



# NEPAL

October 2025

## SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT; PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NEPAL

In the context of the Sixth Review Under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 1, 2025 following discussions that ended on June 10, 2025, with the officials of Nepal on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on August 28, 2025.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Nepal.

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## IMF Executive Board Completes the Sixth Review under the Extended Credit Facility Arrangement for Nepal

### FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the sixth review under the Extended Credit Facility (ECF) Arrangement for Nepal, enabling a disbursement of SDR 31.4 million (about US\$ 43.05 million).
- Nepal has made tangible progress in implementing reforms under the program, despite a challenging domestic socio-economic environment and an uncertain global context.
- The near-term impact of the social unrest is being assessed, but the economy has been on a path to recovery which is expected to continue in FY2025/26, underpinned by budget measures to boost capital expenditure execution while maintaining overall fiscal discipline, an accommodative monetary policy, and structural reforms to improve governance.

**Washington, DC – October 2, 2025:** On October 1, 2025, the Executive Board of the International Monetary Fund (IMF) completed the sixth review under the Extended Credit Facility (ECF) for Nepal, allowing the authorities to withdraw a disbursement of SDR 31.4 million (about US\$ 43.05 million). This brings total disbursements under the ECF for budget support thus far to SDR 251.1 million (about US\$ 341.2 million).

The ECF arrangement for Nepal was approved by the Executive Board on January 12, 2022 (see [Press Release No. 22/6](#)) for SDR 282.4 million (180 percent of quota). Nepal has made tangible progress in implementing reforms under the program, which has supported an ongoing economic recovery while preserving macroeconomic stability and protecting the vulnerable.

The political landscape in Nepal underwent a change with the youth-led protests—reflecting long-standing grievances related to corruption, governance, and inequality which were exacerbated by relatively subdued growth and lack of job opportunities—culminating in the formation of an interim government. Despite the socio-economic challenges, economic recovery is projected to continue in FY2025/26, underpinned by budget measures to improve project execution and boost private sector confidence, while monetary policy remains accommodative. Inflation is expected to remain within the Nepal Rastra Bank's target of about 5 percent. Recovery in imports is expected to pick up momentum, driven by pent-up demand and higher execution of capital expenditure—particularly on reconstruction and energy. Efforts to mobilize revenues will support development spending and ensure fiscal sustainability. The medium-term outlook remains favorable, anchored by strategic infrastructure investments—including in the hydropower sector—and ongoing structural reforms aimed at boosting productivity, enhancing competitiveness, and fostering private sector-led growth. However, downside risks have intensified. It is critical to address risks stemming from capital

expenditure under-execution, financial sector vulnerabilities, natural disasters, social discontent and political uncertainty, alongside global headwinds related to trade tensions. Safeguarding targeted social protection will lead to a more inclusive and sustainable growth.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director, made the following statement:

In the midst of a challenging domestic socio-economic environment, Nepal's reform program supported by the Extended Credit Facility (ECF) continues to underpin a gradual economic recovery while preserving macroeconomic stability and protecting the vulnerable. Program performance remains broadly adequate despite political volatility and the uncertain global context. Given the difficult political context, continued program ownership and commitment to the country's economic reforms remain of paramount importance to support growth, reduce poverty and foster public trust.

Gradual fiscal consolidation that supports post-protest reconstruction needs and economic recovery while preserving fiscal sustainability remains critical. Capital spending execution should be boosted by strengthening Public Investment Management and implementing the recently revised National Project Bank guidelines. It is essential to protect the most vulnerable through a full execution of the child grant budget by expanding the coverage and the per-beneficiary allowance. Implementation of reforms recommended in the Domestic Revenue Mobilization Strategy and the Tax Expenditure Report will reinforce medium-term fiscal sustainability. Building on the recently published fiscal risk statement, continued reforms are essential to further strengthen fiscal transparency and contain fiscal risks.

Monetary policy should remain data driven and appropriately accommodative to support the recovery while preserving price stability. Any potential regulatory forbearance should be limited, targeted, and time-bound. Vigilance is also needed to address rising financial sector vulnerabilities, including timely completion of the Loan Portfolio Review and decisive actions to resolve problematic savings and credit cooperatives. The Nepal Rastra Bank should strengthen its governance, independence, and accountability through amendments to the NRB Act. The establishment of an asset management company should be approached with caution given potential risks. Achieving concrete results in implementation of the anti-money laundering framework is key to expediting Nepal's exit from the FATF grey list.

Addressing structural barriers to strengthen the anticorruption framework and institutions, improve good governance, and enhance the investment climate will bolster economic resilience. Strengthening social protection to ensure growth is sustainable and inclusive remains a priority.

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

Note: The NSO adopts a 3-year cycle in its national accounts producing preliminary, revised and final estimates for real GDP growth. In May 2025, GDP growth was revised down from 3.9 percent to 3.7 percent for FY2023/24 in light of new data.

Note: Current baseline forecast is as of August 7, 2025.



# NEPAL

August 28, 2025

## SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

### EXECUTIVE SUMMARY

**Context.** Nepal has, so far, been relatively insulated from recent global trade and aid-related disruptions given its small export sector. Economic activity has continued to gradually recover, underpinned by a rebound in construction and manufacturing, continued expansion of hydropower, and a good harvest that helped offset the impact of the September 2024 floods. Growth in FY2024/25 is estimated to reach 4.3 percent, although still below potential. Inflation is expected to remain within the Nepal Rastra Bank's target of about 5 percent. The external position has strengthened, with robust growth in exports, remittances, and tourism outpacing the recovery in imports. Despite improved growth, non-performing loans have continued to rise, eroding bank capital. The financial health of the savings and credit cooperatives remains challenging.

**Program developments.** Program performance was broadly adequate with all quantitative performance criteria (QPCs)—on net international reserves and the primary fiscal deficit—met. All continuous PCs were met. Only the indicative target (IT) on child welfare grants was missed, although all children that applied received payments. Adequate progress was made on implementing structural reforms, with six structural benchmarks (SBs) completed (four met on time). Tangible progress was made on the remaining SBs with clear commitment for completion and one SB is proposed to be reset allowing the authorities more time to complete the reforms. A prior action is proposed for this review on signing of the contract with the international independent consultant selected by the Nepal Rastra Bank (NRB)—to ensure the loan portfolio review procurement proceeds apace—which is expected to be completed by end-August. The challenging political situation remains a risk for reform implementation.

## Policy recommendations.

- **Fiscal policy.** Executing the planned increase in capital spending and implementing reforms to relieve bottlenecks to public investment as envisaged in the new FY2025/26 budget are necessary measures not only to support domestic demand but also raise medium-term growth. Domestic revenue mobilization is needed to support this capital spending and to preserve medium-term fiscal sustainability. Supporting the most vulnerable, including through a full execution of the child grant budget by increasing per-beneficiary allowance and expanding coverage (by increasing the number of districts covered and/or expanding eligibility criteria within districts), remains critical.
- **Monetary and financial sector policies.** The Annual Monetary Policy Review in July is consistent with maintaining the current, appropriately accommodative stance. The NRB should begin operating the interest rate corridor framework as intended—with the interbank rate actively maintained inside the corridor—without tightening the stance. Rising financial sector vulnerabilities warrant increased vigilance and launching the LPR in a timely manner. Measures to deal with problematic Savings and Credit Cooperatives (SACCOs) should be prioritized. The creation of an Asset Management Company (AMC) should be approached with extra caution given the risks involved.
- **Governance and structural reforms.** Amendments to the NRB Act incorporating the recommendations from the 2021 IMF Safeguards Assessment and the 2023 Financial Sector Stability Report should be sent to Parliament promptly to better align the NRB operating framework with international standards. Building on significant progress to improve the anti-money laundering/combating the financing of terrorism (AML/CFT) framework, the authorities should continue to bring the framework and its effectiveness in line with international standards and peer evaluations. Advancing efforts to modernize the anticorruption framework and institutions and strengthen intergovernmental coordination will further bolster transparency and accountability.

Approved By  
**Rupa Duttgupta**  
 (APD) and **Koshy**  
**Mathai** (SPR)

Discussions took place in Kathmandu, Nepal, during May 26-June 10, 2025. The staff team comprised S. Jahan (Head), A. Bykere, R. Green, Y. Hul (all APD), G. Sher (FAD), M. Gort (MCM), M. Firat (SPR), P. Gupta (Resident Representative for Nepal), R. Ghimire and S. Sharma (local office). K. Sumawong and W. Mahraddika (OED) also participated in key policy meetings. Y. Xu, A. Sinjar and J. Flinner (APD) supported the preparation of the report. The team met with Deputy Prime Minister and Finance Minister, B. P. Paudel, National Planning Commission Vice-Chairman S. R. Adhikari, Nepal Rastra Bank Governor B. Poudel, other senior government and central bank officials, development partners, regional parliamentarians, civil society, and representatives of the business community.

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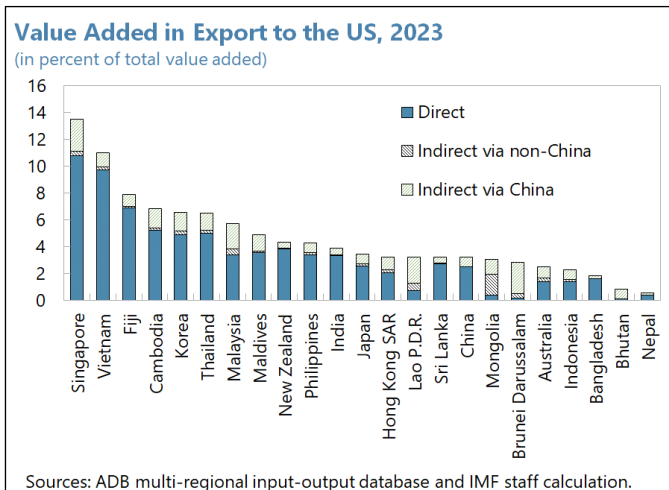


## CONTEXT

### 1. Nepal is, thus far, relatively insulated from recent global trade and aid-related disruptions, though second-round effects warrant monitoring amid elevated global policy uncertainties.

The economy has limited direct exposure to global trade tensions, with goods exports at 3.2 percent of GDP in FY2023/24—two-thirds of which go to India.<sup>1</sup> U.S.-bound exports represent only 11 percent of the total. With Nepal subjected to 10 percent U.S. tariff increase—among the lowest in the region—the main transmission channel of global trade disruptions would likely be through second-round effects on remittances.<sup>2</sup> Cancellation of a large number of U.S.-financed projects has

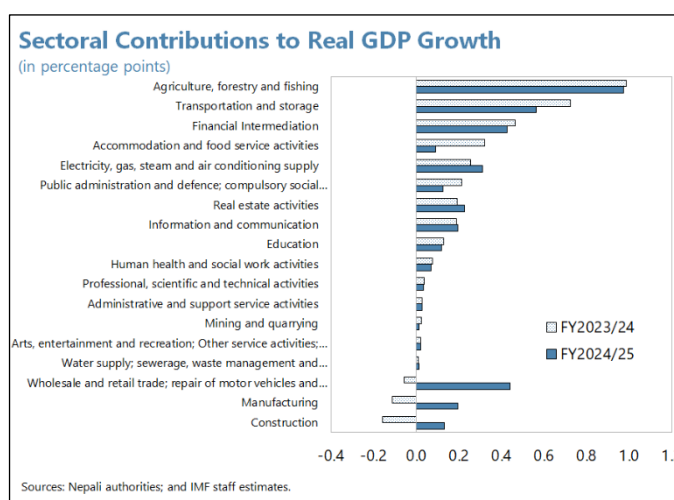
introduced near-term uncertainty, particularly in the social sectors. The recent exemption provided by the Millennium Challenge Corporation (MCC) to MCC-Nepal compact projects will support completion of critical energy and transport projects. The political situation remains challenging.



## RECENT DEVELOPMENTS

### 2. The economic recovery strengthened in FY2024/25, driven by a rebound in industrial activity, but still-weak domestic demand continues to weigh on growth.

Real GDP picked up from 3.7 percent in FY2023/24 to an estimated 4.3 percent in FY2024/25, underpinned by a rebound in construction and manufacturing, continued hydropower expansion, and a favorable harvest that helped mitigate the impact of the September 2024 floods. Despite early signs of dynamism in wholesale and retail trade, domestic demand remains subdued, weighed down by weak business and consumer confidence, ongoing strains in credit markets, and elevated emigration. Post-flood inflation peaked at 6.1 percent year-on-year (y/y) in December 2024, but has decelerated—to 2.7 percent y/y in June 2025—on the back of improved goods supply, low Indian inflation, and still-weak consumer



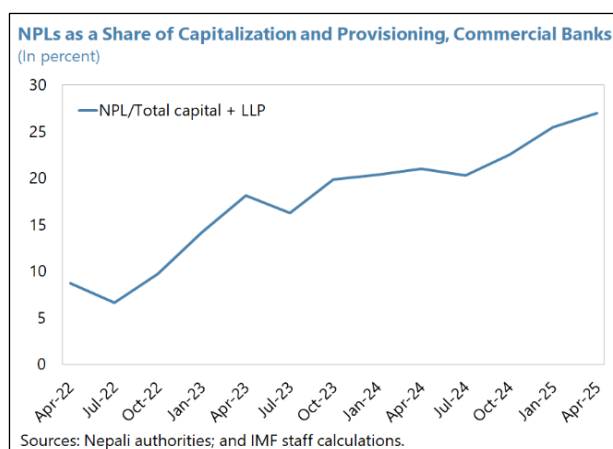
<sup>1</sup> The fiscal year in Nepal begins in mid-July.

<sup>2</sup> Remittances account for about 25 percent of GDP and originate mainly from India, the Gulf countries, and Malaysia.

demand. Import growth has gained momentum, reaching 13.1 percent y/y in June 2025.<sup>3</sup> Despite the recovery in imports, continued remittance inflows and tourism receipts supported a positive current account balance which is projected to reach 3.9 percent of GDP in FY2024/25. Gross international reserves rose to USD 17.6 billion as of June 2025 (10.9 months of prospective imports). The FY2023/24 external position is assessed to have been substantially stronger than the level implied by medium-term fundamentals and desirable policies (Annex I).

### 3. Asset quality issues continue to erode banks' health amid slow non-performing loan (NPL) recovery.

NPLs jumped 1.3 percentage points (ppts) y/y to 5.2 percent in April 2025. Average NPL provisioning coverage for commercial (Class A) banks decreased by 5 ppts to 65 percent between July 2024–April 2025, following a reduction in provisioning requirements for performing loans and relaxation of the asset classification regulation in July 2024 (¶19). The NRB reintroduced forbearance for NPLs in the construction sector in April 2025 (¶19). The core capital of commercial banks decreased 50 basis points to 9.5 percent between October 2024–April 2025, further reducing banks' loss absorbing capacity. The NRB increased its scrutiny of development banks and finance companies following the failure of a small development bank.



### 4. FY2024/25 spending growth has been contained in the context of subdued revenues.

Tax revenue grew 10.7 percent y/y in the first 11 months of FY2024/25, supported by new excise taxes on alcohol, tobacco, petroleum products, and coal, but fell short of the authorities' optimistic budget projections. In its mid-year budget review, the government adopted measures to consolidate low-priority spending, including hiring, training, and travel. It also planned to curb customs tax evasion through better information exchange. To focus capital spending on high-priority projects, budgeted amounts were reallocated from projects with stalled procurement. Capital expenditure grew 6.2 percent y/y in the first 11 months of FY2024/25, with some delays due to complexity in procurement, the inclusion of some

**Text Table 1. Nepal: Fiscal Outcome 1/**

	2022/23	2023/24	2024/25		Difference
	Estimate	5th review	6th review		
(In percent of GDP, unless otherwise indicated)					
<b>Total revenue and grants</b>	19.3	19.4	19.2	19.6	0.5
Total revenue	18.8	19.0	18.7	19.2	0.5
Tax revenue	16.1	16.5	16.4	16.9	0.5
<i>Of which : Income and profits tax</i>	4.5	5.0	4.9	5.0	0.1
Customs	2.8	2.8	2.7	2.9	0.2
Excise duty	2.7	2.6	2.5	2.8	0.2
VAT	5.3	5.4	5.4	5.5	0.1
<i>By source : Domestic taxes</i>	9.7	10.0	9.8	10.1	0.3
Import-related taxes	6.4	6.6	6.5	6.8	0.2
Non-tax revenue & other receipts	2.7	2.4	2.4	2.3	-0.1
Grants	0.4	0.4	0.4	0.4	0.0
<b>Expenditure</b>	25.1	22.1	21.9	22.5	0.6
Recurrent expenditure	20.7	18.8	18.6	19.1	0.5
<i>Of which : Interest payments</i>	1.4	1.4	1.4	1.6	0.2
Capital expenditure	4.4	3.4	3.3	3.4	0.1
<b>Memorandum items</b>					
Overall balance	-5.8	-2.8	-2.7	-2.9	-0.2
Primary balance	-4.5	-1.3	-1.3	-1.3	0.0
GDP (in NPR billions)	5,367	5,709	5,776.2	6,203	7.4%

Sources: Nepali authorities; and IMF staff estimates and project  
1/ Fiscal year ends mid-July.

<sup>3</sup> A surge in crude soyabean oil imports—re-exported as processed soyabean oil—has partly driven import growth, but with limited impact on net trade.

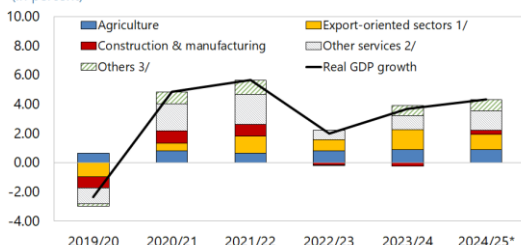
unprepared projects in the budget, and insufficient inter-agency coordination. Staff estimate the primary deficit to have reached 1.3 percent of GDP in FY2024/25, maintaining the previous year's fiscal tightening (Text Table 1).

**Figure 1. Nepal: Recent Developments**

*A favorable harvest and a rebound in industrial activity underpinned moderately stronger growth in FY2024/25.*

#### Contribution to GDP Growth by Sector

(In percent)



Note: 2024/25 GDP is an estimate.

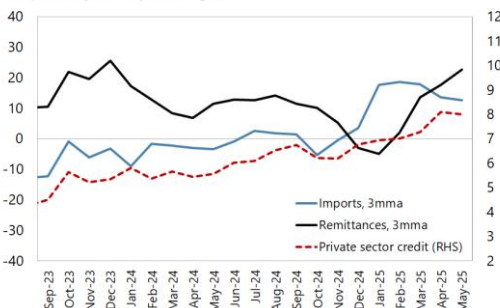
1/ Electricity, gas, steam and air conditioning supply; Transportation & storage; Accommodation and food service activities; Information and communication. 2/ Financial and insurance activities; Real estate activities; Professional, scientific and technical activities; Administrative and support service activities; Public administration and defense; compulsory social security; Education; Human health and social work activities; Arts, entertainment and recreation; Other service activities; Activities of households as employers; Wholesale and retail trade; Mining and quarrying. Water supply; sewerage, waste management and remediation activities; Indirect taxes less subsidies.

Sources: Nepal authorities; and IMF staff calculations and estimates.

*Imports and private credit growth rebounded since the floods, alongside a positive turnaround in remittances.*

#### High Frequency Indicators

(In percent, year-on-year change)

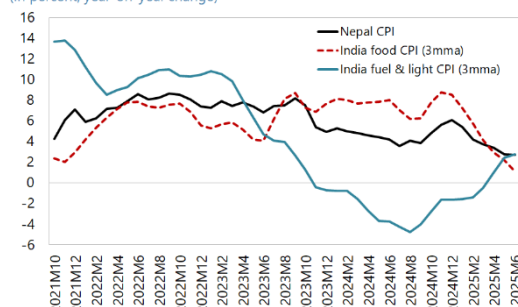


Sources: Nepal authorities; and IMF staff calculations.

*Post-flood inflationary pressures have receded, supported by improved food supply, lower Indian inflation, and continued weak domestic demand.*

#### Consumer Price Index Trends

(In percent, year-on-year change)

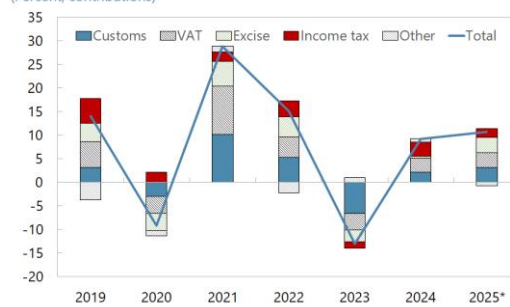


Sources: Nepal authorities; Haver Analytics; and IMF staff calculations.

*Excise tax, VAT, and customs are driving tax revenue growth in FY2024/25.*

#### Tax revenue growth

(Percent, contributions)



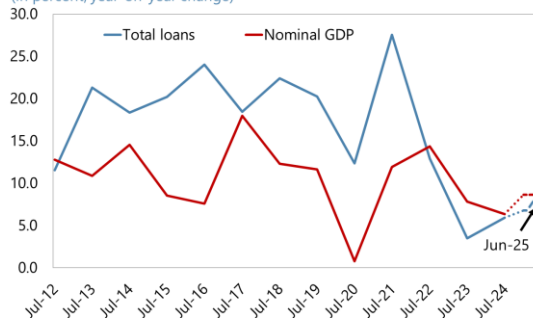
Sources: Nepal authorities and IMF staff calculations.

Notes: Years refer to fiscal years. \* refers to the first 11 months of the fiscal year.

*Recently, credit growth has broadly converged with projected nominal GDP growth.*

#### Total Loans and Nominal GDP Growth

(In percent, year-on-year change)



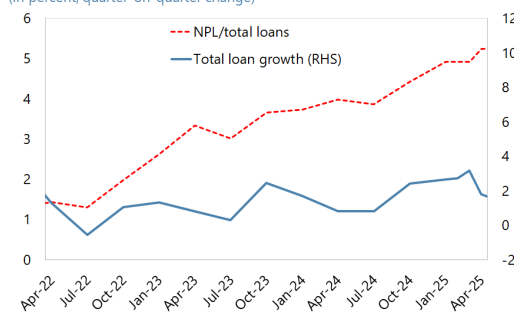
Sources: NRB; Nepal Central Bureau of Statistics; and IMF staff estimates.

Note: 2024/25 GDP growth is an estimate.

*NPLs continue to rise amid slow economic growth and subdued lending.*

#### Total Loans and NPLs

(In percent, quarter-on-quarter change)



Sources: NRB; and IMF staff calculations.

## OUTLOOK AND RISKS

**5. Under the baseline, growth is expected to strengthen in FY2025/26, with relatively limited impact from global trade and aid-related disruptions, although there is considerable uncertainty around these projections.** Economic recovery is projected to accelerate, as domestic demand firms and capital spending picks up—underpinned by budget measures to improve project execution and lift market confidence (¶110, ¶112)—with strong multipliers across key sectors. With domestic demand normalizing after a prolonged period of subdued activity, growth is projected to rebound to 5.2 percent in FY2025/26—temporarily above potential growth—helping narrow the negative output gap accumulated since FY2022/23.<sup>4</sup> Inflation is projected to recover from the current multi-year lows but will remain around NRB’s five-percent target for FY2025/26. Recovery in imports is expected to pick-up momentum, driven by pent-up demand and higher execution of capital expenditure—particularly in the construction and energy sectors—and the current account balance is projected to weaken in FY2025/26.<sup>5</sup> Moderation in remittance growth—in part due to lower global growth—and stronger imports should gradually lower reserves and align the external position with fundamentals over the medium term. The medium-term outlook remains favorable, anchored by strategic infrastructure investments—including in the hydropower sector—and ongoing structural reforms aimed at boosting productivity, enhancing competitiveness, and fostering private sector-led growth (¶124).

**6. Staff expect a modest increase in fiscal revenues in FY2025/26.** Tax revenues are expected to increase by 1.0 ppt of GDP in FY2025/26, all of which is driven by the import recovery—the impact of new tax measures is negligible (¶111). Staff project a countercyclical, investment-driven fiscal expansion in FY2025/26 with the primary deficit increasing by 0.7 ppts of GDP and capital expenditure increasing by 1.2 ppts to support demand (¶112). Over the medium term, a gradual, growth-friendly fiscal consolidation is expected, with capital expenditure increasing further and tax revenues increasing by about 3 ppts of GDP. Staff expect that the authorities will continue implementing reforms from their Domestic Revenue Mobilization Strategy (DRMS), which contains measures amounting to 4.6 ppts (¶111).

**7. Risks around the outlook—predominantly domestic in origin—skew to the downside, especially from possible political volatility and weak policy execution** (Annex II). Growth may remain muted if the execution rate of capital projects does not accelerate as expected.<sup>6</sup> Lower domestic demand can reduce import growth with knock-on effects on revenues, which could lead the authorities to cut spending procyclically. Continued political fragility could disrupt policy continuity and reform implementation. Intensification of financial sector vulnerabilities—such as a further rise in NPLs, weak bank capitalization or more failures of cooperative lenders—could

<sup>4</sup> The recent global trade actions are expected to have limited impact on Nepal (decrease in growth by about 0.1 ppt) primarily reflecting weaker global demand which is expected to weigh on remittance inflows.

<sup>5</sup> Based on the latest power purchase agreements data, Nepal’s hydropower generation capacity (3000 MW) is projected to double within the next four years and triple in the medium term.

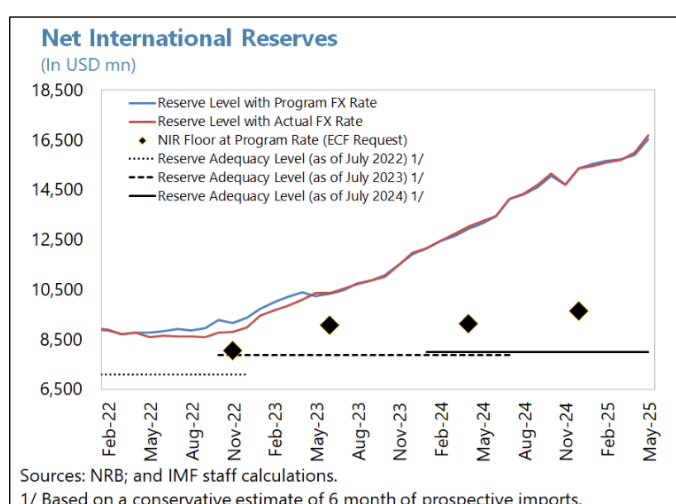
<sup>6</sup> More broadly, the budget’s low credibility reduces its influence on actual execution, raising uncertainty about fiscal outcomes.

endanger banking system soundness, while continued forbearance could mask existing and emerging vulnerabilities.<sup>7</sup> Failure to slow large emigration would further reduce the labor force, weighing on medium-term growth. Externally, slower growth in trading partners or remittance-source countries amid elevated global trade tensions and high uncertainty, higher commodity prices or prolonged delays in foreign aid could slow the recovery, aggravate food insecurity, potentially affect medium-term growth and impose fiscal costs. Mobilizing alternative concessional financing, strengthening donor coordination, and enhancing domestic revenue mobilization may mitigate these risks and maintain priority spending. Nepal remains vulnerable to natural disasters calling for targeted investment in adaptation measures.

## PROGRAM PERFORMANCE

### 8. Program performance has been broadly adequate.

The January 2025 performance criteria (PC) on net international reserves (floor) and the primary deficit (ceiling) were met, as was the indicative target (IT) floor on tax revenue (Table 8). The IT on child allowance spending (floor) was missed again, despite all children who applied receiving the payment. Meeting the target would require increasing per-beneficiary allowance and expanding coverage (by increasing the number of districts covered and/or expanding eligibility criteria within districts). All continuous PCs were met.



**9. Progress continued on implementation of structural reforms** (Table 10). The SBs on the loan portfolio review (LPR) roadmap (end-April 2025), commissioning of the audit of NRB's FY2024/25 financial statements (end-July 2025), publication of a comprehensive tax expenditure report (end-July 2025), and publication of a comprehensive fiscal risk statement (end-August 2025) have been met. Two SBs were completed with delay: the SBs on approval of the tax expenditure reports (¶11) and on publishing revised project bank guidelines (¶12). The SB on launching the LPR of the 10 largest banks was missed (end-May 2025) and a prior action is proposed on the signing of the contract with the international independent consultant selected by the NRB. The two SBs on amending the NRB Act—one to implement 2021 Safeguards Assessment (SGA) recommendations and one to address key gaps in the bank resolution framework—are not met. Staff and the authorities have made further progress on the former SB, focusing on strengthening the NRB's institutional, financial, and personal autonomy (¶22). The latter SB requires additional revisions and more time for approval by the NRB Executive Board and is proposed to be reset to end-October 2025 (¶18). The authorities intend to submit both sets of NRB Act amendments to Parliament

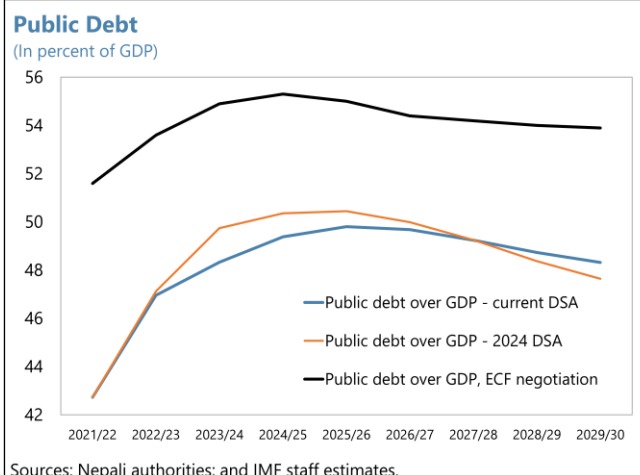
<sup>7</sup> NPLs could be revised once the loan portfolio review is completed.

together. The SB on consolidating all EBUs in the government's annual financial statements has been missed (end-January 2025 SB) in part due to the Financial Comptroller General Office's (FCGO) weak legal authority to compel the remaining entities to report, which has been addressed with a new law (T13).

## POLICY DISCUSSION

### A. Fiscal Policy

**10. The projected deficit level based on measures in the FY2025/26 budget is consistent with program objectives of gradual fiscal consolidation to stabilize public debt at a low risk of distress.** The FY2025/26 budget intends to promote economic growth through structural reforms, such as allowing outward investment, increasing the budget for PPPs, tax exemptions for capital goods imports for selected industries, and tax incentives for startups and investment in special economic zones (SEZs) and industrial parks. The budget factors in an ambitious increase of tax revenue to 19.5 percent of GDP and capital expenditure to 6 percent of GDP (Table 2b). It allows a primary deficit of 1.6 percent of GDP, which is smaller than staff's projection of 2.0 percent. The overall deficit in the budget is 3.2 percent of GDP. Staff's projected overall deficit is around 0.4 ppts higher, due to 1.6 ppts lower projected tax revenue and 1.4 ppts lower projected capital expenditure. Staff have a more conservative view on tax revenue yields given the limited planned tax measures in the budget, and lower capital expenditure given the time required for the authorities to fully address project implementation constraints. Public debt is expected to peak at 49.5 percent of GDP in FY2025/26 and steadily decline afterwards, underpinned by gradual fiscal consolidation, preserving debt sustainability over the medium term—



**Text Table 2. Nepal: Fiscal Outcome 1/**

	2024/25	2025/26	
	Budget		Projection
1 percent of GDP, unless otherwise indicate			
<b>Total revenue and grants</b>	19.6	22.5	20.8
Total revenue	19.2	21.7	20.2
Tax revenue	16.9	19.5	17.9
<i>Of which</i> : Income and profits tax	5.0	5.8	5.0
Customs	2.9	3.7	3.3
Excise duty	2.8	3.1	2.9
VAT	5.5	5.8	5.9
<i>By source</i> : Domestic taxes	10.1	11.6	10.1
Import-related taxes	6.8	7.8	7.8
Non-tax revenue & other receipts	2.3	2.3	2.3
Grants	0.4	0.8	0.6
<b>Expenditure</b>	22.5	25.8	24.4
Recurrent expenditure	19.1	19.8	19.8
<i>Of which</i> : Interest payments	1.6	1.6	1.6
Capital expenditure	3.4	6.0	4.6
<b>Memorandum items</b>			
Overall balance	-2.9	-3.2	-3.6
Primary balance	-1.3	-1.6	-2.0
GDP (in NPR billions)	6,203	..	6,806

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

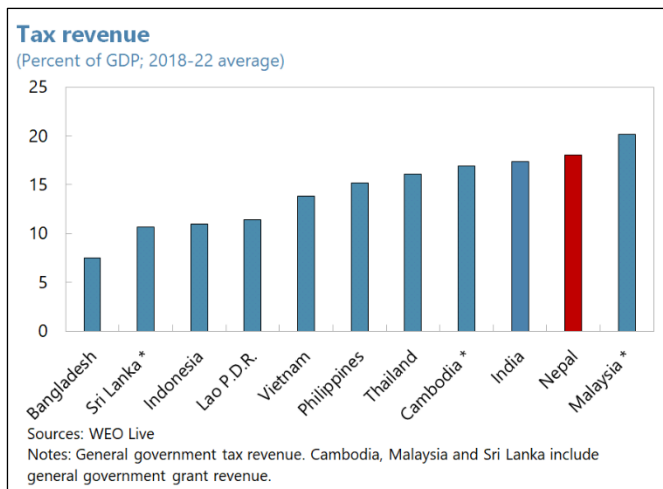


the key fiscal anchor for the program.<sup>8</sup> The Debt Sustainability Analysis shows that both public and external debts are assessed to be at a low risk of debt distress.

### 11. Further efforts to mobilize domestic revenues would support development spending and medium-term fiscal sustainability.

Nepal has one of the highest tax revenue-to-GDP ratios among regional countries. Nevertheless, to meet development spending needs, the authorities adopted a DRMS in 2024 to increase revenue and broaden the tax base by rationalizing tax expenditures and improving compliance in the medium-term. The FY2025/26 budget eliminates VAT exemptions on precious stones, reduces the exemption threshold for tax on luxury goods, expands the digital service tax, and raises customs duties on alcohol and tobacco products.

Staff welcome the removal of VAT exemptions on precious stones and recommends removing remaining VAT exemptions and phasing out corporate income tax holidays and concessions for special industries.<sup>9</sup> The budget's new tax exemptions on industrial parks and SEZs should be costed as they could erode the tax base. To mobilize domestic revenues, the budget's higher customs duties on alcohol and tobacco products could be



phased out and replaced with higher domestic excise taxes on the same products. The recently published comprehensive tax expenditure report should be used to guide the rationalization of tax exemptions (end-July 2025 SB, met). To encourage compliance, the budget offers reduced penalties and interest for overdue payments, but this could also weaken enforcement. Staff also recommend improving the collection of VAT and income tax payable, as well as arrears, including by developing a plan to manage arrears. Customs revenue collection can be further enhanced by developing a Customs Compliance Improvement Strategy (CIMS) (end-December 2025 SB), assisted by IMF TA.

### 12. Further efforts to boost public investment and protect the most vulnerable would enhance medium-term economic growth and equality.

Staff expect an increase in capital spending due to recent legal amendments that would allow the government to reallocate budgeted funds from stalled projects to other viable projects and other reforms.<sup>10</sup> The FY2025/26 budget contains reforms to relieve bottlenecks to public investment, including allowing budgeted projects to begin procurement and hiring processes before the next fiscal year starts, sanctioning

<sup>8</sup> There are two operational fiscal anchors under the program: the primary deficit PC and the revenue IT. In addition, the authorities have two fiscal anchors: (i) the legislative limit on external debt set by the Public Debt Management Act (at 33 percent of the previous year's GDP); and (ii) the annual limits on domestic borrowing set by the Natural Resource Commission.

<sup>9</sup> See Annex III of [Nepal: Fifth Review under the Extended Credit Facility Arrangement](#).

<sup>10</sup> Details of the legal amendments are discussed in [Nepal: Fifth Review under the Extended Credit Facility Arrangement](#).

government agencies (e.g., permitting agencies) that do not take timely decisions, and requiring subnational governments to adopt Medium-Term Expenditure Frameworks. To streamline the design, prioritization, and selection of investment projects, the authorities published a revised National Project Bank (Operational and Management) Guideline 2025 (end-March 2025 SB, not met, completed with delay).<sup>11</sup> Staff recommend clarifying, clearing, and avoiding further overdue amounts (if any) to the construction sector to support project completion. The authorities have a comprehensive system of social benefits (Text Table 3) and the FY2025/26 budget increased the public-school midday meal program by one-third. Still, the child grant allocation was not expanded and more effort is needed to meet the corresponding IT. The authorities should increase the per-beneficiary allowance and expand the coverage for the child grant.<sup>12</sup> Fertilizer subsidies, estimated at 0.7 percent of GDP in FY2022/23, should be more targeted and restrictions should be lifted on private sector provision.

**13. Enhancing fiscal transparency will help contain fiscal risks and further strengthen medium-term fiscal sustainability.** The FCGO included 90 extra budgetary units (EBUs) at the federal level and 9 at the provincial level in the FY2023/24

annual financial statements (end-January 2025 SB, not met). A lack of legal mandate for line ministries and subnational governments to report financial information to the FCGO made it challenging to cover every EBU. Amendments in early 2025 to the Financial Procedures and Fiscal Responsibility Act will strengthen the FCGO's authority to request such information, starting with the FY2024/25 financial statements. Staff recommend that the authorities publish a supplement to the FY2023/24 financial statements with financial information on late-reporting EBUs. Staff also recommend that the FCGO and OAG reconcile their lists of EBUs. The authorities are in the final stages of creating a small off-budget alternative financing vehicle for private sector infrastructure investment, with the aim of raising additional financing (including equity financing) from the private sector.<sup>13</sup> This planned alternative financing vehicle should be subject to the same

**Text Table 3. Nepal: Social Spending in FY2023/24**  
(percent of GDP)

Benefit type	Amount
Senior citizens	1.4
Disability	0.2
Widows	0.2
Children	0.1
Other	0.0

Source: Authorities and IMF staff calculations  
Notes: Children includes allowances for areas designated children and Dalit children.

<sup>11</sup> This covers the first two steps in the Public Investment Management Action Plan.

<sup>12</sup> The child welfare grant currently covers the 25 districts with the lowest human development index, out of 77. The budget allocation for the child welfare grant has declined by 20 percent in real terms since the last increase in January 2022. Expanding the coverage (by increasing the number of districts covered and/or expanding eligibility criteria within districts) and increasing the per-beneficiary allowance will require a combination of political commitment, additional financial resources, and outreach to targeted communities.

<sup>13</sup> The investment fund would be around 2 percent of GDP in total size, of which one-quarter would be paid-up capital. The aim of the fund would be to raise additional financing for public investment from the private sector, including pension funds and insurers, although the government would be the majority shareholder. The fund would have a profit-making objective and would be used to finance projects that can generate a financial return, like power projects and airports. Under the bill, the fund will prepare quarterly and annual financial statements and will be subject to both internal and final audits. The bill is currently under discussion at the Parliament.



disclosure and auditing requirements as the on-budget projects, and its fiscal risks should be included in future fiscal risk statements.

## B. Monetary and Financial Policy

**14. The monetary policy stance remains appropriate and should remain accommodative until signs of a pickup in inflation emerge.** The FY2025/26 Annual Monetary Policy Review largely maintained the current accommodative stance with a loosening bias to its adjustment of the interest rate corridor (IRC). The band has been tightened and made more symmetrical with a reduction of the top—the bank rate—by 50 basis points (bps) to 6 percent and the bottom—the Standing Deposit Facility (SDF) rate—by 25 bps to 2.75 percent. The largely symbolic “policy rate” in the middle was also lowered 50 bps to 4.5 percent.<sup>14</sup> The NRB has wide leeway to use open market operations (OMOs) to change the interbank rate. It would be appropriate to continue to target it around the three-percent level of the past 19 months, given current indicators of future economic activity. With inflation declining, domestic demand weak and reserves rising, neither the primary (price stability) nor the secondary (external and financial stability) mandates of monetary policy support tightening. The excess liquidity has facilitated a slow but steady decline in effective lending rates, and credit growth has picked up slowly, allowing a gradual deleveraging (T3). Although frequent shocks and alterations to the monetary policy regime complicate the assessment of the neutral rate, inflation well below the five-percent target suggests that the current accommodative monetary policy stance remains appropriate.

**15. The current toolkit is adequate, but full use of the tools remains limited.** Excess liquidity has largely been absorbed by the SDF, with an interest rate at the bottom of the IRC. Having shifted the bands down, the NRB should use OMOs to keep the interbank rate above the bottom of the IRC, rather than relying on passive facilities like the SDF. Over time, the NRB could consider shifting the bands further down, so the midpoint aligns with the appropriate interbank rate. This may require further reforms to governance, e.g. separating monetary policy formulation from implementation. Finally, amending the NRB Act to provide greater monetary independence would help reduce the term premium and ultimately borrowing costs.

**16. Bottlenecks in NPL recovery are prolonging bank vulnerabilities.** NPL recovery remains challenging due to weak bank capacity, and restructuring and rescheduling of NPLs being considered unattractive.<sup>15</sup> The drop in real estate prices and lack of demand has made selling of collateral difficult, evidenced by the 64 percent y/y increase in non-bank assets in April 2025. Most banks are still avoiding selling collateral at a loss even though they are protected by relatively low

<sup>14</sup> Excess liquidity and insufficient use of OMOs to mop it up has left the interbank rate at the bottom of the IRC at 3 percent since the SDF was introduced in March 2024. This has rendered the other rates in the IRC moot.

<sup>15</sup> The regulatory regime requires a two-year probation period before a restructured NPL can be reclassified to performing. Restructuring and rescheduling of NPLs would typically pick up when NRB would ease some of the conditions, for instance during the COVID-19 pandemic.

loan-to-value ratios and provisioning.<sup>16</sup> Given the erosion of banks' capital position due to the rising NPLs, NRB's plans to allow banks to raise capital is welcome as this would help tackle potential post-LPR capital shortfalls and bring in new investors.<sup>17</sup> This should be prioritized over regulatory intervention concentrated on temporarily relieving capital pressures on the banks to increase space for lending. The rise in NPLs is compounded by directed lending requirements in vulnerable sectors such as agriculture and Micro, Small, and Medium Enterprises (MSMEs). Recalibrating the directed lending policy to make it more targeted and eventually phase it out will mitigate lending to unviable borrowers.

**17. The authorities should exercise extreme caution when establishing an Asset Management Company (AMC) to address NPLs, with adequate preparations to ensure supportive pre-conditions** (Annex IV). Legislation related to the AMC needs to ensure strict conditions on governance, eligible exposures, valuation, transfer pricing, financing, and its lifespan. An AMC could potentially be susceptible to risks that can lead to a significant fiscal burden and increased moral hazard. Before establishing an AMC, authorities should first exhaust supervisory measures encouraging NPL resolution, reform debt enforcement and insolvency systems, and develop distressed debt markets. NRB should conduct a thorough review of the business case for an AMC to ensure that it will avoid delaying banks' timely loss recognition and provide liquid instruments to banks in return for transferred NPLs.

**18. SBs related to the financial sector are gaining momentum.** The NRB has committed to finalizing an LPR of the ten largest banks to assess loan portfolio quality (end-December 2025 SB). The delay in the procurement process has postponed the launch of the LPR (end-May 2025 SB, not met), and a prior action has been set on the NRB signing the contract with the selected international consultant. This would allow the LPR to start in September and enable the latest financials (i.e. 2024/2025 year-end) to be included. The authorities have finalized a post-LPR roadmap that requires banks with capital shortfalls to submit time-bound plans to fully comply with regulatory requirements (end-April 2025 SB, met). The roadmap confirms the planned realignment of the probation period in the ACR for non-forborne NPLs with the BCBS-guidelines (end-December 2025 SB).<sup>18</sup> The authorities are drafting amendments to the NRB Act to address gaps in the bank resolution framework identified in the 2023 Financial Sector Stability Review (FSSR), and the SB has been reset to end-October 2025 (end-April 2025 SB, not met, reset to October 2025).<sup>19</sup>

<sup>16</sup> The loan-to-value ratio for real estate loans and residential real estate loans have been set at 50 and 60 percent respectively since FY2016/17. NRB announced an increase of these percentages to up to 70 percent in the July 2025.

<sup>17</sup> As outlined the 4<sup>th</sup> Review SR, the NRB currently limits capital raising by the banks due to past misuse by the banks and shareholders. As part of the reforms announced in the July 2025 NRB Monetary Policy Review, NRB needs to improve its assessment framework for bank capital increases.

<sup>18</sup> Specifically, alignment with BCBS Guidelines on the Prudential Treatment of Problem Assets: definitions of non-performing exposures and forbearance.

<sup>19</sup> The 2023 FSSR Report and accompanying Background Note on the Financial Sector Safety Net identified gaps in emergency liquidity assistance, the early intervention mechanism, recovery and resolution planning, group resolution, resolution objectives and principles, resolution tools and powers, and legal safeguards.

**19. Changes to bank regulations need to avoid forbearance and ensure financial stability.**

The NRB is reviewing its capital adequacy framework and is preparing to implement the Liquidity Coverage and Net Stable Funding Ratio to align with Basel Standards. The NRB is also implementing simplifications to the blacklisting regime that will likely reduce the number of borrowers blacklisted for minor infractions. In June 2025, the NRB implemented changes to the working capital loan (WCL) guidelines that remove the interim repayment requirements agreed prior to October 2022 while keeping the mid-July 2027 deadline for repayment.<sup>20</sup> Although this provides more flexibility to banks to adjust the repayments, it also risks banks not meeting the deadline. The NRB should communicate repayment targets to the banks and closely monitor their implementation. Any changes to the WCL guidelines should avoid weakening the framework and ensure evergreening practices are rooted out. The announced increase of loan-to-value ratios for private residential loans to 70 percent combined with a debt service-to-income ratio of 70 percent can significantly increase household debt levels and be destabilizing to banks and borrowers. This warrants heightened vigilance by banks and supervisors and may require a recalibration of these ratios if NPLs continue to rise. The NRB introduced forbearance on construction NPLs impacted by a delay in government payouts in April 2025, which should be time-bound and phased out. Further forbearance, in particular on asset classification and provisioning, should be avoided, especially in the transition to the expected credit loss framework, as it masks risks in the banking sector.

**20. Reforms to the related party lending (RPL) framework should be carefully calibrated to avoid destabilizing businesses' access to finance.** Parliament is considering amendments to the Bank and Financial Institutions Act (BAFIA) to bring RPL provisions more in line with international standards. These reforms need to be carefully calibrated and phased-in as they will require bank shareholders and related parties to adjust their exposures. It will be important for the authorities to ensure that related parties do not completely lose access to financing because of the new legislation. To ensure an orderly phase-in of the RPL provisions, NRB should prepare implementing regulations that provide banks and affected parties with sufficient time to safeguard financial stability.

**21. Efforts to regulate Savings and Credit Cooperatives (SACCOs) are picking up while efforts to resolve failed SACCOs need to accelerate.** The National Cooperatives Regulatory Authority (NCRA) was established in January 2025 and will regulate and register the SACCOs. The NRB has published a new regulatory regime for SACCOs that includes liquidity, capital, lending, credit limits and investment standards, which will be incorporated by the NCRA in its regulatory framework.<sup>21</sup> In the medium term, it is recommended that the NCRA's mandate is expanded to license SACCOs. Meanwhile, slow progress with resolving failed SACCOs requires further efforts to establish Problematic Cooperative Management Committees to deal with SACCOs at the provincial

<sup>20</sup> The WCL guidelines prior to this change provided that legacy WCLs needed to be repaid in steps: 10 percent by mid-July 2025, 20 percent by mid-January 2026, 40 percent by mid-July 2026, 60 percent by mid-January 2027 and full repayment by mid-July 2027.

<sup>21</sup> NRB is responsible for the supervision of SACCOs with a balance sheet exceeding NPR 500 million.

and local level.<sup>22</sup> Plans for qualifying SACCOs to become members of the Deposit and Credit Guarantee Fund (DCGF) should be conditional on registration with the NCRA and meeting adequately strong DCGF-set criteria. In addition, plans to create a separate fund for SACCOs within the DCGF are being developed.

## C. Enhancing Governance and Other Structural Reforms to Boost Growth

**22. The authorities have made further progress on implementing the 2021 SGA recommendations.** Notably, significant additional advancements towards SGA recommendations have been made in the draft NRB Act amendments. However, it still falls short of best practices.<sup>23</sup> The draft has not yet been submitted to Parliament (end-April 2025 SB, not met), but the authorities intend to submit it by end-October, along with the amendments related to bank resolution. The one remaining SGA recommendation not related to the NRB Act, on revising the Foreign Exchange Investment Directive, saw progress but remains incomplete.

**23. The government is making efforts to strengthen the AML/CFT framework in line with Financial Action Task Force (FATF) standards but needs to improve its effective implementation** (Annex III). The FATF added Nepal to the list of jurisdictions under increased monitoring (“grey list”) in February 2025. In the run-up to grey-listing, the authorities made progress upgrading the legal framework based on the findings of the Asia/Pacific Group on Money Laundering’s 2023 assessment. Following grey-listing, progress on the framework has continued—updating implementation procedures for targeted financial sanctions, fit and proper standards and designated non-financial businesses and professions—and is now turning its focus to improving implementation of the framework. Staff remain committed to supporting AML/CFT reforms through capacity development (CD) in close coordination with other TA providers.

**24. Addressing structural barriers and high business costs while advancing reforms in anticorruption and financial integrity will further support economic resilience and investor confidence.** Building on its inaugural sovereign credit rating and the recent adoption of important legislation—including the Bill on Facilitating Investment and amendments to laws enhancing governance, fiscal discipline, and regulatory efficiency—the authorities have launched a structural reform agenda to help attract investment.<sup>24</sup> Drawing on the recommendations of the High-Level

<sup>22</sup> The Federal Problematic Cooperatives Management Committee (PCMC), responsible for dealing with 23 problematic federal SACCOs, has resolved three SACCOs, returning around NPR 3 billion of funds to depositors and plans to resolve a further five this fiscal year. On a provincial and local level, no SACCOs have yet been resolved.

<sup>23</sup> The Finance Secretary’s presence on the NRB Board remains a concern for central bank independence. However, several safeguards have been introduced to mitigate the influence and reinforce NRB’s autonomy. These include disqualifying other government officials from Board membership, strengthening appointment tenure, dismissal procedures and rule-making authority, as well as tightening monetary financing.

<sup>24</sup> The Investment Facilitation Bill (July 2024) amends nine legal acts, including on simplifying business registration and compliance requirements for startups and foreign investors, streamlining the approval process for foreign investments, simplifying land acquisition for investment projects, and easing restrictions on investments in the forest areas, among others. In March 2025, the National Assembly approved five additional ordinances to enhance governance, streamline privatization, reduce regulatory barriers and foster investment, strengthen fiscal discipline, and improve oversight in the cooperative sector.

Economic Reform Suggestion Commission, the authorities developed a three-year action plan to bolster macroeconomic fundamentals, improve the business environment, and strengthen institutional capacity (Text Table 4). Efforts to enhance anticorruption institutions and modernize the anticorruption framework—through updated legal provisions and enhanced detection and enforcement capabilities—may improve governance and help restore business confidence. The reform agenda should also prioritize reducing the high cost of doing business by streamlining procurement, digitalizing public administration and services, and enhancing intergovernmental coordination. Targeted investments in adaptation to natural disaster risk—including in food security, early warning systems, and infrastructure resilience—would reduce the economy’s vulnerability.<sup>25</sup>

#### Text Table 4. Nepal: Government’s Economic Reform Implementation Action Plan

*In May 2025, the government announced a 3-year action plan encompassing 408 reforms based on the recommendations of the High-Level Economic Reform Suggestion Commission. The key macro-critical reform priorities for the next year are highlighted.*

##### External Sector

- Amend regulations to attract higher foreign investment in private equity and venture capital (PE & VC) [Implemented in June 2025].
- Enable Nepal Stock Exchange-listed companies to list in foreign markets and issue global depository receipts.
- Permit goods and services exporters and hotel and tourism companies to invest abroad, with regulations clarifying investment areas and limits.
- Require repatriation of 100 percent of fees and royalties and at least 50 percent of annual returns for investment abroad.
- Initiate double taxation exemption agreement and bilateral investment agreement with countries.

##### Public Finance

- Raise non-tax revenue rates in a timely manner. Add provisions on general anti-avoidance rules in the Value Added Tax Act. Do not apply tax laws in a retrospective manner. Improve structure of the Revenue Tribunal.
- Establish the limit on mobilizing internal debt based on ‘net’ debt after deducting annual repayments due.
- Improve legal clarity on the division of work among three tiers of government and transfer functions that can be performed at the provincial and local level.
- Convert government-owned public institutions into public limited companies by selling shares.
- Invest Employees’ Provident Fund, Citizen Investment Fund and Social Security Fund in high-return infrastructure projects and PE & VC.

##### Financial Sector

- Reduce operational cost and interest rate spread in the banking sector.
- Enact Credit Information Reporting Act to regulate and streamline the credit rating system. Integrate credit information for all types of banks, cooperatives and other financial institutions.
- Improve secondary market activity for government bonds.
- Enact Public Warehousing Act to operationalize the commodity exchange market.
- Create necessary infrastructure for the development of derivatives market.

##### Structural Issues

- Implement free-of-cost business registration.
- Identify specialized economic zone or production activity at the provisional level.
- Allocate at least 10 percent of the capital budget for the next five years on physical infrastructure in IT sector and creation of IT parks.
- Restructure the Nepal Infrastructure Bank and raise long-term capital through issuance of project-specific infrastructure bonds, including to insurance companies.
- Enable the Nepal Electricity Authority to issue energy bonds to invest in hydropower projects.

<sup>25</sup> The Nepal CCDD (<https://hdl.handle.net/10986/38012>) provides detailed recommendations on improving food security and resilience under climate change.

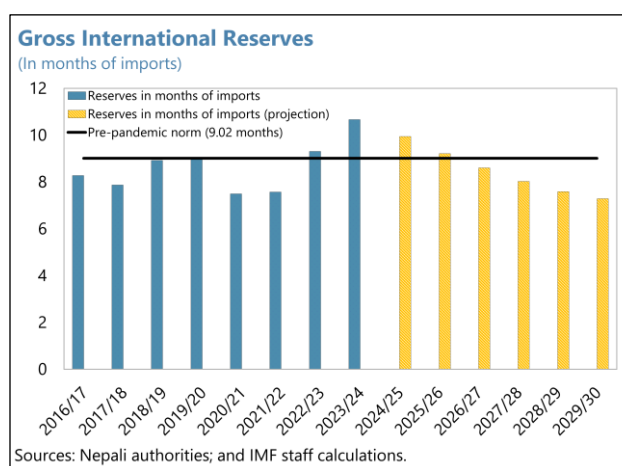
## PROGRAM MODALITIES

**25. Capacity to repay remains adequate.** IMF credit outstanding is projected to peak this fiscal year at 242.3 percent of quota (SDR 380.2 million). This represents 11.9 percent of exports and 1.1 percent of GDP (Table 9). Upcoming Fund obligations remain low relative to current and projected international reserves, fiscal revenues and GDP. The authorities' track record of servicing IMF debt is strong.

**26. Pressing fiscal financing and prospective balance of payments needs remain.**

Domestic borrowing limits in the budget make external financing critical to avoiding expenditure cuts or a large negative Treasury balance at the NRB (Text Table 3). Following favorable external sector developments, gross external financing requirements declined, and GIR remained above Nepal's pre-pandemic norm in FY2024/25.

However, prospective balance of payments needs have not meaningfully changed from the 5<sup>th</sup> review. Accordingly, as public investment execution is scaled up, the recovery accelerates and imports recover, reserves are expected to return to levels seen at the program request, below the pre-pandemic norm. Lastly, program reforms are critical to encouraging greater foreign investment by building a framework for macroeconomic stability, which undergirded the recent sovereign credit rating.



**27. The program is fully financed, with firm commitments in place for the remainder of the program.** Budget support financing pledges for FY2024/25 through FY2025/26 are in line with the level recorded during the 5<sup>th</sup> review (Text Table 5 and Table 5).<sup>26</sup> The authorities intend to use the ECF arrangement for budget support.

**28. The program continues to face important risks, but ample reserves provide a backstop.** Political uncertainty is mitigated by an abiding commitment to the program across all major political parties. Fiscal measures and guardrails under the program will bolster fiscal buffers. Strengthened reserve position provides an increasingly potent backstop to external shocks. The NRB has developed facilities to provide liquidity support to prevent potential systemic financial concerns.

<sup>26</sup> The lack of implementation of the reforms underpinning Nepal's budget operations caused delay and uncertainty in disbursement from development partners. The projected budget support by development partners over the next few years is mainly due to an increase in support for Investment Climate Improvement by ADB and Development Policy Credit by the World Bank.



**Text Table 5. Nepal: Projected Financing Gap**  
(In percent of GDP)

External financing need			Fiscal financing need		
	FY2024/25	FY2025/26		FY2024/25	FY2025/26
	Est.	Proj.		Est.	Proj.
<b>External financing requirement</b>	<b>-4.2</b>	<b>1.1</b>	Total revenue and grants	19.6	20.8
<i>of which:</i>			Expenditure	22.5	24.4
Current account deficit <sup>1/</sup>	-3.5	2.0	<b>Fiscal deficit</b>	<b>2.9</b>	<b>3.6</b>
<b>Financing sources</b>	<b>-5.1</b>	<b>-0.1</b>	<b>Total financing</b>	<b>1.9</b>	<b>2.4</b>
Foreign borrowing	1.5	1.5	Net acquisition of financial assets	1.3	1.3
Current and capital grants	0.6	0.9	Net incurrence of liabilities	3.3	3.7
FDI, net	0.3	0.4	Foreign borrowing	0.7	0.6
Change in reserves (+ decrease)	-7.6	-2.9	Domestic borrowing	2.5	3.0
<b>External financing gap</b>	<b>0.9</b>	<b>1.2</b>	<b>Fiscal financing gap</b>	<b>0.9</b>	<b>1.2</b>
Financing commitments so far:	0.9	1.2	Financing commitments so far:	0.9	1.2
IMF: ECF	0.1	0.2	IMF: ECF	0.1	0.2
Asian Development Bank	0.2	0.7	Asian Development Bank	0.2	0.7
World Bank	0.6	0.3	World Bank	0.6	0.3

Sources: Nepali authorities; and IMF staff estimates.  
1/ Current account excludes official transfers.  
Note: Current baseline forecast is as of July 28, 2025.

**29. The recent Article VIII mission that took place in March 2025 found that the standard continuous PCs on the non-imposition or non-intensification of exchange restrictions and the non-introduction or non-modification of multiple currency practices (MCPs) were observed.** The Article VIII mission found three exchange restrictions and one MCP.<sup>27</sup> However, these measures do not have an impact on the observance of the standard continuous PCs, as they were in place prior to the approval of the ECF arrangement. The authorities do not plan to remove these measures or seek approval of these measures by the Board. Following the Article VIII mission, the NRB has recently implemented several noteworthy measures to ease these restrictions, and staff encourage the authorities to continue with the efforts for complete removal of the restrictions.<sup>28</sup>

<sup>27</sup> Since 2010, Nepal had an exchange restriction arising from a limit on the conversion and transfer to foreign currency of salaries of non-resident foreign nationals. On August 7, 2025, the NRB issued an amendment to the Unified Circular which clarified and confirmed that non-resident foreign nationals may convert and transfer to foreign currency all their net salaries. As such, staff reassessed the said long-standing exchange restriction and removed it. The newly identified exchange restrictions arise from: (i) the requirement to provide a tax clearance certificate prior to making payments and transfers for certain current transactions; (ii) limits on the amount of FX for payments of royalties and fees; and (iii) a mandatory security deposit for import payments. Based on data available as of August 19, 2025, the mission also identified an MCP arising from the exchange rate used for remittance transactions between remittance companies and their offshore partners. The economic impact of the MCP appears to be limited, given the low volume of such transactions in currencies identified with an MCP compared with the volume in the FX market.

<sup>28</sup> Prior to August 7, 2025, remittance transactions between remittance companies and their offshore partners in 22 currencies were required to use the Foreign Exchange and Money Dealers Association of Nepal (FEDAN) exchange rate. On August 7, 2025, the NRB amended the relevant provisions for the FEDAN exchange rate to be applied for remittances in USD currency only. Remittance transactions in all other convertible currencies are to be done in prevailing exchange rates.

(continued)

**30. Mobilization of CD has supported reforms envisaged under the program** (Text Table 6). IMF CD support in areas of fiscal risks management, execution of capital expenditure, budget realism, CIMS, and AML/CFT has provided the foundation for achieving critical reforms.

**Text Table 6. Nepal: Recent Capacity Development Activities (January 2024 to July 2025)**

Enhance Tax Administration and Domestic Revenue Mobilization Strategy	<ul style="list-style-type: none"> <li>• FAD TA: Developing tax expenditure policy; Customs reforms roadmap for Domestic Revenue Mobilization (DRM)</li> <li>• FAD Workshop: Strengthening income tax expenditure reporting and evaluation to Inland Revenue Department (IRD)</li> <li>• FAD-SARTTAC TA: Developing Compliance Improvement Strategy; Finalization of DRM Strategy</li> <li>• SARTTAC Workshop and Training: Risk Based Audit Techniques; Developing of Compliance Improvement Plans to IRD; Implementation of cash-flow forecasting framework</li> </ul>
Fiscal Transparency, Public Investment Management, and Cash Forecasting	<ul style="list-style-type: none"> <li>• FAD TA: Developing a Fiscal Risk Statement</li> <li>• MCM-FAD TA: Strengthening the public debt management functions</li> <li>• SARTTAC TA: Addressing issues in the Capital Budget Execution; Formulation of Action Plan for implementation of Public Investment Management Assessment (PIMA) recommendations</li> <li>• SARTTAC Training: Strengthening cash forecasting using the IMF's Cash Flow Forecasting and Analysis Tool (CFAT)</li> </ul>
Preserve and Strengthen Financial Sector Stability	<ul style="list-style-type: none"> <li>• MCM TA: Roadmap to implement FSSR recommendations; Feasibility analysis and preparation on Central Bank Digital Currency</li> <li>• SARTTAC TA: Monetary operations and development of interbank market</li> <li>• SARTTAC Training: Strengthening NBR's supervisory framework on IFSR9 and Expected Credit Loss</li> </ul>
Enhance Transparency and Governance	<ul style="list-style-type: none"> <li>• LEG: Support for drafting guidelines to implement UN Security Council Resolutions</li> </ul>
Strengthen Data Compilation and Evaluation	<ul style="list-style-type: none"> <li>• SARTTAC TA: Developing institutional sector accounts</li> <li>• STA TA: Residential property price index; External Sector Statistics</li> </ul>

Note: For previous Capacity Development Activities, please see [Annex V, IMF Country Report 25/66](#).

## STAFF APPRAISAL

**31. The economic recovery is expected to gather pace, with limited spillovers from tariffs and global trade uncertainty, and inflation will remain in check.** Real GDP growth is projected to accelerate to 5.2 percent in FY2025/26—temporarily above potential growth as the negative output gap narrows—driven by a pickup in capital spending and rebound in domestic demand. Inflation is expected to rise modestly from multi-year lows as consumption recovers but will remain below the monetary policy ceiling. Although the external position remains substantially stronger than the level implied by medium-term fundamentals and desired policies, it is projected to gradually weaken over the forecast horizon as implementation of import-intensive capital projects accelerates, remittance growth normalizes, and pent-up import demand picks up.



**32. Program performance was broadly adequate with all PCs met, several key SBs completed, and corrective actions planned for missed SBs.** The PCs on net international reserves and the primary fiscal deficit were met, together with all standard continuous PCs. Only the IT on child allowance spending was missed. Six SBs were completed (four met on time), with a clear commitment to make progress on the remaining areas. A prior action on procuring the LPR consultant is proposed for this review.

**33. Further efforts to mobilize revenues would underpin fiscal sustainability and support increase in capital expenditure.** A shortfall in revenue mobilization could lead to an under execution of capital expenditure, which could also adversely impact medium-term growth and debt sustainability. The authorities should thus accelerate implementation of their DRMS, formulate a plan to manage arrears, rationalize tax expenditures in line with the tax expenditure report—including recently introduced tax exemptions for industrial parks and SEZs—and develop a CIMS. To enhance spending efficiency, fertilizer subsidies should be more targeted and restrictions should be lifted on private sector provision. Public financial management reforms in the FY2025/26 budget should help with capital spending, as would recent legal amendments, the execution strategy for the 16<sup>th</sup> Plan, and ongoing implementation of the Public Investment Management Action Plan. The authorities should build on these successes by making the revenue forecasts in the budget more realistic, which would give more certainty to execute the public investment budget. To protect the vulnerable, the authorities should expand the coverage and the per-beneficiary allowance of the child grant. Building on the recently published fiscal risk statement, the authorities should continue to enhance fiscal transparency.

**34. The monetary policy stance is appropriate and should remain accommodative until conditions are projected to change.** The FY2025/26 Monetary Policy Review is consistent with maintaining an accommodative stance. The interest rate corridor has been tightened and made more symmetrical. Over time the NRB could consider shifting the bands further down, so the midpoint aligns with the appropriate interbank rate. Amending the NRB Act to provide greater monetary independence from the government would help reduce the term premium and ultimately lower borrowing costs. The authorities have not requested approval of the exchange restrictions and the MCP which were in place prior to the program, and subject to Fund approval under Article VIII, and staff does not recommend their approval. Staff urge the authorities to eliminate these measures.

**35. Progress on the LPR structural benchmarks is encouraging with the focus next moving to proper execution.** The procurement of an independent international consultant is a major step towards the launch of the LPR. The outcome of the LPR should be used as a basis for further reforms to the regulatory framework. Any capital shortfalls identified should be resolved by following the recommendations in the post-LPR roadmap. The timely completion of these reforms is critical to strengthen financial sector stability.

**36. Rising financial vulnerabilities require carefully calibrated policy responses that offer structural solutions and safeguard financial stability more durably.** Further efforts are needed to address increasing NPLs and improve bank health—solutions should prioritize improving the efficiency of the debt recovery framework. The creation of an AMC should be approached with extra

caution given the risks involved, and only after ensuring that supportive institutions are in place. The impact of impending regulatory changes should be carefully assessed to avoid forbearance and ensure financial stability. Making directed lending policies more targeted and eventually phasing them out will help to mitigate lending to unviable borrowers.

**37. Swift submission of amendments to the NRB Act in line with IMF staff recommendations will improve NRB governance and strengthen the bank resolution framework.** Amendments related to the SGA fall short of best practice but include important measures to strengthen the NRB's institutional, financial, and personal autonomy, while amendments to the bank resolution framework will fill important gaps identified in the 2023 FSSR.

**38. Progress on improving the AML/CFT framework has been substantial, with more effort needed to improve implementation effectiveness.** Sustained momentum is needed to advance AML/CFT reforms to expedite Nepal's exit from the grey list. Priorities include adopting and implementing the fit and proper test for the banking sector, implementing targeted financial sanctions effectively and boosting on-the-ground investigation and supervision capacity.

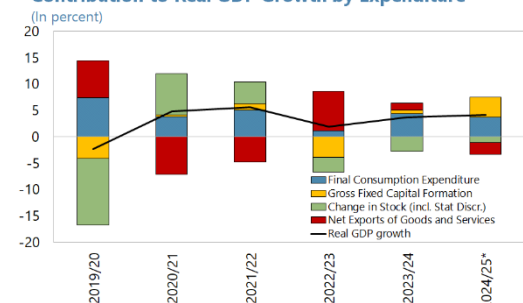
**39. Further progress on structural reforms is essential to support private investment, strengthen resilience, and foster more inclusive growth.** Building on recent legislative advances, including measures to improve governance and the business environment, continued reform momentum is needed to address the high cost of doing business, enhance service delivery, and strengthen institutional capacity. Effective and timely implementation of the authorities' structural reform agenda, including actions to improve public sector efficiency, will be essential to boosting competitiveness and enabling private-sector-led growth. Advancing efforts to modernize the anticorruption framework and institutions and strengthen intergovernmental coordination will further bolster transparency and accountability. Scaling up natural disaster-resilient investment and strengthening social protection will help ensure that growth is sustainable and inclusive.

**40. Staff support the completion of the sixth review of the ECF-supported program and the disbursement of the seventh tranche in the amount of SDR 31.4 million.**

**Figure 2. Nepal: Recent Macroeconomic Developments**

*Still-weak domestic demand continues to weigh on growth, which remained modest in FY2024/25.*

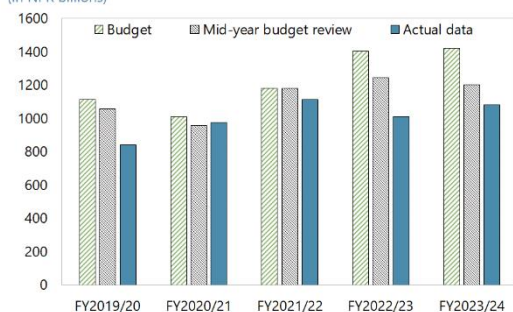
#### Contribution to Real GDP Growth by Expenditure



*Revenue collection dropped markedly in FY2022/23 and did not recover much in FY2023/24...*

#### Budget Execution: Revenue

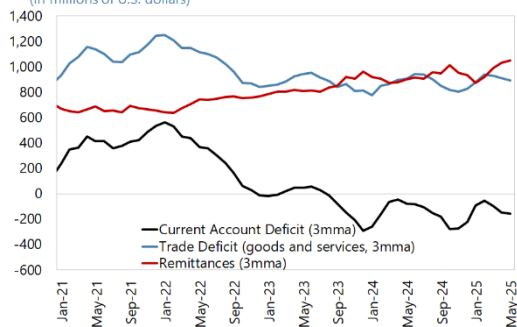
(In NPR billions)



*The trade deficit has recently started increasing again as imports begin to recover.*

#### Current Account Deficit

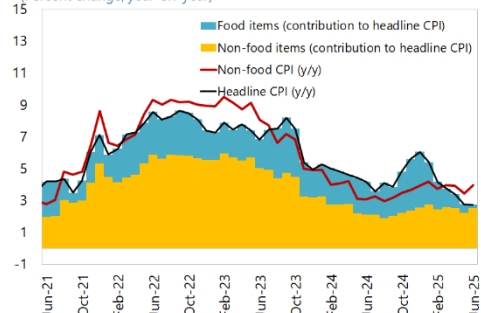
(In millions of U.S. dollars)



*Inflation has subsided following the transitory spike in food prices caused by flood in September 2024.*

#### Consumer Price Index

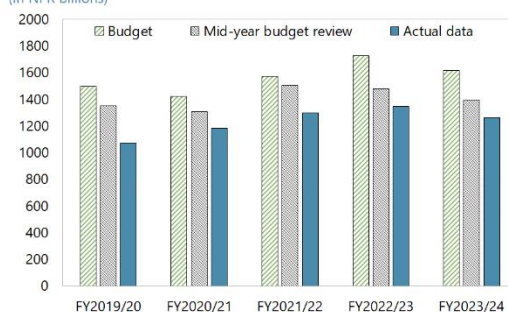
(Percent change, year-on-year)



*...again constraining spending and reinforcing the systemic pattern of expenditure under-execution.*

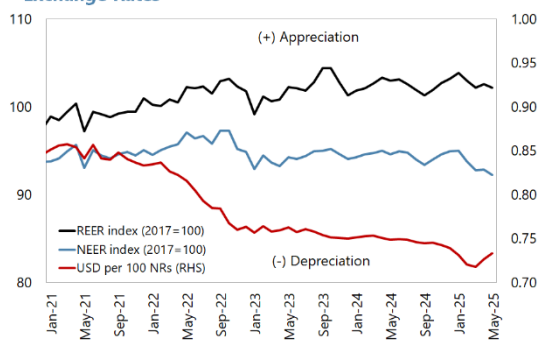
#### Budget Execution: Expenditure

(In NPR billions)



*Relatively higher domestic inflation has led to slow REER appreciation, eroding Nepal's external competitiveness.*

#### Exchange Rates

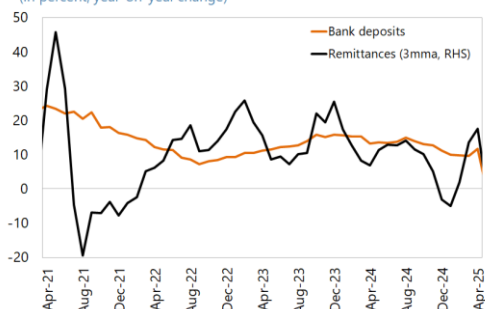


**Figure 3. Nepal: Recent Monetary Sector Developments**

Bank deposit growth continues to roughly follow the trend in remittance growth...

#### Bank Deposits and Remittances

(In percent, year-on-year change)

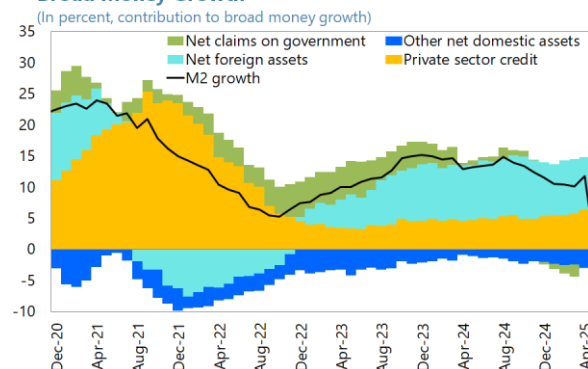


Sources: Nepali authorities; and IMF staff calculations.

...as net foreign asset accumulation continues to dominate broad money growth and private sector credit picking up.

#### Broad Money Growth

(In percent, contribution to broad money growth)

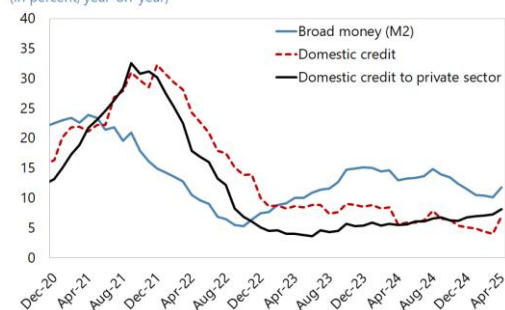


Sources: Nepali authorities; and IMF staff estimates.

The end-of-year return of government borrowing is visible as overall domestic credit growth catches up with private credit growth.

#### Credit and Money Growth

(In percent, year-on-year)

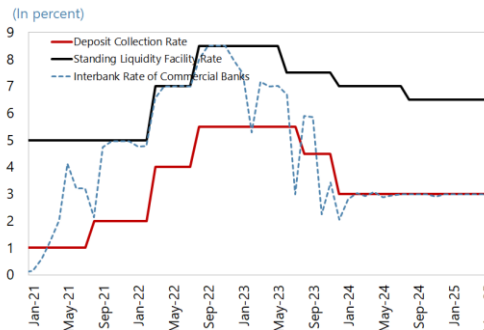


Sources: NRB; and IMF staff calculations.

Establishment of the SDF has kept the interbank rate from dropping below the Deposit Collection Rate.

#### Short-term Interest Rates

(In percent)

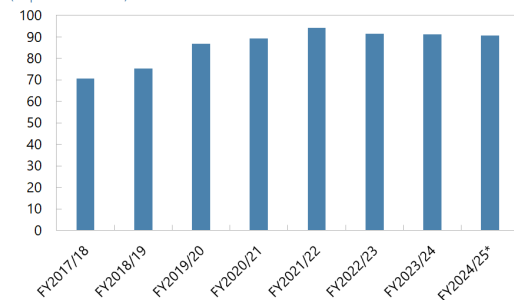


Source: NRB.

Private credit slowed dramatically starting in FY2022/23, allowing a gradual deleveraging...

#### Domestic Credit to Private Sector

(In percent of GDP)

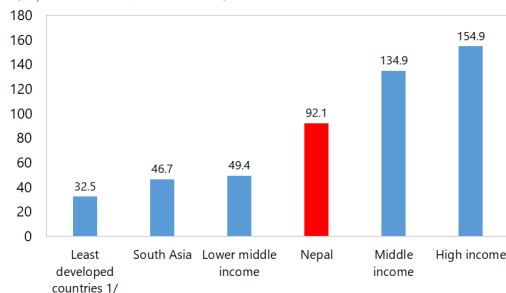


Notes: 2025 data is extrapolated based on 11 months data.  
Sources: Nepali authorities; and IMF staff estimates.

...which is appropriate when private sector credit/GDP remains among the highest in its peer group.

#### Domestic Credit to Private Sector

(In percent of GDP, 2023 or latest)



Source: World Bank, World Development Indicators.  
1/ UN Classification.

**Figure 4. Nepal: External Sector Developments**

In FY2023/24 the current account turned positive due to persistent import weakness and remittance strength.

**Current Account**

(In percent of GDP)



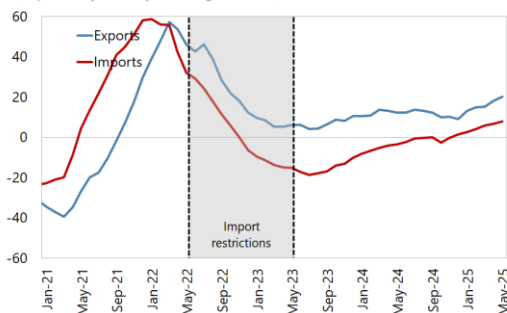
Note: 2024/25 GDP is an estimate.

Sources: Nepali authorities; and IMF staff estimates.

However, imports growth has strengthened during FY2024/25, signaling improving domestic demand.

**Exports and Imports**

(In percent, year-on-year change, 12MMA)

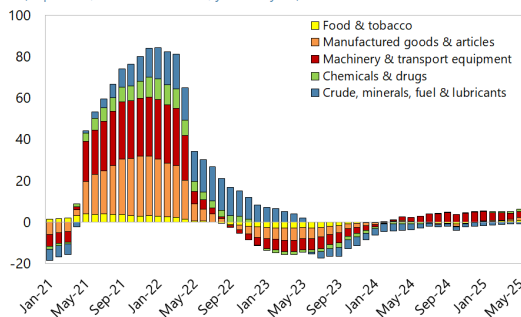


Sources: NRB; and IMF staff calculations.

The import recovery in the current fiscal year has been led by a rebound in capital goods imports.

**Contribution to Import Growth**

(In percent, based on 12MMA, year-on-year)

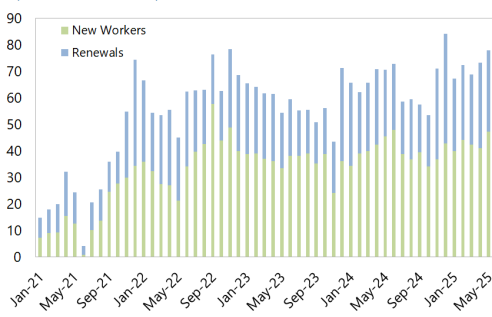


Sources: Nepali authorities; and IMF staff calculations.

Foreign employment of Nepalis remains resilient, driving robust growth in remittances.

**Total Foreign Employment**

(Thousands of workers)

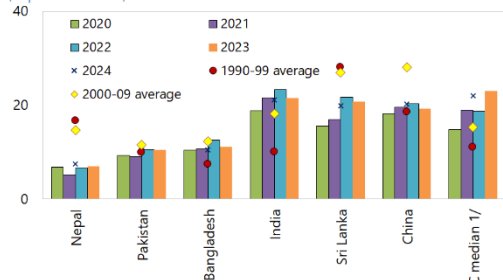


Sources: Nepali authorities; and IMF staff estimates.

Exports have rebounded since 2021, but remain well below the 1990-2009 levels, and below peers.

**Exports of Goods and Services**

(In percent of GDP)



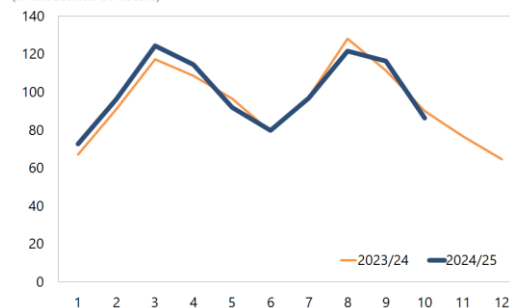
Sources: IMF, World Economic Outlook; and IMF staff estimates.

1/ LIC: Low Income Countries are defined by the World Bank as those with a GNI per capita between \$1,145 or less in 2023.

Tourism returned to pre-pandemic levels in H2 FY2023/24 and continued to support current account surplus during the first ten months of FY2024/25.

**International Visitor Arrivals**

(In thousands of visitors)



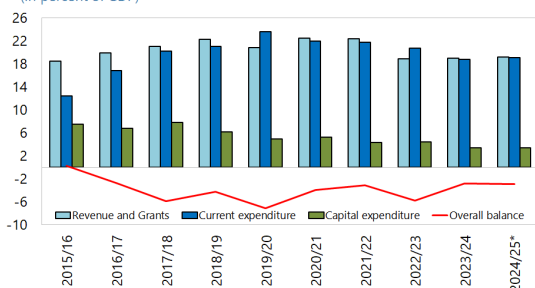
Source: Nepali authorities.

**Figure 5. Nepal: Recent Fiscal Developments**

*In FY2023/24, the fiscal deficit narrowed on restrained spending and the trend continued in FY2024/25.*

#### Central Government Fiscal Performance

(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

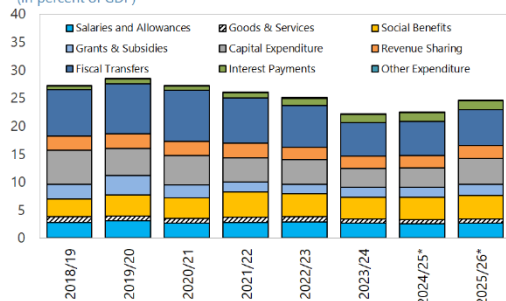
Note: 2023/24 GDP is an estimate, 2024/25 GDP is projection.

Note: Overall balance calculated as total revenue and grants minus expenditure.

*Expenditure in FY2024/25 is estimated to maintain the tightening of FY2023/24.*

#### Central Government Fiscal Expenditure

(In percent of GDP)



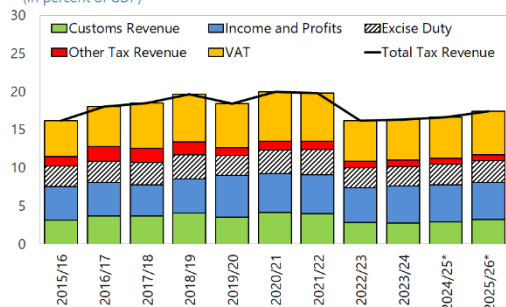
Note: 2024/25 GDP is an estimate, 2025/26 GDP is projection.

Sources: Nepali authorities; and IMF staff estimates.

*The composition of tax revenues is estimated to have remained stable in FY2024/25.*

#### Central Government Tax Revenues

(In percent of GDP)



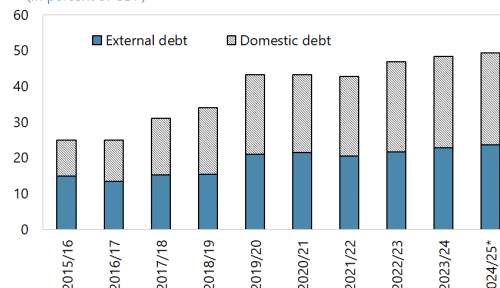
Note: 2024/25 GDP is an estimate, 2025/26 is a projection.

Sources: Nepali authorities; and IMF staff estimates.

*Total public debt increased marginally in FY2023/24 and FY2024/25 (estimated).*

#### Public Debt

(In percent of GDP)



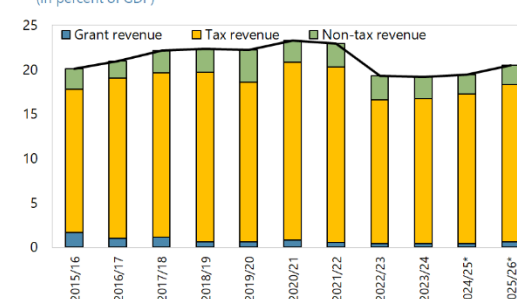
Note: 2023/24 GDP is an estimate, 2024/25 GDP is projection.

Sources: Nepali authorities; and IMF staff estimates.

*Tax and non-tax revenues are estimated to have remained stable relative to GDP in FY2024/25.*

#### Central Government Fiscal Revenues (Incl. Grants)

(In percent of GDP)



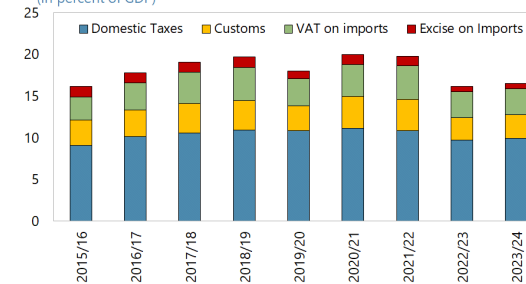
Note: 2024/25 GDP is an estimate, 2025/26 is a projection.

Sources: Nepali authorities; and IMF staff estimates.

*The mix between taxes on imports vs. domestic activity remained stable in FY2023/24.*

#### Tax Revenue by Source

(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

Note: Domestic taxes are calculated as the residual by subtracting customs, VAT on imports and excise on imports from total tax revenue.

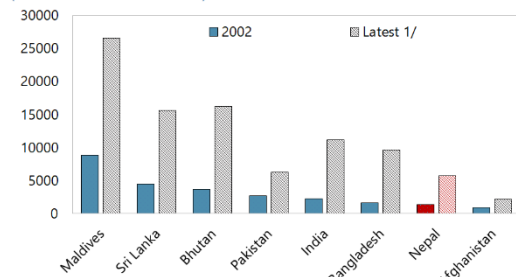


**Figure 6. Nepal: Socio-Economic Indicators**

*Nepal is one of the lowest income countries in Asia and South Asia...*

#### Per Capita GDP (PPP)

(In current international dollars)



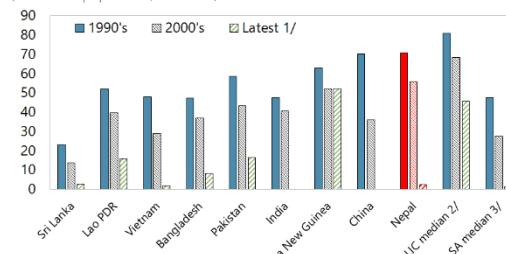
Sources: World Bank, World Development Indicators; and IMF staff calculations.

1/ Maldives (2024); Sri Lanka (2024); Bhutan (2023); Pakistan (2024); India (2024); Bangladesh (2024); Nepal (2024); Afghanistan (2023)

*...yet poverty fell significantly in the last decade.*

#### Poverty Headcount Ratio at USD 1.90 per Day

(Percent of population, 2011 PPP)



Sources: World Bank, World Development Indicators; and IMF staff calculations.

1/ Sri Lanka (2019); Vietnam (2022); Bangladesh (2022); Pakistan (2018); China (2020); Lao P.D.R. (2018); India (2021); Nepal (2022); Papua New Guinea (2009).

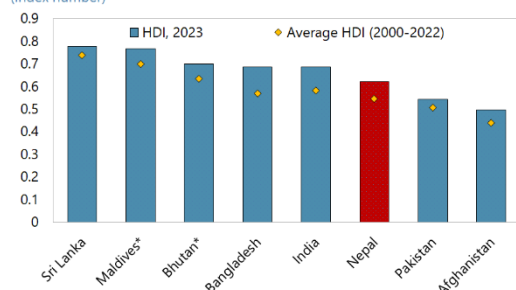
2/ LIC: Low Income Countries are defined by the World Bank as those with a GNI per capita between \$1,145 or less in 2023.

3/ South Asia (SA) includes India, Nepal, Bhutan, Bangladesh, Maldives and Sri Lanka.

*The decline in poverty is reflected in an improvement in Nepal's UNDP Human Development Index.*

#### Human Development Index

(Index number)



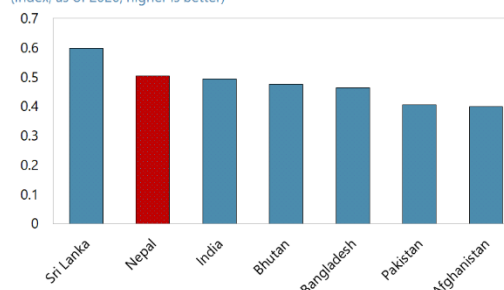
Sources: UNDP; and IMF staff calculations.

Note: Historical HDI averaged using partial data for Maldives and Bhutan.

*Although human capital levels are similar to comparators, there is scope for improvement.*

#### Human Capital Index 1/

(Index, as of 2020; higher is better)



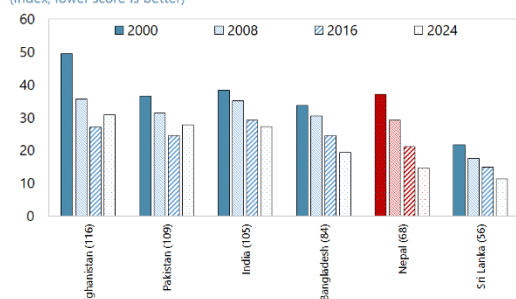
Source: The World Bank, Human Capital Project.

1/ Measures the human capital that a child born today can expect to attain by her 18th birthday, given the risks of poor health and poor education in the country where she lives. Units represent productivity relative to a benchmark of complete education and full health, on a scale of 0 to 1.

*There is substantial need to improve living standards, including relating to hunger.*

#### Global Hunger Index 1/

(Index, lower score is better)



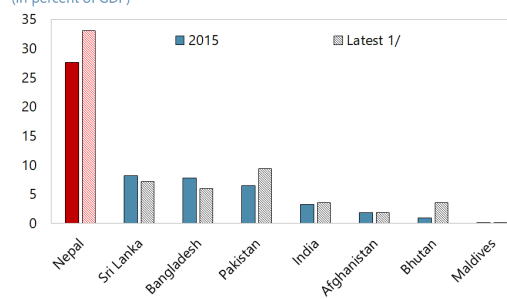
Sources: Global Hunger Index; and IMF staff calculations.

1/ The Global Hunger Index is a multidimensional indicator that captures undernourishment, child wasting, child stunting, and child mortality. Number in parenthesis represents the country's 2024 rank out of 129 countries.

*One of Nepal's most important safety nets comes from remittances.*

#### Remittances Received

(In percent of GDP)



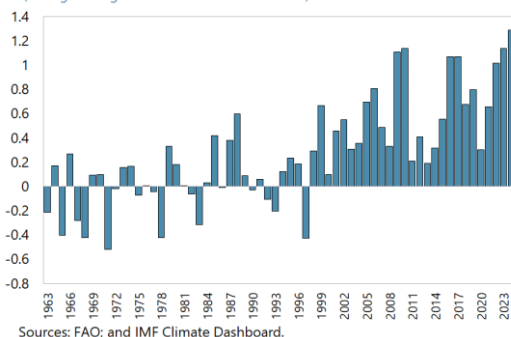
Sources: World Bank, World Development Indicators

1/ Nepal (2024); Sri Lanka (2023); Bangladesh (2024); Pakistan (2024); India (2024); Afghanistan (2023); Bhutan (2023); Maldives (2024)

**Figure 7. Nepal: Pollution and Changes in the Environment**

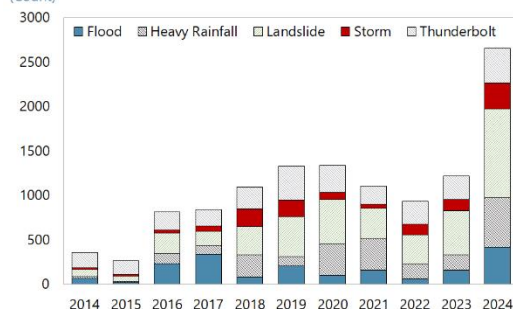
Average temperatures have risen in Nepal.

**Mean Temperature Change of Meteorological Year**  
(Change centigrade from 1951-1980 baseline)



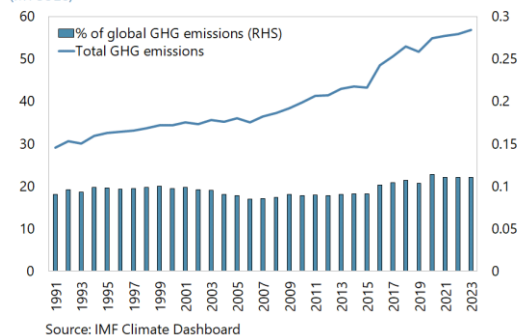
The country is subject to significant and growing natural disasters including landslides, floods, and storms.

**Number of Climate Related Incidents**  
(Count)



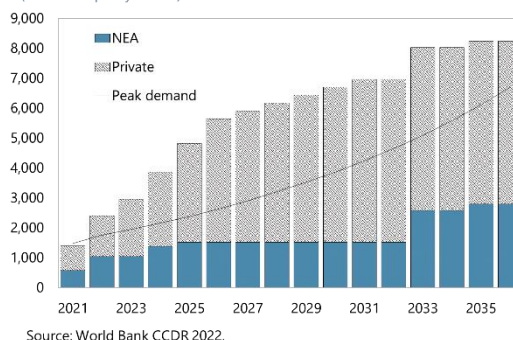
Total GHG emissions are growing but represent a small percentage of global emissions.

**Total GHG Emissions**  
(MTCO2e)



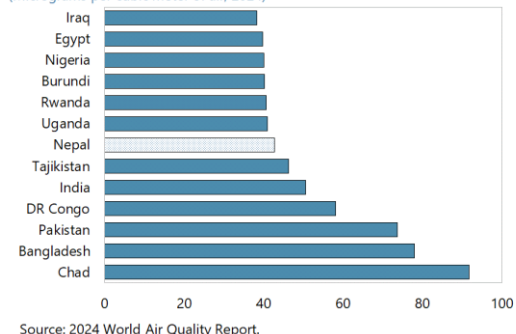
Hydropower accounts for 90 percent of current electricity production and is set to become a major export good.

**Forecast of Hydropower and Projected Electricity Demand**  
(Installed capacity in MW)



Pollution is trapped by Nepal's mountainous geography making it the 9<sup>th</sup> most polluted country...

**PM2.5 Concentration of the Most Polluted Countries**  
(Micrograms per cubic meter of air, 2024)



... and Kathmandu is the 11<sup>th</sup> most polluted capital city.

**PM2.5 Concentration of the Most Polluted Capitals**  
(Micrograms per cubic meter of air, 2024)

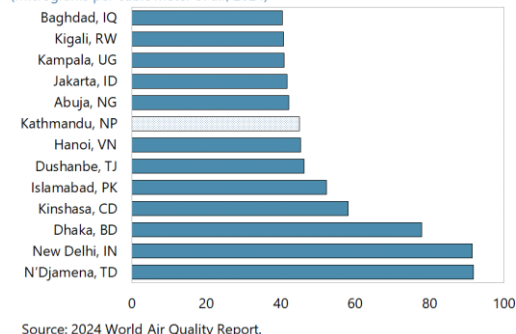




Table 1. Nepal: Selected Economic Indicators, 2021/22-2029/30 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				Est.	Projections				
<b>Output and Prices</b> (annual percent change)									
Real GDP	5.6	2.0	3.7	4.3	5.2	5.0	5.0	5.0	5.0
Headline CPI (period average)	6.4	7.7	5.4	4.2	4.3	5.0	5.0	5.0	5.0
Headline CPI (end of period)	8.1	7.4	3.6	3.0	5.1	5.0	5.0	5.0	5.0
<b>Fiscal Indicators: Central Government</b> (in percent of GDP)									
Total revenue and grants	22.9	19.3	19.4	19.6	20.8	21.7	22.3	22.7	22.6
of which: Tax revenue	19.8	16.1	16.5	16.9	17.9	18.6	19.3	19.8	19.7
Expenditure	26.1	25.1	22.1	22.5	24.4	25.3	25.7	26.0	25.9
Recurrent expenditure	21.7	20.7	18.8	19.1	19.8	20.0	20.1	20.0	19.8
Capital expenditure	4.3	4.4	3.4	3.4	4.6	5.3	5.6	6.0	6.1
Operating balance	1.2	-1.4	0.6	0.5	1.0	1.7	2.3	2.7	2.8
Net lending/borrowing	-3.1	-5.8	-2.8	-2.9	-3.6	-3.6	-3.3	-3.3	-3.3
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-3.1	-5.8	-2.8	-2.9	-3.6	-3.6	-3.3	-3.3	-3.3
Net acquisition of financial assets	2.6	-0.9	0.5	1.3	1.3	1.3	1.3	1.3	1.3
Net incurrence of liabilities	5.8	4.9	3.3	4.2	4.9	4.9	4.7	4.6	4.6
Foreign	2.1	1.6	1.6	1.7	1.8	1.2	1.2	1.3	1.4
Domestic	3.7	3.2	1.7	2.5	3.0	3.7	3.4	3.3	3.3
<b>Money and Credit</b> (annual percent change)									
Broad money	6.8	11.4	13.6	9.9	9.9	10.0	10.0	10.1	10.1
Domestic credit	17.9	8.8	6.2	8.0	8.3	8.6	8.9	9.5	10.1
Private sector credit	13.3	4.6	6.1	8.2	8.7	9.1	9.4	9.8	10.1
<b>Saving and Investment</b> (in percent of nominal GDP)									
Gross investment	37.6	31.1	30.4	32.6	37.2	37.3	36.5	35.5	34.8
Gross fixed investment	29.0	24.6	24.3	26.7	30.8	30.7	29.9	28.9	28.3
Private	24.6	20.2	21.0	23.3	26.2	25.4	24.3	22.9	22.2
Central government	4.3	4.4	3.4	3.4	4.6	5.3	5.6	6.0	6.1
Change in Stock	8.7	6.6	6.1	5.9	6.4	6.6	6.6	6.6	6.5
Gross national saving	25.1	30.3	34.3	36.5	35.7	34.5	33.2	32.2	31.2
Private	24.4	32.1	34.1	36.3	35.3	33.6	31.7	30.1	29.1
Central government	0.7	-1.9	0.2	0.1	0.4	0.9	1.5	2.1	2.2
<b>Balance of Payments</b>									
Current account (in millions of U.S. dollars)	-5,174	-361	1,663	1,774	-701	-1,472	-1,881	-2,166	-2,486
In percent of GDP	-12.6	-0.9	3.9	3.9	-1.4	-2.7	-3.2	-3.4	-3.5
Trade balance (in millions of U.S. dollars)	-13,759	-10,699	-10,431	-11,446	-14,536	-16,082	-17,325	-18,527	-19,755
In percent of GDP	-33.4	-26.1	-24.3	-25.2	-29.8	-30.0	-29.5	-28.8	-28.1
Exports of goods (y/y percent change)	43.9	-19.9	-2.5	70.0	-4.3	8.1	10.2	11.4	9.4
Imports of goods (y/y percent change)	21.9	-22.0	-2.5	16.7	21.7	10.3	8.1	7.5	7.0
Workers' remittances (in millions of U.S. dollars)	8,326	9,485	10,864	12,166	12,579	13,131	13,773	14,447	15,154
In percent of GDP	20.2	23.1	25.3	26.7	25.8	24.5	23.5	22.5	21.6
Gross official reserves (in millions of U.S. dollars)	8,956	10,954	14,547	17,438	18,395	18,507	18,544	18,480	18,291
In months of prospective imports	7.6	9.3	10.8	10.9	10.4	9.8	9.1	8.5	7.7
<b>Memorandum Items</b>									
Public debt (in percent of GDP)	42.7	47.0	48.3	49.4	49.5	49.3	48.9	48.4	48.0
Nominal GDP (in billions of U.S. dollars)	41.2	41.0	42.9	45.5	48.8	53.5	58.6	64.2	70.3
Nominal GDP (in billions of Nepalese Rupees)	4,977	5,367	5,709	6,203	6,806	7,499	8,255	9,090	10,010
Net International Reserves (in millions of U.S. dollars)	8,821	10,507	14,064	16,881	17,842	18,008	18,108	18,124	18,028
Primary Deficit (in billions of Nepali Rupees)	110	239	76	80	135	147	141	149	162
Primary Deficit (in percent of GDP)	2.2	4.5	1.3	1.3	2.0	2.0	1.7	1.6	1.6
Tax Revenue (in billions of Nepalese Rupees)	984	866	945	1,050	1,217	1,394	1,593	1,797	1,972
Private sector credit (in percent of GDP)	94.2	91.4	91.1	90.8	89.9	89.0	88.5	88.3	88.3
Exchange rate (NPR/US\$; period average)	120.8	130.8	133.0	136.3	...	...	...	...	...
Real effective exchange rate (average, y/y percent change)	1.6	1.1	1.2	-0.2	...	...	...	...	...

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

Note: The NSO adopts a 3-year cycle in its national accounts producing preliminary, revised and final estimates for real GDP growth. In May 2025, GDP growth was revised down from 3.9 percent to 3.7 percent for FY2023/24 in light of new data.

Note: Current baseline forecast is as of August 7, 2025.

**Table 2a. Nepal: Summary of Central Government Operations, 2021/22-2029/30 1/**

(In Billions of Rupees)

	2021/22	2022/23	2023/24	2024/25		2025/26			2026/27	2027/28	2028/29	2029/30
				5th Review Proj.	6th Review Proj.	Budget	5th Review Proj.	6th Review Proj.	Projections			
	(In billions of Nepalese rupees)											
<b>Total Revenue and Grants</b>	1,141	1,034	1,106	1,252	1,218	1,533	1,469	1,416	1,630	1,844	2,064	2,266
Total revenue	1,114	1,011	1,083	1,214	1,193	1,480	1,406	1,374	1,567	1,783	2,006	2,202
Tax revenue	984	866	945	1,074	1,050	1,326	1,250	1,217	1,394	1,593	1,797	1,972
<i>of which:</i> Income and profits tax	252	243	283	306	308	394	358	338	387	443	506	557
Customs	199	151	158	206	181	251	229	226	250	278	305	329
Excise duty	167	143	146	165	171	213	202	197	232	271	306	335
VAT	314	287	310	346	339	395	406	401	463	534	605	669
Other	52	42	46	50	50	73	55	55	61	67	74	81
<i>By source:</i> Domestic taxes	541	522	569	636	628	792	760	689	805	944	1,084	1,204
Import-related taxes	443	344	375	438	422	534	491	528	590	649	712	767
Non-tax revenue & Other Receipts	130	145	138	140	143	154	156	157	173	190	209	231
Of which: Non Tax Revenue	81	92	114	109	124	154	121	136	150	165	182	200
Other Receipts	49	53	24	31	19	0	35	20	22	25	27	30
Grants 2/	27	23	23	38	25	53	62	42	63	61	58	64
<b>Expenditure</b>	1,297	1,346	1,264	1,537	1,396	1,754	1,757	1,658	1,897	2,120	2,364	2,597
Recurrent expenditure	1,081	1,111	1,072	1,220	1,186	1,346	1,363	1,345	1,499	1,658	1,819	1,986
<i>Of which :</i> Interest payments	45	73	82	102	98	109	109	108	120	135	151	169
Salaries and allowances	136	156	152	160	158	180	178	180	205	226	249	274
Grants & subsidies	87	90	100	111	115	130	123	132	146	158	170	187
Social benefits	225	219	227	253	248	267	281	267	315	343	373	405
Goods & services	48	50	39	53	44	56	59	56	61	68	74	82
Fiscal transfers	406	397	340	396	378	418	441	418	457	504	545	586
Revenue sharing 3/	128	120	126	140	139	165	166	161	188	219	250	276
Other current expenditure	5	6	6	5	5	21	5	24	6	6	7	8
Capital expenditure	216	235	192	317	211	408	394	313	397	462	545	611
Operating balance	61	-77	34	32	33	187	106	71	131	186	246	280
Net lending/borrowing	-155	-312	-158	-285	-178	-220	-289	-242	-266	-276	-300	-331
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net financial transactions 4/</b>	-155	-312	-158	-285	-178	-220	-289	-242	-266	-276	-300	-331
Net acquisition of financial assets	132	-49	28	83	82	73	92	90	99	109	120	132
Foreign	0	0	0	0	0	4	0	0	0	0	0	0
Domestic (net)	131	-50	28	82	81	69	92	89	98	108	119	131
Sale of equity	36	37	14	16	15	7	17	17	18	20	22	25
Lending minus repayment	37	41	61	67	66	62	74	73	80	88	97	107
Change in cash/deposit	58	-127	-47	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	287	263	186	368	260	293	380	332	365	385	419	462
Foreign	104	88	91	108	103	182	107	125	90	102	117	137
Domestic	183	174	95	259	157	111	274	206	275	282	303	325
<b>Memorandum Items</b>												
Primary balance (billions of Nepali Rupees)	-110	-239	-76	-183	-80	-112	-179	-135	-147	-141	-149	-162
Primary balance (in percent of GDP)	-2.2	-4.5	-1.3	-2.9	-1.3	-1.6	-2.5	-2.0	-2.0	-1.7	-1.6	-1.6
Public debt (in percent of GDP)	42.7	47.0	48.3	50.0	49.4	-	50.4	49.5	49.3	48.9	48.4	48.0
External (in percent of GDP)	20.6	21.8	22.8	22.2	23.6	-	21.6	23.4	22.6	21.9	21.3	20.9
Domestic (in percent of GDP)	22.2	25.2	25.5	27.8	25.8	-	28.8	26.1	26.7	27.0	27.1	27.1
Resources for sub-national governments												
(billions of Nepalese Rupees)	534	518	465	536	517	583	606	579	646	723	795	861
(in percent of GDP)	10.7	9.6	8.1	8.5	8.3	8.6	8.6	8.5	8.6	8.8	8.7	8.6
Nominal GDP (billions of Nepalese Rupees) 5/	4,977	5,367	5,709	6,333	6,203	-	7,040	6,806	7,499	8,255	9,090	10,010

Sources: Nepalese authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

2/ CCRT debt relief is included in grants and net incurrence of liabilities (foreign). The first tranche of CCRT debt relief covering the period April 14, 2020 to October 13, 2020 for SDR 2.9 million in FY 2019/20 was approved on April 13, 2020. The second tranche of CCRT debt relief covering the period October 14, 2020 to April 13, 2021 for SDR 3.6 million was approved on October 2, 2020. The third tranche of CCRT debt relief covering the period April 14, 2021 to October 15, 2021 for SDR 3.6 million was approved on April 1, 2021. The fourth and fifth (final) tranche of CCRT debt service relief covering the period from October 16, 2021 to January 10, 2022 and January 11 to April 13, 2022 was approved on October 6, 2021 and December 15, 2021 respectively for SDR 3.6 million.

3/ 30 percent of VAT and domestic excise revenues are shared with sub-national governments.

4/ Net financial transactions is the difference between net acquisition of financial assets and net incurrence of liabilities.

5/ 2024/25 GDP is an estimate.

Note: Current baseline forecast is as of August 7, 2025.

**Table 2b. Nepal: Summary of Central Government Operations, 2021/22-2029/30 1/**  
(In Percent of GDP)

	2021/22	2022/23	2023/24	2024/25		2025/26			2026/27	2027/28	2028/29	2029/30
				5th Review Proj.	6th Review Proj.	Budget	5th Review Proj.	6th Review Proj.	Projections			
	(In percent of GDP, unless otherwise indicated)											
<b>Total Revenue and Grants</b>	22.9	19.3	19.4	19.8	19.6	22.5	20.9	20.8	21.7	22.3	22.7	22.6
Total revenue	22.4	18.8	19.0	19.2	19.2	21.7	20.0	20.2	20.9	21.6	22.1	22.0
Tax revenue	19.8	16.1	16.5	17.0	16.9	19.5	17.8	17.9	18.6	19.3	19.8	19.7
<i>of which: Income and profits tax</i>	5.1	4.5	5.0	4.8	5.0	5.8	5.1	5.0	5.2	5.4	5.6	5.6
Customs	4.0	2.8	2.8	3.3	2.9	3.7	3.3	3.3	3.3	3.4	3.4	3.3
Excise duty	3.4	2.7	2.6	2.6	2.8	3.1	2.9	2.9	3.1	3.3	3.4	3.4
VAT	6.3	5.3	5.4	5.5	5.5	5.8	5.8	5.9	6.2	6.5	6.7	6.7
Other	1.1	0.8	0.8	0.8	0.8	1.1	0.8	0.8	0.8	0.8	0.8	0.8
<i>By source: Domestic taxes</i>	10.9	9.7	10.0	10.0	10.1	11.6	10.8	10.1	10.7	11.4	11.9	12.0
Import-related taxes	8.9	6.4	6.6	6.9	6.8	7.8	7.0	7.8	7.9	7.9	7.8	7.7
Non-tax revenue & Other Receipts	2.6	2.7	2.4	2.2	2.3	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Of which: Non Tax Revenue	1.6	1.7	2.0	1.7	2.0	2.3	1.7	2.0	2.0	2.0	2.0	2.0
Other Receipts	1.0	1.0	0.4	0.5	0.3	0.0	0.5	0.3	0.3	0.3	0.3	0.3
Grants 2/	0.6	0.4	0.4	0.6	0.4	0.8	0.9	0.6	0.8	0.7	0.6	0.6
<b>Expenditure</b>	26.1	25.1	22.1	24.3	22.5	25.8	25.0	24.4	25.3	25.7	26.0	25.9
Recurrent expenditure	21.7	20.7	18.8	19.3	19.1	19.8	19.4	19.8	20.0	20.1	20.0	19.8
<i>Of which : Interest payments</i>	0.9	1.4	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7
Salaries and allowances	2.7	2.9	2.7	2.5	2.6	2.6	2.5	2.6	2.7	2.7	2.7	2.7
Grants & subsidies	1.8	1.7	1.8	1.8	1.9	1.9	1.7	1.9	1.9	1.9	1.9	1.9
Social benefits	4.5	4.1	4.0	4.0	4.0	3.9	4.0	3.9	4.2	4.2	4.1	4.1
Goods & services	1.0	0.9	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Fiscal transfers	8.2	7.4	6.0	6.3	6.1	6.1	6.3	6.1	6.1	6.1	6.0	5.9
Revenue sharing 3/	2.6	2.2	2.2	2.2	2.2	2.4	2.4	2.4	2.5	2.7	2.7	2.8
Other current expenditure	0.1	0.1	0.1	0.1	0.1	0.3	0.1	0.3	0.1	0.1	0.1	0.1
Capital expenditure	4.3	4.4	3.4	5.0	3.4	6.0	5.6	4.6	5.3	5.6	6.0	6.1
Operating balance	1.2	-1.4	0.6	0.5	0.5	2.8	1.5	1.0	1.7	2.3	2.7	2.8
Net lending/borrowing	-3.1	-5.8	-2.8	-4.5	-2.9	-3.2	-4.1	-3.6	-3.6	-3.3	-3.3	-3.3
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions 4/	-3.1	-5.8	-2.8	-4.5	-2.9	-3.2	-4.1	-3.6	-3.6	-3.3	-3.3	-3.3
Net acquisition of financial assets	2.6	-0.9	0.5	1.3	1.3	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	2.6	-0.9	0.5	1.3	1.3	1.0	1.3	1.3	1.3	1.3	1.3	1.3
Sale of equity	0.7	0.7	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Lending minus repayment	0.8	0.8	1.1	1.1	1.1	0.9	1.1	1.1	1.1	1.1	1.1	1.1
Change in cash/deposit	1.2	-2.4	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.8	4.9	3.3	5.8	4.2	4.3	5.4	4.9	4.9	4.7	4.6	4.6
Foreign	2.1	1.6	1.6	1.7	1.7	2.7	1.5	1.8	1.2	1.2	1.3	1.4
Domestic	3.7	3.2	1.7	4.1	2.5	1.6	3.9	3.0	3.7	3.4	3.3	3.3
<b>Memorandum Items</b>												
Primary balance (billions of Nepali Rupees)	-110	-239	-76	-183.4	-79.8	-111.9	-179.3	-134.6	-146.6	-141.4	-149.0	-161.5
Primary balance (in percent of GDP)	-2.2	-4.5	-1.3	-2.9	-1.3	-1.6	-2.5	-2.0	-2.0	-1.7	-1.6	-1.6
Public debt (in percent of GDP)	42.7	47.0	48.3	50.0	49.4	-	50.4	49.5	49.3	48.9	48.4	48.0
External (in percent of GDP)	20.6	21.8	22.8	22.2	23.6	-	21.6	23.4	22.6	21.9	21.3	20.9
Domestic (in percent of GDP)	22.2	25.2	25.5	27.8	25.8	-	28.8	26.1	26.7	27.0	27.1	27.1
Resources for sub-national governments (billions of Nepalese Rupees)	534	518	466	536	517	583	606	579	646	723	795	861
(in percent of GDP)	10.7	9.6	8.2	8.5	8.3	8.6	8.6	8.5	8.6	8.8	8.7	8.6
Nominal GDP (billions of Nepalese Rupees) 5/	4,977	5,367	5,709	6,333	6,203	-	7,040	6,806	7,499	8,255	9,090	10,010

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

2/ CCRT debt relief is included in grants and net incurrence of liabilities (foreign). The first tranche of CCRT debt relief covering the period April 14, 2020 to October 13, 2020 for SDR 2.9 million in FY 2019/20 was approved on April 13, 2020. The second tranche of CCRT debt relief covering the period October 14, 2020 to April 13, 2021 for SDR 3.6 million was approved on October 2, 2020. The third tranche of CCRT debt relief covering the period April 14, 2021 to October 15, 2021 for SDR 3.6 million was approved on April 1, 2021. The fourth and fifth (final) tranche of CCRT debt service relief covering the period from October 16, 2021 to January 10, 2022 and January 11 to April 13, 2022 was approved on October 6, 2021 and December 15, 2021 respectively for SDR 3.6 million.

3/ 30 percent of VAT and domestic excise revenues are shared with sub-national governments.

4/ Net financial transactions is the difference between net acquisition of financial assets and net incurrence of liabilities.

5/ 2024/25 GDP is an estimate.

Note: Current baseline forecast is as of August 7, 2025.

Table 3. Nepal: Balance of Payments, 2021/22-2029/30 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				Est.	Projections				
				(in millions of US dollars)					
<b>Current Account</b>	-5,174	-361	1,663	1,774	-701	-1,472	-1,881	-2,166	-2,486
Current account (excluding official transfers)	-5,312	-460	1,575	1,588	-999	-1,923	-2,317	-2,579	-2,938
Trade balance	-13,759	-10,699	-10,431	-11,446	-14,536	-16,082	-17,325	-18,527	-19,755
Exports, f.o.b.	1,754	1,406	1,371	2,330	2,230	2,411	2,657	2,958	3,236
Imports, f.o.b.	-15,513	-12,104	-11,802	-13,777	-16,766	-18,492	-19,982	-21,485	-22,991
Services (net)	-893	-612	-421	-534	-542	-526	-391	-285	-293
Receipts	1,008	1,470	1,899	1,922	1,955	2,145	2,350	2,575	2,818
Of which: tourism	268	476	619	774	829	910	997	1,092	1,195
Payments	-1,901	-2,081	-2,320	-2,457	-2,497	-2,671	-2,741	-2,860	-3,111
Income	238	479	704	575	513	455	440	482	528
Credit	474	737	988	916	884	863	887	972	1,064
Debit	-237	-258	-284	-341	-372	-408	-447	-489	-536
Current transfers	9,241	10,470	11,810	13,180	13,864	14,681	15,394	16,164	17,034
Credit, of which:	9,305	10,530	11,861	13,239	13,926	14,749	15,469	16,246	17,124
General government	138	100	88	187	298	451	436	413	452
Workers' remittances	8,326	9,485	10,864	12,166	12,579	13,131	13,773	14,447	15,154
Debit	-64	-59	-50	-58	-62	-68	-75	-82	-90
<b>Capital Account 2/</b>	83	58	44	97	149	226	218	207	226
<b>Financial Account</b>	2,546	1,731	1,215	1,578	1,962	1,879	2,173	2,421	2,699
Direct investment	155	47	63	158	218	239	262	287	315
Portfolio investment	0	0	0	0	0	0	0	0	0
Other investment (net)	2,391	1,684	1,152	1,420	1,744	1,640	1,910	2,133	2,384
Of which: Trade credit	858	917	576	417	545	622	707	796	873
Official loans	760	652	633	754	898	640	727	825	960
<b>Errors and Omissions</b>	980	663	747	0	0	0	0	0	0
<b>Overall Balance</b>	-1,566	2,091	3,668	3,449	1,410	633	509	462	439
	(in percent of GDP)								
<b>Current Account</b>	-12.6	-0.9	3.9	3.9	-1.4	-2.7	-3.2	-3.4	-3.5
Current account (excluding official transfers)	-12.9	-1.1	3.7	3.5	-2.0	-3.6	-4.0	-4.0	-4.2
Trade balance	-33.4	-26.1	-24.3	-25.2	-29.8	-30.0	-29.5	-28.8	-28.1
Exports, f.o.b.	4.3	3.4	3.2	5.1	4.6	4.5	4.5	4.6	4.6
Imports, f.o.b.	-37.7	-29.5	-27.5	-30.3	-34.4	-34.6	-34.1	-33.4	-32.7
Services (net)	-2.2	-1.5	-1.0	-1.2	-1.1	-1.0	-0.7	-0.4	-0.4
Receipts	2.4	3.6	4.4	4.2	4.0	4.0	4.0	4.0	4.0
Of which: tourism	0.7	1.2	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Payments	-4.6	-5.1	-5.4	-5.4	-5.1	-5.0	-4.7	-4.5	-4.4
Income	0.6	1.2	1.6	1.3	1.1	0.9	0.8	0.8	0.8
Credit	1.2	1.8	2.3	2.0	1.8	1.6	1.5	1.5	1.5
Debit	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8
Current transfers	22.4	25.5	27.5	29.0	28.4	27.4	26.3	25.2	24.2
Credit, of which:	22.6	25.7	27.6	29.1	28.5	27.6	26.4	25.3	24.4
General government	0.3	0.2	0.2	0.4	0.6	0.8	0.7	0.6	0.6
Workers' remittances	20.2	23.1	25.3	26.7	25.8	24.5	23.5	22.5	21.6
Debit	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Capital Account 2/</b>	0.2	0.1	0.1	0.2	0.3	0.4	0.4	0.3	0.3
<b>Financial Account</b>	6.2	4.2	2.8	3.5	4.0	3.5	3.7	3.8	3.8
Direct investment	0.4	0.1	0.1	0.3	0.4	0.4	0.4	0.4	0.4
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	5.8	4.1	2.7	3.1	3.6	3.1	3.3	3.3	3.4
Of which: Trade credit	2.1	2.2	1.3	0.9	1.1	1.2	1.2	1.2	1.2
Official loans	1.8	1.6	1.5	1.7	1.8	1.2	1.2	1.3	1.4
<b>Errors and Omissions</b>	2.4	1.6	1.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall Balance</b>	-3.8	5.1	8.5	7.6	2.9	1.2	0.9	0.7	0.6
<b>Memorandum Items</b>									
Imports (y/y percent change)	21.9	-22.0	-2.5	16.7	21.7	10.3	8.1	7.5	7.0
Exports of G&S (in percent of GDP)	6.7	7.0	7.6	9.3	8.6	8.5	8.5	8.6	8.6
Imports of G&S (in percent of GDP)	42.3	34.6	32.9	35.7	39.5	39.5	38.8	37.9	37.1
Remittances (y/y percent change)	2.2	13.9	14.5	12.0	3.4	4.4	4.9	4.9	4.9
Total external debt (in percent of GDP)	25.0	26.5	26.5	27.6	27.6	27.0	26.6	26.3	26.0
Gross official reserves (in mil U.S. dollars)	8,956	10,954	14,547	17,438	18,395	18,507	18,544	18,480	18,291
In months of prospective imports	7.6	9.3	10.8	10.9	10.4	9.8	9.1	8.5	7.7
As a share of broad money (in percent)	20.8	23.5	27.9	31.8	30.6	28.1	25.8	23.4	21.2
Net international reserves (in mil. U.S. dollars) 3/	8,821	10,507	14,064	16,881	17,842	18,008	18,108	18,124	18,028
Nominal GDP (in mil U.S. dollars) 4/	41,183	41,048	42,914	45,509	48,778	53,518	58,630	64,244	70,306

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

2/ The first tranche of CCRT debt relief covering the period April 14, 2020 to October 13, 2020 for SDR 2.9 million in FY 2019/20 was approved on April 13, 2020. The second tranche of CCRT debt relief covering the period October 14, 2020 to April 13, 2021 for SDR 3.6 million was approved on October 2, 2020. The third tranche of CCRT debt relief covering the period April 14, 2021 to October 15, 2021 for SDR 3.6 million was approved on April 1, 2021. The fourth and fifth (final) tranche of CCRT debt service relief covering the period from October 16, 2021 to January 10, 2022 and January 11 to April 13, 2022 was approved on October 6, 2021 and December 15, 2021 respectively for SDR 3.6 million.

3/ Net international reserves program definition, see Technical Memorandum of Understanding.

4/ 2024/25 GDP is an estimate.

Note: Current baseline forecast is as of July 28, 2025.

Table 4. Nepal: Monetary Indicators, 2021/22-2029/30 1/

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				Est.	Projections				
<b>Nepal Rastra Bank</b>	(In billions of Nepalese rupees, end-period)								
Reserve money	826	912	987	1,093	1,209	1,335	1,474	1,626	1,791
Net domestic assets	-319	-528	-970	-1,343	-1,363	-1,264	-1,143	-996	-821
Claims on public sector	-175	3	-78	-108	-121	-135	-151	-168	-188
Claims on private sector	7	7	9	10	10	11	12	13	15
Claims on banks & financial institutions	270	1	0	4	4	5	4	4	4
Other items (net)	-420	-539	-901	-1,249	-1,257	-1,144	-1,009	-846	-653
Net foreign assets	1,145	1,440	1,958	2,436	2,572	2,600	2,617	2,623	2,612
<b>Monetary Survey</b>									
Broad money	5,505	6,130	6,964	7,650	8,404	9,240	10,160	11,187	12,311
Narrow money	948	947	939	1,510	1,659	1,824	2,006	2,209	2,431
Quasi-money	4,557	5,184	6,025	6,139	6,744	7,416	8,154	8,978	9,880
Net domestic assets	4,285	4,588	4,884	5,097	5,692	6,499	7,400	8,421	9,557
Domestic credit	5,672	6,169	6,553	7,076	7,664	8,325	9,062	9,927	10,931
Credit to public sector	983	1,266	1,350	1,446	1,542	1,648	1,754	1,901	2,096
of which : Credit to central government	744	1,005	1,052	1,174	1,203	1,260	1,324	1,427	1,574
Credit to private sector	4,689	4,903	5,202	5,630	6,121	6,678	7,308	8,026	8,835
Other items(net)	-1,386	-1,581	-1,669	-1,978	-1,972	-1,826	-1,662	-1,506	-1,374
Net foreign assets	1,220	1,542	2,080	2,552	2,712	2,741	2,760	2,765	2,754
	(Twelve-month percent change)								
Reserve money	-11.4	10.4	8.3	10.7	10.6	10.5	10.4	10.3	10.1
Broad money	6.8	11.4	13.6	9.9	9.9	10.0	10.0	10.1	10.1
Net domestic assets	12.6	7.1	6.4	4.4	11.7	14.2	13.9	13.8	13.5
Domestic credit	17.9	8.8	6.2	8.0	8.3	8.6	8.9	9.5	10.1
Credit to public sector	46.4	28.8	6.7	7.1	6.6	6.8	6.5	8.4	10.2
Credit to private sector	13.3	4.6	6.1	8.2	8.7	9.1	9.4	9.8	10.1
Net foreign assets	-9.7	26.4	34.9	22.7	6.2	1.1	0.7	0.2	-0.4
<b>Memorandum Items</b>									
Private credit (in percent of GDP)	94.2	91.4	91.1	90.8	89.9	89.0	88.5	88.3	88.3
Net international reserves (in mil. U.S. dollars) 2/	8,821	10,507	14,064	16,881	17,842	18,008	18,108	18,124	18,028
Net Foreign Assets, NRB (in percent of GDP)	23.0	26.8	34.3	39.3	37.8	34.7	31.7	28.9	26.1
Nominal GDP (in billions of Nepalese Rupees) 3/	4,977	5,367	5,709	6,203	6,806	7,499	8,255	9,090	10,010

Sources: Nepali authorities; and IMF staff estimates and projections.

1/ Fiscal year ends mid-July.

2/ Net international reserves program definition, see Technical Memorandum of Understanding.

3/ 2024/25 GDP is an estimate.

Note: Current baseline forecast is as of August 7, 2025.

**Table 5. Nepal: External Financing Requirements and Sources, FY2023/24-2026/27 1/**

(In Millions of U.S. Dollars)

	2023/24	2024/25	2025/26	2026/27
		Est.	Projections	
<b>Gross external financing requirements</b>	<b>-2,547</b>	<b>-1,917</b>	<b>554</b>	<b>1,343</b>
Current account excluding official transfers (+ = deficit)	-1,575	-1,588	999	1,923
Amortization of medium- and long-term debt	294	337	402	420
Other net capital flows (- = inflow) 2/	-1,266	-666	-846	-999
<b>Available financing</b>	<b>-2,985</b>	<b>-2,339</b>	<b>-29</b>	<b>1,343</b>
Current and capital grants	131	284	446	677
Medium- and long-term borrowing excluding exceptional financing	558	668	716	1,060
FDI, net	63	158	218	239
Portfolio investment, net	0	0	0	0
Change in reserves (+ = decrease) 3/	-3,738	-3,449	-1,410	-633
<b>Financing Gap</b>	<b>438</b>	<b>422</b>	<b>584</b>	<b>0</b>
<b>Exceptional/additional financing 4/</b>	<b>369</b>	<b>422</b>	<b>584</b>	<b>0</b>
IMF: ECF arrangement	94.1	41.9	83.6	0
Asian Development Bank	150	100	350	0
World Bank	125	280	150	0
<b>Memorandum items</b>				
Gross official reserves (in millions of U.S. dollars)	14,547	17,438	18,395	18,507
In months of prospective imports	10.8	10.9	10.4	9.8

1/ Fiscal year ends mid-July.

2/ Other includes currency and deposits, trade credits and other financial flows, as well as net errors and omissions.

3/ Net of valuation changes.

4/ Includes exceptional financing with good prospects over the the projection period.

Note: Current baseline forecast as of July 28, 2025.

**Table 6. Nepal: Financial Soundness Indicators, 2020/21-2024/25 Q3**

	2020/21	2021/22	2022/23	2023/24	2024/25 Q3
<b>Capital Adequacy</b>					
Regulatory capital to risk weighted assets	14.19	13.58	13.42	12.92	12.39
Tier 1 capital to risk weighted assets	11.12	10.81	10.59	10.20	9.59
<b>Asset Quality</b>					
NPLs to total gross loans	1.48	1.31	3.02	3.86	5.24
Loan loss provisions to NPLs	70.24	68.25	62.17	70.51	65.12
<b>Deposits and Credits</b>					
Credit to deposit ratio 1/	...	86.22	81.63	79.09	79.45
Credit to core capital cum deposit 1/	76.32	...	...	...	...
<b>Liquidity</b>					
Cash & bank balance to total deposits	9.51	8.03	8.05	7.43	7.18
Total liquid assets to total deposits	26.18	27.52	27.10	26.44	25.40
<b>Exposure to Real Estate</b>					
Share of real estate and housing loans	11.54	12.01	12.27	12.68	12.41
Share of loans collateralized by fixed assets	74.71	75.06	76.87	76.22	74.34
<b>Revolving Loans</b>					
Overdraft 2/	15.19	15.25	15.32	14.96	14.57
Demand & working capital loans	21.09	21.51	18.05	14.04	15.61

Sources: NRB; and IMF staff calculations.

Note: Data reflects all banks and financial institutions and is presented at the end of the fiscal year (i.e. mid-July) for the relevant year unless indicated otherwise.

1/ Credit to core capital cum deposit was replaced by the Credit to deposit ratio in 2021/2022.

2/ As of April 2023, NRB has started to report separately on 'overdrafts' and 'cash credit'. For the purposes of compiling the FSIs, these have been added back together.



**Table 7. Nepal: Access and Phasing Under the Extended Credit Facility 1/**

Review	Available from	Conditions	Disbursement	
			SDR Million	Percent of Quota
	January 12, 2022	Board approval of the Arrangement	78.50	50%
First Review	June 12, 2022	Observance of performance criteria on Jan 14, 2022, completion of first review	19.60	13%
Second Review	January 12, 2023	Observance of performance criteria on Jul 14, 2022, completion of second review	19.60	13%
Third Review	November 1, 2023	Observance of performance criteria on Jul 16, 2023, completion of third review	39.20	25%
Fourth Review	May 1, 2024	Observance of performance criteria on Jan 14, 2024, completion of fourth review	31.40	20%
Fifth Review	November 1, 2024	Observance of performance criteria on Jul 15, 2024, completion of fifth review	31.40	20%
Sixth Review	May 1, 2025	Observance of performance criteria on Jan 13, 2025, completion of sixth review	31.40	20%
Seventh Review	November 1, 2025	Observance of performance criteria on Jul 15, 2025, completion of seventh review	31.32	20%
<b>Total</b>			<b>282.42</b>	<b>180%</b>

Source: IMF staff estimates.  
1/ Nepal's quota is SDR 156.9 million.

**Table 8. Nepal: Quantitative Performance Criteria (PC) and Indicative Targets (IT) 1/**  
(Cumulative Rs. Million unless Otherwise Indicated)

[illegible]

Table 9. Nepal: Indicators of Capacity to Repay the Fund, FY2024/25-2037/38 1/

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38
Fund obligations based on existing credit (millions of SDR)														
Principal	7.1	34.9	39.2	47.1	58.8	69.0	43.9	36.1	28.2	16.5	6.3	0.0	0.0	0.0
Charges and interest	3.1	2.8	2.7	2.8	2.7	2.7	2.7	2.8	2.7	2.7	2.7	2.8	2.7	2.7
Fund obligations based on existing and prospective credit (millions of SDR)														
Principal	7.1	34.9	39.2	47.1	58.8	69.0	50.2	48.6	40.8	29.0	18.8	6.3	0.0	0.0
Charges and interest	3.1	2.8	2.7	2.8	2.7	2.7	2.7	2.8	2.7	2.7	2.7	2.8	2.7	2.7
Total obligations based on existing and prospective credit														
Millions of SDR	10.2	37.7	42.0	49.8	61.6	71.8	53.0	51.4	43.5	31.8	21.6	9.0	2.7	2.7
Billions of Nepali Rupees	1.8	6.9	7.8	9.4	11.7	13.7	10.1	9.8	8.3	6.1	4.1	1.7	0.5	0.5
Percent of exports of goods and services	0.3	1.2	1.2	1.3	1.5	1.6	1.1	1.0	0.7	0.5	0.3	0.1	0.0	0.0
Percent of debt service	0.7	2.3	2.4	2.5	2.9	3.1	2.1	1.9	1.5	1.0	0.6	0.2	0.1	0.1
Percent of GDP	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	0.2	0.5	0.5	0.5	0.6	0.6	0.4	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of quota	6.5	24.0	26.8	31.8	39.2	45.8	33.8	32.8	27.7	20.2	13.7	5.8	1.7	1.8
Outstanding IMF credit based on existing and prospective drawings														
Millions of SDR	380.2	407.9	368.7	321.6	262.8	193.8	143.5	94.9	54.1	25.1	6.3	0.0	0.0	0.0
Billions of Nepali Rupees	68.0	74.9	68.9	60.6	49.8	37.0	27.4	18.1	10.3	4.8	1.2	0.0	0.0	0.0
Percent of exports of goods and services	11.9	13.0	10.8	8.6	6.4	4.3	2.9	1.8	0.9	0.4	0.1	0.0	0.0	0.0
Percent of debt service	25.2	24.8	20.8	16.4	12.3	8.3	5.8	3.5	1.8	0.8	0.2	0.0	0.0	0.0
Percent of GDP	1.1	1.1	0.9	0.7	0.5	0.4	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	5.7	5.5	4.4	3.4	2.5	1.7	1.1	0.7	0.4	0.1	0.0	0.0	0.0	0.0
Percent of quota	242.3	260.0	235.0	205.0	167.5	123.5	91.5	60.5	34.5	16.0	4.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDR)	24.3	27.8	-39.2	-47.1	-58.8	-69.0	-50.2	-48.6	-40.8	-29.0	-18.8	-6.3	0.0	0.0
Disbursements	31.4	62.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	7.1	34.9	39.2	47.1	58.8	69.0	50.2	48.6	40.8	29.0	18.8	6.3	0.0	0.0
Memorandum items:														
Exports of goods and services (millions of SDR)	3,203	3,142	3,406	3,735	4,120	4,499	4,922	5,355	5,860	6,412	7,017	7,679	8,404	9,198
Debt service (billions of NPR)	270.2	301.9	331.8	368.9	406.7	444.1	476.1	524.9	572.7	626.8	687.5	756.4	830.5	911.5
Nominal GDP (at market prices, billions of NPR)	6,203	6,806	7,499	8,255	9,090	10,010	11,024	12,142	13,374	14,732	16,230	17,881	19,701	21,709
Government revenue (billions of NPR)	1,193	1,374	1,567	1,783	2,006	2,202	2,436	2,667	2,935	3,231	3,556	3,914	4,308	4,741
Quota (millions of SDR)	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9	156.9

Sources: IMF staff estimates and projections.

1/ Reporting Year: August to July.

**Table 10. Nepal: Structural Benchmark Status and Modifications**

(January 2025–December 2025)

Measure	Original Target Date	Status	Proposal
<b>Cross-Cutting Institutional Reforms to Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption</b>			
The FCGO reports the consolidated financial information of all operational funds in annual financial statements, starting with FY2021/22. <sup>1/</sup>	End-January 2025	<b>Not met</b>	
The MOF submits to Parliament amendments to modernize the NRB Law, addressing key recommendations of the 2021 Safeguards Assessments Report. <sup>2/</sup>	End-April 2025	<b>Not met</b>	
An audit of the FY2024/25 financial statement of the NRB is commissioned involving at least one member of the Institute of Chartered Accountants of Nepal belonging to a global auditing network.	End-July 2025	<b>Met</b>	
<b>Revenue Mobilization</b>			
The MOF publishes a comprehensive report on tax expenditures. <sup>3/</sup>	End-July 2025	<b>Met</b>	
The MOF approves a report on domestic tax expenditures and a report on import-related tax expenditures.	End-April 2025	<b>Not met, (completed with delay)</b>	
The MOF will adopt a Customs Compliance Improvement Strategy that covers compliance monitoring, understanding regulatory requirements, detecting non-compliance, enforcement, and incentives and sanctions.	End-December 2025		
<b>Fiscal Sustainability and Fiscal Risk Management</b>			
A comprehensive fiscal risk statement is published by the MOF with the FY2025/26 Budget.	End-August 2025	<b>Met</b>	
<b>Equitable and Sustainable Growth</b>			
NPC approval of the revised National Project Bank Operational Procedures and the Unified Directives related to project development, prioritization, and selection. <sup>4/</sup>	End-March 2025	<b>Not met, (completed with delay)</b>	
<sup>1/</sup> This SB was originally set for end-May 2022, was not met, was reset at the combined 1st and 2nd review to end-August 2023, was not met, and was reset at the 3rd review to end-January 2025. <sup>2/</sup> This SB was originally set for End-October 2022, was not met, and was reset at the combined 1st and 2nd review to end-August 2023, was not met, was reset at the 3rd review to end-April 2024, was not met, was reset at the 4th review to end-September 2024, was not met, and was reset at the 5th review to end-April 2025. <sup>3/</sup> This SB was originally set for End-April 2024 and was reset at the 3rd review to end-January 2025. <sup>4/</sup> The National Project Bank Operational Procedures and the Unified Directives is now called the National Project Bank (Operational and Management) Guidelines.			

**Table 10. Nepal: Structural Benchmark Status and Modifications (Concluded)**

(January 2025–December 2025)

Measure	Original Target Date	Status	Proposal
<b>Financial Sector Regulation &amp; Supervision</b>			
The NRB will attain the independent international third-party auditors' signature on the contract for assisting in-depth onsite inspections for the 10 largest banks.		<b>Pending</b>	Prior Action
The NRB re-issues the regulation on asset classification, aligned with a continuous repayment period of three months for reclassification of non-restructured/non-rescheduled loans, as prescribed by the Basel Committee on Bank Supervision (BCBS) Guidelines on "Prudential Treatment of Problem Assets". <sup>5/</sup>	End-December 2025		
Launch for 10 largest Banks in-depth onsite inspections assisted by independent international third-party auditors. <sup>6/</sup>	End-May 2025	<b>Not met</b>	
NRB completes in-depth on-site inspections for the 10 largest Banks, assisted by independent international third-party auditors. <sup>7/</sup>	End-December 2025		
The MOF submits to Parliament amendments to the NRB Act that address the key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report.	End-April 2025	<b>Not met</b>	Reset to end-October 2025
NRB finalizes a roadmap outlining its approach to the outcome of the in-depth on-site inspections which will reference the end-December 2025 timing of the alignment of the ACR with a continuous repayment period of three months for reclassification of non-restructured/non-rescheduled loans, as prescribed by the BCBS Guidelines on "Prudential Treatment of Problem Assets". <sup>8/</sup>	End-April 2025	<b>Met</b>	
<sup>5/</sup> This SB corresponds to the August 2023 SB that was met by issuing updated regulations, but later partially reversed. <sup>6/</sup> This SB was originally set for End-April 2024 and was reset at the 4th Review to end-August 2024, was not met, and was reset at the 5 <sup>th</sup> review to end-May 2025. <sup>7/</sup> This SB was originally set for End-December 2024 and was reset at the 4th Review to end-February 2025 was not met, and was reset at the 5 <sup>th</sup> review to end-December 2025. <sup>8/</sup> This SB corresponds to the end-February 2025 SB that was not met, modified and reset at the 5 <sup>th</sup> review to end-April 2025.			

## Annex I. External Sector Assessment<sup>1</sup>

**Overall Assessment:** The external position of Nepal in FY2023/24 was substantially stronger than the level implied by fundamentals and desirable policies. Driven by slower domestic demand and strong remittance and tourism growth, the current account shifted to a surplus of 3.9 percent of GDP in FY2023/24, reversing from a deficit of 0.9 percent in FY2022/23. However, the recovery in imports has begun, and over the second half of FY2024/25, imports are expected to continue rising, supported by pent-up demand and higher capital expenditure for post-flood reconstruction. Despite these developments, the current account is projected to remain strong in FY2024/25. Over the medium term, the EBA-lite model's estimated current account gap is projected to gradually narrow toward zero as economic activity strengthens and the post-COVID surge in remittances normalizes. Foreign reserves have continued to rise and are assessed to be adequate, supporting the peg to the Indian rupee and buffering external sector vulnerabilities, including natural disasters and dependence on remittance flows.

**Potential Policy Responses:** Gradual fiscal consolidation, coupled with improved execution and efficiency of public capital spending, and the timely resolution of financial sector vulnerabilities—including strengthening bank capitalization and the supervision framework—are critical to durably raising domestic demand, especially private investment, which will support the gradual adjustment of the external position to the level implied by fundamentals. In the medium term, the peg to the Indian rupee serves as a reliable anchor for inflation expectations and helps reduce exchange rate uncertainty for trade and investment with Nepal's main trading partner. Structural reforms—such as investments in resilient and sustainable infrastructure, reducing frictions in product, financial, and labor markets, and facilitating foreign direct investment—are key to addressing Nepal's medium- and long-term external vulnerabilities while fostering economic development and private investment.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** The net IIP was estimated at USD 2,142 million (4.9 percent of GDP) at the end of FY2023/24 (mid-July 2024). As in many developing economies, the majority of Nepal's external assets (around 90 percent) were in the form of reserve assets held by the Nepal Rastra Bank (NRB). External liabilities were mostly concessional loans from multilateral and bilateral sources (73 percent of total liabilities), while foreign direct investment (FDI) remained relatively low at 16.1 percent, reflecting a weak business climate and barriers to cross-border investment. The net IIP increased from USD -1,346 million (-3.3 percent of GDP) in FY2022/23, driven by a sharp reversal in the current account balance and large positive net errors and omissions. The consecutive increase in IIP over the past two years marks a reversal of a multi-year trend, where the net IIP declined from 17 percent of GDP in FY2015/16 into negative territory in FY2021/22, largely due to persistent large current account deficits.

**Assessment.** Nepal's net IIP is likely to decline slightly in FY2024/25, as the current account returns to a mild deficit. At present, the absolute net IIP is small, and there are no immediate sustainability concerns.

FY2023/24 (% GDP)	NIIP: 4.9	Gross Assets: 37.7	Debt Assets: 0.0	Gross Liab.: 32.8	Debt Liab.: 23.9
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<sup>1</sup> Prepared by Melih Firat.

## Current Account

**Background.** Nepal's CA deficit narrowed to 1.0 percent in FY2019/20 during the initial wave of the pandemic, but subsequently widened to 7.7 percent in FY2020/21 as economic activity rebounded. The deficit widened further to 12.7 percent of GDP in FY2021/22, driven by accommodative monetary policy, a credit and real estate market boom, and elevated

commodity prices. In response, the authorities tightened monetary policy, began unwinding pandemic support measures in the financial sector, gradually increased domestic energy prices to align them with global developments, and implemented administrative measures to restrict imports. These measures halted the credit boom, particularly in import-related sectors, leading to a sharp drop in imports, further exacerbated by weak social protection and low public capital spending execution. Meanwhile, remittances and tourism rebounded after the pandemic, and as a result, the current account narrowed to -0.9 percent of GDP in FY2022/23 and recorded a surplus of 3.9 percent of GDP in FY2023/24.

**Assessment.** Reflecting the sharp reversal into a CA surplus in FY2023/24, the EBA-lite CA model indicates a CA gap of 6 percent of GDP, with an adjusted CA surplus of 1.6 percent of GDP against an adjusted CA norm of -4.4 percent of GDP. The CA gap estimate is subject to elevated uncertainty in the public and private capital expenditure execution. The cyclical CA adjustment in FY2023/24 was relatively small, reflecting the negative output gap and lower food and energy prices, similar to the previous year. Additionally, remittances and tourism have recovered

from the pandemic, with COVID-19 adjustors set to zero. Importantly, a natural disaster adjustment is applied following the November 2023 earthquake, which temporarily disrupted imports. Looking ahead, the CA gap is likely to remain strong in FY2024/25, before narrowing toward zero in the medium-term driven by the recovery in imports growth, supported by the implementation of public projects, which will increase capital expenditure and credit growth.

**Nepal: Current Account Dynamics**

(In percent of GDP)



Sources: Nepali authorities and IMF staff calculations.

**Nepal: EBA-lite Model Results, 2024**

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
<b>CA-Actual</b>	<b>3.9</b>	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	2.1	
<b>Adjusted CA</b>	<b>1.6</b>	
<b>CA Norm</b> (from model) 2/	<b>-4.4</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>	<b>-4.4</b>	
<b>CA Gap</b>	<b>6.0</b>	<b>-2.9</b>
o/w Relative policy gap	-3.2	
Elasticity	-0.13	
<b>REER Gap</b> (in percent)	<b>-47.7</b>	<b>23.0</b>
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		



## Real Exchange Rate

**Background.** Following a period of sustained appreciation (2014-2017), Nepal's real effective exchange rate (REER) remained broadly stable between 2018 and 2022, including during the COVID-19 pandemic. However, the REER appreciated again in FY2022/23 and continued to appreciate in FY2023/24 by about 0.5 percent. This appreciation occurred despite a 3.1 percent nominal depreciation of the Nepali rupee against the U.S. dollar, as domestic inflation outpaced that of Nepal's main trading partners, India and China. Even though Nepali rupee depreciated further against the U.S. dollar by 2.8 percent during the first half of FY2024/25, persistently high inflation in Nepal relative to its trading partners continued in the current fiscal year.

**Assessment.** The REER appreciation in FY2023/24 aligns with the results of the EBA-Lite CA model, which indicates a large positive CA gap. The EBA-lite IREER model estimates a 23 percent REER gap relative to its equilibrium level, implying a negative CA gap. This inconsistency stems from the fact that the CA surplus in FY2023/24 was primarily driven by non-price factors such as subdued imports resulting from delays in public investment and low capital expenditure execution, slowdown in credit amid increasing vulnerabilities in the financial sector, as well as a post-COVID recovery in remittances. Given the significant role of non-price factors, the CA model serves as the primary anchor for the external position assessment in FY2023/24. Assuming the standard elasticity of the trade balance with respect to the REER of -0.13, the CA model suggests that the REER in FY2023/24 would have needed to appreciate by approximately 48 percent to close the CA gap, indicating an external position that is substantially stronger than implied by fundamentals and desirable policies.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The financial account remains mostly closed, and portfolio flows are negligible. However, net capital and financial account inflows increased considerably from 0.3 percent of GDP in FY2015/16 to 6.5 percent of GDP in FY2021/22, primarily driven by higher gross official loan and trade credit inflows (1.9 and 2.2 percent of GDP, respectively). Since then, net inflows have followed a declining trend, with both gross inflows and outflows decreasing, although gross inflows declined at a much faster pace. As a result, net inflows fell to 2.9 percent in FY2023/24, largely due to a decline in the absorption of external concessional financing (official loans). While official loans from multilateral sources are expected to remain strong in the coming years, supporting Nepal's socio-economic development, financing from bilateral sources remains subject to geopolitical uncertainties. Meanwhile, external borrowing by banks, other sectors, and non-resident deposits declined in FY2023/24, possibly reflecting the easing trend in monetary policy by the Nepalese authorities. FDI remained limited at only 0.15 percent of GDP in FY2023/24, with no clear signs of improvement in FY2024/25.

**Assessment.** As Nepal's financial account remains mostly closed and financial inflows consist of mostly long-term concessional loans from multilateral and bilateral development partners, vulnerabilities related to capital flows are limited.

## FX Intervention and Reserves Level

**Background.** Nepal is a landlocked country and relies heavily on India for trade with the rest of the world. According to the trade treaty with India, Nepal can settle trade with India in Indian rupees and foreign direct

investment from India can be made in Indian rupees. Approximately one-quarter of Nepal's official reserves are held in Indian rupees. The reserves dropped from US\$11.7 billion (11.5 months of prospective imports of goods and services) in mid-January 2021 to US\$8.9 billion in mid-May 2022 as the current account deficit ballooned. However, following monetary policy tightening and other policy measures, reserves stabilized and resumed an upward trajectory, reaching US\$15.9 billion in mid-January 2025 (10 months of prospective imports).

**Assessment.** For the purpose of Assessing Reserve Adequacy (ARA) and given that it rarely borrows from international capital markets, Nepal is classified as a “credit constrained” non-resource rich economy with a fixed exchange rate regime. The ARA methodology balances the benefits of holding reserves, e.g. reducing the probability of an external stress event and smoothing its impact, against the opportunity cost, assuming sovereign borrowing at 6.2 percent—an average estimate for low-income countries. The model mechanically puts the optimal level of reserves in Nepal at 5 months of prospective imports of goods and services. Given Nepal's high vulnerability to natural disasters and exposure to remittances, a modification to the ARA methodology raises the optimal level of reserves to 5.7 months by assuming an additional absorption loss of 2 percentage points of GDP – about equivalent to 90<sup>th</sup> percentile damage from natural disasters and drops in remittances in the last ten years. This estimate remains unchanged from the previous ESA, despite lower-than-expected realized imports in FY2023/24, as the import recovery began in the first half of FY2024/25 and is expected to accelerate over the remainder of the fiscal year.

<sup>1</sup> The assessment is based on FY2023/24 (mid-2024) data for Nepal and end-2024 data for other countries.

## Annex II. Risk Assessment Matrix<sup>1,2</sup>

Source of Risks	Likelihood /Time Horizon	Expected Impact on Economy	Policy Response
<b>Potential Domestic Shocks</b>			
<b>Financial sector vulnerabilities intensify</b>	<b>High Short to Medium Term</b>	<b>High.</b> Financial sector risks have likely accumulated during the post-pandemic credit boom. The impact of unwinding pandemic-related support measures and worsening of borrowers' repayment capacity or other catalytic domestic or external events amid continued deterioration in the SACCOs, risks triggering financial sector instability. Increasing forbearance could mask latent vulnerabilities, delaying their eventual emergence. Continued bottlenecks in NPL recovery may result in increased defaults, eroding bank capital and triggering a loss of confidence among investors and depositors. This could lead to a credit crunch, further hampering economic growth.	<ul style="list-style-type: none"> <li>• Continue implementing risk-based supervision to limit potential financial sector consequences.</li> <li>• Continue implementation of the amended regulatory framework, to ensure (i) appropriate use of working capital loans, (ii) relevant asset classification for loans in line with international standards, and (iii) sufficient provisioning.</li> <li>• Take structural actions to address increasing stress in the savings and credit cooperative sector, to prevent negative spillovers to the banking sector.</li> <li>• Continue implementation of the financial sector reforms under the program.</li> <li>• Protect fiscal policy space to allow for an appropriate response to downside risks.</li> <li>• Implement Financial Sector Stability Review (FSSR) recommendations.</li> </ul>
<b>Frequent and/or severe natural disasters</b>	<b>High Medium to long term</b>	<b>High.</b> Earthquakes, flooding, climate and other disasters cause severe damage and economic disruption. Fiscal deficits and debt ratios increase in response and long-term growth is impeded.	<ul style="list-style-type: none"> <li>• Improve disaster risk management and resilience in public investment and building codes.</li> <li>• Build and maintain fiscal and reserve buffers.</li> <li>• Maintain and strengthen social safety nets.</li> <li>• Implement recommendations from the climate module of the PIMA.</li> <li>• Accelerate enacting recommendations of the CCDR on reducing vulnerability to climate change while promoting growth.</li> </ul>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("L" (low) is meant to indicate a probability below 10 percent, "M" (medium) a probability between 10 percent and 30 percent, and "H" (high) a probability of 30 percent or more). The RAM reflects staff view on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

<sup>2</sup> The RAM was coordinated by Yaroslav Hul.

Source of Risks	Likelihood /Time Horizon	Expected Impact on Economy	Policy Response
<b>Lower than expected tax revenue collection</b>	<b>High Short to Medium Term</b>	<b>Medium.</b> Cuts to public expenditure, reduced fiscal space, and/or higher public debt.	<ul style="list-style-type: none"> <li>• Achieve program fiscal targets and reforms.</li> <li>• Implement the DRMS.</li> <li>• If revenues turn out lower than projected, preserve public investment and social safety nets. Make more use of concessional financing that is available for capital projects.</li> </ul>
<b>Lower than expected execution of public investment</b>	<b>High Short to Medium Term</b>	<b>Medium.</b> Lower economic growth and private investment.	<ul style="list-style-type: none"> <li>• Improve public investment management, including implementation of PIMA recommendations to enhance capex.</li> <li>• Improve the budgeting process to underpin budgets with realistic analysis.</li> </ul>
<b>Political uncertainty and social unrest</b>	<b>High Short to Medium Term</b>	<b>Medium.</b> A political cycle or a disaffection with incumbent political elites generates governance and/or social instabilities, restricting policy-making and delivery. Economic activity is disrupted. Economic policy and reform continuity is jeopardized.	<ul style="list-style-type: none"> <li>• Secure policy continuity, including on reform implementation under the program, if political instability occurs.</li> <li>• Ensure transparency, accountability, and inclusion in policy implementation.</li> <li>• Restore and preserve public confidence in policymaking and communicate the benefits of structural reforms clearly, while protecting the most vulnerable from possible adverse impacts.</li> </ul>
<b>Potential External Shocks</b>			
<b>Trade policy and investment shocks</b>	<b>High Short to Medium Term</b>	<b>Medium.</b> Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	<ul style="list-style-type: none"> <li>• Maintain adequate reserve levels and fiscal policy space as buffers, including by mobilizing alternative concessional financing, strengthening donor coordination, and enhancing domestic revenue mobilization.</li> <li>• Provide targeted policy support to the vulnerable within the available fiscal space.</li> <li>• Accelerate structural reforms to (i) diversify and expand export destinations, (ii) generate domestic jobs to stem outward migration and reduce dependence on remittances, (iii) enhance regulatory efficiency, institutional capacity, and governance to reduce high costs of doing business and attract FDI, and (iv) promote market competition.</li> </ul>
<b>Commodity price volatility</b>	<b>Medium Short to Medium Term</b>	<b>Medium.</b> Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal	<ul style="list-style-type: none"> <li>• Continue to develop hydropower to diversify energy sources.</li> <li>• Accelerate structural reforms to diversify import sources and improve agricultural and food security.</li> </ul>

Source of Risks	Likelihood /Time Horizon	Expected Impact on Economy	Policy Response
		pressures, social discontent, and economic instability.	<ul style="list-style-type: none"> <li>• Ensure convergence between domestic and global commodity prices, while protecting the vulnerable given available policy space.</li> <li>• Stand ready to tighten monetary policy in case of second-round effects.</li> </ul>

## Annex III. Navigating Nepal's AML/CFT Reforms<sup>1</sup>

### 1. Recent AML/CFT reforms were based on recommendations in the Mutual Evaluation Report (MER) adopted by the Asia/Pacific Group on Money Laundering (APG) in August 2023.

These include streamlining mutual legal assistance (MLA) requests, enhancing the capabilities of the Financial Intelligence Unit (FIU), publication of the National AML/CFT Strategy, issuing new Targeted Financial Sanctions guidelines and developing Fit and Proper Test guidelines. In April 2024, Nepal also amended its AML/CFT law, laying the foundation for further AML/CFT reforms after prolonged parliamentary delays.

**2. Nepal was nonetheless added to the FATF grey list (jurisdictions under increased monitoring) in February 2025, given the country's capacity constraints and the need for a phased implementation of AML/CFT reforms.** Grey-listing may lead to near-term macroeconomic implications, including higher payment costs, particularly affecting macro-critical remittance flows and trade finance. While the authorities have yet to observe tangible economic impacts, they plan to conduct a stocktaking exercise in the coming months to assess potential effects, including on remittance costs.

**3. Following its grey-listing, Nepal has made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime.** Nepal has agreed with the FATF on an ambitious Action Plan through January 2027 to enhance the key pillars of AML/CFT framework. The authorities will invest in implementing all the items under the action plan with priority given to:

- finalizing the ongoing update of the National Risk Assessment (NRA) and its publication,
- adopting and implementing the fit and proper test for the banking sector,
- strengthening supervision, including developing and adopting risk-based supervisory manuals for the casino, Dealers of Precious Metals and Stones (DPMS), and real estate sectors,
- issuing a directive to enhance transparency of the real estate transactions,
- issuing other sector-specific directives following amendments to the AML law, and
- addressing deficiencies in the adoption and implementation of UNSCRs related to financing of terrorism and proliferation of weapons of mass destruction, which has benefitted from the Fund's TA.

The authorities are also committed to developing guidelines on beneficial ownership (BO) transparency of legal persons and work towards establishing a central BO registry.

**4. Fund staff remain committed to supporting Nepal's sustained AML/CFT reforms through targeted capacity development program.** Technical Assistance has been provided to align the legal framework with international standards. Currently, efforts are focused on assisting the authorities in implementing UNSCRs. Going forward, staff will continue supporting Nepal's AML/CFT reforms, working in coordination with other TA providers.

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<sup>1</sup> Prepared by Chady Adel El Khoury and Miho Tanaka.

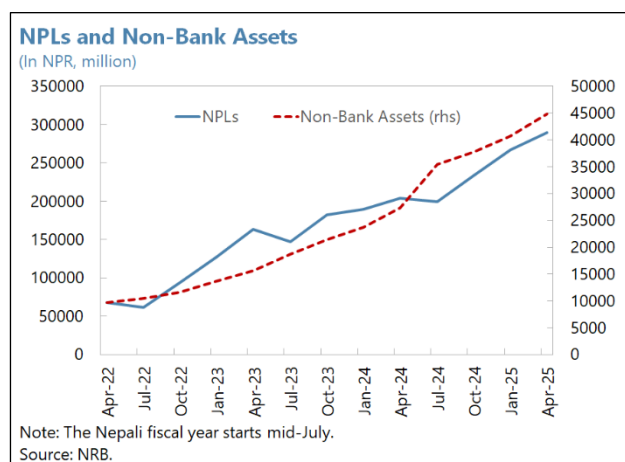
## Annex IV. Considerations Regarding the Design of an Asset Management Company<sup>1</sup>

NRB is preparing legislation on the establishment of Asset Management Companies (AMCs) in response to increasing NPLs within the financial sector. This Annex outlines considerations for authorities to evaluate when deciding on the desirability and design of the AMC, drawing from the IMF 2024 Technical Note: 'The Case for (and Against) Asset Management Companies in Banking Crises' which, *mutatis mutandis*, can be applied to both publicly and privately owned AMCs.<sup>2</sup>

### A. Introduction

**1. Since July 2022, Nepal has experienced a significant rise of non-performing loans (NPLs) after a credit boom in 2021 and 2022.** The rise in NPLs was caused by multiple factors, including an economic slowdown and a shock to the real estate market resulting in a drop in prices and a lack of demand for real estate. As a result, NPLs increased around 370 percent and the NPL ratio from 2.4 percent to 5.3 percent between July 2022 and April 2025. Banks have started to recover NPLs but have been struggling to sell NPL-collateral, leading to a 325 percent increase in non-bank assets over this period.

**2. Authorities are considering the establishment of an Asset Management Company to deal with the NPLs.** Asset Management Companies (AMCs) can help stabilize the banking sector by removing non-performing loans (NPLs) from bank balance sheets, thereby restoring bank lending capacity and confidence in the financial system. AMC are however no panacea, and authorities should have realistic expectations as to their efficacy and take plausible assumptions regarding asset valuations, economic recovery trajectories and financial commitments. Establishing an AMC and ensuring it operates efficiently is complex and should only be considered when financial stability is at significant risk, and only when there are strong institutions to support the independent and efficient operation of the AMC (see below). In addition, the fiscal costs of establishing publicly owned AMCs can be substantial, including initial funding, operational costs, and potential losses from asset sales.



<sup>1</sup> Prepared by Minke Gort.

<sup>2</sup> See <https://www.imf.org/en/Publications/TNM/Issues/2024/07/11/The-Case-for-and-Against-Asset-Management-Companies-in-Banking-Crises-548619>.



## B. Preconditions

**3. The establishment of an AMC requires an in-depth analysis regarding its business case and the adequateness of its operational environment.** The successful establishment of AMCs is dependent on meeting several preconditions:<sup>3</sup>

- **Focused Mandate:** Limiting the AMC's scope to specific categories of NPLs in problematic banks with clearly defined goals enhances effectiveness and clarity in objectives.
- **Defined Lifespan:** AMCs should not operate indefinitely without performance assessments and should be subject to a sunset clause.
- **Legal and Regulatory Framework:** A supportive legal infrastructure, particularly concerning bankruptcy and property rights, is essential for the operational viability of AMCs. Reliable accounting practices, adequate supervision and crisis management frameworks are needed to ensure that authorities have an accurate picture of the problems and the NPLs to be transferred to the AMC.
- **Political Commitment:** Strong and sustained political will is required to address systemic issues in the banking sector and recognize problem loans and losses.
- **Commercial Focus of the AMC:** Governance, asset selection, valuation, transfer pricing and overall transparency and disclosure requirements need to be designed on commercial terms.

## C. Design Elements of an AMC

**4. The design of an AMC needs to be carefully calibrated and set the right incentives.**

Setting up of an AMC requires authorities to thoroughly investigate and decide on a multitude of elements, including the mandate, eligible institutions and assets, valuation and transfer pricing, financing, governance and AMC operations. A selected number of elements are elaborated below.

### **AMC Mandate**

**5. The mandate of an AMC should be defined by law, focusing on prudent valuation and maximizing value from distressed assets within the AMC's lifespan.** The mandate of the AMC should be clear and avoid competing public policy objectives as this will render it less effective. The mandate should be coupled with an AMC business plan that sets out clear targets for timely disposal of NPLs. An effective, commercially oriented AMC mandate requires a governance framework which promotes independent, commercially focused operations and decision-making. It also requires skilled management supported by appropriate incentive structures, transparent processes, and efficient asset recovery strategies.

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<sup>3</sup> See Cerruti and others, Public asset management companies: a study (2016), <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/293361467996695247/public-asset-management-companies-a-toolkit>

### ***Eligible banks and assets***

- 6. The selection of the banks eligible for transferring NPLs to the AMC should be targeted.** Participation in AMC programs is typically reserved for institutions with significant levels of NPLs and those that are systemically important to the financial sector. The scope of the banks participating should only follow financial stability considerations. This, de facto, excludes non-bank financial institutions such as SACCOs which are not systemically important and were not regulated during the time the NPLs were created.
- 7. The types of eligible assets for transfer should be clearly identified in legislation.** Assets transferred AMCs generally include NPLs, distressed assets, and other financial instruments that are hindering bank performance. The legal framework should set a transfer window for the NPLs, insist on full transfer of asset ownership and set out the transfer mechanism. Typically, the efficiency gains of using an AMC to resolve problematic assets is contingent upon the nature and scale of the assets under management. Generally, larger, homogenous and collateralized loans are more suitable for transfer. Smaller loans that depend on the borrower's performance require a deep knowledge of the borrower to maximize their value and will have better outcomes when dealt with by the originating banks.

### ***Valuation and Transfer Pricing***

- 8. Accurate valuation and fair transfer pricing of assets are essential to ensure transparency, set the right incentives and minimize moral hazard.** Establishing fair market valuations for distressed assets poses significant challenges and requires adherence to sound market principles. A high transfer price compared to the actual asset value will increase the financial (and fiscal) costs and risks for an AMC. This will prevent the AMC from reaching a key financial objective, the recovery of the price paid for the transferred assets together with its operational and financial costs. Failure to reach this objective will require the owners of the AMC to absorb the losses. The valuation policy and methodology employed by the AMC should therefore be clear, comprehensive, uniform by asset class, equally applied across banks and aligned with its commercial mandate to maximize asset recoveries. Careful attention to transfer pricing is essential to ensure banks fully recognize and account for losses accurately upon asset transfer.

### ***Funding and Capital Structure***

- 9. AMCs require carefully designed funding and capital structures, which may include government funding, private investment, or a combination of both.** Maintaining a robust capital structure within the AMC is critical for absorbing potential losses and ensuring operational stability. The funding provided to the AMC will allow it to acquire eligible assets from qualifying banks. The capital structure should be sufficient to absorb potential losses, minimize the need for further capital injections and support long-term sustainability of the AMC. Initial government funding may be necessary, preferably through liquid instruments such as cash or guaranteed bond issuances. AMCs should pay a market interest rate for the funding in line with its risk profile. AMCs that are not government-supported may need a stronger capital structure and may have to offer

higher interest rates on the instruments it issues which will impact its ability to acquire assets. Depending on the regulatory treatment of private bonds issued by the AMC, demand for these instruments may be limited. Financing by the central bank is not recommended as this could undermine its independence or impede monetary policy implementation.

## ***Operations***

**10. The effective operation of Asset Management Companies (AMCs) depends on robust governance, operational independence, and transparency.** To mitigate political and interest group interference, AMCs should be established as separate legal entities with clearly defined mandates, supported by legislation that ensures stability and autonomy. Governance structures must include a board of directors with authority over internal policies, risk appetite, and executive oversight, complemented by specialized committees. Establishing an advisory supervisory board without decision-making powers that can advise and monitor progress in meeting expected goals can be considered. Internal controls, ethical codes, and conflict-of-interest disclosures are essential to uphold integrity and accountability. The organizational structure should align with the AMC's business plan and lifespan, with remuneration systems designed to incentivize timely and value-maximizing recoveries.

**11. Operational effectiveness of the AMC also depends on strategic planning, transparent reporting, and sound risk management.** AMCs must adopt realistic, data-driven business plans that define asset disposal strategies while avoiding warehousing approaches that erode value. Loan servicing can be retained temporarily by originating banks, developed in-house, or outsourced, with each model presenting distinct trade-offs. Transparency is reinforced through regular publication of audited financial statements using international standards, enabling public scrutiny and performance benchmarking. Oversight of the AMC should focus on good governance, risk management, and asset divestment performance, without compromising the AMC's professional independence.

## Appendix I. Letter of Intent

Kathmandu, Nepal

August 27, 2025

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva,

1. This Letter of Intent (LOI), along with the attached updates to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU), outlines our continued commitments to the policies and objectives of the economic program supported by the Extended Credit Facility (ECF) arrangement. The ECF-supported program is fully consistent with the priorities and objectives of the Government of Nepal, and is vital for maintaining macroeconomic and financial stability, facilitating a sustained economic recovery, and promoting stronger and more inclusive growth over the medium and long term. We describe the progress that has been made so far, the challenges that were overcome, and further policy steps and reform initiatives that we will undertake to meet the ECF-supported program's objectives.
2. Domestically, economic activity has continued to gradually recover, underpinned by a rebound in construction and manufacturing, continued expansion of hydropower capacity, and a good harvest that helped offset the short-lived impact of the September 2024 floods. Growth in FY2024/25 is now estimated to be between 4-5 percent. However, the pace of domestic demand recovery remains inadequate, weighed down by subdued business and consumer confidence and continued large outward migration for work and study. Nepal's external position has further strengthened, supported by robust remittance inflows, pickup in exports, and moderate import growth. Tax revenues have improved and public investment has increased, which together anchor our growth-friendly fiscal consolidation and debt sustainability. Challenges in the financial sector are rising, with non-performing loans (NPLs) increasing to 5.2 percent in April 2025, impacting bank capital. Following a temporary uptick due to flood-related food price pressures and supply disruptions, inflation has declined from 6.1 percent in December 2024 to a multi-year low of 2.7 percent in June 2025, driven by a good harvest, favorable commodity prices, and still subdued domestic demand.
3. Against this backdrop, we are maintaining prudent fiscal policy—emphasizing acceleration of capital expenditure coupled with revenue mobilization—as a key tool to boost sustainable and inclusive economic growth. Our FY2025/26 budget implements a wide range of structural reforms that will boost private investment and economic growth. We have also introduced reforms that will enhance capital budget execution by accelerating procurement, improving

inter-agency coordination, and streamlining the National Project Bank guidelines for project development, appraisal, and selection. We are implementing our Domestic Revenue Mobilization Strategy, including by assessing tax expenditures, which we published in a tax expenditure report. Our FY2025/26 budget broadens the tax base on luxury goods and digital services. We also aim to improve tax compliance, including through the development of a new Customs Compliance Improvement Strategy.

4. On the monetary front, we will continue our cautiously data-driven approach to monetary policy to maintain price and external sector stability, while supporting growth. In this context, we are closely monitoring inflation developments, which currently appear subdued. With credit growth expected to normalize around the rate of nominal GDP growth in FY2025/26, the monetary policy stance should help keep inflation in check and maintain reserve coverage at adequate levels, while allowing for fiscal policy to maintain a low risk of public debt distress. In addition, the monetary policy will aim to support a sustainable level of credit growth. We will endeavor to improve monetary policy implementation, including through proactive liquidity management aligned with the interest rate corridor.
5. In view of the challenging situation in the banking sector, the reforms envisaged under the ECF-supported program are vital to strengthen Nepal's financial sector. Discussions with the IMF staff on amendments to the bank resolution regime in the NRB Act have progressed. To allow these discussions to conclude, we propose to reset the submission of the bank resolution regime amendments to Parliament to end-October 2025. We are drafting legislation on the establishment of an Asset Management Company (AMC) to deal with bank NPLs and will ensure that the AMC will prioritize banks' timely loss recognition and cash recovery, and we will exercise extreme caution in its design. We will limit regulatory forbearance and ensure it is targeted, timebound and phased out as soon as possible. Recognizing the difficulties experienced by the savings and credit cooperatives (SACCO) sector, we will prioritize the resolution of the problematic SACCOs and continue to build the newly established SACCO regulator.
6. The procurement of the independent international consultant to assist with the LPR is in its final stage. We will sign the contract with the consultant selected to assist NRB in conducting the LPR as a prior action for the sixth review under the ECF and will then immediately proceed with the launch of the LPR. We will finalize the LPR of the ten largest banks by end-December 2025. To address the LPR outcomes, we have completed a roadmap which references our commitment to align the asset classification regulation with a continuous repayment period of three months for reclassification for non-restructured/non-rescheduled loans, as prescribed by the Basel Committee on Banking Supervision (BCBS) standards by end-December 2025.
7. We remain committed to diligently implementing recommendations from the Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) Mutual Evaluation conducted by the Asia Pacific Group on Money Laundering. With the amendments to the AML Law enacted, we are moving swiftly to ensure the effectiveness of the new legal framework, and are issuing the necessary secondary regulations. In particular, we have issued the implementing procedures for targeted financial sanctions with the support of the IMF and have begun work on national and

sectoral risk assessments. We welcome further technical support from the IMF and other donors on these matters.

8. We have progressed with the implementation of the recommendations in the 2021 Safeguards Assessment (SGA). All but one recommendation not related to the NRB Act amendments have been completed. We have consulted extensively with the IMF on amendments to the NRB Act to incorporate key recommendations of the SGA, and will submit them to Parliament by end-October 2025 along with the amendments on bank resolution.
9. We remain committed to the implementation of policies and reforms envisaged in the ECF and continue to make progress, with the support of Fund technical assistance. The attached MEFP and TMU update the versions dated March 12, 2025, and set out economic objectives of the government's reform program for the remaining program period 2025-26. The updated program remains broadly in line with our plans at the fifth review under the ECF, but reflects additional time needed to complete some of the critical reform measures. The program will continue to be centered on policy actions and structural reforms aimed at maintaining macroeconomic and financial stability, enhancing regulatory framework and institutions, and achieving a sustainable and inclusive medium-term growth.
10. We believe that the commitments outlined in the MEFP are adequate to make progress with the objectives of the ECF-supported program and promote sustainable and equitable growth in Nepal. Implementation of the program will also help support macroeconomic stability and build the resilience needed to implement our objectives. We will take any additional measures that may become appropriate for this purpose. We will consult with the IMF in advance of any substantive revisions to the policies and reforms contained in the MEFP, in accordance with IMF policies. On behalf of the Government of Nepal and the NRB, we would like to communicate our appreciation of the technical assistance and capacity development support provided by the Fund to Nepal, especially since the approval of the ECF. We intend to remain in close consultation with the IMF and provide timely information necessary for the implementation of policies under the ECF-supported program. We request the completion of the sixth review under the ECF.
11. With this progress and commitment, we request SDR 31.4 million to be made available for the sixth review under the ECF. We do not intend to introduce measures or policies that could generate balance-of-payments difficulties, or which are inconsistent with Article VIII of the IMF's Articles of Agreement. We do not intend to accumulate external or domestic arrears. In line with our commitment to transparency, we hereby consent to the publication of this letter, the attached MEFP and Technical Memorandum of Understanding (TMU), the staff report and other ECF-related documents, on the IMF's website.

Sincerely yours,

/s/

Dr. Biswo Nath Poudel  
Governor, Nepal Rastra Bank

/s/

Hon. Bishnu Prasad Paudel  
Deputy Prime Minister and Finance Minister



## Attachment I. Memorandum of Economic and Financial Policies

*We remain fully committed to the economic reform program supported by the arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund approved in January 2022. This memorandum reiterates our commitment to the program and outlines in detail the progress we have made toward meeting the objectives of the economic reform program and our policy plans to advance these objectives. Tables 1 and 2 summarize performance to date and how we plan to update the quantitative targets and structural benchmarks going forward.*

### Background

**1. The economy has continued to gradually expand, but remains constrained by the pace of the domestic demand recovery, budget under-execution, and continued financial sector challenges—underscoring the need for a coordinated policy response.** The recovery from the slowdown that began in FY2023/24—supported by a rebound in tourism and buoyant remittance inflows—has strengthened in FY2024/25. This momentum has been underpinned by a pickup in construction and manufacturing activity, continued expansion in hydropower capacity, and a favorable harvest that helped mitigate the transitory impact of the September 2024 floods. However, the pace of the domestic demand recovery remained inadequate, reflecting subdued business and consumer confidence, ongoing household and bank balance sheet repairs, and elevated outward migration for work and study. Financial sector challenges have further increased, with credit activity constrained by rising non-performing loans, which have eroded bank capitalization. Improving execution of budgeted expenditures—particularly capital investment—is critical to catalyze the recovery and address infrastructure bottlenecks. Structural reforms to boost productivity, expand fiscal space, and safeguard financial stability will play a critical role in bolstering resilience and ensuring sustained medium-term growth.

**2. In this context, we remain committed to the ECF to support our efforts to maintain macroeconomic and financial stability and promote sustainable and inclusive growth.** The macroeconomic framework and reform agenda underpinning the ECF provide a critical path to returning to stable long-term growth. The program also contributes to strengthening our regulatory and institutional frameworks and helps build capacity while catalyzing additional financing from development partners. The sixth review quantitative performance criteria and continuous performance criteria were met. External sector strength has allowed the net international reserves (NIR) target to be comfortably met. The primary balance target was met, with the deficit contained *inter alia* due to spending cuts in a context of revenue weakness and low absorption of external project financing. Child grant spending missed the program indicative target for the fourth time, although all eligible children who applied received the grants (Table 2). Six structural benchmarks (SBs) were completed, including approval of the tax expenditure reports, publishing the revised National Project Bank guidelines, commissioning of the audit of NRB's FY2024/25 financial statements, publication of a comprehensive tax expenditure report, publication of a comprehensive fiscal risk statement, and the post-LPR roadmap, with the latter four met on time. The SB on NRB Act amendments related to bank resolution is proposed to be reset for next review to allow time to

complete the legislative process. We will ensure that the NRB Act amendments related to both the bank resolution framework and the 2021 Safeguards Assessment are submitted to Parliament by end-October 2025. The linked SB on amendments related to the 2021 Safeguards Assessment (SGA) has maximized the advancements possible at this juncture but remains not met. Finally, we will sign the contract with the consultant selected to assist NRB in conducting the LPR as a prior action for the sixth review under the ECF and will then immediately proceed with the launch of the LPR.

## Recent Macroeconomic Developments and Outlook

**3. Growth has picked up in FY2024/25, but remains below potential, with subdued demand contributing further to a strong external position and disinflation.** Real GDP growth in FY2024/25 is estimated to be 4-5 percent but has remained below potential, constrained by the pace of the domestic demand recovery, limited fiscal space, and elevated outward migration. Inflation, which spiked temporarily following the floods, decelerated to 2.7 percent y/y in mid-June 2025—comfortably within our 5.0 percent policy ceiling for FY2024/25—as improved food supply, favorable global commodity prices, and weak consumer spending helped ease price pressures. The external position continued to strengthen, with robust growth in exports, remittances, and tourism receipts outpacing the gradual recovery in imports, contributing to a projected current account surplus of 3.9 percent of GDP in FY2024/25. International reserves increased further and remain comfortably above adequacy levels, providing ample buffer against external shocks.

**4. The growth recovery is expected to gather pace in FY2025/26—underpinned by policy measures to improve project execution and boost market confidence—and inflation will remain contained.** Public spending on physical infrastructure, coupled with policy and regulatory measures to boost business and consumer confidence, and still-accommodative lending rates, are expected to stimulate private demand and reinforce growth momentum. Multiplier effects from infrastructure investment and sectoral recovery are expected to bolster broader economic activity. Continued growth in tourist arrivals, rising imports, and additional hydropower capacity will provide further impetus. Inflation is expected to edge up from multi-year lows as demand strengthens, but will remain within 5.0 percent, anchored by our cautious and data-driven monetary policy. With higher import demand and a moderation in remittance inflows, the current account balance is expected to decline in FY2025/26, while international reserves will remain at an adequate level. The medium-term outlook remains favorable, underpinned by our strategic investments in priority infrastructure, including in hydropower generation and transmission, and continued structural reforms aimed at reducing the cost of doing business, enhancing productivity, and improving competitiveness.

**5. Risks to the outlook skew downward, largely reflecting domestic challenges.** We recognize that improving public expenditure execution for growth-enhancing capital projects is critical to the economic recovery. Successful revenue mobilization will be key to avoiding procyclical expenditure cuts. Additionally, improving the business and investment climate is essential to sustainable medium-term growth, along with creation of jobs that can compete with work opportunities overseas. The financial sector would require actions to identify and address potential

further rise in bank NPLs and more failures among cooperatives. Inadequate implementation of the Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) framework could delay exiting from Increased Monitoring of the Financial Action Task Force (FATF), which could hinder access to the global financial system. Despite its minimal contribution to global carbon emissions, Nepal is vulnerable to climate change induced natural disasters and weather variability which can impact food production, poverty reduction and growth. Other important risks amid elevated global trade tensions and high uncertainty include a sharp growth slowdown in Nepal's major trade- and remittance-partner economies, higher global commodity prices or sharp declines in foreign aid. These external shocks could have a pronounced impact on prices, food security and economic activity, and a disproportionate impact on the poor and vulnerable. We will continue to monitor external developments in an environment of heightened global uncertainty. To help manage these risks, we intend to take forward-looking, data-driven approaches to monetary and fiscal policies and stand ready to adjust the policy stance.

## Economic and Financial Policies

### Fiscal Policy

**6. Our fiscal position has been anchored by the program targets, despite a challenging economic environment.** Tax revenue increased 10.7 percent year-on-year in the first 11 months of FY2024/25, with customs, VAT, and excise each contributing around 3 percentage points. These revenues fell short of our budget targets. In response, our mid-year budget review aimed to consolidate low-priority spending, including hiring of short-term consultants, program costs, training, and travel. Capital spending was also constrained, growing at 6.2 percent year-on-year in the first 11 months of the fiscal year. Capital spending faced challenges due to complexity in procurement, staff shortages, insufficient inter-agency coordination, and delays in project preparation in the budget.

**7. We remain committed to a gradual growth-friendly fiscal consolidation to maintain public debt stability consistent with the program framework.** Our FY2025/26 budget is broadly consistent with the program objective to keep public debt stable at a moderate level. The budget includes new tax measures on alcohol, tobacco products, diamonds and other precious stones, luxury goods, and digital services, and measures to improve tax compliance. The budget also allocates more to capital expenditure, lifts obstacles to capital spending, and provides further incentives to encourage private sector investment. These include allowing outward investment, increasing the budget for PPPs through the Investment Board, tax exemptions for capital goods imports for a few niche industries, and tax incentives for startups and investment in special economic zones and industrial parks. While the budget does not expand the child grant program, it expands the public school midday meal program, which will benefit children in all districts.

### Revenue Mobilization

**8. We are committed to enhancing revenue collection, focusing on domestic sources for revenue collection for sustainable development.** The QPC on the primary deficit and the IT on

revenue collection for January 2025 were met. We continue to implement the Domestic Revenue Mobilization Strategy (DRMS). A key step is our adoption of reports on domestic and import-related excise and VAT expenditures (end-April 2025 SB, not met, completed with delay). We will develop and adopt a Customs Compliance Improvement Strategy (end-December 2025 SB), which will include enhanced measures to monitor compliance, educate stakeholders on regulatory requirements, detect non-compliance, enforce compliance, and provide incentives for compliance and sanctions against non-compliance.

**9. Key tax policy reforms will include rationalizing tax expenditures and modernizing tax laws.** The FY2025/26 budget eliminates VAT exemptions on diamonds and other precious stones, reduces the exemption threshold for tax on luxury goods, and expands the digital service tax to include online advertising and the sale of user data. The budget also changes customs duties on alcohol and tobacco products from a specific to ad valorem basis, which will generate additional revenue. In July 2025, we published a comprehensive report on tax expenditures (end-July 2025 SB). In FY2025/26, the government will modernize the laws on VAT, excise tax, and income tax to keep pace with structural transformation of the economy, including the growth of IT services.

**10. To enhance tax administration, we will improve voluntary tax compliance and enforcement.** We have expanded the use of post-clearance audits to ensure proper assessment of custom duties. To encourage compliance with VAT and excise taxes, the FY2025/26 budget announced several schemes to reduce penalties and interest for overdue payments. We will also contain border revenue leakage by stepping up bilateral data exchange with neighboring countries and intensify checks at customs points. Under the DRMS, we will improve data collection and analysis to identify the factors driving non-compliance, which will help to enhance the yield of taxpayer audits.

## Expenditure Reforms

**11. We will remove obstacles to capital budget execution to support medium-term economic growth.** The recently amended Financial Procedures and Fiscal Responsibility Act requires subnational governments to adopt medium-term expenditure frameworks, which will support multi-year projects. The FY2025/26 budget allows the creation of new staff positions and procurement procedures such as tendering to begin before the new fiscal year starts, which will effectively give one month of extra lead time. To improve inter-agency coordination, the FY2025/26 budget introduces sanctions—such as responsibility for cost overruns—for agencies that do not take project-related decisions in a timely manner. The government is revising the procurement law to clarify existing ambiguities about decision-making. We also aim to standardize local procurement documents.

**12. We will strengthen the National Project Bank (NPB) to enhance the efficiency of capital spending.** To improve public investment efficiency and strengthen climate resilience, the National Planning Commission (NPC) approved the National Project Bank (Operational and Management) Guideline, 2025 in March 2025, drawing on recommendations from the Public Investment Management Assessment (PIMA) and issued a supplement to the guideline in June 2025

(end-March 2025 SB, not met, completed with delay). The Cabinet also approved the 16<sup>th</sup> Plan in 2024, which incorporates steps from the Public Investment Action Plan. The guideline is expected to be a turning point for project selection and will accelerate capital expenditure. It establishes unique identifiers for each project and streamlines procedures for project development, appraisal, selection, and prioritization, ensuring more effective implementation. It also applies appropriate standards for large and mega projects. To be included in the Line Ministry Budget Information System (LMBIS), all projects must be entered into the NPB MIS. The NPC will monitor compliance with the guideline. The FY2025/26 budget restricts future federal projects to a minimum size of Rs. 30 million. The NPC plans to develop a national dashboard system to track projects costing more than Rs. 100 million. We will update the NPB MIS and integrate it with the LMBIS, enabling a consistent approach to project management across government. We plan subsequently to incorporate the Provincial Project Bank Management Information System (PPB MIS) and Local Project Bank Management Information System (LPB MIS) within the NPB MIS.

**13. We will establish an alternative investment financing vehicle to mobilize additional private sector capital for investment.** The target size of the fund is 2 percent of GDP, of which one-quarter will be paid up capital. The government will initially be the majority shareholder. The fund will be used to finance projects that can generate a financial return, like power projects and airports. Projects will be chosen by the Board of Directors based on financial return, environmental sustainability, employment generation, governance standards, and risk assessment. To limit governance risks, the fund will submit quarterly financial statements to shareholders and an annual financial statement to the MoF within three months of the fiscal year-end. To boost transparency, the government will also publish these financial statements. The fund's transactions will be subject to internal audit according to forthcoming regulations and final audit by the OAG.

**14. We will continue improving cash flow management.** In 2023, the Cabinet approved Guidelines on Cash Flow Management. Regular cash flow forecasts enhance short-term management of government funds, help to limit negative balances in the Treasury Single Account, improve debt management and budget formulation, and inform liquidity forecasting by the Nepal Rastra Bank (NRB). Recent amendments to the Financial Procedures and Fiscal Responsibility Act will facilitate the consolidation of commercial bank accounts for autonomous bodies and extra budgetary units under the Treasury.

**15. We will continue to enhance fiscal risk management.** We established a fiscal risk registry and published a fiscal risk section in the Fiscal Policy Statement of the FY2024/25 budget. With the help of IMF TA, we have published a comprehensive fiscal risk statement with the FY2025/26 budget, as part of our regular Fiscal Policy Statement (end-August 2025 SB, met). The statement systematically analyzes the sensitivity of budget estimates and public debt projections to various fiscal risks. We have included PPPs as well as bond guarantees in this statement. We will strive to improve future fiscal risk statements by including project guarantees and other risks associated with the alternative investment financing vehicle.

**16. We will also endeavor to limit fiscal risks by strengthening the financial oversight of PEs, extra-budgetary funds, and subnational governments.** The four priority nonfinancial PEs

(Nepal Electricity Authority, Nepal Oil Corporation, Nepal Airlines Corporation (NAC) and Nepal Telecom) had their FY2022/23 financial statements audited (end-August 2024 SB, not met, completed with delay). Out of 20 wholly-owned PEs, 16 have either published FY2022/23 financial statements or discontinued operations, and out of 20 majority-owned PEs, 19 have published or discontinued operations (end-August 2024 SB, not met). This achievement, although incomplete, returned many PEs to good practice of their corporate governance obligations. We will continue to follow up with the remaining 5 PEs and commit to having their financial statements published by end-September 2025.<sup>1</sup> The government will review the performance of 7 selected SOEs and prepare reform plans. To enhance their operational efficiency, Nepal Airlines Corporation will be made a public company, and 30 percent of the shares in Nepal Telecom will be sold to the public. The FCGO included 90 extra budgetary units (EBUs) at the federal level and 9 EBU at the provincial level in the FY2023/24 annual financial statements (end-January 2025 SB, not met). Recent amendments to the Financial Procedures and Fiscal Responsibility Act will strengthen the FCGO's authority to request information on EBU from line ministries and subnational governments. Under the Act, the FCGO is drafting revised procedures governing EBU's accounts operation, budget appropriation, accounting standards, and reporting requirements. The FCGO will work with the OAG to compile a comprehensive and consistent list of EBU, which will support our objective of including the EBU in the Nepal Public Sector Accounting Standard (NPSAS)-based financial statements for FY2024/25.<sup>2</sup>

## Social Spending

**17. We are committed to further enhancing our social safety net to support our poverty alleviation efforts.** The 16<sup>th</sup> Plan guides our medium-term strategy to enhance governance, social justice, and prosperity. We are continuing to develop the National Social Registry (NSR), including a system of national identification cards. The NSR will facilitate the identification of low-income households and allow for more efficient targeting of social transfers. We will continue to support food security, poverty reduction, and human capital development, including through child grants, the public school midday meal program, scholarship program, and the National Employment Program. We executed 94 percent of the budget for child grants in FY2023/24, covering all eligible children who applied. The FY2025/26 budget maintains the existing child grant program in the 25 districts with the lowest socio-economic development indicators and expands the public school midday meal program by one-third, from Rs. 15 to Rs. 20 per meal. The meal program covers all children up to grade 5 nationwide. Children also benefit from national nutrition and maternal health programs. The FY2025/26 budget increases the resources allocated to health to ensure the continuity of programs (e.g., nutrition). To manage social security expenditure and to reflect higher life expectancy, the FY2025/26 budget raises the eligibility age for the senior citizen allowance from 68 to 70, while preserving the entitlements of existing recipients.

<sup>1</sup> All PEs covered in the Annual Status Review of Public Enterprises 2022, except those PEs not in operation.

<sup>2</sup> We will include all the non-budgetary entities of the Nepal government, whose annual income or expenditure is more than Rs. 50 million, and the non-budgetary entity of the provincial government, whose annual income or expenditure is more than Rs. 20 million, and the non-budgetary bodies of the local level whose annual income or expenditure is more than R. 5 million.



## Monetary and Exchange Rate Policy

**18. Our monetary policy will remain focused on price stability as its primary target, while also maintaining financial sector and external sector stability.** Domestically, inflation has steadily declined, and the pace of both the consumer demand and investment spending recovery remains inadequate. At the same time, the external position has continued to strengthen, with foreign exchange reserves growing, the balance of payments projected to remain in surplus, and the short-term interest rate differential with India likely to narrow further. The accommodative monetary policy stance—along with deleveraging and large remittance inflows—has contributed to a large build-up of excess liquidity in the system. The lending rates have declined by about 430 basis points since July 2023, providing the economy with much-needed incentives to invest and consume. Under the environment of subdued inflation and adequate foreign exchange reserves, the NRB has taken an accommodative monetary policy stance. Monetary policy will remain cautious and data driven, ready to respond should early signs of inflationary pressures emerge.

**19. The monetary policy toolkit is gradually being strengthened, and the available instruments are broadly adequate to manage aggregate demand without resorting to financial sector regulations.** Existing liquidity management tools—such as the interest rate corridor (IRC) and the cash reserve ratio (CRR)—are appropriate to guide short-term interest rates and manage aggregate demand to support monetary policy objectives of maintaining price and external stability. Nonetheless, we remain committed to enhancing the effectiveness of these tools, including efforts to align the interbank rate closer with the midpoint of the IRC over time. Financial sector regulatory measures will continue to focus on preserving financial stability, and will remain coordinated but distinct from the conduct of monetary policy.

## Financial Sector Policies

**20. We are designing a comprehensive strategy to improve bank NPL recoveries.** Aggregate gross NPL levels of the banking sector have continued to rise to 5.2 percent in April 2025. NPLs are likely to rise further due to still-weak economic demand and NPL recovery difficulties. To improve NPL recoveries, banks with NPLs above 5 percent must submit a comprehensive NPL management strategy. The NRB will continue to prioritize supervisory measures to encourage NPL resolution. We are preparing a legal framework for Asset Management Company (AMC). To be effective, the creation of an AMC will first require improvements to the debt recovery framework, including the insolvency law, and a thorough review of the business case for such an entity in Nepal. Any AMC will prioritize banks' timely loss recognition and cash recovery on NPLs when buying NPLs from banks. Any legislation related to the AMC will ensure strict conditions on governance, eligible exposures, valuation, transfer pricing, financing and the lifespan of the AMC.

**21. The loan portfolio review of the 10 largest banks will be prioritized.** The aim of the LPR is to ensure that loans are classified and provisioned in line with the existing regulatory framework and international best practices. The cancelled initial procurement process for the international independent consultant was restarted in December 2024. The large number of applicants delayed the procurement process and consequently the launch of the LPR (end-May 2025 SB, not met). To



show our commitment to the exercise, we will sign the contract with the consultant selected to assist NRB with the LPR (prior action). We will finalize the LPR of the ten largest banks by end-December 2025 (end-December 2025 SB). We have completed a roadmap that sets out how we will deal with the outcomes of the LPR and which references the December 2025 alignment of the asset classification regulation with BCBS Guidelines on “Prudential Treatment of Problem Assets” (end-April 2025 SB, met). In accordance with the roadmap, we will require any bank with capital shortfalls to submit time-bound capital plans, setting out how they will return to full compliance with regulatory requirements.

**22. We are progressing reforms to align the bank resolution framework and the asset classification regulation with international standards.** Discussions are ongoing with IMF staff on amendments to the bank resolution regime in the NRB Act. The amendments will fully equip the regime to deal with problematic banks and to address key gaps in the current bank resolution framework identified in the 2023 Financial Sector Stability Report (FSSR). To allow these discussions to finalize, we propose to reset the submission to Parliament of the amendments to the bank resolution regime to October 2025 (end-April 2025 SB, not met and proposed to be reset to end-October 2025). We will ensure that the submission of the bank resolution regime amendments to the NRB Act to Parliament is coordinated with submission of the NRB Act amendments related to the 2021 Safeguards Assessment (T26) as agreed with IMF staff. In addition, we remain committed to align the asset classification regulation with the continuous repayment period of three months for reclassification of non-restructured and non-rescheduled loans, as prescribed by the Basel Committee on Banking Supervision (BCBS) Guidelines on “Prudential Treatment of Problem Assets” and to ensure the banking sector is provisioned accordingly (end-December 2025 SB). This will allow the BCBS standard to be applicable as we implement the post-LPR roadmap.

**23. Efforts to further strengthen bank regulation and supervision continue.** We are progressing with amendments to the Bank and Financial Institutions Act (BAFIA), including reforms to related party lending (RPL) provisions. These reforms need to be carefully calibrated to align with international standards. We will prepare regulations to enact the law that phase-in the RPL provisions over an appropriate time to safeguard financial stability by allowing the related parties sufficient time to prepare. We will continue to improve risk-based supervision with Fund support, taking into account the recommendations in the 2023 FSSR and will prioritize the implementation of the Technical Assistance roadmap. We are finalizing the review of our capital adequacy framework and plan to implement the Liquidity Coverage Ratio and Net Stable Funding Ratio in the next fiscal year. We will continue to enhance the working capital loan (WCL) guidelines to gradually reduce misuse of WCLs, ensuring that any adjustments are limited, time bound and do not impact the scope or core purpose of the guidelines. We will ensure regulatory forbearance is phased-out and avoided, with any intervention being timebound and limited. We will continue to prudently monitor the banking sector to ensure appropriate loan classification, restructuring, provisioning and

capitalization. We stand ready to use other macro-prudential tools to mitigate the buildup of financial vulnerabilities.<sup>3</sup>

**24. We remain committed to policy actions that ensure a stable and well-capitalized banking system.** Challenges in the banking sector have necessitated intensified supervisory intervention in a number of development banks, and regular supervisory actions in other banks and financial institutions. For banks that are facing capital issues, NRB has taken remedial action including suspension of dividend payments and taking control of the banks. NRB will remain vigilant and use the relevant early intervention measures where necessary. We are reviewing the uses of deprived sector lending and will closely monitor the quality of these loans and will adjust directed lending policies accordingly.<sup>4</sup> We will streamline our prompt corrective action framework with a clear escalation process across various states of distress and ensure consistency with the bank resolution framework.

**25. We have established a savings and credit cooperatives (SACCOs) regulator and will prioritize dealing with problematic institutions.** Following amendments to the Cooperatives Act to improve the legal framework, we established the National Cooperatives Regulatory Authority (NCRA) in January. The NCRA will be responsible for data collection, registering, regulating and supervising SACCOs in coordination with local authorities and will closely cooperate with NRB on regulatory issues. Going forward, we will focus our efforts on dealing with problematic SACCOs. We will establish a judicial recovery mechanism to improve the recovery of problematic SACCO loans to repay depositors. As regards participation of SACCOs in the Deposit and Credit Guarantee Fund (DCGF), we acknowledge that this first requires dealing with problematic SACCOs and ensuring they are effectively registered and supervised. To ensure there are sufficient safeguards in place to prevent problematic and unviable SACCOs from joining the DCGF, we will introduce the necessary legal amendments to strengthen the DCGF, allow the DCGF to set strict membership criteria for SACCOs and will establish a separate Fund from that of the banking sector.

## **Governance and Other Structural Reforms to Boost Growth**

**26. We are committed to further enhancing the autonomy, governance and accountability framework of the NRB.** This will primarily be accomplished by amending the NRB Act to include key recommendations of the SGA. The amendments were not submitted to Parliament by end-April 2025 due to extensive consultations and the desire to submit one set of amendments including those related to both the SGA and bank resolution (end-April 2025 SB, not met). In order to proceed with this important reform, we have agreed with IMF staff on a set of amendments that will be submitted to Parliament by October 2025. These amendments include many key SGA

<sup>3</sup> The NRB implements several macroprudential measures, including (1) single obligor limits (between 25 to 50 percent of capital depending on the sector), (2) a credit to deposit ratio (90 percent), (3) a debt service to income ratio (50 to 70 percent), (4) a debt-to-equity ratio (4:1), (5) loan to value ratios (between 50 and 70 percent), and (6) a sectoral limit (40 percent of total outstanding loans).

<sup>4</sup> The NRB requires banks to gradually extend a certain percentage of their total loans to agricultural and energy sectors and MSMEs. These loans correspond to 29 percent of Class A banks' total loan portfolio as of January 2025.

recommendations to strengthen the NRB's autonomy and governance practices. Furthermore, the OAG, as per the prevailing laws of Nepal, once again commissioned the audit of NRB's financial statements with at least one member of the Institute of Chartered Accountants of Nepal belonging to a global accounting network (end-July 2025 SB). Additionally, we have completed all but one of the SGA recommendations unrelated to the NRB Act.

**27. We will continue to strengthen our AML/CFT framework in line with the FATF Action Plan.** The amendment of the Assets (Money) Laundering Prevention Act (ALPA) in 2024, supported by IMF advice, laid a solid groundwork for our ongoing reforms, prior to the start of FATF Intensive Monitoring. We remain on track in implementing the action plan items in a timely manner. Key achievements since the grey listing in February 2025 include amendment of the ALPA regulations and, with the IMF TA, publication of the Implementation Procedures to implement relevant UN Security Council Resolutions for terrorism financing and proliferation financing. We are also on track for the timely publication of the National Risk Assessment and an increase of resources for the AML Supervision Department of the NRB. Given the informality and high vulnerability of abuse of the real estate sector, we are committed to the establishment of the effective risk-based supervisory framework of the sector. To this end, the Department of the Land Management and Archive will finalize a risk-based AML/CFT supervision manual and a supervisory plan for the real estate sector. We will also develop similar supervisory manuals and plans for the casino and Dealers in Precious Metals and Stones (DPMS) sectors. Going forward, we will identify high-risk entities in the real estate, casino and DPMS sectors, conduct onsite and offsite examinations and use enforcement measures as needed. We will also facilitate the effective implementation of the National Fit and Proper Guidelines—particularly in the banking sector—by ensuring access to the necessary information sources. Recognizing the high risks of abuse of legal persons, and the need for enhancing their transparency, we will develop guidelines on beneficial ownership (BO) transparency of legal persons and work towards establishing a central BO registry, potentially with the technical assistance of the IMF and/or other development partners.

**28. We are accelerating structural reforms to unlock Nepal's growth potential, strengthen governance, and build a more resilient, inclusive, and sustainable economy.** Recognizing that a stronger business and investment climate is key to sustainable medium-term growth, we have stepped up efforts to address long-standing structural impediments. We passed the Bill on Facilitating Investment and five other laws focused on enhancing governance, advancing privatization, reducing regulatory bottlenecks and fostering investment, strengthening fiscal discipline, and improving oversight in the cooperative sector.<sup>5</sup> Drawing on the recommendations of the High-Level Economic Reform Suggestion Commission, we have developed a comprehensive, time-bound action plan comprising 408 measures over the next three years to improve macroeconomic fundamentals, restore private sector confidence, and strengthen institutional

<sup>5</sup> The five ordinances that were passed into laws include "Ordinance to Amend Some Nepal Acts Related to Promoting Good Governance and Public Service Delivery", "Financial Procedures and Fiscal Responsibility (First Amendment) Ordinance", "Privatization (First Amendment) Ordinance", "Ordinance to Amend Some Nepal Acts Related to Improving Economic and Business Environment and Enhancing Investments", and "Ordinance to Amend Some Nepal Acts Related to Cooperatives".

capacity.<sup>6</sup> We are modernizing our anticorruption framework by updating legal provisions and enhancing fraud detection and enforcement capabilities.<sup>7</sup> Other key priorities include reducing the cost of doing business by streamlining procurement, digitalizing public administration and services, and strengthening coordination across tiers of government to advance fiscal federalism. In parallel, we continue to scale up climate-related investments guided by our Nationally Determined Contributions (NDC) and National Adaptation Plan (NAP), with emphasis on climate-smart agriculture, sustainable forest management, resilient infrastructure, and disaster risk financing. Implementation of our 16<sup>th</sup> Plan—now being reflected in our medium-term expenditure framework and supported by a detailed execution strategy—prioritizes productivity and job creation in agriculture, industry, and tradable services, while promoting social inclusion and labor mobility. Taken together, these measures are expected to catalyze private investment, enhance Nepal’s competitiveness and resilience, and support a robust, green, and inclusive long-term growth trajectory.

## Risks and Contingencies

**29. Downside risks and global uncertainty remain, but we stand ready to adjust policies as needed to respond.** Debt overhang among borrowers and related bank capital constraints continue to limit monetary policy transmission. On the other hand, improved revenue mobilization would allow more fiscal space to spend on growth-enhancing infrastructure projects while remaining within the guardrails of the ECF program. Any expenditure compression should prioritize protecting critical capital and social spending. A major commodity price shock could require monetary policy tightening to maintain external stability and keep inflation in check. Amid elevated global trade tensions and high uncertainty, foreign exchange reserve buffers are adequate to cushion against temporary shocks. In the event of a shock too large to be offset exclusively with our buffers and needed policy adjustment, we will seek assistance from our development partners for increased external support. Our ability to mobilize additional resources from development partners is aided by our low risk of debt distress, strong track record of repayment and anchored by our ECF-supported program commitments. The NRB has been improving its tools and remains vigilant to prevent potential problems in the banking system. In the event of bank stress, the NRB stands ready to provide systemic liquidity support while triaging deeper solvency problems.<sup>8</sup> Finally, we will

<sup>6</sup> A number of these measures have been reflected in our FY2025/26 budget (e.g., developing a Single Window System for company registration-related services, permitting Nepali companies to set up processing plants abroad, and establishing an IT Park) and others have been allocated among the line ministries to implement within their current and future budget allocations.

<sup>7</sup> Parliament passed amendments to the Prevention of Corruption Act (2002), which aims to strengthen investigative and prosecutorial powers and enhance accountability and transparency in public procurement. Complementing this, the amendments to the Commission for the Investigation of the Abuse of Authority (CIAA) Act (1991) have been submitted to Parliament. The bill seeks to expand the commission’s jurisdiction to allow investigations into Cabinet decisions that unduly benefit specific individuals or private institutions at the expense of the public interest and clarifies that such decisions—especially those related to public procurement—must comply with existing laws.

<sup>8</sup> Triage refers to addressing solvency problems through (i) using banks’ resources, (ii) restructuring, or (iii) resolution/liquidation.

implement policies to prevent spillovers from the difficulties in SACCOs, for instance through the registration and regulation of SACCOs.

## Financing and Program Monitoring

**30. We will continue to mobilize resources from international development partners to support our reform program.** In addition to mobilizing domestic resources, the government estimates that remaining financing needs for the program will be covered by assistance from the IMF, the World Bank, the Asia Development Bank, and other development partners. We will continue to work with our development partners, including the IMF, the World Bank and the Asian Development Bank, to successfully implement the reforms outlined above. IMF disbursements will be made available to the budget during the program period.

**31. The program will be closely monitored through quantitative performance criteria, indicative targets, and structural benchmarks as listed in Tables 1 and 2.** The Technical Memorandum of Understanding (TMU) describes the definitions as well as data provision requirements. The ECF program is monitored on a semi-annual basis by the IMF Executive Board. We are requesting that an amount of SDR 31.4 million is made available for the sixth review. The seventh review is scheduled to be completed on or after November 1, 2025; this review will be based on the July 15, 2025 test date. The government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures, which may be necessary for the success of the program.

**Table 1. Nepal: Structural Benchmark Status and Modifications**  
**January 2025-December 2025**

Measure	Original Target Date	Status	Proposal
<b>Cross-Cutting Institutional Reforms to Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption</b>			
The FCGO reports the consolidated financial information of all operational funds in annual financial statements, starting with FY2021/22. <sup>1/</sup>	End-January 2025	<b>Not met</b>	
The MOF submits to Parliament amendments to modernize the NRB Law, addressing key recommendations of the 2021 Safeguards Assessments Report. <sup>2/</sup>	End-April 2025	<b>Not met</b>	
An audit of the FY2024/25 financial statement of the NRB is commissioned involving at least one member of the Institute of Chartered Accountants of Nepal belonging to a global auditing network.	End-July 2025	<b>Met</b>	
<b>Revenue Mobilization</b>			
The MOF publishes a comprehensive report on tax expenditures. <sup>3/</sup>	End-July 2025	<b>Met</b>	
The MOF approves a report on domestic tax expenditures and a report on import-related tax expenditures.	End-April 2025	<b>Not met, (completed with delay)</b>	
The MOF will adopt a Customs Compliance Improvement Strategy that covers compliance monitoring, understanding regulatory requirements, detecting non-compliance, enforcement, and incentives and sanctions.	End-December 2025		
<b>Fiscal Sustainability and Fiscal Risk Management</b>			
A comprehensive fiscal risk statement is published by the MOF with the FY2025/26 Budget.	End-August 2025	<b>Met</b>	
<b>Equitable and Sustainable Growth</b>			
NPC approval of the revised National Project Bank Operational Procedures and the Unified Directives related to project development, prioritization, and selection. <sup>4/</sup>	End-March 2025	<b>Not met, (completed with delay)</b>	
<sup>1/</sup> This SB was originally set for end-May 2022, was not met, was reset at the combined 1st and 2nd review to end-August 2023, was not met, and was reset at the 3rd review to end-January 2025. <sup>2/</sup> This SB was originally set for End-October 2022, was not met, and was reset at the combined 1st and 2nd review to end-August 2023, was not met, was reset at the 3rd review to end-April 2024, was not met, was reset at the 4th review to end-September 2024, was not met, and was reset at the 5 <sup>th</sup> review to end-April 2025. <sup>3/</sup> This SB was originally set for End-April 2024 and was reset at the 3rd review to end-January 2025. <sup>4/</sup> The National Project Bank Operational Procedures and the Unified Directives is now called the National Project Bank (Operational and Management) Guidelines.			

**Table 1. Nepal: Structural Benchmark Status and Modifications (Concluded)**  
**January 2025-December 2025**

Measure	Original Target Date	Status	Proposal
<b>Financial Sector Regulation &amp; Supervision</b>			
The NRB will attain the independent international third-party auditors' signature on the contract for assisting in-depth onsite inspections for the 10 largest banks.		<b>Pending</b>	Prior Action
The NRB re-issues the regulation on asset classification, aligned with a continuous repayment period of three months for reclassification of non-restructured/non-rescheduled loans, as prescribed by the Basel Committee on Bank Supervision (BCBS) Guidelines on "Prudential Treatment of Problem Assets". <sup>5/</sup>	End-December 2025		
Launch for 10 largest Banks in-depth onsite inspections assisted by independent international third-party auditors. <sup>6/</sup>	End-May 2025	<b>Not met</b>	
NRB completes in-depth on-site inspections for the 10 largest Banks, assisted by independent international third-party auditors. <sup>7/</sup>	End-December 2025		
The MOF submits to Parliament amendments to the NRB Act that address the key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report.	End-April 2025	<b>Not met</b>	Reset to end-October 2025
NRB finalizes a roadmap outlining its approach to the outcome of the in-depth on-site inspections which will reference the end-December 2025 timing of the alignment of the ACR with a continuous repayment period of three months for reclassification of non-restructured/non-rescheduled loans, as prescribed by the BCBS Guidelines on "Prudential Treatment of Problem Assets". <sup>8/</sup>	End-April 2025	<b>Met</b>	
<sup>5/</sup> This SB corresponds to the August 2023 SB that was met by issuing updated regulations, but later partially reversed.			
<sup>6/</sup> This SB was originally set for End-April 2024 and was reset at the 4th Review to end-August 2024, was not met, and was reset at the 5 <sup>th</sup> review to end-May 2025.			
<sup>7/</sup> This SB was originally set for End-December 2024 and was reset at the 4th Review to end-February 2025 was not met, and was reset at the 5 <sup>th</sup> review to end-December 2025.			
<sup>8/</sup> This SB corresponds to the end-February 2025 SB that was not met, modified and reset at the 5 <sup>th</sup> review to end-April 2025.			



**Table 2. Nepal: Quantitative Targets 1/**  
(Cumulative Rs. million unless otherwise indicated)

[illegible]

## Attachment II. Technical Memorandum of Understanding

*This memorandum reflects understandings between the Nepali authorities and the IMF staff in relation to the Extended Credit Facility (ECF). It specifies valuation for monitoring quantitative performance criteria under the program (Section A), performance criteria and indicative targets (Section B), and data reporting (Section C). The authorities will consult with the IMF before modifying measures contained in this TMU or adopting new measures that would deviate from the goals of the program.*

### Program Exchange Rates and Gold Valuation

**1. Program exchange rates are used for formulating and monitoring quantitative performance criteria.** All assets and liabilities denominated in U.S. dollars (USD) will be converted into Nepali Rupees (NPR) at a program exchange rate of NPR 136.6 per one USD, which corresponds to the exchange rate on June 3, 2025. Gold holdings will be valued at USD 3351.9 per troy ounce, the price in June 2025 from [the IMF website on primary commodity prices](#). Assets and liabilities denominated in SDRs and in foreign currencies not in USD will be converted into USD at the June 3, 2025 exchange rates reported in Table 1:

Table 1. Nepal: Program Exchange Rates <sup>1/</sup>	
Currency	Program Exchange Rate
U.S. dollars / Nepali rupee	0.007
U.S. dollars / U.K. pound	1.350
U.S. dollars / Indian rupee	0.012
U.S. dollars / Chinese yuan	0.139
U.S. dollars / Euro	1.139
U.S. dollars / Japanese yen	0.007
U.S. dollars / Brunei dollar	0.777
U.S. dollars / Korean won	0.001
U.S. dollars / Kuwaiti dinar	3.265
U.S. dollars / Malaysian ringgit	0.236
U.S. dollars / Australian dollar	0.645
U.S. dollars / Bahrain dinar	2.660
U.S. dollars / Canadian dollar	0.728
U.S. dollars / Danish krone	0.153
U.S. dollars / Hong Kong dollar	0.127
U.S. dollars / Swedish krona	0.104
U.S. dollars / Swiss franc	1.217
U.S. dollars / Omani rial	2.601
U.S. dollars / Qatari riyal	0.275
U.S. dollars / Russian ruble	0.013
U.S. dollars / Saudi Arabian riyal	0.267
U.S. dollars / Thai baht	0.031
U.S. dollars / U.A.E. dirham	0.272
U.S. dollars / Singapore dollar	0.776
U.S. dollars / SDR	1.360
1/ The reference date for exchange rates is June 3, 2025.	

**2. For purposes of this TMU, “external” and “domestic” shall be defined on a residency basis.**

## **Performance Criteria and Indicative Targets**

**3. The quantitative performance criteria and indicative targets for relevant test dates are specified in Table 2 of the Memorandum of Economic and Financial Policies.**

### **Quantitative Performance Criteria on Net International Reserves of the Nepal Rastra Bank**

**4. Net international reserves (NIR) are defined as reserve assets minus reserve related liabilities of Nepal Rastra Bank (NRB) expressed in U.S. dollars.**

- Reserve assets of the NRB, as defined in the sixth edition of the Balance of Payments Manual (BPM6), are claims on nonresidents denominated in foreign convertible currencies and Indian rupee controlled by the NRB and are readily and unconditionally available to the NRB for meeting balance of payments financing needs, intervention in exchange markets, and other purposes. They include NRB holdings of monetary gold, SDRs, Nepal’s reserve position in the IMF, foreign currency cash (including foreign exchange banknotes in the vaults of NRB), and readily available deposits abroad (including balances on accounts maintained with overseas correspondent banks). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).
- Reserve related liabilities are defined as foreign exchange liabilities of the NRB to nonresidents; Nepal’s outstanding credit to the IMF; foreign currency reserves and deposits of commercial banks and other financial institutions held at the NRB; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies.
- To measure the program NIR, all foreign-currency related assets and liabilities will be converted into USD at the exchange rates specified in paragraph 1, Table 1.

**5. Targets for the program NIR are set as a floor.**

**6. The program targets for net international reserves include an adjustor for budget support from development partners.**

- Should the actual disbursement of budget support from development partners be below the projections under the program, the NIR floor will be adjusted downward by the difference between the actual level and the projected level of disbursements under the program. The projections of budget support from development partners for the period January 15, 2025 to July 15, 2025 are presented in Table 2.

- A downward adjustment to the NIR floor for the condition described above will be capped at USD 743 million.<sup>1</sup>

**Table 2. Nepal: Budget Support from Development Partners Projected under the Program**

<b>Date</b>	<b>Cumulative over the period from January 15, 2025 to July 15, 2025 (USD million)</b>
July 15, 2025	190

### **Quantitative Performance Criterion on the Primary Deficit of the Budgetary Central Government**

**7. The budgetary central government, for the purpose of the program, consists of all the entities listed in the Administrative Expenditure Estimate table of the budget (Table 3).**

<sup>1</sup> The cap ensures that any downward adjustment maintains reserve adequacy levels.

**Table 3. Nepal: Institution Coverage of Budgetary Central Government**

President  
 Deputy President  
 Chief of Provinces  
 Federal Parliament  
 Courts  
 Commission for Investigation of Abuse of Authority  
 Office of the Auditor General  
 Public Service Commission  
 Election Commission  
 National Human Rights Commission  
 Council of Justice  
 National Natural Resources and Fiscal Commission  
 National Women Commission  
 National Dalit Commission  
 National Inclusion Commission  
 Indigenous Nationalities Commission  
 Madhesi Commission  
 Tharu Commission  
 Muslim Commission  
 Office of Prime Minister and Council of Ministers  
 Ministry of Finance  
 Ministry of Industry, Commerce and Supply  
 Ministry of Energy, Water Resources and Irrigation  
 Ministry of Law, Justice and Parliamentary Affairs  
 Ministry of Agriculture and Livestock Development  
 Ministry of Water Supply  
 Ministry of Home Affairs  
 Ministry of Culture, Tourism and Civil Aviation  
 Ministry of Foreign Affairs  
 Ministry of Forest and Environment  
 Ministry of Land Management, Cooperative and Poverty Alleviation  
 Ministry of Physical Infrastructure and Transport  
 Ministry of Women, Children and Senior Citizen  
 Ministry of Youth and Sports  
 Ministry of Defense  
 Ministry of Urban Development  
 Ministry of Education, Science and Technology  
 Ministry of Communications and Information Technology  
 Ministry of Federal Affairs and General Administration  
 Ministry of Health and Population  
 Ministry of Labour, Employment and Social Security  
 National Planning Commission  
 MOF- Domestic Debt Service  
 MOF- External Debt Service (Multilateral)  
 MOF- External Debt Service (Bilateral)  
 MOF Staff Benefits and Retirement Benefits  
 MOF Miscellaneous  
 Province (Equalization, Special and Complementary)  
 Local Level (Equalization, Special and Complementary)

**8. The primary deficit of the budgetary central government is defined as primary expenditures minus revenues.**

- Primary expenditures include capital expenditures and recurrent expenditures except interest payments. Financing expenditures (the amortization of domestic and external borrowing, loan and share investment in public enterprises and other enterprises, and foreign share investments) are excluded. Capital expenditures are the same as the capital expenditures defined in the budget. Recurrent expenditures (excluding interest expenditure) include the following items in the budget: compensation of employees, use of goods and services, subsidies, grants, social security, other current expenditure. Revenue sharing for province and local levels is excluded.
- Revenues of the budgetary central government are those revenues to be deposited in the Federal Treasury. They include all taxes and non-tax revenue as defined in the budget. Revenue sharing for province and local levels is excluded. Other receipts are also excluded.
- Revenues and primary expenditures should be recognized on a cash basis.
- The Financial Comptroller General Office monthly reports will be used as the basis for program monitoring.

**9. Targets for the primary deficit of the budgetary central government are set as a ceiling. Targets are set for cumulative flows from the end of the previous fiscal year.**

**10. The program targets for the primary deficit include adjustors for foreign-financed project loan disbursements on concessional terms.**

- *Adjustor for higher than projected foreign-financed project loan disbursements on concessional terms.* Should the actual disbursement of foreign-financed project loans be above the projections under the program, the primary deficit ceiling will be adjusted upward (higher deficit) by the difference between the actual level and the projected level of disbursements under the program. This adjustor means that the program does not constrain foreign-financed project loan disbursements on concessional terms.
- *Adjustor for lower than projected foreign-financed project loan disbursements on concessional terms.* Should the actual disbursement of foreign-financed project loans be below the projections under the program, the primary deficit ceiling will be adjusted downward (lower deficit) by the difference between the actual level and the projected level of disbursements under the program. This adjustor would align project spending with the actual disbursement of foreign-financed project loans on concessional terms.
- The projections of foreign-financed project loan disbursements for the following 2 test dates are presented in Table 4.

<b>Table 4. Nepal: Foreign-Financed Project Loan Disbursements Projected under the Program</b>	
<b>Date</b>	<b>Cumulative over the respective fiscal year (Million NPR)</b>
January 13, 2025	9,191
July 15, 2025	91,912

### **Indicative Target on Social Spending of the Budgetary Central Government**

**11. The indicative target will focus on the child grant spending.** The child grant reaches vulnerable households, is implemented by the federal government, and is monitorable in a timely way. Health and education spending, while key pillars of social spending, are being devolved to local and provincial governments and implementation is not fully under control of the federal government. Indicative targets on the child grant, including the activity code 7.1.1.10 (dalit children), 7.1.1.41 (areas designated children), and 7.1.1.43 (areas designated children), are set as a floor for cumulative flows from the end of the previous fiscal year. Spending should be recognized on a cash basis and flows should be recorded when cash is paid.

### **Indicative Target on tax revenues of the federal government (starting with the July 15, 2024 test date)**

**12. The indicative target will be defined as the tax revenue of the federal government.**

This includes tax revenues of the budgetary central government to be deposited in the Federal Treasury. Non-tax revenue and revenue sharing for provinces and local levels are excluded. Other receipts are also excluded.

- Import-related tax revenue includes import-related customs, VAT, and excise duty.
- The monthly data from MoF will be used as the basis for program monitoring.

**13. Indicative targets are set as a floor. Targets are set for cumulative flows from the end of the previous fiscal year.**

### **Continuous Performance Criteria**

**14. A continuous quantitative performance criterion applies to the non-accumulation of new external payments arrears on external debt contracted or guaranteed by the budgetary central government or NRB.** External payment arrears consist of the total amount of external debt service obligations (principal and interest)—deriving from loans arranged or guaranteed by the central government and the NRB, penalties, and interest charges deriving from these loans not paid at maturity—falling due to nonresidents after approval of this arrangement and that have not been paid when due in accordance with the relevant contractual agreements (including any contractual

grace period). Excluded from the prohibition on the accumulation of new arrears are (i) external arrears that are subject to debt rescheduling agreements or negotiations and/or (ii) disputed external debt service obligations.

**15. Debt will be understood to mean**—as specified in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by the Decision No. 16919-(20/103) of the Executive Board of the IMF on October 28, 2020—a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a specific schedule; these payments will discharge the obligor of the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets, that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments necessary for the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

**16. Standard continuous performance criteria include: (1) prohibition on the imposition or intensification of restrictions on making of payments and transfers for current international transactions; (2) prohibition on the introduction or modification of multiple currency practices; (3) prohibition on the conclusion of bilateral payments agreements that is inconsistent with Article VIII; and (4) prohibition on the imposition or intensification of import restrictions for balance of payments reasons.**

## Provision of Information to the IMF

**17. Performance under the program will be monitored using data supplied to the IMF by the Ministry of Finance (MOF) and the NRB as specified in Table 5 below, consistent with the program definitions above and within the time frame specified.** The authorities will transmit promptly to the IMF staff any data revisions within 14 days after being made. Any data and information indicating the non-observance of the continuous performance criteria will be provided



immediately. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives. All reports and data should be transmitted to the IMF electronically and in English.

**18. The authorities will inform IMF staff of the creation of any new extra-budgetary funds or programs immediately.** This includes any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2014.

**Table 5. Nepal: Data Reporting Requirements <sup>1/</sup>**

<b>Data</b>	<b>Frequency</b>	<b>Submission Lag<sup>2/</sup></b>
<b>Ministry of Finance</b>		
Summary of budgetary central government accounts, including revenues (broken down by economic classification) and grants, expenditures (broken down by economic classification), and net acquisition of financial assets (broken down by loan investment and share investment) on a cash basis, consistent with the presentation in budget. The Financial Comptroller General Office (FCGO) monthly reports will be used as the basis for program monitoring.	M	30 calendar days
Summary of budgetary central government's net incurrence of liabilities (broken down by domestic borrowing disbursement and principal repayment, as well as external borrowing disbursement and principal repayment) consistent with the presentation in budget. Foreign-financed project loan disbursements and budget support disbursements. The Public Debt Management Office (PDMO) monthly reports will be used as the basis for program monitoring.	Q	30 calendar days
Domestic and external public debt stock (broken down by currency, maturities, creditors, and instruments), disbursements, and debt service costs of the budgetary central government, including interest payments and amortization schedules until full loan repayment. The PDMO quarterly reports will be used as the basis for program monitoring.	A	60 calendar days
Debt guarantees issued by budgetary central government and the NRB. The PDMO and NRB quarterly reports will be used as the basis for program monitoring.	Q	45 calendar days
Audited Financial statements of public enterprises.	A	210 calendar days
Social spending data on: (1) the amount budgeted, (2) the amount dispersed, (3) the number of recipients. Data provided separately for each of the following programs: old age pension, widows grant, indigenous allowance, disabled persons allowance and Prime Minister's Employment program (PMEP).	H	30 calendar days
Data on the child grant program: (1) the amount budgeted, (2) the amount dispersed, (3) the number of recipients.	H	30 calendar days
The Annual Budget. The Budget speech (with annex) and MOF budget reports will be used as the basis for program monitoring.	A	30 calendar days <sup>3/</sup>
Mid-year budget review. The MOF Mid-year budget review reports will be used as the basis for program monitoring.	A	30 calendar days <sup>4/</sup>
Annual budget execution report. The FCGO annual reports will be used as the basis for program monitoring.	A	90 calendar days
National accounts data.	A, Q	90 calendar days

**Table 5. Nepal: Data Reporting Requirements (continued)**

<b>Data</b>	<b>Frequency</b>	<b>Submission Lag</b>
<b>Public Debt Management Office</b>		
Stock of outstanding external debt payment arrears of the general government (if any) by creditor.	Q	30 calendar days
<b>Nepal Rastra Bank</b>		
Exchange rate data: (i) Monthly official exchange rates NPR/\$ (data to be submitted once a week for the previous week). (ii) Monthly average buy and sell exchange rates NPR/\$ as quoted by foreign exchange bureaus and banks.	M	5 working days after the end of the month
Monthly consumer price indexes (CPIs).	M	30 calendar days
Program net international reserves and its components (foreign reserve assets, deposits from banks and financial institutions in foreign currency, and foreign reserve-related liabilities of the NRB) at program and current exchange rates.	M	7 working days
Breakdown of gross foreign assets and liabilities (including foreign currency liabilities to residents) of the NRB by currency at actual and program exchange rates.	M	15 calendar days
Balance of payments consistent with the 6 <sup>th</sup> edition of the Balance of Payments Manual (BPM6).	M	30 calendar days
International investment position and private and public external debt data.	Q	90 calendar days
Data on remittances including remittance flows in USD by country, and total approved Nepali migrant workers permit by new/renewed permits and if possible, by destination country.	M	30 days
Tourist arrivals by nationality and country of residence.	M	30 days
Imports and exports data by commodity at HS-2 classification level.	M	30 days
Central bank balance sheet in NPR (Summary).	M	30 calendar days
Balance of government's accounts/funds at NRB, including treasury accounts, pre-funding accounts, VAT refund, custom fund, federal divisible fund, and other funds outside treasury operation. The FCGO and NRB monthly reports (after reconciliation) will be used as the basis for program monitoring.	M	30 calendar days
Data on monetary operations in NPR.	M	30 calendar days
Interbank rates, Treasury bill rates, and volumes of Treasury bills and treasury bonds issued.	M	30 calendar days
Central bank liquidity data: (1) BFI's balance at the NRB; (2) amount required to meet cash reserve ratios in NPR.	M	30 calendar days
Update on the progress on the implementation of the in-depth on-site loan portfolio review.	M	5 working days after the end of the month
Central bank daily purchases and sales of foreign exchange by counterparts (commercial banks, government).	W	2 working days after the end of the week
Daily interbank turnover in the FX spot market.	W	15 working days

**Table 5. Nepal: Data Reporting Requirements (concluded)**

<b>Data</b>	<b>Frequency</b>	<b>Submission Lag</b>
Commercial bank-by-bank data: i) balance sheet by currency (foreign exchange and Nepali Rupee); ii) income statements; iii) breakdown of loan classification and provisioning levels for borrower types (corporate, commercial, retail, SMEs, etc.), product type (overdrafts, working capital loans, demand loans, etc.), economic sectors, and restructured loans; iv) breakdown of deposits and net open positions; vii) FSI indicators (capital, asset quality, liquidity, earnings).	M	75 calendar days
With regard to non-performing loans (NPLs) specifically: i) NPLs per category and sector, ii) provisioning, iii) NPL restructuring/rescheduling (forborne loans) and type of restructuring (deductions in interests, payment deferrals, restructuring of performing loans, restructuring of non-performing loans), iv) NPL reclassification and v) loan write-offs;	Q	30 calendar days
Data on foreign currency loans and deposits. Commercial bank-by-bank data: i) breakdown of foreign currency loans for borrower types (corporate, commercial, retail, SMEs, etc.), product types (overdrafts, working capital loans, demand loans etc.), economic sectors, and restructured loans; ii) share of foreign currency deposits by deposit types (current, call, fixed, savings etc.). Other depository corporations survey data in NPR.	M M	75 calendar days 30 calendar days
Condensed assets and liabilities of commercial banks and all BFI in NPR.	M	30 calendar days
Data specific to class A and B banks: (i) CAMEL rating for class A and B banks (ii) Ratio of Cash & Bank Balance/Total Deposit (iii) Ratio of Investment in Government Securities/Total Deposit (iv) Total Liquid Assets/Total Deposit ratios	M	30 calendar days
NRB's claims on the government with breakdown by type (debt types, loan type, including the gross amounts of overdrafts).	M	30 calendar days
Banks and financial institutions' claims on the government with breakdown by type (debt types, loan types including the gross amount of overdrafts).	M	30 calendar days
Daily FEDAN rates (at 10am and 2pm) for 22 currencies (USD, EUR, GBP, CHF, AUD, CAD, SGD, JPY, CNY, SAR, QAR, THB, AED, MYR, KRW, SEK, DKK, HKD, KWD, BHD, INR, OMR)	M	2 working days after the end of the month
<p>Note: A = Annually; Q = Quarterly; H=Half-yearly; M = Monthly; W = Weekly.</p> <p>1/ Reports and data are provided in English. Data are provided in excel files.</p> <p>2/ After the end of respective week, month, quarter, or fiscal year in Nepali calendar, unless otherwise indicated.</p> <p>3/ 30 calendar days after the delivery of the budget speech.</p> <p>4/ 30 calendar days after January 15.</p>		



# NEPAL

## SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

August 28, 2025

Approved By  
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Francisco and Franziska  
Ohnsorge (IDA)**

Prepared by the staff of the International Monetary Fund  
and the International Development Association.

Joint Bank-Fund Debt Sustainability Analysis	
<b>Risk of External Debt Distress</b>	Low
<b>Overall Risk of debt Distress</b>	Low
<b>Granularity in the Risk Rating</b>	Not Applicable
<b>Application of Judgment</b>	Yes

*Both external and overall public debt in Nepal are assessed to be at low risk of debt distress, unchanged from last year's Debt Sustainability Analysis (DSA).<sup>1</sup> The present value (PV) of the external debt-to-exports ratio breaches the indicative threshold under an export shock scenario, which would mechanically suggest a moderate risk rating. However, as in the previous DSA, staff have applied judgment to override the mechanical signal, given Nepal's exceptionally high level of remittances. These remittances—amounting to more than three times the value of exports—are the primary source of foreign exchange earnings and render the debt-to-exports ratio a less relevant indicator of debt distress in Nepal's case. When combined with concessional external financing, they help the country maintain an adequate level of reserves and meet its debt obligations despite a sizeable trade deficit. All other external and public debt risk indicators remain below their respective indicative thresholds across all stress-tests. Public debt stood at 48.3 percent of GDP in FY2023/24, lower than projected in last year's DSA.*

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<sup>1</sup> Nepal's debt carrying capacity remains strong, based on Nepal's composite indicator (CI) score. The CI is calculated at 3.14, based on the April 2025 World Economic Outlook (WEO) and the 2023 World Bank Country Policy and Institutional Assessment (CPIA) index.

*This better-than-expected outcome reflects fiscal consolidation efforts that curtailed primary expenditure despite an increase in the net acquisition of financial assets. Looking ahead, even with ongoing macroeconomic headwinds, public debt is projected to peak at 49.5 percent of GDP in FY2025/26 and gradually decline thereafter. This trajectory is predicated on sustained fiscal consolidation—as envisaged under the ECF-supported program and reaffirmed in the FY2024/25 mid-year budget review—including reforms to tax policy and public spending. Structural reforms will also be essential to support debt sustainability over the medium term. These include measures to diversify exports, enhance productivity and competitiveness, and strengthen resilience to shocks, particularly those related to natural disasters.*

## PUBLIC DEBT COVERAGE

**1. Public debt in this DSA comprises debt from the general government, central bank (borrowing on behalf of the government) and government guarantees** (Text Table 1). Nepal's provincial and local governments currently hold no debt. Although the Public Debt Management Act of 2022 permits subnational borrowing, no such activity has commenced to date—apart from on-lending arrangements by the central government. Similarly, the Social Security Fund and other extra-budgetary units are not authorized to borrow and therefore carry no debt. IMF disbursements during 2020–2024 were used for direct budget support. Bond issuances by the central bank over this period were exclusively for monetary policy operations and do not constitute public debt. The government has issued guarantees for the debts of State-Owned Enterprises (SOEs), with the stock of guarantees amounting to NPR 49.4 billion by the end of FY2023/24 (0.85 percent of GDP), which is included in the debt stock.<sup>2</sup> Most medium- and long-term SOE loans are sourced from the central government and are already accounted for under central government debt. Remaining SOE liabilities not captured in public debt are reflected in the contingent liability stress test.

**2. Public debt is defined in the LIC DSF to include the negative balance of the Treasury Single Account (TSA).**<sup>3</sup> According to the Government Finance Statistics Manual and Public Sector Debt Statistics Guide, a negative cash balance in the TSA is treated as part of government gross debt. The TSA is the primary account through which the central government receives revenues and executes expenditures. However, extra-budgetary funds and subnational governments—provincial and local—are not integrated into the TSA system. This fragmentation complicates cash management and reduces fiscal transparency. While the consolidated net balance across all government accounts is positive—standing at 4.6 percent of GDP as of Q2 FY2024/25—these other cash balances are not eligible to offset the negative TSA balance in the LIC DSF debt measure. This is partly due to uncertainties regarding the liquidity of these assets and their availability for debt service purposes.<sup>4</sup> The negative TSA balance increased to 4 percent of GDP in FY2023/24, up from 3.4 percent in FY2022/23, but is constrained by a binding domestic borrowing ceiling. The negative TSA balance highlights underlying debt pressures that would have been understated if the LIC DSF had excluded TSA balances from the public debt definition.<sup>5</sup> The balance worsened due to lower imports and declining revenue collection, leading the government to draw down TSA resources. However, it has improved in FY2024/25, and a continued recovery in imports and revenues is expected to further strengthen the balance and support domestic debt dynamics.

<sup>2</sup> The stock of guarantees increased by NPR 2.9 billion since the last DSA.

<sup>3</sup> Negative TSA balance is not part of the public debt as reported by the authorities.

<sup>4</sup> These cash balances can only be counted to reduce net debt.

<sup>5</sup> The negative balance of government accounts at the NRB cannot exceed 5 percent of the previous year's government revenue. However, there is legal uncertainty as to whether the limit applies to the consolidated balance across all accounts or to the TSA only.

Text Table 1. Nepal: Public Debt Coverage

Subsectors of the public sector		Check box
1 Central government		X
2 State and local government		X
3 Other elements in the general government		X
4 o/w: Social security fund		X
5 o/w: Extra budgetary funds (EBFs)		X
6 Guarantees (to other entities in the public and private sector, including to SOEs)		X
7 Central bank (borrowed on behalf of the government)		X
8 Non-guaranteed SOE debt		

1 The country's coverage of public debt	The general government, central bank, government-guaranteed debt	
	Default	Used for the analysis
2 Other elements of the general government not captured in 1.	0 percent of GDP	0
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2
4 PPP	35 percent of PPP stock	2.11
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
Total (2+3+4+5) (in percent of GDP)		9.1

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

**3. The contingent liability stress test is based on the default setting and includes contingent liabilities stemming from SOE debt (2 percent of GDP), PPP projects (2.1 percent of GDP) and financial markets (5 percent of GDP).** While PPP-related liabilities have not yet been formally compiled by the authorities, data from the World Bank's Private Participation in Infrastructure (PPI) database estimate Nepal's PPP contracts at around 6 percent of GDP as of 2022. The baseline debt figures already incorporate the Net Acquisition of Financial Assets (NAFA), which primarily reflects government loans and capital injections to SOEs. NAFA has averaged 1.4 percent of GDP annually since 2009 but fell sharply to -0.9 percent in FY2022/23 due to fiscal consolidation. It rebounded to 0.5 percent of GDP in FY2023/24, reflecting renewed government lending and a slowdown in the accumulation of negative cash balances. Under the program baseline, NAFA is assumed to return to its historical average over the medium term. Importantly, the contingent liability stress test for SOE debt is applied in addition to the NAFA embedded in the baseline projections. The assumed 2 percent of GDP contingent liability from SOEs remains appropriate at this stage. It covers approximately one-fifth of the total liabilities of all non-financial SOEs and the full liabilities of Nepal Airlines Corporation—the most financially distressed SOE, which continues to incur losses despite the post-pandemic tourism recovery.<sup>6</sup> Indeed, SOE-related fiscal risks remain elevated and require close monitoring. Strengthening risk oversight should include timely publication and audit of SOE financial statements, expanding the fiscal risk registry to incorporate subnational governments and PPPs, and publishing a comprehensive fiscal risk statement with the FY2025/26 budget (end-August 2025 SB). The default financial market risk of 5 percent of GDP is also retained, consistent with the current assessment that Nepal's banks are adequately capitalized. However, emerging vulnerabilities in the financial system—including rising non-performing loans (NPLs), weaker capitalization, and stagnating credit to the private sector—warrant continued vigilance, especially in the savings and credit cooperative (SACCO) sector (SR 118). The launch of a loan portfolio review (LPR) for the ten largest banks by the Nepal Rastra

<sup>6</sup> Other major SOEs, including Nepal Oil Corporation, were profitable in FY2023/24. For more details on SOE risks in Nepal, see the 2023 Selected Issues Paper on "Public Enterprises and Fiscal Risks".

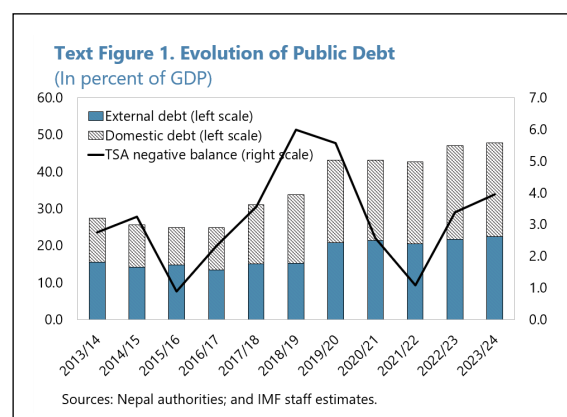


Bank (NRB) is a welcome step (SR ¶17), and its findings will inform future calibration of the financial market contingent liability.<sup>7</sup>

**4. Public debt management practices are steadily improving, though there remains scope for further progress.** The enactment of the Public Debt Management Act (PDMA) in October 2022 marked a significant milestone, consolidating debt management functions within the Public Debt Management Office (PDMO). The Act also sets a statutory ceiling on external public debt at one-third of the previous fiscal year's GDP. In line with the Act, the PDMO assumed responsibility for domestic debt issuance from the NRB in April 2024 and has since made notable strides in dematerializing debt securities. The transition has thus far been smooth and efficient. Institutional governance has also been strengthened: the Debt Management Committee—responsible for approving the debt issuance calendar and related matters—is now chaired by the Revenue Secretary, thereby enhancing the separation between domestic debt management and monetary policy operations. The Medium-Term Debt Strategy (MTDS) has been published on the PDMO's website and is now intended to be updated annually and serve as an input into the annual budget process. Two IMF TA missions, in January and April 2024, supported database management and reporting for IT Customs Systems and helped customs revenue collection for domestic revenue mobilization. Earlier, progress was made in August 2023, when the Ministry of Finance launched a fiscal risk register to identify, disclose, and manage fiscal risks, including those related to SOEs and government guarantees. Despite these advancements, challenges remain. Limited resources and frequent staff rotation at the PDMO have slowed implementation of the PDMA. In addition, middle- and back-office functions require further enhancement. Priorities include institutionalizing cash flow forecasting, integrating it with debt management operations, anchoring the annual borrowing and issuance plans in the MTDS and market conditions, and deepening the domestic bond market.

## BACKGROUND ON DEBT

**5. Nepal's total public debt has been on an increasing trajectory** (Text Figure 1). The increase began in 2016, driven by the country's transition to fiscal federalism and the reconstruction needs following the 2015 earthquake. Public debt rose further in FY2019/20 in response to the COVID-19 pandemic and continued to increase as the initial post-pandemic rebound in credit and imports gave way to a slowdown. This downturn weighed on GDP growth and reduced tax revenues. As a result, public debt has nearly doubled—from 25 percent of GDP in FY2015/16 to 48.3 percent in FY2023/24.



<sup>7</sup> The LPR may also shed some light on the spillovers to the banking sector from the SACCOs, where vulnerabilities are rising (SR ¶17). The focus of the LPR however is not on SACCO exposure, and banks have little information on whether they have provided loans to clients that also are exposed to SACCOs as the latter do not report credit information.

**6. External public debt remains highly concessional and has increased only modestly since the onset of the pandemic.** Multilateral creditors—primarily the World Bank’s International Development Association (IDA) and the Asian Development Bank (ADB)—account for the majority of external debt, comprising 87 percent of the total (Text Table 2). These loans carry low interest rates (averaging 1 percent) and long maturities (averaging 36 years), resulting in a high degree of concessionality. As a result, the present value (PV) of external debt is estimated at just 17.5 percent of GDP in FY2023/24. Bilateral loans, mostly from Japan, India, China, and Korea, have also been extended on concessional terms. Despite this favorable financing structure, the external debt-to-GDP ratio has risen only slightly since the pandemic as both political and capacity constraints have limited the government’s ability to implement externally financed capital projects. The current DSA also incorporates Nepal’s transition in IDA financing from IDA-only to Gap status in FY2025/26, as well as authorities’ agreement with IDA to access blend term credits at *fixed rates*.

**Text Table 2. Nepal: Decomposition of Public Debt and Debt Service by Creditor, 2024-26**

	Debt Stock (end of period)			Debt Service					
	2024			2024	2025	2026	2024	2025	2026
	(In million US\$)	(Percent total debt)	(Percent GDP)	(In million US\$)			(Percent GDP)		
<b>Total<sup>1</sup></b>	20,645	100	48.3	4,584	4,576	1,446	10.7	10.7	3.4
<b>External</b>	9,732	47.1	22.8	385	416	477	0.9	1.0	1.1
Multilateral creditors <sup>2</sup>	8,346	40.4	19.5	309	334	392	0.7	0.8	0.9
IMF	473	2.3	1.1						
World Bank	4,585	22.2	10.7						
ADB	3,049	14.8	7.1						
Other Multilaterals	239	1.2	0.6						
Bilateral Creditors	1,024	5.0	2.4	76	83	85	0.2	0.2	0.2
Paris Club	430	2.1	1.0	19	20	23	0.0	0.0	0.1
o/w: JICA	381	1.8	0.9						
EXIM Bank of Korea	38	0.2	0.1						
Non-Paris Club	594	2.9	1.4	57	63	62	0.1	0.1	0.1
o/w: EXIM Bank of China	254	1.2	0.6						
EXIM Bank of India	303	1.5	0.7						
Bonds	0	0.0	0.0	0	0	0	0.0	0.0	0.0
Commercial creditors	0	0.0	0.0	0	0	0	0.0	0.0	0.0
Other international creditors	0	0.0	0.0	0	0	0	0.0	0.0	0.0
<b>Domestic</b>	10,913	52.9	25.5	4,200	4,160	969	9.8	9.7	2.3
Held by residents, total	10,913	52.9	25.5	4,200	4,160	969	9.8	9.7	2.3
Held by non-residents, total	0	0.0	0.0	0	0	0	0.0	0.0	0.0
T-Bills	3,020	14.6	7.1	3,441	2,979	0	8.1	7.0	0.0
Bonds	5,786	28.0	13.5	759	1,180	969	1.8	2.8	2.3
Loans <sup>3</sup>	2,107	10.2	4.9	0	0	0	0.0	0.0	0.0
<b>Memo items:</b>			0.0						
Collateralized debt <sup>4</sup>	0	0.0	0.0						
o/w: Related	0	0.0	0.0						
o/w: Unrelated	0	0.0	0.0						
Contingent liabilities	369	1.8	0.9						
o/w: Public guarantees	369	1.8	0.9						
o/w: Other explicit contingent liabilities <sup>5</sup>	0	0.0	0.0						
Nominal GDP	42,714								

1/ As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Debt levels in this table may differ from those in other tables as the calculations here are based on US\$. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

2/ Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Loans here refer to the negative Treasury Single Account (TSA) balance and SOE debt guarantees

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is “unrelated” when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 “Collateralized Transactions: Key Considerations for Public Lenders and Borrowers” for a discussion of issues raised by collateral.

5/ Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

**7. Domestic public debt has been increasing faster than external debt in recent years.** It rose from 10.1 percent of GDP in FY2015/16 to 25.5 percent in FY2023/24—more than doubling over the period and outpacing the growth of external debt. This sharp increase, coupled with a decline in revenue and grants, has resulted in a notable rise in the domestic debt service-to-revenue ratio which now exceeds that of Nepal's peers and signals growing vulnerabilities in domestic debt dynamics (Figure 5). The burden has been particularly pronounced following a substantial rise in interest payments. However, interest rates on domestic debt have been declining recently, trending toward 3–4 percent depending on the instrument. In FY2023/24, more than 85 percent of total government interest spending—amounting to 1.3 percent of GDP—was allocated to service domestic debt. Despite some repayment of domestic debt, a slowdown in new issuance, and an expected increase in revenue and grants, the debt service-to-revenue ratio is projected to remain elevated compared to peer countries over the medium term, posing risks to debt sustainability. In FY2023/24, less than 30 percent of domestic debt was held in short-term Treasury bills (with maturities up to one year), while just under 70 percent is held in medium- to long-term development bonds (with maturities of 3 to 7 years) (Text Table 2). Domestic financial institutions are the primary holders of this debt. Since all domestic public debt is held by residents, currency-based and residency-based measures of external debt are not expected to diverge significantly.

**8. The stock of private external debt in Nepal is relatively low but has been on the rise lately.** While the government and the NRB are encouraging commercial banks to access external loans, bank external borrowing has been constrained by limited access, high relative cost, and regulations by authorities, such as a maximum spread limit on banks' foreign loans and limits on the set of potential lenders. Apart from trade credit, the external debt by banks and other sectors in FY2019/20 was relatively low at about 2.5 percent of GDP, but the external borrowing picked up in 2021–24, with the debt reaching estimated 3.7 percent of GDP in FY2023/24, driven by the NRB's monetary policy tightening and increased cost of funding in Nepal versus the rest of the world. Reflecting this recent trend, private medium- and long-term external debt is assumed to increase to 5.5 percent of GDP in the long term. Most of the private external borrowing so far has been by banks and hydropower projects, which is likely well-covered in the standard contingent liabilities stress test for financial market and PPPs. The dynamics of the private external debt may change and has to be monitored, as the authorities have been signaling their increasing openness to foreign capital inflows, particularly following the country's first sovereign credit risk rating (BB- from Fitch) obtained in November 2024.

## BACKGROUND ON MACRO FORECASTS

**9. Nepal's economic activity showed signs of improvement in FY2023/24 compared to the previous year, although the country continues to face significant structural challenges.** Real GDP growth was supported by agriculture, export-oriented sectors, and strong remittance inflows. However, import contraction and a decline in credit growth persisted, reflecting the continued under-execution of capital spending. The external position strengthened notably, underpinned by robust remittances and weak import demand, resulting in a sizable accumulation of international reserves. Despite the easing of monetary policy, the credit-to-GDP ratio continued to decline from its post-pandemic highs, as credit growth remained subdued due to weak private sector demand and capital constraints in the banking sector. Growth is expected to continue in FY2024/25, albeit at a moderate pace, as the impact of

September 2024 floods and delayed reconstruction efforts weigh on the outlook. The recovery will be supported by favorable agricultural conditions, sustained remittance inflows, and an increase in capital spending—particularly in the construction sector. Import growth accelerated significantly during the first half of the current fiscal year and is expected to continue on the back of pent-up demand and higher execution of capital expenditure, particularly in construction and energy. Nonetheless, current macroeconomic challenges are compounded by persistent structural weaknesses, including low domestic job creation, substantial infrastructure gaps and vulnerability to natural disasters exacerbated by climate change and environmental degradation.

**10. Growth and inflation.** The economy is estimated to have grown by 3.7 percent in FY2023/24, broadly in line with projections from the previous DSA (Text Table 3). Real GDP growth is projected to accelerate to 4.3 percent in FY2024/25—driven by higher capital spending, especially as reconstruction activities gain momentum—and stabilize around 5 percent in the medium and long term. Inflation eased to 5.4 percent in FY2023/24, supported by declining global commodity prices. It is projected to decline further to 4.2 percent in FY2024/25 and gradually converge to 5 percent in the medium and long term. This trajectory will depend on NRB’s cautious, data-driven monetary policy stance and stability of energy and food price developments.

**11. Medium and long-term growth drivers.** Economic growth is projected to gradually stabilize at around 5 percent over the medium to long term. This forecast is contingent on sustained progress in structural reforms, including those outlined under the ECF-supported program, and the effective utilization of concessional external financing to scale up high-quality social and capital spending. Key growth drivers include tourism-related services and improved capital expenditure execution, which is expected to benefit from several institutional reforms. The issuance of the revised National Project Bank Operational Procedures in March 2025 (with a supplement to the guideline in June 2025), the implementation of the Public Investment Management Assessment (PIMA) action plan by the National Planning Commission in February 2024, and SARTAAC TA mission on Addressing Issues in the Capital Budget Execution in January 2025 are expected to improve the planning, selection, and prioritization of capital projects over the medium term.<sup>8</sup> In addition, authorities announced further legislative reform, including a revision of the Land Acquisition Act and an amendment of the Public Procurement Act. The industrial sector is also expected to contribute more meaningfully to growth in the medium term, supported by the significant expansion of hydropower generation and exports. A more reliable electricity supply will enhance the business environment by improving productivity and enabling firms to operate and scale more effectively. However, the outlook is subject to downside risks, predominately from domestic political uncertainty, weak policy execution, and intensification of financial sector vulnerabilities. Externally, high commodity prices, bilateral trade restrictions by partner economies or slowdowns in remittance source countries could slow the recovery. Additionally, Nepal is subject to natural disasters requiring comprehensive and scaled-up adaptation measures. According to the World Bank’s 2022 Country Climate and Development Report

<sup>8</sup> Nepal has notoriously low capital budget execution rates, which continue to impede efforts to close critical infrastructure gaps. Unrealistic planning, overambitious budgeting, and frequent mid-year virements contribute to persistent deviations from approved budgets. Institutional weaknesses—such as ad hoc planning practices, procurement inefficiencies, resource constraints, and a lack of transparency in capital project selection—further undermine effective execution.

(CCDR), long-term growth is projected to be 0.15 percentage points lower under an Representative Concentration Pathway (RCP) 4.5 scenario compared to a no-climate change baseline over the period 2040–2060.<sup>9</sup> In light of this, the adaptation efforts could build on existing policy successes—such as community forestry and hydropower development—and implementing climate-smart urbanization, strengthening low-carbon and resilient infrastructure, improving disaster risk management, and mobilizing climate finance. The Green, Resilient, and Inclusive Development (GRID) approach and action plan, adopted by the Government of Nepal and 16 development partners in November 2023, will be critical in guiding this agenda.<sup>10</sup>

**Text Table 3. Nepal: Selected Macroeconomic Assumptions 1/**

	Previous DSA 2/				Current DSA				Current vs. Previous	
	23/24	24/25	MT	LT	23/24	24/25	MT	LT	MT	LT
Real growth (%)	3.1	4.9	5.0	5.0	3.7	4.3	5.1	5.0	0.1	0.0
CPI (period average, %)	5.6	5.2	5.4	5.5	5.4	4.2	4.9	5.6	-0.5	0.1
Revenues and grants (% GDP)	19.3	20.2	21.9	23.2	19.4	19.6	22.0	22.5	0.1	-0.7
Primary expenditure (% GDP)	22.3	22.7	23.6	24.3	20.7	20.9	23.8	24.1	0.2	-0.2
Net acquisition of non-financial assets (% GDP)	3.7	5.0	5.7	6.1	3.4	3.4	5.5	6.0	-0.2	-0.1
Primary balance (% GDP)	-3.0	-2.5	-1.7	-1.1	-1.3	-1.3	-1.8	-1.6	-0.1	-0.5
Net acquisition of financial assets (% GDP)	1.3	1.3	1.3	1.3	0.5	1.3	1.3	1.3	0.0	0.0
Net incurrence of liabilities (% GDP)	6.0	5.4	4.6	4.0	3.3	4.2	4.7	4.6	0.1	0.7
Net domestic financing (% GDP)	4.4	3.8	3.3	2.5	1.7	2.5	3.3	3.2	0.0	0.6
Exports of G&S (% GDP)	7.5	7.8	7.7	7.4	7.6	9.3	8.6	8.5	0.9	1.1
Imports of G&S (% GDP)	32.8	36.3	35.7	28.2	32.9	35.7	38.6	32.2	2.9	3.9
Remittances (% GDP)	24.5	23.3	21.0	13.1	25.3	26.7	23.6	15.3	2.6	2.2
Current account balance (% GDP)	3.2	-1.6	-3.4	-2.9	3.9	3.9	-2.9	-3.4	0.5	-0.5
Gross official reserves (months of prosp. imports)										

Note: MT (medium term) is the average over the next 5 years, and LT (long term) is the average over the following 6–19 years.

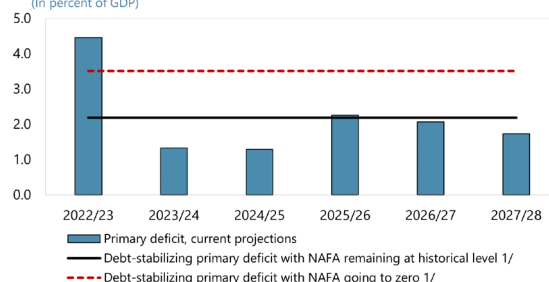
Sources: Nepalese authorities; and IMF staff estimates

1/ Nepal's fiscal year starts in mid-July. For example, FY2024/25 runs from mid-July 2024 to mid-July 2025.

2/ Previous DSA refers to ECF 4th Review IMF CR 2024/225.

**12. Fiscal:** The primary deficit narrowed significantly to 1.3 percent of GDP in FY2023/24, down from 4.5 percent in FY2022/23 and below the projection in the previous DSA. This improvement was driven by spending restraint in FY2023/24 more than offset the lower-than-expected revenue collection, leading to a larger-than-anticipated improvement in the primary balance. Looking ahead, the primary deficit is projected to remain at 1.3 percent of GDP in FY2024/25 and widen to 2 percent in

**Text Figure 2. Debt-Stabilizing Primary Deficits**  
(In percent of GDP)



Source: IMF staff estimates.  
1/ As of FY2026/27.

<sup>9</sup> The RCP 4.5 is a scenario, where emissions peak around 2040 and then decline, and average global temperatures rise 2.5°C.

<sup>10</sup> More details on Nepal's climate policies and vulnerabilities in the World Bank's Country Climate and Development Report on Nepal (August 2022).

FY2025/26, reflecting a gradual improvement in capital expenditure execution. To focus capital spending on high-priority projects, the budgeted amounts for other projects where procurement could not start will be reallocated.

**13. Fiscal developments over the medium-term:** The fiscal deficit is projected to gradually decline to 1.7 percent of GDP in the medium term before stabilizing at around 1.5 percent of GDP over the long term, in line with the consolidation path set out under the ECF-supported program (Table 2). Continued improvements in the fiscal balance will depend on the government's sustained efforts to mobilize revenue—guided by the Domestic Revenue Mobilization Strategy adopted in June 2024—and on reducing duplication of spending responsibilities across levels of government. Capital spending is expected to increase over the medium term, supported in part by the implementation of the public investment management action plan prepared in April 2024 as part of the ECF framework. The FY2025/26 budget announced in May 2025 is broadly aligned with the projected fiscal consolidation path. To support the consolidation effort, staff recommended closing VAT exemptions and gradually phasing out tax holidays and concessions granted to special industries. Additionally, improving the collection of VAT and income tax arrears should be a priority. This could be achieved by developing a comprehensive arrears management plan and introducing an automated system to send reminders and issue administrative and legal notifications. Over the medium term, further revenue-enhancing measures that promote equity and efficiency should be introduced. Customs revenue can be strengthened through the development of a Customs Compliance Improvement Strategy (CCIS) (end-December SB).

**14. Net acquisition of financial assets:** The dynamics of the existing debt stock and the projected fiscal path suggest a debt-stabilizing primary deficit of approximately 3.5 percent of GDP (Text Figure 2). However, the continuation of sizeable NAFA implies a much lower debt-stabilizing primary deficit of about 2.2 percent of GDP. NAFA increased in FY2023/24 relative to the previous year and is currently trending toward its historical average. The proposed fiscal path is expected to stabilize public debt, assuming NAFA remains broadly in line with historical patterns—net of changes in the Treasury Single Account (TSA) balance—as observed over the past several years.

**15. External sector:** Driven by subdued domestic demand and strong growth in remittances and tourism, the current account (CA) shifted to a surplus of 3.9 percent of GDP in FY2023/24, reversing from a deficit of 0.9 percent in FY2022/23. This turnaround was driven by subdued domestic demand and strong growth in remittances and tourism. Although import recovery has begun, the current account surplus is projected to remain at 3.9 percent of GDP in FY2024/25, before shifting into a deficit over the medium term. Specifically, the CA deficit is expected to widen to around 3.4 percent of GDP as growth returns to potential and deferred import demand materializes. Export performance in FY2023/24 was broadly in line with the assumptions of the previous DSA, but exports are estimated to have grown substantially in FY2024/25. This growth has been primarily driven by a surge in soybean oil exports—benefiting from tariff-related arbitrage opportunities—and supported by the continued rebound in tourism. Over the medium term, exports are projected to gradually normalize to around 8.6 percent of GDP. Meanwhile, remittances as a share of GDP are expected to decline gradually due to growth underperformance in migrant-hosting countries, return migration, and a slowdown in new overseas deployments. Nevertheless, remittances are projected to remain substantial—around 24 percent of GDP in the medium term. Gross international



reserves are projected to reach the equivalent of 10.9 months of prospective imports in FY2024/25 and remain robust in the medium term, stabilizing at around 7–8 months of import coverage.

**16. Financing:** External government financing declined during 2021–2023, both in nominal terms and as a share of GDP, as the authorities increasingly relied on domestic borrowing and drew down balances from the Treasury Single Account (TSA). Nevertheless, concessional loans from development partners—primarily multilateral development banks—are expected to remain a key source of financing for both balance of payments and fiscal needs. The shift in IDA financing terms is not expected to change this trend. This is reflected in the increase in external financing observed in FY2023/24 and the further rise expected in FY2024/25 and over the medium term (Text Table 4). In line with these projections, external financing is now expected to average around 2 percent of GDP in the medium term—only marginally higher than the 1.9 percent of GDP projected in the previous DSA. Domestic borrowing is projected to cover approximately two-thirds of fiscal financing needs over the medium- to long-term, although it remains a more costly and risk-prone alternative to external concessional financing. Interest rates on domestic borrowing, currently at low levels, are expected to gradually rise to around 4–5 percent over the medium term, in line with projected inflation and an assumed gradual unwinding of financial repression. In contrast, interest rates on newly contracted external loans, along with other concessional terms such as long maturities and grace periods, are expected to remain broadly unchanged. While external borrowing carries exchange rate risk—albeit low to date—Nepal continues to benefit from highly favorable borrowing terms relative to those available to many frontier and emerging market economies that rely on international bond markets. About one-third of newly issued domestic debt is assumed to be short-term, in keeping with recent trends and current government practices. This structure implies a significant degree of refinancing risk.

**Text Table 4. Nepal: External Borrowing Program, FY2024/25**

PPG external debt contracted or guaranteed	Volume of new debt, US\$ million 1/	Present value of new debt, US\$ million 1/
<b>Sources of debt financing</b>	1,090	572
Concessional debt, of which 2/	1,014	512
Multilateral debt	817	416
Bilateral debt	197	96
Non-concessional debt, of which	86	60
Semi-concessional debt 3/	86	60
Commercial terms 4/	0	0
<b>Uses of debt financing</b>	1,090	572
Project financing	815	
Budget financing	275	
<i>Memorandum items</i>		
Indicative projection FY2025/26	1,300	795
Indicative projection FY2026/27	1,086	687

Sources: Nepalese authorities; and IMF staff estimates.

1/ Contracting and guaranteeing of new debt. The present value of debt is estimated using the terms of recent individual loans and applying the 5 percent program discount rate.

2/ Debt with a grant element that exceeds 35 percent.

3/ Debt with a positive grant element which is lower than the minimum grant element of 35 percent.

4/ Debt without a positive grant element.

## 17. Realism of the baseline is broadly corroborated by the realism checks and debt dynamics tools.

- Unexpected changes in both public and external debt over the last five years are within the 25-75 percent interquartile range of distribution across all LICs.
- The public debt-creating flows over the next five years are similar to the 5-year historical average (Figure 3). The contribution of future GDP growth is somewhat lower than the 5-year historical average, considering that the 5-year historical average includes the pandemic. The contribution of the primary deficit is lower too, reflecting the authorities' commitment to stabilize debt over the medium-term, already demonstrated during the FY2024/25 mid-year budget review. The external debt-creating flows over the next five years are also similar to the 5-year historical average, with a slightly smaller contribution of the current account—in line with the current dynamics.
- The projected 3-year fiscal adjustment is well-below the 75<sup>th</sup> percentile across all LICs with Fund-supported programs since 1990 (Figure 4). The adjustment is expected to materialize more in the medium-term.
- The impact of the mild fiscal expansion on the growth rate is projected to be stronger than implied by conventional assumptions about fiscal multipliers, though the divergence is much smaller than in the previous DSA. Part of the projected fiscal expansion reflects a reverse causality as economic recovery and a rebound in imports contribute to higher government revenue. Nevertheless, it is important to note that the projected fiscal expansion is only temporary: consolidation is expected to materialize in the medium-term.
- The implied projected impact of public investment on economic growth is less conservative than what has been likely the case historically, and in line with historical averages. Should capital spending turn out to be more targeted and efficient, as is the authorities' ambition, it would present an upside to the current DSA projections and reduce potential negative spillovers from fiscal consolidation to economic growth.

## COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

**18. Nepal's debt carrying capacity is strong.** A composite indicator (CI) is used to capture the different factors affecting a country's debt carrying capacity. The CI is a weighted average of the World Bank's Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, foreign exchange reserves, and global growth. The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projections. Nepal's CI score is calculated at 3.14, based on the April 2025 World Economic Outlook and the 2023 World Bank CPIA index, which reflects a *strong* Debt carrying capacity (Text Table 5). This classification determines the applicable external and public debt thresholds used in the risk rating assessment. For countries with strong capacity,



the thresholds are: (i) PV of external debt at 55 percent of GDP and 240 percent of exports; (ii) external debt service at 21 percent of exports and 23 percent of revenue; and (iii) PV of total public debt at 70 percent of GDP.

**19. Tailored stress tests:** The LIC-DSF includes stress tests to assess the sensitivity of projected debt burden indicators to adverse changes in the baseline projections as well as to materialization of contingent liabilities. All stress tests were kept at their default settings. In addition, to reflect Nepal's vulnerability to natural disasters, such as the 2015 earthquake and September 2024 floods, a natural disaster shock was applied as one of the stress tests following 2024 Supplementary Guidance Note. A one-off shock of 10 percentage points of GDP to the debt-to-GDP ratio in the second year of the projection period (FY2025/26) is assumed, and real GDP growth and exports were lowered by 1.5 and 3.5 percentage points, respectively, in the year of the shock for the stress test.<sup>11</sup> Given Nepal's topography and heavy reliance on climate-sensitive sectors such as agriculture and hydropower, the economy remains highly vulnerable to climate-related shocks, which can have long-lasting effects on growth and public finances. Strengthening resilience through risk-informed public investment and adaptive social protection is thus critical for fiscal sustainability. To help buffer against climate-related risks, the expected disbursement of a US\$ 100 million DPC CAT DDO 2 from IDA would provide important contingent financing for climate resilience and disaster response.

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<sup>11</sup> Figure 6 also presents a more extreme scenario, in which a one-off shock of 20 percentage points of GDP is applied to the debt-to-GDP ratio, alongside a reduction in real GDP growth and exports by 5 and 7 percent, respectively.

Text Table 5. Nepal: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity and Thresholds				
Country	Nepal			
Country Code	558			
Debt Carrying Capacity	Strong			
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage	
Strong	Strong 3.14	Strong 3.14	Strong 3.15	

Calculation of the CI Index				
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	3.38	1.30	42%
Real growth rate (in percent)	2.72	4.00	0.11	3%
Import coverage of reserves (in percent)	4.05	57.32	2.32	74%
Import coverage of reserves*2 (in percent)	-3.99	32.85	-1.31	-42%
Remittances (in percent)	2.02	15.49	0.31	10%
World economic growth (in percent)	13.52	2.97	0.40	13%
CI Score			3.14	100%
CI rating			Strong	

Applicable thresholds	
APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of Exports	240
GDP	55
Debt service in % of Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

New framework	
	Cut-off values
Weak	CI < 2.69
Medium	2.69 ≤ CI ≤ 3.05
Strong	CI > 3.05

## EXTERNAL DEBT SUSTAINABILITY

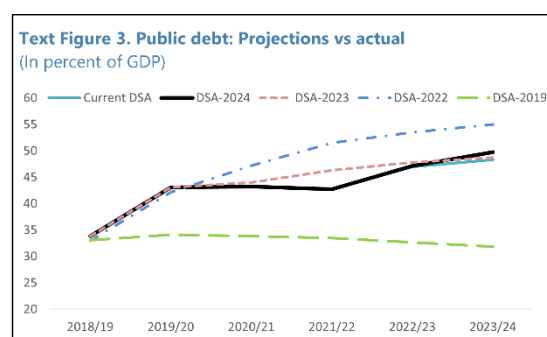
**20. All external debt indicators remain below their indicative thresholds under the baseline** (Figure 1, Table 1, Table 3). External debt in FY2023/24 was only slightly higher than projected in the previous DSA. Reliance on external borrowing is expected to decline over the medium and long term. As a result, the public and publicly guaranteed (PPG) external debt stock is projected to gradually decrease to about 20 percent of GDP by FY2034/35. The present value (PV) of the PPG external debt-to-GDP ratio is expected to remain within the range of 12–14 percent over the medium term—well below the indicative threshold of 55 percent. While the PV of the PPG external debt-to-exports ratio remains below its threshold, it appears elevated due to Nepal's low exports-to-GDP ratio. Other key external debt indicators—including the debt service-to-exports ratio and the debt service-to-revenue ratio—also remain comfortably below their indicative thresholds, indicating continued external debt sustainability.

**21. External debt is most vulnerable to export shocks.** The PV of external PPG debt-to-exports ratio breaches the thresholds in an export shock stress test scenario.<sup>12</sup> In contrast, the external debt service-to-exports ratio remains below the threshold in the current DSA, marking an improvement relative to the previous DSA, which showed a marginal and temporary breach lasting two years. The export shock calibration is particularly severe for Nepal, as it reflects high export volatility over the past decade—a period that includes the 2015 earthquake and the COVID-19 pandemic in 2020, both of which severely impacted the tourism sector. The calibration period also includes a one-off 46 percent spike in exports in FY2021/22 due to a massive increase in the palm oil re-export driven by a loophole in custom tariffs between Nepal, India, and Indonesia.<sup>13</sup> Because of a small denominator (exports), the indicator is highly sensitive to macroeconomic assumptions. The other indicators are all below the respective thresholds even in their most extreme stress tests.

## OVERALL RISK OF PUBLIC DEBT DISTRESS

**22. Under the baseline scenario, the PV of public debt-to-GDP ratio remains below the 70 percent benchmark during the projection period** (Figure 2, Table 2, Table 4).

Public debt in FY2023/24 was lower than projected in the previous DSA, despite slower-than-expected GDP growth, a sharp decline in imports, and reduced reliance on concessional external financing. This outcome reflects, in part, a significant reduction in the primary deficit due to delays in capital



expenditure execution. A second contributing factor was the moderate normalization in NAFA compared to earlier forecasts. Overall, public debt levels have remained below those projected at the time of the ECF program request in January 2022 but remain above pre-pandemic projections and have continued to rise (Text Figure 3). Gradual fiscal consolidation—combined with a continued economic recovery—is expected to stabilize debt dynamics over the medium term. Public debt is projected to peak at around 49.5 percent of GDP in FY2025/26 and gradually decline thereafter. The PV of public debt-to-GDP is projected to rise from 39 percent to a peak of 40.7 percent, well below the 70 percent benchmark. However, Nepal's debt service-to-revenue ratio has increased sharply over the past four years—approaching 50 percent—driven by a high share of short-term domestic debt (about one-third of the total), rising interest payments, and a recent decline in the revenue-to-GDP ratio. This ratio is expected to decline to around 32 percent over the medium term, supported by reduction in principal repayments on existing debt, lower interest payments, fiscal consolidation efforts, and improvements in revenue and grant mobilization. Nonetheless, the projected level remains elevated relative to peer countries, posing continued risks to domestic debt sustainability—as highlighted in Figure 5, following 2024 Supplementary Guidance Note. The authorities'

<sup>12</sup> The PV of external PPG debt-to-GDP ratio also breaches the threshold for one year in the combined shocks scenario, where the culprit is again the shock to exports.

<sup>13</sup> The calibrated volatility of exports would decrease by one third if FY2021/22 is excluded from the calculation. The PPG external debt-to-exports ratio would still breach the indicative threshold, but the breach would be marginal and temporary (4 years).

commitment to the suggested fiscal consolidation path and efforts to extend the maturity profile of domestic debt—by reducing reliance on shorter-maturity Treasury bills—will be critical to mitigating these vulnerabilities.

**23. Public debt is most vulnerable to a growth shock.** The growth shock is defined as a temporary shock to real GDP growth in the second and third year of the projection period and is set to either the 10-year historical average growth minus one standard deviation or projected growth minus one standard deviation, whichever is lower. The shock would raise the PV of debt-to-GDP ratio close to the threshold of 70 percent in the last year of the projection period, 2035. The PV of debt-to-revenue ratio and the debt service-to-revenue ratio also rise significantly under such a shock. However, none of the thresholds are breached. Like with exports, the shock to growth is calibrated to be particularly large for Nepal as the calibration period includes both the earthquake of 2015 and the pandemic. Under all other shock scenarios, the PV of debt-to-GDP ratio remains below the indicative threshold.

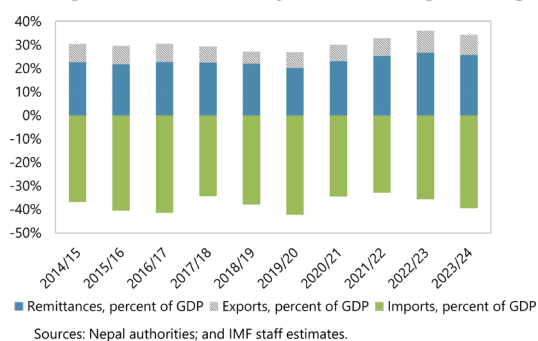
## OTHER FACTORS TO ACCOUNT FOR

**24. Judgment is applied in interpreting the risk signal from stress test on the PV of debt-to-exports in light of the exceptionally high level of remittances and the resilience to shocks of all other debt burden metrics.** Remittances are the major

source of foreign exchange in the country (Text Figure 4). Nepal's remittance-to-GDP ratio (averaging 23 percent of GDP in 2015–2024) is the fourth largest in the world, and its remittance-to-exports ratio is by far the largest in the world (2018–22 averages), indicating an exceptionally high role of remittances in

the economy. Remittances have also been less volatile than exports—with the standard deviation of remittance growth being 7.4 percent versus 19.3 percent for export growth in the last 10 years—providing an important cushion in times of economic adversity.<sup>14</sup> The high level of remittances is also a major contributor to Nepal's Composite Indicator and the country's strong rating of debt carrying capacity. The current level of remittances is well above 7 percent of GDP—the minimum that is needed, everything else equal, to maintain the strong rating.<sup>15</sup> The exceptional role of remittances, combined with the fact that all other debt burden metrics remain below their sustainability thresholds, mitigates the risk signal from stress

**Text Figure 4. Remittances: Key Source of Foreign Exchange**



<sup>14</sup> Besides, Nepal's net errors and omissions have been consistently positive in the last decade and large (averaging over 2 percent of GDP in the last 5 years), indicating large unaccounted foreign exchange inflows into Nepalese economy, and thus contributing to large residuals in the external debt dynamics (Table 1). The positive errors and omissions could be due to informal exports, especially in the tourism sector, or due to informal (and possibly in-kind) remittances. The authorities transitioned the BoP accounts to the BPM6 standard, helped by an IMF TA mission in June 2024. The new accounting rules should improve the official estimates and, everything else equal, reduce net errors and omissions, and possibly increase exports and/or remittances.

<sup>15</sup> The remittances-to-GDP ratio has remained above 20 percent since FY2012, with an average of 19.3 percent over the period FY2001 to FY2024.

test on the PV of debt-to-exports. Nepal's low level of exports and their volatility is, however, a major vulnerability requiring committed policy attention. Boosting exports and reducing structural trade imbalances will become increasingly important over the medium and long-term as the role of remittances in the economy is projected to diminish.

## RISK RATINGS AND VULNERABILITIES

### **25. The risk of both public external debt distress and overall debt distress are assessed as low.**

All debt indicators remain below the relevant indicative thresholds under the baseline. The PV of public debt remains below the threshold under all stress tests. The PV of external PPG debt-to-exports ratio breach the indicative threshold under an export shock scenario, suggesting a mechanical rating of medium risk of debt distress. However, staff applied judgment to assess both external and public debt to be at low risk of debt distress given the exceptionally high level of remittances, the major source of foreign exchange, to balance the current account and service external debt. The fact that the PV of external PPG debt is 13.8 percent of GDP in FY2023/24, well below the indicative threshold of 55, is reassuring. External debt is also below thresholds in baseline and shock scenarios across other metrics (PV of external debt service-to-exports ratio, debt-to-GDP and external debt service-to-revenues), reflecting to a large extent the high level of concessionality of external borrowing and the low cost of debt servicing.<sup>16</sup> Nepal's high and increasing international reserves, projected to remain well above the adequacy level in the medium and long term, also supports the assessment. Besides, the authorities have achieved a considerable fiscal consolidation despite a challenging macroeconomic environment in FY2023/24 and FY2024/25 (projected) and kept public debt broadly in line with the previous DSA's projection, thus demonstrating their commitment to fiscal prudence. At the same time, exports of goods and services in FY2023/24 and FY2024/25 (projected) grew faster than projected in the previous DSA, and there are good prospects for an upside going forward, especially in the hydropower sector. Nevertheless, uncertainty around the baseline projections, the calibration of the shocks, and the debt risk assessments is exceptionally high in light of the major global shocks that hit Nepal in the last couple of years, and in light of climate-related shocks that are bound to increase in size in the future at the same time as the role of remittances in the economy is projected to diminish.

**26. While debt remains sustainable in the medium term, a number of steps could be taken to mitigate any potential risks.** To build resilience to shocks and boost exports, the authorities should continue to make efforts to improve productivity and competitiveness through stepping up investment in resilient and sustainable infrastructure, as well as streamlining regulations and administrative processes, accompanied also by sustained stronger domestic revenue mobilization. It is also important to pursue rigorous analysis of the risks related to contingent liabilities, for example, related to non-guaranteed commercial SOE debt or unfunded pension liabilities, PPP projects, and budget support for the financial sector, including SACCOs. Improvements are needed in subnational governments' public financial management and reporting. The authorities will also need to make significant progress in mainstreaming the medium-term debt strategy (MTDS) and cash flow forecasting—developing the government bond

<sup>16</sup>In reference to the LIC DSF guidance note, the use of staff judgement is based on the general provision to take into account country-specific factors that are not fully accounted for in the model.

market further to facilitate domestic borrowing and moving towards longer-maturity debt replacing short-term bills. At the same time, the authorities need to boost their effort to utilize concessional external borrowing, which is readily available and much-needed to close infrastructure gaps. Finally, the findings in this assessment are contingent upon prudent execution of the medium-term fiscal consolidation strategy, including the tax revenue and spending reforms envisaged in the ECF arrangement.

## AUTHORITIES' VIEWS

**27.** The authorities broadly agreed with the debt sustainability assessment. They reiterated their commitment to medium-term fiscal consolidation and to stabilizing the debt-to-GDP ratio. They also emphasized the importance of maintaining key fiscal anchors, including the legislative limit on external debt—set at 33 percent of the previous year's GDP under the Public Debt Management Act—and the annual ceilings on domestic borrowing established by the Natural Resources and Fiscal Commission. The authorities welcomed the incorporation of Nepal's shift in IDA financing terms in the new DSA and noted that it does not affect the assessment that Nepal remains at low risk of debt distress. They also concurred with the importance of lengthening the maturity profile of public debt and reaffirmed their intention to continue utilizing concessional external financing.

Table 1. Nepal: External Debt Sustainability Framework, Baseline Scenario, 2022-2045

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
External debt (nominal) 1/	24.6	26.3	26.5	27.5	27.6	27.0	26.6	26.3	26.0	25.5	23.4	20.7	26.3
of which: public and publicly guaranteed (PPG)	20.6	21.8	22.8	23.6	23.4	22.6	21.9	21.3	20.9	19.9	17.6	18.0	21.4
Change in external debt	-0.8	1.6	0.2	0.9	0.1	-0.6	-0.4	-0.3	-0.2	-0.1	-0.2		
Identified net debt-creating flows	9.6	0.8	-5.2	-5.3	-0.4	1.0	1.5	1.7	1.9	2.2	1.1	0.8	1.1
Non-interest current account deficit	12.3	0.6	-4.2	-4.2	1.2	2.5	2.9	3.1	3.2	3.5	2.4	2.1	2.5
Deficit in balance of goods and services	35.6	27.6	25.3	26.3	30.9	31.0	30.2	29.3	28.5	24.4	16.9	29.6	28.0
Exports	6.7	7.0	7.6	9.3	8.6	8.5	8.5	8.6	8.6	8.5	8.5		
Imports	42.3	34.6	32.9	35.7	39.5	39.5	38.8	37.9	37.1	33.0	25.3		
Net current transfers (negative = inflow)	-22.4	-25.5	-27.5	-29.0	-28.4	-27.4	-26.3	-25.2	-24.2	-19.8	-13.5	-26.3	-24.4
of which: official	-0.3	-0.2	-0.2	-0.4	-0.6	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6		
Other current account flows (negative = net inflow)	-0.8	-1.4	-2.0	-1.5	-1.3	-1.1	-1.0	-1.0	-1.1	-1.1	-1.0	-1.2	-1.1
Net FDI (negative = inflow)	-0.4	-0.1	-0.1	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.4
Endogenous debt dynamics 2/	-2.4	0.4	-0.8	-0.8	-1.1	-1.0	-1.0	-0.9	-0.9	-0.8	-0.9		
Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	-1.3	-0.5	-0.9	-1.1	-1.3	-1.3	-1.2	-1.2	-1.2	-1.2	-1.1		
Contribution from price and exchange rate changes	-1.3	0.6	-0.2	...	...	...	...	...	...	...	...		
Residual 3/	-10.4	0.8	5.4	6.3	0.5	-1.6	-1.9	-2.0	-2.1	-2.3	-1.3	0.2	-1.2
of which: exceptional financing	-0.6	-0.5	-0.8	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Sustainability indicators</b>													
PV of PPG external debt-to-GDP ratio	...	...	13.8	14.0	14.3	13.9	13.6	13.4	13.2	12.9	11.9		
PV of PPG external debt-to-exports ratio	...	...	181.2	149.6	166.5	163.5	159.5	155.2	153.1	150.8	140.4		
PPG debt service-to-exports ratio	9.6	10.3	10.2	9.8	11.6	11.2	10.8	10.5	10.1	8.5	8.3		
PPG debt service-to-revenue ratio	2.9	3.8	4.1	4.8	4.9	4.6	4.3	4.1	3.9	3.3	3.3		
Gross external financing need (Million of U.S. dollars)	6216.2	1538.6	-512.3	-928.9	1547.6	2438.6	2944.3	3336.4	3746.5	5877.9	7282.9		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	5.6	2.0	3.7	4.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0	4.1	5.0
GDP deflator in US dollar terms (change in percent)	5.6	-2.3	0.9	1.7	1.8	4.5	4.4	4.4	4.2	4.3	4.3	2.4	3.8
Effective interest rate (percent) 4/	1.1	1.1	1.4	1.1	1.0	1.0	1.1	1.2	1.3	1.4	1.0	1.0	1.2
Growth of exports of G&S (US dollar terms, in percent)	46.1	4.1	13.7	30.0	-1.6	8.8	9.9	10.5	9.4	9.4	9.5	5.1	10.3
Growth of imports of G&S (US dollar terms, in percent)	24.2	-18.5	-0.5	15.0	18.7	9.9	7.4	7.1	7.2	6.5	7.0	7.0	9.1
Grant element of new public sector borrowing (in percent)	...	...	...	49.0	40.4	40.8	40.8	40.8	40.8	40.8	40.8	...	41.5
Government revenues (excluding grants, in percent of GDP)	22.4	18.8	19.0	19.2	20.2	20.9	21.6	22.1	22.0	21.9	21.7	20.2	21.4
Aid flows (in Million of US dollars) 5/	227.5	178.8	176.0	736.1	934.6	1033.6	1076.7	1120.0	1232.1	1919.5	4429.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.6	1.7	1.7	1.6	1.5	1.5	1.5	1.4	...	1.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	56.4	51.5	58.2	56.6	54.9	54.8	55.0	56.3	...	55.1
Nominal GDP (Million of US dollars)	41,183	41,048	42,914	45,509	48,778	53,518	58,630	64,244	70,306	110,555	274,769		
Nominal dollar GDP growth	11.5	-0.3	4.5	6.0	7.2	9.7	9.6	9.6	9.4	9.5	9.6	6.8	9.0
<b>Memorandum items:</b>													
PV of external debt 7/	...	...	17.5	17.8	18.5	18.3	18.3	18.3	18.3	18.5	17.7		
in percent of exports	...	...	230.2	190.7	215.4	215.5	214.4	212.3	212.4	216.7	208.4		
Total external debt service-to-exports ratio	47.2	46.4	41.6	26.4	28.4	29.5	29.6	29.6	29.6	26.5	8.3		
PV of PPG external debt (in Million of US dollars)	...	...	5925.5	6361.8	6970.4	7450.3	7988.2	8586.3	9267.8	14244.0	32706.8		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	1.0	1.3	1.0	1.0	1.0	1.1	1.2	1.0		
Non-interest current account deficit that stabilizes debt ratio	13.1	-1.0	-4.5	-5.1	1.1	3.1	3.4	3.4	3.5	3.6	2.6		

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - p(1+g) + E\alpha(1+r)] / (1+g+p+gp)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate;  $p$  = growth rate of GDP deflator in U.S. dollar terms;  $E\alpha$  = nominal appreciation of the local currency, and  $\alpha$  = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. Large residuals in FY2020/21, FY2021/22, and FY2023/24 are mostly due to changes in reserves as well as large net errors and omissions.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

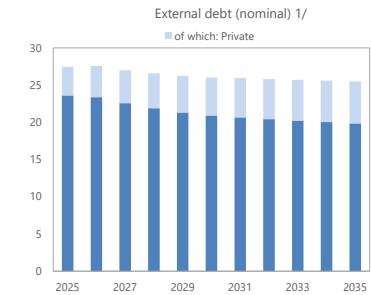
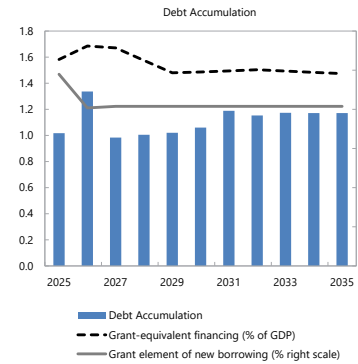


Table 2. Nepal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022-2045

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2045	Historical	Projections
Public sector debt 1/	42.7	47.0	48.3	49.4	49.5	49.3	48.9	48.4	48.0	47.8	47.5	47.3	47.1	47.0	47.6	36.5	48.2
of which: external debt	20.6	21.8	22.8	23.6	23.4	22.6	21.9	21.3	20.9	20.7	20.4	20.2	20.0	19.9	17.6	18.0	21.4
Change in public sector debt	-0.5	4.2	1.4	1.0	0.1	-0.2	-0.4	-0.5	-0.4	-0.3	-0.2	-0.3	-0.2	-0.1	0.2		
Identified debt-creating flows	1.5	1.8	0.7	-0.6	0.1	0.3	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.5	2.1	0.1
Primary deficit	2.2	4.5	1.3	1.3	2.0	2.0	1.7	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.7	2.7	1.6
Revenue and grants	22.9	19.3	19.4	19.6	20.8	21.7	22.3	22.7	22.6	22.7	22.6	22.6	22.6	22.6	22.4	21.1	22.1
of which: grants	0.6	0.4	0.4	0.4	0.6	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	25.1	23.7	20.7	20.9	22.8	23.7	24.1	24.3	24.3	24.4	24.2	24.1	24.1	24.1	24.1	23.7	23.7
Automatic debt dynamics	-3.4	-1.7	-1.1	-3.2	-3.2	-2.9	-2.9	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5	-2.5	-2.5		
Contribution from interest rate/growth differential	-3.5	-1.4	-1.9	-3.2	-3.2	-2.9	-2.9	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5	-2.5	-2.5		
of which: contribution from average real interest rate	-1.2	-0.6	-0.2	-1.2	-0.8	-0.6	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2		
of which: contribution from real GDP growth	-2.3	-0.8	-1.7	-2.0	-2.5	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	-2.3		
Contribution from real exchange rate depreciation	0.1	-0.3	0.7	—	—	—	—	—	—	—	—	—	—	—	—		
Other identified debt-creating flows	2.6	-0.9	0.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	2.6	-0.9	0.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3		
Residual	-2.0	2.4	0.7	1.6	0.1	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	0.0	-0.3
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	---	---	39.4	40.1	40.5	40.7	40.6	40.5	40.3	40.3	40.2	40.1	40.0	40.0	41.9		
PV of public debt-to-revenue and grants ratio	---	---	203.5	204.1	194.5	187.2	182.0	178.2	178.1	177.1	177.7	177.4	177.2	177.4	187.3		
Debt service-to-revenue and grants ratio 3/	24.1	41.7	51.2	52.4	30.6	26.4	24.3	30.0	33.3	31.0	33.7	31.9	32.3	31.8	34.5		
Gross financing need 4/	10.4	11.6	11.7	12.9	9.7	9.0	8.5	9.8	10.5	10.0	10.5	10.0	10.1	10.0	10.7		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	5.6	2.0	3.7	4.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.1	5.0
Average nominal interest rate on external debt (in percent)	0.6	0.6	1.0	0.8	0.8	0.8	0.9	0.9	1.1	1.1	1.3	1.3	1.3	1.3	1.3	0.9	1.1
Average real interest rate on domestic debt (in percent)	-4.9	-2.2	2.1	0.3	-0.2	-1.0	-1.1	-1.2	-1.1	-1.0	-0.8	-0.7	-0.6	-0.6	-0.4	-2.8	-0.7
Real exchange rate depreciation (in percent, + indicates depreciation)	0.7	-1.5	3.5	—	—	—	—	—	—	—	—	—	—	—	—	-0.1	—
Inflation rate (GDP deflator, in percent)	8.2	5.7	2.6	4.2	4.3	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	5.0	5.5	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	-3.8	-9.5	5.5	14.6	9.3	6.6	6.3	4.6	5.4	4.1	4.6	5.0	5.0	5.0	7.6	6.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.7	0.2	0.0	0.2	1.8	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.0	1.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ Coverage of debt: The general government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

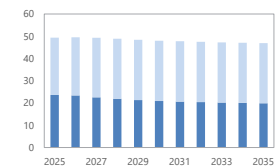
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

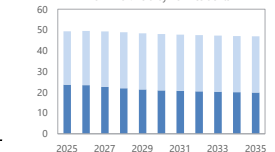
Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated  
 ■ of which: foreign-currency denominated

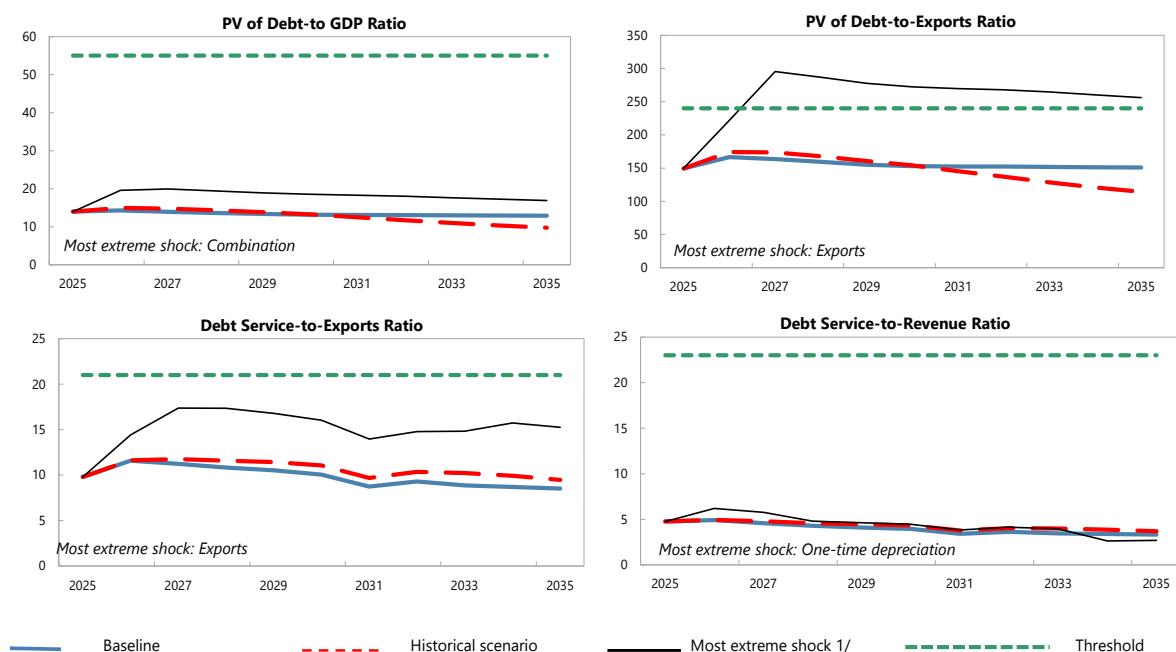


■ of which: held by residents  
 ■ of which: held by non-residents





**Figure 1. Nepal: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2025-2035**



Customization of default settings		
	Size	Interactions
<b>Tailored Stress</b>		
Combined CL	No	No
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

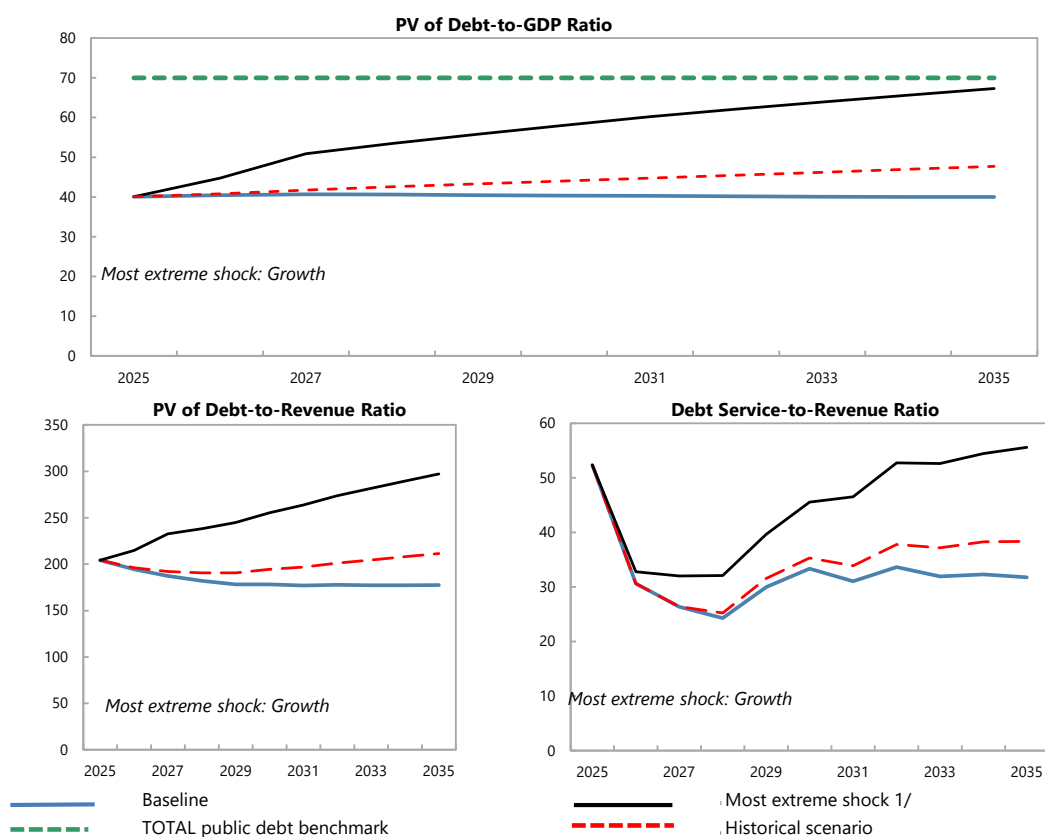
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6

\* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 2. Nepal: Indicators of Public Debt Under Alternatives Scenarios, 2025-2035**

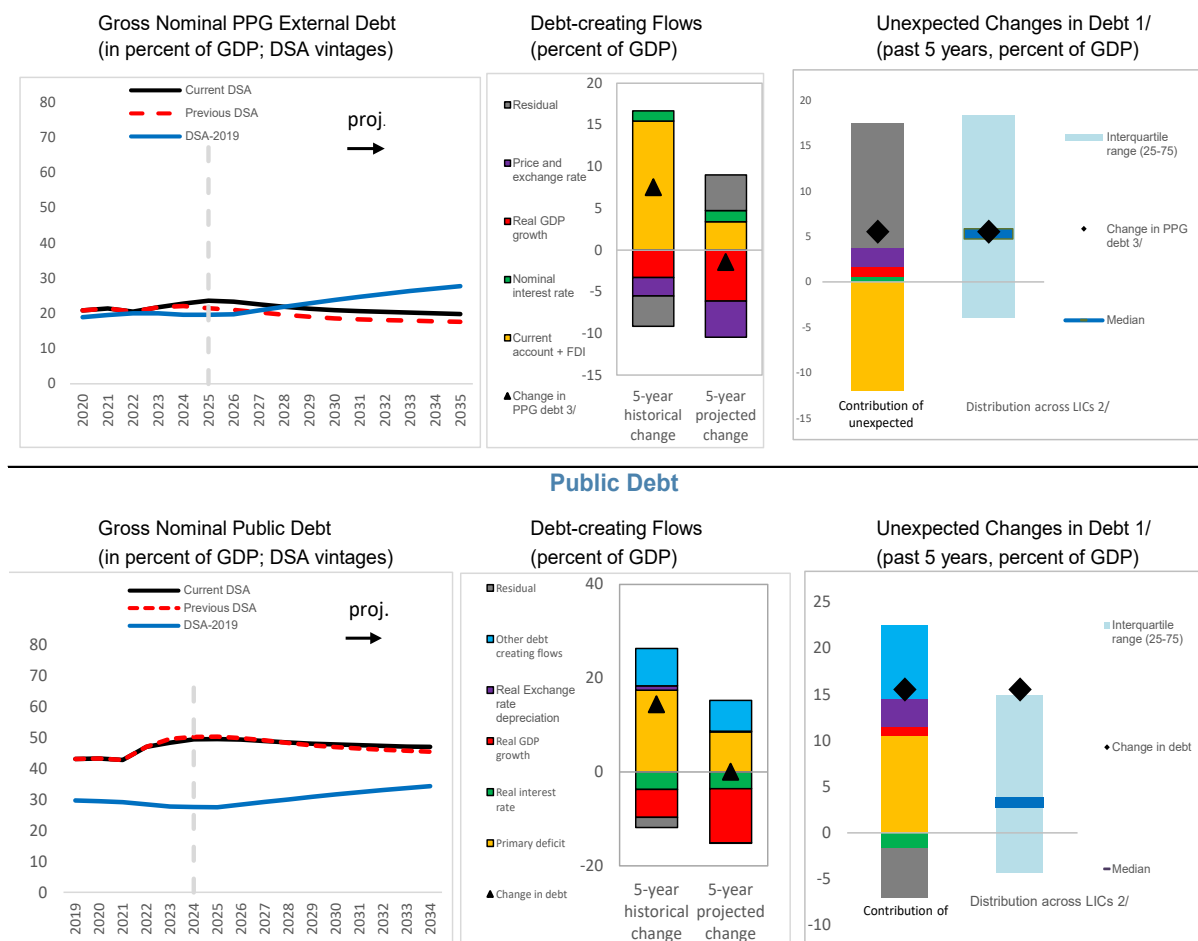
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	22%	19%
Domestic medium and long-term	53%	55%
Domestic short-term	25%	26%
<b>Terms of marginal debt</b>		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.3%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	-0.4%	-0.4%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	-1.0%	-1.0%

\* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 3. Nepal: Drivers of Debt Dynamics—Baseline Scenario**

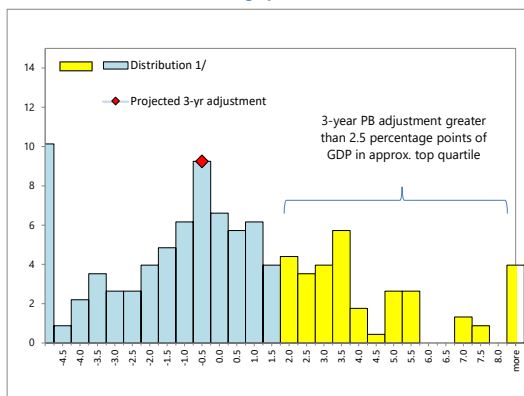
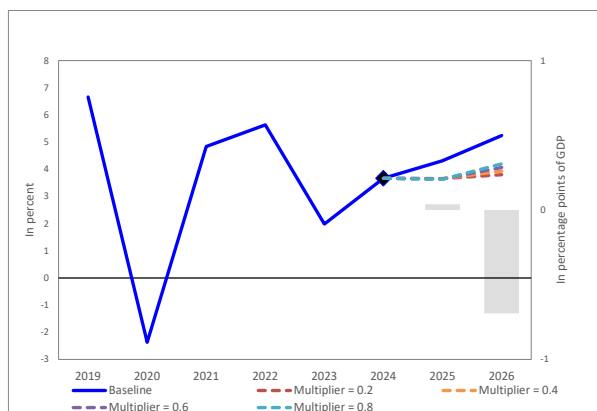
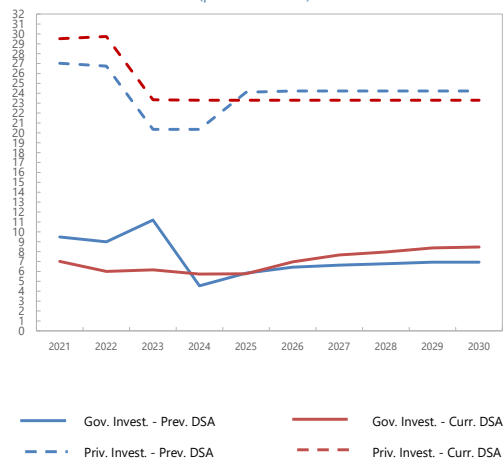
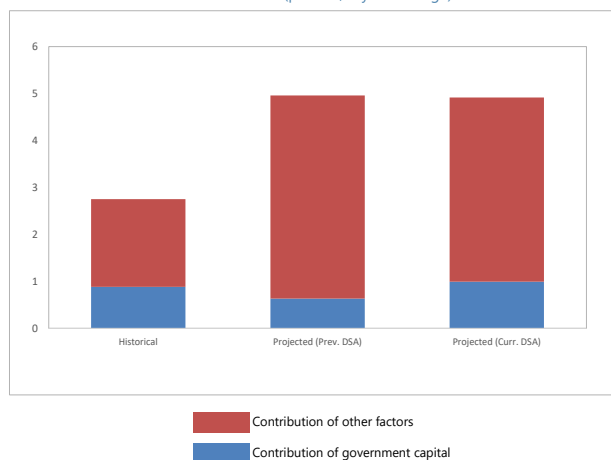


A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ Difference between anticipated and actual contributions on debt ratios.

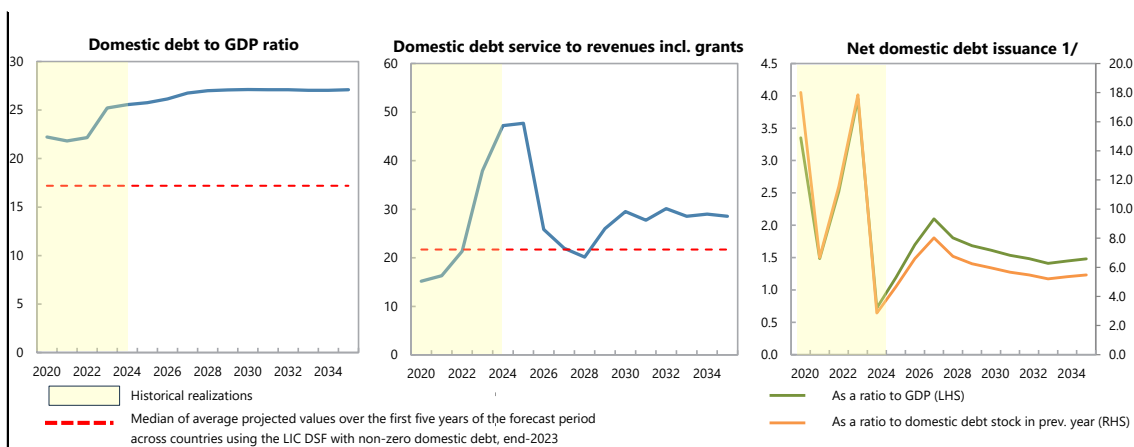
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

**Figure 4. Nepal: Realism Tools****3-Year Adjustment in Primary Balance  
(Percentage points of GDP)****Fiscal Adjustment and Possible Growth Paths 1/****Public and Private Investment Rates  
(percent of GDP)****Contribution to Real GDP growth  
(percent, 5-year average)**

**Figure 5. Nepal: Indicators of Domestic Public Debt, 2020-2035**

(Percent)

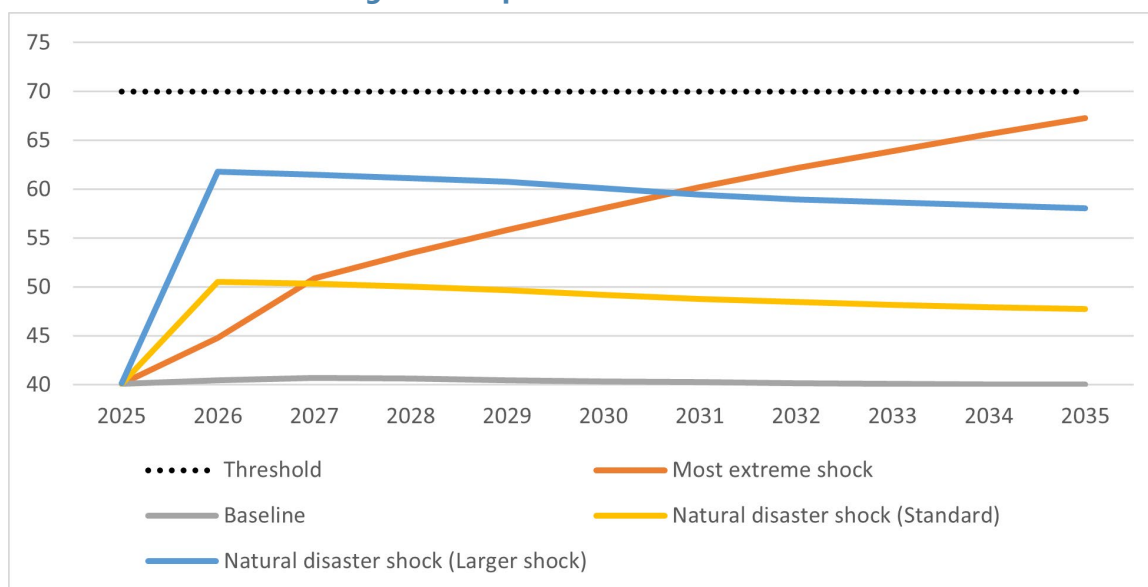


Borrowing Assumptions (average over 10-year projection)	Value
<b>Shares in new domestic debt issuance</b>	
Medium and long-term	68%
Short-term	32%
<b>Borrowing terms</b>	
<b>Domestic MLT debt</b>	
Avg. real interest rate on new borrowing	-0.4%
Avg. maturity (incl. grace period)	5
Avg. grace period	3
<b>Domestic short-term debt</b>	
Avg. real interest rate	-1.0%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 6. Nepal: Stress Test Scenarios



**Note:** Standard natural disaster shock applies a one-off shock of 10 percentage points of GDP to the debt-to-GDP ratio in the second year of the projection period (FY2025/26) and real GDP growth and exports lowers by 1.5 and 3.5 percentage points, respectively, in the year of the shock for the stress test. Larger magnitude of natural disaster shock assumes an extreme scenario where a one-off 20 percentage points of GDP to the debt-to-GDP ratio in the second year of the projection period (FY2025/26) is applied and real GDP growth and exports lowers by 5 and 7 percentage points, respectively, in the year of the shock for the stress test.

**Table 3. Nepal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025-2035**

(In percent)

Projections 1/											
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to GDP Ratio											
Baseline	14.0	14	14	14	13	13	13	13	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	14	15	15	14	14	13	13	12	11	10	10
B. Bound Tests											
B1. Real GDP growth	14	15	16	16	15	15	15	15	15	15	15
B2. Primary balance	14	15	15	15	14	14	14	14	14	14	14
B3. Exports	14	16	17	17	16	16	16	15	15	15	15
B4. Other flows 3/	14	17	19	18	18	17	17	17	16	16	16
B5. Depreciation	14	18	11	11	11	11	11	11	12	12	12
B6. Combination of B1-B5	14	20	20	19	19	19	18	18	18	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	14	15	15	15	15	15	15	15	15	15	15
C2. Natural disaster	14	16	16	15	15	15	15	15	15	15	15
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Exports Ratio											
Baseline	150	167	164	160	155	153	153	153	152	151	151
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	150	174	174	168	161	154	145	137	128	121	114
B. Bound Tests											
B1. Real GDP growth	150	167	164	160	155	153	153	153	152	151	151
B2. Primary balance	150	171	173	170	166	164	165	166	166	165	164
B3. Exports	150	222	295	287	278	272	270	268	265	260	256
B4. Other flows 3/	150	199	220	213	206	201	198	197	193	188	183
B5. Depreciation	150	167	103	102	101	101	103	105	107	111	115
B6. Combination of B1-B5	150	233	207	245	237	232	229	227	222	218	213
C. Tailored Tests											
C1. Combined contingent liabilities	150	179	178	174	170	169	171	172	172	171	171
C2. Natural disaster	150	187	187	183	179	180	183	184	184	184	185
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt Service-to-Exports Ratio											
Baseline	9.8	12	11	11	11	10	9	9	9	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	10	12	12	12	11	11	10	10	10	10	9
B. Bound Tests											
B1. Real GDP growth	10	12	11	11	11	10	9	9	9	9	9
B2. Primary balance	10	12	11	11	11	10	9	10	9	9	9
B3. Exports	10	14	17.4	17.3	17	16	14	15	15	16	15
B4. Other flows 3/	10	12	12	12	12	11	10	10	11	12	11
B5. Depreciation	10	12	11	10	9	9	8	8	8	5	5
B6. Combination of B1-B5	10	13	15	14	14	13	11	12	14	13	13
C. Tailored Tests											
C1. Combined contingent liabilities	10	12	11	11	11	10	9	10	9	9	9
C2. Natural disaster	10	12	12	12	11	11	9	10	10	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt Service-to-Revenue Ratio											
Baseline	5	5	5	4	4	4	3	4	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	5	5	5	5	4	4	4	4	4	4	4
B. Bound Tests											
B1. Real GDP growth	5	5	5	5	5	5	4	4	4	4	4
B2. Primary balance	5	5	5	4	4	4	3	4	4	4	4
B3. Exports	5	5	5	5	4	4	4	4	4	4	4
B4. Other flows 3/	5	5	5	5	4	4	4	4	4	5	4
B5. Depreciation	5	6	6	5	5	4	4	4	4	3	3
B6. Combination of B1-B5	5	5	6	5	5	5	4	4	5	5	5
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	4	4	4	4	4	4	4	3
C2. Natural disaster	5	5	5	4	4	4	4	4	4	4	3
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

**Table 4. Nepal: Sensitivity Analysis for key Indicators of Public Debt, 2025-2035**

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	40.1	40.5	40.7	40.6	40.5	40.3	40.3	40.2	40.1	40.0	40.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	40.09	40.79	41.75	42.57	43.29	44.01	44.77	45.50	46.23	46.97	47.69
B. Bound Tests											
B1. Real GDP growth	40.09	44.77	50.88	53.47	55.84	58.06	60.22	62.14	63.92	65.65	67.31
B2. Primary balance	40.09	43.41	46.41	46.01	45.56	45.11	44.71	44.28	43.91	43.63	43.39
B3. Exports	40.09	41.47	43.38	43.20	42.91	42.64	42.48	42.27	42.02	41.76	41.57
B4. Other flows 3/	40.09	43.25	45.54	45.25	44.86	44.50	44.24	43.95	43.54	43.13	42.79
B5. Depreciation	40.09	41.48	39.68	38.56	37.17	35.88	34.90	33.90	32.83	31.89	31.07
B6. Combination of B1-B5	40.09	41.81	43.04	42.76	42.60	42.50	42.51	42.40	42.25	42.20	42.21
C. Tailored Tests											
C1. Combined contingent liabilities	40.09	48.86	48.47	47.97	47.40	46.75	46.17	45.67	45.24	44.88	44.55
C2. Natural disaster	40.09	50.54	50.36	50.06	49.69	49.22	48.79	48.45	48.16	47.94	47.74
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	204	195	187	182	178	178	177	178	177	177	177
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	204	196	192	191	191	194	197	201	205	208	211
B. Bound Tests											
B1. Real GDP growth	204	215	233	238	245	255	264	274	282	290	297
B2. Primary balance	204	209	213	206	201	199	197	196	194	193	192
B3. Exports	204	199	200	193	189	188	187	187	186	185	184
B4. Other flows 3/	204	208	209	203	198	197	195	194	193	191	190
B5. Depreciation	204	200	183	173	164	159	154	150	146	142	138
B6. Combination of B1-B5	204	201	198	191	188	188	187	187	187	187	187
C. Tailored Tests											
C1. Combined contingent liabilities	204	235	223	215	209	206	203	202	200	199	198
C2. Natural disaster	204	243	231	224	219	217	214	214	213	212	212
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	52	31	26	24	30	33	31	34	32	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	52	31	26	25	32	35	34	38	37	38	38
B. Bound Tests											
B1. Real GDP growth	52	33	32	32	40	46	47	53	53	54	56
B2. Primary balance	52	31	30	30	32	37	39	40	35	35	35
B3. Exports	52	31	26	25	30	34	31	34	32	33	32
B4. Other flows 3/	52	31	27	25	30	34	31	34	33	33	33
B5. Depreciation	52	29	26	22	29	32	28	31	30	30	29
B6. Combination of B1-B5	52	30	27	27	31	34	34	37	34	34	34
C. Tailored Tests											
C1. Combined contingent liabilities	52	31	38	28	32	42	43	40	35	36	37
C2. Natural disaster	52	31	40	29	33	45	46	43	38	38	40
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections. A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.





# NEPAL

September 25, 2025

## SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

Approved By:  
**Rupa Duttagupta (APD)**  
and **Koshy Mathai (SPR)**

Prepared by the Asia and Pacific Department (APD) in consultation with the Strategy, Policy and Review (SPR) Department.

*This supplement provides an update on recent developments and program performance since the issuance of the report on August 29, 2025. The update does not alter the thrust of the staff appraisal. A revised proposed decision reflecting the Supplementary Letter of Intent is attached.*

**1. The political landscape in Nepal underwent a drastic change with the formation of an interim government.** On September 9, youth-led (“Gen Z”) protests led to the resignation of Prime Minister K.P. Sharma Oli and triggered the fall of Nepal’s coalition government. While protests were sparked by the now-lifted ban of social media platforms, they were fueled by long-standing grievances related to corruption, governance, and inequality which were exacerbated by relatively subdued growth and lack of job opportunities. Nepal’s former chief justice Sushila Karki was sworn in as interim Prime Minister (PM) on September 12, becoming Nepal’s first female PM. President Ram Chandra Poudel has dissolved the Parliament and set March 5, 2026, as the date for general elections.

**2. Downside risks to the outlook have intensified.** Damages from the protests are still being assessed, and staff will revisit the outlook as soon as more information is available. Economic disruptions—including constraints on commerce and logistics, interruptions to tourism and hospitality, and localized damage to public and private assets—are likely to temporarily weigh on the nascent economic recovery that was underway. However, the prompt formation of an interim administration, which has committed to preserving macroeconomic stability while fostering post-protest recovery, is expected to contain adverse economic impact. The interim government’s pledge to address corruption, strengthen governance, and promote youth employment should help restore investor confidence and boost the pace of domestic demand recovery. Prolonged political uncertainty or renewed unrests pose a tangible downside risk to the

outlook. Conversely, the timely election of a new government—via formal and constitutional processes—could help anchor a more stable political landscape and further strengthen private-sector confidence.

**3. The pending prior action (PA) for this review has been completed.**

The PA pertains to the Nepal Rastra Bank (NRB) signing a contract with the independent international third-party auditor for assisting in-depth on-site inspections of the 10 largest banks. On August 31, the NRB issued a notice on its website that a contract had been signed on August 28 with the selected consultant to perform a loan portfolio review of 10 commercial banks. The auditors have already begun their offsite qualitative assessment, which will be followed by the on-site work starting by end-October.

## Supplementary Letter of Intent

Kathmandu, Nepal  
September 25, 2025

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva,

1. This letter supplements the Letter of Intent dated August 27, 2025. It provides an update on the recent political developments and reforms under the ECF-supported program.
2. Nepal has recently experienced important political developments following youth-led demonstrations in early September 2025. These events led to the resignation of Prime Minister K.P. Sharma Oli and triggered the fall of Nepal's coalition government. Nepal's former chief justice Sushila Karki was sworn in as interim Prime Minister on September 12, and an interim government has been formed. We are fully committed to responding to the youth-led call to address corruption, strengthen governance, and promote youth employment. We are also committed to a smooth political transition based on the general elections scheduled to be held in March 2026, which will help anchor a more stable political landscape.
3. While the full economic impact of the protests is still being assessed, it is likely that the pace of economic recovery may be temporarily set back by constraints on commerce and logistics, interruptions to tourism and hospitality, and localized damage to public and private assets. Against this backdrop, we are committed to preserving macroeconomic and financial stability while supporting a prompt, orderly, and sustainable post-protest recovery. In these efforts, we will adhere to the broad parameters set under the ECF-supported program. We plan to maintain fiscal discipline by reallocating funds toward post-protest reconstruction, election-related spending, and more productive investment projects. In the financial sector, we will ensure that any potential regulatory forbearance measures are limited, targeted, time-bound and phased out as soon as possible. Our firm commitment to address corruption, strengthen governance, and promote youth employment will help restore private-sector confidence, boost the pace of domestic demand recovery, and help mitigate large outward migration for work and study. Consistent with these objectives, we remain fully committed to steadfast implementation of our reform agenda under the ECF-supported program.
4. Reforms under the ECF-supported program have continued to progress. We have signed a contract with an independent international consultant to assist the Nepal Rastra Bank in conducting the loan portfolio review (LPR) of the 10 largest banks, which was a prior action for

the sixth review under the ECF-supported program. The auditors have started the offsite qualitative assessment of banks, and the on-site phase of the assessment is expected to begin in end-October 2025. We will prioritize finalizing the LPR in line with our commitments. We also aim to complete drafting amendments to the NRB Act on the bank resolution regime and the 2021 Safeguards Assessment by end-October 2025 and submit it to Parliament as soon as it is in session. We are also making progress on other structural reforms with support from the IMF technical assistance.

5. As we navigate new challenges to rebuild a stronger and more inclusive Nepal, we intend to remain in close consultation with the IMF and provide timely information necessary for the implementation of policies under the ECF-supported program. With this progress and commitment, we request the completion of the sixth review under the ECF-supported program and SDR 31.4 million be made available.

Sincerely yours,

/s/

Dr. Biswo Nath Poudel  
Governor, Nepal Rastra Bank

/s/

Mr. Rameshore Prasad Khanal  
Minister of Finance

**Statement by Mr. Kaweevudh Sumawong, Alternate Executive Director for  
Nepal, and Mr. Wishnu Mahraddika Senior Advisor to Executive Director  
October 1, 2025**

**Introduction**

The Nepali authorities express sincere appreciation to management and staff for their unwavering support of Nepal's economic policies and structural reform agenda. They would like to thank the mission team, led by Ms. Sarwat Jahan, for their exceptional dedication and constructive engagement and broadly concur with the staff's analysis. Despite recent political developments resulting in a change of government, the Nepali authorities remain committed to implementing the agreed-upon reforms under the ECF program. Their track record demonstrates their strong program ownership and close collaboration with the Fund.

**Program Performance**

**Program performance under Nepal's Sixth Review of the Extended Credit Facility (ECF) demonstrates a balanced combination of achievements and forward-looking commitments, reinforcing the country's trajectory toward inclusive and sustainable growth.** All quantitative performance criteria (QPCs) were met, and continuous performance criteria were fully observed, underscoring disciplined fiscal and monetary management. On the structural front, six benchmarks were completed, with four delivered on time. These included the approval of tax expenditure reports, publication of revised National Project Bank guidelines, commissioning of the Nepal Rastra Bank (NRB)'s FY2024/25 audit, and release of a comprehensive fiscal risk statement. While the indicative target for child grant spending was not met, all eligible applicants successfully received their grants. With the contract signed, a prior action to procure an independent consultant for the Loan Portfolio Review (LPR) has been completed, signaling progress toward strengthening financial sector oversight. The authorities have reiterated their commitment to achieving the remaining targets through sustained reform efforts.

## **Recent Economic Developments and Outlook**

**Nepal's macroeconomic performance presents a cautiously optimistic outlook, underpinned by gradual recovery, prudent policy measures and commitment for reforms.** Economic activity has been supported by a rebound in tourism, resilient remittance inflows, and renewed momentum in construction and manufacturing. Inflation has continued to moderate and remains within the target. The external sector has shown resilience, with the current account surplus, bolstered by positive export performance, tourism receipts, and remittances. International reserves remain above adequacy thresholds, providing a buffer against external shocks. The authorities have introduced comprehensive and measured policies to safeguard financial stability, as evidenced in the recent reduction in non-performing loans.

**Despite being short-lived, recent political developments have adversely affected the Nepali economy.** While the economic impact is still being assessed, the pace of recovery is likely to be temporarily hindered by disruptions to commerce, logistics, tourism, and damaged assets. Against this backdrop, the authorities are committed to preserving macroeconomic and financial stability and supporting a prompt, orderly, and sustainable post-protest recovery. To bolster business confidence impacted by recent disruptions, the government has introduced an Integrated Business Recovery Plan offering grants, tax incentives, and operational support. Resources have been redirected from less productive projects to needed infrastructure rehabilitation and preparations for general elections. Additionally, a Reconstruction Fund has been established to assist in restoring affected public and private assets. The authorities recognize the importance of restoring public trust and institutional stability and have scheduled the general elections to be held in March 2026.

## **Monetary Policy**

**The authorities appreciate the staff's recognition that Nepal's monetary policy stance is appropriate and well-calibrated.** Considering subdued inflation and weak domestic demand, the NRB will maintain an accommodative monetary policy stance while continuing to refine its monetary toolkit, including enhancements to the interest rate corridor and liquidity management instruments. Efforts are underway to align the interbank rate with the corridor midpoint, improving monetary transmission. NRB governance will be improved through the proposed amendment to the NRB Act. Coordination between monetary and financial sector policies is also being strengthened to preserve stability without compromising growth. Recognizing the unintended results of the predated measures, the authorities have eased exchange restrictions and committed to further relaxation.

## Financial Sector Policy

**The authorities acknowledge the challenges in the financial sector and have responded with a comprehensive and measured strategy to maintain stability.** The rise in NPLs is being addressed by the NRB's coordinated effort, including improved credit management and strengthened capital buffers while ensuring continued credit provision. The central bank has mandated banks with elevated NPLs to submit comprehensive management strategies and is actively supervising these institutions to ensure timely resolution. Improvements have already been reflected. NPL decreased to 4.62 percent in July 2025, compared to 5.24 percent in April, 2025. In the recent quarter, the BFIs maintained adequate liquidity and demonstrated increased profitability ratio. The directed lending policies are being reviewed and will be adjusted accordingly. Additionally, the NRB is aligning asset classification regulations with Basel standards to ensure robust provisioning and resilience. Preparations for establishing an Asset Management Company (AMC) are underway with a cautious approach under a well-sequenced plan. The AMC will be launched only after improvements to the debt recovery framework and insolvency law are in place. Governance, valuation, and transfer pricing standards will be strictly enforced to mitigate risks. The LPR of the ten largest banks is expected to conclude by December 2025 and a roadmap has been prepared to follow up on the review's findings, including a requirement for any bank with capital shortfalls to submit time-bound capitalization plan, to safeguard financial stability.

**Decisive steps have also been taken to address vulnerabilities in the Savings and Credit Cooperatives (SACCOs) sector.** To address concerns of the interconnectedness to the formal financial system, the National Cooperatives Regulatory Authority (NCRA), established in January, is tasked with registering, regulating, and supervising SACCOs in coordination with local authorities and the NRB. Legal amendments are being prepared to strengthen the Deposit and Credit Guarantee Fund (DCGF), enabling it to set strict membership criteria and create a separate guarantee fund for SACCOs. Going forward, the authorities will focus on dealing with problematic SACCOs by establishing a judicial recovery mechanism to improve the recovery of problematic loans to repay depositors.

**Building on regulatory vigilance, the authorities are advancing reforms to enhance banking sector resilience.** The NRB is implementing risk-based supervision and finalizing the capital adequacy framework review. The Liquidity Coverage Ratio and Net Stable Funding Ratio will be introduced in the next fiscal year. Guidelines for working capital loans are being refined to prevent misuse. The NRB's prompt corrective action framework is being streamlined. The central bank remains vigilant through prudent monitoring and early intervention when necessary to ensure a stable and well-capitalized banking system. Comprehensive amendments to the NRB Act and the Bank and Financial Institutions Act (BAFIA) to strengthen the bank resolution framework, guided by the 2021 Safeguards Assessment and informed by the 2023 Financial Sector Stability Report as well as IMF

technical assistance, will be finalized by October 2025 and will be submitted to Parliament in due course.

## **Fiscal Policy**

**The authorities remain committed to prudent fiscal policy.** Recognize the need to further enhance revenue mobilization, the authorities adopted the Domestic Revenue Mobilization Strategy (DRMS). The 10.7 percent year-on-year increase in tax revenues in the first 11 months of FY2024/25 reflects efforts to broaden the tax base and improve compliance. The publication of a comprehensive tax expenditure report in July 2025 demonstrates the authorities' commitment to rationalize tax exemption. The FY2025/26 budget introduces revenue-enhancing and progressive policies, including levies on luxury goods, digital services, and high-value imports. A Customs Compliance Improvement Strategy is under development, with the Fund's support, to improve monitoring and enforcement. Tax laws are being modernized to reflect the structural transformation of the economy, particularly the rise of digital commerce and IT services.

**Concrete steps are being taken to increase the efficiency of public spending.** While procurement complexities, staffing shortages, and coordination gaps are being actively addressed, capital spending grew by 6.2 percent year-on-year. The FY2025/26 budget introduces sanctions for agencies with delays in project-related decisions. Procurement laws are being revised to eliminate ambiguities and local procurement documents will be standardized. The National Project Bank (NPB) has been strengthened and now serves as a central platform for project selection and monitoring. New guidelines approved in March 2025 establish standardized procedures and unique identifiers for each project. Integration with budget systems is underway, and a national dashboard will soon track large-scale investments.

**The authorities remain firmly committed to strengthening support for vulnerable populations.** The National Social Registry (NSR) continues to be developed to enable accurate identification of low-income households and facilitate more efficient targeting of social transfers. In line with this commitment, the authorities will sustain efforts to promote food security, reduce poverty, and enhance human capital development. The FY2025/26 budget maintains the child grant program in the twenty-five districts with the lowest socio-economic development indicators and expands the public school midday meal program, ensuring broader nutritional support for children nationwide. Additional benefits are provided through national nutrition and maternal health programs. To promote sustainable social security expenditures and in conjunction with rising life expectancy, the FY2025/26 budget raises the eligibility age for the senior citizen allowance, while safeguarding the entitlements of existing recipients.



## **Governance & Structural Reforms**

**Nepal has made substantial progress in strengthening its AML/CFT framework.** Since February 2025, amendments have been introduced to the Assets (Money) Laundering Prevention Act and related regulations. Implementation procedures for UN Security Council Resolutions have been published with IMF support. Risk-based supervision manuals are being developed for high-risk sectors such as real estate, casinos, and dealers in precious metals and stones. Onsite and offsite examinations will be conducted, with enforcement measures applied as needed. The AML Supervision Department of the NRB has received additional resources to ensure the effectiveness of these measures. To enhance transparency, the authorities are working toward establishing a central beneficial ownership registry and implementing the National Fit and Proper Guidelines. Priority is also being placed on the implementation of a centralized electronic Know-Your-Customer (eKYC) system, which is expected to positively impact AML/CFT measures while enhancing consumer protection.

**Structural reforms are advancing to unlock Nepal's growth potential.** Six major laws have been passed to improve governance, facilitate investment, and strengthen fiscal discipline. These include the Bill on Facilitating Investment and reforms in the cooperative sector, privatization, and public oversight. Drawing on recommendations from the High- Level Economic Reform Suggestion Commission, the authorities have developed a three- year action plan with comprehensive measures to improve macroeconomic fundamentals, restore private sector confidence, and strengthen institutional capacity. These include streamlining procurement, digitalizing public services, and enhancing intergovernmental coordination. Climate-resilient investments, guided by the Nationally Determined Contributions and the National Adaptation Plan, are being scaled up, including resilient infrastructure investment. These measures, together with the implementation of the 16<sup>th</sup> Plan with prioritization on productivity and job creation in agriculture, industry, and tradable services, will support the development of a resilient and competitive economy.

## **Conclusion**

**The Nepali authorities remain fully committed to the ECF-supported program and to the reforms necessary to secure macroeconomic stability, strengthen institutions, and promote inclusive and sustainable growth.** They acknowledge the challenges ahead and will continue to advance robust, well-targeted responses that reflect the realities on the ground. Considering recent developments and downside risks, policies will be adjusted as needed to ensure the program's objectives of enhancing Nepal's competitiveness and resilience while supporting a stronger and more inclusive growth. In this context, support from the international community has become increasingly very important to help sustain reform momentum and safeguard hard-won gains. The authorities thank the Fund for its continued partnership and respectfully request support from the Board Executives for the

completion of the Sixth Review, the disbursement of the seventh tranche, and the proposed associated decisions.