary decoupling due to optimism shock

b) Three Distinct Regimes Emerge

1. **Stability-with-Caution (2024–mid 2025)**
   Low volatility, gradual confidence erosion
2. **Uncertainty Shock Phase (late 2025)**
   High PUI, sharp sentiment collapse
3. **Political Reset & Fragile Recovery (2026)**
   Election-driven optimism followed by rapid correction

c) April 2026 is a Sentiment Outlier, Not a Structural Shift

The surge to **72% improved perception** appears to be:

- Driven by expectations rather than realized reforms
- Not sustained in subsequent months
- Quickly reversed as uncertainty returned (PUI 65–75)

d) Policy Credibility Gap Remains Central

The repeated rebound in PUI after brief improvements suggests:

- Weak anchoring of policy expectations

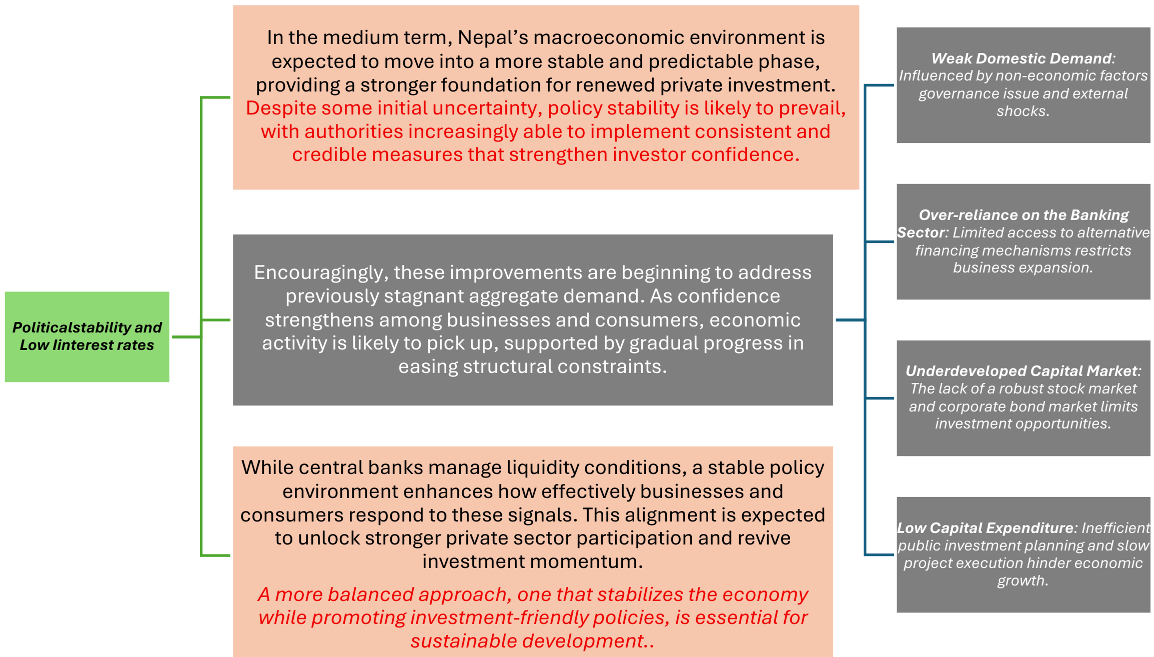
- High sensitivity to fiscal, monetary, and governance signals
- Limited persistence of confidence without institutional reinforcement

Conclusion

From January 2024 to July 2026, consumer sentiment in Nepal demonstrates a cyclical and highly policy-sensitive pattern, with a generally inverse relationship to the Policy Uncertainty Index. However, the data also shows that political events can temporarily override economic fundamentals, producing sharp but short-lived optimism.

The key structural message is clear:

Sustainable consumer confidence depends less on episodic political optimism and more on consistent, credible, and predictable policy execution.



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.

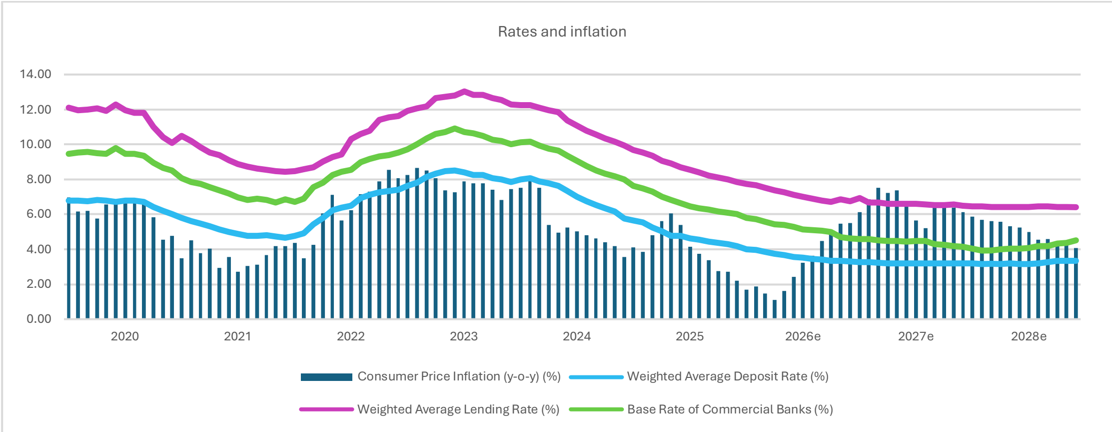
Encouragingly, these improvements are beginning to address previously stagnant aggregate demand. As confidence strengthens among businesses and consumers, economic activity is likely to pick up, supported by gradual progress in easing structural constraints. At the same time, policy coordination is improving.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

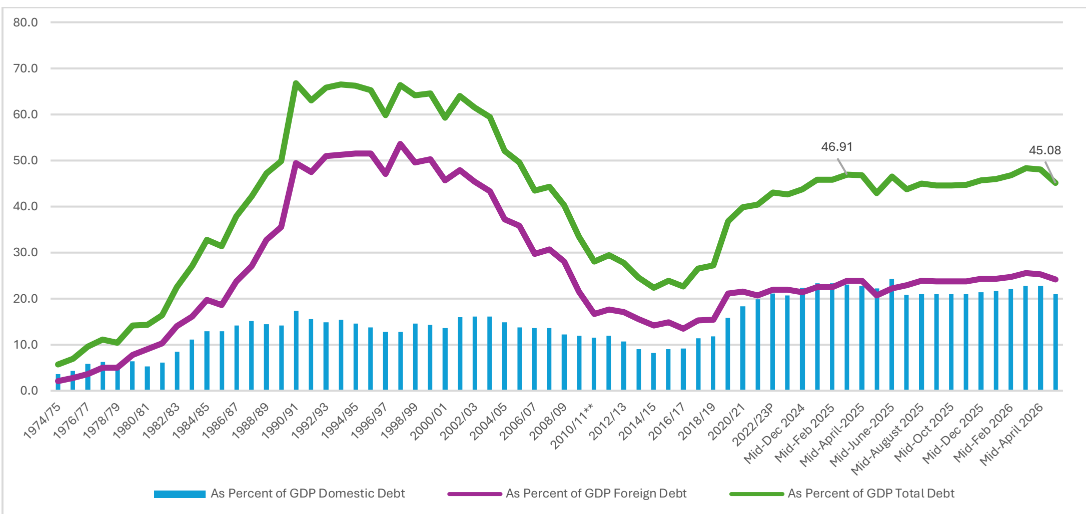
9) Interest rates and Inflation



Interest rates remain low, and inflation is expected to stabilize during 2028; 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 45.6% in 2025/26. 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*	*High*	*Strengthen governance frameworks and prioritize key policy and actions.*
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 mobilization.*
Declining Private Sector Confidence	*High*	*High*	*Delays in dispute resolution, incomplete legal reforms, weak implementation capacity, and the need for clearer distinctions between issues of law and issues of fact continue to weigh on business confidence and investment decisions.*
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*

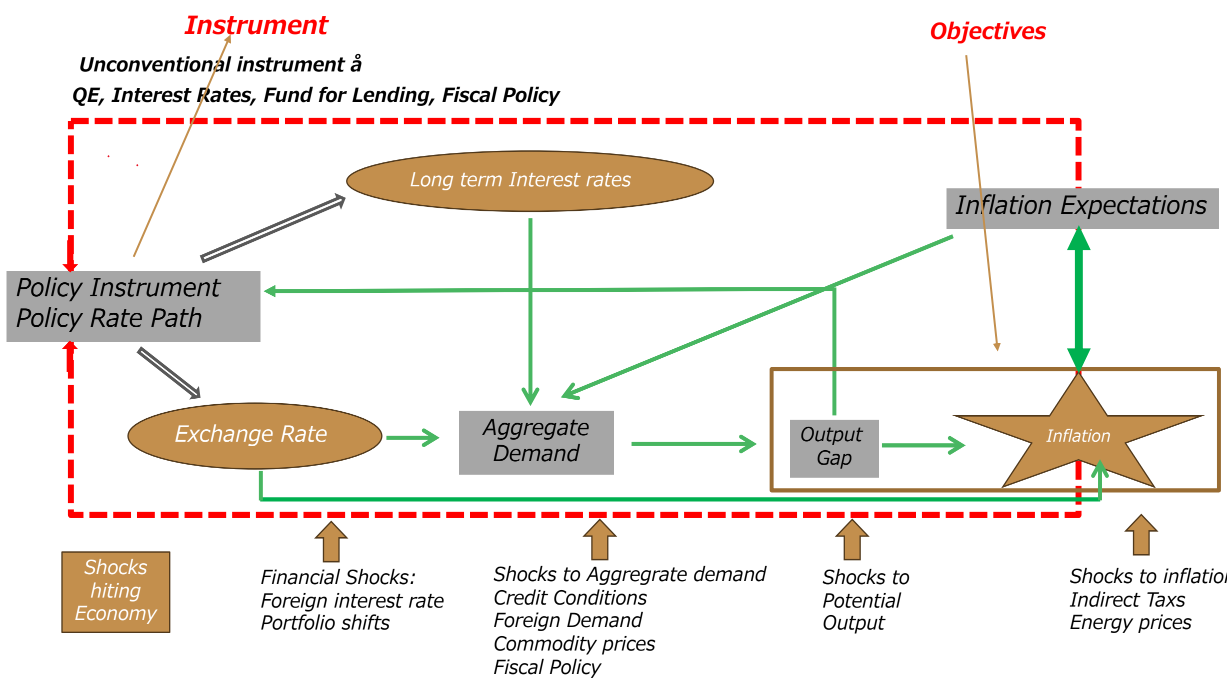
Risks	Likelihood	Impact	Mitigation Measures
			government structure, and increasing investment in research and development.
Rising Non-Performing Assets (NPAs)	Medium	High	Recalibrate the loan loss provisioning norms and establish AMC

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.

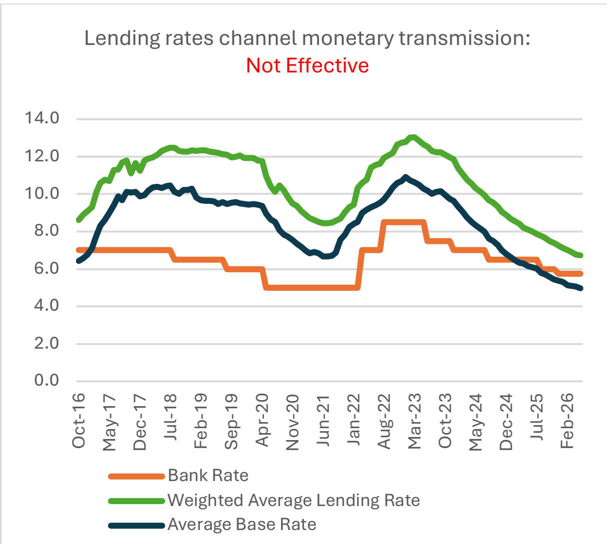
13) Policy Mistakes

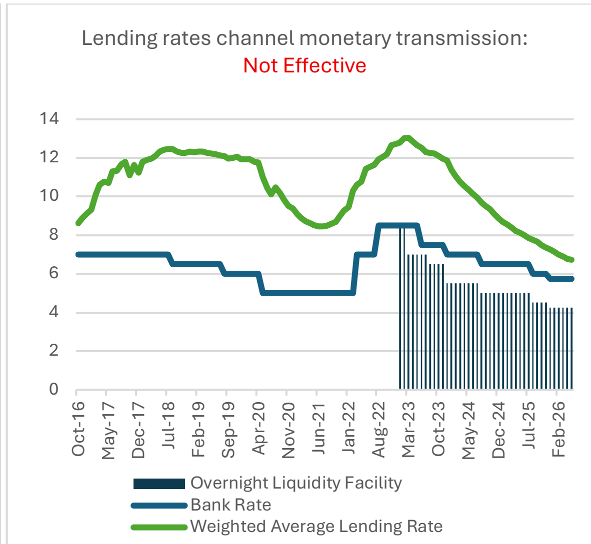


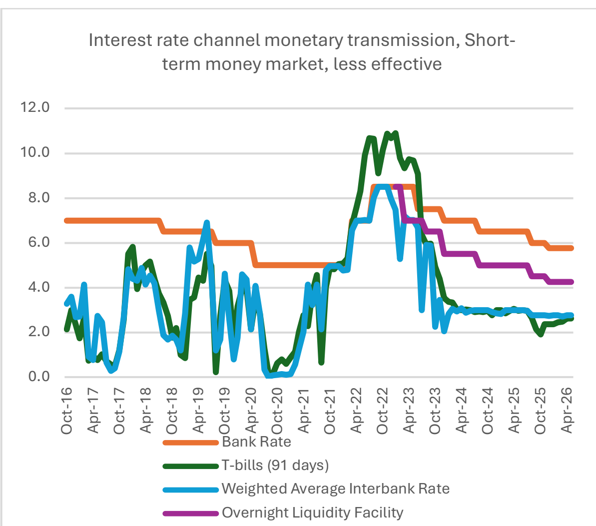
Monetary Transmission Mechanism

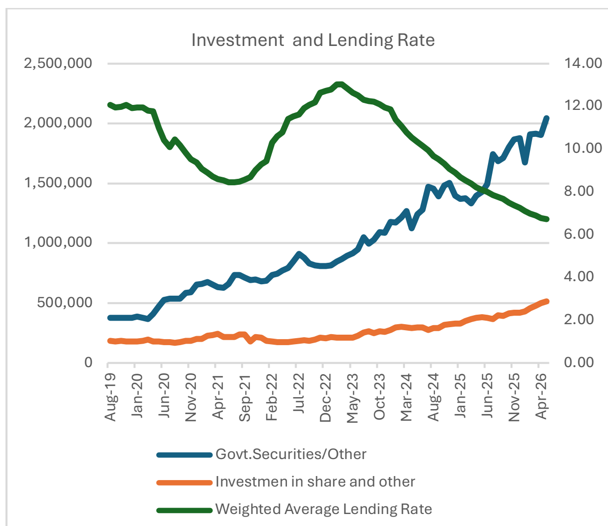
a) Monetary policy transmission

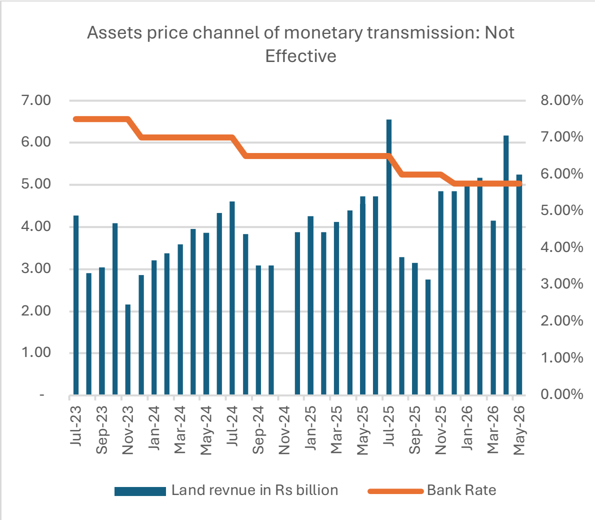
1. Interest Rate Channel	*Less Effective*
2. Lending Rates Channel	*Not Effective*
3. Asset Price Channel	*Not Effective*
4. Exchange Rate Channel	*Not Effective*

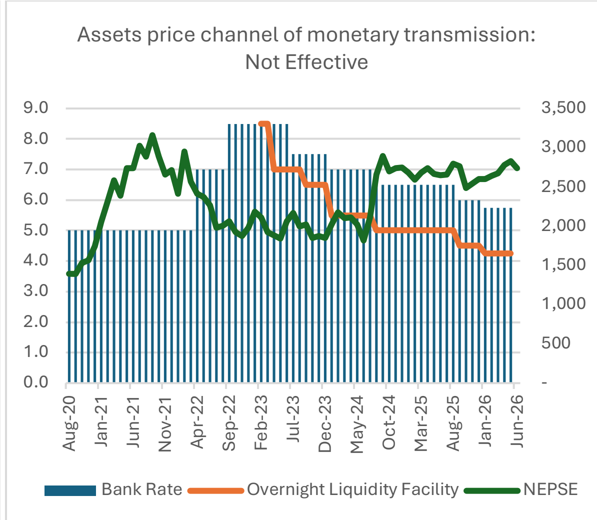


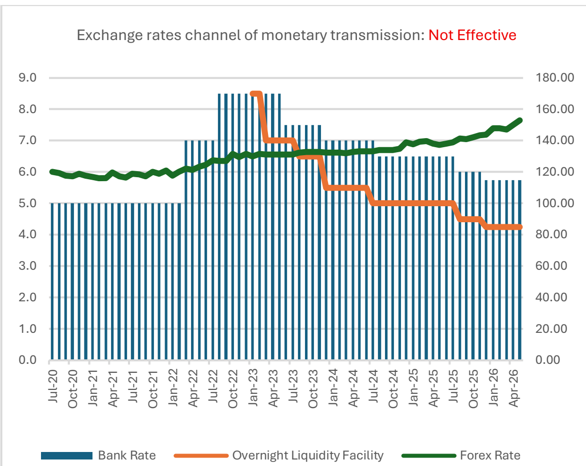


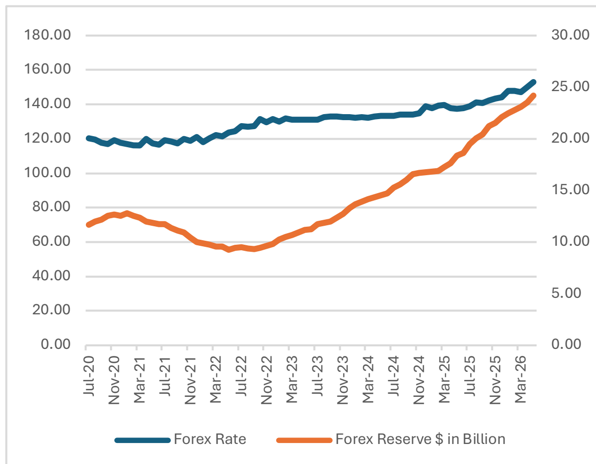


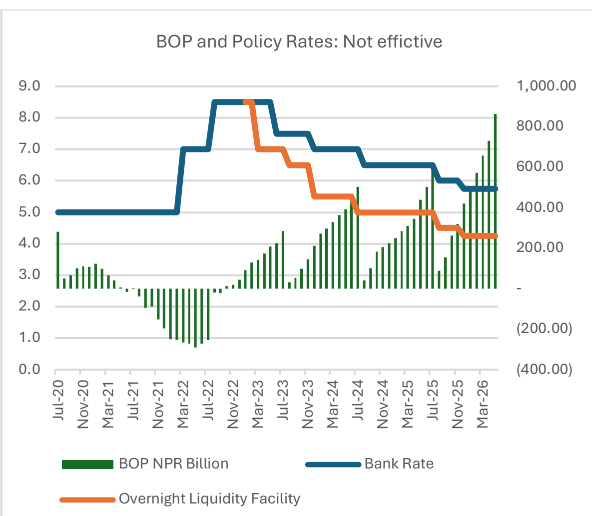


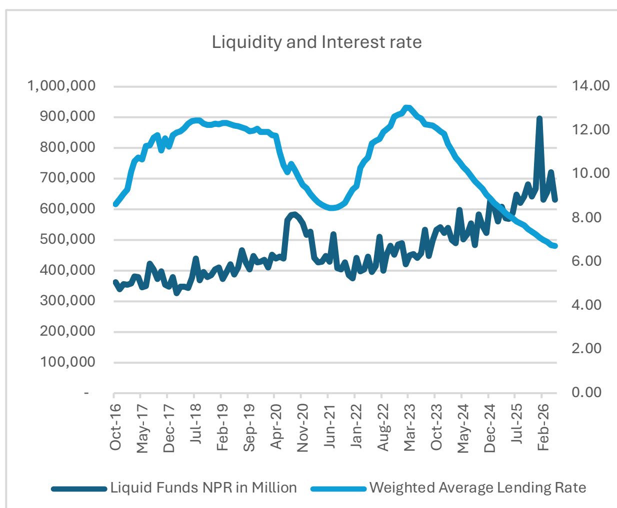

Assets price channel of monetary transmission: Not Effective
Land revnue in Rs billion
Bank Rate

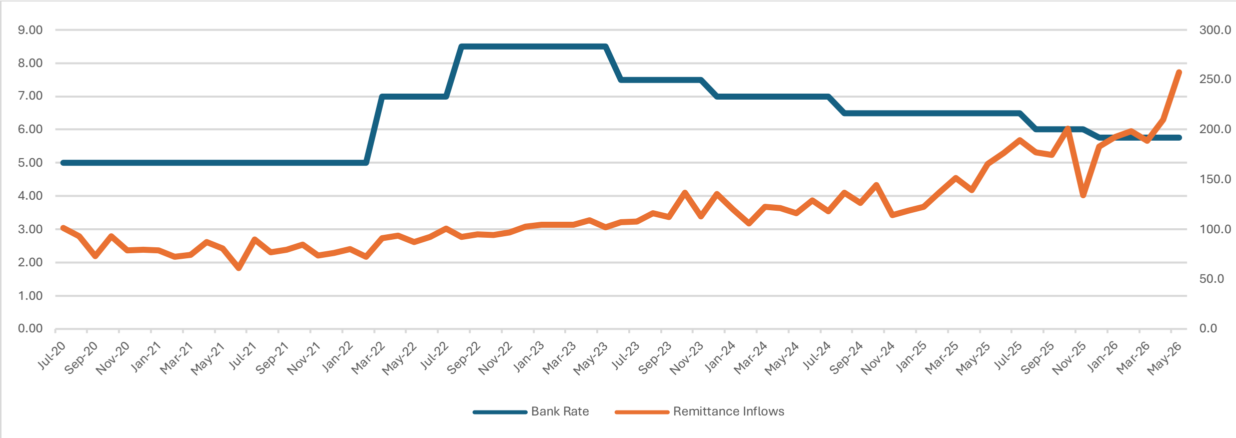

Assets price channel of monetary transmission: Not Effective
Bank Rate
Overnight Liquidity Facility
NEPSE

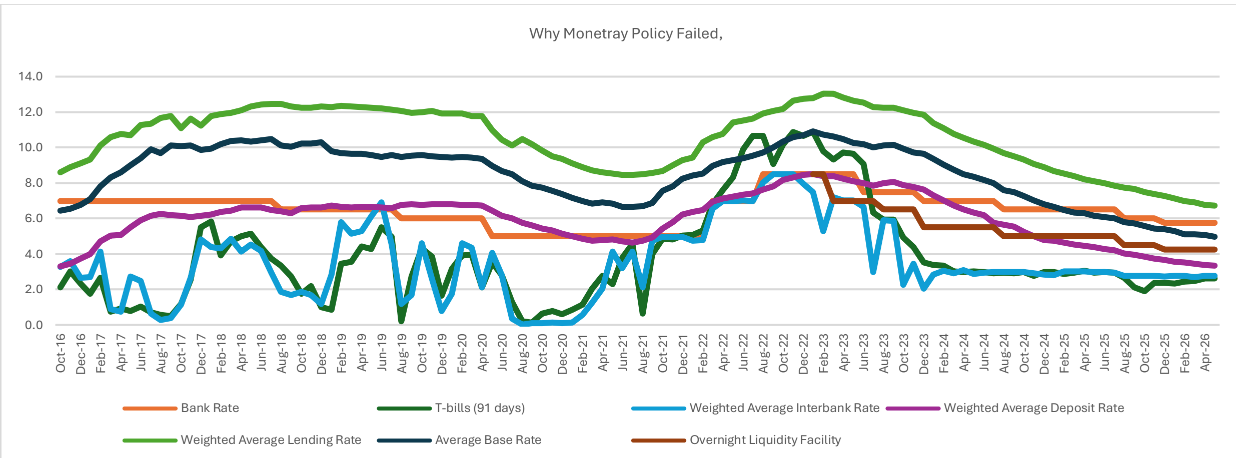

Exchange rates channel of monetary transmission: Not Effective
Bank Rate
Overnight Liquidity Facility
Forex Rate


Forex Rate
Forex Reserve $ in Billion


BOP and Policy Rates: Not effictive
BOP NPR Billion
Bank Rate
Overnight Liquidity Facility


Liquidity and Interest rate
Liquid Funds NPR in Million
Weighted Average Lending Rate





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.

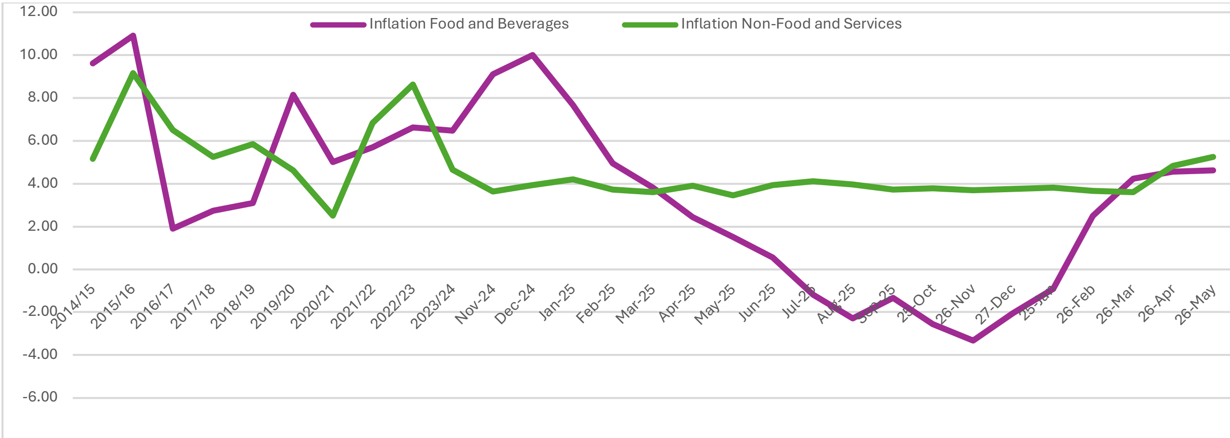
- *2019-2021: CPI fluctuated between 4.44% and 6.95%.*
- *2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.*
- *2023-2025: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 1.47% by October 2025 and surged to 5.04% in May 2026*

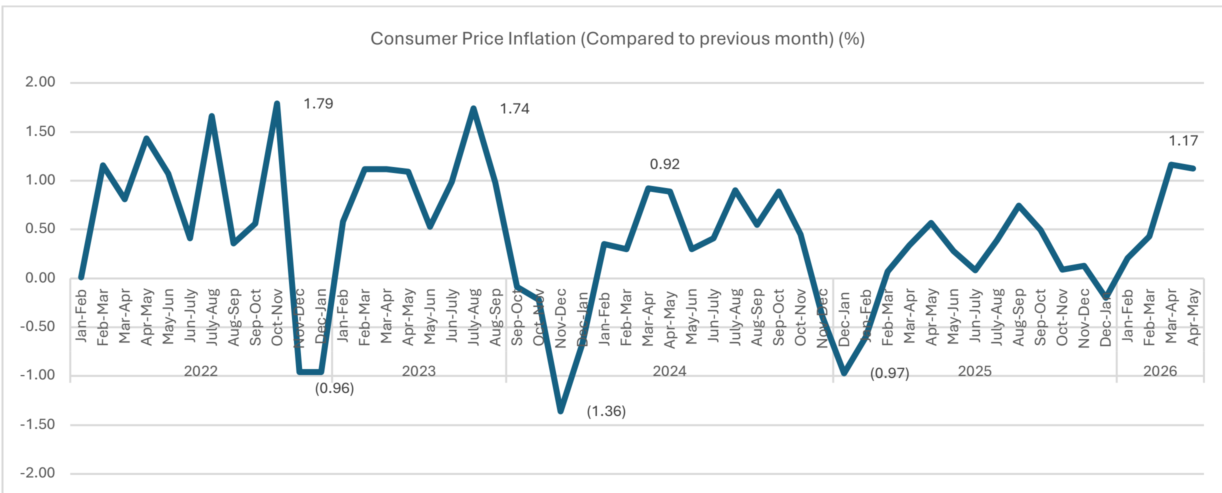
Policy Mistakes:

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 12.8 percent in May 2026 compared to April 2026 reaching 15 months high of 5.04%. Increasing inflation may also signal emerging pressure from global unrest, which could further dampen investment, consumption, and overall economic growth.

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

Kathmandu Vegetable Price Analysis (May 15 to June 15, 2026)

Vegetable prices in Kathmandu experienced significant volatility between Jest 1 and Asar 2, 2083, reflecting the seasonal transition from the dry spring harvest period to the onset of the monsoon season. The most notable trend was a sharp decline in the prices of many fresh vegetables, particularly tomatoes, beans, gourds, leafy vegetables, and green chilies, indicating a substantial increase in local market supply. At the same time, several root crops, spices, mushrooms, and specialty vegetables recorded strong price increases due to seasonal scarcity, supply disruptions, or rising demand.

Tomatoes witnessed some of the steepest declines during the period. The average price of local small tomatoes fell from NPR 70.43 per kg to NPR 21.25 per kg, a decline of nearly 70%, while tunnel-grown tomatoes dropped by 63% to NPR 31.40 per kg. Similar trends were observed in beans and seasonal vegetables. Pole beans fell by 72%, local broad beans by 69%, hybrid broad beans by 61%, bitter gourd by 53%, okra by 45%, and eggplants by 47–66%. These sharp corrections suggest that fresh vegetable arrivals from major producing districts increased substantially as harvesting intensified and transportation conditions improved.

Leafy vegetables also became considerably cheaper. Mustard greens (Rayo Saag) declined by almost 59%, while watercress and cress greens fell by 11–24%. Green chilies experienced particularly steep price corrections, with long green chilies falling by 57%, bullet chilies by 63%, and Akabare chilies by 39%. Such declines indicate abundant seasonal production and increased market competition among suppliers.

In contrast, several staple vegetables registered significant price increases. Red potatoes rose between 37% and 57%, while local carrots increased by 76%, reaching NPR 92.50 per kg. The sharpest increases were recorded in root crops, with taro (Pindalu) surging by 111% from NPR 45 to NPR 95 per kg and sweet potatoes increasing by 52% to NPR 110 per kg. These increases may reflect tighter supplies from producing regions, higher transportation costs, or delayed harvests.

Among herbs and spices, mint prices more than doubled, rising 111% from NPR 90 to NPR 190 per kg. Nepali dried garlic increased by 64% to NPR 172.50 per kg, while Chinese dried garlic rose by 12%. Coriander prices also climbed by 21%, reflecting strong household and commercial demand. Meanwhile, ginger prices fell by 17%, suggesting improved supply conditions.

The mushroom category displayed mixed movements. Oyster mushrooms (Kanya Chyau) increased by 45% to NPR 232.50 per kg, while button mushrooms and king oyster mushrooms recorded modest declines. Shiitake mushrooms remained unchanged at NPR 900 per kg, continuing to be among the most expensive produce items in the market. Asparagus remained highly priced at NPR 326.67 per kg despite a slight decline.

Fruit prices were relatively stable compared to vegetables. Fuji apples increased modestly by 5%, Nepali bananas rose by 9%, and papayas increased by around 12–13%. However, lemon prices dropped dramatically by 48%, from NPR 310 to NPR 160 per kg, reflecting seasonal abundance. Pomegranates also declined by around 9%, while watermelon prices increased slightly by 13%.

A notable anomaly in the data is dried fish, whose average price surged from NPR 130 to NPR 900 per kg, representing a remarkable 592% increase. Such a sharp movement likely reflects a change in product quality, supply source, or market composition rather than normal price inflation. Fresh fish prices, by contrast, remained largely stable.

Overall, the Kathmandu agricultural market in Mid-June 2026 was characterized by falling prices for most seasonal vegetables due to increased domestic supply, while root crops, herbs, garlic, mushrooms, and selected specialty products experienced upward pressure. The broad decline in vegetable prices is positive for urban consumers and contributes to lower food inflation in the short term. However, the sharp increases in certain staple vegetables and spices indicate that supply-chain bottlenecks and seasonal production fluctuations continue to influence specific commodity markets. As the monsoon season progresses, weather-related disruptions could again alter supply conditions and create renewed price volatility in Kathmandu's fresh produce markets.

d) Overall inflation

a) 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.

b) 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.

c) 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.

d) In FY 2023/24, inflation moderated to 5.44% compared to the previous year, though food inflation remained elevated at 6.47%. Notably, food inflation spiked sharply in November and December 2024, reaching 9.10% and 9.99%, respectively, likely due to seasonal factors or supply disruptions. In contrast, non-food inflation remained low, ranging between 3.65% and 4.19%, indicating limited price pressures in non-food categories. However, in May 2026, non-food inflation increased by 4.63%, while food inflation decreased by 5.26%. We may witness further inflationary pressure during coming months.

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.

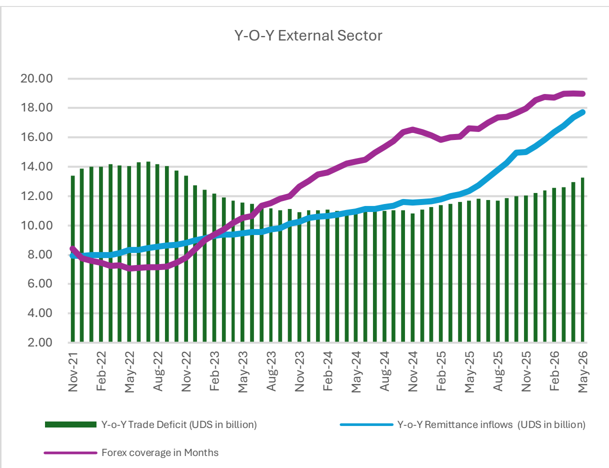
- *Exports have shown a consistent upward trend, rising from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December–January 2024, and further climbing to NPR 24.7 billion by mid-January 2025. In contrast, imports experienced a substantial surge—from NPR 112.5 billion in early 2019 to NPR 188.1 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 May-2026, imports increased to NPR 202.8 billion from NPR 201 billion in the previous month, while exports declined to NPR 27.3 billion from NPR 31 billion. Looking ahead, import outflows in US dollar terms are expected to increase further in the coming months due to supply disruptions and rising demand associated with the festival season.*

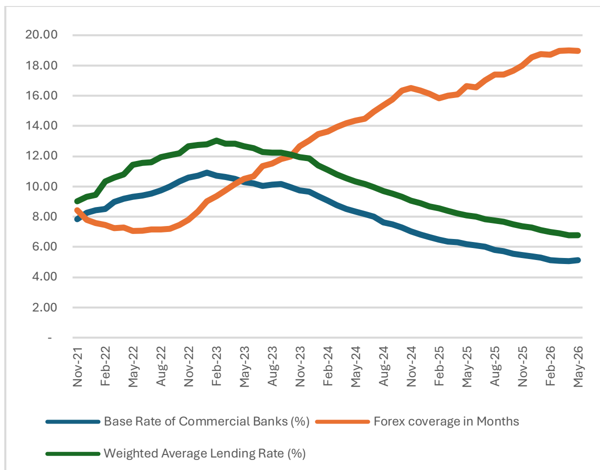
Policy Mistakes:

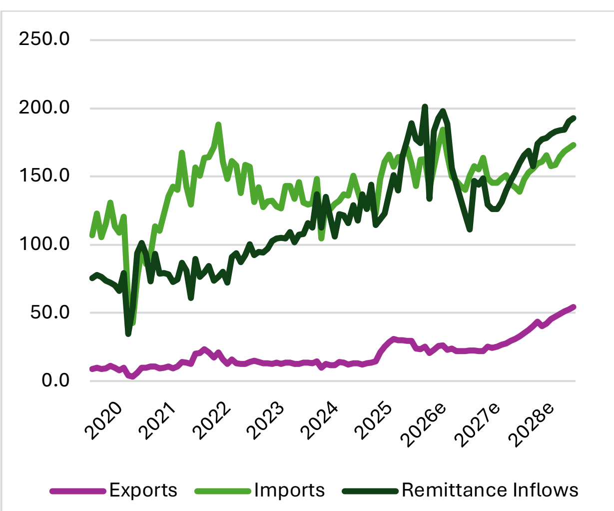
- *Overreliance on import restrictions proved to be a short-term solution, causing supply chain disruptions without providing a sustainable resolution to the trade deficit. The ongoing currency depreciation and rising costs are expected to continue exerting pressure on the balance of payments (BOP).*

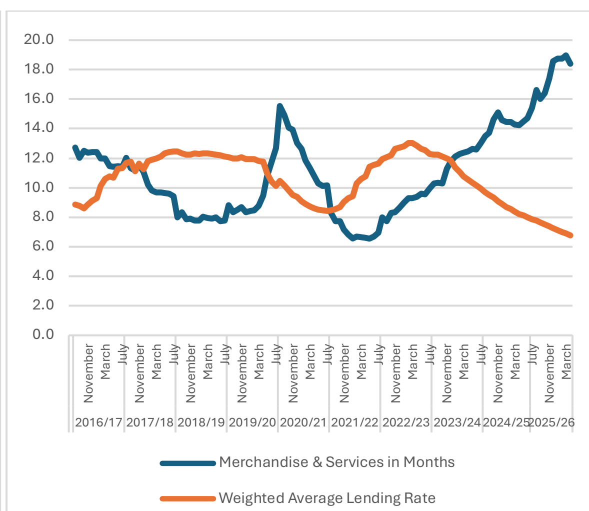
Recommendations:

- *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.

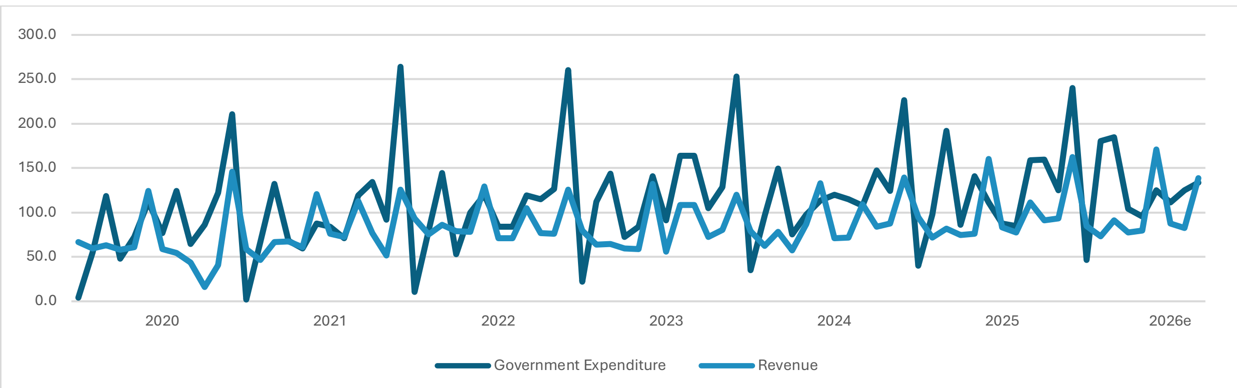
Over the last four years (2023–2026), Nepal's fiscal trends continue to reflect a structural imbalance between expenditure and revenue, with clear evidence of fiscal bunching and weak capital execution. Total government expenditure repeatedly peaks in the final months of each fiscal year, reaching around 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.

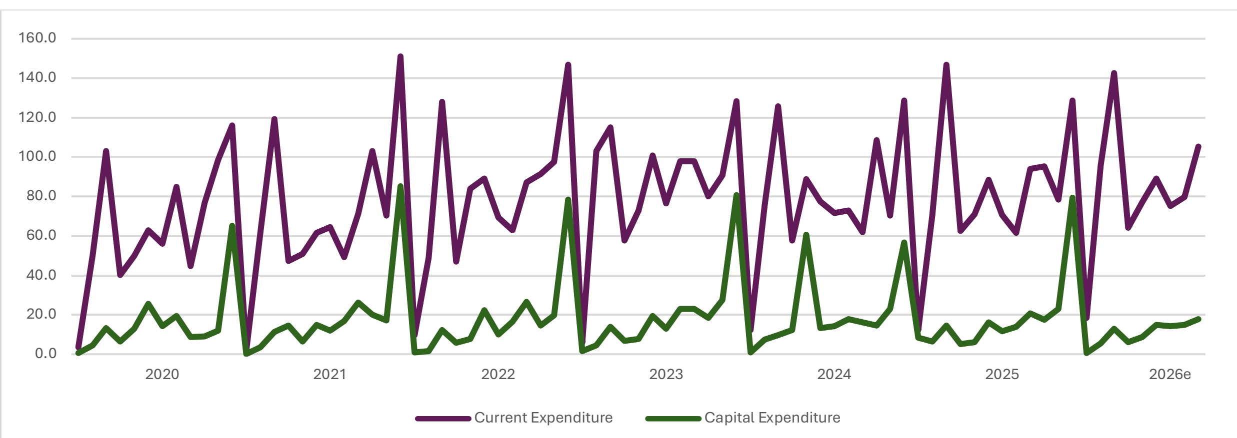
Policy Mistakes:

- *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 over past several years.*

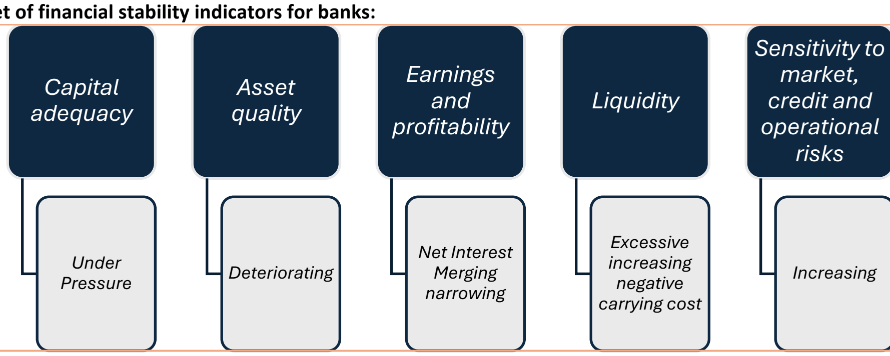
Policy Mistakes:

- *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

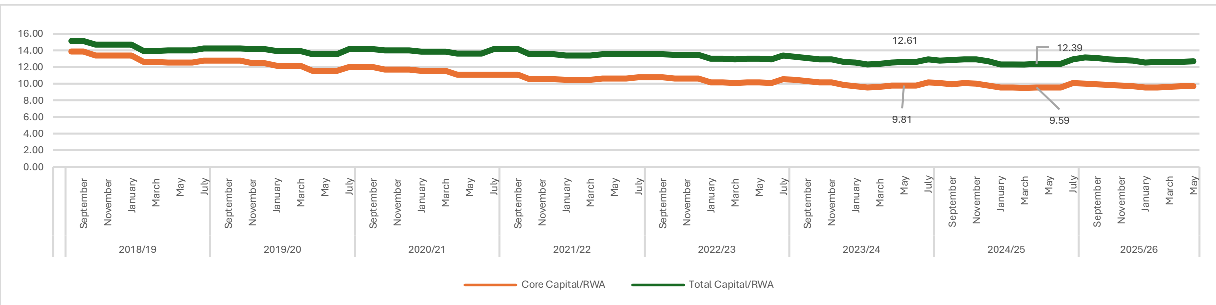
Amount in Rs Billion	Mid-May	%age	Gross RWA
Gross Loan	5,889.28	100.00%	6,523
Good loan	5,367.43	91.14%	
Problem Loan	521.85	8.86%	
Provision made	349.67	5.94%	
Additional provision required if all become Bad	172.18	2.92%	
Paid up Capital and Statutory Reserves	603.39	10.25%	9.25%
Total capital to loan	824.52	14.00%	12.64%
Net capital If all problem loan becomes bad	431.21	7.32%	6.61%
Total capital If all problem loan becomes bad	652.34	11.08%	10.00%

a. As of mid-May 2026, Nepal's gross loan portfolio totals NPR 5,906 billion, with 91.14 % classified as good loans (NPR 5,367 billion) and 8.86 % as problem loans (NPR 521.85 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 349 billion (5.94% of gross loans), serving as a buffer against defaults. However, if all problem loans were to turn bad, an additional NPR 172.18 billion in provisions would be required, raising the total provisioning requirement to 8.86%.

b. The banking system is supported by NPR 603 billion in paid-up capital and statutory reserves, equivalent to 9.25% of gross loans. With additional reserves, total capital reaches NPR 825 billion, or 12.64% of the loan portfolio. In a stressed scenario where all problem loans turn bad, net capital would drop to NPR 431 billion (7.32% 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 652 billion (11.08%), demonstrating resilience while emphasizing the need for vigilance.

c. 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.

d. 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-May
Provision for Risk	**2022**	**2026**	**2024**	**2026**	2026
Opening		284.03	168.12	230.01	284.03
Addition		111.15	105.41	112.88	98.35
Less Write Back		45.06	43.24	58.46	32.32
Less Recovery from Written off Loan		0.44	0.29	0.41	0.38
Closing	110.30	349.67	230.01	284.03	349.67
Gross Loan Loas Provision	2.27%	5.60%	4.26%	4.83%	5.59%

4. Risk Assets Classification

Gross loan		**2025**			
Risk Assets Classification		Mid-May			
Pass Loan	4,844.01	4,844.01	5,367.43	82.25%	90.87%
Watch List	523.42	523.42		8.89%	
Special Mention Loan	420.75	420.75	538.96	7.14%	9.13%
Other specified Loan	118.21	118.21		2.01%	
Gross Loan	5,906.39	5,906.39		100.29%	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

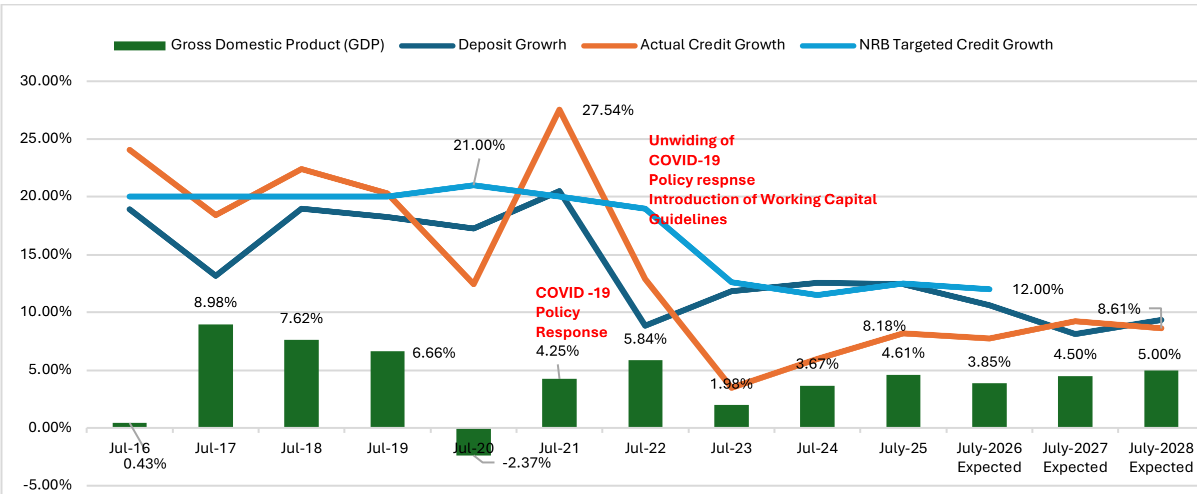
Heading ***(Rs. in million)***	2026			
	May	**Share**	**Trend**	**Growth**
Agriculture	**408,101**	**6.93%**	**Down**	**-2.34%**
Mines	**13,038**	**0.22%**	**Up**	**10.91%**
Productions	**944,505**	**16.04%**	**Up**	**6.84%**
Construction	**261,014**	**4.43%**	**Up**	**12.80%**
Metal Productions	**77,002**	**1.31%**	**Up**	**5.38%**
Transportation	**53,360**	**0.91%**	**Up**	**1.97%**
Communications and Energy	**528,459**	**8.97%**	**Up**	**10.88%**
Wholesaler and Retailers	**1,036,357**	**17.60%**	**Up**	**0.30%**
Finance, Insurance, and Real Estates	**445,075**	**7.56%**	**Up**	**0.98%**
Service Industries	**504,629**	**8.57%**	**Up**	**3.29%**
Consumable Loan	**1,293,623**	**21.97%**	**Up**	**12.32%**
Local Government	**1,229**	**0.02%**	**Down**	**-0.39%**
Others	**321,772**	**5.46%**	**Down**	**-2.32%**
Total	**5,888,164**	**100.00%**	**Up**	**5.29%**

i) Loan Securities Composition and Growth Trend

H Heading ***(Rs. in million)***	**2026**			
	May	Share	Trend	Growth
Gold/Silver	117,895	2.00%	Up	41.55%
Government Securities	87	0.00%	Down	-98.12%
Non-Government Securities	149,753	2.54%	Up	14.25%
Fixed A/c Receipt	32,749	0.56%	Down	-18.34%
Asset Guarantee	5,186,603	88.09%	Up	4.95%
Lands and Buildings	3,741,911	63.55%	Up	3.37%
Machinery and Tools	214,404	3.64%	Up	10.27%
Furniture and Fixture	2,487	0.04%	Up	16.14%
Vehicles	165,906	2.82%	Up	7.27%
Other Fixed Assets	186,767	3.17%	Up	15.70%

Current Assets	875,129	14.86%	Up	8.13%
Agricultural Products	67,939	1.15%	Up	11.31%
Other Non-Agricultural Products	807,190	13.71%	Up	7.87%
On Bills Guarantee	57,536	0.98%	Up	11.68%
Domestic Bills	4,678	0.08%	Down	-16.89%
Foreign Bills	52,858	0.90%	Up	15.19%
Guarantee	172,925	2.94%	Down	-12.32%
Credit Card	7,895	0.13%	Up	26.87%
Others	162,722	2.76%	Up	19.41%
Total	5,888,164	100.00%	Up	5.29%

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 6.73% May 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.*

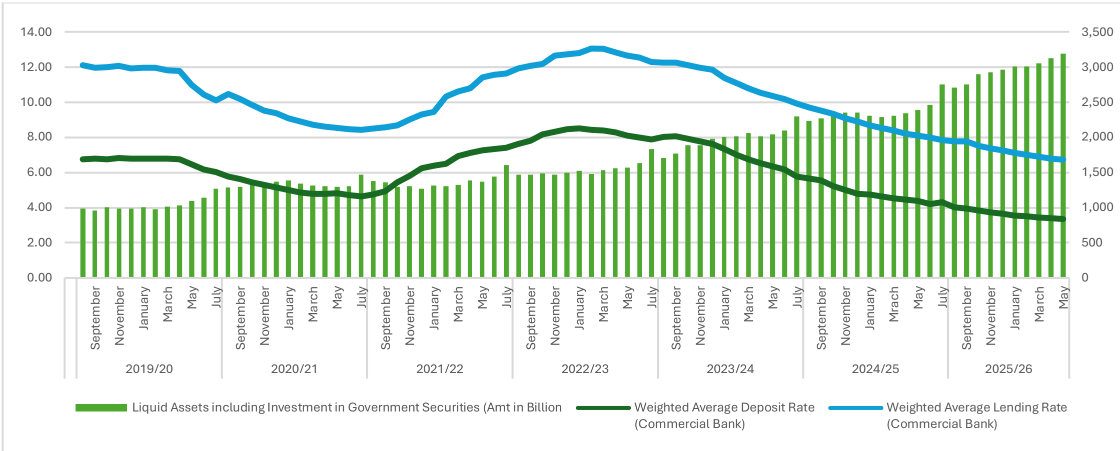
Recommendations:

- *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 3.35% in May 2026, while lending rates decreased from 12.08% to 6.73%. 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 3,190 billion by May 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.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Weighted Average Lending Rate (Commercial Bank)

Section 3 Reforms agenda

1) Key Considerations:

Targeted Stimulus: *Implement targeted stimulus measures to revive sectors hardest hit by the pandemic and policy changes. This includes providing financial support and incentives for industries such as tourism, hospitality, and small businesses.*

Infrastructure Investment: *Prioritize investments in infrastructure projects to stimulate economic activity and create employment opportunities. Infrastructure development not only boosts short-term growth but also lays the foundation for long-term prosperity.*

Diversification Strategies: *Encourage diversification strategies to reduce reliance on sectors susceptible to external shocks. Promoting innovation and supporting emerging industries can enhance economic resilience and mitigate vulnerabilities.*

Regulatory Clarity: *Provide clarity and consistency in regulatory frameworks to support lending activities and foster a conducive environment for credit growth. Clear guidelines and streamlined processes can enhance the efficiency of credit allocation and promote investment.*

Policy Coordination: *Enhance coordination between fiscal and monetary authorities to ensure a cohesive approach to inflation management. Coordinated policies, including targeted fiscal measures and appropriate monetary interventions, can effectively address inflationary pressures.*

Forward Guidance: *Provide clear and transparent forward guidance on monetary policy to guide market expectations and promote stability. Clear communication from central banks can help manage interest rate expectations and minimize market volatility.*

Policy Flexibility: *Maintain policy flexibility to respond to evolving economic conditions. Central banks should stand ready to adjust interest rates in line with changing economic indicators, ensuring an appropriate balance between growth and inflation objectives.*

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.**

2) NRB Act 2058 vs. Proposed Nepal Rastra Bank Bill 2082 (3rd 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

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
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
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

The Act should address the recent court decision by amending Sections 99 and 100 of the Nepal Rastra Bank Act to explicitly provide for an internal appellate mechanism. The amendment should allow any commercial bank or financial institution, or any of its directors, officers, or employees who is dissatisfied with a penalty imposed by the Bank under these sections to file an appeal before an authority higher than the department that imposed the sanction within thirty-five days of the date of the decision. The Act should further require Nepal Rastra Bank to formulate and implement the necessary procedures governing such appeals. In addition, any party remaining dissatisfied with the decision on the internal appeal should be entitled to file an appeal before the High Court within thirty-five days from the date of the appellate decision.

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
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

S.N.	Reform Area	Key Policy Risk	Nature of Risk	Probability	Impact	Overall Risk	Mitigation Measures	Policy Implication
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

Score	Probability (P)	Impact (I)
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
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) Risk 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

Reform Area	Score	Priority Level
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
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

3) **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 neighboring 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.

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

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

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

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

Background

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

Content of the Proposed Amendments

Section 2: Definitions

Clause (kaya): Financial Stakeholder (Substituted)

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

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*

Description	*Data Availability / Remarks*	*Risk to Financial Sector Stability*
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.

4) **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.*

5) **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%, BFIs 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

6) **NRN Act**

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.

7) Companies Act Amendment Bill 2083

The newly proposed **Companies Act Amendment Bill 2083** introduces several structural, procedural, and compliance-related modifications over the **existing Companies Act, 2006**. These changes aim to enhance corporate governance, simplify regulatory frameworks, lower administrative costs, and align corporate practices with technological advancements and modern business environments (like startups).

The major differences between the amendment bill and the existing Act can be summarized across these key thematic areas:

1. Technology and Digitalization (Ease of Doing Business)

- **Existing Act (2006):** Relies heavily on paper-based documentation, physical submissions, and manual record-keeping at the Office of the Company Registrar (OCR).
- **Amendment Bill:** Fully integrates an electronic service system (**Risk-based Compliance and Digital Interconnection**). Registrations, reporting, annual returns, and official notices are to be facilitated electronically to reduce administrative delays and costs. It formally legalizes and structures video-conferencing for board and general meetings.

2. Corporate Governance, Transparency, and Accountability

- **Existing Act (2006): Basic definitions of directorship roles with relatively standard definitions of beneficiary ownership.**
- **Amendment Bill:**
    - Beneficial Ownership: Introduces a strict Mandatory Declaration requirement if the Beneficial Owner (actual owner) differs from the Registered Owner. This is designed to curb tax evasion, money laundering, and hidden asset ownership.
    - Whistleblowing Mechanism: For public companies, it introduces a confidential reporting mechanism (Whistleblower protection) for employees or stakeholders to report corruption, misconduct, or irregularities anonymously.
    - Board Transparency: Clarifies and increases the legal liability, duties, and independence required of directors and independent directors. Public companies must form a dedicated committee to recommend qualified candidates and their compensation for key corporate appointments.

3. Protection of Minority Shareholders

- **Existing Act (2006):** Minority shareholders have general rights, but enforcing remedies against oppressive majority decisions can be procedurally taxing.
- **Amendment Bill:** Explicitly strengthens provisions regulating majority shareholders to prevent actions that undermine the interests of minority/underrepresented shareholders. It embeds sharper remedial frameworks for minority shareholder protection.

4. Special Provisions for Startups, Employees, and Capital Structures

- **Existing Act (2006):** Offers minimal or rigid frameworks concerning sweat equity, stock options, and non-cash equity issuances, restricting growth-stage startups.
- **Amendment Bill:** Adaptively acknowledges modern financial structures by introducing:
    - Sweat Equity Shares: Allowing companies to issue shares in return for intellectual contributions, specialized skills, or business promotion (especially vital for startups).
    - Employee Share Schemes: Clear guidelines for options allowing employees to purchase future shares at a fixed price as an incentive.
    - Non-**Cash Equity:** Enabling startups to allocate a specific percentage of shares for non-cash contributions.

5. **Compliance Burden: Risk-Based Compliance System**
   - Existing **Act (2006):** Imposes uniform, rigid compliance, reporting, and paperwork frameworks on all entities regardless of size (e.g., small private enterprises face similar structural burdens as massive operations).
   - **Amendment Bill:** Introduces a **Risk-based Compliance System**. It differentiates and scales reporting guidelines based on the company's size, turnover, and risk profile, effectively lowering the regulatory burden for micro and small enterprises.

6. **Simplified Liquidation and Company Exit Procedures**

   - **Existing Act (2006):** Winding up or striking off a company involves an incredibly long, complex, and bureaucratic process, often leaving non-operating companies "dormant" indefinitely due to tedious exit paths.
   - **Amendment Bill:** Simplifies and digitizes the company liquidation process. It introduces a clear definition of **"Inactive/Dormant Companies"**, relies significantly on the **self-declaration of directors** regarding asset/liability status, and enforces strict, expedited timelines for processing asset evaluations and settling accounts during liquidation.

7. **Integrated Corporate Social Responsibility (CSR)**

   - **Existing Act (2006):** CSR guidelines were progressively added later through industrial and sector-specific laws (like the Industrial Enterprises Act), creating fractured requirements.
   - **Amendment Bill:** Fully integrates and centralizes corporate social responsibility (CSR) obligations under the company law framework itself, defining uniform mobilization of CSR funds and transparency requirements.

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 Mid-May 2025/26 reveals a persistent trade deficit, with the deficit-to-GDP ratio remaining relatively stable as it shifted slightly from 20.56% to 21.28%. Imports continue to heavily dominate the country's economic landscape, commanding a massive 87.16% share of total trade; though they dipped by 1.21% in 2023/24, they rebounded sharply by 14.9% by Mid-May 2025/26. On the other hand, exports contracted by 3.30% in 2023/24 before experiencing an aggressive 73.2% surge by Mid-May2025 and maintaining a steady growth of 12.63% growth rate into mid-June 2026, ultimately lifting the export share of total trade to 12.81%. However, despite these incremental improvements in export volume, Nepal's structural trade imbalance remains severe, as evidenced by a stark 1:6.79 export-to-import ratio that highlights how the country still imports nearly ten times more than it sells abroad.

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: Given these constraints, Nepal faces a limited but important set of policy choices:

   1. Maintain the current peg with INR, preserving stability and predictability and adjust impact by tariff adjustment.
   2. Adopt a crawling peg, allowing gradual and controlled adjustments to parity
   3. Move toward a managed exchange-rate regime, potentially based on a basket of currencies reflecting major economic partners
   4. Consider rigid arrangements, such as a currency board or currency union, acknowledging significant political and institutional challenges
   5. 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 carefully balance stability with flexibility. While the current peg has provided a useful nominal anchor, long-term external sustainability will depend less on the choice of exchange rate regime and more on addressing structural constraints, strengthening competitiveness, and aligning macroeconomic policies with growth-oriented reforms. In addition, currency movements are also indirectly influenced by trade structure, including customs duties and related import charges, which affect external prices and pass-through dynamics.

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	**2026**								
	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May
Consumer Price Inflation (y-o-y) (%)	1.87	1.47	1.11	1.63	2.42	3.25	3.62	4.47	5.04
Consumer Price Inflation (Compared to previous month) (%)	0.74	0.50	0.09	0.13	-0.20	0.21	0.43	1.17	1.12
Food and Beverage (%)	1.43	0.67	0.07	-0.24	-1.11	0.27	0.67	1.13	1.17
Non Food and Service (%)	0.37	0.41	0.11	0.33	0.29	0.17	0.30	1.18	1.10
Exports	23.39	25.47	20.71	23.01	25.51	26.13	22.97	31.82	26.03
Imports	162.11	162.9	141.37	156.74	172.83	184.46	165.76	201.25	202.14
Travel Income	6.21	7.6	7.96	6.82	8.24	5.79	7.39	8.71	10.09
Travel Spending	25.61	17.3	11.15	13.23	16.59	15.70	23.85	20.25	12.50
Remittance Inflows	174.67	201.2	133.82	183.18	192.62	198.08	188.64	209.75	257.49

Particulars Amount in NPR Billion	2026								
	Aug-Sep	Sep-Oct	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May
Government Expenditure	180.17	184.4	104.3	95.6	125.0	111.2	125.2	133.37	113.56
Current Expenditure	95.71	142.6	64.10	77.1	89.0	75.2	79.7	105.38	67.13
Capital Expenditure	5.62	12.8	6.13	8.6	15.0	14.3	14.8	17.71	17.65
Revenue	73.06	91.5	77.60	79.8	171.0	87.6	82.3	139.00	102.27
Deposit Mobilization	144.44	185.9	3.66	59.5	135.6	16.2	48.3	133.7	69.74
Private Sector Credit	52.17	33.7	-17.9	37.2	95.2	24.4	21.7	68.4	0.05
Weighted Average Deposit Rate (%)	3.96	3.85	3.74	3.7	3.6	3.5	3.4	3.4	3.35
Weighted Average Lending Rate (%)	7.66	7.50	7.38	7.3	7.1	7.0	6.9	6.8	6.73
Base Rate of Commercial Banks (%)	5.72	5.56	5.44	5.38	5.29	5.12	5.10	5.06	4.97

Nepal's macroeconomic indicators highlight a clear disinflationary trend throughout 2025, followed by mild reflationary signs in early 2026.

Inflation Dynamics

- **Year-on-Year Trends:** Consumer price inflation steadily declined from **3.39%** in March–April 2025 to a low of **1.11%** in October–November 2025, before rebounding sharply to **5.04%** in May 2026.
- **Monthly Drivers:** Mid-May saw a monthly inflation uptick of **0.55 bps** heavily driven by a **43 bps** spike in the Non-Food index.
- **Core Stability:** Non-food and services inflation held increased at **5.26%**, indicating that recent price pressures are primarily supply-driven supply-chain constraints within the Non-Food sector rather than broad-based economic overheating.

External Sector & Trade Imbalance

- **Trade Deficit:** The country's trade deficit remains wide as imports continue to vastly outpace exports. For context, during Mid-May, imports stood at **NPR 202 billion** compared to a meager **NPR 26 billion** in exports.
- **Remittance Cushion:** Despite ongoing geopolitical conflicts in the Gulf region, Nepal recorded a historic surge in remittance inflows, peaking at an all-time high of **NPR 257 billion** in Mid-May. This influx acts as a vital buffer against external sector vulnerabilities, though the recent monthly surge could shift dynamics over the coming months.
- **Tourism & Travel:** Internal travel income remained moderate and stable, while fluctuating outbound travel spending narrowed slightly compared to previous months.

3) Our view on the current level of External vulnerabilities (Mid-June 2026)

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 155 per USD. Overall, while the trade deficit persists, the rebound in exports in 2025/26 signals some positive momentum toward reducing external imbalance, though Nepal's structural reliance on imports remains the key vulnerability.

F.Y. 2025/26 Mid-June 2026

a) Imports rose to $ 14.57 billion (up 15.18%), but exports surged to $ 2.14 billion (up 12.63%).
b) As a result, the trade deficit widened to $ 12.43 billion, but relative to GDP it stabilized at 24.48%.
c) Export share in total trade slightly decreased from previous year 12.84% to 12.63%.
d) The export-import ratio improved sharply to 1:6.81, showing better diversification in trade.
e) Import revenue reached at $3.55, billion 5.65% 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 155per 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-June)	11.18	1.07	10.11	12.25	1.00	10.45	2.96	1 USD= 125NPR
Share % in Total Trade	91.27	8.73						
Trade deficit % GDP	21.89%							
F.Y. 2024/25 (Mid-June)	12.65	1.90	10.75	14.55	1.00	6.66	3.36	1 USD= 130 NPR
Share % in Total Trade	86.94	13.06					**Up**	
Trade deficit % GDP	23.27%							
F.Y.2025/26 (Mid- June	14.57	2.14	12.43	16.71	1.00	6.81	3.55	1 USD= 130 NPR
Share % in Total Trade	87.19	12.81					**Up**	
Trade deficit % GDP	24.48%							
Percentage Change in F.Y. 2023/24 compared to same period of the previous year	13.15%	77.57%	6.33%	18.78%			13.51%	
Percentage Change in F.Y. 2024/25 compared to same period of the previous year	15.18%	12.63%	15.63%	14.85%			5.65%	

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 21.88% by mid-May. 2026, compared to the 20.91 % reported in the immediate previous month.

Trade Deficit

In the 11th month of FY 2025/26, the monthly trade deficit slightly narrowed from USD 1.35 billion in mid-May to USD 1.32 billion in mid-June. However, on a year-on-year cumulative basis, the trade deficit widened to USD 16.71 billion, marking a 14.85% increase from USD 14.55 billion in the previous year, indicating a mild 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	Apr-26	May-26	Jun-26	Y-o-Y	Remarks	**%age**
Imports (UDS in billion)	**11.47**	**13.03**	**14.57**	**15.57**	**UP**	**13.80%**
Monthly Imports	1.55	1.56	1.54			

Trade Indicators	Apr-26	May-26	Jun-26	Y-o-Y	Remarks	%age
Exports (UDS in billion)	**1.71**	**1.92**	**2.14**	**2.37**	UP	**20.51%**
Montly Exports	0.24	0.21	0.22			
Trade Deficit (UDS in billion)	**9.76**	**11.11**	**12.43**	**13.20**	UP	**13.09%**
Total Foreign Trade (UDS in billion)	13.18	14.95	16.71	17.94	UP	14.38%
Monthly Import Revenue	0.33	0.39	0.36			
Total Import revenue	**2.80**	**3.19**	**3.55**	**3.90**	UP	6.81%
Monthly Remittance	1.61	1.98	1.61			
Remittance inflows	**12.85**	**14.83**	**16.44**	**16.93**	UP	33.15%
Imports/Exports Ratio	6.71	6.79	6.81	6.57	UP	0.51%
Exports Share to Total Trade (%)	12.97	12.84	12.81	17.95	UP	53.34%
Imports Share to Total Trade (%)	87.03	87.16	87.19	82.05	Down	-5.09%
Monthly Trade Deficit (UDS in billion)	1.31	1.35	1.32			
Trade deficit % GDP	19.22%	21.88%	24.48%	26.00%	UP	6.05%

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 last three months reveals a persistent trade imbalance characterized by a significant trade deficit, with imports consistently outpacing exports.

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**	Jun-26	Estimated Annual import Value 2025/26	Import Direction	Monthly Movement 2024 VS 2025	EXPT. Annualized Movement 2025/26
Diesel	1,108	990	**1,175**	**1,364**	Growth	**32.17%**	**37.76%**
Crude soya-bean oil	103	838	**920**	**1,006**	Growth	**25.00%**	**20.05%**
Crude palm oil	82	52	**100**	**146**	Growth	**138.10%**	**180.77%**
Petrol	524	493	**524**	**614**	Growth	**16.19%**	**24.54%**
Liquidified Petroleum Gas (LPG)	428	481	**402**	**436**	Decline	**-8.84%**	**-9.36%**
Smartphones	221	273	**334**	**390**	Growth	**35.22%**	**42.86%**
Semi-finished products of iron or non-allo steel, <025% carbon, nes	107	106	87	116	Decline	**-14.71%**	**9.43%**
Gold	182	132	**198**	**234**	Growth	**50.00%**	**77.27%**
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	266	254	204	199	Decline	-13.19%	-21.65%
Other coal, not agglomerated, nes	176	166	**167**	**180**	Growth	**8.44%**	**8.43%**
Other - Medicaments put up in measured dos s or in forms or packing for retails	211	233	**201**	**221**	Decline	**-6.51%**	**-5.15%**
Maize (excl seed)	108	141	**78**	**88**	Decline	**-38.10%**	**-37.59%**
Oil-cake and other solid residues, of soyabean	130	98	**93**	**99**	Decline	**0.00%**	**1.02%**
Crude sunflower oil	137	223	**147**	**158**	**Decline**	**-28.99%**	**-29.15%**
Low erucic acid rape or colza seeds	83	115	**112**	**125**	Decline	**3.70%**	**8.70%**
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	80	90	**73**	**79**	Decline	**-17.05%**	**-12.22%**
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	300	375	**413**	**431**	Growth	**17.33%**	**14.93%**
Others Paddy	93	157	**133**	**137**	Decline	**-13.64%**	**-12.74%**
Laptop and note book	58	68	**75**	**81**	Growth	**20.97%**	**19.12%**

Other Major Imports

Description Conversion Factor 1 USD = NPR 130 Amount in $ million	Imports Value
Diammonium hydrogenorthophosphate (diammonium phosphate)	185
Fertilizer Grade	172
ATF	160

Description Conversion Factor 1 USD = NPR 130 Amount in $ million	Imports Value
Diammonium hydrogenorthophosphate (diammonium phosphate)	185
ATF	185
Fertilizer Grade	172
Unwrought silver (incl silver plated with old or platinum)	162
Electric car, jeep & van 51KW to <=100KW	127
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	104
Apples, fresh	95
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	85
Powder of silver	83
Polypropylene, in primary forms	71
Dyed kintted or crocheted fabrics of synth tic fibres, nes.	70
Other potatoes, fresh or chilled	61
Basmati Rice Semi-milled or wholly milled rice, whether or not polished or glazed	60

Major Export (Conversion Factor 1 USD = NPR 130). Amount in $ million	Export value
Soya-bean oil (excl. crude) and fractions	870.64
Big Cardamon (Alaichi) neither crushed nor ground	92.40
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	72.17
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	61.49
Refined bleached deodorized palm olein	47.23
Unbleached woven fabrics of jute or of oth r textile bast fibre of heading 5303.	44.50
other Felt, whether or not impregnated, coated, covered or laminated. nes .	38.81
Other yarn, <85% polyester staple fibres, ith artificial staple fibres, nprs	35.45
Mixtures of juices, unfermented, not containing added spirit.	34.00
Single yarn, with >=85% polyester staple f bres, nprs	33.78
Dog or cat food, put up for retail sale	33.07
Other pasta, nes	26.62
Oil-cake of low erucic acid rape or colza seeds	26.58
Woven fabrics obtained from synthetic stri or the like	24.68
Shawls, scarves, mufflers, mantillas, veil , etc, of wool or fine animal hair	24.64
Other black tea (fermented) and other partly fermented tea	24.44
Veneer sheets and sheets for plywood and o her wood, =<6mm thick, nes	22.93
Other, with both outer plies of coniferous wood	22.74
Sacks and bags, used for packing goods, of jute or of other textile bast fibres	19.60
Women's or girls' trousers, breeches, etc, of cotton	19.02

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 1.34 billion, reflecting a 37.76% 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 increase of 16%, suggesting controlled consumption alongside a gradual shift toward electric vehicles. LPG imports are expected to decrease by 9.36%, pointing to supply constraints and rationing the supply at the household level. Meanwhile, coal imports remain broadly stable, increase slightly by 8.84%, 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 180%, while soybean oil imports remain elevated, indicating that the Gulf crisis does not affect supply. In contrast, sunflower oil imports have dropped sharply by 29.15%, highlighting substitution effects and shifting trade margins in response to disrupted global supply chains.

Consumer electronics imports indicate resilient urban demand, with smartphones (+35.2%) and laptops (+20.97%) 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 (+50%), 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 (- 14.17%), flat-rolled steel (-13.19%), and rods (-17.05%) have all declined sharply. Even though direct reduced iron shows some growth (+17.33%), 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 (-38.1), and soybean oilcake remain stable reflecting reduced livestock and poultry sector expansion. Similarly, paddy imports (-13.34%) due to export restriction by India. Pharmaceutical imports declining (-6.15%) 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

a) Nepal FDI Analysis: FY 2025/26 (Up to Mid-June 2026)

According to the latest data of the Nepal Department of Industry (DoI), Nepal approved foreign direct investment (FDI) commitments worth NPR 47.62 billion across 914 projects by mid-June 2026. This represents a significant increase in both project numbers and investment commitments compared to the previous fiscal year, reflecting improved investor confidence, expansion of the automatic approval route, and increasing interest in Nepal's tourism, agriculture, ICT, and manufacturing sectors.

The data shows that while the total approved FDI amount increased steadily throughout FY 2025/26, investment remained highly concentrated in a few sectors, particularly Agriculture & Forestry, Tourism, and Services, which together accounted for nearly 83% of total approved commitments. However, the highest number of projects was recorded in the ICT sector, indicating growing foreign interest in Nepal's digital economy despite relatively small investment sizes.

b) Overall FDI Performance

Period	Approved FDI (NPR Billion)	Projects	Growth (%)
Mid-May 2025	57.06	586	
Mid-May 2026	45.32	728	-20.58%

Period	Approved FDI (NPR Billion)	Projects	Growth (%)
Mid-June 2025	60.61	717	
Mid-June 2026	47.62	914	-21.44%
FY 2025/26 (11th Month)	(12.99)	+197	

Although cumulative commitments up to mid-June 2026 were lower than the exceptionally large approvals recorded in the previous year, the number of approved projects reached a record level, suggesting that Nepal is attracting a larger volume of smaller and medium-sized foreign investors. (DOI)

c) Sector-wise FDI Distribution (Mid-June 2026)

Sector	FDI Amount (NPR Billion)	Share of Total
Agro & Forestry	22.09	46.4%
Tourism	13.00	27.3%
Services	4.59	9.6%
Manufacturing	3.57	7.5%
ICT	2.37	5.0%
Infrastructure	1.65	3.5%
Energy	0.23	0.5%
Mineral	0.12	0.2%
Total	**47.62**	**100%**

The Agriculture and Forestry sector emerged as the largest recipient of FDI, accounting for almost half of all commitments. This was driven primarily by a few large-scale agro-processing and forestry-related investments approved during the fiscal year. The sector experienced an extraordinary jump from NPR 1.47 billion in mid-July 2025 to NPR 22.09 billion by mid-June 2026, highlighting increasing foreign interest in Nepal's agribusiness and food-processing industries.

Tourism remained the second-largest destination for foreign capital, receiving nearly NPR 13 billion. The sector continues to benefit from Nepal's post-pandemic tourism recovery, expansion of hospitality infrastructure, and growing international interest in hotels, resorts, and adventure tourism projects.

d) Sector-wise Project Numbers (Mid-June 2026)

Sector	Projects
ICT	577
Tourism	202
Services	62
Manufacturing	52
Agro & Forestry	16
Energy	2
Mineral	2
Infrastructure	1
Total	**914**

While agriculture attracted the highest investment value, the ICT sector dominated in terms of project count, accounting for more than 63% of all approved projects. This reflects the relatively low capital requirements of software development, outsourcing, fintech, and digital service businesses.

The ICT sector's investment commitment rose from NPR 1.57 billion in June 2025 to NPR 2.37 billion by June 2026, while project approvals surged from 313 to 577. This trend highlights Nepal's growing attractiveness as a regional technology and outsourcing destination.

e) Manufacturing Sector Recovery

Manufacturing FDI reached NPR 3.57 billion across 52 projects by mid-June 2026.

Period	Amount (NPR Billion)	Projects
Mid-June 2025	3.12	48
Mid-June 2026	3.57	52

The manufacturing sector showed resilience throughout the year, recording cumulative growth of approximately **14%** by mid-June 2026. This reflects increasing foreign participation in consumer goods, construction materials, food processing, and industrial production activities. The expansion of Nepal's automatic FDI route in February 2026 is expected to further stimulate manufacturing investments in the coming years.

f) Emerging Infrastructure and Energy Investments

Infrastructure and energy continue to receive limited foreign investment despite Nepal's significant financing needs.

Sector	Amount (NPR Billion)	Projects
Infrastructure	1.65	1
Energy	0.23	2

The relatively low FDI inflow into hydropower and infrastructure remains a concern given Nepal's substantial investment requirements in energy transmission, logistics, transport, and urban infrastructure. Regulatory complexity, land acquisition issues, and project implementation delays continue to discourage large-scale foreign participation.

g) Repatriation Trends

An important development during FY 2025/26 was the sharp increase in profit and dividend repatriation.

Period	Repatriation (NPR Billion)
Mid-June 2025	9.60
Mid-June 2026	17.80

Repatriation increased by approximately 85%, reaching NPR 17.8 billion. Consequently, the FDI outflow-to-inflow ratio increased from around 16% to 37.4%.

Indicator	Mid-June 2025	Mid-June 2026
Repatriation (NPR Billion)	9.60	15.8
Outflow/Inflow Ratio	16%	37.4%

While rising repatriation demonstrates that foreign investors are earning profits and successfully repatriating returns, it also indicates that Nepal must continue attracting larger volumes of fresh FDI to maintain positive net capital inflows. The increasing outflow ratio is a trend policymakers should monitor carefully.

h) Key Trends and Policy Implications

Positive Developments

1. **Record project approvals** reached 914 projects.
2. ICT emerged as Nepal's most dynamic FDI sector by project count.
3. Agriculture became the largest recipient of foreign capital.
4. Tourism continued attracting substantial foreign investment.
5. Expansion of the automatic route to 102 industries has improved investment facilitation and reduced approval barriers.

Challenges

1. FDI remains highly concentrated in a few sectors.
2. Energy and infrastructure continue to attract limited foreign capital.
3. Repatriation is growing faster than new inflows.
4. Large-scale industrial and export-oriented investments remain relatively scarce.
5. Actual realization of approved FDI continues to lag behind commitments, a long-standing challenge in Nepal's investment climate.

i) Conclusion

The FY 2025/26 FDI 11th Month data presents a mixed but generally positive picture. Nepal succeeded in attracting NPR 47.62 billion of approved FDI across a record 914 projects, driven by strong growth in agriculture, tourism, ICT, and manufacturing. The surge in project numbers indicates improving investor interest and the positive impact of recent reforms such as the expansion of the automatic approval route. However, the sharp increase in profit repatriation, low investment in infrastructure and energy, and continued concentration of FDI in a limited number of sectors suggest that further reforms are needed to improve investment realization, strengthen investor confidence, and attract larger productivity-enhancing investments that support export growth and job creation.

Section 5 Financial Sector highlights

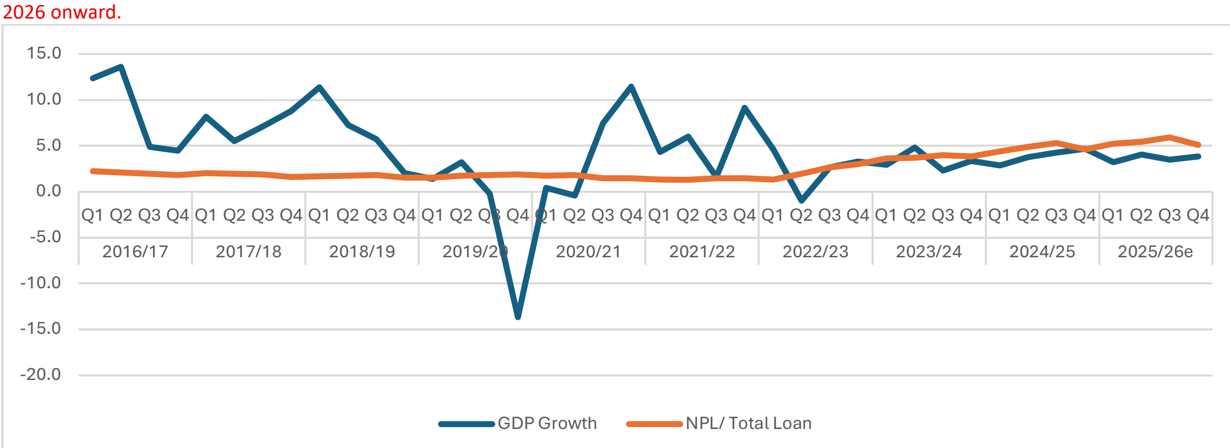
1) Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates

Economic activity in Nepal remains subdued despite a few encouraging signs. As of May 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 June 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, ongoing migration and urbanization trends continue to weigh on rural demand, which is expected to remain below the levels observed in FY 2024/25. In FY 2025/26, the weighted average lending rate has declined significantly to 6.73 percent in mid-May from a peak of 13.03 percent recorded in February 2023. This sharp reduction in borrowing costs has supported a modest recovery in urban demand, particularly for domestically produced capital goods, as reflected in recent economic indicators. Looking ahead, the reduction in personal income tax rates and the increase in the tax-free threshold to NPR 1 million are expected to further support private consumption from mid-July 2026 onward.



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%.

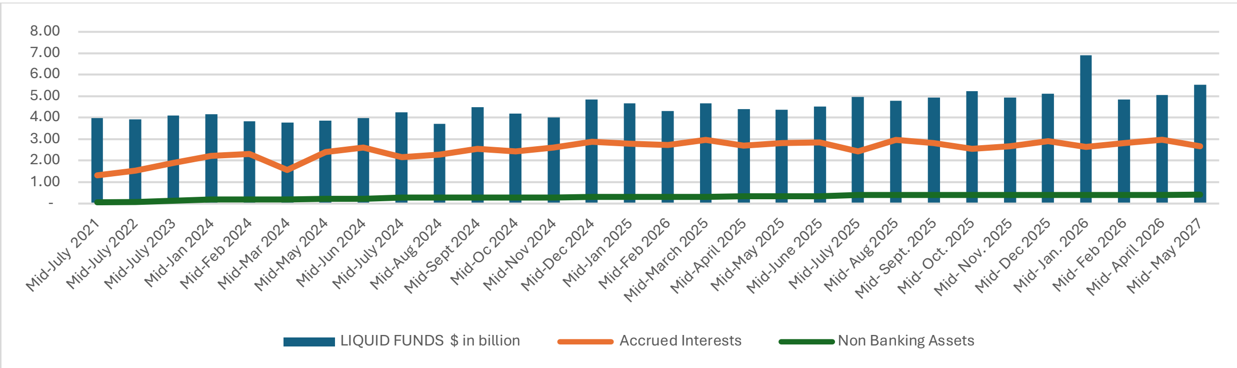
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. 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 Q4 NPL is expected to increase to 5.48%

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-May 2026, accrued interest rose steadily from USD 1.32 billion to USD 2.68 billion (USD 2.82 billion as of Mid-May 2026), indicating a growing stock of interest income yet to be realized, largely due to delayed loan repayments. Although a slight moderation is observed on May 2026. 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 (5.5 billion May 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 (0.42 billion in May 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) BFIs 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	**6,608**	*10.79%*	**6,876**	*4.06%*	**7,150**	*3.98%*
PAID UP CAPITAL	3,684	*7.95%*	4,030	*9.39%*	4,362	*8.24%*
BORROWINGS	1,664	*-8.00%*	1,470	*-11.65%*	*1,272*	*-13.44%*
Borrowing from NRB	*4*	*31.36%*	*13*	*191%*	*80*	*528%*
DEPOSITS	62,161	*10.64%*	67,212	*8.13%*	73,477	*9.32%*
Current	3,860	*-4.93%*	4,873	*26.24%*	5,399	*10.79%*
Saving	30,013	*45.94%*	37,963	*26.49%*	7,240	*-80.93%*
Fixed	22,301	*-17.33%*	17,539	*-21.35%*	47,609	*171.44%*
Call	5,563	*32.15%*	6,347	*14.10%*	*7,240*	*14.06%*
Others	424	*14.87%*	489	*15.31%*	*553*	*12.98%*
LIQUID FUNDS	*5,314*	*6.73%*	*5,073*	*-4.53%*	4,767	*-6.03%*
GOVT. SECURITIES/OTHER	15,623	*16.51%*	*17,186*	*10.01%*	19,290	*12.24%*
Investment in share and other	3,814	*35.69%*	*5,985*	*56.93%*	8,642	*44.39%*
LOANS & ADVANCES	*46,334*	*7.73%*	*50,620*	*9.25%*	*54,978*	*8.61%*
Total Capital/RWA	*12.52%*	*0.50%*	*11.63%*	*-7.11%*	*10.83%*	*-6.87%*
CD	***73.50%***	*-2.36%*	***74.45%***	*1.30%*	***74.14%***	*-0.41%*
NPL /Total Loan	***5.48%***	*18.59%*	***5.37%***	*-1.89%*	***5.32%***	*-1.04%*
Return on Capital Employed	*9.89%*	*-3.27%*	*19.79%*	*100.04%*	*19.42%*	*-1.88%*

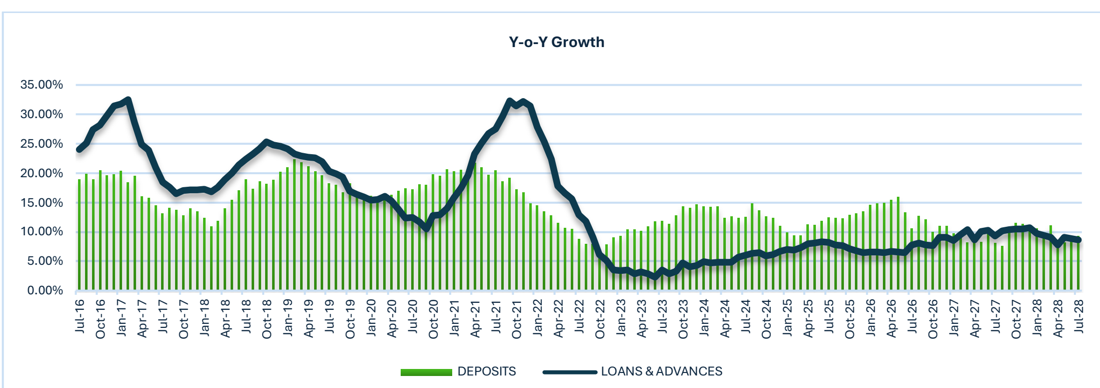
	July 2026e	Change	*July 2027e*	Change	*July 2028e*	Change
Int on Loans and Adv.	*3,590*	*-2.91%*	*4,302*	*19.80%*	*4,510*	*4.85%*
Total Int. Income	*4,228*	*-3.09%*	*5,501*	*30.11%*	*5,886*	*7.00%*
Avg. Yield From Loan	*7.44%*	*-7.96%*	*8.50%*	*14.23%*	*8.20%*	*-3.47%*
Int Expenses	*2,261*	*-16.08%*	*2,990*	*32.22%*	*3,300*	*10.37%*

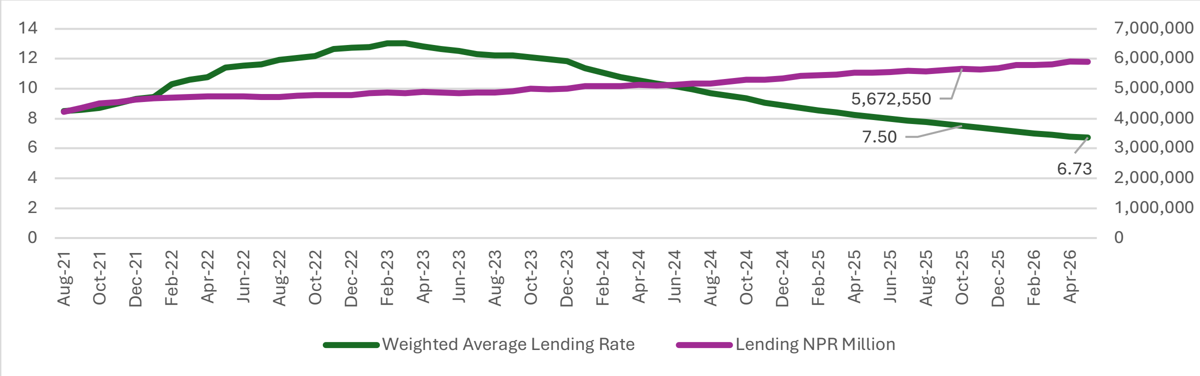
	July 2026e	Change	July 2027e	Change	July 2028e	Change
Avg. Cost of Fund	3.38%	-24.15%	4.45%	31.48%	4.49%	0.96%
NII	**1,967**	17.87%	**2,511**	27.68%	**2,586**	2.99%
Interest Spread (cash basis)	4.06%	11.98%	4.05%	-0.16%	3.71%	-8.33%
Commission & fees	283	7.33%	273	-3.53%	267	-2.19%
Ex. Fluctuation Gain	94	26.78%	121	29.27%	150	23.45%
Other Operating & Non-operating Income	111	1.62%	96	-13.53%	76	-20.34%
Gross Income	**2,454**	16.03%	**3,001**	22.29%	**3,079**	2.60%
Employees Exp	536	2.33%	574	6.97%	617	7.54%
Employee cost in % of Total Int. Income	12.68%	5.60%	10.43%	-17.78%	10.48%	0.51%
Office Operating Exp	336	0.61%	361	7.24%	403	11.64%
LLP & write-off	904	19.04%	257	-71.53%	480	86.76%
Additional LLP to Risk Assets	1.95%	4.34%	0.51%	-73.94%	0.87%	71.96%
Provision Written Back	337	-25.00%	304	-10.00%	577	90.00%
PBT	**1,015**	7.17%	**2,113**	108.16%	**2,156**	2.03%
Return on total assets	1.33%	-2.58%	2.52%	89.23%	2.33%	-7.25%

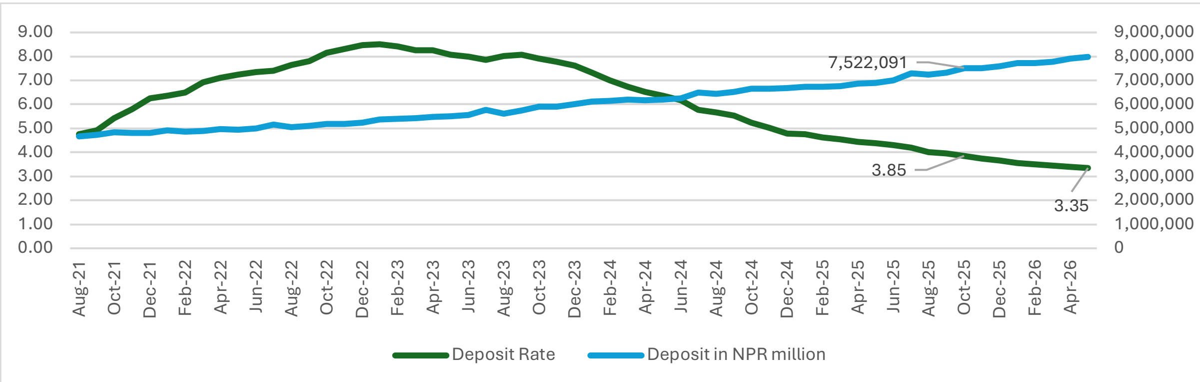
$ in million			
P/L Account			
Particulars	Expected July 26	Expected July 27	Expected July 28
Total Operating Income	4,715	5,991	6,379
Total Operating Expenses	**3,134**	**3,924**	**4,319**
Provision Written Back	337	304	577
Provision for Risk	(889)	(242)	(460)
Loan Written Off	(15)	(15)	(20)
Net Profit before Bonus & Tax	**1,015**	**2,113**	**2,156**
Bonus	95	199	203
Tax	276	574	586
Net profit	**644**	**1,340**	**1,367**

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 $4,715 million on July 26 to 6,379 million by July 28, while operating expenses are expected to remain manageable, expected to increase to $4,054 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 $1,015 million to a peak of $2,113 million on July 27, slightly high at $2,156 million on July 28. After adjusting for bonuses and tax obligations, net profit is forecasted to increase from $644 million on July 26, to a high of $1,340 million on July 28. 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.







Weighted Average Lending Rate vs Lending Growth

- *The weighted average lending rate rises steadily from approximately 8.5% in August 2021 to a peak of 13.03% in January 2023. Following this peak, the rate declines consistently, reaching 6.73% by May 2026. Meanwhile, lending exhibits relatively stable growth at around NPR 5,591 billion in July 2025 but witnessed sharp increase to NPR 5,889 billion by May26.*
- *Lending growth initially appears less responsive to rising interest rates, remaining stable or increasing moderately despite higher rates (2021 to early 2023). After rates begin to fall in 2023, lending growth continues rising, suggesting that lower interest rates positively support lending growth. There is some inverse relationship between lending rates and lending growth, but the impact is not immediate. It suggests that businesses and consumers are more responsive to sustained rate changes over time rather than short-term fluctuations.*

Deposit Rate vs Deposit Growth

The deposit rate rises sharply from Aug 2021 (~5%) to 8.51% by early 2023. Post Jan 2023, the rate starts declining to 3.35% by May 2026. Deposits increase steadily, with significant growth after early 2023, reaching a peak of NPR 7,980 billion (increase from 7,477 billion mid-july 2025) by May 26. Deposit growth appears positively correlated with higher deposit rates initially. Even as rates decline in 2023-2024, deposits continue to grow, suggesting other factors like improved economic confidence or liquidity may play a role. Higher deposit rates initially stimulate deposit growth. However, growth continues even as rates fall, indicating that deposits may not solely depend on rates but are influenced by broader economic conditions and liquidity.

Interest rates and lending growth:

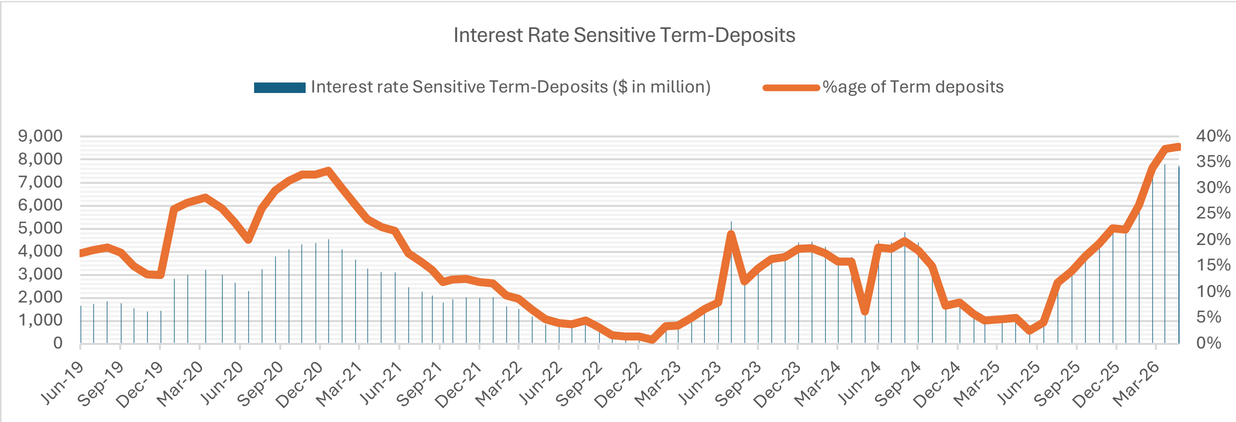
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

Interest rates and deposit growth:

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

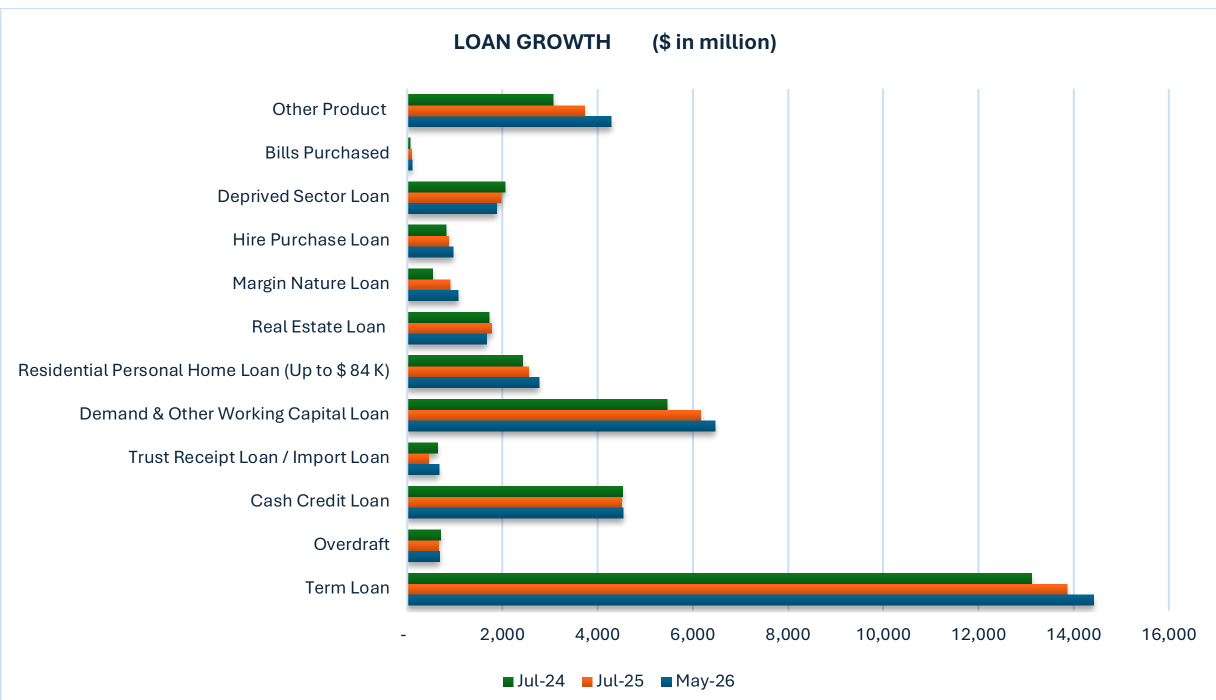
In summary, while interest rates influence growth in deposits and lending, the relationship is not perfectly direct. External economic factors, confidence, and liquidity conditions also play a major role in determining overall growth.

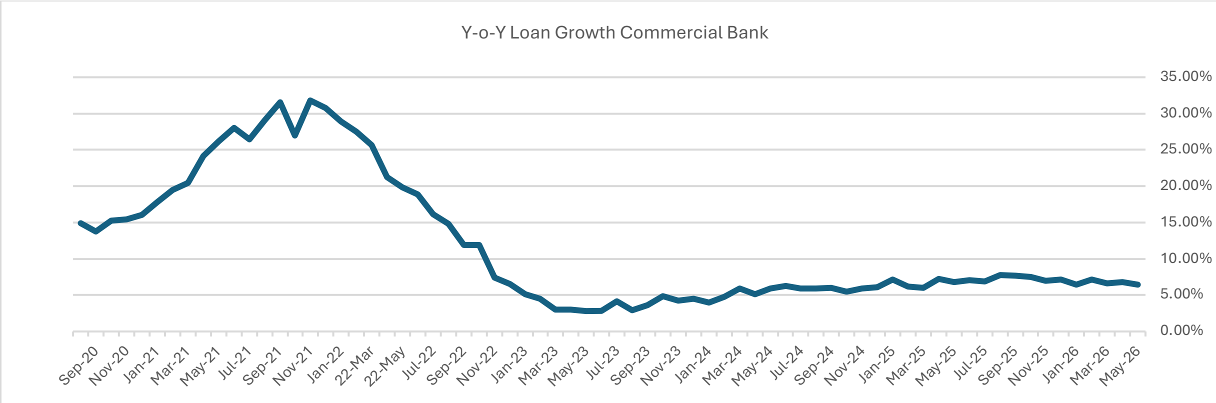
Amount in million		Net Maturity Amount in $ million		
Period	Deposit mix	Within next month	Within a Year	Total
3-6 months	17%	728.47	2,289.89	3,018.36
6-12 months	33%	3,154.64	3,590.28	6,744.92
1-2 yrs.'	22%	528.67		3,753.52
2 yrs. and above	28%	3,252.37		2,917.00
Total	100%	37.91%	29.09%	**100%**

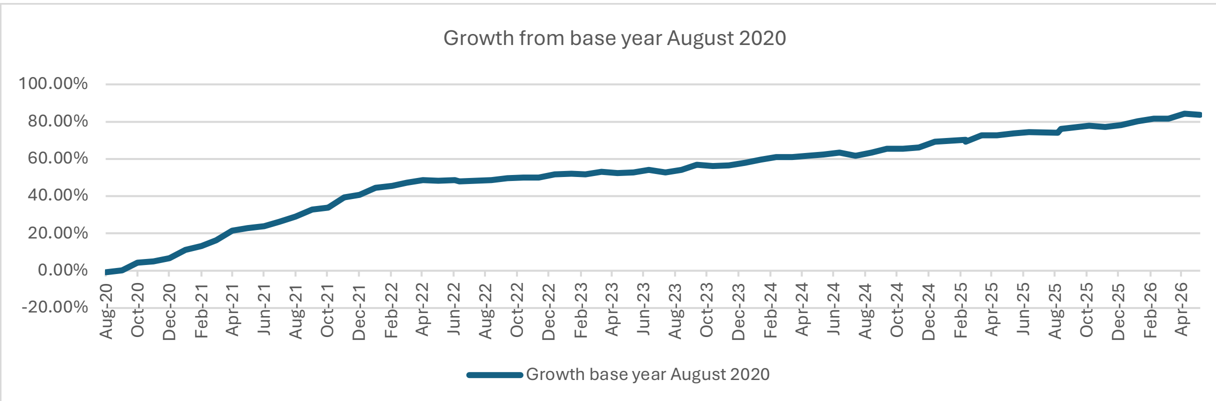


Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period. The deposit mix of the Nepalese banking sector over the past several months reveals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

According to the latest statistics published by the Nepal Insurance Authority, Nepal's insurance industry continued to expand during Baishakh 2083 (mid-May 2026), driven by strong growth in life insurance premiums, rising policy issuance, and increasing insurance penetration. Total gross premium collection reached **NPR 201.36 billion**, up from **NPR 181.08 billion** in Chaitra 2082, reflecting an increase of approximately **11.2 percent** within one month. Life insurance remained the dominant segment, accounting for nearly **79.4 percent** of total industry premiums.

The sector's growth was supported by a significant increase in policy sales across all insurance categories. Life insurance policies issued increased from **5.37 million** to **6.67 million**, while micro-life insurance policies rose from **3.68 million** to **4.75 million**. Non-life and micro non-life policies also registered growth, indicating broader insurance adoption among households, businesses, and low-income populations. The increase in micro-insurance policies suggests continued expansion of financial inclusion initiatives and rural risk protection programs.

Key Insurance Industry Indicators

Indicator	Chaitra 2082	Baishakh 2083	Change
Gross Premium Collection (NPR Billion)	181.08	201.36	11.2%
Life Insurance Premium (NPR Billion)	143.81	159.97	11.2%
Non-Life Insurance Premium (NPR Billion)	37.27	41.40	11.1%
First Premium (NPR Billion)	35.16	39.17	11.4%
Renewal Premium (NPR Billion)	108.65	120.79	11.2%
Micro Insurance Premium (NPR Billion)	2.72	3.05	12.1%
Foreign Employment Premium (NPR Billion)	2.29	2.60	13.5%

Source: Nepal Insurance Authority

Premium Business Analysis

The increase in **first-year premiums** from NPR 35.16 billion to NPR 39.17 billion indicates continued acquisition of new policyholders despite the slower pace of overall economic activity. At the same time, renewal premiums rose to NPR 120.79 billion, demonstrating strong policy persistency and customer retention among existing policyholders. Since renewal premiums account for approximately 75 percent of life insurance premiums, the industry's revenue base remains relatively stable and predictable.

Non-life insurance premiums reached NPR 41.40 billion, showing healthy growth supported by motor, property, engineering, agriculture, and business-related insurance products. The continued expansion of infrastructure projects and stricter insurance compliance requirements have contributed to the growth of the non-life segment. However, profitability remains sensitive to claim settlements, catastrophe events, and underwriting quality. Industry discussions suggest that many non-life insurers continue to depend significantly on investment income alongside underwriting income.

Policy Issuance Trends

Category	Chaitra 2082 ('000)	Baishakh 2083 ('000)	Growth
Life Insurance Policies	5,365	6,673	24.4%
Micro Life Policies	3,677	4,754	29.3%
Non-Life Policies	2,544	2,831	11.3%
Micro Non-Life Policies	380	427	12.4%

Source: Nepal Insurance Authority

Insurance Coverage and Penetration

The number of in-force life insurance policies increased from **16.40 million** to **16.53 million**, indicating continued expansion of insurance coverage nationwide. Conventional life insurance policies increased to 6.07 million, while term and foreign employment insurance policies also showed growth. The rise in foreign employment insurance premiums reflects sustained outbound labor migration and the mandatory insurance requirements associated with overseas employment.

In-Force Life Insurance Policies

Category	Chaitra 2082 ('000)	Baishakh 2083 ('000)
Total In-Force Life Policies	16,397	16,526
Conventional Life Policies	5,989	6,066
Term Life Policies	8,022	8,056
Foreign Employment Policies	2,386	2,404

Source: Nepal Insurance Authority

Sector Outlook

The latest monthly data indicates that Nepal's insurance industry remains one of the fastest-growing segments of the financial sector. Premium growth exceeding 11 percent in a single month, rising policy issuance, and expanding micro-insurance coverage demonstrate increasing public awareness and acceptance of insurance products. The life insurance segment continues to be the primary growth engine, while non-life insurance benefits from expanding economic activity and regulatory compliance requirements.

Looking ahead, the sector's performance will depend on economic growth, household income recovery, investment returns, claim management efficiency, and regulatory reforms under the Insurance Act 2079. If current trends continue, total industry premiums could exceed **NPR 230–240 billion** by the end of FY 2082/83, further strengthening the insurance sector's role in Nepal's financial system and long-term capital formation.

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 32months, 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.

2) Nepal IPO Pipeline Analysis (As of 2083/02/22)

According to the latest IPO application list published by the Securities Board of Nepal, a substantial number of companies remain in the approval pipeline, particularly from the tourism and hydropower sectors. The backlog indicates that many firms have been awaiting regulatory approval for more than one to three years, resulting in delayed access to equity capital and increased financing pressure. The IPO pipeline shows that several companies submitted applications during 2080 and early 2081 and are still awaiting final approval as of 2083/02/22.

The concentration of pending applications in capital-intensive sectors such as hydropower, hotels, tourism, cable cars, and aviation is particularly significant because these industries depend heavily on long-term financing. Delays in IPO approvals can constrain expansion plans, increase borrowing costs, and weaken project cash flows, especially in an environment where bank lending remains relatively expensive.

a) Oldest Pending IPO Applications

Company	Sector	Application Date	Issue Size (Rs Million)	Approx. Pending Days*
Apex Hospitality Ltd.	Hotel & Tourism	2080/06/12	225.0	~980
Annapurna Cable Car Ltd.	Tourism	2080/09/16	434.0	~885
Richet Jalbidhyut Co. Ltd.	Hydropower	2080/05/29	168.9	~995
Him River Power Ltd.	Hydropower	2080/10/28	396.3	~840
Lower Erkhuwa Hydropower Ltd.	Hydropower	2080/11/11	280.6	~825
Apex Makalu Hydropower Ltd.	Hydropower	2080/12/18	240.0	~790
Gaurishankar Power Development Ltd.	Hydropower	2080/12/21	240.0	~787
Siuri Nyadi Power Ltd.	Hydropower	2081/01/18	3,036.1	~760

*Approximate calendar-day estimates based on the application date and pipeline status date (2083/02/22).

b) Sector-wise Pending IPO Pipeline

Based on the latest pipeline data, the largest concentration of pending capital raising is in tourism and hydropower. The tourism sector alone has eighteen pending applications seeking more than Rs. 6.45 billion from the public market. Hydropower projects visible in the current pipeline account for more than Rs. 7.32 billion in proposed issuance value, with several large projects awaiting approval for over two years.

Sector	Number of Pending Applications	Proposed Shares	Proposed Capital (Rs Billion)
Hotels & Tourism	18	58.21 million	6.45
Hydropower (visible applications)	14	70.82 million	7.32
Total (visible sectors)	32	129.03 million	13.77

Source: SEBON IPO Pipeline List, 2083/02/22.

c) Approval Delay Trends

A notable feature of the current pipeline is the large number of applications that have undergone multiple rounds of compliance submissions, reapplications, and requests for updated documents. Several companies were required to resubmit applications after their net worth per share exceeded the regulatory threshold or after revisions in issue size. Many applications show comments, compliance reports, and update requests stretching across multiple fiscal years. This indicates that the approval process has become increasingly lengthy and documentation-intensive.

Delay Category	Estimated Number of Applications
More than 900 days	High
700–900 days	High
500–700 days	Moderate
Less than 500 days	Moderate

The pipeline suggests that many issuers have effectively remained in regulatory review for two to three years before reaching the market.

3) Business Risks Associated with Delayed IPO Approval

1. Liquidity and Capital Constraints

Companies seeking IPO approval generally plan to use equity proceeds for project completion, debt repayment, expansion, or working capital. Delayed approvals postpone access to these funds, forcing firms to rely on bank borrowing or shareholder loans. This increases financing costs and weakens profitability.

2. Rising Debt Burden

Hydropower, hotels, and tourism projects typically carry substantial debt. When equity raising is delayed, debt-service obligations continue while planned capital injections remain unavailable. This can increase leverage ratios and reduce financial flexibility.

3. Project Completion Risk

Several hydropower projects require fresh equity to fund transmission connectivity, operational scaling, and debt restructuring. Delayed capital mobilization may postpone project commissioning schedules and reduce expected returns.

4. Opportunity Cost

Tourism and hospitality companies waiting for IPO approval may miss expansion opportunities during periods of strong tourist arrivals. Capital constraints can delay new investments in hotels, resorts, aviation, and tourism infrastructure.

5. Valuation Risk

A prolonged approval process exposes issuers to changes in market conditions. A company that applies during a bullish market may f ace less favorable investor sentiment by the time approval is granted, affecting subscription demand and valuation.

6. Investor Confidence Risk

Large backlogs can create uncertainty regarding the predictability of Nepal's capital-raising environment. Lengthy approval periods may discourage prospective issuers and reduce the attractiveness of the capital market as a source of long-term financing.

7. Conclusion

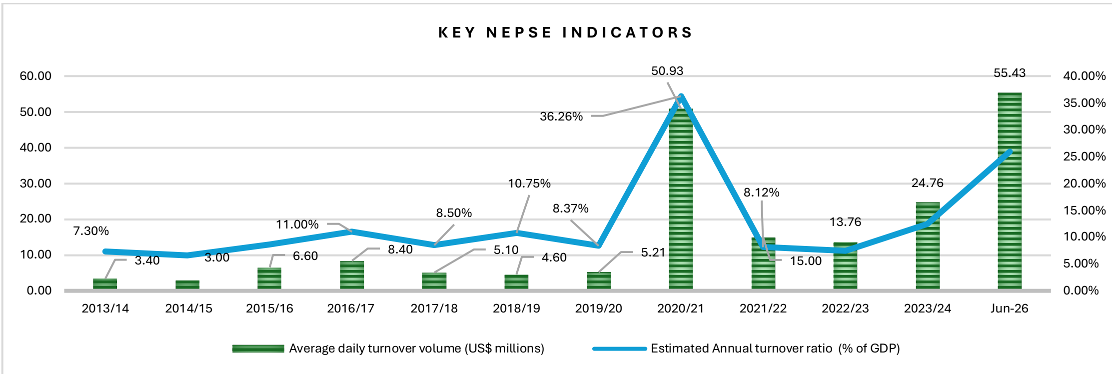
The latest SEBON IPO pipeline reveals a significant accumulation of pending applications, particularly in the hydropower and tourism sectors. More than Rs. 13.7 billion worth of proposed capital raising is visible in these two sectors alone, with several applications pending for approximately 2–3 years. While regulatory scrutiny is necessary to protect investors, prolonged approval timelines increase financing costs, delay expansion plans, and constrain business growth. Accelerating the review process while maintaining disclosure standards could help unlock substantial private-sector investment and improve capital market efficiency in Nepal.

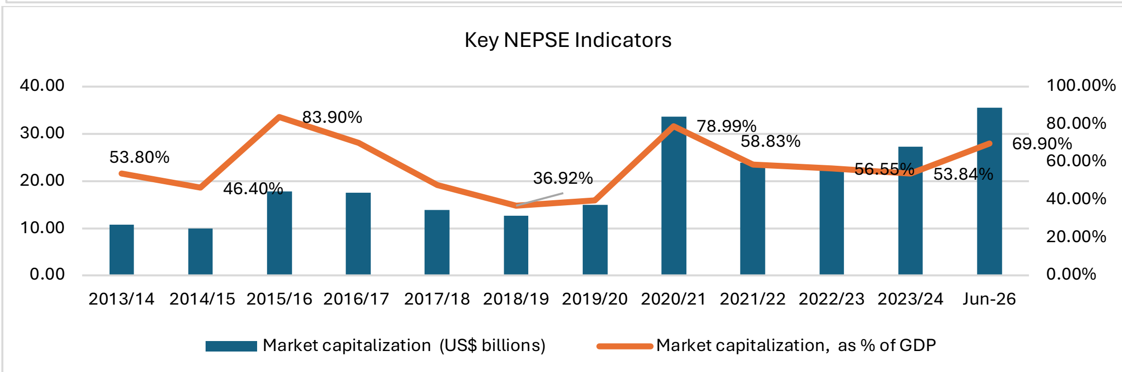
SEBON’s prolonged indecision in processing IPO applications has become a significant obstacle to market growth. It has fostered widespread doubt about regulatory governance, amplified concerns about rent-seeking behavior, and discouraged participation from both issuers and investors.

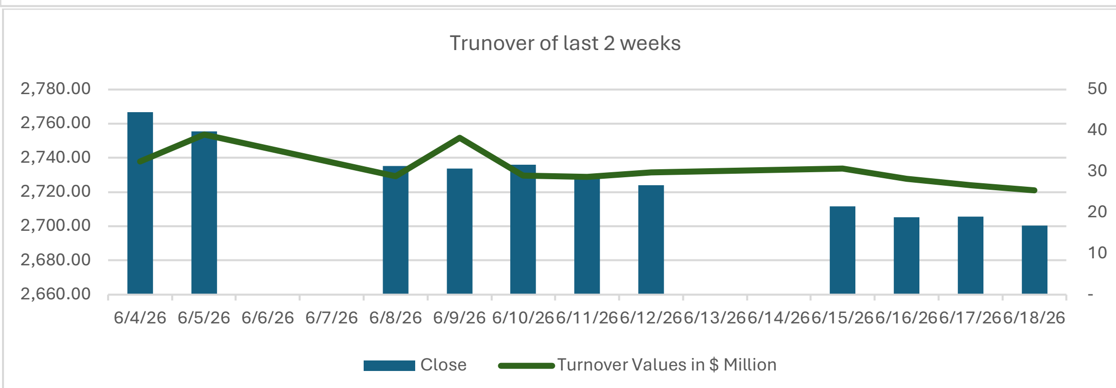
a) To restore trust and improve market efficiency, SEBON must:
b) Implement a transparent, time-bound IPO approval process.

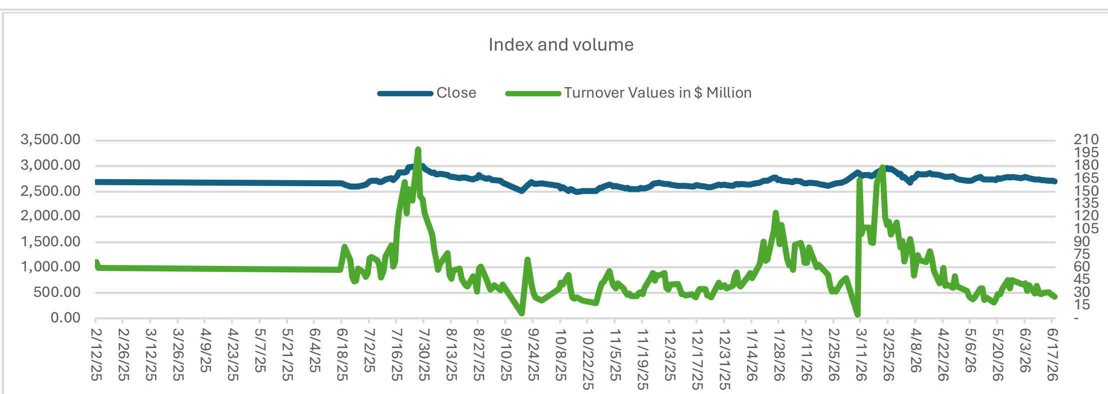
c) Increase accountability within the regulatory framework.
d) Introduce digital tools to streamline tracking and evaluation.

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.

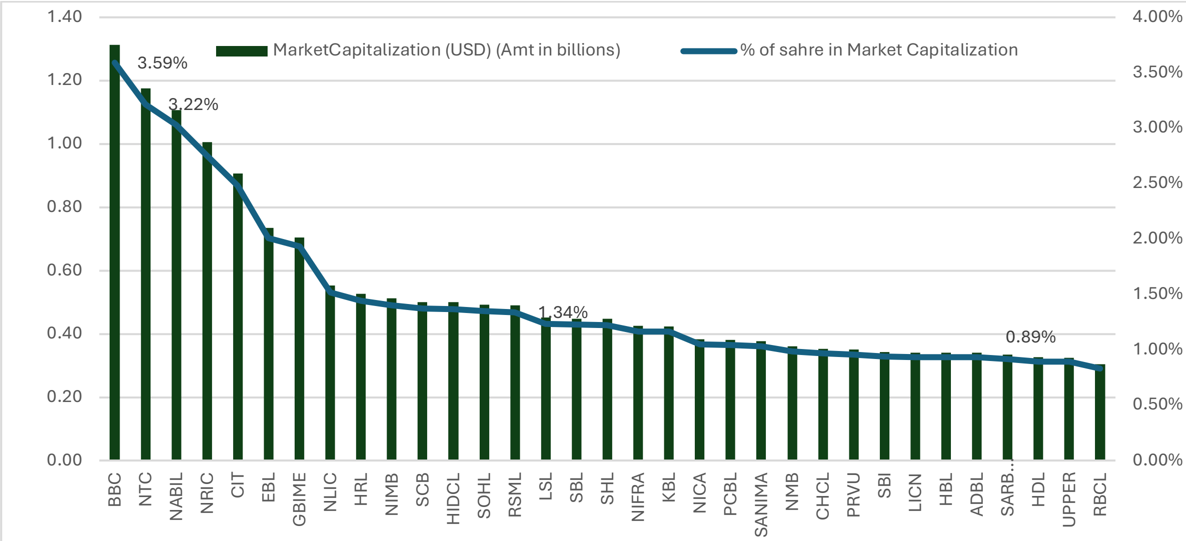








The 30 companies listed on NEPSE make up 48%% of the total market capitalization, with most of their shares not available for free trade.



Section 8 Fiscal Situation

1) Government of Nepal Receipts & Payments Status

Government Receipts & Payments Status Exchange rate 1 USD=NPR 130	Annual Budget	5/21/26	% age
1. Revenue (USD in million)	**11,384.62**	**8,392.65**	**73.72%**
a) Tax Revenue	**10,196.80**	**7,620.60**	**74.74%**
b) Non Tax Revenue	**1,187.82**	**772.05**	**65.00%**
2. Grants	**411.13**	**178.19**	**43.34%**
3. Other Receipts	**-**	**48.73**	
Total Receipt	**11,795.75**	**8,619.57**	**73.07%**
2. Total Expenditure from Treasury	**15,108.54**	**10,561.24**	**69.90%**
a. Recurrent	**9,084.46**	**7,148.56**	78.69%
b. Capital	**3,137.60**	**1,042.91**	33.24%
c. Financing	**2,886.48**	**2,369.78**	82.10%
Deficit	**(3,312.79)**	**(1,941.67)**	
% of GDP	**6.52%**	**3.82%**	

2) Government Treasury position

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

	Mid-Month	October	November	December	January	February	March	April	May	June	July
F/Y 2023/24	Expenditure	2,289	3,773	4,709	5,685	5,685	6,498	7,328	8,543	9,709	11,361
	Revenue	1,841	3,054	4,172	4,768	4,768	5,370	6,286	6,991	7,724	8,898
	Treasury Position	1,441	1,579	1,989	1,809	1,809	1,722	2,636	2,351	2,114	834
F/Y 2024/25	Expenditure	2,766	3,689	4,673	5,610	6,343	7,053	8,391	9,730	10,781	12,799
	Revenue	2,086	2,798	3,410	4,703	5,544	6,209	7,189	7,752	8,776	10,250
	Treasury Position	1,476	1,800	1,847	2,502	2,942	3,297	3,124	3,033	2,857	1,099
F/Y 2025/26	Expenditure	3,064	4,743	5,133	6,597	7,117	8,170	9,290	11,316		
	Revenue	2,128	2,798	3,415	4,812	5,588	6,280	7,448	9,332		
	Treasury Position	1,470	1,706	2,126	2,911	3,141	3,173	3,606	3,499		

3) Gross Value Added by Industrial Division

Annual Growth Rate of GDP by Economic Activities (at basic Price, 2010/11) (at constant prices)

Industrial Classification	2078/79	2079/80	2080/81	2081/82 R	2082/83 P	
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Trend**
Agriculture, forestry and fishing	2.35	3.02	3.10	3.05	1.58	Up
Mining and quarrying	8.84	0.91	3.35	1.39	3.52	Down
Manufacturing	6.70	-1.70	-2.02	2.27	2.83	Down
Electricity and gas	52.68	19.76	11.61	12.71	20.93	Down
Water supply; sewerage and waste management	3.08	3.22	1.27	2.05	1.99	Up
Construction	6.93	-1.48	-2.20	0.96	2.21	Down
Wholesale and retail trade; repair of motor vehicles and motorcycles	7.42	-4.10	-0.31	3.88	4.51	Down

Industrial Classification	2078/79	2079/80	2080/81	2081/82 R	2082/83 P	
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Trend**
Transportation and storage	4.60	1.45	13.43	7.07	5.79	Up
Accommodation and food service activities	12.56	18.03	21.03	4.61	3.12	Up
Information and communication	4.19	4.15	4.91	4.88	5.53	Down
Financial and insurance activities	6.91	7.92	9.96	7.55	9.16	Down
Real estate activities	1.72	2.91	2.20	2.77	2.69	Up
Professional, scientific and technical activities	3.50	3.93	4.15	4.03	3.27	Up
Administrative and support service activities	1.58	5.03	4.48	3.73	4.52	Down
Public administration and defence; compulsory social security	4.08	5.46	2.25	3.00	0.23	Up
Education	4.66	3.93	2.98	2.36	1.50	Up
Human health and social work activities	6.99	6.57	6.13	4.69	4.04	Up
Other Services	4.48	5.64	5.43	4.06	2.65	Up
Agriculture, Forestry and Fishing	2.35	3.02	3.10	3.05	1.58	Up
Non-Agriculture	6.54	1.98	3.49	4.12	4.54	Down
Gross Domestic Product (GDP) at basic prices	***5.28***	***2.29***	**3.38**	**3.80**	**3.68**	Up
Taxes less subsidies on products	8.75	-0.60	6.32	9.77	5.26	Up
Gross Domestic Product (GDP)	***5.63***	***1.98***	**3.68**	**4.43**	**3.85**	Up

4) 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	24.03%	1.58%
Wholesale & Retail Trade	14.09%	4.51%
Real Estate	8.07%	2.69%

Key Observations

i. These three sectors contribute over 43.19% of total GDP.
ii. These sector will witness slow growth in 2025/26
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	5.52%	2.21%
Financial & Insurance	6.72%	9.16%
Transportation	7.23%	5.79%
Education	9.22%	1.15%
Manufacturing	5.72%	2.83%
Public Administration	7.79%	0.23%

Key Observations

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

Medium sectors are currently not serving as growth multipliers.

c. Small Sectors (<4%)

Sector	Share	Q2 Growth
Information & Communication	1.93%	+5.53%
Electricity & Energy	2.08%	+20.93%
Professional Services	0.95%	+3.27%
Administrative Services	0.74%	+4.52%
Accommodation & Food	2.44%	3.21%

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 (+2o.93%)
- Information & communication (+5.53%)

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 660,009 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

a) High Dependence on Agriculture and Trade
Nearly half of GDP remains tied to traditional sectors. Productivity gains remain limited.

b) Weak Industrial Transformation
Manufacturing accounts for only 5.72% of GDP and shows limited expansion. Mining remains marginal.

c) Investment Cycle Not Fully Recovered
Construction and finance contraction signals limited private capital formation.

d) Emerging Modern Sectors
Energy and ICT show resilience and represent structural transformation potential.

5. Macroeconomic Outlook

Given current trends:

a) Short-term growth remains vulnerable.
b) Fiscal restraint or execution delays may weigh on recovery.
c) Credit conditions and private investment will determine trajectory.
d) Agriculture performance will significantly influence overall GDP.
e) 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

a) Short-Term Stabilization

- Accelerate public capital expenditure.
- Facilitate credit flow to productive sectors.
- Support agriculture modernization before next production cycle.

b) 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.

c) 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.

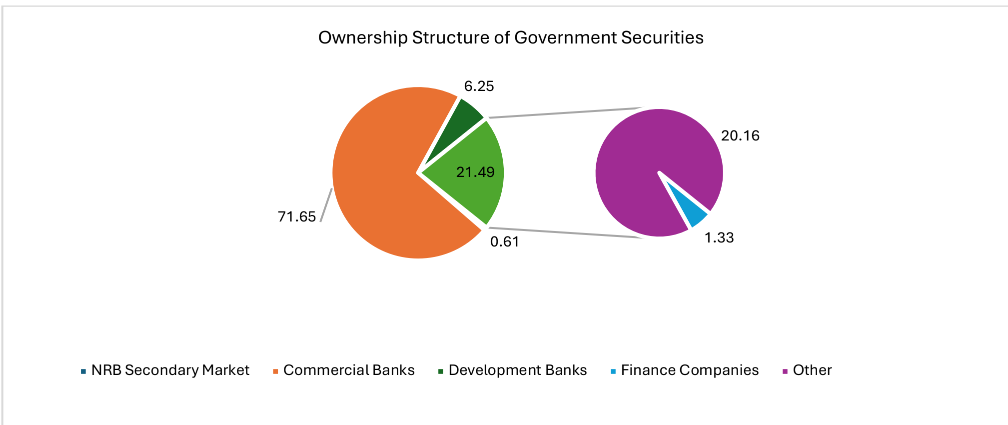
A coordinated strategy combining fiscal acceleration, credit support, and industrial policy will be essential to restore sustainable growth momentum.

5) *Government* Revenue

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

HEADS	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Compared to Last year
Total Tax Revenue	**2,512**	**2,940**	**3,970**	**4,610**	**5,205**	**6,144**	**6,874**	**7,549**	6.90%
Non Tax Revenue	**27**	**185**	**471**	**505**	**544**	**673**	**731**	**769**	1.60%
Total Revenue	**2,539**	**3,125**	**4,442**	**5,116**	**5,748**	**6,818**	**7,604**	**8,318**	7.17%
Other Receipts	**23**	**66**	**85**	**132**	**137**	**161**	**181**	**224**	109.65%
Total Receipts	**2,562**	**3,192**	**4,527**	**5,247**	**5,885**	**6,978**	**7,785**	**8,542**	8.40%

6) Ownership Structure of Government Securities



7) *Budget 2025/26 implementation Scorecard*

FY 2025/26 BUDGET — IMPLEMENTATION SCORECARD

VERDICT: SEVERELY UNDER-EXECUTED | Capital at 52% (Expt.)— Low | Expt. Revenue missed by Rs 280B | GDP achieved: 3.85% vs 6% target

Indicator	Target 2025/26	Revised Outcome	Achievement %
Total Budget Size	Rs 1,964B	Rs 1,670B (est.)	86.37% (est.)— CRITICAL
Revenue Collection	Rs 1,315B	Rs 1,152B (est.)	86.3% (est.) — MISS
Capital Expenditure Used	Rs 407B	Rs 212B (est.)	52% (est.)— CRITICAL
GDP Growth	6.0%	3.85% (est.)	64.2% of target — CRITICAL
Inflation	5.5%	2.13% avg	Better than target
Foreign Grant Utilisation	Rs 53.4B	Rs 30.9B (est.)	~58% — CRITICAL
Foreign Loan Drawdown	Rs 233.4B	Rs 142B (est.)	~61% — CRITICAL
Recurrent Expenditure	Rs 1,181B (60.1%)	~Rs 1.115B (est.)	~94.4% (est.)

Root Causes of Under-execution: Political transition mid-year caused procurement freeze • Treasury deficit constrained releases • Procurement process delays • Low project readiness • Weak contract management at local levels • FATF grey-list impact on foreign grants

BUDGET EXECUTION RISK MATRIX — FY 2026/27

Risk Dimension	Probability	Impact	Rating	Mitigation Measure
Revenue Mobilisation	HIGH	CRITICAL		*Broaden tax base; enforce VAT; digital payment incentives; expedite property tax at local level*
Capital Execution	HIGH	CRITICAL		*e-Procurement; PPF; sunset law; performance contracts; real-time tracking dashboard*
Foreign Grant Inflows	HIGH	HIGH		*FATF exit is essential; dedicated DNFBP compliance unit; accelerate AML legislation*
Debt Sustainability	MEDIUM	HIGH		*Contain deficit below 5% GDP; improve forex hedging; defer non-priority domestic borrowing*
SOE Divestment	HIGH	MEDIUM		*Nepal Airlines, Nepal telecom ; avoid political interference in valuation*
Private Investment	MEDIUM	HIGH		*Fast-track Investment Express; operationalise arbitration tribunal; FITTA amendment passage, diaspora involvement,*
NEA Restructuring	HIGH	MEDIUM		*Detailed transition roadmap; ring-fence staff; avoid service disruption during unbundling*
IT/AI Centre (Syuchatar)	HIGH	MEDIUM		*International expertise partnership; realistic timeline (5-year horizon, not 1-year); talent pipeline*
Agriculture Subsidy	MEDIUM	MEDIUM		*Cooperative delivery channel; digital beneficiary database; output-linked payment triggers, 7% growth critically depends on this sector's performance*
Political Risk	LOW	HIGH		*Maintain RSP-led stability; insulate policies from political pressure*
Climate/Disaster Shock	MEDIUM	HIGH		*Disaster contingency reserve; restore environment budget cut; REDD+ fund management*

8) ***Nepal's Policies and Programs FY 2026/27***

Nepal's Annual Policies and Programs (2083/84) 2026/27:

Strategic Push for Transformation

The Government of Nepal's 2083/84 Policies and Programs deepen the reform agenda of 2082/83, targeting economic transformation through green energy, digital economy, diaspora capital, and governance reform.

IT & Digital Economy – AI, cloud, cybersecurity declared strategic national industry

Economic Reform – 7% GDP growth via 100-point reform, Investment Express policy

Agriculture – Minimum Support Price (MSP) enforcement, land bank, agro-processing, organic certification

Energy & Climate – 30,000 MW hydropower, green hydrogen, Net Zero 2045

Healthcare – Minimum standards, telehealth platform, mental health national policy

Governance – e-KYC, Citizen App, anti-corruption zero tolerance

Tourism & Diaspora – 'Devbhumi Nepal', investment visa, diaspora Investment and knowledge Centre

Economic & Institutional Reform – Key Policy Areas

Fiscal Reform

Cashless economy, green tax consolidation, automated VAT refund, customs digitisation, TDS tightening, reduce tax burden to individuals and corporate.

7% GDP Growth

100-point governance reform. Reduce production costs, simplify business registration, predictable policy.

Capital Markets

Pension & mutual fund participation. Bond markets, risk tools, NRN capital market access expanded.

Diaspora Capital

Nepal Investment Visa. Remittance-to-investment fund. Diaspora expert network & knowledge bank.

Industrial Villages

SEZs with shared infrastructure. Startup Nepal Portal: same-day company registration & tax incentives.

IT National Industry

Software, cloud, AI, cyber exports. Digital parks, data centres. R&D tax incentives for IT firms.

Agriculture, Environment & Energy – Strategic Direction

Agriculture Modernization

MSP for major crops enforced digitally. AgrTech, land bank, contract farming, agro-processing zones.

Forest & Carbon Economy

Nepal Carbon Authority formed. Reducing Emissions from Deforestation and Forest Degradation *(REDD+) expansion. Community forests earn direct carbon credits.*

30,000 MW Hydropower

One-door approval system. Private sector participation. Affected communities receive equity shares.

Green Energy & Hydrogen

Green hydrogen & ammonia pilot projects. Off-grid solar for remote areas. Net Zero 2045 AD roadmap.

Water & Irrigation

Groundwater irrigation in Terai. Lift irrigation in hills. Universal drinking water by 2030 AD.

Climate Finance

Green Bond Framework. International climate funds mobilised for forests, agriculture & renewables.

Infrastructure, Social Development & Governance

Roads & Railways

KTM-Terai fast links completed. Kerung & Raxaul railway study progressed. Integrated Transport Masterplan.

Aviation & Tourism

'Devbhumi Nepal' campaign launched. Gautam Buddha & Pokhara intl airports activated. 'Visit Nepal 2028 AD' prep.

Health & Wellbeing

Minimum healthcare standard in all facilities. Telehealth for remote areas. National Health Accreditation Authority.

Education & Skills

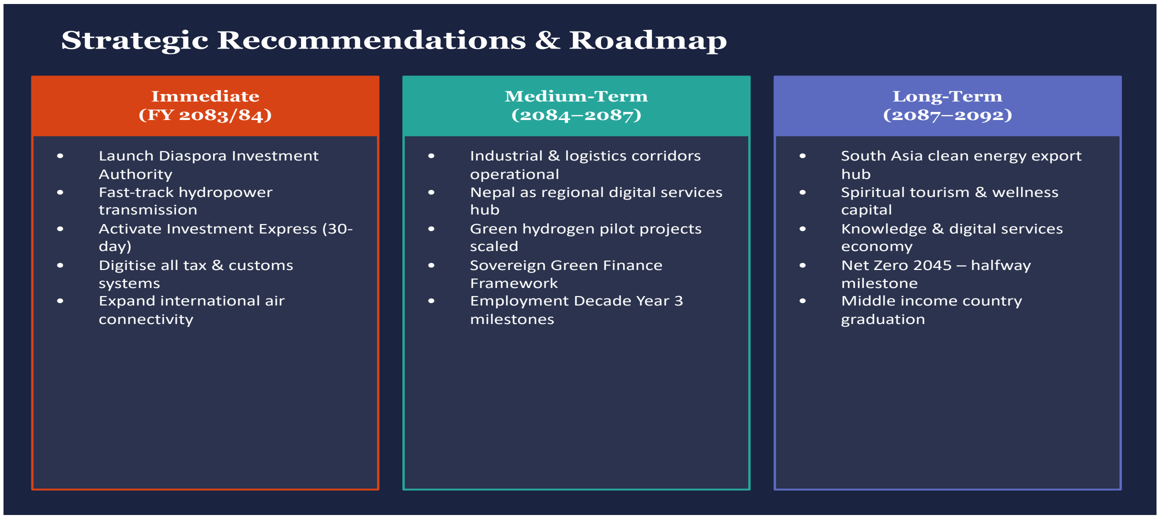
AI-based learning in 10,000 schools. Apprenticeship ('Earn While You Learn'). Remote Work Policy law, 'Internal Employment Promotion Decade" prep.

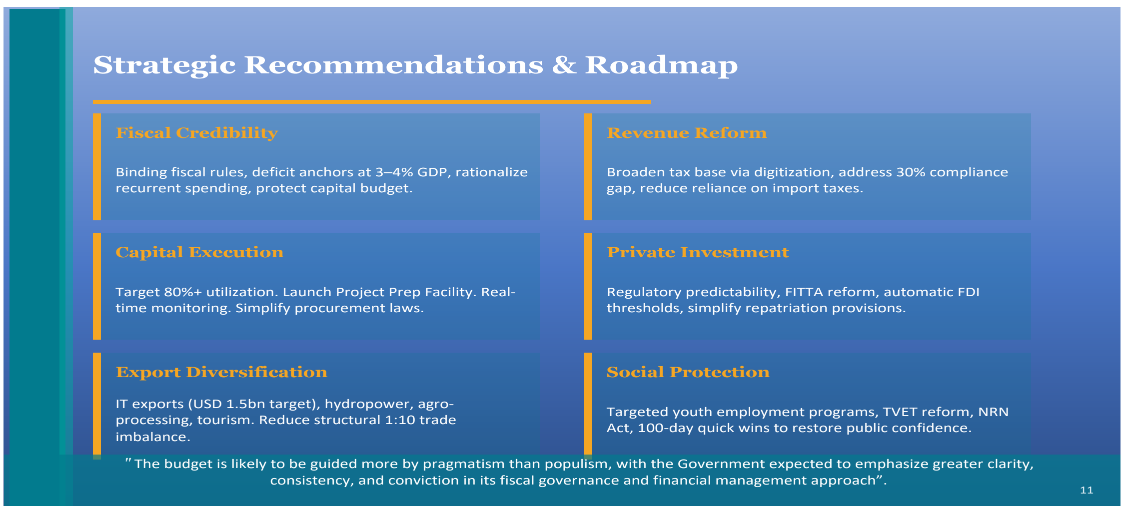
Social Protection

Making Nepal a street children-free nation, Child-labour-free Nepal by FY-end. Gender violence zero tolerance. Disability rehab centres established.

Governance & Security

e-KYC, Citizen App (100+ services). Asset disclosure for senior officials. Anti-corruption unit restructured.





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

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