NEPAL MONETARY POLICY · FY 2083/84 (2026/27)

Expectation vs. Reality

Comparing Nepal Rastra Bank's actual Monetary Policy 2083/84 against Kala Legal's pre-policy expectations brief (“Monetary Policy and Economic Growth: Priorities for Nepal’s Productive Sector”)

Sources: NRB Monetary Policy 2083/84 · NRB Macroeconomic Report, July 2026 · NRB Monetary Policy 2082/83 Annual Review · Kala Legal Monetary Policy Expectations FY2026/27

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Two documents, one policy moment

The Actual Policy

NRB's Monetary Policy 2083/84, (published 7 July 2026), sets the central bank's official stance, rate corridor, and regulatory work-plan for the new fiscal year — alongside the accompanying Macroeconomic Report and the FY2082/83 Annual Review.

The Expectations Brief

Kala Legal's pre-policy briefing (30 June 2026), diagnosed why FY2025/26 rate cuts failed to move credit, and prescribed a structural pivot: graduated loan-loss provisioning, mandatory large-exposure ratings, and debt-market deepening.

The verdict, at a glance

An overview of how NRB's Monetary Policy addresses the nine key policy areas identified by Kala Legal.

3

Areas largely met
rate pause, peg held, macroprudential continuity

4

Areas partially addressed
provisioning relief, directive simplification, D-SIB, FATF

2

Areas not addressed
graduated LLP schedule, sovereign wealth fund

Bottom line: NRB's Monetary Policy for FY 2083/84 broadly reflects Kala Legal's assessment that further policy rate cuts alone would not meaningfully revive credit growth, as demonstrated by its decision to maintain the interest rate corridor. With ample liquidity already in the banking system, the key constraints on lending are weakened asset quality, rising non-performing loans, and capital pressures rather than the cost of funds. While the policy introduces targeted relief measures, the broader structural reforms proposed by Kala Legal—including loan provisioning reforms and capital market development—remain outside the current policy framework.

The starting point Kala Legal diagnosed

FY2025/26 scorecard used to justify a structural pivot — corroborated by NRB's own Macroeconomic Report

Indicator	Kala Legal figure	Context	NRB corroboration
GDP growth	**3.85%**	vs 6.0% target	3.85% (NRB Macro Report, 2025/26)
CPI inflation	**5.04%**	May 2026, rising	5.04% point-to-point, Baisakh 2083
Private sector credit growth	**+5.7%**	vs 11.5% MP target	6.5–6.7% per NRB Annual Review
Banking sector NPLs	**5.60%**	vs ~4.23% target	5.41–5.6% gross NPL, NRB data
Avg. lending rate	**6.73%**	down from 7.66% y/y	6.7% weighted avg, mid-2026
Capital expenditure executed	**35.12%**	of budget (mid-year)	60% five-year average, still lagging

Interest rate corridor: pause, not another cut

Kala Legal's core claim — rate cuts weren't the lever — shows up in what NRB chose NOT to do

Kala Legal's expectation

“Policy focus should shift entirely from passive rate cuts to capital base optimization and structural corporate financing overhauls.”

- All four transmission channels (lending rate, exchange rate, asset price, ERPT) were assessed as blocked or ineffective in FY2025/26.
- Expected the interbank floor / SDF plumbing to be fixed via the Unified Directives, not another headline cut.

NRB's actual policy

- Bank rate, policy repo rate, and standing deposit rate all held unchanged: 6.00% / 4.50% / 2.75%.
- CRR, SLR and standing liquidity facility arrangements continued as-is.
- Weighted average interbank rate re-confirmed as the operating target, run via rules-based open market operations.
- Explicit forward guidance: corridor will be narrowed further “as needed” only if inflation risks build or the low-cost economy fails to deliver expected benefits.

MOSTLY MET

Loan-loss provisioning: the biggest gap

Kala Legal's headline structural recommendation is only partially reflected in NRB's final Monetary Policy, suggesting scope for further consideration in future policy refinements.

Kala Legal's ask: a graduated curve

5%	25%	50%	75%	100%
1d–3mo	3–6mo	6–12mo	12–36mo	>36mo

Replaces the current rigid "100% within one year of default" rule, recognizing collateral quality. Projected to unlock ~NPR 105bn into Tier 1/2 capital and up to NPR 700bn in fresh private credit capacity.

What NRB actually announced

- No graduated provisioning schedule (5/25/50/75/100%) was published in the policy text.
- Targeted relief instead: removes unlimited personal-guarantee liability, eases cheque-dishonor blacklisting, and enables restructuring for distressed-industry and stressed borrowers.
- Loan-to-value facilitation for large EVs used as public transport; share/land loan limits tied to institutional strength.
- A broader study on loan classification and provisioning rules is "in progress" per the FY2082/83 Annual Review — not yet policy.

NOT ADDRESSED

Large-exposure discipline & debt-market deepening

Kala Legal's capital-markets push finds little direct echo in the new policy

Mandatory credit rating/due diligence on corporate borrowings > NPR 250mn	Not mentioned in the policy text	GAP
“10% debenture rule” — large corporates (>NPR 2bn bank debt) diversify into bonds	Not mentioned; capital-market deepening left as a general aspiration	GAP
Encourage corporate diversification into debt markets generally	BFIs encouraged to invest in foreign government debt instruments (forex angle only); domestic debenture push absent	GAP
Credit-scoring-based lending infrastructure	NRB to study Peer-to-Peer lending based on personal credit scoring	PARTIAL

Currency peg & sovereign wealth fund

One expectation confirmed by omission, one left completely unaddressed

NPR–INR Peg

Kala Legal expected: a review process opened by the new RSP government's manifesto commitment, but no regime change — full float assessed impractical given the open 1,400km border.

NRB actual: the fixed exchange rate is retained “as before” as an interim target of monetary policy — no announced technical study or review timeline in the policy text itself.

MET (STATUS QUO)

Sovereign Wealth Fund

Kala Legal's caution: reserves (NPR 1.05tn, 99.5% of NRB equity) are not the same as investable wealth — any SWF needs ring-fenced fiscal-side capitalization and a Jalan-style distributable-surplus formula, not a balance-sheet raid.

NRB actual: the Monetary Policy 2083/84 makes no mention of a sovereign wealth fund, reserve deployment for fiscal use, or a distributable-surplus framework.

NOT ADDRESSED

Compliance, systemic-risk labeling & macroprudential continuity

Ongoing work confirmed, but sequencing and disclosure asks go unanswered

FATF grey list

PARTIAL

Kala Legal: exit needs measurable AML/CFT enforcement outcomes, not further commitments.

NRB: continues coordinating with agencies on the action plan; strengthened monitoring, analysis, investigation and enforcement pledged — no new milestone or exit date given.

D-SIB framework

PARTIAL

Kala Legal: flagged dilution risk (10 of 20 banks labeled systemic vs India's 3) and asked to sequence HLA capital surcharges around the provisioning overhaul.

NRB: D-SIB framework (issued Nov 2025) continues; a broader study on bank/FI classification is ongoing. No explicit sequencing commitment against the provisioning timeline.

Macroprudential tools

MET

Kala Legal: implicitly supports keeping sector-specific tools rather than relying on rates alone.

NRB: explicit commitment not to alter macroprudential tools except in urgent situations, to preserve policy stability.

Full scorecard

Comparison of Kala Legal's Key Policy Recommendations with NRB's Monetary Policy 2083/84

Rate corridor stance (pause vs. cut)	MOSTLY MET
Currency peg maintained, no regime change	MET
Macroprudential tools left largely untouched	MET
Directive simplification (credit, rate, consumer protection)	PARTIAL
FATF grey-list exit acceleration	PARTIAL
D-SIB sequencing vs. capital build	PARTIAL
Targeted NPL/collateral relief (guarantees, cheque, EV/LTV)	PARTIAL
Graduated loan-loss provisioning framework	NOT ADDRESSED
Mandatory large-exposure credit ratings (>NPR 250mn)	NOT ADDRESSED
10% debenture rule for large corporate borrowers	NOT ADDRESSED
Sovereign wealth fund discussion	NOT ADDRESSED

What to watch through FY2083/84

Kala Legal's risk assessment, evaluated in the context of the issues that remain open under the Monetary Policy.

NPL containment

A graduated framework would have smoothed recognition; without it, asset-quality deterioration surfaces on the current 100%-within-one-year timeline.

Capital expenditure execution

5-year average of ~60% (less than 50% in FY2025/26). The 7.0% growth target depends on capex breaking that pattern — monetary policy alone cannot fix it.

FATF exit progress

Measured in enforcement outcomes, not action-plan commitments — still pending concrete results.

D-SIB capital build vs. provisioning overlap

If a graduated LLP framework does eventually arrive, its capital relief and D-SIB HLA surcharges will need sequencing to avoid a simultaneous capital squeeze.

Diagnosis agreed. Prescription deferred.

The Monetary Policy for FY 2083/84 broadly aligns with Kala Legal's assessment that the scope for further monetary easing through policy rate reductions had become increasingly limited, as reflected in NRB's decision to maintain the interest rate corridor rather than pursue additional cuts.

At the same time, several structural reforms advocated by Kala Legal—including a graduated loan provisioning framework, mandatory credit ratings for large exposures, a strengthened regulatory framework for the corporate debt market, and a more rules-based approach to reserve management—are not substantively reflected in the current policy package.

The FY 2082/83 Annual Review indicates that a study on loan classification and provisioning is already underway. This suggests that some of the structural reforms highlighted by Kala Legal are under consideration and may be addressed through future policy or regulatory initiatives rather than within the current Monetary Policy cycle.

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