Financial Stability Report

Fiscal Year 2024/25

Issue 17

Nepal Rastra Bank
Banks and Financial Instituions
Regulation Department
Baluwatar, Kathmandu

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Disclaimer

This *Seventeenth issue* of the Financial Stability Report is based on the provisional data of Banks and Financial Institutions (BFIs), financial markets, financial infrastructures, and other financial institutions of mid-July 2025.It summarizes the key developments in Nepalese financial sector with policy measures taken during the review year (fiscal year 2024/2025). However, some selected developments in the recent time are also presented in the publication.

Data used in the analysis may thus differ from the most recent statistics or audited financials published by BFIs. The colors, boundaries, denominations, or any other signs and symbols used in the report do not imply any metaphoric judgments. This report, unless otherwise stated elsewhere, covers the financial performance and phenomena observed during the fiscal year ended mid-July 2025. All data and information in this report are retrieved from financial sector-related institutions and publications of the IMF & World Bank, unless stated.

Nothing herein shall constitute or be considered a limitation upon or waiver of the provisions of existing rules, regulations, and legislations.

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FOREWORD

The global financial system continues to face elevated uncertainty amid rising geopolitical tensions, persistent inflationary pressures, high sovereign debt burdens, and tightening financial conditions. Nevertheless, global financial markets have remained broadly stable, even as underlying vulnerabilities have continued to increase. Key risks in financial system stem from leverage in nonbank financial institutions, volatile capital flows to emerging markets, and heightened sensitivity to shifts in global risk sentiment. In addition, structural challenges posed by climate-related shocks and technological transformation in the financial system further add to systemic fragilities.

In response to evolving macro-financial conditions, monetary authorities in major economies have generally adopted a cautiously accommodative monetary policy stance, supporting a gradual recovery in global growth while keeping inflationary pressures contained. However, balance of risks remains tilted to the downside, necessitating sustained policy vigilance and strengthened financial safeguards.

In light of these developments, Nepal's economy has demonstrated resilience, supported by improvements in macroeconomic fundamentals. Easing inflationary pressure, a strengthened external position, and adequate foreign exchange reserves have contributed to enhance macroeconomic stability. However, certain risks persist in the economy. The moderation in private sector credit growth and stress in real and fiscal sectors continue to pose challenges in preserving financial stability. Furthermore, Nepal remains exposed to external risks arising from global economic uncertainty, geopolitical developments, commodity price volatility, and climate-related shocks. These evolving risks underscore the importance of maintaining a vigilant policy stance and strengthening the resilience of the financial system to safeguard macro-financial stability.

Within the financial sector, banks and financial institutions have continued to maintain sound capital adequacy, adequate liquidity, and leverage positions in line with the regulatory requirement. However, the deterioration in asset quality warrants ongoing attention. The Non-bank financial institutions have also remained broadly stable, although growing inter-linkages call for closer supervisory oversight.

Going forward, safeguarding financial stability will require proactive macroprudential policies, and coordinated actions across all regulatory agencies. In this context, strengthening the resilience of financial institutions and enhancing oversight of evolving risks remain key priority for Nepal Rastra Bank.

Finally, I would like to appreciate the Financial Stability Oversight Committee, led by the Deputy Governor, and the Financial Stability Sub-Committee for their dedicated efforts at the working level to bring out this important publication in coordination with related departments and agencies. I hope this document provides a comprehensive overview of the stability of the Nepalese financial system.

Governor

Prof. Dr. Biswo Nath Poudel

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ADBL	Agricultural Development Bank Limited
AI	Artificial Intelligence
ALPA	Asset (Money) Laundering Prevention Act, 2008
AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
ASBA	Application Supported by Blocked Amount
BCBS	Basel Committee on Banking Supervision
BFIs	Banks and Financial Institutions
CAR	Capital Adequacy Ratio
CD	Credit to Deposit Ratio
CCD	Credit to Core Capital plus Deposit Ratio
CFT	Combating the Financing of Terrorism
CSR	Corporate Social Responsibility
KSKL	Karja Suchana Kendra Limited
CIT	Citizen Investment Trust
DAP	Document against payment
DCGF	Deposit and Credit Guarantee Fund
DFS	Digital Financial Services
DoC	Department of Cooperatives
EGMONT	The Egmont Group of Financial Intelligence Units
EPF	Employees Provident Fund
FATF	Financial Action Task Force
FICPD	Financial Inclusion and Consumer Protection Division
FINGO	Financial Intermediary Non-Government Organization
FIU-Nepal	Financial Information Unit of Nepal
FY	Fiscal Year
GDP	Gross Domestic Product
GoN	Government of Nepal
HIDCL	Hydroelectricity Investment and Development Company Limited
IMF	International Monetary Fund
INR	Indian Rupees
IPO	Initial Public Offering
IT	Information Technology
JPY	Japanese Yen

LTV	Loan-to-Value
LEA	Law Enforcement Agencies
MFIs	Micro Finance Financial Institutions
ML	Money Laundering
MoU	Memorandum of Understanding
NBL	Nepal Bank Limited
NBFIS	Non-Bank Financial Institutions
NCBL	National Cooperative Bank Limited
NEPSE	Nepal Stock Exchange Limited
NIDC	Nepal Industrial Development Corporation
NPL	Non-Performing Loan Ratio
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
NSO	National Statistics Office
PSO	Payment System Operator
PSP	Payment System Provider
QII	Qualified Institutional Investors
QR	Quick Response
RBBL	Rastriya Banijya Bank Limited
ROA	Return on Assets
ROE	Return on Equity
REs	Reporting Entities
RWA	Risk-Weighted Assets
RWE	Risk-Weighted Exposure
SACCOS	Savings and Credit Cooperative Societies
SEBON	Securities Board of Nepal
SLF	Standing Liquidity Facility
SOB	State-owned Banks
SSF	Social Security Fund
ToT	Training of Trainers
USD	US Dollar

EXECUTIVE SUMMARY

1. The advanced economies, emerging market economies and developing economies were expected to maintain a steady growth trajectory in 2025. Global economy grew by 3.4 percent, advanced economies grew by 1.9 percent, while emerging market and developing economies grew by 4.4 percent in 2025.

2. Inflation has declined globally, influenced by easing supply chain disruptions and moderating commodity prices. In 2025, global headline inflation remained steady at 4.1 percent.

3. Nepal's economy demonstrated signs of recovery in fiscal year 2024/25, supported by low inflation, strong external sector, ample banking liquidity, and GDP growth of 4.61 percent, compared to 3.67 percent in the previous fiscal year. This growth was primarily driven by electricity and gas, transportation and storage, and financial sectors. However, weak credit expansion, rising non-performing loans, and persistent underutilization of capital expenditure continue to hinder economic activity, highlighting the need for targeted policy measures.

4. Inflation moderated to 4.06 percent in fiscal year 2024/25, down from 5.44 percent in the previous fiscal year, driven by lower food and non-food inflation.

5. The external sector demonstrated resilience as the remittance inflows, balance of payments, and foreign exchange reserves followed an increasing trend. The stability of external sector is bolstered further by a 19.2 percent increase in remittance inflows and a favorable balance of payments.

6. The cautiously accommodative monetary policy adopted by Nepal Rastra Bank (NRB), along with declining inflation and market interest rates, contributed to the growth of the monetary sector. Broad money increased by 12.5 percent, private sector credit increased by 8.4 percent, and total deposits of banks and financial institutions increased by 12.6 percent during the review year.

7. The number of Banks and Financial Institutions (BFIs) has been gradually decreasing over the years with the adoption of consolidation policies by NRB. During the review year, two microfinance institutions initiated the process of merger and acquisition. As of mid-July 2025, the total number of BFIs stood at 106.

8. During the review year, share of assets of BFIs in the financial system increased slightly to 78.66 percent as compared to 78.26 percent in the previous fiscal year.

9. Total assets of commercial banks, development banks, finance companies, microfinance financial institutions, and infrastructure development bank remained broadly stable. As of mid-July 2025, commercial banks held the largest share in terms of total assets (65.97 percent), followed by development banks (6.09 percent). Additionally, with respect to other financial system participants, insurance companies held the largest share in terms of total assets, followed by the Employees Provident Fund (EPF), Citizen Investment Trust (CIT), and reinsurance companies.

10. Credit growth of BFIs increased slightly to 6.14 percent compared to 6.11 percent in the previous fiscal year. The growth rate of deposit mobilization for BFIs stood at 12.58 percent, down from 13 percent in the previous fiscal year.

11. During the review year, sector-wise credit distribution of BFIs showed concentration in consumption loans (20.60%), wholesale and retail sector (18.48%), agriculture, forestry and beverage production (16.62%), electricity, gas and water (7.97%) and finance, insurance and real estate sector (7.88%).

12. Financial soundness indicators of banks and financial institutions demonstrated resilience and stability of the financial system. Capital adequacy of BFIs continued to be well above the regulatory requirements. However, the declining trend of capital adequacy has raised supervisory concerns. As of mid-July 2025, overall capital adequacy ratio and core capital ratio stood at 12.95 percent and 10.13 percent, respectively.

13. The ratio of non-performing loans remained high, highlighting the increased challenges in conserving the soundness of the financial system. The non-performing loan of BFIs increased to 4.62 percent during the review year.

14. The rise in non-performing loans constrained the balance sheet growth of BFIs and adversely affected their profitability. Despite these challenges, the sector recorded a net profit of Rs.77.53 billion, representing a 10.07 percent increase over the previous fiscal year.

15. The composite index of banking stability indicator stood at 0.55 as of mid-July 2025. Liquidity remained comfortable and efficiency improved during the review year. However, risks in soundness and asset quality remained elevated.

16. As of mid-July 2025, leverage ratio of commercial banks stood at 6.46 percent, well above the regulatory requirement. Similarly, the total liquid assets to deposit ratio of BFIs stood at 24.92 percent, slightly lower than 26.44 percent recorded in the previous fiscal year. The net liquid assets to total deposits ratio stood at 34.33 percent, which is well above the minimum regulatory requirement of 20 percent.

17. Market conduct regulations, including interest spread and base rate plus premium framework, have served the dual purpose of protecting financial consumers and fostering healthy competition. During the review year, average monthly base rate of commercial banks stood at 6.67 percent.

18. During the review year, US Dollar Index reached its highest value at 109.95. The Nepalese currency depreciated by 2.73 percent against the US Dollar. As of mid-July 2025, the exchange rate stood at Rs.137 per US Dollar, compared to the exchange rate of Rs.133.36 in the previous fiscal year.

19. As of mid-July 2025, nine Payment System Operators and 23 Payment Service Providers were operational. The adoption of digital payment instruments has continued to expand, including Real-Time Gross Settlement (RTGS) system for large-value transactions and retail payment channels such as Connect IPS, Fonepay IBFT, QR-based payments, mobile banking, internet banking, cardless cash withdrawals, and point-of-sale (POS) transactions. In addition, initiatives have been undertaken to further strengthen the national payment system infrastructure and to develop a framework for the identification of systemically important payment systems.

20. Financial inclusion and access have continued to improve, supported by policy measures implemented by Nepal Rastra Bank (NRB). The expansion of bank branch networks across all local levels, coupled with improved financial literacy and the increasing adoption of digital financial services, has significantly enhanced access to and usage of formal financial services

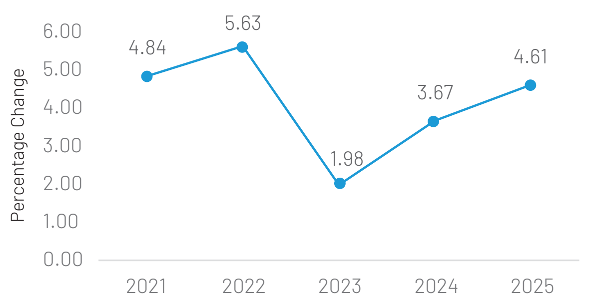
21. Notwithstanding prevailing risks and vulnerabilities to economic outlook, the domestic financial system remained broadly resilient over the review year. The banking sector continued to demonstrate strong capacity to absorb shocks emanating from both domestic and external financial conditions. This resilience is reflected in key financial soundness indicators, including capital adequacy, liquidity, and leverage ratio, which remained comfortably above the regulatory minimum. However, the ongoing deterioration in asset quality warrants increased supervisory vigilance. In this context, preserving financial stability while supporting sustainable credit growth will require continued prudent, forward-looking, and well-coordinated regulatory oversight across the financial sector.

Nepalese Macro Financial System

Number of Financial Institutions

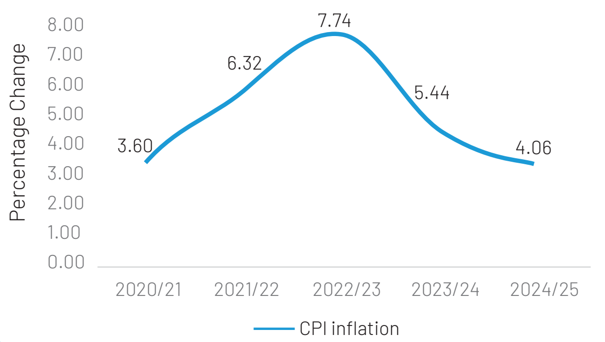
Institutions	2021	2022	2023	2024	2025
Banks and Financial Institutions					
Commercial Banks	27	26	20	20	20
Development Banks	18	17	17	17	17
Finance Companies	17	17	17	17	17
Microfinance Financial Institutions	70	65	57	52	52
Infrastructure Development Bank	1	1	1	1	1
Total	**133**	**126**	**112**	**107**	**107**

Real Gdp Growth Rate

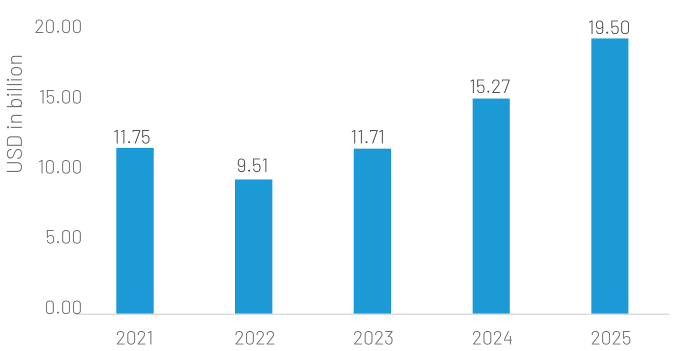


Note: Producer's Price

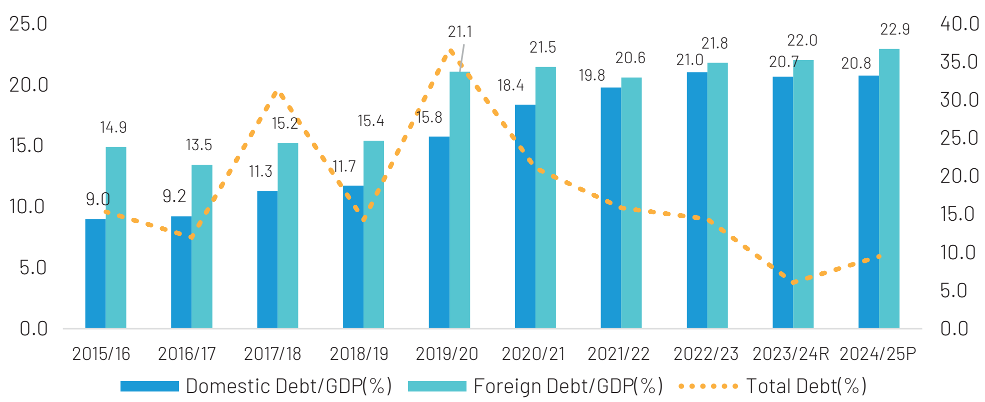
Consumer Price Index



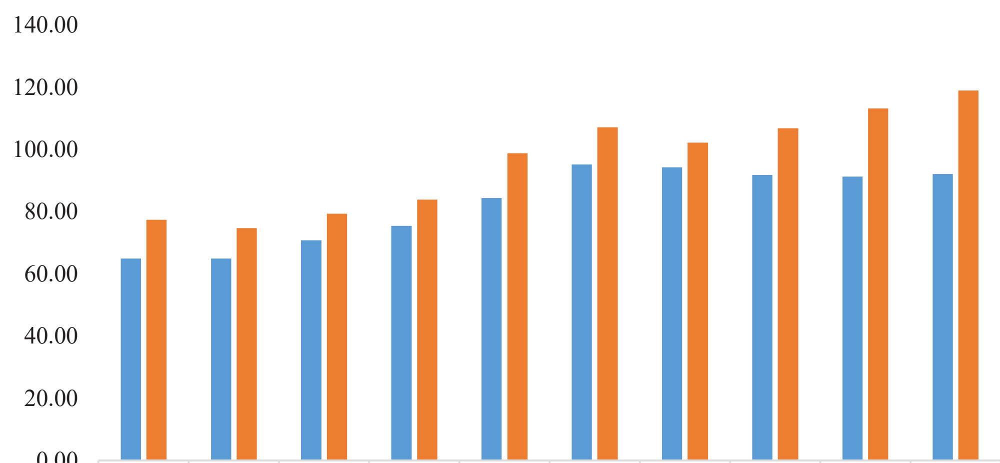
Gross Foreign Exchange Reserves



Government Debt

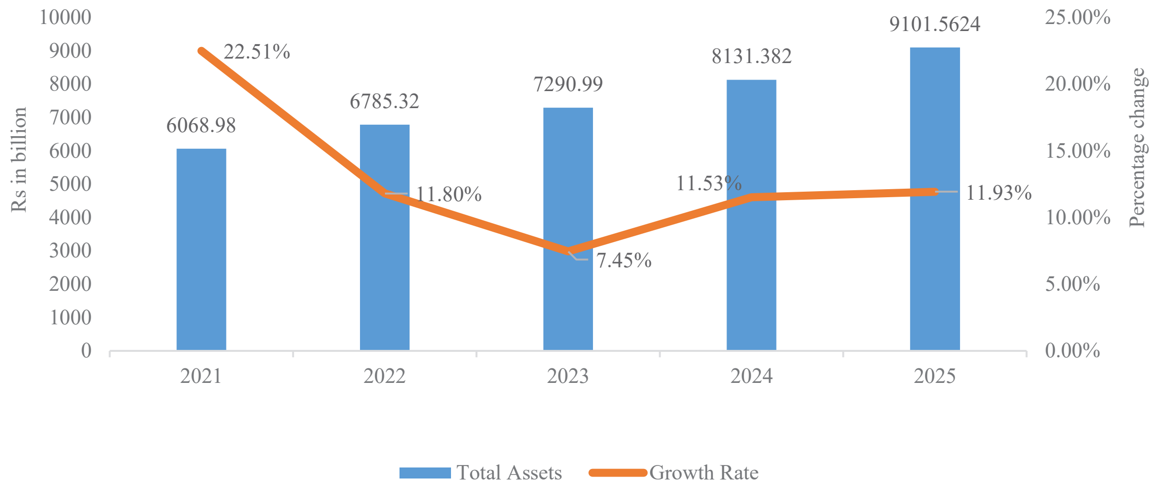


Private Sector Credit as percent of GDP

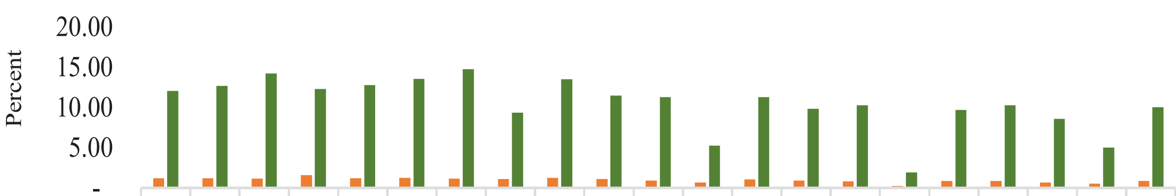


	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Private Sector Credit	64.90	64.90	70.70	75.40	84.30	95.10	94.20	91.70	91.20	92.01
Deposits	77.30	74.70	79.30	83.80	98.70	107.10	102.10	106.80	113.10	118.90

Assets Size of Banks and Financial Institutions



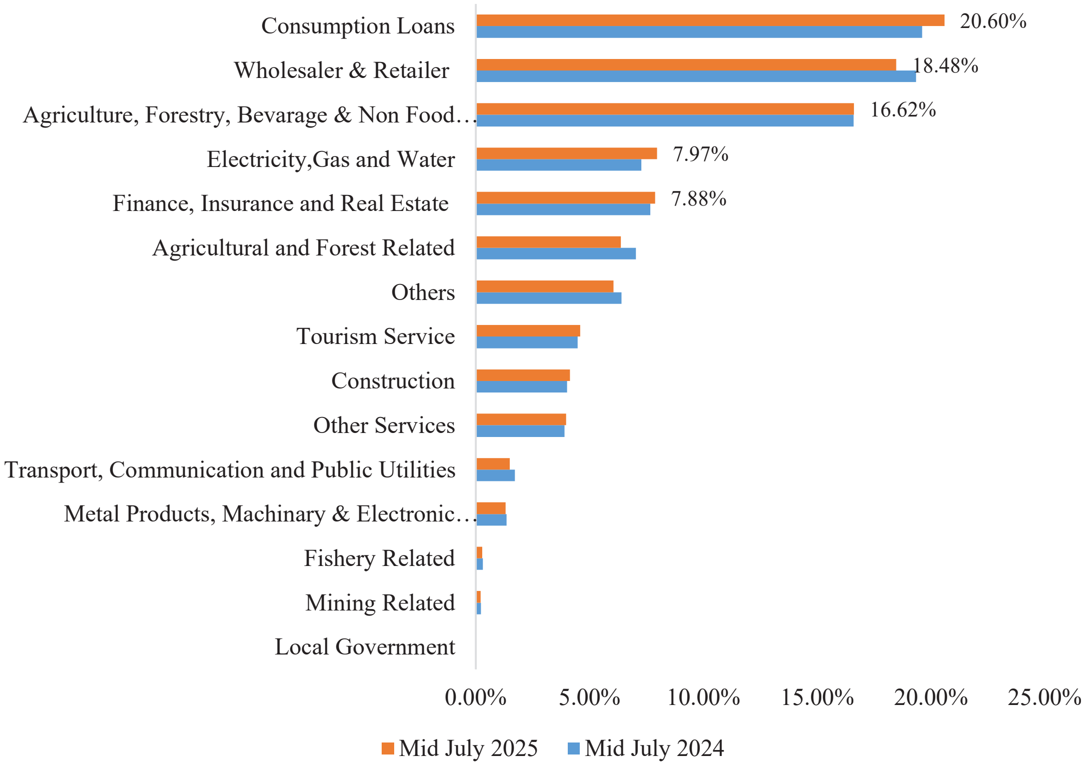
Return on Equity and Return on Assets



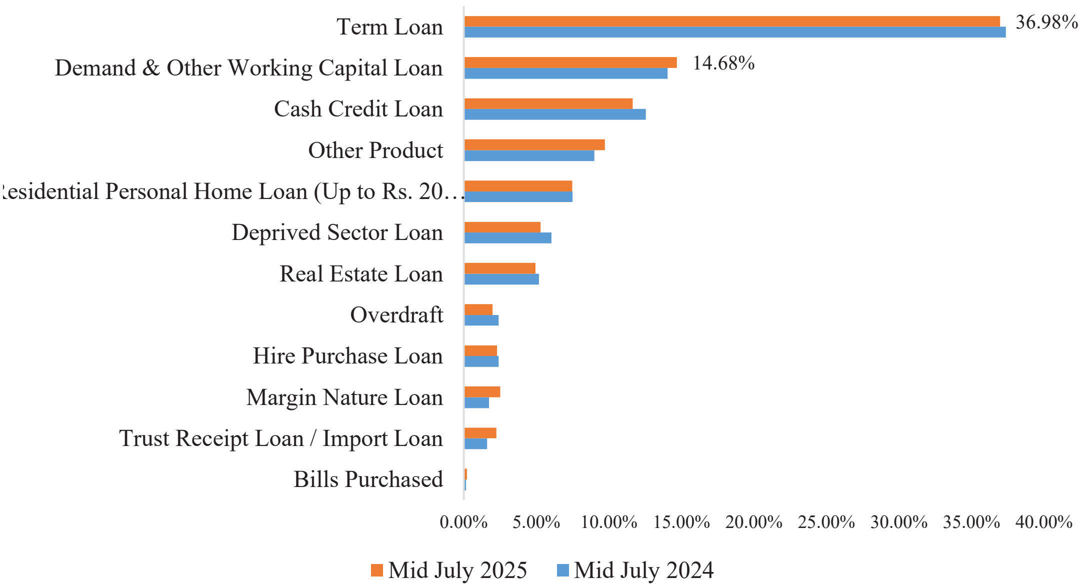
	2021				2022				2023				2024				2025			
	Overall	A	B	C	Overall	A	B	C	Overall	A	B	C	Overall	A	B	C	Overall	A	B	C	Overall
ROA	1.19	1.17	1.14	1.57	1.17	1.24	1.14	1.10	1.23	1.08	0.89	0.64	1.06	0.89	0.83	0.21	0.87	0.88	0.68	0.50	0.85
ROE	12.0	12.6	14.2	12.2	12.7	13.5	14.7	9.33	13.4	11.4	11.2	5.24	11.2	9.83	10.2	1.94	9.67	10.2	8.54	5.02	10.0

ROA ROE

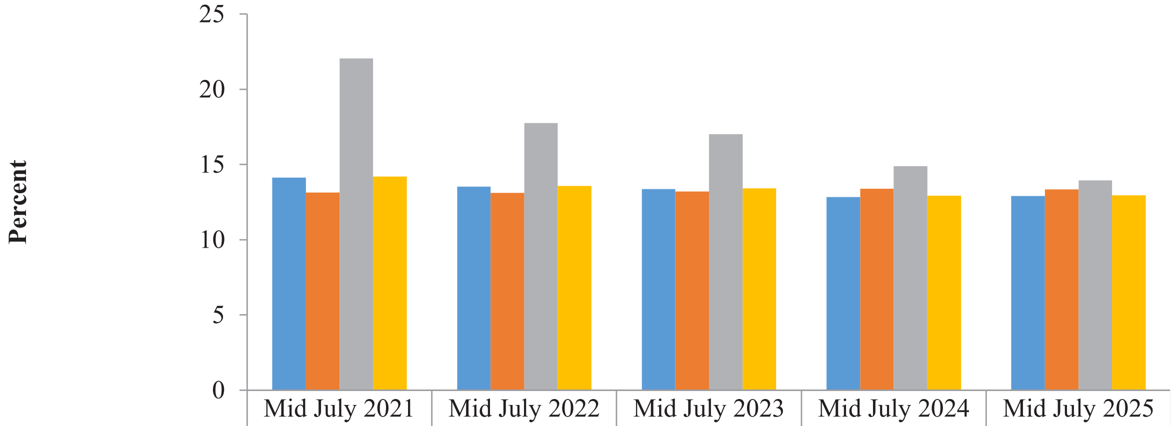
Sector-wise Loans and Advances



Product-Wise Loans and Advances



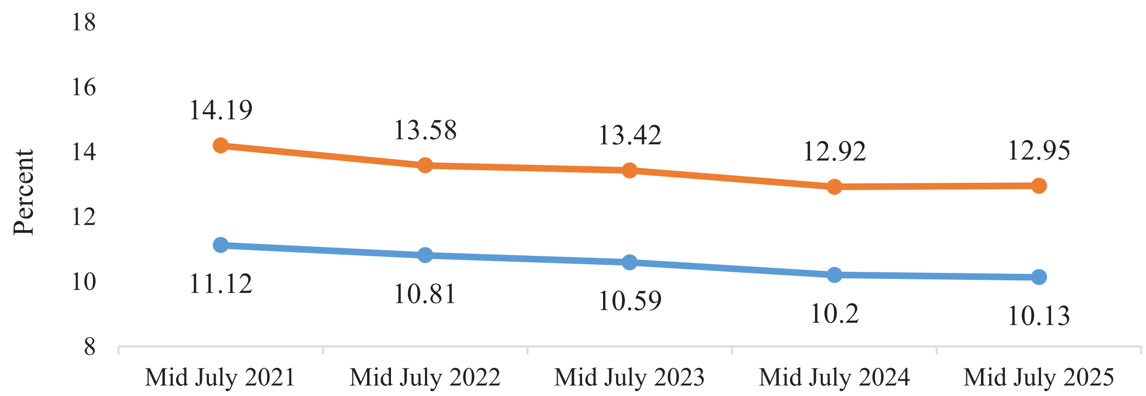
Capital Adequacy Ratio - Class wise



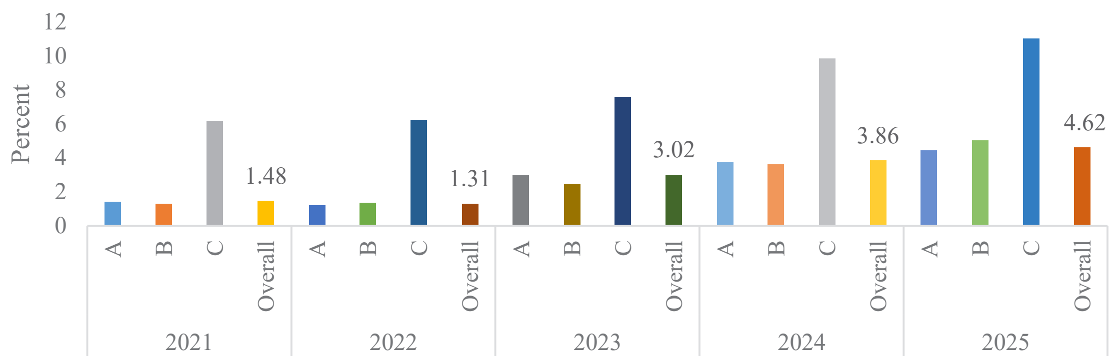
	Mid July 2021	Mid July 2022	Mid July 2023	Mid July 2024	Mid July 2025
Commercial Bank	14.13	13.53	13.37	12.84	12.90
Development Bank	13.14	13.10	13.21	13.38	13.34
Finance Company	22.04	17.75	17.01	14.89	13.93
Overall	14.19	13.58	13.42	12.92	12.95

Commercial Bank Development Bank Finance Company Overall

Core Capital and Overall Capital Adequacy Ratio

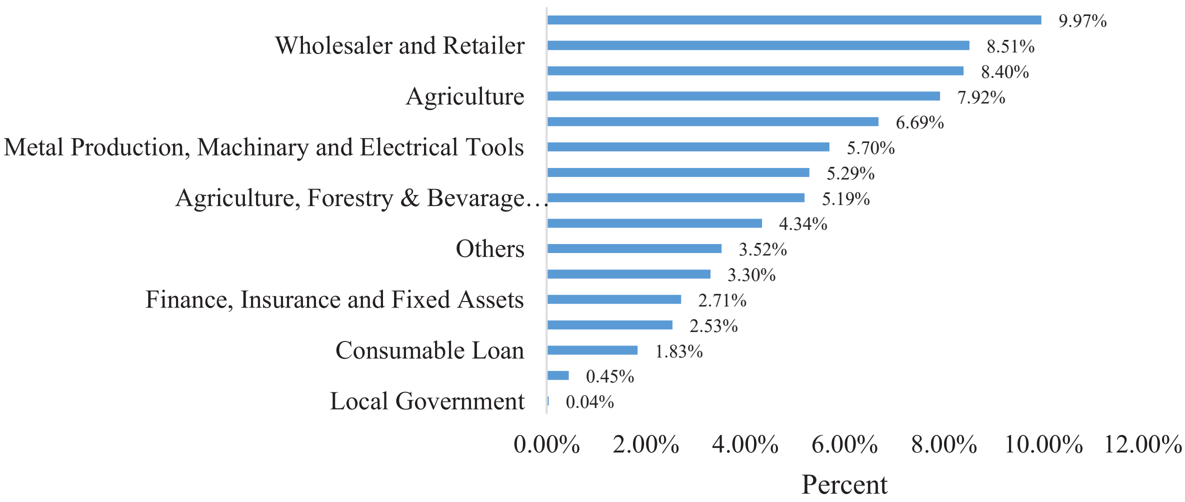


Non-Performing Loans

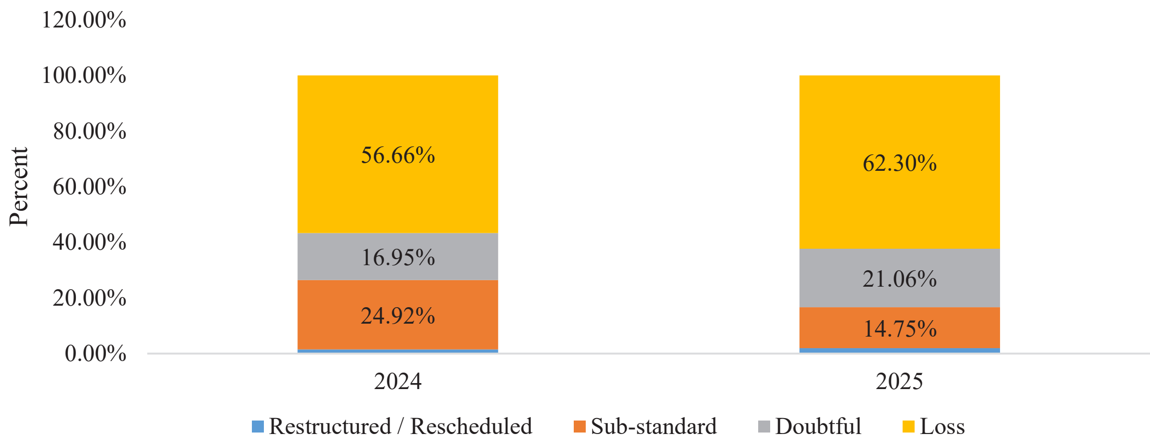


Nepalese Macro Financial System

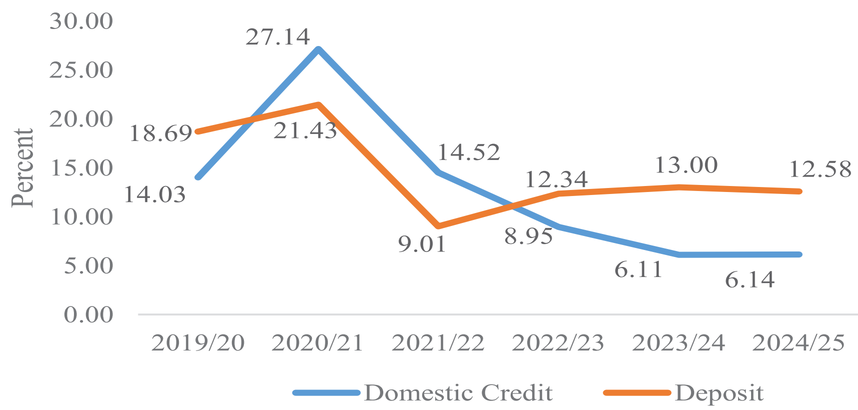
Sector-Wise Non-Performing Loans



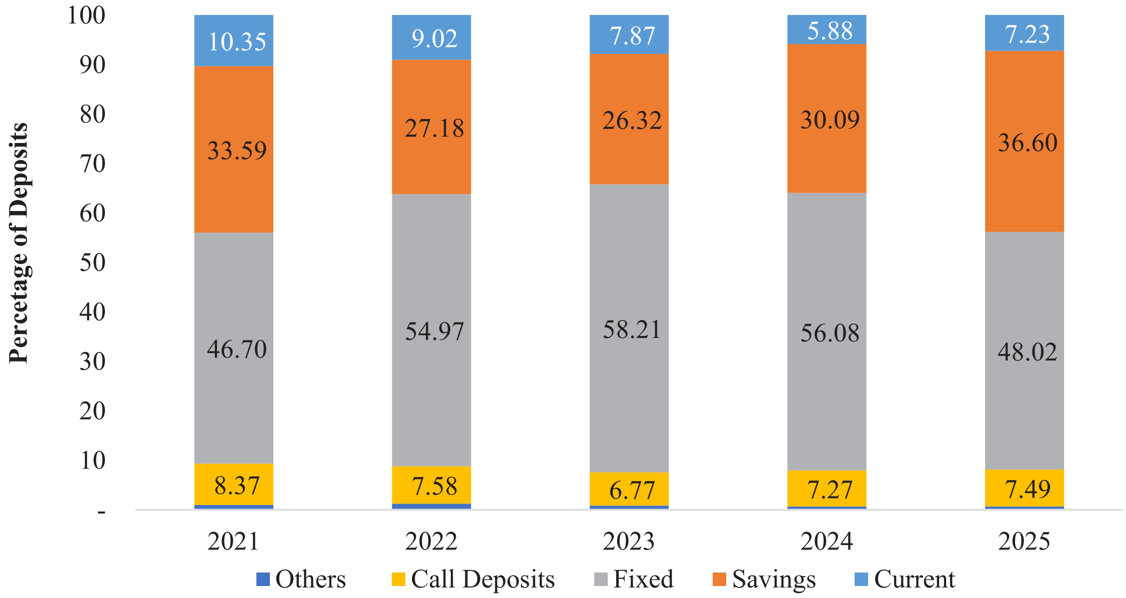
Composition of NPL



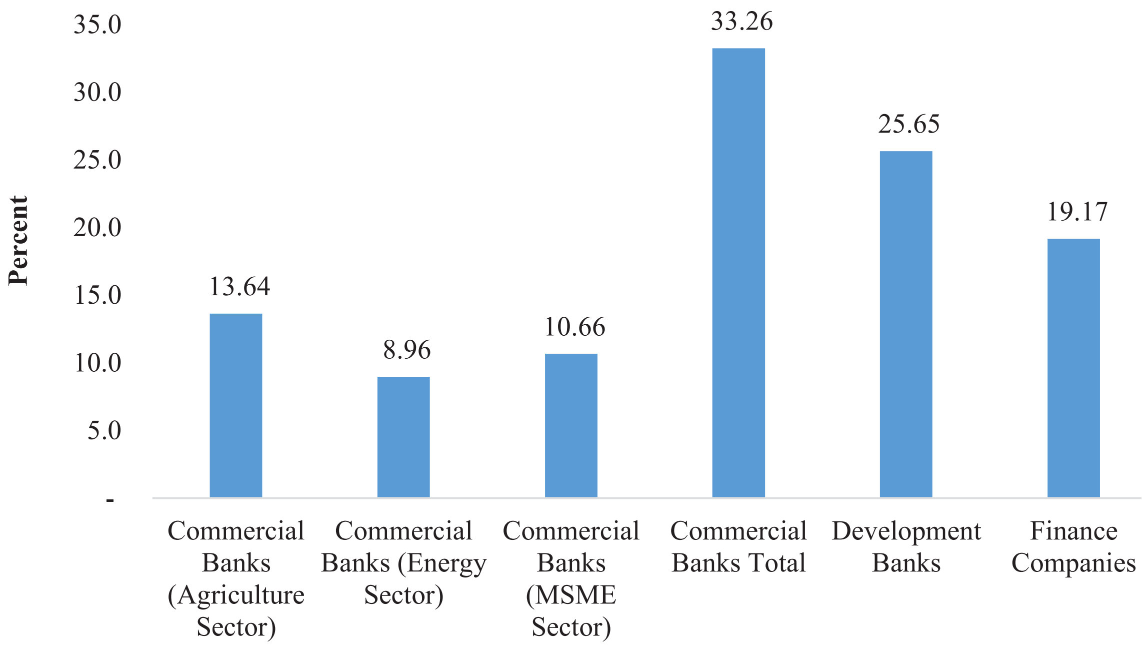
Domestic Credit and Deposit Growth



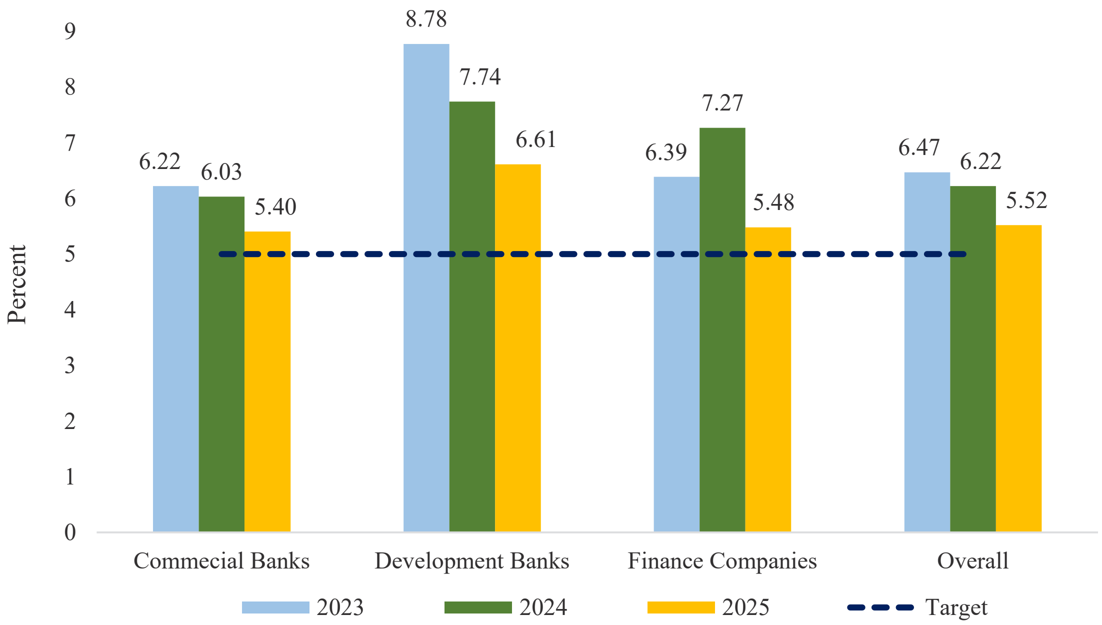
Deposit Mix of BFIs



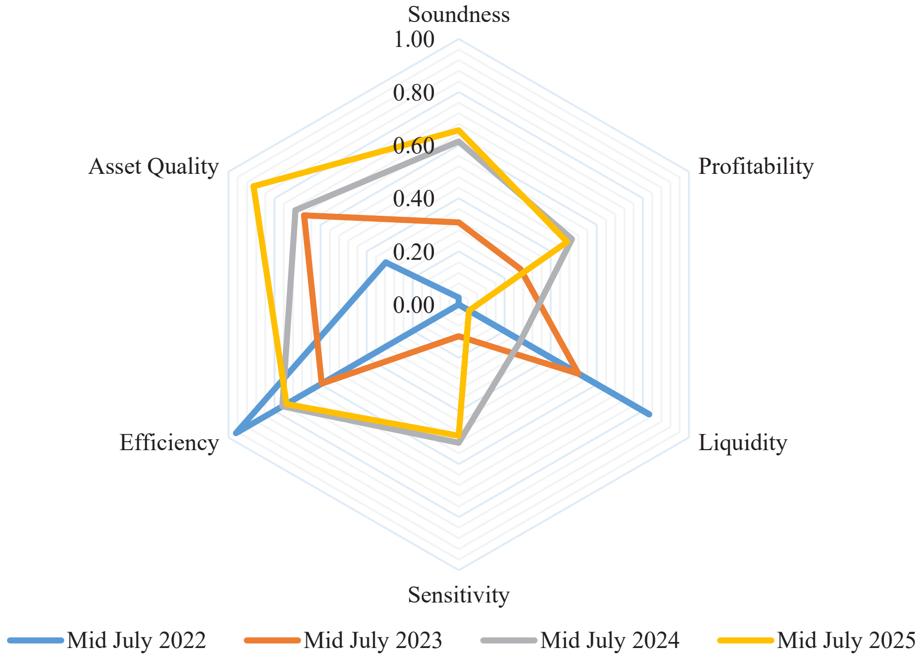
Directed Sector Lending of BFIs



Deprived Sector Lending of BFIs



Banking Stability Map



Note: Away from center indicates increase in risk

Banking Stability Indicator - Composite Index (A, B, and C class aggregate)

Period/Indicator	Soundness	Profitability	Liquidity	Sensitivity	Efficiency	Asset Quality	Composite Index
Mid- July 2022	0.03	0.00	0.83	0.00	0.97	0.32	0.36
Mid- July 2023	0.31	0.27	0.52	0.12	0.60	0.67	0.41
Mid- July 2024	0.61	0.49	0.27	0.52	0.77	0.71	0.56
Mid- July 2025	0.66	0.47	0.04	0.49	0.75	0.89	0.55

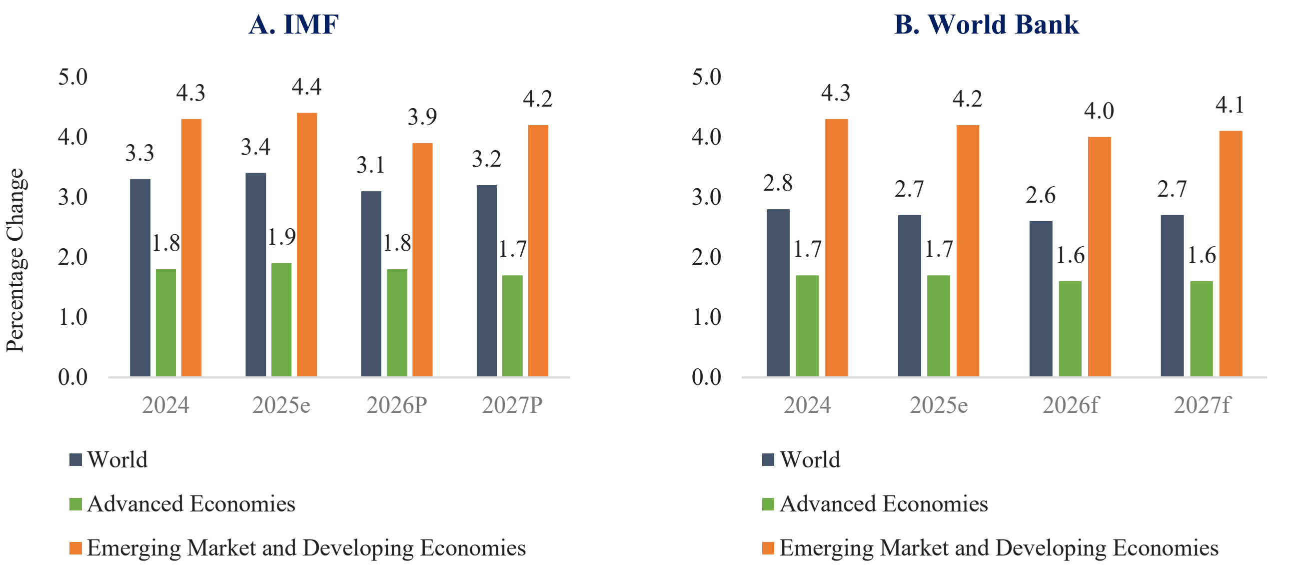
CHAPTER I: GLOBAL MACRO-FINANCIAL CONTEXT

1.1 Global Macroeconomic Environment

1.1.1 Global Economic Growth and Inflation

The Global economy is estimated to have grown by 3.4 percent in 2025.[1] In 2025, the International Monetary Fund (IMF) estimates that Advanced Economies (AEs) grew by 1.9 percent and Emerging Market and Developing Economies (EMDEs) grew by 4.4 percent. China and India are estimated to have achieved a remarkable growth of 5.0 percent and 7.6 percent, respectively, with a significant contribution to the global economy. The surge in investment in AI-related technology was one of the major drivers of growth, whereas international trade tensions hindered potential progress. The U.S. economy experienced a temporary slowdown in the final quarter of 2025 due to a federal government shutdown, which tempered otherwise strong momentum. However, a rebound in economic activity is projected for the first quarter of 2026, which contributed to a 0.2 percentage point upward revision in the U.S. annual growth forecast to 2.3 percent.

Figure 1.1: Global Growth Outlook



Source: World Economic Outlook, 2026 April

Source: Global Economic Prospects, 2026 January

Prospects for global economic growth remain dim in 2026. According to the IMF's April 2026 projections, global economy is expected to grow at 3.1 percent and 3.2 percent in 2026 and 2027, respectively, which is slightly down from the previous trend and forecasts (Figure 1.1). Since the outbreak of a new war in the Middle East, the slowdown is expected to be more prominent in EMDEs, particularly energy importers and economies with pre-existing macroeconomic vulnerabilities. Energy exporters from the Gulf region are also expected to suffer. In this backdrop, the projections provide a reference forecast in the short-term with limited spillover effect. However, the memorandum of understanding in June between the US and Iran is likely to posit a more favorable outlook than assumed.

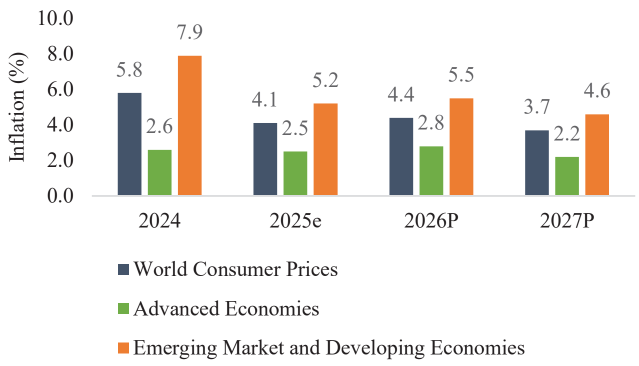
Global inflation is projected to rise temporarily in 2026. World consumer prices is estimated to have grown

1 World Economic Outlook (April 2026), International Monetary Fund (IMF)

by 4.1 percent in 2025, down from 5.8 percent in 2024 (Figure 1.2). In its April 2026 update, the IMF projects global inflation to rise to 4.4 percent in 2026, due to a rise in commodity prices and the cost of energy-intensive goods and services, and resume its downward trend at 3.7 percent in 2027. The projections assumed a limited war in duration and scope, however, leading to an adverse impact on the global price level.

Inflation is expected to converge to central bank targets in the coming years. Among major world economies, inflation in the UK and the US are projected to decline by 2027, whereas inflation in China, Japan, and India are anticipated to increase in 2026 and 2027, converging toward their respective targets. In the Euro area, inflation is expected to hover around the target. Australia and Norway, on the other hand, are projected to have prolonged persistence in above-target inflation, based on IMF's April 2026 projections.

Figure 1.2: Inflation



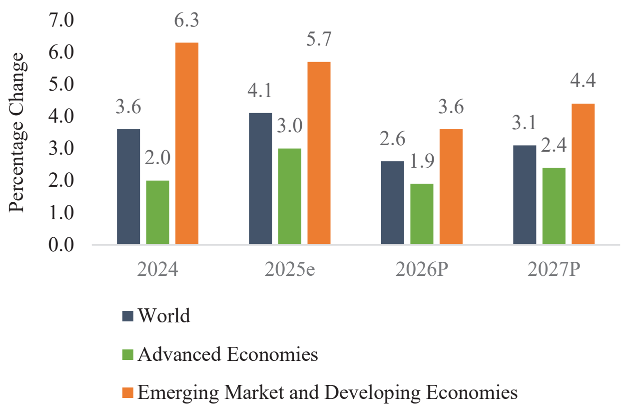
Source: IMF, World Economic Outlook, April 2026

1.1.2 Trade

Trade policy uncertainties of big economies distorted the supply chain in 2025. Disputes that arose between the US and other major economies were subsided by agreements to reduce bilateral tariffs and export controls. Bilateral trade agreements with the US, however, remain conditional and time-bound. This has resulted in elevated levels of policy uncertainty, albeit at a lower level than in early 2025.

Growth in overall trade volume increased but diverged across economies. According to the IMF, world trade volume, including goods and services, is estimated to have grown by 4.1 percent in 2025, compared to a growth of 3.6 percent in 2024. However, the distribution was uneven across Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). The growth in trade volume of EMDEs declined from 6.3 percent in 2024 to 5.7 percent in 2025. This decline was offset by the increase in trade volume of AEs, which saw a growth of 3.0 percent in 2025 from a growth of 2.0 percent in 2024.

Figure 1.3: Trade Volume (Goods and Services)



Source: IMF, World Economic Outlook, 2026 January

Growth in world trade volume is expected to decline in 2026. Based on IMF projections, world trade volume is estimated to grow by only 2.6 percent in 2026 and by 3.1 percent in 2027. These projections reflect adjustments to trade policy shocks of 2025. Furthermore, expansionary fiscal packages in certain economies are anticipated to reduce global imbalances observed in trade dynamics. This may ease gradually as the impact of the war dissipates.

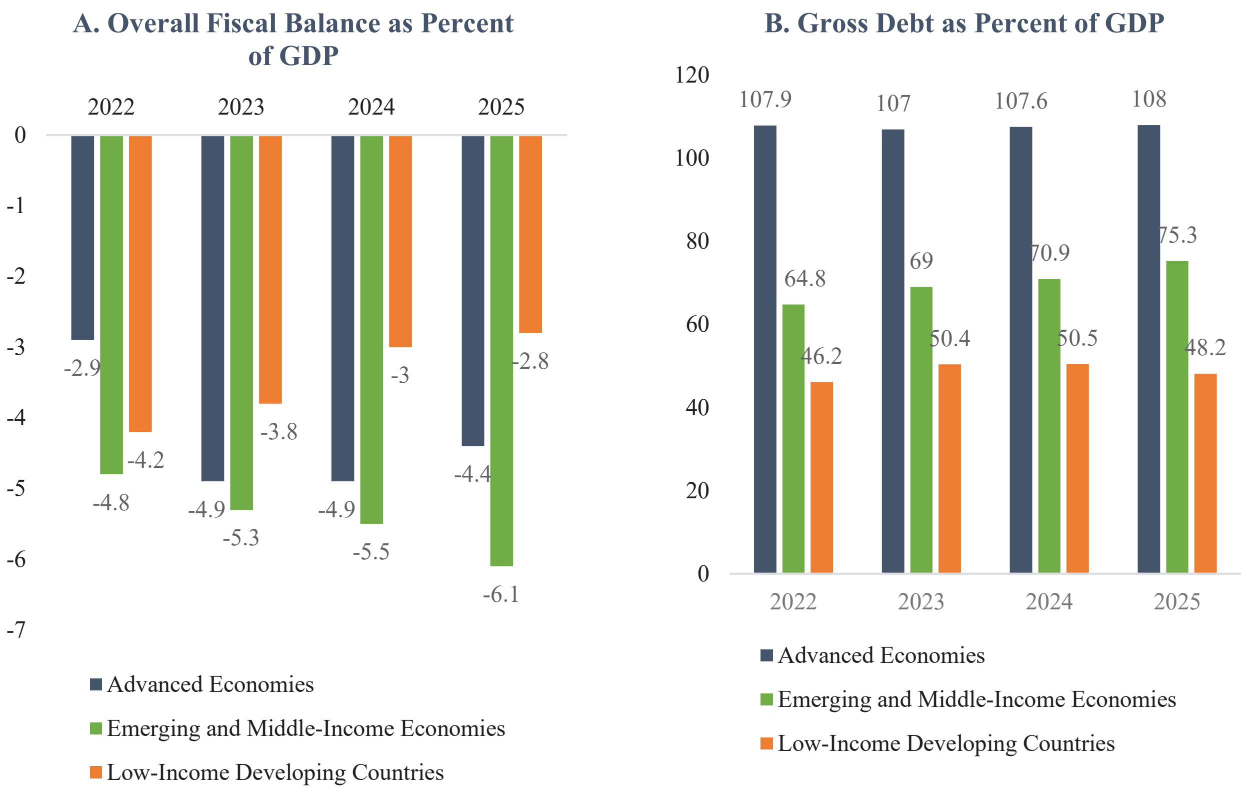
1.1.3 Fiscal Balance and Public Debt

Fiscal imbalance varies across countries. In 2025, the IMF estimates overall fiscal deficit of AEs at 4.4 percent, Emerging and Middle-Income Economies at 6.1 percent, and Low-Income Developing Countries at 2.8 percent of GDP. With increasing expenditures on natural disasters, defense, and advanced technologies, coupled with increase in defense spending and potential increase in spending on social needs due to war in the Middle East, prospects of even higher debt levels pose risks to fiscal sustainability and financial stability.

Global public debt is expected to continue its rising trend. Gross debt as percentage of GDP is estimated at 108.0 percent in AEs, 75.3 percent in Emerging and Middle-Income Economies, and 48.2 percent in Low-Income Developing Countries in 2025.[2] According to the IMF's April 2026 projection, global public debt is projected to increase to more than 100 percent of GDP by 2029, a year earlier than the April 2025 projection, from just under 94 percent of GDP in 2025.

Adopting a prudent fiscal policy is a key priority. The IMF recommends increasing spending efficiency, human capital investment, and infrastructure investment to support debt sustainability and prepare fiscal buffers against adverse shocks such as financial crises. Governments can also adopt the recommended policies by keeping the total spending constant, whereby more public spending is allocated to human capital and infrastructure development while reducing inefficiencies and redundancies in public spending.

Figure 1.4: Overall Fiscal Balance and Gross Debt as Percent of GDP



Source: Fiscal Monitor Report, IMF, October 2025

2 Fiscal Monitor Report, April 2026 (IMF)

1.2 Global Financial Environment

Global financial conditions remain accommodative at the end of 2025. The IMF Financial Conditions Index remains negative across advanced and emerging economies, denoting easier financial conditions. Favorable conditions, driven by positive investor sentiment and expectations of further monetary policy easing, as well as reduced currency volatility, have supported high portfolio flows to emerging markets, including inflows to local currency debt markets.

Financial stability risks remain high. Trade and geopolitical tensions, rising public debt, stretched risk asset prices, and the growth of non-bank financial institutions (NBFIs) reinforce vulnerabilities in the financial system. The growth of NBFIs has raised concerns about underwriting standards, financing structures, and corporate governance. Public confidence in the future returns of Artificial Intelligence related companies, which account for a significant chunk of the stock market, appears to have been shaken as reflected by increased equity market volatility in November. In major economies, issuance of sovereign debt has shifted to shorter maturities, increasing short-term rates with instances of volatility. The IMF recommends policymakers to ensure central bank independence, manage fiscal deficits, adopt macroprudential standards, and strengthen oversight of financial institutions.[3]

3 Global Financial Stability Report, October 2025 (IMF)

Chapter II : NEPALESE MACRO FINANCIAL CONTEXT

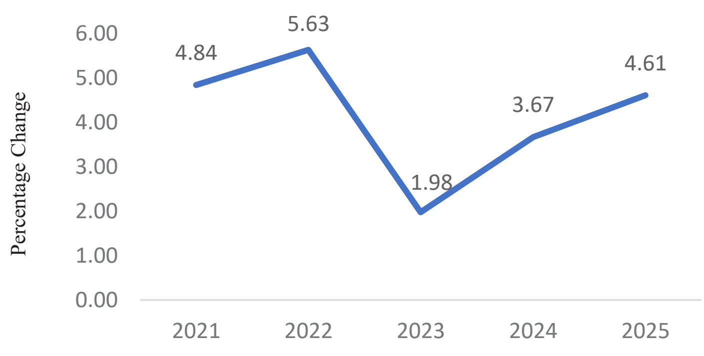
2.1 Overview of the Nepalese Macroeconomic Situation

The domestic economy is slowly recovering, though challenges persist. The fiscal year 2024/25 displayed favorable trends, such as low inflation rate, a comfortable external sector, and increased GDP growth rate compared to previous fiscal year. The banking sector has been witnessing substantial liquidity over the past two years due to increased remittance inflows. However, credit expansion has fallen short of projection. Concurrently, while non-performing loans continued to increase, their incremental growth has eased. On the fiscal side, the fiscal contraction, primarily due to persistent underutilization of capital expenditure remains a structural concern. While macroeconomic stability has been sustained domestically, the compounded effect of subdued credit growth and weak fiscal performance necessitates the formulation of targeted policy interventions to stimulate economic activities.

2.1.1 Economic Growth

Nepal's economic growth increased to 4.61 percent in fiscal year 2024/25 compared to a growth of 3.67 percent a year ago, as per the National Statistics Office (NSO). The growth is largely attributed to electricity and gas; transportation and storage; and financial and insurance sectors. The agriculture sector grew by 3.28 percent, and the non-agriculture sector by 4.28 percent in fiscal year 2024/25 compared to a growth of 3.35 percent and 3.36 percent in the previous year.

Figure 2.1: Real GDP Growth Rate

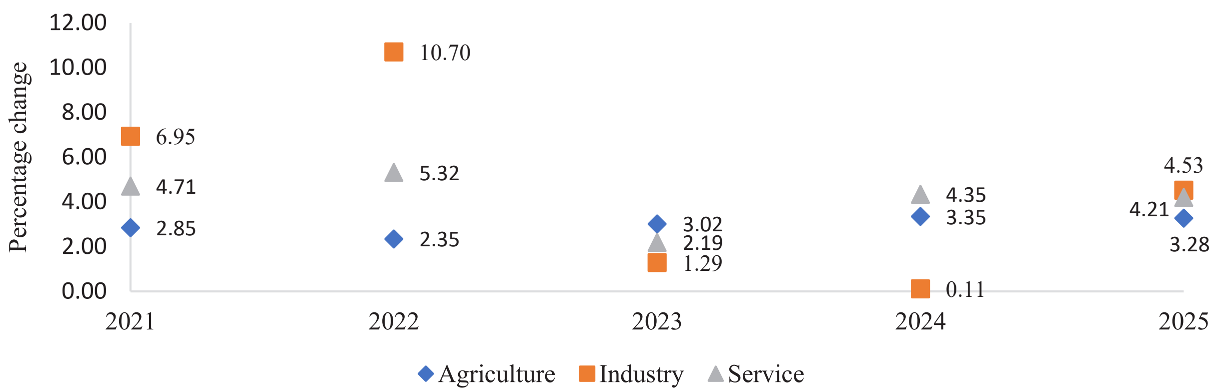


Note: Producer's Price

Source: National Statistics Office (2025)

Nepal's economic growth has been largely driven by the service sector, while agriculture and industry have comparatively smaller contribution. The shares of primary sector, secondary and tertiary sector in GDP are 25.62 percent, 12.37 percent and 62.01 percent, respectively, in fiscal year 2024/25, which were 25.19 percent, 12.43 percent and 62.38 percent, respectively, in the previous year.

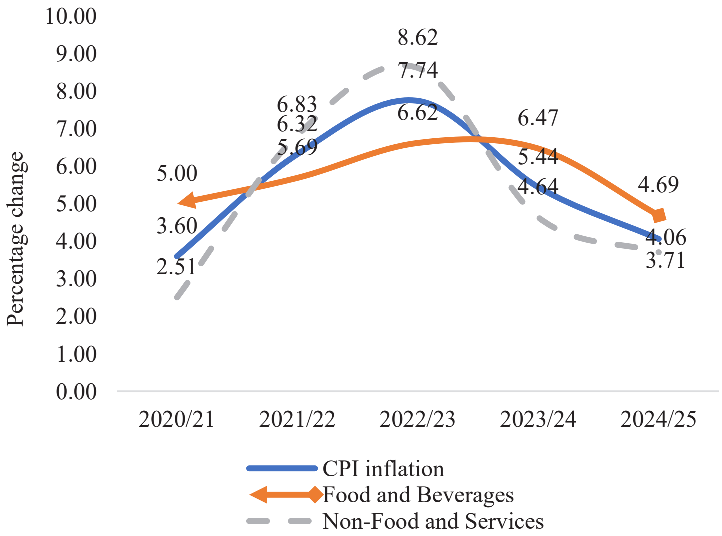
Figure 2.2: - Sector-wise GDP Growth



Source: National Statistics Office (2025)

2.1.2 Inflation

Figure 2.3: Changes in Consumer Price Index

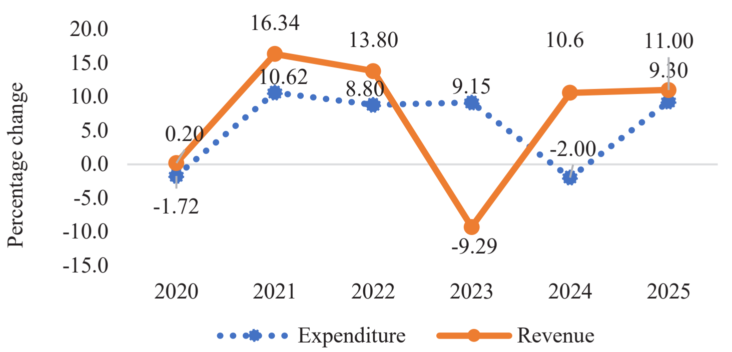


Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

Inflationary pressure eased in fiscal year 2024/25 significantly, with the annual average being 4.06 percent, compared to 5.44 percent in the previous fiscal year. This is due to moderation in both food and beverages and non-food and services sub-categories. Food and beverage inflation moderated to 4.69 percent, down from 6.47 percent of the previous fiscal year. The decline in the food and beverage group was primarily driven by price stabilization in key items including pulses and legumes, milk products, eggs, fruit, sugar, sugar products, cereal grains and their products. Additionally, price indices of spices, meat and fish witnessed a negative annual growth rate due to improved supply conditions. While the index of ghee and oil saw robust growth, the moderation on price index of other food items helped to moderate overall food inflation. Similarly, non-food and services inflation moderated to 3.71 percent, down from 4.64 percent of the previous year. The housing and utilities sub-group, which carries the highest weight, moderated to 2.43 percent from 4.10 percent in the previous year. Although some sub-groups like clothing, alcoholic beverage, and miscellaneous goods and services increased slightly, the stable fuel prices and moderation in price index of education, recreation, health and miscellaneous goods and services helped to moderate the overall non-food and services inflation.

2.1.3 Government Finance

Figure 2.4: Government Expenditure and Revenue Growth

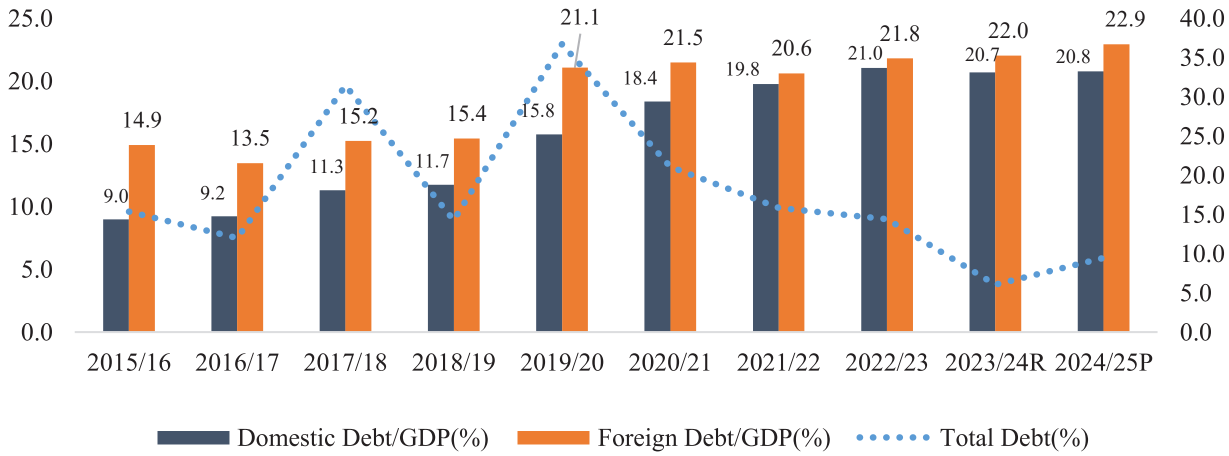


Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

Government fiscal deficit decreased during the review year. In fiscal year 2024/25, the fiscal position of the Government of Nepal (GoN), stood at a deficit of Rs.111.5 billion, compared to a deficit of Rs.142.0 billion in the previous year. In the review year, government revenue increased by 11.0 percent (based on banking transactions) to Rs. 1178.82 billion compared to an increase of 10.6 percent in the previous year. The total government expenditure increased by 9.3 percent to Rs. 1523.11 billion in fiscal year 2024/25 compared to a decrease of 2.0 percent in the previous year. The higher growth in revenue than in expenditure has resulted in a lower budget deficit in fiscal year 2024/25.

Government debt-to-GDP ratio increased by 1.0 percent in fiscal year 2024/25 compared to the previous year. Domestic debt increased by 7.3 percent to Rs.1268.22 billion, and foreign debt increased by 11.4 percent to Rs.1401.4 billion in 2024/25. Total government debt stood at 43.7 percent of GDP in fiscal year 2024/25. Total government debt has increased by 9.5 percent in fiscal year 2024/25 due to a fiscal deficit and rising debt servicing costs.

Figure 2.5: Government Debt



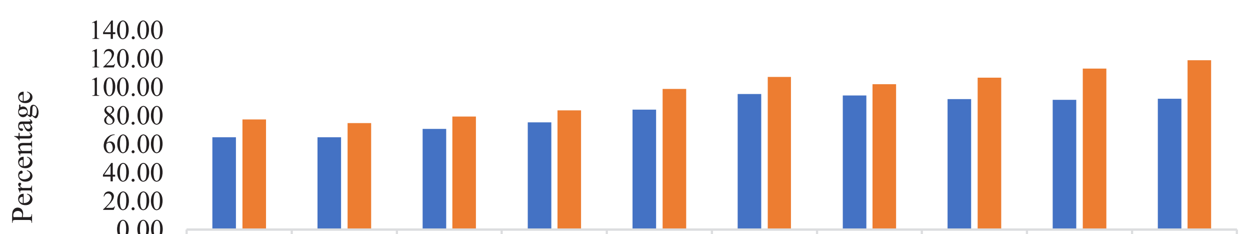
Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

2.1.5 Monetary Sector

Monetary sector expanded moderately in fiscal year 2024/25, driven primarily by remittance inflows along with a gradual recovery in private sector credit. Broad money grew by 12.5 percent in fiscal year 2024/25 compared to 12.9 percent in the previous fiscal year. Private sector credit increased by 8.4 percent in 2024/25 compared to 5.8 percent growth in fiscal year 2023/24. Domestic credit increased by 6.2 percent compared to 6.1 percent in the previous fiscal year. The total deposits of banks and financial institutions (BFIs) grew by 12.6 percent compared to 13.0 percent in the previous year.

The expansion of the monetary sector is depicted by the uptick in private sector credit during the last decade. The credit to GDP ratio, which stood at 64.9 percent in the year 2015, surged to reach 92.10 percent in fiscal year 2024/2025. While deposit growth has been back to the up-surging track after a dip in 2021/22, the credit growth is sluggish in the recent years.

Figure 2.6: Private Sector Credit and Deposits, Percent of GDP



	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Private Sector Credit	64.90	64.90	70.70	75.40	84.30	95.10	94.20	91.70	91.20	92.01
Deposits	77.30	74.70	79.30	83.80	98.70	107.10	102.10	106.80	113.10	118.90

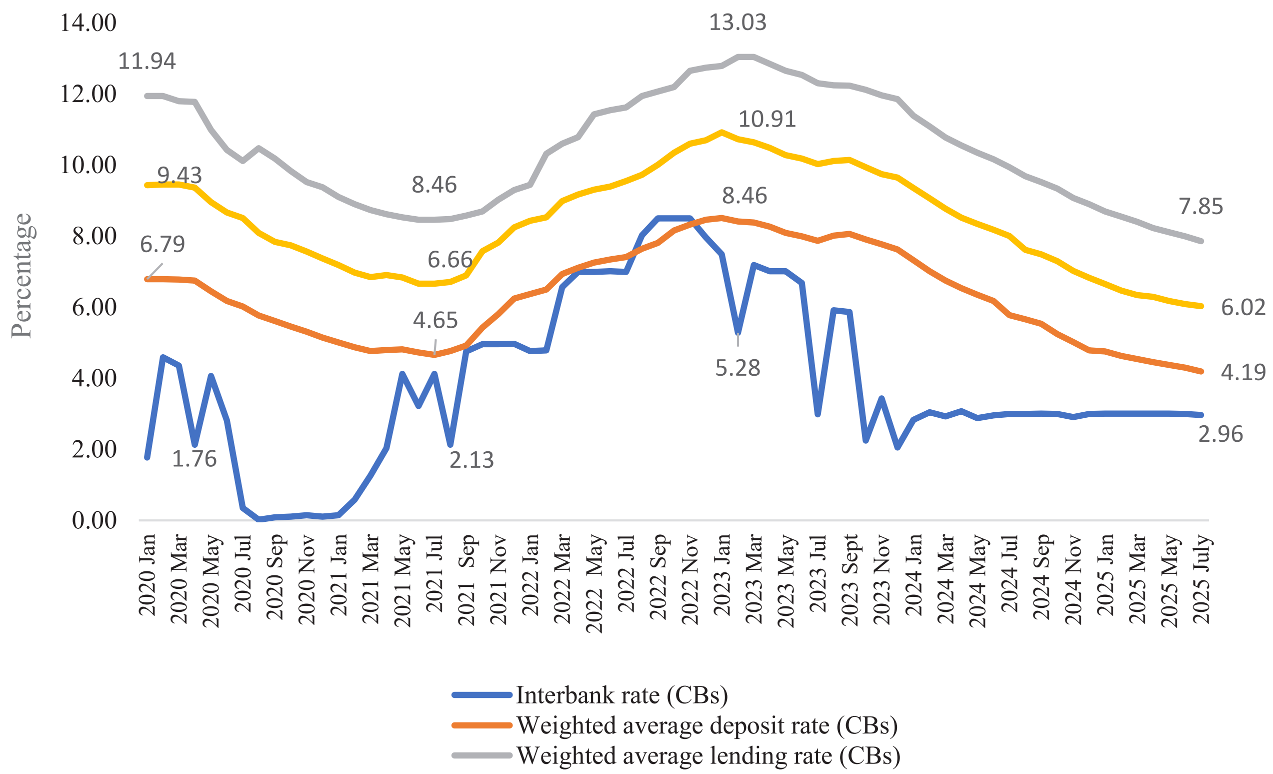
Private Sector Credit Deposits

Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

2.1.6 Interest Rates

Interest rates declined during fiscal year 2024/25, reflecting an ample liquidity condition in the financial system. Short-term interest rates, both the weighted average interbank rate and the 91-day T-bill rate, remained at 2.96 percent and 2.95 percent, respectively, in the last month of fiscal year 2024/25, compared to 2.99 percent and 3.00 percent a year ago. In 2024/25, base rate, weighted average deposit, and lending rate also showed a downward trend (Figure 2.7)

Figure 2.7: Structure of Interest Rates



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

Box 1: Summary of Recent Macroeconomic Developments

- The Government of Nepal (GoN) projects economic growth of 3.5 percent in 2025/26. Such growth was 4.61 percent in 2024/25 and 3.67 percent in 2023/24.
- The y-o-y consumer price inflation remained at 5.04 percent in mid-May 2026 compared to 2.77 percent a year ago. The average CPI-based inflation over the ten-month period of 2025/26 remained at 2.66 percent.
- During the ten months of 2025/26, total expenditure of the federal government, as per the data from the Financial Comptroller General Office (FCGO), Ministry of Finance, stood at Rs. 1173.52 billion. The recurrent expenditure, capital expenditure, and financial management expenditure amounted to Rs. 814.66 billion, Rs. 113.85 billion, and Rs. 245.02 billion, respectively.
- During the ten months of 2025/26, merchandise exports increased 14.2 percent to Rs. 248.96 billion compared to a growth of 72.7 percent in the same period of the previous year. Merchandise imports increased 14.8 percent to Rs. 1692.64 billion compared to a growth of 13.1 percent a year ago.
- Balance of payments (BOP) remained at a surplus of Rs. 863.56 billion during the ten months of 2025/26 compared to a surplus of Rs. 438.52 billion in the same period of the previous year.
- Gross foreign exchange reserves increased 38.3 percent to Rs. 3704.55 billion in mid-May 2026 from Rs. 2677.68 billion in mid-July 2025. Based on the imports in ten months of fiscal year 2025/26, the foreign exchange reserves are sufficient to cover the prospective merchandise imports of 22.6 months and merchandise and services imports of 19.2 months.
- Private sector credit from BFIs increased Rs. 312.00 billion (5.7 percent) in the ten months of 2025/26 compared to an increase of Rs. 368.68 billion (7.3 percent) in the corresponding period of the previous year. Deposits at BFIs increased Rs. 685.41 billion (9.4 percent) in the review period compared to an increase of Rs. 399.81 billion (6.2 percent) in the corresponding period of the previous year.
- In ten months of 2025/26, NRB absorbed, on transaction basis, a total liquidity of Rs. 37,266.60 billion, including Rs. 2,794.00 billion through deposit collection auctions, Rs. 34,272.60 billion through Standing Deposit Facility (SDF), and Rs. 200.00 billion through NRB bond. Meanwhile, the NRB injected Rs. 12.50 billion through Overnight Liquidity Facility (OLF). Consequently, Rs. 37,254.10 billion in net liquidity was absorbed through various monetary instruments during the review period. In the corresponding period of the previous year, Rs. 19,235.65 billion net liquidity was absorbed through various monetary instruments.
- In the ten months of 2025/26, BFIs' interbank transactions amounted to Rs. 979.41 billion on a turnover basis, including Rs. 834.86 billion interbank transactions among commercial banks and Rs. 144.55 billion among other financial institutions (excluding transactions among commercial banks).
- The average base rate of commercial banks decreased to 4.97 percent in the tenth month of 2025/26 from 6.17 percent in the corresponding month of the previous year. The weighted average deposit rate and lending rate of commercial banks stood at 3.35 percent and 6.73 percent, respectively, in the tenth month of the review year.
- NEPSE index stood at 2730.18 points in mid-May 2026 compared to 2620.27 points in mid-May 2025. The stock market capitalization in mid-May 2026 stood at Rs. 4656.45 billion compared to Rs. 4358.71 billion in mid-May 2025.

2.2 Overview of the Nepalese Financial System

2.2.1 Structure of the Overall Financial System

The financial system of Nepal is broadly categorized into financial institutions, financial markets, and financial infrastructures. The financial institutions in Nepal mainly comprise banks and financial institutions and non-bank financial institutions. The banks and financial institutions which are regulated by Nepal Rastra Bank (NRB), comprise of commercial banks, development banks, finance companies, micro finance institutions and infrastructure development bank. On the other side, non-bank financial institutions comprise of insurance companies, cooperatives, Employees Provident Fund (EPF), Citizen Investment Trust (CIT), Social Security Fund (SSF) and other institutions such as National Cooperative Bank Limited, remittance companies, money changers, hire purchase companies and Hydroelectricity Investment and Development Company Limited. Amongst the non-bank financial institutions, insurance companies that are regulated by the Nepal Insurance Authority (NIA) comprise of life insurance companies, non-life insurance companies, reinsurance companies, and micro-insurance companies. Likewise, cooperatives fall under the regulatory jurisdiction of the Department of Cooperatives (DoC) and the National Cooperatives Regulatory Authority (NCRA).

The domestic financial market in Nepal comprises money market and capital market. The money market mainly encompasses monetary policy operations and management through the conduct of open market operations. On the other side, capital market, regulated by the Securities Board of Nepal (SEBON) comprises stock exchange, listed companies, central securities depository, stockbrokers, stock dealers, merchant bankers, credit rating agencies, mutual funds, Application Supported by Blocked Amount (ASBA) members, qualified institutional investors, securities dealers, and depository participants.

In order to support the proper functioning of financial services and markets, Nepal's financial system comprises of foundational financial market infrastructures such as payment systems, clearing and settlement systems, credit information bureau, deposit and credit guarantee fund, and debt recovery tribunal.

The number of banks and financial institutions has been decreasing gradually over the years. As of mid-July 2025, total number of BFIs stood at 107, which comprises 20 commercial banks, 17 development banks, 17 finance companies, 52 MFIs, and 1 infrastructure development bank. In addition, 14 life insurance companies, 14 non-life insurance companies, two reinsurance companies, and seven micro-insurance companies are in operation. The securities market comprises one stock exchange and one central depository and clearing institution. Similarly, with the major purpose of adding value in the price discovery process, 150 qualified institutional investors are participating in the book-building process of IPO as of mid-July 2025. On the other side, the number of securities market participants, like stock brokers, merchant bankers, mutual funds, and depository participants have remained stagnant over the years. Similarly, the non-bank financial institutions like Employees Provident Fund, Citizen Investment Trust, Social Security Fund, Deposit and Credit Guarantee Fund, Credit Information Bureau, and the Postal Saving Bank are also operational in the financial system.

Table 2.1: Number of Financial Institutions

Institutions	2021	2022	2023	2024	2025
Banks and Financial Institutions					
Commercial Banks	27	26	20	20	20
Development Banks	18	17	17	17	17
Finance Companies	17	17	17	17	17
Microfinance Financial Institutions	70	65	57	52	52
Infrastructure Development Bank	1	1	1	1	1
Total	**133**	**126**	**112**	**107**	**107**
Insurance Companies					
Life Insurance Companies	19	19	14	14	14
Non-Life Insurance Companies	20	19	14	14	14
Reinsurance Companies	2	2	2	2	2
Micro Life Insurance Companies	-	-	2	3	3
Micro Non-Life Insurance Companies	-	-	2	4	4
Total	**41**	**40**	**34**	**37**	**37**
Non-Bank Financial Institutions					
Employees Provident Fund	1	1	1	1	1
Citizen Investment Trust	1	1	1	1	1
Postal Savings Bank	1	1	1	1	1
Social Security Fund	1	1	1	1	1
Total	**4**	**4**	**4**	**4**	**4**
Financial Infrastructures					
Deposit and Credit Guarantee Fund	1	1	1	1	1
Credit Information Bureau	1	1	1	1	1
Nepal Clearing House Limited	1	1	1	1	1
Debt Recovery Tribunal	1	1	1	1	1
Total	**4**	**4**	**4**	**4**	**4**

Banks and Financial Institutions (BFIs) represent almost 80 percent of the total financial system assets in Nepal as of mid-July 2025. During the review year, the share of BFIs in the financial system decreased slightly. BFIs comprised 78.66 percent of the financial system's total assets/ liabilities.

Table 2.2: Structure of the Nepalese Financial Sector (Total Assets)

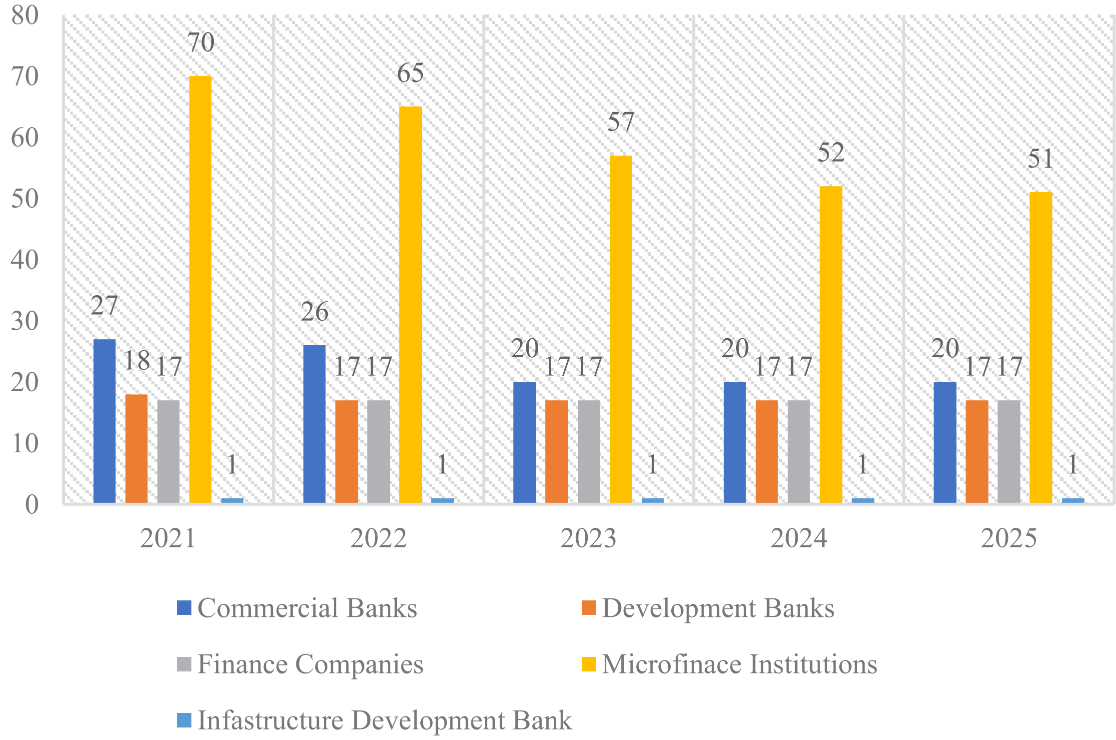
Institutions			(Rs. Billion)		
	2021	2022	2023	2024	2025
Commercial Banks	5420.35	6020.6	6465.9	7242.7	8170.9
Development Banks	521.95	612.7	669.9	717.3	754.04
Finance Companies	126.68	152.0	155.2	171.31	176.58
Microfinance Financial Institutions	445.5	519.7	507.7	553.7	598.4
Infrastructure Development Bank	24.42	26.4	29.1	29.5	42.8
National Cooperative Bank	51.26	57.87	63.48	64.66	50.71
Cooperatives	383.14	383.1	383.1#	383.1#	383.1#
Employees Provident Fund	444.47	459.0	515.0	574.02	624.97
Citizen Investment Trust	197.67	247.5	265.6	308.31	318.27
Insurance Companies	542.65	624.1	810.61	939.21	1084.95
Reinsurance Companies	29.33	38.2	41.3	54.12	59.25
Social Security Fund	38.69	54.7	74.80	98.07	121.60
Total	**8226.11**	**9195.87**	**9981.69**	**11136.00**	**12385.37**
Commercial Banks	65.89	65.47	64.78	65.04	65.97
Development Banks	6.35	6.66	6.71	6.44	6.09
Finance Companies	1.54	1.65	1.55	1.54	1.43
Microfinance Financial Institutions	5.42	5.65	5.09	4.97	4.83
Infrastructure Development Bank	0.30	0.29	0.29	0.26	0.35
National Cooperative Bank	0.62	0.63	0.64	0.58	0.41
Cooperatives	4.66	4.17	3.84	3.44	3.09
Employees Provident Fund	5.40	4.99	5.16	5.15	5.05
Citizen Investment Trust	2.40	2.69	2.66	2.77	2.57
Insurance Companies	6.60	6.79	8.12	8.43	8.76
Reinsurance Company	0.36	0.42	0.41	0.49	0.48
Social Security Fund	0.47	0.59	0.75	0.88	0.98

Figures used the same as in earlier years due to the unavailability of updated figures.

2.2.2 Financial Sector Consolidation

Banking sector has undergone mergers and acquisitions over the last few years. The number of BFIs is reducing over the years. Merger and acquisition bylaws, 2073 has facilitated the process of consolidation. During the fiscal year 2024/25, two microfinance financial institutions have initiated the process of merger. The total number of banks and financial institutions stood at 107 in mid-July 2025.

Figure 2.8: Number of Banks and Financial Institutions

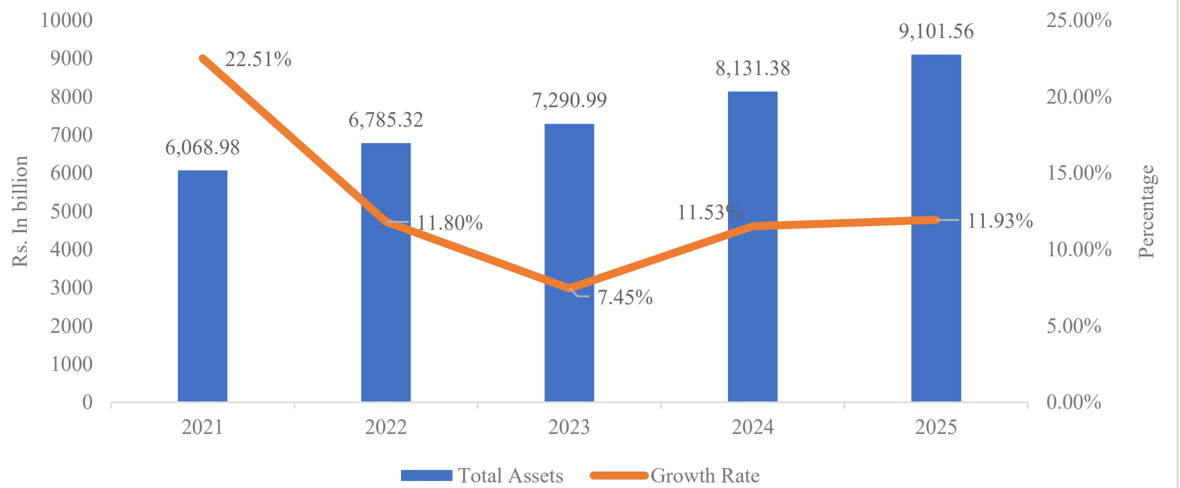


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

2.2.3 Assets Size of Banks and Financial Institutions

Despite the decreasing number of BFIs, the total assets showed an increase. Assets of BFIs increased by 11.93 percent to Rs.9,101.56 billion as of mid-July 2025.

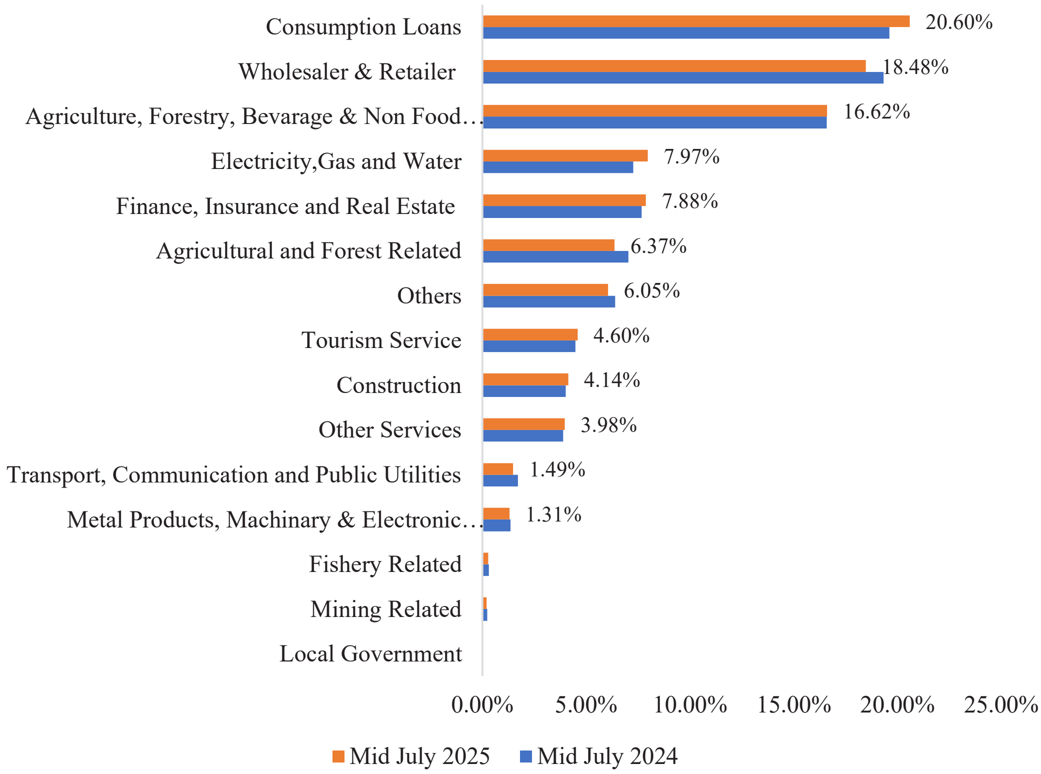
Figure 2.9 : Total Assets Growth Rate



2.2.4 Sector-wise Loans and Advances

BFIs' loans and advances are concentrated in consumption loans, wholesale and retail sector loans. As of mid-July 2025, consumption loans constituted 20.60 percent of total loans and advances, followed by wholesale and retail sector loans, which stood at 18.48 percent. The credit on agriculture, forestry, beverage and non-food related production stood at 16.62 percent, electricity gas and water stood at 7.97 percent and finance, insurance, and real estate stood at 7.88 percent during the review year.

Figure 2.10: Sector-wise Loans and Advances

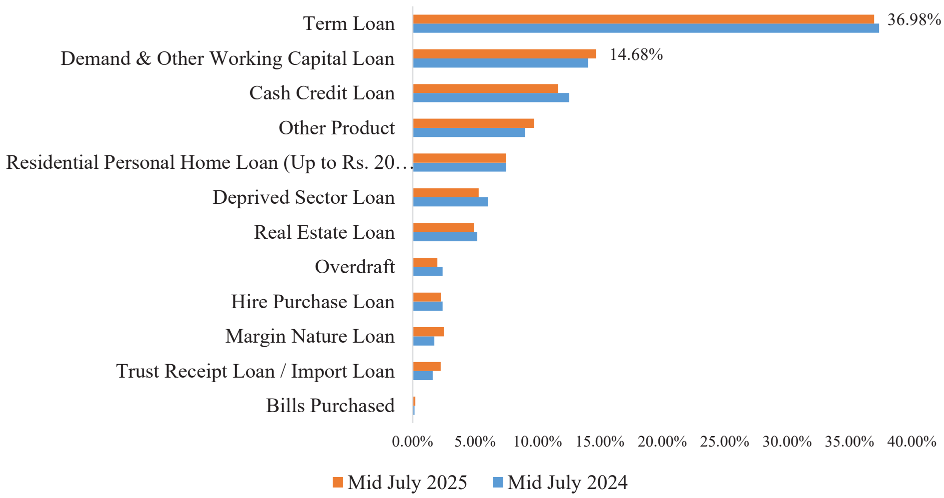


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2024

2.2.5 Product-Wise Loans and Advances

Loans and advances are concentrated to term loans and demand and working capital loans. As of mid-July 2025, term loans constituted 36.98 percent of total loans and advances, followed by demand & working

Figure 2.11: Product-wise loans and advances



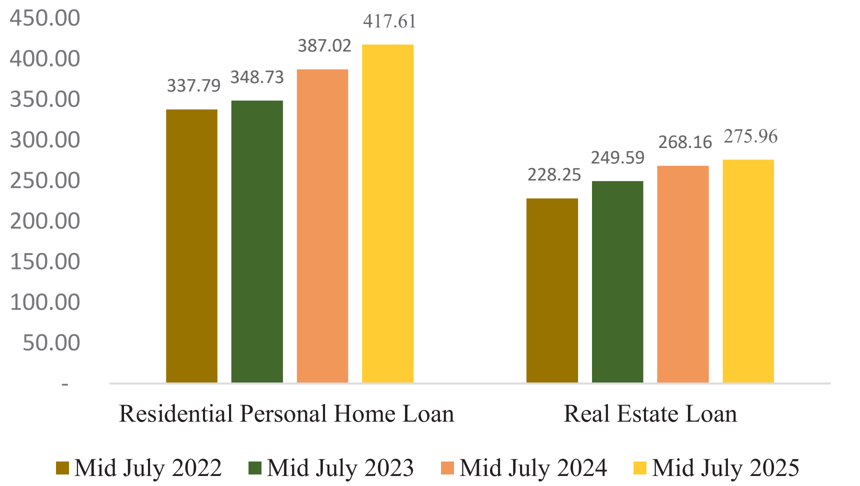
Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

capital loans, which stood at 14.68 percent, and cash credit loans, which stood at 11.64 percent. The growth rate of term loans stood at 7.07 percent, while the demand and working capital loan increased by 13.17 percent during the review year.

2.2.6 Real Estate and Residential Home Loans

Real estate and residential home loans increased slightly during the review year. Loans to real estate and residential homes increased during the review year. The exposure on residential home loans (up to the prescribed threshold) reached Rs. 417.61 billion in mid-July 2025, which was Rs. 387.02 billion in the previous fiscal year. The exposure on real estate loans reached Rs. 275.96 billion in mid-July 2025, which was Rs. 268.16 billion in the previous fiscal year. The residential home loan and real estate loan increased by 7.91 percent and 2.91 percent, respectively.

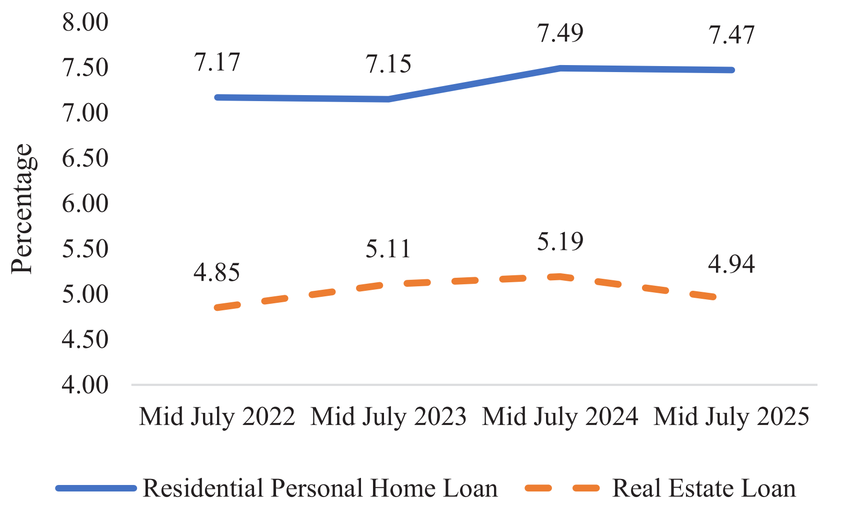
Figure 2.12: Residential Home Loan and Real Estate Lending of BFIs



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

As of mid-July 2025, loans extended by BFIs in real estate accounted for 4.94 percent of total loans and advances. Similarly, the loan disbursed in residential personal home loans accounted for 7.47 percent of total loans and advances. Commercial banks, Development banks and finance companies disbursed 4.65 percent, 6.36 percent and 11.21 percent of the total loans and advances to the real estate sector in mid-July 2025.

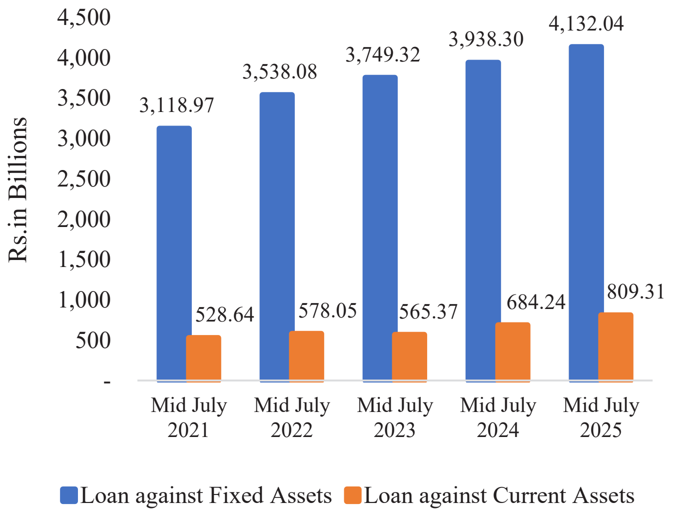
Figure 2.13: Real Estate Lending and Residential Home Loans to Total Loans



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

BFIs' lending against collateral of fixed assets is consistently high. BFIs have disbursed Rs.4,132.04 billion, which accounted for 73.90 percent of the total loans against the collateral of fixed assets as of mid-July 2025. Commercial banks, development banks, and finance companies have disbursed 72.27 percent, 87.01 percent, and 85.22 percent of their total loan against fixed assets collaterals as of mid-July 2025.

Figure 2.14: Loan Classification based on Collateral



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

2.3 Financial Soundness Indicators

2.3.1 Capital Adequacy

The banking industry remained well-capitalized; indicating the accretion of high-quality capital by banks, overall capital adequacy ratio and core capital ratio stood at 12.95 percent and 10.13 percent, respectively, during the review year, which were 12.92 percent and 10.20 percent in the previous year. The capital adequacy ratios demonstrate that BFIs are resilient and are adequately capitalized. However, the deterioration of asset quality has raised concerns over the ability to maintain capital adequacy, warranting continued supervisory attention.

Figure 2.15: Capital Adequacy Ratio - Class wise

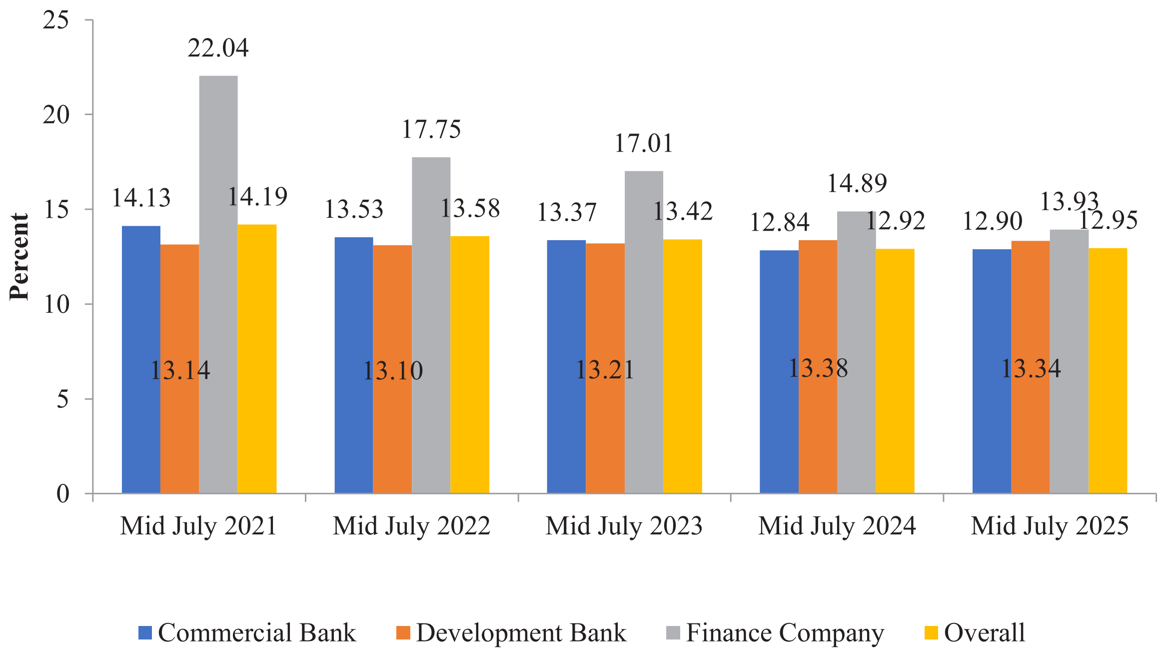
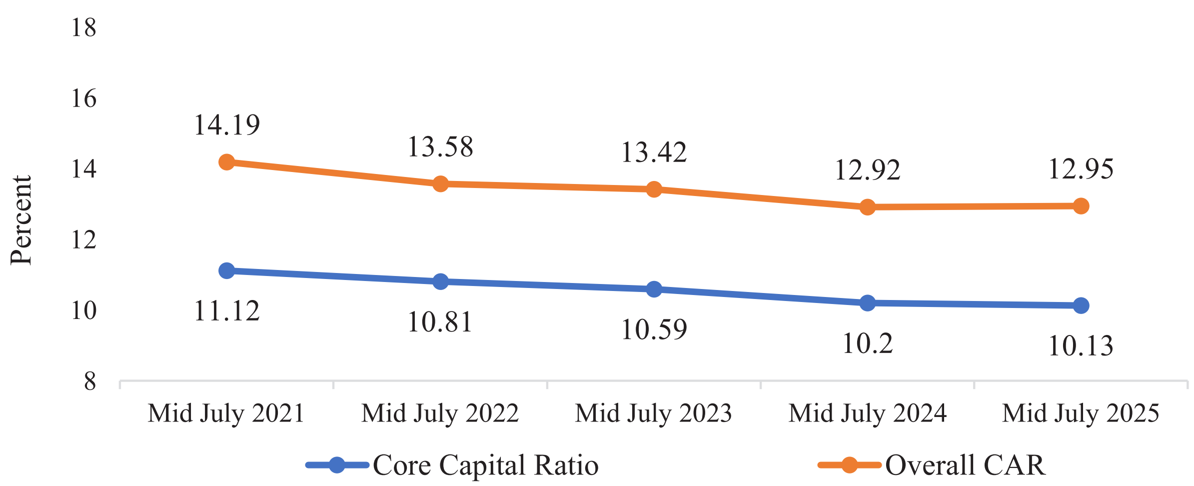


Figure 2.16: Core Capital and Overall Capital Adequacy Ratio

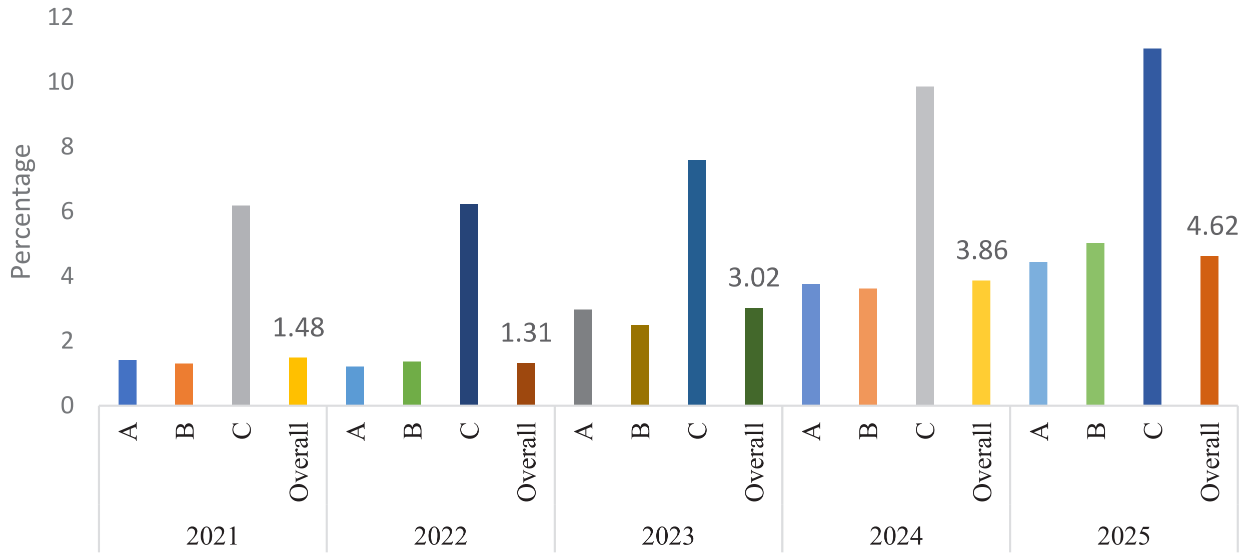


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

2.3.2 Asset Quality

Asset quality of BFIs deteriorated further during the review year. Sluggish economic activity has been reflected in rising loan delinquencies across certain segments of the financial system, indicating emerging pressures on borrowers' repayment capacity and a gradual weakening in asset quality. The overall non-performing loans (NPL to total loan ratio) of the industry increased to 4.62 percent in the mid-July 2025 compared to 3.86 percent a year ago.

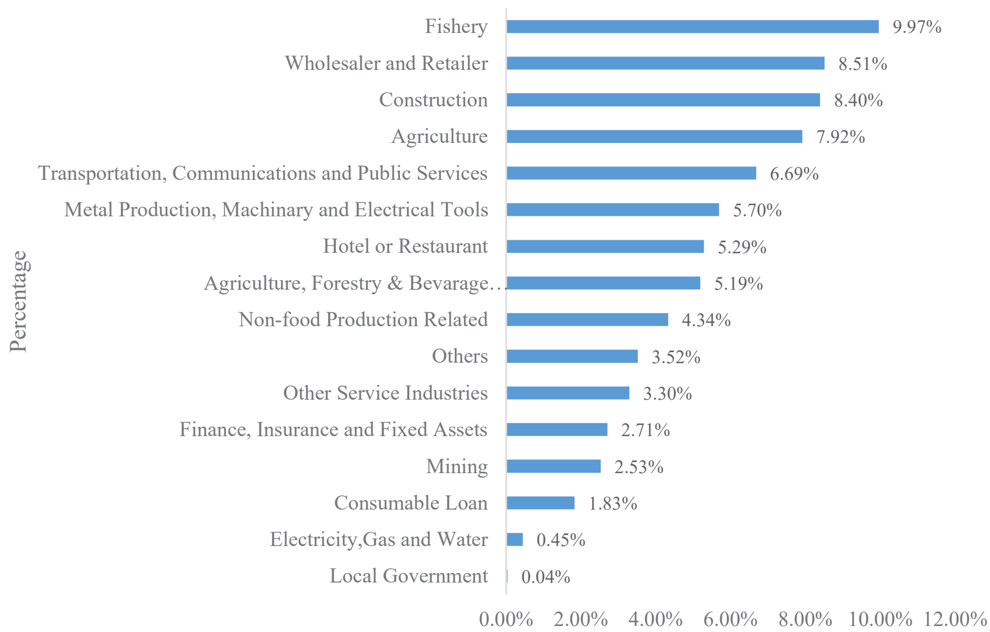
Figure 2.17: Non- Performing Loans of BFIs (A, B and C)



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

Fishery sector experienced higher level of non-performing loans during the review year. The non-performing loans in the fishery sector stood at 9.97 percent, followed by wholesaler and retailer, construction, agriculture sector, and transportation, communications and public services, which stood at 8.51 percent, 8.40 percent, 7.92 percent, and 6.69 percent, respectively.

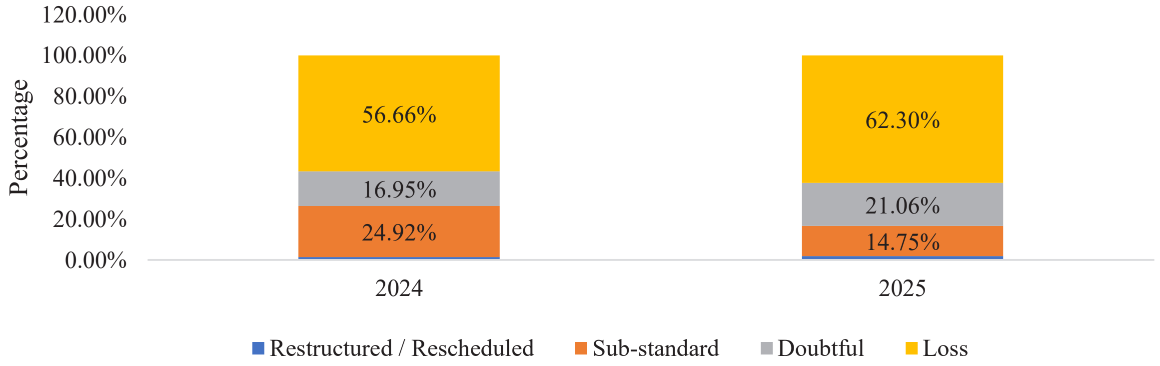
Figure 2.18: Sector-Wise Non-Performing Loans



Source: Nepal Rastra Bank, Banking and Financial Statistics

Concerns remain over asset quality as a significant portion of non-performing loans falls under the loss category. Non-performing loans (NPLs) of BFIs increased to Rs.258.19 billion in mid-July 2025 from Rs.199.66 billion in mid-July 2024. A large share of NPLs in the banking sector falls into the loss category and represents 62.30 percent of the total NPLs. The share of doubtful loans has increased significantly from 16.95 percent to 21.06 percent during the review year. The composition of NPLs shows signs of deterioration in asset quality with a rise in the non-performing loans of the loss category.

Figure 2.19: Composition of NPL

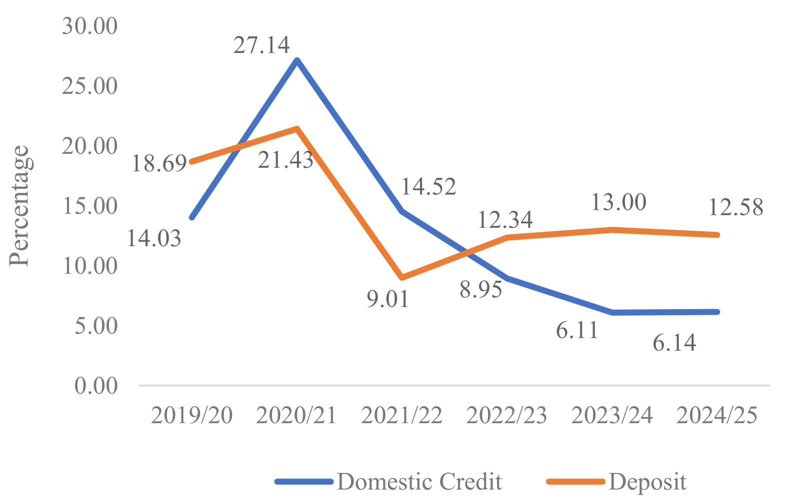


Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

2.3.3 Domestic Credit and Deposit Growth

Banking system (BFIs) experienced the growth of credit and deposit during the review year. Domestic Credit growth remained at 6.14 percent during the review year as compared to a growth of 6.11 percent in the previous fiscal year. The deposit mobilization increased by 12.58 percent in the review year compared to 13.00 percent in the previous fiscal year.

Figure 2.20: Domestic Credit and Deposit Growth



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

2.3.4 Leverage Ratio

Leverage ratio complemented the risk-weighted capital ratio and remained above the minimum regulatory requirement during the review year. The leverage ratio of commercial banks and national level development banks stood at 6.46 percent and 7.68 percent respectively in mid-July 2025, above the minimum regulatory requirement of a 4 percent in the review year.

2.3.5 Profitability

Profitability of the banking sector increased moderately during the review year. The net profit of the BFIs recorded an increase of 10.07 percent and stood at Rs.77.53 billion as of mid-July 2025 as compared to

Rs.70.43 billion in the previous fiscal year. Return on Assets (ROA) decreased marginally and Return on Equity (ROE) increased slightly during the review year. The ROA decreased to 0.85 percent in the fiscal year 2024/25 from 0.87 percent in the fiscal year 2023/24. Similarly, the overall ROE increased to 10.00 percent in the fiscal year 2024/25 from 9.67 percent in the previous fiscal year.

Figure 2.21: Return on Equity and Return on Assets

Source: Nepal Rastra Bank, Banking and FInancial Statisitics, July 2025

2.3.6 Liquidity

Banking sector maintained adequate liquidity during the review year. The total liquid assets to deposit ratio of BFIs stood at 24.92 percent in mid-July 2025 compared to 26.44 percent a year ago. The total liquid assets to deposit ratios for "A", "B" and "C" class institutions stood at 25.15 percent, 22.47 percent, and 24.87 percent, respectively, in mid-July 2024. These ratios were 26.53 percent, 24.43 percent, and 32.08 percent, respectively, a year ago.

The net liquid assets to total deposit ratios of BFIs stood at 34.33 percent in mid-July 2025 compared to 31.81 percent a year ago, which is well above the minimum regulatory requirement of 20 percent.

Table 2.3: Financial Soundness Indicators

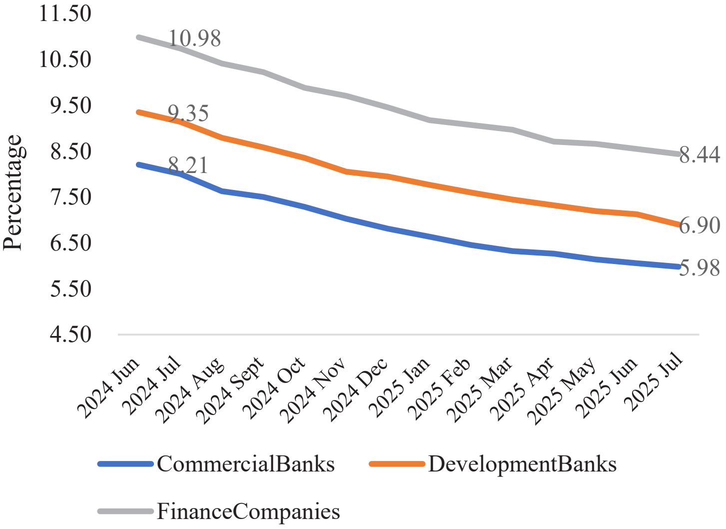
Indicators	Commercial Banks		Development Banks		Finance Companies		Overall	
	2024	2025	2024	2025	2024	2025	2024	2025
Credit and Deposit-Related Indicators								
Total Deposit/GDP	100.91	107.11	10.70	10.32	2.25	2.15	113.86	119.59
Total Credit/GDP	80.09	81.27	8.79	8.62	1.75	1.71	90.63	91.60
Total Credit/ Total Deposit	79.37	75.87	82.18	83.53	77.52	79.26	79.60	76.59
CD Ratio	78.79	75.02	82.64	83.18	76.42	78.83	79.09	75.79
Fixed Deposit/Total Deposit	55.20	47.59	61.42	48.89	70.21	65.29	56.08	48.02
Saving Deposit/Total Deposit	30.44	36.56	28.97	39.74	19.81	23.92	30.09	36.60
Current Deposit/Total Deposit	6.40	7.78	1.89	2.69	1.25	1.50	5.88	7.23
Call Deposit /Total Deposit	7.22	7.36	7.68	8.55	7.81	9.23	7.27	7.49
Assets Quality-Related Indicators								
NPL/ Total Loan	3.76	4.44	3.62	5.03	9.87	11.05	3.86	4.62
Total LLP/Total Loan	4.40	4.97	3.86	5.25	9.40	10.35	4.45	5.09
Res. Personal Home Loan (Up to Rs. 20 million)/Total Loan	6.92	6.69	11.63	13.48	13.00	14.27	7.49	7.47
Real Estate Exposure/Total Loan	4.92	4.65	6.69	6.36	10.19	11.21	5.19	4.94
Deprived Sector Loan/Total Loan	6.03	5.40	7.74	6.61	7.27	5.48	6.22	5.52
Cash and Bank Balance/Total Deposit	7.58	8.11	6.02	6.89	7.47	7.86	7.43	8.00
Investment in Government Securities/ Total Deposit	18.23	16.37	15.17	13.78	17.45	11.37	17.92	16.05
Total Liquid Assets/Total Deposit	26.53	25.15	24.43	22.47	32.08	24.87	26.44	24.92
Capital adequacy related indicators								
Tier 1 Capital/RWE	10.10	10.05	10.71	10.74	12.85	11.44	10.20	10.13
Tier 1 & Tier 2 Capital /RWE	12.84	12.90	13.38	13.34	14.89	13.93	12.92	12.95
Weighted Average Interest Rate on Deposit	5.92	4.19	6.79	4.88	7.98	6.01	6.05	4.29
Weighted Average Interest Rate on Credit	9.93	7.85	11.34	8.95	12.55	10.22	10.12	8.00

Source: Nepal Rastra Bank, Banking and FInancial Statisitics, July 2025

2.3.7 Base Rate and Interest Rate Spread of BFIs

Base rates of BFIs declined in the review year. The average monthly base rates of commercial banks during the review year stood at 6.67 percent, which was 9.18 percent in the previous fiscal year. The base rate of commercial banks stood at 5.98 percent in the last month of the review year, which was 8 percent in the last month of the previous fiscal year. Similarly, the average monthly base rate of development banks during the review year stood at 7.75 percent, which was 10.60 percent a year ago. The base rate of development banks stood at 6.90 percent in the last month of the review year, which was 9.14 percent in the corresponding month of the previous fiscal year. Similarly, the average monthly base rate of finance companies during the review year stood at 9.27 percent, which was 12.08 percent in the corresponding month of the previous fiscal year. Likewise, the base rate of finance companies stood at 8.44 percent in the last month of the review year, which was 10.74 percent in the corresponding month of the previous year.

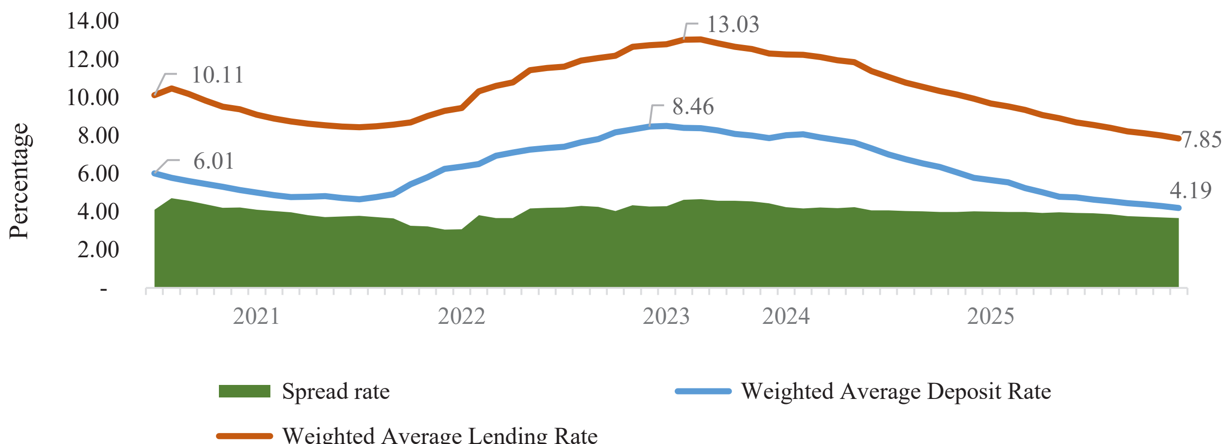
Figure 2.22: Monthly Base rates of Banks and Financial Institutions



Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

NRB continued the market conduct regulations on interest rate spread. NRB has directed commercial banks to maintain their interest spread rate within four percent. Similarly, development banks and finance companies are required to maintain their interest spread rate within 4.6 percent. The overall interest spread of commercial banks remained at 3.66 percent in mid-July 2025. The spread rate for development banks and finance companies stood at 4.11 percent and 4.21 percent, respectively, in mid-July 2025. Such rates for commercial banks, development banks, and finance companies were 3.98 percent, 4.55 percent, and 4.54 percent, respectively, in mid-July 2024. Regulation on interest charged to borrowers on base rate and interest spread has assured the twin goal of fostering healthy competition and protecting financial consumers.

Figure 2.23: Spread Rate, Weighted Average Lending and Deposit rate of Commercial Banks

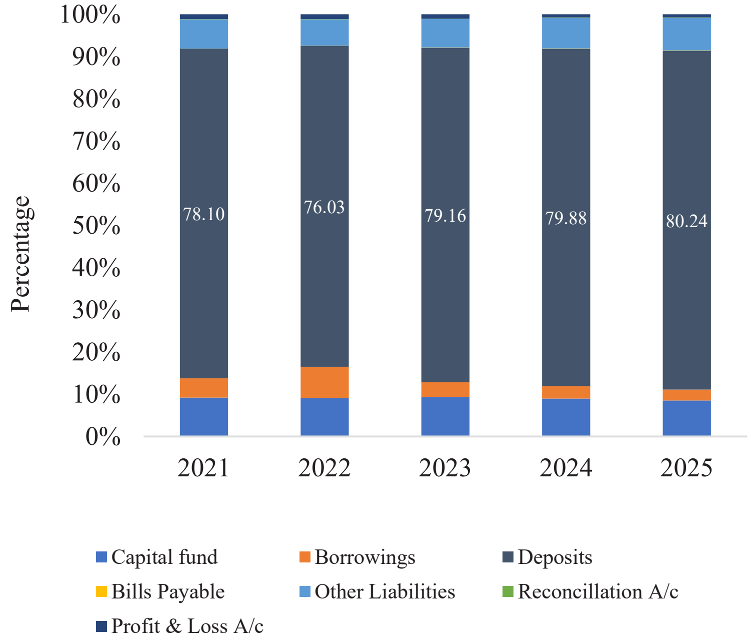


Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

2.4 Liability Structure of Banks and Financial Institutions

Deposits continued to represent the major portion of total liabilities (including capital fund). As of mid-July 2025, the total liabilities of the BFIs stood at Rs. 9,101.56 billion. The share of total deposits to total liabilities in mid-July 2025 stood at 80.24 percent. Deposit growth during the review year was driven, in part, by higher remittance inflows. Capital fund occupies the second largest share in the liability structure of BFIs, representing 8.52 percent of the total liability, while borrowings represented only 2.58 percent of total liabilities.

Figure 2.24: Liabilities Structure of BFIs

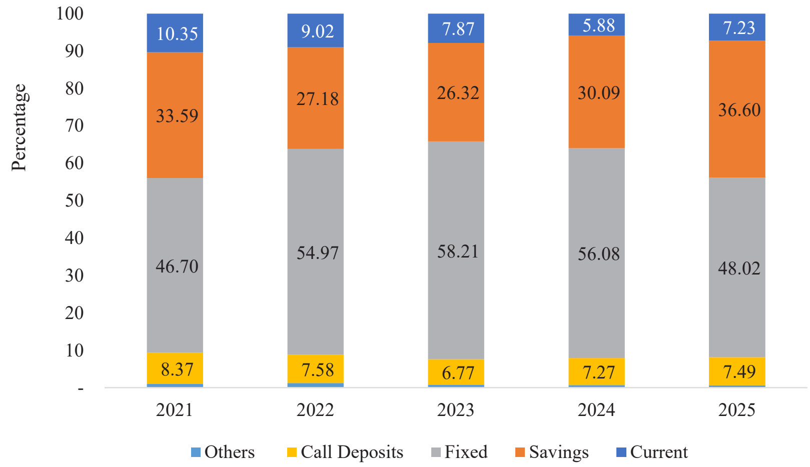


Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

Fixed and saving deposits comprised a significant share of total deposits. The share of current deposits, saving deposits, fixed deposits, call deposits, and other deposits in total deposits stood at 7.23 percent, 36.60 percent, 48.02 percent, 7.49 percent, and 0.66 percent, respectively, in mid-July 2025. These compositions were 5.88 percent, 30.09 percent, 56.08 percent, 7.27 percent, and 0.68 percent, respectively, in mid-July 2024.

Current deposits reported the highest growth during the review year. The current deposits grew by 38.26 percent during the review year. Among the other deposit categories, call deposits grew by 15.80 percent and saving deposits grew by 36.79 percent during the review year. On the contrary, fixed deposits declined by 3.73 percent during the review year.

Figure 2.25: Deposit Mix of BFIs



Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

Deposits concentration in some institutions continued to increase during the review year. Share of the top five deposit-holding banks stood at 35.23 percent of total deposits in the banking system, reflecting a significant concentration of deposits in these institutions. Such concentration ratio of deposits was 33.43 percent in the previous fiscal year. Similarly, three state-owned banks hold 16.58 percent of total deposits.

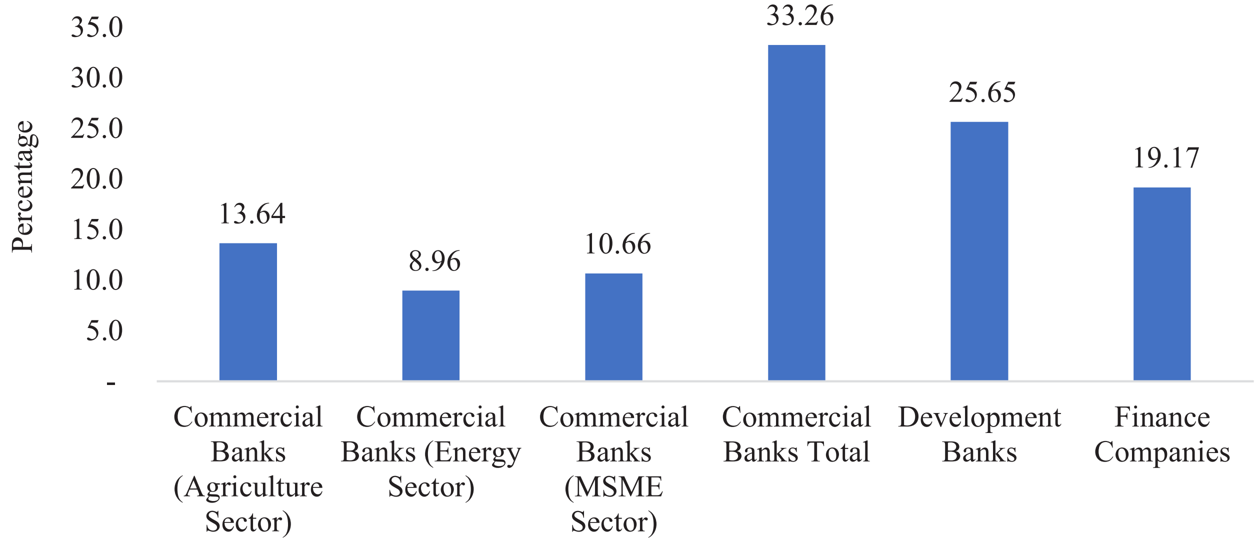
2.5 Directed Lending

2.5.1 Prescribed lending provisions

BFIs complied with the NRB's directive on prescribed lending provisions. By mid-July 2025, commercial banks were required to provide at least 11 percent of their total credit to the agricultural sector, 7 percent to the energy sector, and 11 percent to small, micro, cottage, and medium-sized businesses. Similarly, development banks were required to disburse 16 percent of the total credit to agriculture, micro, cottage, and small enterprises/businesses, energy, and tourism sectors by mid-July 2025. Similarly, there was a provision that required finance to disburse 11 percent of the total loan to such sectors by mid-July 2025.

As of mid-July 2025, commercial banks disbursed 13.66 percent of their total loans in the agricultural sector, 8.98 percent of their total loans in the energy sector, and 10.68 percent of their total loans in micro, cottage, small, and medium enterprises, respectively. Similarly, development banks disbursed 25.59 percent (excluding problematic institutions) of their total loans in agriculture, energy, tourism, micro, cottage, and small and medium enterprises, while finance companies disbursed 20.26 percent (excluding problematic institutions) of their total loans in such sectors.

Figure 2.26: Directed Sector Lending of BFIs

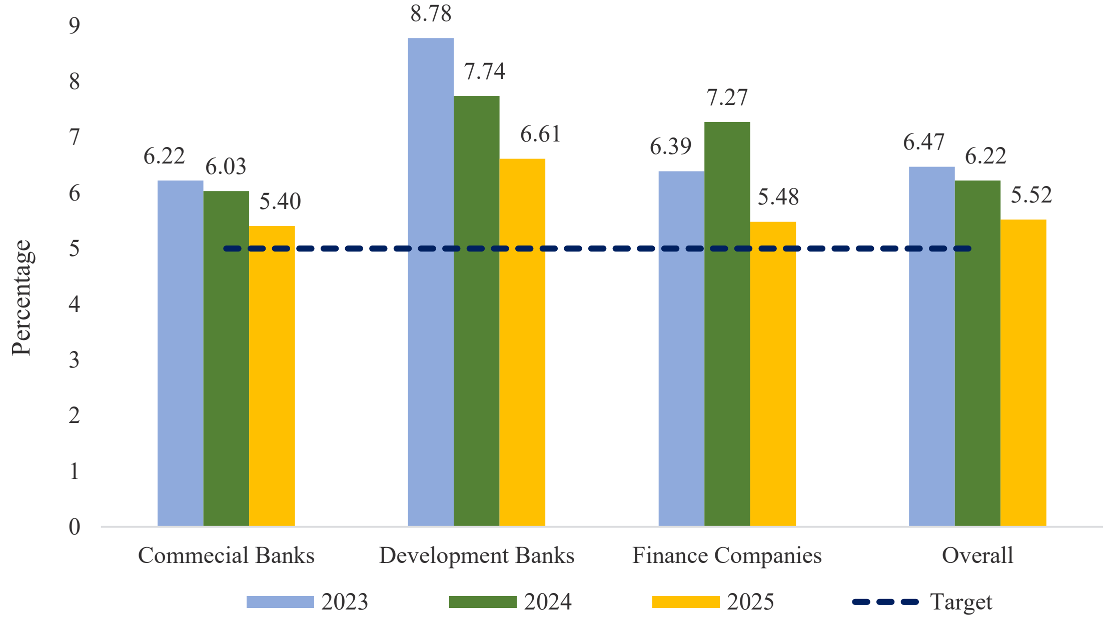


Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

2.5.2 Deprived Sector Lending

BFIs complied with the regulatory requirement to extend loans to the deprived sector. The overall deprived sector lending by BFIs as of mid-July 2025 remained at 5.52 percent, which is well above the regulatory requirement of 5 percent. The deprived sector lending by commercial banks, development banks, and finance companies accounted for 5.40 percent, 6.61 percent, and 5.48 percent of their total lending, respectively.

Figure 2.27: Deprived Sector Lending of BFIs



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

CHAPTER III: BANK AND FINANCIAL INSTITUTIONS

3.1 Performance of Banks and Financial Institutions

3.1.1 Commercial Banks

Nepal's financial system comprises a dominant share of commercial banks in terms of asset/liabilities. Commercial banks account for the major share among BFIs. The proportion of commercial banks in the total assets of BFIs increased slightly to 89.77 percent in mid-July 2025, as compared to 89.07 percent in mid-July 2024. Commercial banks continued to represent the major share of the banking industry in terms of balance sheet size. During the review year, the total assets of commercial banks showed an uptick by 12.81 percent to Rs.8,170.93 billion from Rs.7,242.74 billion in previous fiscal year.

Table 3.1 Major Financial Indicators of Commercial Banks

Indicators (Percent)	mid-July 2024	mid-July 2025
Tier 1 & Tier 2 Capital /RWE	12.84	12.90
Tier 1 Capital/RWE	10.10	10.05
Non-Performing Loan Ratio (NPL/Total Loan)	3.76	4.44
Return on Assets (ROA)	0.89	0.88
Return on Equity (ROE)	9.83	10.25
Net Interest Spread	3.98	3.66
Total Credit to Deposit Ratio (CD Ratio)	79.37	75.02
Total Liquid Assets/Total Deposit	26.53	25.15
Base Rate	8.01	5.98

Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

The State-Owned Banks (SOBs) predominantly hold 17.40 percent share of the total assets of commercial banks. During the review year, the total assets of three SOBs in Nepal - Nepal Bank Limited (NBL), Rastriya Banijya Bank Limited (RBBL), and Agriculture Development Bank Limited (ADBL) stood at 23.27 percent of GDP as compared to 21.19 percent in the previous fiscal year. The total share of SOBs in the total assets of commercial banks stood at 17.40 percent, which was 16.69 percent in mid-July 2024. The SOBs hold 17.32 percent share in total deposits of commercial banks and 15.51 percent share in total deposits of BFIs in mid-July 2025. Similarly, their market shares in terms of loans and advances (including bills purchased) stood at 15.33 percent of commercial banks and 13.61 percent of all BFIs during the review year.

3.1.1.1 Capital

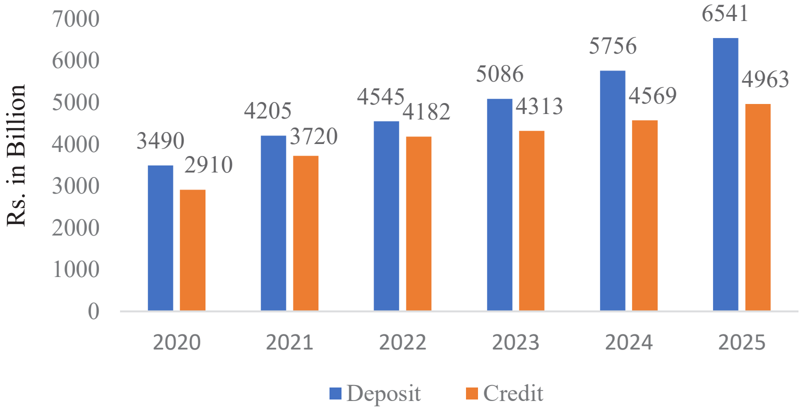
Capital adequacy ratios of commercial banks remain above the regulatory minimum. The capital adequacy ratio has slightly increased to 12.90 percent during the review year as compared to 12.84 percent in the previous fiscal year. The capital fund of commercial banks has increased by 7.14 percent to Rs.764.67 billion in mid-July 2025 from Rs.713.70 billion a year ago. However, all the commercial banks have maintained the minimum capital adequacy ratio during the review year.

The total capital adequacy ratios of all the SOBs continued to remain well above the regulatory minimum, albeit slightly decreased in the review year. During the review year, the core capital to risk-weighted assets of NBL, RBBL, and ADBL stood at 10.05 percent, 9.46 percent, and 11.93 percent, respectively. Likewise, the total capital to risk-weighted assets of NBL, RBBL, and ADBL stood at 13.06 percent, 11.84 percent, and 13.36 percent, respectively. The asset quality measured by the Non-Performing Loans (NPL) ratio of all the SOBs has deteriorated and stood at 3.77 percent as of mid-July 2025, compared to 3.47 percent in the previous fiscal year. As of mid-July 2025, the NPL ratios of NBL, RBBL, and ADBL stood at 4.47 percent, 3.59 percent, and 3.26 percent, respectively.

3.1.1.2 Deposits and Credit

Deposits growth surpassed credit growth during the review year. Both deposits and credit grew and continued their upward trend during the review year. Total deposits grew by 13.63 percent to Rs.6,541 billion in mid-July 2025. Total credit grew by 8.62 percent to Rs.4,963 billion in mid-July 2025 as compared to a growth of 5.93 percent in the previous fiscal year.

Figure 3.1: Deposits and Credit of Commercial Banks



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

Term loans constituted the major portion of the total loan disbursed. Term loans, overdraft loans (including cash credit), demand and other working capital loans, and hire purchase loans represent 36.59 percent, 13.53 percent, 16.17 percent, and 2.28 percent, respectively, of the total loan in mid-July 2025. However, such ratios were 37.32 percent, 14.88 percent, 15.53 percent, and 2.33 percent, respectively, in mid-July 2024.

During the review year, the share of lending by commercial banks to the real estate sector decreased slightly to 4.65 percent from 4.92 percent. In contrast, the share of margin loans increased to 2.35 percent from 1.54 percent. Similarly, loans against the collateral of properties (fixed and current assets) decreased slightly compared to the previous fiscal year. As of mid-July 2025, 88.57 percent of total loans were secured by property collateral, down from 89.98 percent in the previous fiscal year.

3.1.1.3 Asset Quality

The share of term loans on total loans increased; however, concerns over asset quality exist. The asset qualities of commercial banks have been measured by the non-performing loan ratio (NPL) and net non-performing loans ratio. The non-performing loans to total loan ratio of commercial banks increased to 4.44 percent in mid-July 2025 as compared to 3.76 percent in mid-July 2024. The net NPL ratio of commercial banks stood at 1.05 percent at the end of review year.

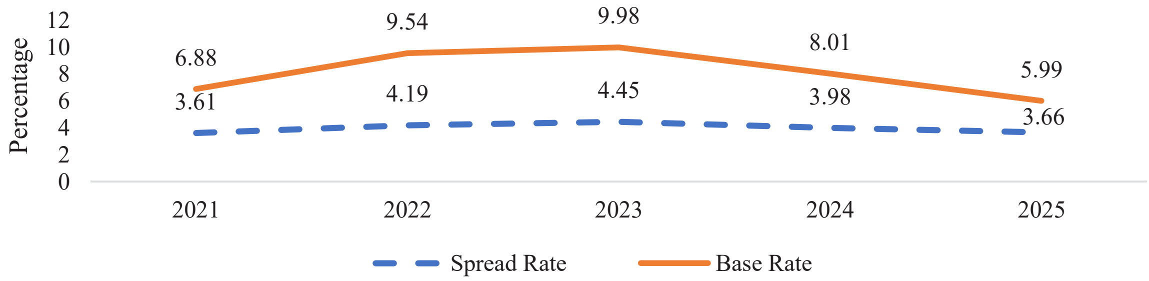
The NPL ratio of commercial banks has deteriorated during the review year. The three state-owned banks in total have a combined NPL ratio of 3.77 percent, whereas that of private commercial banks stood at 4.56 percent in mid-July 2025, which was 3.47 percent and 3.81 percent, respectively, in the previous fiscal year.

3.1.1.4 Profitability

Commercial banks experienced a slight decline in asset returns but improved equity returns. As of mid-

July 2025, return on assets (ROA) has slightly decreased to 0.88 percent, and return on equity (ROE) has increased to 10.25 percent, as compared to 0.89 percent and 9.83 percent in the previous year. However, as of mid-July 2025, the overall profit of the commercial banks has increased by 11.47 percent and stood at Rs.71.51 billion.

Figure 3.2: Base Rate and Spread Rate of Commercial Banks



Source: Nepal Rastra Bank, Banking and Financial Statisitics, July 2025

3.1.2 Development Banks

After commercial banks, development banks constituted the largest share of total assets/liabilities in the banking system. The number of development banks stood at 17, among which eight of them are of national level and nine of them are of provincial level (one is operational in only one district). The share of development banks in the total assets/liabilities of BFIs decreased to 8.28 percent during the review year, as compared to 8.82 percent of the previous fiscal year. The total assets/liabilities of development banks increased by 5.12 percent to Rs.754.04 billion in mid-July 2025 as compared to Rs.717.33 billion a year ago.

Table 3.2: Major Financial Indicators of Development Banks

Indicators (Percent)	mid-July 2024	mid-July 2025
Tier 1 & Tier 2 Capital /RWE	13.35	13.34
Tier 1 Capital/RWE	10.68	10.74
Non-Performing Loan Ratio (NPL/Total Loan)	3.62	5.03
Return on Assets (ROA)	0.66	0.68
Return on Equity (ROE)	8.0	8.54
Net Interest Spread*	4.55	4.06
Total Credit to Deposit Ratio (CD Ratio)	82.52	84.06
Total Liquid Assets/Total Deposit	24.43	22.47
Base Rate	9.03	6.90

* Excluding problematic institutions

Source: Nepal Rastra Bank, Monthly Statistics, July 2025

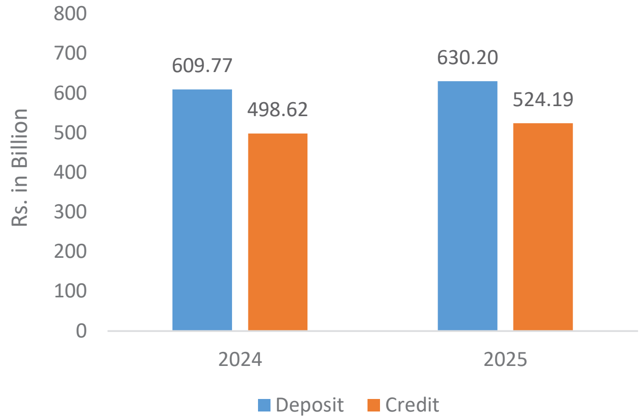
3.1.2.1 Capital

Development banks remained well-capitalized during the review year, but concerns remain. The capital adequacy ratio of development banks stood at 13.34 percent as of mid-July 2025, which was 13.35 percent in the previous fiscal year. The core capital of development banks increased by 4.16 percent to Rs 55.48 billion as compared to 3.96 percent in the previous year. The core capital to risk-weighted assets ratio increased to 10.74 percent as of mid-July 2025, compared to 10.68 percent a year ago. As per the regulatory requirement, national-level development banks are required to maintain a core capital ratio of 8.5 percent and a capital adequacy ratio of 11 percent. Similarly, development banks, except national-level development banks, are required to maintain 6 percent of tier 1 capital adequacy ratio and 10 percent of the total capital adequacy ratio. Except for three, all other development banks maintained regulatory minimum capital funds during the review year.

3.1.2.2 Deposits and Credit

The total deposits of development banks increased by 2.64 percent to Rs.630.20 billion in mid-July 2025 as compared to Rs.609.77 billion a year ago. Similarly, the loans and advances increased by 5.13 percent to Rs.524.19 billion in mid-July 2025 as compared to Rs.498.62 billion a year ago. Credit to deposit ratio stood at 84.06 percent (excluding problematic institutions) during the review year as compared to 82.52 percent in the previous fiscal year.

Figure 3.3: Deposits and Credit of Development Banks



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2024

3.1.2.3 Asset Quality

The non-performing loan ratio of development banks increased to 5.03 percent in mid-July 2025 as compared to 3.62 percent a year ago.

3.1.2.4 Base Rate, Spread Rate, and Profitability

The base rate of development banks followed a declining trend during the review year. The average base rate of development banks decreased to 6.90 percent, which was 9.14 percent in the previous fiscal year. The decrease in the base rate can be attributed mostly to the surge in liquidity in the overall banking system, followed by a decrease in interest rates. Similarly, the interest rate spread decreased marginally from 4.55 percent to 4.11 percent during the review year. Similarly, the interest rate spread decreased marginally from 4.55 percent to 4.07 percent during the review year. Similarly, the total net profit of development banks increased by 26.90 percent to Rs.5.14 billion in the review year as compared to the net profit of 5.92 billion in the previous fiscal year. ROE and ROA increased to 8.55 percent and 0.68 percent, respectively, as of mid-July 2025.

3.1.3 Finance Companies

The share of the total assets of finance companies among BFIs stood at 1.94 percent during the review year, which was 2.11 percent in the previous fiscal year. The ratio of total assets/liabilities of finance companies to gross domestic product has decreased slightly to 2.89 percent in mid-July 2025, as compared to 3 percent a year ago. In this regard, the total assets/liabilities of finance companies decreased by 3.95 percent to Rs.176.58 billion in the review year as compared to Rs.171.31 billion in mid-July 2024. Two finance companies (Nepal Share Market and Finance Ltd. and Capital Merchant Banking and Finance Ltd.) are under the resolution process. The major financial indicators of finance companies have been presented in Table 3.3.

Table 3.3: Major Financial Indicators of Finance Companies

Indicators (Percent)	mid-July 2024	mid-July 2025
Tier 1 & Tier 2 Capital /RWE	14.89	13.93
Tier 1 Capital/RWE	12.85	11.44
Non-Performing Loan Ratio (NPL/Total Loan)	9.87	11.05
Return on Assets (ROA)	0.21	0.50
Return on Equity (ROE)	1.94	5.02
Net Interest Spread*	4.54	4.39
Total Credit to Deposit Ratio (CD Ratio)	77.63	79.74
Total Liquid Assets/Total Deposit	32.08	24.87
Base Rate	10.74	8.44

* Excluding problematic institutions

Source: Nepal Rastra Bank, Monthly Statistics, July 2025

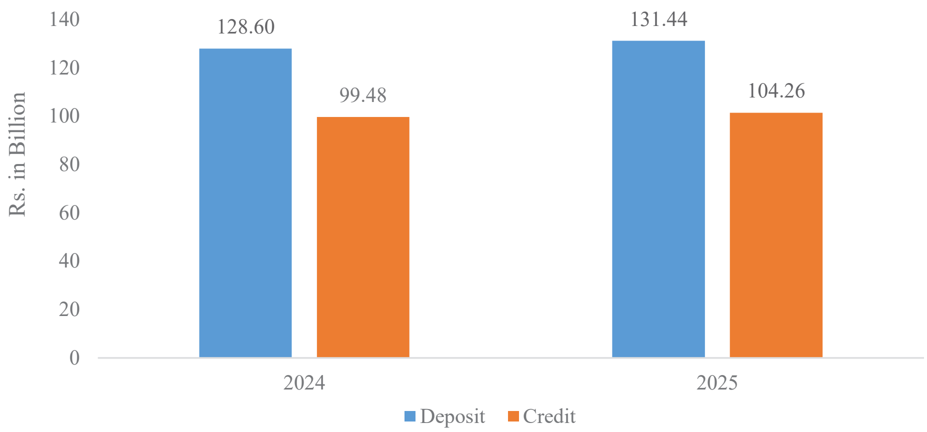
3.1.3.1 Capital

Finance companies remained well-capitalized during the review year. The tier 1 capital fund decreased by 10.81 percent to reach Rs.12.80 billion as compared to a decrease of 12.17 percent in the previous fiscal year. The tier 1 capital adequacy ratio stood at 11.44 percent during the review year. In the same manner, the capital adequacy ratio decreased to 13.93 percent in mid-July 2025, from 14.89 percent in the previous fiscal year. As the regulatory minimum of the tier 1 capital ratio and capital adequacy ratio for finance companies are 6 percent and 10 percent, respectively. All finance companies except two maintained capital well above the regulatory requirements.

3.1.3.2 Deposits and Credit

Deposits and Credit increased during the review year. The total deposit and credit of finance companies increased by 2.21 percent and 4.80 percent, respectively. The aggregate deposits of finance companies stood at Rs.131.44 billion in mid-July 2025, compared to Rs.128.60 billion in mid-July 2024. Total loans and advances stood at Rs.104.26 billion in mid-July 2025, compared to Rs.99.48 billion in the previous fiscal year. The credit-to-deposit ratio remained within the regulatory ceiling; it stood at 79.53 percent in mid-July 2025.

Figure 3.4: Deposits and Credit of Finance Companies



Source: Nepal Rastra Bank, Banking and Financial Statistics, July 2025

3.1.3.3 Asset Quality

Non-performing loans stood at Rs.11.52 billion during the review year. The ratio of non-performing loans stood at 11.05 percent in mid-July 2025, which was 9.87 percent in mid-July 2024.

3.1.3.4 Profitability

During the review year, the return on assets and return on equity of finance companies stood at 0.50 percent and 5.02 percent, respectively. The net profit increased to Rs.0.87 billion in mid-July 2025, as compared to Rs.0.35 billion in mid-July 2024.

Box 2: Assessing the Stability of the Nepalese Banking System

Banking Stability Indicator (BSI) and Banking Stability Map

The BSI aggregates various financial metrics into a single composite index to provide an overall assessment of banking stability. This index typically includes metrics such as asset quality (NPL), soundness (Capital Adequacy Ratio), liquidity (Net Liquid Assets Ratio), efficiency, and profitability. It helps to assess the overall health of the domestic banking system, considering different risk areas, and comparing the present health of the banking system with its recent past.

The individual metrics used to construct the BSI are visualized in a radar chart, providing a detailed understanding of specific risk areas, commonly referred to as the Banking Stability Map.

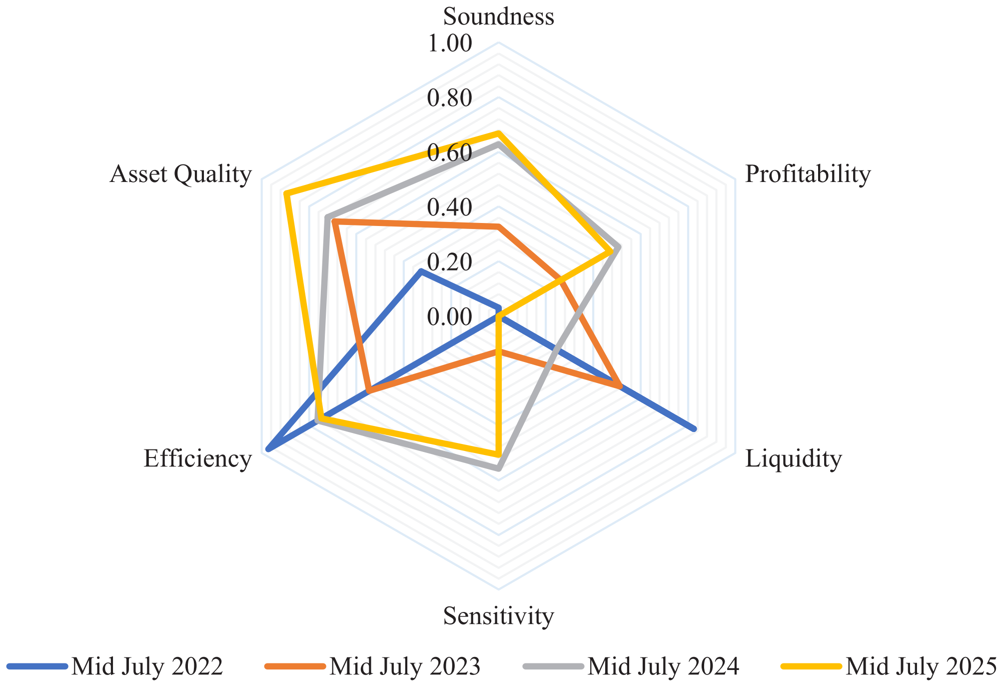
The BSI simplifies complex data into an easily interpretable index, but might not capture the nuances of individual risk factors. The banking stability map, on the other hand, provides a more nuanced view, showing how different risk factors interact and contribute to the overall stability. This can help regulators, policymakers, and bank managers focus on specific areas that need attention. Together, these tools provide a comprehensive framework for assessing banking stability. The BSI offers a comprehensive overview, while the banking stability map allows for deeper analysis and more informed decision-making.

The BSI from mid-July 2022 to mid-July 2025 has shown continuous deterioration, driven by increased risks in most of the dimensions due to declining asset quality, which has led to reduced profitability and greater strain on capital requirements. Aided by increasing levels of NPL and restructured assets, the asset quality indicator has declined, and decreasing return-on-assets (RoA) and return-on-equity (RoE) have degraded the profitability indicator too. The sensitivity dimension has also seen a steady increase in risk due to an increase in risk-weighted assets. However, the liquidity dimension has been improving over the period as net liquid assets have been increasing due to the growing deposits. On the contrary, the efficiency indicator weakened due to an increase in the cost-to-income ratio.

The contribution of individual risk factors has also been shown to correspond to banking stability indicators in the subsequent analysis. An increase in an indicator's value signifies a higher risk level, and a decrease signifies a lower risk level. Understanding these concepts can help concerned stakeholders to identify which risk factors are most significant and need immediate attention, develop targeted strategies to mitigate the highest risks, monitor changes in risk levels over time, and adjust risk management practices accordingly.

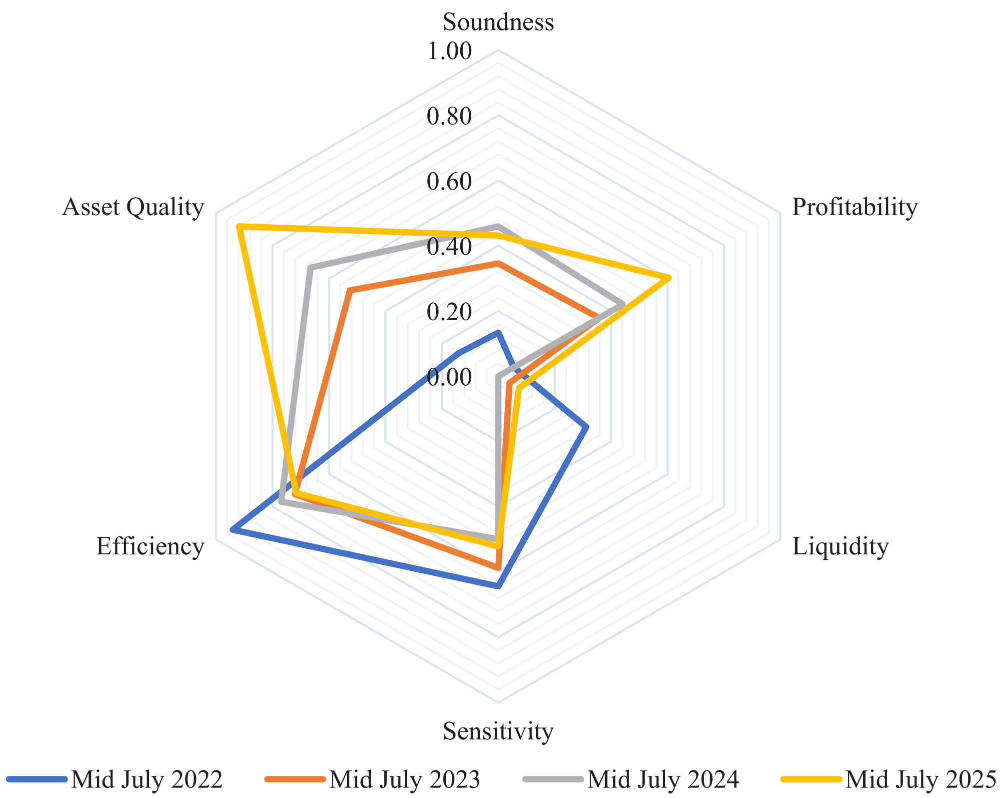
The banking stability map is presented below for A, B, and C class institutions and the industry as a whole. Additionally, the composite index of the banking stability indicator, along with sub-financial metrics, is presented for the aggregate of A, B, and C class banks.

Figure S1: Banking Stability Map (Commercial Banks)



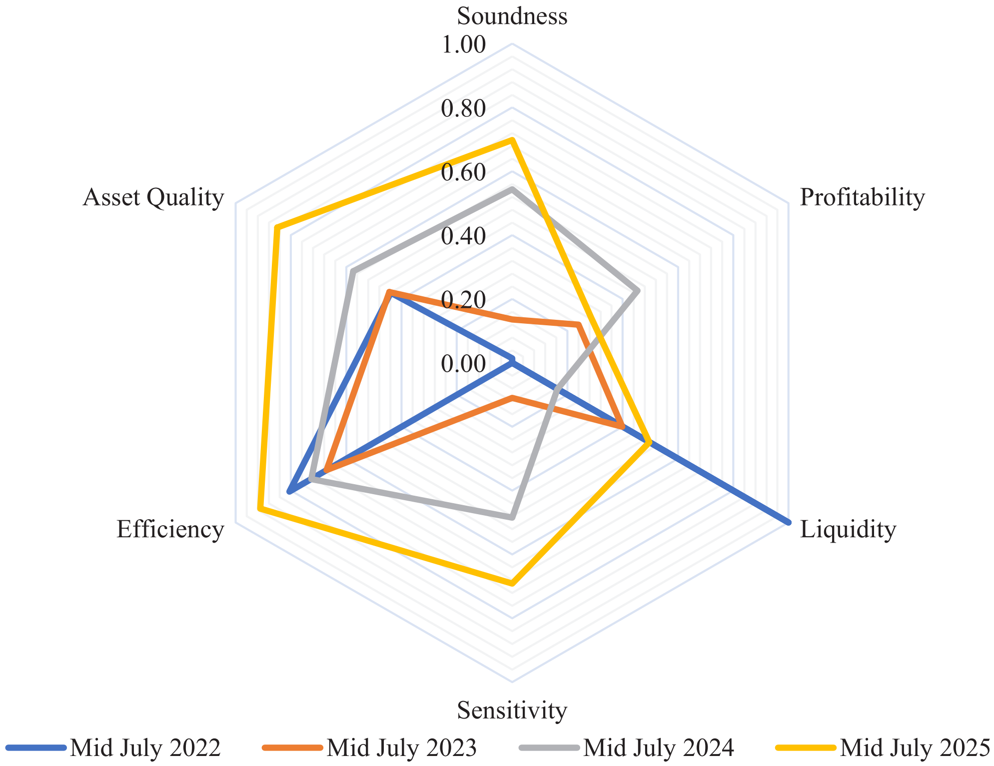
Note: Away from the center indicates increase in risk

Figure S2: Banking Stability Map (Development Banks)



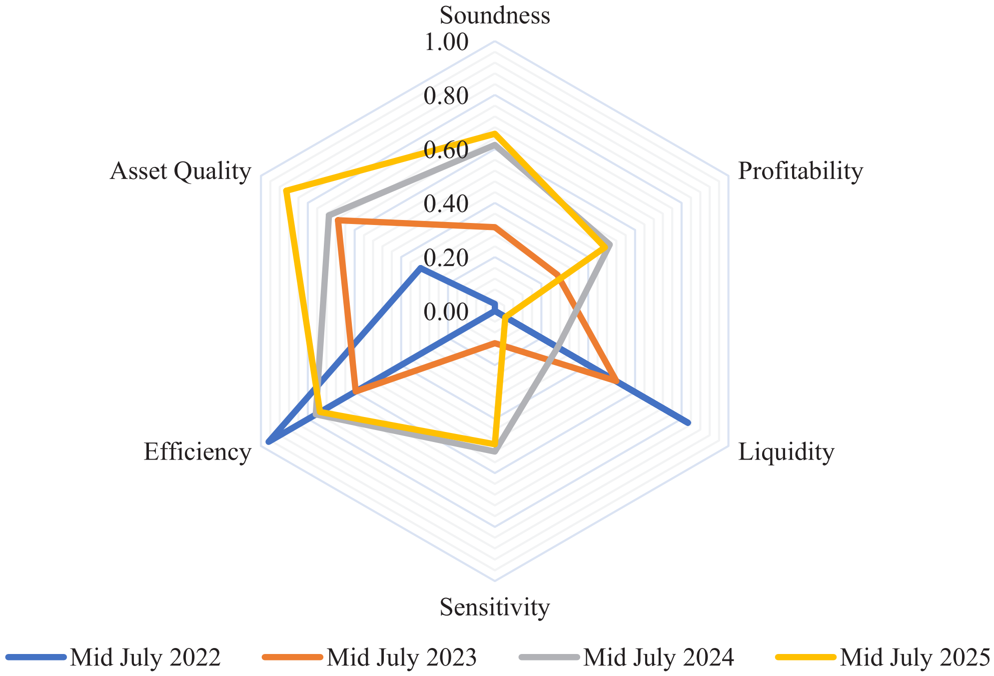
Note: Away from the center indicates increase in risk

Figure S3: Banking Stability Map (Finance Companies)



Note: Away from the center indicates increase in risk

Figure S4: Banking Stability Map (Banking Industry)



Note: Away from the center indicates increase in risk

Banking Stability Indicator – Composite Index

The individual index and composite index of the banking industry (A, B, and C class aggregate) calculated for the different periods are shown in Table S1.

Table S1: Banking Stability Indicator - Composite Index

Period/Indicator	Soundness	Profitability	Liquidity	Sensitivity	Efficiency	Asset Quality	Composite Index
mid- July 2022	0.03	0.00	0.83	0.00	0.97	0.32	0.36
mid- July 2023	0.31	0.27	0.52	0.12	0.60	0.67	0.41
mid- July 2024	0.61	0.49	0.27	0.52	0.77	0.71	0.56
mid- July 2025	0.66	0.47	0.04	0.49	0.75	0.89	0.55

Source: Nepal Rastra Bank, Banks and Financial Insitution Regulation Department

The composite index of the banking industry's Banking Stability Indicator (A, B, and C class aggregate) has increased steadily from 0.36 in mid-July 2022 to 0.55 in mid-July 2025. The surge in the composite index depicts the increased level of overall risk in banking stability. Liquidity has been on the comfortable side and visibly shows no risk at the end of the period under study. Efficiency indicators show an improvement over the period. However, risk in the soundness indicator surged and stood at a score of 0.66. Similarly, the asset quality, profitability, and sensitivity have been sticky at a higher side as of mid-July 2025, indicating the concentration of risks in these indicators.

3.1.4 Microfinance Financial Institutions

As of mid-July 2025, there are 52 Microfinance Financial Institutions (MFIs) operating as "D" class licensed institutions. Amongst them, three are wholesale MFIs and 49 are retail MFIs. Out of the total MFIs, two are public deposit-taking institutions.

Table 3.4 Major Financial Indicators of MFIs

Indicators (Percent)	mid-July 2024	mid-July 2025
Tier 1 Capital/RWE	10.57	10.43
Tier 1 & Tier 2 Capital /RWE	11.71	11.53
Loans to Agricultural Sector	49.81	53.75
Non-Performing Loan Ratio	6.31	9.95
Collateral-Based Loan Ratio	18.86	16.12
Return on Assets (ROA)	0.93	1.03
Return on Equity (ROE)	8.64	9.68

**As per the Annual Supervision Report of MFISD, 2024/25*
Source: Nepal Rastra Bank

3.1.4.1 Capital Adequacy

Microfinance institutions maintained the regulatory capital requirement. As of mid-July 2025, the total capital fund of MFIs increased by 7.03 percent to Rs.63.03 billion. The industry average of core capital and capital fund ratio to total risk-weighted assets stood at 10.43 percent and 11.53 percent, respectively, which is well above the regulatory requirement of 4 percent and 8 percent. The total paid-up capital of MFIs increased by 7.23 percent to Rs.38.43 billion, showing an increment of 7.23 percent (Table 3.5). The ratio of paid-up capital to total capital fund stood at 60.97 percent, which was 60.86 percent in the previous fiscal year. The paid-up capital of wholesale MFIs increased by 11.87 percent to Rs. 6.69 billion in the review year, while that of retail MFIs increased by only 6.33 percent to Rs. 31.74 billion

3.1.4.2 Asset Quality

Non-performing loans followed an upward trend during the review year. The total outstanding loan has increased by 7.96 percent to Rs.491.80 billion as of mid-July 2025 as compared to Rs.455.56 billion a year ago. In the review year, the ratio of loans and advances to the total assets stood at 91.91 percent in mid-July 2025. The total amount of overdue loans, including interest, of these institutions increased by 30.26 percent to Rs.45.93 billion in the review year from Rs.35.26 billion a year ago. The overdue amount of wholesale MFIs stood at Rs.1.79 billion, an increment of 30.66 percent in a year, while that of the retail MFIs stood at Rs.44.14 billion, showing an increment of 30.24 percent compared to the previous fiscal year. The loan loss provision increased by 32.94 percent to Rs.32.41 billion during the review year.

Table 3.5: Capital Adequacy and Assets Quality of MFIs

Particulars (Rs. Billion)	mid-July 2024	mid-July 2025*	% Change
Total Capital Fund	**58.89**	**63.03**	7.03
Capital Fund of Retail MFIs	47.62	50.86	6.80
Capital Fund of Wholesale MFIs	11.27	12.17	7.99
Total Paid-up Capital	**35.84**	**38.43**	7.23
Paid-up Capital of Retail MFIs	29.85	31.74	6.33
Paid-up Capital of Wholesale MFIs	5.98	6.69	11.87
Total Assets	**495.35**	**535.09**	8.02
Assets of Retail MFIs	435.68	478.67	9.87
Assets of Wholesale MFIs	59.67	56.42	-5.45
Total Loan and Advances	**455.56**	**491.8**	7.96
Loan and Advances of Retail MFIs	401.71	443.03	10.29
Loan and Advances of Wholesale MFIs	53.85	48.77	-9.43
Total Overdue (Loan & Interest)	**35.26**	**45.93**	30.26
Overdue (Loan & Interest) of Retail MFIs	33.89	44.14	30.24
Overdue (Loan & Interest) of Wholesale MFIs	1.37	1.79	30.66
Total Loan Loss Provision	**24.38**	**32.41**	32.94
Loan Loss Provisions of Retail MFIs	22.33	30.24	35.42
Loan Loss Provisions of Wholesale MFIs	2.05	2.17	5.85

**As per the Annual Supervision Report of MFISD, 2024/25*
Source: Nepal Rastra Bank

3.1.4.3 Profitability and Liquidity

Savings/Deposits, borrowing, and profitability of MFIs have increased significantly. Net profit of MFIs increased in the review year by 21.32 percent to Rs.5.52 billion compared to Rs.4.55 billion as of mid-July 2024. During the review year, the industry average return on assets and return on equity stood at 1.03 percent and 7.10 percent, respectively. Total savings mobilized by the MFIs increased by 13.49 percent to Rs.199.94 billion in the review year. Out of the total liabilities, the share of savings remained at 37.36 percent. Out of total savings, public deposits accounted for only 2.50 percent, despite an increment by 26.26 percent in the review year to Rs.5.00 billion as compared to Rs.3.96 billion as of mid-July 2024, which was collected by two public deposit-taking MFIs, namely Nirdhan Uththan Laghubittta Bittiya Sanstha Limited and Chhimek Laghubitta Bittiya Sanstha Limited, while the rest was collected from the members of all MFIs. Total borrowings of these MFIs during the review year increased by 3.40 percent to Rs.239.48 billion. The share of total borrowing by MFIs to the total liabilities stood at 44.75 percent during the review year. Out of the total borrowings, wholesale MFIs borrowed Rs.38.45 billion, comprising 16.06 percent of total borrowing. The borrowing of wholesale MFIs showed a decline of 12.43 percent during the review year.

Table 3.6: Profitability and Liquidity of MFIs

Particulars (Rs. Billion)	mid-July 2024	mid-July 2025*	% Change
Net Profit	6.40	5.52	(13.75)
Total Savings in MFIs	177.05	199.94	12.93
Total Borrowings of MFIs	230.75	239.48	3.78
Borrowings of Retail MFIs	186.83	201.03	7.60
Borrowings of Wholesale MFIs	43.91	38.45	(12.43)
Public deposit	3.96	5.00	26.26

**As per the Annual Supervision Report of MFISD, 2024/25*
Source: Nepal Rastra Bank

3.1.5 Infrastructure Development Bank

Nepal Infrastructure Bank Limited is the only infrastructure development bank in Nepal. The bank has total assets of Rs.41.55 billion as of mid-July 2025. The total assets of the bank have increased by 46.43 percent as compared to the previous fiscal year.

3.1.5.1 Capital

Capital adequacy and leverage ratio declined during the review year. The primary capital stood at Rs.24.10 billion as of mid-July 2025. The total capital to risk-weighted exposure ratio declined from 91.68 percent to 77.56 percent as of mid-July 2025. Return on equity (ROE) has slightly decreased to 4.91 percent in the review year from 5.50 percent. Similarly, return on assets (ROA) has also decreased to 3.53 percent during the review year from 4.72 percent.

Table 3.7: Major Financial Indicators of Infrastructure Development Bank

Indicators (Percent)	mid-July 2024	mid-July 2025
Tier 1 Capital/RWE	90.87	76.76
Tier 1 & Tier 2 Capital /RWE	91.68	77.56
Return on Equity	5.50	4.91
Return on Assets	4.72	3.53

Source: Nepal Rastra Bank

3.1.5.2 Deposits and Credit

Deposit collection and credit disbursement continued to increase. The deposit size increased by 836.59 percent to Rs.7,689.89 million in mid-July 2025 as compared to total deposit of Rs.829.86 million in the previous fiscal year. Such sharp increase is attributed due to the collection of institutional fixed deposit by Nepal Infrastructure Bank Limited. The loans and advances in infrastructure development projects stood at Rs. 25.14 billion in mid-July 2025 as compared to Rs.21.14 billion in the previous fiscal year.

3.1.5.3 Profitability

The net profit decreased by 7.21 percent in the review year. There has been a reduction in net interest earnings by 25.49%. Net interest earning was Rs.1.90 billion in mid-July 2025 as compared to Rs.2.55 billion in the previous fiscal year.

3.2 Stress Tests of Banks and Financial Institutions

3.2.1 Stress Test of Commercial Banks

Stress Testing Results as of mid-July 2025 have been carried out as per the revised Stress Testing Guidelines, 2023 issued by Nepal Rastra Bank.

3.2.1.1 Credit Shock

Stress testing results revealed that if 15 percent of pass loans are downgraded to substandard category, CAR of 6 banks would fall below 11 percent. Such numbers would rise to 12, if 5 percent of pass loans are downgraded to loss category. Similarly, if 15 percent of watchlist loans deteriorated to substandard or 15 percent of substandard loans deteriorated to doubtful loans or 25 percent of doubtful loans deteriorated to loss category or all substandard loans are downgraded to doubtful, or all doubtful loans are downgraded to loss loan, CAR of no bank would fall below 11 percent. If top 2 large exposure downgraded from the performing category to loss category CAR of 9 banks would fall below 11 percent.

Stress testing results revealed that if 15 percent of pass loans are downgraded to substandard category or if 5 percent of pass loans are downgraded to loss category, NPL of all banks would be above 5 percent. On the other hand, if 15 percent of watchlist loans deteriorated to substandard or 15 percentage of substandard loans deteriorated to doubtful loans or 25 percent of doubtful loans deteriorated to loss category or all substandard loans are downgraded to doubtful, or all doubtful loans are downgraded to loss loan, number of banks whose NPL would be above 5 percent is 12, 5, 5, 5 and 5 respectively.

3.2.1.2 Liquidity Shock

The liquidity stress test under the scenario of withdrawal of deposits by customers by 2, 5, 10, 10 and 10 percent for five consecutive days showed that by the end of 5th day 2 out of 20 commercial banks would become illiquid.

If 10 percent, 15 percent and 20 percent of deposits (other than fixed deposits) are withdrawn in a single day, NLA of 1, 1 and 5 banks, respectively, would fall below 20 percent. Out of 20 commercial banks, NLA of 1 bank would fall below 20 percent in case of withdrawal of deposits by 5 percent, 5 banks in case of withdrawal of deposits by 10 percent, 11 banks in case of withdrawal of deposits by 15 percent and 12 banks in case of withdrawal of deposits by 20 percent.

Stress test results revealed that most of the banks have deposit concentration on a few large depositors. NLA of 3 banks would fall below 20 percent if their top 2 institutional depositors withdraw their deposits. The number of banks that would face liquidity problems would increase to 4 and 6, if deposits were withdrawn by their top 3 and top 5 institutional depositors, respectively.

3.2.1.3 Market Shock

Market Shock includes Interest Rate Shock, Exchange Rate Shock and Equity Price Shock. Stress test is conducted with each shock separately. A combination of credit shock and market shock is also used for stress testing. Furthermore, since commercial banks have nominal equity investments, the impact of fluctuation in equity price is minimal. If equity prices fall by 50%, 2 banks will have CAR below 11 percent.

3.2.1.4 Operation Shock

Operation shocks analyze the impact on CAR of the banks if the Gross Income of the banks decreased due to cybersecurity frauds/Other Frauds and Other Operational Losses. The result shows that the CAR of 1 bank and 10 banks would fall below 11 percent if the Gross Income of all banks declines by 20 percent and 50 percent, respectively, due to some IT/operational lapses.

The resiliency of the commercial banks as of mid-July 2025 to credit shock, liquidity shock, market shock, and combined shocks assessed by the stress tests is presented in Table 3.8.

Table 3.8: Summary Results of Stress Test of Commercial Banks (mid-July 2025)

Summary Results of Stress Tests – Commercial Banks							
		Number of Banks with NPL		Number of Banks with CAR			
		≤5%	>5%	< 0%	0%-<8.5%	8.5% - <11%	>=11%
Pre-Shock		15	5	0	0	0	20
Post-Shock							
Credit Shocks							
C-1 a	15 Percent of Pass loans deteriorated to substandard	0	20	0	0	6	14
C-1 b	15 Percent of watch list loans deteriorated to substandard	8	12	0	0	0	20
C-1 c	15 Percent of Substandard loans deteriorated to doubtful loans	15	5	0	0	0	20
C-1 d	25 Percent of Doubtful loans deteriorated to loss loans.	15	5	0	0	0	20
C-1 e	5 Percent of Pass loans deteriorated to loss loans.	0	20	0	0	12	8
C-1 a to e	Combination of C-1 a to e	0	20	0	8	11	1
C-2 a	All substandard loans downgraded to doubtful.	15	5	0	0	0	20
C-2 b	All doubtful loans downgraded to loss.	15	5	0	0	0	20
C-2 a and b	Combination of C-2 a and b	15	5	0	0	0	20
C-4a	Sectoral Impact-Pass loan converted into Loss @% mentioned in assumption sheet	1	19	0	0	8	12
C-4c	Sectoral Impact-Watch list loan converted into Substandard @% mentioned in assumption sheet	10	11	0	0	0	20
C-5	Top 2 Large exposures downgraded: Performing to Loss category	2	18	0	0	9	11

C-6a	10 percentage of guarantee is converted into funded and 30 percentage of such claims is converted into loss	12	8	0	0	0	20
Market Shocks							
Interest Rate Shocks							
IR-1a	Deposits interest rate change (+, -) by 1% on an average.			0	0	0	20
IR-1b	Deposits interest rate change (+, -) by 1.5% on an average.			0	0	0	20
IR-1c	Deposits interest rate change (+, -) by 2% on an average.			0	0	0	20
IR-2a	Loan interest rate change (+,-) by -1% on an average.			0	0	0	20
IR-2b	Loan interest rate change (+,-) by -1.5% on an average.			0	0	0	20
IR-2c	Loan interest rate change (+,-) by -2% on an average.			0	0	0	20
Exchange Rate Shocks							
ER-1a	Depreciation of currency exchange rate by 20%			0	0	0	20
ER-1b	Appreciation of currency exchange rate by 25%			0	0	0	20
Equity Price Shocks							
Eq-1	Fall in the equity prices by 50%			0	0	2	18

Liquidity Shocks					
				Number of Banks becoming illiquid after shock of	
				3 days	4 days
L-1	Withdrawal of deposits other than fixed deposit by 2%, 5% and 10% for five consecutive days respectively.			0	0
L-6	Withdrawal of deposits by 2%, 5% and 10% for five consecutive days respectively.			0	0
				Number of Banks with Liquid Assets to Deposit Ratio	
				< 0%	0% - <20%
Pre-Shock				0	0
Post-Shock					
L-2-a	Withdrawal of deposits other than fixed deposits by 5%			0	0
L-2-b	Withdrawal of deposits other than fixed deposits by 10%			0	1
L-2-c	Withdrawal of deposits other than fixed deposits by 15%			0	1

L-2-d	Withdrawal of deposits other than fixed deposits by 20%			0	5
L-7-a	Withdrawal of deposits by 5%			0	1
L-7-b	Withdrawal of deposits by 10%			0	5
L-7-c	Withdrawal of deposits by 15%			0	11
L-7-d	Withdrawal of deposits by 20%			0	12
L-3a	Withdrawal of deposits by top 2 institutional depositors.			0	3
L-3b	Withdrawal of deposits by top 3 institutional depositors.			0	4
L-3c	Withdrawal of deposits by top 5 institutional depositors.			0	6
L-3d	Withdrawal of deposits by top 2 individual depositors.			0	0
L-3e	Withdrawal of deposits by top 3 individual depositors.			0	0
L-3f	Withdrawal of deposits by top 5 individual depositors.			0	0
				< 0%	0%-<8.5%
L-4	Top 2 Inter Bank Lending goes bad Number of Banks with CAR			0	0
				< 0%	0% - <20%
	Number of Banks with Liquid Assets to Deposit Ratio			0	0
		CD ≤ 90%	CD > 90%		
L-5	50% of Irrevocable loan commitments turns to Loans and Advances	19	1		

Operational Shocks					
		Number of Banks with CAR			
		< 0%	0%-<8.5%	8.5% - <11%	>=11%
O-1	20 percent of Gross Income is decreased due to cyber security frauds/ Other Frauds and Other Operational Losses	0	0	1	19
O-2	50 percent of Gross Income is decreased due to cyber security frauds/ Other Frauds and Other Operational Losses	0	1	10	9

3.2.2 Stress Test of Development Banks

The stress test results as of mid-July 2025 indicate that most of development banks are generally resilient to market-related shocks; however, greater vulnerability is observed in credit and liquidity stress scenarios, requiring enhanced risk management focus in these areas.

Standard credit shock test results reveal that under Credit Shock (C1), where 15 percent of performing loans deteriorate into Substandard, 6 national-level development banks would fall below 11 percent CAR, while 4 provincial-level development banks would fall below the regulatory minimum CAR of 10 percent. Overall, 10 development banks would fail to meet the minimum capital adequacy requirement under this scenario. In addition, 2 development banks were already below the minimum CAR threshold even before the shock.

These results indicate that credit risk remains the most critical threat, and deterioration in asset quality could significantly weaken the capital position of development banks.

Standard liquidity shock test results suggest that some development banks remain vulnerable to deposit withdrawal shocks, although conditions have improved compared to the previous period. 7 development banks would become illiquid if deposits decline by 2 percent on Day 1, 5 percent on Day 2, and 10 percent for the three consecutive days. Similarly, 10 development banks would have their net liquid assets to deposit ratio fall below the minimum requirement of 20 percent if there is a 15 percent withdrawal of deposits. Likewise, 3 development banks would fall below the minimum liquidity threshold if the largest institutional depositor withdraws funds. 3 development banks would breach the 20 percent liquidity requirement if deposits were withdrawn by the top five individual depositors.

Development banks were found to be largely resilient to market risk shocks, including interest rate, exchange rate, and equity price shocks. Even under significant exchange rate fluctuations, equity price declines of up to 50 percent, and interest rate changes of 1 to 2 percentage points, no additional development banks fall below the minimum CAR threshold, except those already below the requirement. This suggests that market risk exposure is limited and well managed across the development banks. However, solvency concerns arise primarily under severe credit shocks, reinforcing the need for stronger credit risk management practices.

3.2.3 Stress Test of Finance Companies

Stress test results based on the data of mid-July 2025 for finance companies indicate that the sector is highly vulnerable to both credit and liquidity shocks, with significant deterioration observed in capital adequacy and liquidity positions under adverse scenarios:

Standard credit shock test results reveal that under a scenario where 15 percent of performing loans deteriorate into substandard loans, most finance companies would still maintain their Capital Adequacy Ratio (CAR) above the minimum regulatory requirement of 10 percent, except for 2 Finance Companies, which were already operating below the minimum CAR prior to the stress.

Similarly, under sectoral stress, where 25 percent of real estate and housing loans deteriorate into substandard category, 7 finance companies would see their CAR fall below 10 percent. Under an even more severe condition where 25 percent of such loans deteriorate into loss category, only 2 finance companies would maintain CAR below the minimum threshold, while the remaining finance companies would experience negative capital adequacy, indicating severe solvency concerns. These results highlight that finance companies are highly exposed to credit concentration risk, particularly in real estate and housing sectors, and are significantly vulnerable to asset quality deterioration.

Standard liquidity shock test results suggest that finance companies are extremely sensitive to deposit withdrawal shocks. If deposits decline by 10 percent per day for three consecutive days, all finance companies except one would experience negative liquidity ratios, indicating a complete liquidity breakdown. Under a 5 percent deposit withdrawal scenario, most finance companies would see their liquidity ratio fall below the regulatory minimum of 20 percent, except for a few institutions. As the withdrawal rate increases to 15 percent, almost all finance companies fall below the minimum liquidity threshold.

Furthermore, concentration risk is highly evident, as the withdrawal of deposits by the top institutional depositor would cause all finance companies to fall below the minimum liquidity requirement. Similarly, withdrawal by the top five institutional depositors would push most finance companies into negative liquidity positions, with only limited exceptions of one finance company, which is not negative but below the required limit of 20 percent. In the case of top individual depositors, withdrawal by the top four depositors would also result in the majority (15) of finance companies breaching the minimum liquidity requirement, with several institutions experiencing severe liquidity stress i.e., 12 finance companies would fall into negative liquidity positions.

CHAPTER IV: NON-BANK FINANCIAL INSTITUTIONS

4.1 Cooperatives

As of mid-March 2025, the total number of cooperatives stood at 32,325, the number of members stood at 10.106 million, while the share capital stood at Rs.104.32 billion. During the review year, savings of Rs.1,029.57 billion and credit of Rs.954.48 billion were mobilized. The total number of direct employments generated in the cooperative sector stood at 82,216. Considering the expanding sphere of cooperatives in the financial system, a cooperative ordinance, 2026 has been enacted. Recently, the National Cooperative Regulation Authority has also been established for the regulation and supervision of the saving and credit cooperatives.

4.2 Insurance Companies

As of mid-July 2025, there are altogether 37 (14 Life insurance, 14 Non-Life Insurance, 2 Reinsurance, 3 Micro life insurance, and 4 Micro non-life insurance) insurance companies in Nepal. There has been a steady growth in the gross premium collection from insurance companies over time. The gross premium collection amount increased by 14.71 percent to Rs. 227.18 billion in the review year. The premium-to-GDP ratio increased to 3.72 percent, reflecting the rising significance of the insurance sector in the financial system and its growth outpacing that of the overall economy. The percentage of the population covered by life insurance has increased to reach 48.33 percent during the review year. The insurance density (Rs. Per capita) increased by 14.71 percent to Rs 7,396.17 in mid-July 2025. The insurance density represents the average insurance premium paid per person in a given year, reflecting deeper insurance market penetration. Gross claims paid by insurance companies increased by 24.75 percent to Rs.104.24 billion in the review year. The number of licensed surveyors has increased steadily, aligning with the sector's growth and demand for risk assessment and claims evaluation. The number of agents shows consistent growth, mirroring the sector's expansion and its push to reach more customers. Employment in the insurance sector is growing, which correlates with the overall expansion of the industry. The number of branches has also increased over the years, indicating improving financial inclusion.

Table 4.1: Key Indicators of the Insurance Sector

Indicators	mid-July 2024	mid-July 2025
Gross Premium Collection (Rs. Billion)	198.05	227.18
Growth (Percent)	8.23	14.71
Gross Premium to GDP	3.47	3.72
Life Insurance Coverage (Percent)	43.27	48.33
Insurance Density (Rs. per Capita)	6,447.46	7,396.17
Gross Claim paid (Rs. Billion)	83.56	104.24
Surveyors	1,249	1,311
Agent	329,572	404,564
Employment	11,951	12,336
Branches	2,984	2,994

Source: Nepal Insurance Authority

4.2.1 Total Assets, Equity and Liabilities of Life and Non-life Insurance Companies

As of mid-July 2025, the total assets of life insurance companies stood at Rs.937.60 billion, which was Rs.801.54 billion a year ago. Similarly, the total assets of non-life insurance companies increased to Rs.150.23 billion in mid-July 2025. Similarly, the combined total assets of both life and non-life insurance companies increased by 16.35 percent to Rs.1,087.83 billion during the review period. The total assets of non-life insurance companies increased by 12.57 percent, whereas the total assets of life insurance companies increased by 16.98 percent.

Table 4.2: Total Assets, Equity and Liabilities of Life and Non-Life Insurance Companies

Indicators	Life		Nonlife	
Amount in NRs. 10 million	mid-July 2024	mid-July 2025	mid-July 2024	mid-July 2025
Goodwill and Intangible Assets	16.42	21.93	42.84	43.93
Property and Equipment	468.19	533.63	444.14	546.15
Investment Properties	212.48	309.99	40.57	62.33
Deferred Tax Assets	251.63	203.53	56.71	60.02
Investment and Loans	74,221.10	84,895.25	7,980.62	8,055.32
Reinsurance Assets	13.43	16.55	2,890.60	3,693.71
Other Assets	2,965.67	4,475.63	1,624.14	2,107.75
Cash and Cash Equivalent	2,004.72	3,303.25	266.32	454.27
Total Assets	80,153.62	93,759.77	13,345.93	15,023.48
Share Capital	5,850.51	6,806.16	2,569.99	2,702.15
Reserves and other funds	2,958.66	2,913.30	4,840.33	4,931.57
Total Equity	8,809.18	9,719.46	7,410.32	7,633.72
Provisions	206.06	137.58	273.75	481.17
Gross Insurance Contract Liabilities	68,569.08	81,303.34	4,474.45	5,429.87
Deferred Tax Liabilities	153.53	210.90	38.50	31.61
Other Liabilities	2,415.78	2,388.49	1,148.93	1,447.11
Total Liabilities	71,344.45	84,040.30	5,935.62	7,389.76
Total Equity and Liabilities	80,153.62	93,759.77	13,345.93	15,023.48

Source: Nepal Insurance Authority

4.2.2 Total Assets, Equity and Liabilities of Micro Insurance Companies

Micro-insurance companies are established to provide services to the low-income group. As of mid-July 2025, there are seven micro insurance companies (three life and four non-life) are operating in Nepal. The total assets of the micro life insurance companies increased to Rs.2.87 billion in mid-July 2025. Similarly, the total assets of the micro non-life insurance companies increased to Rs.3.25 billion in mid-July 2025. The combined total assets of both micro life and micro non-life insurance companies increased by 44.54 percent to Rs.6.13 billion in the review year. Likewise, the total assets of micro non-life insurance companies increased by 30.21 percent, whereas that of micro life insurance companies increased by 65.09 percent during the review period.

Table 4.3: Total Assets, Equity and Liabilities of Micro life and Micro Non-life Insurance

Indicators	Micro Life		Micro Non-life	
Amount in Rs. 10 million	mid-July 2024	mid-July 2025	mid-July 2024	mid-July 2025
Goodwill and Intangible Assets	0.46	0.41	2.89	2.88
Property and Equipment	8.41	7.54	13.94	14.56
Investment Properties	-	-	-	-
Deferred Tax Assets	-	1.20	0.01	1.17
Investment and Loans	157.12	229.31	201.03	249.71
Reinsurance Assets	0.26	0.35	9.45	39.38
Other Assets	2.46	37.88	8.37	8.60
Cash and Cash Equivalent	5.39	10.73	14.04	8.86
Total Assets	174.09	287.41	249.72	325.15
Share Capital	157.50	202.50	210.00	232.50
Reserves and other Funds	2.22	11.14	3.36	2.85
Total Equity	159.72	213.64	213.36	235.35
Provisions	0.10	1.53	0.22	0.86
Gross Insurance Contract Liabilities	8.65	62.70	13.58	61.93
Deferred Tax Liabilities	0.10	-	0.05	0.23
Other Liabilities	5.52	9.54	22.51	26.78
Total Liabilities	14.37	73.76	36.36	89.80
Total Equity and Liabilities	174.09	287.41	249.72	325.15

Source: Nepal Insurance Authority

4.2.3 Total Assets, Equity and Liabilities of Reinsurance Companies

As of mid-July 2025, two reinsurance companies are operating in Nepal. The total assets of reinsurance companies increased by 9.96 percent to reach Rs.59.26 billion, which was 53.89 billion a year ago.

Table 4.4: Total Assets, Equity, and Liabilities of Reinsurance Companies

Indicators	Reinsurance	
Amount in Rs. 10 million	mid-July 2024	mid-July 2025
Goodwill and Intangible Assets	4.06	2.98
Property and Equipment	64.66	66.49
Investment Properties	0.00	0.00
Deferred Tax Assets	18.80	44.64
Investment and Loans	3,775.31	4,168.69
Reinsurance Assets	318.76	329.55
Other Assets	1,131.98	1,180.16

Cash and Cash Equivalent	75.18	133.19
Total Assets	5,388.76	5,925.71
Share Capital	2,382.22	2,429.02
Reserves and other Funds	1,102.03	1,303.57
Total Equity	3,484.25	3,732.59
Provisions	101.30	147.76
Gross Insurance Contract Liabilities	1,528.90	1,680.58
Deferred Tax Liabilities	0.00	0.00
Other Liabilities	274.30	364.77
Total Liabilities	1,904.51	2,193.12
Total Equity and Liabilities	5,388.76	5,925.71

Source: Nepal Insurance Authority

Nepal Insurance Authority continued to play an increasingly important role during fiscal year 2024/25 in strengthening Nepal's insurance sector and supporting the broader stability of the financial system. Following the implementation of the new insurance act and subsequent regulatory reforms, the Authority focused on strengthening prudential supervision, improving policyholder's protection mechanisms, promoting digital and inclusive insurance services, and enhancing the resilience of insurers through risk-based regulation. These reforms have collectively contributed in enhancing public confidence in the insurance industry, strengthening market discipline, improving risk management practices, and preserving overall financial stability.

4.3 Citizen Investment Trust

Citizen Investment Trust[4] (CIT) was established under the Citizen Investment Trust Act, 1991 and it has been formally operating its activities since 1992. It operates and manages various types of retirement/pension schemes and programs, as well as various unit schemes and mutual fund programs for both domestic and foreign investors.

As of mid-July 2025, fund collection of CIT stood at Rs.266.65 billion, recording a growth of 17.55 percent from Rs.226.83 billion in mid-July 2024. Regular fund collection from members is the major source of funds for CIT, which is almost 84 percent of the total funds available. Loans to members and fixed deposit investments are the major segments of its fund mobilization. CIT has placed Rs.157.75 billion as fixed deposits in commercial banks and invested Rs.9.33 billion in bonds and treasury bills issued by the Government of Nepal. Likewise, CIT has invested Rs.42.07 billion in the shares and debentures of different institutions. Similarly, loans and advances extended by CIT amounted to Rs.87.08 billion as of mid-July 2025.

Accumulation of funds due to low demand for funds and the falling interest rates on fixed deposits has created the challenge for CIT in recent days. This has reduced the earnings from the CIT's investment portfolio, impacting its overall profitability. Also, the high concentration of investments of CIT within the banking sector further increases the interconnectedness of the financial system.

4 https://www.nlk.org.np/

Table 4.5: Key Indicators of Citizens Investment Trust

Indicators	Rs. Billion	
	mid-July 2024	mid-July 2025
Sources of Funds		
Paid-Up Capital	6.06	6.48
Reserve Fund	19.45	20.04
Fund Collection	226.83	266.65
Other Liabilities	55.97	25.10
Total	**308.31**	**318.27**
Uses of Fund		
Cash and Bank Balances	12.28	4.71
Investments	**169.29**	**209.15**
a) Fixed Deposit	129.50	157.75
b) Government Bonds & Treasury Bills	0.50	9.33
c) Shares and Debentures	39.28	42.07
Loans and Advances	74.68	87.08
Fixed Assets and Assets in WIP	2.22	2.20
Other Assets	49.84	15.13
Total	**308.31**	**318.27**

Source: CIT

4.4 Employees Provident Fund

Employees Provident Fund (EPF) was established under the Employees Provident Fund Act, 2019, and manages the Provident Fund in Nepal on behalf of the Government of Nepal for government, public enterprises, and private-sector employees. It has been entrusted to manage the contributory pension scheme for the employees of the Federal Government of Nepal and other public sector employees appointed from the fiscal year 2019/20 as per the Pension Fund Act, 2019. Total assets of EPF increased by 8.88 percent during the review year to Rs.624.97 billion in mid-July 2025. Funds collected by the EPF grew by 8.62 percent to Rs.563.15 billion in mid-July 2025. General reserves and other reserves stood at Rs.39.79 billion.

Table 4.6: Key Indicators of Employees Provident Fund

Indicators	Rs. Billion	
	mid-July 2024	mid-July 2025
Sources of Fund		
Provident Fund	518.48	563.15
Pension Fund	11.22	15.97
General Reserve and Other Reserves	38.48	39.79
Liabilities	1.78	2.04

Provisions	4.06	4.02
Total	**574.02**	**624.97**
Uses of Fund		
Cash and Bank	18.25	17.93
Investment in Government Savings Bonds	-	
Investment in Government Debt Bonds	1.05	38.33
Investment in Fixed Deposit	167.9	155.43
Investment in Equity Shares	25.21	29.03
Investment in Debentures	6.09	6.5
Project Loan	87.32	87.22
Lending to Contributors	262.5	282.88
Staff Loan and Advances	2.32	2.5
Investment Properties	0.88	0.96
Property, Plant and Equipment	0.76	1.11
Assets Under Construction	0.25	0.03
Miscellaneous Assets	1.49	3.05
Total	**574.02**	**624.97**
Loan and Investment to Total Fund Ratio	0.96:1	0.96:1

Source: Employees Provident Fund

4.5 Social Security Fund

Social Security Fund (SSF), established under the Contribution-Based Social Security Act, 2017, serves as Nepal's principal mandatory social security provider for formal sector workers, self-employed individuals, and migrant laborers.

The Social Security Fund (SSF) continues to play a pivotal role in the national social protection framework, executing social insurance policies for its expanding membership. SSF mobilizes contributions from employers and employees to provide a comprehensive suite of benefits covering medical treatment, maternity and health protection, accident and disability coverage, dependent family protection, and old-age pension entitlements. The fund's resources are derived from three primary channels: contributions from formal, informal, and migrant members; the national welfare fund; and the social security tax.

As of mid-July 2025, the total size of the fund stood at Rs.121.60 billion representing a growth of 24 percent. The formal scheme fund remains the anchor of the SSF, contributing Rs. 70.92 billion. This segment is expected to be a primary driver of growth in the review year as mandatory integration for migrant workers has scaled up in SSF. Similarly, national level welfare fund stood at Rs.27.98 billion, providing a substantial buffer for the fund's long-term liabilities. The accumulated profit reached Rs.20.26 billion, indicating healthy returns on its investment portfolio despite a challenging macroeconomic environment.

Table 4.7: Key Indicators of Social Security Fund

Indicators	(Rs. Billion)	
	mid-July 2024	mid-July 2025
Sources of Fund		
Employees Facility Related Liability	0.068	0.087
Social Security Related Liability	0.260	0.315
Loan and other or liabilities	0.115	0.241
Formal Scheme Fund	52.859	70.922
Migrant Employee Fund	2.110	1.325
Informal and Self-Employed Fund	0.004	0.006
National Welfare Fund	26.907	27.977
Social Security Tax Fund	0.470	0.470
Accumulated Profit/ (loss)	15.277	20.262
Total Sources of Fund	**98.070**	**121.604**
Uses of Fund	20.354	5.145
Cash and Cash Equivalents	66.150	62.739
Placement with Bank and Financial Institutions	1.455	2.806
Other Assets	3.916	6.998
Loan to Contributors	6.117	43.589
Investment on securities	0.077	0.327
Property, Plant and Equipment	-	-
Total Uses of Fund	**98.070**	**121.604**

Source: Social Security Fund

4.6 Hydroelectricity Investment and Development Company Limited

Hydroelectricity Investment and Development Company Limited (HIDCL), a state-owned enterprise, is primarily focused on mobilizing funds for investments in hydroelectricity generation, transmission, and distribution projects.

During the review year, the reserves showed an uptick by 8.77 percent, reaching Rs.3.47 billion. The total sources of funds increased by 7.34 percent to Rs.28.53 billion during the period. However, loans extended to hydro-power projects increased by 1.1 percent and stood at Rs.7.35 billion as of mid-July, 2025. Out of the total fund of HIDCL, 52.06 percent was held as term deposits in banks, which stood at Rs.14.85 billion at the end of the review year.

Table 4.8: Sources and Uses of Funds - (HIDCL)

Indicators	Rs. Billion		Percent Change
	mid-July 2024	mid-July 2025	
Sources of Fund	**26.58**	**28.53**	7.34
Share Capital	22.87	24.56	7.38
Reserves	3.19	3.47	8.77
Current Liabilities	0.45	0.21	(53.33)
Non-Current Liabilities	0.07	0.30	328.57
Uses of Fund	**26.58**	**28.53**	7.34
Cash and Bank Balance	1.15	1.98	72.17
Term Deposits with Banks	13.78	14.85	7.76
Other Current Assets	0.08	0.05	(37.5)
Loan to Power Projects	7.27	7.35	1.1
Investment in Equity	4.15	4.23	1.9
Investment in Corporate Bonds	0.08	-	(100.00)
Other Non-Current Assets	0.07	0.06	(14.28)

Source: Financial Report of HIDCL

4.7 National Cooperative Bank Limited

National Cooperative Bank Limited (NCBL) was established on 9th July 2003 as per Section 26 (5) of the Cooperative Act, 1992 (First Amendment, 2000). NCBL obtained its license from NRB to conduct limited banking activities on 26th July 2010. Since then, NCBL has been providing financial services, including accepting deposits from and providing loans to its member cooperatives.

NCBL operates through its 68 branch offices spread across 37 districts. Out of its 16,426 member cooperatives, 1,332 (8.1%) cooperatives availed loans from NCBL.

Table 4.9 Sources and Uses of Funds - (NCBL)

Indicators	Rs. Billion		Percent Change
	mid-July 2024	mid-July 2025	
Uses of Funds	**64.66**	**50.71**	(21.56)
Cash and Cash Equivalent	19.04	13.05	(31.46)
Deposit at NRB	0.33	0.27	(15.77)
Fixed Deposit at BFIs	13.37	13.95	4.34
Loans and Advances to cooperatives	22.24	15.04	(32.35)
Investment in Securities	6.30	4.19	(33.43)
Tax Assets	0.37	0.25	(33.79)
Investment in Assets	1.11	1.52	36.73
Property and Equipment	0.58	0.52	(10.54)

Goodwill and Other Assets	0.00	0.01	213.17
Deferred Tax Assets	0.59	0.84	41.74
Other Assets	0.72	1.06	48.08
Sources of Fund	64.66	50.71	(21.56)
Share Capital	2.79	2.89	3.67
Retained Earnings	(3.40)	(4.28)	25.89
Reserves and Surplus	3.68	4.52	23.06

Source: NCBL Financials

During the review year, deposits from member cooperatives decreased by 22.96 percent to Rs.47.06 billion. Similarly, loans extended to member cooperatives declined sharply by 32.35 percent to Rs.15.04 billion. Additionally, retained earnings further deteriorated to a negative figure of Rs.4.28 billion.

Table 4.10: Key Financial Indicators of NCBL

Indicators (Percent)	mid-July 2024	mid-July 2025
Core Capital to Risk-Weighted Assets Ratio	2.44	0.34
Capital Adequacy Ratio	3.35	0.82
Loan Loss Provisioning	4.27	5.16
Credit to Deposit Ratio	36.41	31.97
Non-Performing Loans (NPL to Total Loan Ratio)	25.54	33.01
Net Interest Income	1.16	1.57
Net Profit (Loss)	(1.67)	(0.01)
Liquidity Ratio	53.61	57.98

Source: NCBL Financials

The financial condition of NCBL declined during the review year. Loan loss provisioning surged from Rs. 4.27 billion to Rs.5.16 billion, reflecting a deterioration of asset quality. As of mid-July 2025, 33.01 percent of total loans are classified as non-performing, an increase from 25.54 percent in the previous fiscal year.

The credit-to-deposit ratio declined from 36.41 percent to 31.97 percent. Whereas, the net interest income stands at Rs.1.57 billion. Furthermore, NCBL reported a net loss of Rs.0.01 billion compared to a net loss of Rs.1.67 billion in the previous fiscal year. The decline in profitability, coupled with the rise in loan loss provisioning, has severely affected NCBL's capital position. The capital adequacy ratio dropped to 0.82 percent; likewise, the core capital to risk-weighted assets ratio decreased to 0.34 percent, which indicates the deteriorating financial health.

4.8 Remittance Companies and Money Changers

4.8.1 Remittance Companies

Remittance companies in Nepal are licensed by Nepal Rastra Bank under the provisions of the Foreign Exchange (Regulation) Act, 1962 and the Nepal Rastra Bank Act, 2002, which grants the central bank the authority to formulate and enforce bylaws governing remittance operations. In this context, remittance services are regulated in accordance with the Nepal Rastra Bank Remittance Bylaws, 2023 (Including First

Amendment). These companies collaborate with foreign partners to facilitate inward remittance flows into Nepal. As of mid-July 2025, a total of 24 remittance companies are licensed by Nepal Rastra Bank.

Table 4.11: Financial Indicators of Remittance Companies

Indicators*	Rs. Billion		Percent Change
	mid-July 2024	mid-July 2025	
Paid-Up Capital	3.07	3.69	**20.19**
Assets	10.63	16.38	**54.09**
Revenue	2.74	3.12	**13.86**
Expenses	2.19	2.30	**5.02**
Reserves	1.73	1.57	**(9.24)**

Source: Financial Reports of Remittance Companies

** Aggregate data of the remittance companies that carried out transactions during the review year*

The total paid-up capital of the remittance companies increased by 20.19 percent to Rs.3.69 billion during the review year. On the other hand, the aggregate revenue and expenses increased to Rs.3.12 billion and Rs.2.30 billion, respectively. On the other side, the reserves stood at Rs. 1.57 billion as compared to Rs.1.73 billion in the previous fiscal year

Region-wise Remittance Inflows

The share of remittance companies in total remittance inflows stood at around 58% in the review year (*the review year is assumed from July 2024 to June 2025)*. The remaining amount is transferred through BFIs. The total remittance inflows during the review year amounted to USD 12.82 billion, a 10.70 percent increase compared to the previous fiscal year. The Asia Pacific region, including India, and the Middle East region are the largest sources of remittance inflows. Ongoing geopolitical tensions and conflicts, particularly in Middle East, create both risks and migration-driven support to these flows.

Disbursement through Sub-agents

Remittance companies are allowed to appoint sub-agents to distribute remittances to beneficiaries. As of mid-July 2025, remittance companies disbursed remittances through 6,993 sub-agents located throughout the country. Bagmati Province had the greatest number of sub-agents, whereas Karnali Province had the least number of sub-agents.

4.8.2 Money Changers

Money changers are licensed to exchange Indian Rupees (INR) and convertible foreign currencies (CFCs). A three-year renewable license is provided through both the Foreign Exchange Management Department and the seven Provincial offices of NRB. As of mid-July 2025, a total of 308 money changers are operational inside and outside the Kathmandu valley. The three types of license provided are:

(i) Purchase and sale of INR (Minimum required paid-up capital of Rs.1 million)
(ii) Purchase of CFC (Minimum paid-up capital of Rs.1.5 million)
(iii) Conduct both (i) and (ii) (Minimum paid-up capital of Rs.2 million)

Table 4.12: Details of Licensed Institutions

Licensing Office	Buy CFC Only	INR Buy & Sale	Both (INR & CFC)	Total
FEMD	127	-	14	141
Biratnagar	1	57	0	58
Janakpur	-	5	3	8
Birgunj	4	7	2	13
Pokhara	34	-	-	34
Siddharthanagar		41	2	43
Nepalgunj	-	9	0	9
Dhangadi	-	2	-	2
Total	**166**	**121**	**21**	**308**

Source: Licensed Entities by NRB published by FOREX

4.9 Hire Purchase Companies

As of mid-July 2025, 10 hire purchase companies operated to extend loans and advances. During the review year, the total loans and advances extended by the hire purchase companies stood at Rs.25.87 billion, an increase of 27.9 percent as compared to previous fiscal year. Similarly, borrowings from banks and financial institutions increased by 38.6 percent to Rs.17.69 billion. These borrowings are utilized to fund the hire purchase loans provided by these companies.

Table 4.13: Sources and Uses of Funds - (Hire Purchase Companies)

Indicators	Rs. Billion		
	mid-July 2024	mid-July 2025	Percent change
Sources of Fund	**22.28**	**29.97**	
Share Capital	3.70	3.87	4.60
Reserves and Surplus	2.73	3.41	24.90
Borrowings	12.76	17.69	38.60
Other Liabilities	3.09	5.00	61.80
Uses of Fund	**22.28**	**29.97**	
Cash and Bank	0.66	0.54	(18.2)
Loan and Advances	20.22	25.87	27.90
Fixed Assets	0.36	0.36	-
Other Assets	1.04	3.2	-

Source: Financial Reports of Hire Purchase Companies

CHAPTER V: FINANCIAL MARKETS

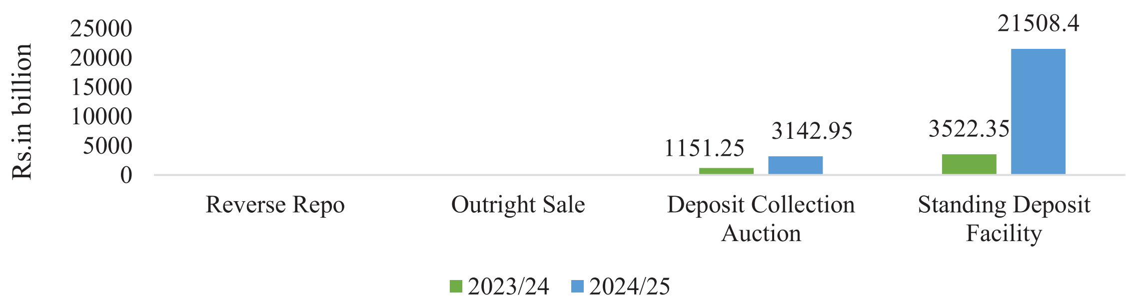
5.1 Domestic Financial Markets

5.1.1 Money Markets

Liquidity absorption was done mainly through the standing liquidity facility in the review year. NRB monitors and stabilizes the short-term interest rate of the banking system through monetary management instruments such as repo, reverse repo, outright purchase, outright sale, and deposit collection along with the interest rate corridor influencing market interest rate through its policy rate. In the review year, NRB absorbed, a total liquidity of Rs.24,651.35 billion including Rs.21,508.40 billion through standing deposit facility (SDF) and Rs.3,142.95 billion through deposit collection auction. Meanwhile, the NRB injected Rs.2.7 billion liquidity through Overnight Liquidity Facility (OLF). Consequently, a net liquidity amount of Rs. 24,648.65 billion was absorbed through various instruments in the review year. Likewise, in the review year, NRB injected liquidity of Rs.787 billion through the net purchase of USD 5.83 billion from foreign exchange market. Liquidity of Rs.783.47 billion was injected through the net purchase of USD 5.89 billion in the previous year.

Figure 5.1: Liquidity Absorption

Figure 5.2: Liquidity Injection



Source: Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal, July 2025

5.1.2 Capital Markets

Capital market plays vital role to effectively mobilize scattered savings, manage liquidity, and diversify risk. It supports strengthening economic growth and creating a more resilient financial system in the country. The Government of Nepal (GoN) has prioritized the securities markets as an essential medium for capital accumulation, aiming to achieve economic growth and sustainable development goals.

The Government of Nepal established Securities Board of Nepal (SEBON) on June 7, 1993 as an apex regulator of Securities Markets. It has been regulating the market under the Securities Related Act, 2006. As per the Securities Related Act, 2006, SEBON's mandate is to regulate and manage the activities of the securities markets and persons involved in securities business by regularizing the issue, purchase, sale and exchange of securities in order to develop capital market and to protect the interests of investors. SEBON is also mandated to regulate commodities exchange market after the enactment of Commodities Exchange Market Act, 2017. The GoN has created necessary legal and institutional arrangements for the systematic, transparent, efficient, stable, and fair operation of these markets. SEBON administers the legal provisions by regulating and supervising the market participants and securities market activities.

5.1.2.1 Nepalese Securities Markets Ecosystem

Securities markets play an important role in promoting economic activity worldwide by providing a mechanism for efficient mobilization of scattered savings, liquidity management and risk diversification. The GoN has prioritized the securities markets and has recognized it as an important medium for capital accumulation for achieving the sustainable development goal. Nepalese securities market is in growing phase. In recent years, there has been an extensive increase in the scope, access and participation in the Nepalese securities market. In the review period, the number of market participants reached 753, that are regulated and supervised by SEBON. Amongst them, merchant banker, Mutual fund, listed companies, and depository participants have increased in number in the fiscal year 2024/25. The details of securities market participants are exhibited in Table 5.1.

Table 5.1: Securities Market Participants

Participants	mid-July 2024	mid-July 2025
Stock Exchange	1	1
Central Depository Company	1	1
Stockbrokers	90	90
Merchant Bankers	29	32
Mutual Fund Managers	20	24
Credit Rating Agencies	3	3
Listed Companies	270	272
Depository Participants	109	122
ASBA BFIs	43	43
Qualified Institutional Investors	150	150
Stock Dealers	2	2
Specialised Investment Fund Managers	12	13
Total	**730**	**753**

Source: Securities Board of Nepal and Nepal Stock Exchange Ltd.

5.1.2.2 Primary Market

Primary market plays an important role in mobilizing investable capital through the issuance and sale of securities directly by issuers, with the proceeds accruing to the issuer. This market is a source of new securities and resources where private and government companies manage long-term funds through the issue of debt-based or equity-based securities.

The primary market helps channel the funds from the surplus areas to the productive investment sector. Merchant Bankers, ASBA BFIs, CDS and Clearing Limited (CDSC), and Qualified Institutional Investors (QIIs) play key roles in the functioning of primary markets. In the fiscal year 2024/25, funds of Rs.62.07 billion were mobilized via the primary market. The total fund mobilization decreased by 1.35 percent in the review period compared to the previous year. Similarly, Rs.6.5 billion in scheme funds were mobilized by specialized investment funds. This has helped to expand the scope of Nepalese securities market.

The details of fund mobilization through primary market and the specialized fund for the last two fiscal years are presented in Table 5.2.

Table 5.2: Primary Market

Particulars (Rs. Billion)	mid-July 2024		mid-July 2025	
	No.	Amt.	No.	Amt.
Initial Public Offerings	7	35.51	15	3.93
Right Offerings	7	7.64	17	15.41
Further Public Offerings	3	0.034	5	1.55
Debentures	4	15.04	9	25.30
Mutual Fund Schemes	6	4.7	10	15.88
Total	**27**	**62.92**	**56**	**62.07**
Specialized Investment Fund Schemes	4	20	4	6.5

Source: Securities Board of Nepal

5.1.2.3 Secondary Market

Secondary market is another important part of capital market in which previously issued financial instruments such as stock, bonds, options, and futures are traded. In the fiscal year 2024/25, the number of listed companies reached 272, average daily turnover increased by 186.72 percent, total turnover increased by 189.23 percent, NEPSE index increased by 24.75 percent, and market capitalization increased by 31.05 percent.

Table 5.3: Secondary Market

Particulars	Unit	mid-July 2024	mid-July 2025	Percentage Change mid-July 2024	Percentage Change mid-July 2025
No. of Listed Companies	Number	270	272	6.30	0.74
No. of Listed Securities	Number in 10 million	832.25	882.25	12.66	6
Total Paid-Up Capital of Listed Securities	Rs in billion	825.05	869.86	13.18	5.97
Turnover	Rs in billion	734.68	2124.92	57.28	189.23
Trading Days	Days	229	231	-2.09	0.87
Average Daily Turnover	Rs in 10 million	320.82	919.88	62.09	186.72
No. of Securities Traded	Number in 10 million	205.22	484.49	60.68	136.08
No. of Transactions	Number	14,795,645	22,235,207	71.15	50.28
Market Capitalization	Rs in billion	3553.68	4656.99	15.28	31.05
Float Market Capitalization	Rs in billion	1215.43	1591.97	11.65	30.98
Turnover/Market Capitalization	Annual Percentage	20.67	45.63	36.44	120.75
Turnover/Float Market Capitalization	Annual Percentage	60.45	133.48	40.88	120.81
NEPSE Index	Points	2240.41	2794.79	6.83	24.75
NEPSE Float Index	Points	152.62	193.27	5.28	26.64

Source: Nepal Stock Exchange Ltd

5.1.2.4 Inclusion and Participation in Securities Markets

The participation of general investors in the securities market has increased significantly. Securities market transactions have become more technology-friendly, which has also played a vital role in increasing market participation and transaction volume. During the review year, around 6.99 million investors participated in securities markets through their own Dematerialized (DEMAT) accounts. On a provincial basis, the highest number of DEMAT accounts were opened in Bagmati Province (35.9 percent), whereas 2.64 percent of DEMAT accounts were opened in Karnali Province, which is the lowest. Similarly, 4.25 million investors were involved in trading activities in the secondary market, of which 2.73 million were online investors.

Table 5.4: Status of Province-wise DEMAT Account

Province	No. of DEMAT accounts
Koshi	1,317,172
Madesh	825,171
Bagmati	2,511,195
Gandagi	893,869
Lumbini	827,789

Karnali	185,005
Sudurpaschim	435,307

Source: CDS and Clearing Ltd, Tables as of as of mid-July, 2025

Table 5.5: Investors Participation in Securities Markets

Particulars	mid-July 2024	mid-July 2025
DEMAT Account Holders	6,395,000	6,997,000
MERO Share Accounts	5,369,000	5,976,000
No. of Investors in Secondary Markets	3,782,720	4,248,469
Online Users	2,258,410	2,735,590
Active Investors	2,116,222	2,505,031

Source: Nepal Stock Exchange Ltd and CDS and Clearing Ltd

5.1.2.5 Commodity Derivatives Markets

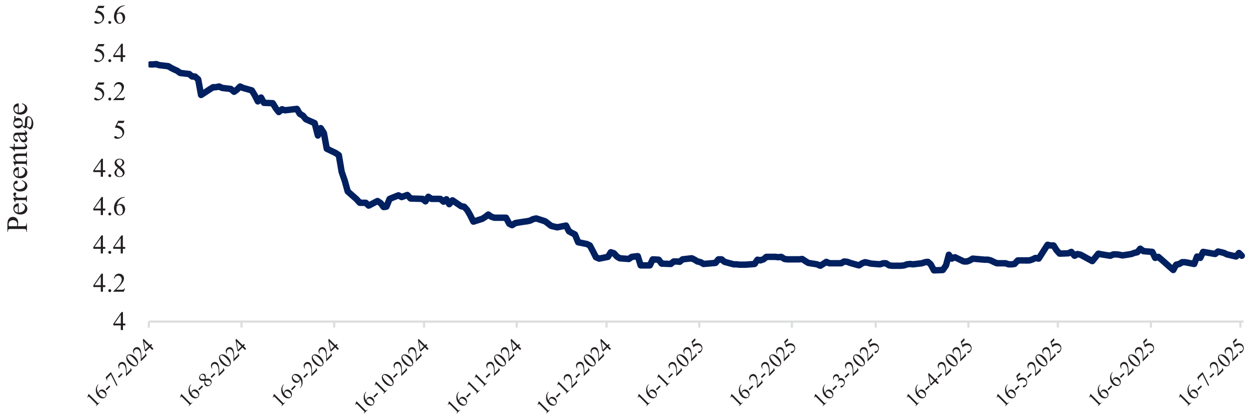
The Commodity Exchange Act, 2017, has assigned regulatory responsibility of the commodity derivatives markets to SEBON. SEBON formulated and implemented the Commodity Market Regulations, 2017, using the powers conferred by the Act. During the year 2021, the "Directives Related to Policy and Procedures to Issue License to Commodity Derivatives Exchange, 2021" was also implemented. SEBON issued a public notice for interested corporate bodies to submit applications for the operation of a commodity derivatives exchange in Nepal as per the prevailing laws. A study conducted by the external expert has recommended SEBON for providing licenses to two companies, considering the nation's economy, industrial development, and the scope of commodity derivatives trading in Nepal. Likewise, following the SEBON's notice, four companies have applied for pre-approval to establish the Commodity Derivatives Exchanges. The Board of SEBON has formed a committee to work on vetting the application. The process of granting a commodity derivatives exchange license is underway. It is expected that with the licensing of commodity derivatives exchanges and intermediaries, including the necessary market infrastructures, the investors will facilitate hedging, price discovery, and arbitrage of contracts of the underlying commodities.

5.2 Foreign Exchange Market

5.2.1 US Government Treasuries

Yield on three-month US Treasury Bills has decreased in the review period. The yield on three-month T-bills stood at 5.342 percent in mid-July 2024 decreased to 4.343 percent in mid-July 2025. The average yield on three-month T-bills remained 4.53 percent which was 5.41 percent in the same period of the previous year. The highest yield of 5.344 percent was recorded on July 18, 2024 and the lowest yield of 4.268 percent on 04 May 2025.

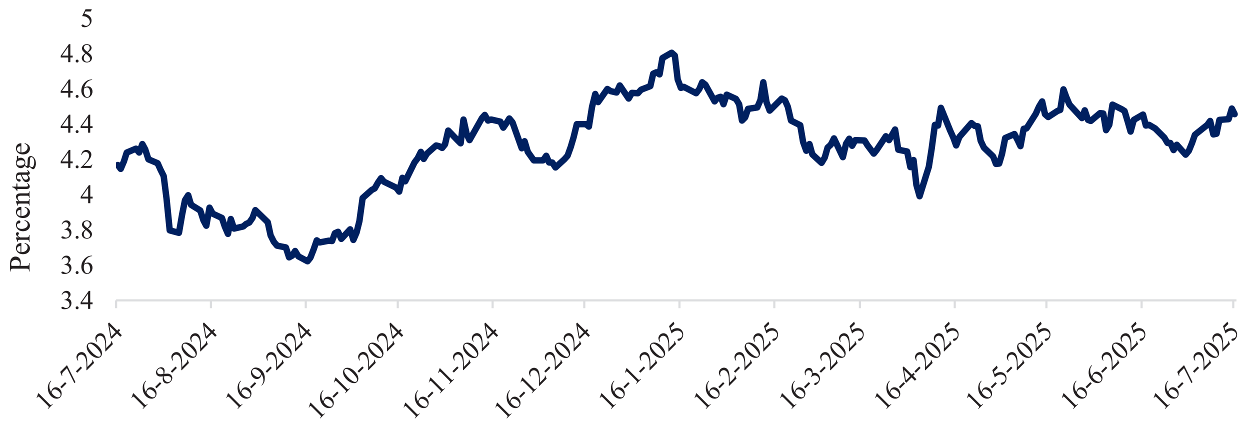
Figure 5.3: Daily Yield on 3-Month US T-Bills



Source: Refinitiv

Yield on long-term securities has increased in the review period. The average yield on 10-year US Government Bond stood at 4.455 percent which was 4.167 percent in the same period of the previous year. During the review year, the highest yield was 4.805 percent on January 13, 2025 and the lowest yield of 3.621 percent was on September 16, 2024.

Figure 5.4: Daily Yield on 10-Year US Government Bond

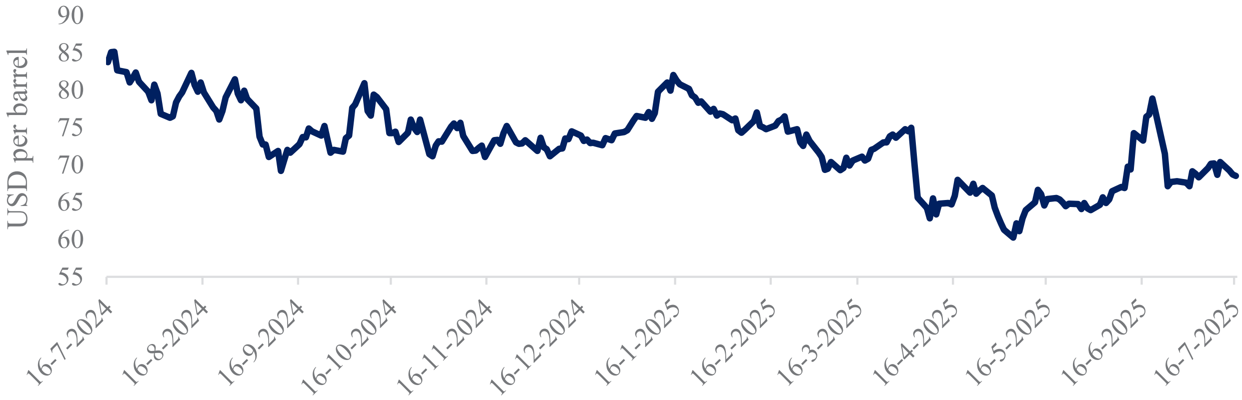


Source: Refinitiv

5.2.2 Crude Oil

Brent crude oil price, the international benchmark, which was trading at US Dollar 83.73 per barrel in mid-July 2024 decreased to US Dollar 68.52 per barrel in mid-July 2025. During the review year, crude oil traded from US Dollar 60.23 to US Dollar 85.11 per barrel. Crude oil price stood highest at US Dollar 85.11 per barrel on July 18, 2024 and the lowest at US Dollar 60.23 on May 05, 2025.

Figure 5.5: Brent Crude Oil Price

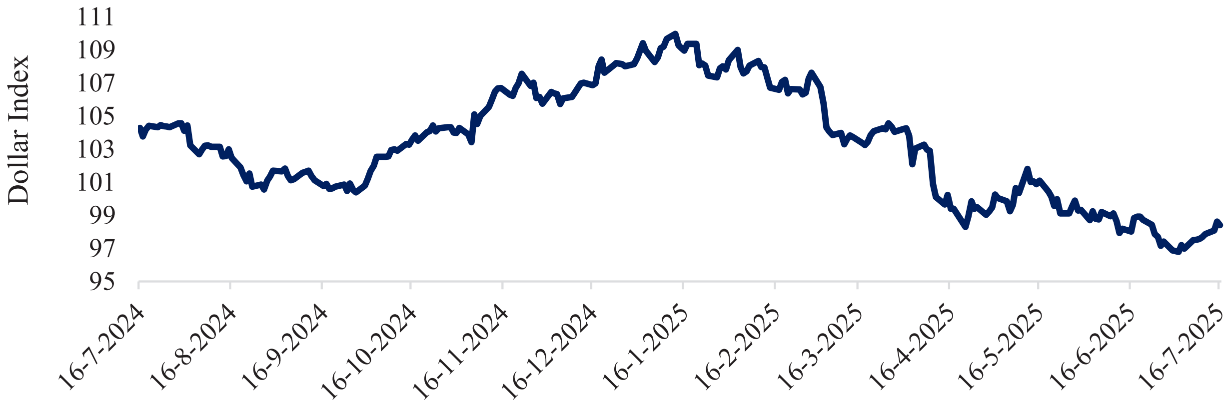


Source: Refinitiv

5.2.3 Dollar Index

The US Dollar Index is an index measure of the value of the United States Dollar relative to a basket of foreign currencies including Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swedish Krona and Swiss Franc. During the review year, the US Dollar index recorded the highest value of 109.956 in January 13, 2025 and the lowest value of 96.776 in July 02, 2025. The index, which was 104.27 in mid-July 2024, has decreased to 98.392 in mid-July 2025.

Figure 5.6: Movement of US Dollar Index

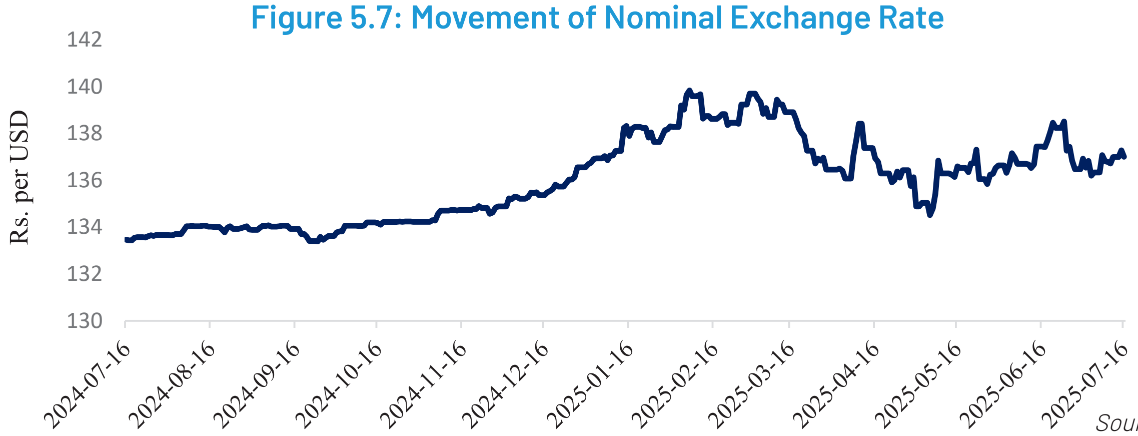


Source: Refinitiv

5.2.4 Dollar-Rupee Exchange Rate

The Nepalese currency depreciated by 2.65 percent against the US dollar during fiscal year 2024/25, compared to a depreciation of 1.64 percent in the corresponding period of the previous year. The exchange rate of one US Dollar stood at Rs.137 in mid-July 2025 compared to Rs.133.46 in mid-July 2024.

Figure 5.7: Movement of Nominal Exchange Rate



Source: Refinitiv

CHAPTER VI: FINANCIAL INFRASTRUCTURES

6.1 Payment Systems

6.1.1 Nepal's Payment Systems

Nepal's digital landscape has seen remarkable growth and adoption over the past decade, transitioning from traditional, physical transactions to technology-infused financial transformations. The transformation of Nepal's payment system is largely driven by the National Payment Systems Development Strategy (NPSDS) formulated in 2014. This strategy, aligned with the NRB Act, 2002, aims to develop a secure, efficient, and healthy payment system. The Payment and Settlement Act, 2019, also based on the NPSDS, mandates that entities wishing to operate payment services must obtain a license from NRB. The Payment Systems Department (PSD) is responsible for issuing licenses of Payment System Operators (PSOs) and Payment Service Providers (PSPs) and overseeing their activities. As of mid-July, 2025, there are nine institutions licensed as Payment System Operators (PSOs) and 23 institutions licensed as Payment Service Providers (PSPs). Additionally, all 20 commercial banks, all 17 development banks, 15 finance companies, and 11 microfinance financial institutions have been licensed as PSPs by NRB.

The COVID-19 pandemic acted as a catalyst for the accelerated adoption of digital payment solutions, driven by the rising demand for contactless transactions. This led to innovations such as Quick Response (QR) codes, connectIPS (Instant Payment System), Cardless Withdrawal, Smart Point-of-Sale (POS), Contactless Cards based on Near-Field Communication (NFC) technology, Virtual Cards, and Digital Lending. Financial literacy plays a crucial role in promoting digital transactions, and in response, Nepal Rastra Bank (NRB) introduced the Financial Literacy Framework in 2020, along with the Financial Literacy Guidelines (2022) and the Financial Inclusion Policy (2024) to improve financial access and standardize financial literacy programs. These initiatives have helped millions of small businesses to shift their payments towards digital payments, enhancing their operations.

Nepal has operationalized the Retail Payment Switch (RPS) for settling retail transactions within the country, and the full-fledged operation of the National Payment Switch (NPS) is underway. RPS, launched in November 2021, is the first phase of the NPS project, with the second phase involving the launch of the National Card Switch (NCS). The readiness of NCS and domestic card scheme - Nepal Pay was announced in March 2025. The final phase will route all domestic electronic transactions through the National Payment Switch. This initiative signifies the country's move towards a fully digital banking landscape, with plans to facilitate cross-border payments using new payment system instruments.

6.1.2. Recent Developments in the field of Payment System of Nepal

Box 3: Mapping of Achievements of Strategies Specified in NPSDS, 2014

The NPSDS, 2014 consists of 9 pillars, with several strategies planned for the development of the payment system in Nepal. In line with such strategies, the following developments have been made under each pillar:

Pillar 1: Legal Framework

- 2016: Established Payment Systems Department (PSD)
- 2016: Issued Licensing Policy for Payment related institutions/mechanism
- (Replaced with First Amendment)
- 2019: Issued Payment and Settlement Act, 2019
- 2019: Issued Retail Payment Strategy, 2019
- 2019: Implemented RTGS System Rules, 2019
- 2020: Issued Payment and Settlement Bylaws (First Amendment 2023), 2020
- 2021: Issued Digital Lending Framework, 2021
- 2021: Issued Nepal QR Standardization Framework and Guidelines, 2021
- 2023: Cyber Resilience Guideline, 2023
- 2025: Framework for Dividend Distribution of PSO and PSP.

Pillar 2: Large and Critical Value Payments

- 2019: Implemented the Real Time Gross Settlement (RTGS) System

Pillar 3: Retail Payments

- Implemented faster payment systems like cards, connectIPS, Fonepay Interbank Fund Settlement System (IBFT), etc. Other payment solutions like mobile banking, internet banking, QR codes, interbank payment system (IPS), payment gateway (ecommerce), point-of-sale (POS) have also been implemented.

Pillar 4: Government Payments

- Person-to-government (P2G) payments like Inland Revenue Department (IRD) tax payments and traffic penalties have been integrated in faster payment systems like connectIPS, ewallets, etc.
- Government-to-person (G2P) payments like salary payments are routed through bank accounts.
- G2P payments like pension, gratuity, etc. through ewallets are being explored.

Pillar 5: Securities Depository, Clearing and Settlement Mechanisms

5.1 Capital Market Development

- 2011: Established CDS and Clearing Limited, a subsidiary of Nepal Stock Exchange (NEPSE), in 2011
- 2015: Implemented dematerialization of physical shares
- 2016: Implemented Nepal Stock Exchange (NEPSE) App
- 2018: Implemented Centralized Account Supported by Blocked Accounts (CASBA)
- 2019: Implemented online trading system (TMS/x)
- 2020: Implemented Meroshare app

5.2 Public Debt Management

- 2018: Established Public Debt Management Office (PDMO) under the Ministry of Finance (MOF)

- 2022: Implemented Public Debt Management Act, 2022
- 2024: Signed RTGS membership agreement for settlement of cash leg of DvP payments
- 2024: Implemented Debt Operation and Management Software (DOMS) for the entire lifecycle management of government securities (from issuance to settlement or sale)
- 2024: RTGS-DOMS integration currently under testing phase

Pillar 6: Interbank Money Market Management

- Open market operations integrated with the RTGS system through the Olympic Banking Software (OBS) of the NRB.
- Implemented Intraday Liquidity Facility (ILF) and Overnight Liquidity Facility (OLF), integrated with the RTGS system.

Pillar 7: International Remittance

- Inward remittances are allowed through remittance companies to ewallets
- Remittance service providers are licensed through the Foreign Exchange Management Department (FEMD)
- P2P transfers to Indian bank accounts allowed up to INR. 15,000 per day and INR. 100,000 per month[5]

Pillar 8: Oversight

- 2018: Implemented Payment System Oversight Framework
- 2021: Implemented Payment System Oversight Manual
- 2021: Implemented Payment System Inspection and Supervision Bylaws
- 2023: Issued Cyber Resilience Guidelines
- 2024: Implemented Procedure for Onsite Inspection of Payment-related Activities of Banks and Financial Institutions, 2024
- Based on these frameworks, PSD undertakes onsite and offsite supervision of the licensed institutions.

Pillar 9: Cooperation

- Established National Payment Board with representation from the Ministry of Finance, Nepal Telecommunication Authority, and FCGO
- Establishment and Operationalize of Digital Finance Innovation Hub

In addition to payment-related developments in fiscal year 2023/24, several initiatives have been made to strengthen the payment systems in Nepal. NRB has issued a Framework for Identifying Systemically Important Payment Systems (SIPS) in April 2025. Based on the said framework, payment systems of Nepal will be designated as SIPS and such payment systems will be subject to enhanced regulation and supervision based on the Principles of Financial Market Infrastructures (PFMIs). The process of designating the SIPS is underway.

The guidelines for Regulatory Sandbox has been issued on June 28 2026 .

5 Circular No. 09/2080-81, dated January 11, 2024, of the Foreign Exchange Management Department, NRB

Central Bank Digital Currency (CBDC) in Nepal

The NRB's strategic plan envisions the launch of a CBDC pilot by 2026. A dedicated CBDC Division has been established within the Payment Systems Department (PSD). A concept report on " CBDC: Identifying Appropriate Policy Goals and Design for Nepal" was released for public consultation by NRB. With CBDC in place, payment-related innovations are further expected to flourish in Nepal. The prototype for a Wholesale CBDC has been developed and is in the process of demonstration. The division is regularly updating the recent development in the area of CBDC.

Cybersecurity and Digital Financial Literacy

As digitalization advances nationwide, cybersecurity and financial literacy have become critical priorities. To address these, NRB issued the Cyber Resilience Guidelines (CRG) in 2023, supplementing the Principles of Financial Market Infrastructures (PFMI) to enhance the cyber maturity of licensed institutions (LIs) in payment transactions, ensuring operational continuity and recovery from cyberattacks. NRB's directives for Payment System Operators (PSOs) and Payment Service Providers (PSPs) mandate comprehensive IT governance, including policies on physical security, access control, audit trails, incident response, cybersecurity, and resilience. Additionally, the Financial Inclusion and Consumer Protection Division has institutionalized measures like the Financial Consumer Protection and Complaint Management Procedure (2022), Financial Literacy Guidelines (2023), and Financial Inclusion Policy (2024), alongside campaigns to enhance digital financial literacy. Chapter 13 of the unified directives further ensures consumer protection through transparency, fair pricing, grievance handling, confidentiality, and robust record-keeping, fostering trust and safety within the digital payment ecosystem.

Money Laundering Risks and Regulatory Oversight

The expansion of digital platforms has amplified concerns regarding money laundering (ML), terrorist financing (TF), and proliferation financing (PF) risks associated with emerging payment methods and instruments. To mitigate these risks, NRB established the Money Laundering Prevention Supervision Division (MLPSD) for risk-based supervision of licensed institutions, including Payment System Operators (PSOs) and Payment Service Providers (PSPs). NRB enforces the Money Laundering Prevention Directive (No. 14/081) and has mandated all PSOs and PSPs to transition into public companies by mid-April 2025 to strengthen governance and accountability. The "Procedure for Onsite Inspection of Payment-related Activities of Banks and Financial Institutions" and the AML/CFT Supervisory Framework and Risk-Based AML/CFT Supervision Manual are actively used for inspections, with a risk-based oversight framework underway. The agent-related directives for PSPs have been amended to address several areas systematically. These include setting a transaction ceiling, ensuring proper record-keeping, and implementing stringent reporting requirements to the Board and Nepal Rastra Bank (NRB). PSPs are now mandated to evaluate the fit and proper criteria for agents, requiring agents to submit a specified set of documents, including a criminal record certificate. These measures aim to enhance transaction monitoring and effectively mitigate money laundering risks.

Cross Border Payment and Digital Finance Innovation Hub

The landscape of Person-to-Merchant (P2M) payments in Nepal has undergone a radical transformation through strategic international partnerships. Nepal Clearing House Limited (NCHL) and Fonepay have spearheaded this movement by integrating global payment giants into the local ecosystem. Currently, international tourists and travelers can make seamless payment through NEPALPAY QR and Fonepay QR merchant locations across the country. This interoperability is powered by the integration of Alipay+, which aggregates over 30 global e-wallets, and UnionPay, allowing travelers from China and Southeast Asia to "pay like a local." Furthermore, the highly anticipated rollout of UPI (Unified Payment Interface) from India and WeChat Pay integration has enabled Indian and Chinese tourists to settle bills directly from their home-country apps at Nepali storefronts. This cross-border synergy not only boosts the tourism economy by removing currency exchange friction but also positions Nepal's retail sector as a globally connected digital marketplace.

Established by Nepal Rastra Bank in early 2025, the Digital Finance Innovation Hub serves as a specialized regulatory catalyst designed to modernize the nation's banking and payment architecture. The Hub acts as a bridge between fintech innovators and the central bank, providing a structured environment where developers can receive policy facilitation, regulatory consultations, and non-binding guidelines for emerging technologies. By analyzing the risks and opportunities of innovative proposals, the Hub ensures that new digital products align with national security and consumer protection standards before they reach the mass market. Its primary mission is to foster a less-cash society by supporting the development of advanced solutions such as Virtual Cards, Central Bank Digital Currency (CBDC) research, and automated AI-based supervision tools.

Development Trend of Payment Systems in Nepal

The Nepalese payment system has seen a remarkable stride in the adoption of digital payments, especially after the Covid-19 pandemic. The surge in digital financial services is driven by the adoption of digital technologies, regulatory reforms, and increasing consumer demand for seamless financial services. Although significant developments in the payment systems have been observed after the Covid-19 pandemic, the onset of electronic payments can be traced back to 1990 when credit cards were issued for the first time in Nepal. Building on a series of landmark policy initiatives and supervisory enhancements, key developments include the Licensing Policy for Payment-Related Institutions, 2023; simplified KYC requirements for small merchants; the NepalQR Standardization Framework and Guidelines, 2021; and the Manual for Onsite Inspection of Payment-Related Activities of Banks and Financial Institutions, 2024, among others. Nonetheless, NRB is wary of new forms of risks, technical, operational, and risks related to money laundering/ terrorism financing/proliferation financing, using new payment methods and digital financial services. In this regard, NRB issues directives, circulars, and policies and undertakes the supervisory/ oversight function for the licensed institutions. The access and usage of payments systems is tabulated below:

Table 6.1: Access of Payment Systems in last five Years

Particulars	mid-July 2021	mid-July 2022	mid-July 2023	mid-July 2024	mid-July 2025
Payment System Operators (PSO)	10	10	10	9	9
Payment Service Providers (PSP)	28	27	27	26	23
PSP Agents	9,279	12,685	14,123	17,563	427,787
Wallet Users	8,885,914	13,675,993	18,941,793	23,461,107	26,765,660
ATM Machines (Terminals)	4,325	4,602	4,855	5,193	5,263
Debit Cards	8,839,855	10,856,357	12,245,485	12,893,528	13,665,792
Credit Cards	192,370	238,794	283,772	289,239	318,428
Prepaid Cards	68,265	108,641	139,777	181,724	250,695
Mobile Banking Customers	14,194,839	18,307,255	21,363,989	24,648,846	27,741,284
Internet Banking Customers	1,160,321	1,684,310	1,856,195	1,919,322	2,219,341
Branch Less Banking	1,718	1,548	1,319	1,129	822
RTGS Participants	38	49	44	44	44
Connectips Users	534,615	896,341	1,108,436	1,276,886	1,441,471
ECC Members	60	59	53	54	54
IPS Members	103	111	115	132	139

Table 6.2: Usage of Payment Systems (Transaction Number)

Particulars	mid-July 2021	mid-July 2022	mid-July 2023	mid-July 2024	mid-July 2025
RTGS	533,841	750,597	815,180	809,769	842,122
ATM-Cash Withdrawal	74,479,681	100,988,504	122,052,298	130,542,215	129,922,430
ECC	12,295,926	13,920,129	12,348,969	11,976,235	12,589,669
IPS	10,841,023	13,424,453	15,380,646	27,458,863	30,080,372
Debit Cards	81,648,703	110,830,652	131,774,747	139,817,383	139,726,744
Credit Cards	1,717,397	2,270,929	2,868,591	3,243,907	3,315,575
Prepaid Cards	130,867	489,507	744,620	1,145,510	1,612,036
Internet Banking	3,179,362	3,355,888	3,216,663	3,512,720	4,961,383
Mobile Banking	111,923,386	181,545,676	283,420,597	424,047,710	614,133,910
Branchless Banking	639,338	752,248	878,368	873,608	890,878
Wallet	124,945,099	167,491,933	213,367,144	294,543,696	400,929,083
QR-Based Payments	5,581,779	26,950,009	78,029,200	169,346,467	325,974,377
Point of Sales (POS)	7,547,405	11,773,031	12,315,919	12,171,542	12,539,512
E-Commerce***	1,345,364	819,395	990,135	1,474,296	2,063,255
Faster Payment Systems	-	-	9,783,842	128,243,599	172,673,457
Cross Border QR Acquiring	-	-	-	-	993,582
Other Retail Payments	-	-	3,684,529	55,407,216	88,897,946

Usage of Payments Systems (Transaction Amount (In Millions (NPR))

Particulars	mid-July 2021	mid-July 2022	mid-July 2023	mid-July 2024	mid-July 2025
RTGS	20,552,212	42,134,018	34,289,975	38,520,229	74,901,757
ATM-Cash Withdrawal	648,268	839,732	968,397	1,057,847	1,088,710
ECC	8,056,449	8,773,753	6,207,166	5,899,069	6,289,358
IPS	2,369,108	2,060,041	2,135,705	2,435,888	2,911,234
Debit Cards	679,353	881,396	1,010,493	1,100,398	1,137,673
Credit Cards	9,986	14,143	18,351	21,733	24,014
Prepaid Cards	853	3,099	4,840	7,542	12,555
Internet Banking	98,656	159,489	156,828	169,738	233,800
Mobile Banking	460,014	1,210,134	2,185,999	3,478,668	5,018,334
Branchless Banking	12,869	16,190	18,049	18,579	19,436
Wallet	114,432	184,293	219,807	302,694	506,314
QR-Based Payments	20,282	94,508	245,412	499,795	958,383
Point of Sales (POS)	31,725	51,435	59,045	64,158	70,814
E-Commerce***	9,101	4,840	6,182	8,816	13,534
Faster Payment Systems	-	-	321,519	3,920,911	5,241,704
Cross Border QR Acquiring	-	-	-	-	2,865
Other Retail Payments	-	-	321,975	3,789,909	5,176,566

*** Online payment using cards

Box 4: Regulatory Developments undertaken by NRB

One of the major developments during the year 2023 is the issuance of **Cyber Resilience Guidelines, 2023**. The Cyber Resilience Guideline has been issued to offer direction to Financial Market Infrastructures (FMIs) in improving their cyber resilience, with the goal of bolstering public confidence and supporting financial stability. Aligned with the principles of financial market infrastructures (PFMIs), this document tackles issues pertaining to the governance, risk management framework, settlement finality, and operational risks of FMIs. The guideline focuses on strengthening the resilience capabilities of licensed institutions by addressing aspects such as identifying cyber threats, implementing protective measures against such threats, detecting them, and formulating responses and recovery strategies in the face of cyber threats.

In addition to payments-related developments in fiscal year 2023/24, several initiatives have been made to strengthen the payment systems in Nepal. NRB already prepared the **Framework for Identifying Systemically Important Payment Systems (SIPS)** Based on the said framework, existing payment systems of Nepal will be designated as SIPS and such payment systems will be subject to enhanced supervision based on the PFMIs. Currently Department is under the process of finalizing the designated SIPS.

NRB has issued **AML/CFT Supervisory Framework and Risk-Based AML/CFT Supervision Manual** for PSOs and PSPs. The guideline has been forwarded to the AML/CFT Division, Bank Supervision Department for implementation.

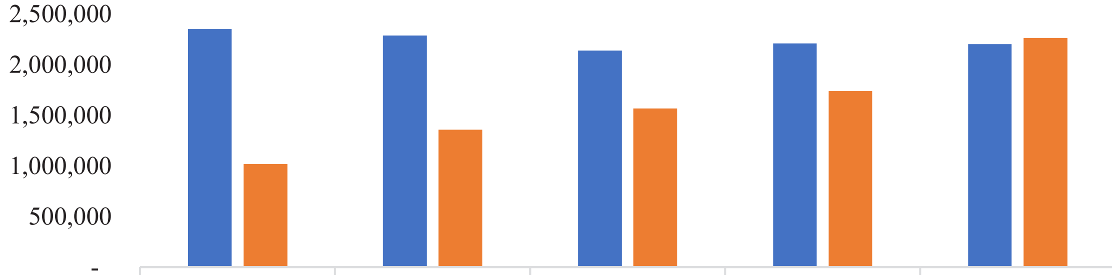
For fiscal year 2024/25, the department is in process of amending the existing unified directive and implementing the **Payment System-related Unified Directives.**

A study titled *"A Study on Cross-border Payments"* was conducted to guide policy decisions on cross-border transactions by licensed institutions, resulting in amendments to Directive No. 16 of the Payment System-related Unified Directives, 2081. The revised provisions allow cross-border payments through Mobile Banking, Internet Banking, Interbank Payments, and QR codes. In February 2024, Nepal Rastra Bank (NRB) signed a MoU with the Reserve Bank of India (RBI) to integrate cross-border payments. Additionally, Fonepay Payment Service Limited has been approved for UPI P2M transactions, NCHL for UPI P2P transactions, and Himalayan Bank Limited, with Focusone Payments Solution Limited as facilitator, for acquiring Alipay+ transactions in Nepal. Existing cross-border initiatives and related statistics further highlight the growing integration of Nepal's payment systems with international platforms.

6.2 Credit Information Bureau

Karja Suchana Kendra (KSKL), the credit information bureau of Nepal, plays an enabling role in deepening the credit lines in a financial system. The KSKL collects and collates the credit data of borrowers from its member financial institutions. The financial data is then aggregated in the system, and the resulting information (Credit Report) is shared with different users, which are mostly contributing financial institutions. The credit report is then used for the assessment of credit history and credit payment behavior of borrowers. In this regard, KSKL helps to reduce information asymmetry in financial system. As the inability of the lender to accurately assess the creditworthiness of the borrower may pose the risks of adverse selection and contribute to higher default rates and affects the profitability of the financial institution, credit bureau reduces information asymmetry, which results in reduced rates applied and enhanced access to credit. In this regard, as a part of KSKL's mission to offer member institutions the most integrated and seamless services possible, KSKL is collecting and disseminating trustworthy credit data that promotes responsible lending and strengthens banking oversight. As of mid-July 2025, KSKL has 2.26 million borrower records in its repository and has generated about 2.20 million credit reports. The growth of credit reports generated by member institutions decreased by 0.3 percent in the review year. Likewise, the borrower records uploaded by member institutions increased by 30.3 percent in the review year.

Figure 6.1 : Credit Records and Borrower Records

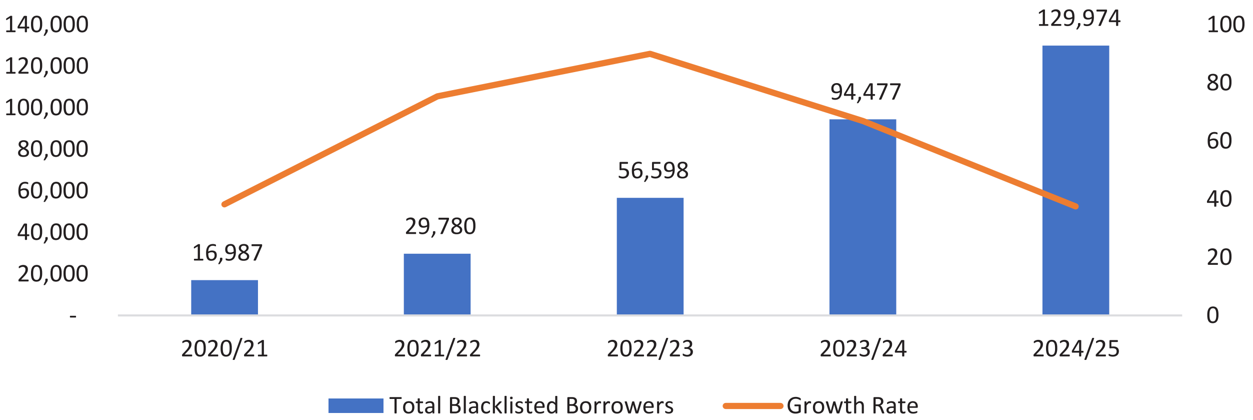


	2020/21	2021/22	2022/23	2023/24	2024/25
Credit Records	2,353,014	2,285,583	2,137,830	2,209,250	2,202,685
Borrower Records	1,019,478	1,356,368	1,567,678	1,737,374	2,263,990

Credit Records   Borrower Records

The Secured Transaction Registry by the KSKL registers the notices related to lending made by any entity against the movable assets of the debtor. The registry generated 178,856 reports in the fiscal year 2024/25, which is a decline of 0.77 percent from the previous fiscal year.

Figure 6.2 : Number of Blacklist Borrowers



The number of blacklisted borrowers increased significantly from 16,987 in fiscal year 2020/21 to 129,974 in fiscal year 2024/25. The growth rate rose sharply and reached a peak of 90 percent in fiscal year 2022/23. However, the growth rate moderated thereafter, declining to 37.5 percent by fiscal year 2024/25. Overall, the total number of blacklisted borrowers has continued to rise substantially in recent years.

6.3 Deposit and Credit Guarantee Fund

The Deposit and Credit Guarantee Fund (DCGF), a deposit insurer, launched the deposit guarantee program in Nepal in 2010. DCGF has been given the statutory responsibility to perform both the deposit guarantee and credit guarantee functions through its own "Deposit and Credit Guarantee Fund Act, 2016". The total number of deposit guarantee accounts has increased to 57.13 million in the fiscal year 2024/25. The total deposit guarantee amount stood at Rs 1,579.05 billion, and the total credit guarantee amount stood at Rs 331.38 billion as of mid-July 2025.

6.4 Debt Recovery Tribunal

Debt Recovery Tribunal plays an integral role in expediting the legal processes involved in recovering debt from defaulting borrowers. The Debt Recovery Act 2001 serves as the framework for the Debt Recovery Tribunal (DRT), which was founded on July 17, 2003, to guarantee the prompt and effective settlement of problematic loans in the banking and financial institution sectors. In this regard, only the debts owed to BFIs with a principle of at least Rs. 0.5 million can be settled through DRT, and cases also need to be reported within four years of exceeding the specified time frame.

6.5 Anti-Money Laundering and Countering the Financing of Terrorism

6.5.1 Background

An effective AML/CFT framework protects the financial system and the broader economy from the threats of money laundering and terrorist financing/ proliferation financing risks. Various stakeholders are involved in implementing measures for combating such risks. Financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs) have obligations for applying preventive measures including customer due diligence (CDD), suspicious transaction reporting, record-keeping and internal controls. NRB and other regulatory agencies are responsible for ensuring that those measures are in place.

Nepal obtained membership of the Asia-Pacific Group on Money Laundering (APG) in 2002 and has, since then, expressed firm commitment to align with international standards on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT). The Asset (Money) Laundering Prevention Act (ALPA) was first enacted in 2008 and Financial Intelligence Unit (FIU-Nepal) was established in the same year as the national centre for receiving, analyzing, and disseminating financial intelligence. Over the years, Nepal has put in place a comprehensive legal, preventive, and institutional architecture to combat Money Laundering, Terrorism Financing, and Proliferation Financing (ML/TF/PF), reflecting the country's commitment to safeguarding the integrity and stability of its financial system.

Fiscal Year 2024/25 was a particularly defining year for Nepal's AML/CFT regime. During the year, the Government of Nepal issued the Asset (Money) Laundering Prevention Rules, 2081 (2024); the third National Strategy and Action Plan on AML/CFT (2024/25–2028/29) was rolled out; and Nepal was placed on the Financial Action Task Force (FATF) list of "Jurisdictions under Increased Monitoring" in February 2025. These developments have intensified the policy, regulatory, and supervisory focus of Nepal Rastra Bank (NRB) and other competent authorities, with fiscal year 2024/25 marking a notable strengthening of the country's AML/CFT preventive and supervisory measures.

6.5.2 Mutual Evaluation Outcomes and FATF Increased Monitoring

Nepal's third Mutual Evaluation by APG was carried out during 2022/23 and the Mutual Evaluation Report

(MER) was adopted at the APG Annual Meeting in September 2023. Based on the MER, Nepal entered the FATF International Cooperation Review Group (ICRG) process in October 2023 and was subjected to a one-year observation period. After review of the Post-Observation Period Report (POPR) and the face-to-face engagement of January 2025 in Manila, the Philippines, FATF added Nepal to the list of "Jurisdictions under Increased Monitoring" in February 2025; the second instance of such listing, the earlier being from 2008 to 2014.

Nepal has committed to a time-bound action plan to address the identified strategic deficiencies. The seven priority areas in the agreed FATF action plan are: (i) improving understanding of key ML/TF risks; (ii) strengthening risk-based supervision of commercial banks, higher-risk cooperatives, casinos, dealers in precious metals and stones, and real estate; (iii) identifying and sanctioning materially significant illegal money or value transfer service (MVTS)/Hundi providers without hindering financial inclusion; (iv) increasing capacity and coordination among competent authorities; (v) demonstrating an increase in money laundering investigations and prosecutions; (vi) demonstrating measures to identify, trace, restrain, seize, and confiscate proceeds and instrumentalities of crime; and (vii) addressing technical compliance deficiencies in the targeted financial sanctions regime relating to terrorism financing and proliferation financing.

Encouragingly, the First Follow-Up Report adopted by APG in June 2024 has already upgraded ratings on nine recommendations. As reflected in the table below, Nepal now stands at Compliant or Largely Compliant on 28 of 40 FATF Recommendations, up from 21 at the time of the MER, signaling tangible progress on technical compliance.

Table 6.3: Technical Compliance Ratings - From MER to First FUR

Rating of Recommendations	MER 2023	1st FUR (June 2024)	Direction of Change
Compliant (C)	5	**5**	–
Largely Compliant (LC)	16	**23**	Improved
Partially Compliant (PC)	16	11	Improved
Non-Compliant (NC)	3	1	Improved
Total Recommendations	**40**	**40**	**–**

Source: FIU-Nepal Annual Report 2024/25; APG First Follow-Up Report on Nepal, June 2024

However, Nepal needs to show notable improvements in the strategic deficiencies through completion of the ICRG action items. Remaining in the grey list can negatively affect the country's economy and financial system. The possible risks include reduced FDI inflows, increased cost and processing time on remittance transactions, negative impact on correspondent banking relationship and reduced credibility among international development partners.

6.5.3 Financial Intelligence Unit (FIU-Nepal)

FIU-Nepal, established in 2008 and hosted within Nepal Rastra Bank, is the national centre for receiving, analysing and disseminating financial intelligence on Money Laundering, Terrorism Financing, and Proliferation Financing (ML/TF/PF). It serves as the secretariat of the Coordination Committee constituted under the Asset (Money) Laundering Prevention Act, 2008 (as amended in 2024) and acts as the primary contact point for the Asia/Pacific Group on Money Laundering (APG), the Financial Action Task Force (FATF), and the Egmont Group of Financial Intelligence Units. It is a centralized, autonomous, independent, administrative authority with pivotal role to play in AML/CFT/CPF regime of Nepal. It has also signed a memorandum of understanding (MoU) with 19 domestic agencies and 20 foreign FIUs for coordination, cooperation and intelligence exchanges.

The fiscal year 2024/25 was a defining year for FIU-Nepal's operational performance. The Unit continued to leverage the goAML platform of the United Nations Office on Drugs and Crime (UNODC) for digital reporting, analysis and dissemination, while substantially expanding both the depth of analysis and the coverage of reporting entities (REs). The principal operational outcomes of the year are summarized below.

Table 6.4: FIU-Nepal Operational Highlights, Fiscal Year 2024/25

Particulars	FY 2023/24	FY 2024/25	Change (%)
STRs/SARs Received	7,338	**9,565**	+30.4%
STRs/SARs Disseminated to LEAs	889	**908**	+2.1%
TTRs Received	1,697,712	**2,236,067**	+31.7%
Reporting Entities Integrated in goAML	1,639	**3,497**	+113.4%
Cross-border Information Exchanges	46	**64**	+39.1%
MoUs with Foreign FIUs (cumulative)	19	**20**	+1

Source: FIU-Nepal Annual Report FY 2024/25

Operational Analysis: In fiscal year 2024/25, FIU-Nepal received 9,565 Suspicious Transaction Reports/ Suspicious Activity Reports (STRs/SARs) from reporting entities, a 30.4 percent increase over the previous year. Likewise, intelligence reports (concerning 908 STRs) were forwarded to Law Enforcement Agencies (LEAs) and other competent authorities. Nepal Police remained the largest recipient (845), followed by the Inland Revenue Department (30), NRB's Non-Bank Financial Institutions Supervision Department (25), and the Department of Revenue Investigation (17). The volume of Threshold Transaction Reports (TTRs) reached 2,236,067, a 31.7 percent rise over the previous year, with TTRs from non-bank reporting entities now accounting for about 50 percent of the total TTRs; it may be reflecting a structural broadening of the AML reporting base.

Strategic Analysis: During the review year, FIU-Nepal published its Strategic Analysis Report, 2025 on "Virtual Assets", examining the money-laundering, terrorist-financing and proliferation-financing risks associated with Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs). Drawing on a review of VA-related STRs/SARs received through goAML between January 2021 and July 2025 and on case examples of crypto-investment scams, darknet trade, terrorist-financing abuse, and exchange-related cyber incidents observed in foreign jurisdictions; the report documents the emerging trends and typologies of VA misuse in Nepal, including the use of cryptocurrencies for hundi-type settlement, cyber-enabled fraud, capital flight, and online gambling. It also notes the formal incorporation of "Virtual Currency" as a distinct predicate-offence category in goAML reporting with effect from 2 January 2025. The report provides red-flag indicators for reporting entities and offers targeted recommendations to REs, regulators/supervisors and law enforcement agencies.

New STR categories captured for the first time in fiscal year 2024/25 Hundi-related, virtual-currency-related, and other additional predicate offences and an expandedea set of seventeen Trade-Based Money Laundering (TBML) sub-typologies demonstrate that the regime is increasingly able to detect emerging forms of financial-crime risk.

Digital Reporting through goAML: The number of REs, LEAs and supervisory authorities integrated in the goAML platform expanded from 1,639 at the end of fiscal year 2023/24 to 3,497 by mid-July 2025, a 113.4 percent year-on-year increase, with notable onboarding of cooperatives and dealers in precious metals and stones. During the review year, 100 percent of STRs/SARs and 98.4 percent of TTRs were submitted digitally; the goAML production environment was upgraded to Version 5.5; and operational guidelines were updated/issued for BFIs, DPMS, and microfinance institutions. With effect from June 2025, paper-based dissemination has been discontinued and all intelligence reports are now shared through the goAML message-board system, materially improving security, traceability and timeliness.

Strengthening the Financial Stability: FIU-Nepal's expanded reporting coverage, improved analytical output and timely intelligence dissemination have directly reinforced the integrity of Nepal's financial system. Higher-quality intelligence supports law-enforcement action against predicate offences such as tax evasion, corruption, fraud, hundi and TBML, thereby containing illicit financial flows that could otherwise distort credit allocation, fuel asset-price misalignments, and undermine fiscal performance. The substantial onboarding of non-bank sectors on goAML, the strengthened cross-border information-sharing arrangements, and the operationalization of risk-based reporting from cooperatives, PSPs and DNFBPs collectively reduce the vulnerability of the financial sector to misuse, safeguard correspondent-banking relationships, and underpin public confidence in the financial system key preconditions for financial stability.

Box: 5 Key Timeline of AML/CFT Implementation in Nepal

2002: Nepal becomes a member of the Asia/Pacific Group on Money Laundering (APG)

2005: First Mutual Evaluation of Nepal carried out by the Asia/Pacific Group on Money Laundering.

2008: Asset (Money) Laundering Prevention Act (ALPA), 2008 enacted and the Financial Intelligence Unit (FIU-Nepal) established as the national centre for financial intelligence.

2008: Nepal placed on the FATF list of "Jurisdictions under Increased Monitoring" for the first time.

2010: Second Mutual Evaluation of Nepal carried out by APG.

2011: First National Strategy on AML/CFT (2011-16) adopted, laying the foundation for a coordinated national response.

2014: Nepal exits the FATF Grey List following significant legal and institutional reforms.

2015: FIU-Nepal becomes a member of the Egmont Group of Financial Intelligence Units, gaining access to international intelligence.

2016: First National Risk Assessment (NRA) on ML/TF completed, providing the basis for risk-based supervision.

2019: Second National Strategy on AML/CFT (2019-24) adopted to address evolving ML/TF/PF risks.

2020: Roll-out of the UNODC goAML system for commercial banks (Jan 2020); Second National Risk Assessment completed.

2022-2023: Third Mutual Evaluation of Nepal by APG (onsite December 2022); Mutual Evaluation Report adopted in September 2023.

2023: Nepal Rastra Bank establishes the Money Laundering Prevention Supervision Division (MLPSD)

2024: Nineteen AML-related Acts amended, including ALPA, 2008; new Asset (Money) Laundering Prevention Rules, 2081 issued; third National Strategy and Action Plan on AML/CFT (2024/25-2028/29) adopted.

2024: Effective 16 July 2024 (1 Shrawan 2081), MLPSD reconstituted as an independent division at NRB

2025: On 21 February 2025, FATF places Nepal on the list of "Jurisdictions under Increased Monitoring" for the second time

Source: FIU-Nepal Annual Report 2081/82 (2024/25); NRB Money Laundering Prevention Supervision Annual Report 2024/25; APG Mutual Evaluation Report on Nepal (2023).

CHAPTER – VII: DEVELOPMENTS IN FINANCIAL SECTOR

7.1 Financial Inclusion and Consumer Protection

Financial inclusion is a cornerstone of poverty reduction and economic prosperity. By providing access to affordable, responsible, and sustainable financial products individuals and businesses are empowered to manage risks and build wealth.

The NRB Act, 2002 states, one of the objectives of Nepal Rastra Bank is to expand financial access and foster public trust. To achieve this, NRB has initiated several impactful initiatives, such as requiring banks and financial institutions to have branches across all local levels, setting lending targets for underserved and prescribed sectors and issuing directives on consumer protection and financial literacy. Nepal Rastra Bank has established the Financial Inclusion and Consumer Protection Division (FICPD) in order to formulate and implement the financial inclusion strategies. This effort has been further reinforced by the Financial Inclusion Policy 2024, designed to expand financial access, elevate financial literacy, and safeguard consumers.

While the Nepal Rastra Bank's regulatory measures have significantly expanded access to financial services among previously unserved populations, this rapid expansion presents both opportunities and emerging risks. Greater financial inclusion contributes to macroeconomic and financial stability by diversifying banks' asset portfolios, strengthening the deposit base, and improving the effectiveness of monetary policy transmission. However, significant challenges remain, including the continued concentration of financial services in urban areas and persistent gaps in financial literacy among consumers. Consequently, the expansion of financial services has increased the exposure of financially vulnerable segments of society to risks such as over-indebtedness, fraud, mis-selling of financial products, and inadequate consumer protection, underscoring the need for a balanced approach that promotes inclusion while safeguarding financial stability.

7.1.2 Financial Literacy

Financial literacy in Nepal is on a steady upward trajectory, anchored by comprehensive baseline data and structured policy frameworks. In December 2022, the Nepal Rastra Bank (NRB) published its pioneering *Baseline Survey on Financial Literacy in Nepal*. Utilizing the globally recognized methodology of the OECD/INFE Toolkit 2022 (with national customizations), the survey evaluated financial inclusion and literacy across three core dimensions: financial knowledge, financial behavior, and financial attitude. The findings revealed a national financial literacy rate of 57.9%, reflecting an overall score of 11.59 out of a maximum of 20.

To strengthen financial literacy and consumer protection, Nepal Rastra Bank introduced the Financial Literacy Framework and Guidelines 2022, and recognized financial literacy as one of the four strategic pillars of the second Financial Sector Development Strategy (FSDS)

At the grassroots level, Nepal Rastra Bank (NRB) actively promotes financial literacy through targeted public outreach and strategic institutional collaboration. NRB conducts localized financial literacy programs in remote and underserved areas, complemented by nationwide awareness campaigns implemented in partnership with Banks and Financial Institutions (BFIs) and Non-Governmental Organizations (NGOs).

These initiatives are designed to strengthen financial capability by educating citizens on basic banking services, prudent savings practices, digital financial services and associated cyber risks, clean note policies, consumer rights and responsibilities, and the effective use of financial services. By improving financial awareness and responsible financial behavior, these efforts support greater financial inclusion while enhancing consumer protection and confidence in the financial system.

To ensure the scalability and sustainability of financial literacy initiatives, Nepal Rastra Bank (NRB) has implemented a strategic Training of Trainers (ToT) program, establishing a nationwide pool of certified financial literacy facilitators. This institutional capacity is reinforced through the development and dissemination of a wide range of educational resources, including financial literacy manuals, reference materials, and audio-visual learning content. Furthermore, to foster long-term improvements in financial capability, NRB is collaborating with the Ministry of Education to integrate financial literacy into the national school curriculum. This institutional approach aims to cultivate sound financial knowledge and responsible financial behavior from an early age, thereby strengthening the foundation for inclusive and sustainable financial sector development.

To institutionalize private-sector accountability, NRB directives requires Banks and Financial Institutions (BFIs) to allocate a specified percentage of their profits to Corporate Social Responsibility (CSR) funds. Under these regulatory guidelines, a designated portion of these CSR resources must be strategically deployed to advance Digital Financial Services (DFS) and accelerate financial literacy. Crucially, these frameworks require that funding prioritize women, marginalized groups, and underserved communities, thereby aligning commercial compliance with national inclusion targets.

To complement this academic foundation, NRB continues to conduct the interactive "Vidhyarthi Sanga Nepal Rastra Bank" (Students with Rastra Bank) program specifically tailored for students, equipping the next generation with foundational banking knowledge.

7.1.3 Financial Inclusion

NRB formulated and implemented the landmark Financial Inclusion Policy, 2024, targeting gaps for rural communities, women entrepreneurs, and informal sector workers. To boost the demand side of financial services, the NRB mobilized nationwide Training of Trainers (ToT) programs, updated its standardized Financial Literacy Training Manual for banking institutions, and led massive school-level awareness campaigns during Global Money Week.

7.1.4 Financial Inclusion Index (FII)

NRB reached a major milestone by publishing Financial Inclusion Index (FII) in 2024. This comprehensive, data-driven index establishes a critical baseline for the country by evaluating national progress across three core dimensions: Access, Usage, and Quality. Reflecting both the structural strides made and the room left for targeted growth, Nepal's debut overall FII score was established at 0.47 on a scale of 0 to 1 for the year of 2024.

7.1.3 Financial Consumer Protection

7.1.3.1 Financial Consumers' Grievances Redressal

A robust consumer protection framework serves as a cornerstone of financial resilience. By safeguarding individual consumers, it simultaneously reinforces the systemic stability of the broader financial ecosystem

- fostering deep public trust, mitigating operational risks, and driving responsible economic behavior. Operationally, NRB executes this mandate via a specialized unit dedicated to dispute resolution under the Financial Inclusion and Consumer Protection Division (FICPD). During fiscal year 2024/25, NRB received 4,388 grievances across various platforms. Demonstrating a strong institutional commitment to dispute resolution and FICPD successfully resolved 3,533 cases, leaving 476 active grievances in the pipeline for ongoing resolution.

Table 7.1: Grievances Received and Resolved

Modes of Grievances	Received	Resolved	In Process
Written Complaints	462	443	19
Grievance Portal	3,539	2,763	398
Others (Telephone, Email, or Oral)	387	327	59
Total	**4,388**	**3,533**	**476**

7.1.3.2 Market Conduct Supervision

To maintain market integrity and safeguard financial consumers, Nepal Rastra Bank has initiated market conduct supervision of regulated entities to ensure that they operate fairly, transparently, responsibly, and in compliance with prevailing laws and regulations. During fiscal year 2024/25, NRB completed conduct inspections of eight commercial banks and one development bank, with plans to expand the scope of inspections across all categories of regulated entities in the coming years. To ensure the effective implementation of market conduct supervision, NRB has already undertaken key preparatory measures, including establishing an organizational structure, developing supervision procedures and toolkits, amending relevant bylaws, and conducting pilot inspections.

Box 6: Recent Financial Inclusion Initiatives

Initiatives and efforts made by Nepal Rastra Bank (NRB) in enhancing the financial inclusion and consumer protection

- In fiscal year 2025/26, NRB is conducting a nationwide Consumer Satisfaction Survey to assess public perception regarding the service quality, customer satisfaction, behavior of regulated entities towards the financial consumer and overall consumer protection of financial institutions. The findings will be used to provide policy recommendations.
- In fiscal year 2025/26, NRB is organizing inclusive focus group discussions with different gender and persons with disabilities to identify barriers to accessing and using formal financial services. The results will support the development of policies to promote inclusive finance.
- NRB has expanded its consumer awareness and advocacy efforts through the "NRB with Borrowers" program, which aims to promote responsible borrowing practices and strengthen consumer protection.
- NRB has collaborated on education reforms to integrate financial literacy into the school curriculum. Starting this year, financial literacy content has been included in the syllabus of Grade 4 to 12.
- To enhance women's participation in the financial system, NRB completed a diagnostic survey and gap assessment under the World Bank's Women Entrepreneurs Finance Initiative (WE-FI). Based on the findings, sex-disaggregated reporting templates and key performance indicators (KPIs) have been developed. NRB plans to establish a national financial inclusion dashboard covering banking, insurance, securities, and company registration data, and will revise relevant policies and directives to further promote women's financial inclusion.

Initiatives and efforts made by Nepal Insurance Authority (NIA) in enhancing the financial inclusion and consumer protection

- Under the Risk-Based Supervision Framework, NIA emphasized protecting policyholders' interests and ensuring that insurers maintain sound governance, proper conduct, and adequate risk management systems.
- NIA continued close monitoring of claims settlement practices of insurers to ensure timely and fair payment of claims.
- NIA repeatedly encouraged policyholders to report any difficulties related to claim payments or settlement delays. NIA guided insured persons to contact the Authority in case of claim-related problems. In fiscal year 24/25 NIA has settled 131 cases related to disputes in insurance sector.
- This oversight mechanism has helped improve accountability among insurers and strengthened trust in insurance services.
- The introduction of Mediation and Arbitration Procedure, 2024 established structured mechanisms for resolving disputes between insurers and policyholders through mediation and alternative dispute resolution processes rather than lengthy litigation.
- This has contributed to consumer protection by improving accessibility of dispute resolution, reducing legal complexities, enabling quicker settlement of disputes, reducing operational

conflicts within the sector, and improving policyholder confidence.

- Additionally, NIA also continued promoting insurance literacy and awareness as part of its broader financial inclusion agenda. NIA has published various audio/visual materials and literacy material in print versions as well. Also, various TV and radio programs are broadcasted regularly.
- Improved insurance literacy contributes directly to financial inclusion because individuals are more likely to participate in formal financial protection systems when they understand the benefits and functioning of insurance products.
- Moreover, NIA also strengthened institutional governance and market conduct oversight during the review period. NIA continued enforcing governance-related directives to improve board accountability, internal controls, transparency, ethical conduct, compliance culture, and policyholder protection mechanisms.

Initiatives and efforts made by Citizen Investment Trust (CIT) in enhancing the financial inclusion and consumer protection

- Saving Products & Coverage Expansion: CIT offers diverse programs such as the retirement funds, mutual funds, pension scheme and insurance-linked schemes to employees in government, public and private sectors, extending the facilities of tax incentives and providing social security benefits.
- Inclusion of Informal Sector: CIT offers tools for self-employed persons and individuals in the informal sector to participate in consistent savings and retirement planning.
- Digital Transformation and Accessibility: The Trust is prioritizing the digitalization of efficient service delivery and has implemented initiatives such as collecting contributions from Nepali workers overseas under the Citizen Pension Scheme (CPS) and Citizen Unit Scheme (CUS) to integrate them into the national financial system.
- Participation in Capital Markets: Through the investment of accumulated funds, CIT has played a role in both capital and financial markets. Additionally, plan to provide a secure and indirect way to invest in stocks and bonds by giving loans against shares to its contributors

Initiatives and efforts made by Social Security Fund (SSF) in enhancing the financial inclusion and consumer protection

- The Social Security Fund (SSF) advocates mandatory enrollment for workers in the formal sector, while option remains voluntary for informal sector workers and self-employed individuals. Its primary objective is to provide comprehensive social protection by covering risks that individuals may face throughout their life cycle.
- To reduce out-of-pocket health expenditures and protect members from financial hardship arising from sickness and accidents, the SSF operates a health protection scheme. In addition, the SSF promotes income security and income regularity by providing income support and pension benefits in cases of sickness, disability, old age, and death, thereby ensuring social and financial protection for workers and their dependent family members.
- Mandatory provision backed by Labor Act 2074 and Contribution based Social Security Act 2074,
- To ease financial stress during key life events, a landmark policy revision during fiscal year 2024/25

doubled the ceiling for the (Home/Land) Loan from NPR 7.5 million to NPR 15 million. It promotes self-reliance and financial flexibility before retirement. Loan products offer by SSF are – Home loan, Education loan and Special loan.

- Projection tools (Interest) and contributor account dashboards allows workers to visualize projected retirement balances, fostering long-term financial literacy and planning behavior.
- The Pension Facility under the Social Security Fund is a defined social security benefit designed to provide long-term income protection to contributors and their dependent family members against contingencies such as disability, death, and old age.
- Under the Social Security Scheme, a monthly pension equal to 60% of contributor's basic salary is payable in cases of temporary and permanent disability resulting from employment related accidents or occupational diseases, subject to the conditions prescribed by prevailing laws and regulations.
- In the event of a contributor's death during working life, dependents are entitled regular Pension – spouse (60%), children below 18 Year (40%) and incase of unmarried contributor dependent father and mother will get 60% of basic salary as pension, ensuring income continuity and social protection for the deceased contributor's family.
- At the end, Social Security Fund (SSF) promotes financial inclusion and financial stability by mitigating labor's life-cycle risks such as sickness, maternity, disability, and dependent family emergencies. By integrating formal, informal and low-income contributors into the formal financial channel, the fund guarantees income continuity, preventing households from falling into burden of debt traps for health and education. Ultimately, these schemes shield the broader macroeconomic landscape by protecting citizens and their financial burden for fundamental needs.

7.2 Aligning with Global Policy Developments

Global Risks and Policy Developments in the International Financial System

The April 2026 edition of the IMF's Global Financial Stability Report (GFSR) highlights that global financial stability risks have increased significantly amid the ongoing war in the Middle East, tightening financial conditions, and rising structural vulnerabilities across both advanced and emerging market economies.

The geopolitical events exerts risks on the stability of financial system. The GSFR identifies the war in the Middle East as the principal catalyst for the recent deterioration in global financial conditions. The conflict has triggered sharp increases in energy prices, heightened inflation expectations, and renewed volatility across equity, bond, and foreign exchange markets. Global equity prices declined notably following the escalation of the conflict, while sovereign bond yields rose sharply amid expectations of persistent inflation and tighter monetary policy. Emerging market economies, particularly energy-importing and externally vulnerable countries, have experienced stronger market corrections due to capital outflows, currency depreciation, and rising borrowing costs.

The use of artificial intelligence (AI) in the financial system is on the rise. Global policy developments increasingly recognize the transformative role of artificial intelligence (AI) in strengthening financial sector supervision, particularly within risk-based supervision (RBS) frameworks. Internationally, supervisory authorities are integrating AI to enhance data processing, improve risk identification, and enable more proactive and forward-looking regulatory approaches. AI-driven tools support predictive analytics, automation of supervisory processes, and more efficient allocation of regulatory resources towards high-risk areas. Also, new dangers could also appear at the same time as the increased use of AI could pose cyber/market manipulation risks and operational risks through high reliance on AI service providers. Cybercriminals using AI to produce deep fakes, manipulating audio and video to impersonate key individuals in the financial sector or spread of misinformation, could lead to fraudulent transactions and erode the trust in financial institutions. In this context, NRB has issued the guidelines regarding the use of artificial intelligence in the financial sector. Also, NRB is conducting a study regarding the application of artificial intelligence in the supervision of banks and financial institutions.

Risks from Nonbank Financial Institutions has been on rising side. The IMF identifies nonbank financial institutions (NBFIs) as a growing source of systemic risk. Hedge funds, leveraged exchange-traded funds, option sellers, and other nonbank institutions have significantly expanded their use of leverage in recent years. In this context, considering the risks stemming from NBFIs like cooperatives, NRB has also issued the directive for saving and credit cooperatives.

Climate related risks has raised the supervisory concerns. As the extreme weather events are occurring more frequently, there is growing concern about the possible risks that climate change may bring to financial stability. The financial system may become unstable if physical risks and an uncontrolled transition to a low-carbon economy result in a drop-in asset values and wealth. In this context, considering the gravitas of climate-related risks, Nepal Rastra Bank has published Green Finance Taxonomy, 2024. The Green Finance Taxonomy provides a classification system for economic activities (including assets, projects, and sectors) that qualify as "green" or environmentally sustainable. The major purpose of taxonomy is to assist financial sector stakeholders in identifying, tracking, and verifying the green credentials of their activities, ultimately channeling capital, resources, and expertise toward building a green, resilient, and inclusive economy in Nepal. In addition, to facilitate the integration of sustainability into credit risk management within the financial sector, the Nepal Rastra Bank introduced the Environmental and Social Risk Management (ESRM) Guidelines.

Global Policy Developments and Regulatory Priorities

In response to rising vulnerabilities, global regulators emphasize the need for decisive and coordinated policy actions to strengthen financial resilience. Central banks are advised to remain firmly committed to price stability while remaining attentive to spillovers from supply-side inflation shocks to inflation expectations. The GFSR stresses the importance of transparent communication, operational independence of central banks, and strong governance frameworks to preserve policy credibility. Also, a key policy development highlighted in the GFSR is the increasing emphasis on macroprudential oversight of nonbank financial institutions. Authorities are encouraged to strengthen stress testing frameworks, enhance supervision of leverage and liquidity risks, improve cross-border regulatory cooperation, and close data gaps related to nonbank finance. Policymakers are encouraged to minimize opportunities for regulatory arbitrage and ensure that prudential requirements keep pace with the evolving systemic importance of financial institutions and markets.

7.3 Key Regulations Implemented for the Financial Sector Stability

Banks and Financial Institutions Regulation Department, NRB	
Regulation Area	**Regulation**
Relaxation to Businesses Impacted by Earthquake Circular No. 15 Issued on 2025/07/16	Businesses operating in the earthquake-affected areas of Jajarkot, Rukum, and other regions impacted by the earthquake as well as residential housing loans and other purpose-specific personal loans obtained by individuals residing in those areas, may, upon the borrower's request, be rescheduled and/or restructured by banks and financial institutions based on an analysis of the borrower's cash flow and income, and on the basis of necessity and justification, subject to the recovery of at least 10 percent of the due interest.
Capital Adequacy Circular No. 15 Issued on 2025/07/16	Banks and Financial Institution were allowed to treat the Regulatory reserve for nonbanking assets recorded within the last 24 months as a Supplementary capital.
Bank Rate Circular No.1 Issued on 2024/07/31	Bank Rate reduced from 6.5 percent to 6 percent. Deposit Collection Rate reduced from 3 percent to 2.75 percent. Repo rate reduced from 5 percent to 4.5 percent.
Relaxation to loans availed in prescribed sectors Circular No. 13 Issued on 2025/06/23	In case of loans of up to NPR 20 million extended to the prescribed sectors (agriculture, energy, and micro, cottage, small and medium enterprises) that have encountered difficulties due to adverse circumstances, banks and financial institutions may, upon the borrower's request, undertake a one-time rescheduling and/or restructuring of such loans. This may be done based on an analysis of factors including the borrower's business plan and cash flow, and on the basis of necessity and justification, subject to the recovery of at least 10 percent of the due interest.
CRR Ratio Circular No. 12 Issued on 2025/05/28	Banks and financial institutions were required to maintain at least 90 percent of the required Cash Reserve Ratio.
Risk Weight Circular No. 12 Issued on 2025/05/28	The risk weight for Personal Hire purchase and Personal Auto Loans has been set at 100 percent. The risk weight for all loans secured against shares is now kept at 100 percent. Previously, loans up to Rs.5 million had a risk weight of 100 percent, while loans exceeding Rs.5 million had a risk weight of 125 percent.

Relaxation to Construction Sector Circular No. 11 issued on 2025/04/09	In the case of construction-related loans extended to contractors for projects where funding has been secured from public entities and either the construction work has been completed or is in progress but payment is yet to be received, licensed institutions may, upon the borrower's request, reschedule and/or restructure such loans. Such rescheduling and/or restructuring may be undertaken based on an analysis of the borrower's cash flow and on the basis of necessity and justification, subject to the recovery of at least 10 percent of the due interest.
Loan Loss Provision Circular No.09 Issued on 2025/03/25	The loan loss provision for the pass category loans reduced to 1.0 percent from 1.20 percent.
National ID Implementation Circular No. 06 issued on 2025/01/09	BFIs are required to open accounts based on a national identity card or its number. Nepali citizens residing abroad can open accounts with a licensed financial institution online, using alternative documents in place of a national identity card or its number. Additionally, a provision is made to adopt appropriate Customer Due Diligence measures consistent with the inherent risks to verify that the mobile number provided is registered with the concerned customer.
Capital Adequacy Circular No. 5 issued on 2024/10/08	Banks and Financial Institutions were allowed to treat the Accrued Interest Receivable on pass loan included in Regulatory Reserve and Interest Capitalized Reserve included in Regulatory Reserve as a Supplementary capital.
Interest Capitalized Term Loan (ICTL) Circular No. 5 issued on 2024/10/08	A provision has been made to transfer the amount in the Interest Capitalized Term Loan (ICTL) for the hydropower projects with a capacity of 50 MW or more that have capitalized interest to the retained earning account after deducting it from the Interest Capitalized Reserve (ICR), once the project is certified as 60 percent completed. For other projects with capitalized interest that have commenced commercial operations, the entire amount in the ICTL may be transferred to the retained earnings account, also deducting from the ICR.
Interest Income Recognition Circular No. 5 issued on 2024/10/08	A provision has been made to BFIs requiring to recognize interest income in accordance with the NFRS 9- Expected Credit Loss Related Guidelines, 2024 issued by the NRB
Countercyclical Buffer Circular No. 03 issued on 2024/08/27	The Countercyclical buffer has been released for the fiscal year 2024/25.
Regulatory Retail Portfolio Circular No. 01 issued on 2024/07/31	The maximum limit for the Regulatory Retail Portfolio (RRP) increased from Rs.20 million to Rs.25 million.

Bylaws, Guidelines and Polices Issued	
Framework for Dealing with Domestic Systemically Important Banks (D-SIBs), 2025	In order to identify Domestic Systemically Important Banks (D-SIBs) whose failure could cause significant disruption to the financial system and the overall economy, Framework for Dealing with Domestic Systemically Important Banks (D-SIBs), 2025 has been issued.
Guidelines on Corporate Social Responsibility of Banks and Financial Institutions, 2025	Guidelines on Corporate Social Responsibility of Banks and Financial Institutions, 2025 has been issued to ensure expenditures on Corporate Social Responsibility (CSR) are transparent, effective and purposeful, guaranteeing their use for the greater good.
Procedure for Certifying Dishonored Cheques, 2025	The Procedure for Certifying Dishonored Cheques, 2025 has been issued, incorporating amendments related to cheque dishonor in the Banking Offences and Punishment Act, 2008 (second amendment, 2025).
NFRS 9 Expected Credit Loss Guidelines, 2024	Expected Credit Loss Guidelines, 2024 have been issued in order to provide supervisory guidance for implementation of Expected Credit Loss in line with accounting standards, ensure uniformity and comparability in loan loss provisioning, define clear criteria for significant increase in credit risk, introduce prudential floors as a regulatory backstop, and strengthen recognition of loan losses using broader credit information.
Nepal Green Finance Taxonomy, 2024	The Nepal Green Finance Taxonomy, 2024 has been introduced to encourage environmentally responsible lending and investments by BFIs which also serves as a reference for such investments.
Bank Account Freeze and Unfreeze Bylaw, 2024	The Bank Account Freeze and Unfreeze Bylaw, 2024 has been implemented to clarify, enhance transparency, and systematize the processes related to the suspension and release of accounts held with the BFIs.
Directives for SACCOS	To ensure systematic, transparent and effective operations of Savings and Credit Cooperatives, directives and standards have been approved as mandated by the Nepal Rastra Bank Act.
Operational Guidelines for Microfinance Financial Institutions, 2024	Operational Guidelines for Microfinance Financial Institutions, 2024 has been issued to guide microfinance institutions in operating on the principles of social banking, focusing on areas such as credit management, internal control systems, staff administration, business operations, and customer protection.
Risk Management Guidelines for Microfinance Institutions	The Risk Management Guidelines for Microfinance Institutions, 2024 has been issued to ensure effective risk management functions within microfinance institutions.

Foreign Exchange Management Department, NRB	
Regulation Area	**Regulation**
SWAP Bylaw, 2081(2024) Circular No. 1 Issued on 2024/07/28	Nepal Rastra Bank, Swap Bylaws, 2081 has been issued for minimizing foreign exchange risk on foreign loan taken by banks and financial institutions from abroad.
Ceiling of DAP/DAA Circular No. 2 Issued on 2024/07/31	Limit of import through DAP/DAA has been increased to USD 1,00,000 from previous USD 60,000 limit.
Ceiling of Draft/TT Circular No. 2 Issued on 2024/07/31	Limit of import via Draft/TT has been increased to USD 50,000 from previous limit of USD 35,000.
Silver import ceiling Circular No. 2 Issued on 2024/07/31	Limit of silver import for industries engaged in the gold and silver business that import silver as an industrial raw material for their own use in manufacturing silver ornaments, artistic items, utensils and similar products has been increased to USD 3,00,000 or equivalent convertible currencies per transaction from limit of USD 60,000. While for other gold and silver businesses, import limit is enhanced to USD 1,00,000 from USD 60,000.
Exchange Facility against passport Circular No. 2 Issued on 2024/07/31	Yearly two times limit for Exchange Facility against passport has been removed.
FCY account operation Circular No. 2 Issued on 2024/07/31	Limits for payments from FCY Accounts has been increased to USD 25,000 from previous limit of USD 15,000.
Copy Document Circular No. 3 Issued on 2024/10/16	The requirement to submit the original document within 45 days after issuance of Bi..Bi.Ni. 4/4ga based on copy document has been extended to 60 days
Import of Spare parts Circular No. 3 Issued on 2024/10/16	Limit for emergency import of spare parts of aeroplane, telecommunication and medical equipment on credit through International Airport Custom has been increased to USD 1,00,000 from previous limit of USD 10,000
Import in Convertible currency from India Circular No. 3 Issued on 2024/10/16	Empty Capsules for filling medicine (Harmonic code 1905.90.40) has been added to list of goods that can be imported in convertible currency from India.

Payment of educational institutions Circular No. 3 Issued on 2024/10/16	Limit for the payment of affiliation, examination, and other fees by educational institutions established in Nepal to Foreign Universities with the permission of the Government of Nepal has been increased to USD 25,000 from previous limit of USD 12,000
FCY denominated loan Circular No. 3 Issued on 2024/10/16	Provision has been made to recover installment of FCY denominated loan in Nepalese rupee at prevailing exchange rate up to mid-July 2025 for firms which cannot repay in FCY due to various circumstances.
Convertible Currency Circular No. 4 Issued on 2024/11/21	Omani Riyal (OMR) has been added to list of convertible currencies.
Derivatives under proprietary Circular No. 6 Issued on 2025/03/03	Limit for Outstanding Proprietary Derivatives transactions has been increased to 20 percent from 15 percent.
Foreign investment and foreign loan management bylaw Circular No. 8 Issued on 2025/06/18	Fourth amendment of Foreign investment and foreign loan management bylaw, 2078 has been issued.

Key Regulations Implemented for the Financial Sector Stability

Nepal Insurance Authority	
Regulation Area	**Regulation**
Cash Loss Insurance Policy Related Directive 2026/05/13	Provisions to issue Cash Loss Insurance policy has been made which includes the policy terms, conditions and exclusions, premium rate and proposal form for the banker's indemnity insurance, cash insurance, loyalty guarantee insurance and other provisions.
Guide to Supervisory Intervention Framework 2026/05/13	Provide clear instructions and standards to take timely and corrective measures towards insurers who fail to comply with the regulatory requirements and sound industry practices. The framework has been introduced to help NIA identify risks or supervisory concerns at an early stage and intervene effectively to minimize losses to the policy holders, reduce likelihood of a failure of an insurer and preserve market confidence in the insurance industry.

Foreign Employment Term Life Insurance Pool Establishment and Operation Directive 2025/04/18	Provisions have been made for establishment of pool of insurers to issue the mandatory foreign employment term life insurance and set terms and conditions for its operations
Insurer's Fixed Assets Purchase and Sale Directive 2025/01/08	Provisions have been prescribed to make the process of fixed assets purchase, construction or sales by the insurers regulated, managed and transparent in the insurance sector
Mediation and Arbitration Procedure 2025/08/21	Provisions have been made to establish structured mechanisms for resolving disputes between insurers and policyholders through mediation and alternative dispute resolution processes rather than lengthy litigation.
Enlistment Guidelines for Foreign Reinsurers and Reinsurance Brokers 2021/07/18	Provisions have been made to organize the enlistment process of the foreign reinsurer and reinsurance broker doing reinsurance/retrocession and reinsurance broking business with the insurer and/or reinsurer
Risk Based Capital and Solvency Directive 2021/11/25	Nepal Insurance Authority issued the Risk Based Capital and Solvency Directive, 2022 which sets out the legal framework to move the insurance market towards a risk-based capital framework compliant with international insurance supervisory practices.
Accident Insurance Directive 2024/08/14	The amendment in directive clarifies conflicting clauses related to claim for medical expenses due to accident. It also prescribes the provision to discount amount equal to agent commission of 5 percent if no agent is involved in sales of policy.
Disclosure requirements 2024/10/29	NIA has prescribed financial indicators and ratios for insurers to ensure uniformity and comparability across insurers NIA has prescribed additional details to disclose in the Annual Report of the insurers to promote transparency and accountability in the insurance sector

Measures taken by Securities Exchange Board of Nepal

- Targeted Financial Sanctions Guidelines has been issued for securities market participants to prevent investment and involvement in terrorist activities and the production and proliferation of weapons of mass destruction through the securities market.
- To provide investment opportunities to non-resident Nepalis through Nepal's capital market, legal provisions have been made to allow investment companies established with joint investment from the Government of Nepal and non-resident Nepalese citizens.
- To streamline the securities issuance and distribution system, the Securities Issuance and Distribution Directive, has been implemented with the eighth amendment.
- The Securities Brokers and Securities Dealers regulations have been amended for the sixth time, allowing securities businessmen to obtain permission for public issuance of securities for securities dealers and securities brokers to perform investment management, investment advisory services, and qualified institutional investors-related activities.

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