



**ALPHA CAPITAL**  
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# NEWSLETTER

Fourth Quarter 2081/82



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**NEPAL**  
**THIS**  
**QUARTER**

## Nepal This Quarter | Politics

Former President Bidya Devi Bhandari has officially returned to party politics by renewing her membership with CPN-UML. She made the announcement at a function organized by the Madan Bhandari Foundation, marking the birth anniversary of her late husband. Bhandari's return follows in the footsteps of former Vice-President Nanda Kishor Pun, who rejoined the main opposition party, CPN (Maoist Center).

Former Prime Minister and CPN (Unified Socialist) Chairman Madhav Kumar Nepal was granted bail of NPR 3.5 million in the Patanjali land scam case, which involves alleged corruption during his tenure in 2009. The CIAA has demanded fines totaling NPR 185.85 million. Following the case, Nepal was suspended from his lawmaker position.

The government has formed a committee led by former chief secretary Shankar Das Bairagi to probe the visit visa scam, addressing areas outside the CIAA's jurisdiction. While the main opposition has cautiously welcomed the move, the RSP

and RPP have rejected the committee, citing concerns over its impartiality and the ruling party's intentions.

The Education, Health, and Information Technology Committee is divided over the school education bill, particularly on regulating private schools. While the ruling party supports maintaining the current system, the opposition calls for converting private schools into non-profit trusts. The bill remains unfinished, with ongoing debates on balancing public and private education amidst concerns over commercialization and high fees.

Parliament has passed an amendment to the Constitutional Council Act, allowing constitutional appointments to be made with a simple majority of the council members present, provided the prime minister is among them. This move effectively gives the prime minister decisive control over appointments, even when several council seats are vacant. The change aims to expedite the filling of around a dozen

vacant constitutional positions, including key roles in the Election Commission and identity-based commissions.

On May 29, thousands of supporters—including those from the Rastriya Prajatantra Party (RPP)—took to the streets of Kathmandu, peacefully demanding the restoration of the monarchy and the return of former King Gyanendra as head of state. Riot police formed a cordon to separate them from pro-republic counter-protesters, and the rally remained largely calm despite protests in earlier months turning violent.

Nepal's Federal Civil Service Bill, which initially mandated a two-year cooling-off period to bar recently retired senior civil servants from assuming government roles, sparked controversy after the insertion of a new sub-clause. This amendment allowed them to take up constitutional, diplomatic, or other government appointments immediately after retirement, effectively nullifying the original restriction.



## Nepal This Quarter | Economy and Business

Nepal has adopted the Integrated National Financing Framework Strategy 2025–2030 to promote pro-employment, climate-resilient, and sustainable growth. The five-year plan, backed by the UNDP and led by the Finance Ministry, focuses on six pillars including fiscal reform, private finance, PPPs, digital inclusion, climate finance, and skills development.

The government plans to ban imports of vehicles older than one year and require dealers to ensure spare parts availability for 10 years. Under “Directive on Import, Production and Installation of Vehicles” draft, sellers must also disclose maintenance and repair details, and notify authorities if a model is discontinued.

The government has moved to end NEA’s monopoly by allowing private hydropower producers to sell electricity directly to clients under the draft Open Access Directive 2025. Large firms can now buy power from them using NEA’s transmission lines.

The government is establishing an Alternative Development

Finance Fund with NPR 100 billion in capital to boost sustainable infrastructure investment. Holding a 51% stake, it will finance key projects in tech, tourism, urban development, and cable car systems.

Nepal Rastra Bank now allows IT companies to invest abroad up to USD 1 million or 50% of their average export earnings from the past three years. The move, following a recent ordinance, supports global expansion while maintaining foreign exchange limits.

As per National Statistics Office (NSO), Nepal’s economy is projected to grow by 4.61% in FY 2024/25, reaching NPR 6.1 trillion, driven mainly by growth in electricity, transport, finance, and construction sectors. Asian Development Bank and World Bank have projected the growth at 4.4% and 4.5% respectively.

As per International Monetary Fund, Nepal’s informal economy accounts for around 51% of its GDP—well above the global average of 11.8%—making it one of the highest in

the world. While it has declined from 60% in 2000, progress has stalled, raising concerns over tax losses, weak institutions, and distorted economic growth.

Dr. Biswo Nath Poudel has been appointed as the 18th Governor of Nepal Rastra Bank, ending a six-week vacancy. A UC Berkeley-trained economist, his appointment is expected to help stabilize the banking sector and support Nepal’s FATF compliance efforts.

The government introduced a “take-and-pay” model—paying only for electricity consumed—in place of the existing “take-or-pay” policy. However, amid strong backlash from private power producers, it is now considering revising the policy to retain “take-or-pay” for projects up to 10 MW and those with secured markets.

Nepal is planning to launch a digital nomad visa, allowing remote workers to live, work, and pay just 5% income tax if residing for more than 186 days.



## Nepal This Quarter | Capital Market

Nepal Rastra Bank has amended its Foreign Investment and Foreign Loan Management Regulations to allow Non-Resident Nepalis (NRNs) to open Nepali rupee accounts upon receiving investment approval. This policy shift enables the NPR 8.5 billion IPO of the Nepal Diaspora Fund. Previously, foreign investments were restricted to dollar accounts, but NRNs can now deposit both investment funds and returns in rupee accounts with local banks and financial institutions—significantly improving how they manage and repatriate their investments in Nepal.

Source Code Pvt. Ltd. and Himalayan Securities Limited have partnered to develop Nepal's first 'Broker Back Office to Client Portal System,' enabling investors to open accounts and manage their trades through a single platform. Set to operate on both web and mobile, this system promises to revolutionize capital market services and operations in Nepal.

The Securities Board of Nepal (SEBON) has instructed the Electricity Regulatory Commission not to approve IPOs for hydropower companies with per share net worth below NPR 90. This follows concerns raised by the Public Accounts Committee. SEBON's decision has faced backlash, with allegations from hydropower promoters claiming that middlemen are demanding commissions for IPO approvals. The Commission for the Investigation of Abuse of Authority is now investigating these claims.

The government has prioritized listed investment companies by allowing these companies and institutional investors to invest in national priority sectors, including equity, debt securities, and other assets. This marks the first time such companies have been addressed in the budget. Finance Minister Poudel also announced plans to boost private equity and venture capital by enabling large funds like the Employees Provident

Fund, Citizens Investment Fund, and Social Security Fund to invest in these sectors, opening up more funding opportunities for new businesses.

SEBON has resumed issuing merchant banker licenses, with eight companies applying in just three months. Machhapuchchhre Capital and Himalayan Investment Banker have already received licenses, meeting the NPR 200 million minimum paid-up capital requirement. Himalaya Securities Bank and Nepal Life Capital are in the final stages of licensing, with SEBON advising them to finalize their infrastructure.

SEBON has revised its guidelines to permit banks and financial institutions to issue perpetual non-cumulative preference shares to institutional investors through private placements, supporting capital adequacy requirements. These shares carry no maturity date and do not accumulate unpaid dividends.



Despite the economic downturn, Bhatbhateni Group is expanding across Nepal. In partnership with Roadshow Real Estate, Bhatbhateni is investing in a luxury apartment project in Kathmandu's Taragaun. The development will cover 4.5 ropanis of land, featuring a single basement and nine floors. With a 50/50 investment split, the project aims to be completed within 1 to 1.5 years, pending final approval of the land map.

The long-awaited four-lane upgrade of the Pokhara-Muglin road is set to finish by this winter, barring delays. The project, part of the Prithvi Highway, has made significant progress since its start in Baisakh 2078 BS. The eastern section (Jamune-Muglin) is 82.95% complete, and the western section (Pokhara-Jamune) is 50.34% finished. With only 3 km left to blacktop and parts of the Damauli-Dumre Bazaar stretch already expanded to six lanes, the project aims for full completion by the end of the fiscal year.

A Chinese technical team has arrived to resume work on the delayed second section of the Kathmandu Ring Road Expansion Project. The team will conduct a two-month survey and finalize the Detailed Project Report (DPR) within four months, after which construction will begin. All preparatory work is complete, and the Road Department will approve the project once the studies are finished. The team, from CCCC First Highway Consultants and Xi'an Fangzhou Engineering, has been granted permission to proceed.

Siddhartha Hospitality, a subsidiary of Siddhartha Group, is upgrading the Siddhartha Riverside Resort in Chumlingtar, Chitwan, to a four-star property under the new Siddhartha Vaibhav brand. The expansion will increase its capacity from 26 rooms and 56 beds to 64 rooms and 99 beds. New amenities will include a presidential suite, a Grand Deluxe Room, water-based recreational facilities for children, and a mini futsal field. The project is expected to be completed by

the end of the year.

A cable car project aimed at boosting tourism to the Supa Deurali Temple is moving forward. The Sandhikharka Municipal Executive Committee has recommended registering Supa Deurali Cable Car Pvt. Ltd. for industry registration. The cable car will connect the temple to Masina Lake, attracting both domestic and international visitors, including religious tourists from India. The project aims to enhance accessibility to the popular site, known for its spiritual significance.

The government plans to develop Bhrikuti Mandap into an international conference, exhibition center, and amusement park in the fiscal year 2082/83. This marks the first time the site has been officially included in the government's policy. Following President Ram Chandra Poudel's announcement, public interest has grown, with the proposal to upgrade Bhrikuti Mandap's infrastructure and transform it into a major global hub for conferences and exhibitions.



**HOW WE  
VIEW**



## How We View | Politics

This quarter, high-profile corruption cases involving ministers and former prime ministers have dominated national discourse, with allegations of embezzlement worth billions gaining momentum through parliamentary debates and disclosures.

First, the Pokhara Airport scam. A report by the Public Accounts Committee's subcommittee, uncovered over Rs 14 billion in irregularities during construction— including payments for incomplete work, unlawful tax exemptions, and inflated project costs. The subcommittee found that major contractual violations benefited the contractor, CAMC Engineering (Chinese partners), at the state's expense. It has recommended action against eight officials, including the then project chief and Director General of the Civil Aviation Authority, and forwarded the case to the CIAA for investigation.

Next, the Patanjali land scam. A report by the Public Accounts Committee, revealed that during Madhav Kumar Nepal's tenure as prime minister, the Nepal-led cabinet approved the acquisition of 815 ropani of land in Kavrepalanchok for Patanjali Yogpeeth, bypassing land ceiling laws and later enabling its resale—causing an estimated loss of Rs 185.85 million to the state. This marks the first time a former Prime Minister has been formally charged in a corruption case. The case has been forwarded to the CIAA, and the Special Court seeks up to 17 years of imprisonment and full recovery of losses. Nepal has been suspended from his role as MP and released on Rs 3.5 million bail as proceedings continue.

Next and perhaps the biggest —the case tied to one of the most sensitive positions of the state: the Home Ministry. Home Minister Ramesh Lekhak has come under intense public scrutiny following allegations of his indirect involvement in a wide-reaching visit visa scam. The scandal revealed that immigration officials, middlemen, and travel agents were facilitating illegal overseas travel by issuing visit visas in exchange for bribes—ranging from Rs 10,000 to Rs 300,000 per person. As the scandal broke, Parliament was stalled for nearly two weeks, delaying crucial legislative business—including the national budget discussion, the Finance Bill, and the Appropriation Bill. Meanwhile, Nepalese all around (domestic and global) circulated evidence on social media, escalating public pressure and bringing the case into sharper focus. The government's response—a seven-member probe committee headed by former Chief Secretary Shankar Das Bairagi—was met with heavy criticism. RSP and RPP rejected the panel outright, calling it a politically motivated cover-up, particularly since some of its members were allegedly connected to the case they are now expected to investigate.

Dr. Biswo Nath Poudel has been appointed the 18th Governor of Nepal Rastra Bank (NRB) after more than a month of vacancy on May 20th. A former member of the selection committee himself, he resigned just nine days before being appointed—drawing sharp criticism. However, his extensive expertise in economics and



public policy led to mixed public reactions. Dr. Poudel brings a strong track record as Vice Chairperson of the National Planning Commission, Senior Economic Advisor at the Ministry of Finance, and Chief Economic Advisor to the Confederation of Nepalese Industries. Since taking office, NRB has actively introduced measures to support economic recovery—such as easing working capital loan guidelines, circulars motivating for more efficient loans disbursement through microfinance, a more accommodative monetary policy unveiled timely. Contrarily, he has signaled intent to separate banking from business interests to strengthen financial governance, which has drawn sharp criticism by business leaders.

Prime Minister KP Sharma Oli's increasingly authoritarian approach—marked by actions like the expulsion of Bhim Rawal, the suspension of dissenters, and recently revived corruption charges against Madhav Kumar Nepal (ex-UML cadre)—has significantly fractured the UML, deepening internal factionalism. In this context of rising discontent, former President Bidhya Devi Bhandari confirmed her return to active politics during her prominent speech at Madan Bhandari's 74th birth anniversary, offering a beacon of hope for opposition factions as she re-engages after regional meetings and a China visit. Notably, Oli skipped her speech and departed for an overseas trip, signaling discomfort with her re-entry. Given Bhandari's historically close ties with Oli, her return could either help unify the UML or further intensify the looming power struggle ahead of the party's next general convention, which is now shaping up as a pivotal moment for the party's trajectory. This is particularly evident in the aggressive lobbying from Oli's side to amend certain laws regarding age limits—reportedly aimed at preventing Bhandari's rise—while Bhandari's faction advocates for the discontinuation of terms after two stints.

On the international front, few sagas drew as much attention as the fallout between former U.S. President Donald Trump and his ex-right-hand man, Elon Musk. Once close allies, their relationship imploded after Trump signed the controversial "Big Beautiful Bill" — a sweeping fiscal package loaded with industry handouts, generous tax benefits for well-connected elites, and significant rollbacks in clean energy subsidies. Musk, sharply critical, called the bill "a disgraceful giveaway to the swamp," and hinted at launching an independent 'America Party' to challenge the political status quo of two-party system. The feud went quiet for a few weeks as the U.S. government focused on military action, but it started again once things calmed down, drawing attention from the public and media.

Meanwhile, the 12-day full-scale war between Israel and Iran sent shockwaves across the region, drawing sharp lines of global and regional alliances. Israel was firmly backed by the United States and received tacit support from several European nations, while Iran was supported by Russia, China, and regional militias such as Hezbollah in Lebanon and armed groups in Syria and Iraq. Though the immediate conflict has now ended, its short yet intense duration severely disrupted key oil routes and triggered sharp volatility in global energy markets—exerting considerable pressure on fuel-importing countries.



And while much of the region remains unstable, a brief military flare-up between India and Pakistan over border tensions thankfully de-escalated quickly, avoiding another prolonged crisis in South Asia.

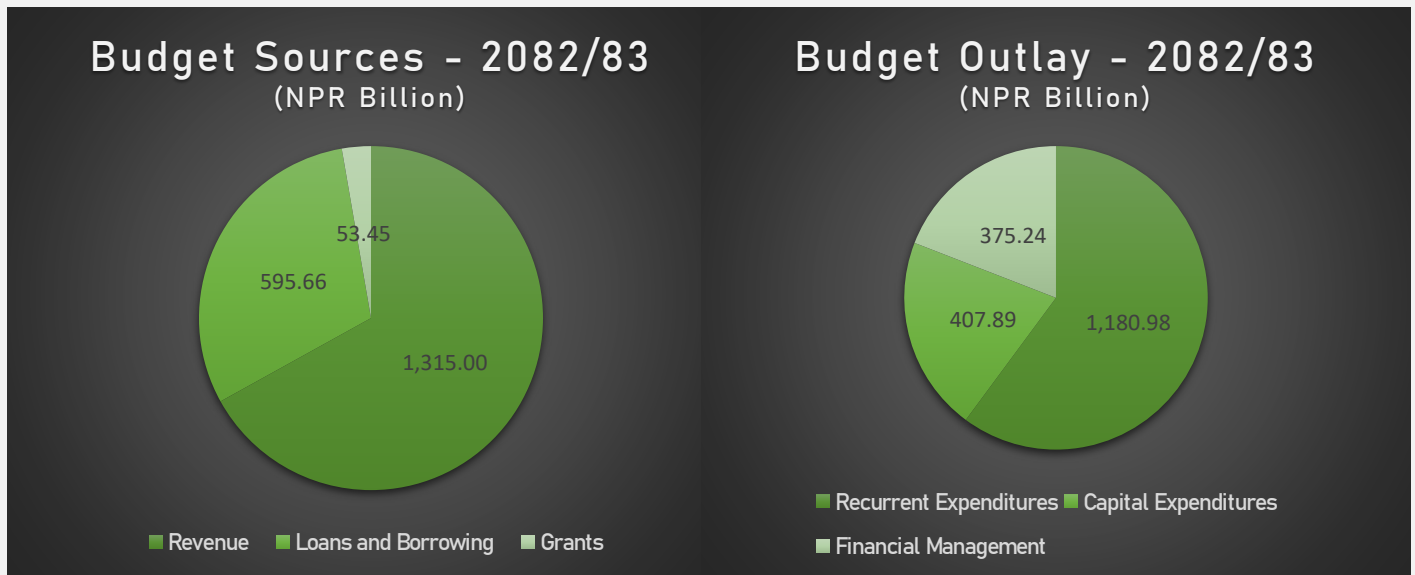
## Conclusion

This quarter end - marking 1 year tenure of the coalition government - has been a turning point for Nepali politics, with many corruption cases now coming to light with strong evidence. Big scandals like the Pokhara Airport, Patanjali land deal, and visit visa scam have dominated the news—but the impact is spreading further. Minister Gupta's resignation after bribery claims and the suspension of other MPs in separate cases show that real consequences are starting to follow. At the same time, controversy over changes in the 'cooling-off period' clause in a civil service bill has raised serious questions about the lawmaking process. Meanwhile, divisions and new alliances among Madhesh-based and smaller parties are adding to the political uncertainty. Overall, while true accountability remains questionable, the rise in public pressure, ongoing investigations, and growing access to evidence show that public interest in fighting corruption is stronger than ever.



# How We View | Economy

## Budget 2082/83 Overview



Source: Budget Speech & Midterm Budget Review

On Jestha 15, Finance Minister Bishnu Paudel unveiled NPR 1,964.11 billion budget for FY 2082/83—16.03% above the mid-term revised and 5.58% over the previous year’s actual budget. Revenue is projected at NPR 1,315 billion (up 14.81% on the mid-term review and 4.34% year-on-year), with foreign grants of NPR 53.45 billion (45.96% above the mid-term estimate and 2.14% over last year’s actual), prompting doubts that similar shortfalls could force downward revisions again. Loans and borrowings total NPR 595.66 billion — NPR 362 billion domestic and NPR 233.66 billion external—representing a 16.63% rise on revised figures and 8.76% over last year’s original plan. Notably, FY 2081/82 external debt was cut and revised by 16.92% (from NPR 217.67 billion to NPR 180.83 billion), while domestic borrowing held steady at NPR 330 billion.

Of the total outlay, 60.13% (NPR 1,180.98 billion) is for recurrent spending, 20.77% (NPR 407.89 billion) for capital expenditures, and 19.10% (NPR 375.24 billion) for financial management. Although budget for capital expenditures, raised by 15.76% over last year’s actual and 36.19% over the revised estimate, looks promising in the first glance—the previous fiscal year saw a 15% cut in capital expenditures to service existing loans. By end Ashadh 32, just 63.20% of last year’s actual capex and 74.35% of the revised capex allocation had been spent; revenue and grants collections stand at 83.06% and 44.97% of targets. These shortfalls—and heavy reliance on domestic borrowing—risk crowding out private investment in the worst-case scenario, cast doubt on ambitious revenue forecasts, and make the 6% growth and below 5.5 % inflation goals hard to meet.

To bolster growth, the budget targets an additional 942 MW electricity generation this year, increasing the total installed capacity to 4,800 MW; introduces Digital Nomad Visas; grants five-year, full income-tax



exemption to startups with turnover up to NPR 100 million; and, for the first time, permits Nepali entrepreneurs to invest abroad. It defines five strategic objectives and five priorities—focusing on employment, production, and productivity—and extends rent exemptions and SEZ-level benefits to new industries in Special Economic Zones and industrial areas, including exporters in industrial zones that export over 30% of their output. Electric vehicle duties remain unchanged to promote green transport. The IT sector gains a 75% tax exemption on service exports and a 5% final tax for individuals; VAT on digital payments is abolished; institutional investors and investment companies receive broader access to equity, debt, and priority-sector investment; and the NPR 300,000 EXIM-code bank guarantee requirement is removed. Overall, this budget strategically pairs higher spending and borrowing with targeted incentives to drive infrastructure, entrepreneurship, and digital transformation—though its success will depend on overcoming past implementation gaps and revenue shortfalls.

### Monetary Policy 2082/83

Nepal Rastra Bank's 2082/83 monetary policy adopts a cautiously expansionary stance, targeting 6% real GDP growth while maintaining a prudent foreign-exchange buffer equivalent to seven months of imports. As of Jestha 2082, reserves stood at 14.7 months of import cover, well above the benchmark set, providing ample room to deploy liquidity without undermining external stability. Yet despite plentiful system liquidity and successive interest-rate cuts, credit growth has stalled: a surge in non-performing loans (NPLs) and non-banking assets (NBAs) has eroded banks' risk appetite and left both businesses and households reluctant to borrow, underscoring subdued confidence in the economic outlook.

In response, NRB in recent monetary policy has narrowed its policy-rate corridor to 6%/4.5%/2.75% (upper/policy/lower bounds) to lower funding costs and incentivize additional lending. To spur real-estate activity, the loan-to-value ratio for first-home mortgages has been raised to 80 % (with the cap increased from NPR 20 million to NPR 30 million) while subsequent-home LTV is set at 70%. In capital markets, the individual margin-loan limit has been increased to NPR 250 million (up from NPR 150 million), with all margin loans now carrying a 100% risk weight (from amendment done in 3rd quarter monetary policy review) —steps that should broaden access to share-backed financing and enhance market liquidity.

To support banks' capital bases, the 2082/83 policy now focuses on inclusion of up to two-year-old regulatory reserves held in non-banking assets as Tier 2 supplementary capital, alleviating immediate pressures on capital-adequacy ratios. NRB is also exploring the creation of Asset Management Companies to take a more active role in cleaning up long-standing NPLs and NBAs. To boost liquidity further, banks can now put up to 25% of their core capital into non-deliverable forwards (up from 20%) for trade hedging, and capitalization of interest on energy-sector loans is considered aimed at the energy sector.



In a nutshell, this monetary policy is decisively expansionary —seeking 12% private-sector credit growth— while remaining cautious by planning to align liquidity coverage ratios (LCR) and net stable funding ratios (NSFR) across Nepal’s banking sector and by implementing an Asset Quality Review (AQR) for commercial banks.

### Monetary stance:

Indicator	FY 2081/82 Q4	FY 2081/82 Q3	% Change
Total Deposit (NPR billion)	7292	6857	6.34%
Total Loan (NPR billion)	5600	5535	1.17%
CD Ratio	75.78	79.45	-4.62%
Inter Bank Rate	2.87	3	-4.33%
Treasury Bill:			
28 Days	2.77	2.97	-6.73%
91 Days	2.94	2.97	-1.01%
182 Days	2.96	2.99	-1%
364 Days	3	3.06	-1.96%

Source: NRB

Nepal’s banking sector continues to operate under conditions of high liquidity. The interbank rate declined to 2.87% in Q4, falling below both the policy rate (5%) and the lower bound of the interest rate corridor (3%), highlighting a persistent liquidity surplus in the system. As of mid-July 2025, excess liquidity held at NRB stands at approximately NPR 693.95 billion, reflecting a disconnect between liquidity supply and credit demand. Deposits grew by 6.34% quarter-on-quarter, while credit expanded by only 1.17%, resulting in a significant decline in the credit-to-deposit (CD) ratio from 79.45% to 75.78%. This suggests banks are facing difficulty channeling deposits into loans, likely due to weak private sector confidence and cautious lending behavior. Rates on Treasury Bills declined across most tenors, with the 28-day yield dropping 6.73%, indicating continued preference among banks for short term low-risk government securities amid limited credit opportunities.

While recent regulatory measures such as the inclusion of regulatory reserves (held over two years) into Tier 2 capital and revisions to working capital loan guidelines—may provide marginal relief on capital adequacy (not in core capital adequacy) and enhance credit capacity, their impact on lending momentum remains uncertain in the absence of stronger demand-side drivers. Overall, the recent monetary policy remains supporting, but the effectiveness of transmission is constrained by a weak credit appetite. Addressing this structural liquidity overhang will require not only regulatory support but also improved macroeconomic sentiment and investment confidence.





## Fiscal Stance:

Amount in Lakhs

Topic	Target/Budget (FY 2081/82)	Actual up to Q4 End FY 2081/82	Percentage (FY 2081/82)	Target/Budget (FY 2080/81)	Actual up to Q4 End FY 2080/81	Percentage (FY 2080/81)
1. Revenue	14,193,030	11,788,202	83.06%	14,225,417	10,303,443	72.43%
a) Tax Revenue	12,842,096	10,498,754	81.75%	13,054,796	9,270,243	71.01%
b) Non-Tax Revenue	1,350,934	1,289,448	95.45%	1,170,621	1,033,200	88.26%
2. Grants	523,265	235,287	44.97%	499,430	27,580	5.52%
3. Other Receipts	-	173,697	0 %	-	235,616	
Total Receipts of GoN (1+2+3)	14,716,295	12,197,186	82.88%	14,724,847	10,566,639	71.76%
Total Expenditure	18,603,030	15,231,068	81.87%	17,513,121	14,087,849	80.44%
a. Recurrent	11,406,645	9,803,821	85.95%	11,417,841	9,524,217	83.42%
b. Capital	3,523,540	2,226,823	63.20%	3,020,744	1,917,316	63.47%
c. Financing	3,672,845	3,200,424	87.14%	3,074,536	2,646,316	86.07%

Source: FCGO

Nepal's fourth-quarter budget execution in FY 2081/82 reflects noteworthy gains in revenue mobilization but stubborn bottlenecks in development outlays. Total receipts reached 83.06% of plan—up from 72.43% a year ago—with tax collections at 81.75% (versus 71.01% a year ago) and non-tax revenues nearly fully absorbed at 95.45% (up from 88.26%), while grant inflows ticked up to 45% of target but remain far below need highlighting persistent challenges in securing and utilizing external support effectively.

On the spending side, the government disbursed 81.87 % of its NPR1,860.30 billion appropriations, buoyed by recurrent outlays at 85.95 %, yet capital spending languished at just 63.20 %—barely different from last year, signaling deep-rooted issues in project readiness, procurement bottlenecks, and institutional inertia. Financing was also heavily utilized (87.14%), indicating rising dependence on debt to meet spending needs. Overall, the fiscal stance remains mildly expansionary in headline terms, but structurally inefficient. While stronger revenue collection is a positive signal, Nepal's inability to effectively convert budgeted capital into tangible development outcomes undermines growth prospects. Without targeted reforms to accelerate project execution and improve grant absorption, fiscal policy will continue to fall short of its transformative potential.



## Macroeconomic conditions

	As of Jestha End FY 2081/82	As of Jestha End FY 2080/81	Y-O-Y Change
Inflation	2.72	4.17	-34.77%
Export (in billion)	247.57	139.26	77.78%
Import (in billion)	1644.80	1453.70	13.15%
Trade Deficit (in billion)	1397.23	1314.44	6.30%
Export to Import (%)	15.10	9.60	57.29%
Travel Income (in billion)	82.20	76.88	6.92%
Travel Payment (in billion)	203.97	175.16	16.45%
Remittance (in billion)	1532.93	1327.54	15.47%
Forex Reserve in USD (\$ billion)	18.65	14.71	26.78%
Forex Reserve Sufficiency (in Months)	14.70	12.60	16.67%

Source: NRB

Nepal's CPI inflation dropped to 2.72% (down 34.77% YoY) mainly due to falling food and beverage prices and low inflation in India, which stood at 2.82% in May 2025, its lowest since February 2019. WPI inflation also eased to 1.56% from 5.48%, easing upstream cost pressures. A softer consumption demand has contributed to the ongoing disinflationary trend. Despite a 77.78% surge in exports and modest 13.15% import growth, the trade deficit widened by 6.30%, with the Terms of Trade index down 0.9%, indicating Nepal now receives less value for its exports relative to its imports, although the export-to-import ratio improved to 15.10% from 9.60%.

Nepal's gross foreign-exchange reserves increased by 26.8% on year-on-year basis rising from \$14.71 billion to \$18.65 billion. This demonstrates sufficient external liquidity to cover 14.7 months of combined merchandise and services imports. Travel payments (which also include payment for education) are rising faster than travel income, underscoring Nepal's reliance on remittances, which climbed 15.47% to NPR 1,532.93 billion and remain the backbone of the economy. This heavy dependence, with no viable short-term alternatives, heightens the risk of Dutch-disease effects over the long run.

With recent floods along the Nepal–China border in Rasuwa, cross-border trade with China may slow down in the coming months. At the same time, Nepal's imports and exports are dominated by soybean oil, which currently benefits from a duty-free loophole in India. But India's new decision to cut import duty on crude edible oils (soybean, palm and sunflower) by 10 percentage points will help Indian refiners and likely reduce demand for Nepal's refined oils. On the bright side, with new Governor, NRB has given businesses some relief: the variance clause in the Working Capital Loan Guidelines, 2079 will now take effect from Shrawan 1, 2083 BS (instead of 2082 BS), and any excess working-capital loans must be repaid by Ashad 2084 BS (rather than 2082 BS).





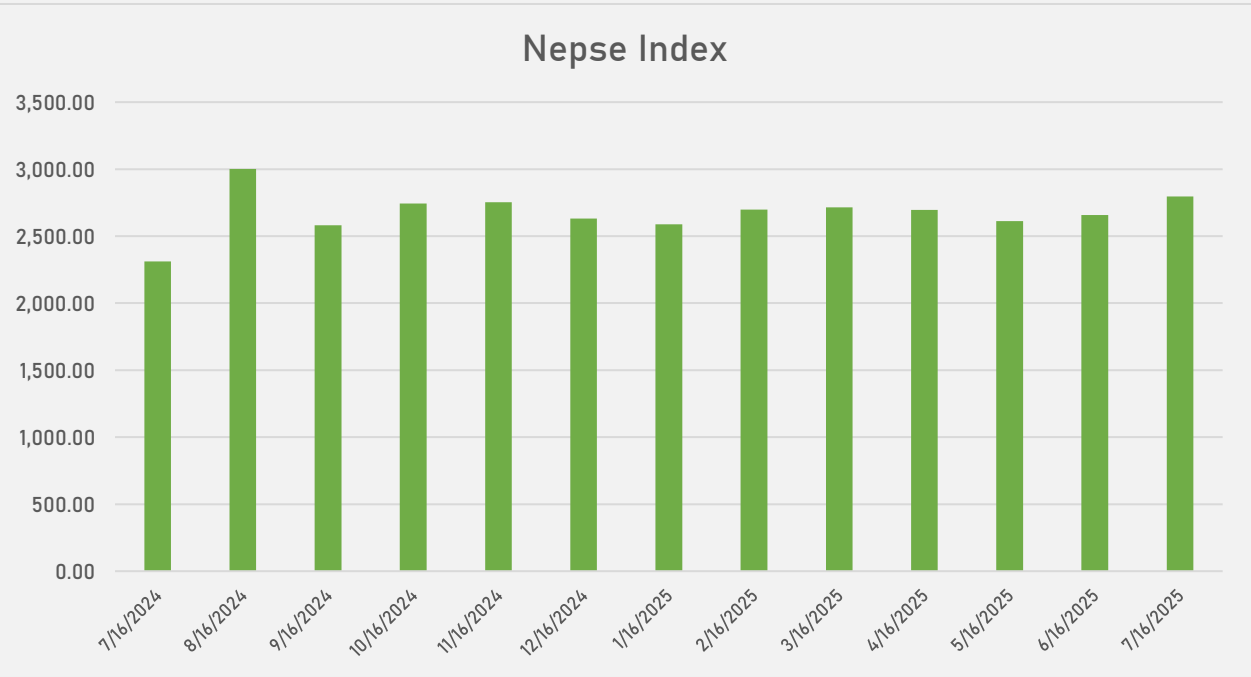
# How We View | Capital Market

The NEPSE index closed FY 2081/82 at 2,794.78, gaining 554.37 points or 24.74% from its mid-July 2024 closing of 2,240.41. Although still below its all-time high closing index of 3,198.19 (Aug 18, 2021), this year’s performance reflects a meaningful rebound in investor sentiment.

The market saw a strong start, with the index peaking at 3,000.81 in mid-August, driven by political stability, NRB policy reforms, and optimism from the new finance minister. However, the rally was followed by corrections. From September to April, the index moved within a relatively wide range of 2,580 to 2,750, indicating a phase of consolidation.

In contrast, May and June saw reduced volatility, with the index trading in a narrower band. The final quarter, however, brought renewed momentum, driven by stronger institutional participation and relaxed NRB directives. The fiscal year ended on a positive note with the index reaching its highest closing level at 2,794.78 in July.

In summary, FY 2081/82 marked a cautious but steady recovery for Nepal’s capital market, laying the groundwork for potential growth in the coming year.



Source: NEPSE official website



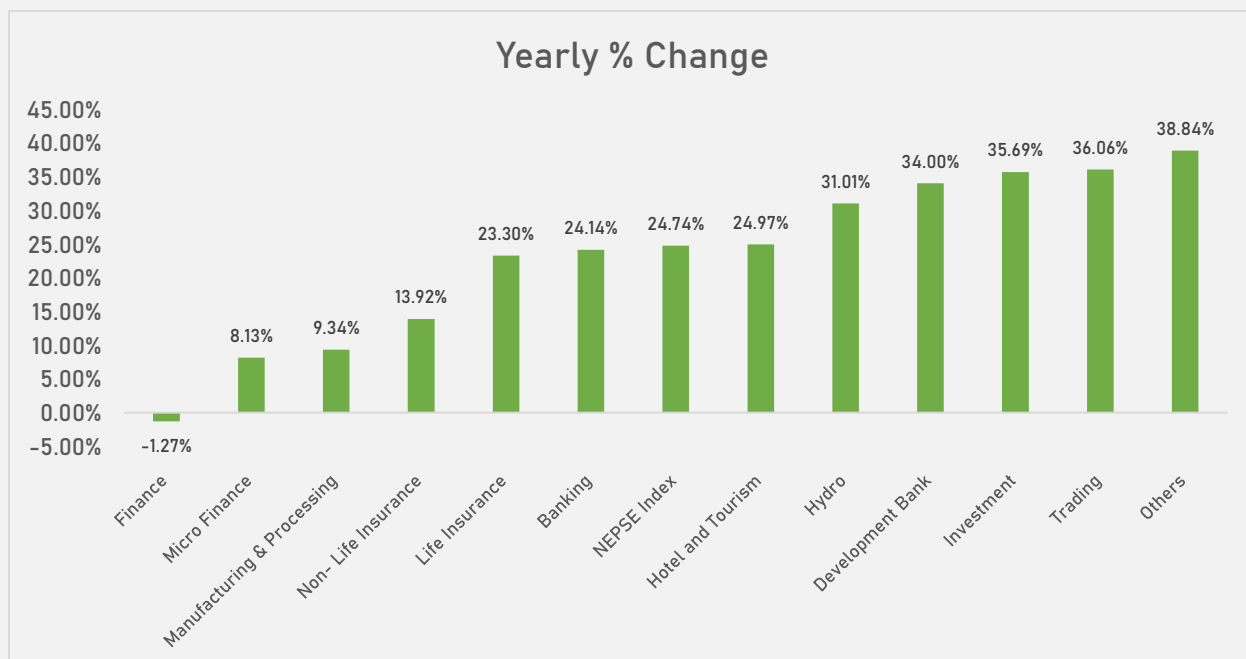
Sector-Wise Sub-Indices	This Quarter Close	Previous Quarter Close	Change (%)
Finance	2,571.12	2525.85	1.79%
Manufacturing & Processing	7,355.74	7015.13	4.86%
Micro Finance	5,210.29	4808.58	8.35%
Hydro	3,646.78	3430.07	6.32%
Trading	4,148.25	4590.13	-9.63%
Investment	113.42	111.21	1.99%
Development Bank	5,941.99	5406.01	9.91%
Others	2,352.82	2414.46	-2.55%
Non- Life Insurance	12,736.14	12274.14	3.76%
Banking	1,516.60	1,355.12	11.92%
Hotel and Tourism	6,947.71	6447.16	7.76%
Life Insurance	13,276.35	13190.3	0.65%
<b>NEPSE Index</b>	<b>2,794.78</b>	<b>2662.08</b>	<b>4.98%</b>

Source: NEPSE official website

Sector-Wise Sub-Indices	This Year Close	Previous Year Close	Change (%)
Finance	2,571.12	2604.16	-1.27%
Manufacturing & Processing	7,355.74	6727.7	9.34%
Micro Finance	5,210.29	4818.4	8.13%
Hydro	3,646.78	2783.55	31.01%
Trading	4,148.25	3048.79	36.06%
Investment	113.42	83.59	35.69%
Development Bank	5,941.99	4433.5	34.02%
Others	2,352.82	1694.64	38.84%
Non- Life Insurance	12,736.14	11179.96	13.92%
Banking	1,516.60	1221.24	24.19%
Hotel and Tourism	6,947.71	5559.65	24.97%
Life Insurance	13,276.35	10767.6	23.30%
<b>NEPSE Index</b>	<b>2,794.78</b>	<b>2240.41</b>	<b>24.74%</b>

Source: Merolagani





Source: Merolagani

## Sectoral Dissection

### Banking

The banking sector concluded the fiscal year with stable liquidity and a continued focus on regulatory reforms aimed at strengthening governance and broadening credit access. Nepal Rastra Bank (NRB) has taken a firm stance, including proposed amendments to the Banks and Financial Institutions Act (BAFIA) that would separate ownership from management, sparking important conversations across the industry.

As of July 16, 2025, Banks and Financial Institutions (BFIs) held total deposits of NPR 7,292 billion, with total lending reaching NPR 5,600 billion. The credit-to-deposit (CD) ratio stood at 75.78%, reflecting sound liquidity management and compliance to regulatory thresholds. However, rising non-performing loans (NPLs) continue to exert pressure on the sector, prompting a stronger emphasis on credit quality oversight and portfolio discipline.

Looking ahead to FY 2082/83, NRB's Monetary Policy introduces supportive measures to encourage credit growth and economic development. A lowered policy rate of 4.5% aims to reduce borrowing costs, while a 12% target for private sector credit growth prioritizes key sectors such as agriculture, energy, and MSMEs.

Moreover, revised loan limits for individual margin loans and housing loans are expected to unlock new lending opportunities. To ensure growth remains inclusive and sustainable, banks will need to reinforce risk governance and strengthen internal control systems.



With these initiatives, the banking sector is well-positioned to support inclusive credit growth and contribute meaningfully to broader economic objectives in the coming fiscal year.

## Hydropower

This quarter, the hydropower sector faced severe disruptions due to floods and a glacial lake outburst, which damaged several operational plants with a combined capacity of approximately 250 MW. Despite estimated losses exceeding NPR 3 billion, rapid restoration efforts helped minimize disruptions to both domestic supply and cross-border exports.

A historic milestone was achieved with Nepal's first sustained electricity export of 40 MW daily to Bangladesh under a trilateral agreement involving India and Bangladesh. Additionally, power exports to Indian states such as Bihar and Haryana increased significantly, reinforcing Nepal's emergence as a regional energy exporter.

However, domestic challenges persist. A Supreme Court ruling stalled nearly 20,000 MW of planned projects by overturning legal provisions for hydropower development in protected areas. The Nepal Electricity Authority also announced a NPR 30 billion borrowing plan to address growing liquidity shortfalls. Operational issues, including irregular power supply in industrial zones, continue to pose risks to Nepal's economic ambitions.

Despite these obstacles, expanding exports, grid improvements, and emerging public-private partnerships signal promising prospects. The sector's future will depend on strategic policies and sustained investment to fully harness Nepal's vast hydropower potential.

## Tourism

The tourism sector experienced mixed outcomes this quarter. The government proposed restricting Everest permits to climbers with prior experience on peaks above 7,000 meters to enhance safety and reduce congestion. Early July monsoon floods damaged critical infrastructure, including the Friendship Bridge in Rasuwa, disrupting trekking access. Additionally, flight cancellations at Resunga Airport further affected domestic travel.

The Nepal Tourism Board approved a NPR 1.6 billion budget for FY 2082/83, focusing on international marketing and infrastructure development. Despite these efforts, tourist arrivals declined slightly due to high airfares, limited flights, and weak overland connectivity. Nevertheless, June arrivals rebounded strongly, surpassing pre-pandemic levels.

With the planned resumption of Buddha Air's Kolkata–Kathmandu service and ongoing cross-border infrastructure improvements, the sector is well-positioned to regain momentum. Addressing logistical challenges and enhancing promotional efforts will be key to sustaining growth.



## Microfinance

During the fourth quarter, the microfinance sector faced increased pressure due to evolving regulations and rising credit risks, reflecting continued stress among borrowers amid ongoing economic challenges. Despite these headwinds, many microfinance institutions (MFIs) reported improved profitability, supported by strategic loan restructuring and operational adjustments. However, asset quality remains a concern, with several institutions exceeding the regulatory threshold for non-performing loans (NPLs).

In response, Nepal Rastra Bank (NRB) introduced key regulatory reforms aimed at stabilizing the sector and safeguarding borrowers. Notably, Nepal Rastra Bank has capped microfinance loan rates effective from Shrawan 1, 2082 (July 17, 2025). Rates must be based on the institution's quarterly average base rate plus up to 3%, and cannot exceed commercial banks' monthly base rate plus 9%. Existing loans are capped at 15%, and borrowers must be given fixed or variable rate options. The central bank has also encouraged consolidation among MFIs to improve operational efficiency and resilience.

The sector's recovery will depend on stronger credit appraisal, enhanced risk management, borrower education, and continued improvements in governance. These reforms are critical to advancing sustainable financial inclusion and ensuring long-term stability in the microfinance ecosystem.



## How We View | Real Estate

Nepal's real estate sector spent most of fiscal year 2024/25 under pressure. Since early 2025, the market has faced muted demand and growing hesitation from both buyers and lenders. While banks were sitting on ample liquidity — and the base rate had fallen to 6.9%, the lowest in the past three years, as per the Nepal Rastra Bank monthly report — loan disbursements remained weak. This was largely due to cautious lending practices, ongoing focus on loan recovery, and buyers' uncertainty over property valuations.

But a potential turning point has just arrived. The Nepal Rastra Bank (NRB), through its monetary policy for fiscal year 2025/26, has introduced a significant incentive for the housing sector. Banks can now finance up to 80% of construction costs for first-time home builders, offering greater access to credit for individuals building their first homes.

In addition, the maximum loan limit for residential home construction has been increased from NPR 20 million to NPR 30 million, further supporting aspiring homeowners by expanding financing capacity.

This policy shift is expected to stimulate growth in the housing and construction industries while improving access to homeownership.

This move aims to ease access to housing loans, especially for middle- and lower-income families, and revive credit flow in the sluggish real estate and construction sectors.

The policy also targets 12% credit growth and includes liquidity-enhancing measures like a reduced interest rate corridor and NRB bond provisions. By taking a "cautiously accommodative" stance, the central bank signals support for economic momentum — without compromising stability.

### Infrastructure Development

#### Road

The Kathmandu–Tarai Madhesh Fast Track has reached 41 percent physical progress as of July 2025. The government has committed to completing the project by April 2027.

Kaligandaki Corridor: Stretching 442 km from the Indian border at Sunauli to the Chinese border at Korala, the Kaligandaki Corridor is a tri-nation trade and tourism route connecting Gandaki and Lumbini provinces. It supports regional economic growth, religious tourism, and direct road connectivity. As of July 2025, the corridor has achieved 85% physical progress in the upper section and over 198 km blacktopped in the lower



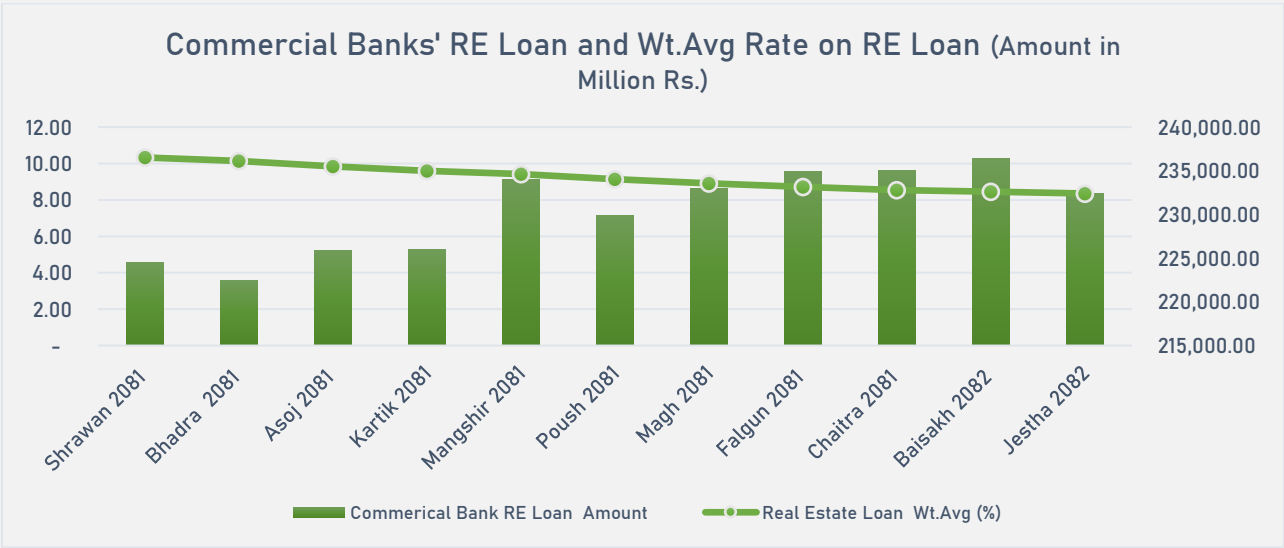
section. A total of 230 km has been blacktopped across the project. Road works are expected to be completed by mid-July 2026.

Karnali Corridor: The Karnali Corridor runs 347 km from Khulalu in Kalikot to Hilsa in Humla, ultimately linking India to China through Nepal’s Karnali Province. It aims to boost trade, development, and religious tourism to Mansarovar. As of July 2025, the project has achieved 36% physical progress, with multiple bridge contracts underway and road upgrades progressing. The revised target for completion is mid-July 2027, although challenges remain due to geography, funding, and land disputes.

### Others

The Pumdikot Mahadev Cable Car project in Pokhara, jointly developed by Chitwan’s Koi Group and Agni Group, began its groundwork in 2023 with a total investment of NPR 1.604 billion, structured as 80% bank financing and 20% equity. Construction is currently underway, with the developer aiming to complete the project by mid-July 2026, requiring approximately 1.5 years for full completion.

### Banking and Finance



Source: NRB

This Fiscal year 2024/25, Nepal’s real estate sector experienced a steady decline in the weighted average interest rate on commercial bank loans from 10.33% to 8.35% driven by falling base rates and excess liquidity in the banking system. However, loan disbursement volumes remained largely stagnant, hovering between NPR 224–236 billion, reflecting cautious lending practices by banks and subdued demand from buyers uncertain about property valuations. Despite a more accommodative monetary environment, credit flow into the sector was restrained due to a focus on loan recovery and weak investor confidence. A potential



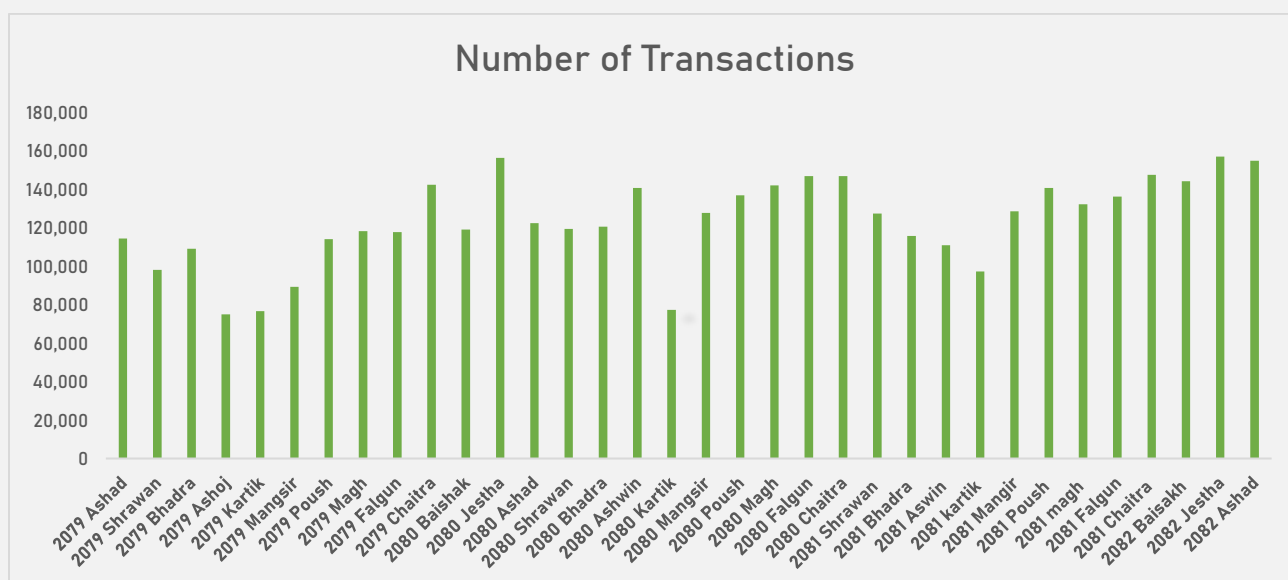
turnaround may be on the horizon following the Nepal Rastra Bank's recent monetary policy, which now permits banks to finance up to 80% of construction costs for first-time home builders and targets 12% credit growth. This policy shift, aimed at easing access to housing loans and reviving demand in the real estate and construction sectors, could help stimulate market activity in the early months of FY 2025/26 if supported by timely implementation and renewed buyer sentiment.

#### Transaction Records

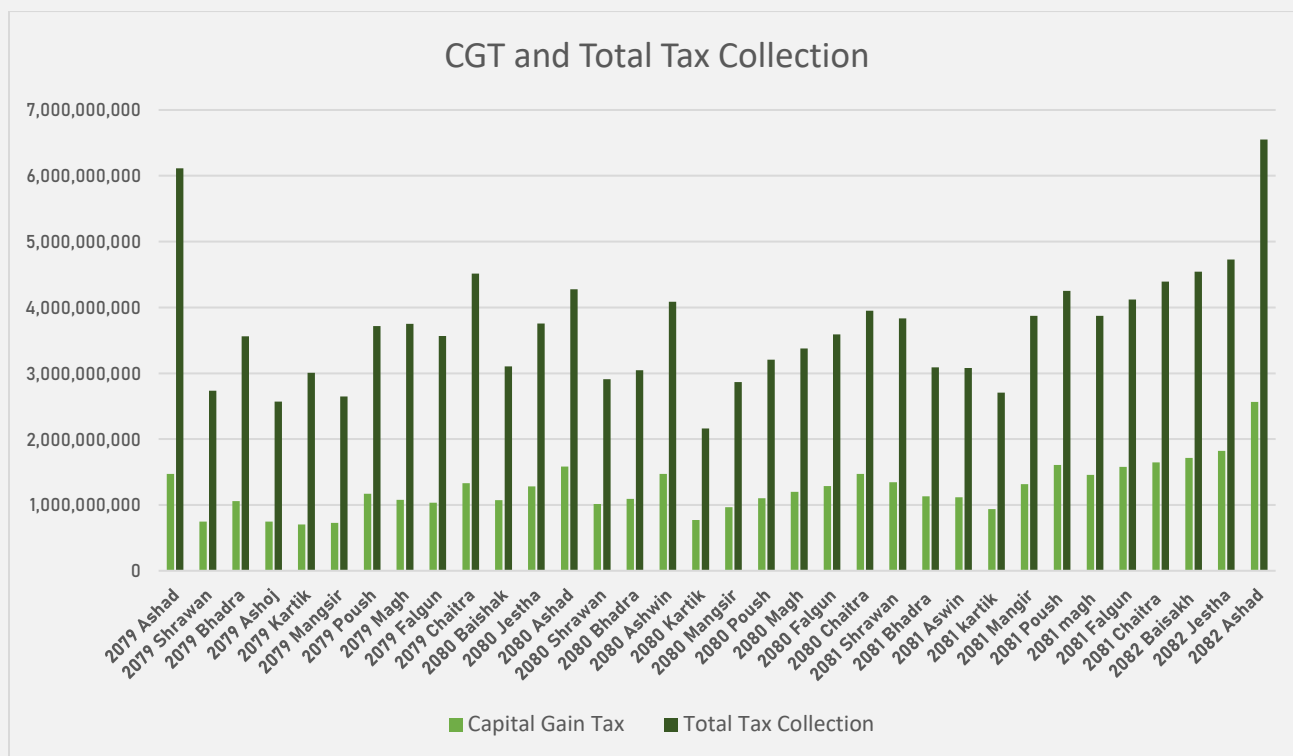
Time	Number of Transactions	CGT	Total Tax collection
2082 Baisakh	144,024	1,714,341,788	4,542,265,555
2082 Jestha	156,752	1,819,763,985	4,727,125,645
2082 Asadh	154,720	2,565,348,264	6,551,712,884

Time	Number of Transactions	CGT	Total Tax collection
2081 Baisakh	141,782	1,399,084,432	3,863,816,266
2081 Jestha	175,620	1,568,887,930	4,339,241,769
2081 Asadh	136,093	1,724,700,247	4,612,553,431

Source: DOLMA







Source: DOLMA

The real estate market in Nepal has shown signs of recovery and growth in the early months of fiscal year 2082, as reflected in increased capital gains tax (CGT) and total tax collections. Despite only a slight fluctuation in the number of transactions compared to the same period last year, tax revenue rose significantly — with CGT increasing from NPR 1.71 billion in Baisakh to NPR 2.56 billion in Asadh 2082, and total tax collection reaching NPR 6.55 billion in Asadh, the highest in the past 15 months. This suggests that the average value or profitability of real estate transactions has gone up. While there was a dip in activity during the mid-months of FY 2081 (especially from Shrawan to Kartik), the market regained momentum toward the year-end and into 2082. Contributing factors likely include improved banking liquidity, a reduced base rate of 6.09% (as per Nepal Rastra Bank), and increased investor confidence. Overall, the data points to a strengthening real estate sector with rising transaction volumes and values.



# THIS QUARTER FOCUS

## This Quarter Focus | Effective Public Finance Management in Nepal

### Abbreviations and Definitions

#### *TSA: Treasury Single Account*

A unified cash-management pool at Nepal Rastra Bank that channels virtually all government receipts and payments through a single real-time ledger, providing the Ministry of Finance with full visibility over liquidity.

#### *CGAS: Computerized Government Accounting System*

The web-based general-ledger platform used by the federal government's spending units to post, reconcile, and report every transaction against the budget, producing International Public Sector Accounting Standards-compliant financial statements.

#### *SuTRA: Sub-national Treasury Regulatory Application*

The cloud system mandated for all 753 local governments (and provinces) that integrates budgeting, payment processing, and accounting into a single interface with automatic consolidated reporting.

#### *e-GP: Electronic Government Procurement*

Nepal's end-to-end online portal ([bolpatra.gov.np](http://bolpatra.gov.np)), where agencies publish tenders, receive and evaluate electronic bids, issue purchase orders, and manage bid securities.

### The Background

When the Auditor General of Nepal submitted the 62<sup>nd</sup> annual report to the president in May 2025, he confirmed that unsettled arrears had climbed to NPR 733 billion and that fresh irregularities worth NPR 91.6 billion had surfaced during fiscal year 2023/24. A few days later, the Financial Comptroller General's Office disclosed that with just one month left in the fiscal year, the government had managed to spend only 41 percent of its capital budget, leaving most projects scrambling to pay contractors before books closed on July 16. These two cases, the rising arrears on one side and chronic underspending on the other, capture the dilemma of impressive reforms on paper, but persistent weaknesses in practice.

Formal Nepali budgeting began in 1951, immediately after the fall of the Rana regime, when Finance Minister Subarna Shamsher broadcast a national budget of just NPR 52.5 million over Radio Nepal. While the early decades relied on handwritten ledgers, the Financial Procedures Act 1999 laid down rules for operating the Consolidated Fund, while the Audit Act 1991 guaranteed independent external scrutiny of all government entities. A further leap came with the Financial Procedures and Fiscal Responsibility Act 2019, which introduced debt-ceiling rules and mandatory fiscal disclosures to anchor budget discipline.



Real digitization started after the Maoist conflict had ended in 2006, and donors started pressing for better fiduciary safeguards. A Treasury Single Account (TSA) was piloted in 2009 and reached all 75 districts by 2016, collapsing 13,717 idle bank accounts and reducing payment lags from days to minutes (Source:worldbank.org). A unified cash-management pool was established at Nepal Rastra Bank that channels virtually all government receipts and payments through one real-time ledger, giving the Ministry of Finance full visibility over the liquidity.

In parallel, the Computerized Government Accounting System (CGAS) automated federal ledgers, and an electronic government procurement (e-GP) portal: [www.bolpatra.gov.np](http://www.bolpatra.gov.np), began publishing tenders. Federalization in 2015 triggered a second wave of automation: by fiscal 2020/21, every one of Nepal's 753 municipalities had adopted Sub-national Treasury Regulatory Application (SuTRA), a web-based financial management information system that lets even remote ward offices prepare budgets and record transactions in real time.

The payments at the federal government level flow through the Treasury Single Account (TSA) and Computerized Government Accounting System (CGAS), while provinces maintain hybrid arrangements and local governments rely on SuTRA. Procurement notices appear almost exclusively on the e-GP portal: [www.bolpatra.gov.np](http://www.bolpatra.gov.np).

### **Why the System Still Hurts**

Audit recommendations linger: only a few of the queries are resolved within a year, allowing irregularities to soar into the hundreds of billions. Capacity gaps are acute in the government, mainly at the provincial and local levels. This capacity gap creates an environment where managers of public finance are continuously focused on compliance for the whole year, with no time for judgment of efficiency and the outcome. This is why end results never influence policy choices, leaving budgets totally driven by inputs rather than outcomes.

### **The Road Ahead: Integration, Credibility, Transparency, and Accountability**

First, budget credibility hinges on realistic ceilings: the capital expenditure of the parliament-approved budget must become binding to a certain level with political consequences if not complied with. Accountability and transparency are more than abstract principles. Transparency is the first safeguard against misuse of public funds. When the government releases budgets and spending data in open and easy-to-see formats, oversight bodies such as the Public Accounts Committee, civil society, and journalists have the facts they need to flag cost overruns or delays. Development partners also review these disclosures before deciding on providing further aid. If the disclosures are patchy, concessional financing and aid can slip away.



Adding layers of real-time, detailed breakdowns of every transaction to the system, like daily budgetary comparative analysis, currently published by the Financial Comptroller General Office, would let citizens track every rupee from appropriation to supplier payment, raising political cost for delays or leakages. An integrated ecosystem should encompass TSA, CGAS, SuTRA, e-GP, and other related platforms within an API layer, so that a single entry triggers all relevant payments and updates without requiring manual re-entry. Publishing this real-time, detailed, and integrated budgetary analysis with a clear and easily understandable User Interface (UI) can be a revolution in the accountability part of the public finance management in Nepal. Pillar 7 of the National PFM reform strategy-III 2025-30, published by the Ministry of Finance, already aims to promote transparency and accountability through effective external scrutiny and citizen engagement in the PFM system.

What an integrated system will look like:

1. One core database, one chart of accounts: Each commitment, purchase order, or revenue receipt is coded the same way, whether it originates in a ward office in Humla or a ministry in Singha Durbar.
2. Application Programming Interfaces (APIs) to the banking network: Once a payment is approved in SuTRA or CGAS, the instruction lands instantly in the TSA at Nepal Rastra Bank, and the transaction status updates without manual typing.
3. Real-time procurement linkage: A purchase order issued in e-GP automatically creates a commitment in CGAS, reserving the budget ceiling before the supplier is paid.
4. Role-based web dashboards: Ministers see aggregate fiscal space, accountants see ledgers, auditors see drill-downs, and citizens see project spending, each drawn from the same live data.

Audit follow-up should be handled online: each auditor's finding must lead to a time-bound recommendation and action plan, with its status visible to higher authorities and the public, and with penalties for individuals who ignore recommendations.

National PFM Reform Strategy 2025-30 already envisions most of these ideas. What matters now is turning the vision into action with clear milestones, budgets, and commitments. Since that first budget of NPR 52 million in 1951, Nepal has travelled from paper ledgers to internet-based systems capable of tracking every transaction within minutes. Yet the underspending and arrears show that technology and laws, while necessary, are not sufficient. The next leap in effectiveness rests in the combination of integration, credibility, transparency, and accountability. Integrating platforms so that data flow automatically, anchoring budgets in realistic ceilings and forecasts. With commitment from the political and administrative levels, such breakthroughs are both affordable and achievable. If Nepal seizes these lessons and backs them with sustained political and administrative will, every tax rupee and foreign grant can be converted into timely, high-quality services, turning today's dissatisfactions into tomorrow's development.



