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Nepal Development Research Institute
NDRI

MONETARY POLICY ANALYSIS

FISCAL YEAR 2082/83 B.S.



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Monetary Policy Analysis

For

The Fiscal Year 2082/83 B.S.

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1. Executive summary

Nepal's Monetary Policy for FY 2082/83 B.S.[1] has just come into effect, with a cautiously expansionary stance aimed at stimulating investment and demand while maintaining macroeconomic stability. By lowering the interest rate corridor and keeping reserve ratios unchanged, the Nepal Rastra Bank (NRB) seeks to make borrowing more affordable, promote credit flows into productive sectors, and preserve external stability without creating inflationary risks.

The design of this year's policy reflects lessons from FY 2081/82 B.S. While inflation was moderate and foreign exchange reserves remained strong, credit growth was subdued, non-performing loans (NPLs) rose to 5.4 percent of total lending, and private sector investment confidence stayed weak. These outcomes underscored that last fiscal year's monetary easing alone could not unlock growth in the presence of deeper governance challenges, structural bottlenecks, and risk aversion in the banking sector.

In response, the FY 2082/83 B.S. monetary policy emphasizes continuity with incremental reforms. Measures include restructuring working capital loans, easing provisioning requirements to reduce pressure on banks, strengthening supervision of cooperatives, expanding digital KYC, and supporting SMEs, agriculture, and energy through targeted credit restructuring. These are designed to provide short-term relief while reinforcing financial governance and transparency. However, the persistence of speculative investments in real estate and capital markets, reliance on remittance inflows to sustain external balances, and slow capital expenditure execution highlight the limits of monetary policy in isolation.

Looking forward, the success of the new policy will depend on whether liquidity is channeled into productive sectors, governance gaps are narrowed, and monetary instruments are better aligned with fiscal priorities. Nepal's financial system remains characterized by underutilized capacity, excess dependence on remittance-driven surpluses, and weak private sector demand for credit. Addressing these challenges will be central to turning monetary space into real economic transformation.

2. Introduction

Monetary policy is formulated and implemented by Nepal Rastra Bank (NRB) in Nepal annually. This policy plays a crucial role in maintaining macroeconomic stability, controlling inflation and credit flow, and ensuring financial sector soundness as well as supporting the government's fiscal priorities. These priorities of the monetary policy are supported through the targeted money supply, interest rate corridors, credit control, and foreign exchange management, along with the open market operations carried out by the NRB.

[1] FY 2082/83 B.S. = Shrawan 2082 B.S. to Ashar 2083 B.S. = FY 2025/26 AD = mid-July 2025 AD to mid-July 2026 AD

The Nepal Development Research Institute (NDRI) has been consistently contributing to independent analysis of the national budget and monetary policy in order to provide a coherent assessment of policy direction, achievements, and challenges and foster informed dialogue among policymakers, academics, and development stakeholders. This Monetary Policy Analysis for FY 2082/83 B.S. builds on NDRI's earlier work, including the analysis of NRB's monetary policy for FY 2081/82 B.S. and the recently completed National Budget Analysis for FY 2082/83 B.S. By linking the insights from last year's monetary policy implementation with this year's fiscal priorities, the report seeks to present a critical review of Nepal's monetary policy and analyze the implications of the targets and provisions set by the monetary policy.

The purpose of this report is therefore threefold: first, to present a critical review of Nepal's macroeconomic and monetary developments; second, to assess the implementation status of the monetary policy for FY 2081/82 B.S.; and third, to analyze the highlights, directions, and implications of the monetary policy for FY 2082/83 B.S. in the broader context of Nepal's economic recovery and reform agenda.

3. Macro-economic situation of Nepal

Nepal's macroeconomic performance for the FY 2081/82 B.S. shows strong external sector resilience, stabilizing inflation, rising foreign reserves, and healthy financial deepening. Remittance inflows and export performance are key pillars underpinning external surplus and reserve accumulation. However, key systemic imbalances remain limited private credit growth compared to money-supply expansion, persistent trade deficit, and a need for broader real sector momentum beyond remittances and exports. There are policies being formulated which is going towards sustaining credit flow to productive sectors, deepening export diversification, boosting capital expenditure, leveraging growing reserves, and managing inflation in a fiscally prudent manner. For in-depth data on current macro-economic and financial situation of Nepal, please refer to the **Annex I** at the end.

3.1. Real GDP growth at purchasers' price

The trend of Nepal's Real GDP **(Figure 1)** at purchasers' price from FY 2069/70 B.S. to the projection for FY 2081/82 B.S. shows a fluctuating growth pattern shaped by political, natural, and external shocks. Growth was moderate at 3.5 percent in FY 2069/70 B.S. and improved to 6.0 percent in FY 2070/71 B.S., before slowing to 4.0 percent in FY 2071/72 B.S. and plummeting to 0.4 percent in FY 2072/73 B.S. due to the earthquake and border blockade. A sharp rebound followed in FY 2073/74 B.S. with 9.0 percent growth, the highest in the period, driven by reconstruction and favorable agriculture, while strong growth continued in FY 2074/75 B.S. and FY 2075/76 B.S. at 7.6 percent and 6.7 percent, respectively. The economy contracted by -2.4 percent in FY 2076/77 B.S. amid the COVID-19 pandemic, but growth resumed at 4.8 percent in FY 2077/78 B.S. and 5.6 percent in FY 2078/79 B.S., before slowing to 2.0 percent in FY 2079/80 B.S. due to inflation and global uncertainty. Recovery remained modest at 3.7 percent in FY 2080/81 B.S., with a projected growth of 4.6 percent in FY 2081/82 B.S., reflecting cautious optimism despite persistent structural and external challenges.

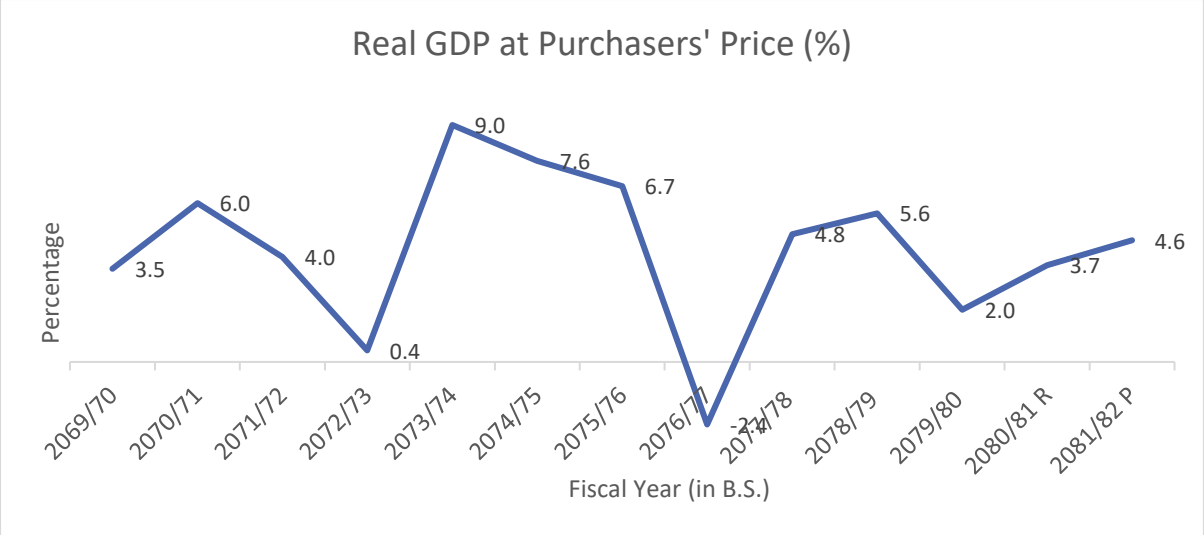


Figure 1 *Real GDP at Purchasers' Price (%)*

3.2. Trend of inflation

The National Consumer Price Index (NCPI) **(Figure 2)** in Nepal is a key economic indicator that measures the average change in the prices of a fixed basket of goods and services commonly consumed by households. It serves as the primary tool for assessing inflation and cost-of-living adjustments in the country[2].

The National Consumer Price Index (NCPI) in Nepal has shown significant fluctuations from FY 2069/70 B.S to the projected figures for FY 2080/81 B.S. reflecting a mix of domestic and global influences. In the early years, inflation remained high, reaching 9.9 percent in both FY 2069/70 B.S. and FY 2072/73 B.S., largely driven by supply-side constraints, the 2015 earthquake, and the subsequent border blockade that disrupted trade and increased the cost of goods. However, the situation improved markedly in the following years, with inflation dropping to 4.5 percent in FY 2073/74 B.S. and hovering around 4-5 percent until FY 2075/76 B.S., indicating a phase of relative price stability supported by improved supply conditions and economic recovery. Inflation rose again in FY 2076/77 B.S. to 6.2 percent, likely due to external price pressures and Nepal's reliance on imports. During the COVID-19 pandemic in FY 2077/78 B.S., inflation eased to 3.6 percent as economic activity slowed, but it rebounded to 6.3 percent in FY 2078/79 B.S. with the resumption of economic activities and rising global inflation. In FY 2079/80 B.S., inflation surged to 7.7 percent, driven by higher import costs, currency depreciation, and global market disruptions. However, the inflation for FY 2080/81 B.S. stands at 5.4 percent, and projected CPI of FY 2081/82 B.S. stands at 4.06 percent suggesting a moderate decline due to policy interventions by the Nepal Rastra Bank, improved global supply conditions, and base-year effects. The inflation trend highlights Nepal's vulnerability to external shocks and the critical need for stronger domestic production and effective macroeconomic management.

[2] https://www.nrb.org.np/contents/uploads/2024/10/Technical_Note_CPI-_Nepal.pdf

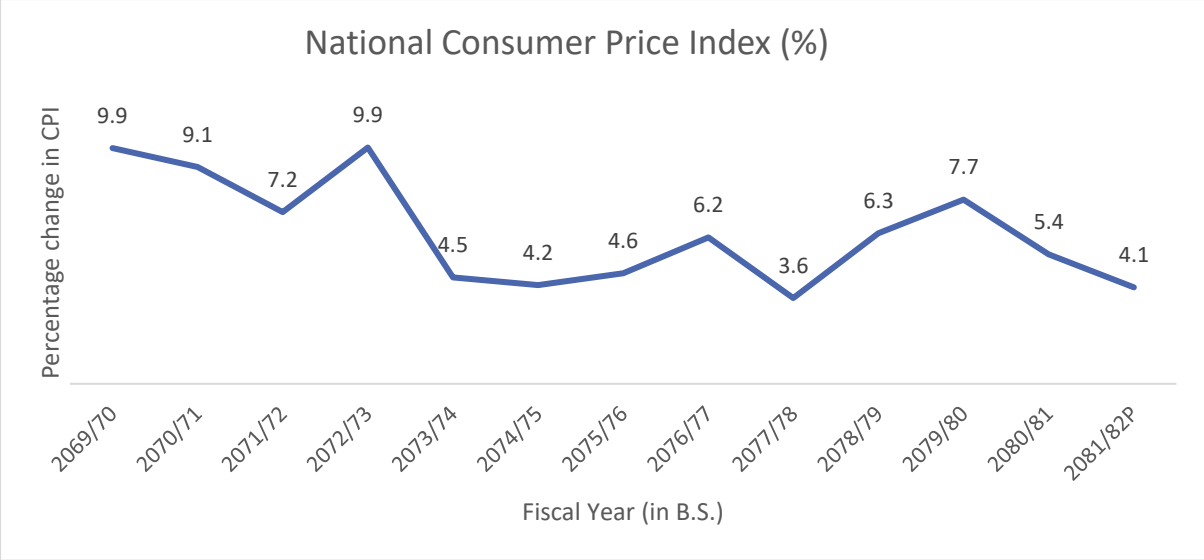


Figure 2 *National Consumer Price Index (%)*

3.3. Money supply

The trend of Broad Money (M2) and Narrow Money (M1) in Nepal from FY 2069/70 B.S. to 2081/82FY B.S **(Figure 3)**. reflects phases of expansion, contraction, and renewed liquidity pressures in the economy. Between FY 2069/70 B.S. and FY 2076/77, both M2 and M1 recorded strong growth, with M2 ranging between 15.5 percent and 19.9 percent and M1 peaking at 19.7 percent, driven by rising remittances, expanding credit, and deepening financial intermediation. Growth further accelerated in FY 2077/78, when both M2 (22.7 percent) and M1 (22.8 percent) surged, indicating abundant liquidity in the system. However, this momentum reversed sharply in 2078/79 FY B.S. and FY 2079/80, as M1 contracted by -9.3 percent and then stagnated, while M2 slowed to 6.8 percent before moderately recovering. The contraction in highly liquid money reflected the impact of Nepal Rastra Bank's tight monetary stance aimed at curbing inflation, stabilizing the balance of payments, and addressing financial sector risks. A recovery followed in FY 2080/81, and by FY 2081/82, Broad Money (M2) expanded by 12.5 percent while Narrow Money (M1) surged by 22.0 percent, signaling the re-emergence of excess liquidity in the economy. This excess liquidity highlights easing monetary conditions but also poses challenges for effective monetary management, particularly in containing inflationary pressures and ensuring productive credit flows.

In summary, the earlier years reflect a phase of monetary expansion that supported growth, while the recent period indicates a cautious monetary stance with restricted liquidity in the economy, especially in highly liquid forms of money. This shift highlights the challenges faced by the central bank in balancing inflation control with economic stimulation.

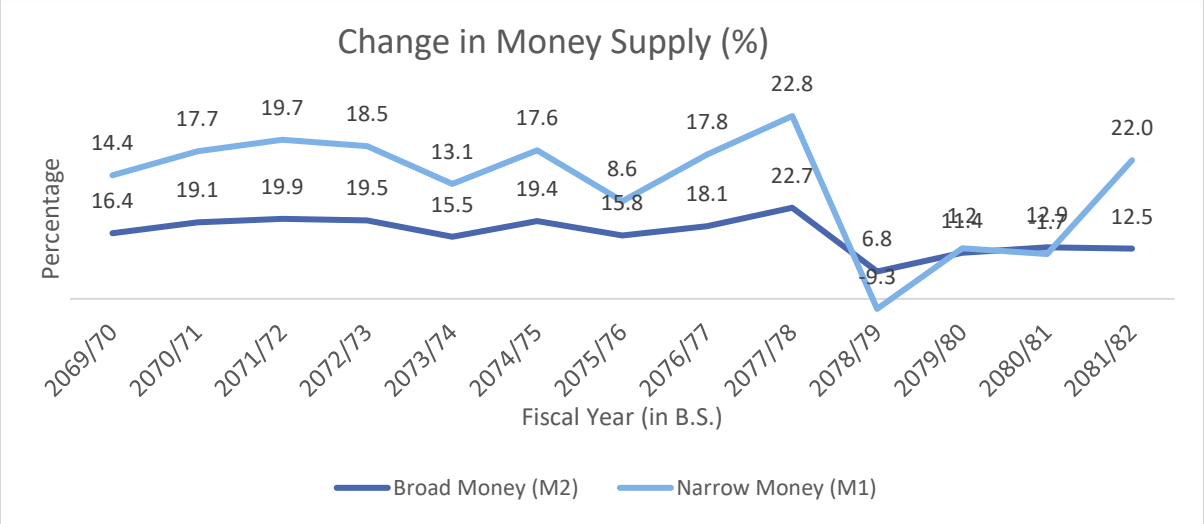


Figure 3 *Percentage change in money supply*

3.4. Trend on import and export

Nepal's foreign trade data from FY 2072/73 B.S. to FY 2081/82 B.S. reveals a persistent trade deficit, characterized by imports consistently surpassing exports **(Figure 4)**. This imbalance has been a longstanding feature of Nepal's economy, reflecting structural challenges and the country's consumption reliance on foreign goods and services. The foreign trade data for the fiscal year 2081/82 B.S. reveals a significant trade deficit of NPR 15.27 Kharba,[3] marking a 6 percent increase from the previous year[4].

From FY 2069/70 B.S. to FY 20801/82 B.S., Nepal's export and import trends show a persistent trade imbalance and vulnerability to internal and external shocks. Exports fluctuated sharply, declining during crisis years like FY 2072/73 B.S. and FY 2079/80 B.S., and surging temporarily in FY 2077/78 B.S. and FY 2078/79 B.S. Imports remained consistently high, with sharp growth in several years, reflecting Nepal's heavy reliance on foreign goods. The COVID-19 pandemic led to temporary drops in both exports and imports, but recovery was short-lived. In FY 2081/82 B.S., both exports (-0.5 percent) and imports (-1.0 percent) declined further, signaling subdued external demand and persistent structural constraints in trade performance. Recent years show declining exports and slow imports, indicating weakened demand, tighter policies, and continued structural challenges in boosting export competitiveness.

Therefore, addressing persistent trade deficit requires comprehensive policy reforms, infrastructure development, and strategies to enhance export competitiveness. The Nepal Trade Integration Strategy (NTIS) 2023 emphasizes export diversification, better trade logistics, and

[3] 1 Kharba = 100 Billion

[4] https://www.sharesansar.com/newsdetail/total-export-figure-stood-rs-277-kharba-last-fiscal-year-trade-deficit-for-fy-208182-at-rs-1527-kharba-2025-07-22

overcoming sectoral barriers (NTIS, 2023)[5]. Enhancing product competitiveness through technology, quality standards, and innovation is need of the hour[6].

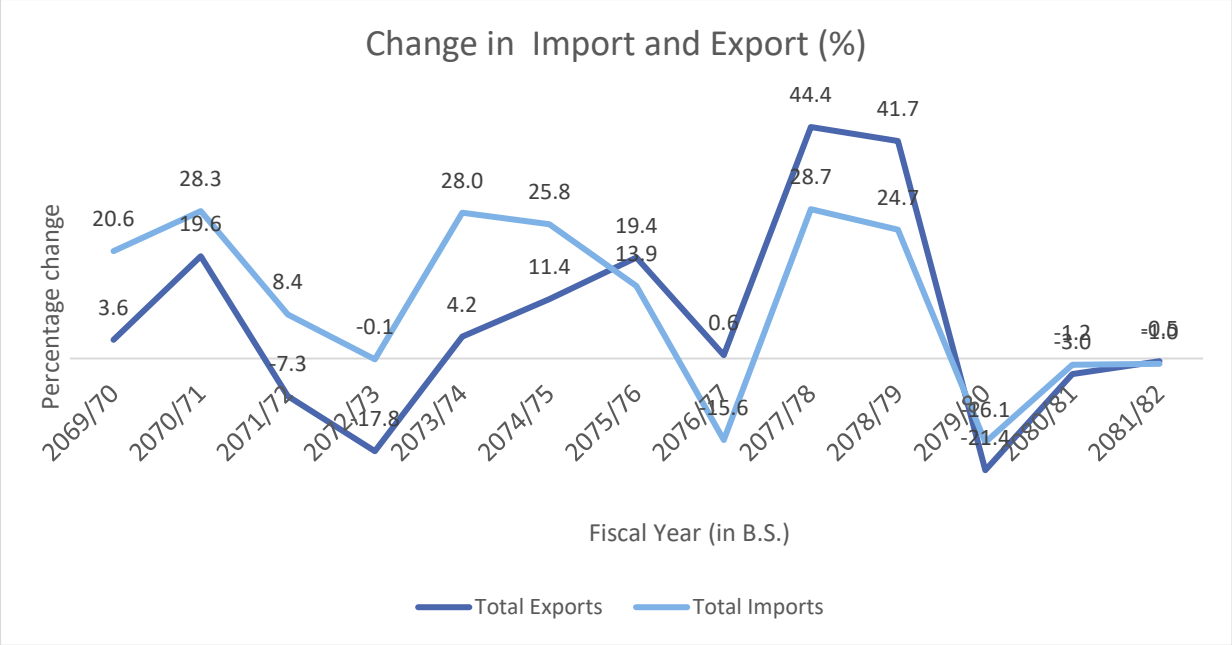


Figure 4 *Trend on Import and Export*

3.5. Inflation and growth rate

The targeted and actual inflation of Nepal over the years can be seen in the **Table 1** below.

Table 1: *Targeted and actual inflation of Nepal*

Year	2077/78 B.S.	2078/79 B.S.	2079/80 B.S.	2080/81 B.S.	2081/82 B.S.	2082/83 B.S.
Targeted Inflation	7.0	6.5	7.0	6.5	5.5	5.0
Actual Inflation	3.6	6.3	7.8	5.6	5.4	-

Source: Economic Survey, 2081/82 B.S.

Table 1 shows how Nepal's inflation has changed compared to the government's targets over the past few years. In FY 2077/78 B.S., inflation was much lower than the target, likely because of reduced economic activity during COVID-19. In FY 2078/79 B.S., inflation was close to the

[5] https://giwmscdntwo.gov.np/media/pdf_upload/NTIS%20English%20version_FINAL_u82ldmw.pdf?utm_source=chatgpt.com

[6] https://lkyspp.nus.edu.sg/docs/default-source/aci/nepal-competitiveness-index-2025_preview_secured.pdf

target as the economy started recovering. In FY 2079/80 B.S., inflation went above the target, probably due to rising global prices and supply problems. In FY 2080/81 B.S., it dropped below the target, showing better control of prices and slower demand. By FY 2081/82 B.S., inflation was almost exactly on target, indicating effective management. Overall, the gradual reduction of targets from 7 percent to 5 percent shows a focus on keeping prices stable and controlling inflation.

This trend reflects not only shifting economic conditions but also the impact of coordinated policy responses. NRB has played a central role in managing inflation through calibrated monetary measures—adjusting policy interest rates and regulating liquidity via tools such as the Cash Reserve Ratio (CRR) and Open Market Operations (OMO). In parallel, the government has implemented fiscal strategies including targeted subsidies, tax adjustments, and disciplined public spending to ease inflationary pressures. NRB's emphasis on maintaining adequate foreign exchange reserves and channeling credit toward productive sectors has further supported macroeconomic stability. Together, these interventions have contributed to aligning inflation outcomes more closely with policy targets in recent years.

Table 2: *Targeted and actual growth rate*

Year	2077/78 B.S.	2078/79 B.S.	2079/80 B.S.	2080/81 B.S.	2081/82 B.S.	2082/83 B.S.
Targeted growth rate	7.0	6.5	8.0	6.0	6.0	6.0
Actual growth rate	4.3	5.6	2.3	3.5	-	-

Source: Economic Survey, 2081/82 B.S.

Table 2 shows Nepal's targeted and actual economic growth rates from FY 2077/78 B.S. to FY 2082/83 B.S. In FY 2077/78 B.S., the actual growth rate was 4.35 percent, much lower than the 7 percent target, likely due to the impact of COVID-19 on the economy. In FY 2078/79 B.S., growth was 5.61 percent, slightly below the 6.5 percent target as the economy started to recover. In FY 2079/80 B.S., growth dropped sharply to 2.31 percent, far below the 8 percent target, possibly because of weak demand and other economic challenges. In FY 2080/81 B.S., growth increased to 3.54 percent but still remained below the 6 percent target. The actual growth has been consistently below the targets, showing that the economy has been growing slower than expected.

3.6. National consumption and saving

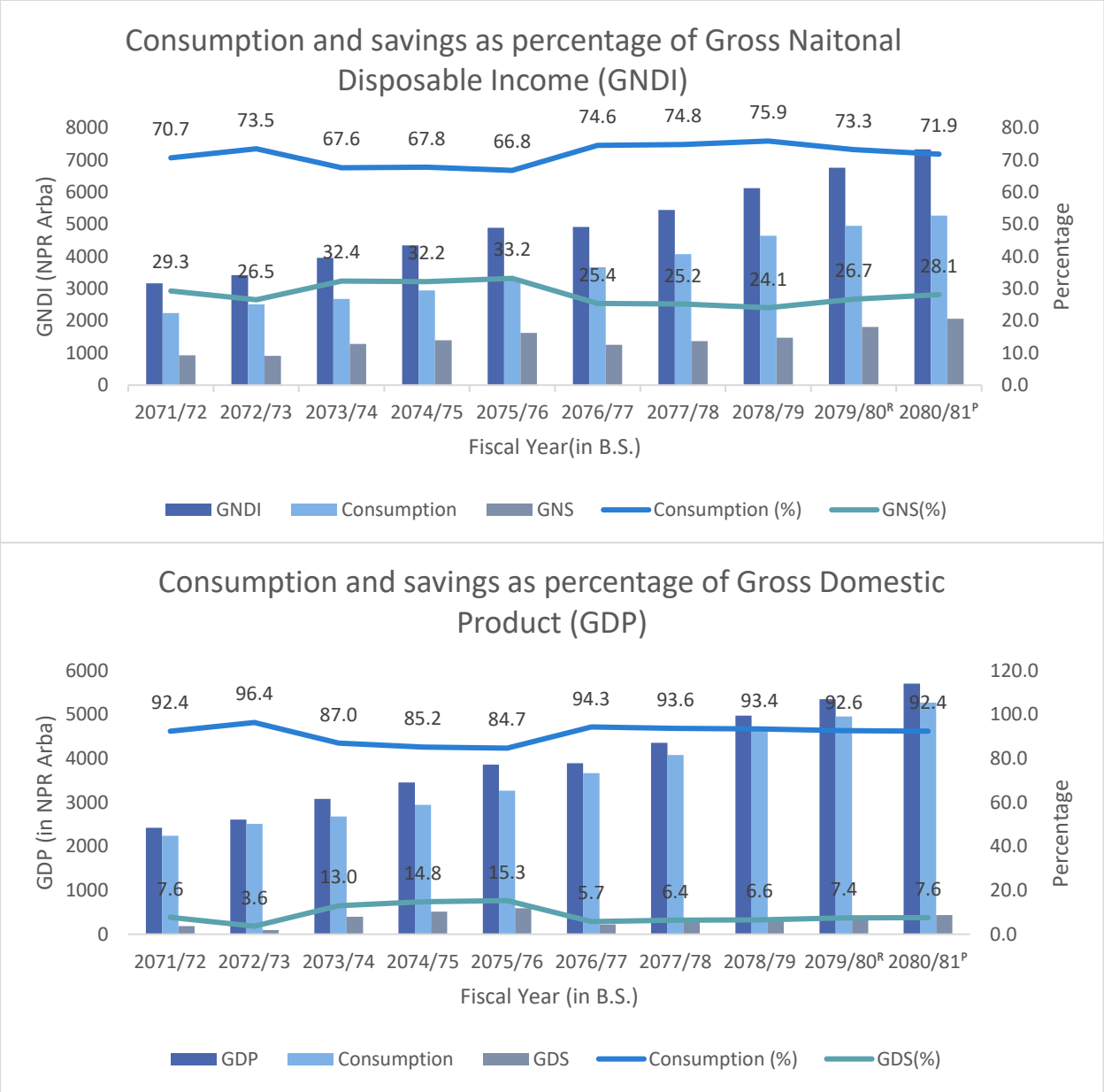


Figure 5 *Consumption, Gross Domestic Saving, and Gross National Saving*

Figure 5 shows that Nepal's economy continues to rely heavily on consumption, with households and businesses spending more than 70 percent of national income and over 90 percent of GDP, leaving little space for domestic savings. The new Monetary Policy for FY 2082/83 takes a supportive approach by lowering key interest rates to make borrowing cheaper and improve liquidity in the market. This can encourage businesses to invest and help the economy recover, but it also carries the risk of fueling more short-term consumption if credit is not used productively. To truly shift the balance, the policy will need to work hand in hand

with measures that encourage people to save more and ensure that affordable credit is directed toward productive investments rather than immediate spending.

3.7. Balance of Payments (BoP)

The Balance of Payments (BoP) is one of the most important indicators for a country's economic health as it shows all economic transactions between a country and the rest of the world.

Nepal's balance of payments has been highly volatile over the past decade. From a positive balance of 18,891 million NPR in FY 2072/73 B.S. **(Figure 6)**, it dropped significantly in FY 2073/74 B.S. and even turned slightly negative in FY 2075/76 B.S. This shows sensitivity to external shocks, remittance flows, trade imbalances, and foreign aid. Monetary policy, which involves regulating interest rates and the money supply by the central bank, plays a significant role in influencing a country's BoP. Changes in interest rates can affect capital inflows and outflows; for instance, higher interest rates may attract foreign investment, improve the financial account, and strengthen foreign reserves. Conversely, loose monetary policy can increase domestic demand for imports, potentially widening the current account deficit. Additionally, the management of money supply impacts inflation and exchange rates, which in turn influence export competitiveness and import costs, thereby affecting the overall BoP position.

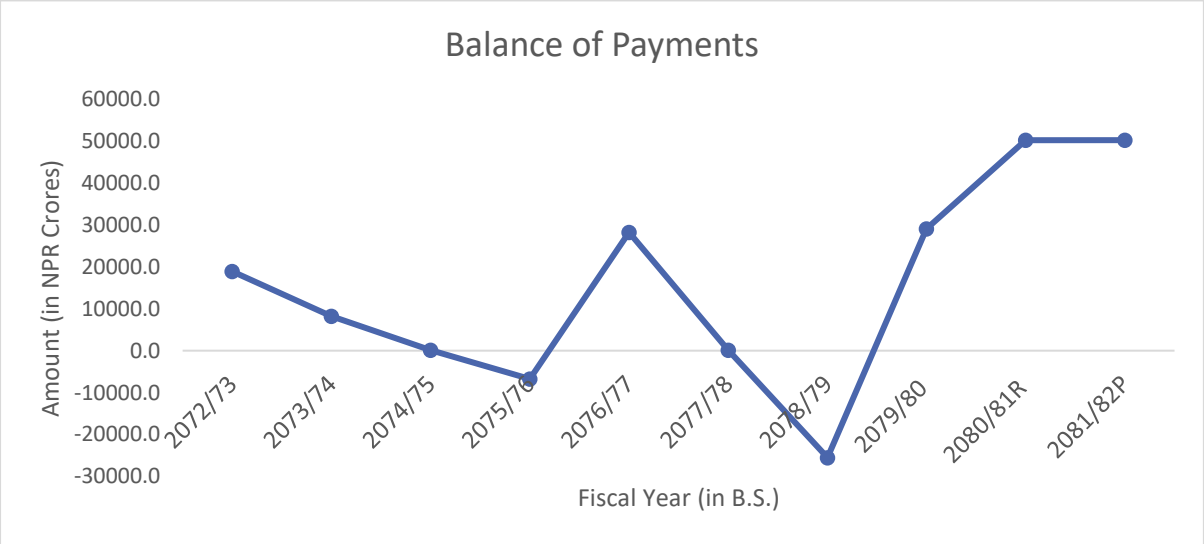


Figure 6 *Balance of Payments*

4. Implementation Status of Monetary Policy of FY 2081/82 B.S.

The implementation of the monetary policy for FY 2081/82 B.S. **(Figure 7)** has largely met its fiscal and monetary objectives. Against the target of keeping inflation at 5 percent, average inflation rate stood at 4.24 percent up for the FY 2082/83 B.S., while point-to-point inflation for the month was even lower at 2.72 percent.

The policy had aimed to maintain foreign exchange reserves sufficient to cover seven months of imports, but actual reserves were strong enough to cover 14.7 months of imports. Similarly, Interest rate corridor operated effectively, and liquidity remained relatively high throughout the year.

However, the targeted economic growth rate of 6 percent set by the National Budget and Monetary Policy was not met, as the expected growth rate for FY 2081/82 B.S. stands at just 4.61 percent. This year's monetary policy acknowledges that the shortfall is largely due to the inability to accelerate private sector lending despite abundant liquidity and lower interest rates, underscoring that interest rate cuts alone are insufficient to boost private sector productivity. Instead, a more enabling institutional and policy environment is required to foster economic growth through high level of production of goods and services. Overall, while the monetary policy successfully achieved its inflation and foreign reserve objectives, targets for economic growth and private sector credit expansion were not completely met. However, this underachievement cannot be attributable to monetary policy solely.

This underachievement of the growth target despite adequate liquidity and lower interest rate reflects the institutional and regulatory bottlenecks in the Nepalese economy. Monetary easing provisions alone does not guarantee productive investment unless complemented by robust demand conditions, stable regulatory frameworks, and confidence in the business environment. In Nepal's case, lack of national budget implementation in the productive sectors, low capital expenditure and high current expenditure, political instability, limited infrastructure capacity, bureaucratic hurdles and weak contract enforcement are other major causes of inability in achieving the targeted growth rate. Furthermore, predominance of consumption on the income and imports, with Marginal Propensity to Consume (MPC) more than 90 percent and Marginal Propensity to Save (MPS) less than 10 percent, plays significant role in low investment rate and leakage of the income abroad. This implies that the monetary policy needs to be well supported by fiscal coordination, institutional strengthening, and sector-specific reforms, particularly in manufacturing, agriculture, and services, so that credit flows are channeled into productive sectors rather than speculative or import-driven activities.

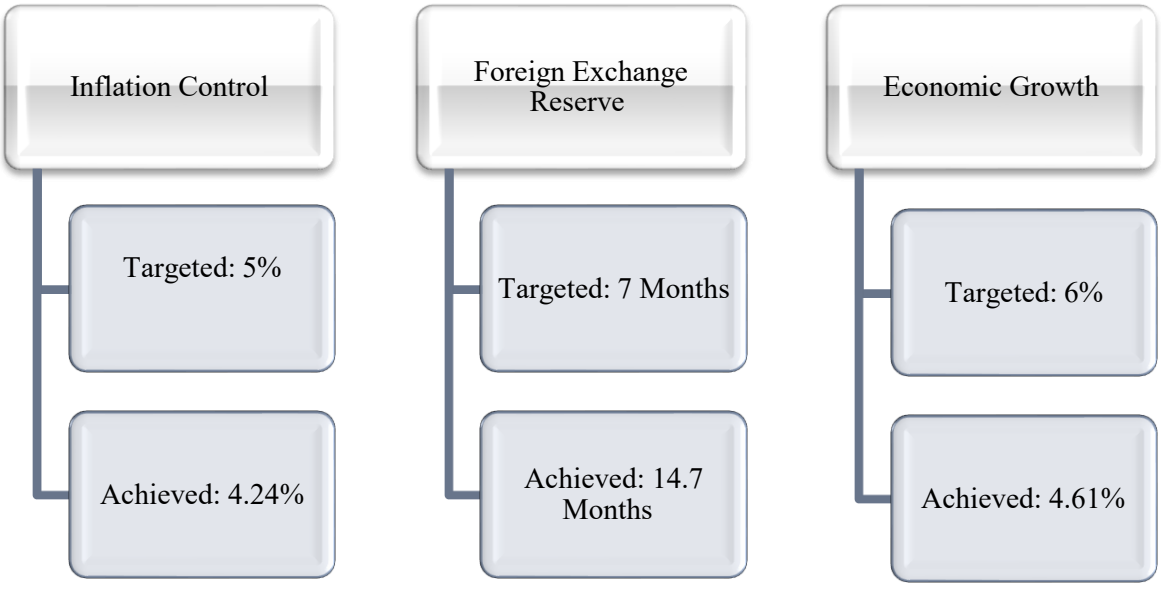


Figure 7 *Implementation status of Monetary Policy FY 2081/82 B.S.*

5. Monetary policy FY 2082/83 B.S.

5.1. Major Monetary Policy highlights

Flexible Monetary Stance: NRB has reduced the policy rate to 4.5 percent, the bank rate to 6 percent, and the deposit collection rate to 2.75 percent to lower borrowing costs and stimulate credit demand.

Macroeconomic Targets: The policy supports the National Budget's 6 percent GDP growth target, aims to keep inflation within 5.5 percent, and projects 12 percent private sector credit expansion for FY 2082/83.

Enhanced Housing Credit Access: For first-time buyers, the home loan ceiling is raised to Rs. 3 crores with an 80 percent loan-to-value (LTV) ratio; for other buyers, the LTV cap is set at 70 percent.

Expanded Capital & Credit Limits: Margin loan limits have increased to Rs. 25 crores, share-backed loans are capped at 70 percent of market, and BFIs have greater flexibility to raise capital with NRB approval.

Liberalized Forex: The foreign exchange facility for travelers is raised to USD 3,000 per person.

Innovation Support: Regulatory Sandbox will enable controlled testing of fintech, payment, and capital market innovations.

Figure 8 *Highlights of Monetary Policy FY 2082/83 B.S*

5.2. Direction of the Monetary Policy 2082/83 B.S.

The Monetary Policy for Fiscal Year 2082/83 B.S. has cautiously taken an expansionary approach, aiming to support capital formation and reduce the cost of internal debt mobilization **(Figure 8).** Its focus is on improving access, availability, and quality of credit while safeguarding the stability of the financial sector. The policy also seeks to strengthen the monetary transmission mechanism through more effective open market operations and a well-functioning interest rate corridor.

Currently, the availability of fund as a deposit is high resulting excess liquidity in the financial market, and interest rates are gradually declining. Annual inflation has remained at 4.61 percent for the FY 2081/82 B.S., while foreign exchange reserves have grown enough to cover 15.4 months of imports, more than double the target set in the previous year's monetary policy. In response, a flexible monetary stance has been adopted to further stimulate demand. In the first 11 months of the last fiscal year, it collected NPR 21.34 trillion through deposit collection auctions. At the same time, it lent only NPR 2.7 billion[7] via the overnight facility.

However, despite abundant liquidity and historically low interest rates, credit expansion has fallen short of expectations. This underscores the need for well-coordinated and rational

[7] 1 Billion = 100 Crores

policies, with the monetary policy working in harmony with fiscal policy and other related economic policies to achieve desired outcomes.

5.3. Framework and targets of Monetary Policy 2082/83 B.S.

Nepal's current monetary situation is marked by improving macroeconomic stability, supported by declining inflation, strong remittance inflows, a significant balance of payments surplus, and adequate liquidity in the banking system. The foreign exchange reserves are comfortable enough, covering 14.7 months of imports, and the broad money supply has expanded moderately. Interest rates have declined across the board, indicating an easing of financial conditions, while inflation averaged 4.24 percent in FY 2081/82 B.S., down from the previous year. However, challenges persist, including weak private sector investment, rising non-performing loans (NPL), and sluggish capital formation, which have constrained credit absorption despite sufficient liquidity. In this context, the monetary policy for 2082/83FY B.S. adopts a cautiously expansionary stance, aiming to stimulate economic activity by encouraging credit flow to the productive sectors while maintaining macroeconomic stability through controlled inflation and responsible monetary expansion. With this direction, the major objectives of this monetary policy are:

1. To maintain the inflation within around 5 percent
2. To maintain the foreign exchange reserve enough to sustain the import of goods and services for at least 7 months.
3. To aid in achieving the economic growth of 6 percent as targeted by the national budget of 2082/83 B.S. by managing liquidity and expanding the production of goods and services. The broad money supply is targeted to increase by 13 percent and the private sector credit is targeted to increase by 12 percent.

5.4. Monetary instruments

Eased Interest Rate

The monetary policy of FY 2082/83 B.S. has cut the policy (repo) rate to 4.5 percent from 5.0 percent, the bank rate (upper ceiling of interest rate corridor) to 6 percent from 6.5 percent, and the deposit-collection rate (lower ceiling of interest rate corridor) to 2.75 percent from 3 percent. This provision encourages commercial banks to re-price loans downward, ensuring the lenders obtain loans for minimal cost, and the private sector credit expands.

Status of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

The Monetary Policy for FY 2082/83 B.S. has kept the CRR and SLR unchanged while lowering the interest rate corridor. This approach encourages banks to expand credit cushion to absorb unexpected shocks such as sudden withdrawals, loan defaults, or market instability. In this way, the central bank stimulates lending through lower interest rates without risking over-lending or eroding financial safeguards, thereby preventing potential problems like risky loans, asset bubbles, or heightened vulnerability during downturns.

5.5. Regulation and supervision

As for the regulatory aspects, the monetary policy has included few major provisions that might have following implications:

Table 3: *Provisions and Implications of Monetary Policy FY 2082/83 B.S.*

S.N.	Provisions	Implications	Remarks
1.	The private home loan limit raised from NPR 2 crore to NPR 3 crore, with the loan-to-value ratio set at 80 percent for first-time buyers and 70 percent for others.	• Expansion of access to housing finance, especially for first-time buyers, and may stimulate the real estate and construction sector, creating more economic activities and employment	• Risk of overheating property prices • Higher risk of Non-Performing Loans.
2.	To support medium- and low-income groups in agriculture, micro, cottage, small, and medium enterprises, NRB has allowed BFIs to provide agricultural loans up to NPR 10 lakhs based on collateral valuation, with minimal loan provisioning requirements	• Lowers the borrowing barriers • enhances financial inclusion and credit access for the small farmers and entrepreneurs	• Effective monitoring and supervision required for the expansion of productive credit
3.	Loans up to NPR 3 crores will be classified as Small and Medium Enterprise (SME) loans and offered at a maximum interest rate of two percentage points above the base rate.	• Cheaper SME financing and business expansion	• Could impose credit risk to the banks
4.	The limit of the margin loan against the collateral of shares has been increased from NPR 15 crores to NPR 25 Crores.	• Supports stock market and boost investors participation	• Could increase credit risk of the banks
5.	National ID–based digital KYC and consumer protection guidelines will be implemented, to	• Smoothens the KYC process of BFIs, supporting the BFIs	• Strong coordination between the BFIs and NID system is recommended to make

	enhance transparency and borrower engagement.	meet the FATF recommendations	the availability of the data centralized
6.	In case of citizens visiting to the countries other than India, the existing provision of purchasing up to USD 2,500 has been increased to USD 3,000	• Convenience in the travel for study, work, or medical treatment • Could lead to additional pressure on Nepal's FOREX reserve in case of high rise in outbound travel	• Increases transparency and encourages use of formal financial channels. • However, continuous monitoring of the FOREX reserve adequacy should be done.
7.	The currencies of the countries with high FOREX transaction with Nepal including Bangladesh and Sri Lanka, will be added to the list of Foreign Convertible Currencies.	• Facilitates trade settlement by reducing transaction cost with regional partners	• Facilitates bilateral cross-border trade.

6. Major expected outputs and impacts in the economy

This section outlines some of the key theoretical and practical economic impacts that are anticipated from the implementation of the FY 2082/83 B.S. monetary policy. The analysis highlights both the intended outcomes and some of the risks that may materialize if systemic challenges remain unaddressed.

6.1. Lowering interest corridor and liquidity management

Lowering the interest corridor is expected to narrow the spread between the central bank's lending and deposit rates, effectively making borrowing costs cheaper, which in turn is expected to stimulate credit demand and both private and public sector investment. Moreover, keeping the CRR and SLR unchanged from the previous fiscal year will help avoid excess liquidity flooding the market, lowering inflationary pressure. These two instruments are also expected to encourage speculatory investment in the real estate sector, increase consumer demand, and facilitate export competitiveness through competitive currency prices against the dollar.

6.2. Market confidence, banking sector performance, non-performing loans and structural weaknesses

A similar stance adopted in the previous monetary policy failed to generate anticipated market confidence. Banks and private sector showed weak investment confidence over continued domestic and global political uncertainties. There are suggestions that following NRB-sanctioned accounting changes, commercial banks posted an aggregate net total profit of NPR

71.62 billion, a 43.3 percent year-on-year rise. This comes in despite the fact that many of the commercial banks published weak balance sheets in the last fiscal year, showing smaller profits, NPL, and non-progressive loan portfolios. As of Jestha 2082, NRB reported that NPLs makes up 5.24 percent of the overall loan portfolio, up 1.26 percentage points from 12 months prior. Nepal's banking sector is reluctant to engage in risky lending practices despite the favorable conditions on paper. This reluctance is further compounded by the low productivity of Nepal's manufacturing and construction sectors. Consequently, investor confidence is not bolstered by the fact that the prevailing practice prioritizes financial assets such as share buybacks, dividends, and capital market investments over real investment in productive capacity.

The prevalence of NPLs across various financial institutions result in BFIs remaining risk-averse, tightening credit standards, demanding higher collateral, and restricting lending to only the safest borrowers. This runs counter to the policy's intention, as small and medium enterprises and the agricultural sector—where investment is most needed—struggle to access affordable finance. More fundamentally, the high incidence of NPLs reflects deeper structural weaknesses in the economy, including poor governance, weak fiscal compliance standards, and inadequate monitoring mechanisms. For instance, many NPL cases arise from unauthorized lending practices supported by fake documents or the widespread use of over-valued real estate as collateral, both of which create conditions for systemic defaults. These practices not only weaken bank balance sheets but also erode investor confidence by signaling lax financial discipline and regulatory oversight. As a result, businesses and consumers may hesitate to borrow or invest, limiting aggregate demand and blunting the stimulus effect of lower interest rates.

Left unaddressed, the NPL problem risks diverting liquidity toward speculative or unproductive uses while undermining the credibility of Nepal's financial system. The monetary policy's introduction of restructured working capital loans provides breathing space for businesses facing repayment difficulties. By revising loan classification and provisioning guidelines (reducing the requirement for performing loans from 1.2 percent to 1.1 percent to ease capital strain), the NRB is attempting to align banking practices with sector-specific realities while avoiding undue stress on banks. The central bank permitted a one-time restructuring of loans up to NPR 20 million for sectors such as agriculture, energy, and SMEs, subject to business plan reviews, cash flow assessments, and partial interest recovery. Banks also benefited from loan recoveries in the construction sector after the government settled contractors' outstanding dues. Moreover, reforms in regulatory supervision, digital KYC adoption, and compliance are expected to enhance transparency and financial sector governance. In parallel, stronger oversight of cooperatives and harmonization with the formal banking sector will be crucial to reducing risks, protecting depositors, and building financial stability.

6.3. External balance and liquidity dynamics

The latest macroeconomic indicators show a current account surplus of NPR 307 billion, and the monetary policy expects this sizeable positive balance to remain or increase in the coming fiscal year. While a positive current account balance normally signals a greater lending capacity among the Global North economies, Nepal's case is very different. Persistent underinvestment,

weak aggregate demand, and low business confidence have contributed to a unique macroeconomic situation. Even more worrying is that this excess is driven by a surge in incoming remittance, rather than growth driven by rising exports. Nepal's trade deficit is ever-increasing, with the latest NRB figures showing a 6 percent increase year-on-year (**Figure**). Nepal's sizeable trade deficit is offset by incoming remittance. The remittance balance has also contributed to the country's excess foreign reserves share, which has helped NRB more than exceed its target of ensuring foreign reserves balance that covers business-as-usual expenses of at least seven months. One approach that the NRB has taken to rectify this imbalance is regularly issuing domestic debt to mop up excess liquidity. This can, in theory, curb inflationary pressure, but raises domestic debt and interest burden. As per the latest NRB data, Nepal's domestic debt obligations have crept up over the years (from 8.1 percent of GDP in FY 2071/72 B.S. to 22.3 percent of GDP at the end of FY 2081/82), which has resulted in larger fiscal deficits directed toward financing interest payments. Almost 82 percent of all domestic debt is currently held by commercial banks. The combination of high domestic debt and a sustained current account surplus is the sign of an underutilized domestic capacity and, more importantly, poor fiscal-monetary coordination.

6.4. Structural implications and risks

Taken together, Nepal's financial system is currently characterized by excess liquidity, reflecting robust remittance inflows, a large balance of payments surplus, and subdued private sector demand for credit. Since FY 2078/79 B.S., however, M1 has contracted while M2 growth slowed, reflecting tighter monetary policy and weaker confidence in liquid holdings. The contraction of M1, despite overall liquidity remaining comfortable, suggests that the private sector is shifting away from liquid assets toward time deposits, or holding back investment altogether. Meanwhile, debenture issuance in Nepal's banking sector is gradually picking up, as some banks lock in long-term funding at historically low interest rates. Although credit demand remains soft and liquidity abundant, this strategy helps strong banks reduce future funding costs and position themselves advantageously for when lending activity strengthens.

One cyclical implication is that when banks hold ample liquidity but demand for quality credit is weak, they may either sit on idle reserves or extend loans to riskier borrowers. The latter can further push up NPLs over time, undermining financial stability and growth outcomes. This is especially concerning in Nepal's volatile capital markets, where excess liquidity can fuel risky bubbles in an environment dominated by speculation and momentum-driven investing, as illustrated by the increase in the margin loan limit against share collateral from NPR 15 crores to NPR 25 crores. One positive development is that increasing the primary capital thresholds from 20 percent to 25 percent for non-deliverable forwards will enable banks to hedge foreign exchange risk, especially given Nepal's peg to the Indian currency, and reduce market risk exposure on their balance sheets, which in turn positively influences their investment appetite.

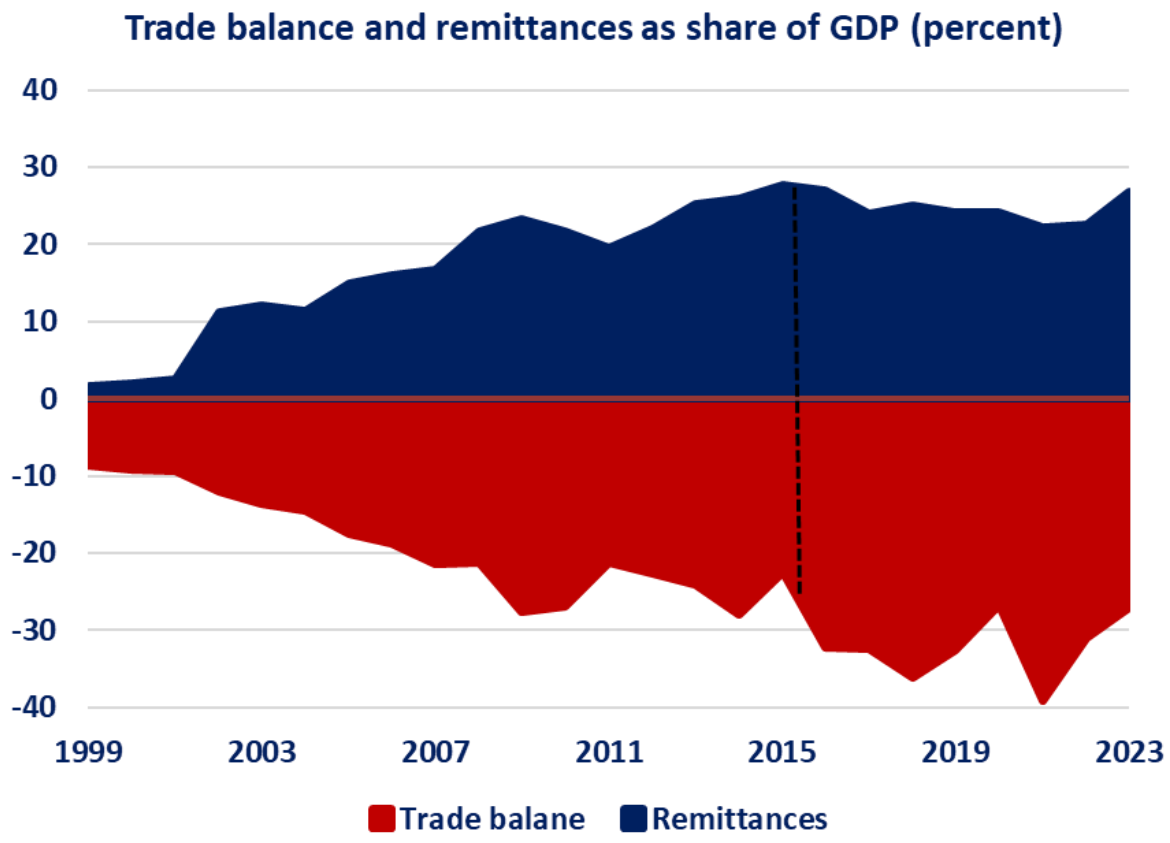


Figure 9 *Trade balance and remittances as a share of GDP (Source: IMF)*

7. Major limitations of the Monetary Policy 2082/83 B.S.

The FY 2082/83 B.S. monetary policy's cautiously expansionary stance signals NRB's continued focus on curbing high prices, promoting a growth-enabling environment, and reducing unemployment. Following a recessionary lull over the previous few quarters, the last three quarters have shown positive grow rates in the real GDP. NRB aims to strike a balance between the turbulent global economic situation and Nepal's growth prospects, continued trade deficit, remittance inflows, and a declining private sector confidence. Despite being theoretically sound and grounded in economic theory, the real-market implications of the monetary policy can be assessed at the end of the fiscal year. As the NRB transitions to a new leadership tenure, perhaps the continued expansionary stance adopted this fiscal year as well can have a much greater impact this time around. It is encouraging to note that there were reports that both the private and grassroots sector were extensively consulted during the preparation of the latest policy. In a country plagued with institutional inefficiencies, political patronage, and the pursuit of ambitious targets without the necessary follow through, spurring consumer and investment confidence remains a distant challenge. If last year's evidence is anything to go by, the expected liquidity and credit expansion to boost spending is unlikely to pay dividends.

Nepal's lack of up-to-date and reliable unemployment statistics, while not necessarily a monetary policy failure, hinders progress tracking. While the NRB publishes monthly statistics on the country's price levels, the absence of current unemployment data limits the NRB's

ability to accurately assess the impact of its annual monetary policy on overall production sector growth and national employment levels. Given that this year's expansionary monetary policy aims to create job opportunities, gauging progress becomes challenging. The latest Nepal Living Standards Survey shows unemployment at 12.6 percent in 2078/79 B.S., up from 11.4 percent reported by the 2074/75 B.S. Nepal Labor Force Survey, but yearly modeled ILO estimates place it lower at 10.60 percent in 2023 and 10.71 percent in 2024, highlighting both the gaps and inconsistencies in available data. However, the NRB's efforts in releasing real-time quarterly updates on the provincial and occupational wage indices are a positive step forward.

Domestic capital, though abundant, remains underutilized and cannot alone sustain consistent growth, making FDI attraction essential, especially after two key developments last fiscal year: the organization of the heavily promoted 2081 B.S. Investment Summit and the receipt of Nepal's first-ever sovereign credit rating. Leveraging the potential of FDI is crucial for Nepal's economic revival, particularly in a context marked by business stagnation, excess liquidity, and a BB– sovereign credit rating. Even though this year's monetary policy has announced provisions to ease the repatriation of profits for foreign investors, it remains to be seen to what extent investors will respond. FDI inflows have remained below 1 percent of GDP, underscoring the need for a consistent annual target of 2–3 percent backed by year-on-year reforms. At the same time, the government's tendency to spend more on debt servicing than on development projects is alarming, as it crowds out investment in infrastructure and financial sector development. Maintaining the BB– rating will therefore be critical. The rating signals short-term investment potential into government bonds and bank funds but can also raise borrowing costs relative to investment-grade sectors in the country. Ensuring debt sustainability, expediting automatic-route approvals under the Foreign Investment and Technology Transfer Act of 2075 B.S., and removing burdensome procedures on external transactions will be vital in creating a favorable investment climate. Ultimately, improving governance, regulatory efficiency, and institutional quality will determine whether Nepal can channel both foreign and domestic liquidity into productive sectors and turn FDI into a driver of long-term growth.

As always, how successful the monetary policy is in maintaining its growth and inflation targets will depend on how businesses and investors react, and to what extent the federal government can keep its promise of spending its capital allocation in production investments and national-level spending. Moreover, much will also depend on how supportive various domestic sectors will be. For instance, a recent move to introduce strict anti-money laundering rules in the country's less-than-transparent real estate sector to the address the FATF Grey List inclusion drew heavy criticism, prompting a swift recall and highlighting the fact that ground-level realities will have much to say in the implementation of any well-intentioned policy plan. NRB will be working closely with the IMF and Asia Pacific Group on priority actions related to illicit and money-laundering activities. The new cross-border digital payments agreement with South Asian neighbors will also require secure implementation and strict oversight to prevent misuse.

As Nepal continues to double-down on its remittance driven economy, it is important to buffer the external sector from unforeseen global shocks. Even though the NRB holds sufficient foreign reserves to sustain imports of goods and services for almost 15 months, it is important to leverage sources of foreign exchange other than personal remittance inflows. However, with the prospects of the country's LDC graduation looming, and the reduction in trade and concessional loan opportunities that come along with it, it is vital for major export industries to react in a timely manner, identifying alternative markets and devising strategies to cushion its work force from anticipated negative shocks.

8. Concluding summary and key policy insights

The FY 2082/83 B.S. monetary policy represents a cautious expansion, designed to revive demand and support capital formation without undermining the progress made on inflation control and external sector strength. This balancing act underscores Nepal Rastra Bank's recognition that the economy is navigating both opportunities and vulnerabilities: ample liquidity, strong reserves, and declining inflation on one side, and subdued private credit growth, rising NPLs, and fiscal inefficiencies on the other. The policy direction reflects a carefully balanced stance: easing interest rates to encourage productive lending while maintaining macroeconomic safeguards against external shocks and domestic imbalances. The emphasis on strengthening the monetary transmission mechanism, refining regulatory oversight, and broadening financial inclusion indicates a recognition that liquidity alone cannot guarantee growth.

The broader economic picture suggests that Nepal is moving from short-term stabilization toward deeper structural adjustments. The central bank's ability to maintain inflation around target, preserve exchange rate stability, and ensure import coverage exceeding 14 months has created a cushion that affords policy flexibility. Yet the persistence of weak private investment, elevated non-performing loans, and slow-moving capital expenditure highlight systemic frictions that monetary easing cannot resolve in isolation. The challenges of non-performing loans, governance gaps, and subdued private investment show that the financial system remains risk-averse despite abundant liquidity. The central bank's incremental reforms, whether through loan restructuring, adjustments in provisioning, or supervision of cooperatives, reflect an intent to manage these vulnerabilities while nudging the financial sector toward greater resilience.

Looking ahead, the future of Nepal's monetary policy lies in closer coordination with fiscal policy, structural reforms in governance and investment climate, and steady alignment with global regulatory standards. As the country prepares for its LDC graduation, the sustainability of external balances will hinge not only on remittance inflows but also on more resilient export capacity, greater FDI absorption, and integration with regional financial systems. Measures to ease access to finance for SMEs, agriculture, and first-time borrowers aim to create more inclusive growth channels, while digital KYC and regulatory tightening reflect the central bank's ongoing adaptation to international compliance standards. At the same time, risks of speculative lending, concentration of credit in non-productive sectors, and governance gaps within the financial system remain. The forward-looking challenge is to integrate monetary flexibility into a comprehensive reform framework that fosters private sector confidence,

mitigates systemic vulnerabilities, and positions Nepal's financial sector as a catalyst for inclusive and sustainable growth. This requires macroeconomic stability to create the space for deeper reforms that strengthen private sector confidence, encourage productive investment, and equip Nepal to address the challenges of post-LDC graduation.

Glossary of key economic and financial terms

Bank Rate: Interest rate at which the central bank lends to commercial banks for longer-term loans.

Broad Money (M2): Total money supply, including cash, bank deposits, and other easily available savings.

Cash Reserve Ratio (CRR): The share of deposits that banks must keep as cash with the central bank.

Financial Action Task Force (FATF): A global body that sets rules to prevent money laundering and terrorist financing.

Grey Listing: FATF classification for countries under increased monitoring due to weak financial safeguards.

Gross Domestic Saving (GDS): The part of national income that is not spent but saved within the country.

Gross National Saving (GNS): Total saving of a nation, including domestic saving and income from abroad such as remittances.

Know Your Customer (KYC): Process by which banks verify the identity of customers to prevent illegal activities.

Loan-to-Value Ratio (LTV): The share of a loan compared to the value of the asset bought, often used in housing loans.

National Consumer Price Index (NCPI): Index that tracks changes in the prices of everyday goods and services.

Narrow Money (M1): The most liquid money, including cash and funds in checking/current accounts.

Non-Performing Loan (NPL): A loan that has not been repaid for 90 days or more.

Policy Rate: The key interest rate set by the central bank to guide borrowing costs in the economy.

Real GDP: The value of goods and services produced, adjusted for inflation.

Statutory Liquidity Ratio (SLR): Minimum proportion of assets banks must hold in liquid form, such as cash or government securities

Annex I

Table a. Major macroeconomic indicators

Heading	2019/20	2020/21	2021/22	2022/23	2023/24$	2024/25$$
A. Real Sector (growth and ratio in percent)						
Real GDP at basic price	-2.4	4.5	5.3	2.3	3.4	4.0
Real GDP at purchasers' price	-2.4	4.8	5.6	2.0	3.7	4.6
Nominal GDP at purchasers' price	0.8	11.9	14.3	7.8	6.4	7.0
Gross National Income (GNI)	0.9	11.2	14.4	8.5	6.9	6.7
Gross National Disposable Income (GNDI)	0.5	10.8	12.4	11.0	8.5	7.4
Gross Capital Formation / GDP	30.4	35.2	37.6	31.1	30.4	28.1
Gross Fixed Capital Formation / GDP	30.5	29.3	29.0	24.6	24.3	24.1
Gross Domestic Savings / GDP	5.7	6.4	6.6	7.2	6.2	6.6
Gross National Savings / GDP	32.2	31.5	29.6	33.9	35.4	36.2
Gross Domestic Product (Current Price) (Rs in billion)	3888.7	4352.6	4976.6	5367.0	5709.1	6107.2
CPI (y-o-y)	4.78	4.19	8.08	7.44	3.57	2.72
CPI Annual / Period Average	6.15	3.60	6.32	7.74	5.44	4.24
National Wholesale Price Index (y-o-y)	5.60	8.21	12.74	4.98	4.41	1.56
National Wholesale Price Index Annual / Period Average	6.87	7.61	9.51	8.47	3.92	4.11
Export (Rs. in billion)	97.7	141.1	200.0	157.1	152.4	247.6
Import (Rs. in billion)	1196.8	1539.8	1920.4	1611.7	1593.0	1644.8
Export Growth	0.6	44.4	41.7	-21.4	-3.0	77.8
Import Growth	-15.6	28.7	24.7	-16.1	-1.2	13.1
BOP (-Deficit) (Rs. in billion)	282.4	1.2	-252.4	285.8	502.5	491.4
Current Account Balance (Rs. in billion)	-33.8	-333.7	-623.4	-46.6	221.3	307.3
Workers' Remittances (Rs. in billion)	875.0	961.1	1007.3	1240.7	1445.3	1532.9
Gross Foreign Exchange Reserves (Rs. in billion)	1401.8	1399.0	1215.8	1539.4	2041.1	2569.4
Gross Foreign Exchange Reserves (USD in million)	11646.1	11752.6	9512.6	11708.8	15270.9	18653.9
Broad Money (M2) (y-o-y)	18.1	22.7	6.8	11.4	12.9	12.0
Narrow Money (M1) (y-o-y)	17.8	22.8	-9.3	1.2	-1.7	15.7
Weighted Average Interbank Rate of Commercial Banks*	0.35	4.12	6.99	2.98	2.99	2.99**
Weighted Average Deposit Rate of Commercial Banks*	6.0	4.7	7.41	7.86	5.77	4.29**
Weighted Average Lending Rate of Commercial Banks*	10.1	8.4	11.62	12.30	9.93	7.99**
Base Rate*	8.50	6.86	9.54	10.03	8.00	6.09**
Total Deposits (Rs. in billion)	3839.7	4662.7	5082.8	5710.0	6452.4	6970.0
BFIs Credit to Private Sector (Rs. in billion)	3209.8	4084.8	4621.1	4797.0	5074.0	5481.6
E. Public Finance (growth and ratio in percent)	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Revenue Growth (%)	0.2	16.0	14.1	-9.3	7.1	9.8
Expenditure Growth (%)	-1.7	9.7	9.5	8.5	-0.9	0.4
Domestic Debt (Rs. in billion)	613.2	800.3	984.3	1129.1	1180.9	1188.6

External Debt (Rs. in billion)	819.7	934.1	1025.8	1170.2	1252.3	1170.2#
Revenue / GDP	21.6	22.4	22.4	18.9	19.0	
Recurrent Expenditure / GDP	20.2	19.4	19.2	18.8	16.7	
Capital Expenditure / GDP	4.9	5.3	4.3	4.4	3.4	
Domestic Debt / GDP	15.8	18.4	19.8	21.0	20.7	
External Debt / GDP	21.1	21.5	20.6	21.8	22.0	

**Weighted average of mid Jun-mid Jul*
***Weighted average of mid-May -mid June*
$ Real Sector figures are revised estimate by National Statistics Office in 2025
$$ Real Sector figures are preliminary estimate by National Statistics Office for mid-July 2025
$$ Real Sector figures are preliminary estimate by National Statistics Office for mid-July 2025
#Outstanding figure as of Ashad (Mid-July) end
y-o-y: mid-July to mid-July