

MACROECONOMIC REPORT

ANALYSIS AND OUTLOOK

JULY 2026



NEPAL RASTRA BANK
ECONOMIC RESEARCH DEPARTMENT
Central Office, Baluwatar, Kathmandu

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Nepal Rastra Bank

Economic Research Department

Contents

List of Tables	iv
List of Figures	iv
List of Boxes	v
List of Abbreviations.....	vi
Executive Summary	vii
1. Global and Regional Developments	1
2. Domestic Economic Developments.....	4
2.1 Real sector.....	4
2.1.1 Economic growth.....	4
2.1.2 Inflation	7
2.2 Monetary and Financial Sector	11
2.2.1 Liquidity and Interest Rates	11
2.3 External Sector	19
2.4. Fiscal Sector	23
3. Domestic Economic Outlook	28
3.1. Inflation.....	28
3.2 Economic Growth	29
3.3. External Sector	29
3.4. Money Supply and Credit.....	30
3.5. Liquidity and Interest Rates.....	30
3.6 Monetary Policy Stance for 2026/27	30
3.7 Key Assumptions of the Projections/Outlook.....	31
3.8. Risks to the Outlook.....	31
3.8.1 Risks to Growth	31
3.8.2 Risk to Inflation.....	31

References

Annex

List of Tables

Table 2.1	: Breakdown of Aggregate Demand	6
Table 2.2	: Government Expenditure and Revenue (Eleven Months)	24

List of Figures

Figure 1.1	: Global and Regional Developments	2
Figure 2.1	: Economic Growth, Growth Decomposition, and Industrial Performance	5
Figure 2.2	: Output gap estimates (%).....	7
Figure 2.3	: Inflation Trend	8
Figure 2.4	: Decomposition of Overall Inflation.....	9
Figure 2.5	: Inflationary dynamics.....	9
Figure 2.6	: Inflation at Risk Estimates.....	10
Figure 2.7	: Selected sources of liquidity and NRB's monetary operations	11
Figure 2.8	: Various interest rates.....	12
Figure 2.9	: Money supply growth with sources and uses	14
Figure 2.10	: Credit Growth and Composition	15
Figure 2.11	: Updates on the number of BFI branches.....	17
Figure 2.12	: Credit Profile	18
Figure 2.13	: External Sector Developments	20
Figure 2.14	: External sector indicators against real sector indicators	22
Figure 2.15	: Fiscal Indicators.....	25
Figure 2.16	: Budget 2026/27.....	27
Figure 3.1	: Inflation Forecast.....	28

List of Boxes

Box 1 : Nepal's Potential GDP Growth.....	6
Box 2 : Inflation at Risk Analysis	10
Box 3 : Interest Rate Pass-Through of Monetary Policy in Nepal	13
Box 4 : Credit Conundrum	17
Box 5 : Foreign Exchange Reserves: Underneath the Accumulation.....	22
Box 6 : Budget 2026/27: Boosting the Nepalese Economy	26

List of Abbreviations

ARA	Assessing Reserve Adequacy
BFI	Bank and Financial Institutions
BoP	Balance of Payments
CAR	Capital Adequacy Ratio
CCAR	Core Capital Adequacy Ratio
CD	Credit to Deposit ratio
CIT	Citizen Investment Trust
CMEFS	Comprehensive Macroeconomic and Financial Situation
CPI	Consumer Price Index
DC	Deposit Collection
EMDEs	Emerging Markets and Developing Economies
EPF	Employee Provident Fund
FDI	Foreign Direct Investment
FOREX	Foreign Exchange
GaR	Growth-at-Risk
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IaR	Inflation-at-Risk
IMF	International Monetary Fund
INR	Indian Rupee
IRC	Interest Rate Corridor
IT	Information Technology
NDTM	Non-Deposit Taking Microfinance Financial Institution
NFAs	Net Foreign Assets
NLA	Net Liquid Asset ratio
NOC	Nepal Oil Corporation
NPL	Non-Performing Loan
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank
NSO	National Statistics Office
REER	Real Effective Exchange Rate
SDF	Standing Deposit Facility
USD	United States Dollar
WAIBR	Weighted Average Interbank Rate

Executive Summary

The global economy is holding up despite war shocks. The International Monetary Fund's latest forecast indicates slower growth and higher inflation, stemming from global energy disruptions. The United States-Iran treaty is expected to restore peace in West Asia, lower oil prices to pre-war levels, and ease inflation. Most central banks have halted rate cuts, with some raising rates to combat inflation. The West Asia crisis is expected to dampen South Asia's growth, but India's strong prospects keep the region outperforming other Emerging Markets and Developing Economies.

Domestic economic growth is estimated to moderate modestly to 3.85 percent in 2025/26, with the service sector providing a major impetus. Private consumption stays dominant, and investment demand gains momentum. After easing inflationary conditions until November 2025, prices rose again, reaching 5.04 percent in May 2026, driven by higher energy and food prices. Nepal's oil prices quickly aligned with global crude oil rates, with secondary effects on transportation and other sectors.

The monetary sector is continued to have ample liquidity in the banking sector, leading to low market interest rates. Liquidity has continued to rise due to sustained remittance inflows but its lower absorption. However, Nepal Rastra

Bank's monetary operations have helped maintain short-term interest rates within the Interest Rate Corridor. While broad money has continued to grow mostly in line with Nepal Rastra Bank's projections, credit growth remains constrained. The overall financial sector remains broadly stable, although some concerns remain due to declining asset quality, strain on capital requirements, and reduced profitability.

The external sector continued to maintain a stronger position, marked by a higher current account surplus, a larger balance of payments surplus, and historically high foreign exchange reserves. While higher oil prices stemming from tensions in West Asia increased Nepal's import bill, strong remittance inflows helped offset the impact, supporting reserve accumulation. However, the Nepalese Rupee depreciated significantly against the US dollar during the review year, largely reflecting spillover effects from the depreciation of the Indian Rupee, to which it is pegged.

Government finances have continued to contract, with revenue mobilization exceeding recurrent expenditure, resulting in a revenue surplus. The primary balance is positive, indicating that revenue mobilization adequately funds both recurrent and capital expenditure. Conversely, the fiscal balance is negative, indicating that a large part of borrowing

is utilized to service interest and existing debt. With capital expenditure well below the budget target and the debt servicing cost exceeding capital spending, raising investment to finance for growth rather than consumption remains a challenge.

Against this backdrop, the outlook for Nepal's economy in 2026/27 seems to be favorable, supported by increased economic activity to be driven by proposed government policy reforms, improved private-sector confidence, and rising consumption and investment demand. Assuming stabilized global economic conditions and restored investor confidence,

the government's projection of 7 percent economic growth is achievable. Following a diplomatic breakthrough between the United States and Iran and moderating crude oil prices, the outlook for inflation also appears relatively benign despite recent price accelerations and expansionary fiscal policy. Under these premises, inflation is projected to average around 5.5 percent in 2026/27, with upside risks stemming from renewed geopolitical tensions and higher than expected inflation in India. Therefore, the Nepal Rastra Bank persists continuation of its cautiously accommodative monetary policy stance.

1. Global and Regional Developments

The recovering global economy is under the shadow of war. The International Monetary Fund's latest forecasts show slower growth and higher inflation, driven by global energy disruptions. The US-Iran treaty is expected to restore peace in West Asia, lower oil prices to pre-war levels, and ease inflation. Therefore, most of the central banks have halted rate cuts, with some already raising rates. The West Asia crisis is expected to dampen South Asia's growth, but India's strong prospects keep the region outperforming other Emerging Markets and Developing Economies.

Global economic growth is constrained by armed conflicts in West Asia and its global spillover effects. The global economy is in the midst of repeated shocks from the Russia-Ukraine conflict, followed by recent tensions in West Asia. This unprecedented level of uncertainty and chaos has weighed on global output, but productivity gains from AI have largely offset the impact. The International Monetary Fund (IMF) has modestly moderated its global economic growth projection for 2026 from 3.3 percent in January 2026 to 3.1 percent in April 2026 (Figure 1.1a) (IMF, 2026b). The global uncertainty index, which peaked in September 2025 amid sizable tariffs and an escalation of the trade war between the US and major partners, has been easing. However, the index rose again with the West Asia conflict, signaling a resurgence of global uncertainty (Figure 1.1d).

The war in West Asia is expected to have far-reaching consequences, emanating primarily from oil price shocks. West Asia supplies about 20 percent of global oil reserves and passes through the Strait of

Hormuz. The closure of the Strait of Hormuz following the escalation of war in the region spiked crude oil prices, which breached the \$100 per barrel mark. Moreover, diesel prices spiked disproportionately after the conflict, as most diesel refineries are located in West Asian countries (BoE, 2026). The price of precious metals, however, has moderated since February 2026 (Figure 1.1e).

Crude oil price shocks have far-reaching repercussions, with extensive second-order effects. Global economies are likely to confront spiking inflation, higher production costs for businesses, and supply chain disruptions. The IMF has revised its global inflation forecast for 2026 from 3.8 percent in January 2026 to 4.4 percent in March 2026 (IMF, 2026b), indicating a compression in consumer purchasing power. Inflation in advanced and emerging economies is projected to hover around 2.8 percent and 5.5 percent respectively, in 2026 (Figure 1.1b).

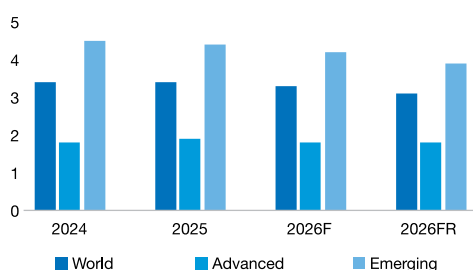
Global central banks are closely

monitoring recent developments and shifting from active easing to a cautious pause. Most of the banks have completed the policy easing cycle and are holding rates steady. The Reserve Bank of Australia, the People's Bank of China, the Reserve Bank of India, the Bangladesh Bank, and the Federal Reserve have left their rates unchanged.

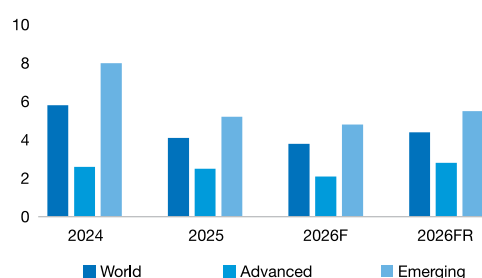
The European Central Bank, the Bank of Japan, Central Bank of Sri Lanka, and South African Reserve Bank, however, raised rates by 25 basis points. The Bank of Japan's hike to the highest level in three decades and European Central Bank's hike, the first since 2023, was in response to rising energy costs and accelerating inflation (Figure 1.1c).

Figure 1.1: Global and Regional Developments

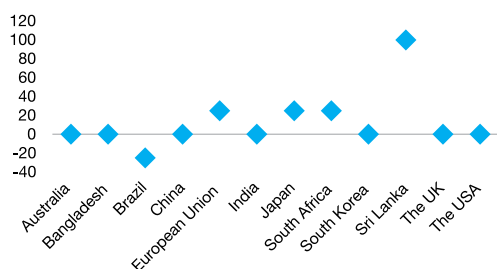
a) Economic Growth (%)



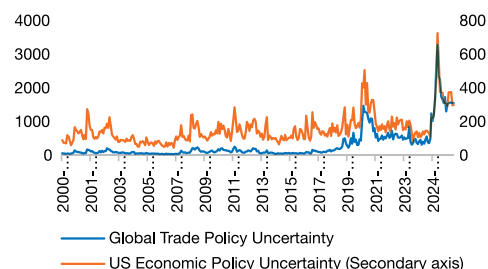
b) Inflation (%)



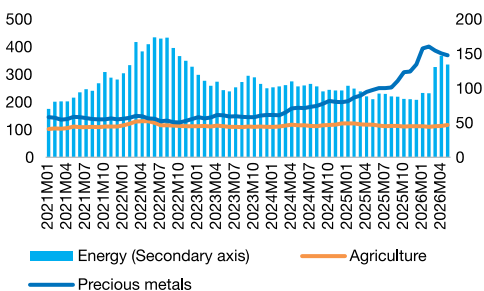
c) Policy Rate Change (Basis Points)



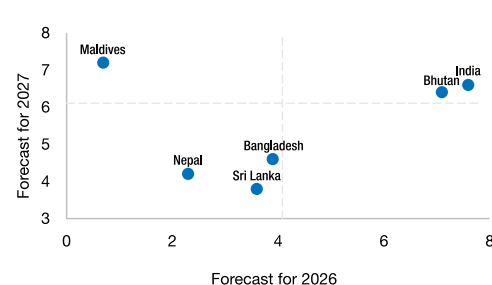
d) Global Policy Uncertainty: Post 2000s

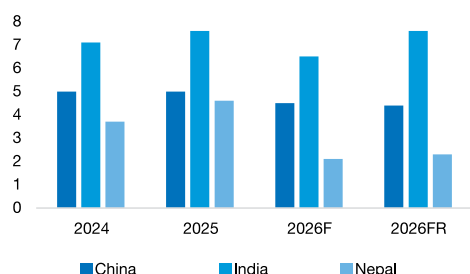
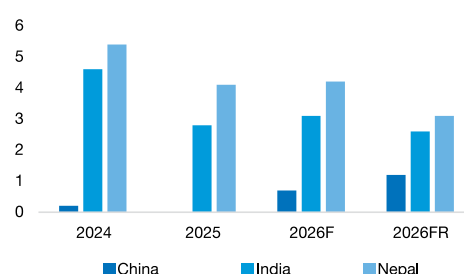


e) Trends of Major Commodity Price Index



(f) Economic Growth: South Asia (%)



(g) Economic Growth (%)**(h) Inflation (%)**

Sources: (a) World Economic Outlook, IMF; (b) World Economic Outlook, IMF; (c) Respective central banks; (d) Economic Policy Uncertainty, higher index corresponds to higher uncertainty; (e) World Bank Pink Sheet; Precious metals include Gold, Silver, and Platinum; (f) World Bank South Asia Update; (g) World Economic Outlook, IMF; (h) World Economic Outlook, IMF and Reserve Bank of India; F: WEO January Forecast; FR: WEO April Forecast

South Asia's growth is projected to slow to 6.3 percent from 7.0 percent in 2026, due to energy market dislocations. Despite global disruptions, the region's growth remains strong, supported by India's robust economy. Headline inflation remains within the central bank's target, but inflationary pressures from the West Asia conflict could push it above the target. Service exports, one of the region's growth drivers, remain resilient, but AI-driven disruptions could lead to disappointments (Figure 1.1f) (World Bank, 2026b). Likewise, China's GDP growth is projected to moderate modestly by 0.1 percentage point, and inflation is expected to spike by 0.5 percentage point compared to the earlier forecast (IMF, 2026b).

The United States dollar appreciated substantially against the currencies of South Asian countries. The Indian rupee slid against the US Dollar by nearly 6.0 percent from January 1, 2026, to May 31, 2026, primarily driven by the AI boom and capital flows toward the United States¹, contributing an estimated 0.5 percentage point increase in the US Gross Domestic Product (GDP) growth in 2025 (IMF, 2026b). South Asian countries lack artificial intelligence firms that could otherwise attract investors. This situation has been further exacerbated by punitive American tariffs on South Asian exports, especially from Bangladesh and India.

¹ India's weak currency reflects deeper problems than the Iran war

2. Domestic Economic Developments

Domestic demand held traction amidst multiple shocks stemming from Gen Z movements and energy market dislocations. Inflationary pressure remained low, although it gained momentum in later months. The monetary and financial sector presented a mixed picture, marked by persistent excess liquidity, historically low interest rates, and subdued credit growth. The external sector continued to show resilience, supported by sustained remittance inflows and a larger balance of payments surplus. The fiscal sector continued to underperform, with capital expenditure execution remaining below the target.

2.1 Real sector

Economic growth is estimated to moderate modestly to 3.85 percent in 2025/26, with the service sector providing a major impetus, followed by industry and agriculture sectors. At the industry level, wholesale and retail trade, financial services, and electricity and gas are the top drivers of growth. Private consumption stays dominant, and investment demand gains momentum. After the easing of inflation paused in November 2025, prices have risen again, reaching 5.04 percent in May 2026, driven by higher energy and food prices. Post-March 2026, inflation in India and Nepal diverged sharply as Nepal's oil prices quickly aligned with global crude oil rates, while prices remained relatively stable in India.

The National Statistics Office (NSO)'s GDP growth estimate comfortably falls within the growth band forecasted by the Nepal Rastra Bank (NRB) (NRB, 2026d). The estimated growth remains below the potential GDP growth of 4.2 percent, indicating a negative output gap. The output gap has remained negative since 2022/23, though it has been narrowing gradually (Box 1). While the growth estimate remains below its potential, the current performance is reasonable, given the September 2025 Gen Z movement, the consequent colossal damage to both private and public infrastructure, the war in West Asia, and its ramifications for global energy. These events would have exacerbated the slowdown by eroding investors' confidence and heightening security concerns, constraining economic activity.

2.1.1 Economic growth

Nepal's economic growth is estimated at 3.85 percent in 2025/26. The agriculture, industry, and service sectors are estimated to expand by 1.58 percent, 5.67 percent, and 4.21 percent, respectively (Figure 2.1a).

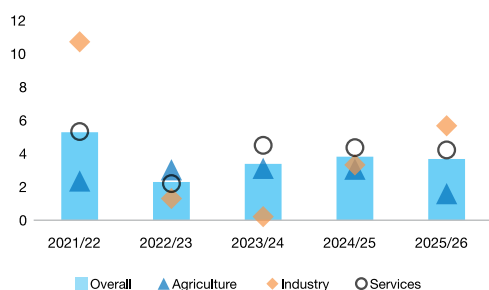
The growth decomposition shows that Nepal's economy in 2025/26 is mainly driven by the service sector, followed by industry and agriculture sectors (Figure 2.1b). Industry-level analysis

indicates that the agriculture sector contributed 12.6 percent, down from 23.6 percent the previous year. Unfavorable weather, including drought during paddy planting and unseasonal rainfall during harvest, resulted in slower growth. The industry sector expanded, mainly due to the electricity and gas subsector, which is expected to expand around 20 percent owing to increased electricity generation, improved transmission, and higher consumption (NSO, 2026). The service sector remains the main growth driver, with contributions from wholesale and retail trade, financial services, insurance, and the transportation sector (Figure 2.1c).

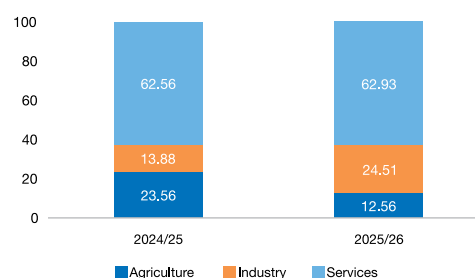
Imports of capital and intermediate goods are closely linked to manufacturing activity and the performance of the industrial sector. Measures aimed at reducing imports and sustaining depleting reserves rapidly led to a decline in imports, weakening manufacturing activity and the overall industrial sector, as illustrated in Figure 2.1d. In addition to manufacturing, the construction sector contracted due to import restrictions. In subsequent years, however, both imports and manufacturing activity rebounded, contributing to a recovery in the industry sector and aligning with the narrowing output gap.

Figure 2.1: Economic Growth, Growth Decomposition, and Industrial Performance

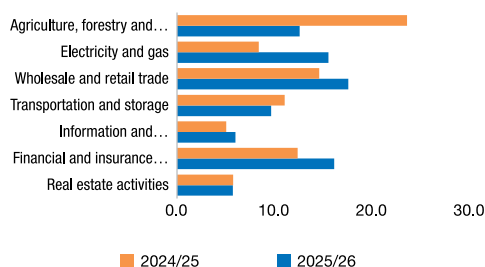
(a) Growth by Economic Sector (%)



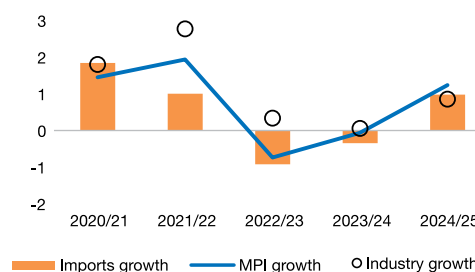
(b) Growth Decomposition by Economic Sector (%)



(c) Growth Decomposition by Industry



(d) MPI growth against Imports of capital goods



Note: sectors contributing less than 5 percent of GDP are excluded for clarity. Imports include intermediate goods and capital goods.

Source: National Statistics Office (2026)

Nepal's aggregate demand is primarily fueled by consumption, followed by private investment. Private consumption remains dominant, but its share is gradually moderating from about 88 percent in 2021/22 to about 85 percent in 2025/26. Private investment demand gained major momentum with robust growth of 39.6 percent in 2025/26, while government investment growth contracted sharply by

29.3 percent. Growth in imports and exports remained steady. The easing of preventive measures, and a positive outlook towards the newly formed majority government likely restored investor confidence, contributing to the revival of private investment demand. Further, demand is regaining momentum with expanding private investment and resilient private consumption.

Table 2.1: Breakdown of Aggregate Demand

Items	Unit	2021/22	2022/23	2023/24	2024/25	2025/26
Domestic demand (A+B+C)	Share of GDP	131.1	123.9	121.9	122.5	122.2
	Growth (%)	8.6	-6.7	0.5	3.1	2.6
A. Private consumption	Share of GDP	88.1	87.2	87.0	85.6	84.9
	Growth (%)	6.8	-1.6	1.5	1.8	2.9
B. Private Investment	Share of GDP	21.7	15.7	14.8	13.6	19.3
	Growth (%)	4.6	-28.1	-2.1	-8.1	39.6
C. Government expenditure	Share of GDP	12.6	14.5	16.1	17.5	12.4
	Growth (%)	4.3	15.1	14.8	8.9	-29.3
Gross Domestic Savings	Share of GDP	6.6	7.2	6.7	6.9	9.7
Net external demand	Share of GDP	-35.6	-27.6	-25.1	-24.9	-24.6
	Growth (%)	13.8	-22.6	-1.4	2.4	3.4
Imports	Share of GDP	-42.3	-34.6	-32.6	-33.7	-34.5
	Growth (%)	16.4	-18.8	0.3	6.3	5.2
Exports	Share of GDP	6.7	7.0	7.6	8.8	10.0
	Growth (%)	34.1	4.3	7.7	22.2	11.3

Note: Private investment denotes private gross fixed capital formation. Government expenditure includes both government consumption expenditure and public gross fixed capital formation.

Source: National Statistics Office, 2026.

Box 1: Nepal's Potential GDP Growth

Potential GDP growth and the output gap are latent macroeconomic indicators that reflect a nation's economic status. Potential GDP is a theoretical estimate of the level of output an economy can produce under conditions of full employment. In economic terms, full employment refers to a situation in which an economy operates at its productive capacity without generating inflationary pressures, given the available resources, institutional constraints, and legal provisions. However, the potential GDP warrants cautious interpretation, especially in the context of Nepal, where resources are, by and large, underutilized. Potential GDP of

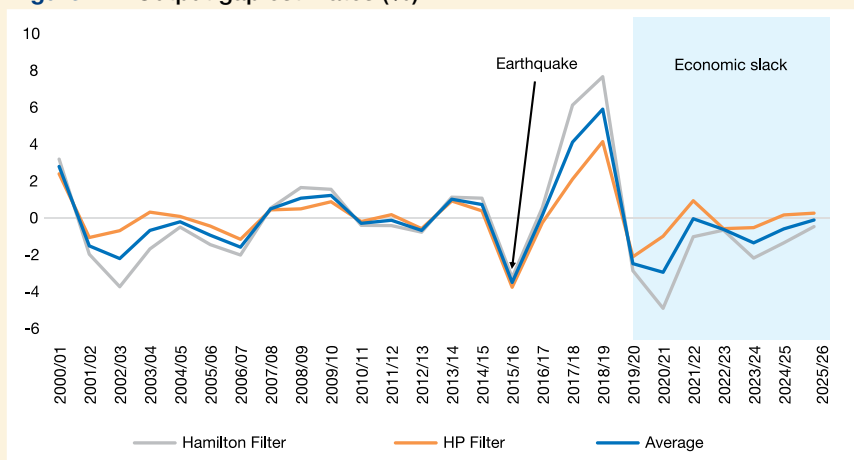
Nepal is estimated at 4.2 percent, which underscores the need to reconcile under-utilization of factors, as evidenced by industrial capacity utilization hovering below 50 percent.

$$\text{Output gap} = \frac{\text{Actual GDP} - \text{Potential GDP}}{\text{Potential GDP}} \times 100$$

The difference between actual (real) GDP and potential GDP is known as the output gap, which serves as an indicator of the business cycle. A positive output gap suggests that the economy is operating above its sustainable capacity and is likely to generate upward pressure on prices (Powell et al., 2021). In contrast, a negative output gap indicates that the economy is operating below its sustainable capacity, suggesting economic slack.

Figure 2.2 presents the output gap estimates obtained using the Hamilton Filter and the HP Filter. The estimates suggest that Nepal's economy has been experiencing prolonged economic slack since the onset of the COVID-19 crisis in 2020. Although the economy showed a moderate recovery between 2019/20 and 2021/22, the precautionary measures implemented to address balance of payments pressures led to a sharp contraction in imports and private investment. As a result, economic activity weakened, causing the economy to slowdown and the output gap to remain negative. Nevertheless, the estimates indicate that the economy has been on a gradual, albeit modest, recovery path since 2024/25, with the output gap narrowing as economic activity has slowly regained momentum.

Figure 2.2: Output gap estimates (%)



Source: NRB Staff Estimates

2.1.2. Inflation

Consumer price inflation (CPI) has increased steadily since November 2025. After reaching a low of 1.1 percent in

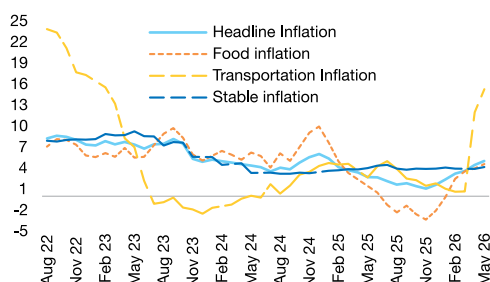
November 2025, inflation reversed, rising to 5.04 percent by May 2026, mainly due to a sharp rise in petroleum prices and their secondary effects on transportation. Food inflation also contributed to the overall

increase. The stable inflation rate, excluding food and transportation, remains stable or has moderated slightly, suggesting recent

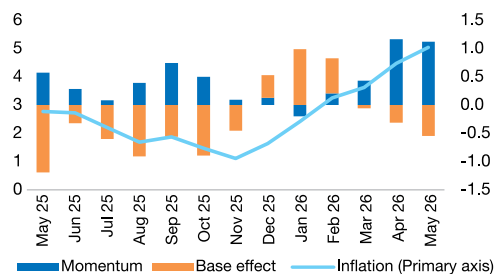
spikes are driven by external shocks (Figure 2.3a).

Figure 2.3: Inflation Trend

(a) Inflation Trend (%)



(b) Inflationary Momentum (%)



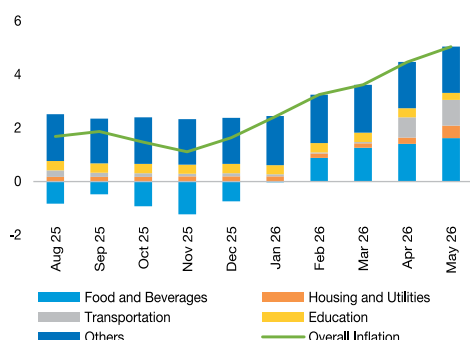
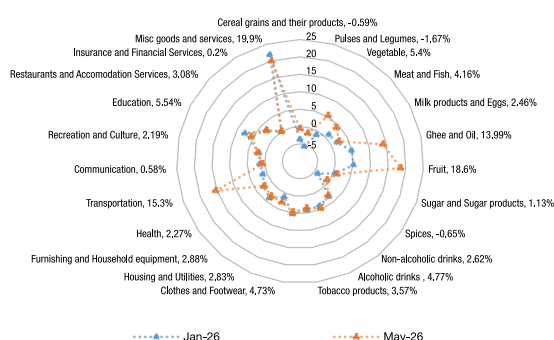
Note: Base effect is the statistical distortion caused by high or low price levels in the 12 months prior. The momentum effect captures the actual month-on-month increase in price levels.

Inflationary dynamics have shifted in recent periods, as the base effect's contribution has gradually faded and the momentum effect has gained traction. While the base effect dominated inflation between December 2025 and February 2026, its contribution turned negative thereafter. In contrast, the momentum effect has emerged as the main driver since March 2026 (Figure 2.3b). This strengthening momentum has largely been fueled by oil price shocks, thereby offsetting the base effect.

The upward inflation trend reflects a significant shift in contributions from key sectors, notably food and beverages. Deflationary pressures from food and beverages emerged in late 2025 but ended as food prices exited deflation by May 2026. Meanwhile, the volatile transportation subgroup saw its contribution to rise inflation sharply from 0.05 percent in March to 0.96 percent in May 2026. The

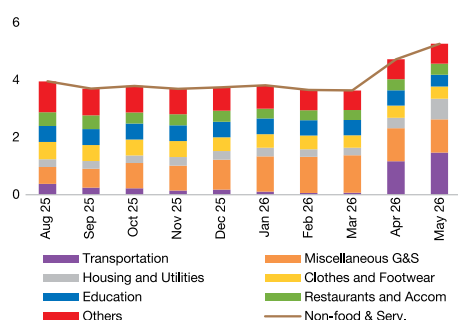
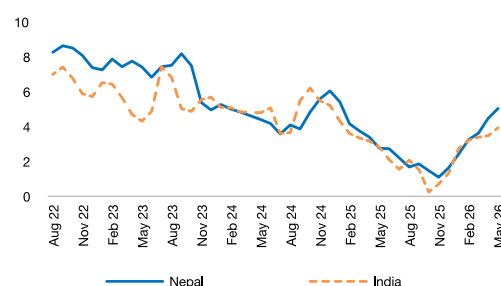
Housing and Utilities subgroup, including kerosene and LP Gas, remained stable, then increased to 0.47 percent in May 2026. All other subgroups contributed between 1.67 percent and 1.84 percent. Overall, the increase in inflation is mainly driven by a reversal in food prices and a surge in transportation costs (Figure 2.4a).

By May 2026, food inflation has increasingly concentrated in a few commodities, with fruits (18.6 percent), ghee and oil (13.99 percent), and vegetables (5.4 percent) – these three groups contribute 30.6 percent to food inflation – experiencing strong price pressures. Non-food inflation was mainly driven by transportation and miscellaneous goods and services. Transportation prices rose sharply by 15.3 percent, reflecting supply-side and distribution pressures. (Figure 2.4b).

Figure 2.4: Decomposition of Overall Inflation**(a) Decomposition of Inflation (%)****(b) Drivers of Inflation**

Non-food and services inflation stood at 5.26 percent year-on-year in May 2026, dragged primarily by sharp price increases in miscellaneous goods and services, transportation, education, clothing and footwear, and housing and utilities. Inflationary pressures were broad-based, across most non-food subgroups, while inflation across insurance, financial services, and communication was

largely muted. Elevated precious metal and energy prices contributed to the price hike in miscellaneous goods and services. Education, housing, and utilities also recorded sustained upward price movements. Meanwhile, communication, insurance, and financial services experienced relatively subdued price growth (Figure 2.5a).

Figure 2.5: Inflationary dynamics**(a) Decomposition of Non-Food and Services (%)****(b) Trend of Inflation (%) in Nepal and India**

Both Nepal and India experienced a significant downward trend in year-on-year inflation during the latter half of 2025, both countries reached their lowest points around October and November 2025, followed by a steady upward trajectory

in both countries from the beginning of 2026 through May 2026. While the trends are closely aligned, Nepal's inflation rate generally remained slightly higher than India's throughout most of this period. The rates converged closely around February

and March 2026 before Nepal's inflation rate began to rise more sharply than India's by April and May 2026 (Figure 2.5b).

The close movement in inflation reflects Nepal's exchange rate peg to the Indian Rupee and its strong trade linkages with India, which help transmit price changes across the border. The recent divergence, however, was driven mainly by differences in petroleum prices. In Nepal, higher domestic petroleum prices, adjusted more

frequently by the Nepal Oil Corporation (NOC) in line with international oil prices, pushed up transport and energy costs more than in India, where fuel prices remained relatively stable. In addition, Nepal recorded stronger inflation in some food items, especially edible oil and fruits, as well as in education among non-food items. These domestic price pressures caused Nepal's inflation to rise faster than India's in the latter months.

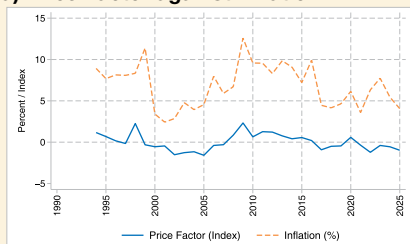
Box 2: Inflation at Risk Analysis

Inflation at Risk (IaR) is analogous to the Growth at Risk (GaR) framework and is designed to assess risks at the tails of the inflation distribution. Building on the GaR model employed by NRB (2026), the framework is extended to inflation to move beyond average inflation outcomes and reorient focus towards the likelihood of adverse inflation scenarios, with particular emphasis on the upper tail. The model captures both external price vulnerabilities and Indian inflation dynamics along with macroeconomic vulnerabilities arising from domestic conditions. Using a set of macroeconomic and price indicators, these sources of risks are captured by extracting factors representing each category. The macroeconomic indicators include real GDP, broad money supply, imports, and exports, while the price indicators comprise the Indian CPI and crude oil prices.

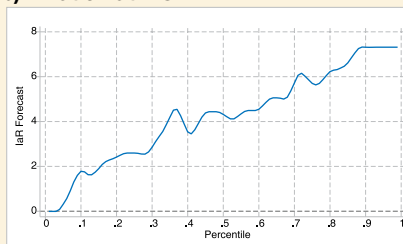
Nepal's inflation exhibits a strong co-movement with the price factor, while its correlation with domestic macroeconomic factors remains relatively weak (Figure 2.6a). This suggests that inflation dynamics in Nepal are driven primarily by international oil price movements and Indian price developments (Figure 2.6b). The IaR estimates indicate a median inflation rate of around 4.2 percent, with inflation exceeding 6 percent at the 70 percent of the conditional distribution. This implies that, in the presence of adverse external price shocks, there is a 30 percent probability that inflation in Nepal will breach the 6 percent threshold.

Figure 2.6: Inflation at Risk Estimates

a) Price Factor against Inflation



b) Inflation at Risk



Source: NRB Staff Estimates

2.2 Monetary and Financial Sector

The monetary sector is characterized by ample liquidity in the banking sector, leading to low market interest rates. Liquidity has continued to rise due to sustained remittance inflow; but absorption has slowed amid moderating credit demand and import growth. NRB's monetary operations have helped maintain short-term interest rates within the interest rate corridor. While broad money has continued to grow mostly in line with NRB's projections, credit growth remains constrained.

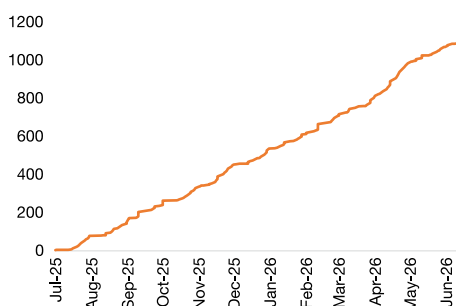
2.2.1. Liquidity and Interest Rates

Liquidity in the banking sector has continued to grow since 2023. Despite international instability, steady remittance

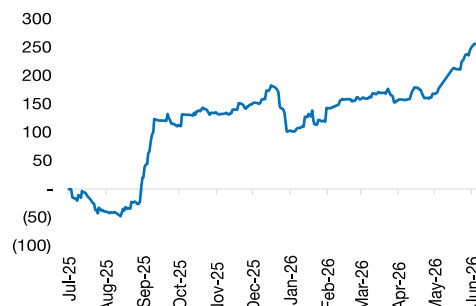
inflows have supported liquidity buoyancy (see Figure 2.14c). NRB's Foreign Exchange (FOREX) interventions have injected over Rs. 1 trillion in 2025/26 (Figure 2.7a). Additionally, net government expenditure exceeds Rs. 250 billion (Figure 2.7b). Liquidity influx from remittances and higher government spending than revenue offset autonomous factors such as net public debt issuance and the INR requirements of Bank and Financial Institutions (BFIs) and NOC. NRB's monetary operations continue to absorb excess liquidity through the Standing Deposit Facility (SDF), Deposit Collection (DC) Auctions, and NRB Bonds from BFIs (Figure 2.7c). Gaps in Figure 2.8c reflect periods of extended holidays when SDF or DC Auctions, or both, were not conducted, and earlier issuances matured.

Figure 2.7: Selected sources of liquidity and NRB's monetary operations

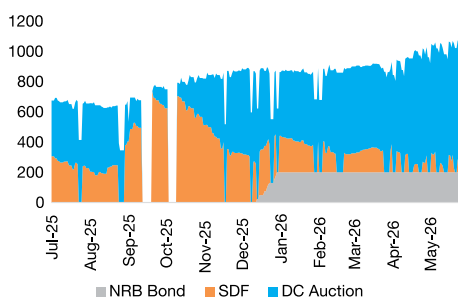
**(a) USD purchase from BFIs
(Cumulative, Rs. billion)**



**(b) Net government transactions
(Cumulative, Rs. billion)**



**(c) Outstanding Daily Liquidity Operations
(Rs. billions)**



Short-term interest rates remain low, close to the Interest Rate Corridor (IRC) floor. The weighted average interbank rate (WAIBR), the operating target of monetary policy, has remained equal to the SDF rate, or the floor of the IRC, except for some occasional deviations below the corridor floor (Figure 2.8a). To ensure the IRC remains intact for the operating target, NRB continues to review its SDF policies and align them with domestic needs and best international practices. Moreover, T-bill rates for various maturities shorter than a year have moved together and remained almost flat over the last two years (Figure 2.8b). These rates have closely followed the WAIBR, especially after the introduction of SDF in February 2024, indicating effective immediate transmission of the operating target of monetary policy.

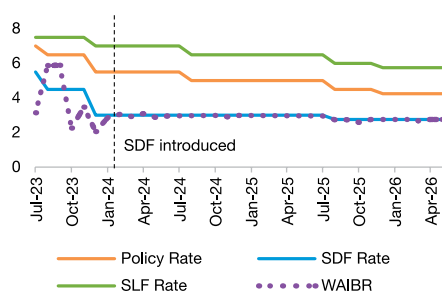
BFI rates and long-term interest rates continue to decline. Lending and deposit rates at BFIs are at historic lows, with

interest rates across Class A, Class B, and Class C BFIs declining at similar rates (Figure 2.8c). Fixed deposit rates at Class A banks have decreased significantly since January 2026, already at very low levels, and have fallen even further. It is evident in Figure 2.8e, as seen in the overall downward shift of the yield curve while maintaining a positive slope.

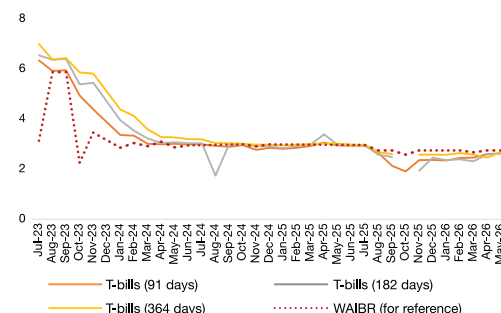
Average yield on government securities has continued to decline since 2022/23. Since the inverted U-shaped curve of 2022/23, which indicates declining short-term interest rate expectations in the long term, the curves for subsequent years have continued to fall (Figure 2.8d). Although the curve for 2025/26 remains slightly upward-sloping, modern expectations theory suggests that weak expectations dominate, implying that short-term interest rates are not expected to rise considerably in the near future.

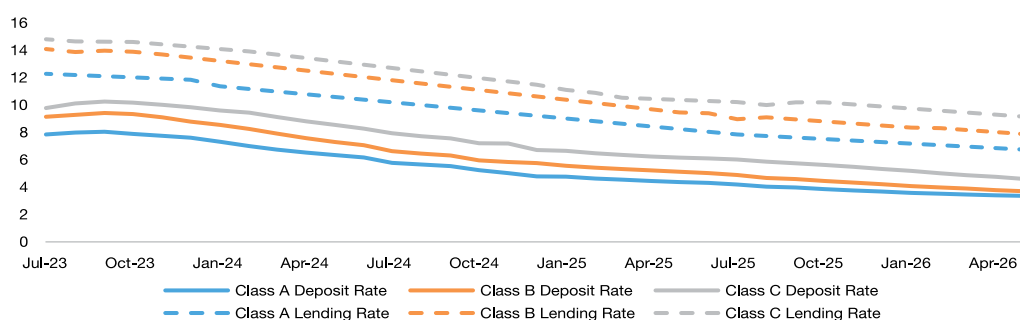
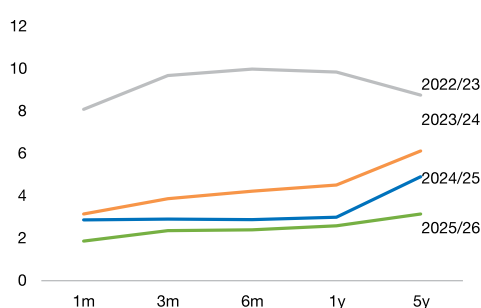
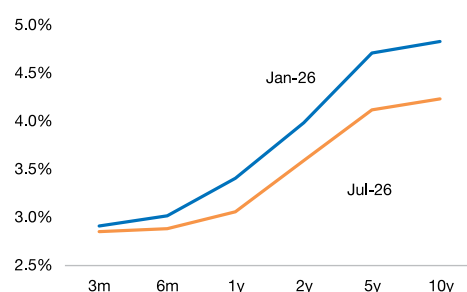
Figure 2.8: Various interest rates

(a) Interest rate corridor and WAIBR (%)



(b) T-Bills Rates (%)



(c) BFIs Deposit and Lending Rates (%)**(d) Average yield on government securities (%)****(e) Fixed personal deposit rates**

Notes: (a) and (b) are monthly series data.

(d) 1m, 3m, 6m, and 1y represent average interest rates on T-bills with maturity periods of 28, 91, 182, and 364 days, respectively, issued throughout the fiscal year. 5y represents the average interest rate on 5-year Development Bonds issued throughout the fiscal year. Data obtained from the Public Debt Management Office, Ministry of Finance.

(e) Rates are simple averages of fixed personal deposit interest rates for specified periods offered by all Class A banks. Jan-26 denotes rates offered from mid-December 2025 to mid-January 2026, and Jul-26 denotes rates offered from mid-June 2026 to mid-July 2026. Data obtained from the respective commercial bank's website.

Box 3: Interest Rate Pass-Through of Monetary Policy in Nepal

A key question for monetary policymakers is how changes in the policy rate affect bank lending rates, a process known as interest rate pass-through. In an interest rate targeting regime, this pass-through is the main channel through which monetary policy impacts credit conditions and, ultimately, economic activity. In advanced economies with developed financial markets, the pass-through is usually immediate and complete. In developing economies, however, it is often delayed and weakened by financial frictions and less mature market structures.

Nepal Rastra Bank shifted from a quantity-targeting to an interest-rate-targeting regime in July 2017, introducing the Interest Rate Corridor (IRC). Empirical studies document muted transmission of the bank rate to lending rates prior to the IRC's implementation (Maskay & Pandit, 2010). Nepal's pass-through estimate of about 0.5 percentage points aligns with evidence from other developing economies and broader literature (Byanjankar, 2025; Pokhrel & Upreti, 2025). Mishra et al. (2012)

document a pass-through of approximately 0.4 in low-income countries, while Mishra et al. (2016) find a similar peak of about 0.4 for India. In contrast, advanced economies with mature markets tend to show near-complete pass-through. Nepal's experience thus reflects the typical pattern for developing economies.

Term deposits are the main source of structural friction, accounting for about 38 percent of total deposits with banks and financial institutions. These deposits prevent banks from quickly adjusting to policy rate changes, causing rigidity in the average cost of funds and the base rate. While interbank rate pass-through is immediate and complete, deposit rate pass-through is also immediate but partial. Since deposits constitute most of banks' loanable funds, this adjustment friction directly hampers overall changes in the base rate. Other factors affecting pass-through include bank concentration or the monopoly power of banks. The Herfindahl-Hirschman Index (HHI) is around 600 (below the 1000 concentration threshold), and the Lerner Index is approximately 0.23 (below the 0.5 market power threshold), indicating that the sector operates under monopolistic competition, which weakens the bank concentration hypothesis (Bhanjankar, 2025). Besides these factors, the literature also documents the size of the informal sector and the role of shadow banks in constraining the effectiveness of monetary policy (Chen et al., 2018).

2.2.2 Money Supply and Credit Growth

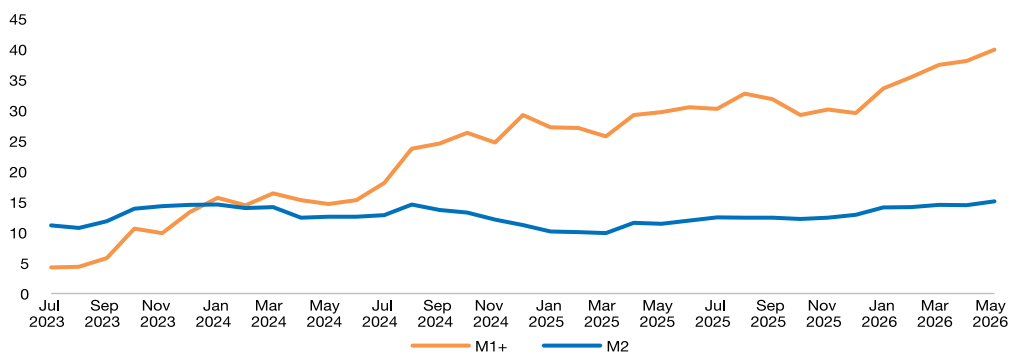
Broad money (M2) has continued to grow mostly in line with NRB's projections.

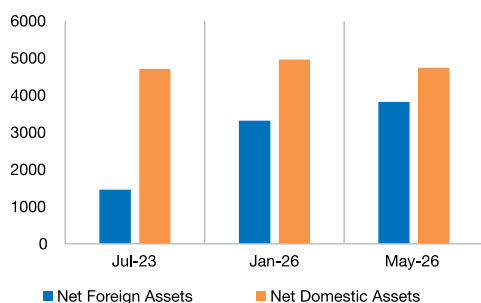
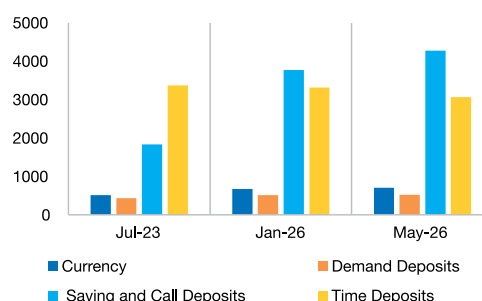
As the share of savings deposits has increased considerably relative to time deposits, the growth of M1⁺ has outpaced M2 growth since early 2024 (Figure 2.9a and 2.9c). Among the sources of broad money, the growth of foreign assets has

been significant in recent years, as shown in Figure 2.9b, driven by the continued growth of foreign exchange reserves, supported by remittance inflows. At the same time, an increase in other domestic liabilities, such as NRB's monetary operations, coupled with sluggish credit growth, has led to a decline in net domestic assets.

Figure 2.9: Money supply growth with sources and uses

(a) Growth of monetary aggregates (y-o-y, %)



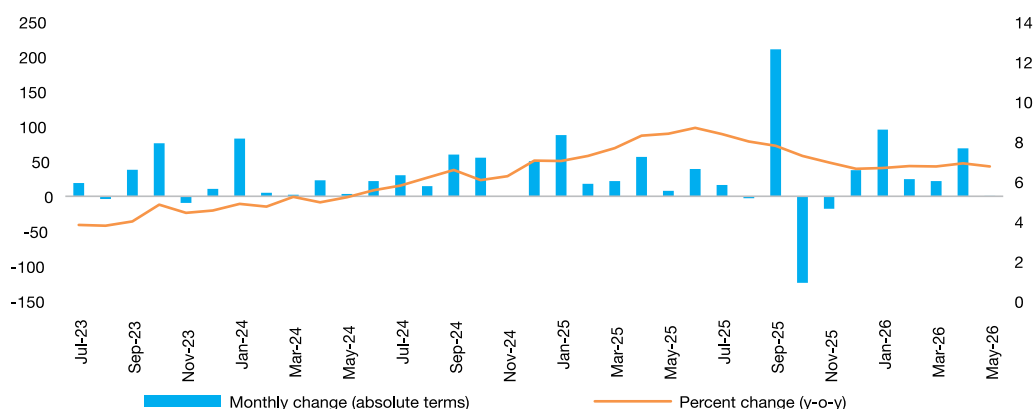
(b) Sources of broad money (Rs. billion)**(c) Uses of broad money (Rs. billion)**

Note: M1+ is the sum of the narrow money supply (M1), which includes currency and demand deposits, and of savings and time deposits. While many international conventions have started including savings and call deposits in their M1 calculations in recent years, NRB continues to distinguish between M1 and M1+.

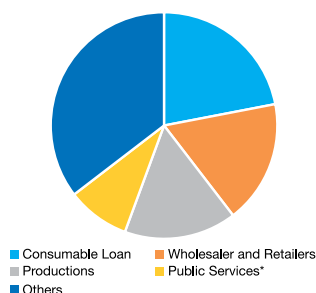
Source: Nepal Rastra Bank (2026b)

Credit growth remains low, partly due to a weakened investment climate amidst the recent political transition. Credit flow recovered modestly two months after the political unrest, although growth remains sluggish (Figure 2.10a). Fixed assets continue to dominate BFIs' outstanding security-wise credit (Figure 2.10b), with lands and buildings accounting for the largest portion. However, the share of other

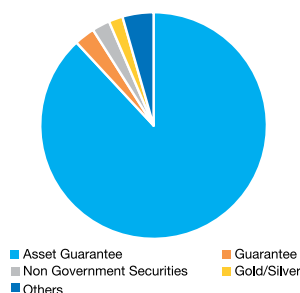
fixed assets has also grown in recent months, indicating a trend toward acceptance and diversification of alternative securities. As of mid-May 2026, commercial banks alone can lend more than Rs. 600 billion, according to NRB's calculations, given the constraints on individual banks' Capital Adequacy Ratio, Credit-Deposit Ratio, and Net Liquid Assets.

Figure 2.10: Credit Growth and Composition**(a) Growth of credit to private sector by commercial banks, development banks, and finance companies (Rs. billion)**

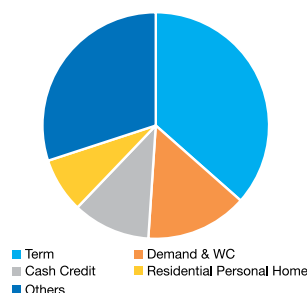
(b) Sectors



(c) Securities



(d) Products



Note: Public services also include transportation and communications. Residential personal home loans include loans up to Rs. 20 million. Pie charts reflect credit composition based on the latest edition of NRB CMEFS.

Source: Nepal Rastra Bank (2026b)

2.2.3. Financial Access and Stability

Recently, BFI branches have started to decline in line with NRB's policies. With the reduced need for physical access due to the encouraging growth and adoption of digital technologies, especially in the metropolitan city, NRB has introduced a policy to consolidate BFI branches in the first-quarter review of its 2025/26 monetary policy (Figure 2.11a). In line with NRB's consolidation policy, the number of BFI branches has continued to decline each month in 2026, with a decrease of 160 by mid-May 2026 (Figure 2.11b). This would help reduce BFIs' costs and improve overall efficiency, without a serious impact on access to financial services.

The overall ratio of non-performing loans (NPLs) has remained high. One of the primary reasons for the rise is the economic slowdown in various sectors, which has reduced debtors' capacity to pay their loans. On the BFI's side, a large share of loans has been issued against real estate collateral (86.5 percent for development banks and

84.5 percent for finance companies). The current stagnation in the real estate sector has made it difficult for banks to sell off the collateral to recover non-performing loans. Although Gross Non-Performing Loans of BFIs have reached 5.6 percent as of April 2026, average net NPL remains below 1.5 percent (A class 1.36 percent, B class 1.90 Percent, C class 2.94 percent). Nevertheless, the steady increase in loans classified under the watchlist category, from 6.7 percent in mid-July 2023 to 11.1 percent in mid-April 2026, signals rising credit stress and an elevated risk that these exposures will deteriorate into non-performing loans in the coming periods.

BFIs are facing issues in the recovery of stressed loans. This is most common in loan swaps, where loans transferred from Class A commercial banks to Class B and Class C institutions often later become non-performing. Other contributing factors include borrower resistance and misleading campaigns that led borrowers to believe they could avoid or delay loan repayment obligations. This directly created an

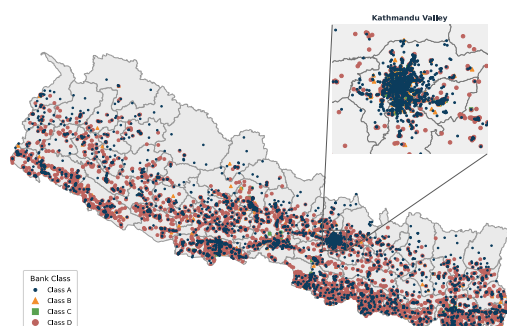
obstacle to loan recovery and collateral liquidation (NRB, 2026a, 2026c). Declining asset quality over recent years has also led to a reduced profitability and strain on capital requirements. Even though NPL remains within the manageable levels, it may have begun to affect efforts to achieve higher credit growth (see Box 4).

Financial stability has been grappling with the real estate boom and its subsequent correction. The boom is closely associated with collateral-based lending, further reinforced by linking loans to collateral value via a loan-to-value ratio. These measures were introduced to curb willful

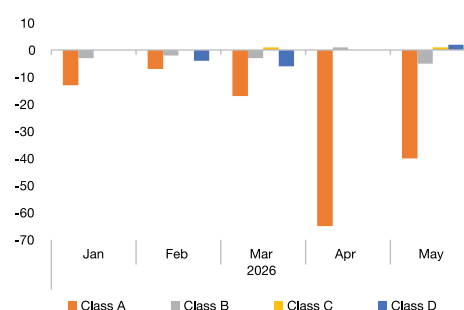
delinquencies, mitigate moral hazard, and partially restrain credit flows, with significant repercussions for real estate prices. As of mid-May 2026, about three-fifths of total loans are secured by land and buildings, underscoring their indispensable role as collateral and creating persistent demand for these assets. Consequently, their prices rose sharply, triggering an asset price bubble and price corrections are a natural economic phenomenon. Going forward, NRB envisages a recourse to project-based and character-based lending, supported by the institutionalization of individual credit scores.

Figure 2.11: Updates on the number of BFI branches

(a) BFI branches distribution in 2026

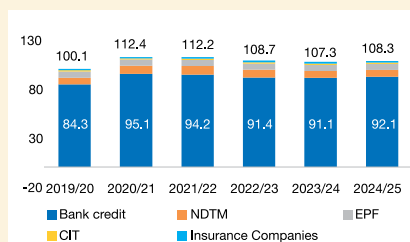
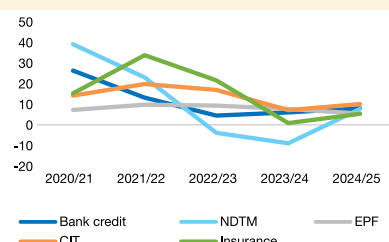


(b) Changes in the number of BFI branches



Box 4: Credit Conundrum

The recent episode of subdued credit expansion amid historically high excess reserves in the banking sector has emerged been perceived as an enigma. Excess reserves currently stand at Rs. 1.1 trillion, while the weighted average lending rate has settled down to 6.7 percent in mid-May 2026. Despite these favorable financing conditions, private sector credit growth has remained modest at around 6 percent against the 12 percent projected in the Monetary Policy for 2025/26. The coexistence of sluggish credit expansion and low lending rates has reinforced debate over the effectiveness of the credit transmission mechanism and the underlying factors constraining credit demand and supply.

Figure 2.12: Credit Profile**(a) Credit as percent of GDP****(b) Credit Growth (%)**

Note: Bank: Class A, B and C BFIs (private sector credit only), NDTM: Non-Deposit Taking Microfinance Financial Institutions, EPF: Employee Provident Fund, CIT: Citizen Investment Trust

The banking sector witnessed rapid expansion in credit flows, with an annual average growth rate of 16.2 percent in the 2010s (Figure 2.12a). The private sector credit to GDP ratio increased from 28.7 percent in 2000/01 to 46.6 percent in 2010/11, and then further climbed to 92 percent in 2025/26. As a percent of GDP, private-sector credit extended by the financial sector has breached 100 percent (Figure 2.12b). This ratio is among the highest in Asian countries, reflecting a highly stretched financial system (World Bank, 2026a). Nepal's banking system experienced two major phases of largely unfavorable credit booms after 2000: 2009-10 and 2020-2, accompanied by sharp increases in asset prices and subsequent pressures on the external sector, which were further exacerbated by asynchronized financial and business cycles (Bhatta, 2025; Budha, 2026).

Despite abundant liquidity, banks' credit expansion has been constrained by private sector resistance, stricter credit prudence, and declining asset quality. Rapid credit growth, coupled with subpar lending practices and compromised corporate governance, has increased NPLs. The NPL ratio of commercial banks rose from 1.81 percent in 2016Q3 to 5.41 percent in 2026Q3. Accounting for non-banking assets (NBAs) will further intensify NPLs. NPLs reduce profits, weaken capital through higher provisions, raise risk-weighted assets, and pressure capital adequacy ratios. These factors have significantly constrained banks' ability to lend despite ample liquidity.

Our analysis presents the four constraints to credit flows despite ample liquidity in the system. Capital adequacy is still a constraint on credit expansion for majority of BFIs, while credit to deposit (CD) ratio is for some. Net liquidity remains well above the regulatory threshold, indicating substantial liquidity headroom across the banking system. Still, the expansion of credit disbursement is lower than the previous year, but not abnormal. As economic activity continues to recover (see Box 1), asset quality is expected to ameliorate, which could help alleviate existing capital pressures within the banking system. A strengthening of bank balance sheets would, in turn, enhance banks' capacity to accommodate future credit demand.

2.3 External Sector

The external sector continued to maintain a strong position, marked by a higher current account surplus, a larger balance of payments surplus, and historically high foreign exchange reserves. While higher oil prices stemming from the disruptions in West Asia increased Nepal's import bill, strong remittance inflows helped offset the impact, supporting both reserve accumulation and overall external sector stability. However, the Nepalese Rupee depreciated significantly against the US Dollar, largely reflecting spillover effects from the depreciation of the Indian Rupee, to which it is pegged.

The external sector demonstrated resilience despite headwinds arising from surging crude oil prices and geopolitical tensions in major remittance-originating countries. The risks were particularly significant for Nepal, as around 41 percent of the country's total remittance inflow originates from the West Asia region. Nevertheless, the current account recorded a surplus of Rs.729.3 billion in the review period, supported by robust growth in workers' remittances, improved export earnings, and a higher primary income account surplus, which offset the increase in imports. Consequently, the balance of payments registered a surplus of Rs. 863.6 billion, reflecting resilient external sector fundamentals, further aided by higher foreign direct investment inflows and increased external borrowings (Figure 2.13a).

Nepal's foreign exchange reserves remained at a comfortable level, providing the highest import coverage on record. Overall, the gross foreign exchange reserves

are Rs. 3704.5 billion (USD 24.19 billion) in mid-May 2026, which is sufficient to cover the prospective merchandise and services imports equivalent to 19.1 months (Figure 2.13b). The reserve increased by 41.2 percent in NPR terms and by 33.0 percent in USD terms since mid-July 2025. Furthermore, 10.5 percentage points (about 25 percent of the total increase) were attributable to valuation gains from the depreciation of the Nepalese Rupee against the US Dollar, highlighting the significant role of exchange rate movements in reserve accumulation.

International merchandise trade rebounded, driven primarily by a recovery in imports amid rising petroleum prices and improving domestic economic activity. Merchandise imports expanded by 14.8 percent during the review period, primarily driven by a rise in the value of petroleum imports. The increase in petroleum imports was largely price-induced rather than volume-driven, as import quantities remained broadly unchanged while international oil prices surged (Figure 2.13c). Import growth was further accentuated by higher imports of chemical fertilizers, crude soybean oil, transport equipment, vehicles, and vehicle spare parts, reflecting increased domestic demand and economic activity. Likewise, exports have increased by 14.2 percent, largely driven by soybean oil exports to India. Exports of traditional products such as zinc sheets, particle boards, and tea to India declined, while shipments of handicrafts, readymade leather goods, and other products to third-country markets contracted significantly. This suggests that the improvement in overall export performance was driven more by product-

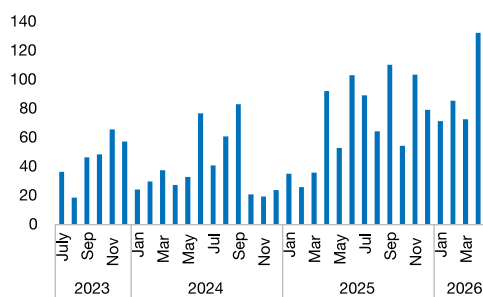
specific factors than by a broad-based strengthening of export competitiveness. The merchandise trade deficit widened to Rs. 1443.7 billion during the review period compared to Rs. 1256.3 billion in the corresponding period of the last fiscal year.

The services account remained in deficit, primarily reflecting higher transportation and travel-related expenditures. Transportation payments increased due to higher international freight charges, driven by both higher shipping costs and higher

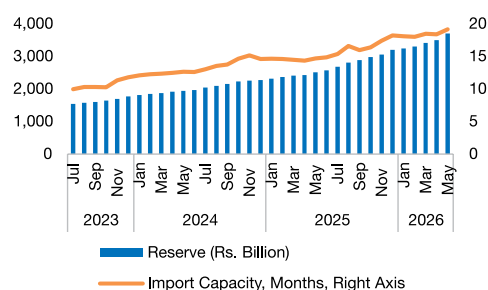
import volumes. Likewise, travel payments expanded substantially, largely due to higher outflows associated with education-related travel abroad. Despite a marginal increase in tourist arrivals, travel receipts declined by 2.16 percent, indicating weaker earnings per visitor and/or shorter lengths of stay. In contrast, the primary income account recorded a higher surplus, supported mainly by increased interest earnings on foreign exchange reserve assets.

Figure 2.13: External Sector Developments

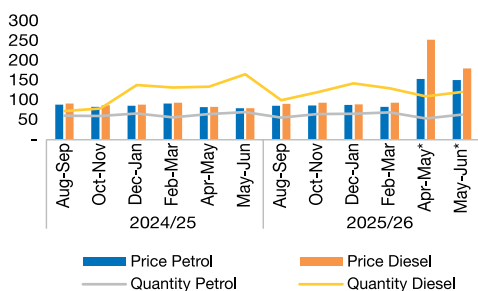
(a) Monthly Balance of Payments (In Billion Rs.)



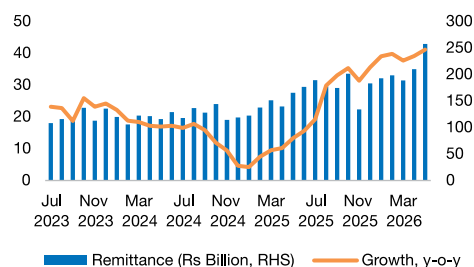
(b) Foreign Exchange Reserves



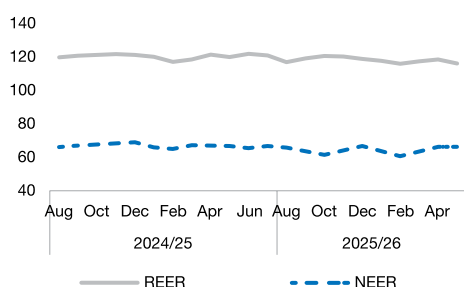
(c) Petrol and Diesel Imports in Kilotitre (in thousands)



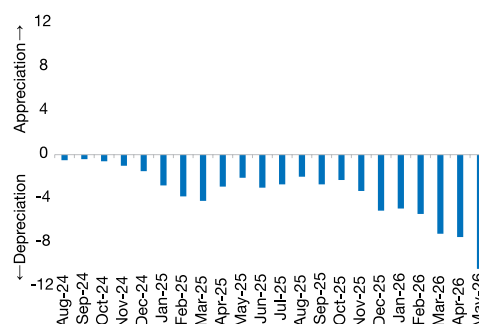
(d) Remittance Growth (%) and Volume (In Billion Rs.)



(e) NEER and REER (Index)



(f) Exchange rate change (%)



Note: * denotes oil price shock post-West Asia war. (f) Exchange rate change: exchange rate is expressed in indirect quote; change is calculated with reference to July; negative values denotes currency depreciation.

The secondary income account recorded a surplus driven by substantial growth in workers' remittance inflows. The worker's remittance increased by 41.2 percent during the review period, which played a key role in sustaining the overall current account surplus (Figure 2.13d). Despite the geopolitical tensions and conflicts across several West Asian economies, continued growth in remittances suggests that labor market conditions in major destination countries remained broadly supportive, while the increasing formalization of remittance transfers further sustained inflows.

The financial account has remained in surplus, driven by FDI inflows and official borrowings. Foreign direct investment (FDI) inflows increased by 60.4 percent during the review period, reaching Rs. 16.9 billion and indicating improved investor confidence in the economy. At the same time, foreign-invested companies repatriated equity amounting to Rs. 5.8 billion. Following NRB's decision to permit outward FDI by Information Technology (IT) companies in

June 2025, outward investments totaling Rs. 2.5 million have been recorded, marking the initial phase of overseas expansion by Nepal's IT sector. In addition, net government external borrowing amounted to Rs. 30.9 billion, comprising gross disbursements of Rs. 77.4 billion and principal repayments of Rs. 46.5 billion, thereby strengthening the country's external financing position.

The Nepalese Rupee continued to depreciate against major currencies. The NPR has depreciated by 10.4 percent against the US dollar since July 2025, primarily due to the depreciation of the Indian Rupee, to which the Nepalese rupee is pegged. The Real Effective Exchange Rate (REER) declined to 116.1 during the review period (Figure 2.13e and 2.13f). The decline in the REER reflects the combined effect of nominal depreciation of the Nepalese rupee against the currencies of Nepal's major trading partners, on a trade-weighted basis, and relatively lower domestic inflation compared with other trading partners.

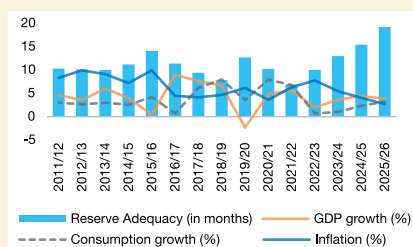
Box 5: Foreign Exchange Reserves: Underneath the Accumulation

Foreign exchange reserves are external assets held by monetary authorities to meet balance of payments financing needs, support exchange rate management, maintain confidence in the economy, and provide a buffer against external shocks. Reserve assets generally comprise highly liquid foreign currency-denominated assets that can be readily mobilized during periods of stress. Nepal's reserve asset composition exhibits two notable distinctions from conventional reserve management practices, reflecting the country's distinctive macroeconomic characteristics and external sector structure. First, Nepal maintains a significant share of its reserves in Indian currency to facilitate trade with India, which accounts for two-thirds of total trade. The exchange rate peg to the Indian rupee further reverberates the need for INR reserves to support exchange rate management. Second, Nepal's official foreign exchange reserve also includes foreign exchange assets held by both the central bank and commercial banks, with the latter contributing around 11 percent of total reserves.

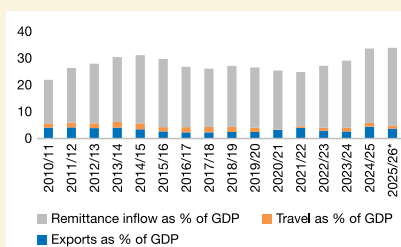
Over the past decade, Nepal's FOREX reserves have increased substantially, cushioned by remittance inflows, external assistance, tourism receipts, and foreign borrowings. This sustained buildup of reserve assets has enhanced Nepal's external liquidity position and provided a buffer against potential balance of payments pressures. This resilience is reflected in the reserve adequacy indicator. While the IMF's Assessing Reserve Adequacy (ARA) framework provides a comprehensive measure of reserve sufficiency by incorporating multiple sources of external vulnerability, the traditional import coverage metric (at least 3 months of imports) remains particularly relevant for economies with limited capital account openness and restricted cross-border financial flows (IMF, 2011). In Nepal's case, reserve adequacy is primarily assessed by import coverage, reflecting the country's fixed exchange rate regime and relatively restricted capital account. Under such a framework, external financing pressures arise predominantly from trade-related foreign exchange requirements rather than from volatile capital movements, making import coverage the most appropriate and policy-relevant indicator of reserve adequacy.

Figure 2.14: External sector indicators against real sector indicators

(a) Reserve Adequacy against Key Macroeconomic Variables



(b) Major Foreign Currency Earnings Source for Nepal



Note: * 2025/26 reflects 10-month data.

Source: NRB Staff Estimates

The decline in reserve adequacy during periods of higher economic growth reflects the import-dependent nature of Nepal's economy. In 2018/19 and 2021/22–2022/23, stronger GDP growth led to higher imports, thereby constraining import coverage. As economic activity expands, imports increase, raising demand for foreign exchange and reducing reserve levels. This suggests that higher growth exerts pressure on reserve adequacy unless supported by corresponding increases in exports, remittances, or other foreign exchange inflows (Figure 2.14a).

Nepal's higher FOREX reserve levels should be interpreted with caution. Nepal's reserve adequacy largely reflects a structural dependence on remittance inflows rather than a stronger and perennial export base. For example, remittances have increased from around 16 percent of GDP in 2010/11 to nearly 29 percent of GDP in the first ten months of 2025/26, far exceeding foreign exchange earnings from exports and tourism (Figure 2.14b). Therefore, while Nepal's current reserve position provides an important buffer against external shocks and supports macroeconomic stability, it also highlights a structural imbalance in the external sector. Sustaining reserve adequacy over the long term will require diversifying foreign-exchange earning sources through stronger export performance, tourism expansion, and productivity enhancing investments, thereby reducing excessive reliance on remittance inflows.

2.4. Fiscal Sector

Over the first eleven months of the fiscal year 2025/26, government finances continued to contract. The primary balance is positive, indicating that revenue mobilization adequately funds both recurrent and capital expenditure. Conversely, the fiscal balance is negative, indicating that a larger part of the borrowing is utilized to service interest and existing debt. The core concern is the composition of spending. With capital expenditure well below the budget target and debt servicing exceeding capital spending, the central challenge is to raise investment by reorienting funds toward growth rather than consumption.

Government spending in the first eleven months of 2025/26 continued to be driven by recurrent and debt-related

outlays, while development spending lagged. Total expenditure reached Rs. 1346.7 billion, equivalent to 68.6 percent of the annual budget target and 5.0 percent higher than the Rs. 1282.9 billion spent in the corresponding period of 2024/25 (Table 2). The increase was driven primarily by the recurrent and financing components. Recurrent expenditure rose by 6.7 percent to Rs. 908.3 billion, already absorbing 76.9 percent of its allocation, while financial management spending, largely debt servicing, increased by 6.2 percent to Rs. 305.7 billion and recorded the highest budget execution among all categories at 81.5 percent. The surge in financial management spending is driven by a large share of short-maturity domestic debt and rising interest costs.

Table 2.2: Government Expenditure and Revenue (Eleven Months)

Particulars	Budget Target (2025/26)	Actual (Eleven months)		Percentage Change	
		2025/26	2024/25	2025/26	Budget Turnover#
Total Expenditure	1964.10	1346.65	1282.94	4.97	68.56
Recurrent Expenditure	1180.98	908.27	851.58	6.66	76.91
Capital Expenditure	407.88	132.67	143.39	-7.48	32.53
Financial Management	375.24	305.72	287.97	6.16	81.47
Total Revenue	1480.00	1081.31	1015.70	6.46	73.06
Tax Revenue	1325.58	981.35	917.62	6.95	74.03
Non-Tax Revenue	154.42	99.96	98.08	1.92	64.73

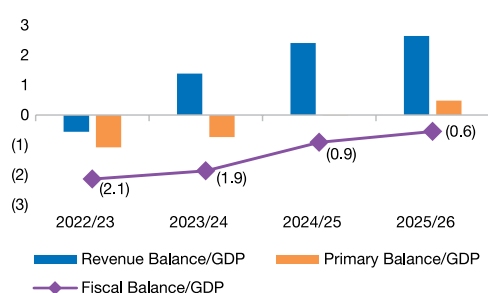
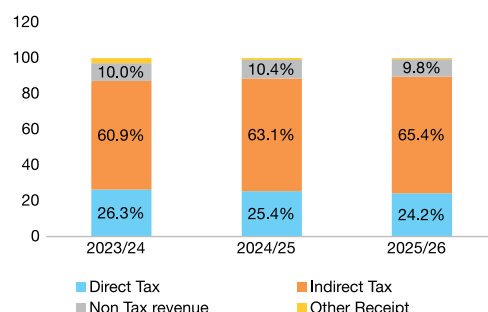
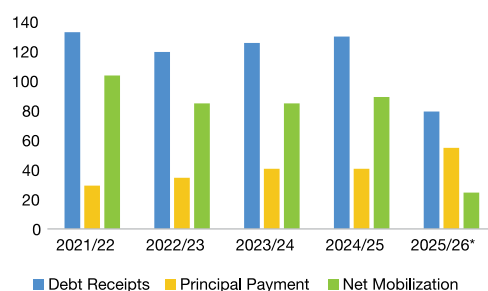
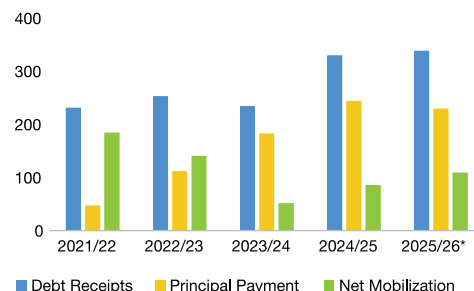
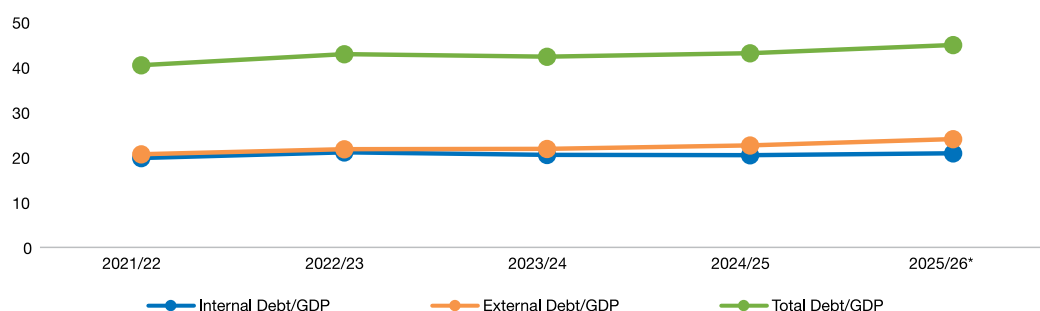
Source: Financial Comptroller General Office. # with original budget

Capital expenditure, by contrast, contracted, reflecting the persistent under-execution of development spending. Capital spending decreased by 7.5 percent year-on-year to Rs. 132.7 billion, reaching only 32.5 percent of its annual target and 55 percent of its revised estimates. This persistent under-execution is largely structural rather than a financing constraint. The key concerns related to capital spending include delayed project initiation, a slow procurement process, frequent revisions to annual procurement plans, weak project readiness, and limited institutional capacity (MoF, 2024).

The headline fiscal balances show improvements. Figure 2.15(a) presents that these ratios narrowed relative to the deficits recorded in 2022/23. The fiscal deficit narrowed from 2.8 percent of GDP in 2022/23 to 1.1 percent in 2025/26, reflecting stronger revenue mobilization and enhanced fiscal discipline. The revenue balance turned positive in 2023/24 and continued to improve, while the primary balance shifted from a deficit of 1.1 percent

of GDP in 2022/23 to a surplus of 0.5 percent of GDP in 2025/26, indicating that current revenues are now sufficient to finance non-interest expenditures.

Total revenue performance for 2025/26 has marginally improved. The total revenue collection during the eleven-month period stood at Rs. 1081.3 billion, or 73.1 percent of the target, growing 6.5 percent over the Rs. 1015.7 billion collected a year earlier. Indirect taxes have consistently dominated the revenue structure, with their share rising from 60.9 percent in 2023/24 to 65.4 percent in 2025/26, reflecting the continued reliance on consumption and trade-based taxation (Figure 2.15b). In contrast, the share of direct taxes, largely driven by income tax, declined modestly from 26.3 percent to 24.2 percent over the same period. Non-tax revenue maintained a broadly stable share, hovering around 10 percent. Revenue performance is highly dependent on import-based taxes, as import-based revenue constitutes 46 percent of total tax revenue, making mobilization highly sensitive to imports.

Figure 2.15: Fiscal Indicators**(a) Key Fiscal Balance: 11 months (% of GDP)****(b) Composition of Revenue: 11 month Comparison (%)****(c) External Debt Mobilization, (Rs. in Billion)****(d) Internal Debt Mobilization, (Rs. in Billion)****(e) Public Debt (% of GDP)**

Note: * denotes 11-month data of 2025/26.

The debt sustainability analysis conducted jointly by the World Bank and the IMF assesses Nepal's public debt as low risk of debt distress (World Bank/IMF, 2026). However, Nepal's composite indicator (CI) score in recent Debt Sustainability Analysis reports has been gradually deteriorating, moving from 3.28 in 2020 to

3.17 in 2023, and then to 3.14 in 2024 and 2025. The more fundamental challenge, however, concerns the effective utilization of borrowed resources. With only about a third of the capital budget executed during the review period, it implies that borrowing is for financing recurrent spending and debt servicing rather than growth-enhancing

public investment (Figure 2.15c and 2.15d).

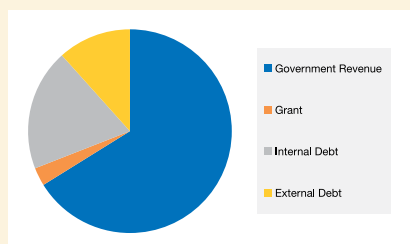
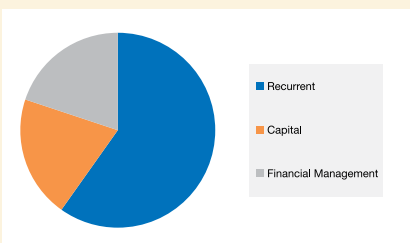
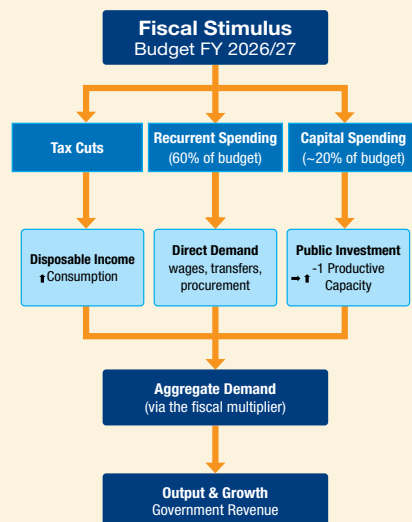
The outstanding public debt has continued to increase without respite. In nominal terms, total debt rose from about Rs. 2,010 billion in 2021/22 to Rs. 2,961.2 billion in the first eleven months of 2025/26, a cumulative increase of around 48 percent in four years. Figure 2.15e shows the outstanding public debt as a share of GDP. Total public debt rose from 40.4 percent of GDP in 2021/22 to 44.9 percent at the end of the first eleven

months of 2025/26. Internal debt remained broadly stable, in the range of 20–21 percent of GDP, while external debt rose from 20.6 to 24.0 percent of GDP. The rise in public debt is primarily due to the government's deficit budget, reconstruction activities following the devastating earthquake, the implementation of federalism, increased social security costs, a gradual decline in grant receipts, and the depreciation of the Nepali currency against the USD.

Box 6: Budget 2026/27: Boosting the Nepalese Economy

Nepal has formulated a reform-initiated budget for 2026/27, concentrated on structural reforms, economic modernization, and tax reforms. The emergence of the Gen Z movement in September 2025 has reflected growing public aspirations for better governance, quality employment, and sustained economic growth. The March 2026 election elected a government with a near two-thirds majority, providing a favorable political environment for undertaking ambitious reforms. In this context, the Government of Nepal (GoN) has adopted a deficit budgeting policy and tabled its largest-ever budget of Rs 2,124.3 billion for 2026/27, about 25 percent above the previous year's revised estimates (MoF, 2026). The budget commits to strengthening governance, improving the business climate, and achieving 7 percent economic growth. The government made tax cuts and increased spending to boost consumer consumption and business investment, ultimately strengthening aggregate demand and stimulating the economy. Of the total, Rs 1,270.6 billion (59.8 percent) is recurrent spending, Rs 431.1 billion (20.3 percent) is capital, and Rs 422.6 billion (19.9 percent) goes to financing (Figure 2.18). Notably, the capital allocation is up more than 70 percent on the revised estimate of 2025/26, signaling a deliberate orientation toward demand creation through public investment. Similarly, on the sources side, Rs 1405.31 billion (66.15 percent) is expected to be raised from Revenue, and Rs 61.7 billion (2.9 percent) is expected to be received as grants. The deficit of around Rs. 657.3 billion (30.9 percent) is expected to be financed through internal debt of Rs. 410.0 billion (19.3 percent) and foreign debt of Rs. 247.3 billion (11.6 percent) (Figure 2.16).

In resource deficit countries like Nepal, a budget deficit is often essential to bridge infrastructure gaps, develop human capital, and fund other productive investments that current tax revenue alone cannot support. If managed effectively, a fiscal deficit can stimulate economic growth, generate employment, enhance capital formation, and promote structural transformation by bridging the gap between limited domestic resources and the country's development goals.

Figure 2.16: Budget 2026/27**(a) Budgetary Sources****(b) Budgetary Expenditure****(c) Fiscal Stimulus**

As Nepal's economy continues to operate below its potential, a deficit budgeting approach can stimulate growth through three main channels. First, through tax cuts, the personal income tax exemption threshold has been doubled from Rs. 500,000 to Rs. 1 million, and the top marginal tax rate has been reduced from 39 to 29 percent. Second, increasing salaries, allowances, and transfers directly boosts purchasing power, supporting short-term demand. Third, higher capital expenditure can invigorate economic activity via two pathways. On the demand side, spending on roads, irrigation, energy, and infrastructure injects autonomous expenditure into the circular flow and, using the fiscal multiplier, can expand aggregate demand, raising output and employment. On the supply side, capital investments improve productive capacity through better transport, reliable energy, and irrigation, increasing potential output and returns on private projects. This fosters investor confidence and encourages long-term private investment.

However, constraints can limit the effectiveness of fiscal stimulus. Nepal's chronic weakness is not in allocating the budget but in spending it. Historically, the budget turnover ratio has been low. The average budget turnover in the last 3 years is only around 80 percent. Capital expenditure outturn has averaged around 60 percent over the last 3 years. Another constraint that significantly limits the impact of fiscal stimulus is the burden of increasing debt-servicing costs. The current budget allocates 20 percent of total expenditure on financial expenditure, which mainly includes debt servicing costs, with a limited economic impact.

Overall, the 2026/27 budget sets a bold growth goal and includes significant stimulus. It prioritizes capital spending, backed by strong political support for reform, and its success will depend more on effective implementation. To turn the budget into growth, the government must accelerate capital spending, manage debt costs, and combine increased demand with structural reforms to strengthen domestic supply. If the implementation aligns with these commitments, the budget has the potential to drive economic growth.

3. Domestic Economic Outlook

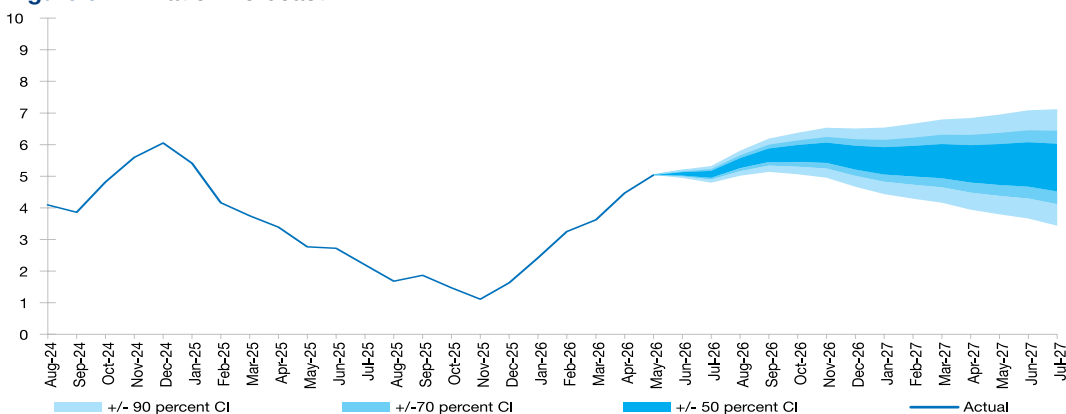
Inflation is projected to remain contained. Economic growth is projected to gain momentum, with a boost to aggregate demand, owing to the government's reform-oriented stance. The government's 7 percent growth target is achievable, conditional on the smooth integration of reforms, the restoration of investor confidence, increased capital spending, and stabilized global economic conditions. The external sector is projected to remain stable in the near term, cushioned by sustained remittance inflows. The monetary and financial sector is projected to remain optimistic, with comfortable liquidity conditions, favorable interest rates, and an uptick in credit demand.

3.1 Inflation

Despite rising prices, inflation in 2025/26 is expected to remain below 3.5 percent, well within the NRB's 5.0 percent target. The outlook for 2026/27 also appears relatively benign, despite recent price accelerations. Crude oil prices are moderating following a diplomatic breakthrough between the US and Iran and could ease further as Iranian crude re-enters global markets. In addition, the Indian government has kept domestic fuel prices stable despite higher global crude oil prices. Given the significant pass-through of Indian

inflation to Nepal's inflation, this policy provides a partial buffer against external oil price shocks. Meanwhile, softer fertilizer prices in recent periods are also expected to help ease inflationary pressures. However, an accommodative fiscal policy stance is expected to invigorate domestic demand and exert upward pressure on prices. Reserve Bank of India also projects its inflation for 2026/27 to be at 5.1 percent. Under these premises, inflation is projected to average around 5.5 percent for 2026/27, with 5.6 percent in Q1, 5.6 percent in Q2, 5.5 percent in Q3, and 5.3 percent in Q4 (Figure 3.1).

Figure 3.1: Inflation Forecast



Source: NRB Staff Estimates

3.2 Economic Growth

The outlook for Nepal's economy in 2026/27 is moderately favorable, supported by strengthening activity across the agriculture, industry, and services sectors. While agricultural output, particularly paddy production, is expected to be adversely affected by super El Niño, improvements in agricultural modernization, timely availability of fertilizers, and diversified cultivation are likely to offset part of this impact. Industrial activity is projected to recover gradually, supported by stable input prices, the completion of new hydropower projects, increased reconstruction activities, and government policy reforms. The services sector is expected to remain a key driver of growth, supported by strong remittance inflows, expanding digital services, growing domestic and international tourist flows, and the expansion of transportation, accommodation, and food service activities.

Applying econometric filtering tools, Nepal's potential GDP estimated at around 4.2 percent. The baseline condition for growth therefore should be around the potential level. However, a considerable impetus to growth is likely to emanate from tax reforms that directly affect disposable income, prices, and spending capacity, thereby boosting consumption demand. Likewise, a stable majority government is expected to strengthen private-sector confidence, encouraging investment and supporting greater public capital spending. These policy and institutional factors are expected to complement the ongoing sectoral recovery and provide additional momentum to economic growth. More

importantly, public capital expenditure will likely be the decisive factor in driving the growth momentum. Conditional on these premises, the GoN's 7 percent growth projection for 2026/27 appears achievable.

3.3 External Sector

The external sector is projected to remain stable in the near term. However, the pace of improvement is expected to moderate as domestic economic activity gains momentum and import demand recovers. This outlook assumes that the stable government will support policy implementation, public capital expenditure, and private sector confidence, leading to a gradual recovery in domestic economic activity. Furthermore, the baseline projection also assumes that the ongoing conflict in the West Asia will gradually de-escalate and the international crude oil prices will normalize. The merchandise trade deficit is expected to widen due to increased imports driven by higher domestic demand from greater capital spending, private-sector investment, and household consumption. However, this widening is likely manageable, as increased import demand will mainly be financed by sustained growth in remittance inflows and services exports. Remittance is projected to remain strong, supported by ongoing overseas labor migration, resilient labor markets in key destinations, and the expanded use of formal channels for remittance receipt via digital payment platforms. FDI inflows are expected to gradually improve, aided by a more stable political climate, regulatory reforms, and a

better investment environment. Despite a moderate increase in the trade deficit, the current account will remain manageable, bolstered by robust remittances, rising tourism receipts, growing services exports, and increased electricity exports. As a result, the balance of payments is projected to be around Rs.560 billion in surplus, allowing foreign exchange reserves to remain comfortable and act as a buffer against external shocks.

3.4 Money Supply and Credit

The money supply is projected to grow by 14.0 percent, primarily driven by the continued expansion of NFAs, largely supported by remittance inflows. The import-associated leakages are likely to drag down money supply growth, but sustained remittances and gearing up of FDI are expected to maintain growth around the projection. Credit demand, on the other hand, is projected to grow by 11.0 percent regaining the momentum, benefiting from positive spillover effects of policy reforms that are envisaged to revitalize consumer demand, foster a resilient investment climate, and consolidate investment sentiment. The credit-extending capacity of BFIs is expected to improve as NPLs moderate following the resurgence of economic vibrancy and policy measures of the NRB for 2026/27. The execution of capital expenditure, the timely implementation of policy reforms, the restoration of the private sector's trust, and the overall investment climate, largely on top of NRB's supportive policies, determine the trajectory of credit demand.

3.5 Liquidity and Interest Rates

Liquidity conditions are expected to remain comfortable, supported by sustained international remittance inflows and net government injections. As remittances are projected to maintain strong momentum, they continue to underpin ample liquidity in the financial system. However, the government's reform initiatives, aimed at strengthening aggregate demand and restoring investor confidence, are expected to stimulate private sector credit demand. Together with higher import-related foreign exchange outflow and liquidity mop-up through internal debt instruments, these developments are likely to absorb excess liquidity. Nonetheless, overall liquidity is expected to remain buoyant. The NRB will therefore continue to absorb liquidity using a mix of instruments. Interest rates remain at historically low levels and are expected to remain broadly accommodative with minimal crowding-out effects from domestic borrowing.

3.6 Monetary Policy Stance for 2026/27

Economic growth for 2026/27 is projected at a higher side from a low base, liquidity position to remain largely buoyant, and the external sector is expected to hold its resiliency with the continuation of record foreign exchange reserves. This outlook warrants the NRB continuation of a cautiously accommodative monetary policy stance. The policy stance is taken to support economic growth by boosting aggregate demand maintaining a low-cost economy, while also preserving financial stability. However, inflation is projected

to gain some momentum in the near term with moderation in the medium term. If the emerging pressure on prices goes beyond the NRB's projections, the NRB will have to reorient its policy stance to contain its stability mandate.

3.7 Key Assumptions of the Projections/Outlook

The key assumptions of the forecasts are based on the baseline scenario and the forecasts without additional shocks. Inflationary pressures are expected to rise due to escalating geopolitical tensions in West Asia and disruptions to global supply chains, and the severity of the super El Niño and the cascading effects of temperature anomalies. The formation of a new government is assumed to expedite reconstruction and capital spending and to strengthen the investment climate. The current account variables' trend is assumed to remain unchanged, with no further trade tensions or supply disruptions.

3.8 Risks to the Outlook

3.8.1. Risks to Growth

Risks to growth likely stem from spillover effects of geopolitical developments in West Asia. West Asia is particularly important for Nepal, as it is a key source of remittances and a major supplier of global energy, especially diesel. Although a memorandum of understanding has been signed, uncertainty persists. A prolonged

escalation may tighten remittance inflows, elevate fuel prices, and trigger economic repercussions, including supply chain disruptions and inflationary pressures, ultimately posing risks to economic growth and macroeconomic stability. Persistently high energy prices may quickly translate into inflationary pressure and dampen domestic demand and investment, thereby posing downside risks to the growth outlook. This further aggravates the BoP situation. Beyond geopolitical headwinds, climatic risks persist and may be amplified by a super El Niño, which directly affects the monsoon cycle, leading to droughts and effects from temperature anomalies. Furthermore, growth momentum heavily depends on the level of government capital spending, which in turn shapes investor sentiment. The government's timely implementation of the said legal and policy reforms will also play a role.

3.8.2. Risk to Inflation

While the baseline inflation outlook remains favorable, upside risks persist. Inflationary pressures could stem from adverse weather reducing agricultural output, renewed geopolitical tensions driving up global energy prices, disruptions to global supply chains, and higher than expected inflation in India. Furthermore, the government's target of 7 percent economic growth, coupled with an accommodative fiscal policy stance and various structural reforms, could stimulate aggregate demand, potentially exerting additional upward pressure on prices.

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Annex 1

Projection of Monetary Survey

(Rs. in billion)

Monetary aggregates	2024 Jul	2025 Jul	2026 Jul ^E	2027 Jul ^{Proj}	Annual Change					
					2024/25		2025/26		2026/27	
					Amount	Percent	Amount	Percent	Amount	Percent
1. Foreign Assets, Net	1989.3	2664.9	3881.0	4737.1	594.5	/1	920.0	/2	560.0	14.4
1.1. Foreign Assets	2150.2	2822.0	4039.2	4904.1	671.7	31.2	1217.3	43.1	864.9	21.4
1.2 Foreign Liabilities	161.0	157.0	158.2	167.0	-3.9	-2.5	1.2	0.8	8.8	5.6
2. Net Domestic Assets	4984.8	5180.7	4827.6	5194.3	277.0	/1	-57.0	/2	-1.1	13.7
2.1. Domestic Credit	6558.0	6963.1	7629.3	8429.1	405.1	6.2	666.2	9.6	799.9	10.5
a. Net Claims on Government	1057.4	1021.4	1149.4	1223.3	-36.0	-3.4	128.0	12.5	73.9	6.4
b. Claims on Non-Financial Government Enterprises	5.9	5.1	5.8	6.7	-0.9	-14.6	0.8	14.9	0.9	15.0
c. Claims on Financial Institutions	292.2	312.0	343.1	394.5	19.8	6.8	31.1	10.0	51.4	15.0
d. Claims on Private Sector	5202.5	5624.7	6131.0	6804.7	422.2	8.1	506.3	9.0	673.7	11.0
2.2. Net Non-monetary Liabilities	1573.3	1782.4	2801.7	3234.8	128.1	/1	1019.2	/2	433.2	15.5
3. Broad Money (M2)	6974.1	7845.6	8708.6	9931.4	871.5	12.5	863.0	11.0	1222.8	14.0
3.1. Money Supply (M1+)	3311.5	4313.3	5450.4	6594.1	1001.8	30.3	1137.1	26.4	1143.7	21.0
a. Money Supply (M1)	948.8	1157.2	1363.6	1580.2	208.4	22.0	206.5	17.8	216.5	15.9
Currency	581.7	655.2	745.4	849.2	73.5	12.6	90.1	13.8	103.9	13.9
Demand Deposits	367.1	501.9	618.3	730.9	134.9	36.7	116.3	23.2	112.7	18.2
b. Saving and Call Deposits	2362.7	3156.1	4086.8	5014.0	793.5	33.6	930.6	29.5	927.2	22.7
3.2. Time Deposits	3662.6	3532.3	3258.2	3337.3	-130.3	-3.6	-274.1	-7.8	79.1	2.4
4. Broad Money Liquidity (M3)	7047.8	7928.3	8803.4	10033.9	880.5	12.5	875.1	11.0	1230.4	14.0

E=Estimated, Proj= Projection

/1 Adjusting the exchange valuation loss of Rs. 81.12 billion

/2 Adjusting the exchange valuation gain of Rs. 296.08 billion

Annex 2

Table A1 : GDP growth

Indicator	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 ^s
Agriculture	5.16	2.43	2.85	2.35	3.02	3.10	3.05	1.58
Industry	7.38	(4.02)	6.95	10.70	1.29	0.21	3.31	5.67
Services	6.76	(4.53)	4.71	5.32	2.19	4.49	4.36	4.21
GDP Growth	6.66	(2.37)	4.84	5.63	1.98	3.68	4.43	3.85

^s Preliminary estimates
Source: National Statistical Office (NSO)

Table A2 : Inflation

Particulars	2025 Mid-Jul	2025 Mid-Aug	2025 Mid-Sep	2025 Mid-Oct	2025 Mid-Nov	2025 Mid-Dec	2026 Mid-Jan	2026 Mid-Feb	2026 Mid-Mar	2026 Mid-Apr	2026 Mid-May
CPI (Base Year 2023/24 = 100)											
Overall Index	2.20	1.68	1.87	1.47	1.11	1.63	2.42	3.25	3.62	4.47	5.04
Food & Beverage	(1.19)	(2.28)	(1.34)	(2.54)	(3.32)	(2.05)	(0.09)	2.50	3.60	4.01	4.63
Non-food & Services	4.12	3.95	3.70	3.80	3.69	3.75	3.81	3.66	3.63	4.72	5.26
WPI (Base year 2017/18=100)	1.05	2.37	2.10	1.32	2.65	2.78	5.17	6.21	3.64	3.92	5.96

Source: Nepal Rastra Bank

Table A3: Monetary and Financial Sector

Particulars	Amount (Rs. in Billion)						Growth (percentage)			
	2021/22	2022/23	2023/24	2024/25	2025/26 ^s	2025/26 ^s	2023/24	2024/25	2025/26 ^s	2025/26 ^s
Broad Money (M2)	5,544.4	6,179.1	6,974.1	7,845.6	8,563.8	8,563.8	12.9	12.5	15.2	15.2
Money Supply (M1)	953.9	965.2	948.8	1,157.2	5,498.8	5,498.8	(1.7)	22.0	20.2	20.2
Net Foreign Assets	1,151.3	1,457.6	1,989.3	2,664.9	3,824.6	3,824.6	36.5	34.0	53.5	53.5
Net Domestic Assets	4,393.0	4,721.5	4,984.8	5,180.7	4,739.2	4,739.2	5.6	3.9	(4.2)	(4.2)
Total Deposits	5,082.8	5,710.0	6,452.4	7,263.9	7,949.3	7,949.3	13.0	12.6	16.0	16.0
Claims on Private Sector	4,689.0	4,903.3	5,202.5	5,624.7	5,960.0	5,960.0	6.1	8.1	6.5	6.5

Source: Nepal Rastra Bank

Table A4: Interest Rates

Particulars	2025 Mid-Jul	2025 Mid-Aug	2025 Mid-Sep	2025 Mid-Oct	2025 Mid-Nov	2025 Mid-Dec	2026 Mid-Jan	2026 Mid-Feb	2026 Mid-Mar	2026 Mid-Apr	2026 Mid-May
Policy Rates											
Fixed Repo Rate (Corridor)	5.00	4.50	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Fixed Deposit Collection Rate (Corridor)	3.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Standing Liquidity Facility (SLF) Rate^	6.50	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.75	5.75
Bank Rate	6.50	6.00	6.00	6.00	6.00	5.75	5.75	5.75	5.75	5.75	5.75
Government Securities											
T-bills (28 days)*	2.89	2.27	2.46	1.55	-	1.51	2.20	1.65	-	-	0.00
T-bills (91 days)*	2.95	2.65	2.13	1.91	2.37	2.37	2.35	2.45	2.47	2.61	2.63
T-bills (182 days)*	2.95	2.58	2.49	-	1.94	2.46	2.36	2.40	2.32	2.58	2.63
T-bills (364 days)*	2.98	2.68	2.61	-	2.58	2.59	2.58	2.65	2.59	2.47	2.67
Interest Rates (Commercial Banks)											
Deposit Rate*	4.19	4.02	3.96	3.85	3.74	3.66	3.56	3.51	3.45	3.40	3.35
Lending Rate*	7.85	7.76	7.66	7.50	7.38	7.26	7.12	7.00	6.90	6.77	6.73
Average Base Rate	6.02	5.78	5.72	5.56	5.44	5.38	5.29	5.12	5.10	5.06	4.97
Interest Rates (Development Banks)											
Deposit Rate*	4.88	4.67	4.58	4.45	4.32	4.21	4.06	3.97	3.88	3.77	3.70
Lending Rate*	8.95	9.09	8.95	8.77	8.66	8.49	8.34	8.30	8.16	7.96	7.87
Average Base Rate	8.03	7.28	8.09	7.92	7.74	7.60	7.60	7.19	7.17	7.36	6.95
Interest Rates (Finance Companies)											
Deposit Rate*	6.01	5.85	5.73	5.62	5.47	5.31	5.17	5.01	4.86	4.74	4.59
Lending Rate*	10.22	9.98	10.19	10.18	10.05	9.91	9.73	9.56	9.41	9.26	9.14
Average Base Rate	8.97	8.67	8.77	8.48	8.39	8.19	7.98	7.89	7.68	7.48	7.30
Weighted Average Interbank Rate (BFIs)	2.96	2.75	2.75	2.58	2.75	2.74	2.75	2.75	2.68	2.75	2.75
NRB Bond							2.69	2.69	2.69	2.69	2.69

* Weighted average interest rate.

^ The SLF rate is fixed as same as bank rate effective from August 16, 2012

\$ Base rate has been compiled since January 2013

Source: Nepal Rastra Bank

Table A5 : External Sector

Particulars	Amount (Rs. in Billion)					Growth (percentage)		
	2021/22	2022/23	2023/24	2024/25	2025/26*	2023/24	2024/25	2025/26*
Exports	200.0	157.1	152.4	277.0	249.0	-3.0	81.8	14.2
Imports	1920.4	1611.7	1593.0	1804.1	1692.6	-1.2	13.3	14.8
Trade Balance (deficit)	1720.4	1454.6	1440.6	1527.1	1443.7	-1.0	6.0	-14.9
Workers Remittance	1007.3	1240.7	1445.3	1723.3	1916.9	16.5	19.2	41.2
Reserves	1215.8	1539.4	2041.1	2677.7	3704.6	32.6	31.2	47.4
Current Account Balance	-623.4	-45.9	221.7	409.2	729.3			
Balance of Payments	-252.4	285.8	502.5	594.5	863.6			
Reserve adequacy^	6.9	10.0	13.0	15.4	19.2			

^ Merchandise and services, in months

Source: Nepal Rastra Bank

Table A6 : Fiscal Sector

Particulars	Amount (Rs. in Billion)					Growth (percentage)		
	2021/22	2022/23	2023/24	2024/25	2025/26*	2023/24	2024/25	2025/26*
Tax Revenue	984.3	865.6	944.6	1,049.9	893.6	9.1	11.2	7.8
Non Tax Revenue	81.0	91.7	114.3	128.9	95.0	24.6	12.8	1.6
Other Receipts	48.5	53.3	23.9	17.4	5.7	-55.2	-27.2	-49.0
Grants	27.5	23.4	23.3	23.5	17.8	-0.4	1.0	10.4
Total Resources	1,141.3	1,034.0	1,106.0	1,219.7	1,012.1	7.0	10.3	6.6
Recurrent Expenditure	954.3	991.5	929.1	980.4	814.7	-6.3	5.5	5.4
Capital Expenditure	216.2	234.6	192.0	222.7	113.8	-18.2	16.0	-5.4
Financing Expenditure	139.5	195.2	272.2	320.0	245.0	39.5	17.6	-7.3
Total Expenditure	1,310.0	1,421.3	1,393.4	1,523.1	1,173.5	-2.0	9.3	1.3

Source: FCGO

Table A7 : Outstanding Public Debt (Rs. in Billion)

Particulars	Amount (Rs. in Billion)					Growth (percentage)		
	2021/22	2022/23	2023/24	2024/25	2025/26*	2023/24	2024/25	2025/26*
Domestic Debt	984.3	1129.1	1180.9	1288.2	1381.2	4.6	7.4	9.0
Foreign Debt	1025.8	1170.2	1257.9	1405.8	1593.8	7.5	11.8	17.6
Total Debt	2010.1	2299.4	2438.8	2674.0	2975.0	6.1	9.6	13.4
As Percent of GDP								
Domestic Debt	19.8	21.0	20.7	20.8	20.9			
Foreign Debt	20.6	21.8	22.0	22.9	24.0			
Total Debt	40.4	42.8	42.7	43.7	44.9			

Source: PDMO

* Ten month data. Growth denotes y-o-y percentage change.



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