

Newly Appointed Governor Prof. Dr. Biswo Nath Poudel Assumes Office



Prof. Dr. Biswo Nath Poudel, the newly appointed Governor of Nepal Rastra Bank, assumed office on 21 May 2025. He was appointed to the vacant position of Governor of the Bank as per the decision of Government of Nepal (Council of Ministers) dated 20 May 2025.

Before assuming office as the 18th Governor of Nepal Rastra Bank, Dr. Poudel took the oath of office and secrecy before the Honorable Chief Justice of the Supreme Court, Mr. Prakashman Singh Raut. The Governor is required to

take an oath before the Chief Justice of the Supreme Court or a judge designated by him prior to assuming the office, according to Section 108 (1) of *Nepal Rastra Bank Act 2058*.

A brief program was organized by the Bank on its premises to welcome Governor Dr. Poudel. Addressing the program, Dr. Poudel expressed his views on the role of Nepal Rastra Bank in light of the country's current economic and financial conditions. He expressed his commitment in guiding the country's financial system toward stability and

positive direction. Highlighting the presence of experienced and capable human resources in Nepal Rastra Bank, he urged the employees to work in unity towards achieving the Bank's objectives.

At the program, Senior Deputy Governor Dr. Neelam Dhungana Timsina welcomed Governor Dr. Poudel and extended her best wishes for a successful tenure. She emphasized the need for collective effort to achieve the Bank's objectives and expressed her commitment to continued cooperation and



support. Similarly, Deputy Governor Mr. Bam Bahadur Mishra welcomed the new Governor Dr. Poudel and stated that the Bank is fortunate to have a capable and qualified leader. He also extended his best wishes for the successful tenure of Governor Dr. Poudel.

Mr. Rishikesh Bhatta,

Executive Director of Corporate Planning and Risk Management Department, welcomed Governor Dr. Poudel and extended his best wishes for a successful and fruitful tenure on behalf of the staffs. Likewise, Mr. Ramhari Ghimire, President of *Nepal Rastra Bank Karmachari*

Sangh; Mr. Harikrishna Bhattarai, President of *Nepal Bittiya Sanstha Karmachari Sangh*; and Mr. Krishna K.C., President of *Nepal Rastriya Karmachari Sangathan*, also extended their best wishes to the newly appointed Governor Dr. Poudel for a successful tenure.

Dr. Poudel has previously served as the Vice Chairman of National Planning Commission, Senior Economic Advisor of Ministry of Finance, President of Colombo Plan Council, and Chief Economic Advisor of Confederation of Nepalese Industries (CNI). Most recently, he served as a professor at Kathmandu University. Dr. Poudel earned his Ph.D. degree in Agricultural and Natural Resource Economics from University of California, USA in 2010. His research articles have been published in various national and international economic journals. ■



Nepal Rastra Bank unveiled Monetary Policy for FY 2025/26

Nepal Rastra Bank (NRB) unveiled the Monetary Policy for the fiscal year 2025/26. The policy was announced on 11 July 2025 by Governor Prof. Dr. Biswo Nath Poudel through a live broadcast from his own office at Baluwatar. The announcement was aired live on Nepal Television and simultaneously streamed on NRB's official Facebook page and YouTube channel.

Considering a moderate inflation, comfortable foreign exchange reserve position and overall outlook, the bank stated that the monetary policy stance has been kept cautiously flexible to help stimulate economic activities. The policy aims to ensure financial stability while enhancing credit access and quality as well as reducing credit concentration through a coordinated use of monetary instruments and prudential regulatory measures.

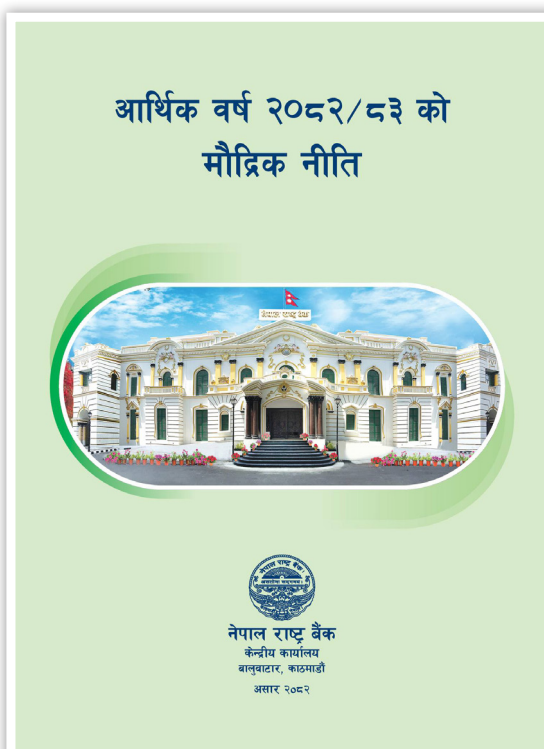
The policy targets to maintain inflation around 5.0 percent as well as ensure foreign exchange reserve sufficient to cover at least seven months of imports of goods and services in FY 2025/26. In addition, the

policy includes managing monetary liquidity and foreign exchange to support government's economic growth target of 6.0 percent in FY 2025/26, as outlined in the Government of Nepal's budget speech. The growth of broad money supply and credit to private sector has

percent to 2.75 percent. The policy rate has been lowered from 5.0 percent to 4.5 percent. The policy continues the provision of providing standing liquidity facilities at the bank rate. Likewise, the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR) have been kept unchanged.

Several notable measures have been announced in the policy. For instance, the loan limit for construction and purchase of private residential houses has been increased from Rs. 20 million to Rs. 30 million. For first-time homebuyers, the loan-to-value (LTV) ratio can be maintained up to maximum of 80 percent, and up to 70 percent for others. Likewise, the policy also calls for reviewing existing loan classification and loan loss provision.

The policy states that Working Capital Guidelines will be revised as per the nature and cash flow cycle for the sectors such as agriculture, small and cottage industries, education, health, sports, communication and media, among others. Likewise, the policy states that the single obligor limit for margin loans against shares by banks and



been projected at 13.0 percent and 12.0 percent respectively for FY 2025/26.

The bank rate, which is upper bound of interest rate corridor, has been reduced from 6.5 percent to 6.0 percent. Similarly, the deposit collection rate, which is lower bound of interest rate corridor, has been reduced from 3.0

financial institutions shall be increased from Rs. 150 million to Rs. 250 million. It also states that policy facilitation will be made in the existing provision of blacklisting due to cheque dishonor.

The policy states that the existing provision of restriction on microfinance institutions from distributing more than 15 percent in total dividends (cash or bonus) will be reviewed. Loans up to Rs. 300,000 (with or without collateral) provided to youths going abroad for foreign employment will be allowed to be classified under deprived sector lending.

Nepal Rastra Bank Foreign Investment and Foreign Loan Management Bylaws, 2078 will be amended to enhance the economic and business environment and promote investment. The foreign exchange facility for Nepali citizens travelling to

countries other than India shall be increased from USD 2,500 to USD 3,000 per visit. Currencies of countries such as Bangladesh and Sri Lanka, where foreign exchange transactions are increasing, will be added to the list of convertible currencies. Additionally, a new program titled “NRB with Borrowers” will be launched to maintain continuous dialogue with borrowers in rural areas. The policy states that Financial Consumer Protection Guidelines and Financial Market Conduct related Directives will be issued to protect financial customers.

The implementation of the monetary policy is expected to ensure price and external sector stability as well as financial stability and promote overall macroeconomic stability; improve the effectiveness of financial intermediation, increase financial inclusion,

modernize and secure the payment system, and contribute the achievement of the economic goals set by the Government of Nepal.

During the press conference following the announcement, NRB Spokesperson Mr. Kiran Pandit explained that the monetary policy stance was carefully designed to be flexible, considering moderate inflation and comfortable foreign exchange reserve position and outlook, with the objective of energizing the economy. The press conference was attended by Executive Director Mr. Guru Prasad Paudel, Executive Director and Spokesperson Mr. Kiran Pandit, Executive Director Dr. Ram Sharan Kharel, Director Mr. Satyendra Raj Subedi, Acting Director and Information Officer Mr. Suman Neupane as well as various members of the media. ■

Governor Dr. Poudel Participated in the 95th Annual General Meeting of the BIS

Governor Prof. Dr. Biswo Nath Poudel participated in the 95th Annual General Meeting of the Bank for International Settlements (BIS) held in Basel, Switzerland from 27 to 29 June 2025.

During the event, Governor Dr. Poudel took part in several interactive sessions, including “CPMI Emerging Markets





and Developing Economies – Bridging Gaps: Financial Inclusion, Regional Integration and Cross-Border Payments” and “BIS Innovation Hub Seminar: AI and Safety.” These sessions focused on the achievements and challenges faced by central banks in cross-border payment systems and the opportunities and risks associated with the use of Artificial Intelligence in central bank and appropriate policy responses to address them. Governor Dr. Poudel also participated in a session on “Regulation and Competitiveness”.

At the annual meeting, BIS General Manager Mr. Agustín Carstens presented the BIS Annual Report, while Prof. Maurice Obstfeld presented a paper entitled “The International Monetary System: A Fork in the Road”.

During the annual meeting, Governor Dr. Poudel had a bilateral meeting with BIS General Manager Mr. Agustín Carstens. He also held a meeting

with senior officials from BIS Banking Department, led by Department Head Mr. Luis Bengoechea, along with other representatives. Discussions focused on potential collaboration with Nepal Rastra Bank in diversifying Nepal’s foreign exchange reserves, particularly through gold purchases and investments in emerging instruments available in the global markets. In addition, the discussion also explored opportunities for further cooperation to ensure safe, profitable, and efficient management of foreign exchange reserves.

Governor Dr. Poudel also held a bilateral meeting with Mr. Sanjay Malhotra, Governor of Reserve Bank of India. The governors discussed to strengthen bilateral cooperation between the two central banks, facilitate payment system and promote capacity development and maintain continuous coordination to enhance mutual relations in the future.

Similarly, Governor Dr.

Poudel met with Mr. Pan Gongsheng, Governor of the People’s Bank of China (PBC). The meeting focused on further strengthening bilateral cooperation between the two central banks. The meeting also focused on continuing cooperation to make banking transactions and payment system simple and effective.

BIS is an international financial institution, established in 1930. It comprises of 63 member central banks. Established with the objective of maintaining monetary and financial stability worldwide, the organization plays a vital role in fostering cooperation among central banks, development of financial system and maintaining financial stability.

Governor Dr. Poudel was accompanied by Mr. Govinda Prasad Nagila, Director of Banks and Financial Institutions Regulation Department, and Mr. Sharan Kumar Adhikari, Director of Office of the Governor and Secretary to the Board of Directors. ■

Governor Dr. Poudel in Sudurpashchim Province



Dhangadhi Office of Nepal Rastra Bank organized a discussion program in Achham with the borrowers of agricultural and SME loans on 8 June 2025. The event was held in the presence of Governor Prof. Dr. Biswo Nath Poudel as a chief guest. Participants of the program included officials and representatives from local banks and financial institutions operating in Mangalsen, officials from the Agriculture Knowledge Center, Veterinary Hospital and Livestock Service Expert Center, local entrepreneurs, and borrowers of agricultural and SME loans.

At the program, Mr. Bhoj Raj Bhatta, Assistant Director of Dhangadhi Office, delivered a brief presentation on

geography and demographics, deposits and credit status, and sectoral investment situation of Sudurpashchim Province and Achham District. Subsequently, discussions were held among the participants on contemporary economic situation and problems faced by borrowers. Mr. Guru Prasad Paudel, Executive Director of Bank and Financial Institution Regulation Department, and Mr. Dirgha Bahadur Rawal, Executive Director of Bank Supervision Department, addressed the queries raised by the participants.

In the closing remarks, Governor Dr. Poudel emphasized the need for effective collaboration between banks and borrowers. He

highlighted the importance of providing necessary training to borrowers and establishing coordination mechanisms among relevant institutions to ensure the proper utilization of loans in the agricultural sector. On the occasion, Mr. Keshav Bahadur KC, Director of the Dhangadhi Office, delivered the welcome speech and shed light on the objectives of the program. The event was conducted by Deputy Director Mr. Jhakendra Bahadur Shahi.

Similarly, a discussion program was organized in Dhangadhi in the presence of the Governor Dr. Poudel as a chief guest on 9 June. The participants of the program included representatives from Kailali Chamber of Commerce

and Industry, Contractor's Association of Kailali, banks and financial institutions, Arthik Sarokar Manch, borrowers of SME and agricultural loans, and other relevant stakeholders. During the program, Mr. Bhoj Raj Bhatta, Assistant Director of Dhangadhi Office, delivered a brief presentation highlighting the geography and demographics, deposits and credit status, and sectoral investment situation in Sudurpashchim Province and Achham District.

Speaking on behalf of the participants, Mr. Pushpa Raj Kunwar, President of Kailali Chamber of Commerce and Industry, emphasized the need for appropriate provisions in the monetary policy to boost economic activities and channel the excess liquidity held by banks and financial institutions towards industrial and agricultural sectors loans. Likewise, Mr. Pukar Subedi, Coordinator of the Bankers' Association Sudurpashchim Chapter, stated that banks and financial institutions are always willing to invest in any situation, provided the projects are viable.

At the event, Mr. Keshav Bahadur KC, Director of Dhangadhi Office, delivered the welcome remarks, and Assistant Director Mr. Hari Lal Bhatt conducted the program. Mr. Guru Prasad Paudel, Executive Director of Bank and Financial Institution Regulation Department, responded to the queries raised by the participants. Governor Dr.



Poudel concluded the program by stating that necessary provisions will be made in the monetary policy to address the issues raised by the participants.

After the program, Governor Dr. Poudel visited the Nepalgunj Office and participated in a discussion program organized by the Office. The program was organized under the coordination of Mr. Narayan Prasad Pokhrel, Director of Nepalguni Office. The program was attended by Mr. Guru Prasad Paudel, Executive Director of Bank and Financial Institution Regulation Department; Dr. Satyendra Timilsina, Executive Director of Financial Institution Supervision Department; Mr. Dirgha Bahadur Rawal, Executive Director of Bank Supervision Department; and Mr. Sharan Kumar Adhikari, Acting Executive Director of Office of the Governor, among others.

Governor Dr. Poudel held an interaction with representatives of the Nepalgunj Chamber of Commerce and Industry as well as banks and financial institutions based in Nepalgunj. Addressing the issues raised by the participants, Governor Dr. Poudel emphasized the need for collective efforts to control inflation and maintain price stability. Governor Dr. Poudel also held an interaction with the staff of Nepalgunj Office. On the occasion, he emphasized that all employees must work together to achieve the objectives of the Bank.

He also held a discussion with the Board of Directors of Karnali Development Bank Ltd. on current status and future course of action of the bank. During the discussion, he stated that the regulatory and supervisory role of Nepal Rastra Bank would be more effective in the coming days. ■

Management Seminar on Annual Action Plan and Budget Concluded



Corporate Planning and Risk Management Department (CPRMD) organized a “Management Seminar” on 20-21 June in Kathmandu. The department hosted the event as part of the process for preparing the annual work plan and budget of NRB for the fiscal year 2025-26.

The seminar was organized in presence of Governor Prof. Dr. Biswo Nath Poudel, Deputy Governors Dr. Neelam Dhungana Timsina and Mr. Bam Bahadur Mishra, and members of Board of Directors Mr. Chintamani Siwakoti, Dr. Shankar Prasad Acharya, and Dr. Rabindra Prasad Pandey. Executive Directors and Directors from all departments, divisions, and offices also participated in the seminar, along with representatives from employee unions.

On the occasion, Governor Dr. Poudel highlighted the importance of maintaining a safe and secure working

environment with zero tolerance. He emphasized that all employees have a vital role to play in improving the office working environment. He further stressed that expenditure management must be prudent and urged all concerned departments and offices to make maximum efforts for the successful implementation of the work plan.

Deputy Governors Dr. Timsina and Mr. Mishra chaired the business sessions on the first and second days respectively. During these sessions, Executive Directors and head of various divisions and offices presented their proposed annual action plans for FY 2025-26. On that occasion, Mr. Rishikesh Bhatta, Executive Director of CPRMD, delivered a brief overview of the proposed annual action plan and budget.

During the seminar President of Nepal Rastra Bank Karmachari Sangh Mr. Ramhari Ghimire, President of Nepal

Bittiya Sanstha Karmachari Sangh Mr. Harikrishna Bhattarai and Secretary-General of Nepal Rastra Karmachari Sangathan Mr. Gopikrishna Aryal provided suggestions for enhancing the effectiveness of the proposed action plan and budget for FY 2025-26. They also shared their perspectives on several contemporary issues.

In the seminar, participants discussed on issues observed in the operation of the Bank, challenges in implementation of the action plan and the budget, along with possible solutions to it. Executive Directors Mr. Guru Prasad Paudel, Mr. Bimal Raj Khanal, Dr. Ram Sharan Kharel, Directors Mr. Rajan Bikram Thapa, Mr. Keshav Bahadur KC, Ms. Arya Joshi, Er. Krishna Ram Dhunju, Er. Tarun Kumar Jha and Er. Saha Dev Chand also shared their views during the group discussions.

A closing session was held to address queries raised during discussions. On this occasion,

Senior Deputy Governor Dr. Timsina emphasized the importance of inter-departmental coordination during the formulation and implementation of plans and instructed that all tasks be completed on time as per the action plan. Deputy Governor

Mr. Mishra underscored the need for preparing the budget and action plan based on actual need and justification. Speaking at the seminar, Board Member Mr. Siwakoti stressed the importance of realistic budget estimation and called for budget

proposals to be accompanied by cost estimates.

Executive Director of CPRMD Mr. Rishikesh Bhatta delivered a welcome remark while Deputy Director Mr. Khageshor Bhandari conducted the event. ■

Nepal Rastra Bank Celebrates its 70th Anniversary

Domestic economy begins to recover, but challenges remain: Acting Governor Dr. Timsina

Nepal Rastra Bank (NRB) celebrates its 70th anniversary as it completes 69 years of its establishment. A special ceremony was held at the Bank's premises on 27 April 2025, which was inaugurated by Acting Governor Dr. Neelam Dhungana Timsina. Addressing the program, Acting Governor Dr. Timsina expressed that her confidence that the gradual recovery of the economy would help drive economic activities. She stated, "Inflation remains within the targeted range, and both imports and exports trade have improved. Credit flow from the banking sector has also started to pick up pace. Recent legal reforms have created a more favorable investment environment, which is expected to further stimulate overall economic activities."

Acting Governor Dr. Timsina stated that despite high liquidity and low interest rates, the expected improvement in credit flow to private sector as well as domestic demand has



not been observed. She also highlighted that the challenges still remain, such as the inability to increase capital expenditure as expected and delays in project completion on time. Acting Governor Dr. Timsina also presented a summary of the key achievements of NRB in the current fiscal year.

Delivering the welcome remarks at the program, Deputy Governor Mr. Bam Bahadur

Mishra stated that there has been a gradual improvement in domestic demand, credit expansion, and economic growth. He also stated that there has been a significant decline in inflation and interest rates, along with improvement in external sector. He also noted that although non-performing loans in the financial sector have been rising, the key financial stability indicators- like capital



adequacy and liquidity—have remained above the regulatory minimum levels.

In the program, former Governor Mr. Deependra Bahadur Kshetry was honored in recognition for his contributions in Nepal's economic, financial, monetary, and managerial sectors. Acting Governor Dr. Timsina presented him with a shawl and a certificate of

appreciation. On that occasion, former Governor Mr. Kshetry shared his views on the role of NRB in maintaining overall financial stability.

On the occasion, Ms. Gita Pokharel Lamsal, President of Nepal Rastra Bank Karmachari Sangh; Mr. Krishna KC, President of Nepal Rastriya Karmachari Sangathan; Mr. Hari Krishna Bhattarai,

President of Nepal Bittiya Sanstha Karmachari Sangh; and Mr. Ashwini Kumar Thakur, President of Former Employees Union of Nepal Rastra Bank, extended their best wishes.

At the event, the “Twenty Years of Service Award” was presented to six employees who had completed 20 years of service at the Bank. The recipients included Mr.





Shubhash Chandra Ghimire, Director of Payment Systems Department; Mr. Devendra Gautam, Director of Bank and Financial Institution Regulation Department; Mr. Rajan Dev Bhattarai, Director of Financial Management Department; Mr. Bigyan Raj Subedi, Director of Microfinance Supervision Department; Mr. Binod Raj Lekhak, Director of Banking Department; and Mr. Ajit Regmi, Director of Internal Audit Department. Mr. Subhash Chandra Ghimire delivered remarks on behalf of the award recipients.

On the occasion, the Bank awarded Deputy Director Mr. Nanda Kumar Dhakal with “Nepal Rastra Bank Sarwokrasta Sewa Puraska”. Likewise, the Bank awarded “Nepal Rastra Bank Utkrasta Sewa Puraskar” to Deputy Director Ms. Priyanka Basnyat, Assistant Director Mr. Bhoj Raj Bhatt, Senior Assistant Mr. Purna Prasad Bhandari, and Assistant (IT) Mr. Naresh

Mandal. Similarly, winners of the ‘Economic Article Competition’ organized by the Office of the Governor were awarded certificates along with prizes. First prize were jointly awarded to Deputy Director Mr. Som Raj Nepali and Assistant Director Mr. Pradeep Raj Kafle. Deputy Director Mr. Tika Ram Timilsina and Assistant Director Mr. Anil Kumar Jha awarded second and third prize respectively.

Former Governors Dr. Bhesh Bahadur Thapa, Mr. Ganesh Bahadur Thapa, Mr. Tilak Bahadur Rawal, Mr.

Deependra Purush Dhakal, Mr. Dipendra Bahadur Kshetry, and Mr. Maha Prasad Adhikari; Board Members Mr. Chinta Mani Siwakoti, Dr. Shankar Prasad Acharya, and Dr. Ravindra Prasad Pandey; former Deputy Governors; heads of various regulatory bodies; Chief Executive Officers of banks and financial institutions; senior officials, regular and former employees of the Bank were present at the program. Mr. Mukti Nath Sapkota, Director of Office of the Governor conducted the event. ■



Changing Dynamics of International Trade



 **Anil Lama**
Assistant Director

Gains of Trade

Economists generally discuss the gains of trade. The idea that trade allows each country to specialize in products with comparative advantages and raises welfare in all countries is one of the oldest concepts, dating back to David Ricardo. It is rare among economists to disagree with the statement that tariffs increase the costs of imports, lead to inefficient allocation of resources, and discourage innovation and competition.

The pure theories of international trade makes a strong case for free trade. Yet free trade policies have been scarce historically. For instance, the Smoot-Hawley Tariff Act of 1930¹, which raised tariffs and adopted protectionist measures to appease domestic constituencies, highlights the intricacies of the United States'

trade policy and its implications for trading partners. The Act later became the symbol of beggar-thy-neighbor policies. Consequently, many countries adopted protectionist policies that also contributed to a contraction in international trade during the 1930s.

The architecture of international trade shifted only after World War II. The agreement among the global leaders, the General Agreement on Tariffs and Trade (GATT 1947), based on reciprocity and non-discrimination, laid the foundation for an open, rules-based trading system. The numerous rounds of GATT, which covered tariffs, non-tariff measures, anti-dumping measures, intellectual property, and dispute settlements, ultimately led to the creation of the World Trade Organization (WTO) in 1995², further institutionalizing the multilateral trading system. This system benefited everyone, marked by a gradual reduction in average tariffs, increased international trade volume, and high economic growth. The gains of trade were so appealing that by the 1990s, even inward-looking developing economies

recognized free trade as an effective means to raise welfare and living standards as well as reduce poverty.

Since the 1990s, many developing economies have benefited from pursuing an export-led growth model. In the earlier stages, these economies specialized in labor-intensive manufacturing by capitalizing on the abundant labor force. Through gradual integration into international markets, these economies were able to attract capital, foreign investment, and know-how from developed economies, adopt new technologies, and achieve economies of scale. Gradually, the growth of the manufacturing sector driven by international trade, spilled over into other sectors, becoming an engine of broader economic growth.

The post-1990s surge in export-led growth resulted from several critical factors, primarily the advancement in information and communication technologies that led to the emergence and smooth functioning of an integrated global supply chain. With the fragmentation of production processes across multiple countries, developing

¹ <https://history.state.gov/milestones/1921-1936/protectionism>

² https://www.wto.org/english/thewto_e/history_e/history_e.htm



economies were able to capitalize on their comparative advantages by specializing in specific manufacturing tasks. The other important factor was the entry of developing countries into the WTO, which further enhanced the global trade system. More importantly, the various trade agreements discouraged trade barriers and promoted structural reforms. Lastly, the period was marked by geopolitical stability and peace.

In line with the wave of market-oriented reforms in the South Asian region, Nepal also adopted economic reforms in the 1990s, primarily focused on liberalizing the economy

through reduction of import duties, removal of quantitative restrictions and import licensing requirements, and introduction of full convertibility for current account transactions.³ Nepal also became a member of the WTO in April 2004.

Unlike developing economies that embraced the export-led growth model to transform the benefits of trade into broad economic growth, Nepal has not been able to capitalize on its potential for export. The export growth over the last few decades has been stagnant, marked by limited diversification, with exports concentrated in a narrow range of low-value products and

limited destination markets. The aggregate gains from trade also depend on how much a country imports. Nepal's import as percent of Gross Domestic Product (GDP) is around 30 percent⁴. Over the past decades, access to open global markets has allowed Nepal to import essential items, energy products, capital goods, and food items to meet domestic needs and drive domestic economic activity.

The existing governance of international trade marked by low tariff barriers at the global level, and the multilateral trading system championed since World War II, has come under severe pressure from populists in developed countries.

3 Pant, B. (2005) Nepal's Trade Sector: Review, Repercussions and Recommendations, Economic Journal, NRB

4 Average of last three decades

Pains from Trade

Despite the optimism regarding the benefits of trade, skepticism persists. The trade liberalization affects different sectors and the parts of the economy depending upon the exposure⁵. The area most affected by change in trade policy is the manufacturing sector in advanced economies. With the rise of global supply chain and fragmented production process, the manufacturing bases of Multinational Companies (MNCs) moved offshore to low-wage developing economies. The offshoring of manufacturing activities led to significant decline in manufacturing jobs (deindustrialization)⁶ in these economies. Some suggests the deindustrialization is the result of globalization of markets. Many economists argue that the workforce from declining manufacturing sector will gradually converge to the service sector. With technological advancement, the productivity of the service sector will increase which will lead to increase in income level as well as welfare in long run.

Unfortunately, not everyone in different regions and places⁷ in advanced economies which used to be manufacturing hubs, has been able to move to good service jobs as outlined by

trade theories. The closure of factories, loss of employment opportunities to low and middle-skilled workers in such places from the departure of large manufacturing industries has ultimately fueled political movement about bring back manufacturing. This plight of manufacturing sector is featured prominently in political sphere where populist argue that trade liberalization has affected the manufacturing industries. The

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political leaders in the advanced economies are increasingly concerned about the hollowing out of the manufacturing sector and emergence of economies like China as global dominance in key manufacturing industries. They want to bring back those manufacturing towns and have gradually resorted to protectionist policies.

Re-emergence of Industrial Policies (IPs)

Governments around the world have pursued Industrial Policies (IPs) - interventions and measures targeting specific sectors or firms - to boost economic activity in selected sectors, protect infant industries, achieve economic diversification, and break dependence on particular countries. The use of IPs, especially in the advanced economies, fell out of favor in the 1990s. It coincided with the development of the global trading system and the emergence of global supply chains. However, the use of IPs in advanced economies has been on the rise since 2017 and has accelerated recently with primarily focus on protective domestic subsidies, protective export incentives and raising the import barriers.⁸

The U.S.'s decision to impose higher tariffs on Electric Vehicles (EVs) made in China highlights the instances of using industrial policies to protect domestic automobile manufacturers and secure supply chains. The CHIPS Act is another initiative aimed at strengthening the U.S. semiconductor industry and enhancing the semiconductor supply chain.

⁵ Petia Topalova (2004), Trade Liberalization and Firm Productivity: The Case of India, IMF Working Paper

⁶ Deindustrialization is widely referred to as a phenomenon marked by a decline in employment in manufacturing as a share of total employment

⁷ For instance: Rust belt in US

⁸ International Monetary Fund (March 2025), Industrial Policies: Handle with Care

Return of High Tariffs

On 2 April 2025, President Trump signed an order regulating imports with a reciprocal tariff on almost all of America's trading partners. The President announced tariffs on nearly all trading partners, ranging from 10 percent to 50 percent.⁹ The administration views the recent intervention in tariffs as a tool to generate government revenue, encourage the reshoring of manufacturing industries to the U.S., reduce the trade deficit, and protect national security. The tariffs on imports from China have been raised to an unprecedented level, following China's retaliatory tariff hikes on U.S. goods. It indicates a gradual disintegration of the rules-based trading system and an open violation of the principles and rules of the WTO, the steward of the global trading system.

Although the U.S. has temporarily extended the suspension of the announced tariff increases, global average tariff rates are expected to rise significantly¹⁰, reversing progress since the signing of GATT 1947. The sweeping tariffs imposed by the U.S. and increased uncertainty about trade policy are likely to have a negative impact on international trade and economic growth. Recent reports by the IMF and the World Bank have lowered the global growth rate projections.

Way Forward

The vicious cycle of tariff hikes by the U.S. and retaliatory measures by its trading partners is likely to continue due to a lack of consensus and cooperation at the global level, reminiscent of the high and retaliatory tariff levels that were a negative shock to global economic growth during the 1930s. Just like negotiators during the GATT agreement had to face many legal and practical issues to conclude the agreement, global leaders

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need to build consensus and cooperation to strengthen the global trading system by addressing long-standing gaps instead of dismantling it.

In the context of Nepal, few things are at the forefront of current policy debates. First, there is the existence of "missing exports": the gap between the export potential and export. The World Bank (2021) estimates Nepal's missing exports at around USD 9.2 billion, which is 12 times its actual annual merchandise exports. Many attribute it to the structural bottlenecks,

low labor productivity relative to peer countries, loss of competitiveness in international markets and adverse effects of premature deindustrialization.

Second, Nepal is to be graduated from the least developed country (LDC) status in 2026 which will be followed by the loss of various LDC-specific benefits and favorable arrangements such as preferential market access. Third, a significant share of Nepal's trade relative to its GDP underscores the dependence on global markets for economic growth and development. President Trump's trade policies are likely to elevate the global average tariff reshaping trade patterns in the coming days. The global trade uncertainty is likely to impact Nepal's trade and economy through reconfiguration of current global supply chain.

Given the existence of "missing exports", trade uncertainty concerning the re-emergence of higher tariffs and industrial policies, coupled with Nepal's upcoming graduation from the LDC status in 2026, a serious assessment is needed to address these significant challenges focusing on Nepal's needs and priorities and develop meaningful plan to tap the export potential to support the economy. ■

⁹ <https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

¹⁰ US has trade agreements with UK, Indonesia, Vietnam, Philippines and Japan. Even though the agreed tariffs have been lower than initially announced, the tariffs have increased.

Senior Deputy Governor Dr. Timsina Participated in 47th SAARCFINANCE Governors' Group Meeting and Symposium

Senior Deputy Governor of Nepal Rastra Bank (NRB), Dr. Neelam Dhungana Timsina, participated in the 47th SAARCFINANCE Governors' Group Meeting and Symposium organized by Bangladesh Bank in Dhaka, from 25 to 27 July 2025. The meeting was attended by Central Bank Governors, Deputy Governors, officials from Ministry of Finance, and other representatives from the South Asian region.

SAARCFINANCE Governors' Group Meeting was chaired by Dr. Ahsan H. Mansur, the current Chair of SAARCFINANCE and Governor of Bangladesh Bank. During the meeting, Dr. Timsina shared insights on Nepal's current economic and financial situation, and the country's status on financial inclusion. On behalf of NRB, she also extended thanks and best wishes to the organizers.

Following the Group Meeting, a Symposium was held on the theme "Financial Inclusion and Central Banking: Bridging Gaps in the SAARC



Region." Governor of Bangladesh Bank Dr. Ahsan H. Mansur delivered his opening remarks. As a special guest, Dr. Md. Khairuzzaman Mozumder, Finance Secretary of Bangladesh, and Mr. Dasho Penjore, Governor of Royal Monetary Authority of Bhutan delivered remarks, while Dr. Md. Habibur Rahman, Deputy Governor of Bangladesh Bank delivered the keynote address in the Symposium. Likewise, Dr. Sayera Younus, Executive Director of the Research Department, delivered the welcome remarks.

Bangladesh, Bhutan, Maldives, Nepal, Pakistan, and Sri Lanka presented country papers on the theme "Financial Inclusion and Central Banking: Bridging Gaps in the SAARC

Region", during the symposium. On behalf of Nepal, Deputy Director Dr. Guna Raj Bhatt presented Nepal's country paper. The program was also attended by Acting Director Mr. Suman Neupane and Deputy Director Ms. Sudha Dulal Acharya.

SAARCFINANCE is a network of Central Bank Governors and Finance Secretaries from the member countries of the South Asian Association for Regional Cooperation (SAARC). It was established in 1998 with the objective of promoting discussions on macroeconomic policy issues and enhancing regional cooperation. The Eleventh SAARC Summit held in January 2002 in Kathmandu formally recognized SAARCFINANCE. ■

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