

KALA LEGAL

Economic Outlook Based on August 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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KALA LEGAL MONTHLY ECONOMIC OUTLOOK — SPECIAL CHAPTER 1

NEPAL IS NEITHER A CREATOR NOR A PROMOTER OF CLIMATE CHANGE
— YET IT BEARS ITS CONSEQUENCES

Bhotekoshi Flood 2026: Climate Risk and Nepal's Macroeconomic Exposure

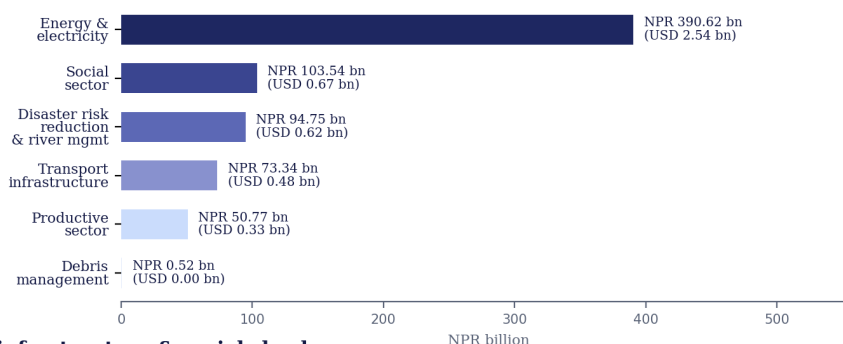
Updated with Government Rapid Damage & Needs Assessment (RDNA), 10 September 2026

BHOTEKOSHI FLOOD 2026

NPR 723.31 bn
USD 4.70 bn

Nepal's Reconstruction Requirement — Government RDNA, 10 Sept 2026

Where the money is needed — sector-wise requirement



The infrastructure & social shock

Infrastructure (energy, transport, DRR/river mgmt) = 65.5% of total requirement



Rebuilding timeline



“How do we rebuild Nepal so the next disaster costs us far less?”

Source: Government RDNA figures reported by Kantipur/eKantipur, 10 September 2026. Exchange rate: NPR 153.72 = USD 1.

1. The Paradox of Climate Change in Nepal

Nepal emits roughly 0.1% of global greenhouse gases, by World Bank accounting, and its per-capita emissions are among the world's lowest. Yet climate change is already reshaping the country's agriculture, water resources, infrastructure, labour productivity and growth trajectory. This is a macroeconomic and fiscal issue, not only an environmental one. Absent effective adaptation, the World Bank estimates climate change could cut Nepal's GDP by at least 7% by 2050, a figure that excludes many of the harder-to-measure social and systemic costs. The Rasuwa-Bhotekoshi flood of August 2026, and the government's own damage assessment released the following month, show this is no longer a hypothetical risk.

2. Rasuwa-Bhotekoshi: From Natural Disaster to Economic Shock

The flash flood and associated glacial or ice-rock event in the Rasuwa-Bhotekoshi corridor destroyed or severely damaged settlements, roads, bridges, hydropower facilities, businesses, financial institutions, government buildings and telecommunications infrastructure. Early reporting points to a major ice-rock or glacial collapse and subsequent debris flow. Scientists caution that no single event can be attributed to climate change on its own. But warming temperatures, glacier retreat, changing freeze-thaw cycles and destabilising high-altitude terrain are increasingly recognised as amplifying factors.

Climate change may not have “caused” this particular disaster, but it is changing the risk environment in which Nepal's economic assets sit. That distinction carries real macroeconomic weight.

3. Why the Economic Cost Goes Beyond Damaged Infrastructure

The instinct after a disaster is to price the destroyed physical assets. That is necessary but not sufficient. A productive asset carries two kinds of economic value: its replacement cost, and the income and activity it generates over time. When a road disappears, the cost is not just the asphalt. Businesses cannot get supplies, tourists cannot travel, workers cannot reach jobs, farmers cannot reach markets, and power projects cannot receive equipment or move output. The disaster is both a loss of productive capital and a disruption of the economic networks that capital supports.

4. Updated Damage and Needs Assessment

On 10 September 2026, the Government's Rapid Damage and Needs Assessment (RDNA) estimated Nepal's total reconstruction and recovery requirement at NPR 723.31 billion (approximately USD 4.70 billion). As the official, ground-verified assessment, this figure should now anchor analysis of the disaster and its financing needs.

The RDNA goes beyond replacing damaged assets, incorporating resilient reconstruction, disaster-risk reduction and debris management. Its scale underscores the need to rebuild not merely what was lost, but to strengthen infrastructure against future climate and disaster risks. This will require coordinated financing and implementation by the government, development partners, private sector and financial institutions.

Sector	NPR	USD
Energy & electricity	390.62 bn	2.54 bn
Disaster risk reduction & river management	94.75 bn	0.62 bn
Social sector	103.54 bn	0.67 bn
Transport infrastructure	73.34 bn	0.48 bn
Productive sector	50.77 bn	0.33 bn
Debris management	0.52 bn	0.003 bn
Total requirement	723.31 bn	4.70 bn

Infrastructure (energy, transport, and disaster risk reduction/river management) accounts for 65.5% of the total requirement. Of the total, NPR 714.58 billion (98.8%) is long-term reconstruction; only NPR 8.74 billion (about USD 56.8 million) covers immediate relief and short-term work over the next six months. That split is a policy signal in its own right: this is a multi-year financing programme, not an emergency relief operation.

5. Hydropower: The Hidden Economic Multiplier

RDNA figures put affected hydropower capacity at 759 MW across 13 projects, plus 24 MW of solar across 5 plants, somewhat higher than the 750 MW/11 projects and 729 MW/14 projects figures used in Kala Legal's preliminary assessments. The RDNA allocates NPR 390.62 billion (USD 2.54 billion) to energy-sector reconstruction, well above the NPR 106–125 billion range estimated in Kala Legal- Economic Outlook July 2026, from simple per-MW construction costs.

That gap is informative rather than alarming. It confirms what this report argued before the RDNA was published (see section 9): rebuilding hydropower on a like-for-like basis understates the real requirement once flood protection, geological stabilization, transmission redundancy and resilient engineering are priced in.

The deeper economic argument still holds. The affected capacity represents billions of units of annual electricity generation that would otherwise feed manufacturing, hotels, construction, irrigation, agro-processing, retail, IT and telecommunications. Direct power-sale

revenue understates the true cost, which is the domestic value creation that reliable electricity enables across the economy. The NPR 390.62 billion energy-sector requirement should be read as a floor for that broader value at risk, not a ceiling.

6. Employment and Livelihoods Disruption

Nepal's large informal sector means asset destruction affects livelihoods well beyond what unemployment statistics capture. RDNA figures give some of the underlying counts: 7,570 private homes damaged, 4,800 businesses affected, 1,806 hectares of agricultural land affected, and 17 bank branches affected.

These counts are broadly consistent with the preliminary estimate that 35,000–40,000 livelihoods face significant disruption across formal employment, informal work, self-employment and dependent family labor, and that 5,000–15,000 face prolonged disruption if transport, commercial and financial infrastructure take many months to rebuild, which the RDNA's own finding that 98.8% of reconstruction is long-term makes more likely, not less. A formal labor-market and household-impact assessment, layered onto the RDNA's asset counts, would sharpen these ranges considerably.

The core point stands: destruction of productive assets can hit employment harder than it hits GDP. Nepal's large self-employed and informal workforce means a destroyed hotel, shop, vehicle or workshop is a lost job that never shows up in a formal unemployment count.

7. Small Businesses and Households: The Forgotten Victims

Large infrastructure losses draw attention because they are visible and easy to price. Small-business losses are less visible and can be more damaging to household welfare. RDNA counts 4,800 affected businesses and 7,570 damaged private homes, alongside 48 damaged public buildings (18 schools and 7 health facilities) and 30 cultural heritage sites.

A destroyed shop can eliminate an entire household's income. A destroyed vehicle removes a self-employed transport operator's livelihood. A destroyed workshop eliminates capital and employment at once. A small hotel or shop can support ten to thirty people through direct employment and local supply chains, which is why the productive-sector reconstruction allocation, NPR 50.77 billion (USD 0.33 billion) in RDNA terms and only about 7% of the total requirement, deserves attention disproportionate to its share of the bill.

8. Strategic Policy Framework: Nepal Climate Resilience Investment Framework

Nepal needs to move from reactive disaster relief to a proactive resilience economy, across five areas:

1. Climate-resilient infrastructure standards. Mandatory multi-scenario climate-risk stress testing (1-in-50 and 1-in-100-year events) for strategic roads, bridges and hydropower projects.
2. Disaster-risk financing and liquidity. Catastrophe insurance pools, contingent credit facilities and sovereign risk guarantees to ensure rapid emergency liquidity.
3. Climate-resilient hydropower design. Re-engineering hydro infrastructure around changing hydrology, debris flow, glacial risk and extreme peak runoff.
4. MSME climate recovery credit facility. Targeted working capital and asset-replacement financing to help small businesses restart quickly.
5. Advanced early-warning systems. Expanded satellite monitoring, river sensors and cross-border hydromet data sharing to protect lives and capital.
6. The government's own RDNA communication, released independently, lands on nearly the same five priorities: build back better, mobilize capital, risk finance, protect livelihoods, and stress-test infrastructure. That convergence is useful. It means the resilience-investment case made here is not an outside argument being pressed on policymakers; it is close to the position the government has already staked out, which should make it easier to hold financing decisions to that standard.

9. Hydropower Reconstruction: From Physical Damage to Financial Risk

Nepal's hydropower-led development model. The RDNA's energy-sector reconstruction requirement of NPR 390.62 billion demonstrates that the challenge extends well beyond the replacement of damaged generation capacity. Reconstruction in high-risk Himalayan corridors must account not only for physical restoration but also for the resilience of the infrastructure and the wider energy system.

The scale of the requirement reflects the additional investment needed for flood protection, geological stabilization, resilient engineering, transmission redundancy, early-warning systems and other climate-adaptation measures. In this context, rebuilding projects on a like-for-like basis may not necessarily restore their original technical and financial viability. Reconstruction therefore provides an opportunity to reassess the underlying risk profile of each project and incorporate resilience into investment decisions from the outset.

The practical implication is that each affected project should undergo a fresh technical and financial viability assessment before reconstruction decisions are finalized. Projects that remain viable should have access to concessional and climate-resilient financing, while projects whose risk-return profile has materially changed may need to be redesigned, restructured or, where technically justified, relocated.

Nepal need not reconsider its commitment to hydropower development. Rather, the experience calls for an evolution in the development model—from one primarily focused on expanding generation capacity toward one that places greater emphasis on climate resilience, geographic diversification, system redundancy and long-term financial sustainability. This would allow hydropower to remain a central pillar of Nepal's economic transformation while better reflecting the changing risk environment in the Himalayas.

10. Reconstruction to Resilience Investment

Nepal did not create global climate change, yet the RDNA's NPR 723.31 billion bill (about USD 4.70 billion) shows it is absorbing the cost of a problem it did not cause. The Rasuwa-Bhotekoshi disaster is a clear signal that climate risk is now a direct macroeconomic risk for Nepal, not a peripheral environmental concern.

The RDNA's own timeline sharpens the mandate: 98.8% of the requirement, NPR 714.58 billion, is long-term reconstruction, against NPR 8.74 billion for the next six months. That is not a short relief effort; it is a multi-year investment programme, and the choice of how that money is spent will determine whether Nepal enters the next flood season more exposed or less. The policy mandate is to build back smarter, turning reconstruction expenditure into long-term climate-resilient capital investment that protects GDP, employment and the country's development gains.

11. Green Taxonomy to Climate-Risk Management

a) Nepal's Emerging Green and Resilient Financial System

Nepal's sustainable-finance framework has entered a new phase with two important regulatory developments: the Nepal Green Finance Taxonomy 2024 and the Risk Management Guidelines 2026 issued by Nepal Rastra Bank (NRB).

The 2024 Green Finance Taxonomy establishes a common framework for identifying, classifying and reporting green and transitional economic activities. It covers banking, capital markets, insurance and other financial-sector participants and identifies four environmental objectives: climate-change adaptation, climate-change mitigation, natural-resource conservation and pollution prevention and control. The framework incorporates the Do No Significant Harm (DNSH) principle and classifies activities broadly as Green/Transformative, Amber/Transitional and Red/Non-compliant.

The 2026 Risk Management Guidelines significantly broaden the regulatory perspective by treating climate risk as a financial risk. Climate-related risks are to be incorporated into the overall risk-management framework of banks and financial institutions, including governance, risk appetite, credit risk, stress testing, reporting and resilience measures.

The two frameworks should therefore be viewed as complementary:

The Green Finance Taxonomy asks: What should the financial system finance?

Climate-risk management asks: What risks does climate change create for the assets, borrowers and financial institutions that provide that finance?

Together, they provide the foundation for moving Nepal from green finance as a specialized financing category toward climate risk as a mainstream component of financial stability and capital allocation.

b) Green Finance to Climate Finance

Nepal's Green Finance Taxonomy was developed in the context of the country's climate commitments, including its Nationally Determined Contributions, National Adaptation Plan, Net-Zero strategy and Sustainable Development Goals. Its underlying premise is straightforward: Nepal's climate and sustainable-development financing requirements cannot be met by public resources alone. Private and institutional capital must therefore be mobilized. The Taxonomy creates a common language between economic activities and financial markets. Its four environmental objectives are:



Climate-change
adaptation



Climate-change
mitigation



Natural-resource
conservation and
management



Pollution
prevention and
control

The framework applies the Do No Significant Harm principle and integrates social and inclusion considerations. It is therefore broader than a conventional carbon-reduction framework. For Nepal, this is particularly relevant because adaptation and resilience are as important as mitigation. The Taxonomy covers a broad range of economic activities, including agriculture, forestry, energy, manufacturing, construction, transport, water, waste management, tourism, real estate and financial services. This means green finance should not be understood simply as financing hydropower, solar energy or electric vehicles. Its larger objective is to progressively **green the mainstream economy**.

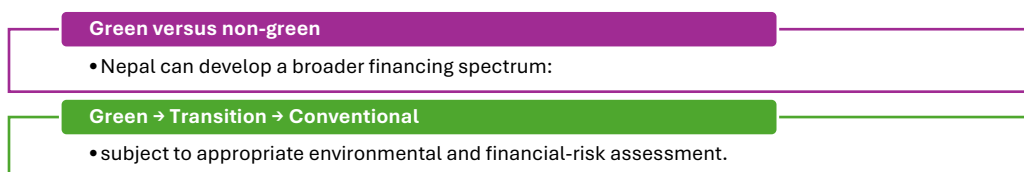
c) Green, Amber and Red: Recognizing the Transition

The Taxonomy broadly categorizes activities into:

Category	Broad interpretation
Green / Transformative	Activities aligned with environmental and climate objectives
Amber / Transitional	Activities requiring improvement or investment to transition toward green alignment
Red / Non-compliant	Activities inconsistent with the framework's environmental objectives

The inclusion of an Amber category is particularly relevant to Nepal.

A developing economy cannot realistically transform every business into a fully green activity immediately. Industrialization, employment and economic growth must continue while businesses progressively improve their environmental performance. This creates a potential role for transition finance. Instead of treating the choice as simply:

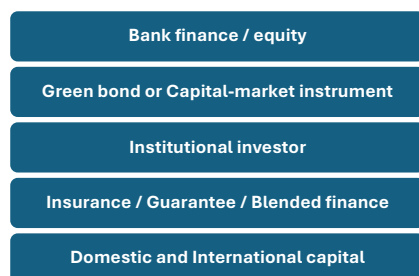


d) The Financial Sector Is Part of the Green Economy

The Taxonomy is not limited to borrowers and projects. It also covers financial-sector activities and recognizes instruments such as:

- Green loans;
- Green bonds;
- Green funds;
- Blended finance;
- Innovative financing;
- Insurance;
- Venture capital and other investment vehicles.

This creates the foundation for a broader green-capital ecosystem: **Green project**



The strategic objective should therefore be to move from individual green-finance transactions toward a **functioning green capital market**.

e) Taxonomy to Capital Market

The Taxonomy becomes particularly important when linked with Nepal's developing capital market. Green bonds can provide a mechanism for converting eligible environmental and climate investments into investable securities.

The policy chain is: **Taxonomy**



The emergence of green-bond transactions in Nepal demonstrates that the Taxonomy is beginning to move from policy architecture toward market application.

The next challenge is scale.

The objective should be to create a repeatable market in which infrastructure companies, financial institutions, public entities and private enterprises can raise capital for taxonomy-aligned projects.

f) The Regulatory Shift in 2026: Climate Risk Becomes Financial Risk

The most important development in the Risk Management Guidelines 2026 is the explicit treatment of climate risk as part of the financial institution's overall risk-management framework. Climate risk is considered alongside other major financial risks, including: credit risk;

- a) Liquidity risk;
- b) Operational risk;
- c) Market risk;
- d) Interest-rate risk;
- e) Technology risk.

The Guidelines recognize two broad categories:

Physical Risk

Risks arising from climate-related events and changes, including floods, landslides, extreme rainfall and other physical hazards.

Transition Risk

Risks arising from the transition toward a lower-carbon and more environmentally sustainable economy, including policy, technology, market and regulatory changes. This changes the nature of the discussion. Climate change is no longer simply an environmental or ESG issue. It becomes a financial-risk issue.

g) The Climate-Risk Transmission Mechanism

Climate events affect banks through identifiable financial channels. For example:

Flood

- a) Physical damage
- b) Business interruption
- c) Lower income and cash flow
- d) Weaker debt-service capacity
- e) Increased probability of default
- f) NPL migration
- g) Higher provisioning
- h) Lower earnings
- i) Potential capital pressure.

This demonstrates why climate risk belongs inside the prudential framework. The issue is not simply how much physical damage a disaster causes.

It is also:

How much financial exposure is vulnerable to that damage? This is particularly important for a bank-dominated financial system such as Nepal's.

h) Board-Level Responsibility

The 2026 Guidelines require climate-related financial risks to be incorporated into institutional strategy, risk management and risk appetite. This makes climate risk a Board and senior-management responsibility, rather than something that can be delegated entirely to an ESG or CSR function. The Guidelines also provide for a Climate Risk Committee, with responsibility for formulating climate-risk-management guidelines and advising the Board on climate and environmental risks. Climate-risk management should therefore become part of:

- a) Business strategy
- b) Risk appetite
- c) Credit policy
- d) Portfolio management
- e) Capital planning
- f) Internal controls
- g) Reporting.

i) Climate Risk and Credit Risk

The implications for credit assessment are significant. A conventional credit assessment asks: Can the borrower repay? Climate-risk assessment adds: Can the borrower continue generating sufficient cash flow under plausible climate scenarios? For borrowers and projects exposed to climate-sensitive activities, banks may increasingly need to consider:

Borrower

- 1) Location;
- 2) Climate sensitivity;
- 3) Insurance;
- 4) Business continuity;
- 5) Dependence on climate-sensitive resources.

Project

- 1) Flood and landslide exposure;
- 2) Climate resilience;
- 3) Environmental safeguards;
- 4) Potential impact on production and cash flow.

Collateral

- 1) Geographic exposure;
- 2) Physical resilience;
- 3) Potential reduction in market value.

This means geography can become a credit-risk variable.

j) Climate Stress Testing

The 2026 Guidelines recognize climate scenario analysis and stress testing across short-, medium- and long-term horizons. They also acknowledge limitations in data and technical capacity. For Nepal, climate stress testing should progressively incorporate scenarios such as:

Major Flood- Impact on:

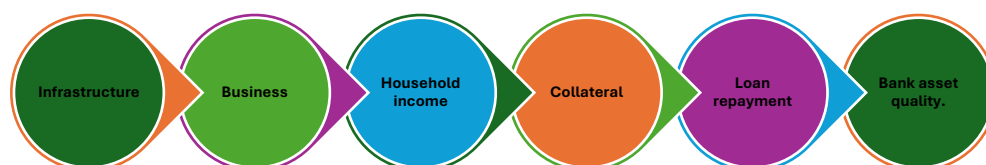
- 1) Borrowers;
 - a) Infrastructure;
 - b) Collateral;
 - c) NPLs;
 - d) Provisioning;
 - e) Capital.
- 2) Landslide and Transport Disruption-Impact on:
 - a) tourism;
 - b) hydropower;
 - c) manufacturing;
 - d) construction;
 - e) MSMEs.
- 3) Agricultural Climate Shock-Impact on:
 - a) agricultural lending;
 - b) household income;
 - c) food processing;
 - d) microfinance.

- 4) Hydrological Shock-Impact on:
 - a) Hydropower generation;
 - b) Project cash flow;
 - c) Debt-service capacity;
 - d) Bank exposure.
- 5) Transition Shock- Impact on:
 - a) Carbon-intensive businesses;
 - b) Technology;
 - c) Asset values;
 - d) Transition expenditure.

Climate stress testing should eventually become an important component of **forward-looking financial-risk management**.

k) The Rasuwa–Bhotekoshi Experience

Recent major flooding and infrastructure damage in the Rasuwa–Bhotekoshi corridor illustrates why this issue has moved beyond environmental policy. A major climate-related event can simultaneously affect:



Therefore, the financial-sector assessment of a climate disaster should not stop at reconstruction costs. It should also examine:

- 1) Bank exposure;
- 2) Vulnerable borrowers;
- 3) Collateral impairment;
- 4) Insurance coverage;
- 5) Potential loan migration;
- 6) Provisioning;
- 7) Capital impact.

This is the type of analysis that climate stress testing should progressively institutionalize.

l) NPL Monitoring to Climate Early Warning

Traditional credit-risk management is often backward-looking. It identifies borrowers after repayment difficulties emerge. Climate-risk management creates the possibility of a forward-looking approach. A borrower may be, performing today but highly vulnerable to a future climate event. Banks could therefore develop climate-related early-warning indicators such as:

Indicator	Potential Financial Risk
Flood-prone collateral	Higher loss severity
Landslide-prone project	Operational/credit risk
Climate-sensitive agriculture	Cash-flow deterioration
Hydrological dependence	Project-finance risk
Weak insurance coverage	Higher potential loss
Lack of business continuity	Operational risk
High transition exposure	Asset-value risk
Amber classification	Need for transition investment

This would move climate risk from reporting toward **early intervention**.

m) Integrating the Two Frameworks

The most important policy conclusion is that the Green Finance Taxonomy 2024 and Risk Management Guidelines 2026 should be implemented as one interconnected architecture. A practical framework would be:



This would create a much more coherent financial architecture than treating green finance and climate risk as separate regulatory initiatives.

n) Green Does Not Mean Low Risk

A critical distinction should be preserved. A green project can still have:

- 1) Construction risk;
- 2) Market risk;
- 3) Hydrological risk;
- 4) Technology risk;
- 5) Liquidity risk.

Similarly, an Amber or conventional business is not automatically financially weak. The objective should therefore not be to replace financial risk assessment with environmental classification.

Instead:

Environmental classification and financial-risk assessment should complement each other. This is particularly important for Nepal's industrialization and MSME development.

o) Climate Resilience as an Investment

The 2026 Guidelines encourage financial institutions to consider investments in resilient infrastructure, including flood protection, reinforced structures and energy-efficient buildings. This creates a direct bridge between climate finance and financial risk management. Resilience investment can potentially:

- 1) Reduce physical losses;
- 2) Protect collateral;
- 3) Maintain business continuity;
- 4) Improve repayment capacity;
- 5) Reduce potential credit losses.

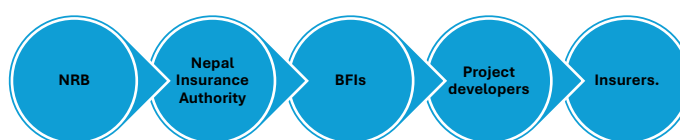
Therefore, adaptation should increasingly be regarded not simply as an environmental expenditure but also as a risk-mitigation investment.

p) Insurance as a Financial-Risk Mitigation Tool

Insurance can play a central role in the emerging architecture. Potential instruments include:

- 1) Property insurance;
- 2) Agricultural insurance;
- 3) Weather-index insurance;
- 4) Parametric insurance;
- 5) Infrastructure insurance;
- 6) Business-interruption insurance.

The Green Finance Taxonomy recognizes climate-related insurance products, while climate-risk management requires institutions to understand the extent to which insurance can mitigate physical losses. This creates scope for greater coordination among:



q) Institutional Investors and Long-Term Capital

The Taxonomy also recognizes pension funds, trust funds and other institutional investors as potential participants in green finance. This creates an opportunity to connect Nepal's long-term savings with long-term infrastructure. The potential structure is: Household savings

1. EPF / CIT / SSF / insurers / investment funds
2. Green bonds / infrastructure securities / funds
3. Resilient infrastructure
4. Economic growth.

The development of such a market could gradually reduce the excessive dependence on commercial-bank balance sheets for long-term infrastructure financing.

r) Data: The Missing Infrastructure

The biggest implementation constraint may be data. The 2026 Guidelines recognize limitations in climate data and technical capacity for climate stress testing. The Taxonomy also emphasizes reporting and monitoring. Nepal needs better integration of:

1. Borrower data;
2. Loan data;
3. Collateral location;
4. Sector exposure;
5. Insurance;
6. Climate hazards;
7. Disaster information;
8. Hydrological and meteorological data.

A future Climate-Financial Risk Data Platform could potentially integrate NRB, BFIs, insurance, geospatial, meteorological, hydrological and disaster information. This would allow banks to move from broad estimates toward borrower- and asset-level climate-risk assessment.

s) Measurement to Risk Pricing

The ultimate objective should be to move from: identifying climate risk to measuring climate risk and eventually: pricing climate risk. A mature system should be able to assess: What is the expected financial loss associated with this climate exposure? and: What is the cost of reducing that exposure? This could eventually affect:

1. Loan pricing;
2. Collateral valuation;
3. Insurance premiums;
4. Project-finance structures;
5. Bond pricing;
6. Investment allocation.

The key principle should be that financial pricing is based on measurable risk, not merely on a "green" label.

t) A Five-Layer Framework for Nepal

Layer	Principal Function
1. Green Finance Taxonomy	Classifies economic activities
2. Environmental & Social Risk Management	Identifies environmental/social risks
3. Climate Risk Management	Identifies physical and transition risks
4. Financial Risk Management	Measures impact on credit, liquidity, market and operational risk
5. Capital Allocation	Directs and prices capital through loans, bonds, insurance, funds and other instruments

This framework can provide the foundation for a more resilient financial system.

u) Policy Priorities

The next phase of implementation should focus on six priorities:

1. Standardized Climate Data
Develop common datasets and geographic climate-risk maps.
2. BFI Climate Stress Testing
Develop Nepal-specific scenarios and methodologies.
3. Climate-Adjusted Credit Assessment
Integrate material climate exposures into credit appraisal and monitoring.

4. Green and Transition Finance
Develop scalable green loans, green bonds, transition finance and resilience finance.
5. Insurance Integration
Use insurance and risk-transfer mechanisms to reduce physical-loss exposure.
6. Institutional Capital
Facilitate participation of pension funds, provident funds, insurers and investment funds in credible taxonomy-aligned assets.

v) Conclusion

Nepal has moved beyond the first stage of green-finance policy. The Green Finance Taxonomy 2024 establishes the framework for identifying and financing green and transitional economic activities. The Risk Management Guidelines 2026 establish the complementary prudential framework for identifying, managing and stress-testing climate-related financial risks. Together, they create the foundation for a new financial architecture. The policy evolution can be summarized as:

Green classification

1. **Climate-risk identification**
2. **Climate-risk measurement**
3. **Stress testing**
4. **Risk-informed capital allocation**
5. **Resilience investment**
6. **Green and climate capital mobilization.**

The central question for Nepal is therefore no longer simply: How much green finance can the financial system report? It is:

Can Nepal build a financial system that identifies climate risk before it becomes credit risk, finances resilience before disasters occur, and mobilizes domestic and international capital toward productive, sustainable and climate-resilient investment?

The answer will depend on implementation. The immediate priority should be to build the missing infrastructure of data, risk modelling, verification, insurance, disclosure, stress testing and capital-market products. If these systems are successfully integrated, the Green Finance Taxonomy can evolve from a classification framework into a national capital-allocation framework, while climate-risk management can become an important pillar of financial stability and resilience. The ultimate objective should be a financial system capable of answering three questions simultaneously:

1. **What are we financing?**
2. **What climate risk are we assuming?**
3. **What financial and resilience value are we creating?**

That is the transition from Green Finance to Climate Finance, from Climate Finance to Climate-Risk Management, and ultimately toward a more resilient Nepalese financial system.

Nepal Rastra Bank, **Nepal Green Finance Taxonomy 2024**. [Official NRB document](#)

Nepal Rastra Bank, **Risk Management Guidelines 2026**. [Official NRB document](#)

KALA LEGAL MONTHLY ECONOMIC OUTLOOK — SPECIAL CHAPTER 2

Venture Debt, Structured Debt, and Nepal's missing Layer of Growth Finance

A Policy Brief on Bridging Nepal's Financing Architecture Gap

1. The Financing Gap Between Equity and Conventional Banking

Nepal's financial system has historically developed around two primary modes of corporate finance: bank credit, which is overwhelmingly secured by tangible collateral and underpinned by established operating histories, and equity capital, comprising private equity (PE), venture capital (VC), and public equity listings. What remains almost completely absent from the national capital-allocation architecture is the intermediate layer of growth-oriented, non-dilutive credit that has matured across other Asian economies as venture debt.

*The financing architecture gap between equity capital and conventional bank credit.*

This structural void poses a critical challenge for high-growth enterprises, technology companies, and growth-stage Micro, Small, and Medium Enterprises (MSMEs). These enterprises frequently demonstrate rapid revenue trajectories, secure institutional equity backing, build valuable intellectual property (IP), establish recurring customer contracts, or generate export earnings. However, they rarely own the land, buildings, or long-standing audited track records required by traditional commercial lending practices.

Venture debt is engineered specifically to serve this segment. Typically structured as an amortized loan carrying a fixed coupon, complemented by equity warrants or modest equity kickers, venture debt is extended on the strength of a company's institutional equity backing, revenue trajectory, and cash-flow runway, rather than physical collateral. Sitting precisely between venture equity and conventional banking finance, it provides essential growth capital without forcing founders and early investors to endure substantial, premature equity dilution.

At present, Nepal possesses no dedicated institutional venture-debt asset class or regulatory framework. The consequence is stark and immediate: growth-stage companies that would otherwise utilize credit to extend their operational runway, fund working capital, or bridge financing between equity rounds must either accept heavy valuation haircuts, issue dilutive equity tranches, or forgo expansion altogether. This issue represents a missing layer in Nepal's financial architecture.

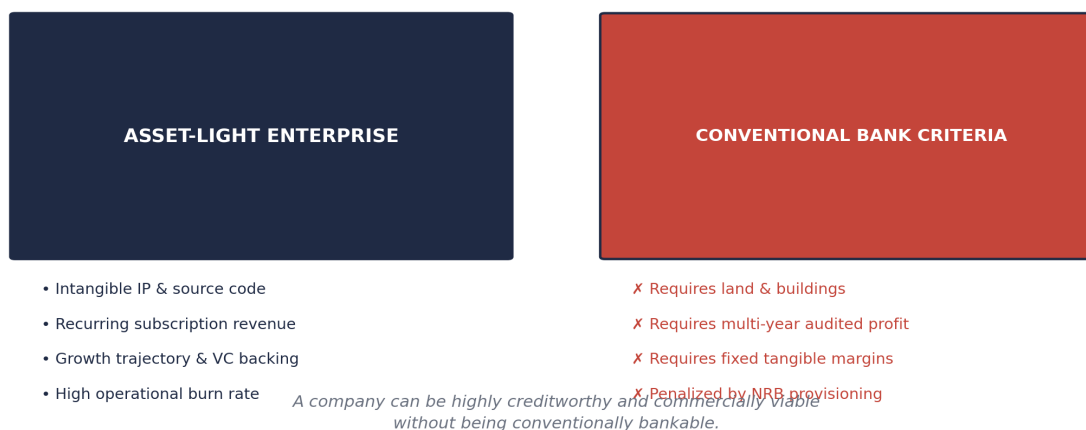
2. Why Conventional Bank Lending Cannot Solve the Structural Deficit

The inability of commercial banks to bridge this gap is not a matter of risk aversion or unwillingness to lend; it is a structural limitation inherent to deposit-taking banking regulation. Commercial bank credit underwriting in Nepal, regulated by Nepal Rastra Bank (NRB), is designed around:

1. Immovable, Tangible Collateral: Heavily weighted toward real estate (land and buildings)
2. Historical Financial Performance: Multi-year audited financial statements and demonstrated historical cash flows
3. Strict Debt-Service Coverage: Established historical repayment capacity rather than projected trajectory
4. Bureau Credit History: Reliance on Credit Information Bureau (CIB) records and established borrower track records
5. Prudential Capital and Provisioning Constraints: Strict NRB loan-loss provisioning rules for uncollateralized or non-traditional facilities

Early-stage technology and asset-light enterprises present the inverse profile. Their primary economic assets consist of intangible holdings — source code, proprietary software, data assets, subscription pipelines, customer relationships, and brand equity. A scaling software enterprise may generate significant economic value and foreign-currency revenue while maintaining a thin balance sheet, zero mortgageable land, and a pre-profit P&L.

Bankability vs. Creditworthiness Gap



The bankability vs. creditworthiness gap facing asset-light enterprises.

This dynamic underscores a fundamental distinction: a company can be highly creditworthy and commercially viable without being conventionally bankable.

Nepal's MSME financing deficit is estimated at US\$ 3.56 billion to US\$ 3.90 billion. This gap affects a sector that accounts for 95.5% of registered establishments, contributes nearly 90% of industrial GDP, and employs approximately 85% of the national workforce. While the Government of Nepal introduced a subsidized, collateral-free start-up loan program, the maximum loan size is capped at NPR 2.5 million (approx. US\$ 19,000) at a 3% subsidized rate. While beneficial for micro-enterprises, this ticket size is insufficient for a scaling growth enterprise requiring tens of millions of rupees in growth capital.

Furthermore, large-scale credit programs, such as the World Bank's US\$ 95 million SME finance facility and the NPR 25 billion Alternative Development Finance Fund, continue to route capital primarily through conventional bank credit channels. Consequently, policy must evolve beyond instructing commercial banks to increase MSME exposure. Nepal must establish specialized financial institutions and market instruments tailored to distinct stages of corporate maturity.

3. Delinking Venture Debt from Structured Debt

A key conceptual issue in Nepal's financial policy discourse is the conflation of venture debt with structured debt. They are fundamentally distinct instruments designed for different enterprise profiles, risk parameters, and balance sheet structures.

Structured debt is a corporate finance mechanism tailored for established companies with physical assets, clear collateral coverage, and predictable operational cash flows. In Nepal, structured debt is emerging primarily through SEBON's draft Debenture Registration and Issuance Regulation, 2026, which establishes a framework for asset-backed corporate debentures (incorporating a proposed 70:30 debt-to-equity cap), alongside green, social, and thematic bond frameworks.

Venture debt, by contrast, is an asset-light, growth-stage instrument deployed where fixed collateral is absent and operating cash flows may still be negative.

Comparative Framework: Venture Debt vs. Structured Debt

Dimension	Venture Debt	Structured Debt
Primary Security	Growth trajectory, institutional equity backing, software/IP, and future equity rounds	Tangible physical assets (land, plant, equipment), receivables, or project cash flows
Typical Borrower	Asset-light, high-growth, pre-profit, or early-profit enterprises	Established, asset-heavy, or cash-flow-visible enterprises
Underwriting Basis	Enterprise value, monthly recurring revenue (MRR), burn rate, runway, and equity pipeline	Debt Service Coverage Ratio (DSCR), fixed asset coverage, and historical balance sheet strength
Founder Dilution	Minimal (limited to warrant coverage, typically 1–3% of round)	None directly, but requires pre-existing debt capacity and collateralization

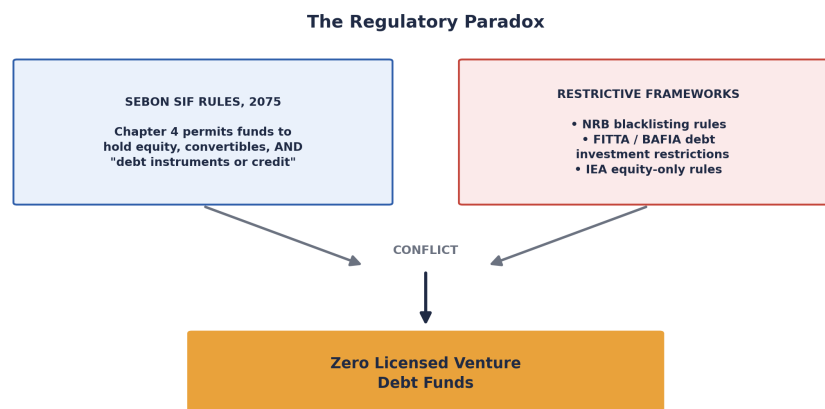
Dimension	Venture Debt	Structured Debt
Lender Upside	Loan interest rate + warrant / equity kicker	Fixed interest coupon; equity participation must be separately structured
Core Target Sectors	SaaS, IT services, digital platforms, health-tech, fintech	Hydropower, renewable energy, manufacturing, hotel/hospitality, infrastructure
Current Regulatory Status	Absent. SIF funds restricted from pure debt; non-bank frameworks undeveloped	Emerging. Advancing through SEBON's draft Debenture Regulations, 2026

This distinction carries operational implications for PE/VC fund portfolio management:

1. Technology & IT-Enabled Services (e.g., Fusemachines, CloudFactory, Foodmandu, Sastodeal): Suffer directly from the absence of venture debt. Unable to pledge fixed collateral, these companies are forced to issue dilutive equity to fund working capital or regional expansion. Structured debt cannot resolve this gap.
2. Renewable Energy & Infrastructure (e.g., Hydropower IPPs): Well-suited for structured debt. Once equity checks bring a project through construction, structured debentures and project bonds can refinance facilities against long-term Power Purchase Agreements (PPAs).
3. Agribusiness & Healthcare: Split internally. Upstream aggregators and health-tech platforms require venture debt or equity, whereas downstream processing plants, cold chains, and physical hospital facilities can utilize structured debt.
4. The Regulatory Paradox in Nepal's Specialized Investment Framework

Nepal's private equity and venture capital industry — pioneered by fund managers such as Dolma Impact Fund, Business Oxygen (BO2), One to Watch, Avasar Venture Limited, True North Associates, WLC Ventures, and Avant Ventures — has operated almost exclusively through equity and equity-like instruments since its inception in the early 2010s. Local equity checks typically range from NPR 10 million to NPR 50 million (Seed) and NPR 50 million to NPR 200 million+ (Series A/Growth).

However, fund managers face a regulatory paradox created by conflicting legal regimes:



Conflicting legal regimes produce zero licensed venture debt funds in Nepal.

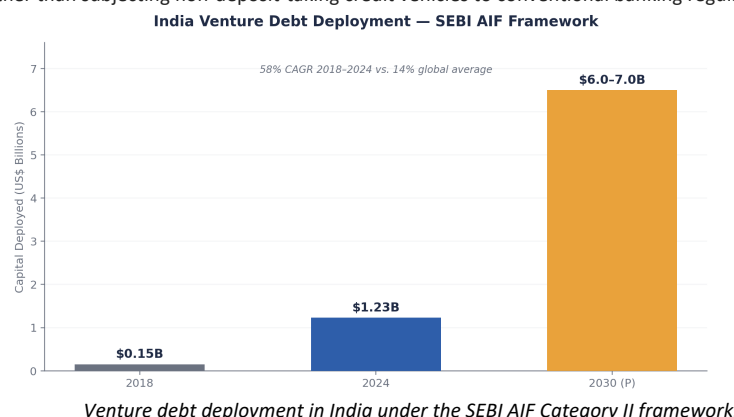
1. The SIF Rules Enabling Language: Chapter 4 of SEBON's Specialized Investment Fund (SIF) Rules, 2075 (2019) explicitly allows licensed PE/VC funds to invest in "equity or securities convertible into ordinary shares or debt instrument or credit or any other instruments related to equity."
2. The Subordinate Directive Deficit: SEBON has never issued specific directives, risk-concentration limits, or valuation norms governing pure credit portfolios. Consequently, no dedicated venture-debt fund has been licensed under this provision.
3. External Statutory Blockades: NRB Blacklisting Rules penalize equity funds if portfolio companies default on debt, discouraging hybrid debt-equity structures; FITTA, 2075 and BAFIA, 2073 restrict foreign-backed PE/VC funds from advancing credit, reserving credit provisioning exclusively to NRB-licensed BFIs; and Schedule 8 (Notice No. 65) of the Industrial Enterprises Act, 2076 restricts registered investment companies to share-capital investments, explicitly prohibiting loans, bonds, and debentures.

This market framework yields a rigid structure: commercial banks are restricted to collateralized lending, PE/VC funds are confined to pure equity, and the specialist credit institutions that operate between these two models remain legally constrained.

Nepal's tech ecosystem features approximately 4,000 start-ups, with over 205 enterprises having raised institutional equity totaling US\$ 258 million. The underlying market pipeline exists; however, the legal and regulatory framework has not evolved to support non-dilutive credit instruments.

5. Comparative Asian Regulatory Models

The expansion of venture debt in major Asian economies provides operational models relevant to Nepal. A primary driver across these markets was the decision by financial authorities to establish clean registration pathways under securities regulators (such as SEBI in India or MAS in Singapore), rather than subjecting non-deposit-taking credit vehicles to conventional banking regulations.



A. India: The SEBI AIF Structure

Market Scale: Expanded from a nascent base in 2015 to US\$ 1.23 billion deployed in 2024 (representing a 58% CAGR from 2018–2024, compared to a 14% global average). Projected by BCG and Trifecta Capital to reach US\$ 6–7 billion by 2030.

Regulatory Mechanism: Driven by the Securities and Exchange Board of India (SEBI) under its Alternative Investment Fund (AIF) Category II framework. This vehicle allowed specialized non-banking financial companies (NBFCs) and closed-end credit funds (e.g., Trifecta, Alteria, Stride Ventures, InnoVen, BlackSoil) to raise domestic and institutional LP capital without operating as deposit-taking institutions.

Complementary Dynamics: Venture debt developed in tandem with venture equity. As India's venture equity market expanded to US\$ 12 billion in 2024, venture debt scaled to represent 10–15% of annual equity deployment.

B. Singapore & Southeast Asia: LP Co-Lending & Digital Bank Integration

Market Structure: Led by platforms like Genesis Alternative Ventures and InnoVen Capital SEA. Genesis Fund I closed at US\$ 80 million, with Fund II targeting US\$ 150 million.

Regulatory Integration: Governed under the Monetary Authority of Singapore's (MAS) fund management regime. A key precedent is the Genesis Alternative Ventures x Superbank (Indonesia) partnership, which established a US\$ 40 million joint facility. Under this model, the specialist venture lender performs the startup underwriting and risk assessment, while the digital bank provides underlying credit lines, allowing the bank to access startup assets without assuming direct underwriting exposure.

C. China: The Investment-Loan Linkage Model

Mechanism: Introduced nationwide in 2015, China's state-sponsored Investment-Loan Linkage Pilot formally enabled commercial banks to pair credit facilities with VC equity rounds for technology SMEs.

Underwriting Shift: Banking regulators permitted credit committees to base underwriting decisions directly on institutional VC due diligence, valuation metrics, and equity follow-on commitments, replacing real estate collateral requirements.

D. Precedents in Nepal: One to Watch COVID-19 MSME Fund (2020)

Local Proof-of-Concept: During the COVID-19 pandemic, One to Watch structured a blended-finance credit facility combining international donor capital with three commercial banks (NMB Bank, Laxmi Bank, Nabil Bank) to disburse non-collateralized loans to cash-strapped MSMEs.

Outcome: The facility demonstrated strong repayment rates among first-time bank borrowers, confirming domestic execution capability. However, it operated as a temporary, donor-subsidized vehicle. A SEBON-licensed venture debt framework would institutionalize this model on a permanent, commercial basis.

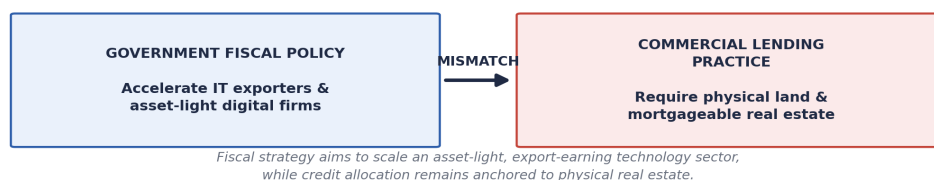
6. The Policy Imperative: Supporting IT Exporters and High-Growth Sectors

The policy imperative for venture debt is reinforced by Nepal's macroeconomic and fiscal stance. The Government of Nepal elevated Information Technology and digital innovation to a core economic pillar, declaring an “IT Decade” and moving digital governance under the Prime Minister's Office.

Current tax policy reflects this strategic orientation:

1. **Income Tax Exemption:** A 5-year full income tax exemption for IT start-ups with annual turnover below NPR 100 million.
2. **Export Tax Concessions:** A 75% tax rebate on export-based IT service earnings, reducing the effective corporate tax rate to approximately 6%–7% on foreign-currency technology revenue.

The Policy Mismatch



Fiscal policy favors asset-light IT exporters, but lending practice still requires physical collateral.

This creates a policy misalignment: fiscal strategy aims to scale an asset-light, export-earning technology sector, while the credit allocation mechanism remains anchored to physical real estate. A SEBON-regulated Venture Debt Fund would bridge this structural gap, offering structured credit for:

1. **Working Capital & Hiring:** Funding software engineering talent expansion ahead of revenue collection cycles
2. **Export Market Expansion:** Financing international marketing and client acquisition without triggering founder dilution
3. **SaaS & Subscription Scaling:** Lending against monthly recurring revenue (MRR) and contracted foreign-currency inflows
4. **Bridge Financing:** Extending cash runway between Series A and Series B equity rounds to preserve founder equity value
5. **Capital Expenditure:** Financing server infrastructure, hardware, and specialized technology acquisitions

7. Comprehensive Regulatory Mapping Matrix

To establish a functioning venture debt ecosystem in Nepal, legislative and regulatory friction across multiple jurisdictions must be systematically addressed. The matrix below outlines the primary legal barriers, governing statutes, operational impacts, and proposed policy remedies.

	Regulatory Area	Governing Law	Operational Impact	Proposed Remedy	Lead Authority
1	Domestic Venture Debt Authorization	SIF Rules, 2075 (Ch. 4, Fund Definitions)	SIF Rules reference “debt instruments or credit” but lack an explicit sub-category, so managers cannot register pure credit funds.	Issue an explicit SEBON Directive recognizing “Venture Debt Fund” as a licensed SIF category with credit-portfolio disclosure, valuation, and concentration norms.	SEBON
2	FDI Drawdown & Repatriation	FITTA, 2075 (Ch. 3, Secs 15–20); FITTA Rules, 2077	Every LP drawdown and distribution requires itemized DOI/NRB approval, disrupting pooled fund deployment schedules.	Implement a single, fund-level FDI approval framework at SIF registration, streamlining LP drawdowns via the FITTA single-window.	DOI / MOICS / NRB
3	Per-Investee FDI Thresholds	FITTA, 2075 (Sec 13); Gazette Notification (14 Nov 2022)	Minimum FDI threshold of NPR 20 million per investment prevents funds deploying smaller, diversified venture-debt tickets.	Issue a Gazette Notification exempting SEBON-licensed Venture Debt Funds from the per-investee FDI floor, as with the IT sector.	MOICS / DOI

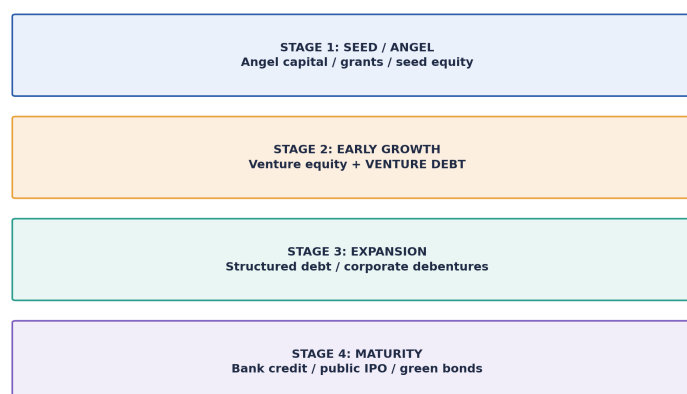
	Regulatory Area	Governing Law	Operational Impact	Proposed Remedy	Lead Authority
4	Credit Information Bureau Access	NRB Act, 2058 (Sec 88); NRB Credit Information Regulations, 2059	Non-bank SIF funds cannot query or report to the CIB, preventing objective credit checks and defaulter reporting.	Enact an NRB Directive / SEBON-NRB MoU granting licensed Venture Debt Funds CIB reporting and query access.	NRB / SEBON
5	Recovery & Debt Recovery Tribunal	Debt Recovery Act, 2058; BAFIA, 2073 (Ch. 6, Sec 43)	Expedited DRT recovery procedures are restricted to NRB-licensed BFIs, exposing venture funds to multi-year civil litigation.	Amend the Debt Recovery Act, 2058 to extend DRT jurisdiction to SEBON-licensed Venture Debt Funds.	MOF / NRB / DRT
6	FDI Negative List Application	FITTA, 2075 (Schedule / Annexure Clause 3)	Sectoral FDI negative lists are sometimes applied to the fund vehicle itself rather than portfolio-level investments.	Issue a joint SEBON-DOI clarification that SIF vehicles are onshore entities, with checks applied at the investee level only.	SEBON / DOI
7	Tax Neutrality & Pass-Through	Income Tax Act, 2058 (Sec 88 & Schedule 1)	SIF credit vehicles lack explicit pass-through status, creating double-taxation risk on fund-level interest and warrant gains.	Amend Sec 88 via the Finance Act to extend explicit pass-through tax treatment to SEBON-licensed SIF credit vehicles.	MOF / IRD
8	Investment Company Ceilings	Companies Act, 2063 (Sec 176); OCR Directive, 2015 (Clause 90)	OCR Directive Clause 90 still references an outdated 90% paid-up capital cap despite Sec 176 removing investment caps.	OCR to issue a conforming administrative amendment affirming SIF investment entities operate without ceiling restrictions.	Office of Company Registrar
9	Investment Company Credit Restrictions	Industrial Enterprises Act, 2076 (Schedule 8, Notice No. 65)	Schedule 8 restricts investment companies to share-capital investments, prohibiting loans, debentures, or debt facilities.	MOICS to issue a statutory notification carving out SEBON-licensed Venture Debt Funds from generic debt restrictions.	MOICS / DOI

8. Structured Debt as a Complementary Corporate Finance Mechanism

While venture debt targets asset-light, high-growth startups, Nepal is concurrently formalizing its corporate bond and structured debt ecosystem. Rather than serving as a replacement for venture debt, structured debt offers a mechanism for asset-heavy, cash-flow-predictable enterprises. SEBON's draft Debenture Registration and Issuance Regulation, 2026 introduces crucial structural reforms:

1. **Collateral Flexibility:** Moving beyond rigid real-estate mortgages to allow debentures secured by equipment, receivables, project assets, and contract cash flows
2. **Debt-to-Equity Framing:** Codifying a maximum 70:30 debt-to-equity ratio for debenture issuers
3. **Thematic Instruments:** Establishing standardized issuance frameworks for Green, Social, and Sustainable Bonds

The Corporate Financing Ladder



The corporate financing ladder, from seed equity through public markets.

This development expands corporate financing options across capital-intensive sectors:

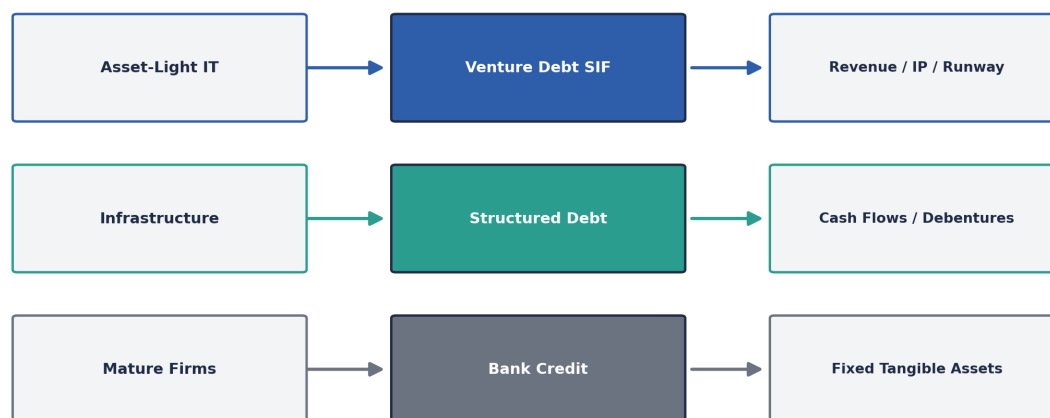
1. Hydropower & Clean Tech: Refinancing construction-phase loans into long-dated project debentures
2. Hospitality & Real Estate: Structuring asset-backed debt for branded hotel properties and tourism infrastructure
3. Manufacturing & Industrial Plant: Financing plant modernizations and capital equipment additions
4. Agri-Processing: Issuing inventory and supply-chain backed debentures

Venture debt and structured debt form distinct links in a maturing capital market. A software enterprise may progress from seed equity to venture debt, whereas a hydropower enterprise will transition from sponsor equity to project debt and corporate debentures.

9. Developing a Diversified Financial Ecosystem

The overarching objective of these regulatory reforms is to build an integrated financial ecosystem that matches capital supply to the underlying risk profile and asset base of the enterprise.

Target Model: Risk-Sensitive Financial Intermediation



Target model: risk-sensitive financial intermediation matched to enterprise profile.

1. Early-Stage Enterprises: Supported primarily by angel equity, grant mechanisms, and initial equity rounds
 2. Growth-Stage, Asset-Light Enterprises: Supported by a combination of venture equity and SEBON-licensed venture debt
 3. Established, Asset-Backed Enterprises: Serviced by conventional commercial bank loans and structured corporate debentures
 4. Capital-Intensive Infrastructure: Financed via syndicated project finance, public-private partnerships (PPPs), and thematic bonds
 5. Institutional Capital Allocation: Institutional investors (pension funds, the Citizen Investment Trust, Social Security Fund, insurance firms) deploy capital across equity, private credit SIFs, and public corporate debentures
- Transitioning toward this model reduces systemic dependence on commercial banks for every category of business financing.

10. Actionable Policy Agenda for Nepal

To establish venture debt and structured debt as viable asset classes, Nepalese regulatory authorities should prioritize the following action items:

A. Phase 1: Immediate Regulatory Directives (SEBON & NRB)

1. SEBON Directive on Venture Debt: Issue an explicit administrative directive under the SIF Rules, 2075 establishing "Venture Debt Fund" as a licensed SIF category, with clear guidelines for warrant structures, portfolio concentration, and valuation methods.
2. NRB-SEBON Credit Information Framework: Formulate an NRB-SEBON MoU granting licensed SIF credit funds read/write access to the Credit Information Bureau (CIB) for underwriting and defaulter-listing purposes.
3. Institutional Investor LP Participation: NRB and the Insurance Authority should clarify prudential guidelines enabling commercial banks and insurance companies to commit a designated percentage of capital as LPs into SEBON-licensed credit funds.

- B. Phase 2: Statutory Inter-Agency Harmonization (MOF, MOICS, DOI, OCR)
 - 1. FITTA Fund-Level Approval Framework: Department of Industry (DOI) to implement single-window, fund-level FDI approvals for SIF vehicles, replacing itemized transaction-by-transaction checks.
 - 2. FDI Floor Exemption: MOICS to issue a Gazette notification exempting SIF Venture Debt Fund investees from the NPR 20 million minimum FDI threshold, extending the precedent set for the IT sector.
 - 3. Removal of Industrial Enterprise Act Restraints: MOICS to publish a notification clarifying that Schedule 8 restrictions on investment company debt issuance do not apply to SEBON-regulated SIF credit vehicles.
 - 4. Harmonizing Company Directives: Office of the Company Registrar (OCR) to issue a formal update conforming Clause 90 of the 2015 Directive with Section 176 of the Companies Act, 2063.
- C. Phase 3: Tax Pass-Through & Recovery Mechanisms
 - 5. Statutory Tax Pass-Through: Amend Section 88 of the Income Tax Act, 2058 via the Finance Act to grant explicit pass-through tax status to SIF credit funds, avoiding fund-level double taxation on interest and warrant returns.
 - 6. DRT Jurisdiction Extension: Ministry of Finance to introduce targeted amendments to the Debt Recovery Act, 2058, extending Debt Recovery Tribunal jurisdiction to claims asserted by SEBON-licensed credit funds.
 - 7. Formalizing Structured Debentures: Expedite the formal gazetting and implementation of SEBON's Debenture Registration and Issuance Regulation, 2026, clarifying frameworks for green, social, and asset-backed corporate debt.

11. Implication for Financial-Sector Policy

Nepal's corporate financing challenges stem less from a shortage of domestic liquidity than from structural constraints in how capital is channeled into productive enterprise.

A commercial bank may maintain high capital adequacy and surplus liquidity while remaining structurally unequipped to assess an uncollateralized software start-up. A private equity fund may possess capital to invest but remain legally constrained from extending credit. Institutional investors may seek fixed-income yields but lack regulated non-bank vehicles to participate in private credit.

The solution requires developing financial instruments calibrated to different enterprise risk profiles.

Venture debt should not be viewed as a regulatory concession to tech start-ups, nor should structured debt be treated merely as an extension of bank lending. Both instruments represent core components of a broader transition from a bank-dependent, real-estate-collateralized financial system toward a diversified capital market. Regulatory policy must pivot from uniform financial constraints toward risk-sensitive financial intermediation.

12. Conclusion: Filling the Missing Middle

Nepal has laid the foundations of a private equity and venture capital ecosystem, while regulatory authorities continue to build out the corporate debenture framework. What remains to be established is the intermediate credit layer connecting equity capital and collateralized bank credit.

This missing middle is vital for asset-light enterprises whose value is tied to software code, intellectual property, contract pipelines, recurring export revenues, and market expansion potential.

The policy opportunity for Nepal lies not in copying foreign venture-debt models, but in adapting these mechanisms to the country's legal and institutional framework. The existing SIF Rules, 2075 provide a foundational starting point. The primary task is ensuring inter-agency alignment among SEBON, Nepal Rastra Bank, the Department of Industry, the Ministry of Industry, Commerce and Supplies, and the Inland Revenue Department.

Simultaneously, finalizing the draft Debenture Regulations will ensure that asset-heavy, cash-flow-predictable enterprises can access long-term structured corporate debt.

The broader objective is to establish a capital market where the financing instrument aligns with the economic fundamentals of the enterprise — rather than forcing the enterprise to alter its business model to fit a single credit framework.

Section 1 Overview 2026/27

1) The background

Economic Outlook and Political Stability and Economic Reform in Nepal

1. Background: From Political Transition to Economic Transformation

Assessing Nepal's economic outlook in 2026 requires looking beyond the conventional relationship between political stability and economic growth. Nepal has undergone a major political transition since the youth-led protests of September 2025, followed by an interim administration, parliamentary elections in March 2026, and the formation of a new government under Prime Minister Balendra Shah in March 2026. The new administration entered office with a strong electoral mandate and an explicit emphasis on governance, transparency, public-service delivery and economic transformation. (OPMCM) The central economic question is therefore no longer simply whether Nepal can achieve political stability. It is whether the new political environment can be translated into institutional stability, policy continuity, regulatory predictability and faster economic execution.

Democracy itself is not the problem. It remains one of Nepal's principal institutional strengths. The challenge is to ensure that political competition does not repeatedly interrupt economic policy, infrastructure implementation and institutional reform. Nepal needs a system in which changes in government do not automatically result in changes in economic direction.

The experience of recent years demonstrates that political transition can create both opportunity and uncertainty. Businesses and investors increasingly seek predictability in taxation, regulation, licensing, project approvals and capital repatriation. Political legitimacy must ultimately be converted into institutional credibility. The present moment therefore represents an opportunity to move from political transition to economic transformation.

2. Nepal's Two Opposite Economic Problems

Nepal currently faces two apparently contradictory economic conditions.

On one side, the financial system has substantial liquidity and strong external-sector buffers. By September 2026, total deposits had reached approximately NPR 8.38 trillion against total lending of around NPR 6.02 trillion, with the banking system's CD ratio at about 71.2%. Private-sector credit growth remained moderate at 7.1%. Interest rates have also declined significantly, with the weighted average lending rate of commercial banks at approximately 6.48%. On the other side, the government faces a growing shortage of fiscal resources relative to its development, reconstruction and climate-related obligations. This creates Nepal's central economic paradox:

The financial system has liquidity, but the fiscal system lacks sufficient resources to meet the country's expanding investment and reconstruction requirements. The challenge is therefore not merely to create more liquidity. It is to convert available domestic and external financial resources into productive investment while simultaneously strengthening the government's revenue capacity and public-investment execution.

The August 2026 Rasuwa–Bhotekoshi/Trishuli disaster has made this contradiction considerably more serious. The preliminary government assessment estimates total disaster effects at approximately NPR 408 billion and recovery and reconstruction requirements at NPR 723 billion. This means Nepal must finance reconstruction at a time when it was already struggling to mobilize and execute its normal capital budget.

3. Political Stability Must Become Institutional Stability

The change in government following the 2025 political crisis and the subsequent 2026 election has created a new political environment. The government now has a strong parliamentary mandate, but political legitimacy alone cannot guarantee economic transformation. The critical test is whether the government can establish:

- a) Continuity of economic policy;
- b) Predictable regulation;
- c) Credible institutions;
- d) Transparent decision-making;
- e) Timely project implementation;
- f) Stronger rule of law;
- g) Professional public administration; and
- h) Effective public-private dialogue.

The debate over constitutional and institutional reform remains active, while some legislative reform initiatives have moved more slowly than initially anticipated.

The lesson is important: a strong political mandate must eventually become a strong institutional mandate. Nepal does not need another cycle in which political change produces new policies before previous policies have been implemented. The priority should be institutionalizing reforms so that economic policy becomes less dependent on individual governments.

4. The Public–Private Interface: Nepal's Hidden Fault Line

Many of Nepal's economic problems do not originate entirely within either government or the private sector. They emerge at the interface between the two. Government creates the legal, regulatory and infrastructure framework within which businesses operate. The private sector provides investment, employment, innovation, technology and productive capacity. The problem arises when this relationship is characterized by:

- a) Regulatory uncertainty;
- b) Excessive licensing;
- c) Inconsistent interpretation of laws;
- d) Delayed approvals;
- e) Retrospective taxation;
- f) Weak coordination among agencies;
- g) Information asymmetry;
- h) Excessive compliance costs; and
- i) Inadequate institutional accountability.

The objective of reform should therefore not be to choose between government and business. It should be to improve the quality of interaction between government and business. Nepal's most important economic fault lines increasingly lie within the institutions and processes connecting the public and private sectors.

5. From Incremental Growth to Structural Transformation

Nepal's long-term growth performance remains insufficient to absorb its expanding working-age population and rising aspirations. The IMF's June 2026 assessment projected real GDP growth of around 3.0% for FY2025/26 and 4.6% for FY2026/27, with risks arising from domestic vulnerabilities and global uncertainty. ([IMF](#))

The objective should therefore not be simply to restore growth to its historical average. Nepal needs a sustained period of higher productivity and investment-led growth. A sustainable transformation agenda should target:

- a) Higher productivity;
- b) Greater private investment;
- c) stronger capital formation;
- d) Faster infrastructure execution;
- e) Export diversification;
- f) Higher-value tourism;
- g) Digital services;
- h) Energy exports;
- i) Productive use of remittances; and
- j) Climate-resilient infrastructure.

The distinction is fundamental: Nepal does not primarily suffer from a shortage of money; it suffers from a shortage of investable projects, execution capacity, institutional predictability and mechanisms that convert savings into productive capital.

6. Seven Structural Priorities for Nepal

6.1. Climate Resilience Must Become an Economic Policy

The August 2026 disaster fundamentally changes Nepal's development equation. The RDNA estimates approximately NPR 274.5 billion of physical damage and NPR 133.8 billion of economic losses, with total recovery and reconstruction needs of approximately NPR 723.3 billion. Infrastructure accounted for the largest share of the impact, while 13 hydropower projects with approximately 759 MW of combined capacity were affected. ([Rural Reconstruction Nepal](#))

Climate resilience can no longer be treated as a separate environmental agenda. Every major infrastructure project should incorporate:

- 1) Climate-risk assessment;
- 2) Disaster-resilient engineering;
- 3) Insurance and risk-transfer mechanisms;

- 4) Contingency financing;
- 5) Early-warning systems;
- 6) Resilient transmission and transport networks; and
- 7) Disaster-recovery protocols.

Nepal should also develop a Climate Resilience Investment Framework integrating public finance, insurance, concessional finance, private capital and international climate finance. The fiscal implications are substantial. Reconstruction will increase public expenditure at precisely the time when domestic revenue mobilization is constrained. If foreign grants and concessional financing do not increase proportionately, climate-related reconstruction will place additional pressure on the domestic budget and public debt. Nepal's diplomatic effort should therefore increasingly connect climate justice, loss and damage, concessional finance and Himalayan resilience.

6.2. Evidence-Based Agriculture Rather Than Policy Slogans

Agricultural policy should be based on productivity, nutrition, food security and ecological sustainability rather than slogans. The debate over organic or chemical-free agriculture should therefore be evidence-based. Policy should examine:

- a) Yields;
- b) Farmer income;
- c) Nutritional quality;
- d) Soil health;
- e) Input costs;
- f) Food-security implications;
- g) Import dependence; and
- h) Environmental effects.

Nepal should promote agricultural systems that are simultaneously economically viable, nutritionally secure and environmentally sustainable.

6.3. Dismantling the Compliance Burden

Nepal's regulatory environment remains a significant constraint on entrepreneurship and investment. The reform agenda should move from creating new regulations to reviewing the accumulated stock of existing regulations. A comprehensive regulatory audit should identify:

- a) Obsolete laws;
- b) Overlapping approvals;
- c) Duplicate reporting requirements;
- d) Unnecessary licenses;
- e) Excessive inspection requirements;
- f) Unclear institutional jurisdictions; and
- g) Regulations that create disproportionate costs for small and medium enterprises.

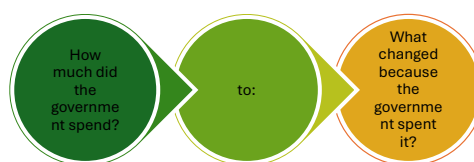
The objective should be simple: One investment, one registration process, one accountable authority and predictable timelines. Regulatory reform should be measured by the time and cost saved by citizens and businesses rather than by the number of laws enacted.

6.4. Closing Nepal's Aspirations Gap

Economic growth should ultimately be judged by whether it improves people's economic opportunities. GDP remains an important macroeconomic indicator, but it cannot by itself measure:

- a) Access to employment;
- b) Quality of public services;
- c) Household economic security;
- d) Social mobility;
- e) Institutional trust;
- f) Entrepreneurship; and
- g) Confidence in the future.

Government ministries should therefore increasingly be evaluated through measurable outcomes. The question should shift from:



This requires outcome-based performance contracts, measurable service-delivery indicators and transparent public reporting.

6.5. A Four-Stakeholder Trust Model

Nepal's development model should be based on cooperation among four principal stakeholders:



Government provides institutions and public goods. Business provides investment, innovation and employment. Academia provides research, evidence and human capital. Civil society provides accountability, social oversight and community engagement. A structured mechanism for these four stakeholders to work together at federal, provincial and local levels could significantly improve policy implementation. The municipality or district can become an important unit for translating national policy into measurable development outcomes.

6.6. Accelerating Digital Public Infrastructure

Nepal's digital economy represents one of its most promising areas for diversification. Digital payments, financial technology, IT services, digital government and technology-enabled exports can help Nepal overcome some of the constraints associated with its geography. The next phase should focus on:

- a) Digital public infrastructure;
- b) Secure digital identity;
- c) Interoperable government systems;
- d) Cybersecurity;
- e) Data protection;
- f) Digital payments;
- g) AI-enabled public services; and
- h) Export-oriented IT services.

Digital reform should not be viewed solely as a technology project. It is a governance reform. The objective should be to make government services faster, cheaper, more transparent and easier to access.

6.7. Removing Structural Constraints on Capital

Nepal needs a broader financing architecture. Traditional collateral-based bank lending cannot alone finance the country's long-term infrastructure and industrial requirements. Nepal should develop deeper capital markets and alternative financing instruments, including:

- a) Infrastructure bonds;
- b) Project finance;
- c) Private equity;
- d) Venture and structured debt;
- e) Green bonds;
- f) Diaspora investment;
- g) Blended finance;
- h) Credit guarantees;
- i) Local-currency infrastructure financing; and
- j) Public-private partnerships.

The banking system's current liquidity provides an important opportunity, but liquidity should not be mistaken for productive investment. The policy challenge is to create bankable projects and investable instruments capable of connecting domestic savings with long-term productive assets.

7. Fiscal Reform: The Missing Half of Economic Transformation

Nepal's fiscal challenge has become more complex. The FY2026/27 budget is approximately NPR 2.124 trillion, including NPR 1.27 trillion in recurrent expenditure, NPR 431 billion in capital expenditure and NPR 422 billion in financial management. Revenue is projected at approximately NPR 1.404 trillion, supplemented by grants and borrowing. However, implementation remains the critical weakness.

By 23 September 2026, government revenue collection stood at about 12.7% of the annual target, while capital expenditure was only about 2.47% of the annual allocation. (FCGO) This highlights Nepal's deeper fiscal problem: The issue is not simply the size of the budget; it is the credibility of revenue, the quality of expenditure and the capacity to execute capital investment.

The challenge is now becoming more acute because reconstruction and climate-resilience spending will add to normal fiscal requirements. Nepal therefore needs simultaneous reform on three fronts:



Revenue reform

Broaden the tax base, improve compliance, reduce leakage and create predictable taxation.



Expenditure reform

Reduce low-productivity recurrent expenditure and protect productive capital expenditure.



Financing reform

Mobilize concessional finance, private capital, climate finance and domestic savings without creating unsustainable debt pressures.

8. Blended Finance for Nepal's Mega-Projects

Nepal's transformational infrastructure requirements cannot be financed exclusively through the government budget. Hydropower, transmission lines, airports, roads, tunnels, digital infrastructure, urban infrastructure and climate-resilient transport require long-term financing structures. Blended finance should therefore combine:

- a) Concessional public finance;
- b) Development-finance institutions;
- c) Private capital;
- d) Commercial bank lending;
- e) Guarantees;
- f) Viability-gap financing; and
- g) Local-currency instruments.

The objective is not simply to mobilize more money. It is to reduce investment risk sufficiently to make strategically important projects commercially financeable. This approach is particularly relevant after the 2026 floods, which demonstrated that infrastructure risk is no longer merely a construction or financial risk; it is increasingly a climate risk.

9. Remittances: From Consumption to Capital Formation

Remittances remain one of Nepal's most important external-sector strengths.

The IMF estimated workers' remittances at approximately US\$15.2 billion in FY2025/26, equivalent to about 33% of GDP, while official reserves remained exceptionally strong. (IMF)

The policy question is not whether remittances should be used for consumption. Remittances support household welfare and domestic demand. The more important question is whether Nepal can create additional instruments through which a portion of remittance savings can voluntarily flow into productive investment. Potential instruments include:

- a) Diaspora bonds;
- b) Infrastructure funds;
- c) Project-specific investment vehicles;
- d) Pension and long-term savings products;
- e) Hydropower and transmission funds;
- f) SME investment funds; and
- g) Professionally managed diaspora investment platforms like "N.R.N. Nepal Development Fund"

The objective should be **financial intermediation of remittance savings**, rather than administrative restrictions on remittance use.

10. Financial Sector: From Excess Liquidity to Productive Credit

Nepal's banking sector currently illustrates the country's broader economic paradox. The banking system has substantial deposits and liquidity, while private-sector credit growth remains moderate. As of 20 September 2026, deposits were approximately NPR 8.38 trillion and lending approximately NPR 6.02 trillion, with a CD ratio of 71.19%. This indicates that the constraint is increasingly on the demand and quality of credit, rather than simply on the supply of liquidity. Banks remain cautious because of:

- a) Weak private investment demand;
- b) Project delays;
- c) Collateral dependence;
- d) Asset-quality concerns;
- e) Regulatory uncertainty; and
- f) Limited availability of bankable projects.

Financial-sector reform should therefore focus on improving the ecosystem around credit rather than merely forcing banks to lend more. Nepal needs mechanisms that allow banks to finance viable productive enterprises while managing credit risk appropriately.

11. Investment Confidence and Legal Certainty

Investment confidence depends on more than tax incentives. Investors require confidence that:

- a) Contracts will be respected;
- b) Regulations will be predictable;
- c) Taxation will not be applied retrospectively;
- d) Profits can be repatriated;
- e) Disputes can be resolved efficiently;
- f) Licenses will be issued within defined timelines; and
- g) Regulatory institutions will act consistently.

Legal certainty should therefore become a central component of Nepal's investment policy. The country should move toward a principle of regulatory predictability rather than regulatory discretion.

12. Regional Integration and Climate Diplomacy

Nepal cannot address climate vulnerability, energy markets, air pollution or connectivity in isolation. Its future economic model is increasingly regional. Energy exports, cross-border transmission, tourism, digital services, transport connectivity and climate resilience require stronger cooperation with India, China and the wider international community.

The 2026 disaster has also strengthened the argument for a more active Himalayan climate diplomacy. Nepal has increasingly framed the disaster through the lens of climate justice and loss-and-damage financing, while seeking stronger regional cooperation on resilience and disaster response. ([The Indian Express](#))

Nepal's diplomatic objective should be to convert its climate vulnerability into a platform for:

- a) Concessional climate finance;
- b) Regional early-warning systems;
- c) Resilient infrastructure investment;
- d) Disaster-risk insurance;
- e) Technology transfer;
- f) Cross-border environmental cooperation; and
- g) Greater access to international loss-and-damage mechanisms.

13. Decriminalizing Business: From Fear of Regulation to Trust-Based Governance

Nepal should undertake a systematic review of economic, commercial, tax, labour, corporate and sectoral laws to distinguish between genuine criminal conduct, fraud and wilful violations on the one hand, and minor, technical or procedural non-compliance on the other. Minor procedural defaults should generally attract civil or administrative penalties rather than criminal prosecution.

India provides a useful regional reference. Its Jan Vishwas (Amendment of Provisions) Act, 2023 decriminalised 183 provisions across 42 Central Acts, replacing imprisonment for minor violations with monetary penalties, administrative mechanisms and, in selected cases, compounding. ([Press Information Bureau](#)) India has subsequently expanded the approach: the Jan Vishwas (Amendment of Provisions)

Act, 2026, effective from April 2026, rationalised provisions across 79 Central Acts, with 717 provisions decriminalised. The reform includes converting imprisonment and fines into civil penalties, removing certain fines altogether, introducing warnings for first-time defaults and expanding compounding mechanisms. ([Press Information Bureau](#))

Nepal could adapt this approach through a “Jan Vishwas–type Economic Law Reform Programme”, undertaking a comprehensive audit of provisions under BAFIA, the Companies Act, Securities legislation, tax laws, labour legislation, industrial laws, environmental laws and other economic statutes. The principle should be:

Fraud, corruption, willful misconduct and serious harm should remain criminal offences; technical, procedural and first-time compliance failures should normally be addressed through warnings, corrective orders, civil penalties or administrative adjudication.

Such reform would have three important effects: reduce unnecessary criminal litigation, improve regulatory efficiency, and increase investor and entrepreneurial confidence. India's reform rationale explicitly recognizes that criminal sanctions for technical and procedural violations can clog the justice system and divert enforcement resources away from serious offences. ([Press Information Bureau](#))

For Nepal, this is particularly relevant to the broader objective of moving from a compliance-by-fear model to a compliance-by-trust model.

14. Observable Signals for Nepal's Next 18 Months

Rather than judging Nepal's transformation through political rhetoric, several measurable indicators should be monitored.

14.1. Capital expenditure execution

The first test will be whether capital expenditure moves decisively above the current very low execution rate.

14.2. Productive private-sector credit

The second will be whether banking-sector liquidity begins translating into higher-quality lending to productive sectors rather than speculative or consumption-driven activity.

14.3. Revenue mobilization

The third will be whether domestic revenue grows sufficiently to finance expanding recurrent, development and reconstruction obligations.

14.4. Private and foreign investment

The fourth will be whether regulatory reforms translate into actual increases in domestic investment, FDI commitments and project implementation.

14.5. Climate-resilient reconstruction

The fifth will be whether reconstruction after the Bhotokoshi–Trishuli disaster is financed and implemented through a resilience-based framework rather than simply rebuilding damaged assets to their previous standards.

14.6. Legislative and regulatory reform

The sixth will be whether the government's announced governance reforms become enacted laws, functioning institutions and measurable improvements in service delivery. Current reporting indicates that several major legislative initiatives remain subject to drafting and parliamentary processes despite the government's strong majority.

14.7. Remittance mobilization

The seventh will be whether Nepal develops credible financial instruments capable of connecting diaspora savings with productive domestic investment.

15. From Incrementalism to Transformation

Nepal stands at an unusual economic crossroads. It possesses strong remittance inflows, substantial foreign-exchange reserves, a liquid banking system, expanding digital capability, significant hydropower potential and a large diaspora. At the same time, it faces weak capital-expenditure execution, limited fiscal space, modest private investment, regulatory uncertainty, insufficient job creation and increasingly severe climate-related risks. The August 2026 disaster has added another dimension: Nepal must now finance both development and resilience simultaneously. This creates a need for a different economic compact.

1. Government must improve execution and fiscal credibility.
2. The financial sector must transform liquidity into productive investment.
3. The private sector must invest in productivity, technology and employment.
4. Development partners must provide more effective concessional and climate finance.
5. The diaspora must be given credible mechanisms to invest in Nepal.
6. And political leadership must provide the institutional continuity necessary for these investments to succeed.
7. The ultimate objective should not simply be a larger GDP.

It should be a Nepal in which economic growth produces productive employment, stronger institutions, resilient infrastructure, competitive enterprises, better public services and greater confidence in the future. The country has entered a new political chapter. The more important question now is whether it can turn that political transition into a durable economic transformation. Nepal's next phase should therefore be defined not by how much change is promised, but by how much change is executed.

2) NRB Macroeconomic Report – Analysis and Outlook (July 2026).

1. Comparative analysis

Nepal Rastra Bank (NRB) Macroeconomic Report – Analysis and Outlook (February 2026) and the Macroeconomic Report – Analysis and Outlook (July 2026). The comparison focuses on the evolution of NRB's assessment of the banking sector and macro-financial risks.

Issue	NRB February 2026	NRB July 2026	NRB Monetary Policy 2083/84	Kala Legal Assessment	Post-Flood Posture Analysis
Economic Growth	Recovery uneven; around 4% growth expected	Growth estimated at 3.85%; recovery gaining momentum	Targets higher credit and supports a cautiously accommodative stance	Monetary policy alone cannot restore growth without stronger fiscal execution and structural reforms. Calls for restoring private sector confidence and accelerating productive investment.	Growth severely dampened. Output losses of NPR 30–50B and 750 MW hydropower generation halts will trim GDP growth significantly below pre-flood targets (7%), pushing immediate growth closer to 3–3.5%.
Liquidity	Excess liquidity	Excess liquidity persists	Continue liquidity absorption through Interest Rate Corridor without additional easing	Excess liquidity is no longer the constraint; weak demand for quality credit is the problem.	Localized crunch vs. system excess. Systemic liquidity remains elevated, but short-term cash demand for localized relief, rebuilding, and emergency balance-sheet repairs creates acute liquidity stress in impacted corridors.
Credit Growth	Historically weak	Still constrained	Simplify lending regulations and improve credit transmission	Weak credit growth reflects capital constraints, risk aversion, and poor investment climate rather than interest rates.	Driven by emergency rehabilitation. Commercial credit demand will shift away from new expansion toward concessional rebuild loans, bridge financing for damaged hydro assets, and household asset replacement.
NPA / Asset Quality	NPL increased but stabilizing	Asset quality deteriorating	Strengthen loan recovery and NPL management	Existing provisioning rules and tax treatment lock up capital. Review of LLP, collateral valuation, and recovery framework is required to revive lending.	Spike in collateral impairment & NPLs. Physical destruction of collateralized land, buildings, and plants in Rasuwa/Sindhupalchok forces temporary regulatory forbearance, loan restructuring, and higher Loan-Loss Provisioning (LLP).
Capital Adequacy	CAR above minimum	Capital pressure emerging	Maintain prudential standards	Capital—not liquidity—is becoming the main lending constraint. Regulatory recalibration is needed to unlock lending capacity.	Heightened capital erosion. Write-offs, restructuring, and non-performing loans across hydro and MSME portfolios will directly erode bank capital buffers, making regulatory CAR recalibration urgent.
Profitability	Stable	Profitability weakening	Improve operational efficiency	Low spreads, higher provisioning, and rising NPAs are compressing profitability; sustainable profitability requires improved asset quality and regulatory modernization.	Severe compression. Bank earnings face a double squeeze from lost interest income on halted projects (NPR 14–22B hydro loss) and elevated provision charges for damaged collateral.

Issue	NRB February 2026	NRB July 2026	NRB Monetary Policy 2083/84	Kala Legal Assessment	Post-Flood Posture Analysis
External Sector	Strong reserves driven by remittances	Even stronger reserves despite oil shock	Maintain reserve adequacy and exchange rate stability	External sector remains resilient but is excessively dependent on remittances; exports and FDI require stronger policy support.	Import pressure & temporary reserve drawdowns. Strong remittance inflows provide a baseline cushion, but heavy import demand for heavy equipment, reconstruction materials, and lost energy substitution will narrow the current account surplus.
Fiscal Sector	Weak capital expenditure	Fiscal implementation remains weak	Monetary policy assumes stronger fiscal execution	Weak government spending continues to undermine monetary policy transmission.	Widening deficit and expenditure pivot. Public spending must urgently pivot toward infrastructure replacement (NPR 35–45B for roads/bridges) and emergency disaster relief, requiring budget reallocations and sovereign borrowing.
Financial Stability	Balance sheet pressure increasing	Capital and asset quality becoming systemic concerns	Strengthen supervision and risk management	Future risks lie in banking sector capital, NPLs, and corporate balance sheets rather than liquidity shortages.	Elevated systemic vulnerability. Physical climate shocks directly translate into financial sector risk, necessitating coordinated debt-relief protocols, climate-risk stress testing, and emergency capital facilities.
Future Outlook	Stable outlook with moderate recovery	More optimistic if confidence improves	Continue cautiously accommodative policy	Sustainable recovery depends on coordinated monetary, fiscal, regulatory, and governance reforms rather than monetary policy alone.	Strained short-term outlook requiring multi-agency relief. Near-term macroeconomic recovery pivots entirely on targeted debt restructuring, climate adaptation funding, and rapid public capital deployment to restore energy grid connectivity and trade corridors.

2. Overall Synthesis

The four reports together reveal a clear evolution in Nepal's macro-financial narrative:

Stage	Main Finding
NRB Macroeconomic Report (February 2026)	Liquidity is abundant, but economic recovery remains uneven and banks face rising NPAs.
NRB Macroeconomic Report (July 2026)	Liquidity remains ample, but attention shifts toward deteriorating asset quality, capital constraints, and weaker profitability.
NRB Monetary Policy 2083/84	Responds mainly through structural financial-sector reforms while maintaining a cautiously accommodative monetary stance, reflecting the view that liquidity is no longer the principal constraint.
Kala Legal Monetary Policy Review	Argues that Nepal's challenge has fundamentally shifted from a liquidity problem to a capital, confidence, and regulatory architecture problem . It recommends reforms to provisioning, capital adequacy, collateral valuation, insolvency and recovery frameworks, along with stronger fiscal coordination to revive credit and investment.

3. Conclusion

Nepal's financial sector has moved from a liquidity-constrained environment to a capital- and confidence-constrained environment. The evidence consistently points to abundant liquidity and historically low interest rates, while weak credit growth is increasingly explained by deteriorating asset quality, pressure on regulatory capital, subdued private-sector confidence, and weak fiscal execution.

NRB's Monetary Policy appropriately maintains an accommodative stance and introduces structural reforms, but the independent Kala Legal review concludes that deeper regulatory modernization and stronger coordination between monetary, fiscal, and financial-sector policies are essential to restore sustainable credit growth and economic expansion.

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.

HIGH-RISK SECTORS REQUIRING URGENT ACTION			
Real Estate	CRITICAL	Cooperatives	CRITICAL
Cash transactions, dual pricing, no beneficial ownership. Must: mandatory banking channel, digital registry, STR filing.		Politically protected, weak audits, cash-heavy. Must: risk-based AML supervision, forensic audits, prosecution.	
Hundi/Hawala	VERY HIGH	Casinos & PEPs	HIGH
Parallel remittance networks bypass formal banking. Must: crackdown, digital traceability.		High-cash ML channels & politically exposed persons require enhanced due diligence and real-time monitoring.	

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: Economic Outlook (2026–2027)

Stability 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.



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
Mid-July	225–197	12% decrease
Mid-August	200	1.5% increase
Mid-September	200	

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 \$ in Mn (1\$=NPR130)
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%	919
2077/78	1,696,202	5.63	12.91%	15.11%	1,537
2078/79	1,723,557	1.98	3.48%	1.61%	1,440
2080/81	1,411,440	3.67	5.97%	-18.11%	1,156
2081/82	1,466,285	4.61	8.18%	3.89%	1,287
2082/83	1,393,334	3.85	5.92%	-4.98%	1,326

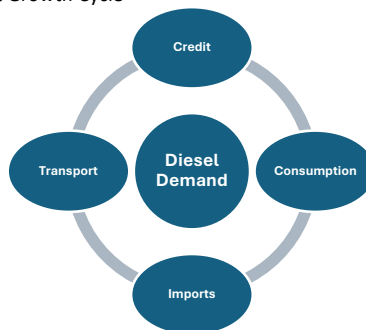
Diesel consumption shows a steady upward trend and is more closely correlated with credit expansion than GDP growth. This suggests that economic activity is being driven by financing of demand and logistics, rather than productivity or industrial output.

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	-4.98	6.20	3.85

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

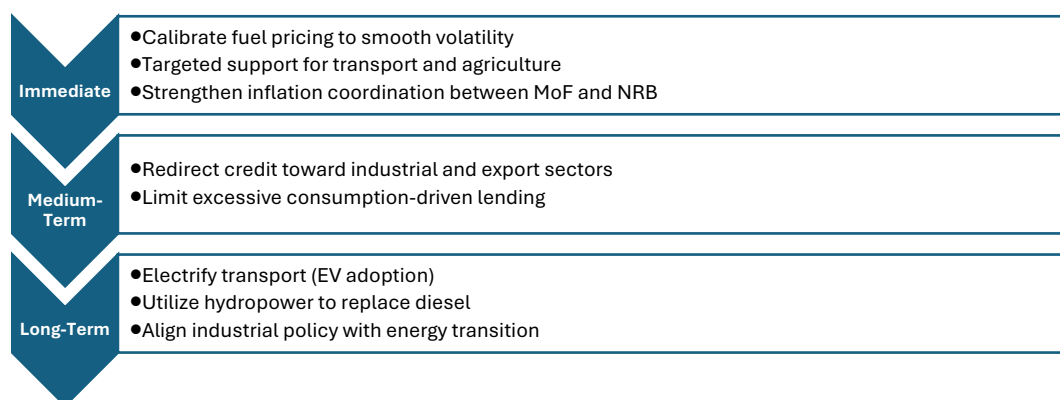
Risk Category	Description	Probability	Impact	Risk Level
Fuel Price Shock	Global oil volatility	High	Very High	● Critical
Inflation Surge	Cost-push inflation	High	High	● Critical
External Imbalance	Import-driven pressure	High	High	● Critical
Growth Slowdown	Demand compression	Medium	High	● High
Industrial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

g) Vulnerability Index (Diesel Dependency)

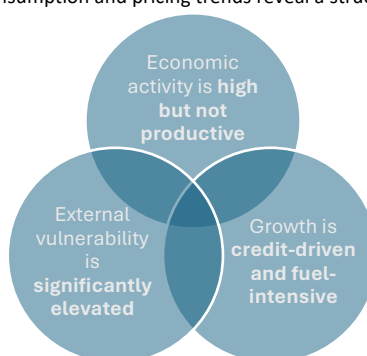
Dimension	Weight	Score	Weighted Score
Import Dependence	25%	5	1.25
Price Exposure	20%	5	1.00
Sectoral Dependence	20%	4	0.80
Credit Structure	15%	4	0.60
Industrial Base	10%	2	0.20
Energy Substitution	10%	3	0.30

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)

A. Nepal's Fertilizer Economy: From Supply Shortage to Productivity Challenge

Nepal is spending more to secure fertilizer, yet the central problem is no longer simply availability. It is timing, allocation, nutrient balance and the productivity generated by every rupee of public subsidy. Nepal's fertilizer distribution system remains highly subsidy-dependent and import-driven, with Krishi Samagri Company Limited (KSCL) and Salt Trading Corporation (STC) playing central roles in procurement and distribution. Despite sustained fiscal support and increasing procurement, the system continues to face structural weaknesses in procurement timing, seasonal allocation and nutrient composition. These weaknesses contribute to recurring mismatches between fertilizer availability and farmers' requirements during critical agricultural seasons.

The emerging picture is therefore more complex than a conventional fertilizer shortage. Nepal is gradually increasing the volume of fertilizer entering the system, but quantity alone has not solved the problem of timely availability or agricultural productivity. Fertilizer supply is increasing, but efficiency remains weak. During FY 2024/25, Nepal began with an opening fertilizer stock of 123,933 MT and procured 346,642 MT, bringing total availability to 470,575 MT. Yet only 334,976 MT was distributed, leaving a closing stock of 135,599 MT. This creates an important policy paradox.

Nepal can have fertilizer physically available within the system while farmers simultaneously experience shortages during planting and transplantation periods. The problem, therefore, is not necessarily the absolute absence of fertilizer. It is the location, timing and composition of available fertilizer. The FY 2024/25 data also show a clear imbalance in the fertilizer basket. Urea dominated distribution at 192,478 MT, while 79,200 MT of DAP remained in closing stock and Potash distribution was only 11,248 MT.

B. This suggests three interconnected weaknesses:

1. procurement and distribution are not adequately synchronized with agricultural calendars;
2. demand forecasting remains weak; and
3. the fertilizer mix is heavily tilted toward Urea.

The estimated national requirement of around 550,000 MT further indicates that aggregate availability remained below potential demand. FY 2025/26: More procurement, but seasonal shortages remain. Early FY 2025/26 indicators point toward continued growth in imports and procurement, with estimated imports/procurement in the range of 480,000–500,000 MT, against a government target of approximately 600,000 MT. The source estimates a potential shortfall of around 100,000–150,000 MT against the target/requirement.

Fertilizer stocks have fluctuated between approximately 39,000 and 109,000 MT, while distribution during peak agricultural months has remained weak. Consequently, farmers can continue to face seasonal shortages even when aggregate national stocks appear relatively comfortable. This is a classic inventory-versus-availability problem: fertilizer may exist somewhere in the supply chain, but not necessarily where and when farmers need it.

C. The FY 2082/83 provincial picture

The latest KSCL province-wise distribution data provide further insight into the structure of fertilizer demand. In FY 2082/83, Nepal distributed 386,004.90 MT of chemical fertilizer:

1. Urea: 252,532.40 MT
2. DAP: 121,479.05 MT
3. Potash: 11,993.45 MT

The distribution was highly concentrated among the major agricultural provinces.

Province	Total Fertilizer (MT)	National Share
Madhesh	114,699.15	29.71%
Lumbini	88,131.75	22.83%
Koshi	83,564.05	21.65%
Bagmati	52,348.15	13.56%
Sudurpashchim	32,263.35	8.36%
Gandaki	11,817.65	3.06%
Karnali	3,180.80	0.82%
Nepal	386,004.90	100%

Madhesh alone accounted for almost 30% of national fertilizer distribution. Lumbini and Koshi each accounted for more than 20%. Collectively, the three provinces absorbed approximately 74.2% of total fertilizer distributed nationally. This concentration should not automatically be interpreted as inequitable distribution. Madhesh, Lumbini and Koshi contain major agricultural production areas, and higher fertilizer distribution may therefore reflect genuine agricultural demand. The more important question is whether provincial allocation corresponds to cultivated area, crop intensity, irrigation, soil conditions and crop-specific nutrient requirements. The KSCL data measure distribution, not whether each province received an adequate quantity relative to its agricultural needs.

The most significant feature of the FY 2082/83 distribution is the composition of the fertilizer basket. Of the total 386,004.90 MT: 65.4% was Urea, 31.5% was DAP and only 3.1% was Potash. The dominance of Urea does not, by itself, establish that Nepal's nutrient application is agronomically inappropriate. Such a conclusion would require soil-testing and crop-specific evidence. Nevertheless, the low share of Potash highlights the need to move beyond a narrow focus on fertilizer quantity toward balanced nutrient management and soil health.

The policy objective should therefore change from:



“HOW MUCH FERTILIZER CAN
NEPAL PROCURE?”



TO:



“WHAT FERTILIZER MIX IS
REQUIRED FOR EACH CROP,
EACH SOIL TYPE AND EACH
AGRICULTURAL REGION—
AND WHEN SHOULD IT
REACH THE FARMER?”

The fiscal question: Is the subsidy generating sufficient economic returns? Fertilizer subsidy is a major public expenditure commitment. The source places the government's annual fertilizer subsidy at approximately NPR 28 billion, while noting that persistent inefficiencies are increasingly structural rather than simply financial. This raises a fundamental question for fiscal policy: What is the economic return on fertilizer subsidy? The success of the subsidy should not be measured solely by tonnes purchased or distributed. It should be measured through:

1. increased agricultural productivity;
2. higher farmer income;

3. lower food imports;
4. greater food security;
5. improved soil health; and
6. stronger rural economic activity.

If fertilizer expenditure rises without a corresponding increase in agricultural productivity, the subsidy risks becoming primarily a cost of maintaining the existing production system rather than an investment in transforming it.

D. Nepal's real constraint: productivity

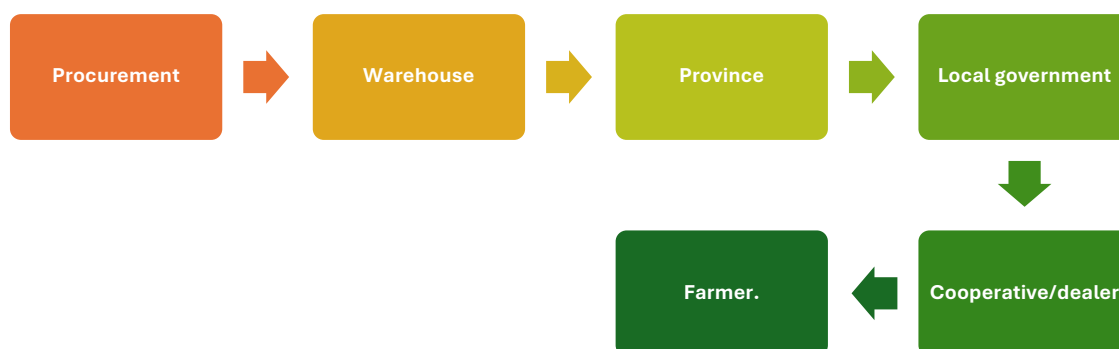
Nepal's agricultural challenge is broader than fertilizer availability. Low productivity reflects the interaction of multiple constraints: fragmented landholdings, inadequate irrigation, labor migration, limited mechanization, weak agricultural value chains, inadequate extension services and limited commercialization. Consequently, fertilizer policy cannot be treated as a standalone agricultural policy.

The productivity equation is: Fertilizer + irrigation + improved seeds + technology + extension + mechanization + market access = agricultural productivity. Increasing fertilizer without addressing these complementary constraints may produce diminishing economic returns.

E. From quantity-based subsidy to productivity-based subsidy

Nepal should gradually transition from a quantity-based fertilizer **subsidy model** to a **productivity-oriented agricultural support system**.

- 1) Introduce data-based provincial allocation
Fertilizer allocation should incorporate:
cultivated area + crop intensity + irrigation + crop nutrient requirements + soil conditions + productivity potential.
This would create a more economically rational allocation mechanism than simply relying on historical distribution patterns.
- 2) Expand soil testing
Farmers should have greater access to soil testing so that fertilizer application responds to actual nutrient deficiencies rather than generalized demand for Urea.
- 3) Digitize the entire supply chain: Nepal's existing fertilizer information system should evolve toward end-to-end tracking:



Such a system would improve transparency, reduce leakage and enable government to identify shortages before they become seasonal crises.

4) Measure subsidy effectiveness

The government should publish an annual **Fertilizer Subsidy Efficiency Report** covering:

1. subsidy expenditure;
2. fertilizer procured;
3. fertilizer distributed;
4. beneficiaries;
5. crop yields;
6. incremental agricultural output;
7. food-import substitution; and
8. impact on farmer income.

5) Rebalance agricultural expenditure

Fertilizer subsidies should not crowd out investment in irrigation, agricultural research, extension, seeds, mechanization, storage and market infrastructure.

F. Import dependence remains a strategic vulnerability

Nepal's reliance on imported fertilizer exposes its agricultural economy to international prices, logistics disruptions, procurement delays and external supply shocks. The long-term answer may include domestic fertilizer production, but domestic production should be evaluated on economic competitiveness, not simply national self-sufficiency. Energy costs, feedstock availability, plant scale, technology, financing, logistics and global fertilizer prices will determine whether domestic production can compete with imports. Until such capacity becomes commercially viable, Nepal needs a more resilient import strategy based on:

1. diversified suppliers;
2. predictable procurement;
3. adequate strategic reserves;
4. improved forecasting; and
5. faster logistics and distribution.

G. The policy paradox

Nepal's fertilizer policy illustrates a broader problem in economic policymaking. When a system repeatedly experiences shortages, the natural response is to increase spending and procurement. But if the underlying problem is operational inefficiency, additional expenditure can produce diminishing returns. Nepal's fertilizer system therefore appears to be moving from a pure scarcity problem toward a more complex efficiency problem. The evidence across FY 2024/25 and FY 2025/26 indicates that Nepal's principal weaknesses include seasonal misalignment, weak demand forecasting, nutrient imbalance, slow procurement, inadequate provincial coordination and accumulation of fertilizer during periods of lower demand.

H. Nepal should stop measuring fertilizer security simply by the volume imported.

The real measure of success is productivity. A tonne of fertilizer has economic value only when it reaches the farmer at the right time, in the appropriate nutrient composition and is combined with adequate water, seeds, technology and market access. The FY 2082/83 distribution data reinforce this conclusion. Nepal distributed approximately 386,005 MT of chemical fertilizer, with Urea accounting for nearly two-thirds of the total. Madhesh, Lumbini and Koshi together accounted for roughly three-fourths of national distribution. The challenge for policymakers is therefore not simply to buy more fertilizer, but to create more agricultural value from every rupee spent on fertilizer.

I. Policy priorities

For FY 2083/84 and beyond, Nepal should prioritize:

1. Province- and crop-specific fertilizer allocation.
2. Soil testing and balanced nutrient management.
3. Real-time digital tracking of fertilizer from procurement to farmers.
4. Transparent measurement of fertilizer subsidy effectiveness.
5. Strategic fertilizer reserves before major planting seasons.
6. Integration of fertilizer policy with irrigation, seeds, mechanization and extension.
7. Commercially viable domestic fertilizer production alongside diversified imports.
8. Gradual reallocation of agricultural subsidies toward productivity-enhancing investment.

J. Nepal does not have only a fertilizer shortage.

Nepal has a fertilizer-system efficiency problem—and, more fundamentally, an agricultural productivity problem. The country's policy objective should therefore evolve from “fertilizer security” to “agricultural productivity security.” The ultimate test of Nepal's fertilizer policy should not be how many tonnes the government purchases or distributes, but how much additional economic value those tonnes generate for farmers, consumers and the national economy.

9) 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 Annual)	Government of Nepal (GoN)	Post-Flood Impact Assessment (August 2026 Shock)
GDP Growth Outlook	~2.2–2.8% FY26; recovery constrained by weak investment	~2.7–3.0% FY26; rebound to ~5% in FY27 as shocks fade	~3.0–3.5% FY26; below potential due to weak demand & project delays	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	~6%+ target (FY 2082/83 budget ambition; execution gap persists)	Subdued to ~2.0–2.5% due to ~0.5–0.9 percentage point GDP drag from 750 MW

Dimension	World Bank	Asian Development Bank (ADB)	IMF (2026 Article IV + ECF Review)	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB – FY 2082/83 Annual)	Government of Nepal (GoN)	Post-Flood Impact Assessment (August 2026 Shock)
	and capital execution					stable external sector)		hydropower shutdown and trade route destruction.
Inflation (CPI)	~4.5–6.0% (moderating global commodity pressure)	~4.5% FY26 (food price volatility due to shocks)	~2.4–5.0% anchored within NRB target band	Secondary rating driver	Not primary concern	~4–5% range observed; lower-than-target inflation due to subdued demand	~6% ceiling policy framework	Temporary upward pressure to ~5.5–6.5% driven by localized supply chain bottlenecks, agricultural loss, and transport surcharges.
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	Expands to ~5.5–6.5% GDP as emergency reconstruction demands (NPR 35–45B for transit infrastructure) outpace suppressed tax revenue collection.
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	Trends upward toward ~46–48% GDP driven by emergency sovereign reconstruction loans, concessional external borrowings, and domestic bond issuances.
Foreign Exchange Reserves	~\$11–12B; ~10–11 months import cover	Strengthening external buffer	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	Modest drawdown (~0.5–1.0 month import cover loss) to finance capital goods, heavy machinery, and emergency fuel/power imports.
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	Surges in short term as diaspora sends elevated emergency relief transfers to rebuild damaged housing (~NPR 8.55B household loss).

Dimension	World Bank	Asian Development Bank (ADB)	IMF (2026 Article IV + ECF Review)	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB – FY 2082/83 Annual)	Government of Nepal (GoN)	Post-Flood Impact Assessment (August 2026 Shock)
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	Contracts significantly due to disrupted power exports to India (750 MW affected) and blocked northern/border commercial trade routes.
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	Minor localized disruptions caused by damaged telecom trunk lines, but largely resilient due to non-physical export mechanisms.
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	Widens further as energy generation losses require domestic substitution and capital imports for asset replacement surge.
Banking Sector / NPLs	NPL ~4–5%; credit slowdown persists	Credit easing to support growth	Financial sector reform required (ECF focus)	Asset quality risk rising	Credit constraint limiting private sector expansion	NPL rising to ~5.4% system stress; credit growth moderate	Financial stability priority	NPLs surge toward ~6.5–7.5% as damaged businesses, destroyed hydro assets, and uncollateralized household borrowers face acute debt-servicing stress.

10) Budget & Outlook to 2026/27)

The severe economic impact of the August 2026 Bhotekoshi flood-with physical losses of NPR 753 billion-places unprecedented fiscal pressure on Nepal's FY 2026/27 (2083/84) budget. The fiscal framework faces severe compounding challenges:

I. Widening Revenue Deficit & Contracting Tax Base

Inherent Execution & Collection Shortfalls: The FY 2025/26 actual revenue collection stood at only 84.57% of its target (NPR 1,121 Bn collected vs. NPR 1,325 Bn targeted). **Post-Disaster Erosion:** Direct GDP output loss (NPR 30-50 billion) and disrupted northern border trade routes will severely compress custom duties, value-added tax (VAT), and corporate tax collection. **Hydro Revenue Halts:** The suspension of ~750 MW of hydropower assets strips the national grid of direct revenues worth NPR 14-22 billion annually, removing expected dividend and royalty contributions to the state treasury.

II. Acute Unbudgeted Recurrent Expenditure Demands

Immediate Cash Relief & Humanitarian Deployment: Rebuilding shattered communities, supporting 7,570 severely affected families, and deploying security forces demand immediate cash outlays. **Inadequacy of Domestic Relief Collections:** While the official Prime Minister's Disaster Relief Fund (pmdrf.nchl.com.np) mobilized over NPR 15 billion within weeks, this covers under 2% of the cost of damage. Domestic relief and bank corporate social responsibility (CSR) contributions cannot bridge a multi-hundred-billion-rupee deficit.

III. Depressed Foreign Grants & Geopolitical Aid Constraints

Underperforming Aid Baseline: Foreign grant utilization in FY 2025/26 achieved only 58.0% of its target (NPR 31 Bn vs. NPR 53 Bn). The 2015 vs. 2026 Aid Reality Gap: Following the 2015 Gorkha Earthquake, Nepal secured over \$4.1 billion in international donor pledges. In 2026, global economic fragmentation, competing international conflicts, and shifting bilateral priorities mean friendly nations and traditional donor blocs are offering significantly scaled-back emergency grants.

Low Economic Diplomacy Leverage: Coupled with limited diplomatic maneuverability and weak public investment execution (FY 2025/26 capital expenditure was just 46.79% of target) Nepal risks securing expensive concessional loans rather than non-repayable grants, worsening public debt trajectories toward 50% of GDP. However, government of Nepal has reform several laws and regulations to increase capital expending capacity to at least 80% from current year.

IV. Forced Capital Budget Reallocation & Deeper Debt Reliance

Capital Spending Pivot: The government must divert capital allocations away from new, growth-oriented development projects toward emergency infrastructure rehabilitation-most notably NPR 55-65 billion required immediately for damaged bridges and strategic transport corridors.

Fiscal Deficit Escalation: To finance reconstruction, the projected fiscal deficit will widen beyond the budgeted ~4-5% toward 6.5-7.5% of GDP, forcing the Ministry of Finance to rely heavily on expensive domestic bond issuances and multilateral emergency borrowing lines (such as World Bank ECF/RCF facilities).

A. 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 2025/26	Actual 2025/26	Achievement
Total Budget	Rs 1,964 Bn	Rs 1,582 Bn	80.55%
Revenue Collection (Tax)	Rs 1,325 Bn	Rs 1,121 Bn	84.57%
Revenue (non-tax)	Rs 154 Bn	Rs 120 Bn	77.87%
Foreign Grants	Rs 53 Bn	Rs 31 Bn	58.0%
Foreign Loans	Rs 233 Bn	Rs 142 Bn	61.0%
Recurrent Expenditure	Rs 1,180 Bn	Rs 1,044 Bn	88.4%
Capital Expenditure	Rs 407 Bn	Rs 190 Bn	46.79%
Financing	Rs 375 Bn	Rs 347 bn	92.56%
inflation	6%	5.22%	
GDP Growth	6.0%	3.85%	64.2%
Credit Growth	12%	6.2%	51.67%

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

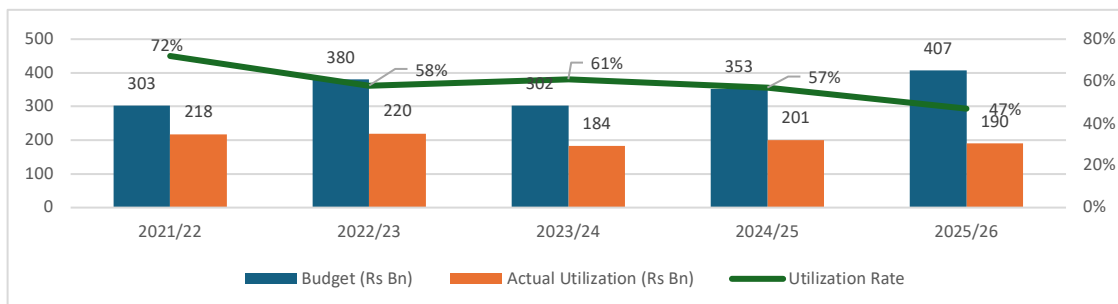
Indicator	FY 2026/27
Total Budget	Rs 2.124 Trillion
Revenue Target	Rs 1.405 Trillion
GDP Growth Target	7.0%
Capital Expenditure	Rs 431 Billion
Fiscal Deficit	5.2% GDP
Domestic Borrowing	Rs 410 Billion
Public Debt	47–50% GDP

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	407	190	47%



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	1,315	1,121
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.

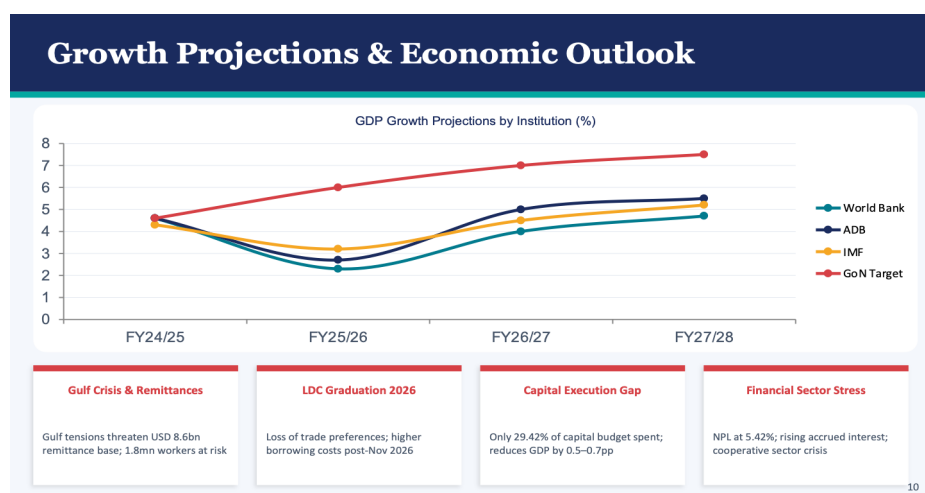
If these objectives are achieved, the FY 2026/27 budget could become a turning point in Nepal's economic development trajectory. If not, the budget risks becoming another ambitious fiscal document constrained by implementation shortcomings.

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)



Strategic Outlook & Policy Recommendations

Fiscal Credibility Binding fiscal rules, deficit anchors at 3–4% GDP, rationalize recurrent spending, protect capital budget.	Revenue Reform Broaden tax base via digitization, address 30% compliance gap, reduce reliance on import taxes.
Capital Execution Target 80%+ utilization. Launch Project Prep Facility. Real-time monitoring. Simplify procurement laws.	Private Investment Regulatory predictability, FITTA reform, automatic FDI thresholds, simplify repatriation provisions.
Export Diversification IT exports (USD 1.5bn target), hydropower, agro-processing, tourism. Reduce structural 1:10 trade imbalance.	Social Protection Targeted youth employment programs, TVET reform, NRN Act, 100-day quick wins to restore public confidence.

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

11

11) 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.

12) Recent Macroeconomic Developments (August 2026)

Particulars Amount in NPR Billion	Monthly Movement (July'26)	Monthly Movement (Aug'26)	Yearly Movement (July 26)	Yearly Movement (Aug 26)	Monthly Movement (Aug 26)	Yearly Movement (Aug 26)	As of (August 26)
Consumer Price Inflation (y-o-y) (%)	(0.08)	0.82	2.93	4.27	Unfavorable	Unfavorable	5.96
Consumer Price Inflation (Compared to previous month) (%)	(0.45)	1.17	(0.08)	0.78	Unfavorable	Unfavorable	1.171
Food and Beverage (%)	(0.26)	1.98	0.28	1.46	Unfavorable	Unfavorable	2.08
Non Food and Service (%)	(0.55)	0.73	(0.27)	0.42	Unfavorable	Unfavorable	0.68
Exports	8.32	1.38	7.86	14.77	Favorable	Unfavorable	38.70
Imports	0.82	(14.84)	42.96	44.40	Favorable	Unfavorable	187.44
Travel Income	(0.20)	(2.40)	1.50	0.05	Favorable	Favorable	5.43
Travel Spending	(0.34)	0.47	(5.09)	(5.78)	Unfavorable	Favorable	15.92
Remittance Inflows	38.44	(27.29)	2,185.72	19.50	Unfavorable	Favorable	215.05
Government Expenditure	62.38	(193.62)	58.34	56.40	Unfavorable	Unfavorable	41.89
Current Expenditure	42.12	(114.33)	63.33	(11.29)	Unfavorable	Unfavorable	21.40
Capital Expenditure	39.35	(56.85)	80.71	0.59	Unfavorable	Unfavorable	1.32
Revenue	67.24	(67.78)	(2.73)	7.76	Unfavorable	Favorable	92.23
Deposit Mobilization	201.22	(285.15)	(29.46)	35.08	Favorable	Unfavorable	-20.71
Private Sector Credit	(9.78)	4.79	2.68	26.50	Unfavorable	Unfavorable	23.58
Weighted Average Deposit Rate (%)	(0.09)	(0.06)	(0.98)	(0.86)	Unfavorable	Unfavorable	3.15
Weighted Average Lending Rate (%)	(0.08)	(0.07)	(1.30)	(1.27)	Unfavorable	Unfavorable	6.48
Base Rate of Commercial Banks (%)	(0.06)	(0.11)	(1.19)	(1.07)	Favorable	Unfavorable	4.72
Forex Reserve	621.00	544.65	5,797.57	5,814.40	Favorable	Unfavorable	25,845
BOP NPR	100.98	(936.70)	432.50	1.04	Favorable	Favorable	90
Liquid Funds	10.85	(22.39)	84.60	87.70	Favorable	Unfavorable	709
Govt. Securities/Other	228.96	(25.27)	464.12	495.31	Favorable	Unfavorable	2,182
Investment in share and other	(9.51)	18.76	175.11	159.47	Unfavorable	Favorable	559
Land revenue	(8.10)	0.88	0.56	2.14	Favorable	Unfavorable	4.72

Nepal entered FY 2026/27 with a combination of very strong external-sector buffers and increasingly visible domestic economic pressures. The latest Nepal Rastra Bank (NRB) data for the first month of FY 2026/27 show that foreign-exchange reserves, remittances and external balances remain exceptionally strong, while inflation has accelerated sharply and private-sector credit demand remains relatively subdued. The result is an economy with substantial macroeconomic resilience but an incomplete domestic recovery.

The macroeconomic picture has also changed materially following the 26 August 2026 Bhotekoshi–Trishuli disaster. The floods have transformed climate risk from a largely environmental and infrastructure concern into a macroeconomic, fiscal, financial, insurance and energy-security risk. The scale of reconstruction requirements, disruption to hydropower generation, insurance exposure and potential pressure on public finances means that climate resilience should now be incorporated directly into Nepal's economic and financial-sector policy framework.

1. Inflation has re-emerged as a macroeconomic concern

The latest NRB data show year-on-year consumer price inflation at 5.96 percent in mid-August 2026, compared with only 1.68 percent a year earlier and 5.14 percent in mid-July. Food and beverage inflation reached 6.77 percent, while non-food and services inflation rose to 5.52 percent. Wholesale price inflation was even higher at 8.27 percent, indicating that price pressures are also building at the production and distribution level. The increase is broad-based. Ghee and edible-oil prices rose 15.62 percent, fruits 15.39 percent, meat and fish 8.65 percent and vegetables 6.90 percent. Transport prices increased 13.17 percent. The geographical variation is also significant, with inflation at 6.94 percent in Madhesh Province and 4.81 percent in Kathmandu Valley.

This represents an important change from the unusually low inflation environment of the previous year. Although the current rate remains manageable in macroeconomic terms, the combination of food-price increases, transport costs and higher wholesale inflation warrants close monitoring, particularly because reconstruction activity following the floods could add further demand for construction materials, transport and infrastructure services.

2. The external sector remains Nepal's principal macroeconomic strength

Nepal's external position strengthened further during the first month of FY 2026/27. Gross foreign-exchange reserves increased 1.2 percent to NPR 3.946 trillion, equivalent to USD 25.84 billion, by mid-August 2026. The reserves are estimated to cover 21.8 months of merchandise imports and 18.8 months of merchandise and services imports.

Remittance inflows remained the principal source of external-sector strength, reaching NPR 215.05 billion during the review month, an increase of 21.2 percent year-on-year. The current-account surplus stood at NPR 94.59 billion, while the overall Balance of Payments remained in surplus by NPR 90.34 billion. Exports also increased substantially, rising 61.7 percent to NPR 38.70 billion. However, imports increased by 31 percent to NPR 187.44 billion, resulting in a merchandise trade deficit of NPR 148.74 billion. Net services income also remained negative at NPR 10.82 billion.

The external position is therefore highly resilient, but its underlying composition remains important: remittances are doing much of the work that domestic production, exports and investment have not yet done. The challenge is to convert this external liquidity into productive domestic investment.

3. Banking-sector liquidity is abundant, but credit demand remains the central constraint

The banking system continues to operate with substantial liquidity. NRB's latest indicators show total deposits of approximately NPR 8.38 trillion and total lending of about NPR 5.94 trillion, with the overall credit-to-deposit ratio around 71.2 percent as of 20 September 2026. At the end of FY 2025/26, the weighted average deposit rate of commercial banks was 3.21 percent, while the weighted average lending rate was 6.55 percent. Private-sector credit growth during the year was only 6.6 percent.

This reinforces an important policy conclusion: Nepal's current constraint is increasingly not the availability or price of bank liquidity, but the willingness and ability of businesses to borrow and invest. Weak investment confidence, uncertain returns, regulatory constraints, limited project pipelines and subdued domestic demand are restricting the transmission of accommodative monetary conditions into productive economic activity. The flood disaster adds another layer of risk. Banks, insurers and investors have significant exposure to hydropower, infrastructure, construction and affected businesses. Climate-related physical damage can therefore migrate from the real economy into credit risk, collateral risk, insurance losses and capital-market valuations.

4. Fiscal policy faces a new challenge: reconstruction without compromising fiscal sustainability

The government's fiscal position must now be considered against a substantially larger reconstruction requirement. The Bhotekoshi–Trishuli disaster has created additional expenditure requirements for roads, bridges, hydropower, transmission infrastructure, settlements, businesses and livelihoods.

The Home Ministry has indicated that Nepal may need to seek approximately NPR 723 billion from the international community under the principle of climate justice, reflecting the scale of reconstruction and rehabilitation needs. This should be understood as a government assessment/claim for support rather than an internationally established compensation entitlement.

This distinction is important for fiscal policy. Nepal should avoid financing the entire reconstruction requirement through additional domestic borrowing or conventional commercial loans. A significant portion should instead be pursued through grants, concessional climate finance, Loss and Damage financing, insurance recoveries, disaster-risk financing and other risk-sharing mechanisms. The World Bank has already announced that it has made up to USD 170 million in emergency financing available to support the Government's immediate response and restoration of critical infrastructure and services, while indicating that additional resources could be considered if required.

5. The insurance sector is facing an unprecedented disaster-related exposure

The Bhotekoshi–Trishuli disaster has placed the insurance industry under an exceptional test. Preliminary data submitted to the Nepal Insurance Authority indicated 583 claims amounting to approximately NPR 25.87 billion across 15 non-life insurers. Engineering and contractors' risk alone accounted for approximately NPR 20.51 billion of reported claims. The figures, however, require caution. Some

initial data contained classification and reporting errors, and the final liability will only become clear after detailed surveys, verification, reinsurance assessment and claim settlement. The Insurance Authority has therefore been working toward accelerated claim procedures.

The latest proposed procedure is particularly significant. Where insurance documents have been lost, claims may be supported through evidence or recommendations from disaster-management authorities, district administrations, local governments or Nepal Police. The Authority has also been preparing mechanisms for advance payments against eligible claims, with safeguards for subsequent verification.

The disaster therefore demonstrates that insurance should no longer be treated simply as a mechanism for post-disaster compensation. Nepal needs to develop a broader national disaster-risk financing architecture, integrating insurance, reinsurance, contingent financing, public disaster funds and international Loss and Damage resources.

6. Hydropower disruption has become a financial and macroeconomic risk

The Bhotekoshi disaster caused substantial damage to hydropower projects, transmission systems, roads and associated infrastructure. The Electricity Regulatory Commission (ERC) has recognized that the disaster damaged operating and under-construction hydropower projects as well as transmission and other electricity infrastructure. The ERC has also contributed NPR 10 million to the Prime Minister's Disaster Relief Fund.

More importantly, the post-disaster policy discussion has begun to move toward climate-resilient infrastructure design. The Ministry of Energy, Water Resources and Irrigation, National Planning Commission and ERC have discussed making hydropower and other infrastructure safer and more resilient in future reconstruction. The ERC's leadership of a regional technical task force on disaster-resilient electricity regulation is also significant. The objective is to study the risks that natural disasters pose to power generation, transmission and cross-border electricity trade.

This is particularly important for Nepal because hydropower assets are simultaneously productive assets, collateral for bank lending, insured assets, listed securities and sources of government revenue. Climate damage to hydropower therefore creates interconnected risks across the energy, banking, insurance, capital-market and fiscal systems.

7. Capital markets are being pushed toward structural reform

The capital market has also been affected by the broader economic and infrastructure environment. SEBON's latest reform direction seeks to introduce a more systematic and risk-based approach to public issuance. In September, SEBON published a draft General Eligibility Directive for Public Issuance, 2083, aimed at establishing clearer eligibility, transparency, corporate-governance and financial-discipline requirements for companies seeking public issuance.

The Government has simultaneously announced a 21-point capital-market reform package, including measures relating to IPOs, NEPSE restructuring, new market infrastructure, bond and margin trading and taxation.

For climate resilience, the capital market needs to go beyond conventional equity financing. Nepal should progressively develop green bonds, climate-resilience bonds, infrastructure bonds, catastrophe-linked instruments and other long-term financing mechanisms capable of mobilising domestic savings for resilient infrastructure. This is particularly relevant when the banking sector has ample liquidity but private-sector credit demand remains weak.

8. Climate Change, Loss and Damage and Nepal's Compensation Claim

Nepal's economic situation cannot now be separated from climate risk. The country contributes only a very small share of global greenhouse-gas emissions but is increasingly exposed to glacier melt, floods, landslides, GLOFs, droughts and extreme precipitation. Nepal's own NDC 3.0 explicitly identifies loss and damage from extreme and slow-onset climate events and recognizes that climate impacts are already affecting infrastructure, agriculture, hydropower, water resources, health, tourism, employment and businesses. It also calls for international support, including grants for adaptation and Loss and Damage.

The 26 August 2026 Bhotekoshi–Trishuli disaster has brought this issue to the centre of Nepal's international economic diplomacy. The United Nations system in Nepal has explicitly described the disaster as an illustration of the losses and damages being experienced by climate-vulnerable countries. The UN has reported that approximately 84,270 Nepalis were affected and has highlighted Nepal's call for financial support through the international Loss and Damage architecture. (UN Sustainable Development Goals)

Nepal has already secured USD 20 million from the Fund for Responding to Loss and Damage (FRLD) under the Barbados Implementation Modalities, based on proposals submitted earlier in 2026. A separate emergency request associated with the August disaster was still awaiting consideration as of early September. This is an important development: Nepal's approach is increasingly shifting from appealing for humanitarian assistance after disasters to seeking predictable international climate finance for unavoidable loss and damage.

9. Nepal's climate-compensation claim should be framed within the Loss and Damage architecture

The Government's reference to approximately NPR 723 billion in required compensation/reconstruction support is significant, but the figure should be presented carefully in economic analysis. It represents Nepal's assessment of the scale of reconstruction and

rehabilitation and its case for international support under climate justice. It does not automatically constitute a legally established compensation liability owed by particular countries. Nepal's stronger institutional route is therefore to link the claim to:

- a) The Fund for Responding to Loss and Damage;
- b) Grants and highly concessional climate finance;
- c) International disaster-risk financing;
- d) Adaptation and resilience financing;
- e) Insurance and reinsurance recoveries;
- f) Climate-resilient infrastructure financing; and
- g) The principle of equity and differentiated responsibilities under the international climate regime.

Nepal's NDC 3.0 provides an important policy foundation because it explicitly identifies Loss and Damage and calls for international finance while recognizing the limitations of domestic resources.

10. The UN General Assembly has given Nepal a stronger international platform

The issue has acquired additional international visibility during the 81st session of the UN General Assembly. Nepal's delegation has placed climate justice, Loss and Damage and the vulnerability of the Himalayas among its priorities. Nepal's development and diplomatic choices increasingly reflect a delicate balance between consensus, national interest and the urgency of emerging risks. Voluntary and multilateral institutions derive strength from consensus, but consensus can also slow decisive action when circumstances demand urgency. This dilemma is particularly relevant to Nepal's climate and Himalayan agenda.

Despite contributing minimally to global emissions, Nepal remains highly exposed to the accelerating impacts of climate change, including glacier retreat, glacial lake outburst floods and the potential for cascading disasters across the Himalayan region—risks that may increasingly resemble a “Himalayan tsunami.” These challenges require Nepal to pursue collective international engagement while also exercising greater individual diplomatic initiative to ensure that its vulnerabilities, adaptation needs and demands for climate finance are adequately recognized. The policy challenge, therefore, is not to choose between consensus and independent action, but to combine both: preserving diplomatic relationships and multilateral cooperation while pursuing Nepal's vital economic, environmental and climate interests with greater clarity, urgency and strategic purpose.

At the opening of the General Debate, UN Secretary-General António Guterres specifically referred to Nepal when discussing accelerating glacier melt and the worsening consequences of climate change. He called for stronger climate justice, increased adaptation finance and making the Loss and Damage Fund work at scale.

This provides Nepal with an important diplomatic opening. The country's argument is not simply that it has suffered a disaster; rather, it is that countries with limited historical contribution to global emissions are increasingly bearing significant economic and human costs from climate change.

11. From Climate Vulnerability to a Climate-Resilience Investment Framework

The Bhotekoshi disaster demonstrates that climate risk should now be incorporated into Nepal's core economic and financial planning. A Climate Resilience Investment Framework should therefore be established with five interconnected pillars:

Pillar	Proposed policy response
Climate-risk assessment	Mandatory climate and disaster stress testing of major infrastructure, banks, insurers and large investment projects
Disaster-risk financing	Expand insurance, reinsurance, contingent credit, catastrophe financing and dedicated disaster-resilience funds
Climate-resilient infrastructure	Require updated climate-risk standards for hydropower, roads, bridges, transmission lines, settlements and industrial infrastructure
Financial-sector resilience	Incorporate climate physical risk into bank credit assessment, collateral valuation, provisioning, capital planning and insurance underwriting
Loss & Damage financing	Establish a dedicated government mechanism to prepare, quantify and negotiate Nepal's Loss and Damage requirements with the FRLD and development partners

The Government should also establish a national climate-disaster damage and loss database, integrating information from the Ministry of Finance, NRB, Nepal Insurance Authority, ERC, NDRRMA, energy agencies, local governments and development partners. Without a credible and independently verifiable database, Nepal's international compensation and Loss and Damage claims will be considerably more difficult to substantiate.

12. Nepal's latest macroeconomic data present a dual picture.

On one side, the country has exceptionally strong external buffers: foreign-exchange reserves of USD 25.84 billion, remittance inflows of NPR 215.05 billion in one month, a current-account surplus of NPR 94.59 billion, and a Balance of Payments surplus of NPR 90.34 billion. The banking system is liquid and lending rates remain comparatively low. On the other side, inflation has risen to 5.96 percent, wholesale

inflation has reached 8.27 percent, private-sector credit expansion remains modest, and domestic investment has yet to fully respond to the favourable liquidity and interest-rate environment.

The Bhotekoshi–Trishuli disaster adds a new dimension. It demonstrates that climate change is no longer an environmental externality for Nepal; it is a balance-sheet risk for the Government, banks, insurers, investors, energy companies and households.

The preliminary insurance exposure of approximately NPR 25.87 billion, the Government's assessment of approximately NPR 723 billion in reconstruction and rehabilitation requirements, the World Bank's USD 170 million emergency financing commitment, and Nepal's USD 20 million allocation from the Loss and Damage Fund all illustrate the emerging scale of the financial challenge.

Policy priorities

Going forward, Nepal's economic policy should therefore focus on converting macroeconomic stability into productive investment while simultaneously protecting that stability against climate shocks. The immediate priorities should be:

- a) Accelerate high-quality public capital expenditure, particularly resilient infrastructure.
- b) Mobilise abundant banking liquidity into productive sectors rather than relying primarily on consumption and real-estate-related activity.
- c) Strengthen climate-risk supervision of banks and insurers.
- d) Accelerate insurance and reinsurance claim settlement following the Bhotekoshi disaster.
- e) Develop a national disaster-risk financing strategy combining insurance, contingency finance and international climate finance.
- f) Build a credible national Loss and Damage accounting system to substantiate Nepal's international claims.
- g) Use the FRLD, World Bank and other climate-finance institutions strategically, prioritizing grants and highly concessional resources for unavoidable losses and resilient reconstruction.
- h) Make all major reconstruction climate-resilient by design, rather than rebuilding vulnerable infrastructure to its previous specifications.
- i) Develop green and climate-resilience capital-market instruments, including bonds and long-term infrastructure financing.
- j) Make the Government the institutional owner of Nepal's Green Finance Taxonomy, ensuring that climate finance becomes part of national economic and financial policy rather than remaining primarily a regulatory initiative.

The central economic message for August 2026 is therefore changing: Nepal has accumulated sufficient external buffers to withstand conventional macroeconomic shocks, but the next major challenge is whether it can convert those buffers into productive investment while building a financial system and public infrastructure capable of absorbing increasingly severe climate shocks.

The Bhotekoshi disaster should be treated not only as a reconstruction challenge, but as a turning point for Nepal's macroeconomic, fiscal, financial-sector and climate-finance architecture.

13) Macroeconomic Dashboard — Mid-August 2026

Macroeconomic Stability Without Momentum: Nepal's Challenge Is Now Transmission, Investment and Productivity.

Indicator	Up to Mid-August 2026	Authorities' Projection / Policy Reference	Why It Has Not Yet Translated into Broad-Based Improvement
Government Revenue	Rs. 92.23 bn, +9.2% y/y; tax revenue Rs.85.19 bn	Annual revenue target approximately Rs.1.58 tn	Revenue is relatively strong at the start of the year, but its composition remains heavily dependent on taxes linked to imports and consumption.
Government Expenditure	Rs.41.89 bn; capital expenditure only Rs.1.33 bn	Annual budget expenditure about Rs.2.7 tn	The critical weakness is not revenue collection but conversion of public resources into productive expenditure. Capital spending remains extremely low, limiting infrastructure, employment and demand creation.
Remittances	Rs.215.05 bn, +21.2% y/y; USD growth +10.2% (11.26% down from corresponding previous month)	Continued strong external-sector support	Remittances are sustaining consumption, liquidity and reserves, but their conversion into productive domestic investment remains limited. The slower USD growth also warrants monitoring.
Private-Sector Credit	+7.0% y/y; monthly growth only 0.4%	Monetary-policy objective around 11%	Credit growth remains substantially below policy ambition. Banks have liquidity, but weak investment demand, borrower stress and elevated NPLs constrain credit transmission.
NPLs	5.66% of total loans	Policy/financial-stability concern	NPLs remain high, signalling continuing borrower stress. This encourages banks to preserve liquidity rather than aggressively expand risk-bearing credit.
GDP Growth	Around 3.5-4%	Government/monetary-policy ambition around 7%+	Growth remains below the level required for rapid employment and income expansion. External-sector

Indicator	Up to Mid-August 2026	Authorities' Projection / Policy Reference	Why It Has Not Yet Translated into Broad-Based Improvement
			strength has not yet translated into equivalent domestic investment momentum.
Foreign-Exchange Reserves	Rs.3,946 bn / US\$25.84 bn, +1.2% from mid-July	Comfortable buffer; policy benchmark substantially exceeded	Reserves are exceptionally strong, covering about 21.8 months of merchandise imports and 18.8 months of goods and services imports. However, the strength is closely associated with remittance inflows rather than export-led structural transformation.
Liquidity / Deposits	Total BFI deposits Rs.8,289 bn; deposits -0.3% during the month but +14.5% y/y	Monetary policy seeks productive credit expansion	Excess liquidity is not translating proportionately into private investment. The deposit-credit gap indicates that financial resources are accumulating faster than productive borrowing demand.
Interest Rates	Deposit 3.15%; lending 6.48%; interbank 2.75%	Policy stance remains accommodative	Low rates have reduced the cost of borrowing but have not generated a proportional investment response. This suggests that the binding constraint is increasingly confidence, expected return, risk and demand, rather than simply the price of credit.
Accrued Interest	Rs.356.56 bn, +6.17% from mid-July and +11.71% y/y	—	This is a significant warning signal. Accrued interest is increasing despite declining interest rates and lower loan-interest income, suggesting that interest is being recognised faster than it is being realised in cash. Together with NPLs and interest suspense of Rs.60.81 bn, it warrants close monitoring of asset quality.
Interest Income	Commercial-bank interest income for FY 2025/26 was Rs.516.34 bn, down 15.86% y/y; loan interest income Rs.420.67 bn, down 18.28%	—	Falling lending rates are compressing interest income, while the rise in accrued interest creates a potential divergence between reported income and cash realisation.
Inflation	5.96% y/y; food & beverages 6.77%; non-food/services 5.52%	NRB annual inflation objective around 5.5%	Inflation has moved above the policy objective. Food-price increases are particularly significant, while transport costs rose 13.17%, placing pressure on household purchasing power.
Wholesale Inflation	8.27%	—	The divergence between consumer and wholesale prices indicates increasing cost pressure in the production and distribution chain, potentially affecting margins and future consumer prices.

Recent macroeconomic data up to mid-August 2026 present a more nuanced picture of Nepal's economy. The country continues to enjoy considerable external-sector stability, supported by Rs.215.05 billion in monthly remittances and foreign-exchange reserves of Rs.3.95 trillion, equivalent to US\$25.84 billion. Reserves are sufficient to cover approximately 18.8 months of merchandise and services imports. However, this external strength has not yet translated into comparable domestic economic dynamism.

Fiscal performance highlights the central structural problem. Revenue mobilisation reached Rs.92.23 billion in the first month of FY2026/27, but total government expenditure was only Rs.41.89 billion, of which merely Rs.1.33 billion was capital expenditure. Thus, the immediate constraint is increasingly the government's capacity to execute expenditure rather than simply its capacity to mobilise revenue. Large government cash balances—Rs.361.81 billion at mid-August—reinforce the concern that resources are not being converted rapidly enough into infrastructure, employment and economic activity.

The financial sector presents an even more important transmission problem. BFI deposits reached Rs.8.29 trillion, growing 14.5% year-on-year, while private-sector credit increased only 7.0%. Commercial-bank lending rates have fallen to 6.48%, with deposit rates at 3.15% and interbank rates at 2.75%. Yet lower interest rates have not produced a proportionate increase in productive borrowing. This suggests that Nepal's present constraint is not simply expensive credit; it is a combination of weak investment demand, borrower risk, uncertainty, declining expected returns and impaired credit transmission.

The quality of bank assets deserves particular attention. NPLs stood at 5.66% at mid-August, while loan-loss provisions amounted to Rs.346.92 billion. More importantly, accrued interest reached Rs.356.56 billion, increasing 6.17% in only one month and 11.71% year-on-year. At the same time, commercial-bank interest income from loans and advances in FY2025/26 fell 18.28% year-on-year. The simultaneous movement of falling interest income, rising accrued interest and elevated NPLs suggests that the banking sector should be assessed increasingly on the basis of cash recovery and interest-realisation quality, rather than reported interest accrual alone.

Inflation has also changed the character of the macroeconomic environment. CPI inflation rose to 5.96% in mid-August, compared with only 1.68% a year earlier. Food and beverage inflation reached 6.77%, while wholesale inflation reached 8.27%. In particular, ghee and oil prices rose 15.62%, fruit prices 15.39%, and transport costs 13.17%. This combination of weak domestic demand, low investment and rising prices suggests that the economy cannot be assessed simply through headline monetary stability.

The latest data therefore reinforce the proposition that Nepal has macroeconomic stability without sufficient economic momentum. The external sector is strong; liquidity is ample; interest rates are low; deposits are growing; and reserves are at historically high levels. Yet these strengths are not generating a corresponding acceleration in investment, credit, capital expenditure or broad-based employment.

Nepal faces two opposite but increasingly interconnected problems: excess liquidity in the financial sector, alongside insufficient fiscal resources to meet the government's growing expenditure demands. The banking system has adequate liquidity and comfortable foreign-exchange reserves, yet the government faces persistent revenue constraints and limited fiscal space at a time when public spending requirements are rising. Recent floods and climate-related disasters have further intensified this imbalance, creating substantial additional demands for reconstruction, rehabilitation, infrastructure protection and climate resilience.

The challenge could become more acute if foreign-aid mobilization remains below expectations, placing greater pressure on domestic revenue mobilization, expenditure rationalization and broader fiscal-sector reform. At the same time, climate-related finance is likely to generate an increasingly structural budgetary requirement, as adaptation, disaster-risk reduction and resilient infrastructure require sustained public investment and, in many cases, government co-financing.

Although public debt remains moderate at around 45% of GDP, Nepal's experience following the earthquake and the COVID-19 pandemic demonstrates how rapidly the debt burden can rise when major shocks require large-scale reconstruction and countercyclical spending. The policy challenge, therefore, is not simply to create more liquidity or reduce interest rates, but to bridge the disconnect between financial-sector liquidity and fiscal-sector capacity—by strengthening productive credit demand, restoring investment confidence, improving revenue mobilization, accelerating high-quality capital expenditure, and converting Nepal's external-sector strength into productive domestic capital formation. Without such reforms, Nepal risks having liquidity in the banking system but insufficient fiscal capacity to finance the infrastructure, reconstruction and climate resilience that the economy increasingly requires.

A. Policy Priorities

1. Enhancing Self-Reliance

- 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.
- Energy Security: Prioritize domestic hydropower and renewable generation to reduce import dependency in petroleum and electricity.
- Chemical & Fertilizer Industries: Develop localized production capacity to reduce reliance on imports critical for agriculture and manufacturing.
- Transport Linkages: Invest in domestic maintenance and aviation service facilities to reduce the foreign exchange drain from air transport.

2. Export Diversification

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

3. Investment Mobilization

- Infrastructure-focused Capital Formation: Channel GFCF into construction, logistics, and energy infrastructure to crowd in private investment.
- Alternative Investment Funds (AIFs): Expand capital market instruments to attract diaspora financing into productive sectors.
- 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.

14) 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.

15) 100-Day Reform Agenda for an RSP-Led Government

Pillar	Key Action	Performance Indicator	Status (100 Days)
Governance	Establish Anti-Corruption Authority and launch digital procurement system	Authority operational and procurement portal active (<i>stall due to Court Order</i>)	Partially Achieved – Government strengthened anti-corruption initiatives and expanded digital governance, but not fully independent.
Youth Employment	Launch National Youth Employment Task Force and startup financing program	50,000 jobs pipeline initiated	Partially Achieved – Employment and entrepreneurship programs were announced, but there is no evidence that a 50,000-job pipeline has been established.
Financial Sector	Conduct comprehensive banking sector health assessment and review regulatory framework	NPAs monitored and credit flows improved	In Progress – Financial sector reforms and regulatory reviews have begun, but no comprehensive measurable improvement in credit growth has been reported.
Fiscal Reform	Reprioritize budget spending and implement tax compliance program	Revenue improvement plan adopted	Partially Achieved – Fiscal discipline measures and expenditure rationalization were initiated, including government restructuring and Public Procurement Act has been amended, comprehensive revenue reform program is in progress,
Infrastructure	Approve and fast-track top five national infrastructure projects	Implementation units established	In Progress – Priority infrastructure projects were identified, but implementation units and accelerated execution remain limited. However, Public Procurement Act has been amended.
External Sector	Establish remittance monitoring and risk management unit	Early warning mechanism operational	Not Achieved – No public evidence of a dedicated remittance monitoring and risk management unit or early warning system.
Legal Reform	Amend investment laws and regulations to improve business environment	Reform legislation introduced	Partially Achieved – Several legislative reform initiatives and regulatory amendments have been initiated. However, most major investment reforms remain under preparation, and there has been limited progress in harmonizing related laws and regulations, reducing the overall effectiveness of the reform agenda.

Pillar	Key Action	Performance Indicator	Status (100 Days)
Private Sector	Streamline business licensing through digital platforms	Pilot e-governance system launched	Partially Achieved – Significant progress in digital public services and administrative simplification has been reported, although full digital licensing has not yet been implemented.
Agriculture	Launch climate-resilient agriculture pilot programs	Pilot districts operational	Not Achieved – No significant nationwide climate-resilient agriculture pilot has been announced during the first 100 days.
Social Protection	Expand targeted cash transfer and food security coverage	Coverage exceeds 10% of vulnerable households	Partially Achieved – Some social protection initiatives were expanded, but no evidence suggests coverage exceeded the stated target
Financial Integrity	Conduct AML/CFT gap assessment and legislative reforms	Compliance roadmap prepared	In Progress – AML/CFT reforms remain under review, but no comprehensive roadmap was publicly released during the first 100 days
Governance Reform	Eliminate political interference in regulatory institutions	Institutional independence measures adopted	Partially Achieved – The government introduced merit-based appointments and governance reforms intended to reduce political interference, though institutional independence has not yet been fully established.

16) 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

- Governance and anti-corruption reforms are advancing rapidly
- Digital systems are being introduced incrementally
- 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

- Heavy reliance on remittances
- Persistent trade deficits
- Rising non-performing loans (NPLs)
- Weak capital expenditure execution
- Limited domestic revenue growth
- 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:

- Administrative capacity
- Fiscal limitations
- Political economy factors
- 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

17) 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 2025/26 (Approx)	2030 Target
GDP	~\$44 billion (1 USD=150 NPR)	\$100 billion
FDI investment inflow	<\$400 million/year	\$3–5 billion/year
Remittance shares in GDP	~30%	<15%
Export value	~\$2.5 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.

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

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

Objectives

The objectives of this strategy are as follows:

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

Guiding Principles

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

1. Healthy competition, good governance, and stability in the financial sector.
2. Complementary roles of the public, private, and cooperative sectors.
3. Advanced and secure use of information technology.
4. Institutional capacity strengthening of the financial sector.
5. Inclusive and environmentally friendly financial services.
6. Adoption of research, innovation, and best practices.
7. Protection of consumer interests.

Strategic Pillars

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

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

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

Key Strategic Themes Across All Sectors

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

Sector-Wise Strategies and Action Points

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
1. Banking Sector (BFIs)	Strengthening resilience and productive lending	(a) Increase credit to productive sectors (agriculture, MSMEs, tourism, energy, export sectors) (b) Strengthen risk-based supervision and capital adequacy (c) Improve NPL management and recovery framework (d) Promote green and climate finance (e) Expand digital banking, e-KYC, and open banking (f) Strengthen corporate governance and fit-and-proper criteria
	Financial Stability	(a) Strengthen macroprudential tools (b) Enhance stress testing and early warning systems (c) Improve crisis management and resolution frameworks
2. Insurance Sector	Expansion and Risk Management	(a) Expand insurance coverage nationwide, especially microinsurance (b) Promote agricultural and disaster risk insurance (c) Strengthen solvency and capital frameworks

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

19) Manufacturing Production Index (MPI)

Nepal's Manufacturing Production Index (MPI) indicates that manufacturing activity continued to expand during the third quarter (Q3) of FY 2025/26, although the pace of growth moderated compared to the previous quarter. The overall MPI reached 131.97 (base year 2014/15 = 100), representing a 1.98% quarter-on-quarter (Q-o-Q) increase but a 0.32% year-on-year (Y-o-Y) decline compared with the corresponding quarter of FY 2024/25. The data suggest that while domestic industrial production remained resilient, growth momentum has softened, reflecting weaker performance in several manufacturing subsectors.

The quarterly trend shows that manufacturing output has remained above its historical average over the past three fiscal years. After recording an annual average MPI of 123.02 in FY 2024/25, the index has continued to improve during FY 2025/26, reaching 129.41 in Q1, 131.97 in Q2, and 131.97 in Q3. This indicates that industrial production continues to recover despite subdued domestic demand and slower credit expansion.

Overall Manufacturing Production Index

Indicator	Value
Base Year	2014/15 = 100
Overall MPI (Q3 FY2025/26)	131.97
Quarter-on-Quarter Growth	1.98%
Year-on-Year Growth	-0.32%
FY2024/25 Annual Average	123.02

Quarterly Trend of Overall MPI

Period	MPI
FY2024/25 Annual Average	123.02
FY2025/26 Q1	129.41
FY2025/26 Q2	131.97
FY2025/26 Q3	131.97

Selected Industry Performance

Among the major manufacturing industries, Manufacture of Vegetable and Animal Oils and Fats continued to perform strongly. This subsector, accounting for 6.64% of the overall manufacturing basket, recorded an MPI of 237.54 in Q3 FY2025/26, increasing 5.80% over the previous quarter and 7.58% over the same quarter last year. The strong performance was primarily driven by higher production of refined edible oils, including soybean, sunflower and mustard oil.

Industry	Weight (%)	Q3 FY2025/26 MPI	QoQ (%)	YoY (%)
Overall Manufacturing	100.00	131.97	1.98	-0.32
Vegetable & Animal Oils and Fats	6.64	237.54	5.80	7.58
Refined Vegetable Oils	5.93	256.55	5.54	7.28
Vegetable Ghee	0.71	79.41	13.27	16.20

The Q3 MPI results indicate that Nepal's manufacturing sector remains on a gradual recovery path, supported by robust production in food processing and edible oil manufacturing. However, the marginal year-on-year decline in the overall index suggests that the recovery is uneven across industries. Sustained industrial expansion will depend on stronger domestic demand, improved access to finance, stable energy supply, and continued investment in manufacturing capacity. Going forward, broad-based improvements across capital-intensive and export-oriented industries will be necessary to translate the current recovery into durable industrial growth.

20) Nepal's Industrial and Enterprise Landscape-FY 2081/82 (2024/25)**1. From Registration to Production**

Nepal registered more new industries in FY 2081/82 than its official statistics can show are actually running. The Department of Industry's two annual reports, Industrial Statistics FY 2081/082 and Micro, Cottage and Small Industries Statistics 2081/82, describe a broad and diversifying enterprise base. They also make clear that registration and production are not the same thing, and that the gap between them is now the main policy problem.

- 700 new industries were registered with the Department of Industry, proposing NPR 258.12 billion in capital and 35,141 jobs.
- Energy took 51% of new capital from just 38 projects. Tourism produced the most registrations (235) and the most proposed jobs (13,652).
- 68 large projects hold 78% of new capital but only 24% of proposed jobs. Small industries show the reverse pattern.
- 840 FDI projects were approved, worth NPR 64.97 billion in foreign investment. ICT alone accounted for 382 of them.
- The micro, cottage and small enterprise base has reached 703,707 cumulative registrations, heavily concentrated in Bagmati, where Kathmandu district alone holds 78,736.

2. The Enterprise Base: Large in Number, Uneven in Weight

Nepal's registered enterprises fall into two distinct tiers, and they should not be read as one population. The first tier is micro, cottage and small industry (MCSI). This is by far the larger group by count. The Department of Industry reports 703,707 registrations from inception through FY 2081/82, of which 634,696 are currently maintained under the legal classification: 566,999 small, 43,011 micro and 24,686 cottage industries. The Department itself describes these firms as the main vehicle for entrepreneurship, local employment and the use of local skills and resources.

The second tier is industries registered directly with the Department of Industry. These are the larger manufacturing, energy, tourism, services, ICT and infrastructure projects. The cumulative database holds 10,219 industries with proposed capital of about NPR 3.30 trillion and proposed employment of 741,019. The legal definitions under the Industrial Enterprises Act 2076 matter here, because each tier faces different constraints:

- a) **Micro:** fixed capital up to NPR 20 lakh, no more than nine workers including the entrepreneur, annual turnover below NPR 1 crore and energy use up to 20 kW.
- b) **Cottage:** based on traditional skills, labor-intensive, and reliant on local resources or technology.
- c) **Small:** fixed capital up to NPR 15 crore, excluding micro and cottage industries.

A subsistence micro business, a growing small manufacturer and a billion-rupee hydropower project do not share the same problems with finance, regulation or markets. Policy that treats them alike will serve none of them well. For the MCSI tier in particular, results depend on working capital, affordable credit, market links, skills and business support, which is why the MCSI report dedicates space to credit funds, women's entrepreneurship programmes and training. A registration is the start of an investment process, not proof of an operating business. Whether a firm contributes to the economy depends on whether it secures finance, finishes construction, starts producing, finds a market and survives.

3. New Industrial Investment in FY 2081/82

The Department of Industry registered 700 industries in FY 2081/82. Together they proposed NPR 258.12 billion in capital (NPR 228.06 billion fixed and NPR 30.06 billion working capital) and 35,141 jobs.

New industry registrations by sector, FY 2081/82

Sector	Industries	Capital (NPR bn)	Share of capital	Proposed jobs	Capital per job (NPR m)
Energy	38	131.64	51.0%	1,256	104.81
Tourism	235	42.81	16.6%	13,652	3.14
Service	110	42.08	16.3%	6,857	6.14
Manufacturing	106	36.50	14.1%	8,288	4.40
Mineral	12	2.22	0.9%	682	3.26
Agro and forestry	12	1.39	0.5%	489	2.84
ICT	185	1.37	0.5%	3,844	0.36
Infrastructure	2	0.12	<0.1%	73	1.64
Total	700	258.12	100%	35,141	7.35

Source: Department of Industry, Industrial Statistics FY 2081/082. Shares and capital per job calculated by Kala Legal.

Capital-intensive energy. Energy registered only 38 projects but more than half of all new capital, at around NPR 105 million per proposed job. Run-of-river and peaking run-of-river hydropower is being built both for domestic demand and for future cross-border power trade. Large individual registrations this year include the Super Tamor Hydroelectric Project (166 MW) and the Jagdulla PROR Hydroelectric Project (106 MW).

Employment-intensive tourism and manufacturing. Tourism led all sectors in both registrations and proposed jobs, reflecting continued investment in hotels, resorts and restaurants. Manufacturing added 106 industries and 8,288 jobs across food and beverage processing, plywood and veneer, consumer goods, automotive components and water pumps.

Low-capital ICT and services. ICT accounted for 185 registrations and 3,844 jobs on only NPR 1.37 billion of capital, or under NPR 0.4 million per job. Software, business process outsourcing, cloud and data services need far less physical capital than other sectors and create more jobs per rupee, provided skills and connectivity are available.

Selected major registrations, FY 2081/82

Sector	Project	Capital (NPR)	District
Energy	Super Tamor Hydroelectric Project (166 MW)	34.59 bn	Taplejung
Energy	Jagdulla PROR Hydroelectric Project (106 MW)	23.60 bn	Dolpa
Energy	Summit Energy Solution	7.91 bn	Sankhuwasabha
Energy	Hanuman Hydropower (43.20 MW)	7.35 bn	Gorkha
Manufacturing	Arihant Agro Industries (edible oil processing)	939 m	Morang
Manufacturing	D.S.G. Nepal (mouth freshener)	240.58 m	Rupandehi
Agro and forestry	I.G. Avocado Pvt. Ltd. (2,400 MT capacity)	560 m	Dhankuta
Agro and forestry	Gita Phalodhyan Pvt. Ltd. (integrated farming and storage)	310 m	Nuwakot
Agro and forestry	Nepal Tea Collective (tea processing)	100 m	Kathmandu
ICT	Devfinity Solutions	125 m	Kathmandu
ICT	Hybrid I.T. Solutions	66.75 m	Lalitpur
ICT	NOW C.F.O Nepal	65 m	Kathmandu
Commercial property	Kivana Urban Spaces (14,625 sq. ft. complex)	100 m	Lalitpur

Source: Department of Industry, Industrial Statistics FY 2081/082.

The project list also shows a clear geographic split. Hydropower capital goes to mountain districts where the rivers are, while ICT, services and commercial property cluster in the Kathmandu Valley. Agro-processing sits in between, with avocado, tea and integrated farming projects pointing to a gradual move toward higher-value and export-ready agricultural supply chains.

4. Scale and the Financing Challenge

Capital is highly concentrated. Of the 700 new registrations, **68 were large industries** holding **NPR 201.33 billion**, or 78% of all proposed capital, yet they offered only 8,527 jobs. The 578 small industries proposed NPR 37.37 billion and 21,873 jobs.

New registrations by scale, FY 2081/82

Scale	Industries	Capital (NPR bn)	Share of capital	Proposed jobs	Share of jobs	Capital per job (NPR m)
Large	68	201.33	78.0%	8,527	24.3%	23.61
Medium*	54	19.42	7.5%	4,741	13.5%	4.10
Small	578	37.37	14.5%	21,873	62.2%	1.71
Total	700	258.12	100%	35,141	100%	7.35

Source: Department of Industry.

*Medium-scale capital and jobs derived as the residual of the reported totals.

A small-industry job needs about NPR 1.7 million of proposed capital. A large-industry job needs nearly NPR 23.6 million. Neither is better in itself. Large projects build the energy and infrastructure base the rest of the economy relies on, while small firms carry most of the employment. The point is that they transmit growth through different channels and need different kinds of support.

Cumulative industrial structure up to FY 2081/82

Sector	Industries	Capital (NPR bn)	Share of capital	Proposed jobs	Share of jobs
Infrastructure	570	1,730.47	52.5%	42,398	5.7%
Manufacturing	3,606	690.70	20.9%	374,304	50.5%
Service	2,604	320.35	9.7%	152,642	20.6%
Tourism	2,361	300.66	9.1%	104,195	14.1%
Energy	168	141.69	4.3%	9,494	1.3%
ICT	260	58.84	1.8%	8,566	1.2%
Agro and forestry	558	44.19	1.3%	41,063	5.5%
Mineral	92	10.56	0.3%	8,357	1.1%
Total	10,219	3,297.45	100%	741,019	100%

Source: Department of Industry. Shares calculated by Kala Legal.

Infrastructure holds over half of all proposed capital. Manufacturing holds half of all proposed jobs. Services and tourism together add another third of employment. For the banking system, this argues for a credit structure built around sectors rather than a single approach to industrial lending:

- Energy and infrastructure** need long-tenor project finance.
- Manufacturing** needs investment finance plus working capital and trade finance.
- Smaller enterprises** need cash-flow-based lending, credit guarantees, digital financial services and business development support.

5. Foreign Direct Investment

FDI grew through volume rather than size. The Department approved 840 FDI projects in FY 2081/82, with total project capital of about NPR 73.97 billion, of which NPR 64.97 billion (88%) was foreign investment. Proposed employment was 25,884. The average project brought in under NPR 80 million of foreign capital.

The sector mix is striking. ICT accounted for 382 projects (45%), tourism for 304 (36%) and services for 84 (10%). Foreign investors are mainly entering low-capital, skill-based and service businesses rather than heavy industry, which matches Nepal's comparative strengths in labour cost and English-language technical talent. The open question is how much of this FDI builds lasting links with domestic firms and suppliers, which approval data alone cannot tell us.

6. The Geography of Enterprise

MCSI registrations are strongly concentrated in a few provinces and districts.

Cumulative MCSI registrations by province, through FY 2081/82

Province	Registrations	Share
Bagmati	197,878	28.1%
Madhesh	126,724	18.0%
Lumbini	112,507	16.0%
Koshi	98,664	14.0%
Gandaki	72,349	10.3%
Sudurpaschim	55,072	7.8%
Karnali	39,987	5.7%
Total (sum of provinces)	703,181	100%

Source: Department of Industry, MCSI Statistics 2081/82.

Provincial figures sum to 703,181, which is 526 below the reported national total of 703,707; the source does not reconcile the difference. Kathmandu district alone accounts for 78,736 registrations, about 40% of Bagmati's total. Lalitpur, Chitwan and Makwanpur are also major centres. In Madhesh, Rautahat, Parsa, Dhanusha and Sarlahi have large enterprise bases, and in Lumbini, Rupandehi, Banke and Dang stand out.

Enterprise clearly follows market size, urbanisation, connectivity, access to finance, tourism flows and logistics. But low registration numbers in Karnali or Sudurpaschim should not be read as a lack of entrepreneurial ability. They may just as well reflect smaller markets, weaker infrastructure, different registration habits and thinner institutional support. The goal should be to build regional economic ecosystems rather than to push up firm counts. Industrial corridors, local processing centres, reliable power, digital connectivity, logistics and market links can narrow the structural advantage the main commercial centres now enjoy.

7. Innovation, Intellectual Property and Exports

Physical capital alone will not sustain industrial growth. Technology, brands and product development matter more and more for competitiveness. The Department's industrial property records through FY 2081/82 show:

- a) **69,363 trademarks registered (4,200 of them in FY 2081/82)**
- b) **324 designs registered (10 in FY 2081/82)**
- c) **90 patents registered (2 in FY 2081/82)**

There are roughly 770 trademarks for every patent. That reflects an economy where branding and trading are common but formal domestic invention is rare. It also marks out room for policy to move beyond registration and physical investment toward product development, technology adoption, IP protection and export-oriented innovation. The Industrial Statistics report's section on industries and products recommended for preferential export to India shows that market access is already part of the conversation.

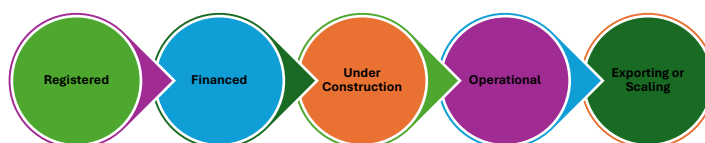
Trade policy points the same way. With exports covering only about one-sixth of imports, efforts such as faster environmental approvals (including Initial Environmental Examination) and preferential trade arrangements with neighboring countries only pay off if they turn into real productive capacity that replaces imports or earns foreign exchange.

8. The Central Issue: From Registration to Production

Taken together, the two reports show that Nepal's industrial policy has reached a stage where the quality of investment and the survival of enterprises deserve as much attention as registration numbers. The investment intentions on record are substantial:

- a) 703,707 cumulative MCSI registrations
- b) 10,219 industries and NPR 3.30 trillion of proposed capital in the Department's cumulative database
- c) 700 new industries and NPR 258.12 billion of proposed capital in FY 2081/82
- d) 840 FDI projects and NPR 64.97 billion of approved FDI in FY 2081/82

What we do not know is how much of this is actually operating. The MCSI framework already requires firms to file annual details and to report when they stop operating or have no production or turnover. Enforcing and publishing that information would matter a great deal, because without it registration data will keep overstating the real productive base. Nepal needs an **Industrial Activity and Survival Dashboard** that tracks every enterprise through at least five stages:



That would give policymakers, banks and investors a far more accurate view of where projects stall and why.

9. Policy Priorities for FY 2082/83 and Beyond

- Set operational targets, not registration targets. Government reporting should separate newly registered industries from those that have started commercial production, and add indicators for output, employment, turnover, exports and tax paid.
- Match finance to the type of enterprise. Energy and infrastructure need long-tenor project finance. Manufacturing needs investment and working-capital finance. Micro and small firms need cash-flow lending, credit guarantees, digital financial services and simpler collateral rules.
- Strengthen domestic value chains. The number of agro-processing and manufacturing projects shows room to link farm production with processing, packaging, cold storage, logistics and retail. The aim is more value added at home, not simply more registered firms.
- Build provincial industrial ecosystems. Rather than trying to copy Kathmandu's enterprise mix, each province should develop clusters around its own resources, skills, tourism assets, agriculture and connectivity.
- Turn FDI into domestic linkages. FDI policy should put more weight on technology transfer, local supplier development, job quality, exports and integration with Nepali firms, backed by systematic monitoring after approval.
- Back ICT and knowledge-based enterprises. ICT's high job yield on low capital makes it an obvious priority. Support should focus on digital infrastructure, skilled graduates, international payment channels, IP protection and access to export markets.
- Fix the industrial infrastructure. Reliable electricity, transport, industrial land, logistics, digital networks and efficient environmental approvals decide whether approved projects ever become productive assets.
- Connect industrial policy with financial-sector policy. Banks and financial institutions should assess industrial borrowers on project cash flows, sector economics, market contracts, production capacity and governance, not only on collateral. A stronger credit-information and guarantee framework would help viable smaller firms get finance.

10. Final Assessment

The FY 2081/82 statistics show real entrepreneurial energy and strong investment intentions. They also show that Nepal's challenge has changed. Nepal no longer struggles mainly to generate enterprise registrations. Its bigger challenge is turning those registrations into productive, competitive and lasting businesses. The data reveal three layers in Nepal's industrial economy:

- A very large micro and small enterprise base, which supports employment, self-employment and local economic activity.
- A capital-intensive industrial pipeline, mainly in energy, infrastructure and large manufacturing.
- An emerging knowledge and service economy in ICT, business services and tourism, where capital needs are lower but skills and market access are decisive.

Policy should therefore move from an ease of registration mindset to an ease of operating, financing, producing and exporting framework. The real test of industrial policy is not how many certificates are issued. It is whether registered firms start operating, whether operating firms survive and grow, whether investment creates productive jobs, whether domestic value added rises, and whether Nepali firms can compete at home and abroad. The next phase of industrialization should be judged against that full chain:



Measured this way, Nepal would have a far clearer answer to the question that matters most: whether its large entrepreneurial base is becoming sustained growth and structural change.

21) 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.

22) 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.

23) Nepal Fiscal Risk Statement and Strategies 2025

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

1. Macroeconomic Risks

Indicator	Avg. Value	Std. Dev. / Volatility	Fiscal Impact	Risk Level
GDP Growth	4%	±2.7 pp	–0.7% of GDP revenue loss; +3.2 pp debt increase	Medium
Inflation	6.9%	±2.2%	Medium (higher spending, slightly higher revenues)	Medium
Interest Rate	7–8% (domestic)	~1% change sensitivity	+0.2% of GDP cost if rates rise 1%	Low
Exchange Rate	4.3% volatility	Moderate	Limited (due to concessional debt)	Low
Debt-to-GDP	22.7% (2016/17) → 42.7% (2023/24)	Projected ~50% by 2028/29	Stable; low distress risk	Low

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

2. Specific Risks

i) Forecasting Errors

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

Mitigation: better analytics, independent reviews, fiscal buffers.

ii) Natural Disasters

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

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

iii) Sub-National Governments (SNGs)

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

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

iv) Government Guarantees

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

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

v) Public Enterprises (PEs)

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

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

vi) Public-Private Partnerships (PPPs)

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

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

3. Institutional Risks

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

4. Consolidated Risk Matrix

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

5. Fiscal Risk Statement 2025 – Nepal

Risk Area	Key Challenges	Policy & Structural Reforms	Lead Agency	Success Metrics (by FY26/27)
Macroeconomic & Debt	GDP growth volatility (± 2.7 pp), inflation $\sim 7\%$, debt rising to $\sim 50\%$ GDP	Amend Financial Procedures and Fiscal Responsibility Act 2019 with fiscal rules & buffer fund Annual The Medium-Term Debt Management Strategy (MTDS) with risk limits Extend yield curve, smooth redemptions	MoF, NRB, Parliament	Buffer $\geq 0.5\%$ GDP Debt stable $\leq 50\%$ GDP
Forecasting & Institutional	Tax forecast error NPR 550 bn (7.2% GDP); optimistic grants	Create Independent Fiscal Council Publish forecast error report Use real-time digital tax/customs data	MoF, IRD, NPC	Tax forecast error $< 5\%$ (MAPE) Public forecast reports published
Natural Disasters & Climate	Floods ($\sim 2\%$ 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 $\geq 60\%$ 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

24) 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)

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.

25) 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.

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:

- a) **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.

- b) 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.
- c) 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.

26) 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

27) 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

Aspect	Sixth Review (Oct 2025)	Seventh Review (Feb 2026)	June 2026 Final IMF Assessment
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:

- Governance and service delivery reform blueprint
- IMF-supported governance and corruption diagnostics
- Strengthening independence and legal framework of Nepal Rastra Bank
- Full implementation of Loan Portfolio Review (LPR) findings
- Anti-money laundering strengthening to support FATF grey list exit
- 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:

- Formulation of a blueprint on improving governance and service delivery.
- Commitment to IMF Technical Assistance (TA) on Governance and Corruption Diagnostics.
- Submission of the Nepal Rastra Bank (NRB) Act amendments to Parliament (critical for central bank independence and resolution framework).
- Implementation of Loan Portfolio Review (LPR) recommendations to strengthen bank balance sheets.
- 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.

28) 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.

29) ADB Country Partnership Strategy. 2025-2029:

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

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

30) Additional Areas of Focus beyond IMF, ADB, and World Bank recommendations

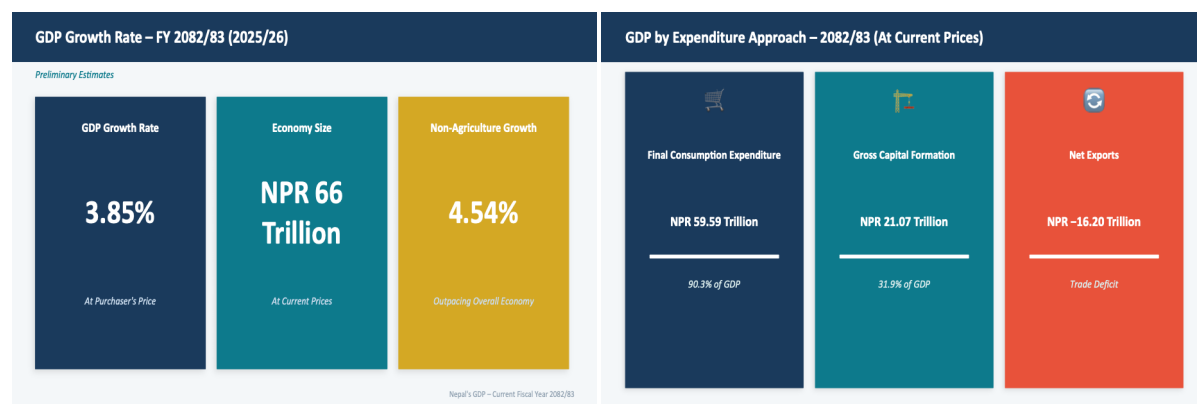
While the guidance from institutions like the IMF, ADB, and World Bank provides a strong foundation for economic reform in Nepal, several additional areas require targeted attention to ensure long-term resilience and inclusive development.

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

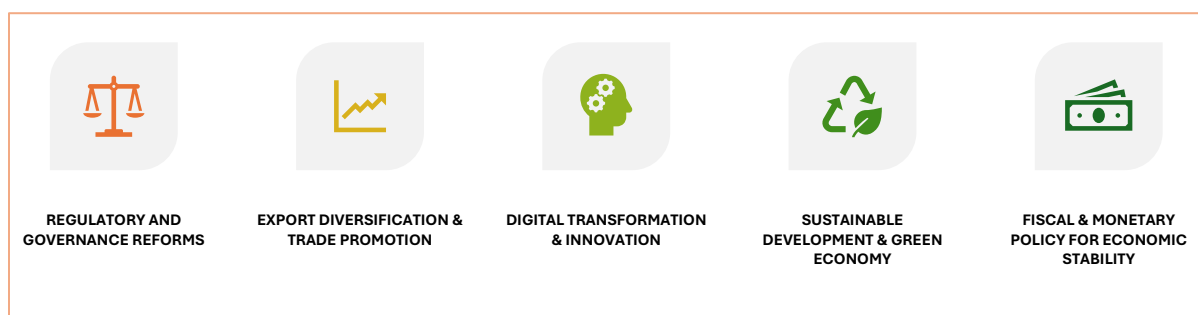
Several important macroeconomic indicators show improvement in the preliminary estimates for 2082/83. Gross Domestic Savings as a percentage of GDP is projected to rise to 9.71% from 6.89% in the previous year, while Gross National Savings is expected to reach a healthy 44.77%. Gross Fixed Capital Formation 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



3) Strategies for Nepal's Economic Development

Nepal can implement the following strategies and action plans to strengthen its economic resilience, enhance competitiveness, and achieve sustainable growth

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

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

- As Nepal finds itself at a pivotal crossroads. Mounting political and economic headwinds, both domestic and international, are fueling uncertainty and raising the specter of another downturn. A confluence of risks is intensifying, demanding urgent and strategic action. At home, political instability and the erosion of public and investor confidence are compounding economic vulnerabilities.

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
<i>Gross Domestic Product (GDP) at basic prices</i>	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
<i>Gross Domestic Product (GDP)</i>	5.63	1.98	3.68	4.43	3.85

5) Economic Growth and Inflation

- GoN set GDP growth target rate at 7% for FY 2026/27: Expected to remain low around 3.5-4%.
- For FY 2026/27 the GoN set target rate of inflation at 6%, August 2026 inflation 5.96% within NRB target.

6) Growth Projections

World Bank Projections

The World Bank initially projected growth of 4.6% for FY2024/25 in April 2024, which was later upgraded to 5.1% in October 2024 before being adjusted down to 4.5% in April 2025. Following significant political or social unrest in September 2025, the organization implemented a sharp downgrade for FY2025/26 to 2.1% in November 2025, with a minor upward correction to 2.3% by April 2026. Looking further ahead, the World Bank estimates average growth rates of 5.4% for FY2025/26–27 and 4.4% for FY2026/27–28.

Asian Development Bank (ADB) Analysis

The ADB tracked FY2023/24 growth from an initial estimate of 3.6% in April 2024 up to 3.9% by September 2024. For FY2024/25, projections peaked at 4.9% in September 2024 before settling at 4.4% in April 2025. Similar to other institutions, ADB sharply revised its FY2025/26 forecasts downward late in the period—from an initial 5.1% down to 3.0% in December 2025, 2.7% in April 2026, and eventually settling on a latest estimate of 3.9% in September 2026. The FY2026/27 forecast was also recently adjusted downward to 4.1% due to flood damage.

International Monetary Fund (IMF) Projections

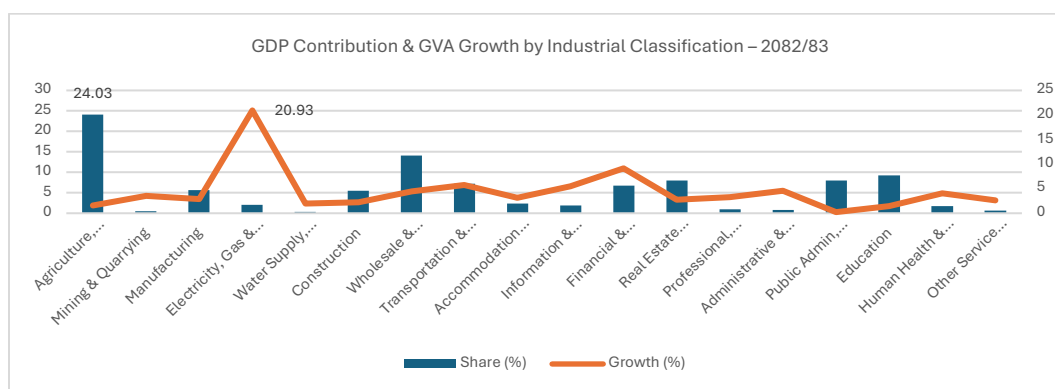
The IMF provided a revised assessment of 0.8% for FY2022/23 in October 2023, while FY2023/24 estimates rose from 3.5% to 3.9%. Projections for FY2024/25 fluctuated between 4.0% and 4.9%. Although the IMF initially set a strong 5.2% growth projection for FY2025/26 in October 2025, major downward revisions in early 2026 brought the latest estimate down to 3.0% by June 2026. The IMF's latest forecast for FY2026/27 stands at 4.6%.

National Statistics Office (NSO / CBS) Official Figures

The NSO / CBS reported a revised official growth estimate of 3.67% for FY2023/24. This was followed by a preliminary official estimate of 4.61% for FY2024/25. The latest preliminary estimate for FY2025/26 is approximately 3.85%, while official national annual forecasts for FY2026/27 are not yet available.

Growth projections for Nepal have become increasingly volatile rather than following a uniform downward trajectory. The National Statistics Office estimates growth at 4.61 percent for FY2024/25, while its latest preliminary assessment places FY2025/26 growth at around 3.85 percent. For FY2025/26, international institutions currently place growth between 2.3 percent and 3.9 percent, with the World Bank at 2.3 percent, IMF at 3.0 percent and ADB at 3.9 percent. For FY2026/27, the IMF projects 4.6 percent, ADB 4.1 percent, while the World Bank projects an average 4.4 percent for FY2026/27–FY2027/28. The divergence reflects different assessment dates and assumptions, but the common message is that Nepal's recovery remains vulnerable to domestic disruptions, weak private investment, external shocks and increasingly significant climate-related risks.

Institution	Period / Date	Projection / Estimate	Revision / Comment
World Bank	Apr 2024	4.6% FY2024/25	Initial projection
	Oct 2024	5.1% FY2024/25	+0.5 pp from Apr 2024
	Jan 2025	5.1% FY2024/25	Unchanged
	Apr 2025	4.5% FY2024/25	-0.6 pp from Oct 2024
	Apr 2025	5.4% FY2025/26–27	Average annual projection for the two years
	Nov 2025	2.1% FY2025/26	Sharp downgrade following September 2025 unrest
	Apr 2026	2.3% FY2025/26	+0.2 pp from Nov 2025
	Apr 2026	4.4% FY2026/27–28	Average recovery projection
ADB	Apr 2024	3.6% FY2023/24	Initial estimate
	Sept 2024	3.9% FY2023/24	+0.3 pp
	Apr 2024	4.8% FY2024/25	Initial projection
	Sept 2024	4.9% FY2024/25	+0.1 pp
	Apr 2025	4.4% FY2024/25	-0.5 pp
	Apr 2025	5.1% FY2025/26	Initial projection
	Dec 2025	3.0% FY2025/26	-2.1 pp
	Apr 2026	2.7% FY2025/26	-0.3 pp from Dec 2025
	Apr 2026	5.0% FY2026/27	Recovery projection
	Sept 2026	3.9% FY2025/26	Latest estimate
	Sept 2026	4.1% FY2026/27	Latest forecast; reduced following flood damage
IMF	Oct 2023	0.8% FY2022/23	Revised assessment
	Dec 2023	3.5% FY2023/24	Projection
	May 2024	3.9% FY2023/24	+0.4 pp
	May 2024	4.9% FY2024/25	Projection
	Jan 2025	~4.0% FY2024/25	-0.9 pp
	Mar 2025	4.2% FY2024/25	+0.2 pp
	Oct 2025	5.2% FY2025/26	Projection
	Feb 2026	3.0–3.5% FY2025/26	Major downward revision
	June 2026	3.0% FY2025/26	Latest estimate
	June 2026	4.6% FY2026/27	Latest forecast
NSO / CBS	FY2023/24	3.67%	Revised official estimate
	FY2024/25	4.61%	Preliminary official estimate
	FY2025/26	~3.85%	Latest preliminary estimate
	FY2026/27	Not yet available	No comparable official NSO annual forecast identified

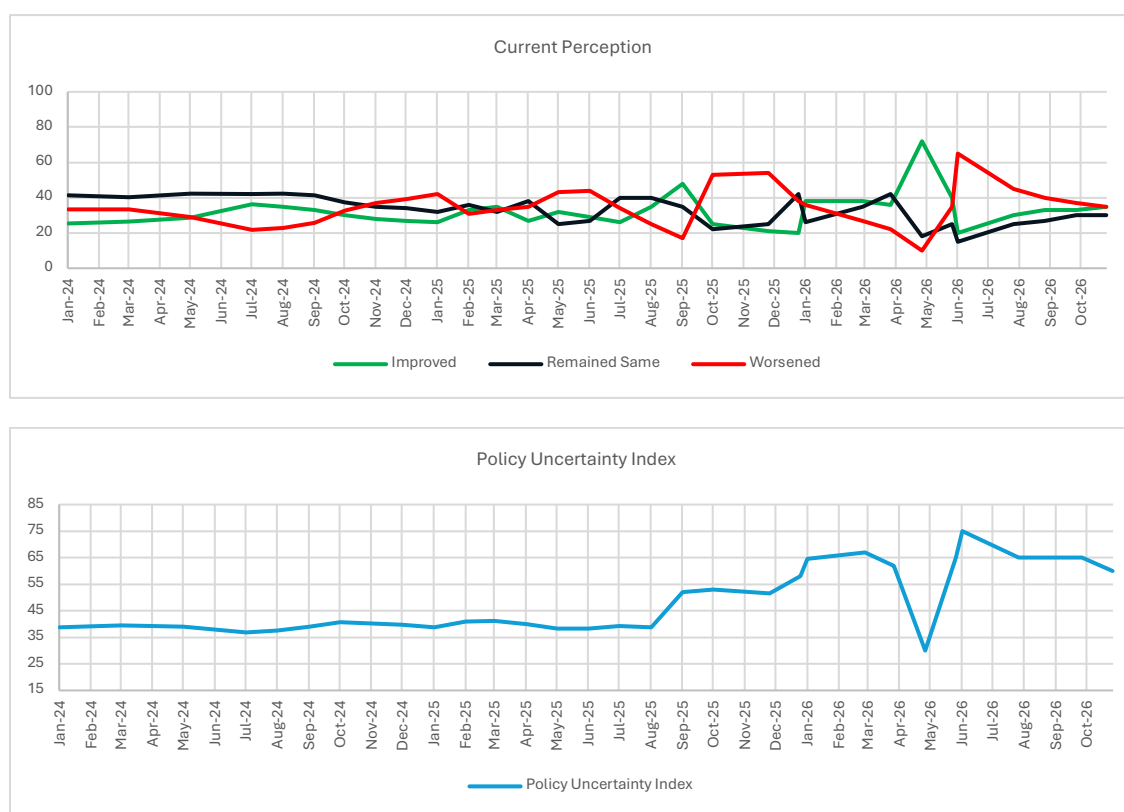


1. Nepal's economic growth in 2024/25 is increasingly being powered by dynamic service sectors and productive middle-tier industries, while growth in large traditional sectors remains muted. Sectors like transport, finance, energy, and ICT are becoming new growth poles, but their scale is still developing. Meanwhile, public sector and agriculture dominate the structure but lack transformative momentum.
2. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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
Sept-26	33	37	65
August-26	35	35	60

Key observation:

- By May 2026, optimism normalizes quickly.
- By July 2026, sentiment collapses again: “worsened” reduced to 45%, the highest in the entire series.
- PUI spikes to 75, indicating renewed and severe uncertainty.
- **August 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-Cautious (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:

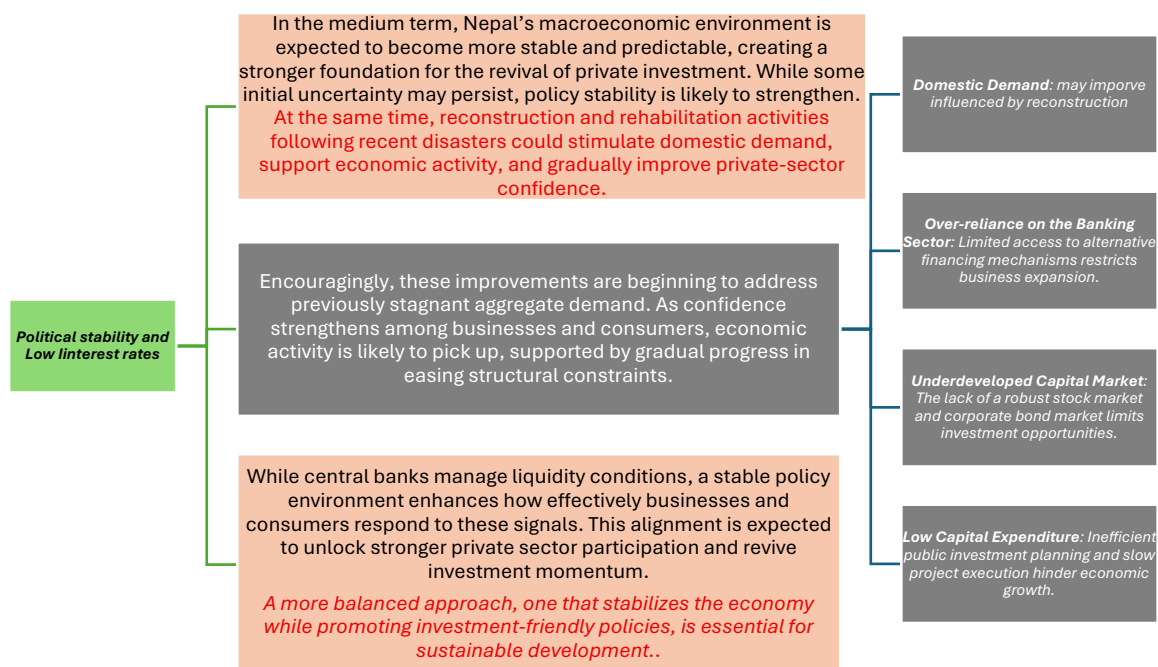
- Weak anchoring of policy expectations

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

Conclusion

From January 2024 to October 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, post-disaster reconstruction and rehabilitation activities—especially following the severe August 2026 Rasuwa–Bhotekoshi flood—are expected to inject vital capital into local supply chains, support regional employment, and act as an unexpected fiscal driver for domestic consumption.

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, supported by post-flood infrastructure rebuilding, and reinforced by investment-friendly reforms—positions Nepal for a more resilient and sustainable growth trajectory.

Policy Support Matrix

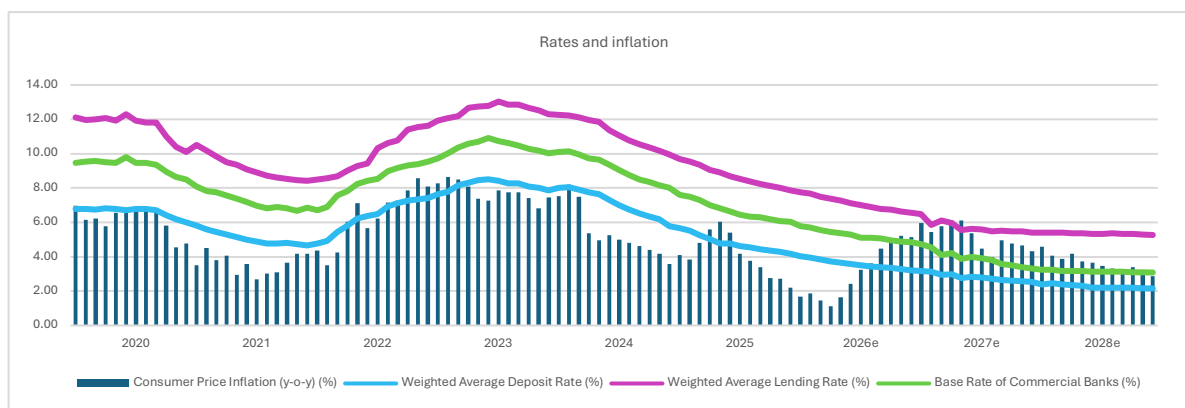
Challenge Area	Policy Support Lever	Expected Impact	Outlook
Climate Shock & Reconstruction Burden	Establish a national reconstruction framework; undertake damage and needs assessment; prioritize roads, bridges, hydropower, irrigation and public assets; mobilize concessional finance, grants, insurance and climate finance	Faster restoration of connectivity and productive capacity; reduced disruption to trade, energy and livelihoods; improved climate resilience	High Risk / Requires Immediate Action

Challenge Area	Policy Support Lever	Expected Impact	Outlook
Fiscal & Resource Constraints	Reprioritize public expenditure; protect reconstruction and high-return capital projects; improve revenue administration; mobilize concessional external financing and PPPs; establish disaster-risk financing mechanisms	Creates fiscal space for reconstruction without excessive pressure on public debt; improves expenditure efficiency	Increasing Pressure
Weak Domestic Demand & Investment	Targeted reconstruction stimulus; investment facilitation; predictable tax and regulatory policies; targeted credit support for productive sectors rather than broad-based subsidies	Restores private investment, employment and demand while creating productive assets	Weak but Recoverable
Limited Financing Access for Damaged Enterprises	Emergency restructuring facilities; disaster-related refinancing; credit guarantees; differentiated working-capital facilities; temporary regulatory flexibility for viable affected borrowers	Prevents otherwise viable SMEs and enterprises from becoming distressed or non-performing; accelerates business recovery	High Risk / Improving with Intervention
Rising NPLs & Banking-Sector Stress	Strengthen early-warning systems; loan restructuring based on viability; enhanced provisioning and recovery mechanisms; improve collateral resolution and insolvency processes	Preserves financial stability while allowing viable borrowers to recover; restores banks' willingness to lend	Elevated Risk
Low Credit Transmission Despite Excess Liquidity	Shift monetary-policy focus from liquidity provision toward productive credit transmission; develop credit guarantees, project-finance mechanisms and risk-sharing instruments	Converts excess liquidity into productive investment rather than continued accumulation of low-yield liquid assets	Persistent Constraint
Low Capital Expenditure & Implementation Capacity	Fast-track high-priority projects; strengthen project readiness; introduce milestone-based implementation; improve procurement and inter-agency coordination	Higher capital expenditure multiplier; faster reconstruction; improved infrastructure and employment	Critical Constraint
Underdeveloped Capital Market	Accelerate infrastructure and municipal bond frameworks; deepen corporate debt markets; strengthen AIFs and diaspora investment vehicles; improve institutional-investor participation	Mobilizes long-term domestic and diaspora capital and reduces dependence on bank financing	Gradually Expanding
External-Sector Concentration	Promote exports, tourism, ICT/business services and import-substituting production; channel remittances toward productive investment through appropriate financial instruments	Reduces excessive dependence on remittances and strengthens foreign-exchange earning capacity	Stable but Vulnerable
Import Dependency & Low Domestic Production	Support energy, agro-processing, fertilizer, chemicals, logistics and selected manufacturing; improve domestic supply chains	Reduces structural trade deficit and foreign-exchange leakage; strengthens economic self-reliance	Strategic Priority
Energy & Infrastructure Vulnerability	Climate-resilient hydropower and transmission investment; diversify energy sources; strengthen roads, bridges and aviation infrastructure; establish infrastructure-risk standards	Protects productive capacity from future climate shocks and improves energy and logistics security	High Priority
Policy & Regulatory Uncertainty	Improve policy consistency; harmonize conflicting laws and regulations; establish coordinated investment and reconstruction governance; strengthen regulatory predictability	Improves investor confidence, reduces transaction costs and supports long-term capital formation	Needs Strengthening
Food & Cost-of-Living Pressure	Strengthen domestic agriculture, irrigation, storage and supply chains; improve targeted social protection; reduce critical import bottlenecks	Protects vulnerable households while reducing food-price volatility and import dependence	Elevated Risk
Employment & Migration Dependency	Promote labour-intensive reconstruction, SME recovery and export-oriented industries; strengthen skills and reintegration programmes for returning migrants	Converts reconstruction and migration-related human capital into domestic employment and productive capacity	Structural Risk

Strategic Growth Roadmap



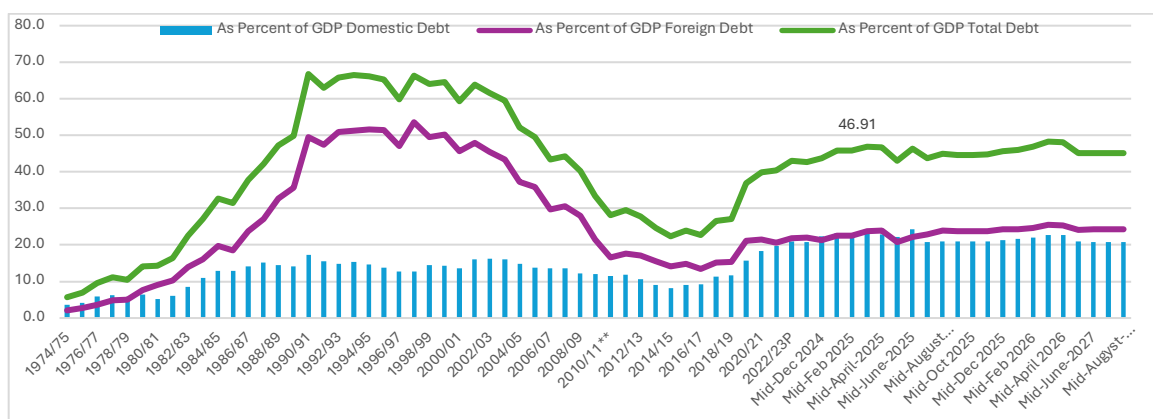
9) Interest rates and Inflation



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

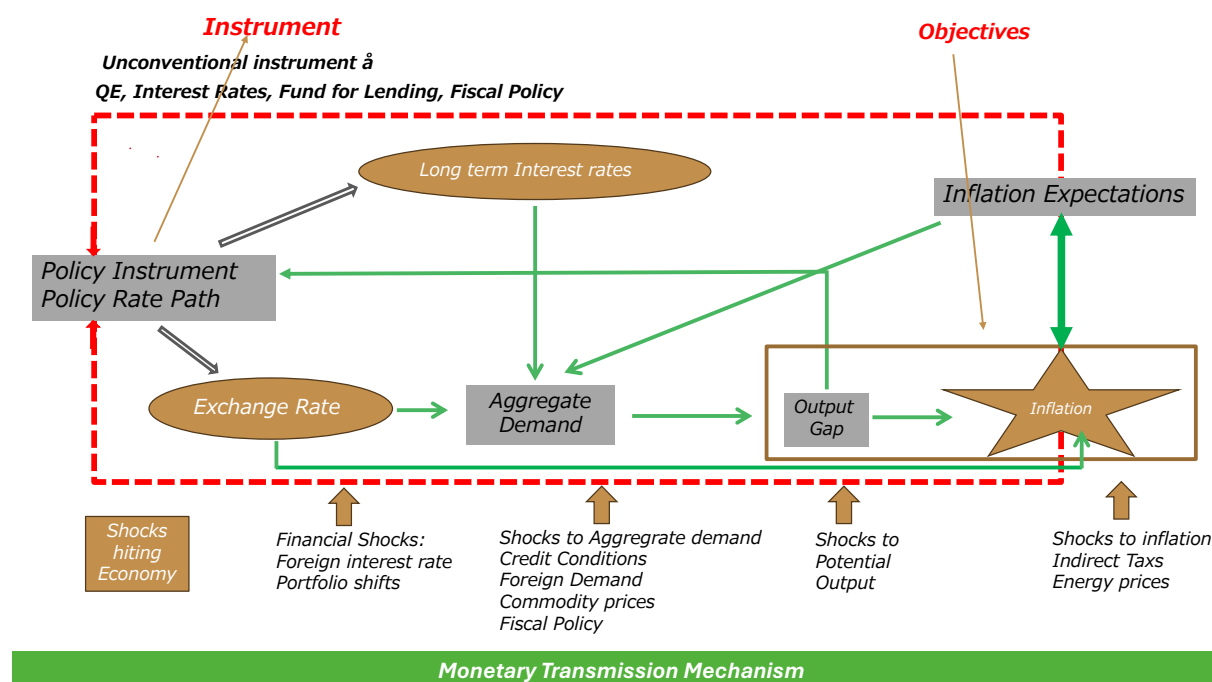
Risks	Likelihood	Impact	Mitigation Measures
Political Instability & Governance Execution	Medium	High	Strengthen governance frameworks, expedite disaster relief coordination, and prioritize key structural and reconstruction policies.
Increasing Debt Burden & Sovereign Stress	High	High	For every 0.7% decline in GDP, debt levels increase by ~3.5%. Mitigate by monetizing state assets, securing concessional climate transition funds, and reprioritizing capital spending.
Climate & Disaster Disruptions	High	Severe	Integrate physical climate risk models into infrastructure; allocate dedicated funds for high-altitude disaster management, flood barriers, and resilient hydro engineering.
Weak Spending Execution & Revenue Mobilization	High	High	Streamline capital allocation toward priority reconstruction (NPR 35–45B for bridges/roads) and digitize customs/VAT collection to address tax base erosion.
Declining Private Sector & Investor Confidence	High	High	Fast-track debt restructuring for affected MSMEs/hydro assets, finalize legal/dispute resolution reforms, and clarify policy distinctions between legal issues and factual commercial determinations.
External Shocks & Geopolitical Grant Reductions	High	Severe	Counter foreign grant shortfalls and trade route disruptions by boosting local production, streamlining government operating expenditure, and expanding multilateral climate facilities.
Rising Non-Performing Assets (NPAs) & Banking Stress	High	High	Recalibrate loan-loss provisioning (LLP) norms for damaged collateral, provide targeted regulatory forbearance, and establish an Asset Management Company (AMC) to absorb distressed hydro and commercial debt.

12) Factor of risk

Structural Dimension	Specific Economic Condition	Related Effect	Trend	Risk Level
Low Investment / Low Domestic Income / High Migration	Weak wholesale and retail operations across flood corridors (4,584 units affected)	Aggregate Demand	Decline	High
	High localized unemployment (~25,000 livelihoods disrupted)	Aggregate Demand & Consumption	Decline	High
	Destruction of commercial capital & low firm productivity	Firm Investment & Capital Rebuild	Decline	High
	Loss of household savings & wealth (NPR 8.55B across 1,500 families)	Disposable Savings & Private Assets	Decline	High
External & Geopolitical Shocks	Increasing commodity & reconstruction material prices	Import Bill	Increase	High
	Host countries labor demand fluctuations	Remittance Inflows	Decline	Medium
	Energy prices & hydropower supply halts (750 MW affected)	Cost of Production & Power Deficit	Increase	High
Interest Rates Outlook	Excess systemic liquidity vs. localized cash bottlenecks	Real Deposit Rates Below Inflation	Decline	High
Informal Economy Shock	Disruption of 5,000+ informal traders and uncollateralized units	Government Tax Revenue Collection	Decline	High
FDI Inflow Outlook	Excessive bureaucracy, slow disaster recovery & climate exposure	Direct Foreign Capital Inflows	Decline	High
Level of Loan Default	NPAs rising toward 6.5–7.5% due to collateral destruction	Pressure on Banking Sector Capital	Increase	Severe
Demand for Working Capital	Risk aversion, debt overhang, and weak consumer sentiment	Unutilized Systemic Liquidity	Decline	High
Inflation Outlook	Supply chain bottlenecks & transport surcharges vs. low demand	Local Cost of Living	Increase	High

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

13) Policy Mistakes



a) Monetary policy transmission

1. Interest Rate Channel

Less Effective

2. Lending Rates Channel

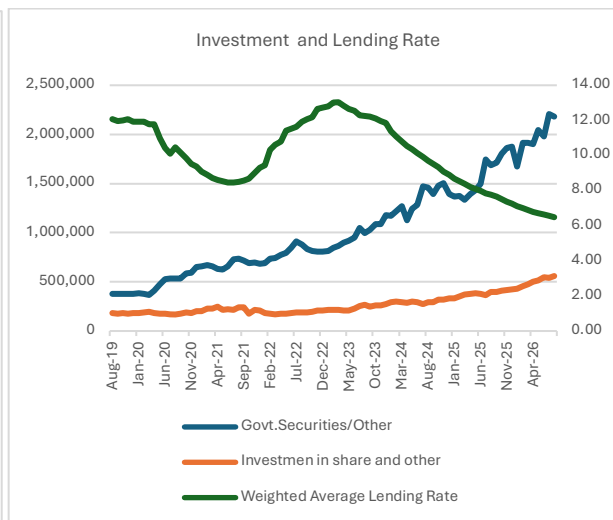
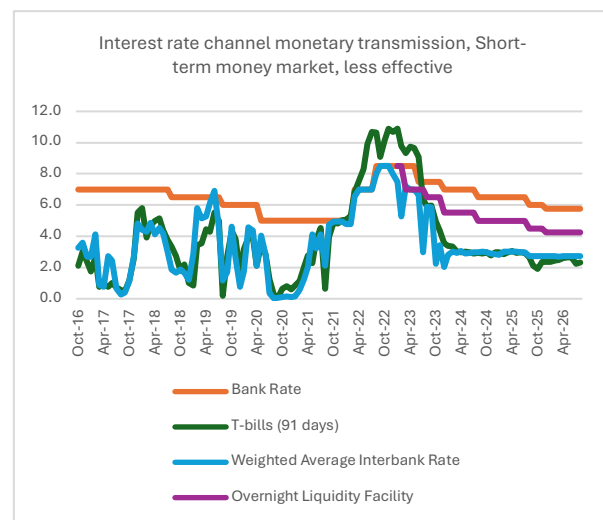
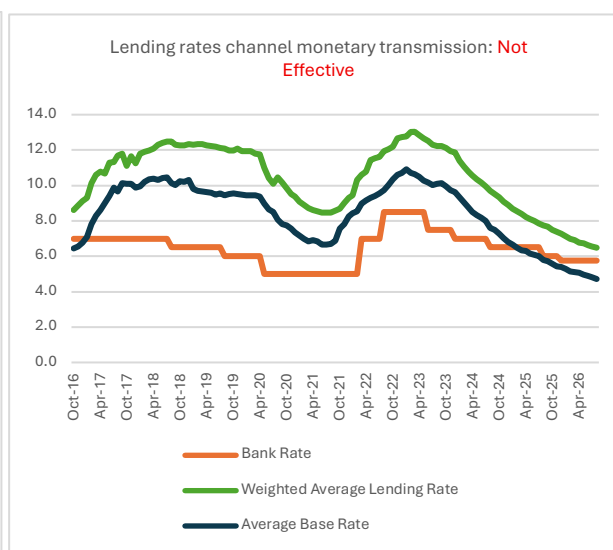
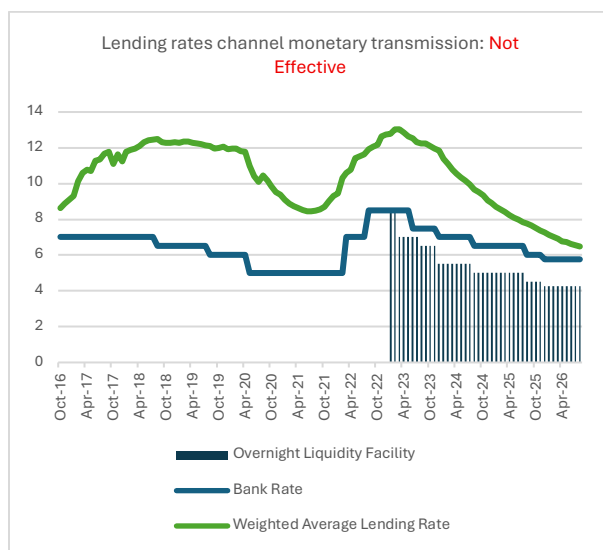
Not Effective

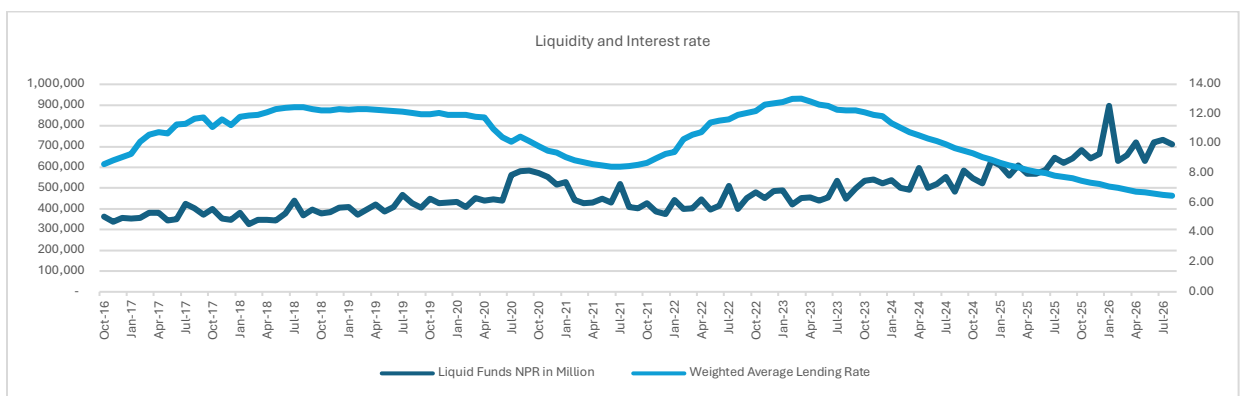
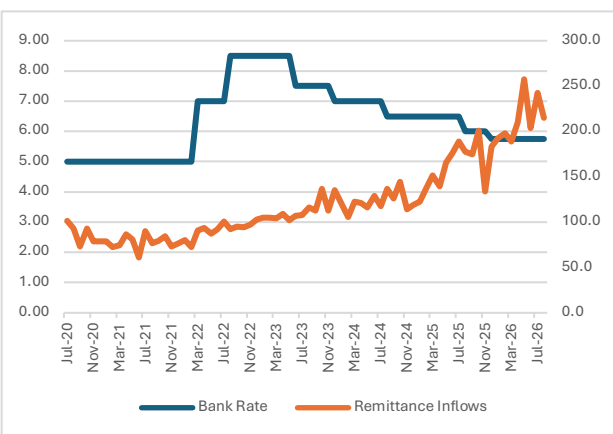
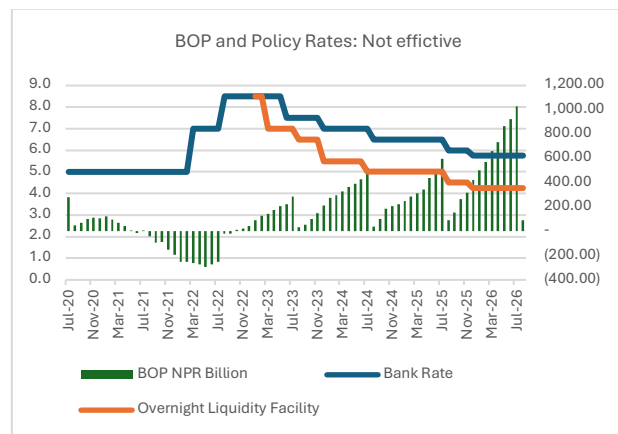
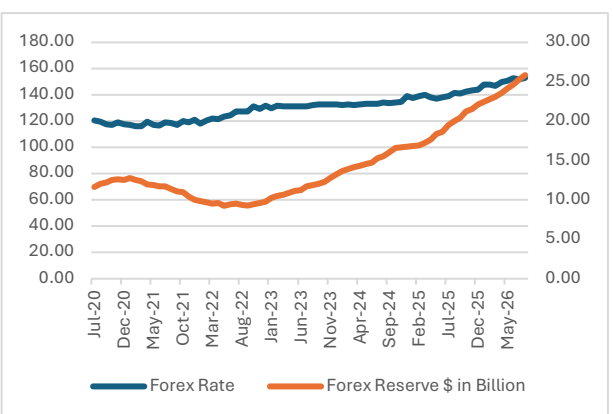
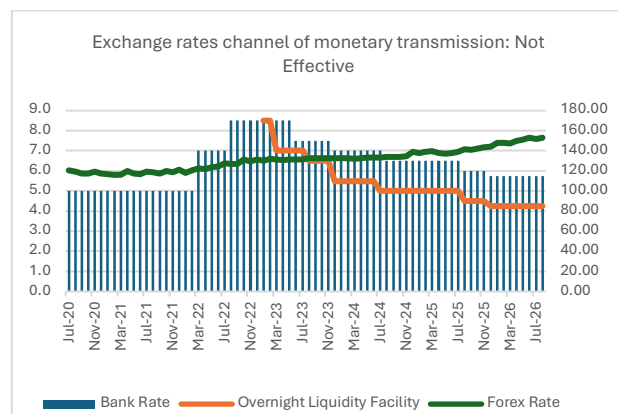
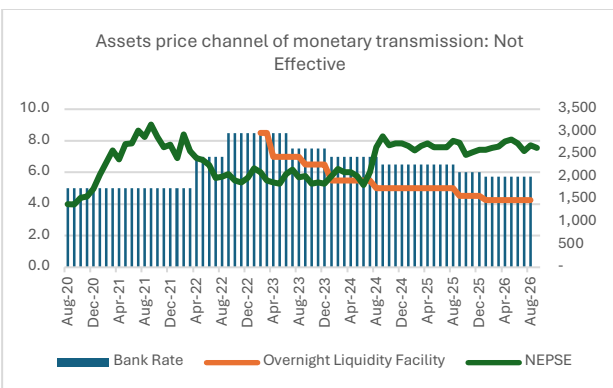
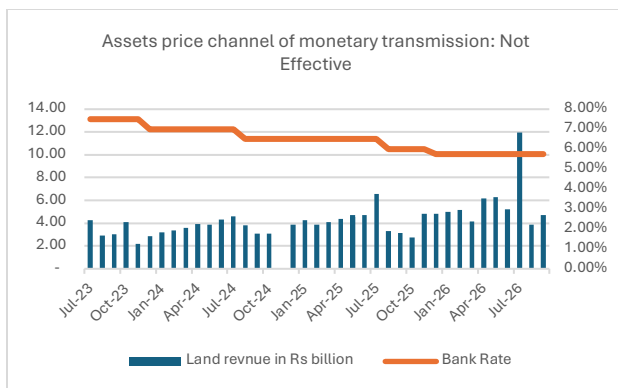
3. Asset Price Channel

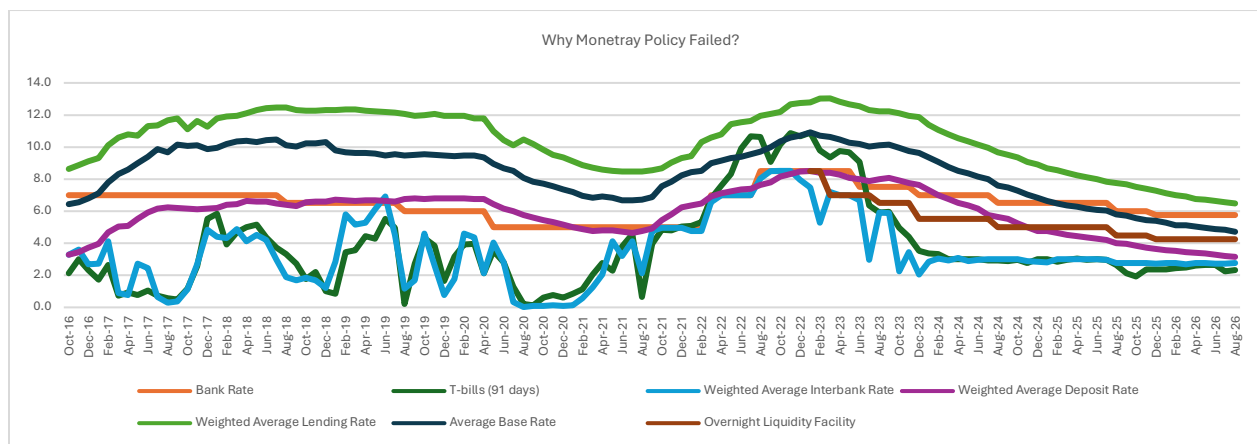
Not Effective

4. Exchange Rate Channel

Not Effective







b) Consumer Price Inflation (CPI)

1. Consumer Price Inflation (CPI)

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

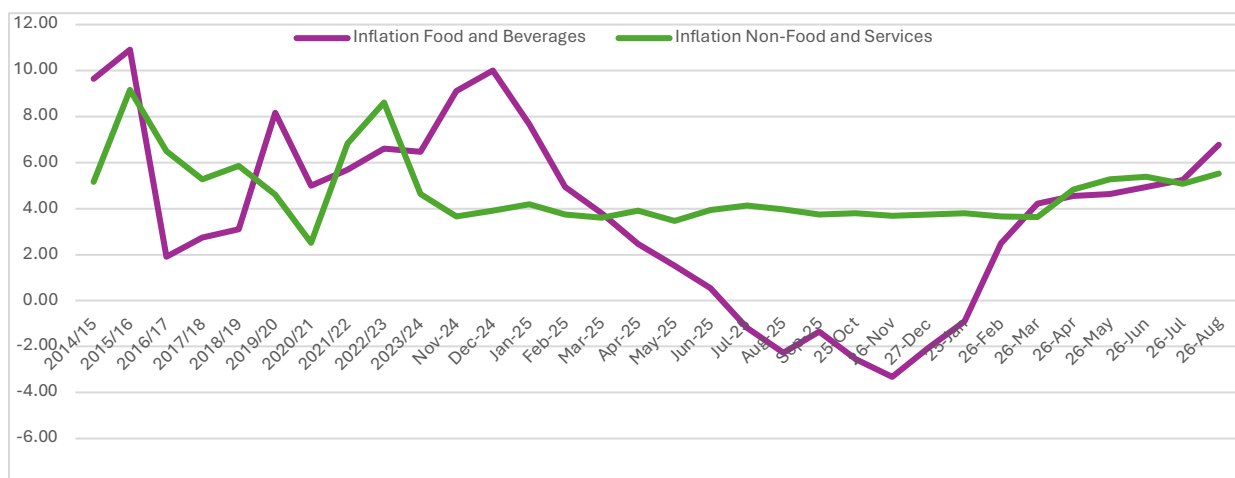
- 2019-2021: CPI fluctuated between 4.44% and 6.95%.
- 2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.
- 2023-2025: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 1.47% by October 2025 and surged to 5.96 % in August 2026

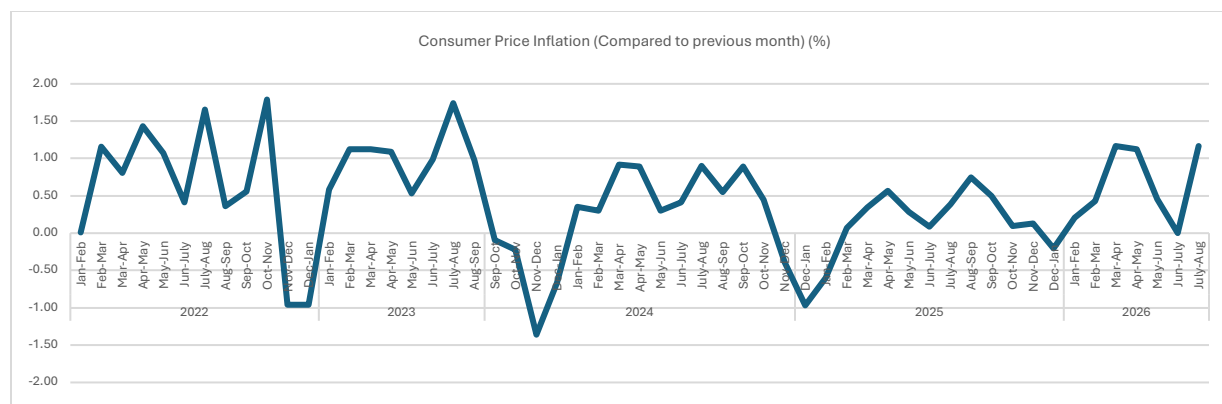
Policy Mistakes:

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 moderate to 5.96 percent in August 2026 compared to June 2026 reaching 16 months high of 5.22%. 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

The B2B wholesale market data for Bhadra 05 to Ashoj 06, 2083 shows a highly differentiated market, with sharp increases in some essential and specialty items alongside substantial declines in many seasonal vegetables and fruits.

The latest Kathmandu wholesale market data indicate continued commodity-level volatility but no broad-based inflationary pressure. Across the reported commodities, price movements are sharply divided between products facing tighter supply and those benefiting from improved seasonal arrivals. This distinction is important because the headline movement in individual commodities can otherwise give a misleading impression of generalized food inflation.

Among frequently consumed vegetables, red radish (+40%), hybrid white radish (+73.67%), cauliflower (+10.38%), Indian red potato (+20%), Indian dry onion (+18.30%) and green onion (+40%) recorded notable increases. Broccoli increased by 116.67%, while red cabbage rose by 57.14%. Green garlic increased by 120%, indicating particularly strong pressure in selected fresh-condiment categories.

At the same time, several vegetables experienced substantial declines. Jiri ko saag fell by 72.73%, Jiri greens by 72.22%, long beans by 48.90%, green pumpkin by 36.36%, spinach by 55.56%, mustard greens by 35% and green coriander by 50%. These movements point toward improving supply and seasonal availability rather than a generalized deterioration in agricultural supply.

Updated Price Pressure by Commodity Group

Commodity group	Major increases	Major declines	Interpretation
Staple vegetables	Hybrid white radish +73.67%, red radish +40%, Indian potato +20%, onion +18.30%	Long bean -48.90%, scus -72.73%, green pumpkin -36.36%	Highly differentiated supply conditions
Leafy vegetables	Jiri greens +72.22%, celery +33.33%, parsley +79.31%, mint +44.44%	Spinach -55.56%, Rayo Saag -20%, mustard greens -35%	Specialty greens rising while mainstream greens soften
Mushrooms	Dalle mushroom +10.47%	Oyster mushroom -20.13%	Relatively contained pressure
Fruits	Hybrid cucumber +87.55%, Chinese pear +28.57%, Indian papaya +15.79%, dragon fruit +22.22%	Junar -38.60%, amla -48.57%, banana -36.36%, avocado -13.33%	Strong seasonal effects
Spices/chilies	Green garlic +120%, green bullet/mache chili +51.79%/+66.67%	Green coriander -50%	Supply-sensitive category
Specialty vegetables	Broccoli +116.67%, red cabbage +57.14%, asparagus +22.22%	Tree tomato -64.29%	Small-market commodities show large percentage swings

Large Nepali tomatoes declined by 23.53%, while large Indian tomatoes declined by 21.05%. Small tunnel tomatoes declined by 8.13%. This is significant because tomatoes are a high-frequency household food item. The decline suggests that tomato supply conditions have improved relative to the previous observation. Similarly, several fruits have become cheaper. Nepali bananas declined by 36.36%, Junar by 38.60%, amla by 48.57% and local avocado by 13.33%. Consequently, the earlier concern about broad-based fruit inflation is no longer supported by the latest observations.

However, pressure has shifted toward several other products. Green garlic (+120%), broccoli (+116.67%), hybrid white radish (+73.67%), green chili (+51.79–66.67%), red cabbage (+57.14%) and green onion (+40%) show substantial increases. These are important price movements, but their economic significance differs because several are relatively narrow or seasonal product categories.

Household Food Inflation Implication

The latest data suggest that wholesale price volatility is considerably greater than underlying broad-based food inflation. A 100% increase in a specialty vegetable does not have the same effect on household expenditure as a 20% increase in potatoes, onions or tomatoes.

The key issue for inflation monitoring should therefore be the weighted contribution of individual commodities to the household consumption basket, rather than the number of commodities showing price increases.

The latest data provide three distinct signals:

1. Essential-food pressure is selective rather than generalized.
Potatoes and onions have increased, but tomatoes have declined and several other major vegetables have also become cheaper.
2. Seasonal supply is producing large price dispersion.
The simultaneous increases in some vegetables and declines of 40–70% in others strongly suggest commodity-specific supply and arrival conditions.
3. Specialty and perishable commodities are generating extreme percentage movements.
Broccoli, green garlic, parsley, Jiri greens and selected chilies show very large percentage changes, but their contribution to aggregate household inflation is likely much smaller than their headline percentage movements suggest.

Kathmandu's latest wholesale agricultural market data indicate pronounced commodity-level volatility but limited evidence of generalized food inflation. The period from Bhadra 05 to Ashoj 06, 2083 shows a strong divergence between commodities facing tighter supply and those benefiting from improved seasonal arrivals. Prices of selected essentials—including potatoes, onions, radish and cauliflower—have increased, while tomatoes, beans, Jiri ko saag, leafy greens, bananas and several seasonal fruits have recorded significant declines. The simultaneous occurrence of sharp price increases and declines across closely related agricultural products suggests that seasonal availability, local production cycles, market arrivals and transportation conditions remain more important drivers of wholesale prices than a generalized inflationary impulse. Nevertheless, increases in high-frequency food items such as potatoes, onions and selected green vegetables warrant monitoring because their impact on household food expenditure can be disproportionate to the overall wholesale-market average.

Policy and Monitoring Implication

The policy implication is also somewhat different from the previous report. Broad-based price intervention is not indicated by these data alone. Instead, monitoring should focus on:

1. wholesale arrivals and inventories of potatoes, onions and other high-consumption staples;
2. the effect of monsoon disruptions and transport constraints on market arrivals;
3. farm-gate versus wholesale price spreads;
4. whether wholesale declines are being transmitted to retail markets;
5. the persistence of price increases in imported commodities;
6. and the weighted contribution of these commodities to the national CPI food basket.

The most important analytical distinction for the report is therefore: Nepal is currently experiencing agricultural price volatility, not necessarily generalized agricultural inflation. This distinction is particularly relevant in the current environment because climate-related disruptions and reconstruction requirements can create localized and temporary supply shocks without necessarily producing sustained economy-wide food inflation.

d) Export and Import

2. Exports and Imports

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

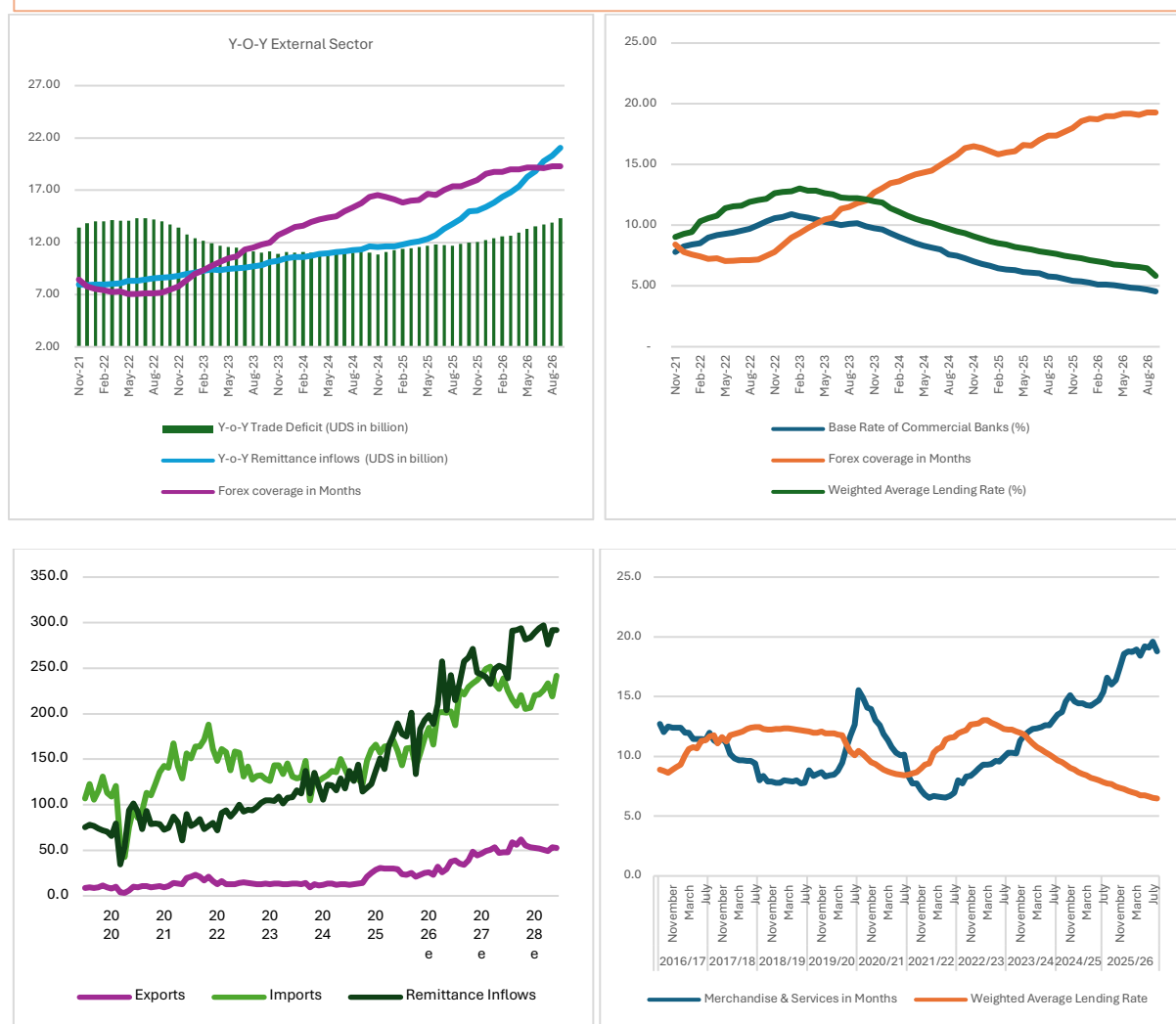
- Exports have shown a consistent upward trend, rising from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December–January 2024, and further climbing to NPR 24.7 billion by mid-January 2025. In contrast, imports experienced a substantial surge—from NPR 112.5 billion in early 2019 to NPR 188.1 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 August-2026, imports remain stable at to NPR 202 billion, while exports increase to NPR 37 billion from NPR 29 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.*



e) Government Expenditure

3. Government Expenditure

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

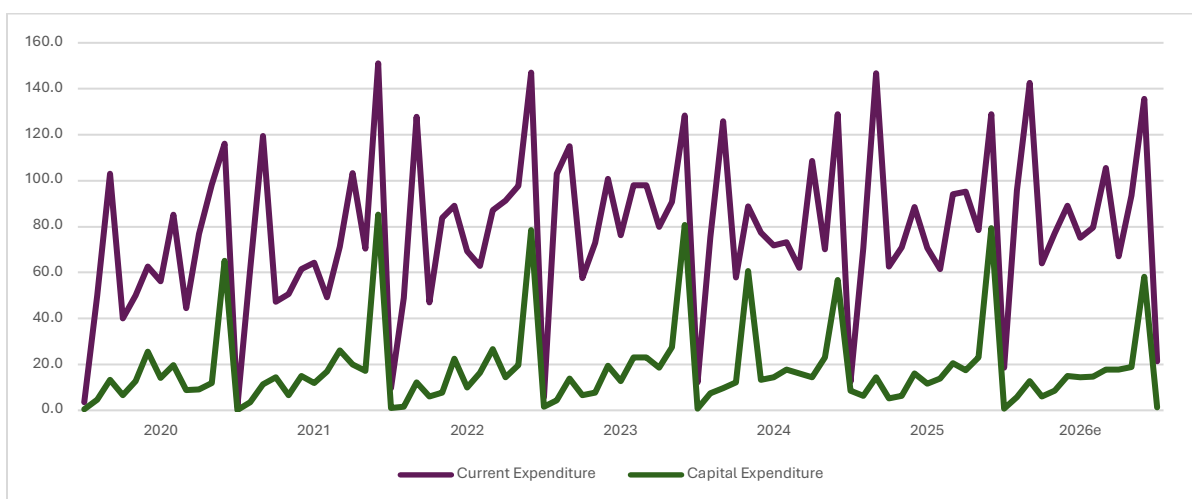
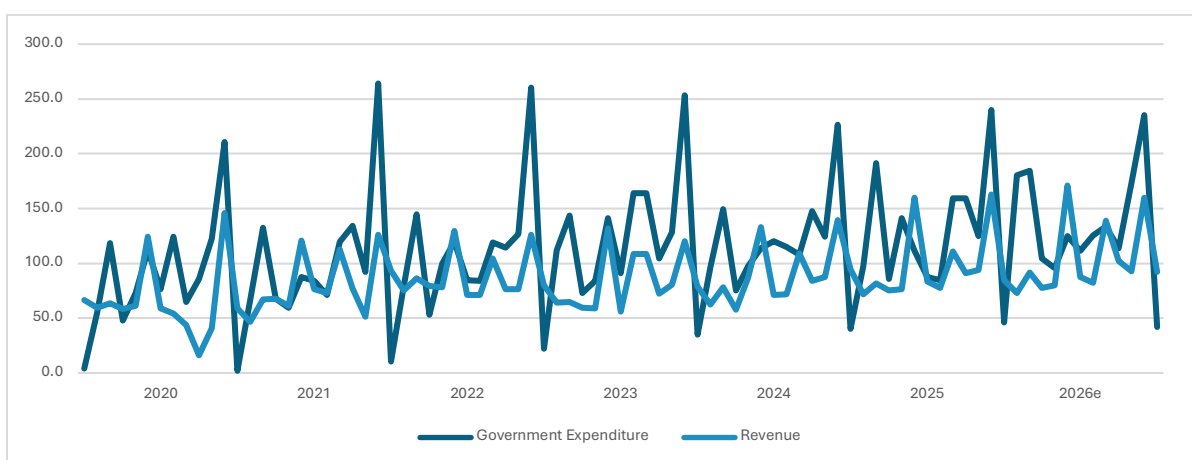
Over the last four years (2023–2026), Nepal's fiscal trends continue to reflect a structural imbalance between expenditure and revenue, with clear evidence of fiscal bunching and weak capital execution. Total government expenditure repeatedly peaks in the final months of each fiscal year, reaching around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



f) 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.

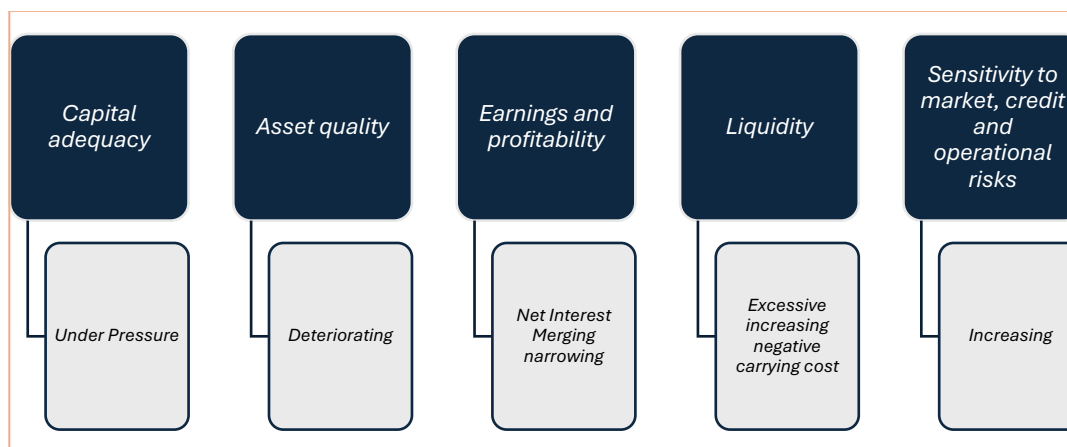
Policy Mistakes:

- 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-Aug	in %age	Gross RWA
Gross Loan	5,949.06	100.00%	6,635
Good loan	5,334.70	89.67%	
Watch list	277.30	4.66%	
Problem Loan	337.06	5.67%	
Provision made	349.50	5.87%	
Additional Provision Required (assuming 50% of Watch List loans are downgraded and all Problem Loans become Bad)	126.21	2.12%	
Paid up Capital and Statutory Reserves to loan	614.32	10.33%	9.26%
Total capital to loan	838.61	14.10%	12.64%
Net capital If all problem loan becomes bad	488.11	8.20%	7.36%
Total capital If all problem loan becomes bad	712.40	11.97%	10.74%

a) Asset Quality and Provisioning

As of mid-August 2026, Nepal's banking sector maintained a gross loan portfolio of NPR 5,949 billion. Of the total portfolio, 89.67% (NPR 5,332 billion) comprised performing loans, while 4.66% (NPR 277 billion) were classified as watch-list loans and 5.67% (NPR 337 billion) as problem loans. Although the overall quality of the loan portfolio remains broadly resilient, the elevated level of watch-list and problem loans continues to pose a significant risk to financial stability.

Banks have already created NPR 349 billion in loan loss provisions, equivalent to 5.87% of gross loans. However, under a severe stress scenario in which 50% of watch-list loans deteriorate into problem loans and all existing problem loans eventually become loss assets, the banking sector would require an additional NPR 126 billion in provisions, representing 1.26% of gross loans. This would substantively increase the existing provisioning burden and substantially weaken banks' capital positions.

b) Capital Adequacy under Stress

The banking system is currently supported by NPR 614 billion in paid-up capital and statutory reserves, equivalent to 10.33% of gross loans (or 9.26% of risk-weighted assets). Including supplementary capital elements, total regulatory capital stands at NPR 838 billion, representing 14.1% of gross loans and 12.64% of risk-weighted assets, providing a comfortable buffer above the minimum regulatory requirement.

However, under the stressed provisioning scenario, net capital would decline sharply to NPR 488 billion, reducing the capital ratio to only 8.2% of gross loans (or 7.36% of risk-weighted assets). Total regulatory capital would also fall to NPR 712 billion, equivalent to 11.97% of gross loans and 10.74% of risk-weighted assets, significantly below the prevailing minimum capital adequacy requirement. Such a decline would severely constrain banks' lending capacity, impair credit creation, and dampen private sector investment, thereby posing downside risks to economic growth.

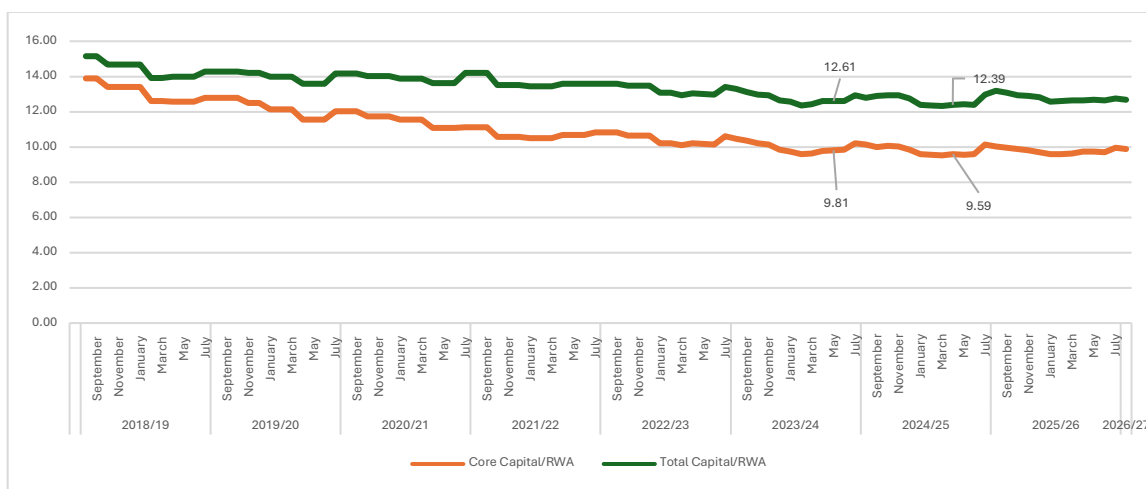
c) Policy Implications

The stress analysis highlights the importance of strengthening Nepal's prudential regulatory framework before asset quality deteriorates further. Nepal Rastra Bank should consider reviewing the existing asset classification and provisioning regime by gradually shifting from the current time-based provisioning approach toward a more risk-sensitive expected credit loss (ECL) or loss-given-default (LGD) framework. Such an approach would better align regulatory provisioning with the actual recoverable value of collateral and borrowers' repayment capacity.

At the same time, accelerating legal reforms to improve insolvency and bankruptcy procedures, strengthening loan recovery mechanisms, and promoting the establishment of professionally managed Asset Reconstruction Companies (ARCs) would facilitate faster resolution of distressed assets. Banks should also strengthen credit monitoring, early warning systems, collateral valuation practices, and portfolio stress testing to identify emerging risks at an earlier stage.

d) Outlook

Despite the challenging asset quality outlook, Nepal's banking sector has an opportunity to reinforce its resilience through timely regulatory reforms. Aligning provisioning standards with international and regional best practices, improving distressed asset resolution mechanisms, and adopting more risk-based supervisory approaches would strengthen confidence in the financial system. These reforms would not only improve the sector's capacity to absorb future shocks but also help restore banks' lending ability, thereby supporting sustainable credit growth and broader economic recovery.



3. Total Loan Loss Provision

	Mid-July					Mid-Aug
Provision for Risk Rs in billion	2022	2023	2024	2026	2026	2026
Opening		110.30	168.12	230.01	284.03	349.50
Addition		85.63	105.41	112.88	128.59	(1.91)
Less Write Back		27.56	43.24	58.46	62.42	0.64
Less Recovery from Written off Loan		0.25	0.29	0.41	0.70	0.02
Closing	110.30				349.50	
		168.12	230.01	284.03		346.92
Gross Loan Loas Provision	2.27%	3.33%	4.26%	4.83%	5.55%	5.87%

4. Risk Assets Classification

Gross loan		2026			
Risk Assets Classification		Mid-August			
Pass Loan	5,334.70	5,334.70		89.67%	
Watch List	277.30	277.30	5,612.00	4.66%	94.33%
Special Mention Loan	331.54	331.54		5.57%	
Other specified Loan	5.52	5.52	337.06	0.09%	5.67%
Gross Loan	5,949.06	5,949.06		100.00%	100.00%

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

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

1. Valuation & Market Readiness

- Should banks accept reasonable valuations for only a fraction of their non-performing assets (NPAs)?
- Banks must mark down asset values to levels acceptable to the market and ARCs.

2. Transparency & Governance

- Establish a clear and transparent methodology to prevent collusion and allegations of wrongdoing.
- Engage private sector participants through an open and competitive bidding process.

3. Regulatory Oversight & Financial Stability

- Nepal Rastra Bank (NRB) should conduct periodic Asset Quality Reviews to assess financial institutions' health.
- NRB must introduce measures to improve price discovery and facilitate efficient credit risk transfer.

4. Legal & Structural Reforms

- Reduce legal barriers and roadblocks that hinder asset resolution and recovery.
- Develop policies to enable ARCs to issue security receipts (SRs) or "hope notes" as part of debt resolution mechanisms.

5. Government & Institutional Support

- Define the extent and form of government financial backing for ARCs.

g) Commercial Bank's Loan Composition and Growth Trend

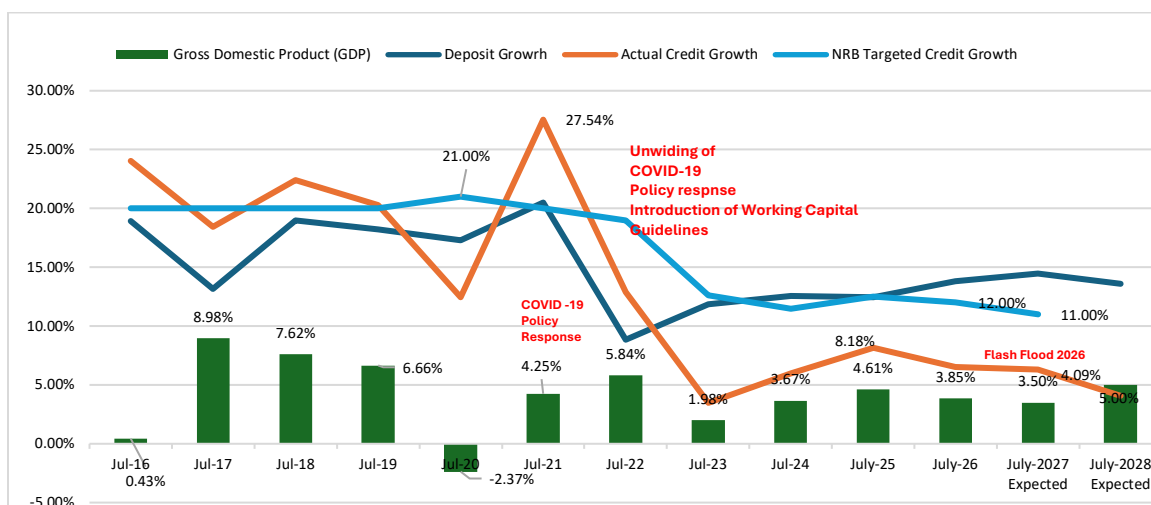
Heading (Rs. in million)	2026			
	August	Share	Trend	Growth
Agriculture	406,539	6.84%	Down	-0.93%
Mines	12,512	0.21%	Up	3.76%
Productions	933,049	15.69%	Up	0.31%
Construction	279,962	4.71%	Up	2.44%
Metal Productions	76,446	1.29%	Up	3.00%
Transportation	54,309	0.91%	Up	0.79%
Communications and Energy	554,414	9.32%	Up	1.33%

Heading (Rs. in million)	2026			
	August	Share	Trend	Growth
Wholesaler and Retailers	1,023,282	17.21%	Down	0.30%
Finance, Insurance, and Real Estates	439,154	7.38%	Up	-5.38%
Service Industries	518,990	8.73%	Up	1.88%
Consumable Loan	1,349,092	22.68%	Up	-0.72%
Local Government	1,196	0.02%	Down	0.06%
Others	298,205	5.01%	Down	-0.47%
Total	5,947,148	100.00%	Up	-0.13%

h) Loan Securities Composition and Growth Trend

Heading (Rs. in million)	2026			
	August	Share	Trend	Growth
Gold/Silver	128,136	2.15%	Up	2.64%
Government Securities	466	0.01%	Down	-7.72%
Non-Government Securities	152,380	2.56%	Up	-0.13%
Fixed A/c Receipt	23,237	0.39%	Down	-7.66%
Asset Guarantee	5,255,314	88.37%	Up	0.41%
Lands and Buildings	3,746,613	63.00%	Up	0.01%
Machinery and Tools	221,009	3.72%	Up	-0.70%
Furniture and Fixture	2,532	0.04%	Up	-2.12%
Vehicles	172,138	2.89%	Up	0.79%
Other Fixed Assets	202,611	3.41%	Up	3.79%
Current Assets	910,412	15.31%	Up	1.69%
Agricultural Products	67,161	1.13%	Up	-2.20%
Other Non-Agricultural Products	843,251	14.18%	Up	2.01%
On Bills Guarantee	44,708	0.75%	Down	7.30%
Domestic Bills	3,920	0.07%	Down	-7.92%
Foreign Bills	40,788	0.69%	Down	9.16%
Guarantee	171,274	2.88%	Down	-10.96%
Credit Card	8,434	0.14%	Up	6.10%
Others	163,199	2.74%	Up	-6.36%
Total	5,947,148	100.00%	Up	-0.13%

i) Expected Growth



- I. 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.
- II. 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.
- III. 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.
- IV. 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.
- V. 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 11% in FY 2027), 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 5%) remains consistent to the deposit growth (around 13% by FY 2027), suggesting a huge surplus liquidity in the system. This imbalance, if not managed carefully, may create systemic risks in the future.**
- VI. 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.

j) 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 6.48% August 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 ~6% 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, liquidity, and bank capital highlights a significant structural shift in Nepal's banking sector. Both deposit and lending rates have declined steadily, reflecting an increasingly accommodative monetary environment and a

substantial easing in the cost of funds. The weighted average deposit rate fell from 6.77% in August 2019 to 3.15% in August 2026, while the weighted average lending rate declined from 12.08% to 6.48% over the same period.

Despite this substantial decline in lending rates, credit expansion has remained subdued, indicating that weak credit demand is a major constraint on new lending. At the same time, banks' liquid assets—including investments in government securities—rose sharply from NPR 989 billion in August 2019 to NPR 3,450 billion in August 2026. This indicates that the banking system has substantial liquidity and lending capacity, but limited opportunities to deploy funds into productive private-sector investment.

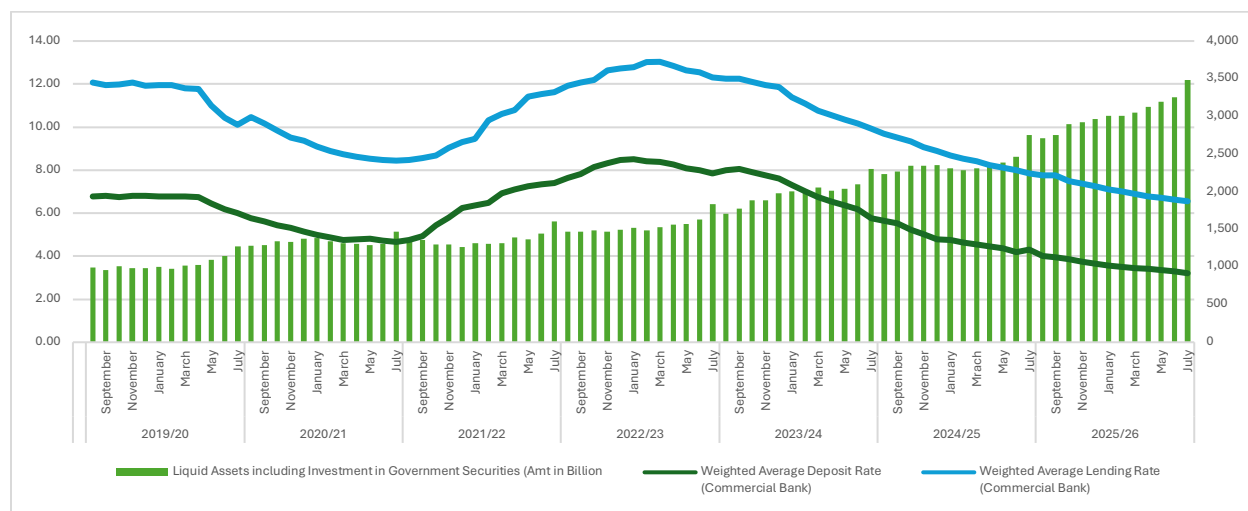
However, liquidity is not the only constraint facing the banking sector. A significant number of banks are also facing capital constraints, which limit their ability to expand risk-weighted assets and extend fresh credit even when adequate liquidity is available. Consequently, the sector is facing a dual constraint: subdued demand for credit on one side and limited capital headroom among several banks on the other.

This creates an important policy challenge for Nepal Rastra Bank (NRB). Rather than relying primarily on further reductions in policy or lending rates, NRB should review existing prudential and capital-related regulatory provisions to identify opportunities to unlock and efficiently deploy existing bank capital without compromising financial stability. Greater flexibility in the treatment of eligible capital, provisioning, risk weights, and other regulatory requirements could help release lending capacity from existing balance sheets.

The objective should not be to weaken prudential standards, but to remove unnecessary constraints that prevent adequately capitalized banks from utilizing their existing capital more efficiently. Such measures, combined with policies to revive private investment and business confidence, would allow the banking sector to translate its abundant liquidity into productive credit and support a stronger recovery in economic activity.

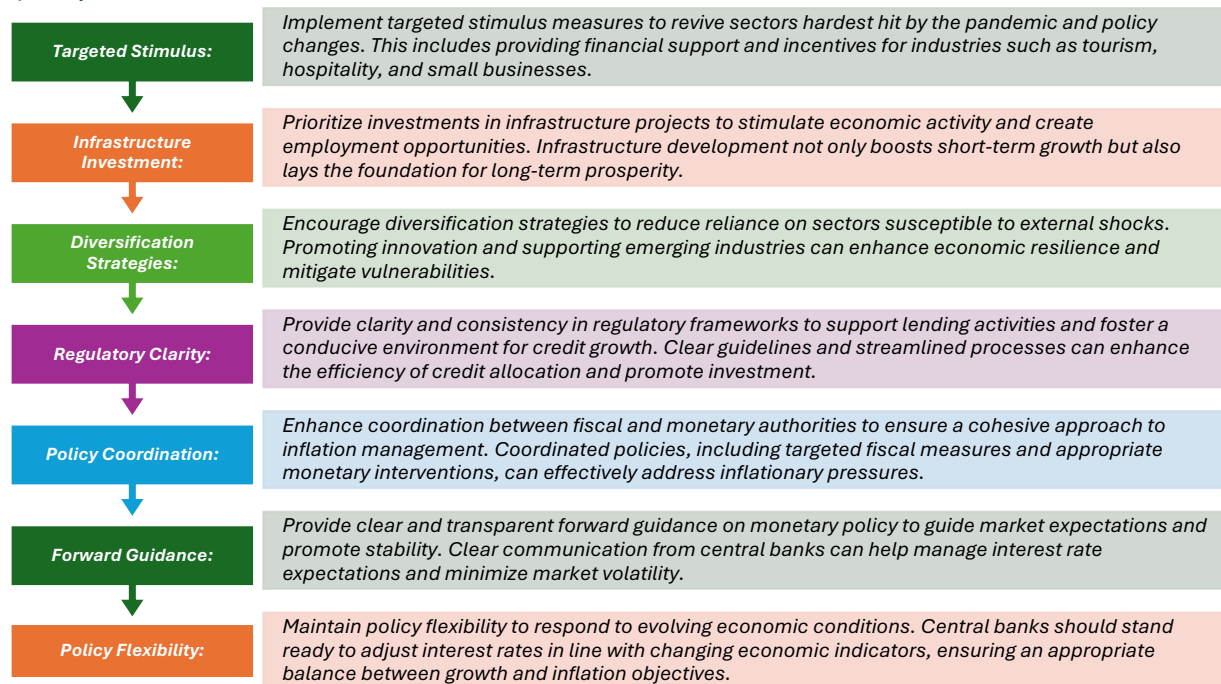
Overall, Nepal's banking sector is no longer primarily constrained by a shortage of liquidity. The more pressing challenge is the mismatch between abundant liquidity, weak credit demand, and constrained capital headroom. Addressing these three dimensions simultaneously will be critical for restoring effective financial intermediation and accelerating private-sector investment.

- b. Despite falling interest rates, loan demand has not increased proportionately due to several factors. Economic uncertainty, such as the effects of the COVID-19 pandemic, has reduced business confidence and borrowing appetite. Structural bottlenecks like bureaucratic delays and insufficient infrastructure, combined with borrowers' risk aversion and a lack of viable investment opportunities, have further constrained loan growth. Additionally, banks' cautious approach to lending due to perceived credit risks has limited credit expansion. As a result, excess liquidity has been funneled into low-risk government securities, which yield lower returns compared to loans, compressing banks' net interest margins and affecting profitability.
- c. To address these challenges, banks should diversify their loan portfolios by targeting emerging sectors like renewable energy, technology, and export-oriented industries. Fiscal policy measures, such as increased government spending on infrastructure and subsidies for small and medium enterprises (SMEs), can stimulate economic activity and boost credit demand. Strengthening financial intermediation by streamlining loan evaluation and disbursement processes, coupled with promoting financial literacy to encourage productive borrowing, is essential. A coordinated approach involving both fiscal and monetary policies is critical to overcoming these structural and demand-side issues, ensuring that declining interest rates translate into meaningful economic growth and financial stability.



Section 3 Reforms agenda

1) Key Considerations:



1) To enhance financial transparency and prevent illicit activities, Nepal should centralize the AML reporting system under a single regulatory authority. This will streamline reporting, reduce redundancy, and ensure consistent enforcement of AML regulations across financial institutions and businesses.:

- a. **Strict Implementation of AML Regulations:**
Strengthen oversight to prevent financial crimes while maintaining a balanced approach that does not overburden legitimate businesses.
- b. **Encouraging Voluntary Reporting of Suspicious Transactions:**
Businesses should be incentivized to report suspicious activities proactively. A safe harbor provision can be introduced to protect businesses that voluntarily disclose transactions in good faith.
- c. **Reducing Compliance Costs:**
Current AML compliance requirements create a heavy financial and administrative burden on businesses. Simplifying reporting procedures, digitalizing compliance processes, and providing clear guidelines will reduce costs and ensure smoother operations.
- d. **Enhanced Coordination Among Agencies:**
Establish a centralized digital platform for AML reporting, allowing banks, financial institutions, and businesses to submit reports efficiently without duplication.
- e. **Capacity Building and Awareness Programs:**
Train businesses and financial institutions on AML best practices, ensuring they understand regulatory expectations and compliance requirements.

By adopting these measures, Nepal can strengthen its AML framework while maintaining a business-friendly environment, ensuring that financial integrity and economic **growth go hand in hand**.

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
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

S.N.	Reform Area	Key Policy Risk	Nature of Risk	Probability	Impact	Overall Risk	Mitigation Measures	Policy Implication
8	Federal Alignment	Coordination gaps with provincial/local governments	Institutional Coordination	Medium	Medium	Medium	Clear intergovernmental financial protocols	Transitional coordination risk
9	Financial Inclusion Mandate	Expansion of weakly regulated digital financial actors	Regulatory Arbitrage	Medium	Medium	Medium	Proportionate regulation, licensing reforms	Balancing innovation & stability
10	Strengthened Internal Audit	Internal resistance to stricter accountability	Organizational	Medium	Medium	Medium	Change management strategy	Cultural adjustment phase
11	Legal Immunity for Officials	Potential misuse of protection clause	Governance / Ethical	Low	Medium	Low–Medium	Clear definition of “good faith” actions	Protects decisiveness but needs safeguards
12	Expanded Financial Stability Mandate	Overlapping authority with other regulators	Institutional Conflict	Medium	Medium	Medium	Formal coordination mechanisms (e.g., Financial Stability Committee)	Requires inter-agency clarity
13	Alignment with International Standards	Compliance burden on domestic banks	Regulatory Burden	Medium	Medium	Medium	Gradual compliance timeline	Short-term cost, long-term credibility gain
14	Increased Autonomy in Monetary Policy	Reduced fiscal dominance may create short-term fiscal pressure	Macroeconomic	Medium	High	High	Strong fiscal-monetary coordination framework	Improves macro stability long term
15	Monthly Balance Sheet Publication	Misinterpretation by markets or media	Communication Risk	Low	Medium	Low–Medium	Strengthen macro communication capacity	Transparency enhances credibility

2) Risk Heat Categorization

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

3) Strategic Risk Outlook

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

4) Quantitative Risk Scoring Model

Methodology

a) Scoring Scale

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

b) Risk Score Formula

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

c) Risk Classification

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

5) Quantitative Risk Matrix

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

- Total Risk Score = 160
Number of Risk Factors = 15
- Average Risk Score} = 160 / 15 = 10.67

b) Overall Reform Risk Level

- 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
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
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

Description	Data Availability / Remarks	Risk to Financial Sector Stability
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

- Governance and Risk Management Improvements
 - Encourages better risk management and transparency.
 - Aligns with Basel principles and international banking standards.
 - Restricts undue influence by insiders and affiliated parties.
- Downsides and Practical Challenges
 - Structural Incompatibility
 - Nepal's banking sector was historically built on a symbiotic relationship between bankers and businesses.
 - Many promoters and board members are also business borrowers, making a clean separation impractical in the short term.
 - Credit Flow Constraints
 - An overly broad definition of "related persons" may restrict legitimate credit transactions, especially in SME and industrial sectors where ownership overlaps are common.
 - Compliance Burden
 - Maintaining and updating extensive related-party lists requires dedicated human and technological resources
 - Ambiguity around what constitutes "significant influence" or "substantial control" may lead to inconsistent interpretations and regulatory friction.
 - Risk of Overregulation
 - Could discourage capital investment in banks if shareholders perceive reduced access to financial services.
 - 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 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



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.

8) Exposure Draft of the Foreign Exchange (Regulation and Management) Act, 2082

Cross-checked against the Foreign Exchange (Regulation) Act, 2019; the Foreign Investment and Technology Transfer Act, 2075; and the Non-Resident Nepali Act, 2064 — with a focused examination of capital-account non-convertibility risk and mitigation

1. Executive summary

- i. The MOF exposure draft would repeal both the Foreign Exchange (Regulation) Act, 2019 and the 2021 Act that categorically banned outward investment, consolidating them into a single, modernised statute. This is a genuine simplification and is broadly consistent with FITTA 2075 and NRB's own 2022–2026 strategic plan, both cited in the draft's explanatory notice.
- ii. Despite repealing the outward-investment ban, the draft recreates a near-equivalent default prohibition (s.11(5)) and permits outward investment only through the same three narrow gates the current regime already uses (notified sectors, IT industries, technology-transfer proceeds). The liberalisation is therefore sector-limited and discretionary, not a general opening of the capital account.
- iii. Two confirmed textual tensions stand out: (1) NRNA 2064 s.9 gives non-resident Nepalis a “notwithstanding anything in prevailing law” right to repatriate investment and profit, while the draft subjects all repatriation – NRN included, since NRN investors fall within its “foreign investor” definition – to Bank-prescribed process with no statutory deadline; (2) FITTA 2075's repatriation guarantee (s.32) and national-treatment/anti-nationalisation clauses sit uneasily next to the draft's balance-of-payments crisis power (s.14), which lets Government order forex holders to surrender currency with no express carve-out for previously NRB-cleared FDI capital.
- iv. Because Nepal's capital account remains non-convertible in substance (current account convertibility only, since the early 1990s), the draft's design choices – discretionary approval, no statutory decision deadlines for outward flows, broad crisis-surrender powers – concentrate risk in investor confidence, cross-Act legal certainty, and regulatory capacity rather than in sudden capital-flight, which the narrow carve-outs currently keep contained.
- v. Implementability is procedurally reasonable (existing NRB capacity, consolidation of overlapping laws, compliance with Legislation Act 2081 disclosure requirements) but substantively fragile: almost every operative threshold, limit, and procedure is deferred to future NRB directives (“तोकिएको बमोजिम”), and the notice assumes no new resources are needed despite a materially expanded enforcement mandate.

2. The four instruments at a glance

a) Foreign Exchange (Regulation) Act, 2019 BS)

Nepal's current foreign-exchange control statute. Vests NRB with licensing authority over forex transactions (s.3–3B), regulates export/import payment (s.8–9C), restricts export/transmission of securities (s.10), regulates outward investment (s.10A, added by later amendment), foreign borrowing/lending (s.10B), and repatriation (s.10C, framed as an entitlement). It also gives Government a Gazette-notice power to compel surrender of foreign exchange during external-sector stress (s.6), and NRB broad search/seizure/investigation powers (s.11A–11J).

b) MOF exposure draft – Foreign Exchange (Regulation and Management) Act, 2082 BS

Would replace FERA 2019 and the 2021 outward-investment-ban Act. Broadens NRB's rate-setting, gold/silver, and virtual-currency authority; tightens the offence net (hundi, mis-invoicing, unrecognised/virtual currency use – s.10–12); extends the Act's reach to Nepali citizens residing abroad and to the foreign branches of Nepal-registered companies (s.1(2)); and largely re-frames outward investment and repatriation as Bank-gated processes (s.11(5), 25–27) rather than statutory entitlements.

c) Foreign Investment and Technology Transfer Act, 2075 (2018)

Governs inbound FDI approval, incentives, and protections: national treatment (s.32), no nationalisation except for public purpose (s.33), an explicit statutory right to repatriate capital/profit/royalty/damages (s.20) with a 15-day NRB decision window, and dispute-resolution rules including UNCITRAL arbitration (s.40).

d) Non-Resident Nepali Act, 2064 (2008)

A facilitative statute for the Nepali diaspora: lets NRNs open convertible-currency accounts (s.6), invest earnings from abroad (s.7), and – the clause most relevant to this analysis – repatriate investment and profit “notwithstanding anything contained in prevailing law” (s.9). It also grants land-purchase, inheritance, tax and visa facilities to foreign citizens of Nepali origin.

3. Comparative table

Provision area	Prevailing FERA, 2019	MOF Exposure Draft (FERA 2082)	FITTA, 2075	NRNA, 2064
Short title / status	विदेशी विनिमय (नियमित गर्ने) एन, २०१९ 2019/2019 BS; also फ्रिज 2081-82 amendments. Currently in force.	"Foreign Exchange (Regulation and Management) Act, 2082" (draft). Published for comment 2083.3.29; 15-day comment window. Would repeal FERA 2019 AND the Act Restricting Investment Abroad, 2021.	Foreign Investment and Technology Transfer Act, 2075 (2018). In force, several amendments through 2081.	Non-Resident Nepali Act, 2064 (2008). In force, unamended in relevant sections.
Regulator / core authority	Nepal Rastra Bank (NRB) – licensing, directives, penalties (s.3-3B, 12, 15-17).	NRB ("Bank") – expanded: policy-making, rate-setting, licensing, inspection/seizure, fines, gold/silver dealing (s.3).	Department of Industry / Investment Board Nepal approve inbound FDI; NRB approves related forex/repatriation.	"Prescribed authority" records NRN status and identity cards; NRB licenses banks handling NRN accounts.
Licensing of forex transactions	s.3: license required to carry on forex transactions; Bank sets terms.	s.4-7: license required for any forex transaction; annual fee/deposit/guarantee regime; provisional licenses allowed.	No separate forex license regime – relies on FERA/NRB rules for the forex leg of FDI.	No licensing regime of its own – NRN uses NRB-licensed banks (s.6).
Outward investment by Nepal-based persons/entities	s.10A: outward investment allowed only for notified exemptions, IT-classified industries, and tech-transfer fee recipients under FITTA §7A.	s.11(5): blanket default PROHIBITION on outward investment in securities, share capital, debt or virtual assets abroad, "except as provided in this Act." s.25–26 recreate the same three narrow carve-outs (notified sectors, tech-transfer proceeds, IT industries) and make Bank's forex facilitation discretionary ("सक्नेछ").	Not addressed – FITTA governs inbound FDI only.	s.7: NRN/majority-NRN foreign company MAY invest abroad amounts earned abroad, in an industry opened under prevailing foreign-investment law – silent on any NRB discretionary gate for this specific outward flow.
Definition of "foreign investment" (inbound)	Not defined in FERA itself.	s.2(द): defined by direct pinpoint cross-reference to FITTA 2075 §§3, 6, 9, 9क, 10, 11 – harmonises with FITTA but creates a renumbering-dependency risk.	s.2(त्र): own enumerated list of 9 investment types (equity, reinvested dividends, lease finance, venture capital fund, listed securities, share/asset purchase, debenture-raised capital, tech transfer, expansion).	s.2(e): broad, general definition – "investment made for profit," including tech transfer/consultancy – not aligned to FITTA's or the draft's enumerated categories.
Repatriation of FDI capital / profit	s.10C: foreign investor "shall be entitled" (repatriation as a right) to send abroad investment, profit/dividend, loan interest, tech-transfer royalties, subject to Bank-set procedure.	s.27: lists the same repatriation categories (dividend, liquidation proceeds, royalty, lease rent, arbitral awards, loan principal/interest) but frames it through Bank-determined "process," without FITTA's explicit "entitled" language repeated verbatim.	s.20: foreign investor "shall be entitled" to repatriate shares/industry sale proceeds, profit/dividend, liquidation balance, royalty, lease rent, damages – explicit statutory right, subject to tax clearance and NRB conversion procedure (s.20(6)-(9), 15-day NRB decision window).	s.9: "Notwithstanding anything contained in prevailing law," an NRN MAY repatriate investment and profit in convertible currency "in the manner as prescribed" – an overriding non-obstante right.
NRB approval timelines	No general statutory decision deadline.	No general statutory decision deadline for outward-investment or repatriation approvals (s.5-7,	s.15: 7-day decision on FDI approval; s.20(7): 15-day decision on	No statutory NRB timeline; relies on "as prescribed" rules.

Provision area	Prevailing FERA, 2019	MOF Exposure Draft (FERA 2082)	FITTA, 2075	NRNA, 2064
		25-27 all silent on turnaround time).	repatriation approval; 30-day ministerial appeal decision.	
Borrowing / lending in foreign exchange	s.10B: no forex loan without Bank-notified terms.	s.24: prohibits any forex loan/borrowing except as permitted by prevailing law or Bank notice.	s.11-12: allows FDI-linked companies to raise foreign debt/debentures with NRB and SEBON approval; s.11(3) requires such loans to be invested in Nepal.	Not addressed.
Accounts held abroad by residents	s.16: Nepali-resident citizens/companies need Bank permission to open a foreign bank account.	Not captured in the fetched sections (Ch.1-4 of the draft); s.15 addresses forex earned by citizens – continuity with FERA s.4A implied but full text not confirmed.	Not addressed.	s.6: NRN with an identity card MAY open and operate a convertible-currency account with an NRB-licensed institution – framed as an unconditional right, no NRB permission step referenced.
Offences / penalties scope	s.17: general penalty provision; hundi and virtual-currency offences added by later amendments.	Materially widened: s.10 bans dealing in legally-unrecognized currency/virtual assets; s.12 bans hundi; s.11 deems misuse/misinvoicing/unauthorized offshore asset-holding as "misappropriation of foreign exchange"; s.28-30 give the Bank search, seizure, and document-production powers.	No independent offence regime – defers to "prevailing law."	No offence regime – civil/administrative facilitation statute only.
National treatment / anti-nationalization / crisis powers	No BOP-crisis surrender power in the base Act text reviewed (Nepal Government's forex-acquisition power under s.6 is comparable to draft s.14).	s.14: in an external-sector/BOP crisis, Government MAY order forex-holders (via Gazette notice) to surrender/sell holdings to the Bank at the official rate – no express carve-out for previously NRB-approved FDI capital or profit already cleared for repatriation.	s.32-33: national treatment guaranteed; no nationalization except for public purpose with due process; s.32(3)(घ) – no restriction on profit repatriation, loan interest/principal payment.	s.5, 13-14: NRN retains status while managing Nepal investment; entitled to industry/business rights "as good as" a Nepali citizen; s.12 – no tax on repatriated capital at time of investment.
Repeal / savings	n/a (is itself the base law).	Notice + draft preamble: repeals FERA 2019 and the Act Restricting Investment Abroad, 2021 in full. No express savings/harmonization clause addressing FITTA 2075 or NRNA 2064 was found in the sections retrieved.	Not repealed or amended by the draft.	Not repealed or amended by the draft.

4. Contradictory or unreconciled provisions

a) Confirmed textual tensions

- NRNA s.9 (non-obstante repatriation right) vs. draft s.27 / FERA s.10C (Bank-prescribed process, no deadline). NRNA's overriding language is not carried into the draft, and the draft does not exempt NRN investors from its general Bank-approval gate – despite NRN investors being expressly included within the draft's "foreign investor" definition (s.2(२)). Absent an express reconciliation clause, this is a live interpretive conflict between two Acts of equal parliamentary rank.

- FITTA s.32(3)(घ) (no restriction on profit/capital repatriation, loan interest/principal payment) and s.33 (no nationalization) vs. draft s.14 (Government may, by Gazette notice during external-sector/BOP stress, order forex holders to surrender or sell holdings to the Bank at the official rate). The draft carries no express carve-out for FDI capital or profits already cleared for repatriation under FITTA, so a crisis-era surrender order could, on its face, reach investment protected by FITTA's guarantee.
- Asymmetric statutory footing: FITTA frames inbound-FDI repatriation as an entitlement ("पाउनेछ") with a 15-day NRB decision deadline (s.20(7)); the draft frames outward investment/forex facilitation as discretionary ("सक्नेछ", s.26) with no deadline at all. This is not, by itself, a legal contradiction – asymmetric treatment of inbound vs. outward flows is a deliberate and common design under partial capital-account convertibility – but the draft's own explanatory notice does not acknowledge or justify the asymmetry, which is a transparency gap worth raising in the comment period.

b) Consistency risks (not yet contradictions, but latent)

- Definitional fragmentation: three different definitions of "(foreign) investment" operate in parallel – the draft's cross-reference to FITTA §§3/6/9/9क/10/11 (s.2(द)), FITTA's own nine-category list (s.2(ज)), and NRNA's broad general definition (s.2(e)). No single definition governs an NRN's technology-transfer-linked investment, for example.
- Cross-reference fragility: FITTA has already been amended repeatedly (through the 2081 Act to Amend Certain Nepal Acts Relating to Economic and Business Environment Improvement and Investment Promotion), and the draft's pinpoint section-number cross-references into FITTA would silently break if FITTA is renumbered again without a conforming amendment.
- Extraterritorial scope broadening (draft s.1(2), covering Nepali citizens residing abroad and foreign branches of Nepal-registered companies) is not mirrored in NRNA, which grants NRNs unconditional account-opening rights abroad (s.6) without referencing any Bank-permission step – raising a question, not yet resolved in the text retrieved, of whether the new Act's licensing/reporting duties (s.4, s.16) are meant to bind NRN conduct occurring entirely outside Nepal.

Provisional – verify against full draft text: the draft's unread offence, penalty, dispute-resolution and repeal/savings chapters may contain an express harmonization clause addressing NRNA and FITTA that would resolve some of the tensions above. This should be confirmed before relying on this section for a formal submission.

c) Capital-account non-convertibility: why it matters here

Nepal made the rupee convertible on the current account in the early 1990s (import/export payments, current transfers) but has never declared, nor moved toward, full capital-account convertibility. Capital transactions – outward portfolio and direct investment, external borrowing, and (for the most part) repatriation of capital – remain subject to case-by-case Nepal Rastra Bank approval under FERA 2019, FITTA 2075 and sector-specific bylaws.

The exposure draft does not change this underlying posture: it repeals a blanket outward-investment ban but replaces it with a narrower, still-discretionary gate (s.11(5), 25–26), and it preserves the government's emergency forex-surrender power (s.14). NRB's own recent regulatory practice – the fifth amendment to the Foreign Investment and Foreign Debt Management Bylaws (2078), and a joint NRB–Bank of Korea study on preconditions for capital-account liberalization – confirms that Nepal is on a deliberately gradual, sequenced path rather than opening the account outright.

Because the capital account stays administratively closed by default, the specific risks below arise less from sudden capital flight (the narrow gates limit that exposure) and more from legal predictability, investor confidence, and institutional capacity – i.e., whether the rules governing the narrow gates that do exist are clear, timely, and consistently enforced across all four statutes examined.

d) Risk matrix

Risk	Likelihood	Impact	Level	Mitigation
Investor-confidence drag from discretionary (non-time-bound) outward-investment and repatriation approvals under draft s.25-27, contrasted with FITTA's statutory 15-day repatriation decision window.	Medium-High	High	HIGH	Add a statutory NRB decision deadline for outward-investment and repatriation applications under the new Act, mirroring FITTA s.20(7)'s 15-day rule; publish implementing directives concurrently with commencement.
Legal uncertainty / dispute risk from the unresolved conflict between NRNA s.9's non-obstante repatriation right and the draft's Bank-gated repatriation process (s.27), and between FITTA's repatriation guarantee (s.32) and	Medium	Medium-High	MEDIUM-HIGH	Insert an express harmonisation/savings clause in the new Act reconciling it with NRNA s.9 and FITTA s.32-33; carve out previously NRB-cleared FDI/NRN repatriation from any s.14 crisis-surrender order.

Risk	Likelihood	Impact	Level	Mitigation
the draft's BOP-crisis surrender power (s.14).				
Sudden-stop / capital-flight exposure if outward-investment gates (currently limited to notified sectors, IT firms and tech-transfer proceeds) are broadened faster than reserve-monitoring and exchange-rate-flexibility infrastructure matures.	Low-Medium (given narrow current gates)	High if triggered	MEDIUM	Retain phased, sector-limited liberalisation; expand carve-outs only after real-time BOP/reserve monitoring is operational, consistent with NRB's 2022-2026 Strategic Plan cited in the draft's own explanatory notice.
Exchange-rate/peg pressure: NPR is pegged to INR; unbudgeted increases in outward flows or NRN repatriation claims could strain reserves (currently ~18-22 months of import cover per NRB data).	Low under current reserves, rises with liberalization pace	High (peg-break / monetary-autonomy loss)	MEDIUM	Sequence capital-account opening per IMF-style pre-conditions: exchange-rate flexibility, fiscal buffers, deep domestic capital markets, before extending beyond current narrow carve-outs.
Implementation/capacity gap: the draft substantially widens NRB's supervisory, inspection, seizure and offence-enforcement mandate (Ch.4; hundi, virtual-currency, mis-invoicing controls) while the notice explicitly assumes NO new organizational structure or additional resources are required.	High	Medium	MEDIUM-HIGH	Match the expanded enforcement mandate with dedicated budget/staffing; flag the notice's "no additional resources needed" assumption for legislative-committee scrutiny before enactment.
Informal-channel (hundi) displacement: tightening formal-channel offences without simultaneously speeding up or automating formal capital-account channels may push flows further underground rather than curbing them.	Medium	Medium-High	MEDIUM	Pair enforcement expansion with faster, more automatic formal routes (e.g., automated/self-declared routes already piloted for NRN and IT-sector outward investment in s.25(4)).
Legislative-drafting fragility: the new Act's core "foreign investment" definition is built by pinpoint cross-reference to specific FITTA sections; future FITTA amendments/renumbering (FITTA has already been amended repeatedly through 2081) could silently break the cross-reference.	Medium (over a multi-year horizon)	Medium	MEDIUM	Use descriptive, self-contained definitions instead of pinpoint cross-references, or add a savings rule construing renumbered FITTA provisions as continuing references.
Short 15-day public-comment window for a foreign-exchange-regime overhaul of this scope may limit stakeholder input depth (banks, foreign investors, NRN associations, exporters).	High (already occurred)	Low-Medium	LOW-MEDIUM	Treat the published draft as a first-reading text; use the parliamentary committee stage to solicit structured input from NRB, FITTA-regulated investors, and NRN associations before floor passage.

e) Mitigation strategy – summary

- i. Harmonies, don't just repeal: add an express savings/reconciliation clause tying the new Act to NRNA s.9 and FITTA s.32–33, so NRB-gated repatriation process does not silently override NRNA's non-obstante right or FITTA's repatriation guarantee.
- ii. Time-bind discretion: import FITTA's 15-day repatriation decision deadline (s.20(7)) and 7-day FDI-approval deadline (s.15) into the new Act's outward-investment and repatriation provisions (currently open-ended under draft s.25–27), so “discretionary” does not become “indefinite.”

- iii. Protect FDI already in the pipeline from crisis powers: add an explicit carve-out to draft s.14 exempting NRB-approved, already-cleared FDI capital and profit repatriation from any Gazette-notice surrender order, preserving FITTA's investor-protection guarantee even during a BOP crisis.
 - iv. Sequence any further liberalization: keep outward-investment eligibility limited to the current notified sectors, IT industries and technology-transfer proceeds until real-time balance-of-payments and reserve-monitoring systems are operational – consistent with the pace NRB itself has set via successive bylaw amendments and its 2022–2026 strategic plan.
 - v. Fund the enforcement mandate: the notice's assumption that no new resources are needed, despite materially expanded inspection, seizure, and offence powers (hundi, virtual currency, mis-invoicing), should be tested by the parliamentary committee reviewing the bill; under-resourced enforcement of a wider offence net risks pushing transactions into informal channels rather than curbing them.
 - vi. Future-proof the definitions: replace pinpoint cross-references to specific FITTA section numbers with either self-contained definitions or a renumbering-savings rule, to avoid a dangling reference if FITTA is amended again.
 - vii. Extend the comment window in substance if not in form: given the 15-day comment period has already elapsed relative to a bill of this scope, use the parliamentary committee stage to take structured input from NRB, FITTA-regulated foreign investors, and NRN associations on the specific tensions identified in Section 4.
- f) Implementability assessment
- i. Supporting factors
 - Institutional continuity: NRB already administers FERA 2019, FITTA's forex leg, and NRN banking facilitation, so the draft does not require a new regulator – it expands an existing one's mandate.
 - Genuine consolidation: merging FERA 2019 and the 2021 outward-investment-ban Act removes a real fragmentation problem (two overlapping, partly contradictory statutes governing the same underlying activity).
 - Definitional alignment effort: cross-referencing FITTA's investment categories (rather than redefining them) shows an intent to keep inbound-FDI treatment consistent across statutes, even if the mechanism (pinpoint cross-reference) is fragile.
 - Procedural compliance: the draft's accompanying notice satisfies Legislation Act, 2081 s.6(2) disclosure requirements (fundamental-rights impact, fiscal impact, SDG impact, governance impact, climate impact), which supports smooth passage through Nepal's legislative process.
 - ii. Constraining factors
 - Rule-dependency: nearly every operative number – licensing fees, deposit amounts, sectoral investment ceilings, exchange-rate methodology, reporting formats – is deferred to future NRB “तोकिएको” directives rather than fixed in the Act. Real-world Implementability therefore depends on a large body of subordinate rulemaking that does not yet exist and is not covered by the 15-day comment period.
 - Resourcing gap: the notice explicitly states implementation will proceed through NRB's “existing organizational structure and human resources,” with no new structure or additional resources contemplated – a difficult claim to reconcile with the materially wider inspection, seizure, and offence-enforcement mandate in Chapter 4 and (per the notice) the penalty chapter.
 - Unresolved cross-Act tensions (Section 4) create a period of interpretive uncertainty for NRB, courts, and investors until either the final Act text or subsequent case law/directives clarify how NRNA's and FITTA's guarantees interact with the new Bank-gated processes.
 - Short public-comment window (15 days from publication) for a bill that touches virtually every cross-border financial transaction in the economy limits the depth of stakeholder input that would normally surface implementation gaps before enactment.
- g) Overall assessment

The exposure draft is procedurally well-formed and administratively implementable in the narrow sense that NRB can operate it with its existing institutional footprint. Substantively, however, its Implementability is contingent on (a) a large, currently unwritten body of NRB subordinate rules, (b) resourcing that the notice assumes but does not commit to, and (c) resolution of at least two confirmed cross-Act tensions with NRNA and FITTA.

None of these are unusual for framework legislation in Nepal's drafting tradition, but they mean the practical effect of the new Act – including whether it meaningfully advances capital-account liberalization or mostly re-labels the existing discretionary regime – will be determined largely by implementing directives issued after enactment, not by the Act's text alone.

9) **Public Procurement (Second Amendment) Amendment, 2083**

[Refer annexure 1](#)

10) **Decriminalization of Corporate and Regulatory Offences***Towards Proportionate, Predictable and Investment-Friendly Economic Enforcement***1. Perspective**

A modern economy requires strong enforcement of financial and corporate laws. At the same time, the credibility of the regulatory environment depends not only on the severity of sanctions, but also on their clarity, proportionality, predictability and consistency.

Nepal's corporate and financial sectors operate under multiple overlapping statutes, regulations, directives and sector-specific laws. Company law, banking law, securities regulation, tax legislation, sectoral legislation, anti-money-laundering provisions and general criminal law may sometimes apply to the same transaction.

The resulting risk is that a commercial failure, regulatory breach, professional error or disputed business decision may be interpreted as a criminal offence without sufficient distinction between negligence, misconduct and deliberate criminal conduct. This does not call for weaker enforcement. It calls for better-targeted enforcement.

2. Central Policy Proposition

Decriminalization should not mean de-responsibilities. It should mean using the right legal instrument for the right type of misconduct. Criminal law should generally be reserved for conduct involving fraud, forgery, corruption, deliberate deception, misappropriation, money laundering, organized financial crime and other conduct that genuinely warrants criminal punishment. Regulatory and commercial breaches should, where appropriate, be addressed through regulatory, administrative and civil mechanisms.

3. Why Decriminalization Matters for Nepal's Economy

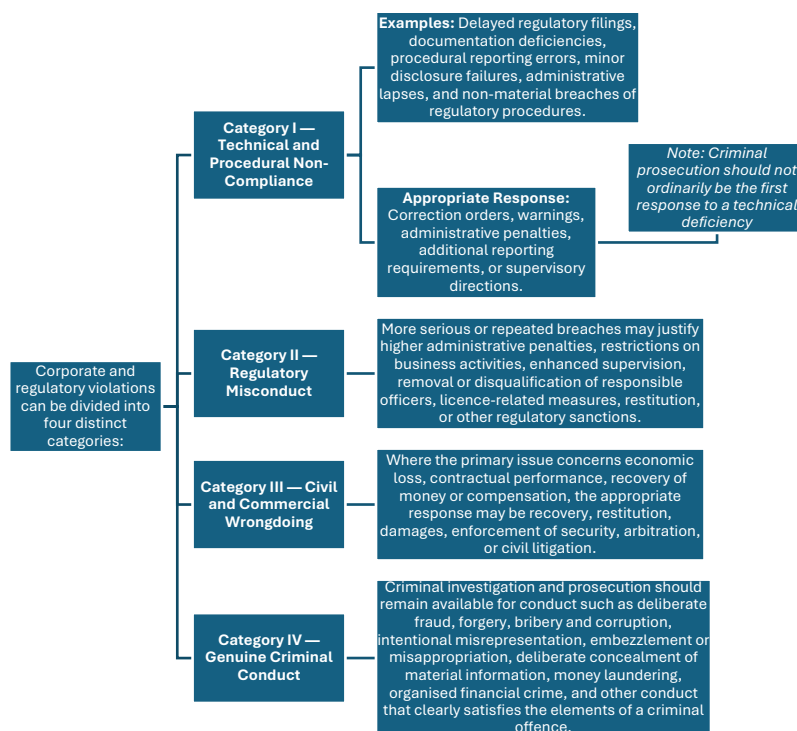
Corporate decisions frequently involve uncertainty, commercial risk and professional judgment. A bank may approve a loan that subsequently becomes non-performing. A company may make an investment that fails. A security may decline in value. A project may become commercially unviable. A collateral auction may subsequently be challenged. A director may make a decision that, with the benefit of hindsight, appears unsuccessful.

Failure of an outcome is not, by itself, proof of criminal conduct. If every unsuccessful commercial decision carries a significant risk of criminal investigation or arrest, rational economic actors may respond by becoming excessively conservative. This can produce:

1. Reluctance to lend;
2. Excessive demand for collateral;
3. Slower investment decisions;
4. Defensive corporate governance;
5. Reluctance of qualified professionals to serve on boards;
6. Increased compliance costs;
7. Slower restructuring and recovery;
8. Reduced innovation and entrepreneurship; and
9. Erosion of confidence among domestic and foreign investors.

An economy needs accountability, but it also needs decision-making capacity. The objective should therefore be to establish a system in which legitimate business judgment is protected while deliberate misconduct is dealt with firmly.

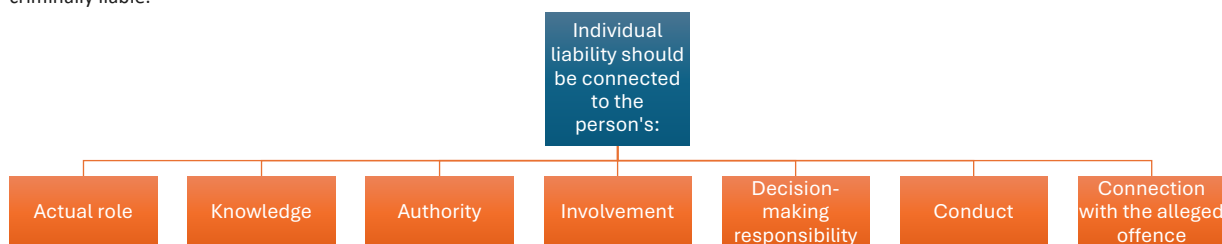
4. Not Every Corporate Breach Should Be a Criminal Offence



Key **Distinction**: A bad business outcome is not automatically a criminal act.

5. Corporate Liability vs. Individual Criminal Liability

One of the most important areas for reform is the distinction between corporate responsibility and individual criminal responsibility. A company may commit a regulatory violation without every director, chief executive, manager or employee becoming personally criminally liable.



The mere fact that an individual occupied a senior position when an adverse event occurred should not, by itself, substitute for evidence establishing the person's involvement in the prohibited conduct. This distinction is particularly important in banking and large corporations where decisions are made through committees, delegated authority, professional assessments, internal controls and multiple layers of approval.

6. The Banking Sector Requires Special Attention

Banking is different from many other businesses because banks manage depositors' money and operate under extensive prudential regulation. At the same time, banking necessarily involves credit risk. A properly sanctioned loan can become non-performing because of:

Business failure
Economic slowdown
Market disruption
Natural disaster
Regulatory change
Project delays
Commodity-price movements
Foreign-exchange movements
Other circumstances beyond the lender's control

Core Principle: NPL formation alone should not be treated as evidence of criminal conduct. The appropriate question is not simply whether a loan failed, but how the loan was originated, approved, monitored and recovered. The assessment should consider whether there was:

1. Proper credit appraisal;
2. Appropriate approval under delegated authority;
3. Adequate security;
4. Proper documentation;
5. Compliance with NRB directives;
6. Appropriate monitoring;
7. Disclosure of conflicts of interest;
8. Evidence of collusion or manipulation; and
9. Evidence of fraud or deliberate misconduct.

This distinction can protect both the banking system and the integrity of criminal enforcement.

7. Loan Recovery and the Principle of Lawful Commercial Action

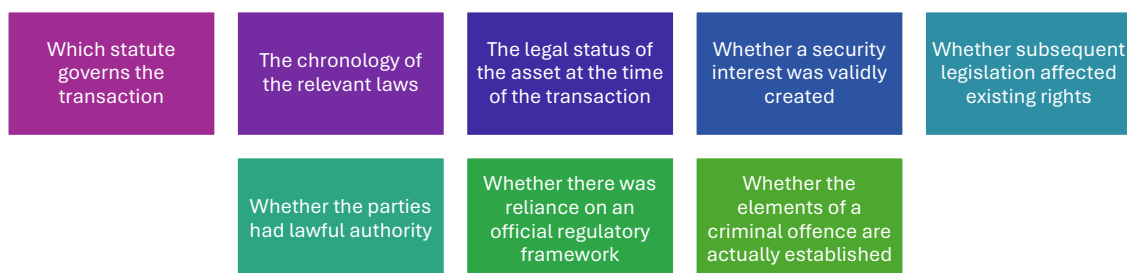
Banking legislation provides financial institutions with mechanisms for recovery of loans and enforcement of security. Where a bank exercises a statutory recovery mechanism in good faith, the subsequent failure of the recovery process or emergence of a legal dispute should not automatically convert that commercial action into a criminal offence.



This approach is particularly relevant where banking legislation interacts with sector-specific legislation.

8. Conflicting Statutes Should Not Automatically Produce Criminal Liability

Nepal's economic legislation has developed incrementally. Banking, telecommunications, energy, insurance, securities and investment laws have often been developed at different times for different purposes. Consequently, a transaction may sometimes fall within the apparent scope of more than one statute. A conflict between statutes should first raise a question of legal interpretation and harmonization. It should not automatically become a question of criminality. Before criminal liability is established, authorities should examine:



This principle is especially important where a financial institution acted under a statutory banking framework while another sectoral statute imposed separate requirements.

9. The Smart Telecom-Type Question: Regulatory Conflict or Criminal Conduct?

Cases involving the interaction of financial-sector recovery rights and sector-specific asset regulation illustrate the importance of this distinction. Where a bank has relied upon a legally recognized security or recovery mechanism, a subsequent dispute concerning ownership, license conditions or sectoral regulation should first be examined as a legal and regulatory question.

Criminal Enforcement is Appropriate If: Investigation identifies evidence of forged documents, deliberate concealment, collusion, bribery, fraudulent valuation, intentional misrepresentation, misappropriation, or other conduct satisfying the elements of a criminal offence. **Civil / Regulatory Channel is Appropriate If:** The dispute primarily concerns interpretation of legislation, validity of a security, priority between competing statutory provisions, regulatory compliance, commercial judgment, or recovery procedure.

The distinction should ultimately be determined according to the applicable law and evidence by the competent authorities and courts.

10. From “Criminal First” to a Proportionate Enforcement Ladder

Nepal would benefit from a clearly defined graduated enforcement framework.

Nature of Conduct	Appropriate First Response
Technical filing error	Correction / warning
Minor procedural breach	Administrative penalty
Repeated regulatory non-compliance	Enhanced regulatory sanction
Material regulatory breach	Financial penalty / governance action / licence-related measure
Commercial loss or contractual dispute	Recovery / restitution / civil remedy
Gross professional misconduct	Regulatory + civil consequences
Deliberate deception	Criminal investigation
Fraud, forgery or corruption	Criminal prosecution
Money laundering / organized financial crime	Full criminal enforcement

The purpose is not to create immunity from prosecution; it is to ensure that criminal law is deployed where criminal conduct exists, rather than becoming the default response to every corporate dispute.

11. Presumption of Innocence and the Right to Be Heard

A functioning financial system depends upon confidence not only in banks and regulators, but also in the fairness of enforcement institutions.

1. An investigation is not a conviction.
2. An arrest is not proof of guilt.
3. A regulatory finding is not necessarily a criminal conviction.
4. A police recommendation is not a judicial determination.

These distinctions are particularly important in high-profile financial cases where public perception may move faster than the judicial process. Professionals accused of wrongdoing should have a meaningful opportunity to understand allegations, present documents, explain decision-making processes, identify regulatory provisions, demonstrate compliance with internal controls, respond to technical findings, and defend themselves. Due process does not weaken enforcement. It strengthens the legitimacy of enforcement.

12. Protection of Bona Fide Corporate and Banking Decisions

Nepal should consider introducing a statutory or regulatory principle protecting bona fide professional decisions. Such protection should not cover fraud or intentional misconduct. A decision could receive protection where it was:

1. Taken within lawful authority
2. Based on information reasonably available at the time
3. Supported by appropriate professional analysis
4. Approved through the prescribed governance process
5. Consistent with applicable law and regulation
6. Properly documented
7. Free from undisclosed conflict of interest
8. Not tainted by fraud, corruption or collusion

Commercial Reality: Business decisions must be judged on the information and circumstances reasonably available when the decision was made—not solely on the outcome known years later. This is not immunity from accountability. It is protection against hindsight becoming the basis of criminal liability.

13. Decriminalization Does Not Mean Deregulation

The concept of decriminalization is sometimes misunderstood as weakening regulation. That would be incorrect. A decriminalised regulatory breach can still attract significant consequences, including:

1. Substantial financial penalties
2. Restitution
3. Disgorgement of unlawful gains
4. Suspension of business activities
5. Enhanced supervision
6. Management changes
7. Director disqualification
8. License restrictions
9. Regulatory remediation
10. Civil liability

The distinction is not between punishment and no punishment. It is between appropriate forms of accountability. A well-designed regulatory system can be extremely strict without making every regulatory violation a criminal offence.

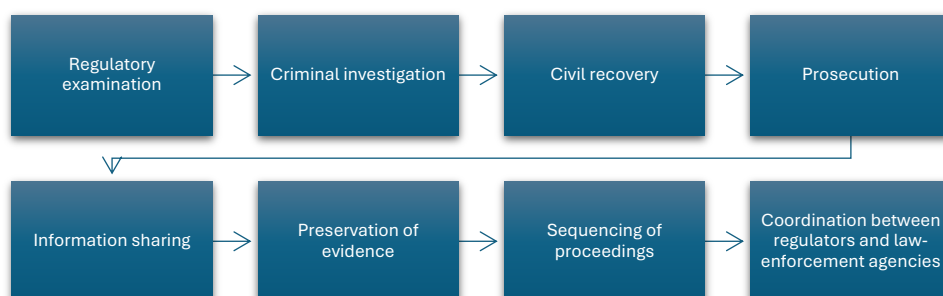
14. Review of Existing Corporate and Economic Offences

Nepal should undertake a comprehensive review of economic offences across major legislation, including the Company Act, BAFIA, Nepal Rastra Bank Act, Banking Offence and Punishment Act, Securities legislation, Insurance legislation, Foreign investment legislation, sector-specific economic laws, anti-money-laundering legislation, and other related laws. Each offence should be tested against a 10-point evaluation framework:

Necessity:	• Is criminalisation genuinely necessary?
Materiality:	• Does the conduct create significant public, financial or systemic harm?
Mental Element:	• Where appropriate, is knowledge, intention, recklessness or another legally relevant mental element clearly defined?
Proportionality:	• Is criminal punishment proportionate to the harm?
Regulatory Alternative:	• Could an administrative or civil sanction achieve the policy objective more effectively?
Jurisdictional Clarity:	• Which institution investigates, regulates, prosecutes and adjudicates?
Duplication:	• Does another law already address the same conduct?
Corporate vs. Individual Liability:	• Is personal liability appropriately connected to the individual's conduct?
Due Process:	• Are there adequate safeguards against arbitrary or premature enforcement?
Legal Certainty:	• Can a reasonable businessperson understand what conduct is prohibited?

15. Avoiding Multiple and Conflicting Proceedings

Where the same transaction may involve a regulatory breach, civil dispute and possible criminal allegation, the law should clarify the relationship between different proceedings. Nepal should establish clear protocols for:



This is particularly important for banking and financial cases where NRB, Police/CIB, sectoral regulators, the Office of the Government Attorney and courts may each have legitimate but different roles. Institutional coordination should replace institutional competition.

16. A Specialized Financial and Corporate Crime Framework

Nepal may benefit from a specialized financial crime investigation framework bringing together:

1. Trained police investigators
2. Forensic accountants
3. Banking and credit specialists
4. Forensic IT professionals
5. Lawyers
6. Asset-tracing specialists
7. AML experts
8. Liaison officers from relevant regulators

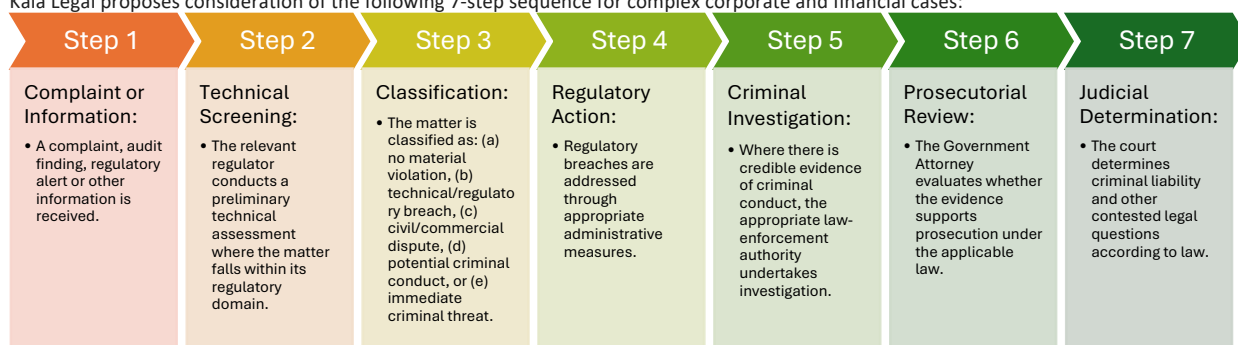
Such a framework would improve the quality of investigations while reducing the risk that complex commercial and banking decisions are assessed without adequate technical understanding.

17. Proposed Institutional Division of Responsibility

Institution	Proposed Core Responsibility
Nepal Rastra Bank	Prudential supervision; regulatory examination; banking-sector technical assessment; enforcement of regulations within mandate; identifying systemic risks; cooperating with investigators.
Police / CIB	Investigation of suspected criminal conduct; evidence collection; forensic investigation; tracing proceeds; investigation where prima facie criminal conduct is established.
Sectoral Regulators	Determination of sector-specific regulatory status; licensing and compliance matters; sector-specific asset and operational rules.
Government Attorney	Legal assessment for prosecution; evaluation of evidence and applicable offences; representation of the Government in criminal proceedings.
Ministry of Law	Harmonisation of legislation; resolution of statutory inconsistencies; legal reform proposals.
Ministry of Finance	Inter-agency policy coordination for financial-sector legislation.
Courts	Authoritative determination of contested legal rights and criminal liability.
BFI & Corporates	Robust governance; proper documentation; compliance systems; conflict-of-interest management; audit trails; timely regulatory reporting.

18. Proposed “Regulatory First, Criminal Where Indicated” Framework

Kala Legal proposes consideration of the following 7-step sequence for complex corporate and financial cases:



19. When Immediate Criminal Intervention Is Necessary

A regulatory-first model should not prevent immediate police action where circumstances genuinely require it. Immediate intervention may be appropriate where there is credible evidence of:

1. Ongoing fraud
2. Destruction or manipulation of evidence
3. Imminent disappearance of criminal proceeds
4. Organized financial crime
5. Money laundering
6. Bribery or corruption
7. Threats to witnesses
8. Deliberate obstruction of investigation
9. Other circumstances where delay could materially prejudice justice

The objective is to establish clear sequencing, coordination and accountability—not an artificial barrier between regulators and police.

20. The Broader Economic Impact

Regulatory uncertainty carries a heavy economic cost. When economic actors cannot predict whether a commercial decision will later be treated as a regulatory breach, civil dispute or criminal offence, they adjust their behaviour:

1. For banks: Greater risk aversion, slower credit decisions and excessive collateral requirements.
2. For companies: Higher compliance costs and reduced entrepreneurial risk-taking.
3. For investors: Greater perception of regulatory uncertainty.
4. For directors: Reluctance of experienced professionals to accept board positions.
5. For financial institutions: Greater provisioning and defensive decision-making.
6. For the economy: Slower capital formation, weaker investment and reduced financial intermediation.

Therefore, decriminalization is not merely a legal reform issue—it is an economic competitiveness issue.

21. Reform Principle: “Decriminalize Without De-responsibilization”

Nepal's reform agenda should not be framed as making corporate misconduct easier.

Target Objective:

Strict against fraud, proportionate against regulatory breaches, effective in recovery, and predictable in enforcement. This approach preserves strong action against financial crime while reducing the possibility of criminal proceedings becoming the default response to every corporate failure or regulatory dispute.

22. Immediate Policy Recommendations

Kala Legal recommends consideration of the following 10 immediate reforms:

1. Conduct a comprehensive review of corporate and economic offences: Identify offences that can appropriately be converted from criminal to administrative or civil violations.
2. Establish clear offence classifications: Separate technical violations, regulatory misconduct, civil wrongdoing and genuine criminal conduct.
3. Clarify individual criminal liability: Avoid automatic criminal exposure merely because an individual is a director, CEO or senior officer.
4. Strengthen the distinction between commercial failure and criminal conduct: An NPL, failed project or unsuccessful investment should not independently establish criminal liability.
5. Establish a bona fide decision-making protection: Protect documented decisions made within lawful authority and through proper governance, subject to exclusion of fraud, corruption and deliberate misconduct.
6. Harmonize overlapping legislation: Conduct a systematic review of BAFIA, NRB legislation, sectoral laws, Company Act and criminal legislation.
7. Establish inter-agency investigation protocols: Define when regulators, Police/CIB and prosecutors should act and how information should be shared.
8. Strengthen specialized financial investigation capacity: Combine legal, accounting, banking, forensic and investigative expertise.
9. Introduce proportionality into enforcement: The sanction should correspond to the nature, scale, intent and consequences of the conduct.
10. Make criminal law the last, not the first, instrument of corporate regulation.

23. Conclusion

Nepal does not need weaker corporate governance or weaker financial-sector enforcement. It needs smarter enforcement. A credible economic system must simultaneously achieve four objectives:

1. Accountability — Misconduct must have consequences.
2. Proportionality — The response must correspond to the nature of the violation.
3. Legal certainty — Businesses and professionals must be able to understand the consequences of their actions.
4. Due process — Criminal liability must be established through evidence and lawful procedure.

The central reform question is therefore not whether corporate offences should be punished, but: Which conduct should be regulated, which should be remedied through civil law, and which genuinely warrants criminal punishment?

For Nepal, this distinction has become increasingly important as financial transactions grow more sophisticated and as multiple regulatory regimes interact. Strong institutions do not merely punish wrongdoing; they also provide predictable rules under which legitimate economic decisions can be made.

Final Policy Direction:

Decriminalize where criminalization is unnecessary. Regulate where regulation is sufficient. Recover where economic loss has occurred. Prosecute where genuine criminal conduct is established. And protect bona fide professional decisions from becoming crimes merely because the outcome was unsuccessful.

Illustrative Example: When Banking Regulation Becomes a Criminal Case

Consider a situation in which a commercial bank grants a loan to a corporate borrower after completing its internal credit appraisal, security documentation and regulatory procedures. The borrower subsequently defaults, and the bank exercises its statutory powers under Section 58 of BAFIA to examine the account, enforce the security, restructure the facility where appropriate, or initiate recovery proceedings. At this stage, the matter is fundamentally one of banking supervision, credit management and loan recovery.

Suppose, however, that during or after the recovery process, a law-enforcement agency alleges that some action taken by the bank or its officers may have violated another statute—for example, a provision of the telecommunications or other sector-specific legislation. The existence of such a provision does not, by itself, answer the more fundamental question: was the banking action expressly authorized by BAFIA, and if so, does the other statute clearly make that particular exercise of banking authority a criminal offence?

This is where the three institutional layers become important. NRB may identify a regulatory violation under Section 95 of the NRB Act and refer the matter to the Government or the concerned agency under Section 98. If the conduct falls within an offence under Section 103 of BAFIA, Section 116 provides for a Government case and expressly requires NRB to cooperate with investigation, prosecution and adjudication. Separately, where the conduct constitutes a banking offence under the Banking Offence and Punishment Act, Nepal Police may investigate following the prescribed process and the Government Attorney may undertake prosecution.

The difficulty arises when an ordinary banking decision, regulatory action or loan-recovery measure is treated as criminal conduct without first establishing the specific offence and the applicable statutory jurisdiction. For example, if a bank exercises a recovery power expressly granted by Section 58 of BAFIA, the fact that the borrower is also subject to another sectoral law should not automatically make the bank's recovery action criminal. The investigating authority would need to establish the precise statutory provision allegedly violated, the elements of the offence, and why the conduct falls outside the authority granted to the BFI under BAFIA.

This example demonstrates why Nepal's regulatory framework requires a clear separation between regulatory breach, banking misconduct, contractual or civil default, and criminal offence. Otherwise, a disagreement over a banking decision or loan-recovery action can move directly from regulatory supervision into criminal investigation, creating uncertainty for BFIs, directors, management and borrowers and potentially undermining the statutory powers granted to financial institutions.

The broader lesson is that criminal enforcement should follow the offence, not merely the transaction. A banking transaction may involve several laws and regulators, but the existence of overlapping statutory provisions should not itself determine criminal liability. The relevant question must remain: what specific act was committed, under which law is it an offence, and did the person or institution have statutory authority to undertake the act in the first place?

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 = 153 in 2026, marking a 28.57% 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-July 2025/26 reveals a persistent trade deficit, with the deficit-to-GDP ratio remaining relatively stable as it shifted slightly from 20.56% to 26.98%. **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 18.37% by July-26. On the other hand, exports contracted by 3.30% in 2023/24 before experiencing an aggressive 73.2% surge by Mid-May 2025 and maintaining a steady growth of 63 % growth rate into mid-September 2026, ultimately lifting the export share of total trade to 16%.** However, despite these incremental improvements in export volume, Nepal's structural trade imbalance remains severe, as evidenced by a stark 1:6.64 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	2025		2026						
	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug
Consumer Price Inflation (y-o-y) (%)	1.63	2.42	3.25	3.62	4.47	5.04	5.22	5.14	5.96
Consumer Price Inflation (Compared to previous month) (%)	0.13	-0.20	0.21	0.43	1.17	1.12	0.46	0.005	1.171
Food and Beverage (%)	-0.24	-1.11	0.27	0.67	1.13	1.17	0.36	0.10	2.08
Non Food and Service (%)	0.33	0.29	0.17	0.30	1.18	1.10	0.50	-0.05	0.68
Exports	23.01	25.51	26.13	22.97	31.82	26.03	29.00	37.32	38.70
Imports	156.74	172.83	184.46	165.76	201.25	202.14	201.46	202.28	187.44
Travel Income	6.82	8.24	5.79	7.39	8.71	10.09	8.03	7.84	5.43
Travel Spending	13.23	16.59	15.70	23.85	20.25	12.50	15.78	15.45	15.92
Remittance Inflows	183.18	192.62	198.08	188.64	209.75	257.49	203.89	242.33	215.05
Government Expenditure	95.6	125.0	111.2	125.2	133.37	113.56	173.13	235.51	41.89
Current Expenditure	77.1	89.0	75.2	79.7	105.38	67.13	93.61	135.73	21.40
Capital Expenditure	8.6	15.0	14.3	14.8	17.71	17.65	18.82	58.17	1.32
Revenue	79.8	171.0	87.6	82.3	139.00	102.27	92.76	160.00	92.23
Deposit Mobilization	59.5	135.6	16.2	48.3	133.7	69.74	63.21	264.43	-20.71

Particulars Amount in NPR Billion	2025		2026						
	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July	July-Aug
Private Sector Credit	37.2	95.2	24.4	21.7	68.4	0.05	28.56	18.79	23.58
Weighted Average Deposit Rate (%)	3.7	3.6	3.5	3.4	3.4	3.35	3.29	3.21	3.15
Weighted Average Lending Rate (%)	7.3	7.1	7.0	6.9	6.8	6.73	6.64	6.55	6.48
Base Rate of Commercial Banks (%)	5.38	5.29	5.12	5.10	5.06	4.97	4.88	4.83	4.72

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 **5.96%** in August 2026.

External Sector & Trade Imbalance

- **Trade Deficit:** The country's trade deficit remains wide as imports continue to vastly outpace exports. For context, during Mid-August imports stood at **NPR 187 billion** compared to a meager **NPR 39 billion** in exports.
- **Remittance Cushion:** Despite ongoing geopolitical conflicts in the Gulf region, Nepal recorded a historic surge in remittance inflows, **reduced from an all-time high NPR 257 billion in May-26 to 215 billion in Mid-August**. 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-August 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-August 2026

- Imports rose to \$ 1.11 billion (up 30%), but exports surged to \$0.30 billion (up 66%).
- As a result, the trade deficit widened to \$ 1.14 billion, but relative to GDP it stabilized at 2.75%.
- Export share in total trade slightly increased from previous year 13.09% to 17.25%.
- The export–import ratio improved sharply to 1:4.48, showing better diversification in trade.
- Import revenue reached at \$.03, billion \$.028% increases from the August 25.

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.

- Persistent Trade Deficit – Nepal continues to run a structural trade deficit, though as % of GDP it has slightly improved.
- 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.
- High Import Dependency – Imports consistently account for over 86% of total trade, underscoring vulnerability to external shocks and foreign exchange pressure.
- Exchange Rate Depreciation Effect – The fall in the NPR from 125 to 155 per USD increased import costs but boosted customs revenue collection.
- 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. 2024/25 (Mid-Sept.)	2.02	0.19	1.83	2.21	1.00	10.63	0.57
Share % in Total Trade	91.40	8.60					1 USD= 125NPR
Trade deficit % GDP		3.96%					
F.Y. 2025/26 (Mid-Sept.)	2.35	0.36	1.99	2.71	1.00	6.53	0.60
Share % in Total Trade	86.72	13.28					1 USD= 130 NPR
Trade deficit % GDP		4.31%					
F.Y.2026/27 (Mid- Sept)	3.09	0.59	2.50	3.68	1.00	5.24	0.69
Share % in Total Trade	83.97	16.03					1 USD= 130 NPR
Trade deficit % GDP		4.92%					
Percentage Change in F.Y. 2025/26 compared to same period of the previous year	16.34%	89.47%	8.74%	22.62%			5.26%
Percentage Change in F.Y. 2026/27 compared to same period of the previous year	31.49%	63.89%	25.63%	35.79%			15.00%

Trade to GDP

As a positive sign of improved resilience in the external sector, the Department of Customs announced that the **Year-on-Year** trade deficit as a percentage of gross domestic product (GDP) saw an increased to 26.98% by mid-July 2026, compared to the 20.91 % reported in the immediate previous month.

Trade Deficit

In the second month of FY 2026/27, the monthly trade deficit slightly widens to USD 1.36 billion in mid-Sept from USD 1.14 billion in mid-August. However, on a year-on-year cumulative basis, the trade deficit widened to USD 14.21 billion, marking a 12.24% increase from USD 12.66 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 19. 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	Sep-25	Jul-26	Sep-26	Y-o-Y	Remarks	Movement compared to last year
Imports (UDS in billion)	2.35	16.13	3.09	16.87	UP	31.49%
Monthly Imports	1.25	1.56	1.65			
Exports (UDS in billion)	0.36	2.43	0.59	2.66	UP	63.89%
Montly Exports	0.18	0.29	0.29			
Trade Deficit (UDS in billion)	1.99	13.70	2.50	14.21	UP	25.63%
Total Foreign Trade (UDS in billion)	2.71	18.56	3.68	19.53	UP	35.79%
Monthly Import Revenue	0.32	0.35	0.39			21.88%
Total Import revenue	0.60	3.90	0.69	3.99	UP	15.00%
Monthly Remittance	1.34	1.86	1.81		UP	34.54%
Remittance inflows	2.79	18.26	3.41	18.88	UP	21.98%
Imports/Exports Ratio	6.53	6.64	5.24	6.34	Down	-19.77%
Exports Share to Total Trade (%)	13.28	13.09	16.03	18.72	UP	20.69%
Imports Share to Total Trade (%)	86.72	86.91	83.97	81.28	Down	-3.17%

Trade Indicators	Sep-25	Jul-26	Sep-26	Y-o-Y	Remarks	Movement compared to last year
Monthly Trade Deficit (UDS in billion)	1.07	1.27	1.36		UP	27.10%
Trade deficit % GDP	4.31%	26.98%	4.92%	27.99%	UP	14.30%

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) External Sector

Price-driven import growth, a thin re-export trade, and the cost of the Rasuwa-Bhotekoshi flood

1. Key messages

- 1.1. Imports are growing on price, not volume. Merchandise imports rose 31.6% in the first two months of FY 2026/27 to Rs 401.5 billion. Petroleum alone rose 73%, driven by the Gulf crisis, a weaker rupee and some precautionary buying.
- 1.2. The full-year picture is calmer than the two-month headline. At the current run-rate, the 19 major items we track would total about USD 7.0 billion in FY 2026/27, up 16.7% on last year, well below their 41.8% two-month jump. Last year's early months were a pre-crisis, low-price base.
- 1.3. Construction demand remains weak. Flat-rolled steel imports halved in the first two months. Reconstruction after the Rasuwa-Bhotekoshi flood should lift steel and machinery demand, but not before the post-monsoon season.
- 1.4. Exports are growing, but on a narrow base. Refined soybean oil makes up 47% of exports and is almost a pass-through of crude soybean oil imports. The 61.9% export growth depends on one arbitrage and on duty-free access to India.
- 1.5. Reserves can absorb the shock. With gross reserves of USD 25.3 billion (19.6 months of imports) at the end of FY 2025/26 and remittances up 28.1% in dollar terms, the pressure on the external balance is real but manageable. The binding constraint is domestic demand, not foreign exchange.

2. Where the external sector stands

Nepal closed FY 2025/26 with a larger trade gap and a much stronger external buffer. Imports rose 16.2% to Rs 2,096.4 billion and exports rose 13.8% to Rs 315.3 billion, leaving a trade deficit of Rs 1,781.1 billion (up 16.6%). Exports covered only 15% of imports. Remittance inflows did the heavy lifting: Rs 2,363.1 billion, or about USD 16.2 billion, up 37.1% in rupee terms and 28.1% in dollar terms. Gross foreign exchange reserves reached Rs 3,897.7 billion (about USD 25.3 billion), enough for 19.6 months of imports. The rupee weakened 10.9% against the dollar over the year to Rs 153.72.

FY 2026/27 opened under two shocks. The first is external: the Gulf crisis, which has kept crude prices elevated since March, with Brent back above USD 100 a barrel in early September. The second is domestic: the 26 August flood on the Rasuwa-Bhotekoshi corridor, which cut the Rasuwagadhi trade route to China and damaged 783 MW of hydropower capacity. In the first two months (mid-July to mid-September 2026), imports rose 31.6% to Rs 401.5 billion and exports rose 61.9% to Rs 76.6 billion, leaving a two-month trade deficit of about Rs 324.9 billion. Imports were 5.2 times exports.

3. Import outlook for major items

The first two months of FY 2026/27 against the same period last year and projects each item for the full year. The projection is a simple run-rate: two-month imports multiplied by six. We use it because it is transparent and uses only observed data, but it ignores seasonality. Items marked † are strongly seasonal, and their full-year figures should be read with caution.

Expected annual imports of major items (USD million, NPR 130 = USD 1)

Item	FY 2025/26 annual	2M FY 2025/26	2M FY 2026/27	2M change	Est. FY 2026/27	Est. annual change	Direction
Energy							
Diesel	1,326	115	216	+87.8%	1,296	-2.3%	Stable
Petrol	594	81	124	+53.1%	744	+25.3%	Growth
LPG	464	73	123	+68.5%	738	+59.1%	Growth
Coal (other, not agglomerated)	180	23	27	+17.4%	162	-10.0%	Decline
Edible oils and oilseeds							
Crude soybean oil	1,021	167	293	+75.4%	Will be adversely affected by India's recent tariff adjustment.		
Crude sunflower oil	167	17	49	+188.2%			
Crude palm oil	106	15	15	0.0%	90	-15.1%	Decline
Low erucic rape/colza seeds	129	9	28	+211.1%	168	+30.2%	Growth
Soybean oil-cake	104	12	17	+41.7%	102	-1.9%	Stable

Item	FY 2025/26 annual	2M FY 2025/26	2M FY 2026/27	2M change	Est. FY 2026/27	Est. annual change	Direction
Metals and construction inputs							
Direct reduced iron (DRI)	450	60	78	+30.0%	468	+4.0%	Growth
Flat hot-rolled steel, coils (>=600mm, <3mm)	212	53	25	-52.8%	150	-29.2%	Decline
Semi-finished iron/non-alloy steel	91	10	13	+30.0%	78	-14.3%	Decline
Hot-rolled bars and rods (<=8mm)	78	16	15	-6.3%	90	+15.4%	Growth
Consumer goods and gold							
Smartphones	375	68	75	+10.3%	450	+20.0%	Growth
Gold †	206	24	8	-66.7%	48	-76.7%	Decline
Laptops and notebooks	86	14	21	+50.0%	126	+46.5%	Growth
Food and pharmaceuticals							
Medicaments (retail dosage)	224	34	39	+14.7%	234	+4.5%	Growth
Paddy †	137	16	6	-62.5%	36	-73.7%	Decline
Maize (excl. seed) †	84	21	2	-90.5%	12	-85.7%	Decline
Total, 19 tracked items	6,034	828	1,174	+41.8%	7,044	+16.7%	Growth

2M = first two months of the fiscal year (Shrawan and Bhadra; mid-July to mid-September). Est. FY 2026/27 = two-month value × 6. Direction: Growth above +3%, Decline below -3%, Stable in between. † Strongly seasonal item, run-rate is likely to understate the full year. USD values use a fixed conversion of NPR 130 per USD for comparability across the series; at the mid-July 2026 market rate (about NPR 153.7), dollar values would be roughly 15% lower. Source: Department of Customs; Kala Legal estimates.

4. Reading the numbers

1.1. Energy: a price shock on a low base

Petroleum imports reached Rs 65.5 billion in the first two months, 73% higher than a year earlier and 16.3% of all imports. Diesel nearly doubled (up 88% to Rs 28.0 billion), petrol rose 53% and LPG 69%. Traders attribute the rise to three things at once: higher international prices, a stronger dollar and larger purchased quantities.

The full-year projection tells a more measured story. Diesel at the current run-rate comes to about USD 1.3 billion, roughly level with FY 2025/26. That is because the second half of last year already carried crisis-level prices, while its first two months did not. Petrol (+25%) and LPG (+59%) look set for genuine full-year growth. LPG's run-rate may even understate the year, since winter demand has not yet arrived. Coal is modestly lower (-10%), consistent with soft cement and brick output. If Brent stays above USD 100, energy will remain the largest single driver of the trade deficit this year.

1.2. Edible oils: a re-export business, not a consumption story

Crude soybean oil has again emerged as the second-largest import item, rising 75% in the first two months to USD 293 million, with Argentina remaining the principal source. Almost the entire volume is subsequently re-exported, with refined soybean oil exports reaching USD 277 million during the same period. This trade is driven primarily by processing margins and duty-free access to India under SAFTA rather than domestic consumption. However, India has now changed the relevant tariff regime, and the trade is therefore expected to be adversely affected by India's recent tariff adjustment. Given the limited domestic value addition, the change could significantly reduce the viability and scale of this trade flow.

Within the oil complex, the mix is shifting. Crude sunflower oil nearly tripled and rapeseed imports more than tripled, while crude palm oil was flat. This points to processors moving between oils as relative prices and Indian demand change. The run-rate projects a large full-year rise for soybean oil (+72%), but these flows are lumpy and policy-dependent, and we treat that number as an upper bound.

1.3. Construction and industrial inputs: still contracting

Metal imports confirm that domestic investment has not recovered. Flat hot-rolled steel fell 53% in the first two months and bars and rods were slightly lower. Direct reduced iron (+30%) and semi-finished steel (+30%) rose, which suggests domestic mills are rebuilding stock rather than seeing strong end demand. On a full-year basis, flat steel is projected 29% lower. Subdued private credit demand, slow capital spending and the monsoon lull all weigh on this segment. Reconstruction after the Rasuwa flood is the main upside risk, discussed in Section 6.

1.4. Consumer goods and gold

Remittance-backed consumption is holding. Smartphones rose 10% and laptops 50% in the first two months, and both are projected higher for the full year (+20% and +47%). With remittances up 28% in dollar terms last year, household spending on electronics has room to continue, although a weaker rupee raises landed prices.

Gold imports fell two-thirds, to USD 8 million. Record international prices are the most likely cause. The run-rate figure (-77%) should not be taken at face value: gold demand peaks around Dashain, Tihar and the wedding season, all of which fall after the period covered. We expect a partial recovery in the coming months.

1.5. Food, feed and pharmaceuticals

Maize and paddy imports fell sharply, but both are seasonal and the two-month window falls during the main domestic planting season, when imports are typically low. Their projected declines are unreliable, and the flood's damage to farmland in Rasuwa will add some food import demand later in the year. Soybean oil-cake is broadly flat for the year, in line with a feed and poultry sector that is not expanding. Medicaments rose 15%, a steady trend that reflects rising healthcare demand and, more recently, flood-related medical needs.

1.6. Other major imports

Among other large items in the first two months fertiliser stands out: urea and DAP together came to USD 188 million, reflecting government procurement for the paddy season. Electric vehicle imports (USD 52 million) remain significant, while unassembled motorcycles point to growing local assembly.

Other major imports, first two months of FY 2026/27 (USD million)

Item	Import value
Fertilizer grade (urea)	101
Diammonium phosphate (DAP)	87
Other electric vehicles	52
Aviation turbine fuel (ATF)	40
Other soybean	26
Motorcycles, unassembled (50 to 125cc)	24
Unwrought aluminium, not alloyed	20
Refined copper wire (>6mm)	18
Other durum wheat	15
Passenger vehicles (11 to 25 seats)	15
Motorcycles, unassembled (125 to 200cc)	15
Apples, fresh	15
Petroleum bitumen	14
Potatoes, fresh or chilled	14
Polyester staple fibre, not carded	14
Polypropylene, primary forms	13
Total, 16 items	483

Conversion at NPR 130 per USD. Source: Department of Customs.

5. Exports: fast growth, narrow base

Exports reached Rs 76.6 billion (about USD 589 million) in the first two months, up 61.9%. The top 20 export items in Table 3 account for USD 458 million, or 78% of the total. Refined soybean oil alone is USD 277 million, or 47% of all exports. Add sunflower oil and palm olein, and refined edible oils make up over half of export earnings.

Beyond the oil complex, Nepal's traditional exports are small and stable: jute fabrics, carpets, cardamom, felt, polyester yarn, tea and stainless steel kitchenware each earn between USD 7 and 17 million over two months. Smaller manufacturing items such as pet food, pasta and fruit juices show that some diversification is happening, but none is yet large enough to change the overall picture. The key risk is concentration: a single change in Indian trade policy on edible oils could remove close to half of Nepal's export earnings almost overnight.

Major exports, first two months of FY 2026/27 (USD million)

Item	Export value
Soybean oil (refined) and fractions	277.28
Unbleached jute woven fabrics	17.19
Sunflower/safflower oil (refined)	16.04
Refined bleached deodorised palm olein	14.86
Woollen knotted carpets	13.60
Large cardamom (alaichi)	12.72
Felt, nes	10.81
Polyester blend yarn (<85%, with artificial fibre)	10.47
Stainless steel kitchen and household articles	10.35
Polyester single yarn (>=85%)	10.02
Black and partly fermented tea	7.63
Dog or cat food, retail	7.42
Pasta, nes	7.12

Item	Export value
Plywood (coniferous outer plies)	6.89
Mixed fruit juices, unfermented	6.69
Woollen shawls, scarves and mufflers	6.32
Rapeseed/colza oil-cake	5.85
Woven synthetic strip fabrics	5.67
Coated flat-rolled steel (≥ 600 mm)	5.64
Aluminium alloy wire (> 7 mm)	5.04
Total, top 20 items	457.61

Conversion at NPR 130 per USD. Source: Department of Customs.

6. The Rasuwa-Bhotekoshi flood: trade and import implications

The 26 August flood destroyed 37 motorable bridges and around 55 km of road, damaged 13 hydropower projects with a combined capacity of 783 MW, and fully destroyed about 7,570 houses, according to preliminary assessments. Tourism losses alone are estimated at around Rs 50 billion. For the external sector, the effects come through four channels.

Trade route. Rasuwagadhi handled Rs 45.7 billion of imports in FY 2025/26, already down from Rs 85.2 billion the year before after the July 2025 flood. Trade has been rerouted to Korala in Mustang, which adds roughly 1,100 km, has limited customs staff and quarantine facilities, and becomes difficult after Dashain and Tihar snowfall. Expect higher landed costs and delays for Chinese goods, and more reliance on Birgunj and the eastern customs points.

Energy. The loss of 783 MW of hydro capacity reduces electricity available for export to India during the wet season and may raise diesel demand for backup generation and heavy machinery. Neither effect is fully visible in the two-month data yet.

Construction materials. Bridge, road and hydropower repair will need steel, cement inputs, bitumen and heavy equipment. This should partly reverse the current contraction in steel imports, most likely from the post-monsoon construction season onward.

Food and medicine. Crop losses on about 1,800 hectares and relief needs will add modestly to food and pharmaceutical imports in the near term.

Overall, we expect the flood to add to import demand over the second half of the year, but the scale is small relative to the energy price effect. The larger macroeconomic costs are lost power export earnings, lost tourism income and the reconstruction bill.

7. Import zones for FY 2026/27

Import zone classification

Zone	Main items	Driver
Expansion	Petrol, LPG, crude soybean and sunflower oil, rapeseed, smartphones, laptops, pharmaceuticals	Fuel prices and a weaker rupee; re-export arbitrage; remittance-backed consumption
Stable	Diesel (full year), DRI, soybean oil-cake	High prices already in last year's base; mill restocking; flat feed demand
Compression	Flat-rolled steel, coal, crude palm oil, gold	Weak construction and credit; high gold prices; switching between oils
Watch (seasonal or flood-driven)	Gold, paddy, maize, bars and rods, heavy machinery	Festival demand, planting cycle, and reconstruction from the post-monsoon season

8. Macroeconomic and policy implications

The trade deficit will widen, but the balance of payments can absorb it. On our run-rate, the 19 tracked items add about USD 1.0 billion to the import bill. With reserves near 20 months of import cover and strong remittances, this does not call for import restrictions. The compression we see in steel and gold is demand-driven, not the result of foreign exchange rationing.

Fuel pricing needs a clear rule. With imports now reflecting crisis-level prices, an automatic, transparent pass-through mechanism would protect the Nepal Oil Corporation's balance sheet and reduce the fiscal risk of ad hoc price freezes.

Export concentration is a policy risk, not just a statistic. Reliance on edible oil re-exports should be matched with work on rules-of-origin compliance with India and on support for higher value-added exports.

Trade facilitation for reconstruction. Fast-track customs for bridge components, grid equipment and relief goods, and investment to keep the Korala route usable through winter, would reduce the cost of the Rasuwagadhi closure.

Capital spending is the swing factor for real imports. A pick-up in public capital expenditure, including reconstruction, is what would turn construction-related imports around. Without it, the investment signal from imports stays weak.

9. Outlook and risks

Our base case is that imports grow in the mid-teens this year, led by energy and edible oils, with the trade deficit widening but covered by remittances and ample reserves. Risks to this view are two-sided.

Upside to imports: Brent staying above USD 100, a faster start to reconstruction, and a strong festival season for gold and consumer goods. Downside to imports: an easing of the Gulf crisis, any Indian policy change that curbs the edible oil trade (which would cut both imports and exports), and a slowdown in remittances if Gulf labour markets are disrupted. Structural risk: the combination of energy dependence, a single-commodity export base and a fragile northern trade route leaves the external sector more exposed to shocks than the reserve position suggests.

6) Nepal FDI Analysis: FY 2025/26 and 2026/27

According to the latest data published by the Department of Industry (DoI), Nepal approved 1,116 foreign direct investment (FDI) projects with total investment commitments of USD 446.16 million by mid-July 2026, compared to 840 projects worth USD 499.73 million during the corresponding period of the previous fiscal year. Although the total approved investment value declined by around 10.7%, the number of approved projects increased by 32.9%, indicating continued investor interest, particularly from small and medium-sized foreign investors. The first month of FY 2026/27 also recorded encouraging momentum. During the month (mid-June to mid-July 2026), Nepal approved 202 new FDI projects with commitments of USD 79.88 million, representing a 21.8% increase in cumulative investment commitments over the previous month. The data suggests that Nepal continues to attract diversified foreign investments despite a moderation in average project size.

1. Overall FDI Performance

Period	Approved FDI (USD Million)	Projects	Growth (%)
Up to Mid-July 2025	499.73	840	—
Up to Mid-June 2026	366.28	914	-26.7% (value), +8.8% (projects)
Up to Mid-July 2026	446.16	1,116	+21.8% (monthly), +32.9% (projects vs. July 2025)
Up to Mid-August 2026	29.02	176	
Up to Mid-Sept. 2026	85.57	212	+93.37% (monthly), -66.38% (amount vs. Sept. 2025)

While the cumulative approved investment value remains below the exceptionally high level recorded in the previous fiscal year, Nepal has achieved a record number of approved projects. This trend indicates a shift towards a larger number of relatively smaller investment proposals rather than a few large-scale investments.

2. Sector-wise FDI Distribution (Up to Mid-Sept. 2026)

Sector	USD Million	Share (%)
Manufacturing	9.53	11.14%
Energy	15.38	17.98%
Agro and Forestry Based	0.15	0.18%
Tourism	28.79	33.65%
Mineral	-	0.00%
Service	25.43	29.71%
Infrastructure	-	0.00%
ICT	4.38	7.34%
Total	85.57	

Tourism remained the largest recipient of foreign investment, accounting for 34% of total approved FDI. Service Sector retained its position as the second-largest recipient, accounting for 30% of total commitments, supported by continued investment in Service sector.

3. Sector-wise Project Numbers (Up to Mid-Sept. 2026)

Sector	Projects
Manufacturing	18
Energy	1
Agro and Forestry Based	1
Tourism	70
Mineral	0
Service	26
Infrastructure	-
ICT	212
Total	328

The ICT sector continued to dominate in terms of project numbers, accounting for approximately 64% of all approved projects. This reflects Nepal's growing attractiveness for software development, information technology services, business process outsourcing (BPO), digital platforms, and other technology-enabled businesses, all of which typically require relatively modest initial capital investment.

4. Manufacturing Sector Performance

Manufacturing investment increased from **USD 27.47 million** at mid-June 2026 to **USD 30.08 million** by mid-July 2026, while the number of approved manufacturing projects increased from **52 to 63**.

Period	USD Million	Projects
Up to Mid-June 2026	27.47	52
Up to Mid-July 2026	30.08	63
Mid-August 2026	6.49	9
Mid-Sept 2026	9.53	18

The increase reflects continued foreign interest in food processing, construction materials, light manufacturing, pharmaceuticals, and consumer goods industries.

5. ICT Sector Continues to Expand

The ICT sector remained Nepal's fastest-growing sector by project count.

Indicator	Mid-June	Mid-July	Mid-August	Mid-Sept
Projects	577	727	128	212
Investment (USD Million)	18.20	21.80	4.3	6.3

An additional 212 ICT projects were approved during the second month of FY 2026/27. This trend highlights Nepal's growing competitiveness as a regional destination for digital services and technology-based investment.

6. Key Trends and Policy Implications

Positive Developments

- Approved FDI projects reached a record **1,116 projects** (FY 205/26)
- ICT remained Nepal's leading sector by project numbers.
- Agriculture and Forestry continued to attract the largest share of investment commitments.
- Tourism maintained strong investor interest.
- The energy sector experienced a significant increase due to several large investment approvals.
- The second month of FY 2026/27 recorded a strong recovery in approved FDI commitments.

Challenges

- Total approved investment remains below the level recorded during the previous fiscal year despite higher project numbers.
- FDI continues to be concentrated in a limited number of sectors.
- Infrastructure investment remains relatively weak despite Nepal's substantial financing needs.
- The average investment size per project continues to decline, reflecting the predominance of smaller investment proposals.
- Actual realization of approved FDI continues to lag behind commitments, remaining one of Nepal's most significant investment climate challenges.

7. Conclusion

The FDI data up to mid-September 2026 presents a generally positive outlook for Nepal's investment environment. Nepal approved 328 foreign investment projects with total commitments of USD 85.57 million, reflecting robust growth in project approvals and a strong start to FY 2026/27. Service, tourism, ICT, and energy emerged as the principal drivers of approved foreign investment. The remarkable increase in energy sector commitments and continued expansion of ICT projects demonstrate growing investor confidence in emerging sectors.

Nevertheless, the decline in overall investment value compared with the previous fiscal year, continued sectoral concentration, limited infrastructure investment, and the persistent gap between approved and realized FDI underscore the need for further policy reforms. Strengthening project implementation, improving investment facilitation, ensuring regulatory stability, and attracting larger export-oriented investments will be critical to translating investment approvals into productive capital formation, employment generation, and sustainable economic growth.

7) 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 34–40 billion, even a modest mobilization of 25–30 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 63 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

Indicator	Estimate
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	~45–70%	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
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

Core Challenges	Capital Budget	Strategic Actions (Policy + Legal Reforms)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
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

Challenge	Detailed Issues	Strategic Actions	DP Role	GoN Role
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
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.

Section 5 Financial Sector highlights

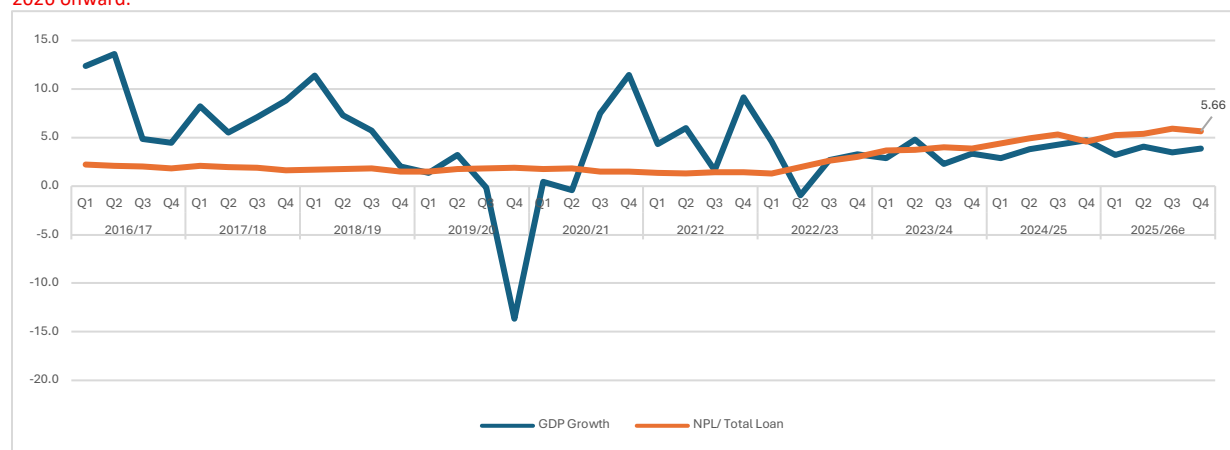
1) Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates

Economic activity in Nepal remains subdued despite a few encouraging signs. As of August 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 September 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 6.48 percent in mid-August 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 increased to 5.66%**

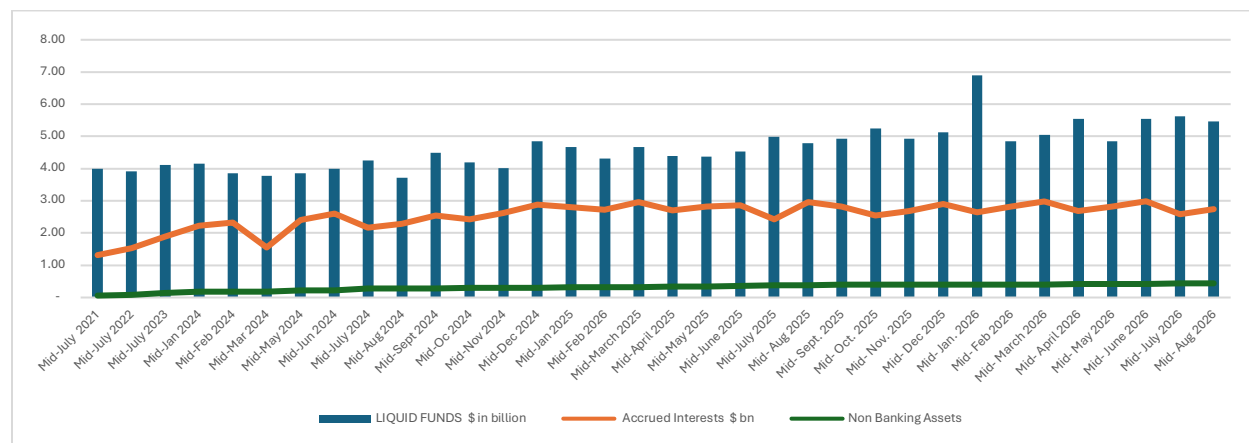
The data suggests a correlation between economic performance and banking sector stability. Periods of high GDP growth generally align with lower NPL ratios, reflecting a healthier economic and banking environment, while times of economic contraction tend to correspond with higher NPL ratios, indicating stress within the banking sector.

From mid-July 2021 to mid-July 2026, accrued interest rose steadily from USD 1.32 billion to USD 2.99 billion (USD 2.74 billion as of Mid-August 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 July 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.

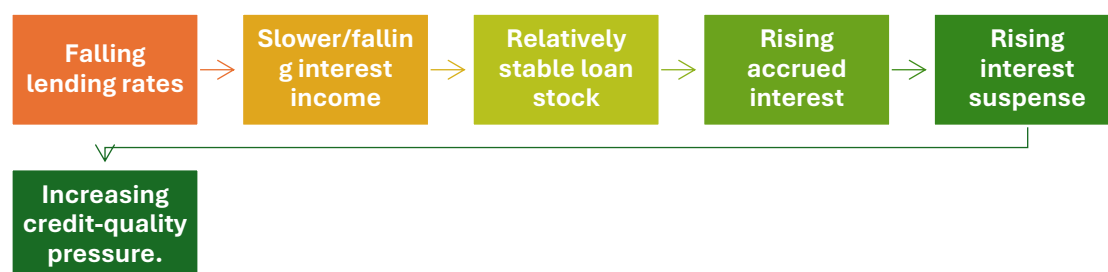
In contrast, liquid funds have shown fluctuations without a consistent upward trend, hovering around USD 4 to 7 billion (5.46 billion August 2026), which implies that institutions have significantly amount of Liquidity has been mop-up by NRB.

Meanwhile, non-banking assets, rising gradually from USD 0.06 billion to USD 0.42 billion (0.44 billion in August 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) The Accrued interest

Nepal's banking sector is showing a pattern of:



The latest NRB Banking & Financial Statistics for mid-August 2026 (Shrawan 2083) strongly support this interpretation.

Indicator	Mid-July 2025	Mid-July 2026	Mid-Aug 2026	Interpretation
Loans & advances, incl. bills	NPR 5,591 bn	NPR 5,957 bn	NPR 5,949 bn	Loan stock has not contracted materially
Accrued interest	NPR 315.8 bn	NPR 335.8 bn	NPR 356.6 bn	Strong accumulation
Accrued interest / loans	5.65%	5.64%	5.99%	Rising
Interest suspense	NPR 56.1 bn	NPR 58.5 bn	NPR 60.8 bn	Rising
Interest income	NPR 567.2 bn	NPR 516.3 bn	—	−9.0% YoY
Interest income on loans	NPR 480.8 bn	NPR 420.7 bn	—	−12.5% YoY
Weighted avg. lending/credit rate	—	—	6.48%	Low-rate environment
NPL / total loan	—	5.66%*	—	Credit-quality pressure

NRB notes that the NPL ratio in the Shrawan report is based on Asar-end 2083 data, rather than the mid-August balance. Nepal Central Bank

Banking Sector: Falling Interest Rates, Rising Accrued Interest and Emerging Credit-Quality Risks

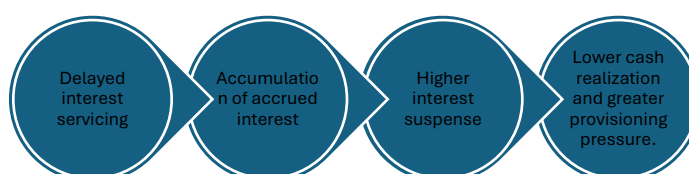
Nepal's banking sector is experiencing an important divergence between declining interest rates and interest income on one hand, and rising accrued interest and credit-quality pressures on the other. According to Nepal Rastra Bank's latest Banking & Financial Statistics, Shrawan 2083 (mid-August 2026), the banking system's loan portfolio remains broadly stable, but the income generated from lending has weakened. Loan

interest income declined by approximately 12.5% year-on-year, from NPR 480.8 billion in FY 2024/25 to NPR 420.7 billion in FY 2025/26. This reflects the substantial decline in lending rates, with the weighted average lending/credit rate reaching around 6.5% by mid-August 2026.

The more significant concern is the behavior of accrued interest. While the loan portfolio increased only moderately, accrued interest rose from approximately NPR 315.8 billion in mid-July 2025 to NPR 356.6 billion in mid-August 2026, taking accrued interest as a proportion of loans from about 5.65% to 5.99%. At the same time, interest suspense increased from approximately NPR 56.1 billion to NPR 60.8 billion. This indicates that the reduction in lending rates has not yet translated proportionately into improved interest realization and cash collection.

The relationship becomes more striking when accrued interest is compared with annual loan-interest income. Accrued interest increased while annual interest income declined, causing the ratio of accrued interest to annual loan-interest income to rise substantially—from roughly 66% to 85%. This does not imply that all accrued interest represents non-performing loans; accrued interest also arises from performing assets. However, the simultaneous increase in accrued interest, interest suspense and non-performing loans warrants closer examination of the quality and collectability of reported interest income.

Credit quality is also becoming an important part of this equation. NRB reported an aggregate NPL ratio of around 5.66% at Asar-end 2083, while loan-loss provisions remained substantial. The emerging pattern suggests a potential transmission mechanism: weak borrower cash flows



This should be monitored alongside Stage 2 migration, Stage 3 exposures and recovery performance rather than relying on the headline NPL ratio alone. The development is particularly relevant as Nepal's banks move further into the NFRS 9 expected-credit-loss and effective-interest framework. Under the evolving treatment of Stage 3 assets, accounting recognition of interest increasingly depends on the effective interest rate applied to the amortized-cost base, making the distinction between accrued interest, recognized interest income and actual cash realization increasingly important.

The current banking-sector issue is no longer simply one of high or low interest rates. It is increasingly a question of interest realization and asset quality. Falling lending rates may support borrowers and credit demand, but if accrued interest continues to grow faster than the loan book while recognized interest income declines and NPLs rise, the apparent improvement in borrowing costs may coexist with deterioration in the quality of bank earnings. Therefore, regulators, banks and investors should monitor lending yields, loan growth, accrued interest-to-loans, interest suspense, cash-based interest realization, Stage 2/Stage 3 migration, NPLs and provisioning as an integrated early-warning framework.

Key message: Nepal's banking sector appears to be moving from a period of high interest rates toward a more subtle challenge—declining lending yields accompanied by persistent accumulation of uncollected interest. The quality and cash realization of interest income may therefore be as important as the level of interest rates themselves.

4) BFIs Outlook 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	6,451	8.15%	6,624	2.69%	6,812	2.82%
PAID UP CAPITAL	3,635	6.52%	3,901	7.32%	4,133	5.94%
BORROWINGS	1,718	-5.01%	1,567	-8.79%	1,441	-8.00%
Borrowing from NRB	6	69.60%	18	220%	131	626%
DEPOSITS	63,933	13.80%	73,189	14.48%	83,158	13.62%
Current	5,280	30.03%	6,413	21.45%	8,180	27.55%
Saving	29,941	45.59%	41,256	37.79%	7,618	-81.53%
Fixed	22,503	-16.58%	18,458	-17.98%	52,446	184.14%
Call	5,771	37.11%	6,540	13.31%	7,618	16.49%
Others	437	18.22%	523	19.82%	611	16.79%
LIQUID FUNDS	5,630	13.07%	5,313	-5.63%	5,202	-2.07%

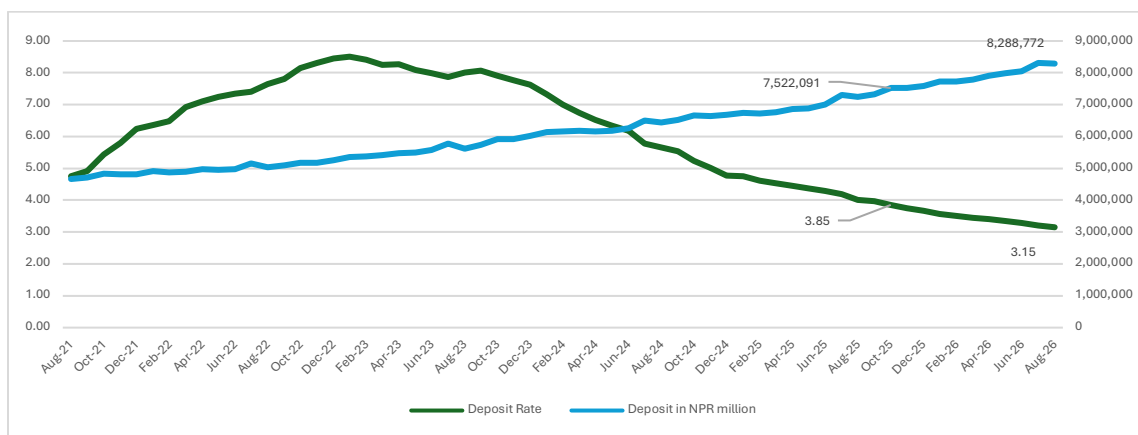
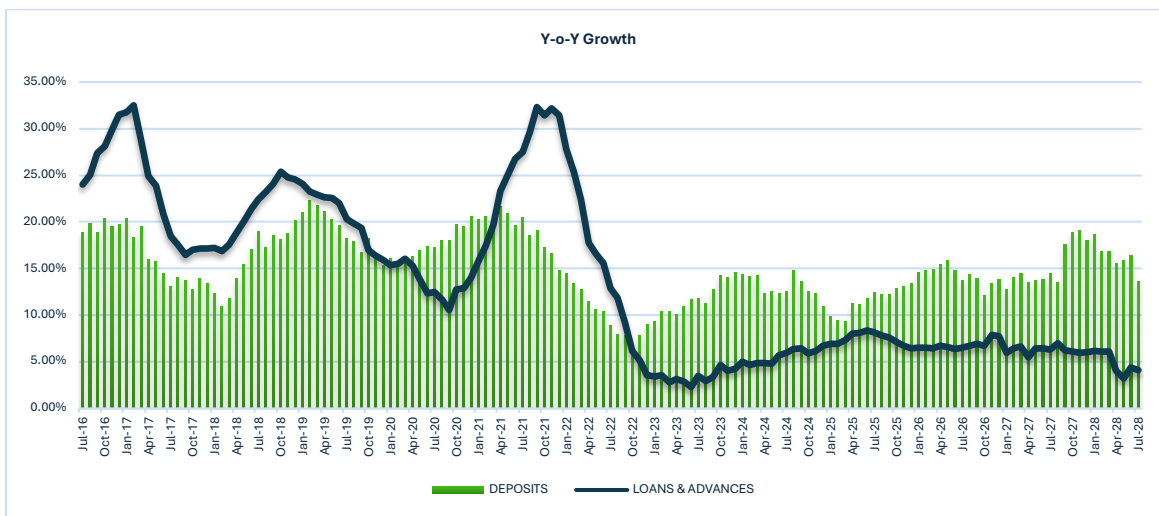
Assets and Liability (Exchange Factor \$ 1 = NPR 130)						
Capital, Deposits and Risk Assets. USD in million						
GOVT. SECURITIES/OTHER	16,979	26.62%	18,727	10.29%	22,316	19.16%
Investment in share and other	4,158	47.93%	6,902	66.01%	10,337	49.77%
LOANS & ADVANCES	45,820	6.53%	48,705	6.30%	50,698	4.09%
Total Capital/RWA	12.22%	-1.89%	11.39%	-6.79%	10.72%	-5.88%
CD	70.66%	-6.12%	65.80%	-6.88%	60.41%	-8.19%
NPL /Total Loan	5.66%	22.54%	5.61%	-0.90%	5.23%	-6.77%
Return on Capital Employed	9.78%	-4.38%	13.21%	35.04%	13.84%	4.82%

Particulars USD in million	July 2026e	Change	July 2027e	Change	July 2028e	Change
Int on Loans and Adv.	3,236	-12.50%	3,171	-1.99%	3,107	-2.05%
Total Int. Income	3,972	-8.97%	4,221	6.27%	4,344	2.92%
<u>Avg. Yield From Loan</u>	6.78%	-16.12%	6.51%	-3.95%	6.13%	-5.90%
Int Expenses	2,275	-15.56%	2,451	7.74%	2,363	-3.60%
Avg. Cost of Fund	3.31%	-25.80%	3.35%	1.20%	2.84%	-15.16%
NII	1,697	1.67%	1,769	4.29%	1,981	11.96%
Interest Spread (cash basis)	3.47%	-4.21%	3.16%	-8.87%	3.29%	3.91%
Commission & fees	288	9.34%	285	-0.90%	292	2.32%
Ex. Fluctuation Gain	110	48.50%	52	-52.34%	12	-76.59%
Other Operating & Non-operating Income	133	22.19%	148	10.85%	169	14.52%
Gross Income	2,228	5.33%	2,255	1.21%	2,454	8.85%
Employees Exp	550	4.93%	583	6.02%	628	7.70%
Employee cost in % of Total Int. Income	13.84%	15.26%	13.81%	-0.23%	14.45%	4.65%
Office Operating Exp	407	21.64%	333	-18.04%	347	4.21%
LLP & write-off	772	1.66%	220	-71.48%	279	26.75%
Additional LLP to Risk Assets	1.68%	-9.90%	0.45%	-73.17%	0.55%	21.77%
Provision Written Back	480	6.79%	240	-50.00%	264	10.00%
PBT	980	3.42%	1,359	38.67%	1,464	7.78%
Return on total assets	1.28%	-5.98%	1.62%	26.07%	1.58%	-2.02%

\$ in million			
P/L Account			
Particulars	Expected July 26	Expected July 27	Expected July 28
Total Operating Income	4,503	4,706	4,817
Total Operating Expenses	3,232	3,368	3,338
Provision Written Back	480	240	264
Provision for Risk	(766)	(205)	(259)
Loan Written Off	(6)	(15)	(20)
Net Profit before Bonus & Tax	980	1,359	1,464
Bonus	86	119	128
Tax	271	372	401
Net profit	623	868	936

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 \$4,503 million on July 26 to 4,817 million by July 28, while operating expenses are expected to remain manageable, expected to increase to \$3,338 million on July 28. Provisions for risk are forecasted to decrease to 259 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 \$980 million on July 2026 to a peak of \$1,359 million on July 27, slightly high at \$1,464 million on July 28. After adjusting for bonuses and tax obligations, net profit is forecasted to increase from \$623 million on July 26, to a high of \$936 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 6.55% by July 2026. Meanwhile, lending exhibits relatively stable growth at around NPR 5,591 billion in July 2025 but witnessed sharp increase to NPR 5,949 billion by August 26.
- 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 3.15% by August 2026. Deposits increase steadily, reaching a peak of NPR 8,313 billion in July 2026 and decrease 8,288 billion mid-August 2026. 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:

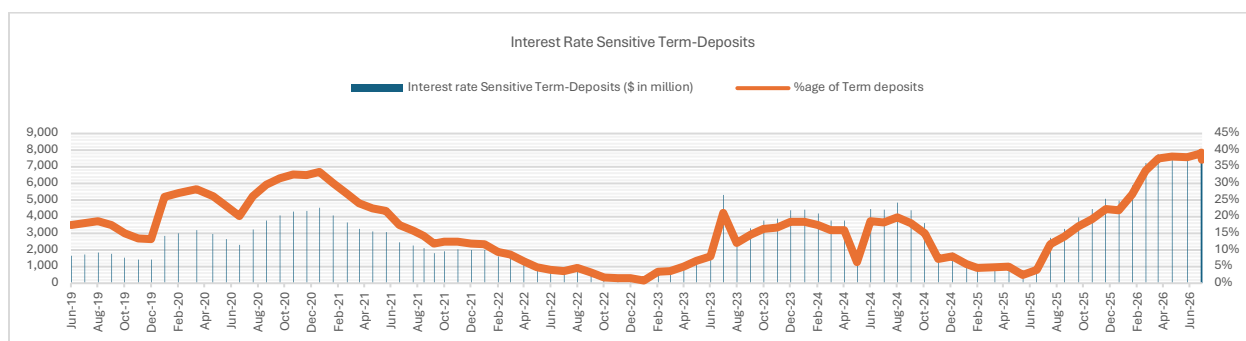
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

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.

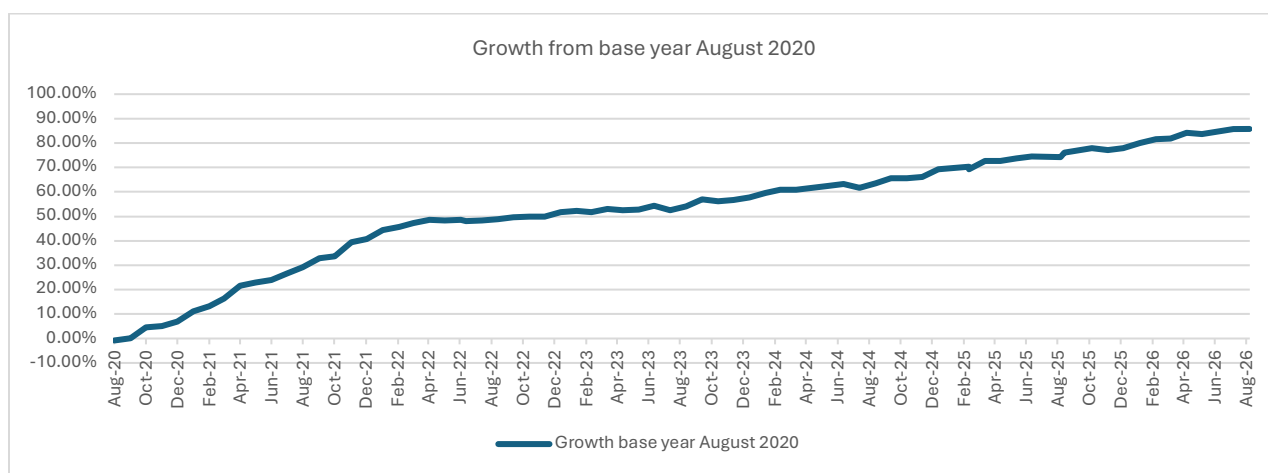
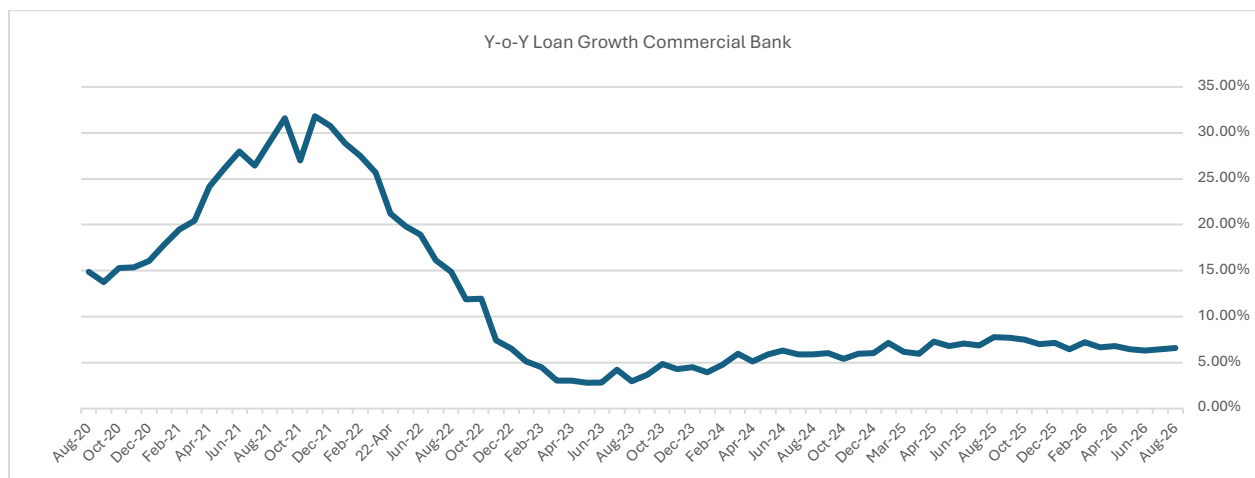
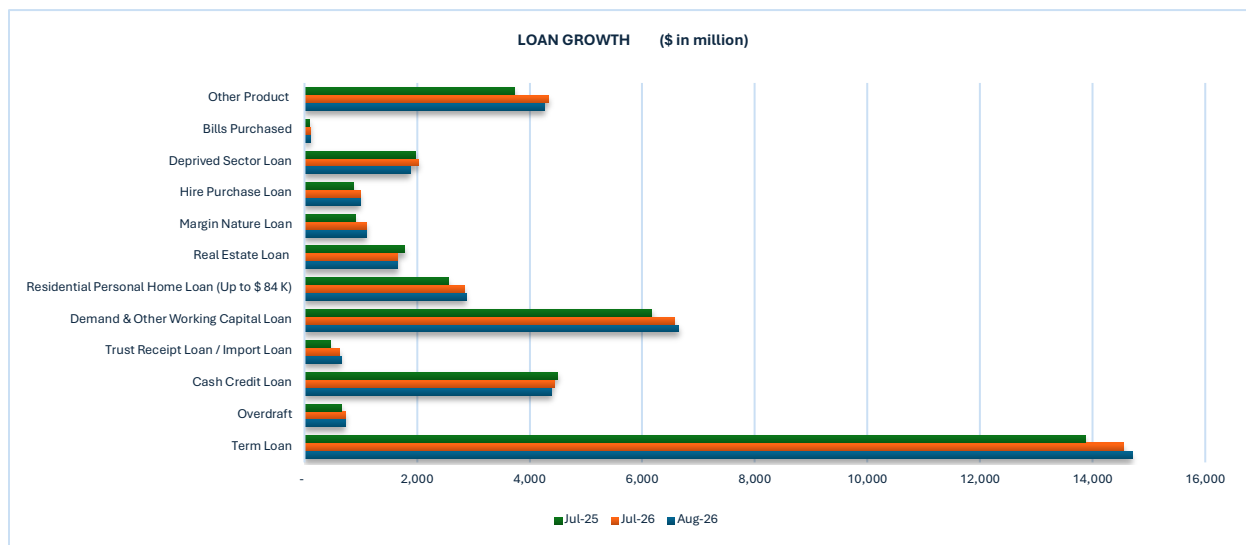
In summary, while interest rates influence growth in deposits and lending, the relationship is not perfectly direct. External economic factors, confidence, and liquidity conditions also play a major role in determining overall growth.

Amount in million		Net Maturity Amount in \$ million		
Period	Deposit mix	Within next month	Within a Year	Total
3-6 months	15%	278.11	2,634.82	2,912.93
6-12 months	33%	3,117.26	3,064.16	6,181.42
1-2 yrs.'	21%	548.24		4,008.57
2 yrs. and above	31%	3,303.41		6,450.37
Total	100%	37.06%	29.15%	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.

5) Sector wise Loan Growth of Commercial Banks



Section 6 Insurance Sector

Insurance Sector: Strong Structural Growth Meets a Major Climate-Related Claims Shock

1. Sector Overview

Nepal's insurance sector entered FY 2083/84 with a strong underlying growth trajectory, but the outlook has been materially altered by the large insurance exposures arising from the Bhotekoshi–Trishuli flood disaster.

The latest data published by the Nepal Insurance Authority (NIA) show that insurance activity continued to expand through the end of FY 2082/83. By Ashar 2083 (mid-July 2026), total gross premium collection had reached NPR 256.52 billion, compared with NPR 223.21 billion in Jestha. Life insurance accounted for NPR 204.60 billion, while non-life insurance generated NPR 51.92 billion. First premiums reached NPR 53.88 billion and renewal premiums NPR 150.72 billion. The number of in-force life policies increased to 16.79 million, with total insurance coverage through conventional, term and foreign-employment life policies reaching 52.04 percent of the population.

The latest Shrawan 2083 publications indicate that the sector maintained significant business activity at the beginning of FY 2083/84. Fourteen life insurers collected approximately NPR 26.22 billion in premiums during Shrawan, including NPR 4.51 billion in first-year premiums and NPR 21.71 billion in renewal premiums. Fourteen non-life insurers collected approximately NPR 5.32 billion during the month.

However, the sector is now facing an exceptional catastrophe-risk event. Preliminary information received by the NIA indicated 583 insurance claims amounting to approximately NPR 25.87 billion from the Bhotekoshi and Trishuli flood disaster. Engineering and contractors' risks alone accounted for approximately NPR 20.51 billion of the preliminary claims. These figures remain subject to detailed loss assessment and claim verification and should therefore not yet be treated as final claims incurred.

2. Key Insurance Industry Indicators

Indicator	Chaitra 2082	Baishakh 2083	Jestha 2083	Ashar 2083	Latest Position
Gross Premium Collection (NPR bn)	181.08	201.36	223.21	256.52	Strong expansion
Life Premium (NPR bn)	143.81	159.97	177.66	204.60	Dominant segment
Non-Life Premium (NPR bn)	37.27	41.40	45.56	51.92	Expanding
First Premium (NPR bn)	35.16	39.17	43.65	53.88	Strong new business
Renewal Premium (NPR bn)	108.65	120.79	134.00	150.72	Stable recurring base
Micro Insurance Premium (NPR bn)	2.72	3.05	3.08	3.54	Financial inclusion
Foreign Employment Premium (NPR bn)	2.29	2.60	3.08	3.37	Resilient
In-force Life Policies ('000)	16,397	16,526	16,655	16,792	Continued expansion

Source: Nepal Insurance Authority. Latest consolidated dashboard available through Ashar 2083; Shrawan 2083 sector-specific statistics subsequently published by NIA.

The movement from NPR 181.08 billion in Chaitra to NPR 256.52 billion by Ashar represents an increase of approximately 41.7 percent over three months, although monthly movements should not be interpreted as annualized growth because insurance premium collections have significant seasonal and accounting patterns.

3. Shrawan 2083: New Fiscal Year Begins with Continued Premium Generation

The first month of FY 2083/84 shows that the insurance business remained active despite the increasingly challenging macroeconomic environment.

Life Insurance

The 14 life insurance companies collected NPR 26.22 billion in Shrawan. Renewal business accounted for approximately NPR 21.71 billion, or about 83 percent of the reported premium, while first-year premium amounted to NPR 4.51 billion. The composition is important. The dominance of renewal premiums indicates that the life-insurance sector has developed a relatively stable recurring premium base. At the same time, first-year premium remains significant, demonstrating continuing demand for new policies. The first-year premium data also show concentration within the industry. Nepal Life generated approximately NPR 1.36 billion of first-year premium in Shrawan, followed by National Life and Surya Jyoti Life.

Non-Life Insurance

The 14 non-life/general insurance companies collected approximately NPR 5.32 billion in Shrawan. The business covered motor, fire, aviation, marine, agriculture and crop, engineering and other commercial risks. The non-life segment therefore entered FY 2083/84 with continued premium-generation capacity, but its risk profile has changed substantially following the major flood event.

4. Insurance Penetration and Financial Inclusion

Insurance coverage continued to broaden during FY 2082/83.

By Ashar 2083:

1. In-force life insurance policies reached 16.79 million.
2. Conventional life policies reached 6.15 million.
3. Term-life policies reached 8.19 million.
4. Foreign-employment term-life policies reached 2.45 million.
5. Overall life-insurance coverage based on conventional, term and foreign-employment policies reached 52.04 percent.
6. Conventional and term-life coverage reached 44.11 percent.
7. Conventional life-insurance coverage alone reached 18.92 percent.

The continued expansion of micro-insurance is particularly important from a financial-inclusion perspective. Micro-life policies increased to approximately 5.58 million by Ashar, while micro-non-life policies reached approximately 511,000. These figures indicate that insurance is increasingly becoming part of household financial risk management rather than remaining a predominantly urban or corporate financial product.

5. Foreign Employment Insurance Remains an Important Segment

Foreign-employment insurance continues to provide a relatively resilient source of insurance demand.

By Ashar 2083, foreign-employment premiums had reached approximately NPR 3.37 billion, while the number of in-force foreign-employment term policies reached approximately 2.45 million. This segment is closely linked to Nepal's migration economy. As overseas employment remains an important source of household income and foreign exchange, mandatory insurance associated with foreign employment provides insurers with a relatively predictable source of business.

6. The Bhotekoshi–Trishuli Flood: A Structural Test for Non-Life Insurance

The most important development for the insurance sector in FY 2083/84 is not premium growth but the emergence of a potentially very large catastrophe-loss event. Preliminary information received by the NIA indicated NPR 25.87 billion of insurance claims from 583 policyholders following the Bhotekoshi–Trishuli floods. Approximately NPR 20.51 billion, or around 79 percent of the reported preliminary claims, related to engineering and contractors' risks.

The concentration of claims is particularly significant because the disaster affected hydropower and infrastructure assets, which typically involve high insured values and complex engineering, property-damage and business-interruption exposures. However, the initial numbers require caution. Subsequent reporting indicated discrepancies in the preliminary information submitted to the Authority, including the treatment of exposure figures as claims. Consequently, the NPR 25.87 billion figure should be considered a preliminary claims exposure rather than a final loss estimate until surveys, policy verification, deductibles, exclusions, reinsurance recoveries and final claim assessments are completed.

7. Revised Risk Matrix

Risk Area	Pre-Flood Position	FY 2083/84 Outlook	Macro-Financial Implication
Premium Growth	Strong	Moderating	Economic disruption may slow new non-life business
Life Insurance	Strong renewal base	Relatively resilient	Stable recurring premium income
Micro Insurance	Expanding	Continued potential	Supports financial inclusion and household resilience
Foreign Employment Insurance	Growing	Resilient	Supported by continued migration
Non-Life Underwriting	Expanding	Higher risk	Catastrophe losses may materially weaken underwriting results
Engineering Insurance	Growing infrastructure exposure	Very high catastrophe risk	Hydropower/infrastructure losses create large claims
Reinsurance	Important risk-transfer mechanism	Critical	Reinsurance recoveries will determine net insurer losses
Capital/Solvency	Regulatory capital framework strengthening	Stress test required	Large catastrophe claims could affect capital adequacy
Investment Income	Important earnings source	Greater importance	May partly offset weaker underwriting results
Climate Risk	Historically underpriced	Material and rising	Requires stronger catastrophe modelling and risk pricing
Claims Settlement	Normal	High workload	Delays could affect confidence in insurance
Fiscal/Infrastructure Risk	Moderate	Elevated	Reconstruction increases demand for insurance but also insured exposure

8. Claims Could Change the Economics of Non-Life Insurance

The flood highlights an important distinction between premium growth and underwriting quality. The non-life sector had been expanding its premium base, but a single high-severity catastrophe can generate losses several times larger than normal monthly premium income.

Consequently, headline premium growth should not be interpreted automatically as improved profitability or solvency. For FY 2083/84, the key indicators to monitor should therefore shift from premium collection alone toward:

1. Claims incurred ratio
2. Net claims after reinsurance
3. Combined ratio
4. Reinsurance recoverables
5. Solvency margin/capital adequacy
6. Catastrophe reserves
7. Exposure concentration in hydropower and infrastructure
8. Business interruption claims
9. Claims settlement period
10. Investment income relative to underwriting income

The introduction of the Risk Based Capital and Solvency Directive, 2026, published by the NIA in August 2026, is therefore particularly relevant. The regulatory direction toward risk-based capital becomes more important as climate-related catastrophe risks increase.

9. Reinsurance Becomes a Systemic Risk-Management Issue

The flood also demonstrates why reinsurance is not merely an operational issue for individual insurance companies but a component of Nepal's wider financial stability framework.

The FY 2083/84 budget proposed that at least 20 percent of the sum insured issued by Nepali insurance companies should be reinsured through Nepal Reinsurance Company, alongside measures relating to long-term insurance and foreign reinsurance arrangements. For major infrastructure risks, the ultimate financial impact on domestic insurers will depend on:

1. the proportion retained domestically;
2. the extent and quality of international reinsurance;
3. policy deductibles and exclusions;
4. treaty versus facultative reinsurance;
5. catastrophe limits;
6. claims adjustment;
7. The speed at which reinsurance recoveries are received.

A large catastrophe therefore creates a potential liquidity issue even where the ultimate economic loss is substantially transferred to reinsurers.

10. Climate Risk Is Becoming an Insurance-Sector Risk

Nepal's recent experience demonstrates that climate-related physical risks can rapidly become financial-sector risks.

Floods, landslides, glacial and river-system events and extreme rainfall can simultaneously affect:

1. hydropower projects;
2. transmission infrastructure;
3. roads and bridges;
4. commercial buildings;
5. agricultural assets;
6. transportation;
7. tourism;
8. households;
9. financial institutions financing insured assets.

The insurance industry therefore needs to move from a conventional historical-loss approach toward forward-looking catastrophe-risk assessment. Insurance pricing, underwriting limits, reinsurance structures and capital requirements should increasingly incorporate climate scenarios rather than relying solely on historical claims experience.

11. Policy and Regulatory Priorities

The immediate policy priority should be to ensure that the flood does not weaken confidence in the insurance system while maintaining the solvency of insurers.

- a) Accelerate claims assessment
The NIA should maintain a transparent claims-monitoring mechanism covering reported claims, surveyed claims, approved claims, paid claims and outstanding claims.
- b) Strengthen catastrophe-risk modelling
Insurers should develop exposure maps for hydropower, roads, bridges, commercial property and other infrastructure located in high-risk river corridors.

- c) Strengthen risk-based capital
The new Risk Based Capital and Solvency framework should be implemented with particular attention to catastrophe concentration and reinsurance quality.
- d) Improve reinsurance architecture
Large infrastructure projects should have adequate domestic and international reinsurance capacity so that a single catastrophe does not disproportionately affect domestic insurers.
- e) Develop disaster-risk financing
Insurance should be integrated with a broader national disaster-risk financing framework involving government contingency funds, reinsurance, catastrophe bonds or other risk-transfer mechanisms where feasible.
- f) Expand agricultural and micro-insurance
Climate shocks disproportionately affect small farmers, households and micro-enterprises. Affordable micro-insurance and agricultural insurance can therefore become an important component of Nepal's climate-resilience strategy.
- g) Improve insurance data quality
The discrepancies identified in preliminary flood-loss reporting demonstrate the importance of accurate, standardized and timely claims data. The NIA should strengthen digital reporting and verification mechanisms between insurers, surveyors, reinsurers and the Authority.

12. Sector Outlook

Nepal's insurance sector remains structurally positioned for long-term expansion. Premium collection increased substantially during FY 2082/83, life insurance has developed a large renewal-premium base, insurance coverage has expanded, and micro-insurance is becoming increasingly relevant to financial inclusion. The latest NIA dashboard shows total gross premium collection of NPR 256.52 billion by Ashar 2083, with life insurance accounting for approximately four-fifths of the total.

The beginning of FY 2083/84 also shows continuing business momentum, with life insurers collecting NPR 26.22 billion and non-life insurers NPR 5.32 billion in Shrawan. Nevertheless, the Bhotekoshi–Trishuli disaster represents a significant turning point for the non-life segment. The event demonstrates that Nepal's rapidly expanding infrastructure asset base is simultaneously creating a rapidly expanding concentration of insured catastrophe risk. The central issue for FY 2083/84 is therefore no longer simply whether insurance premiums will grow. It is whether premium growth, risk pricing, reinsurance, capital adequacy and catastrophe-risk management are developing at the same pace as the country's insured asset base.

13. Overall Outlook

- a) Life Insurance: Positive but increasingly dependent on household income, policy persistency and investment returns.
- b) Micro Insurance: Structural growth opportunity, particularly for low-income households, agriculture and climate-risk protection.
- c) Foreign Employment Insurance: Relatively resilient, supported by continued overseas employment.
- d) Non-Life Insurance: Premium growth remains possible, but profitability and capital strength face significantly higher catastrophe risk.
- e) Reinsurance: Increasingly critical to the stability of the domestic insurance industry.
- f) Regulation: The implementation of risk-based capital and solvency standards should become a central regulatory priority.
- g) Climate Risk: The largest emerging structural risk for Nepal's non-life insurance industry.

In summary, Nepal's insurance sector is moving from an era of penetration-led growth toward an era in which risk management, catastrophe resilience and capital adequacy will determine the quality and sustainability of that growth.

Section 7 Capital Market

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

- 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.
- 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.
- Furthermore, many IPO applications date back over 12 to 32 months, some with little to no movement despite the submission of responses and required documentation by the issuing companies. This stagnation has created the perception of a regulatory bottleneck that is not just administrative but potentially influenced by non-transparent practices. The inconsistency in processing timelines has led stakeholders to question whether certain companies receive undue favor, reinforcing fears of rent-seeking behavior among regulators.
- 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.
- 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 Erkuwa 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 face 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

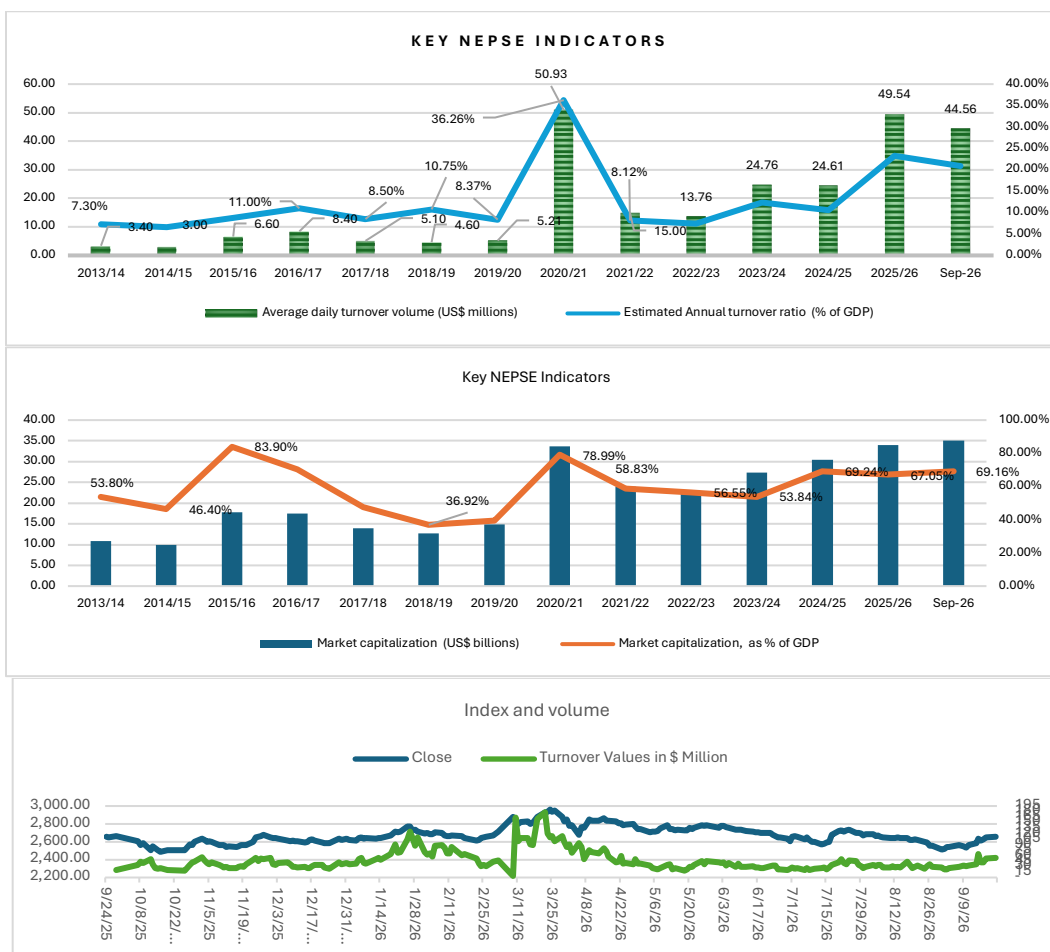
The latest SEBON IPO pipeline reveals a significant accumulation of pending applications, particularly in the hydropower and tourism sectors. More than Rs. 13.7 billion worth of proposed capital raising is visible in these two sectors alone, with several applications pending for approximately 2–3 years. 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.

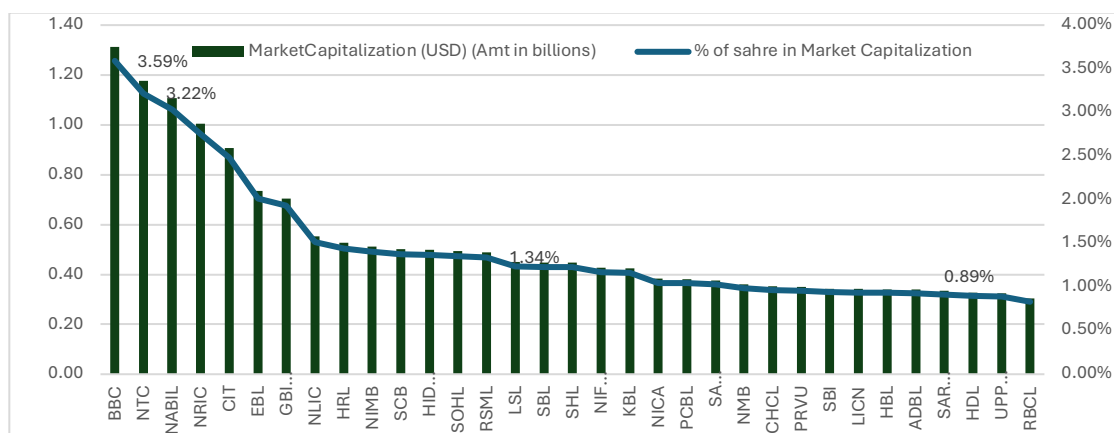
- To restore trust and improve market efficiency, SEBON must:
- Implement a transparent, time-bound IPO approval process.

- 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	9/21/26	% age
1. Revenue (USD in million)	12,156.29	1,514.56	12.46%
a) Tax Revenue	10,794.76	1,427.80	13.23%
b) Non Tax Revenue	1,361.54	86.76	6.37%
2. Grants	474.96	43.26	9.11%
3. Other Receipts	-	11.44	
Total Receipt	12,631.26	1,569.26	12.42%
2. Total Expenditure from Treasury	16,341.11	1,769.41	10.83%
a. Recurrent	9,773.76	1,151.51	11.78%
b. Capital	3,316.20	78.38	2.36%
c. Financing	3,251.15	539.52	16.59%
Deficit	(3,709.85)	(200.15)	
% of GDP	7.31%	0.39%	

2) Government Treasury position
(Exchange Factor \$ 1 = NPR 119). (USD in million)

	Mid-Month	August	September	October	November	December	January	February	March	April	May
F/Y 2023/24	Expenditure	338	1,156	2,766	3,689	4,673	5,610	6,343	7,053	8,391	9,730
	Revenue	815	1,398	2,086	2,798	3,410	4,703	5,544	6,209	7,189	7,752
	Treasury Position	1,662	2,265	1,476	1,800	1,847	2,502	2,942	3,297	3,124	3,033
F/Y 2024/25	Expenditure	389	1,903	3,453	4,329	5,133	6,183	7,117	8,170	9,290	9,862
	Revenue	710	1,324	2,093	2,745	3,415	4,852	5,588	6,280	7,448	8,307
	Treasury Position	1,905	2,148	1,470	1,706	2,126	2,911	3,141	3,173	3,606	3,499
F/Y 2025/26	Expenditure	352	16,793								
	Revenue	7,852	15,975								
	Treasury Position	2,663									

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	Trend
	2021/22	2022/23	2023/24	2024/25	2025/26	
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
Transportation and storage	4.60	1.45	13.43	7.07	5.79	Up

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
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
<i>Gross Domestic Product (GDP) at basic prices</i>	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
<i>Gross Domestic Product (GDP)</i>	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.
- b. Trade slowdown reflects weak domestic demand.
- c. Real estate remains flat, indicating subdued asset market activity.
- d. 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** adjustment 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 (+20.93%)
- 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:

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

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

Policy Implications

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

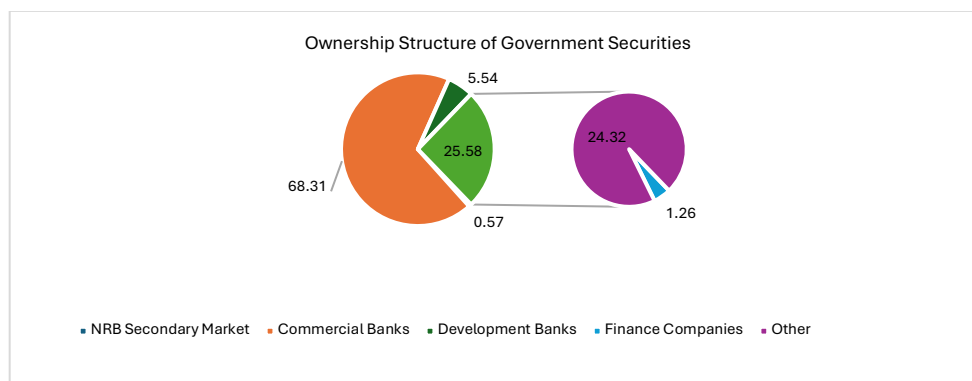
The economy is at a transitional phase. While nominal output has expanded, real growth has weakened due to contraction in large and medium sectors. The current structure remains consumption- and agriculture-heavy, with limited industrial depth. However, expanding energy and ICT sectors provide a foundation 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	Sep-25	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Compared to Last year
Total Tax Revenue	12,118	5,205	6,144	6,874	7,549	8,624	6,553	13,264	9.46%
Non-Tax Revenue	98	544	673	731	769	925	541	829	746.18%
Total Revenue	12,216	5,748	6,818	7,604	8,318	9,549	7,094	14,093	15.36%
Other Receipts	91	137	161	181	224	303	93	531	485.70%
Total Receipts	12,307	5,885	6,978	7,785	8,542	9,851	7,187	14,624	18.83%

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	Budget 2025/26	Actual Outcome	Achievement %
Total Budget Size	Rs 1,964B	Rs 1,581B	80.55%
Revenue Collection	Rs 1,315B	Rs 1,121B	84.57% — MISS
Capital Expenditure Used	Rs 407B	Rs 191B	46.79% — CRITICAL
GDP Growth	6.0%	3.85% (est.)	64.2% of target — CRITICAL
Inflation	5.5%	5.22% avg	Better than target
Foreign Grant Utilisation	Rs 53.4B	Rs 31.2B	58.5% — CRITICAL
Foreign Loan Drawdown	Rs 233.4B	Rs 88B	37% — CRITICAL
Recurrent Expenditure	Rs 1,181B (60.1%)	Rs 1,043B	88.4% — CRITICAL

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	7% GDP Growth	Capital Markets	Diaspora Capital	Industrial Villages	IT National Industry
Cashless economy, green tax consolidation, automated VAT refund, customs digitisation, TDS tightening, reduce tax burden to individuals and corporate.	100-point governance reform. Reduce production costs, simplify business registration, predictable policy.	Pension & mutual fund participation. Bond markets, risk tools, NRN capital market access expanded.	Nepal Investment Visa. Remittance-to-investment fund. Diaspora expert network & knowledge bank.	SEZs with shared infrastructure. Startup Nepal Portal: same-day company registration & tax incentives.	Software, cloud, AI, cyber exports. Digital parks, data centres. R&D tax incentives for IT firms.

Agriculture, Environment & Energy – Strategic Direction

					
Agriculture Modernization	Forest & Carbon Economy	30,000 MW Hydropower	Green Energy & Hydrogen	Water & Irrigation	Climate Finance
MSP for major crops enforced digitally. AgrTech, land bank, contract farming, agro-processing zones.	Nepal Carbon Authority formed. Reducing Emissions from Deforestation and Forest Degradation (REDD+) expansion. Community forests earn direct carbon credits.	One-door approval system. Private sector participation. Affected communities receive equity shares.	Green hydrogen & ammonia pilot projects. Off-grid solar for remote areas. Net Zero 2045 AD roadmap.	Groundwater irrigation in Terai. Lift irrigation in hills. Universal drinking water by 2030 AD.	Green Bond Framework. International climate funds mobilised for forests, agriculture & renewables.

Infrastructure, Social Development & Governance

					
Roads & Railways	Aviation & Tourism	Health & Wellbeing	Education & Skills	Social Protection	Governance & Security
KTM-Terai fast links completed. Kerung & Raxaul railway study progressed. Integrated Transport Masterplan.	'Devbhumi Nepal' campaign launched. Gautam Buddha & Pokhara intl airports activated. 'Visit Nepal 2028 AD' prep.	Minimum healthcare standard in all facilities. Telehealth for remote areas. National Health Accreditation Authority.	AI-based learning in 10,000 schools. Apprenticeship ('Earn While You Learn'). Remote Work Policy law, 'Internal Employment Promotion Decade' prep.	Making Nepal a street children-free nation, Child-labour-free Nepal by FY-end. Gender violence zero tolerance. Disability rehab centres established.	e-KYC, Citizen App (100+ services). Asset disclosure for senior officials. Anti-corruption unit restructured.

Strategic Recommendations & Roadmap

Immediate (FY 2083/84)	Medium-Term (2084–2087)	Long-Term (2087–2092)
- Launch Diaspora Investment Authority - Fast-track hydropower transmission - Activate Investment Express (30-day) - Digitise all tax & customs systems - Expand international air connectivity	- Industrial & logistics corridors operational - Nepal as regional digital services hub - Green hydrogen pilot projects scaled - Sovereign Green Finance Framework - Employment Decade Year 3 milestones	- South Asia clean energy export hub - Spiritual tourism & wellness capital - Knowledge & digital services economy - Net Zero 2045 – halfway milestone - Middle income country graduation

Strategic Recommendations & Roadmap

Fiscal Credibility

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

Revenue Reform

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

Capital Execution

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

Private Investment

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

Export Diversification

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

Social Protection

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

"The budget is likely to be guided more by pragmatism than populism, with the Government expected to emphasize greater clarity, consistency, and conviction in its fiscal governance and financial management approach".

11

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

Annexure 1

Area / Provision	Act 2063 (Baseline per reference document)	Amendment 2083 (Amendment — Key Change)	Risk	Mitigation	Positive Economic Outcome (Capital Expenditure)
Bid evaluation / selection method	Sec 25(1)-(9): Method is already "lowest evaluated substantially responsive bid" — winner's evaluated amount is compared bid-to-bid and the LOWEST wins, subject to a qualification check. Technical/quantity deviations quantified; if adjustment exceeds 15% of the bid amount the bid is rejected as non-responsive. No average-price mechanism, no rate-analysis screen, and no reverse auction in this baseline.	Sec 25 restructured: Splits evaluation into one-envelope (new 5क/5ख) and two-envelope (6/7/7क) tracks, mirroring the new one-/two-envelope procedure added at Sec 11(4)-(6). Both tracks still select the LOWEST evaluated bid. New: 25 (7ख)-(7क) require a documented rate analysis for construction bids quoted more than 30% below the approved cost estimate; bid rejected only if the analysis shows the rate is unworkable.	Lowest-bid selection (unchanged principle) can still attract unrealistically low bids if the new 30% rate-analysis screen is applied superficially.	Rate analysis must be tied to prevailing norms/rates and documented in the evaluation report — an auditable check that did not exist in this baseline.	The core lowest-bid rule continues (no reversal to an average-price system in this baseline), while a new, previously absent safeguard against unrealistically low bids is added — preserving price competition (lower cost per project) while reducing non-completion risk that erodes capital-budget value.
Note on "average bid" method	Not present in this baseline.	The Amendment's explicitly writes the new Sec 25(5क)/(7क) using "Average bid" wording, departure with the baseline rather than a lowest-price method.	Lowest-bid selection (unchanged principle) can still attract unrealistically low bids if the new 30% rate-analysis screen is applied superficially.	Introduces the concept of "average bidding price" as part of the evaluation of abnormally low bids.	Support project implementation
Anti-"lowball bid" safeguards (performance security)	Sec 27(4): Already requires SCALED performance security for bids priced below the cost estimate — if a bid is more than 15% below the estimate, extra security equal to 50% of the amount by which it undercuts the 15% threshold is added to the standard 5% performance bond.	Continues to operate alongside the new Sec 26(1ख)-(1क) rate-analysis requirement described above and Sec 27 (1) – (7).	Two overlapping safeguards (bonding + rate analysis) add evaluation steps and time if not applied efficiently.	Each targets a different risk (financial cover vs. technical feasibility) and applies at different thresholds (15% vs. 30%), so they are complementary rather than duplicative.	A construction bid far below estimate must now both post extra security AND pass a rate-analysis check — a stronger combined defense against non-performance than either mechanism alone, protecting capital projects from abandonment mid-execution.
Tie-breaking among lowest bidders	Sec 27: No lottery or other tie-break mechanism specified for two or more equally lowest bids.	Sec 27(1क)- (1ख)- added: Equal lowest bids resolved strictly by lottery (गोलाग्रन्थ).	Random draw does not further differentiate bidders who are otherwise equally qualified.	Lottery is reached only after qualification/responsiveness is already confirmed equal, limiting discretion.	Removes a previously undefined gap that could cause delay or dispute when bids tie — a small but real source of award delay under a strict lowest-bid rule.
Bids exceeding the cost estimate	Sec 26(1)ख): A bid substantially above the cost estimate is grounds to reject all bids/cancel the procurement outright. No negotiation mechanism exists in this baseline for such cases.	Sec 26(1क)/(1ख) added: The public body may instead negotiate a lump-sum discount with the lowest bidder to bring the price within the approved estimate and proceed, provided specifications/quality are not diluted.	A negotiation channel not previously available could be misused to favor a particular bidder if undocumented.	Statutory bar on lowering specifications/quality during negotiation; discount and rationale must be recorded.	A genuinely new option to avoid re-tendering when the market price runs slightly ahead of the estimate — this baseline previously forced cancellation and a fresh procurement cycle in that situation, which is a direct, recurring cause of delayed capital-budget execution in Nepal.

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Insufficient budget vs. the lowest bid	Sec 36: Only a general power to cancel the entire procurement if bids exceed the estimate/available budget (clause (ख)); no provision to fall back to the next-lowest bidder.	Sec 36(2) added: If the lowest bidder's price exceeds the available budget, the next-lowest qualified bidder may instead be awarded, provided that bid is not substantially above the estimate/budget — no blanket cancellation required.	A sequential fallback rule could be exploited if bidders coordinate bid levels near each other.	Award remains capped by the "not substantially above estimate" ceiling and standard evaluation checks.	Removes another previously unavailable option to avoid cancellation — keeps the fiscal-year capital budget executable instead of lapsing into a re-bid cycle.
Procurement methods — Reverse Auction	Sec 8(1)(क): 10 methods (int'l/national open bidding, sealed quotation, direct purchase, user committee/beneficiary participation, force account, lump-sum rate, catalogue/shopping, limited tendering, buy-back).	Sec 8(1)(क)(11) added: "Reverse Auction" (कबोल अड्क घटाघट) — bidders progressively lower price within a fixed window; lowest at close wins.	Depends on a reliable e-procurement platform; risk of technical glitches or unequal digital access among smaller bidders.	Tied to the government's electronic procurement system, with detailed procedure to follow by regulation.	Real-time price competition can compress prices further than static bidding for standardized goods — a genuinely new procurement channel not available under this baseline.
Domestic-preference framework	Already substantial: Sec 14(8) allows a discretionary domestic-preference margin for Nepali firms in international bidding; a proviso mandates domestic-bidder-only competition for national-level construction procurement up to a prescribed cost-estimate threshold; Sec 14(11) lets a foreign bidder be preferred if in joint venture with a domestic contractor; Sec 13(2)(ब) already requires bid documents to disclose any domestic-preference policy.	Sec 2 (न 1) defines "domestic goods" ($\geq 30\%$ local value-addition) for the first time, and Sec 14(8क) added makes priority for domestic GOODS mandatory (not just discretionary/contractor-based as before), to be disclosed in bid documents; excludes foreign goods merely "branded" in Nepal.	Could raise cost or limit competition where domestic goods supply is inadequate; possible trade-policy friction.	A value-addition threshold (30%) prevents nominal "made in Nepal" gaming; still subject to competitive bidding, not exclusive procurement.	Extends an already-established domestic-preference policy from contractors/services to goods specifically — reinforcing the multiplier effect of capital spending on domestic manufacturing and jobs.
Notice / bidding timelines	Sec 14(4): minimum notice ~45 days (international)/~30 days; Sec 14(4क): ~21 days (EOI); Sec 14(4ख): ~7 days (addenda).	Amendment compresses these to ~30 days / ~21 days respectively for (4); ~7 days for (4क); ~3 days for (4ख). A 7-day emergency-procurement window is also added as new Sec 14(12).	Shorter timelines may squeeze bid preparation, particularly for smaller or rural contractors, potentially narrowing competition.	Uniform rule paired with mandatory e-procurement/website publication requirements already in this baseline (Sec 14(1)/(2)), ensuring wide and fast reach.	Directly compresses the procurement cycle — a key lever against Nepal's chronic year-end (Ashad-rush) spending pattern, enabling earlier award and more even in-year disbursement.
Qualification & scoring flexibility	Sec 10: Qualification criteria are listed but this baseline has no provision for aggregating qualifications after a company merger, nor for a prescribed technical-financial weighted score.	Sec 10(2क)/(2ख) added: Merged firms' qualifications are aggregated from the constituent companies; a prescribed technical-financial weighted score may be used for specified procurement.	Weighted scoring can reintroduce subjectivity/discretion into the award decision versus a pure lowest-price rule.	Weights and methodology must be prescribed in advance by regulation and published in the bid documents.	Enables best-value evaluation for complex/technical works while lowest-bid remains the default — a new option this baseline did not provide.

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Government e-marketplace	No government e-marketplace mechanism exists in this baseline; direct purchase (Sec 41) is limited to small retail-value purchases or sole-source technical situations.	Sec 41 added: Public Procurement Monitoring Office operates an e-marketplace; suppliers publish priced catalogues; direct purchase allowed up to a prescribed value.	Favoritism risk if catalogue admission is not open and transparent.	Published specifications and prices create public visibility on rates actually paid.	Cuts lead time for routine/low-value purchases — administrative capacity freed up for larger capital works, a channel this baseline lacked entirely.
Simplified procedure for strategic goods	Sec 42 already provides a simplified, Cabinet-style procedure (cost estimate, price escalation, bidder eligibility, bid security, bid submission) for a specific existing goods category (perishable/"नश्वान्त" goods) — the model already exists in this baseline, just for a different, narrower category.	Sec 42 added: Extends essentially the same simplified-procedure model to fertilizer, medicine, IT, and any other Cabinet-notified goods, adding contract-terms as an additional covered topic.	Extending the carve-out to more categories increases the share of procurement outside standard competitive safeguards if criteria are applied loosely.	Still requires Cabinet approval and public notification, mirroring the existing perishables model; limited to designated categories only.	Speeds procurement of time-critical goods (e.g., fertilizer before planting season, medicine) by applying a proven simplified-procedure template to new goods — reduces shortages and seasonal spending bottlenecks.
Force account & user-committee works	Sec 44 (baseline) is a single, brief paragraph: user committees/beneficiary communities may do construction work only where it improves economy, quality or sustainability, or where the main purpose is local job creation. Sec 45(1) (baseline) limits force-account (departmental) execution to "general repair/maintenance, routine work, or cleaning" only — no other categories listed.	Sec 44 replaced with a detailed five-clause structure (technical simplicity, cost/quality/sustainability gains, local-resource use, job creation, post-construction O&M by the community) plus a new training-center/micro-enterprise provision. Sec 45(1) replaced adding: work needing occupants with specialized knowledge of an existing service, urgent/special-circumstance work, and risk/security-sensitive work.	Broader eligibility criteria mean more work moves outside open competitive bidding, with correspondingly less price discipline and external oversight.	Both routes remain restricted to defined categories (simple, local, urgent, or security-sensitive) rather than open-ended; procedure to be further prescribed by regulation.	Meaningfully widens what smaller, local, and urgent works can bypass lengthy tendering for — faster local execution and job creation, improving capital-budget absorption at the local/community level, especially important post-federalism.
Mobilization advance	Sec 52(1): Already allows an advance of up to 20% of the contract value against a bank guarantee, applicable generally to suppliers, contractors, or service providers, without itemized purpose conditions.	Sec 52(1) replaced: The 20% cap is unchanged, but the advance is now tied to specific itemized purposes for construction (site preparation, temporary camp, worker arrangements/housing, machinery/equipment mobilization) and, for goods supply/consultancy, to a documented need-and-justification test. A new precondition requires the contractor to first submit a key-activity schedule before the advance is released.	None new on cost exposure (cap unchanged); main risk is administrative delay if the activity-schedule requirement is applied inconsistently.	The schedule requirement is a one-time upfront condition and is intended to speed, not slow, legitimate mobilization by clarifying what the advance may be used for.	Clarifies and legitimizes faster contractor mobilization for genuine start-up costs — helpful for domestic contractors with limited working capital — supporting quicker project start and more even in-year capital disbursement.
Variation orders — approval authority	Sec 54: Already tiered by percentage and officer rank — up	Sec 54 replaced with only 4 tiers, each shifted down one officer-	This is a substantial decentralization: variations	The (now-optional-at-any-tier) expert-panel recommendation	Removes a significant approval bottleneck — variation orders on

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	to 5% (2nd class gazetted officer/equivalent), up to 10% (1st class gazetted officer/equivalent), up to 15% (departmental head), 15%-25% (ministry Secretary/equivalent), above 25% (Council of Ministers, for the largest category of public bodies) — with an expert-panel review requirement attached specifically to the top (Cabinet-level) tier.	rank versus this baseline: up to 5% (3rd class gazetted officer/equivalent), up to 10% (2nd class gazetted officer/equivalent), up to 15% (1st class gazetted officer/equivalent), and above 15% now delegated to the departmental head — removing the Ministry-Secretary and Cabinet-level approval tiers this baseline required above 15%. The expert-panel review option is generalized to apply at any tier, not only the top one.	above 15% (potentially large sums on major infrastructure) no longer require Ministry-Secretary or Cabinet sign-off, raising the risk of scope creep, cost overruns, or reduced high-level scrutiny on large contract changes.	requirement provides a documented technical justification step; departmental heads remain accountable through the Sec 61 mechanism for improper decisions.	large projects previously stuck awaiting Secretary/Cabinet sign-off can now be resolved at the departmental level, directly reducing a common cause of stalled project execution and unspent capital budget — but this benefit comes with a real governance trade-off that warrants monitoring.
Construction work stoppage	Sec 58 (baseline): Disputes between the public body and a contractor/supplier are to be resolved by mutual agreement, failing which by arbitration under prevailing law. No provision bars physically stopping construction work during a dispute.	Sec 58 added: Public infrastructure construction may not be stopped merely because of a dispute between the parties.	Could pressure a contractor to keep working despite a genuine unresolved dispute (e.g., non-payment, safety concerns), shifting practical risk onto the contractor.	Bars stoppage of the physical works only — the underlying dispute-resolution/arbitration process under Sec 58 continues in parallel and is unaffected.	Directly targets a well-documented cause of stalled Nepali infrastructure projects — construction sitting idle for months or years during a dispute — keeping capital expenditure flowing on projects already funded and started.
Accountability & incentives	Sec 50 (baseline) ends at subsection (5) — the Review Committee's decisions are issued but this baseline has no explicit statutory mechanism making them binding on the public body, nor an escalation path for non-compliance. No performance-incentive or contractor-award provisions exist anywhere in this baseline.	Sec 50(5)-(5n) added: Review Committee decisions become binding on the public body; if the responsible official fails to implement a decision, the aggrieved bidder may petition the Committee, which can refer the official for departmental action. Sec 61 and 62 added: performance incentives for staff, and awards/certificates for contractors, who deliver quality work on schedule.	Making decisions formally binding increases pressure on procurement officers, who may become more risk-averse or slower to decide; incentive-award criteria need corruption-resistant design.	A clear escalation route to departmental action exists for non-compliance; incentive/award criteria and procedures are left to be prescribed by regulation.	Closes a real enforcement gap (decisions with no binding force) and adds a positive lever (rewards for timely, quality delivery) — both aimed squarely at the institutional/behavioral bottlenecks behind Nepal's historically low capital-expenditure execution rate.
New Government Procurement Service Office	No dedicated central buying-support office for line agencies exists in this baseline; only the Public Procurement Monitoring Office (Sec 65), whose role is policy, standards, and monitoring, not hands-on buying assistance.	Sec 66 added: Establishes a Government Procurement Service Office under the PM & Council of Ministers' Office to directly assist public bodies with supplier selection and goods procurement.	Centralization could create a bottleneck or overlap with the Monitoring Office's existing standard-setting role.	Role is explicitly support/facilitation for buying, distinct from the Monitoring Office's oversight/standards mandate.	Builds hands-on procurement capacity centrally for agencies lacking in-house expertise — a function this baseline did not provide — supporting faster, more competent capital-project procurement nationwide.

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Federalism alignment	Sec 74(3) (baseline): Provincial governments and local levels may make their OWN procurement rules (cost-estimate approval, bid evaluation/approval, direct purchase, the review committee, and the variation-order-issuing officer) provided they don't conflict with the Act's principles. This is about rule-making autonomy, not about who exercises functions the Act assigns to federal bodies.	Sec 74(4) added: Where the Act assigns a function or decision to a federal ministry/body, provincial and local governments must designate their own corresponding authority/officer to perform that function at their level.	Implementation gap if provinces/local units delay making the required designation.	Statutory obligation to designate gives a clear legal basis for enforcement or complaint if a province/local unit fails to act.	Fills a specific gap this baseline's Sec 74(3) did not address — clarifying decision-making authority for federally-assigned functions at the provincial/local level, reducing procedural delay on a large share of Nepal's total capital budget executed sub-nationally.

Overall assessment: Against this baseline 2063, the lowest-evaluated-bid principle is a modified not a reversal — Sec 25 used an average-price method. The Amendment's substantive contributions are concentrated in three areas:

- (1) Closing safeguard gaps the baseline lacked — a rate-analysis check for abnormally low construction bids, negotiation and next-lowest-bidder fallback for over-budget or under-budget bids, and a tie-break lottery;
- (2) Shortening and modernizing the procurement cycle — compressed notice periods, one-/two-envelope formalization, e-marketplace, and expanded force-account/user-committee eligibility; and
- (3) Institutional changes with mixed risk profiles — most notably a real decentralization of variation-order approval authority away from Ministry-Secretary/Cabinet sign-off toward departmental heads, alongside stronger accountability tools (binding review-committee decisions, incentives).

Taken together, and assuming disciplined use of the new rate-analysis and expert-panel checks, these changes are designed to let more of the annual capital budget actually get contracted and spent within the fiscal year rather than lapsing or rolling over — though the variation-order decentralization in particular merits monitoring given the governance trade-off it introduces.

References:

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