ECONOMIC CONTEXT

Looking Ahead After the Monetary Policy

Organized by
ACCA Nepal
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Presented by
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Agenda

01- MACRO STARTING POINT

Where Nepal stands entering FY 2026/27

NRB's eleven-month FY2025/26 data (mid-June 2026) — the base case that FY 2026/27 monetary policy, the budget, and government programs all had to respond to.

3.85%

GDP growth (est. FY25/26)
vs 6.0% government target

5.22%

CPI inflation, y-o-y
mid-June 2026; 11-mo avg. 2.89%

+6.2%

Private-sector credit growth
11-month cumulative; +6.5% y/y

5.60%

Banking-sector NPL ratio
mid-April 2026, vs ~4.23% target

6.64%

Avg. commercial bank lending rate
down from 7.99% a year ago

45.56%

Capital expenditure
Rs 186bn spent of Rs 408bn budget

Rs 3,756bn

Foreign exchange reserves
+40.3% y/y — 19.1 months' cover

+38.2%

Remittance growth y/y (NPR)
+29.6% in USD terms

*The monthly remittance saw a notable decline, dropping from previous highs hovering around **Rs 258 billion** down to approximately **Rs 204 billion**.*

01- MACRO STARTING POINT

GDP Growth Slows to 3.51% in Q3

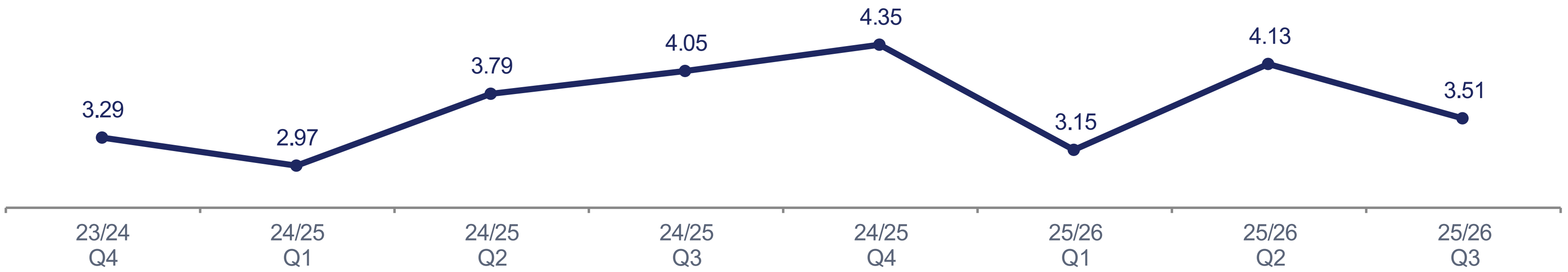
Year-on-year QGDP growth, unadjusted, at basic prices (2010/11)

3.51%

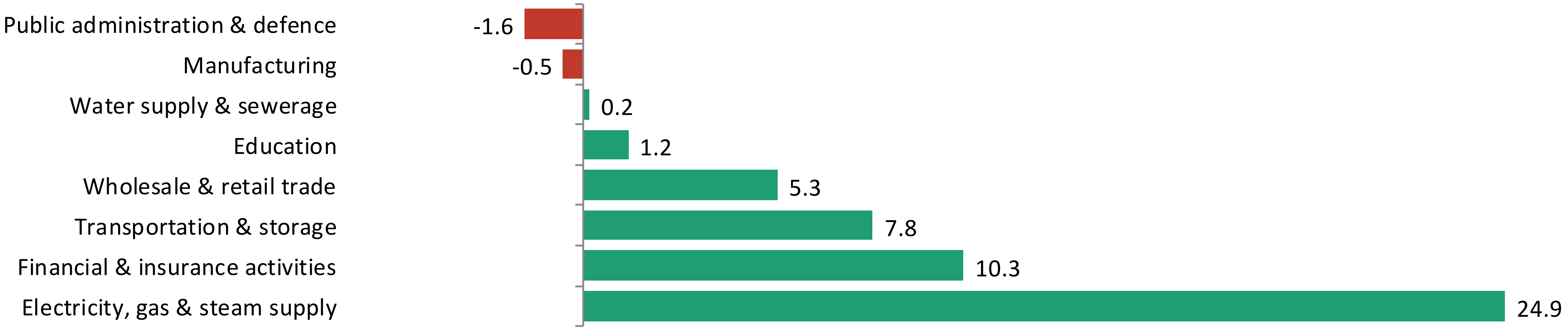
Q3 2025/26 QGDP Growth (Y-o-Y)

vs 4.13% in Q2 2025/26 · vs 4.05% in Q3 2024/25

QGDP GROWTH TREND (%, Y-o-Y)



SECTORAL GVA GROWTH — BEST & WEAKEST PERFORMERS, Q3 2025/26 (%, Y-o-Y)



Source: NSO, Quarterly National Accounts Estimates, Q3 2025/2

01- MACRO STARTING POINT

Factory-Gate Prices Rise 2.78% Y-o-Y

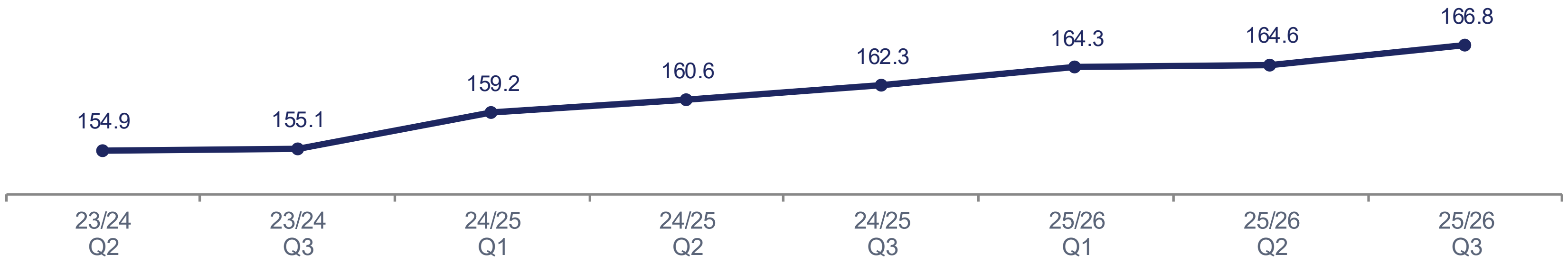
Manufacturing Producer Price Index (MPPI), Base Year 2071/72 = 100

166.76

Overall MPPI
Q3 2025/26

+2.78% Y-o-Y · +1.28% Q-o-Q

OVERALL MPPI TREND (INDEX)



BIGGEST MOVERS BY SUB-SECTOR (%, Y-o-Y)

TOP GAINERS

Wiring & wiring devices	+10.98%
Vegetable & animal oils, fats	+10.29%
Basic chemicals	+9.66%
Tobacco products	+9.23%

TOP DECLINERS

Grain mill products & starches	-4.14%
Prepared animal feeds	-3.67%
Dairy products	-0.72%
Printing services	-0.60%

Source: NSO, Quarterly Manufacturing Producer Price Index, up to Q3 2025/26 (2082 Asar)

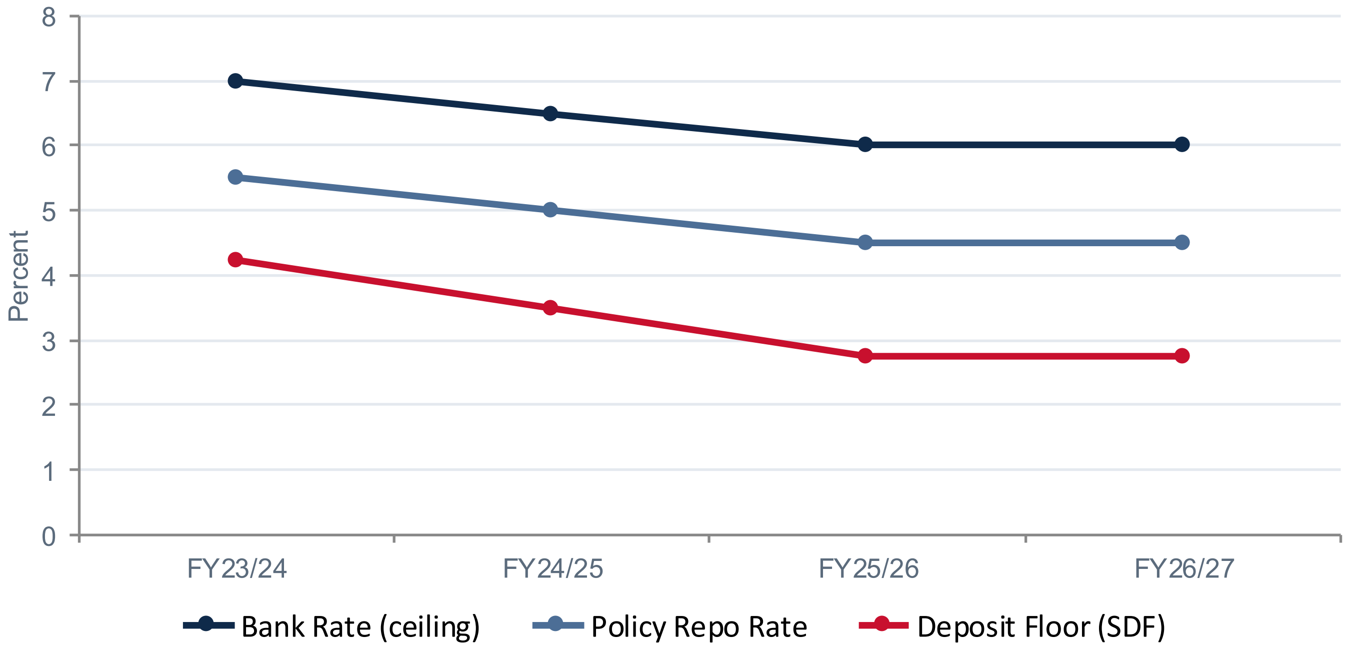
A pause, not another cut

NRB's Monetary Policy for FY 2083/84 (published 7 July 2026) held the interest rate corridor unchanged — with ample liquidity already in the system, cost of funds was no longer the binding constraint on credit.

6.75%	Bank Rate (ceiling)
4.25%	Overnight Liquidity Facility
2.75%	Standing Deposit Rate (floor)

CRR and SLR unchanged. Weighted average interbank rate re-confirmed as the operating target via rules-based open market operations.

Interest Rate Corridor — narrowing over three years, held in FY26/27



Forward guidance: corridor narrows further "as needed" only if inflation risks build or the low-cost economy underdelivers.

Liquidity stays ample, credit growth stays flat

Rs 8,291bn

Total deposits — broadly stable

Rs 5,931bn

Total lending — broadly stable

70.91%

CD ratio — unchanged, comfortable

2.75%

Interbank rate — low, abundant liquidity

Why the rate-cut lever stopped working in FY2025/26

Lending Rate

Not Effective

Credit growth stalled at 5.7% vs. an 11.5% target — banks capital-constrained, asset quality weak.

Interest Rate

Less Effective

Policy-rate cuts did not lift credit demand; structural lending barriers remained unaddressed.

Asset Price

Not Effective

Low consumer & market confidence insulated real estate and asset markets from lower rates.

Exchange Rate

Not Effective

The fixed NPR–INR peg keeps the exchange rate independent of domestic reserves, isolating BOP from rate moves.

Compounding factor: divergent maturity profiles between fixed deposits and risk assets heighten repricing risk and asset-liability mismatches (ALM).

Capital — not liquidity — is the binding constraint

NRB Key Financial Indicators, Commercial Banks, Chaitra End 2082. The sector is liquid and stable; the ceiling on fresh lending is capital headroom.

70.91%

CD Ratio — vs 90% ceiling
Ample liquidity headroom

12.64%

Total Capital Adequacy Ratio
vs 11.00% minimum — thin buffer

5.60%

Gross NPL ratio
No regulatory floor — elevated stress

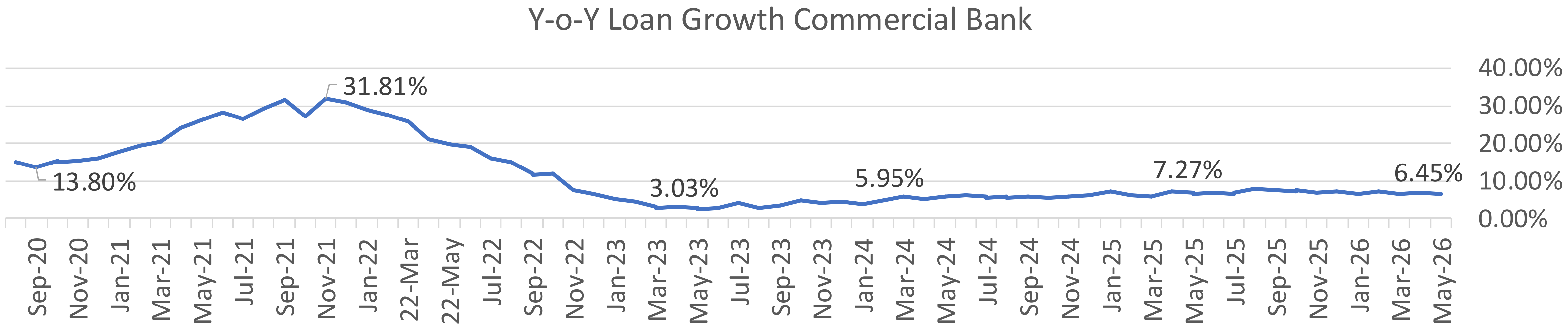
~Rs 600bn

Estimated additional lending capacity from available capital headroom (Baseline)

Full-stress scenario — even if every problem loan turns bad, capital holds near 8% of gross RWA

Amount in Rs Billion	Mid-June	in %age	Gross RWA
Gross Loan	5,907.26	100.00%	6,523
Good loan	5,074.92	85.91%	
Watch list	292.16	4.95%	
Problem Loan	540.18	9.14%	
Provision made	349.33	5.91%	
Additional provision required 50% Watch-list downgraded and if all other problem loan become bad	336.93	5.70%	
Paid up Capital and Statutory Reserves to loan	603.39	10.21%	9.25%
Total capital to loan	824.52	13.96%	12.64%
Net capital If all problem loan become bad	266.46	4.51%	4.08%
Total capital If all problem loan become bad	487.59	8.25%	7.47%

Liquidity stays ample, credit growth stays flat



Positive factors

- Strong liquidity position
- Low interbank rates
- Stable deposit base
- Significant lending capacity

Key risks

- Weak credit demand
- Slow private investment growth
- Continued excess liquidity
- Pressure on bank profitability from low rates

Key message: the banking sector is liquid, stable, and well-positioned to support recovery — the challenge is no longer liquidity but stimulating quality credit demand and adding fresh capital.

Private-sector credit: growth is slowing, not just soft

Deposits are growing faster than credit, widening the liquidity buffer instead of financing new activity. Eleven-month data through mid-June 2026 shows deceleration on almost every measure.

+6.2%

Private credit, 11-mo (Rs 340.57bn) vs +8.0% (Rs 407.62bn) a year ago

+6.5%

Private credit growth, y-o-y (mid-June 2026)

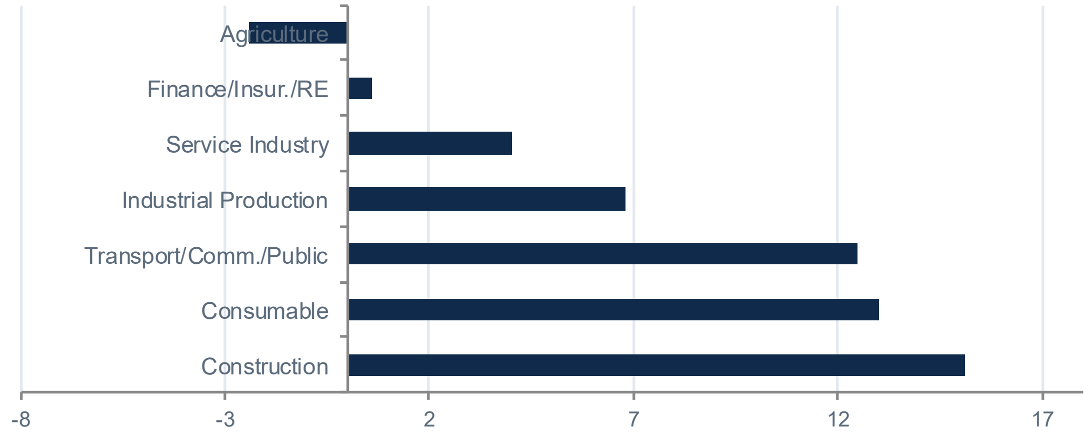
+10.3%

Deposit growth, 11-mo — outpacing credit by 4.1pp

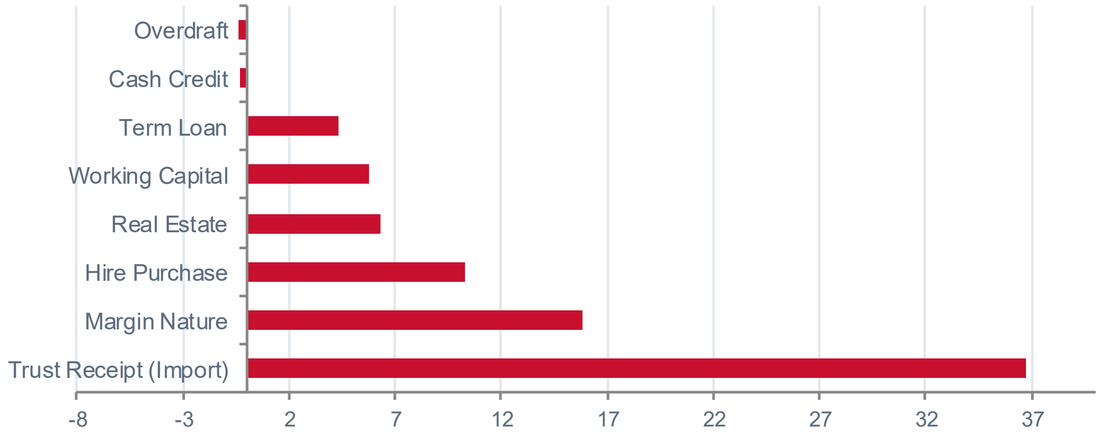
+0.53%

Total domestic credit, 11-mo Rs 6,993bn vs a year ago (y-o-y +3.3%. (Rs 6,956bn)

Loan outstanding growth by sector (11-month)



Loan-type growth by nature of facility (11-month)



Agriculture lending is contracting (-2.4%) even as construction and consumable loans lead growth. Import-linked trust-receipt loans (+36.7%) and margin lending (+15.8%) — not productive-sector term loans (+4.3%) — are driving the headline number. Collateral remains land/building-heavy (63.6% of outstanding credit).

Expectation vs. reality: diagnosis agreed, prescription deferred

Comparing NRB's actual Monetary Policy 2083/84 against pre-policy expectations across nine key structural asks.

3

Areas largely met

Rate pause, currency peg held, macroprudential continuity

4

Areas partially addressed

Provisioning relief, directive simplification, D-SIB, FATF coordination

2

Areas not addressed

Graduated loan-loss provisioning schedule, sovereign wealth fund

Bottom line

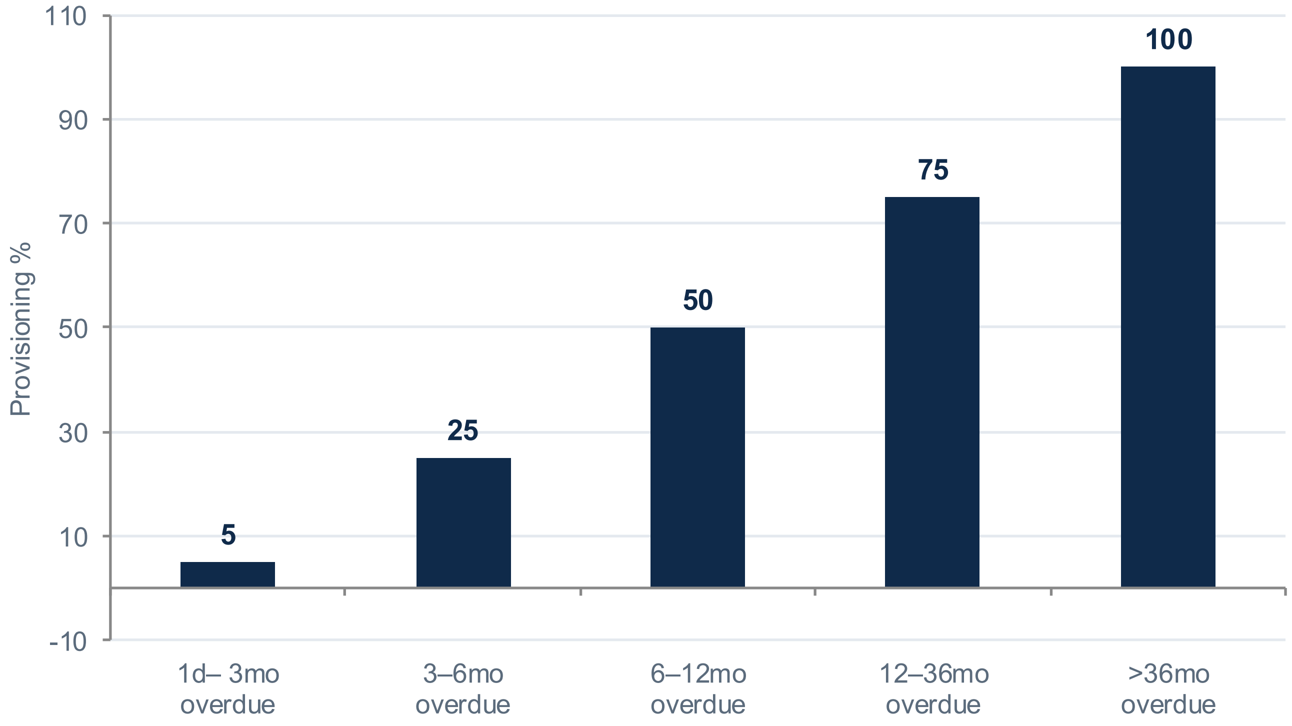
NRB's Monetary Policy broadly reflects the assessment that further policy-rate cuts alone would not meaningfully revive credit growth — the interest rate corridor was held. With ample liquidity already in the banking system, the real constraints on lending are weakened asset quality, rising non-performing loans, and capital pressure, not the cost of funds. Targeted relief measures were introduced, but the broader structural reforms — graduated loan-loss provisioning and capital-market development — remain outside the current policy framework.

The full scorecard, item by item

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

The provisioning debate: a flat cliff vs. a graduated curve

Current rule: 100% provisioning required within one year of default, regardless of collateral quality. A graduated, risk-adjusted alternative was proposed — and left unaddressed in the FY 2083/84 policy text.



+NPR 105bn

Injected into Tier 1 & 2 capital

+NPR 700bn

Potential private-sector credit expansion unlocked

+NPR 45bn

Government revenue via corporate tax + new CGT

STATUS: NOT ADDRESSED in Monetary Policy 2083/84 — a broader study on loan classification is described as "in progress" per the FY2082/83 Annual Review.

Asset quality: the picture bank by bank

System-wide averages hide the spread. NRB's official Chaitra-end 2082 (mid-April 2026) filings show several banks sitting just above the 11% capital floor.

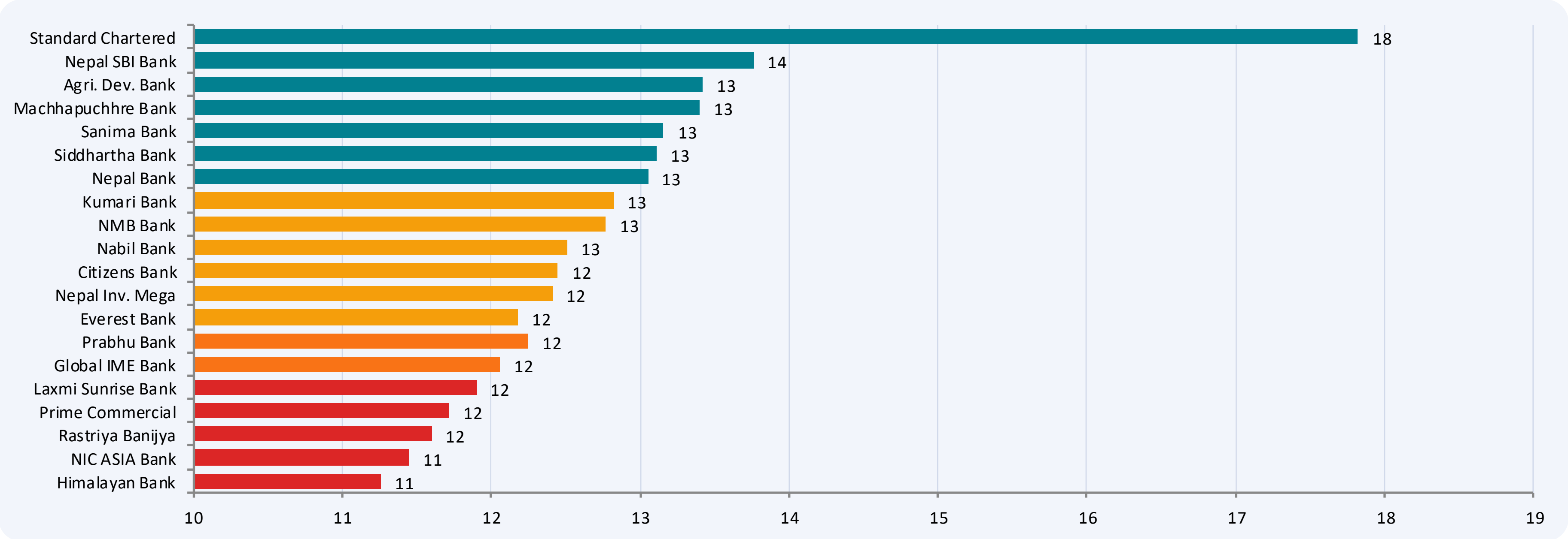
9.70%
System core capital (CCAR)

12.63%
System total capital (CAR)

5.60%
System NPL ratio

Rs 5,275bn
Total commercial-bank loans

Total Capital Adequacy Ratio by bank vs. 11% regulatory minimum — Chaitra end 2082



Buffer Above 11%

- Very Strong / Strong (≥ +2pp buffer)
- Moderate (+1.0 – 1.99pp buffer)
- Limited (+0.75 – 0.99pp buffer)
- Tight (< +0.75pp buffer)

Regulatory Minimum: 11.00%

5 banks within 0.75pp of floor — capital-constrained.

5 banks sit within 0.75pp of the 11% floor — Himalayan Bank, NIC ASIA, Rastriya Banijya Bank (state-owned), Prime Commercial. Best-buffered: Standard Chartered (17.82%), Nepal SBI (13.76%), Agri. Development Bank (13.42%). State-owned banks average 12.61% CAR vs. 12.51% for private banks — no systemic weakness concentrated by ownership.

Nepal's Capital Landscape: Framework vs Market Reality

What Nepali banks can issue today — and the AT1 market gap that remains

Available Instruments for Nepali Banks

Instrument	Tier
Perpetual Debt Instruments (PDI)	AT1
Perpetual Non-Cumul. Pref. Shares (PNCPS)	AT1
Subordinated Debentures (≥ 5 years)	Tier 2
Redeemable Cumulative Pref. Shares (RCPS)	Tier 2
Redeemable Non-Cumul. Pref. Shares (RNCPS)	Tier 2
Perpetual Cumulative Pref. Shares (PCPS)	Tier 2
Hybrid Capital Instruments	Tier 2

† While NRB permits both PDI and PNCPS as regulatory capital instruments, PDIs have not yet been issued by any Nepali bank, and the PNCPS market lacks sufficient liquidity to serve as a viable source of capital.

Additional Tier 1 (AT1) Market Gap

Despite NRB permitting PNCPS and PDI, few major Nepali banks report small outstanding AT1 capital. The regulatory framework exists — but the market has not yet adopted these instruments.

Subordinated Debt: Most Established

Tier 2 subordinated debentures are already used by several Nepali banks and represent the most mature non-equity capital instrument available in Nepal's capital market today.

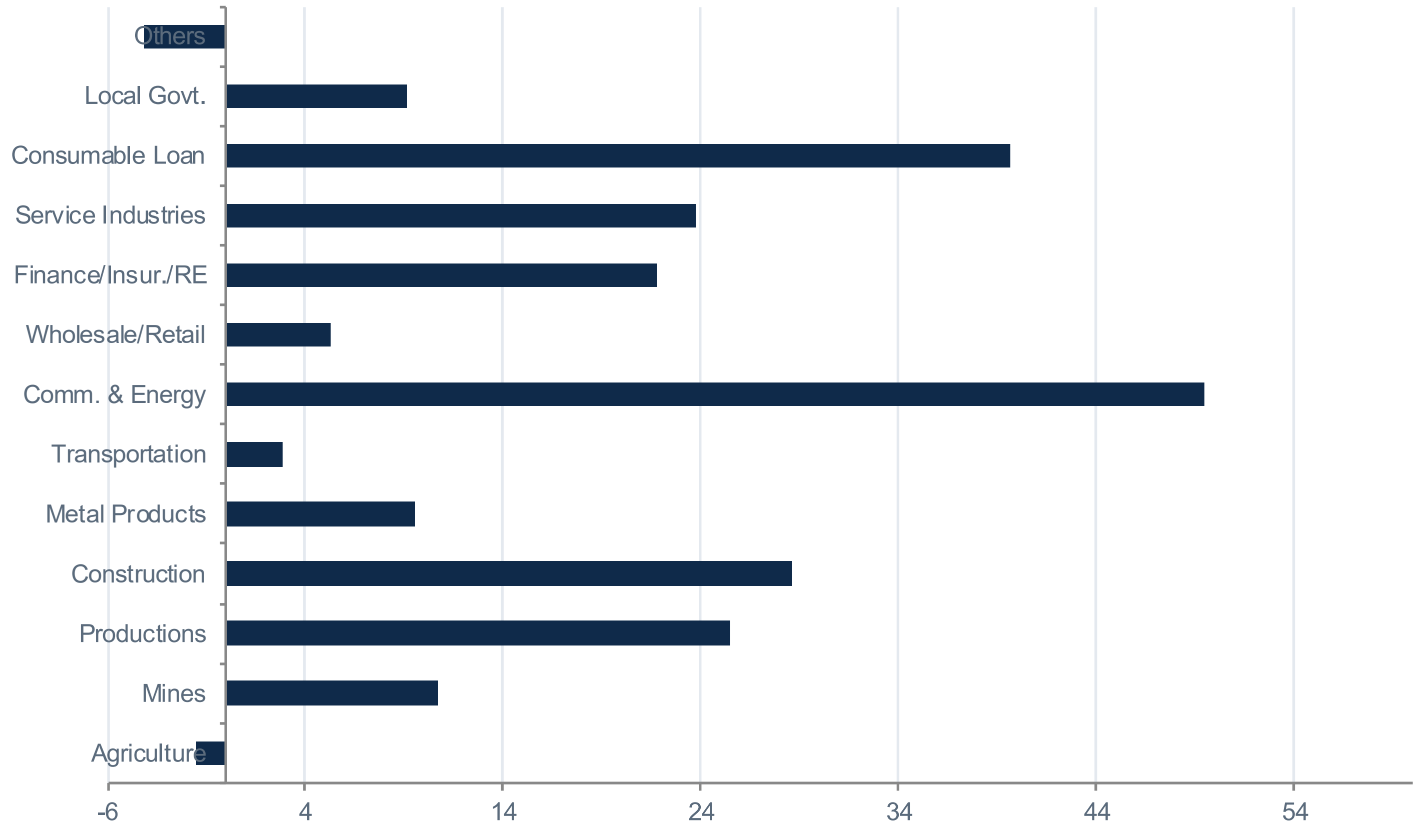
AT1 Instruments: Untapped Opportunity

Developing AT1 instruments (PDI / PNCPS) could provide banks with going-concern capital, reducing reliance on dilutive equity — mirroring India's well-developed AT1 bond market.

NRB's Basel III framework is broadly aligned with RBI's rules — but Nepal's AT1 capital market remains at an early stage of development..

Where unlocked credit is steered first

Sector-wise credit growth, base year 2023 — high-momentum sectors prioritized for FY 2026/27 credit flows once capital headroom is unlocked.



Comm. & Energy +49.5%

Fastest-growing segment — communications & energy infrastructure buildout

Consumable Loan +39.6%

Loan against gold/silver alone surged 69.8% — strong urban consumer demand

Construction +28.6%

Heavy construction (highways, bridges) tracks infrastructure & logistics push

Service Industries +23.7%

Sustained double-digit growth, tracking tourism recovery & domestic consumption

NRB's D-SIB Framework 2025 — the basics

Modeled on the Basel Committee's 2012 D-SIB framework and its 2011 G-SIB methodology, in response to lessons from the 2008 crisis

10 of 20

As per the regulation Issued via Notice 12/2082-83, Nov 2025 **10 Class-A commercial banks can be designated as D-SIBs**

40% / 30%

Weight on Size / Interconnectedness

Remaining 30% split across substitutability & complexity

FY 2026/27

Higher Loss Absorbency capital (HLA) a regulatory banking buffe surcharge phase-in begins

Fully effective by 2027

1 year

Cooling period if a bank's score falls

Before HLA requirement is reduced

How a bank gets flagged?

Size	40%
Interconnectedness	30%
Substitutability (incl. digital payments)	~15%
Complexity	~15%

Benchmark: India's RBI

RBI names just 3 D-SIBs — SBI, HDFC Bank, ICICI Bank — out of dozens of scheduled commercial banks, **placed into 4 HLA buckets with Common Equity Tier 1 (CET1) surcharges of 0.20%–0.80%. SBI** alone sits in the top bucket.

*NRB has **not yet published the official list** of designated D-SIBs*

Listing 10 covers half of all Class-A banks — a far broader net than India's tightly selective 3.

Are they genuinely systemic — or is the label diluted?

The dilution risk

If half the commercial banking sector is "too big to fail," the label stops differentiating concentrated risk from sector-wide norm.

India's 3-of-dozens list preserves the term's signaling value; Nepal's 10-of-20 list risks normalizing systemic status rather than flagging it.

The timing risk

D-SIBs face the new **Higher Loss Absorbency capital (**HLA capital) surcharge (from FY2026/27) at the same time as the NPA provisioning overhaul (Rs 172bn in additional provisioning, 5.60% NPL ratio).

Banks may need fresh Tier 1/2 capital for both pressures simultaneously — a capital math that could double-count.

Are they genuinely systemic — or is the label diluted?

Regulatory steps for genuine resilience

Publish bucket-level detail	Mandate recovery & resolution plans	Sequence the capital build	Re-calibrate as the sector consolidates
Disclose **Higher Loss Absorbency capital** (HLA) tiers and bank names annually, as RBI does, for market discipline.	Tie designation to ICAAP submission and resolution planning, not capital math alone.	Stagger HLA phase-in with the provisioning overhaul to avoid a simultaneous capital squeeze.	Revisit weights and bucket counts as ***NRB's own merger push shrinks the Class-A roster.***

Nepal's largest-ever budget

Presented by Finance Minister Dr. Swarnim Wagle on 29 May 2026 (Republic Day) — Ministry of Finance

Rs 2,124.34bn

Total budget size
+25.2% vs. revised FY25/26

Rs 1,405.31bn

Revenue target
+37.6% required growth

Rs 431.10bn

Capital expenditure
20.3% of total budget

5.2% of GDP

Fiscal deficit (Rs 657.29bn)
vs IMF-recommended ≤3.5%

7.0%

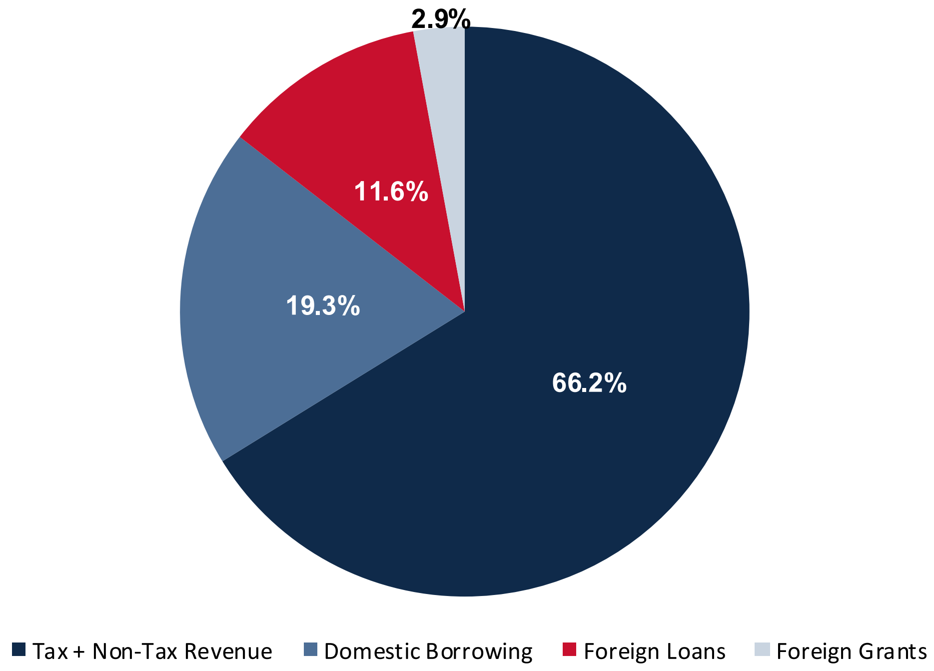
GDP growth target
vs 3.85% actual FY25/26

47–50%

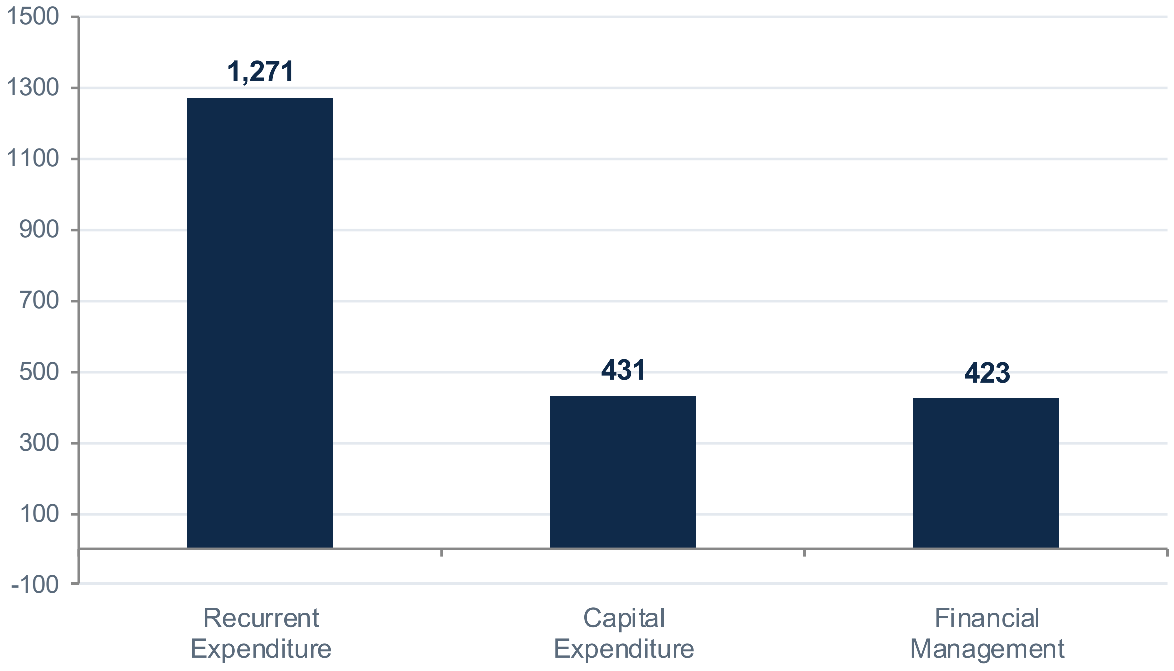
Public debt (est.), % of GDP
approaching sustainability threshold

Financing structure and where it goes

Financing sources — Rs 2,124.34bn



Expenditure allocation — by type



Recurrent spending is 59.8% of the budget — well above prudent benchmarks — leaving capital expenditure at only 20.3%.

5 tax reforms: income-tax threshold doubled · customs tiers cut 11→7 · excise abolished on 360 goods · 10% VAT digital-payment incentive · capital gains tax finalised as withholding

Is the budget realistic? An ambitiousness scorecard

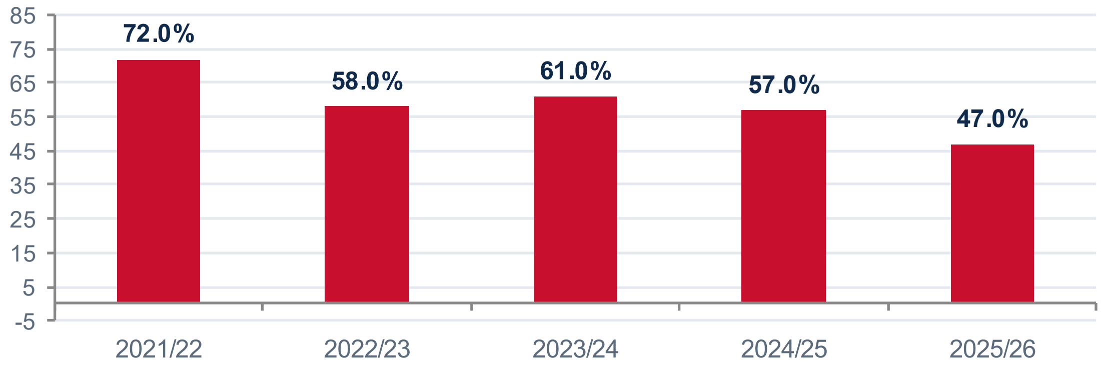
Dimension	Figure	Analysis	
Budget size	**Rs 2,124bn (+25.2%)**	12.4% above NPC ceiling of Rs 1,890bn	STRETCH
GDP growth target	**7.0%**	vs 3.85% actual FY25/26 — near-doubling required	STRETCH
Revenue target	**Rs 1,405bn (+37.6%)**	FY25/26 missed target by Rs 294bn	STRETCH
Capital expenditure	**Rs 431bn (20.3%)**	Below recommended 23% share; needs 80% utilisation vs. 47% last year	WATCH
Recurrent expenditure share	**59.8% of budget**	Recommended <45% — structural spending trap persists	STRETCH
Fiscal deficit	**5.2% of GDP**	Exceeds IMF target of ≤3.5% of GDP	STRETCH
Sectoral priorities	**IT, infrastructure, agriculture, social**	Well-directed; aligned with IMF/World Bank/ADB advice	STRONG
Reform agenda	**NRB Act, BAFIA, FITTA, PPP reforms**	Comprehensive and multilaterally aligned	STRONG

Verdict: HIGHLY AMBITIOUS — credible in intent, challenging in execution.

Execution, not ambition, is the five-year story

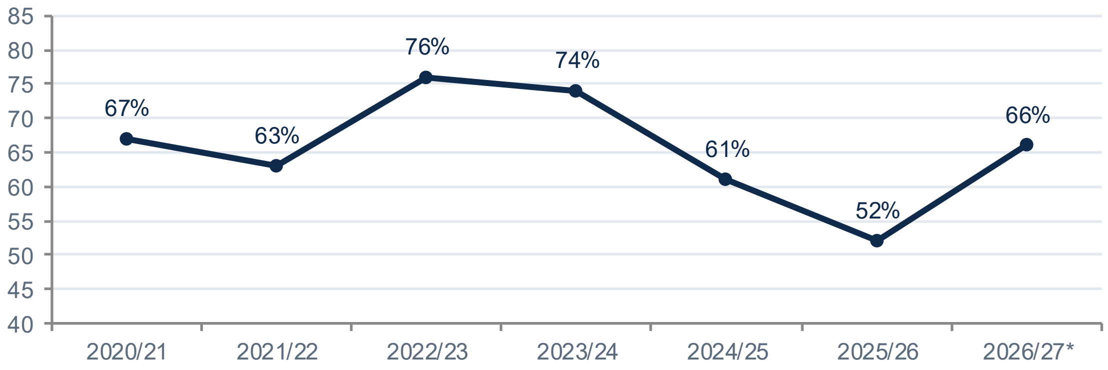
Every year's budget has been bigger than its predecessor. What has not kept pace is the government's ability to spend the capital budget it approves.

Capital budget utilisation (%)



Historical best 72% (2021/22); FY2025/26 collapsed to 47% amid political transition — a historic low.

Revenue coverage ratio — % of budget financed by revenue



2025/26 hit the lowest coverage ratio (52%) in the series; FY2026/27's 66% target requires revenue to grow 37.6%.

Multi-year budget allocation by head (USD million)

Head	2023/24	2024/25	2025/26	2026/27	26/27 Δ vs 25/26
Current Expenditure	5,618.92	5,543.85	5,781.48	6,411.45	+10.9%
Capital Expenditure	2,288.44	2,669.35	3,090.06	3,265.96	+5.7%
Financial Provisioning	2,329.19	2,782.46	2,842.74	3,201.89	+12.6%
Intergovernmental Transfer	3,030.96	3,097.55	3,165.34	3,214.22	+1.5%
Total ($ million)	**13,267.52**	**14,093.20**	**14,879.62**	**16,093.52**	**+8.2%**

OPMCM's 2083/84 agenda: deepening the reform push

The Government of Nepal's Policies & Programs for FY 2083/84 — presented via the Office of the Prime Minister & Council of Ministers ahead of the budget — set the reform mandate the budget had to fund.

IT & Digital Economy

AI, cloud & cybersecurity declared a strategic national industry; digital parks and data centres

Economic Reform

7% GDP growth via a 100-point governance reform agenda; ‘Investment Express’ one-stop clearance

Energy & Climate

30,000 MW long-term hydropower target; green hydrogen pilots; Net Zero 2045 roadmap

Agriculture

Minimum Support Price enforcement, land bank, agro-processing zones, contract farming

Diaspora & Capital Markets

Nepal Investment Visa; Diaspora Investment Authority; pension/mutual-fund market deepening

Governance & Social

e-KYC and Citizen App; asset disclosure for senior officials; Employment Decade, Year 2

Fiscal scenarios modelled by government's own reform program:

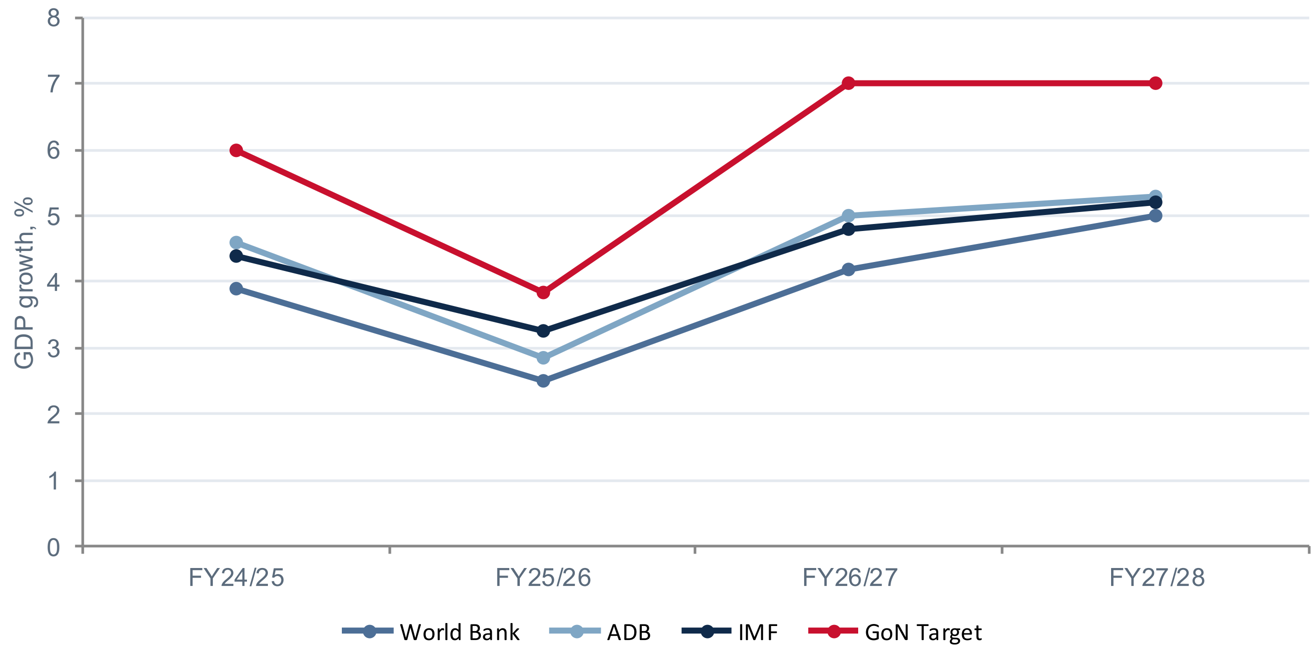
Baseline
Deficit 5.8% GDP · Debt 45% · Growth 4.5%

Adverse
Deficit 7.9% GDP · Debt 55% · Growth 2.3%

Reform
Deficit 3.5% GDP · Debt 40% · Growth 6.0%

How institutions see Nepal's growth path

GDP growth outlook, FY 2025/26 – FY 2027/28, by institution



Note: illustrative institutional ranges/trajectories compiled from World Bank, ADB and IMF FY26 outlooks and GoN budget targets; FY27/28 shown as indicative trend.

FY25/26 GDP growth

World Bank ~2.2–2.8% · ADB ~2.7–3.0% · IMF ~3.0–3.5% · GoN target 6.0%

Inflation (CPI)

World Bank ~4.5–6.0% · ADB ~4.5% · IMF ~2.4–5.0% (within NRB band)

Public debt

World Bank/ADB ~42–45% GDP · NRB ~43–46% GDP — sustainable but rising

FX reserves

World Bank ~$11–12bn, ~10–11 months import cover — stable external buffer

Remittances

World Bank ~$9–10bn — core macro stabiliser across all institutions

Common thread across institutions: growth stayed well below potential in FY25/26 as protest-related disruption and weak capital execution delayed private investment — with a rebound expected, not guaranteed, in FY26/27.

IMF's Seventh ECF Review — the read-through

The Extended Credit Facility arrangement concluded in June 2026, alongside the 2026 Article IV Consultation. Growth kept missing IMF projections through the year — the diagnosis converged on the same structural gaps NRB's own policy left open.

Indicator	6th Review (Oct '25)	7th Review (Feb '26)	June '26 Final
FY2025/26 Growth	5.2% (proj.)	3.0–3.5%	~3.0% (confirmed)
Inflation (y/y)	~4–5% expected	2.4% (Jan '26)	Rising toward ~5% target
Banking NPLs	~4.4% (rising)	5.4% (Jan '26)	Elevated; LPR may revise higher
Capital spending	Weak	Persistently weak	Still weak — no structural fix

SDR 31.32mn

~US$42.9M disbursed on completion

7 of 7

ECF reviews completed — arrangement closed

Reforms completed in the 7th review

- Customs Compliance Improvement Strategy adopted
- Loan Portfolio Review (LPR) on-site inspection completed
- Asset classification realigned with Basel Committee (BCBS) guidelines
- Agreement reached on draft NRB Act amendments

What the IMF still wants to see

- NRB Act amendments — strengthen central-bank independence & the bank-resolution regime
- The Asset Management Company must adopt international best practice
- Concrete AML/CFT enforcement results — key to expediting the FATF grey-list exit

What the multilaterals recommend

Three institutions, three financing envelopes, one converging message: fix the financial sector, mobilise revenue, and shift from consumption to investment-led growth.

IMF

2026 Article IV & 7th ECF Review

Program concluded

- **Fix loan classification & provisioning; amend the NRB Act for independence & a stronger resolution regime**
- Any Asset Management Company must follow international best practice
- AML/CFT enforcement results are key to expediting the FATF grey-list exit
- Reprioritize fiscal space via stronger revenue mobilization and expenditure efficiency
- Near-term: expansionary fiscal policy appropriate; then a gradual, growth-friendly consolidation

What the multilaterals recommend

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World Bank

Country Partnership Framework, FY2025–2031

~US$2.7 billion

- **Three outcomes: more & better jobs, connectivity & access to services, resilience to disasters/climate risk**
- Immediate priority: policy reform for growth, tourism, digital connectivity, integrated urban development
- Build an investment-friendly environment for private-sector-driven growth
- Cross-cutting: strengthen accountability & effectiveness of public-sector institutions
- IFC + MIGA to mobilise private capital and de-risk investment via guarantees

What the multilaterals recommend

Three institutions, three financing envelopes, one converging message: fix the financial sector, mobilise revenue, and shift from consumption to investment-led growth.

ADB

Country Partnership Strategy, 2025–2029

~US$2.3 billion

- **Three priorities: private-sector-led green transformation, inclusive human capital & services, climate resilience**
- Core sectors: energy, transport, water/urban infrastructure, agriculture, education
- Shift from a remittance- and consumption-driven economy to productivity, investment and exports
- Cross-cutting: digital transformation, federal governance capacity, inclusion of women & marginalised groups
- Prepared jointly with World Bank — the two account for 70% of Nepal's development financing

Forex reserves: a record buffer, built on remittances

Eleven-month FY2025/26 data (mid-June 2026): reserves hit an all-time high even as the currency weakened against the US dollar — a peg-driven, not resilience-driven, depreciation.

Rs 3,755.64bn
Gross forex reserves (~US$24.68bn)

19.1 months
Import cover, merchandise + services

Rs 802.06bn
Current account surplus (US$5.53bn)

Rs 926.06bn
Balance of payments surplus (US$6.39bn)

Mid-July 2025 vs. mid-June 2026 — the year's external buildup

Indicator	Mid-July 2025	Mid-June 2026
Gross forex reserves	Rs 2,677.68bn ($19.50bn)	Rs 3,755.64bn ($24.68bn)
Reserves held by NRB	Rs 2,414.64bn	Rs 3,330.07bn (+37.9%)
Reserves held by BFIs	Rs 263.04bn	Rs 425.57bn (+61.8%)
Reserves / GDP	43.8%	61.5%
Reserves / imports	128.1%	159.5%
Reserves / broad money (M2)	34.1%	43.7%
NPR per US Dollar (buying rate)	Rs 137.00	Rs 151.88 (–9.8%)

Exports (11-mo)
Rs 277.97bn, +12.3% y/y

Imports (11-mo)
Rs 1,894.10bn, +15.2% y/y

Export–import ratio
14.7%, down from 15.1%

Reserve composition
88.7% NRB-held · INR = 21.5% of total

Reserves are ample and rising, but the buildup is remittance-driven, not export-earned — exports cover just 14.7% of imports. The peg to a weakening INR means the NPR still depreciated 9.8% against the US Dollar despite record reserves.

Currency peg options and the external position

NPR–INR currency peg

1.6 NPR per 1 INR — fixed since 1993

Following the 5 March 2026 election, the RSP-led government committed in its manifesto to a formal review of the peg. NRB's Monetary Policy 2083/84 retains the peg "as before" — its own FY2026/27 working papers analyze the peg's effects but show no active task force to redesign the regime.

Options on the table for FY 2026/27

Maintain the peg

Preserve stability & predictability; absorb shocks via tariff adjustment instead

Crawling peg

Allow gradual, controlled adjustments to the parity over time

Managed float / basket

Move to a trade-weighted basket reflecting major economic partners

Currency board

A rigid arrangement — politically & institutionally demanding

Record reserves (~19 months import cover) reopened the case, but a full float was assessed impractical given the open 1,400km border. Expect a review process, not a regime change.

FATF grey list: time is ticking

Placed on the grey list Feb 2025, following its 2022–23 APG Mutual Evaluation. Passing laws is not enough — FATF measures enforcement outcomes: investigations, prosecutions, and asset recovery.

9,304
STR/SARs received in 2024

1,086
Reports disseminated, +75% vs 2023

1,890
Entities integrated on goAML

19
AML-related laws amended

High-risk sectors requiring urgent action

Real Estate	CRITICAL	Cash transactions, dual pricing, no beneficial ownership
Cooperatives	CRITICAL	Politically protected, weak audits, cash-heavy
Hundi/Hawala	VERY HIGH	Parallel remittance networks bypass formal banking
Casinos & PEPs/DNFBPs	HIGH	High-cash ML channels & politically exposed persons, real estate agents, accountants, lawyers, and casinos, dealers in automobiles

National Action Plan: three phases

0–3 mo
Emergency Response
Pass AML amendments, form War Room, launch surprise audits

3–9 mo
Demonstrate Effectiveness
Prosecutions & convictions, asset seizures, cross-border cooperation

9–24 mo
FATF Exit Strategy
Sustain enforcement, avoid politicized withdrawals, institutional continuity

Lessons: countries that successfully exited

Pakistan
Centralized Action Plan — national task force reporting to the PM, monthly public progress reports

Botswana
Rapid legal & enforcement reforms — legislative speed plus real prosecutions within 18 months

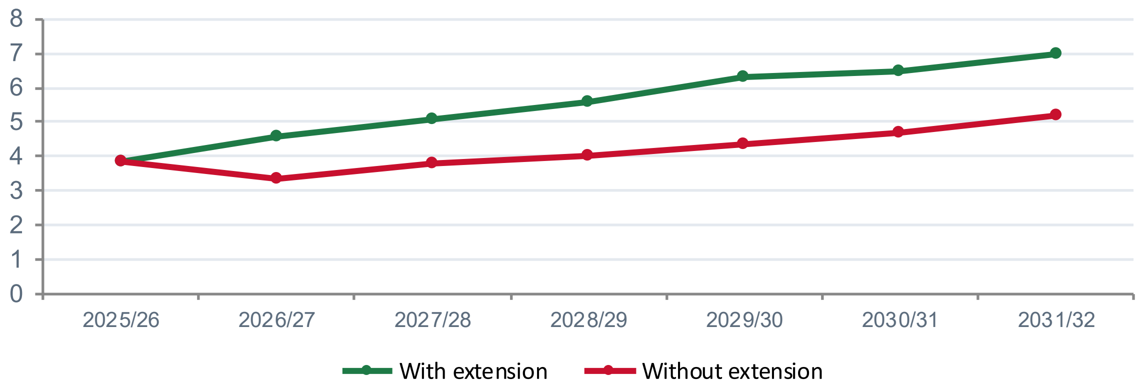
Philippines
Financial intelligence coordination — AMLC as hub, sharply increased STR-to-investigation conversion

Morocco
Risk-based supervision — focused on highest-risk sectors; high-profile conviction was pivotal

LDC graduation: the 2029 crossroads

Nepal was scheduled to graduate from Least Developed Country status in November 2026. The government and private sector have formally requested a 3-year extension to November 2029.

GDP growth: with vs. without the extension



~1.8pp
GDP growth gap by 2031

$200M+
Cumulative export loss over 5 yrs

100K
Jobs protected with extension

$600M
Aid revenue saved (3-yr access)

Scenario comparison

Dimension	Immediate graduation (2026)	Extension to 2029
Export revenue	−4 to −5% decline (garments, carpets, tea face 8–12% tariff hikes)	Maintained; gradual GSP+ adjustment
Aid & concessional finance	−US$100–200M/yr; IDA/ADB terms harden	Continued priority access maintained
Jobs at risk	50,000–100,000 export-sector jobs	Protected with structured transition time
Fiscal pressure	+0.5–1% of GDP deficit widening	Gradual, managed fiscal path

Nepal's untapped economic power

With a USD 100 billion economy targeted by 2030, the diaspora's capital, skills and networks are central to closing an annual USD 5–6 billion financing gap.

7M+

Nepalis abroad, across 178 countries — one of the world's largest diaspora-to-population ratios

~30%

of GDP comes from remittances (Rs 20.2bn in 11 months of FY2025/26) — among the highest ratios globally

<$120M

in annual FDI — a fraction of what comparable remittance economies attract in investment

$3–6bn

in diaspora capital mobilizable per year under a reformed investment ecosystem

What India, Bangladesh, Sri Lanka & Thailand do differently

Dimension	India	Bangladesh	Sri Lanka	Thailand
FDI facilitation	NSWS one-stop (DPIIT)	BIDA one-stop service	Investor Facilitation Centre (BOI)	FastPass System (2025)
Diaspora status	OCI Card (4.3M+ issued)	Non-Resident Bangladeshi status	Dual citizenship	Long-Term Resident visa
Diaspora bonds	NRE/FCNR accounts, sovereign bonds	Wage Earner Dev. Bond, USD bonds	Limited instruments	Territorial tax system
FDI inflow (latest)	US$81.0bn (FY24-25)	US$1.27bn (2024)	~US$1bn (2024)	~800bn baht approved (2025)

Nepal's parallel: ~7M NRNs generate Rs 19.1bn in remittances (29% of GDP) but under US$120M in FDI — the structural gap this section addresses.

Instruments built, barriers still to fix

The FY 2083/84 budget created new diaspora-specific investment windows — but structural barriers around thresholds, taxation and citizenship rights still limit uptake.

Diaspora-focused investment windows

Diaspora Development Bond

NPR 100bn annual target — SEBON-approved bonds, debentures & equity via NRN Nepal Development Fund

NRN Hydropower Investment SPV

Exclusive NRN equity vehicle targeting a US$300M initial raise, with a proposed 5-year dividend tax holiday

NRN Technology Investment Zone

IT-park zones in Kathmandu & Pokhara — 10-year income tax holiday, duty-free hardware imports

NRN Secondary Market Access

FY2083/84 amendment enabling NRNs to trade in Nepal's secondary securities market for the first time

Mobilization roadmap: Phase 1 (2026) US$300–500M baseline → Phase 2 (2027–28) US$1.5–2.5bn cumulative → Phase 3 (2029–30) US$3–6bn/year steady state.

Instruments built, barriers still to fix

The FY 2083/84 budget created new diaspora-specific investment windows — but structural barriers around thresholds, taxation and citizenship rights still limit uptake.

Persistent barriers

- High NRN investment threshold (NPR 20M) classified as ordinary FDI
- No double-taxation treaties with the US, UK, Canada, Australia or Gulf states
- Incomplete NRN property rights on inherited land and business premises
- No dedicated diaspora investment authority — functions fragmented across ministries
- Only 35.6% of the FY2024/25 capital budget was executed

Immediate priority reforms

- Lower the FDI classification threshold for NRN investment
- Fast-track DTAAs, prioritizing GCC states (1.8M Nepali workers) and the US/UK
- Establish a Nepali Diaspora Investment Authority under the PMO or Finance Ministry
- Enact an NRN Property Rights Act with a voluntary-declaration amnesty clause

Where the fiscal–monetary program is most exposed

Risk area	Probability	Impact	Overall
Revenue mobilisation shortfall	High	Critical	CRITICAL
Capital expenditure execution	High	Critical	CRITICAL
Rising non-performing assets	Medium	High	HIGH
External shock — remittance / export decline	Medium	Severe	SEVERE
FATF grey-list prolongation	Medium	High	HIGH
Development-partner financing absorption	Medium	High	HIGH
D-SIB capital surcharge vs. NPA provisioning overlap	Medium	High	HIGH
Currency-peg review uncertainty	Low	Medium	MEDIUM
Political / governance continuity (post-election)	Low	High	HIGH

Four signals to watch through FY 2083/84

1 NPL containment

Without a graduated provisioning framework, asset-quality deterioration surfaces on the current 100%-within-one-year timeline.

2 Capital expenditure execution

Five-year average of ~60% (47% in FY25/26). The 7.0% GDP growth target depends on capex breaking that pattern.

3 FATF exit progress

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

4 Peg review & D-SIB capital build

Whether the government's peg-review commitment becomes an active NRB study, and whether D-SIB surcharges are sequenced around the provisioning overhaul.

"The diagnosis is done — considerable consensus exists on the underlying constraints. Execution will decide it."

APPENDIX

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