KALA LEGAL

Economic Outlook Based on July 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

Nepal Is Neither a Creator nor Promoter of Climate Change, Yet It Suffers Its Consequences

The Rasuwa–Bhotekoshi Disaster and the Economics of Climate Vulnerability
Policy & Economic Vulnerability Assessment Framework

Nepal Is Neither a Creator nor a Promoter of Climate Change—Yet It Bears Its Consequences.

1. The Paradox of Climate Change in Nepal

Nepal presents one of the clearest paradoxes of climate change. It contributes very little to global greenhouse-gas emissions—estimated by the World Bank at around 0.1%—while its per-capita emissions remain extremely low. At the same time, climate change is already severely affecting Nepal's agriculture, water resources, infrastructure, labour productivity, and overall economic growth.

This is not merely an environmental issue. It is increasingly a macroeconomic, fiscal, financial, and structural development issue. The World Bank estimates that, without effective adaptation, climate change could reduce Nepal's GDP by at least 7% by 2050—an estimate that excludes many difficult-to-measure social and systemic costs. The catastrophic Rasuwa–Bhotekoshi flood of August 2026 provides a stark illustration of this emerging economic reality.

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

The flash flood and associated glacial/ice-rock event in the Rasuwa–Bhotekoshi corridor destroyed or severely damaged settlements, roads, bridges, hydropower facilities, commercial establishments, financial institutions, government facilities, and telecommunications infrastructure.

Initial reporting indicates that the event was associated with a major ice-rock or glacial collapse and subsequent debris flow. Scientists caution that the event cannot be attributed solely to climate change; however, warming temperatures, glacier retreat, changing freeze-thaw conditions, and high-altitude terrain destabilisation are increasingly recognized as amplifying factors.

Key Policy Insight: Climate change may not have 'caused' every individual disaster, but it is fundamentally altering the risk environment in which economic assets operate. For Nepal, this distinction carries major macroeconomic consequences.

3. The Economic Cost Goes Far Beyond Damaged Infrastructure

The immediate temptation after a disaster is to calculate the cost of destroyed physical assets. That is necessary, but not sufficient. A productive asset has two economic values:

a) Its replacement value, and
b) The future income and economic activity it generates.

When a road disappears, the cost is not merely rebuilding the asphalt. Businesses cannot receive supplies, tourists cannot travel, workers cannot reach workplaces, farmers cannot take produce to markets, and power projects cannot receive equipment. The disaster therefore represents both a loss of productive capital and a severe disruption of economic networks.

4. Preliminary Economic Assessment

Based on information available as of 27 August 2026, the potential economic exposure can be structuralized into physical asset damage and broader output loss:

Component / **Impact Area**	**Preliminary Estimate**
Hydropower Assets – 750 MW Capacity Affected	NPR 106–125 billion
Roads and Bridges Infrastructure	NPR 35–45 billion
Hotels, Shops and Small Businesses	NPR 32–46 billion
Household Assets Land Building, Precious Metals & Valuables (1,500 Families)	NPR 8-9 billion
BFIs, Government Facilities, Telecom & Utilities	NPR 15–25 billion
Indicative Physical Asset Damage Total	**NPR 196–250 billion**
Disrupted Annual Electricity Business (Direct)	NPR 14–22 billion
Potential Annual Broader Output / Value-Added Loss	NPR 30–50 billion

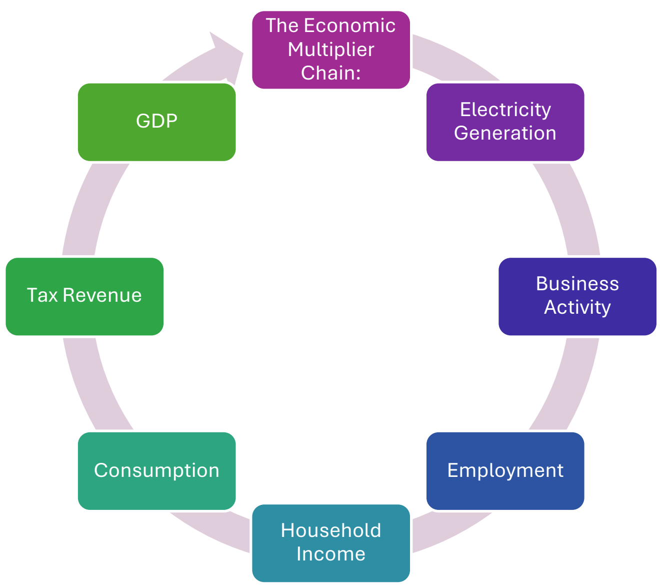
5. ~ 750 MW of Hydropower: The Hidden Economic Multiplier (including under constructions)

Perhaps the most strategically important part of the disaster is the damage to 11 hydropower projects with approximately 431 MW of generation capacity. While the immediate direct financial loss is NPR 14–22 billion in annual power sales, the economic significance is substantially higher.

The affected projects represent approximately 2.3 billion units of annual electricity generation. Electricity is an essential intermediate input into manufacturing, hotels, construction, irrigation, agro-processing, retail, IT, and telecommunications. Consequently, the true loss is the domestic value creation that reliable electricity enables. But the economic significance is substantially greater.

The affected projects represent approximately 2.3 billion units of annual electricity generation. The loss of this electricity is not simply a loss to power producers. Electricity is an intermediate input into virtually every productive sector. It enables:

Consequently, the real economic loss is the domestic value creation that 2.3 billion units of reliable electricity could have enabled. This is why the NPR 14–22 billion annual electricity-business loss should not be interpreted as the total economic impact of the hydropower disruption.



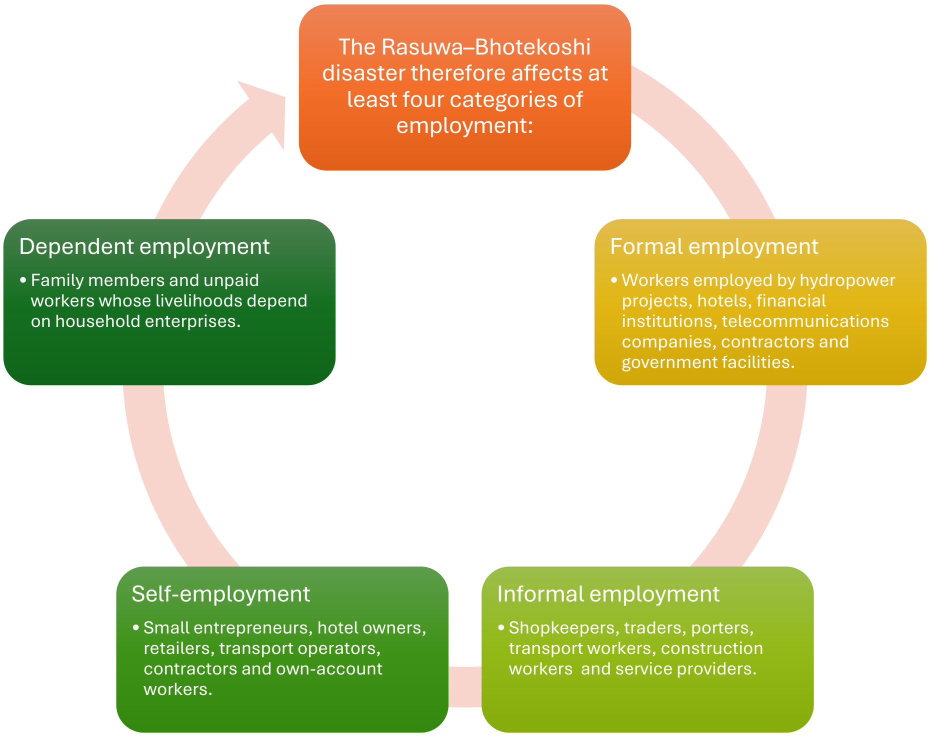
6. Employment and Livelihoods Disruption

Nepal's large informal sector means asset destruction impacts livelihoods deeply beyond formal unemployment figures. An estimated 25,000–30,000 livelihoods face significant disruption across four categories: formal employment, informal workers, self-employed entrepreneurs, and dependent family workers. Prolonged disruptions could affect 5,000–15,000 livelihoods if key transport and commercial infrastructure take extended periods to rebuild.

7. The employment shock may be larger than the GDP shock

The destruction of productive assets can have an even greater effect on employment than on GDP.

Nepal's economy is characterized by a very large informal sector and a high proportion of self-employment. Therefore, the destruction of a small hotel, shop, transport vehicle, workshop or family business may not appear immediately in formal unemployment statistics. But economically, a person who loses the business through which they earn their livelihood has effectively lost their job.

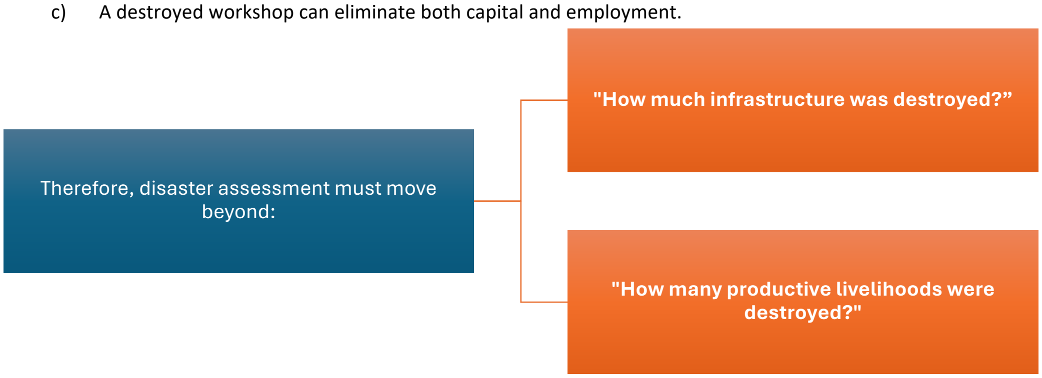


On a preliminary basis, it would be reasonable to assume that **25,000–30,000 livelihoods could experience significant disruption**, including formal workers, informal workers and self-employed persons. A smaller but significant group—perhaps 5,000–15,000 livelihoods—could face prolonged income disruption if roads, electricity, commercial premises and tourism infrastructure take many months to restore. These are indicative estimates and should be refined through a detailed labour-market and household-impact assessment.

8. Small businesses are the forgotten victims

The destruction of large infrastructure attracts immediate attention because it is visible and measurable. The destruction of small businesses is less visible but potentially more damaging to household welfare A small hotel may employ ten people directly and support another twenty through suppliers, transport, food purchases, laundry, maintenance and local services.

a) A destroyed shop can eliminate the income of an entire household.
b) A destroyed vehicle can remove the livelihood of a self-employed transport operator.
c) A destroyed workshop can eliminate both capital and employment.



This distinction should become central to Nepal's disaster policy.

9. Strategic Policy Framework: Nepal Climate Resilience Investment Framework

Nepal must transition from reactive disaster relief to a proactive resilience economy by implementing a dedicated policy framework across five key areas:

a) 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.
b) Disaster-Risk Financing & Liquidity: Establishing catastrophe insurance pools, contingent credit facilities, and sovereign risk guarantees to ensure rapid emergency liquidity.
c) Climate-Resilient Hydropower Design: Re-engineering hydro infrastructure around changing hydrology, debris flow, glacial risks, and extreme peak runoffs.
d) MSME Climate Recovery Credit Facility: Providing targeted working capital and asset replacement financing to help small businesses restart operations rapidly.
e) Advanced Early-Warning Systems: Expanding satellite monitoring, river sensors, and cross-border hydromet data sharing to protect lives and capital assets.
f) Conclusion: From Reconstruction to Resilience Investment
g) Nepal did not create global climate change, yet it is forced to absorb its mounting economic costs. The Rasuwa–Bhotekoshi disaster serves as a clear warning that climate risk is a direct macroeconomic risk. The policy mandate for Nepal is to build back smarter—transforming reconstruction expenditure into long-term climate-resilient capital investments that protect GDP, employment, and national development gains.

10. Hydropower Reconstruction: From Physical Damage to Financial Risk

The August 2026 Trishuli–Bhote Koshi basin flood has exposed a critical vulnerability in Nepal's hydropower-led development model. Preliminary government assessments indicate that 14 power projects in Rasuwa and Nuwakot have been affected, including nine operational and five under-construction projects. Excluding the affected solar project, approximately 729 MW of hydropower capacity has been impacted, comprising 334 MW of operational capacity and 395 MW under construction.

Using an indicative reconstruction cost of NPR 20 crore per MW, the replacement value of the affected operational capacity is approximately NPR 6,682 crore. For projects under construction, assuming an average 50% completion level, the remaining reconstruction and completion requirement is estimated at approximately NPR 3,950 crore. The resulting indicative direct hydropower reconstruction requirement is therefore around NPR 10,632 crore, or NPR 106 billion.

However, the financial challenge is considerably larger than the physical reconstruction bill. The disaster has demonstrated that hydropower projects in high-risk Himalayan river corridors face potentially significant climate, geological and hydrological risks that may not have been adequately incorporated into their original financial models. Reconstruction may require substantially higher expenditure on flood protection, geological stabilization, transmission redundancy, early-warning systems and resilient engineering.

Consequently, restoring the affected projects on a like-for-like basis may not restore their original financial feasibility. Higher reconstruction costs, prolonged generation losses, increased insurance premiums, additional debt requirements and higher risk premiums could weaken project returns and increase pressure on project sponsors and lenders.

Nepal therefore needs to treat hydropower reconstruction as a climate-resilience investment rather than merely an infrastructure repair programme. Each affected project should undergo a fresh technical and financial viability assessment before reconstruction. Projects that remain viable should receive access to concessional and climate-resilient financing, while projects whose risk-return profile has fundamentally changed should be redesigned, restructured or, where technically justified, relocated.

The lesson is not that Nepal should slow down hydropower development. Rather, Nepal must move from a model based primarily on low-cost generation to one based on climate-resilient, geographically diversified and financially sustainable hydropower development. The true economic cost of the disaster will ultimately depend not only on how much infrastructure is rebuilt, but on whether the rebuilt infrastructure can withstand the increasingly volatile climate conditions of the Himalayan region.

The concentration of hydropower infrastructure along the Rasuwa–Bhotekoshi corridor means that physical destruction extends far beyond immediate repair costs. Interrupted power generation undermines industrial productivity, reduces export revenue to regional grids, and increases sovereign debt servicing pressure for underlying project financing. Coupling physical rebuild expenditures with annual value-added losses underscores the urgent requirement for climate-resilient engineering standards and specialized disaster risk transfer mechanisms for Nepal's infrastructure portfolio.

Section 1 Overview 2026/27

1) The **background**

a) Economic Outlook and Political Stability and Economic Reform in Nepal

Assessing the full impact of political instability on Nepal's economic reform agenda is challenging. Democracy itself is not the problem; rather, it is one of Nepal's greatest strengths. However, democracy can only deliver meaningful economic outcomes when it is accompanied by political stability, effective governance, and policy continuity. Lasting peace and stability remain indispensable prerequisites for sustainable growth and national prosperity.

In recent years, investment confidence has been weakened by the growing tendency to delay or oppose major infrastructure and investment projects in the name of national interest. While safeguarding national interests is essential, prolonged policy uncertainty and inconsistent decision-making have discouraged both domestic and foreign investors. Discussions on Nepal's political economy increasingly reflect widespread frustration among businesses, professionals, and citizens, who seek predictability rather than prolonged political contestation.

Nepal has experienced frequent changes in government, often disrupting policy continuity and delaying the implementation of critical economic reforms. Political transitions are a normal feature of democratic systems, but excessive instability carries significant economic costs. Political reform should therefore focus not only on representation but also on strengthening institutions, ensuring continuity of public policy, and delivering stable governance. Successive governments have pledged to make economic reforms more inclusive and ensure that their benefits reach all segments of society. While these aspirations remain important, public confidence ultimately depends on effective implementation, transparency, and accountability. Citizens expect governments to prioritize good governance, economic opportunity, and public service delivery over short-term political competition.

Nepal's governance challenges have often been characterized by inconsistent implementation of laws and regulations. Strengthening the rule of law, institutional capacity, and policy predictability is essential for improving the investment climate. Political leaders have both the responsibility and the opportunity to build consensus around long-term national priorities that transcend partisan interests.

People aspire to a government that provides peace, prosperity, security, and economic opportunities. They expect political leaders to focus on practical solutions rather than ideological divisions or power struggles. Broad-based political consensus on key economic priorities would significantly enhance investor confidence and accelerate Nepal's development journey. For sustainable peace and economic transformation, all major political stakeholders must demonstrate a genuine commitment to national development. Democracy functions best when institutions are trusted, policies are credible, and political competition reinforces rather than weakens economic confidence. Without these foundations, meaningful policy reforms become increasingly difficult to achieve.

Although political disagreements continue to slow reform efforts, dialogue among major political parties remains encouraging. Public expectations remain cautiously optimistic that consensus will eventually emerge on issues critical to Nepal's long-term development. While progress has often been slower than desired, sustained political cooperation remains essential for achieving durable peace and inclusive economic growth. Investment in infrastructure and productive sectors has not kept pace with Nepal's development needs. Significant gaps remain in transport, energy, urban infrastructure, and industrial development. These shortcomings, combined with political uncertainty, continue to elevate investment risk. Strengthening policy consistency, accelerating project implementation, and ensuring regulatory certainty will be critical to improving Nepal's investment attractiveness.

At the same time, Nepal has made notable progress in several sectors. Telecommunications, education, financial services, and the capital market have expanded considerably. Remittance inflows continue to support the economy, entrepreneurship is growing, government revenue has strengthened, and tourism has gained increasing international recognition. These achievements demonstrate Nepal's considerable economic potential.

Ultimately, political stability and economic reform are mutually reinforcing. Sustainable development requires more than sound economic policies-it requires stable institutions, policy continuity, and collaborative political leadership. If Nepal is to provide greater opportunities, employment, quality public services, and improved living standards for future generations, political leaders must place national interest above partisan interests and work together to create a stable, predictable, and investment-friendly environment.

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

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

b) Nepal is at the intersection of Governance and Economic Vitality: - “Fault Lines: Understanding the Hidden Fractures”

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

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

Accordingly, the objective of reform should not be to prioritize one sector over the other. Instead, meaningful and lasting reforms should focus on strengthening the quality of engagement between public and private stakeholders, enhancing institutional trust, improving transparency and accountability, and establishing mechanisms that facilitate effective dialogue and cooperation. In many respects, the most significant fault lines are not between the public and private sectors themselves, but within the systems, processes, and institutions that connect them. Addressing these underlying structural gaps may be among the most important prerequisites for achieving sustainable economic transformation and inclusive development.

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

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

c) Moving Forward: A Collaborative Path to Prosperity

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

d) From Incrementalism to Transformation: Charting Nepal’s Path to Sustainable Prosperity

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

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

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

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

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

2) Evidence-Based Agriculture Over Slogans

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

The agricultural evaluation framework must simultaneously satisfy three strict conditions:

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

3) Dismantling the Compliance Burden to Fuel Private Growth

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

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

4) Closing the "Aspirations Gap" and Demanding Accountability

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

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

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

5) The Four-Stakeholder Trust Model

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

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

6) Accelerating Digital Public Infrastructure (DPI)

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

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

7) Overcoming Structural Constraints and Retrospective Taxation

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

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

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

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

8) Blended Finance for Mega-Projects

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

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

e) Observable Signals for Nepal's Next 18 Months

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

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

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

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

2) 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	**Driven by emergency rehabilitation.** Commercial credit demand will shift away from new expansion toward concessional

Issue	NRB February 2026	NRB July 2026	NRB Monetary Policy 2083/84	Kala Legal Assessment	Post-Flood Posture Analysis
				investment climate rather than interest rates.	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.
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.

The August 2026 Rasuwa–Bhotekoshi disaster illustrates Nepal's acute vulnerability to climate change, translating severe glacial and flash flood events into an estimated NPR 196–250 billion in physical asset damage and disrupting over 25,000 livelihoods. Across the primary affected districts of Rasuwa and Dhading, the shock directly impacted ~9,000 commercial establishments employing ~30,000 persons, while destroying an estimated NPR ~8.55 billion in private household land, housing, and precious metal assets across ~1,500 displaced families. With ~750 MW of hydropower generation disrupted—generating an estimated NPR 14–22 billion in direct electricity revenue losses and NPR 30–50 billion in broader annual economic output reduction—the catastrophe severely strains Nepal's financial stability, driving up non-performing loans, suppressing GDP growth below pre-flood targets, and necessitating urgent fiscal reallocations alongside coordinated debt restructuring to rebuild vital national infrastructure.

3) FATF Grey List

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

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

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

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

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

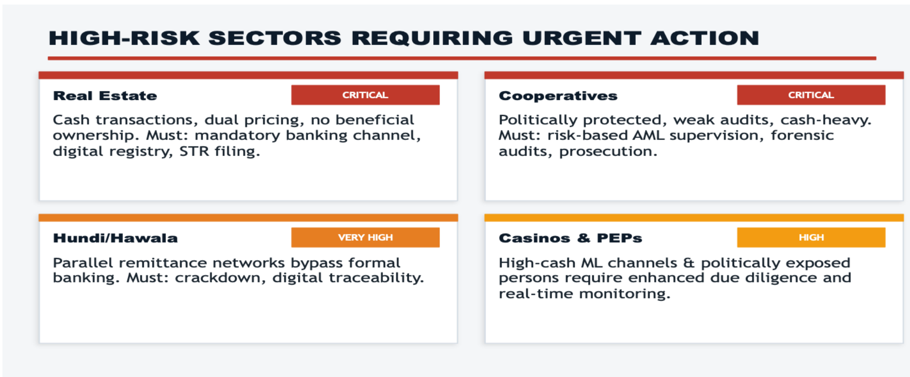
- Correspondent banks may impose additional compliance requirements on Nepali institutions.
- Foreign investors may adopt a more cautious approach.
- The remittance inflows could face higher transaction costs and tighter scrutiny.

- Sovereign risk perceptions may rise.

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

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

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



4) Sovereign Fund

1. Unraveling the Distinction Between Assets and Wealth

   In recent years, the concept of establishing a Sovereign Wealth Fund (SWF) in Nepal has gained traction, particularly as the country's foreign exchange reserves have reached unprecedented levels. Some policymakers and commentators have proposed that a portion of these reserves could be channeled into a sovereign investment fund to generate higher returns and finance long-term development initiatives. While the intention behind this proposal is commendable, it is crucial to exercise caution. Simply having large foreign exchange reserves does not automatically translate into equivalent investable sovereign wealth.

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

   As of Ashadh 2082, NRB's Statement of Financial Position revealed foreign currency assets amounting to approximately Rs. 2.56 trillion. These assets primarily comprised balances held with foreign banks, term deposits, foreign securities, IMF-related assets, and gold certificates. On the surface, these figures may appear to represent a substantial pool of national wealth available for investment. However, it is essential to recognize that the asset side of the balance sheet only provides a partial picture.

   The same balance sheet also reveals substantial liabilities that have emerged as a result of reserve accumulation. NRB reported approximately Rs. 750 billion in currency in circulation, Rs. 388 billion in deposits held by banks and financial institutions, Rs. 70 billion in government deposits, Rs. 654 billion due to banks and financial institutions, and other domestic and foreign liabilities. Notably, the total local-currency liabilities alone exceeded Rs. 1.86 trillion, while foreign-currency liabilities amounted to nearly Rs. 40 billion. This economic reality underscores a critical point: foreign exchange reserves are not standalone assets. They are largely mirrored by liabilities that have already been created within the domestic financial system.

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

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

   The primary objective of reserves is to maintain external sector stability, ensure currency convertibility, preserve confidence in the financial system, and provide protection against external shocks. Their investment mandate prioritizes liquidity and safety over return maximization. Sovereign Wealth Funds (SWFs), on the other hand, are typically financed from genuine fiscal savings. Globally, successful SWFs are capitalized through budget surpluses, natural resource revenues, privatization proceeds, or other government-owned fiscal assets. These resources represent net public wealth accumulated by the treasury rather than assets held against monetary liabilities.

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

   First, policymakers should distinguish between gross reserves and net sovereign wealth. A country may have substantial reserve assets while simultaneously carrying significant monetary liabilities that support those assets. Second, transferring reserve assets into long-term investments could reduce reserve adequacy and limit the central bank's flexibility in responding to external shocks or balance-of-payments pressures. Third, such a move risks blurring the institutional boundary between fiscal management and monetary management. Central banks are responsible for monetary and financial stability, while governments are responsible for managing public wealth and undertaking long-term investments.

5. None of this implies that Nepal should abandon the idea of establishing a Sovereign Wealth Fund. On the contrary, a well-designed fund could become an important vehicle for intergenerational savings and strategic national investments. However, a more sustainable approach would be to capitalize the fund through future fiscal surpluses, hydropower export revenues, natural resource royalties, privatization proceeds, dividends from state-owned enterprises, and other treasury-owned assets. These represent genuine sovereign wealth because they are not already pledged against monetary liabilities.

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

6. The crucial question

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

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

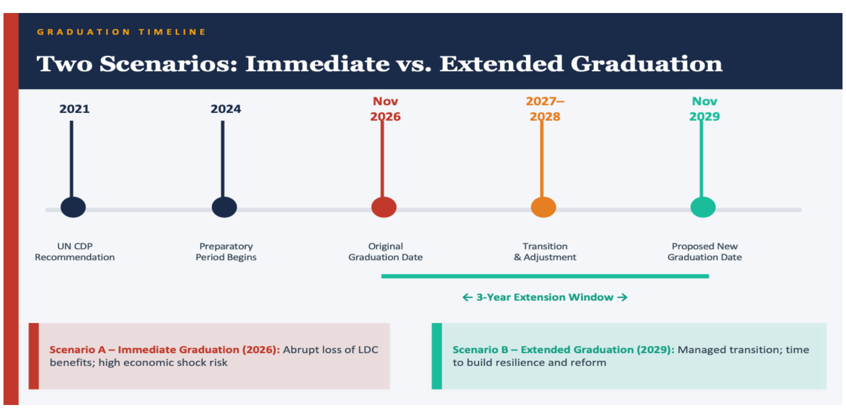
   Foreign Assets (≈ Rs. 2.16 trillion) ≠ Sovereign Wealth (Rs. 2.16 trillion) because these assets are offset by:
   a) Currency in circulation: ≈ Rs. 780 billion
   b) Bank deposits at NRB: ≈ Rs. 388 billion
   c) Government deposits: ≈ Rs. 70 billion
   d) Due to banks and BFIs: ≈ Rs. 654 billion
   e) Other domestic and foreign liabilities: > Rs. 100 billion

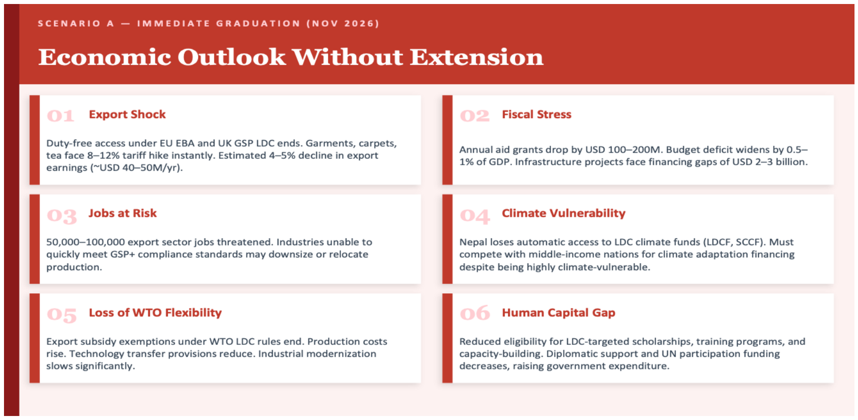
   The Reserve assets and sovereign wealth are conceptually and economically different.

5) Nepal: 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

Period (2026)	Diesel Price (NPR/litre)	Change
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

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**

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

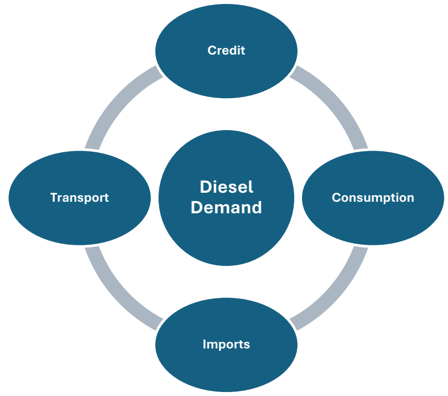
c) Diesel–Credit–GDP Relationship

Fiscal Year	Diesel Growth (%)	Credit Growth (%)	GDP Growth (%)
2073/74	-	22.41	**7.62**
2074/75	**23.17%**	20.28	**6.66**
2075/76	**6.55%**	12.46	**-2.37**
2076/77	**-13.43%**	27.54	**4.84**
2077/78	**15.11%**	12.91	**5.63**
2078/79	**1.61%**	3.48	**1.98**
2080/81	**-18.11%**	5.97	**3.67**
2081/82	**3.89%**	8.18	**4.61**
2082/83	**-4.98**	6.20	**3.85**

Key Insight:
Diesel demand remains resilient even during low GDP growth, confirming a circulation-driven economic structure

d) Structural Economic Diagnosis

Current Growth Cycle



Implication
Strong activity in trade, logistics, and construction
Weak transmission to manufacturing and exports
Diesel consumption reflects economic movement, not economic transformation

e) Economic Transmission Channels

Channel	Mechanism	Impact Area	Effect Without Shock	Effect With Diesel Shock
Inflation Channel	Higher transport & logistics costs	CPI, food prices	Moderate inflation	🔴 Sharp cost-push inflation
External Sector	Higher fuel import bill	BoP, FX reserves	Stable surplus	🔴 Pressure on reserves & imports
Growth Channel	Cost of production rises	GDP composition	Consumption-led growth	🟠 Slower real growth
Financial Channel	Credit cost & demand shift	Banking sector	Moderate lending	🟠 Credit risk & lower demand
Employment Channel	Margin compression in firms	Jobs, wages	Stable employment	🔴 Job losses risk
Fiscal Channel	Subsidy/NOC losses	Budget deficit	Manageable deficit	🔴 Fiscal stress increases
Industrial Channel	Energy cost for production	Manufacturing	Already weak	🔴 Further deindustrialization risk
Supply Chain Channel	Transport disruption	Goods availability	Stable	🟠 Supply bottlenecks
Rupee Stability Channel	Higher import demand for fuel	Exchange rate	Stable	🔴 Depreciation pressure

f) Risk Matrix

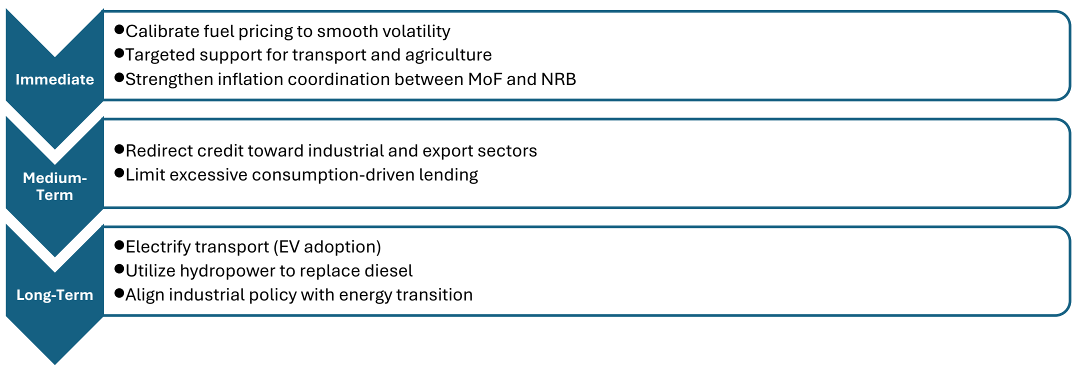
Risk Category	Description	Probability	Impact	Risk Level
Fuel Price Shock	Global oil volatility	High	Very High	🔴 Critical
Inflation Surge	Cost-push inflation	High	High	🔴 Critical
External Imbalance	Import-driven pressure	High	High	🔴 Critical
Growth Slowdown	Demand compression	Medium	High	🟠 High
Industrial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

g) Vulnerability Index (Diesel Dependency)

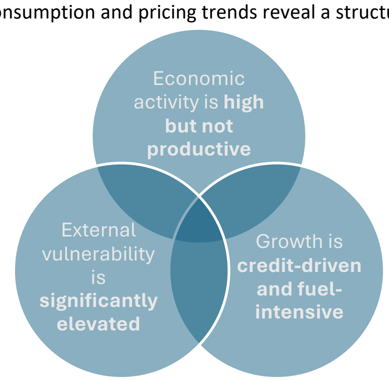
Dimension	Weight	Score	Weighted Score
Import Dependence	25%	5	1.25
Price Exposure	20%	5	1.00
Sectoral Dependence	20%	4	0.80
Credit Structure	15%	4	0.60
Industrial Base	10%	2	0.20
Energy Substitution	10%	3	0.30

Total Score: 4.15 / 5 (Highly Vulnerable Economy)

h) Policy Recommendations



i) Strategic Conclusion: Nepal's diesel consumption and pricing trends reveal a structural imbalance:



Without structural reform, diesel consumption will continue to reflect an economy that is moving—but not transforming. A coordinated policy response from the Ministry of Finance and Nepal Rastra Bank is essential to shift Nepal toward a resilient, production-oriented, and energy-efficient growth model.

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

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.

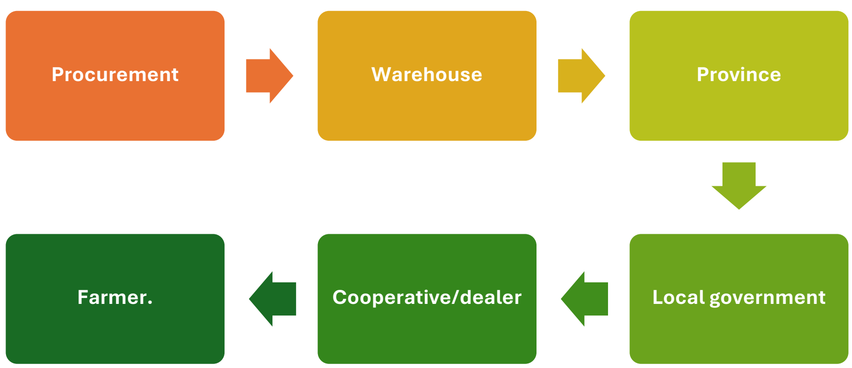
E. From quantity-based subsidy to productivity-based subsidy

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

a) 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.

b) 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.

c) 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.

d) 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.

e) 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. Kala Legal's Economic Outlook

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) Comparative Assessment of RSP Manifesto and Government Reform Program

1. Conceptual Distinction: Political Vision vs Policy Execution

The RSP manifesto outlines an ambitious reform agenda that is being implemented through a pragmatic, phased government approach prioritizing governance, anti-corruption, and institutional stabilization as the foundation for broader economic transformation. While this sequencing is appropriate given Nepal’s limited administrative capacity and fiscal constraints, the macroeconomic environment remains fragile, with a high-risk profile (MRI 4.0/5) driven by remittance dependence, financial sector vulnerabilities, and external exposure.

At the same time, implementation feasibility remains moderate to low (Attainability Index 2.7/5), particularly for large-scale reforms in infrastructure, employment, and industrial policy, which require stronger capacity and financing. With substantial investment needs and a persistent financing gap, successful delivery of the manifesto will depend on sustained governance credibility, financial sector stabilization, and effective mobilization of external and private resources, positioning Nepal as a high-risk but potentially high-reward reform economy.

2. A clear distinction exists between the RSP Manifesto and the Government Administrative Reform Program, reflecting different roles within the reform ecosystem.

Dimension	RSP Manifesto	Government Reform Program
Nature	Political vision and commitments	Executive policy and implementation framework
Scope	Broad, structural transformation agenda	Targeted administrative and governance reforms
Timeframe	Medium-term (2026–2030)	Immediate to short-term (100 days–1 year)
Orientation	Transformational	Operational and institutional
Accountability	Political	Administrative and legal

The manifesto articulates what Nepal aims to become, while the government program defines how and when change begins.

3. Introduction and Context

Nepal's current political transition presents a rare convergence of public demand for reform and political willingness to act. The reform agenda emphasizes governance, anti-corruption, employment generation, and private-sector-led growth. However, early government actions indicate a sequenced reform strategy, prioritizing:

1. Administrative discipline
2. Governance credibility
3. Institutional stabilization

before scaling broader economic transformation.

4. The basis of evaluation:
   - i. Alignment between political commitments and policy execution
   - ii. Macroeconomic risks and structural constraints
   - iii. Implementation feasibility
   - iv. Financing requirements

5. Policy Alignment: Strategic Ambition vs Operational Reality

The reform trajectory reflects deliberate sequencing rather than policy divergence.

Key Observations
- a) Governance and anti-corruption reforms are advancing rapidly
- b) Digital systems are being introduced incrementally
- c) Economic transformation pillars remain in early stages

Alignment Assessment

Reform Area	Manifesto Commitment	Government Action	Alignment
Governance & Anti-Corruption	Structural reforms, asset tracking	Administrative tightening	High
Digital Governance	Full digital transformation	Initial rollout	High
Bureaucratic Reform	Merit-based system	Partial depoliticization	Medium
Economic Reform	Private-sector-led growth	Limited early action	Medium-Low
Youth Employment	1 million jobs	Not yet operational	Low
Infrastructure	Large-scale investment	Not prioritized yet	Low
Fiscal Reform	Efficiency & expansion	Early reprioritization	Medium

The gap reflects capacity and fiscal constraints, not a shift in policy direction.

i. Macroeconomic Risk Assessment

Nepal's economy remains structurally fragile, with vulnerabilities across fiscal, financial, and external sectors.

Key Risk Drivers

a) Heavy reliance on remittances
b) Persistent trade deficits
c) Rising non-performing loans (NPLs)
d) Weak capital expenditure execution
e) Limited domestic revenue growth
f) Exposure to global oil prices and Gulf labor markets

Macroeconomic Risk Index (MRI)

Risk Category	Indicator	Score (1–5)	Assessment
Fiscal Risk	Revenue gap, deficit pressure	4	High
Financial Risk	NPLs, credit slowdown	4	Vulnerable
External Risk	Remittance dependence	5	Highly exposed
Inflation Risk	Imported inflation	3	Moderate
Investment Risk	Weak private investment	4	Structural constraint

Composite MRI: 4.0 / 5 (High Risk)
Nepal operates in a fragile macroeconomic environment, requiring careful reform sequencing.

ii. Attainability Index (Implementation Feasibility)

Feasibility is constrained by:

a) Administrative capacity
b) Fiscal limitations
c) Political economy factors
d) Institutional readiness

Assessment

Reform Area	Capacity	Fiscal Space	Score (1–5)	Assessment
Governance Reform	High	Moderate	4	Achievable
Digital Systems	Moderate	Moderate	3	Gradual rollout
Financial Sector Reform	Moderate	High	3	Feasible
Fiscal Reform	Moderate	Low	2	Politically sensitive
Infrastructure	Low	Very Low	2	External financing needed
Employment Programs	Low	Low	2	Limited capacity
Industrial Policy	Low	Low	2	Long-term effort

Composite Score: 2.7 / 5 (Moderate-Low Feasibility)
Governance reforms are feasible in the short term, while economic transformation faces binding constraints.

iii. Fiscal and Financing Constraints

Estimated Investment Needs (2026–2030)

Sector	Requirement (USD)
Infrastructure & Energy	15–20 billion
Agriculture & Climate	3–4 billion
Youth Employment & Skills	2–3 billion
Governance & Digital Systems	0.3–0.5 billion
Financial Sector Support	0.5 billion

Total Requirement: USD 21–28 billion

Fiscal Reality

a) Limited revenue growth
b) High recurrent expenditure
c) Weak capital execution
d) Rising debt pressures

Estimated financing gap: USD 5–6 billion/per year

6. Resource Mobilization Strategy

A blended financing model is essential:

Key Sources

a) Diaspora financing instruments
b) Multilateral institutions (IMF, World Bank, ADB)
c) Bilateral development partners
d) Public-Private Partnerships (PPP)
e) Domestic revenue reforms
f) Aid/Grant from friendly countries

Financing success depends heavily on credibility, governance reform, and policy stability.

7. Strategic Risk–Feasibility Matrix

Reform Area	Risk Level	Feasibility	Strategic Approach
Governance	Low	High	Immediate implementation
Financial Sector	High	Medium	Controlled reform
Fiscal Reform	High	Low	Gradual consolidation
Infrastructure	High	Low	PPP and donor-led
Employment	Medium	Low	Targeted interventions

8. Integrated Macroeconomic Framework

Growth Scenarios

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

9. Structural Shift Required

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

10. Debt Sustainability Outlook

Scenario	Debt-to-GDP (2030)	Risk
No Reform	~70%	High
Moderate Reform	~65%	Moderate
High Growth	55–60%	Sustainable

Sustained growth is the primary determinant of debt sustainability.

11. Strategic Insights

a) Governance-First Strategy is Rational
b) Early focus on governance builds credibility and institutional capacity.
c) Economic Transformation Requires External Support
d) Domestic resources alone are insufficient for structural change.
e) Expectation Gap is a Major Risk
f) Public demand for rapid change exceeds implementation capacity.
g) Financial Sector is the Critical Bottleneck
h) Banking sector stress directly constrains investment and growth.

12. Policy Implications for Development Partners

Opportunities

a) Strong reform mandate
b) Early governance improvements
c) Emerging investment pipeline

Risks

a) Fiscal constraints
b) Limited implementation capacity
c) External sector vulnerabilities

13. Final Synthesis
Nepal's transformation pathway is credible but conditional.

Success Depends On
a) Sustained governance reform
b) Financial sector stabilization
c) Fiscal discipline
d) Export diversification
e) Coordinated international support

14. Bottom Line

Nepal represents a high-risk, high-reward reform economy. With disciplined sequencing and adequate financing, Nepal can:
a) Restore investor confidence
b) Accelerate economic growth
c) Reduce structural vulnerabilities
d) Deliver inclusive and sustainable development

10) Birds-Eye View of Economic Outlook of Nepal

Dimension	World Bank	Asian Development Bank (ADB)	IMF (2026 Article IV + ECF Review)	Fitch Ratings	Kala Legal	Nepal Rastra Bank (NRB – FY 2082/83 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 and capital execution	~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 stable external sector)	~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 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).
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.

11) Budget & Outlook to 2026/27)

A. The severe economic impact of the August 2026 Bhotekoshi flood—with physical losses of NPR 196–250 billion—places unprecedented fiscal pressure on Nepal's FY 2026/27 (2083/84) budget. The fiscal framework faces severe compounding challenges:

1. Widening Revenue Deficit & Contracting Tax Base

a) 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).
b) 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.
c) 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.

2. Acute Unbudgeted Recurrent Expenditure Demands

a) Immediate Cash Relief & Humanitarian Deployment: Rebuilding shattered communities, supporting 1,500 severely affected families (holding total asset losses of NPR 8.55 billion), and deploying security forces demand immediate cash outlays.
b) Inadequacy of Domestic Relief Collections: While the official Prime Minister's Disaster Relief Fund (pmdrf.nchl.com.np) mobilized over NPR 4.09 billion within days, this covers under 2% of total physical damage. Domestic relief and bank corporate social responsibility (CSR) contributions cannot bridge a multi-hundred-billion-rupee deficit.

3. Depressed Foreign Grants & Geopolitical Aid Constraints

a) Underperforming Aid Baseline: Foreign grant utilization in FY 2025/26 achieved only 58.0% of its target (NPR 31 Bn vs. NPR 53 Bn).
b) 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.
c) 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 46–48% of GDP.

4. Forced Capital Budget Reallocation & Deeper Debt Reliance

a) Capital Spending Pivot: The government must divert capital allocations away from new, growth-oriented development projects toward emergency infrastructure rehabilitation—most notably NPR 35–45 billion required immediately for damaged bridges and strategic transport corridors.
b) Fiscal Deficit Escalation: To finance reconstruction, the projected fiscal deficit will widen beyond the budgeted ~4–5% toward 5.5–6.5% 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).

B. 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

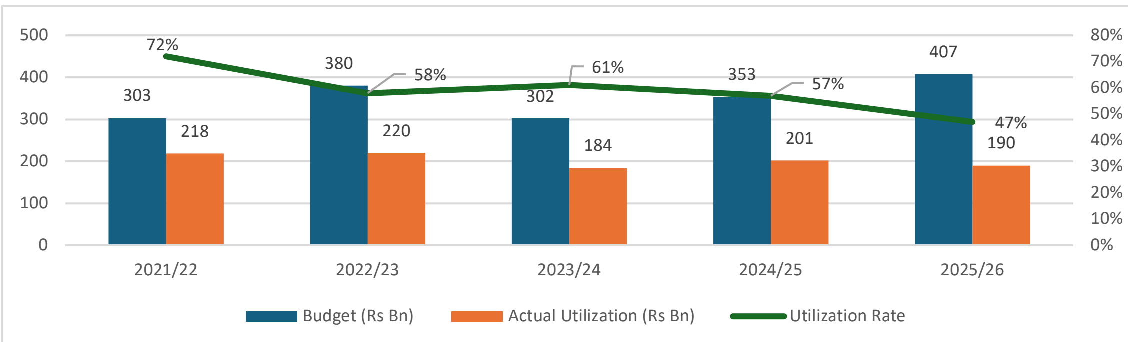
Indicator	FY 2026/27
Domestic Borrowing	Rs 410 Billion
Public Debt	47–50% GDP

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.

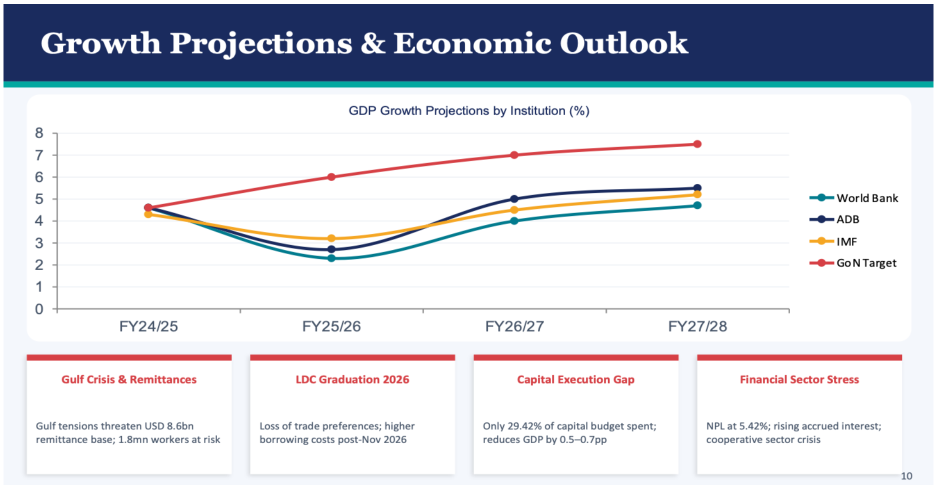
If these objectives are achieved, the FY 2026/27 budget could become a turning point in Nepal's economic development trajectory. If not, the budget risks becoming another ambitious fiscal document constrained by implementation shortcomings.

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)



12) MoF's Gen Z protest assessment

The Ministry of Finance published an assessment examines the youth-led protests that erupted across Nepal in September 2025 (Bhadra 23–24, 2082 BS). What began as demonstrations against corruption and restrictions related to digital platforms quickly evolved into a nationwide expression of deep frustration among young citizens regarding governance, economic opportunity, and institutional accountability. The protests spread across major urban centers and eventually affected 262 local governments in 54 districts, causing significant disruption to public institutions and infrastructure. The unrest resulted in more than 70 deaths and an estimated NPR 84 billion in damages, ultimately triggering the resignation of the Prime Minister and the formation of an interim government.

The report concludes that the Gen-Z movement reflects a deeper erosion of trust in political leadership and public institutions. Many young people perceive governance systems as dominated by patronage networks, political privilege, and weak accountability mechanisms. Frustrations have been amplified by poor public service delivery, lack of transparency, slow administrative processes, and the politicization of state institutions. At the same time, restrictions on digital platforms and online expression heightened tensions, as Gen-Z citizens view digital freedom as an essential component of democratic participation and civic engagement.

Economic factors also played a critical role in driving the protests. Nepal's youth face limited domestic employment opportunities, persistent underemployment, and growing pressure to migrate abroad for work. Even educated young people often struggle to secure jobs that match their skills, highlighting a structural mismatch between the education system and labor market demand. Rising living costs, economic uncertainty, and limited opportunities for entrepreneurship have further deepened dissatisfaction among the younger generation.

Despite the disruption and economic losses caused by the unrest, the report notes that the movement also generated a renewed national debate about governance reform and accountability. It emphasizes that the protests should be understood not merely as a spontaneous youth uprising but as a structural response to systemic governance failures and economic exclusion. To rebuild trust, the report recommends comprehensive reforms including stronger anti-corruption measures, merit-based public appointments, improved public service delivery, policies that promote job creation and entrepreneurship, protection of digital freedoms, and greater institutionalized participation of youth in policymaking and governance processes.

13) Recent Macroeconomic Developments (July 2026)

Particulars Amount in NPR Billion	Monthly Movement (June 26)	Monthly Movement (July'26)	Yearly Movement (June 26)	Yearly Movement (July 26)	Monthly Movement (July 26)	Yearly Movement (July 26)	As of (July 26)
Consumer Price Inflation (y-o-y) (%)	0.18	(0.08)	2.50	2.93	Favorable	Unfavorable	5.14
Consumer Price Inflation (Compared to previous month) (%)	(0.67)	(0.45)	0.17	(0.08)	Favorable	Favorable	0.005
Food and Beverage (%)	(0.81)	(0.26)	0.31	0.28	Favorable	Unfavorable	0.10
Non Food and Service (%)	(0.59)	(0.55)	0.10	(0.27)	Favorable	Favorable	-0.05
Exports	2.98	8.32	(0.65)	7.86	Unfavorable	Unfavorable	37.32
Imports	(0.69)	0.82	30.85	42.96	Unfavorable	Unfavorable	202.28
Travel Income	(2.05)	(0.20)	1.54	1.50	Favorable	Unfavorable	7.84
Travel Spending	3.28	(0.34)	(3.16)	(5.09)	Favorable	Favorable	15.45
Remittance Inflows	(53.60)	38.44	409.84	2,185.72	Unfavorable	Unfavorable	242.33
Government Expenditure	59.57	62.38	62.99	15.25	Unfavorable	Unfavorable	235.51
Current Expenditure	26.48	42.12	56.40	(4.19)	Unfavorable	Favorable	135.73
Capital Expenditure	1.17	39.35	(11.29)	(0.89)	Unfavorable	Favorable	58.17
Revenue	(9.51)	67.24	65.21	-	Unfavorable	Unfavorable	160.00
Deposit Mobilization	(6.52)	201.22	(54.58)	(29.46)	Unfavorable	Favorable	264.43
Private Sector Credit	28.51	(9.78)	(10.38)	2.68	Favorable	Unfavorable	18.79
Weighted Average Deposit Rate (%)	(0.06)	(0.09)	(1.00)	(0.98)	Favorable	Favorable	3.21
Weighted Average Lending Rate (%)	(0.09)	(0.08)	(1.36)	(1.30)	Favorable	Favorable	6.55
Base Rate of Commercial Banks (%)	(0.09)	(0.06)	(1.20)	(1.19)	Favorable	Favorable	4.83
Forex Reserve	488.39	621.00	6,025.13	5,797.57	Unfavorable	Unfavorable	25,300
BOP NPR	62.50	100.98	423.57	432.50	Unfavorable	Unfavorable	1,027
Liquid Funds	90.22	10.85	133.12	84.60	Unfavorable	Unfavorable	732
Govt. Securities/Other	(66.39)	228.96	483.82	464.12	Unfavorable	Unfavorable	2,207
Investment in share and other	35.55	(9.51)	171.09	175.11	Favorable	Unfavorable	540
Land revenue	6.70	(8.10)	20.33	0.56	Favorable	Unfavorable	4

Macroeconomic and Financial Sector Update (July 2026)

Nepal's macroeconomic performance as of 2026 reflects a generally stable economic environment, supported by strong external sector fundamentals, subdued inflation, and accommodative monetary conditions. However, the domestic economy continues to experience weak private sector activity, slow credit expansion, and modest fiscal performance. While a majority of the key indicators recorded favorable monthly movements, the year-on-year assessment suggests that several structural challenges remain. The economy continues to benefit from robust remittance inflows, record foreign exchange reserves, and a substantial Balance of Payments surplus, yet these strengths have not translated into a broad-based recovery in investment and domestic demand.

Inflation remained well contained during July 2026, indicating continued price stability. Year-on-year consumer price inflation stood at 5.14 percent, slightly higher than the previous month's annual movement but still within a manageable range. Monthly inflationary pressure eased considerably, with consumer prices declining by 0.45 percent compared to the previous month. Food and beverage prices registered a notable decline, while non-food and service prices also softened, reflecting improved supply conditions and easing demand-side pressures. The overall inflation trend suggests that price stability is unlikely to be a major macroeconomic concern in the near term.

The external sector continued to be the strongest pillar of Nepal's economy. Exports recovered modestly during Ju after declining in May, although annual export performance remained marginally weaker than the previous year, highlighting persistent structural challenges in Nepal's export sector. Imports increased slightly during July, contributing positively to the country's external balance and easing pressure on foreign exchange demand. Tourism receipts experienced a modest monthly decline, largely reflecting seasonal factors, while travel-related expenditures abroad increased. Nevertheless, annual travel income remained higher than the previous year, indicating that the tourism sector continues its gradual recovery.

Remittance inflows remained the single largest contributor to Nepal's external stability. Although remittances declined on a monthly basis due to seasonal factors, they recorded a substantial year-on-year increase, reaching nearly NPR 242 billion during July. The continued strength of remittance inflows has played a critical role in supporting household consumption, maintaining banking sector liquidity, strengthening foreign exchange reserves, and sustaining the country's overall macroeconomic stability. The resilience of remittance income continues to offset weaknesses in domestic production and investment.

Fiscal developments presented a mixed picture. Government expenditure increased sharply during July, reflecting the typical fiscal year-end spending pattern. Most of the increase, however, was concentrated in recurrent expenditure, while capital expenditure showed only a marginal monthly improvement and remained below the previous year's level. This persistent underperformance in development spending continues to limit infrastructure expansion, employment generation, and long-term economic growth. Revenue collection declined during the month, although annual revenue remained broadly stable, suggesting that domestic economic activity has yet to generate stronger and more sustainable fiscal revenues.

The banking sector continued to operate amid abundant liquidity, supported by strong external inflows and accommodative monetary conditions. However, deposit mobilization weakened in July, with deposits increasing by NPR 263 billion compared with NPR 293 billion in July 2025, reflecting slower government capital expenditure disbursement. Private-sector credit showed a modest monthly recovery but remained below the level recorded a year earlier, suggesting that subdued credit growth is being driven more by weak business confidence and limited investment demand than by funding constraints. The banking sector therefore has adequate lending capacity, but private-sector appetite for new investment remains subdued.

Interest rates continued their downward trend across all major categories. The weighted average deposit rate declined to 3.21 percent, while the weighted average lending rate fell to 6.55 percent. Similarly, the average base rate of commercial banks declined further to 4.83 percent. These historically low borrowing costs provide favorable financial conditions for investment; however, the continued weakness in private sector credit suggests that structural constraints, policy uncertainty, and subdued business confidence remain more significant barriers than the cost of financing itself.

Nepal's external buffers remained exceptionally strong during July 2026. Foreign exchange reserves increased further to approximately $ 25.31 billion, supported primarily by robust remittance inflows, moderate import growth, and sustained Balance of Payments surpluses. Although the monthly increase in the Balance of Payments surplus moderated compared to May, the cumulative surplus remained exceptionally high at over NPR 1,027 billion, providing substantial resilience against external shocks and reinforcing confidence in Nepal's external financial position.

Financial market indicators also reflected improving liquidity conditions. Liquid funds within the banking system recovered strongly during July further supporting financial stability and lending capacity. Commercial banks reduced their holdings of government securities during the month, which may indicate a gradual shift toward alternative investment opportunities or adjustments in government financing requirements. At the same time, investment in shares and other financial assets increased significantly on both a monthly and annual basis, suggesting improving investor sentiment and greater confidence in financial markets. Land revenue also recorded a notable increase, potentially reflecting a gradual recovery in property market transactions.

Overall, Nepal's economic indicators as of July 2026 portray an economy characterized by strong macroeconomic stability but relatively weak domestic economic momentum. Inflation remains under control, foreign exchange reserves are at record levels, remittance inflows continue to provide a strong foundation for external stability, and interest rates remain highly supportive of investment. However, sluggish private sector credit growth, declining deposit mobilization, weak capital expenditure, and modest revenue performance indicate that economic growth continues to be constrained by low investor confidence and limited private sector activity.

Going forward, policy efforts should focus on improving the investment climate, accelerating quality public capital expenditure, strengthening policy predictability, and implementing structural reforms that restore private sector confidence. Given Nepal's strong macroeconomic fundamentals, addressing these structural bottlenecks will be essential to translating stability into higher and more sustainable economic growth.

Nepal presents a fundamental climate paradox: despite contributing only around 0.1% of global greenhouse-gas emissions, the country remains disproportionately vulnerable to the economic and development consequences of climate change. The August 2026 Rasuwa–Bhotekoshi disaster illustrates how climate shocks can extend far beyond physical destruction, disrupting the macroeconomic foundations of growth and financial stability.

The disaster is estimated to have caused NPR 196–250 billion in direct physical asset damage, while the disruption of 431 MW of (operating) hydropower capacity represents approximately 2.3 billion units of electricity generation. At the household and enterprise level, an estimated 25,000–30,000 livelihoods have faced severe income disruptions. These losses are not isolated: damage to electricity and transport infrastructure creates cascading effects across trade, tourism, manufacturing, small businesses, and financial institutions.

The experience underscores the need for Nepal to move beyond a reactive post-disaster reconstruction model toward a proactive Climate Resilience Investment Framework. Such a framework should integrate climate stress-testing into financial and infrastructure planning, strengthen disaster-risk financing and insurance mechanisms, and establish dedicated recovery facilities for micro and small businesses. Protecting critical infrastructure and livelihoods before disasters occur is not merely a climate-policy priority—it is an essential investment in Nepal’s long-term GDP growth, economic resilience, and financial stability.

14) 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 (stall due to Court Order)	**Partially Achieved** – Government strengthened anti-corruption initiatives and expanded digital governance, but not fully independent.

Pillar	Key Action	Performance Indicator	Status (100 Days)
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.
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.

15) Beyond Remittance: Creating a Diaspora Investment Ecosystem in Nepal

Nepal's engagement with its diaspora is at a critical inflection point, where the transition from remittance dependence to structured investment mobilization is both necessary and achievable. To achieve the national ambition of a USD 100 billion economy by 2030 will require sustained annual growth of 10–12%, implying a rapid scaling of investment across sectors. Given domestic capital constraints, the Non-Resident Nepali (NRN) community represents a strategic reservoir of finance, knowledge, and global connectivity that can help bridge this gap—if effectively mobilized through a credible ecosystem.

However, diaspora engagement remains constrained by structural bottlenecks. The investment climate is often perceived as unpredictable, with policy inconsistencies, regulatory opacity, and procedural inefficiencies discouraging long-term commitments. Institutional fragmentation and the absence of a coordinated facilitation mechanism further complicate entry for diaspora investors. Moreover, the lack of bankable projects and tailored financial instruments limits the conversion of diaspora interest into actual investment flows. These challenges collectively reinforce a trust deficit, which is perhaps the most binding constraint in scaling diaspora participation.

a) Diaspora Investment Mobilization Scenarios

Scenario	Diaspora Participation Level	Estimated Investment Contribution	Potential GDP Impact	Key Assumptions

Conservative	Low (status quo engagement)	Limited inflows	Marginal GDP acceleration	Continued policy gaps, weak pipeline
Moderate	Targeted engagement	Moderate inflows	Supports 1–2% additional growth	Partial reforms, sectoral focus
Transformational	High, ecosystem-driven	Significant capital mobilization	Strong multiplier effect enabling 10–12% growth	Full reforms, strong governance, bankable projects

These scenarios demonstrate that diaspora capital, when aligned with broader economic reforms, can play a catalytic role in achieving Nepal's growth targets.

b) **Key Economic Indicators and Targets**

Indicator	Current 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.

16) FDI sector reform

a) Macroeconomic and Structural Constraints

Nepal's economic structure reveals a fundamental imbalance between consumption and investment. While remittance inflows support household consumption and external stability, they contribute minimally to productive capital formation. Investment efficiency remains low, with an estimated incremental capital-output ratio (ICOR) of 5–6 compared to an optimal range of 3–4. The fiscal structure is heavily skewed toward recurrent expenditure, which accounts for 80–85 percent of the national budget, crowding out capital investment. Consequently, capital expenditure remains low at 15–20 percent of the budget, and even this allocation suffers from weak execution, with significant spending occurring only toward the end of the fiscal year.

The infrastructure deficit further constrains economic growth, increasing logistics costs, reducing competitiveness, and limiting job creation. Public investment is insufficient to meet demand, while private sector participation remains limited due to regulatory barriers, legal uncertainty, and underdeveloped financial markets. These constraints collectively trap Nepal in a low-investment, low-growth equilibrium.

b) FDI and Investment Climate Reform

Foreign direct investment in Nepal remains among the lowest in South Asia, primarily due to procedural complexity, policy uncertainty, and weak investor protection mechanisms. Investors face challenges related to approval delays, unclear tax policies, difficulties in profit repatriation, and ambiguity in exit provisions. Addressing these issues requires comprehensive reform of the Foreign Investment and Technology Transfer Act (FITTA), including the introduction of automatic approval thresholds, simplification of entry and exit processes, and expansion of permissible investment structures.

Equally important is tax reform, which should prioritize the elimination of retrospective taxation, the introduction of tax arbitration mechanisms, and the harmonization of conflicting provisions across laws. Strengthening the public-private partnership (PPP) framework through amendments to the PPPI Act, including the establishment of a fiscal risk management system and viability gap funding mechanisms, will further enable private sector participation. Together, these reforms can significantly enhance investor confidence and increase FDI inflows by three to five times over the medium term.

c) Diaspora Investment Ecosystem

Nepal's diaspora represents a transformative yet underutilized source of capital, knowledge, and global connectivity. With an estimated population of 7–8 million and annual savings potential ranging from USD 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
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	• Support PIM reforms & digital systems • Provide implementation TA	• Improve spending discipline • Enforce accountability for delays

Core Challenges	Capital Budget	Strategic Actions (Policy + Legal Reforms)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
		• Digital expenditure tracking		
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
13. Institutional capacity constraints	Weak execution across agencies	• Professionalize PMUs • Reduce staff turnover	• Provide embedded experts • Training programs	• Build technical workforce • Strengthen institutions
14. Untapped diaspora investment potential	Missed financing opportunity	• Enable NRN investment platforms • Introduce diaspora funds	• Facilitate diaspora investment vehicles	• Create enabling legal framework
15. Emerging areas (sweat equity, innovation financing)	Not captured in current system	• Legalize sweat equity framework • Mandate repatriation of gains	• Support innovation ecosystem	• Issue regulatory framework (gazette)

4. Core Structural Constraints

a. Project Preparation Failure
Projects enter budget without:

i. Detailed Project Reports (DPRs)
ii. Environmental clearances
iii. Land acquisition completed

Result: "Budgeted but not implementable" projects

b. Procurement Inefficiency
   i. Multi-layer approval process
   ii. Frequent bid cancellations
   iii. Weak contractor capacity
   iv. Dispute-prone contracts

c. Land Acquisition Bottlenecks
   i. Legal disputes
   ii. Compensation delays
   iii. Fragmented land records

d. Institutional Fragmentation

   Overlapping mandates:
   i. Ministries
   ii. Investment Board Nepal
   iii. Provincial governments

   Lack of a unified infrastructure pipeline

e. Financial Sector Limitations
   i. Banks face exposure limits
   ii. Lack of long-term financing instruments
   iii. Underdeveloped bond market

f. Legal & Regulatory Constraints
   From your FDI reform document:
   i. Criminalization of tax disputes
   ii. Unclear exit provisions
   iii. Restrictions on investment structures
   iv. Delays in profit repatriation

5. Integrated Reform Matrix

Challenge	Detailed Issues	Strategic Actions	DP Role	GoN Role
Capital allocation	Low share, high recurrent	Increase to 25–30%; fiscal rules	Budget support	Fiscal discipline
Budget utilization	Delays, inefficiency	Real-time monitoring dashboard	Digital systems	Enforce accountability
Project preparation	Weak DPRs	Project Preparation Facility	Fund feasibility	Approve ready projects
Procurement	Delays, disputes	EPC/turnkey contracts	Global standards	Reform procurement law
PPP ecosystem	Weak pipeline	Amend PPPI Act; risk framework	PPP advisory	Strengthen IB Nepal
Tax system	Uncertainty	Arbitration, DTAA expansion	Policy advisory	Legal reform
FDI framework	Entry/exit barriers	FITTA reform; NRN route	Investment promotion	Regulatory reform
Capital markets	Limited instruments	Bonds, mezzanine finance	Market development	SEBON/NRB reform
Exit barriers	Lock-in, ambiguity	Partial exit allowed	Advisory	Policy clarity
Dispute resolution	Slow courts	Arbitration, insolvency law	Legal TA	Judicial reform

6. Integrated Reform Matrix (Expanded)

Core Challenges	Strategic Actions (Policy Recommendations)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
1. Fragmented project selection & over-programming	• Prioritize high-impact, bankable projects • Establish national project pipeline • Introduce project "gatekeeping" system	• Support project screening frameworks • Provide analytical tools for prioritization	• Limit politically driven project approvals • Align projects with national growth strategy

Core Challenges	Strategic Actions (Policy Recommendations)	Role of Development Partners (DPs)	Role of Government of Nepal (GoN)
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.

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

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

Objectives
The objectives of this strategy are as follows:

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

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

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

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

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

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

Key Strategic Themes Across All Sectors

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

Sector-Wise Strategies and Action Points

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
1. Banking Sector (BFIs)	Strengthening resilience and productive lending	(a) Increase credit to productive sectors (agriculture, MSMEs, tourism, energy, export sectors) (b) Strengthen risk-based supervision and capital adequacy (c) Improve NPL management and recovery framework (d) Promote green and climate finance (e) Expand digital banking, e-KYC, and open banking (f) Strengthen corporate governance and fit-and-proper criteria
	Financial Stability	(a) Strengthen macroprudential tools (b) Enhance stress testing and early warning systems (c) Improve crisis management and resolution frameworks
2. Insurance Sector	Expansion and Risk Management	(a) Expand insurance coverage nationwide, especially microinsurance (b) Promote agricultural and disaster risk insurance (c) Strengthen solvency and capital frameworks (d) Enhance actuarial capacity and risk-based supervision (e) Strengthen consumer protection mechanisms
3. Capital Market (Securities Sector)	Market Deepening and Diversification	(a) Diversify instruments (corporate bonds, municipal bonds, green bonds, derivatives) (b) Encourage IPOs and SME listings (c) Develop secondary bond markets (d) Modernize trading, clearing, and settlement systems (e) Strengthen disclosure and transparency standards
	Investor Protection	(a) Enhance regulatory oversight by SEBON (b) Strengthen grievance redress systems (c) Improve financial literacy among investors
4. Non-Bank Financial Institutions (NBFIs)	Regulation and Governance	(a) Strengthen supervision of finance companies and microfinance institutions (b) Improve capital adequacy and risk management (c) Strengthen corporate governance and reporting standards
	Financial Inclusion	(a) Expand microfinance outreach to rural and underserved areas (b) Promote digital microfinance platforms
5. Cooperative Financial Institutions	Reform and Stability	(a) Strengthen regulatory and supervisory framework (b) Introduce risk-based monitoring (c) Improve transparency and reporting (d) Promote consolidation of weak cooperatives
6. Payment Systems & Digital Finance	Digital Transformation	(a) Expand digital payment ecosystem nationwide (b) Promote interoperability among payment systems (c) Strengthen cybersecurity frameworks (d) Promote QR-based and mobile payments (e) Implement digital ID and e-KYC systems
7. Financial Inclusion	Access Expansion	(a) Increase branchless banking and agent banking (b) Expand services to women, youth, marginalized groups (c) Promote credit guarantee mechanisms for MSMEs (d) Develop financial inclusion index and monitoring tools
8. Financial Literacy & Consumer Protection	Awareness & Safeguards	(a) Integrate financial literacy into school curricula (b) Nationwide awareness campaigns • Strengthen complaint handling mechanisms (c) Improve transparency in pricing and disclosure (d) Establish stronger consumer protection laws
9. Pension & Provident Funds	Sustainability and Governance	(a) Strengthen actuarial assessments (b) Improve fund management practices (c) Diversify investment portfolios (d) Enhance digital service delivery

Sector	Strategic Focus	Key Action Points (2025/26–2029/30)
10. Green & Sustainable Finance (Cross-Cutting)	Climate Resilience	(a) Develop green finance taxonomy (b) Promote ESG reporting standards • Incentivize renewable energy and climate adaptation financing (c) Mobilize international climate finance
11. Institutional Capacity & Governance (Cross-Cutting)	Regulatory Strengthening	(a) Strengthen coordination among NRB, SEBON, Insurance Authority, and Cooperative regulator (b) Capacity building of supervisors (c) Upgrade data systems and analytics (d) Align with international standards (Basel, IOSCO, IAIS)

18) 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.

19) Nepal Industrial Capacity Utilization Analysis

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

1. Overall Capacity Utilization

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

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

2. High-Capacity Utilization Industries

Several industries demonstrated relatively strong operational performance.

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

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

3. Moderate Capacity Utilization Industries

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

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

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

4. Severely Underutilized Industries

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

Industry/Product	Capacity Utilization (%)
Vanaspati Ghee	0.62
Brick Industry	6.00

Industry/Product	Capacity Utilization (%)
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.

20) Other Indicators

Indicator	Up to (Mid-July 2026)	**Authorities Projections and observation**	Why It Doesn't Translate to Improvement
Government Revenue Expenditure	Revenue Rs. 1,241 billion (83% of the target) Expenditure Rs 1,582 billion 80.55% of the target) Capital Expenditure 47%	Rs 14,800 billion (32.4% increase from actual collections)	Shortfalls due to inefficiencies; Low capital spending (under 24% of budget) limits impact on infrastructure and jobs.
Remittances	Rs. 2,363 billion (+37% corresponding previous year period)	Stable but under pressure	Supports consumption, not investment, deceleration risks reserves.
Private Sector Loans	+6.5% y-o-y (Rs. 359 billion)	12% y-o-y (Monetary Policy target)	Offset by rising NPLs (4.4-5.4%), restricting expansion.
Bad Loans (NPLs)	5.66%	~4.23% target	Indicates borrower distress and banking risks, curbing credit expansion. Borrower distress erodes banking stability.
GDP Growth	Expected 3.85 %	6% target	Modest and uneven; reliant on volatile sectors, not broad-based. Uneven sectors; below pre-pandemic levels.
Forex Reserves	Rs. 3,897 billion (+45%) from mid-July 2025	~Rs. 1,060 billion (Monetary Policy target to cover 7 months imports)	Vulnerable to remittance slowdowns/shocks. Driven by remittances; vulnerable to external shocks and declining inflows.
Liquidity	Excess absorbed Rs. 45,515 billion	High (Rs. 2,007-55,355 billion)	Weak demand prevents productive credit flow. Leads to low rates but weak demand prevents investment.
Interest Rates	Lending 6.55%, Deposit 3.21%, Interbank 2.73%	Lending 7.4-8.5%, Deposit 4.19-3.78%	Reflects stagnation, not vibrancy. Reflects low demand, not vibrancy; doesn't spur borrowing amid risks.
Inflation	5.14% (CPI), Food and non-food increased at 5.25% and 5.08%.	5-8% (est.), Food and nonfood likely to spikes 7-9.85% and 9-12%	Signals weak activity; volatility affects poor. Food prices still pressure vulnerable groups.

Recent macroeconomic indicators up to mid-July 2026 suggest that, while Nepal maintains a degree of short-term stability, underlying structural inefficiencies continue to constrain meaningful economic improvement.

Fiscal performance remains below expectations. Government revenue has reached Rs.1,241 billion, representing 83% of the annual target, while total expenditure stands at Rs. 1,542 billion (80.55% of the target). Notably, capital expenditure remains critically low at 47% of the allocated budget. Despite projections to increase revenue to approximately Rs. 1,480 billion (a 32.4% rise), persistent inefficiencies in revenue mobilization and delays in capital spending continue to weaken the government's ability to stimulate economic activity, generate employment, and deliver infrastructure outcomes.

External sector stability continues to be supported by strong remittance inflows, which reached Rs. 2,120 billion, reflecting a 38% year-on-year increase. However, this inflow remains predominantly consumption-driven, with limited channeling into productive sectors. While projections indicate relative stability, emerging pressures—including potential declines in outmigration—pose risks to reserve sustainability and external sector resilience. The impact of the gulf ware will be felt in the coming months.

Monetary indicators point to weak credit expansion despite ample liquidity. Private sector lending has grown by only 6.2% year-on-year (Rs. 326 billion), significantly below the 12% monetary policy target. At the same time, non-performing loans have risen to 5.90%, exceeding the target threshold of approximately 4.23%. This reflects increasing borrower distress and heightened financial sector risks, which in turn constrain banks' lending capacity and risk appetite.

Economic growth remains subdued, with GDP projected at 3.85%, well below the 6% target. The recovery is uneven and largely dependent on a narrow set of sectors, indicating the absence of broad-based economic momentum and continued vulnerability to sector-specific shocks.

Foreign exchange reserves have increased significantly to Rs. 3,755 billion (up 40% since mid-July 2025), comfortably exceeding the monetary policy benchmark required to cover seven months of imports. However, this strength is largely remittance-driven, leaving the external position exposed to potential shocks arising from global economic conditions and fluctuations in migrant income flows.

Liquidity conditions further highlight structural imbalances. The central bank has absorbed excess liquidity amounting to Rs. 39,113 billion, yet this has not translated into increased productive investment. Weak credit demand continues to limit the transmission of monetary easing into real sector growth. Interest rates remain low—lending at 6.64%, deposit at 3.29%, and interbank at 2.73%—not as a reflection of strong macroeconomic fundamentals, but due to subdued business confidence and limited borrowing appetite.

Inflation has remained contained at 5.22%, with food and non-food inflation at 4.95 % and 5.37%, respectively—below the projected range of 5–8%. While this suggests price stability, it also reflects weak aggregate demand. At the same time, volatility in food prices continues to pose risks to vulnerable populations, with potential spikes in food and non-food inflation estimated in the range of 10–15%.

Overall, the current macroeconomic environment reflects a pattern of stability without momentum. Key indicators—while not signaling immediate distress—fail to translate into robust growth due to structural constraints, weak investment demand, and limited effectiveness of fiscal and monetary transmission mechanisms. Addressing these challenges will require coordinated policy efforts focused on improving capital expenditure efficiency, strengthening financial sector resilience, and redirecting resources toward productive sectors of the economy.

A. Policy Priorities

1. Enhancing Self-Reliance

a. Economic recovery: The recent loss of public and private assets due to political unrest and flash floods has underscored the urgency of rebuilding administrative systems, restoring private sector confidence, and addressing critical infrastructure needs.
b. Energy Security: Prioritize domestic hydropower and renewable generation to reduce import dependency in petroleum and electricity.
c. Chemical & Fertilizer Industries: Develop localized production capacity to reduce reliance on imports critical for agriculture and manufacturing.
d. Transport Linkages: Invest in domestic maintenance and aviation service facilities to reduce the foreign exchange drain from air transport.

2. Export Diversification

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

3. Investment Mobilization

a. Infrastructure-focused Capital Formation: Channel GFCF into construction, logistics, and energy infrastructure to crowd in private investment.
b. Alternative Investment Funds (AIFs): Expand capital market instruments to attract diaspora financing into productive sectors.
c. Sector-specific Incentives: Introduce fiscal and credit support for industries with high value-added and export potential.

B. Strategic Recommendations

Priority Area	Recommended Action	Expected Impact
Economic recovery	Rebuilding administrative systems, restoring private sector confidence, and addressing critical infrastructure needs.	Expected Government Debts requirement 12% of GDP for reconstruction (excluding private sector debts demand)
Energy & Petroleum	Scale hydropower, introduce biofuels, reduce petroleum imports	Lower trade deficit, energy security
Manufacturing	Develop agro-processing, chemical & fertilizer plants	Higher self-reliance, export base expansion
Services	Promote ICT, education exports, health tourism	Diversified export portfolio

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)
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.

21) 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.

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 ~7%, debt rising to ~50% GDP	Amend Financial Procedures and Fiscal Responsibility Act 2019 with fiscal rules & buffer fund Annual The Medium-Term Debt Management Strategy (MTDS) with risk limits Extend yield curve, smooth redemptions	MoF, NRB, Parliament	Buffer ≥0.5% GDP Debt stable ≤50% GDP
Forecasting & Institutional	Tax forecast error NPR 550 bn (7.2% GDP); optimistic grants	Create Independent Fiscal Council Publish forecast error report Use real-time digital tax/customs data	MoF, IRD, NPC	Tax forecast error <5% (MAPE) Public forecast reports published

Risk Area	Key Challenges	Policy & Structural Reforms	Lead Agency	Success Metrics (by FY26/27)
Natural Disasters & Climate	Floods (~2% GDP), Earthquakes (2015: 22.8% GDP loss)	Adopt Disaster Risk Financing (DRF) strategy (buffers, Catastrophe Deferred Drawdown Option (Cat-DDO), insurance) Climate-proof all new projects Disaster contingency fund	MoF, National Disaster Risk Reduction and Management Authority (NDRRMA), NPC	Emergency funds disbursed <14 days 80% projects climate-screened
Sub-National Governments	High transfer dependence, arrears (NPR 10 bn+)	Issue uniform SNG fiscal rules & debt registry Roll out SuTRA 2.0 with commitment controls	MoF, Financial Comptroller General Office (FCGO), Ministry of Federal Affairs and General Administration (MoFAGA)	Arrears <0.1% GDP Capital execution >85%
State-Owned Enterprise (SOE) & Contingent Liabilities	SOE liabilities 33% GDP, weak governance; guarantees NPR 51.6 bn	Pass SOE Governance Act (boards, IFRS audits) Restructure loss-making SOEs (Nepal Airlines) Guarantee ceiling 1% GDP, risk-based fees	MoF Public Enterprises Division (PE Division), IBN	>90% SOEs NFRS-audited Net fiscal flow positive Guarantee provisions ≥60% of expected losses
PPPs & Public Investment	Weak structuring, hidden liabilities	Amend PPP Act with Value for Money (VfM) & affordability caps Establish PPP Unit & Project Preparation Facility (PPF)	IBN, MoF, NPC	100% PPPs VfM-tested PPP liabilities <0.5% GDP

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)

Overall Assessment:

The World Bank highlights that Nepal's economy is entering a phase of slower, fragile growth, where short-term external stability coexists with deeper structural weaknesses. Sustained recovery will depend on improving investment conditions, strengthening fiscal execution, and reducing vulnerability to external shocks.

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
External Position	Stable and improving	Strong reserves	Strong buffers sustained (remittances, tourism support)
Financial Sector	Early stress signals	Rising NPLs, SACCO concerns	Financial vulnerabilities remain key macro risk

Policy Focus	Fiscal + financial stabilization	Governance + investment execution	Institutional reforms + medium-term growth foundation

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

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

However, this did not materialize.

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

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

2. Inflation, External Stability, and Demand Conditions

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

June 2026 Key assessment:

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

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

3. Financial Sector Stress: Core Structural Risk

Across all three reviews, financial sector vulnerability has intensified.

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

By June 2026, IMF emphasizes:

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

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

4. Fiscal Policy and Public Investment

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

Budget credibility gap persists between allocation and implementation
This limits:
- Growth multiplier effects

- Infrastructure expansion
- Private investment crowd-in

5. Risk Environment Evolution

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

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

6. Reform Progress and Policy Direction

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

Key progress areas:

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

However, June 2026 shifts the emphasis toward:

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

The reform agenda is increasingly institutional rather than cyclical.

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

Key commitments reinforced in the final review include:

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

Conclusion

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

From expected recovery (Sixth Review)

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

Core message of June 2026 IMF assessment:

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

8. New Commitments by Government of Nepal (GoN)

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

a) Formulation of a blueprint on improving governance and service delivery.
b) Commitment to IMF Technical Assistance (TA) on Governance and Corruption Diagnostics.

c) Submission of the Nepal Rastra Bank (NRB) Act amendments to Parliament (critical for central bank independence and resolution framework).
d) Implementation of Loan Portfolio Review (LPR) recommendations to strengthen bank balance sheets.
e) Continued efforts on revenue mobilization, public investment efficiency, anti-money laundering (to exit FATF grey list), and establishment of an Asset Management Company following international best practices.

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

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. 2025-2029Key Issues in Nepal's Development Context Nepal's economy is significantly remittance-driven, with remittances contributing approximately 25% of GDP. While this inflow supports household consumption and reduces poverty, it also discourages domestic production and undermines the competitiveness of the export and manufacturing sectors. This over-reliance has made the economy vulnerable to external shocks and limited long-term sustainable growth.

2. The country also suffers from weak private sector competitiveness. High tariffs and logistics costs, coupled with a strong real exchange rate, have created an unfriendly business environment. Moreover, around 50% of enterprises operate informally, limiting access to finance, regulatory protection, and productivity-enhancing opportunities.

3. Agricultural productivity remains low due to fragmented land holdings, insufficient irrigation coverage, poor rural infrastructure, and limited connections between farming and agribusiness markets. This has constrained income growth in rural areas and reduced the sector's potential to support broader economic development.

4. There are also significant gaps in education and skilled labor. The current education system, particularly Technical and Vocational Education and Training (TVET), is misaligned with market needs, leading to a mismatch in supply and demand for labor. Additionally, basic skill deficits continue to hinder workforce readiness and employability.

5. At the institutional level, Nepal faces challenges in administrative capacity, especially at the sub-national level. The transition to a new federal governance structure has exposed weaknesses in coordination, planning, and service delivery across provincial and local governments.

6. Lastly, geographic and climate vulnerabilities pose persistent risks. Nepal's landlocked status increases trade costs, while its exposure to natural disasters—such as earthquakes and floods—threatens economic resilience and development gains. Addressing these multifaceted challenges is critical for achieving sustainable and inclusive growth.

7. Critical Review and Suggested Actions for Nepal's Development Agenda

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

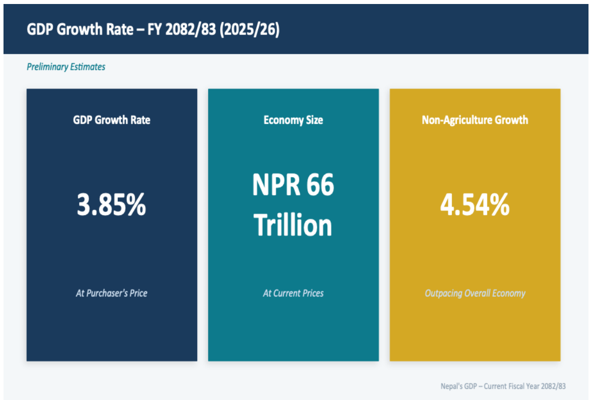
5. In tackling **human trafficking**, Nepal should expand support services for survivors and increase the presence of labor attachés in destination countries to protect migrant workers. Additionally, monitoring and regulation of recruitment agencies and brokers must be strengthened to prevent exploitation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

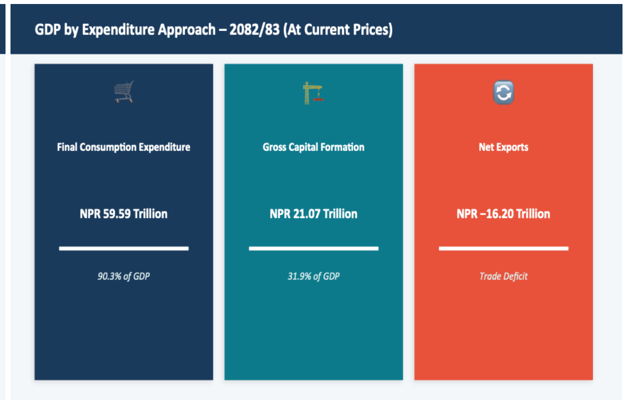
6. With the rapid growth of the digital economy, **digital regulation** must be updated. This includes enacting robust cybersecurity and privacy laws, regulating digital lenders and fintech startups, and improving cybercrime enforcement mechanisms to safeguard consumers and ensure responsible innovation.

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

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

3) Strategies for Nepal's Economic Development

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

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

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

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

2. The government's continued dependence on import-based revenue and elevated direct and indirect tax burdens, combined with rising public expenditure and a lack of structural reforms, further strain the economic landscape.

3. Meanwhile, the economy is facing a troubling disconnect, muted consumer demand alongside surplus capacity. Despite historically low interest rates, productivity remains stagnant, and private sector momentum has failed to pick up. Yet, amidst these challenges, there is room for cautious optimism.

4. With decisive leadership and well-targeted reforms, Nepal can still course-correct and lay the foundation for sustainable growth. Immediate stabilization measures are necessary, but so too is a bold medium-term reform agenda that strengthens institutions, boosts competitiveness, and improves living standards.

5. Key Recommendations for the Year Ahead:

   i) **Financing Reconstruction in a Commercial Way**

   In light of the devastation caused during the recent protests and the limited fiscal space available to the Government, it may be worth considering an innovative financing mechanism for the timely reconstruction of damaged properties. Instead of relying exclusively on direct budgetary allocations, the Government could monetize select assets and invite private investors, both domestic and foreign, to provide upfront financing for reconstruction. The Government could then gradually repay investors over a 10–15 year horizon, with interest linked to the prevailing 365-day Treasury bond rate. Such an approach could:

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

   There are precedents of similar approaches internationally:
   (1) **United Kingdom**: Public–Private Partnerships (PPPs) under the Private Finance Initiative have funded schools, hospitals, and transport infrastructure through long-term repayment models.
   (2) **India**: Cities like Pune and Ahmedabad have successfully raised municipal bonds and adopted PPP models for infrastructure, with costs recovered through government payments or user charges.
   (3) **Philippines**: Following Typhoon Haiyan, hybrid PPPs were mobilized for rapid reconstruction of public facilities.
   (4) **Kenya**: Road annuity programs enabled private contractors to finance roads, with government repayment spread over 8–10 years, benchmarked to bond rates.

   A tailored model of this kind could be piloted in Nepal's reconstruction program. It would not only bridge the immediate resource gap but also strengthen public–private trust, while ensuring sustainable quality and efficiency in delivery.

   (1) Safeguard International Credibility
   (2) Take urgent diplomatic and legal steps to ensure compliance with APG standards and address human trafficking concerns proactively.
   (3) Stimulate Domestic Demand
   (4) Support small businesses, expand access to affordable credit, and incentivize local production to invigorate the real economy.
   (5) Reform the Tax Structure
   (6) Reduce over-reliance on import-based taxation by creating a fairer, growth-oriented tax regime that promotes investment and entrepreneurship.
   (7) Strengthen Public Financial Management
   (8) Improve efficiency, transparency, and targeting of government spending to maximize impact and maintain fiscal discipline.
   (9) Rebuild Confidence and Stability
   (10) Foster political stability, regulatory consistency, and a clear, credible reform roadmap to restore public trust and attract long-term investment.

Nepal's path forward will not be without difficulty, but with focused effort and genuine political will, 2082 can mark the beginning of a more resilient, inclusive, and prosperous economic era.

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

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

5) Economic Growth and Inflation

1. GoN set GDP growth target rate at 6% for FY 2025/26: Expected to remain low at 3.85%
2. For FY 2025/26 the GoN set target rate of inflation at 5.5%, July 2026 inflation 5.14% within NRB target.

6) Growth Projections

1. The growth outlook for Nepal has undergone notable revisions across major international financial institutions—World Bank, Asian Development Bank, International Monetary Fund, and the Central Bureau of Statistics Nepal—reflecting evolving domestic and external economic conditions. The World Bank initially projected a moderate recovery, revising Nepal's FY 2024/25 growth upward from 4.6 percent in April 2024 to 5.1 percent by October 2024 and maintaining this level through January 2025. However, subsequent updates indicate a downward correction, with projections reduced to 4.9 percent in April 2025 and further to 4.0 percent by June 2025. Similarly, the FY 2025/26 outlook was initially optimistic at 5.5 percent but was later sharply downgraded to 2.1 percent by October 2025, signaling heightened concerns over economic momentum and external vulnerabilities.

2. The Asian Development Bank followed a comparable trajectory. It upgraded FY 2023/24 growth from 3.6 percent to 3.9 percent and projected FY 2024/25 growth at 4.9 percent in September 2024. However, this optimism weakened by April 2025, with the forecast reduced to 4.4 percent. For FY 2025/26, ADB initially projected 5.1 percent growth, but by December 2025, this was significantly revised downward to 3.0 percent. ADB further reduced the growth forecast to 2.7% on April 2026 suggesting a deterioration in macroeconomic conditions and slower-than-expected recovery.

3. The International Monetary Fund presented a more volatile assessment. After a sharp downgrade to 0.8 percent for FY 2022/23, it revised FY 2023/24 growth upward to 3.9 percent by May 2024. For FY 2024/25, projections fluctuated—declining to around 4.0 percent in January 2025 before improving slightly to 4.2 percent in March 2025. The IMF maintained a relatively optimistic medium-term outlook, projecting 5.2 percent growth for FY 2025/26 in October 2025, although this was later revised downward to a range of 3.0–3.5 percent by February 2026, indicating increasing uncertainty.

4. In contrast, the Central Bureau of Statistics shows a more stable and somewhat optimistic domestic assessment. Growth estimates for FY 2023/24 improved gradually from 3.2 percent to 3.4 percent, while FY 2024/25 estimates peaked at 5.1 percent in the second quarter before moderating to 4.6 percent by the third quarter and stabilizing at 4.8 percent by early 2026. However, CBS projections for FY 2025/26 indicate a slowdown to around 3.0 percent in the first quarter and slight improvement in QII to 4%, however Q II and Q IV will likely witness slowdown due to external pressure aligning more closely with the downward revisions seen in international forecasts.

5. Overall, the consistent pattern across institutions highlights an initial post-pandemic recovery followed by growing pessimism due to both domestic structural constraints and external shocks. While multilateral institutions initially anticipated stronger growth, repeated downward revisions suggest weakening demand, slower capital formation, and rising global uncertainties. The convergence of forecasts toward the 3–4 percent range for FY 2025/26 underscores a cautious outlook, emphasizing the need for policy interventions to restore growth momentum and macroeconomic stability.

World Bank

1.April 2024 4.6%. FY 2024/25 projections
- Oct. 2024 5.1% (0.5% Improved form April 24 for 2024/25)
- January 2025 5.1% (no change from Oct. 2024 for 2024/25)
- April 2025 4.9% (0.2% down form January 2025)
- June 2025. 4% (0.9% down form April 2025)

2.April 2024 5.3 % FY 2025/26 projections
- Oct 2024 5.5 %. (0.2% Improved from April 24 for FY 2025/26)
- January 2025 5.5% (no change from Oct. 2024 for 2025/26)
- April 2025 ↓5.4% (0.1% down form January 2025)
- Oct. 2025 ↓2.1% (3.3% dwon from April 2025)

ADB

1.April 2024. 3.6% - FY 2023/24 projections
- Sept. 2024. 3.90. 0.60% up from previous for FY 2023/24

2.April 2024. 4.8% - FY 2024/25 projections
- Sept 2024. 4.9% 0.1% up from April 2024 for 2024/25
- April; 2025 ↓ 4.4% 0.5% down form Sept 2024 for 2024/25

3.April 2025 5.1% FY 2025/26 Projection

4.December 2025 3% ↓2.% down form April 2025

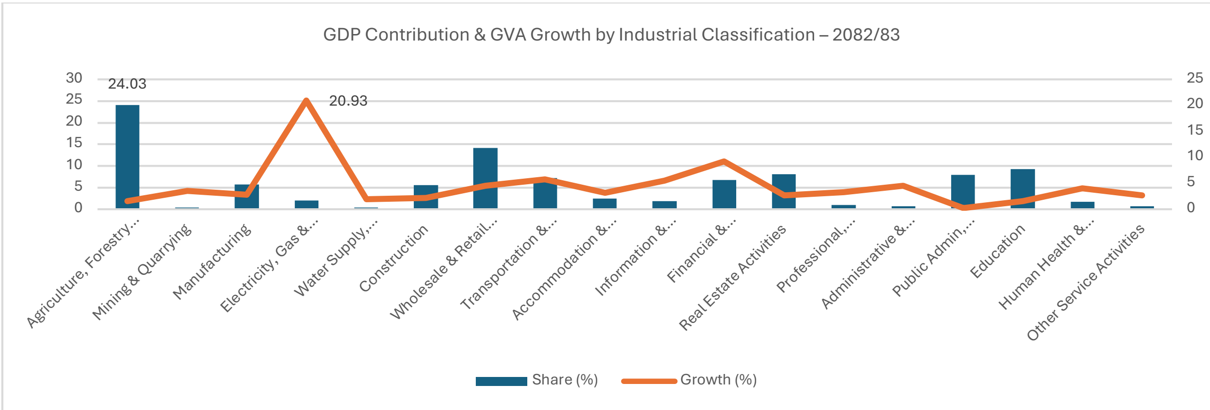
5. April 2026. 2.7% ↓0.7.% down form Decemebr 2025

IMF

1. Oct 2023. 0.80 % 4.3 % down from Jan 2023 (FY 22/23)
2. Dec 2023. 3.5 % Forecast for 2023/24
   - May 2024. 3.9%. (0.4% improved from Dec. 2023 for 2023/24)
3. May 2024 4.9% FY 2024/25 projections
   - January 2025 ↓ ~4 % (0.90% down from May 2024)
   - March 2025 ↑ 4.2%. (0.2% improved from Jan 2024 for 2024/25)
   - Oct 2025. 5.2% Satable outlook for 2025/26
   - February 2026 3 to 3.5%% ↓2.2% down form Oct. 2025

CBS

- Oct. 2024 3.2% FY 2023/24 Estimate Q IV
- Jan 2025 3.4% 2024/25 Estimate Q I
- March 2025 5.1% 2024/25 Estimate Q II
- July 2025 4.6% 2024/25 Estimate Q III
- January 2026 4.8% 2024/25 Estimate Q IV
- Januray 2026. 3.2% 2025/26 Estimate Q I
- April 2026. 4.0% 2025/26 Estimate Q II
- April 2026. 3.8 2025/26 Annual Estimate



6. Nepal's economic growth in 2024/25 is increasingly being powered by dynamic service sectors and productive middle-tier industries, while growth in large traditional sectors remains muted. Sectors like transport, finance, energy, and ICT are becoming new growth poles, but their scale is still developing. Meanwhile, public sector and agriculture dominate the structure but lack transformative momentum.

7. To ensure balanced and sustainable economic development, Nepal should:
   i) Scale up high-growth sectors through investment and policy support.
   ii) Modernize agriculture and public services to raise productivity.
   iii) Strengthen manufacturing and logistics, which combine scale and dynamism
   iv) Promote digital, green, and inclusive growth models to align emerging sectors with national development goals

7) Nepal's Financial and Energy Sectors at a Critical Juncture

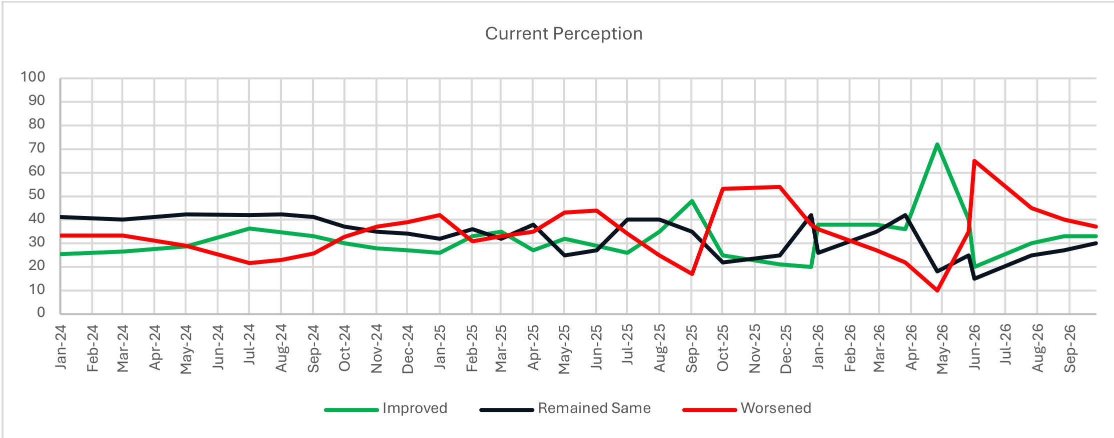
1. Nepal's financial sector stands at a pivotal moment. The placement of the country on the FATF Grey List due to deficiencies in its anti-money laundering and counter-terrorist financing (AML/CFT) framework has underscored the urgency of comprehensive reform. At the same time, the World Bank's Country Partnership Framework (CPF) for FY2025–2031 offers a roadmap for fostering inclusive growth, strengthening institutional resilience, and advancing financial stability. Against this backdrop, the Nepal Rastra Bank (NRB) has taken a pivotal step by establishing a high-level Financial Sector Reform Committee, charged with addressing systemic gaps and guiding the financial sector towards a more resilient, trustworthy, and competitive future.

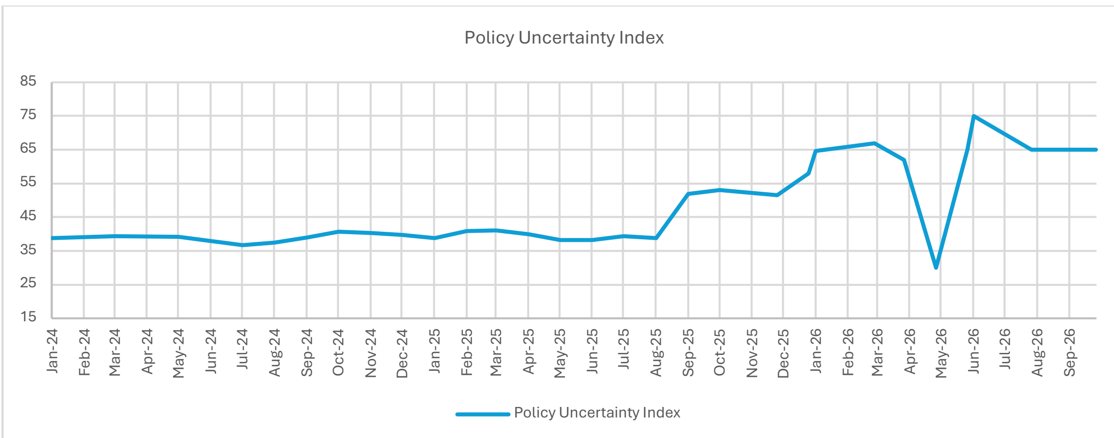
2. The CPF identifies a range of long-standing structural constraints within Nepal's economic landscape. Remittances comprise approximately 25.3% of GDP, highlighting their central role in the national economy, yet domestic investment and formal job creation remain subdued. Private investment has plateaued at roughly 22% of GDP, over 80% of the workforce operates in the informal sector, and women's participation in the labor market is just 24%, compared to 53% for men. Meanwhile, capital budget execution has been a persistent challenge, with only 63.5% of allocations utilized in FY2024. These indicators point to deep-seated institutional, regulatory, and financial access bottlenecks that require urgent attention. In response, NRB's Financial Sector Reform Committee has been mandated to address critical areas, including strengthening AML/CFT compliance and enforcement, aligning supervisory practices with international standards, and deepening financial inclusion. The Committee aims to design a dedicated national AML/CFT mechanism, refine legal provisions for financial and non-financial institutions, and foster stronger cross-border regulatory collaboration. It will also emphasize post-merger oversight of financial institutions, expand rural and underserved access, integrate gender-responsive financial literacy, and lay the groundwork for a more open and competitive financial sector.

3. These priorities are well-aligned with the World Bank's vision for a digital, climate-resilient, and inclusive financial ecosystem. Yet experience suggests that reform efforts in Nepal often stumble due to institutional fragmentation, political interference, and a lack of accountability. To break this cycle, the Committee must operate with a focus on transparency, clearly defined milestones, robust inter-agency collaboration, and strong legal underpinnings. Amendments to critical legislation, such as the NRB Act, must be prioritized to reinforce the central bank's independence and enforcement authority. With disciplined execution and sustained political will, this initiative has the potential to position Nepal's financial sector as a trusted, resilient, and investment-ready engine of growth — one that serves its people, especially women, MSMEs, and underserved communities, while aligning with global standards and best practices. Simultaneously, Nepal's hydropower sector faces its own critical challenge. The shift from a "take or pay" to a "take and pay" model threatens to disrupt the country's long-standing strategy for harnessing its hydropower potential, estimated at over 100,000 MW, and realizing its vision of converting "water into watts" and "watts into wealth." Without predictable, secure, and transparent policies, this vision may remain an unrealized slogan rather than an economic reality.

4. The NRB should review its productive sector lending policies, especially the mandatory lending quotas for the hydropower sector. At a time when uncertainty surrounding the role of the sole energy off-taker threatens to categorize the sector as high-risk, such policies must be re-evaluated. To preserve and deepen investor confidence, regulatory clarity and long-term stability must be priorities. By providing a sound policy environment, Nepal can secure the financing required to fully unlock its hydropower potential, ensuring long-term energy security and robust economic growth.

8) Consumer perception





1. Overall Trend: Strong Inverse Relationship with Structural Breaks

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

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

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

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

This phase reflects a confidence deficit without extreme policy shocks.

3. Late 2025: Sharp Volatility and Confidence Collapse

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

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

Key dynamics:

- September 2025 shows a temporary optimism spike (48%), likely expectation-driven.

- This is immediately followed by a confidence collapse in Oct–Nov 2025, where “worsened” peaks at 54%.
- PUI rises sharply to 52–58, confirming a strong policy shock / uncertainty regime.

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

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

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

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

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

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

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

- Policy stability
- Fiscal and monetary coordination
- Reform credibility

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

5. Mid 2026: Fragile Recovery and Rapid Reversal

However, the improvement proves short-lived:

Month	Improved	Worsened	PUI
May-26	**40**	**35**	**65**
Jun-26	**20**	**65**	**75**
Jul-26	**30**	**45**	**65**
Sept-26	**33**	**37**	**65**

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.
- September 2026 shows partial stabilization but still weak sentiment.

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

6. Key Insights

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

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

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

b) Three Distinct Regimes Emerge

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

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

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

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

d) Policy Credibility Gap Remains Central

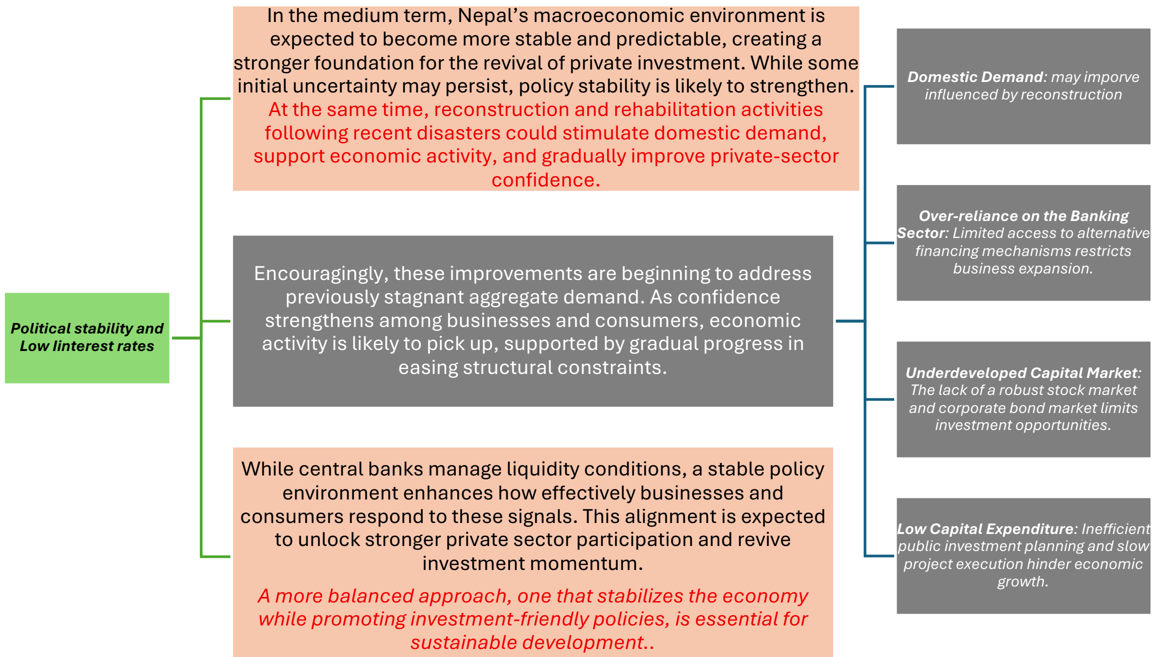
The repeated rebound in PUI after brief improvements suggests:

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

Conclusion

From January 2024 to August 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.

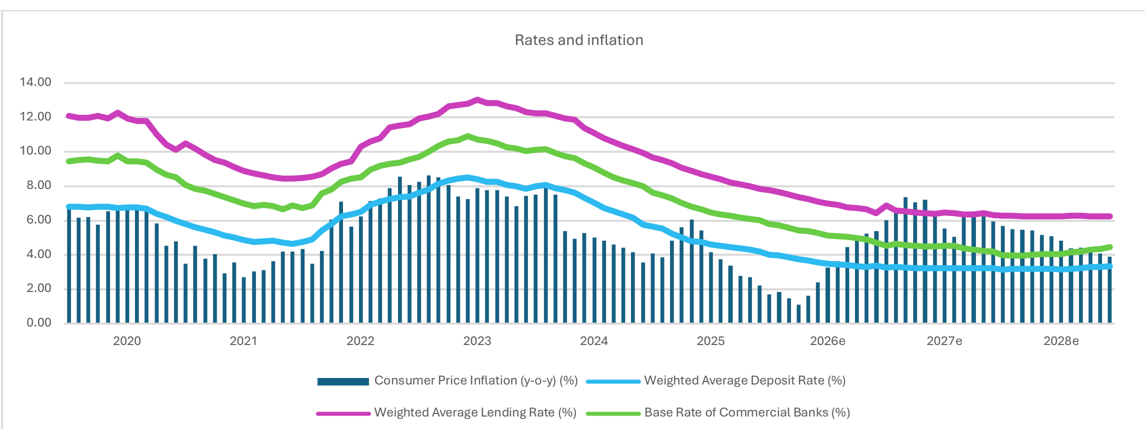
While central banks manage liquidity conditions, a stable policy environment enhances how effectively businesses and consumers respond to these signals. This alignment is expected to unlock stronger private sector participation and revive investment momentum. Looking ahead, a balanced and forward-looking 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
Weak Domestic Demand	Accommodative monetary policy, fiscal support, and targeted reconstruction stimulus	Increased consumption and business activity across damaged trade and hydro corridors	Strengthening

Challenge Area	Policy Support Lever	Expected Impact	Outlook
Limited Financing Access	Financial sector reforms, credit diversification, and emergency relief loan facilities	Improved access to capital for SMEs, informal traders, and damaged enterprises	Improving
Underdeveloped Capital Market	Capital market reforms, regulatory enhancement, and infrastructure bond issuance	Expanded investment opportunities, local bond deepening, and long-term funding sources	Gradually Expanding
Low Capital Expenditure	Efficient public investment planning, project acceleration, and flood infrastructure repair	Higher infrastructure development, rapid bridge/road recovery, and positive multiplier effects	Gaining Momentum
Policy Uncertainty	Enhanced policy consistency, disaster risk governance, and institutional coordination	Stronger investor confidence, lowered sovereign risk perception, and sustained private investment	Stabilizing

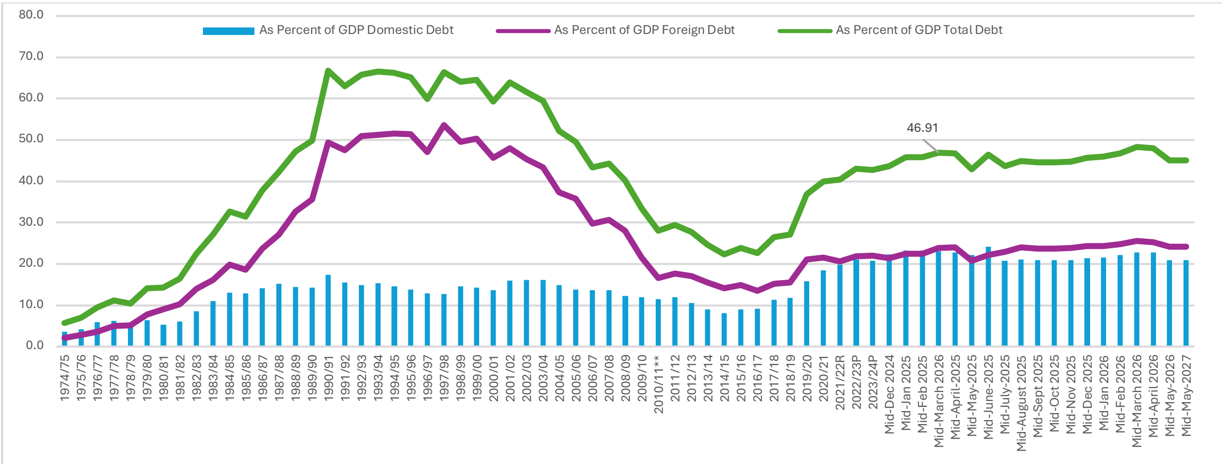
9) Interest rates and Inflation



Interest rates remain low, and inflation is expected to stabilize during 2028; however, credit growth is likely to remain subdued.

10) Debts to GDP

Starts above 66% of GDP, decreases to around 60% by 2009/10. Stabilizes, then rises from 2015/16 onwards, ending at 45.6% in 2025/26. Overall, foreign debt remains stable with a slight increase, domestic debt increases significantly, and total debt shows an increasing trend followed by a recent rise.



11) Risk Matrix

Risks	Likelihood	Impact	Mitigation Measures
Political Instability & 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.

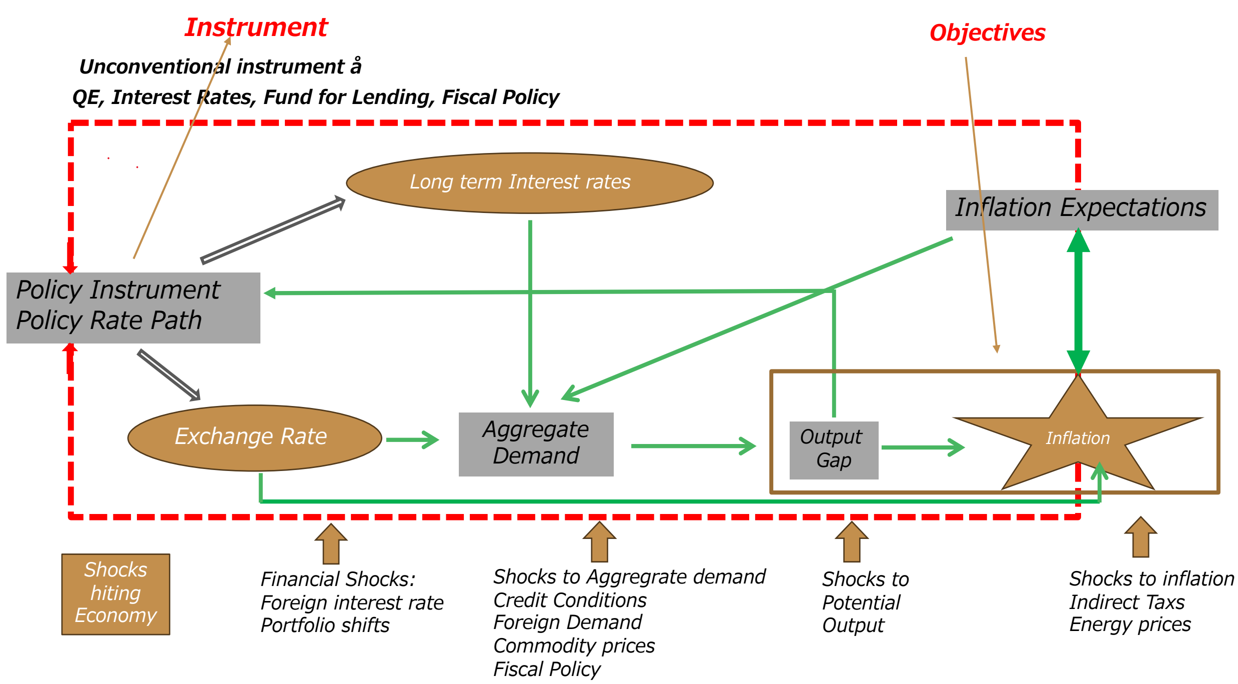
12) Factor of risk

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.

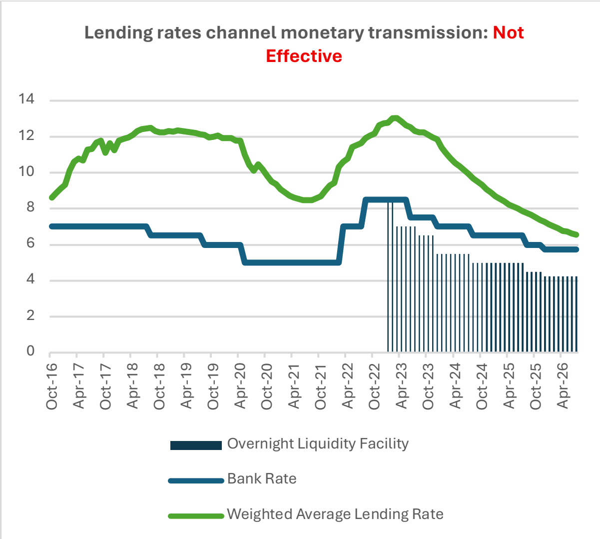
13) Policy Mistakes

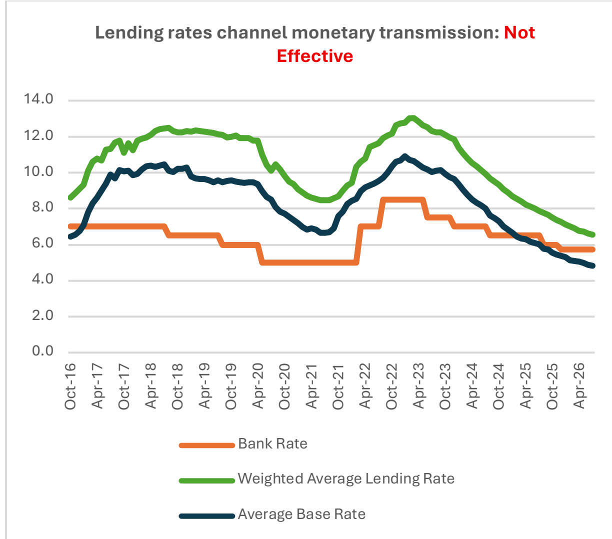


Monetary Transmission Mechanism

a) Monetary policy transmission

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


Lending rates channel monetary transmission: Not Effective
14
12
10
8
6
4
2
0
Oct-16 Apr-17 Oct-17 Apr-18 Oct-18 Apr-19 Oct-19 Apr-20 Oct-20 Apr-21 Oct-21 Apr-22 Oct-22 Apr-23 Oct-23 Apr-24 Oct-24 Apr-25 Oct-25 Apr-26
Overnight Liquidity Facility
Bank Rate
Weighted Average Lending Rate


Lending rates channel monetary transmission: Not Effective
14.0
12.0
10.0
8.0
6.0
4.0
2.0
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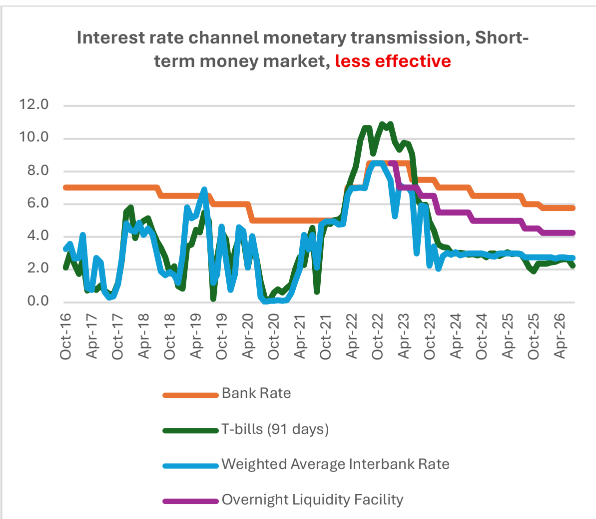
Oct-16 Apr-17 Oct-17 Apr-18 Oct-18 Apr-19 Oct-19 Apr-20 Oct-20 Apr-21 Oct-21 Apr-22 Oct-22 Apr-23 Oct-23 Apr-24 Oct-24 Apr-25 Oct-25 Apr-26
Bank Rate
Weighted Average Lending Rate
Average Base Rate


Interest rate channel monetary transmission, Short-term money market, less effective
12.0
10.0
8.0
6.0
4.0
2.0
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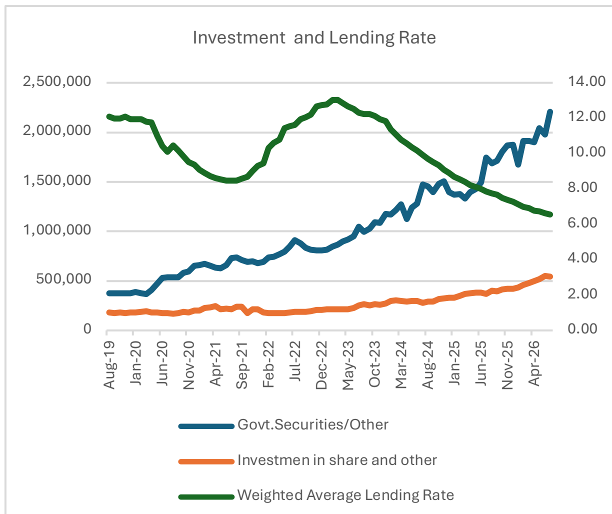
Oct-16 Apr-17 Oct-17 Apr-18 Oct-18 Apr-19 Oct-19 Apr-20 Oct-20 Apr-21 Oct-21 Apr-22 Oct-22 Apr-23 Oct-23 Apr-24 Oct-24 Apr-25 Oct-25 Apr-26
Bank Rate
T-bills (91 days)
Weighted Average Interbank Rate
Overnight Liquidity Facility


Investment and Lending Rate
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
14.00
12.00
10.00
8.00
6.00
4.00
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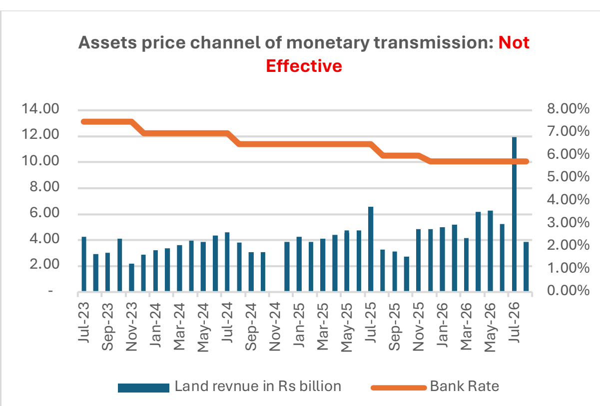
Aug-19 Jan-20 Jun-20 Nov-20 Apr-21 Sep-21 Feb-22 Jul-22 Dec-22 May-23 Oct-23 Mar-24 Aug-24 Jan-25 Jun-25 Nov-25 Apr-26
Govt.Securities/Other
Investmen in share and other
Weighted Average Lending Rate


Assets price channel of monetary transmission: Not Effective
14.00
12.00
10.00
8.00
6.00
4.00
2.00
-
8.00%
7.00%
6.00%
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4.00%
3.00%
2.00%
1.00%
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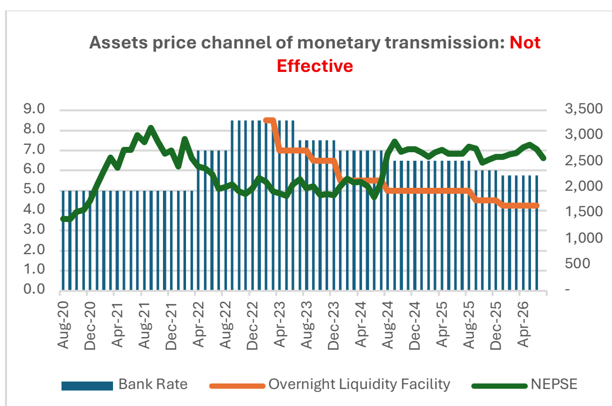
Jul-23 Sep-23 Nov-23 Jan-24 Mar-24 May-24 Jul-24 Sep-24 Nov-24 Jan-25 Mar-25 May-25 Jul-25 Sep-25 Nov-25 Jan-26 Mar-26 May-26 Jul-26
Land revnue in Rs billion
Bank Rate


Assets price channel of monetary transmission: Not Effective
9.0
8.0
7.0
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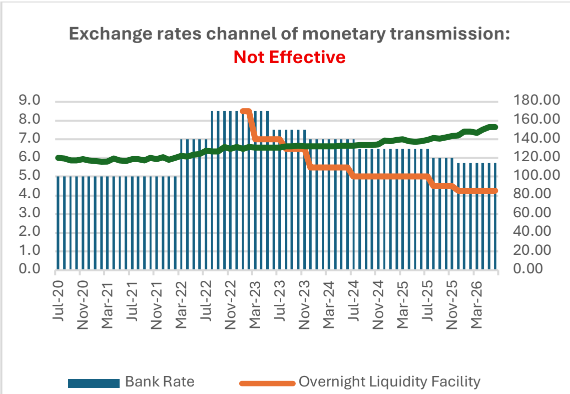
Aug-20 Dec-20 Apr-21 Aug-21 Dec-21 Apr-22 Aug-22 Dec-22 Apr-23 Aug-23 Dec-23 Apr-24 Aug-24 Dec-24 Apr-25 Aug-25 Dec-25 Apr-26
Bank Rate
Overnight Liquidity Facility
NEPSE


Exchange rates channel of monetary transmission:
Not Effective
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
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140.00
120.00
100.00
80.00
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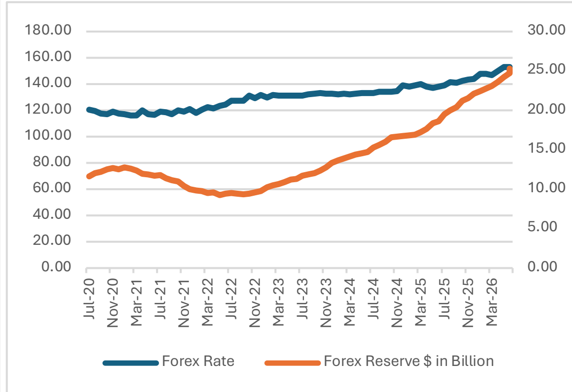
Jul-20 Nov-20 Mar-21 Jul-21 Nov-21 Mar-22 Jul-22 Nov-22 Mar-23 Jul-23 Nov-23 Mar-24 Jul-24 Nov-24 Mar-25 Jul-25 Nov-25 Mar-26
Bank Rate
Overnight Liquidity Facility


180.00
160.00
140.00
120.00
100.00
80.00
60.00
40.00
20.00
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25.00
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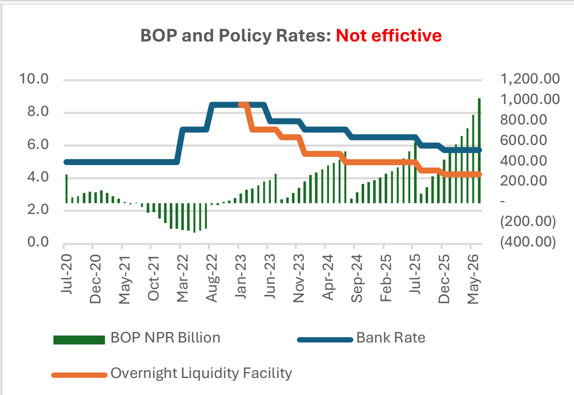
Jul-20 Nov-20 Mar-21 Jul-21 Nov-21 Mar-22 Jul-22 Nov-22 Mar-23 Jul-23 Nov-23 Mar-24 Jul-24 Nov-24 Mar-25 Jul-25 Nov-25 Mar-26
Forex Rate
Forex Reserve $ in Billion


BOP and Policy Rates: Not effictive
10.0
8.0
6.0
4.0
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1,200.00
1,000.00
800.00
600.00
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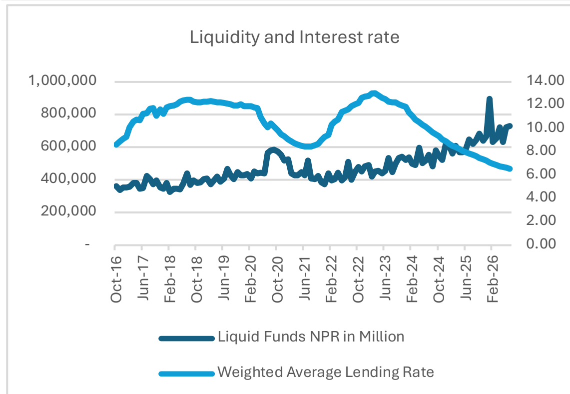
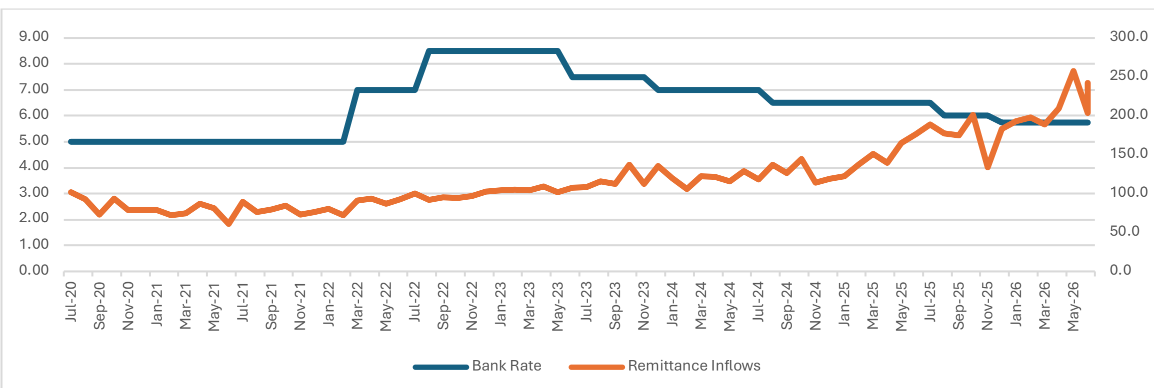
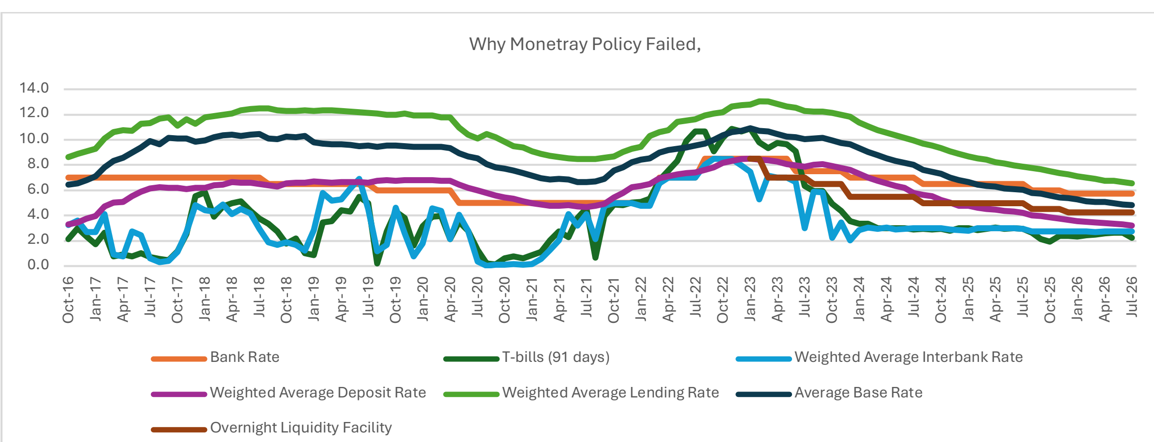
-
(200.00)
(400.00)
Jul-20 Dec-20 May-21 Oct-21 Mar-22 Aug-22 Jan-23 Jun-23 Nov-23 Apr-24 Sep-24 Feb-25 Jul-25 Dec-25 May-26
BOP NPR Billion
Bank Rate
Overnight Liquidity Facility


Liquidity and Interest rate
1,000,000
800,000
600,000
400,000
200,000
-
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Oct-16 Jun-17 Feb-18 Oct-18 Jun-19 Feb-20 Oct-20 Jun-21 Feb-22 Oct-22 Jun-23 Feb-24 Oct-24 Jun-25 Feb-26
Liquid Funds NPR in Million
Weighted Average Lending Rate


9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
300.0
250.0
200.0
150.0
100.0
50.0
0.0
Jul-20 Sep-20 Nov-20 Jan-21 Mar-21 May-21 Jul-21 Sep-21 Nov-21 Jan-22 Mar-22 May-22 Jul-22 Sep-22 Nov-22 Jan-23 Mar-23 May-23 Jul-23 Sep-23 Nov-23 Jan-24 Mar-24 May-24 Jul-24 Sep-24 Nov-24 Jan-25 Mar-25 May-25 Jul-25 Sep-25 Nov-25 Jan-26 Mar-26 May-26
Bank Rate
Remittance Inflows


Why Monetray Policy Failed,
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12.0
10.0
8.0
6.0
4.0
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Oct-16 Jan-17 Apr-17 Jul-17 Oct-17 Jan-18 Apr-18 Jul-18 Oct-18 Jan-19 Apr-19 Jul-19 Oct-19 Jan-20 Apr-20 Jul-20 Oct-20 Jan-21 Apr-21 Jul-21 Oct-21 Jan-22 Apr-22 Jul-22 Oct-22 Jan-23 Apr-23 Jul-23 Oct-23 Jan-24 Apr-24 Jul-24 Oct-24 Jan-25 Apr-25 Jul-25 Oct-25 Jan-26 Apr-26 Jul-26
Bank Rate
T-bills (91 days)
Weighted Average Interbank Rate
Weighted Average Deposit Rate
Weighted Average Lending Rate
Average Base Rate
Overnight Liquidity Facility

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.

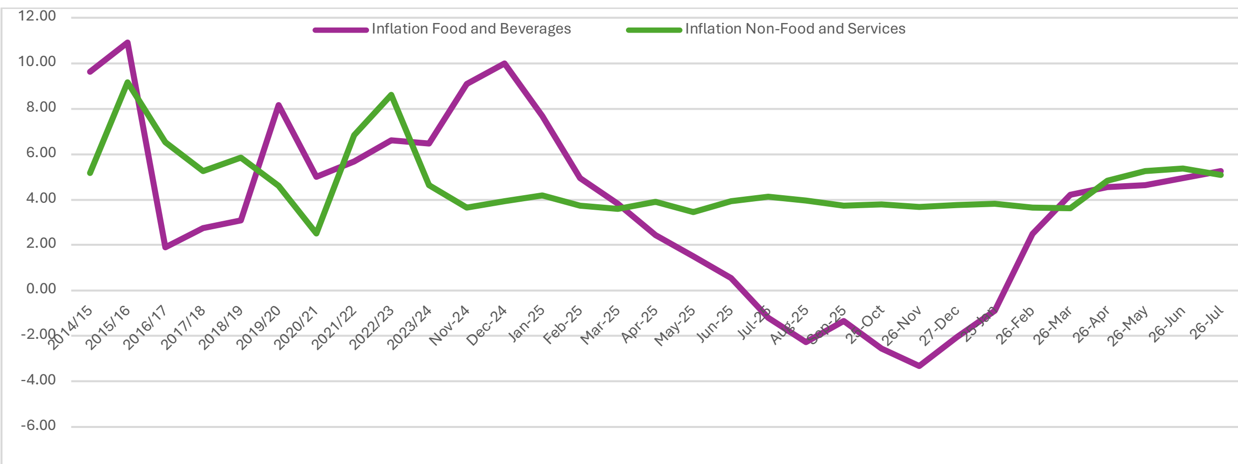
- *2019-2021: CPI fluctuated between 4.44% and 6.95%.*
- *2022: A decline in CPI, reaching a low of 2.70% in Jan-Feb, reflecting subdued demand during the pandemic.*
- *2023-2025: Inflation surged, peaking at 8.56% in 2023 before stabilizing around 1.47% by October 2025 and surged to 5.14% in July 2026*

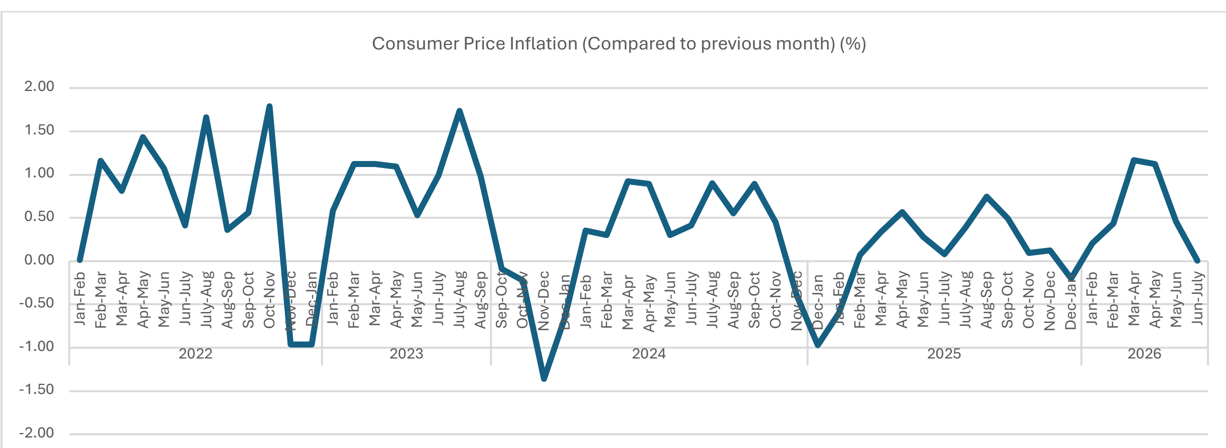
Policy Mistakes:

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 5.14 percent in July 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

Comparison: Shrawan 12, 2083 vs. Bhadau 13, 2083

The latest Kathmandu wholesale market data show a mixed movement in agricultural commodity prices, rather than the broad-based inflationary increase observed in the previous period. Across the commodities covered in the dataset, the reported average price change was +2.12%, indicating relatively limited overall price pressure despite substantial movements in individual products. The market was characterized by significant price increases in selected vegetables, leafy greens, herbs, fruits and onions, while several seasonal vegetables experienced substantial declines. This divergence suggests that commodity-specific supply conditions and seasonal availability were more important than a generalized increase in food prices during the period.

Major Vegetable Price Movements
Among staple vegetables, tomato prices increased significantly. Large local tomatoes increased by 52.53%, while small tunnel-grown tomatoes recorded an even sharper 82.02% increase. Potato prices, in contrast, remained relatively stable: red long potatoes increased by only 1.02%, round and Mude varieties by 1.51%, while Indian red potatoes increased by 14.14% and white potatoes by 17.19%.

The most notable increase among basic vegetables was recorded by Indian dry onions, which rose by 71.31%, from NPR 55.60 to NPR 95.25 per kg. Local carrots increased by 10%, while local cabbage rose by 40% and local cauliflower by 5.26%. However, a number of vegetables became considerably cheaper. Long eggplant declined by 64.71%, ridge gourd by 67.31%, scus by 63.46%, and round eggplant by 47.50%. Green pumpkin, okra and several varieties of beans also recorded substantial declines.

Beans, Gourds and Seasonal Vegetables
The price performance of beans and gourds was particularly mixed. Soybean pods increased by 36.84%, while maize beans increased by 5.88%. Conversely, local ghee beans declined by 28.77%, hybrid ghee beans by 30.14%, and Tate beans by 31.82%. Bitter gourd, bottle gourd, chichindo and several other seasonal vegetables also recorded price declines. This pattern suggests that seasonal supply was improving for several locally produced vegetables, even as selected commodities faced tighter availability.

Leafy Greens and Herbs
Leafy vegetables showed some of the most dramatic movements in the market. Jiri greens and celery both increased by 157.14%, while parsley surged by 277.78%, from NPR 450 to NPR 1,700 per kg. Mint increased by 85.71%. At the same time, several major leafy greens became cheaper. Rayo Saag declined by 56.36%, spinach by 44.44%, and mustard greens by 48.57%. This indicates that the sharp increases in specialty herbs were not representative of the entire leafy-vegetable market.

Mushrooms and Specialty Vegetables
Mushroom prices remained comparatively stable. Oyster mushrooms declined by 7.02%, while button mushrooms increased by 3.16% and king oyster mushrooms by 1.61%. Shiitake mushrooms remained unchanged at NPR 900 per kg. Broccoli, however, increased by 30.23%, while red cabbage rose by 57.14%.

Fruit Prices
Fruit prices also showed mixed movements. Among the major increases, lemons rose by 52.78%, Malda mangoes by 44.74%, and Dasheri mangoes by 26.32%. Fuji apples increased by 12.07%, Nepali bananas by 10%, and local pears by 12.50%. Dragon fruit increased by 20%. Several fruits, however, recorded substantial declines. Avocado prices fell by 70%, pomegranates by 42.11%, Junar by 38.60%, and local and Indian papayas by 11.76% and 13.64%, respectively. Watermelon declined by 15.38%. The divergent movement in fruit prices is consistent with changing seasonal availability and market arrivals.

Spices, Chilies and Condiments
Spice prices were also mixed. Fresh ginger increased only modestly by 4.65%, while dried chili increased by 10.53%. Green coriander increased by 20%. Several green chili varieties, however, became significantly cheaper. Long green chili declined by 42.11%, bullet chili by 35.29%, and mache chili and sheep chili by 40%. Interestingly, Akabare chili moved in the opposite direction, increasing by 25%.

Selected Highest Price Increases

Commodity	Price Change
Parsley	**+277.78%**
Jiri greens	**+157.14%**
Celery	**+157.14%**
Small tunnel tomatoes	**+82.02%**
Mint	**+85.71%**
Indian dry onions	**+71.31%**
Large local tomatoes	**+52.53%**
Lemon	**+52.78%**
Red cabbage	**+57.14%**
Malda mango	**+44.74%**

Largest Price Declines

Commodity	Price Change
Avocado	**-70.00%**
Ridge gourd	**-67.31%**
Long eggplant	**-64.71%**
Scus	**-63.46%**
Rayo Saag	**-56.36%**
Local green pumpkin	**-47.06%**
Round eggplant	**-47.50%**
Mustard greens	**-48.57%**
Spinach	**-44.44%**
Pomegranate	**-42.11%**

Overall Assessment

The latest wholesale market data point to **moderate overall agricultural price pressure, with considerable divergence across individual commodities**. The reported average price change of **+2.12%** indicates that Kathmandu's wholesale vegetable and fruit market did not experience generalized food inflation during this period.

Instead, the market experienced **large commodity-specific price swings**. Specialty leafy vegetables such as parsley, Jiri greens and celery recorded exceptionally high increases, while tomatoes and onions also became substantially more expensive. Conversely, seasonal vegetables such as ridge gourd, eggplant, scus, Rayo Saag and several beans recorded sharp price declines.

The data therefore suggest that **seasonal supply conditions and changes in market arrivals are driving price movements more strongly than broad-based inflationary pressure**. For consumers, however, the sharp increases in frequently used products such as tomatoes, onions and lemons could still create noticeable pressure on household food expenditure despite the relatively modest overall average change.

Going forward, continued monitoring of wholesale arrivals, monsoon-related production conditions and transportation networks will be important. If supply improves for the commodities currently experiencing shortages, their prices could normalize relatively quickly. Conversely, continued disruptions could keep selected food items under upward price pressure even while the broader agricultural price index remains relatively stable.

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.

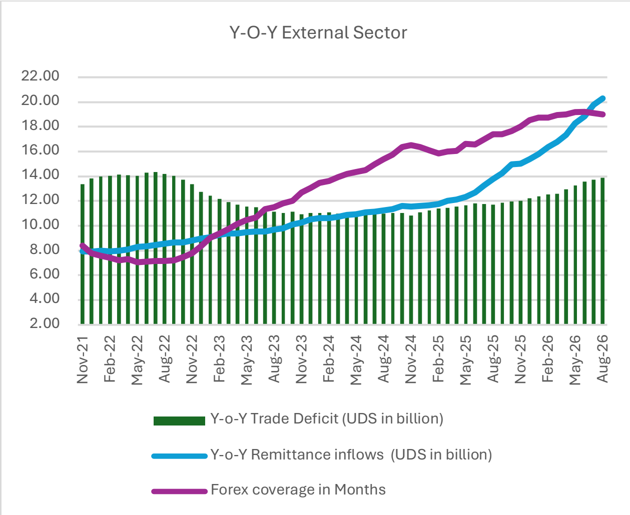
- *Exports have shown a consistent upward trend, rising from NPR 8.6 billion in early 2019 to NPR 13.33 billion by December–January 2024, and further climbing to NPR 24.7 billion by mid-January 2025. In contrast, imports experienced a substantial surge—from NPR 112.5 billion in early 2019 to NPR 188.1 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 midiSept-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.*

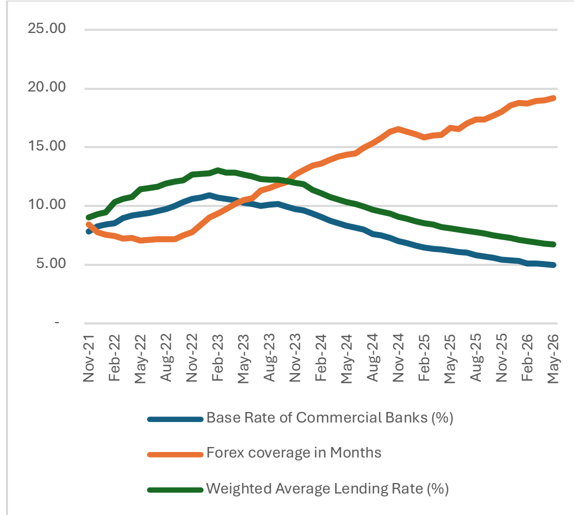
Policy Mistakes:

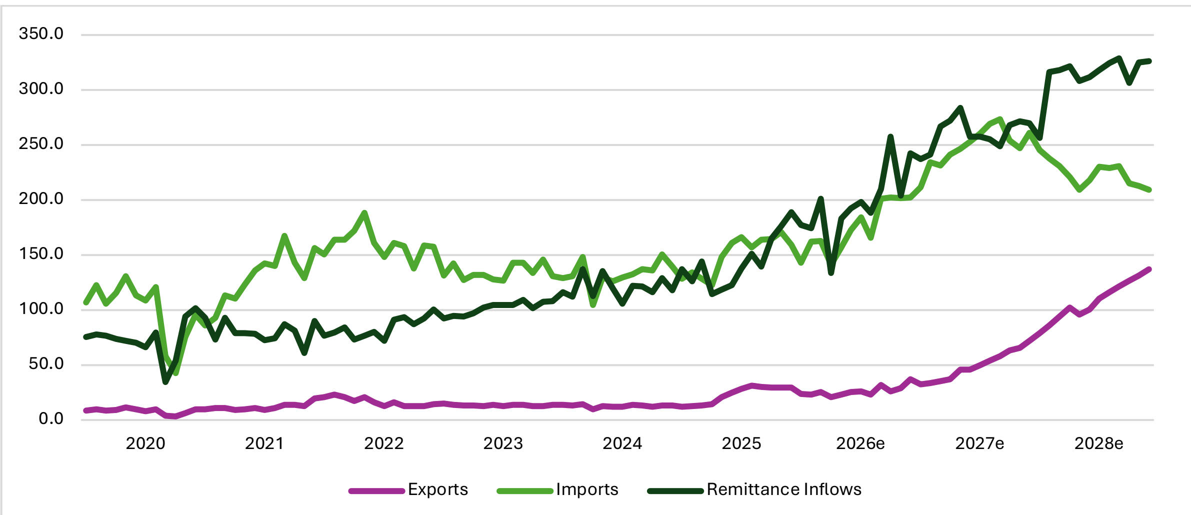
- *Overreliance on import restrictions proved to be a short-term solution, causing supply chain disruptions without providing a sustainable resolution to the trade deficit. The ongoing currency depreciation and rising costs are expected to continue exerting pressure on the balance of payments (BOP).*

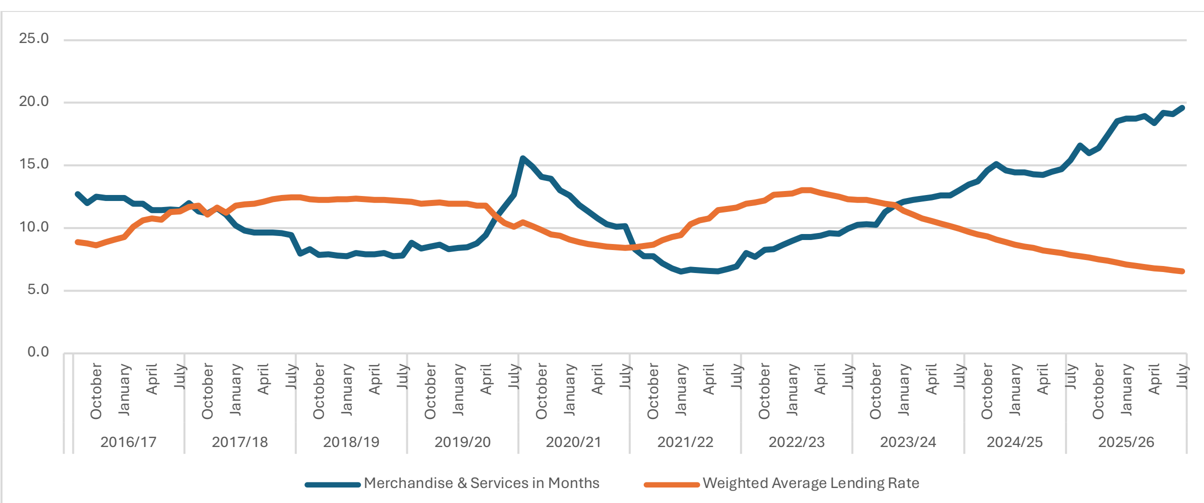
Recommendations:

- *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.*


Y-O-Y External Sector
Y-o-Y Trade Deficit (UDS in billion)
Y-o-Y Remittance inflows (UDS in billion)
Forex coverage in Months


Base Rate of Commercial Banks (%)
Forex coverage in Months
Weighted Average Lending Rate (%)


Exports
Imports
Remittance Inflows


Merchandise & Services in Months
Weighted Average Lending Rate

e) Government Expenditure

3. Government Expenditure

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

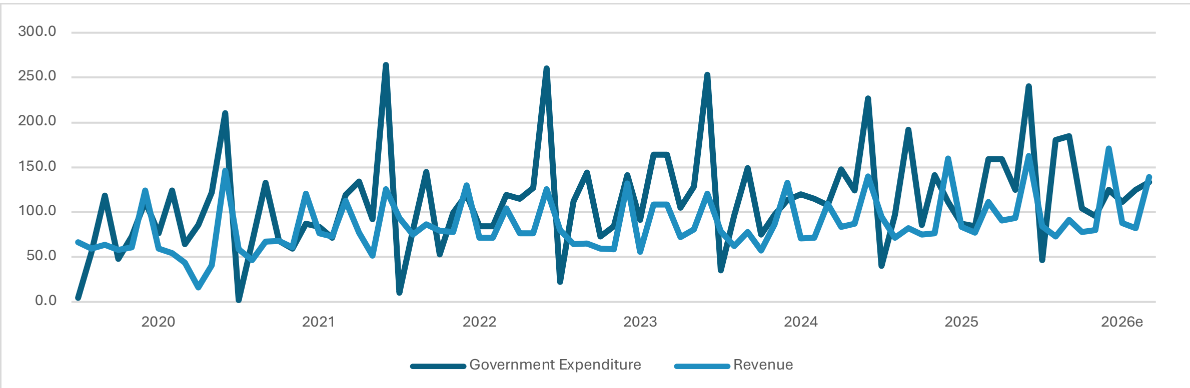
Over the last four years (2023–2026), Nepal's fiscal trends continue to reflect a structural imbalance between expenditure and revenue, with clear evidence of fiscal bunching and weak capital execution. Total government expenditure repeatedly peaks in the final months of each fiscal year, reaching around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

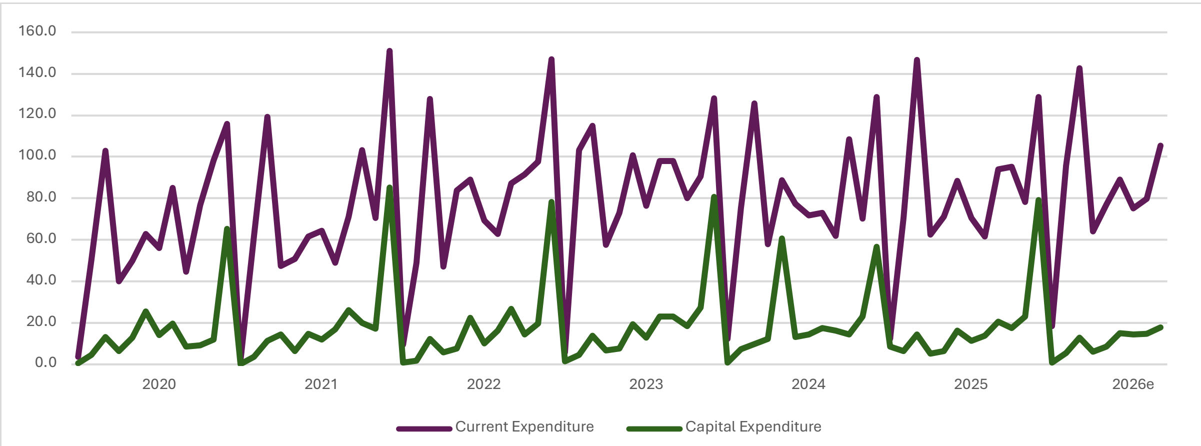
Policy Mistakes:

- *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.*

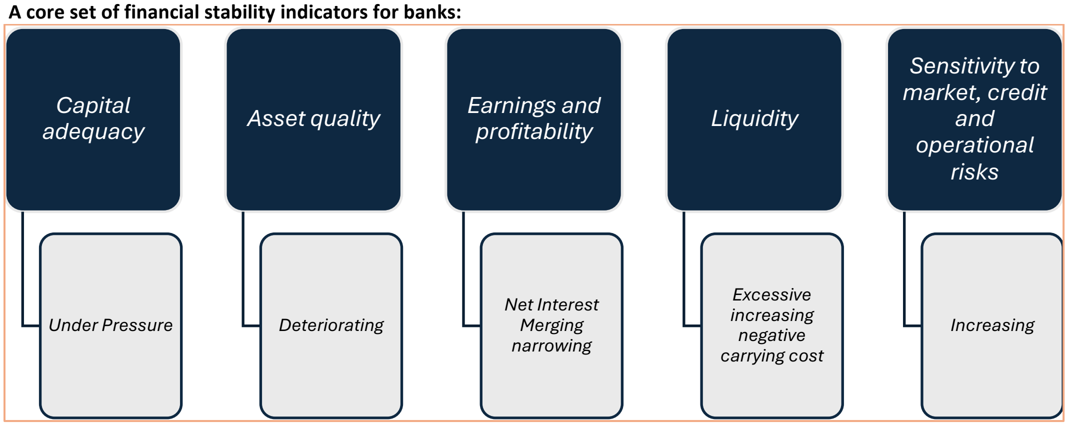
Policy Mistakes:

- *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-July	in %age	Gross RWA
Gross Loan	5,956.57	100.00%	6,635
Good loan	5,574.11	93.58%	
Watch list	168.00	2.82%	
Problem Loan	382.47	6.42%	
Provision made	349.50	5.87%	
Additional Provision Required (assuming 50% of Watch List loans are downgraded and all Problem Loans become Bad)	116.97	1.96%	
Paid up Capital and Statutory Reserves to loan	614.32	10.31%	9.26%
Total capital to loan	838.61	14.08%	12.64%
Net capital If all problem loan becomes bad	497.35	8.35%	7.50%
Total capital If all problem loan becomes bad	721.64	12.12%	10.88%

a) Asset Quality and Provisioning

As of mid-July 2026, Nepal's banking sector maintained a gross loan portfolio of NPR 5,956 billion. Of the total portfolio, 93.58% (NPR 5,574 billion) comprised performing loans, while 2.82% (NPR 168 billion) were classified as watch-list loans and 6.42% (NPR 382 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 116 billion in provisions, representing 1.96% 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 10.31% of gross loans (or 9.26% of risk-weighted assets). Including supplementary capital elements, total regulatory capital stands at NPR 838 billion, representing 14.o8% 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 497 billion, reducing the capital ratio to only 4.57% of gross loans (or 4.10% of risk-weighted assets). Total regulatory capital would also fall to NPR 496.69 billion, equivalent to 8.35% of gross loans and 7.5% 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.

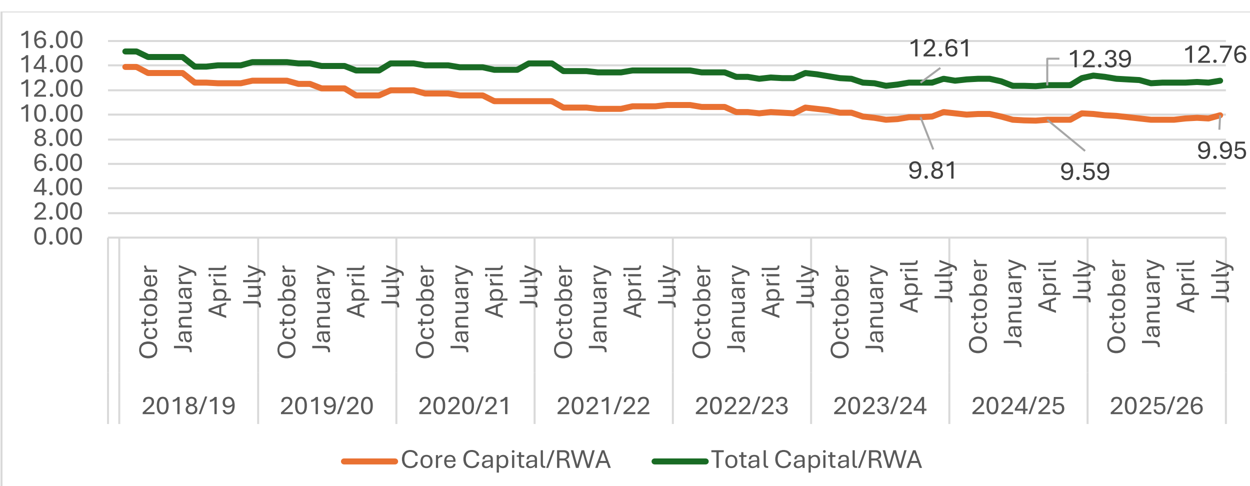
c) Policy Implications

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

Rs in billion	Mid-July				Mid-July
Provision for Risk	2022	2023	2024	2026	2026
Opening		110.30	168.12	230.01	284.03
Addition		85.63	105.41	112.88	128.59
Less Write Back		27.56	43.24	58.46	62.42
Less Recovery from Written off Loan		0.25	0.29	0.41	0.70
Closing	110.30	168.12	230.01	284.03	349.50
Gross Loan Loas Provision	2.27%	3.33%	4.26%	4.83%	5.54%

4. Risk Assets Classification

Gross loan		2026			
Risk Assets Classification		Mid-July			
Pass Loan	5,574.11	5,574.11	5,742.10	93.58%	93.58%
Watch List	168.00	168.00		2.82%	
Special Mention Loan	207.69	207.69	214.47	3.49%	6.42%
Other specified Loan	6.78	6.78		0.11%	
Gross Loan	5,956.57	5,956.57		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

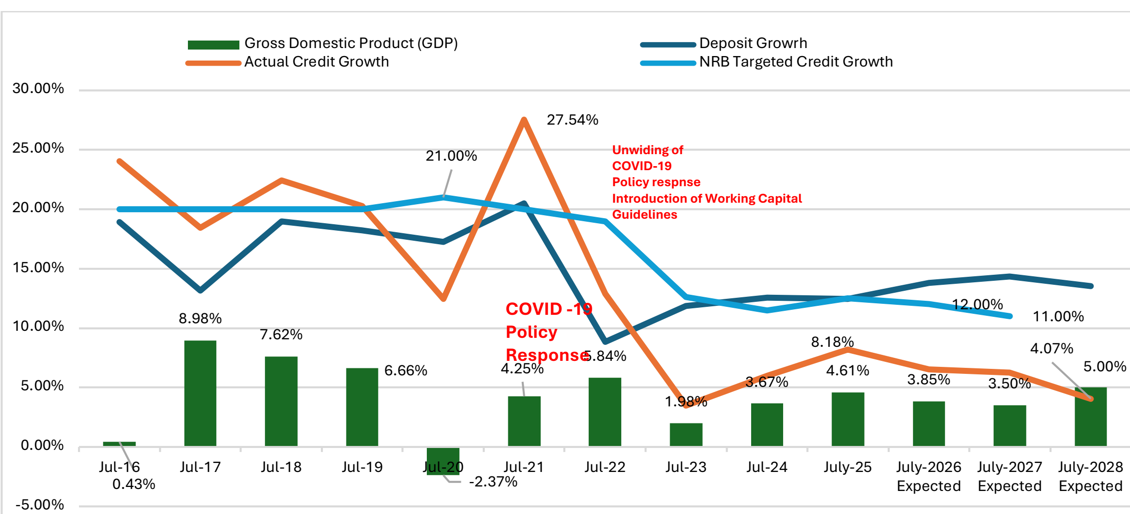
Heading ***(Rs. in million)***	2026			
	July	**Share**	**Trend**	**Growth**
Agriculture	410,434	6.89%	Down	-1.78%
Mines	12,070	0.20%	Up	2.68%
Productions	930,341	15.62%	Up	5.24%
Construction	274,322	4.61%	Up	18.55%
Metal Productions	74,252	1.25%	Up	1.61%
Transportation	53,895	0.91%	Up	3.00%
Communications and Energy	548,092	9.20%	Up	14.99%
Wholesaler and Retailers	1,020,204	17.13%	Down	-1.26%

Heading (Rs. in million)	2026			
	July	Share	Trend	Growth
Finance, Insurance, and Real Estates	462,871	7.77%	Up	5.02%
Service Industries	509,824	8.56%	Up	4.35%
Consumable Loan	1,357,356	22.79%	Up	17.85%
Local Government	1,195	0.02%	Down	-3.13%
Others	299,770	5.03%	Down	-9.00%
Total	5,954,625	100.00%	Up	6.48%

h) Loan Securities Composition and Growth Trend

H Heading (Rs. in million)	2026			
	July	Share	Trend	Growth
Gold/Silver	125,940	2.12%	Up	51.21%
Government Securities	822	0.01%	Down	-82.16%
Non-Government Securities	152,556	2.56%	Up	16.39%
Fixed A/c Receipt	26,309	0.44%	Down	-34.40%
Asset Guarantee	5,235,236	87.92%	Up	5.94%
Lands and Buildings	3,746,152	62.91%	Up	3.49%
Machinery and Tools	222,366	3.73%	Up	14.37%
Furniture and Fixture	2,577	0.04%	Up	20.35%
Vehicles	170,922	2.87%	Up	10.52%
Other Fixed Assets	196,499	3.30%	Up	21.73%
Current Assets	896,720	15.06%	Up	10.80%
Agricultural Products	68,505	1.15%	Up	12.23%
Other Non-Agricultural Products	828,215	13.91%	Up	10.68%
On Bills Guarantee	40,950	0.69%	Down	-20.51%
Domestic Bills	4,366	0.07%	Down	-22.45%
Foreign Bills	36,584	0.61%	Down	-20.27%
Guarantee	192,896	3.24%	Down	-2.20%
Credit Card	8,054	0.14%	Up	29.43%
Others	171,863	2.89%	Up	26.12%
Total	5,954,625	100.00%	Up	6.48%

i) Expected Growth



a. The data from FY 2016 to FY 2027 reveals not just economic trends but deeper structural and policy dynamics in Nepal's financial system. A critical analysis of the period—especially surrounding the COVID-19 pandemic—highlights how policy responses, external shocks, and domestic structural weaknesses have influenced credit growth, deposit mobilization, and broader macroeconomic stability.

b. During the early COVID-19 period (FY 2020), Nepal experienced a historic contraction in GDP by -2.37%, accompanied by a significant drop in credit growth to 12.46%, down from 20.28% the year before. In response, the government and the Nepal Rastra Bank (NRB) implemented aggressive monetary and fiscal stimuli to support the economy. This included refinancing facilities, interest subsidies, loan moratoriums, and relaxed regulatory measures. These interventions, while critical in the short term, had profound side effects. By FY 2021, credit growth surged to 27.54%, far exceeding the NRB's target of 20%, as banks deployed liquidity into the economy at unprecedented rates. However, the economic rebound in GDP was only moderate (4.25%), revealing a possible mismatch between credit expansion and real economic activity. Much of the credit appears to have flowed into non-productive sectors such as real estate and margin lending, inflating asset prices rather than generating broad-based economic growth.

c. As the COVID stimulus unwound post-FY 2021, the NRB began tightening monetary policy to rein in inflationary pressure and financial risks. This policy reversal coincided with a sharp deceleration in both credit and deposit growth. Credit growth dropped to 12.91% in FY 2022 and collapsed further to just 3.48% in FY 2023, despite a moderate GDP expansion. Deposit growth, the foundation of financial intermediation, also declined significantly, from 20.5% in FY 2021 to just 8.84% in FY 2022. This suggests not just liquidity tightening but a deeper erosion in public trust and saving capacity, partly driven by inflation, falling remittances in real terms, and economic uncertainty.

d. One of the key structural failures contributing to this decline is the crisis in Nepal's savings and credit cooperatives (SACCOS). Traditionally a significant source of local credit and deposit mobilization, these cooperatives have suffered from poor regulation, governance failures, and mismanagement of funds. The collapse or insolvency of several cooperatives in recent years has severely undermined confidence in the informal financial system, pushing more pressure onto the formal banking sector. This has likely contributed to the reluctance of both savers and borrowers, further weakening financial intermediation.

e. Compounding these economic issues is ongoing political instability. Frequent changes in government, inconsistent policy direction, and delays in budget implementation have all hampered the effectiveness of economic reforms. The absence of a credible long-term economic vision and weak institutional execution capacity have further aggravated investor uncertainty and discouraged long-term credit demand and investment. As a result, even as NRB has tried to stabilize the economy through calibrated credit growth targets (down to 11.5% by FY 2024 and projected 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.

f. In summary, the post-COVID period in Nepal is marked by the challenge of transitioning from stimulus-driven liquidity to a more disciplined, growth-oriented credit environment. While NRB has responded with tighter policy frameworks, the overall effectiveness is limited by broader structural issues, including political volatility, institutional mistrust following the cooperative crisis, and a fragile depositor base. For sustained recovery, Nepal will need not only macroprudential discipline but also deep structural reforms in financial governance, cooperative regulation, and political accountability to rebuild confidence in both the banking system and the broader economy.

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 6.73% May 2026.*
- *Base Rates of Commercial Banks: Gradually decreased over the period, indicating the impact of excess liquidity and loss of confidence in the market.*
- *Liquidity remains high, foreign reserves are strong, but average credit demand has stagnated at ~5.8% for three years. Rising NPAs are eroding banking capital, and Tier 1 capital is nearing the minimum threshold. Businesses are highly leveraged, limiting new investments.*

Policy Mistakes:

- *Overemphasis on Monetary Measures: Relying solely on interest rate adjustments without tackling broader economic challenges proves insufficient. Excessive focus on working capital guidelines, risk weightage, and asset classification fails to align with the subdued growth dynamics of the economy.*

Recommendations:

- *Balance monetary measures with structural reforms to enhance overall economic resilience.*
- *Implement targeted lending programs to support critical sectors.*

a. The relationship between deposit rates, lending rates, 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 3.21% in July 2026, while the weighted average lending rate declined from 12.08% to 6.55% 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 3,207 billion in July 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.

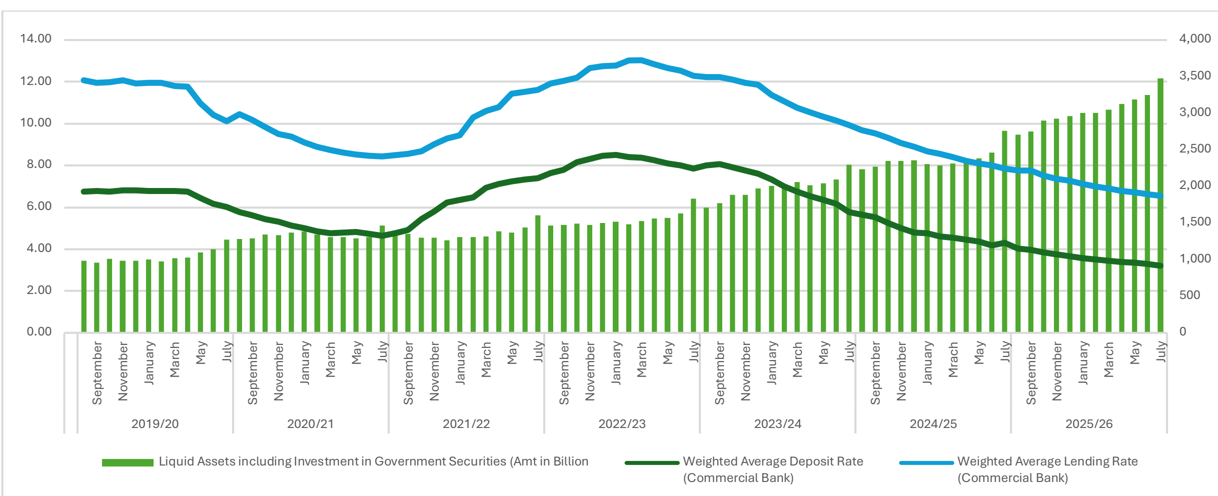
This creates an important policy challenge for Nepal Rastra Bank (NRB). Rather than relying primarily on further reductions in policy or lending rates, NRB should review existing prudential and capital-related regulatory provisions to identify opportunities to unlock and efficiently deploy existing bank 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:

Targeted Stimulus:	*Implement targeted stimulus measures to revive sectors hardest hit by the pandemic and policy changes. This includes providing financial support and incentives for industries such as tourism, hospitality, and small businesses.*
Infrastructure Investment:	*Prioritize investments in infrastructure projects to stimulate economic activity and create employment opportunities. Infrastructure development not only boosts short-term growth but also lays the foundation for long-term prosperity.*
Diversification Strategies:	*Encourage diversification strategies to reduce reliance on sectors susceptible to external shocks. Promoting innovation and supporting emerging industries can enhance economic resilience and mitigate vulnerabilities.*
Regulatory Clarity:	*Provide clarity and consistency in regulatory frameworks to support lending activities and foster a conducive environment for credit growth. Clear guidelines and streamlined processes can enhance the efficiency of credit allocation and promote investment.*
Policy Coordination:	*Enhance coordination between fiscal and monetary authorities to ensure a cohesive approach to inflation management. Coordinated policies, including targeted fiscal measures and appropriate monetary interventions, can effectively address inflationary pressures.*
Forward Guidance:	*Provide clear and transparent forward guidance on monetary policy to guide market expectations and promote stability. Clear communication from central banks can help manage interest rate expectations and minimize market volatility.*
Policy Flexibility:	*Maintain policy flexibility to respond to evolving economic conditions. Central banks should stand ready to adjust interest rates in line with changing economic indicators, ensuring an appropriate balance between growth and inflation objectives.*

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

   a. Strict Implementation of AML Regulations:
   Strengthen oversight to prevent financial crimes while maintaining a balanced approach that does not overburden legitimate businesses.

   b. Encouraging Voluntary Reporting of Suspicious Transactions:
   Businesses should be incentivized to report suspicious activities proactively. A safe harbor provision can be introduced to protect businesses that voluntarily disclose transactions in good faith.

   c. Reducing Compliance Costs:
   Current AML compliance requirements create a heavy financial and administrative burden on businesses. Simplifying reporting procedures, digitalizing compliance processes, and providing clear guidelines will reduce costs and ensure smoother operations.

   d. Enhanced Coordination Among Agencies:
   Establish a centralized digital platform for AML reporting, allowing banks, financial institutions, and businesses to submit reports efficiently without duplication.

   e. Capacity Building and Awareness Programs:
   Train businesses and financial institutions on AML best practices, ensuring they understand regulatory expectations and compliance requirements.

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

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

S.N.	Thematic Area	Nepal Rastra Bank Act 2058	Proposed NRB Bill 2082	Key Shift / Policy Implication
1	Legal Foundation	Establishes NRB as central bank of Nepal with defined objectives and functions	Retains core structure but amends multiple provisions for modernization	Reform-oriented amendment rather than replacement
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

Score	Probability (P)	Impact (I)
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

a. Total Risk Score = **160**
   Number of Risk Factors = **15**
b. Average Risk Score} = 160 / 15 = 10.67

b) Overall Reform Risk Level

a. Average **Score: 10.67 → Moderate–High Risk**

7) Risk Concentration Analysis

High & Critical Risk Areas

Reform Area	Score	Priority Level
Digital Currency Cybersecurity	25	Immediate Priority
Risk-Based Supervision	16	Structural Priority
Autonomy Reform	12	Political Priority
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

Aspect	Nature of Change
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*

Description	Data Availability / Remarks	Risk to Financial Sector Stability
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*
Parent company officials influencing BFI decisions, directly or indirectly.	*Subjective, cannot be quantified*	*Low*
Entities where the BFI holds 10% or more shareholding.	*Subjective, cannot be quantified*	*Low*
Entities with less than 10% BFI shareholding but influence on BFI board decisions.	*Subjective, cannot be quantified*	*Low*
Executives of BFI subsidiary companies.		*Low*
Other persons or entities as designated by Nepal Rastra Bank (NRB).		
For government-owned BFIs, any officials designated by NRB.		

Section 52 and Section 18: Prohibition on Transactions and Activities and Directorship

- *Loan Ban:*
  - *Banks shall not be allowed to provide any type of loan facilities to affiliated person of that bank or financial institution or to the person holding significant ownership in any bank.*

Exceptions:

- *Loans backed by 100% cash margin guarantees.*
- *Loans secured with institutional fixed deposits.*
- *Loans backed by Nepal Government or NRB bonds.*
- *Home loans, as per NRB guidelines.*

Prohibited Section 52 and Section 18:

- *Section 52: Transactions and Activities:- Related persons are barred from providing legal, tax, accounting, valuation, or auditing services to the concerned bank.*
- *Section 18 (Cha 1): Directorship:- The total business loans obtained by the individual concerned, their family members, or any company or institution affiliated with them, exceeding one percent of the core capital of the bank or financial institution to which the individual is being proposed for appointment as a director.*

Section 52a: Maintenance of Related Party List

- *Initial List: New institutions must prepare and submit a related persons list to NRB upon establishment.*
- *Existing Institutions: Must prepare and submit within 35 days of fiscal year end when the section comes into force.*
- *Annual Update: The list must be updated annually and any changes reported within 35 days.*

b. Critical Analysis and Implications

1. Governance and Risk Management Improvements
   i. Encourages better risk management and transparency.
   ii. Aligns with Basel principles and international banking standards.
   iii. Restricts undue influence by insiders and affiliated parties.
2. Downsides and Practical Challenges

   i. Structural Incompatibility
      1. Nepal's banking sector was historically built on a symbiotic relationship between bankers and businesses.

2. Many promoters and board members are also business borrowers, making a clean separation impractical in the short term.

ii. Credit Flow Constraints

1. An overly broad definition of “related persons” may restrict legitimate credit transactions, especially in SME and industrial sectors where ownership overlaps are common.

iii. Compliance Burden

1. Maintaining and updating extensive related-party lists requires dedicated human and technological resources
2. Ambiguity around what constitutes “significant influence” or “substantial control” may lead to inconsistent interpretations and regulatory friction.

iv. Risk of Overregulation

1. Could discourage capital investment in banks if shareholders perceive reduced access to financial services.
2. May push credit activities outside the formal sector, increasing systemic vulnerability

v. Recommendations

1. Phased Implementation: Provide a transition window (e.g., 10–15 years) for compliance and restructuring of governance practices.
2. Clarification Guidelines: NRB should issue operational guidelines to define “significant influence,” “substantial control,” and how these will be determined.
3. Regulatory Sandbox: Allow a trial phase where banks can report related party exposures while continuing operations under existing norms.
4. Capacity Building: Provide training and digital infrastructure support for banks to manage compliance.
5. Stakeholder Consultation: Engage banks, promoters, and private sector representatives to design a practical enforcement roadmap.

c. Conclusion

1. While the proposed amendments represent a bold regulatory effort to insulate banking institutions from conflicts of interest and insider control, their blanket implementation could disrupt Nepal’s traditionally integrated banking-business model. To ensure reform without destabilization, a balanced approach that blends enforcement with institutional strengthening and gradual transition is essential.

2. The proposed amendments to Section 2, Clause (kaya) and (kana), and the enforcement of Sections 52 and 52a of the to the Banking and Financial Institution Act (BAFIA), in Nepal indicate a sweeping redefinition of "Financial Interest" and "Related Persons," greatly expanding the scope of individuals and entities restricted from receiving credit or providing professional services to banks. While this aligns with global prudential norms aimed at minimizing conflict of interest and enhancing transparency, it also introduces serious downside risks for Nepal's banking sector.

3. The rigid prohibition under Section 52 on lending to a vast and ambiguously defined network of related parties could paralyze credit flow, particularly in a banking ecosystem historically rooted in closely intertwined banker-business relationships. From inception, Nepal’s banking sector has grown within a framework where promoters, shareholders, and directors often overlap with major borrowers, and the sector lacks the institutional and governance maturity to abruptly transition into a fully segregated model.

4. The immediate implementation of such stringent provisions without transitional safeguards, capacity development, or ownership restructuring, may lead to a credit crunch, underutilization of capital, and erosion of promoter confidence. Furthermore, the compliance burden introduced by Section 52a, requiring banks to continuously track and update complex related-party relationships, adds operational strain without commensurate support mechanisms. Thus, while the intent of the proposed act is commendable from a regulatory standpoint, the Nepalese banking sector is currently not structurally prepared for such a stark separation of banker and business, risking regulatory overreach that may stifle private sector-led growth.

4) **Human Trafficking and Transportation (Control) Act, 2064**

The Government of Nepal has introduced amendments to the Human Trafficking and Transportation (Control) Act, 2064. Some key changes.

Here are the major amendments in the bill to amend the Human Trafficking and Transportation (Control) Act, 2064:

1. *Expansion of Jurisdiction: The amendment ensures that offenses committed by Nepali citizens outside Nepal or against Nepali citizens abroad fall under the act's jurisdiction.*
2. *Clear Definitions: New definitions for terms like "exploitation," "provincial committee," and "district committee" are introduced to align with international standards.*
3. *Inclusion of Internal Trafficking: The amendment includes internal human trafficking within Nepal under the legal framework, treating the movement of people for exploitation within Nepal as trafficking.*
4. *Protection of Victims' Identity: The act strengthens confidentiality measures, preventing the disclosure of victims' identities.*
5. *Increased Punishment & Fines:*
   1. *Harsher penalties, including increased prison terms and fines for traffickers.*
   2. *Higher fines and jail terms for those found guilty of child trafficking.*
   3. *Expanded punishment for those involved in abetting, conspiring, or attempting trafficking.*
6. *Asset Seizure & Passport Confiscation: The law allows for the freezing of assets and passports of traffickers who are fugitives.*
7. *Legal Support for Victims: Victims now have the right to a translator if they do not understand the court language.*
8. *Mandatory Rescue and Rehabilitation: The law mandates government authorities to rescue victims and ensure their rehabilitation and reintegration.*
9. *Decentralization: The law establishes provincial, district, and local-level committees to handle human trafficking cases more effectively.*
10. *International Coordination: The amendments align Nepal's laws with international anti-human trafficking protocols, ensuring cross-border cooperation.*

5) **Prompt Corrective Action (PCA)**

1. In addition to the existing Prompt Corrective Action (PCA) guidelines, the NRB should consider introducing supplementary provisions to address the growing risks in the banking sector. If the net NPA level remains below 7%, no further intervention is necessary; however, once it exceeds 7% but stays below 9%, BFIs should be restricted from sanctioning new loans. Crossing the 9% threshold would trigger the second tier, requiring BFIs to refrain from accepting new deposits, while a net NPA of 11% or above should place the institution under formal PCA measures. To complement these measures, the allowable provisioning charged to the Profit and Loss (P&L) statement under the Income Tax Act should be raised from the current 5% to 9%, ensuring that banks maintain adequate buffers against potential losses. At the same time, the NRB should conduct a comprehensive review of the risk weightage assigned to different assets and liabilities on the balance sheet, recalibrating them in line with their inherent risks so that regulatory requirements more accurately reflect actual exposures, thereby fostering prudence and long-term financial stability.

2. The need for such reforms has become increasingly urgent in the context of Nepal's rising levels of non-performing assets (NPAs) and the associated risk of blacklisting by international monitoring bodies. Over the past few years, economic slowdown, sluggish private sector credit absorption, and weak corporate governance have contributed to a steady build-up of stressed assets in BFIs. At the same time, lapses in compliance and inadequate supervisory responses have heightened Nepal's vulnerability to being flagged for weak financial discipline and governance. If left unaddressed, this trend not only erodes public confidence in the banking system but also increases the risk of Nepal being blacklisted, which would severely undermine its international credibility, deter foreign investment, and isolate its financial sector from global markets. Strengthened PCA measures, higher provisioning requirements, and a recalibrated risk-weighting framework are therefore critical steps to restore resilience and prevent systemic instability

6) **NRN Act**

The Bill to Amend and Consolidate Laws Relating to Non-Resident Nepalis (NRNs) needs to consider the following:

A. Provisions relating to Nepali citizens holding a Non-Resident Nepali (NRN) Identity Card (excluding persons of Nepali origin)

Since Nepali citizens residing abroad who hold an NRN Identity Card (excluding persons of Nepali origin) legally remain Nepali citizens, their property rights shall inherently remain equivalent to those of Nepali citizens. Accordingly, the Act should include the following provisions:

A(1). Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin) shall enjoy all rights equivalent to resident Nepali citizens.

A(2). In the case of Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin), income tax shall be levied in accordance with prevailing provisions of the Income Tax Act applicable to resident individuals, except for individuals residing in countries with which Nepal has concluded a Double Taxation Avoidance Agreement.

A(3). Nepali citizens holding an NRN Identity Card (excluding persons of Nepali origin) shall be allowed to invest in movable and immovable property in Nepal as foreign investors, in accordance with the provisions of the Foreign Investment and Technology Transfer Act.

B. Provisions relating to investment by “NRN Citizenship” holders and persons of Nepali origin holding an NRN Identity Card

B(1). Individuals holding “NRN Citizenship” or persons of Nepali origin holding an NRN Identity Card shall be permitted to invest in movable and immovable property in Nepal on par with resident Nepali citizens. The repatriation of such investment and income shall be governed in accordance with the regulations prescribed by Nepal Rastra Bank.

B(2). Individuals holding NRN citizenship or persons of Nepali origin holding an NRN Identity Card shall also be permitted to invest in movable and immovable property as foreign investors, in accordance with the provisions of the Foreign Investment and Technology Transfer Act.

B(3). Individuals holding NRN citizenship and persons of Nepali origin holding an NRN Identity Card shall be linked to the National Identity system, and a National Identity Card (NID) shall also be issued to such individuals.

B(3). Special provisions should be made for foreign citizen spouses, including eligibility under the NRN Citizenship framework.

7) Companies Act Amendment Bill 2083

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

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

1. Technology and Digitalization (Ease of Doing Business)

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

2. Corporate Governance, Transparency, and Accountability

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

3. Protection of Minority Shareholders

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

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

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

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

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

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

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

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

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(ञ): own enumerated list of 9 investment types (equity, reinvested dividends, lease finance, venture capital fund, listed securities, share/asset purchase, debenture-raised	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.

Provision area	Prevailing FERA, 2019	MOF Exposure Draft (FERA 2082)	FITTA, 2075	NRNA, 2064
			capital, tech transfer, expansion).	
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, 25-27 all silent on turnaround time).	s.15: 7-day decision on FDI approval; s.20(7): 15-day decision on repatriation approval; 30-day ministerial appeal decision.	No statutory NRB timeline; relies on "as prescribed" rules.
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-unrecognised currency/virtual assets; s.12 bans hundi; s.11 deems misuse/misinvoicing/unauthorised 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-nationalisation / 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 nationalisation except for public purpose with due process; s.32(3)(घ) – no restriction on profit repatriation, loan	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

Provision area	Prevailing FERA, 2019	MOF Exposure Draft (FERA 2082)	FITTA, 2075	NRNA, 2064
			interest/principal payment.	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/harmonisation 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(न)). 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 nationalisation) 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(ञ)), 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 harmonisation 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 liberalisation – 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 the draft's BOP-crisis surrender power (s.14).	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.
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 liberalisation 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 organisational 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.

Risk	Likelihood	Impact	Level	Mitigation
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. Harmonise, 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 liberalisation: 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 organisational 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 liberalisation 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

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 25.64% growth rate into mid-July 2026, ultimately lifting the export share of total trade to 12.81%. However, despite these incremental improvements in export volume, Nepal's structural trade imbalance remains severe, as evidenced by a stark 1:6.64 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						
	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July
Consumer Price Inflation (y-o-y) (%)	1.11	1.63	2.42	3.25	3.62	4.47	5.04	5.22	5.14
Consumer Price Inflation (Compared to previous month) (%)	0.09	0.13	-0.20	0.21	0.43	1.17	1.12	0.46	0.005
Food and Beverage (%)	0.07	-0.24	-1.11	0.27	0.67	1.13	1.17	0.36	0.10
Non Food and Service (%)	0.11	0.33	0.29	0.17	0.30	1.18	1.10	0.50	-0.05
Exports	20.71	23.01	25.51	26.13	22.97	31.82	26.03	29.00	37.32
Imports	141.37	156.74	172.83	184.46	165.76	201.25	202.14	201.46	202.28
Travel Income	7.96	6.82	8.24	5.79	7.39	8.71	10.09	8.03	7.84
Travel Spending	11.15	13.23	16.59	15.70	23.85	20.25	12.50	15.78	15.45
Remittance Inflows	133.82	183.18	192.62	198.08	188.64	209.75	257.49	203.89	242.33
Government Expenditure	104.3	95.6	125.0	111.2	125.2	133.37	113.56	173.13	235.51
Current Expenditure	64.10	77.1	89.0	75.2	79.7	105.38	67.13	93.61	135.73
Capital Expenditure	6.13	8.6	15.0	14.3	14.8	17.71	17.65	18.82	58.17
Revenue	77.60	79.8	171.0	87.6	82.3	139.00	102.27	92.76	160.00
Deposit Mobilization	3.66	59.5	135.6	16.2	48.3	133.7	69.74	63.21	264.43

Particulars Amount in NPR Billion	2025		2026						
	Oct-Nov	Nov-Dec	Dec-Jan	Jan-Feb	Feb-Mar	Mar-Apr	Apr-May	May-Jun	Jun-July
Private Sector Credit	-17.9	37.2	95.2	24.4	21.7	68.4	0.05	28.56	18.79
Weighted Average Deposit Rate (%)	3.74	3.7	3.6	3.5	3.4	3.4	3.35	3.29	3.21
Weighted Average Lending Rate (%)	7.38	7.3	7.1	7.0	6.9	6.8	6.73	6.64	6.55
Base Rate of Commercial Banks (%)	5.44	5.38	5.29	5.12	5.10	5.06	4.97	4.88	4.83

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 **5.14%** in Julye 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-July imports stood at **NPR 202 billion** compared to a meager **NPR 37 billion** in exports.
- **Remittance Cushion:** Despite ongoing geopolitical conflicts in the Gulf region, Nepal recorded a historic surge in remittance inflows, reduced form an all-time high NPR **257 billion** in May-26 **to 242 billion** in Mid-July. 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

a) Imports rose to $ 1.11 billion (up 30%), but exports surged to $0.30 billion (up 66%).
b) As a result, the trade deficit widened to $ 1.14 billion, but relative to GDP it stabilized at 2.75%.
c) Export share in total trade slightly increased from previous year 13.09% to 17.25%.
d) The export-import ratio improved sharply to 1:4.48, showing better diversification in trade.
e) Import revenue reached at $.03, billion $0.28% 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.

a) Persistent Trade Deficit – Nepal continues to run a structural trade deficit, though as % of GDP it has slightly improved.
b) Exports Rebound in 2025/26 – as in 2024/25, exports doubled in 2025/26, showing potential gains from policy reforms, improved competitiveness, or favorable external demand.
c) High Import Dependency – Imports consistently account for over 86% of total trade, underscoring vulnerability to external shocks and foreign exchange pressure.
d) Exchange Rate Depreciation Effect – The fall in the NPR from 125 to 155per USD increased import costs but boosted customs revenue collection.
e) Revenue Growth Linked to Trade – Government revenue from foreign trade is rising, but it is still highly dependent on import volumes rather than export-led growth.

Foreign Trade Balance of Nepal $ in billion	Total Imports	Total Exports	Trade Deficit	Total Trade	Export: Import Ratio		Revenue	Exchange factor
F.Y. 2024/25 (Mid-August)	0.99	0.09	0.90	1.08	1.00	11.00	0.27	1 USD= 125NPR
Share % in Total Trade	91.67	8.33						
Trade deficit % GDP	1.95%							
F.Y. 2025/26 (Mid-August)	1.10	0.18	0.92	1.28	1.00	6.11	0.28	1 USD= 130 NPR
Share % in Total Trade	85.94	14.06					**Up**	
Trade deficit % GDP	25.44%							
F.Y.2026/27 (Mid- August)	1.44	0.30	1.14	1.74	1.00	4.80	0.30	1 USD= 130 NPR
Share % in Total Trade	82.76	17.24					**Up**	
Trade deficit % GDP	2.25%							
Percentage Change in F.Y. 2025/26 compared to same period of the previous year	11.11%	100.00%	2.22%	18.52%			3.70%	
Percentage Change in F.Y. 2026/27 compared to same period of the previous year	30.91%	66.67%	23.91%	35.94%			7.14%	

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 11th month of FY 2025/26, the monthly trade deficit slightly narrowed from USD 1.14 billion in mid-August to USD 1.27 billion in mid-July. However, on a year-on-year cumulative basis, the trade deficit widened to USD 13.92 billion, marking a 23.91% increase from USD 12.67 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	Aug-25	Jul-26	Aug-26	Y-o-Y	Remarks	Movement compared to last year
Imports (UDS in billion)	**1.10**	**16.13**	**1.44**	**16.47**	**UP**	**30.91%**
Monthly Imports	1.10	1.56	1.44			
Exports (UDS in billion)	**0.18**	**2.43**	**0.30**	**2.55**	**UP**	**66.67%**
Montly Exports	0.18	0.29	0.30			
Trade Deficit (UDS in billion)	**0.92**	**13.70**	**1.14**	**13.92**	**UP**	**23.91%**
Total Foreign Trade (UDS in billion)	1.28	18.56	1.74	19.02	**UP**	**35.94%**
Monthly Import Revenue	0.28	0.35	0.30			
Total Import revenue	**0.28**	**3.90**	**0.30**	**3.92**	**UP**	**7.14%**
Monthly Remittance	1.45	1.86	1.60			
Remittance inflows	**1.45**	**18.26**	**1.60**	**18.41**	**UP**	**10.34%**
Imports/Exports Ratio	6.11	6.64	4.80	6.46	**UP**	**-21.45%**
Exports Share to Total Trade (%)	14.06	13.09	17.24	18.32	**UP**	**22.61%**

Trade Indicators	Aug-25	Jul-26	Aug-26	Y-o-Y	Remarks	Movement compared to last year
Imports Share to Total Trade (%)	85.94	86.91	82.76	81.68	Down	-3.70%
Monthly Trade Deficit (UDS in billion)	0.74	1.27	1.14			
Trade deficit % GDP	1.99%	26.98%	2.25%	27.42%	UP	12.74%

The country grapples with a persistent trade deficit, as imports consistently outstrip exports, though the deficit's growth is slowing, and its share of GDP is declining, signaling potential stabilization in trade dynamics. The trade indicators dataset for the last three months reveals a persistent trade imbalance characterized by a significant trade deficit, with imports consistently outpacing exports.

5) Expected Annual Imports of Major Items

Description $ in million Conversion Factor 1 USD = NPR 130	2025/26 Annual Import Value	Aug-25	26-Aug	Estimated Annual import Value 2026/27	Import Direction	Monthly Movement 2026 VS 2027	Expt. Annual Growth
Diesel	1,326	45	107	1,669	Growth	136.26%	25.85%
Crude soya-bean oil	1,021	83	142	1,044	Growth	70.88%	2.26%
Crude palm oil	106	8	6	101	Decline	-25.93%	-4.62%
Petrol	594	44	53	706	Growth	19.37%	18.92%
Liquidified Petroleum Gas (LPG)	464	36	65	476	Growth	81.06%	2.56%
Smartphones	375	26	30	432	Growth	14.07%	15.28%
Semi-finished products of iron or non-allo steel, <025% carbon, nes	91	5	4	73	Decline	-17.18%	-19.97%
Gold	206	12	8	226	Decline	-31.86%	9.58%
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	212	24	5	181	Decline	-78.87%	-14.78%
Other coal, not agglomerated, nes	180	16	12	185	Decline	-23.42%	2.59%
Other - Medicaments put up in measured dos s or in forms or packing for retails	224	15	21	242	Growth	42.95%	7.90%
Maize (excl seed)	84	12	1	62	Decline	-91.60%	-26.31%
Oil-cake and other solid residues, of soyabean	104	6	7	111	Growth	10.41%	7.06%
Crude sunflower oil	167	6	28	219	Growth	342.34%	31.34%
Low erucic acid rape or colza seeds	129	4	18	182	Growth	350.00%	41.09%
Bar & rods, hot-rolled circular cross-sect on measuring <=8mm in diameter	78	6	4	63	Decline	-37.11%	-18.77%
Ferrous products obtained by direct reduct on of iron ore,in lumps,pellets or si	450	31	36	513	Growth	16.50%	13.98%
Others Paddy	137	8	3	118	Decline	-64.58%	-13.53%
Laptop and note book	86	8	9	92	Growth	14.50%	6.81%

Other Major Imports

Description Conversion Factor 1 USD = NPR 130 Amount in $ million	Imports Value
Diammonium hydrogenorthophosphate (diammonium phosphate)	61
Fertilizer Grade	34
ATF	16
Other soyabean	14
Other electric vehicle	12
Flat/hot-rolled iron/steel,in colis, width >=600mm, not pickled,<3mm thickness	12
Other drum wheat	11
Unwrought aluminium, not alloyed .	10
Aeroplanes and other aircraft, of an unlad n weight >15000kg	10
Unassembled Motorcycles with piston engine of capacity exceeding 50 not exceeding 125CC	9

Description Conversion Factor 1 USD = NPR 130 Amount in $ million	Imports Value
Vehicles, not mechanically propelled, nes .	9
Concentrate of non-alcohalic soft drinks	8
Wire of refined copper, maximum cross-sect onal dimension >6mm.	8
Apples, fresh	7
Polypropylene, in primary forms	7
Other Rice Semi-milled or wholly milled rice, whether or not polished or glazed	6

Major Export (Conversion Factor 1 USD = NPR 130). Amount in $ million	Export value
Soya-bean oil (excl. crude) and fractions	138.41
Refined bleached deodorized palm olein	9.95
Sunflower-seed and safflower oil (excl. crude) and fractions thereof	9.29
Table, kitchen or household articles of st inless steel	8.92
Unbleached woven fabrics of jute or of oth r textile bast fibre of heading 5303.	8.20
Carpets and other textile floor coverings, of wool or fine animal hair, knotted.	6.53
Single yarn, with >=85% polyester staple f bres, nprs	5.41
Big Cardamon (Alaichi) neither crushed nor ground	5.19
other Felt, whether or not impregnated, coated, covered or laminated. nes .	4.77
Other yarn, <85% polyester staple fibres, ith artificial staple fibres, nprs	4.18
Dog or cat food, put up for retail sale	4.09
Other black tea (fermented) and other partly fermented tea	3.82
Other, with both outer plies of coniferous wood	3.79
Wire of aluminium alloys, maximum cross-se tional dimension >7mm	3.29
Mixtures of juices, unfermented, not containing added spirit.	3.21
Oil-cake of low erucic acid rape or colza seeds	2.78
Refined bleached deodorized palm oil	2.72
Other pasta, nes	2.71
Shawls, scarves, mufflers, mantillas, veil , etc, of wool or fine animal hair	2.69
Woven fabrics obtained from synthetic stri or the like	2.49

Nepal's import pattern for FY 2025/26 (estimated) reflects a dual shock adjustment—on one hand, supply-side disruptions linked to the Gulf crisis and global logistics constraints, and on the other, demand moderation due to low consumers' confidence. The data shows a clear divergence between energy security-driven imports, consumption resilience, and construction/industrial slowdown.

Energy imports are rebounding despite ongoing volatility, underscoring Nepal's structural dependence on external fuel supplies. Diesel imports are projected to rise sharply during 2026/27 to USD 1.6 billion, reflecting a 26% annualized increase and reversing last year's decline, largely driven by price surges amid Gulf-related supply risks. Petrol imports, in contrast, remain relatively stable with a marginal increase of 16%, suggesting controlled consumption alongside a gradual shift toward electric vehicles. LPG imports are expected to decrease by 9.36%, pointing to supply constraints and rationing the supply at the household level. Meanwhile, coal imports remain broadly stable, increase slightly by 8.84%, which reflects steady industrial energy demand despite external uncertainties. Edible oil imports show a mixed yet strategically important trend, shaped more by re-export dynamics and price arbitrage than by domestic consumption. Crude palm oil imports are set to rebound strongly by 180%, while soybean oil imports remain elevated, indicating that the Gulf crisis does not affect supply. In contrast, sunflower oil imports have dropped sharply by 29.15%, highlighting substitution effects and shifting trade margins in response to disrupted global supply chains.

Consumer electronics imports indicate resilient urban demand, with smartphones (+16) and laptops (+6%) maintaining growth momentum. This suggests that remittance-supported consumption is still holding, even under external shocks, though growth has moderated compared to the previous year's surge. Gold imports have surged significantly (+50%), reflecting both safe-haven demand amid global uncertainty and possible informal capital flight hedging. This trend is consistent with crisis-period behavior, where households and traders shift toward physical assets. In contrast, construction and industrial raw materials show a pronounced contraction, signaling weakening domestic investment. Imports of semi-finished steel (- 20%), flat-rolled steel (-15%), and rods (-19%) have all declined sharply. Even though direct reduced iron shows some growth (+14%), the broader pattern indicates sluggish infrastructure and real estate activity, likely due to tighter credit conditions and policy uncertainty.

Agricultural and feed-related imports also show contraction, pointing to both demand-side weakness and some degree of domestic substitution. Maize imports have dropped significantly (-38.1), and soybean oilcake remain stable reflecting reduced livestock and poultry sector expansion. Similarly, paddy imports (-13.34%) due to export restriction by India. Pharmaceutical imports declining (-6.15%) is notable and could indicate normalization after post-pandemic stocking or tighter import controls rather than reduced healthcare demand.

Overall Trend Assessment

The adjusted import outlook suggests that Nepal is entering a phase of selective import compression with strategic expansion:

1. **Expansion zones**: Energy (diesel), gold, palm oil, and selective industrial inputs (DRI)
2. **Stable zones**: Consumer electronics, coal
3. **Compression zones**: Construction materials, agriculture inputs, LPG, pharmaceuticals

Macroeconomic Interpretation

The Gulf crisis has primarily affected expectations and precautionary behavior, boosting fuel and gold imports rather than causing an outright supply collapse.

1. Domestic economic slowdown is more visible than external disruption, particularly in construction and industrial imports.
2. Remittance-backed consumption remains resilient, preventing a broad-based import contraction but face downside risk.
3. Policy-driven import management and foreign exchange considerations are clearly shaping the decline in non-essential and bulk commodities.

Forward Outlook

If the Gulf crisis persists, Nepal may see:

1. Continued upward pressure on fuel imports and prices, worsening the trade deficit
2. Further shift toward gold as a hedge asset
3. Delayed recovery in construction imports, unless monetary easing resumes
4. Gradual normalization in edible oil trade as arbitrage opportunities stabilize

In sum, Nepal's import structure is rebalancing under stress, with energy security and financial hedging dominating, while real-sector investment signals remain weak.

Post-disaster assessment (Rasuwa–Bhotekoshi corridor)

Nepal's import pattern for FY 2026/27 reflects a post-disaster structural pivot—combining existing global logistics constraints with an immediate spike in flood-induced reconstruction demand. The catastrophic damage along the Rasuwa–Bhotekoshi corridor (destroying NPR 35–45 billion in strategic transport infrastructure and NPR 115–135 billion in energy assets) forces a major re-alignment across key import categories.

1. Energy & Fuel Imports: Direct Reconstruction Surge

- Diesel Imports: Projected to reach USD 1.67 billion (+25.87% annualized growth). This expansion is driven by heavy machinery deployment for debris clearance, road reconstruction, and emergency diesel power generation during hydro-grid recovery.
- Petrol & LPG: Petrol imports show steady growth (+18.92% to USD 706 million), while LPG imports rebound (+2.56% to USD 476 million) due to emergency cooking relief operations for 1,500 displaced households.
- Coal Imports: Rebounds slightly (+2.59% to USD 185 million) to supply local brick kilns and cement manufacturing for early rebuild phases.

2. Construction Materials: Construction Shift from Contraction to Rebuild

- Steel & Rebar Rebound Demand: Earlier projections showing sharp contraction in structural steel (bars/rods down -18.77%, flat-rolled steel down -14.78%) will reverse as emergency bridge and road repair works kick off.
- Ferrous Products & Direct Reduced Iron (DRI): Growth accelerates beyond baseline projections (+13.98% to USD 513 million) to feed domestic re-rolling mills supplying reconstruction projects.
- Heavy Machinery & Transport Equipment: Demand for non-mechanized/mechanized vehicles and heavy civil engineering spares surges to clear landslide debris and stabilize transit corridors.

3. Pharmaceuticals, Relief Goods & Food Supplies

- Pharmaceuticals & Medicaments: Growth reverses its prior contraction (-6.15%), surging (+7.90% to USD 242 million) driven by post-disaster healthcare management, waterborne disease prevention, and emergency medical kits.
- Agri-Commodities & Foodstuffs: Maize (-26.31%) and paddy (-13.53%) remain constrained by external trade policies, but emergency imports of rice, pulses, and basic food relief will rise near-term to offset ruined agricultural land along affected river basins.

4. Consumer Goods & Financial Hedging Trends

- Gold & Safe-Haven Assets: Gold imports grow (+9.58% to USD 226 million) as domestic risk aversion remains elevated amid geopolitical uncertainty and asset destruction.
- Electronics & Communications: Smartphones (+15.28% to USD 432 million) and laptops (+6.81% to USD 92 million) retain strong demand, backed by post-disaster communications setup and resilient remittance-backed household consumption.

Adjusted Import Zone Classification (Post-Disaster FY 2026/27)

Import Zone Category	Key Included Commodities	Macroeconomic Driver
Expansion Zones	Diesel, Heavy Spares, DRI/Steel Inputs, Pharmaceuticals, LPG	Emergency infrastructure repair, hydro rehabilitation, & relief
Stable Zones	Laptops, Smartphones, Industrial Coal, Edible Oils	Remittance-backed consumer demand & base industrial energy
Compression Zones	Non-essential Luxury Items, Unassembled Motorcycles, Food Commodities	Tight FX controls, trade restrictions, & capital diversion to rebuild

Macroeconomic & Policy Implications

1. Trade Deficit & Foreign Exchange Pressure: The simultaneous surge in fuel and heavy construction imports will widen the current account deficit, requiring active utilization of foreign exchange reserves.
2. Capital Expenditure Reallocation: Public funds must prioritize vital infrastructure import needs over non-essential capital projects.
3. Targeted Import Facilitation: Priority fast-tracking at customs bottlenecks for relief material, grid equipment, and bridge components is essential to sustain recovery momentum.

6) Nepal FDI Analysis: FY 2025/26 (Up to Mid-August 2026)

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	

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-July 2026)

Sector	USD Million	Share (%)
Manufacturing	6.49	22.35%
Energy	0.15	0.53%
Agro and Forestry Based	0.15	0.53%
Tourism	12.60	43.41%
Mineral	-	0.00%
Service	5.25	18.08%
Infrastructure	-	0.00%
ICT	4.38	15.10%

Tourism remained the largest recipient of foreign investment, accounting for 43% of total approved FDI. Manufacturing Sector retained its position as the second-largest recipient, accounting for 22.35% of total commitments, supported by continued investment in Service sector.

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

Sector	Projects
Manufacturing	9
Energy	1
Agro and Forestry Based	1
Tourism	33
Mineral	-
Service	4
Infrastructure	-
ICT	128
Total	176

The ICT sector continued to dominate in terms of project numbers, accounting for approximately 73% 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

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 2026	Mid-July 2026	Mid-August 2026
Projects	577	727	128
Investment (USD Million)	18.20	21.80	4,3

An additional 128 ICT projects were approved during the first 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 first 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- August 2026 presents a generally positive outlook for Nepal's investment environment. Nepal approved 178 foreign investment projects with total commitments of USD 29.02million, reflecting robust growth in project approvals and a strong start to FY 2026/27. Agriculture, 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.

Section 5 Financial Sector highlights

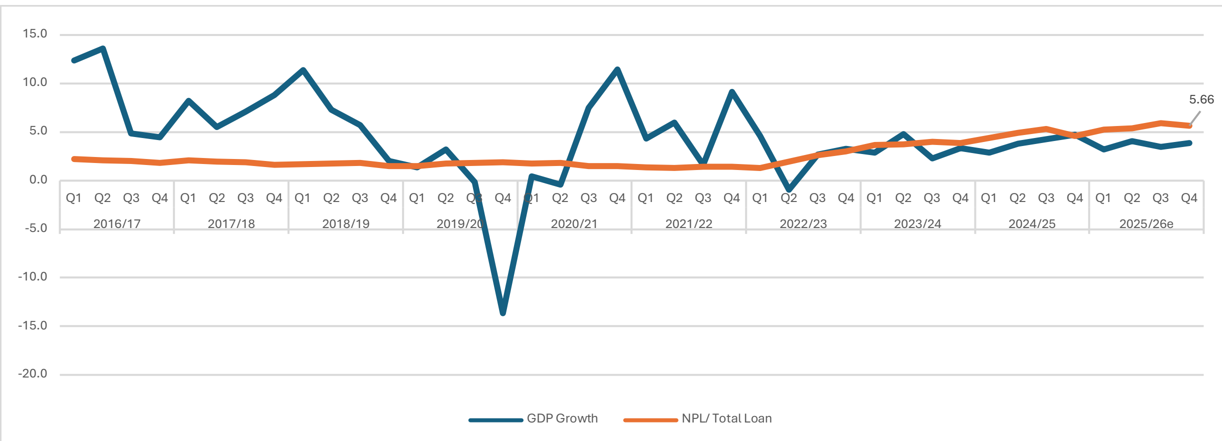
1) Persistent Stagnation in Bank Credit Growth Despite Lower Lending Rates

Economic activity in Nepal remains subdued despite a few encouraging signs. As of July 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 6.55 percent in mid-July 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%.

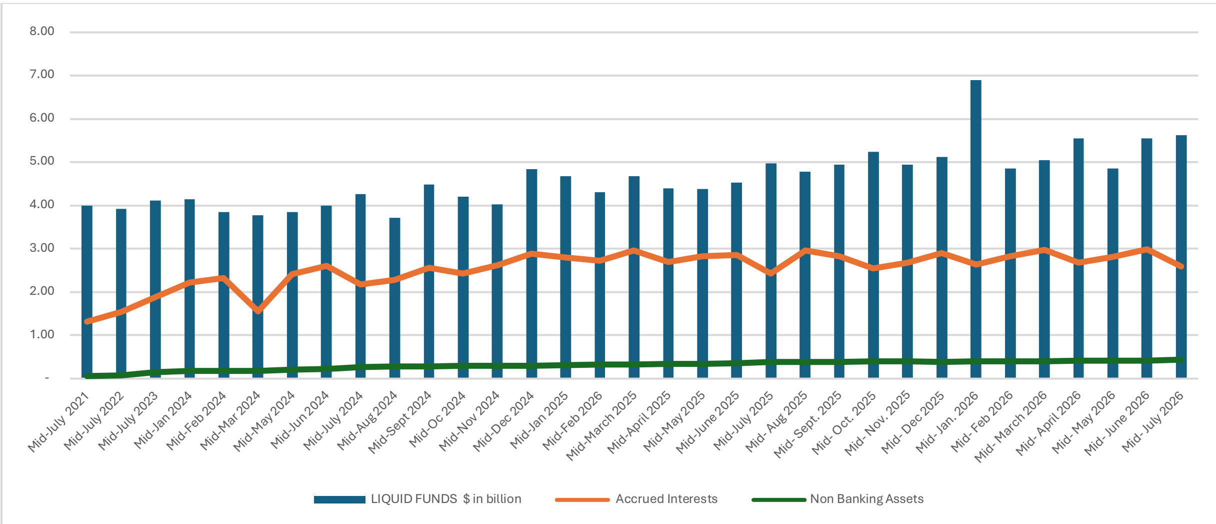
The NPL ratio, on the other hand, exhibited an overall decline in the earlier years, from 2.25% in Q1 2016/17 to 1.48% in Q4 2020/21, signaling improved loan quality and a lower default risk in the banking sector. However, starting in 2021, the NPL ratio began to rise, peaking at 3.98% in Q3 2023/24. 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 2.68 billion (USD 2.99 billion as of Mid-June 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 (5.63 billion July 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 July 2026), reflect increased holdings in foreclosed properties or other non-core assets, typically acquired through loan defaults. The concurrent rise in accrued interest and non-banking assets, alongside relatively stagnant liquid assets, suggests that financial institutions are facing higher credit risk and delayed recoveries, which could be putting pressure on their balance sheet resilience and liquidity position.



3) BFIs Outlook 2025/26, 2026/27 and 2027/28

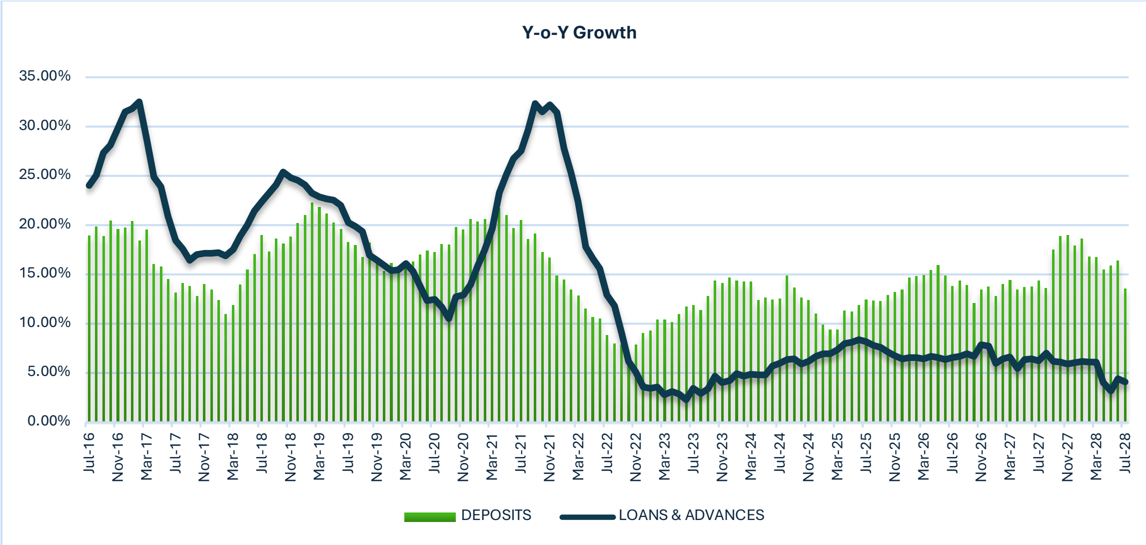
Assets and Liability (Exchange Factor $ 1 = NPR 130)						
Capital, Deposits and Risk Assets. USD in million						
Particulars	July 2026e	Change	July 2027e	Change	July 2028e	Change
CAPITAL FUND	6,451	8.15%	6,629	2.76%	6,823	2.92%
PAID UP CAPITAL	3,635	6.52%	3,966	9.10%	4,247	7.10%
BORROWINGS	1,718	-5.01%	1,559	-9.24%	1,428	-8.42%
Borrowing from NRB	6	69.60%	16	188%	113	592%
DEPOSITS	63,933	13.80%	73,117	14.36%	83,030	13.56%
Current	5,280	30.03%	6,556	24.17%	8,433	28.63%
Saving	29,941	45.59%	41,744	39.42%	7,487	-82.06%
Fixed	22,503	-16.58%	17,835	-20.75%	53,314	198.93%
Call	5,771	37.11%	6,466	12.04%	7,487	15.79%
Others	437	18.22%	516	18.21%	599	15.96%
LIQUID FUNDS	5,630	13.07%	5,432	-3.51%	5,413	-0.36%
GOVT. SECURITIES/OTHER	16,979	26.62%	18,231	7.37%	21,397	17.36%
Investment in share and other	4,158	47.93%	6,881	65.51%	10,297	49.65%
LOANS & ADVANCES	45,820	6.53%	48,688	6.26%	50,669	4.07%
Total Capital/RWA	12.22%	-1.89%	11.38%	-6.88%	10.71%	-5.89%
CD	70.66%	-6.12%	65.85%	-6.82%	60.47%	-8.16%
NPL /Total Loan	4.73%	2.43%	4.68%	-1.08%	4.30%	-8.11%
Return on Capital Employed	9.78%	-4.38%	13.55%	38.53%	14.30%	5.53%

Particulars USD in million	July 2026e	Change	July 2027e	Change	July 2028e	Change
Int on Loans and Adv.	3,236	-12.50%	3,142	-2.90%	3,266	3.95%
Total Int. Income	3,972	-8.97%	4,505	13.44%	4,799	6.52%
Avg. Yield From Loan	6.78%	-16.12%	6.45%	-4.81%	6.45%	-0.11%
Int Expenses	2,275	-15.56%	2,702	18.74%	2,770	2.55%
Avg. Cost of Fund	3.31%	-25.80%	3.69%	11.64%	3.34%	-9.69%
NII	1,697	1.67%	1,804	6.33%	2,029	12.46%
Interest Spread (cash basis)	3.47%	-4.21%	2.76%	-20.50%	3.11%	12.73%
Commission & fees	288	9.34%	270	-6.33%	262	-2.75%
Ex. Fluctuation Gain	110	48.50%	152	38.26%	201	32.51%
Other Operating & Non-operating Income	133	22.19%	125	-6.21%	126	0.82%
Gross Income	2,228	5.33%	2,351	5.52%	2,618	11.39%
Employees Exp	550	4.93%	603	9.72%	667	10.51%
Employee cost in % of Total Int. Income	13.84%	15.26%	13.39%	-3.27%	13.89%	3.75%
Office Operating Exp	407	21.64%	373	-8.36%	422	13.26%
LLP & write-off	772	1.66%	220	-71.48%	279	26.75%
Additional LLP to Risk Assets	1.68%	-9.90%	0.45%	-73.16%	0.55%	21.79%
Provision Written Back	480	6.79%	240	-50.00%	264	10.00%
PBT	980	3.42%	1,395	42.36%	1,515	8.61%
Return on total assets	1.28%	-5.98%	1.66%	29.42%	1.64%	-1.26%

$ in million			
P/L Account			
Particulars	Expected July 26	Expected July 27	Expected July 28
Total Operating Income	4,503	5,052	5,389
Total Operating Expenses	3,232	3,678	3,859
Provision Written Back	480	240	264
Provision for Risk	(766)	(205)	(259)
Loan Written Off	(6)	(15)	(20)
Net Profit before Bonus & Tax	980	1,395	1,515
Bonus	86	122	132
Tax	271	382	415
Net profit	623	891	968

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 5,389 million by July 28, while operating expenses are expected to remain manageable, expected to increase to $4,054 million on July 28. Provisions for risk are forecasted to decrease to 102 million on 28.

Loan write-offs are expected to remain minimal, ranging between $ 15 million and $20 million. As a result, net profit before bonus and tax is projected to rise from $880 million on July 2026 to a peak of $1,385 million on July 27, slightly high at $1,515 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 $968 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.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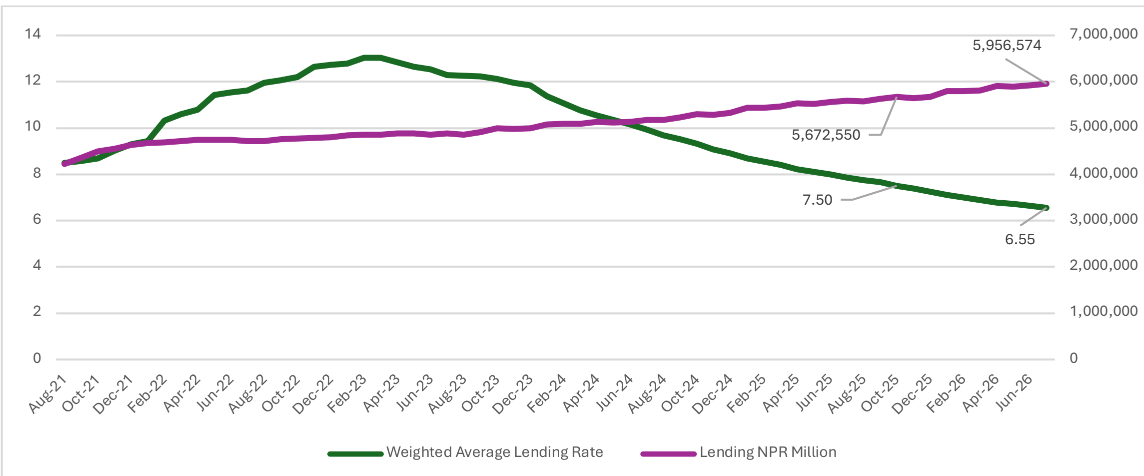
DEPOSITS
LOANS & ADVANCES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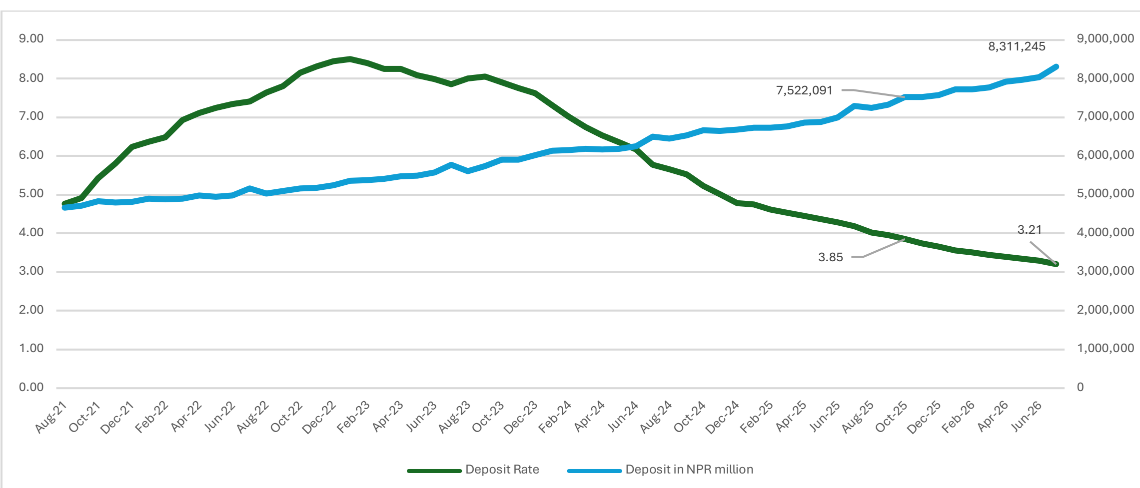
Weighted Average Lending Rate
Lending NPR Million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Jun-26
Deposit Rate
Deposit in NPR million

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 5,956 billion by July 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 3.21% by July 2026. Deposits increase steadily, with significant growth after early 2023, reaching a peak of NPR 8,313 billion (increase from 7,477 billion mid-July 2025) by July 26. Deposit growth appears positively correlated with higher deposit rates initially. Even as rates decline in 2023-2024, deposits continue to grow, suggesting other factors like improved economic confidence or liquidity may play a role. Higher deposit rates initially stimulate deposit growth. However, growth continues even as rates fall, indicating that deposits may not solely depend on rates but are influenced by broader economic conditions and liquidity.

Interest rates and lending growth:

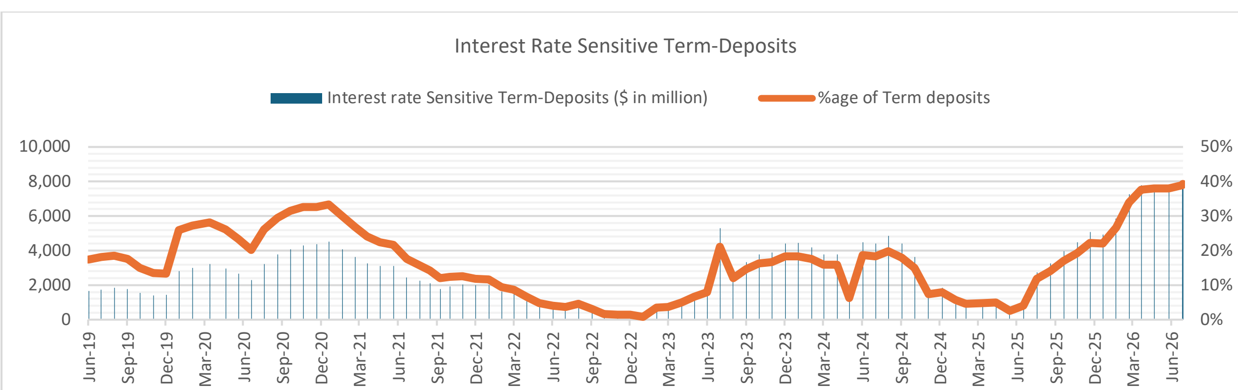
Lending growth is more resilient to short-term changes in interest rates but shows an inverse relationship over time. Lower rates encourage lending growth.

Interest rates and deposit growth:

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

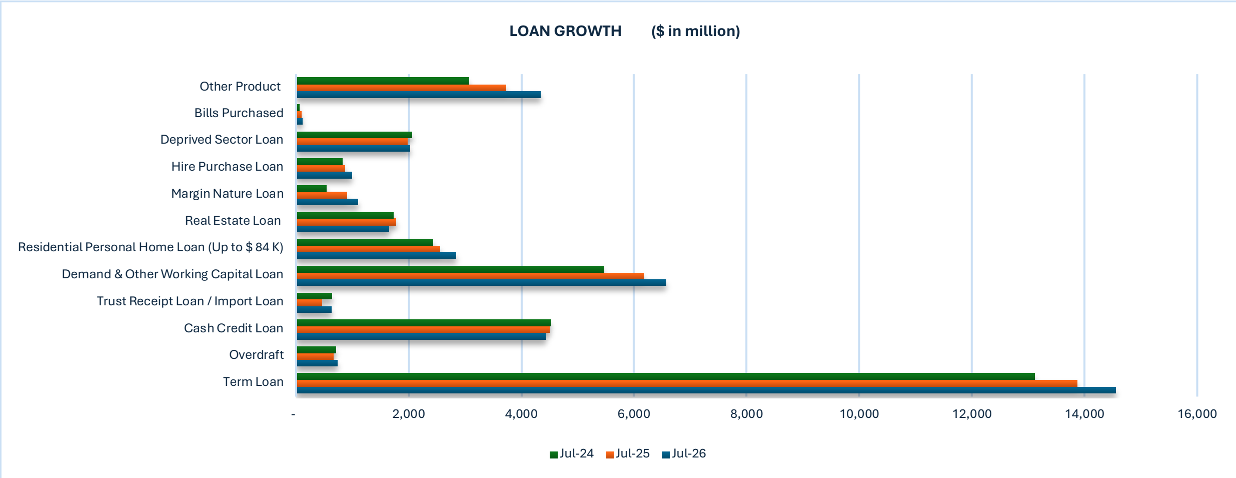
In summary, while interest rates influence growth in deposits and lending, the relationship is not perfectly direct. External economic factors, confidence, and liquidity conditions also play a major role in determining overall growth.

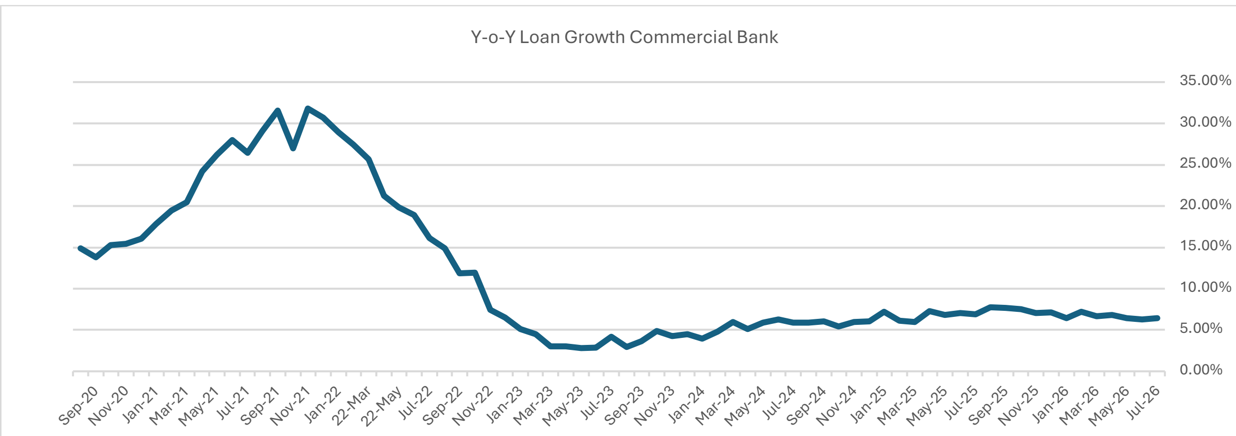
Amount in million		**Net Maturity Amount in $ million**		
Period	Deposit mix	Within next month	Within a Year	Total
3-6 months	15%	620.98	2,163.72	2,784.70
6-12 months	33%	3,193.31	3,210.97	6,404.28
1-2 yrs.'	21%	494.16		3,537.92
2 yrs. and above	31%	3,345.24		2,911.12
Total	100%	39.30%	26.59%	100%

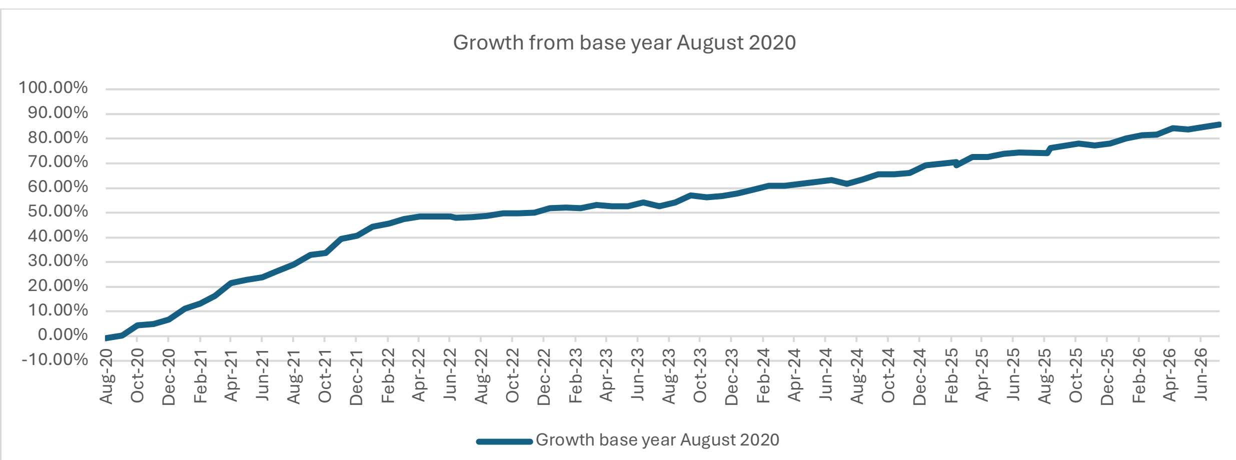


Although interest rate-sensitive fixed deposits are experiencing a decline, fluctuations in the short-term money market are likely to persist. Nonetheless, we expect interest rates to remain subdued over an extended period. The deposit mix of the Nepalese banking sector over the past several months reveals a clear shift in depositor behavior, largely influenced by declining interest rates on fixed deposits. From August 2023 to July 2025, there has been a noticeable increase in saving deposits, both in absolute terms and as a proportion of total deposits. This trend suggests that depositors are gradually favoring more flexible savings accounts over long-term fixed deposits, likely due to the narrowing interest rate differential.

4) Sector wise Loan Growth of Commercial Banks







Section 6 Insurance Sector

1) Nepal Insurance Sector Monthly Business Analysis

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

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

Prior to the shock, the Nepal Insurance Authority (Baishakh 2083) reported Gross Premiums of NPR 201.36B (+11.2%). Post-flood claim liabilities create acute capital strain on non-life operators.

Indicator / Metric	Baishakh 2083 Baseline	Post-Flood Outlook (FY 2026/27)	Macro-Financial Impact
Gross Premium Collection	NPR 201.36 Billion (+11.2%)	Moderating Growth	Infrastructure insurance mandatory; motor/commercial policy sales slow down.
Non-Life Premium Pool	NPR 41.40 Billion	High Capital Strain	Underwriting margins turn negative; extreme reliance on reinsurance payouts.
Claims Incurred Ratio	Standard (~45–55%)	Spike to >250–300%	Unprecedented loss ratios in hydro engineering, property, and transit assets.
Life Insurance Persistency	NPR 120.79B Renewal	Minor Surrender Risk	Income loss in damaged trade hubs causes minor lapses in low-income brackets.
Foreign Employment Premiums	NPR 2.60 Billion (+13.5%)	Resilient Growth	Outbound labor migration maintains demand for mandatory term life coverage.

Key Insurance Industry Indicators

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

Source: Nepal Insurance Authority

Premium Business Analysis

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

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

Policy Issuance Trends

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

Source: Nepal Insurance Authority

Insurance Coverage and Penetration

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

In-Force Life Insurance Policies

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

Source: Nepal Insurance Authority

Sector Outlook

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

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

Section 7 Capital Market

1) Impact of IPO Delays by SEBON on Market Trust and Governance Concerns

a) The Securities Board of Nepal (SEBON) currently faces significant scrutiny due to extended delays in the approval of Initial Public Offering (IPO) applications, as evidenced by the IPO pipeline data as of 2082.01.28. These delays, observed across multiple sectors and types of companies, have increasingly created mistrust in the capital market, raising serious concerns about regulatory mismanagement and potential rent-seeking behavior.

b) An analysis of the pipeline data reveals that the delays are not isolated to one segment of the market. IPOs across all categories—including hydropower, manufacturing, hospitality, investment companies, and insurance—have been pending for extended periods. The number of shares offered ranges from under 100,000 to over 30 million, with corresponding issue amounts ranging from NPR 10 million to over NPR 6 billion. Despite the variation in size and sector, delays are prevalent across the board, suggesting systemic inefficiencies within SEBON's approval mechanism.

c) Furthermore, many IPO applications date back over 12 to 32months, some with little to no movement despite the submission of responses and required documentation by the issuing companies. This stagnation has created the perception of a regulatory bottleneck that is not just administrative but potentially influenced by non-transparent practices. The inconsistency in processing timelines has led stakeholders to question whether certain companies receive undue favor, reinforcing fears of rent-seeking behavior among regulators.

d) The dominance of ordinary equity shares issues in the pipeline—commonly sought after by retail and institutional investors alike—means that delays in their approval have an outsized impact on market sentiment. Investors are left uncertain about capital allocation, and companies are unable to capitalize on favorable market conditions. Such inefficiencies discourage broader participation in the market and undermine the goal of financial inclusion.

e) SEBON's inaction and lack of timely communication have not only delayed capital formation but also damaged its institutional credibility. The perception that approvals may depend on informal networks or discretionary influence rather than objective criteria further deteriorates trust. This environment of uncertainty and suspicion is detrimental to Nepal's evolving capital markets.

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

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

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

a) Oldest Pending IPO Applications

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

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

b) Sector-wise Pending IPO Pipeline

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

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

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

c) Approval Delay Trends

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

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

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

3) Business Risks Associated with Delayed IPO Approval

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

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

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

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

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

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

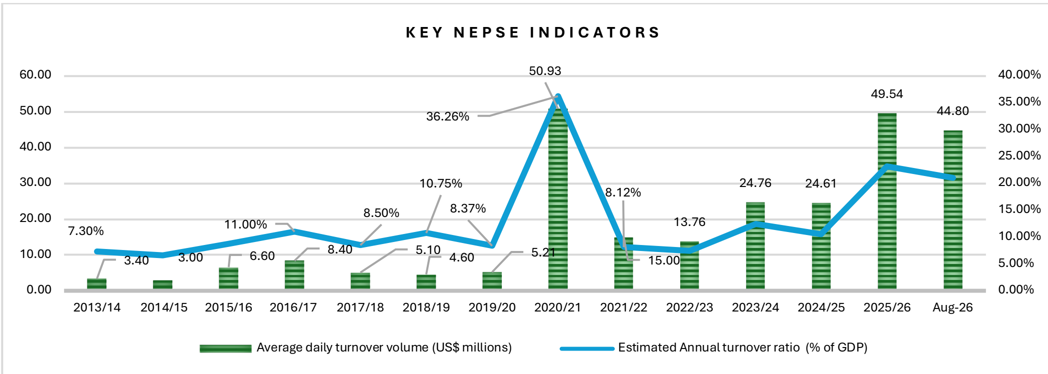
7. **Conclusion**
   The latest SEBON IPO pipeline reveals a significant accumulation of pending applications, particularly in the hydropower and tourism sectors. More than Rs. 13.7 billion worth of proposed capital raising is visible in these two sectors alone, with several applications pending for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

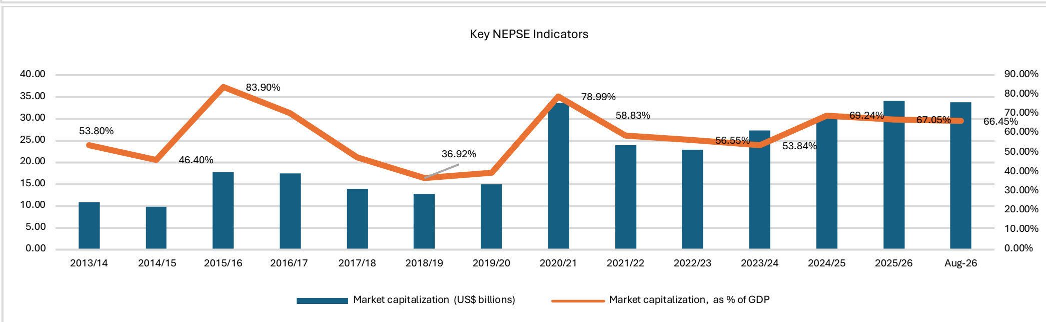
   SEBON’s prolonged indecision in processing IPO applications has become a significant obstacle to market growth. It has fostered widespread doubt about regulatory governance, amplified concerns about rent-seeking behavior, and discouraged participation from both issuers and investors.

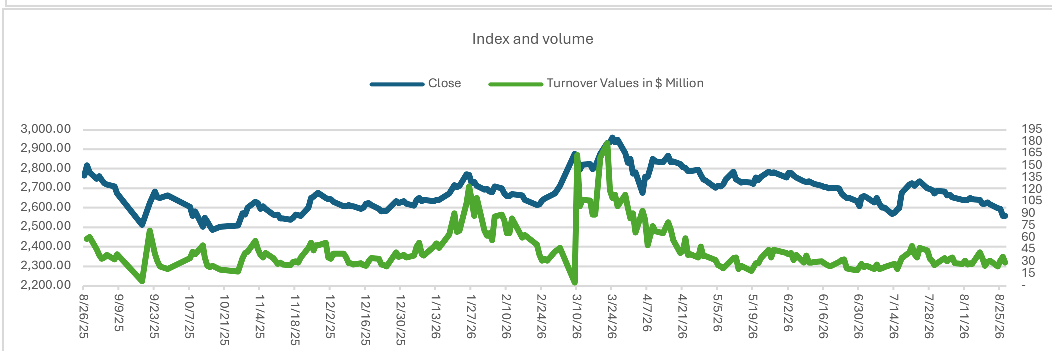
   a) To restore trust and improve market efficiency, SEBON must:
   b) Implement a transparent, time-bound IPO approval process.

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

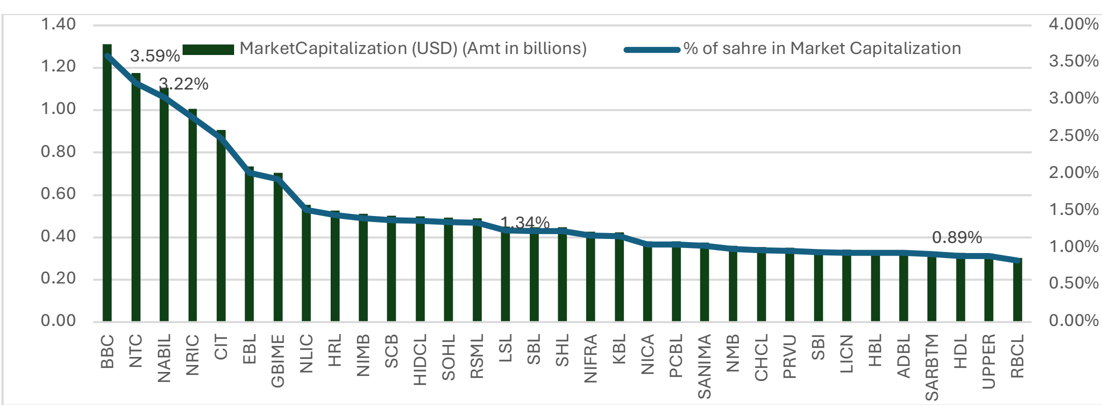
Without urgent reforms, the credibility and effectiveness of SEBON as a regulator will continue to decline, putting the integrity of Nepal's capital market at risk.







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



Section 8 Fiscal Situation

1) Government of Nepal Receipts & Payments Status

Government Receipts & Payments Status Exchange rate 1 USD=NPR 130			
1. Revenue (USD in million)	**12,156.29**	**910.61**	**7.49%**
a) Tax Revenue	**10,794.76**	**848.02**	**7.86%**
b) Non Tax Revenue	**1,361.54**	**62.59**	**4.60%**
2. Grants	**474.96**	**1.93**	**0.41%**
3. Other Receipts	**-**	**9.11**	
Total Receipt	**12,631.26**	**921.65**	**7.30%**
2. Total Expenditure from Treasury	**16,341.11**	**589.71**	**3.61%**
a. Recurrent	**9,773.76**	**366.73**	3.75%
b. Capital	**3,316.20**	**22.94**	0.69%
c. Financing	**3,251.15**	**200.04**	6.15%
Deficit	**(3,709.85)**	**331.94**	
% of GDP	**7.31%**	**-0.65%**	

2) Government Treasury position

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

	Mid-Month	October	November	December	January	February	March	April	May	June	July
F/Y 2023/24	Expenditure	2,289	3,773	4,709	5,685	5,685	6,498	7,328	8,543	9,709	11,361
	Revenue	1,841	3,054	4,172	4,768	4,768	5,370	6,286	6,991	7,724	8,898
	Treasury Position	1,441	1,579	1,989	1,809	1,809	1,722	2,636	2,351	2,114	834
F/Y 2024/25	Expenditure	2,766	3,689	4,673	5,610	6,343	7,053	8,391	9,730	10,781	12,799
	Revenue	2,086	2,798	3,410	4,703	5,544	6,209	7,189	7,752	8,776	10,250
	Treasury Position	1,476	1,800	1,847	2,502	2,942	3,297	3,124	3,033	2,857	1,099
F/Y 2025/26	Expenditure	3,064	4,743	5,133	6,597	7,117	8,170	9,290	9,862	11,316	13,296
	Revenue	2,128	2,798	3,415	4,812	5,588	6,280	7,448	8,307	9,332	10,431
	Treasury Position	1,470	1,706	2,126	2,911	3,141	3,173	3,606	3,499	3,517	2,332

3) Gross Value Added by Industrial Division

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

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

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

4) Macroeconomic Sectoral Performance

The latest sectoral data indicate that the economy entered FY 2082/83 with **broad-based real sector**, shows mix scenario reflecting marginal improvement by **2% in Q2**, despite continued expansion in nominal output. The slowdown is concentrated in **large and medium-weight sectors**, including agriculture, wholesale trade, construction, finance, and public administration.

While total output remains structurally concentrated in agriculture and trade, growth momentum is emerging from smaller, productivity-enhancing sectors such as electricity and information & communication. However, their relatively small GDP shares limit their immediate macroeconomic impact.

The economy is therefore characterized by:

1. Structural dependence on low-productivity sectors
2. Weak cyclical recovery in construction and finance
3. Fiscal-driven contraction in public administration
4. Emerging strength in energy and ICT
5. Negative short-term growth despite nominal expansion

This pattern suggests a **fragile recovery phase**, requiring coordinated fiscal, monetary, and structural interventions.

1. Sectoral Structure: Large, Medium, and Small Segments

   a. Large Sectors (Share > 7% of GDP)

Sector	Share	Q2 2082/83 Growth
Agriculture	24.03%	1.58%
Wholesale & Retail Trade	14.09%	4.51%
Real Estate	8.07%	2.69%

Key Observations

i. These three sectors contribute over 43.19% of total GDP.
ii. These sector will witness slow growth in 2025/26
iii. Agriculture remains the dominant driver but showed contraction.
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 a**djustment or delayed public spending.

Medium sectors are currently not serving as growth multipliers.

c. Small Sectors (<4%)

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

Key Observations

- a. Electricity and ICT are the fastest-growing sectors.
- b. These sectors are productivity-enhancing and future-oriented.
- c. However, their small economic weight limits macro impact.

Growth drivers are present but not yet systemically significant.

2. Fast vs. Slow Growing Sectors

Fast Growing

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

Moderate Growth

- Professional services
- Administrative services

Contracting Sectors

- Public administration
- Construction
- Financial services
- Agriculture
- Trade
- Health

The contraction across core sectors reflects broad-based softness rather than isolated sectoral shock.

3. Nominal Output and Structural Implications

Total sectoral value increased steadily through FY 2081/82, reaching 634,662 before moderating to 660,009 in Q1 2082/83. This indicates:

- Nominal expansion continued.
- Real growth slowed.
- Base effects and structural stagnation may be influencing results.
- Investment momentum remains subdued.

The divergence between nominal and real performance suggests inflation moderation but weak real activity.

4. Structural Assessment

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

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

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

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

5. Macroeconomic Outlook

Given current trends:

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

Without revival in construction, finance, and trade, aggregate growth may remain subdued in early FY 2082/83.

Policy Implications

a) Short-Term Stabilization

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

b) Medium**-Term Growth Drivers**

- Promote manufacturing competitiveness.
- Encourage private investment through regulatory clarity.
- Expand energy production and cross-border power trade.
- Strengthen digital economy ecosystem.

c) Structural Reform

- Diversify away from agriculture dependence.
- Reduce real estate concentration risk.
- Increase productivity in medium-weight sectors.

6. Conclusion

The economy is at a transitional phase. While nominal output has expanded, real growth has weakened due to contraction in large and medium sectors. The current structure remains consumption- and agriculture-heavy, with limited industrial depth. However, expanding energy and ICT sectors provide a foundation for gradual structural transformation.

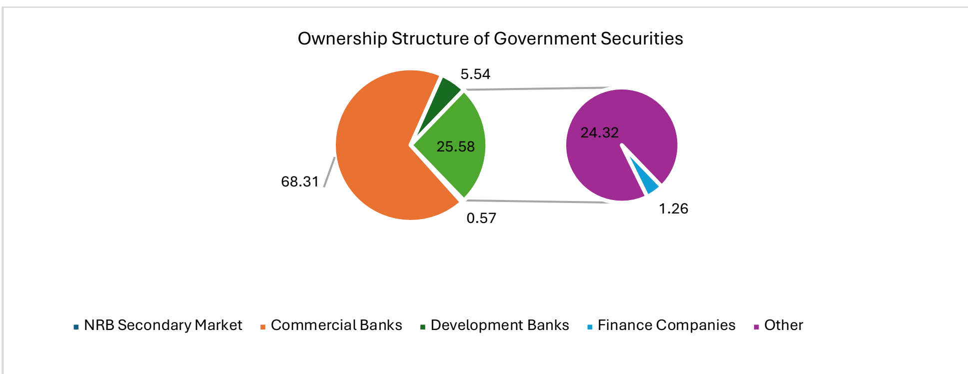
A coordinated strategy combining fiscal acceleration, credit support, and industrial policy will be essential to restore sustainable growth momentum.

5) *Government* Revenue

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

HEADS	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Compared to Last year
Total Tax Revenue	**2,940**	**3,970**	**4,610**	**5,205**	**6,144**	**6,874**	**7,549**	**8,624**	6.78%
Non Tax Revenue	**185**	**471**	**505**	**544**	**673**	**731**	**769**	**925**	-6.75%
Total Revenue	**3,125**	**4,442**	**5,116**	**5,748**	**6,818**	**7,604**	**8,318**	**9,549**	5.30%
Other Receipts	**66**	**85**	**132**	**137**	**161**	**181**	**224**	**303**	-3.82%
Total Receipts	**3,192**	**4,527**	**5,247**	**5,885**	**6,978**	**7,785**	**8,542**	**9,851**	5.00%

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	Actula 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

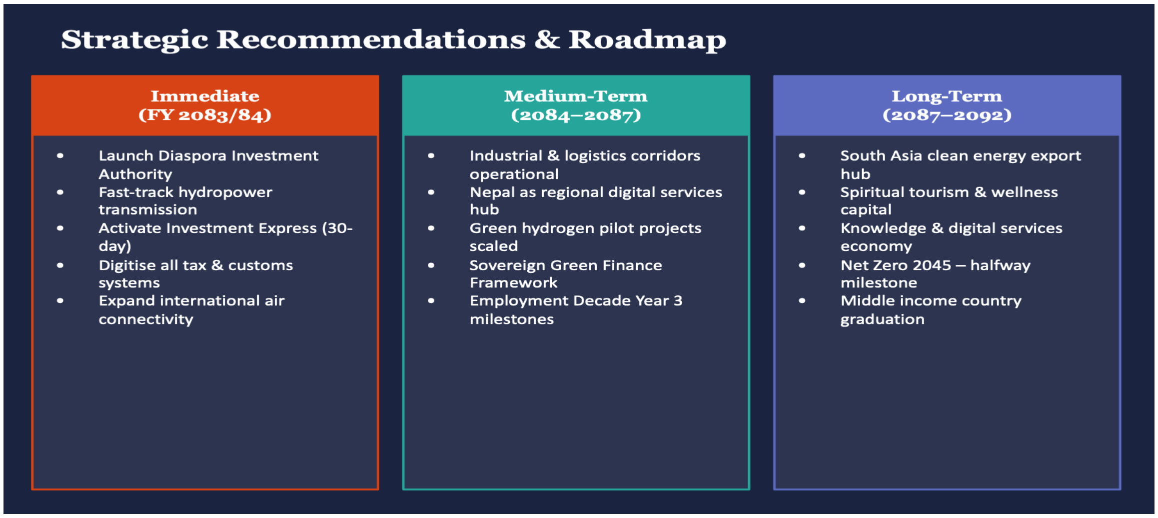
Fiscal Reform	7% GDP Growth	Capital Markets	Diaspora Capital	Industrial Villages	IT National Industry
Cashless economy, green tax consolidation, automated VAT refund, customs digitisation, TDS tightening, reduce tax burden to individuals and corporate.	*100-point governance reform. Reduce production 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.*



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)-(7घ) 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)-(1घ) 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 (गोलाप्रथा).	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(1ग)/(1घ) 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 अङ्क 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)(ज) already requires bid documents to disclose any domestic-preference policy.	Sec 2 (न 1) defines "domestic goods" (≥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 41क 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/"नाशवान्त" goods) — the model already exists in this baseline, just for a different, narrower category.	Sec 42क 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 52क(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 52क(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 61क departmental-action 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 58क 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(5क)-(5ग) 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 61ख and 62क 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 66क 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.

Refences:
1) https://www.nrb.org.np/
2) https://nia.gov.np/
3) https://doind.gov.np/
4) https://www.imf.org/en/Countries/NPL
5) https://www.worldbank.org/en/country/nepal
6) https://mof.gov.np/
7) https://fcgo.gov.np/
8) https://nsonepal.gov.np/
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