



NEPAL

June 2026

2026 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NEPAL

In the context of the 2026 Article IV Consultation and Seventh 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 and summarizing the views of the Executive Board as expressed during its June 5, 2026 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 5, 2026, following discussions that ended on February 20, 2026, with the officials of Nepal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 7, 2026.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Nepal.

The documents listed below have been or will be separately released.

Selected Issues

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Washington, D.C.**



IMF Executive Board Concludes the 2026 Article IV Consultation with Nepal and Completes the Seventh Review under the Extended Credit Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the seventh and final review under the Extended Credit Facility (ECF) Arrangement for Nepal, enabling a disbursement of SDR 31.32 million (about US\$ 42.9 million). Nepal has made tangible progress in implementing reforms under the program which has helped preserve macroeconomic and financial stability and build buffers to mitigate the impact of global shocks and domestic uncertainty on economic activity.
- Growth momentum is expected to pick up, underpinned by reduced domestic uncertainty following the post-elections smooth transition of power and a supportive policy mix for FY2026/27. The outlook is subject to downside risks, given heightened global uncertainty and domestic vulnerabilities.
- Going forward, Nepal will benefit from sustaining the reform momentum and institutionalizing the progress made over the course of the program. The IMF will continue close engagement with Nepal through Post-Financing Assessment, Article IV consultations on the standard 12-month cycle, and CD delivery.

Washington, DC – June 8, 2026: On June 5, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation and the seventh and final review under the Extended Credit Facility (ECF) for Nepal, allowing the authorities to withdraw a disbursement of SDR 31.32 million (about US\$ 42.9 million).¹ This brings total disbursements under the ECF for budget support to SDR 282.42 million (about US\$ 384.1 million). The authorities have consented to the publication of the Staff Report prepared for this consultation.²

The ECF arrangement for Nepal was approved by the Executive Board on January 12, 2022 (see [Press Release No. 22/6](#)) for SDR 282.42 million (180 percent of quota). Nepal has made tangible progress in implementing reforms under the program, which has supported an

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the [Nepal and the IMF](#) page.

ongoing economic recovery while preserving macroeconomic stability, building buffers and protecting the vulnerable.

Economic activity is expected to grow to 3 percent in FY2025/26, reflecting protest-related disruptions, weaker agricultural production, and subdued private investment amid pre-election uncertainty, as well as spillovers from the war in the Middle East. However, a recent smooth transition of power to a single-majority government, an accommodative policy stance, and an expansionary fiscal policy for FY2026/27 will support a gradual recovery in the private sector, allowing economic growth momentum to strengthen. Inflation is projected to pick up from in line with rising global oil prices, but on average will remain close to the NRB's 5-percent target. The outlook is subject to important downside risks, including uncertainty around policy continuity, under-execution of public capital spending, and risks from the global economic environment. The structural reforms implemented under the program have strengthened institutions and improved policymaking. Key advances include the modernization of monetary operations, improvements in financial sector oversight, the completion of a loan portfolio review, enhancements to the fiscal framework and transparency, and stronger public investment management. Governance and accountability have also been reinforced through upgrades to the anti-money laundering framework, legal reforms, enhanced external auditing of the NRB, and improved accountability of public enterprises.

At the conclusion of the Executive Board's discussion, Mr. Bo Li, Deputy Managing Director, and Acting Chair, made the following statement:

"The completion of the seventh review marks the conclusion of Nepal's reform program supported by the Extended Credit Facility, which has helped safeguard macroeconomic stability, rebuild buffers, and protect the vulnerable. Program performance has been broadly adequate despite successive domestic and global shocks. Following the program, continued commitment to preserve macroeconomic stability and sustain the reform momentum remains of paramount importance to increase resilience to shocks, support the recovery, and foster durable and inclusive growth.

"An expansionary fiscal stance is necessary to support economic recovery in the near term, followed by a growth-friendly gradual fiscal consolidation that preserves fiscal sustainability. Any fiscal support to alleviate the impact of the ongoing energy price shock should be temporary and targeted and designed to avoid inflationary pressures. Capital expenditure execution should be boosted by strengthening Public Investment Management and enforcing the revised National Project Bank guidelines. Improving budget realism and upgrading the medium-term fiscal framework will enhance spending efficiency. Implementing reforms in the Domestic Revenue Mobilization Strategy and using the Tax Expenditure Report to help rationalize tax expenditures will reinforce fiscal sustainability and support priority spending. The social safety net should be strengthened through better-targeted and transparent measures, with priority given to cushioning vulnerable households.

"The accommodative monetary policy stance should be adjusted if second-round price and external sector pressures arise. Vigilance is needed to address rising financial sector vulnerabilities, including strengthening bank credit practices and risk-based supervision. Expanding the Loan Portfolio Review diagnostic to remaining banks and developing a resolution regime for problematic savings and credit cooperatives remain critical.

Implementing the Financial Action Task Force (FATF) Action Plan to strengthen the AML/CFT framework is critical to exit from the grey list.

“Strengthening governance and institutional credibility will enhance the effectiveness of the broader structural reform agenda, aimed at improving the business environment, creating jobs, and enhancing public service delivery”.

Executive Board Assessment³

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the completion of the seventh and final review under the ECF and the broadly satisfactory program performance, which helped preserve macroeconomic stability and rebuild buffers despite successive domestic shocks and elevated global uncertainty. Nepal’s medium-term economic outlook is broadly favorable but the spillovers from the war in the Middle East weigh on near-term economic prospects. Against this backdrop, Directors urged continued commitment to prudent policies and reform implementation to reinforce confidence, safeguard macroeconomic stability, increase resilience to shocks, and support durable and inclusive growth. They recommended continued engagement with staff through the Post-Financing Assessment and capacity development.

Directors concurred that an expansionary fiscal policy is appropriate to support domestic demand in the near term, followed by a gradual, growth-friendly fiscal consolidation to preserve debt sustainability. They encouraged further mobilizing domestic revenues to support development and social spending. They emphasized that fiscal support to cushion external shocks should be temporary and targeted toward the vulnerable and designed to avoid inflationary pressures. Directors underscored that boosting capital expenditure execution by implementing the PIMA Action Plan is critical for medium-term growth. Improving budget realism and upgrading the medium-term fiscal framework will help enhance spending efficiency.

Directors recommended closely monitoring inflation and external sector developments and adjusting the monetary policy stance if second-round price and external sector pressures arise. They welcomed the submission of the draft amendments to the Nepal Rastra Bank Act to Parliament and urged timely adoption. In the financial sector, given rising vulnerabilities and elevated non-performing loans, Directors recommended improving bank credit practices and risk-based supervision. They also urged implementing the post-Loan Portfolio Review Roadmap and expanding the application of the diagnostic approach to remaining banks, as well as resolving problematic savings and credit cooperatives. Directors emphasized swift implementation of the FATF Action Plan to exit from the grey list.

Directors called for strengthening governance and institutional credibility to enhance the effectiveness of the broader structural reform agenda aimed at improving the business environment, creating jobs, and enhancing public service delivery. In this context, Directors welcomed the ongoing IMF Governance and Corruption Diagnostics. Directors also

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

highlighted the importance of investment in skills, technology adoption, and natural disaster-resilient infrastructure to promote sustained growth.

It is expected that the next Article IV consultation with Nepal will be held on the standard 12-month cycle.

Nepal: Selected Economic Indicators 2023/24-2027/28 1/

	2023/24	2024/25	2025/26	2026/27	2027/28
			Est.	Proj.	
Output and Prices (annual percent change)					
Real GDP	3.7	4.6	3.0	4.6	5.3
Headline CPI (period average)	5.4	4.1	3.1	5.0	5.0
Headline CPI (end of period)	3.6	2.6	5.1	5.0	5.0
Fiscal Indicators: Central Government (in percent of GDP)					
Total revenue and grants	19.4	20.0	19.9	21.6	21.7
of which: Tax revenue	16.5	17.2	17.4	18.6	18.8
Expenditure	21.8	21.8	22.4	24.9	24.8
Recurrent expenditure	18.5	18.2	19.3	20.1	19.2
Capital expenditure	3.4	3.6	3.1	4.8	5.6
Operating balance	0.9	1.8	0.6	1.5	2.4
Net lending/borrowing	-2.5	-1.9	-2.5	-3.3	-3.2
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-2.5	-1.9	-2.5	-3.3	-3.2
Net acquisition of financial assets	0.0	1.8	0.7	0.9	0.9
Net incurrence of liabilities	2.5	3.6	3.1	4.2	4.0
Foreign	1.6	1.6	1.1	1.7	1.4
Domestic	0.9	2.0	2.0	2.4	2.6
Money and Credit (annual percent change)					
Broad money	13.5	12.5	11.0	10.5	10.4
Domestic credit	6.3	6.2	6.1	7.3	8.3
Private sector credit	6.1	8.1	6.6	7.8	8.4
Saving and Investment (in percent of nominal GDP)					
Gross investment	30.4	31.8	34.9	40.5	40.6
Gross fixed investment	24.3	25.7	29.1	34.4	34.0
Private	21.0	22.0	26.0	29.6	28.4
Central government	3.4	3.6	3.1	4.8	5.6
Change in Stock	6.1	6.1	5.8	6.1	6.6
Gross national saving	34.3	38.5	41.8	42.5	40.3
Private	33.4	36.7	41.2	41.0	37.9
Central government	0.9	1.8	0.6	1.5	2.4
Balance of Payments					
Current account (in millions of U.S. dollars)	1,663	3,006	3,166	972	-162
In percent of GDP	3.9	6.7	6.9	2.0	-0.3
Trade balance (in millions of U.S. dollars)	-10,431	-10,651	-12,715	-15,594	-17,184
In percent of GDP	-24.3	-23.8	-27.7	-32.4	-32.5
Exports of goods (y/y percent change)	-2.5	64.7	19.8	10.1	9.0
Imports of goods (y/y percent change)	-2.5	9.4	19.5	20.4	10.0
Workers' remittances (in millions of U.S. dollars)	10,864	12,636	15,196	15,691	16,233
In percent of GDP	25.3	28.2	33.1	32.6	30.7
Gross official reserves (in millions of U.S. dollars)	14,547	18,637	21,827	23,577	24,390
In months of prospective imports	11.4	12.4	12.4	12.1	11.6
Memorandum Items					
Public debt (in percent of GDP)	48.3	48.1	49.6	49.4	48.3
Nominal GDP (in billions of U.S. dollars)	42.9	44.8	45.8	48.1	52.9
Nominal GDP (in billions of Nepalese Rupees)	5,709	6,107	6,505	7,148	7,900
Net International Reserves (in millions of U.S. dollars)	14,016	18,031	21,226	23,029	23,906
Primary Deficit (in billions of Nepali Rupees)	58	43	58	125	128
Primary Deficit (in percent of GDP)	1.0	0.7	0.9	1.8	1.6
Tax Revenue (in billions of Nepalese Rupees)	945	1,050	1,133	1,329	1,484
Private sector credit (in percent of GDP)	91.1	92.1	92.2	90.5	88.8
Exchange rate (NPR/US\$; period average)	133.0	136.3	...	...	...
Real effective exchange rate (average, y/y percent change)	0.7	-0.1	...	...	...

1/ Fiscal year ends mid-July.



NEPAL

April 7, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. The growth momentum that strengthened in FY2024/25 was disrupted by two successive shocks in FY2025/26—one domestic and one external. Economic activity slowed in H1 FY2025/26 caused by the September 2025 unrest which heightened uncertainty, weakened business confidence, and delayed private investment decisions. In H2 FY2025/26, spillovers from the war in the Middle East will likely weaken domestic demand further. As a result, growth in FY2025/26 is revised down to 3 percent, well below potential. Going forward, the smooth transition of power to a single-majority government following the March 5 elections, is expected to reduce uncertainty and boost confidence. Inflation is expected to pick-up from current low levels but will remain around the Nepal Rastra Bank's (NRB) target of about 5 percent. The external buffers will remain strong due to robust growth in exports, buoyant remittances, and strong tourism in H1 FY2025/26 which will more than offset projected higher imports and lower remittance growth in H2 FY2025/26. Non-performing loans have continued to rise, eroding bank capital. The financial health of the savings and credit cooperatives (SACCOs) remains challenging.

Program Developments. The ECF has helped preserve macroeconomic and financial stability, while buffers were built to mitigate the impact of global shocks and domestic uncertainty on economic activity. All mid-July 2025 quantitative targets and standard continuous performance criteria (PC) were met, except for the indicative target (IT) on child welfare grant (floor), which was missed marginally. As in the recent past, all eligible children who applied received the allowance. Progress on implementing structural reforms gained momentum with all but one structural benchmark (SB) completed (two met on time). As a corrective measure for the missed SB, a prior action is proposed on submitting NRB Act amendments to Parliament—on certain safeguards assessment (SGA) recommendations and bank resolution framework—which is expected to be completed by end-April.

Article IV Discussions. Article IV discussions centered around macro-critical governance reforms. In particular, (i) fiscal governance reforms to enhance fiscal rules and frameworks; (ii) financial sector governance reforms to mitigate financial sector vulnerabilities and enhance resilience; and (iii) multi-pronged structural reforms to strengthen governance and promote inclusive and sustainable growth with equal job opportunities.

Policy Recommendations.

- **Fiscal policy.** Further efforts are needed to mobilize domestic revenues and enhance spending efficiency, which will support financing for development needs while preserving fiscal sustainability. Lifting obstacles to capital expenditure is a high priority, not only to support domestic demand but also raise medium-term growth. The social safety net can be strengthened through better-targeted and transparent measures, with priority given to cushioning households from the adverse effects of potentially rising food and energy prices. If severe downside risks to growth begin to materialize, fiscal support should be limited, temporary, and targeted towards vulnerable households.
- **Monetary and exchange rate policies.** While the current monetary policy stance is appropriate, close monitoring of inflation and external sector developments is critical. The NRB should stand ready to adjust the monetary policy stance if second-round price and external sector pressures were to arise. Increasing the volume of open market operations, enhancing liquidity forecasting, and ensuring a separation between monetary policy formulation and operational implementation would help align the interbank rate with the policy rate.
- **Financial sector policies.** Rising financial sector vulnerabilities warrant increased vigilance. Completion of the loan portfolio review (LPR) is a welcome step and the NRB should instruct banks to improve on the shortcomings in credit practices identified in the LPR. It is also essential to expand the application of the LPR diagnostic approach to the remaining commercial banks. The NRB should improve risk-based supervision. Measures to deal with problematic SACCOs should be prioritized.
- **Governance and structural reforms.** Sustained progress on structural reforms—anchored in stronger governance—remains essential to foster more inclusive growth with job opportunities. Strengthening governance and institutional credibility will enhance the effectiveness of the broader structural reform agenda, aimed at improving business environment, creating jobs, and enhancing public service delivery. Amendments to the NRB Act incorporating the recommendations from the 2021 IMF Safeguards Assessment and the 2023 Financial Sector Stability Report should be sent promptly to Parliament. Following significant progress on improving the AML/CFT framework, further efforts are needed to improve implementation effectiveness.

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

Virtual discussions were held during February 2-3, 2026, followed by in-person discussions in Kathmandu, Nepal, during February 6-20, 2026 and additional discussions post mission. The staff team comprised S. Jahan (Head), Y. Hul, A. Bykere (all APD), G. Sher (FAD), P. Leonovich (MCM), M. Firat (SPR), P. Gupta (Resident Representative for Nepal), R. Ghimire and S. Sharma (local office). LEG joined the hybrid meeting on AML/CFT issues. I. Hakim 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 Finance Minister S. Waglé, former Finance Minister R. Khanal, Nepal Rastra Bank Governor B. Poudel, other senior government and central bank officials, development partners, think tanks, academia, and representatives of the business community.

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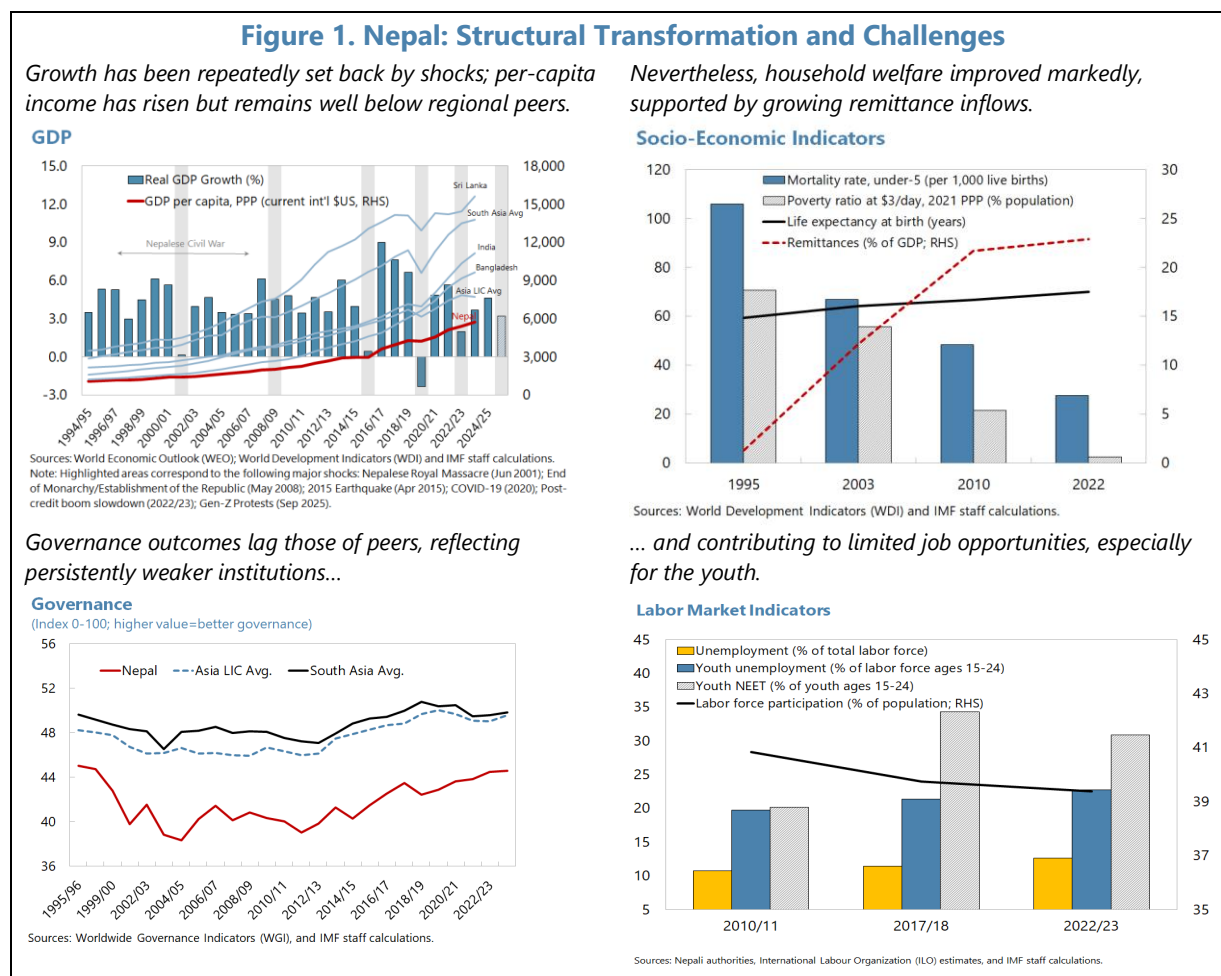
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CONTEXT

1. Nepal's economy has been steadily growing over the past two decades, though weakened by frequent episodes of political instability and natural calamities shocks (Figure 1).¹ Notable progress has also been made in social indicators since the mid-1990s—extreme poverty has been almost eliminated, and strong gains have been made in life expectancy, child mortality, and internet penetration.² However, income levels remain low relative to regional peers, and combined with weak governance, inequality and limited job opportunities led to public dissatisfaction, culminating in the September 2025 youth-led protest. The March 2026 elections resulted in a smooth transition of power and the formation of a single majority government – the first since 1999—which provides an opportunity for deeper reforms to boost productivity gains and shift to higher value-added sectors that could lay the foundation for stronger medium-term growth and convergence with regional peers.



¹ No government has completed a full five-year term after Nepal transitioned to a republic in 2008. Since the program inception in 2022, there have been seven different governments—five coalitions, the interim administration, and the recently elected single majority government.

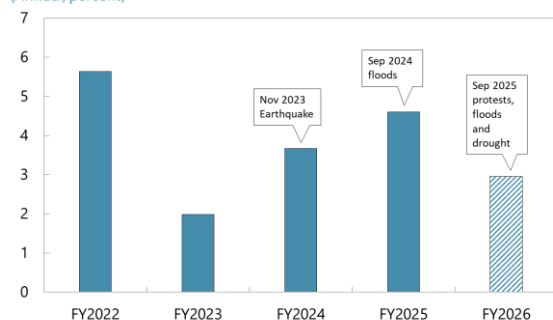
² Based on the World Development Indicators (WDI), extreme poverty—defined as a share of population living at less than US\$3 a day at 2021 purchasing power adjusted prices—declined from 70.7 percent in 1995 to 2.4 percent in 2022. Still, the national poverty rate stands at 20.3 percent according to the Nepal Living Standards Survey (NLSS) 2022/23—half the rate recorded in the mid-1990s.

Figure 2. Nepal: Macroeconomic Performance under ECF Program

After the post-credit boom slowdown in FY2022/23, nascent growth recovery has been interrupted by successive shocks.

Real GDP Growth

(Annual; percent)

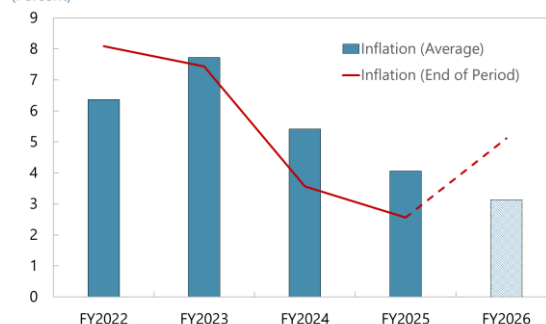


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 data is projection.

Inflation has eased post FY2023, supported by soft domestic demand and favorable price dynamics in India but could reverse due to oil price shocks.

CPI Inflation

(Percent)

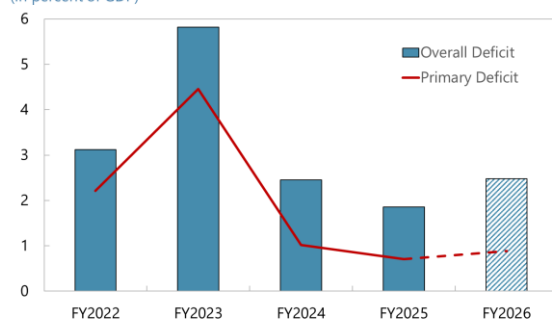


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

Expenditure controls helped to narrow the fiscal deficit post FY2022/23...

Fiscal Balance

(In percent of GDP)

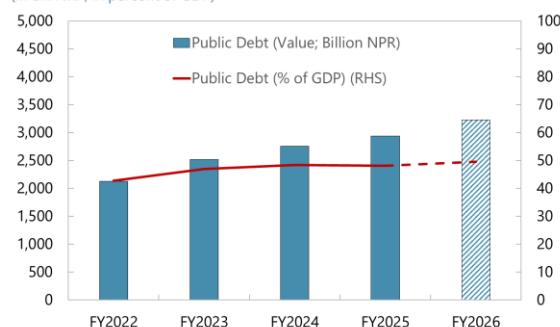


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

...which helped to slow the pace of debt accumulation after a sizable rise in the debt-to-GDP ratio in FY2022/23.

Public Debt

(In Bil. NPR, in percent of GDP)

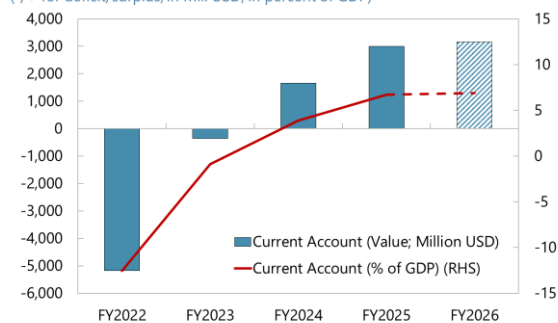


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

The current account balance reversed course during the program due to buoyant remittances and weak imports...

Current Account

(-/+ for deficit/surplus; in Mil. USD; in percent of GDP)

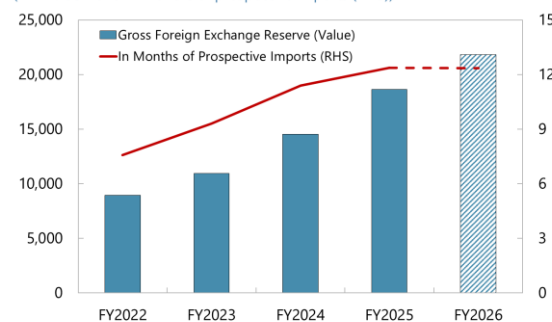


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

...which contributed to a significant buildup of reserves, with import coverage of about 12 months.

Gross Foreign Exchange Reserves

(In Mil. USD and in months of prospective imports (RHS))



Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

2. Despite this challenging political backdrop, sustained program implementation—through this final 7th review—has supported economic stabilization. Approved in early 2022 amid acute post-pandemic stress, the ECF aimed to safeguard macro-financial stability, rebuild buffers, and protect the vulnerable. The 2023 Article IV prioritized these objectives (Annex I). Since then, inflation has eased markedly, declining from an average of 7.7 percent y/y in FY2022/23 to 2.4 percent y/y in January 2026, while international reserves have been rebuilt, with import cover increasing from 9.3 to 12.3 months over the same period. Fiscal balances have also strengthened with the primary deficit narrowing from 4.5 percent of GDP in FY2022/23 to 0.7 percent of GDP in FY2024/25, keeping public debt sustainable (Figure 2). During the program period, however, the economy was hit by successive shocks—including an earthquake in November 2023, one of its worst floods in September 2024, social unrest in September 2025 and more recently the energy price shock triggered by the war in the Middle East—which prevented the nascent recovery from gaining strong traction and weighed on job creation.

3. The structural reforms implemented under the program have strengthened institutions and improved policy-making. Monetary operations were modernized through an operational interest-rate corridor and clearer signaling. Financial-sector oversight improved with rollout of the Supervisory Information System, identification of Domestically Significant Banks, and completion of a loan portfolio review (LPR). Fiscal framework and transparency advanced with the domestic revenue mobilization strategy (DRMS), fiscal risk statement, and tax expenditure report. Public investment management was strengthened through a PIMA-based action plan and revised National Project Bank (NPB) guidelines. Governance, financial integrity and transparency have strengthened in several areas through upgrades to the anti-money laundering (AML) framework, ongoing amendments to the Nepal Rastra Bank (NRB) Act, enhanced external auditing of NRB, and improved accountability of public enterprises. However, important gaps remain in fostering inclusive and durable growth (¶134), addressing persistent financial-sector vulnerabilities—including in the saving and credit cooperatives (SACCOs)—and advancing deeper institutional reforms. To continue addressing governance gaps and rebuild social trust, the authorities have embarked on the IMF Governance and Corruption Diagnostic (GCD). While complex political situation and frequent staff turnover occasionally delayed implementation, strong program ownership supported completion of most structural benchmarks (SBs) (Table 1 and Annex II).

4. This review prioritizes policies to safeguard stability and build on the structural reforms supported by the program to address long-term challenges in the context of Article IV. The onus on the incoming administration will be to achieve inclusive growth founded on good governance. Reforms will need to reprioritize fiscal space for development and social spending through stronger revenue mobilization and expenditure efficiency. Enhancing governance and anti-corruption frameworks will attract foreign direct investment and boost productivity. Safeguarding financial-sector stability and advancing structural reforms to enhance competitiveness and durably improve business environment will be critical to crowd in private investment and generate jobs.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

5. Growth momentum that strengthened in FY2024/25 was disrupted by the

September 2025 unrest. Economic activity slowed amid localized damages to public and private assets and heightened uncertainty ahead of the elections, which weakened business confidence and delayed private investment decisions.³ The impact has been most pronounced in manufacturing and construction, reflecting slower execution of public capital projects and subdued private investment, with knock-on effects on services. Agricultural production was adversely affected by a delayed monsoon in summer and floods in October. With household incomes under pressure, already soft domestic demand weakened further, widening the output gap. The adverse effects have been partially cushioned by a swift rebound in tourism, record remittance inflows, timely fiscal support measures, and pre-election spending in H1 FY2025/26.⁴ Inflation, at 3.2 percent y/y in February, was well below NRB's target of 5 percent. In November 2025, Fitch reaffirmed Nepal's sovereign credit rating at 'BB- (Stable)' despite the unrest, citing low external debt, strong FX reserves, and medium-term hydropower-driven growth prospects.

6. The current account and external position strengthened substantially in FY2024/25. A weaker-than-expected recovery in imports, combined with a surge in exports and strong remittance inflows, led to a current account surplus of 6.7 percent of GDP in FY2024/25.⁵ The FY2024/25 external position is assessed to be substantially stronger than the level implied by medium-term fundamentals and desirable policies (Annex III). Import growth during the first seven months of FY2025/26 continued to be outpaced by buoyant remittances and solid export growth.⁶ Gross international reserves increased to US\$22.1 billion as of February 2026 (12.5 months of prospective imports).

7. However, the financial system remains under stress with serious asset quality concerns. NPL levels rose to 5.4 percent in January 2026 and are indicated higher by the recent LPR. NPLs are likely to continue to rise due to delayed loan recovery and weak economic conditions. Enhancing the supervision of banks, including increased scrutiny of loan classification may lead to additional provisioning and capital needs. Forbearance measures introduced in the wake of the Gen-Z protests have been phased out, but others remain in place (¶26), likely increasing system vulnerabilities. Although the NRB has maintained an accommodative monetary policy stance, inflation-adjusted

³ The government's damage assessment report (issued in January 2026) estimates total physical damages from the protests at about NPR 84.5 billion (around 1¼ percent of FY2025/26 GDP), including NPR 44.9 billion in damages to public assets. Disruption-related losses to production and services are estimated at about NPR 13.9 billion (0.2 percent of GDP). Estimated public-sector reconstruction and repair needs amount to about NPR 36.3 billion (½ percent of GDP)—two-thirds of which at the federal level.

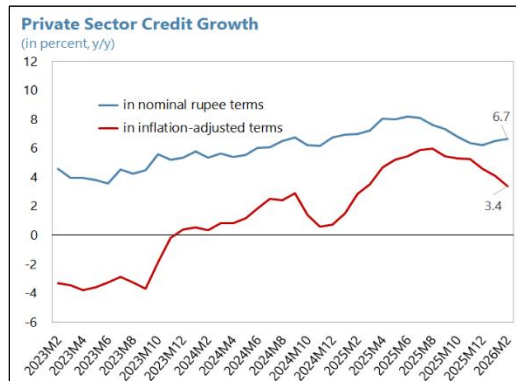
⁴ Tourist arrivals declined sharply in the immediate wake of the protests but rebounded quickly in October 2025 and have since been sustained at high levels, with 2025 arrivals almost reaching pre-pandemic levels.

⁵ The surge in exports in FY2024/25 was primarily driven by processed soybean oil exports—re-exports based on imported crude soybean oil—and this momentum slowed by the second quarter of the current fiscal year.

⁶ Import growth in the first seven months of FY2025/26 was a robust 13.6 percent y/y, but this was more than offset by substantial remittance inflows and strong export growth of 39.8 and 32.2 percent y/y, respectively.

private sector credit growth moderated to 3.4 percent y/y in February 2026 despite excessive system liquidity, in part due to subdued domestic demand.

8. Following the protests, both revenue and capital expenditure have fallen short of the budget targets for the current fiscal year, but the deficit remained contained. Overall, the fiscal stance for FY2025/26 is estimated to have remained expansionary amid a negative output gap. In response to the protests, the government announced a targeted tax relief package estimated at ¼ percent of GDP, which it aims to fund from contingency reserves within the existing budget.⁷ Tax revenue grew 5.9 percent y/y in the first 8 months of FY2025/26, weighed down by income tax collection, while current spending increased by 9.9 percent y/y, driven by social security. The government announced a package of measures, including a request for voluntary budget surrenders from line ministries, and withholding funds for underprepared capital projects, and unnecessary consultancy services, which it estimates could generate over Rs. 120 billion in savings. Capital spending fell by 4.7 percent y/y in the first 8 months of FY2025/26, driven by a slowdown in civil works.



Text Table 1. Nepal: Fiscal Outcome 1/

	2024/25	2025/26	
	Preliminary	6th review	7th review
(In percent of GDP, unless otherwise indicated)			
Total revenue and grants	19.6	20.8	19.9
Total revenue	19.2	20.2	19.4
Tax revenue	16.9	17.9	17.4
Of which: Income and profits tax	5.0	5.0	4.5
Customs	2.9	3.3	3.6
Excise duty	2.8	2.9	3.0
VAT	5.5	5.9	5.9
By source: Domestic taxes	10.1	10.1	9.6
Import-related taxes	6.8	7.8	7.8
Non-tax revenue & other receipts	2.3	2.3	2.0
Grants	0.4	0.6	0.5
Expenditure	22.5	24.4	22.4
Recurrent expenditure	19.1	19.8	19.3
Of which: Interest payments	1.6	1.6	1.6
Capital expenditure	3.4	4.6	3.1
Memorandum items			
Overall balance	-2.9	-3.6	-2.5
Primary balance	-1.3	-2.0	-0.9
GDP (in NPR billions)	6,203	6,806	6,505

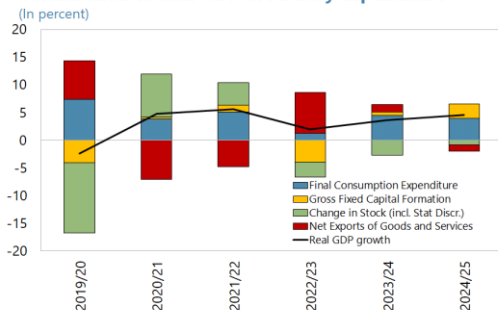
Sources: Nepali authorities; and IMF staff estimates
1/ Fiscal year ends mid-July.

⁷ The tax relief package consists of: (i) a 50 percent exemption on customs and excise duty for affected firms when importing materials for reconstruction and operation; and (ii) a deduction of damaged inventory from corporate income tax and a refund of VAT.

Figure 3. Nepal: Recent Developments

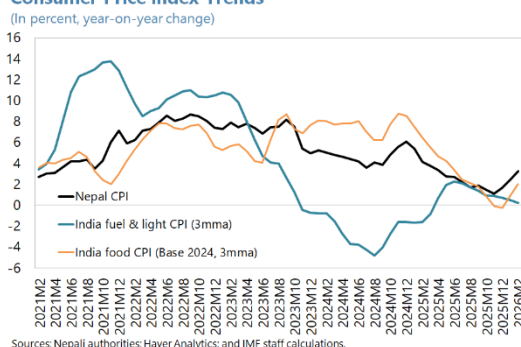
Domestic recovery strengthened in FY2024/25—driven by fixed investment—before being disrupted by the unrest.

Contribution to Real GDP Growth by Expenditure



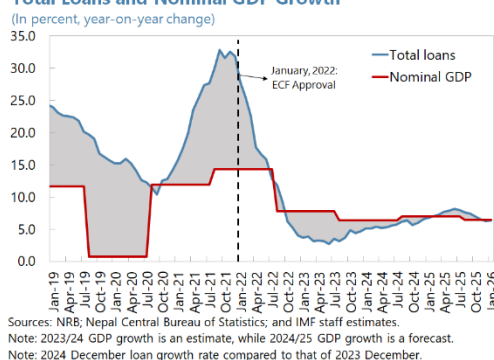
Inflation bottomed out in mid-Nov and has been rising mainly due to imported inflation.

Consumer Price Index Trends



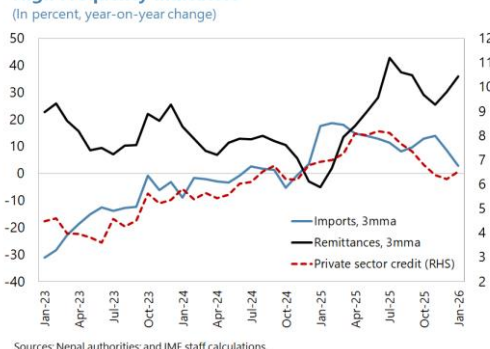
Credit growth remains below, but broadly in trend with nominal GDP growth.

Total Loans and Nominal GDP Growth



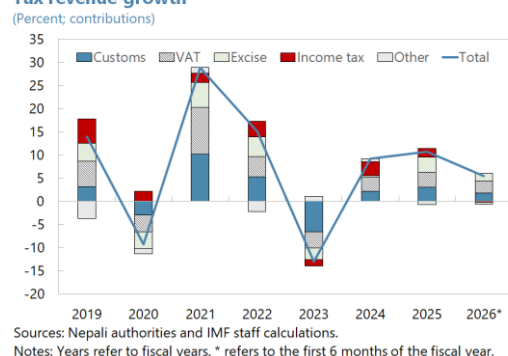
Remittance growth further accelerated, while credit moderated.

High Frequency Indicators



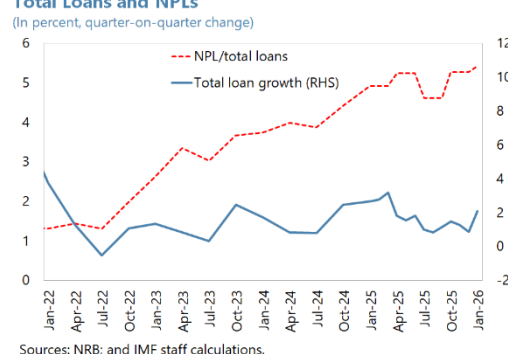
Revenue growth has been subdued since the start of FY2025/26 due to falling income tax receipts.

Tax revenue growth



NPLs remain elevated, expanding at a rate greater than loan growth.

Total Loans and NPLs

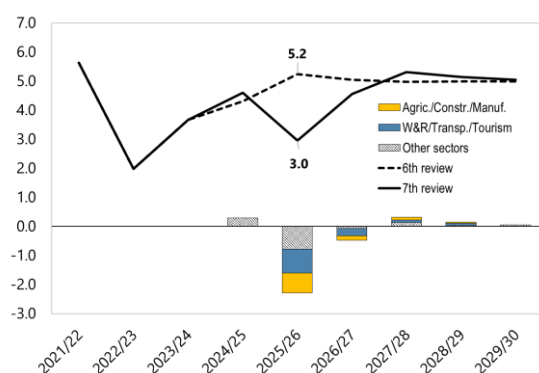


B. Outlook and Risks

9. The growth recovery is expected to be delayed until after the political transition. Growth in FY2025/26 has been revised down to 3.0 percent, from 5.2 percent at the 6th review, reflecting protest-related disruptions, weaker agricultural production, subdued private investment amid pre-election uncertainty, as well as spillovers from the war in the Middle East. Domestic demand is assessed to have weakened further, reflecting income losses and delayed investment, but will be partially supported by strong remittances, election-related spending, and accommodative monetary policy. Private sector investment is expected to gradually recover post-elections, allowing growth to strengthen from H2 FY2025/26 onwards—to 4.6 percent and 5.3 percent in FY2026/27 and FY2027/28, respectively—helping to narrow the negative output gap. Inflation is projected to pick up from the recent low levels, in line with rising global oil prices, but will remain close to the NRB's 5-percent target in FY2025/26. Despite possible temporary disruptions in inflows from the Gulf, remittances are expected to end FY2025/26 strongly due to the buoyant inflows for most of the fiscal year. Exports growth will normalize as the benefits from soybean oil arbitrage to India fade, and imports growth is expected to increase, reflecting higher oil prices. The current account surplus is projected at 6.9 percent of GDP in FY2025/26. Over the medium term, moderating remittance growth and stronger imports will gradually reduce reserves, aligning the external position with fundamentals. Medium-term growth is projected at around 5 percent, underpinned by strategic infrastructure investment—notably in hydropower—better capital expenditure execution, stronger private investment, and governance improvements that help unlock these gains (¶36).

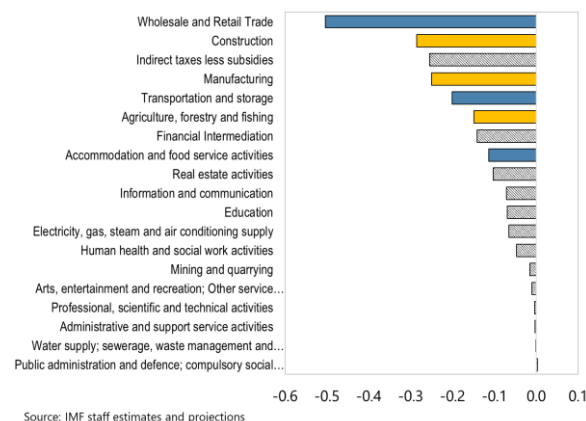
Real GDP Growth Revision

(in percent and percentage points)



FY2025/26 Real GDP Growth Revision

(contributions; in percentage points)



10. Staff expect a modest increase in fiscal revenues and expenditure in H2 FY2025/26.

Tax revenues are projected to grow in line with GDP in FY2025/26, driven by VAT, customs, and excise taxes, as the economy normalizes. Compared to the 6th review, total revenues are expected to be lower in FY2025/26 by 0.5 ppt of GDP given weaker-than-expected domestic demand, and expenditures to be lower by 2.0 ppts. Some 1.2 percent of GDP in capital projects were suspended after the change of government and the mid-year budget review announced measures to rationalize current spending, especially budget surrenders for line ministries. Despite these spending cuts, staff project a slight countercyclical fiscal expansion in FY2025/26, with a fiscal impulse (increase in the primary deficit) of 0.2 ppts of GDP. Over the medium term, a gradual, growth-friendly fiscal consolidation is expected, with further increases in capital expenditure and tax revenues. In FY2026/27, staff expect tax revenues to rise by 1.2 ppts of GDP, as domestic demand and imports increase. The fiscal stance in FY2026/27 is expected to be expansionary as the execution of the capital budget improves over the medium term, following reforms including powers to: (i) reallocate budgeted funds from stalled projects to other viable projects; (ii) begin procurement proceedings for the next fiscal year before the end of the current fiscal year; and (iii) sanction government agencies that do not take timely decisions.⁸

11. Risks to the outlook remain skewed to the downside, reflecting uncertainty around policy continuity and risks from the global economic environment

(Annex V, and Box 1). While the elections were held as scheduled, a slowdown in reform momentum during the transition in government could weigh on confidence and further delay private investment decisions. High energy and fertilizer import prices, and a lack of full passthrough to retail prices, could cause losses at SOEs and raise fiscal risks. Growth could remain subdued if capital project execution and reconstruction efforts continue to lag, limiting domestic demand recovery. A slower-than-expected rebound in imports and economic activity would weigh on fiscal revenues, prompting procyclical spending cuts. Insufficient efforts to address financial sector vulnerabilities, including those identified through the LPR, could endanger banking system soundness (Annex IV). Persistently high outwards migration could further constrain labor supply and weigh on medium-term growth prospects. External risks stem mainly from intensified geopolitical tensions, notably more protracted hostilities in the Middle East, and include a slowdown in remittance inflows, higher and more volatile commodity prices, and weaker external demand, including for tourism travel—the combination of which could result in a

Text Table 2. Nepal: Revenue and Grants 1/

	2024/25	2025/26	Difference
	Est.	Proj.	
(In percent of GDP, unless otherwise indicated)			
Total revenue and grants	20.0	19.9	(0.1)
Total revenue	19.6	19.4	(0.2)
Tax revenue	17.2	17.4	0.2
<i>Of which</i> : Income and profits tax	4.9	4.5	(0.4)
Customs	3.4	3.6	0.2
Excise duty	2.9	3.0	0.2
VAT	5.6	5.9	0.3
<i>By source</i> : Domestic taxes	9.8	9.6	(0.2)
Import-related taxes	7.4	7.8	0.4

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

1/ Fiscal year ends mid-July

⁸ These and other reforms to boost public investment are discussed in the staff report to the 6th review.

salient drag on activity and macroeconomic balances (Box 1).⁹ Mitigation priorities include safeguarding policy continuity, protecting priority social and capital spending, accelerating execution of high-quality public investment projects, and timely implementation of the post-LPR roadmap to safeguard financial stability. Nepal's vulnerability to natural disasters calls for sustained targeted investment in adaptation and resilience measures.

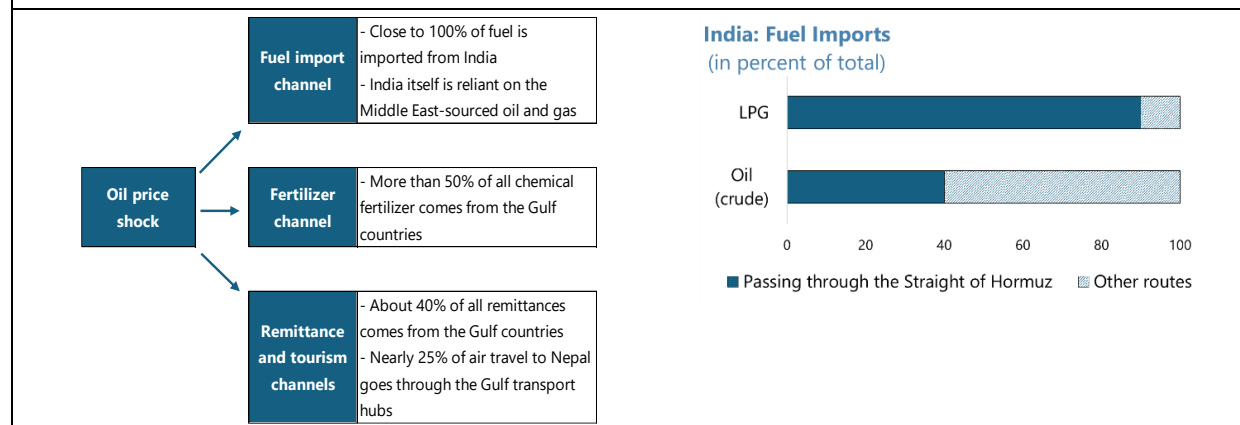
Box 1. Nepal: Adverse Shock Scenario

This box examines the macroeconomic impact of a severe and persistent oil price shock on Nepal's economy. While strong external buffers accumulated during the program would help to absorb the shock without an immediate need for additional external financing, the shock would materially weaken the recovery, push inflation above the NRB's target, and result in a permanent loss in the level of output relative to the baseline. Mitigating these effects would require a well-calibrated policy mix that support a durable recovery, while avoiding measures that could weaken confidence or erode hard-won buffers.

Context and Transmission. The oil price shock comes at a precarious juncture for Nepal, when the nascent economic recovery needs to find a stronger footing. Nepal is fully dependent on imported petroleum products sourced from India, which itself relies heavily on oil supplies from the Middle East. The dominant transmission channel is therefore through a lasting deterioration in the terms of trade, as higher fuel prices persistently raise import costs, worsen the trade balance, and feed into domestic prices.

Additional spillovers operate through remittances and service exports. Remittances—accounting for about one quarter of GDP, with roughly 40 percent originating from Middle Eastern labor markets—are assumed to weaken as disruptions in the region affect employment and migration flows. Tourism activity—which in total (both directly and indirectly) contributes around 7 percent of GDP and employs about 15 percent of the labor force—also persistently softens, reflecting disruptions to air travel through key Gulf transit hubs.

Finally, the shock is assumed to generate lasting fertilizer shortages (Nepal imports about half of its fertilizer from three Gulf countries: Qatar, Bahrain, and Saudi Arabia) and higher energy costs which would weigh on agriculture, a sector that contributes about one-quarter of GDP and employs over half of the total workforce.

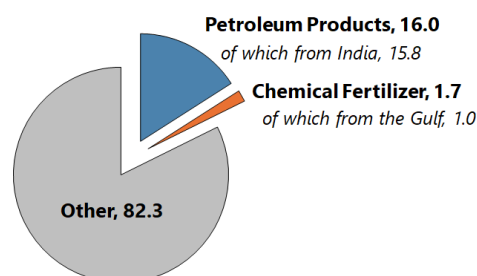


⁹ Nepal has limited direct exposure to global supply chains—goods exports averaged around 4 percent of GDP over the past five years—of which roughly two-thirds go to India and only about 10 percent to the U.S. With Nepal subjected to 10 percent U.S. tariff increase—among the lowest in the region—the main transmission channel of global trade disruptions would likely be via second-round effects on remittances. The Millennium Challenge Corporation (MCC)-Nepal compact, briefly paused in early 2025 during a U.S. foreign aid review, has since resumed operations, restoring momentum to Nepal's transmission-line and road projects.

Box 1. Nepal: Adverse Shock Scenario (continued)

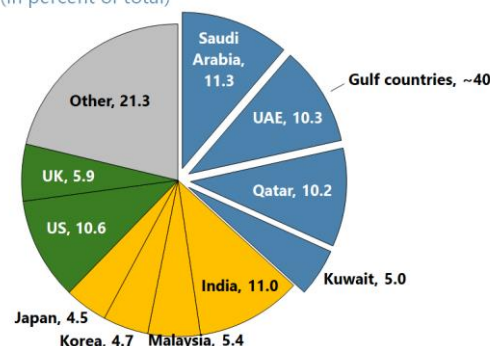
Import of Goods, 2024/25

(in percent of total)



Remittances, 2024

(in percent of total)



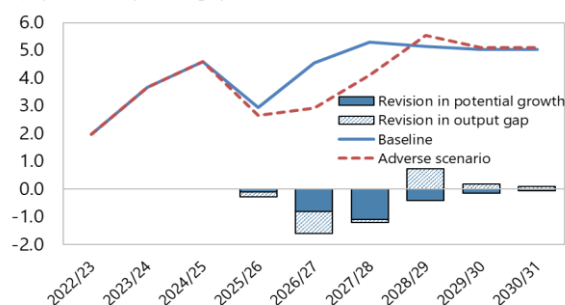
Severe Scenario. For illustration, the scenario assumes a severe and prolonged increase in oil prices beyond the temporary oil shock already embedded in the baseline. Oil prices are assumed to average 25 percent above the baseline in FY2025/26 and about 90 percent higher in FY2026/27 (see April 2026 World Economic Outlook).

Macroeconomic Impact. Given that Nepal's fiscal year ends in mid-July, the impact of the war in the Middle East will be reflected in H2 FY2025/26 and continue into FY2026/27. Under these assumptions, growth in H2 FY2025/26 is projected to be about 0.6 ppts lower than in the baseline (implying annual downward revision by 0.3 ppts), mainly reflecting weaker real incomes and demand. The adverse impact intensifies in H1 FY2026/27, with growth about 1.7 ppts lower than in the baseline for the entire fiscal year, driven by (i) lower household purchasing power due to higher inflation and weaker remittances, with spillovers to trade, transport, and other services; (ii) weaker agricultural output given fertilizer shortages and higher irrigation costs, and (iii) subdued private investment on the back of continued uncertainty, especially in energy-intensive sectors. Growth strengthens from FY2028/29 as external conditions normalize and the output gap narrows. Nevertheless, the prolonged weakness results in a permanent output level loss of about 2.5 percent relative to the baseline, reflecting unrealized investment, weaker demand, and slower capital accumulation during FY2025/26–FY2027/28.

Despite subdued demand, inflation will rise well above the NRB's target relative to the baseline—by more than 3 ppt in FY2026/27—reflecting direct and second-round effects from higher fuel prices and spillovers from elevated inflation in India, before gradually subsiding.

Lower Real GDP Growth

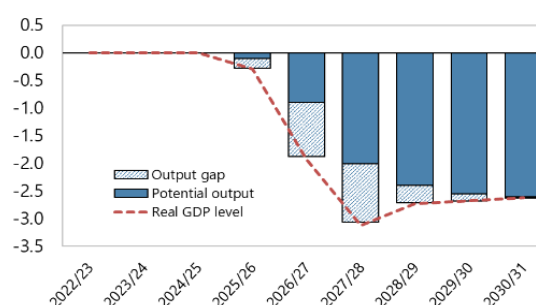
(in percent and percentage points)



Sources: IMF staff calculations

Cumulative Output Loss

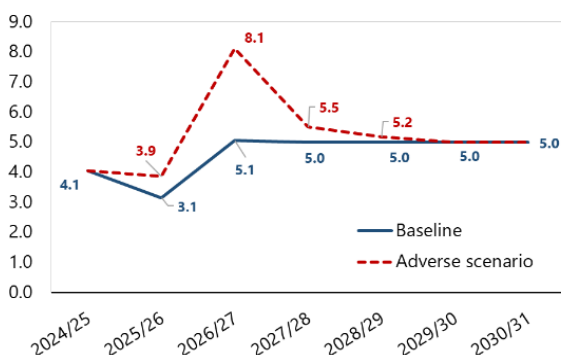
(in percent, relative to baseline)



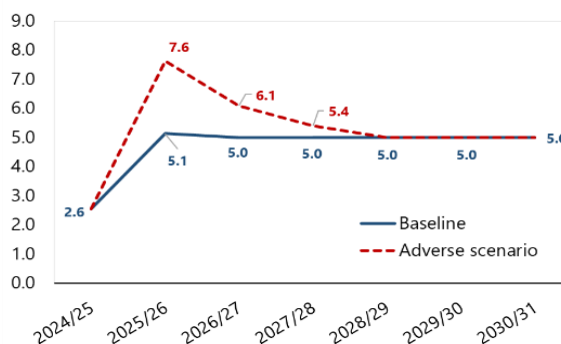
Sources: IMF staff calculations

Box 1. Nepal: Adverse Shock Scenario (concluded)

Consumer Price Inflation, annual average
(in percent)



Consumer Price Inflation, end of period
(in percent)



Higher oil import values (9 percent higher compared to the baseline) and weaker remittances (6 percent lower compared to the baseline) lead to a sharp narrowing of the current account surplus in FY2025/26 to 4.5 percent of GDP (from 6.9 percent in the baseline) and a shift to a deficit of 3.9 percent in FY2026/27 (from a surplus of 2.1 percent in the baseline). Still, even under this severe scenario, strong external buffers built during the program are expected to keep the FY2026/27 import cover at about 10 months, compared to about 12 months in the baseline—comfortably above pre-COVID norms.

In the fiscal sector, assumed transfers to Nepal Oil Corporation and support for vulnerable households increase the primary deficit by around 0.5 ppts of GDP in FY2026/27, even after reduced capital expenditures provide some offset. Revenues remain stable relative to GDP, as the reduced customs duties on oil products (which are specific rather than ad valorem) are offset by higher VAT import revenues.

Stagflation also raises risks to an already vulnerable financial sector. This could lead to a further exacerbation of non-performing loans as borrower capacity to repay is likely to be impacted. It will also continue to constrain credit growth as borrowers and lenders will become increasingly risk averse.

Policy Response under the Adverse Scenario. A decisive, data-dependent policy response would be essential to contain macroeconomic risks and support a durable recovery, while avoiding measures that could weaken confidence or erode hard-won buffers.

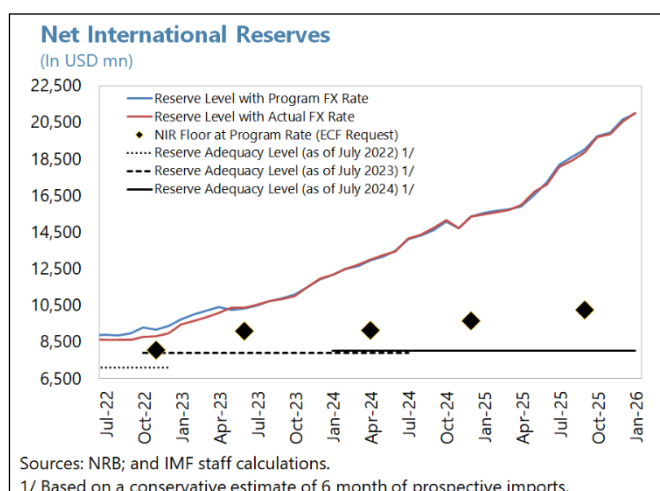
- **Fiscal policy** support should be temporary and targeted at vulnerable households, if needed, and ideally in the form of lump sum transfers. Energy and fertilizer import prices should be allowed to pass through to retail prices to maintain energy-saving incentives and avoid costly untargeted subsidies. Food import duties could be reduced to ease second-round effects on food prices.
- **Monetary policy** should be gradually tightened amid above-target inflation and the current account deficit. If liquidity in the system were to decline sharply, the NRB should stand ready to inject liquidity through the Standing and Overnight Liquidity Facilities and repo facilities.
- **Financial sector response** should focus on the NRB standing ready to provide liquidity facilities to financial institutions should that prove necessary. Financial institutions should be encouraged to work constructively with borrowers to address any temporary repayment difficulties, while adhering to appropriate loan classification and provisioning requirements.
- **Structural policies** to accelerate investment in domestic hydropower generation would help reduce exposure to imported fuel shocks over the medium term while supporting regional energy trade.

Authorities' Views

12. The authorities broadly agreed with the risk assessment but expressed more optimism about near-term growth prospects. They assess election-related spending to have provided a larger boost to domestic activity—particularly through its effect on public administration and transportation—and expect post-protest regulatory relief measures and selective resumption of suspended small capital projects to be more supportive of industrial activity. The authorities agree with staff's assessment that inflation will remain close to the NRB's objective, partly reflecting their view of stronger recovery in domestic demand. They agreed with the team's assessment that the external sector is substantially stronger than the level implied by fundamentals and desirable policies and recognized the need to increase public and private investment. However, they also opined that large external shocks could erode the external buffers as Nepal is dependent on remittances.

PROGRAM PERFORMANCE

13. Program performance has been broadly adequate (Table 9). The authorities met all mid-July 2025 quantitative targets and continuous performance criteria (PC), except for the indicative target (IT) on child welfare grant (floor), which was missed marginally—actual spending was about one percent below target. As in the recent past, all eligible children who applied received the allowance. However, this marks another consecutive miss of this IT, underscoring the need to revisit policies to increase per-beneficiary allowance and expand coverage (by increasing the number of districts covered and/or expanding eligibility criteria within districts).



14. Implementation of structural reforms has also continued (Table 11). Two SBs have been met: adopting a Customs Compliance Improvement Strategy (CCIS; ¶120) and completing the onsite LPR (¶117), and a third one—realigning asset classification regulations with Basel guidelines (¶126)—has been completed with delay (all end-December 2025 SBs). A prior action is proposed on submitting NRB Act amendments to Parliament—on certain safeguards assessment (SGA) recommendations (end-April 2025 SB, not met, ¶131) and bank resolution framework (end-October 2025 SB, not met, ¶128)—and is in the process of registering the amendments with the Parliament Secretariat (prior action). The SB on *launching* the onsite LPR (end-May 2025 SB) has been completed with delay.

Text Table 3. Nepal: Performance of Quantitative Performance Criteria and Indicative Targets under ECF-Supported Program 1/

Review Test-date	1st Jan-22	2nd Jul-22	3rd Jul-23	4th Jan-24	5th Jul-24	6th Jan-25	7th Jul-25
Quantitative Performance Criteria (QPC):							
1. Primary deficit of the federal government (ceiling; in NPR million) 2/				Met	Met	Met	Met
2. Stock of NRB's net international reserves (floor; in U.S. dollars million)	Met	Met	Met	Met	Met	Met	Met
3. Accumulation of external payments arrears (ceiling)	Met	Met	Met	Met	Met	Met	Met
Indicative Targets (IT):							
1. Primary deficit of the federal government (ceiling; in NPR million) 2/	Met	Met	Met				
2. Indicative target: federal government spending on child allowance (floor; in NPR million) 3/		Met	Not Met	Not Met	Not Met	Not Met	Not Met
3. Indicative target: floor on tax revenue of the federal government 4/					Not Met	Met	Met
Sources: Nepali authorities; and IMF staff estimates/projections based on the Nepali fiscal year and calendar.							
1/ For details on the QPC and IT, please refer to Table 8.							
2/ During the fourth review, the primary deficit target was changed from IT to QPC.							
3/ This indicative target was added in the second review.							
4/ This IT was added in the fifth review.							

Table 1. Nepal: Progress on Structural Benchmarks (SBs) under ECF-Supported Program

Review	1st and 2nd	3rd	4th	5th	6th	7th
Fiscal Reforms	Publish customs tax exemptions	- Develop fiscal risk register - Develop government cash flow forecasting to be shared regularly with PDMO and NRB - Publish non-customs tax exemptions	Approve domestic revenue mobilization strategy	- Audit financial statement of four priority public enterprises for FY2023 - Publish financial statement of public enterprises 2/	- Publish fiscal risk statement - Publish tax expenditures report - Approve domestic and import tax expenditures reports	Adopt Customs Compliance Improvement Strategy
Financial Sector Reforms	- Enhance bank reporting template to monitor Covid impact - Approve Action Plan for implementing bank Supervisory Information System (SIS)	Implement SIS for Class A, B, C banks	Implement onsite module of SIS for Class A banks	Request for Proposal specifies LPR to be based on Basel standards 1/	- Procure independent international consultant for LPR 1/ - Finalize post-LPR roadmap	- Complete onsite LPR for 10 largest banks - Launch LPR for 10 largest banks - Realign asset classification regulation with Basel guidelines - Submit NRB Act amendments on bank resolution framework to Parliament 5/
Institutional and Governance Reforms	- Publish Covid-related government expenditure - Publish Covid-related health procurement 1/ - External audit of NRB's FY2022 financial statement - Issue Poverty Reduction and Growth Strategy Paper	Approve PIMA Action Plan	- Amend AML Law - External audit of NRB's FY2024 financial statement	External audit of NRB's FY2025 financial statement	- Revise National Project Bank Guidelines - Report all extra-budgetary units in annual financial statement 3/ - Submit Safeguards Assessment amendments to NRB Act to Parliament 4/	

Sources: Nepali authorities; and IMF staff.

Color code: ■ SB met; ■ SB not met, completed with delay; ■ SB not met.

1/ These SBs were prior action.

2/ 16 out of 20 wholly-owned and 19 out of 20 majority-owned public enterprises published the FY2023 financial statement or discontinued operations, helping improve corporate governance practices.

3/ Although the SB is not met, progress has continued on including additional extra-budgetary units (EBUs) at the federal and provincial level in the financial statement: The number of EBUs included has increased from 99 in the FY2024 financial statement (for which the SB was due) to 149 EBUs in the FY2025 financial statement. Amendments to the Financial Procedures and Fiscal Responsibility Act in 2025 has strengthened FCGO's authority to request such information from line ministries and subnational government.

4/ Draft amendments include advancements to strengthen NRB's mandate, governance, financial and personal autonomy, and accountability practices. Although amendments fall short of best practices, such as on the Finance Secretary's presence on NRB Board as voting member, several safeguards are incorporated to mitigate such influence and reinforce NRB's autonomy.

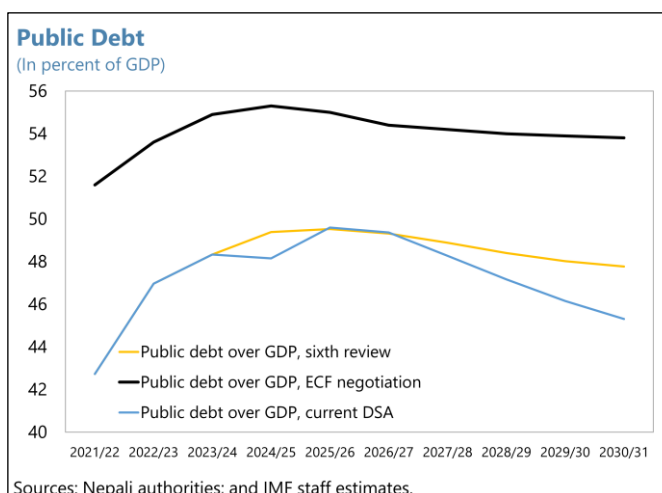
5/ Once the prior action for the seventh review on submitting the NRB Act amendments related to safeguards assessment and bank resolution framework to Parliament is completed, this SB will be considered as completed with delay.

NEAR-TERM POLICY MIX TO BOLSTER RECOVERY

Preserving macroeconomic stability while reigniting growth is crucial. The near-term policy mix should focus on accelerating recovery by boosting domestic demand and restoring investor confidence through timely capital spending and reconstruction. Close coordination across fiscal, monetary, and financial-sector policies will be essential to strengthen the economy and lay the groundwork for a durable recovery.

15. An expansionary fiscal stance for this and next fiscal year is appropriate followed by a gradual, growth-friendly consolidation over the medium term. Election spending of Rs. 35

billion this year is expected to be financed from contingency reserves in the existing budget. Staff welcomed that there were no election-related fiscal slippages, eliminating the need for a supplementary budget. If needed to address the energy price shock, fiscal support should be temporary and targeted at the vulnerable. Price caps should be avoided. Public debt is expected to peak at 49.6 percent of GDP in FY2025/26 and steadily decline thereafter, underpinned by gradual fiscal consolidation, preserving debt



sustainability—the program’s key fiscal anchor. Fiscal consolidation should preserve capital spending, to protect long-run growth. The Debt Sustainability Analysis indicates that both public and external debts are assessed to be at a low risk of debt distress. To enhance debt sustainability, the authorities could make the operational fiscal rule less discretionary and introduce a medium-term debt anchor (Annex VI).

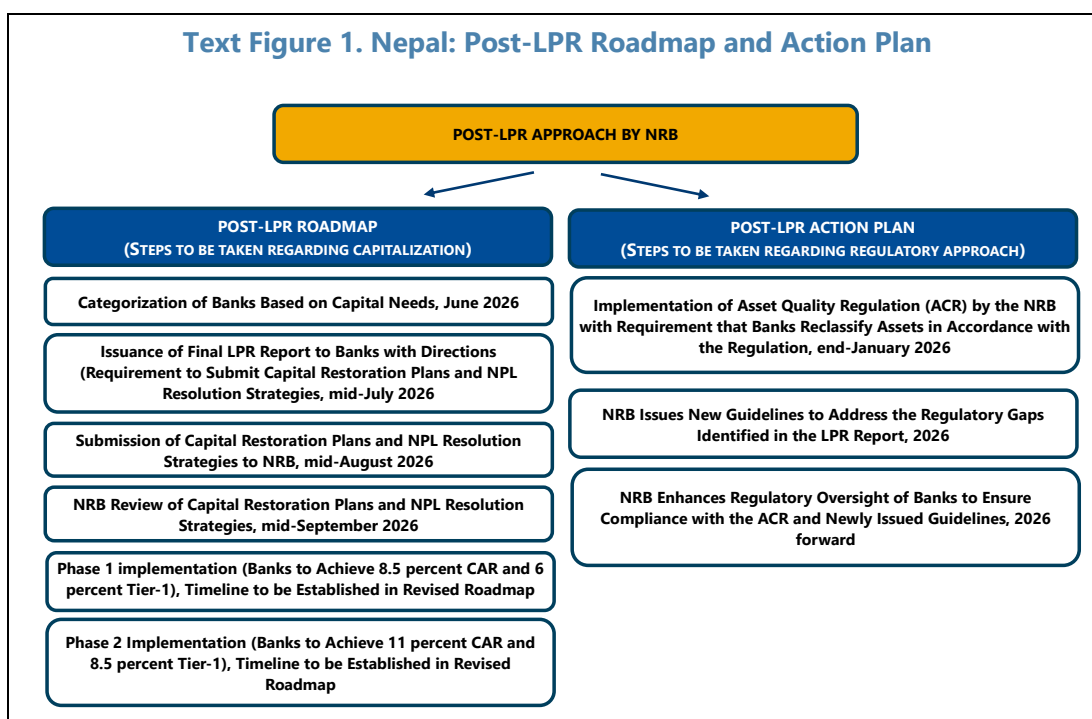
16. The H1 FY2025/26 Monetary Policy Review appropriately maintained an

accommodative stance.¹⁰ Strong FX inflows and deposit growth, driven in large part by remittances, and weak credit growth have led to a significant increase in excess liquidity and kept the interbank rate and interest rates on open market operations (OMOs) near the lower bound of the interest rate corridor (IRC). Inflation around the NRB’s target and comfortable FX cover warrants the current stance. The NRB should closely monitor the impact of the global economic environment on price and external sector stability and adjust the monetary policy stance if second-round price pressures and external sector pressures were to arise.

17. The recently completed LPR, in applying the existing NRB regulatory requirements and international best practices, identified reclassification and additional provisioning needs. (Annex IV; Text Figure 1). Staff recommend that the NRB immediately initiate implementation of the

¹⁰ The upper bound (bank rate), mid-point (policy rate) and lower bound (deposit collection rate) were kept unchanged at 5.75 percent, 4.25 percent and 2.75 percent, respectively.

Post-LPR Roadmap to ensure that banks take upfront loss recognition through any needed reclassification of assets into adverse categories; increasing provisioning; and taking the appropriate capital charges. The NRB should then require banks to prepare realistic and time-bound capital plans designed to return to compliance with minimum regulatory standards and to rebuild capital buffers. As the LPR also provides qualitative observations on bank credit practices and regulatory approaches, staff advise the NRB to use these to enhance the regulatory framework, enabling it to better assess bank asset quality and capital strength going forward.



18. Staff also recommend that NRB's Action Plan improve its supervisory processes in a manner that incorporates the qualitative findings of the LPR report. The NRB should move toward a more robust risk-based supervisory approach which places a premium for ensuring accurate assessment of loan portfolios, strengthened bank governance, and the resilience of balance sheet through the building up of capital buffers. A failure to address current practices will result in ongoing asset quality weaknesses in the system, leading to persistently high NPL levels, and weak bank capitalization. The NRB needs to capitalize on the thorough analysis of the auditors to ensure better credit underwriting standards, borrower adherence to loan terms and conditions including repayment schedules, and prompt action to address payment arrears. The NRB should instruct banks, via a circular, to improve on the shortcomings in credit practices that are identified in the qualitative section of the report. It should then expand the application of the LPR diagnostic approach to the remaining portfolios of the ten largest banks as well as to the full portfolios of the remaining ten commercial banks. The NRB should require banks to adopt better provisioning and auditing practices. It should also improve the scope of its supervisory on-site examinations and off-site analysis by incorporating the shortcomings identified in the LPR exercise and expanding its analytical approach to the broader banking sector loan portfolio in order to better capture asset quality.

Authorities' Views

19. The authorities broadly concurred with staff's recommendations on near-term policies. The authorities assessed the fiscal stance to be appropriate with a commitment to enhance public investment. Given the current outlook for inflation and import cover, the authorities aim to maintain a cautiously accommodative monetary policy stance. The authorities acknowledged that the banking supervision framework needs to become more robust to better track instabilities in the system, including asset quality deterioration. The authorities highlighted they are developing an Action Plan to enhance supervisory oversight concurrently with its implementation of the post-LPR Roadmap which will ensure banks address any identified provisioning and capital needs.

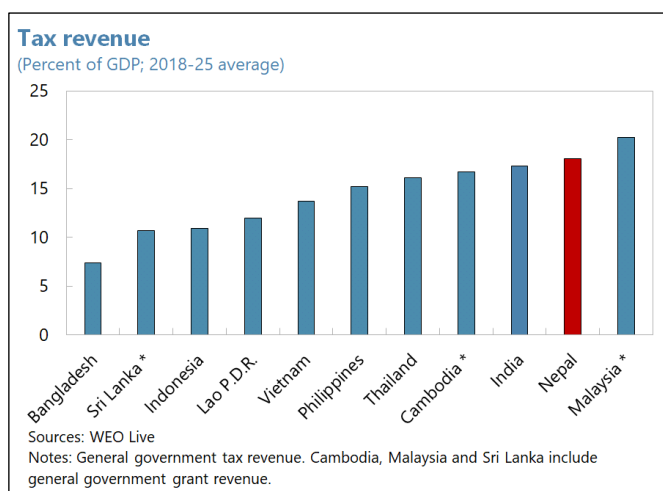
SAFEGUARDING MACRO-STABILITY AND UNLOCKING DURABLE INCLUSIVE GROWTH

Achieving inclusive and sustainable growth will require a comprehensive medium-term reform agenda that strengthens fiscal foundations, safeguards macro-financial stability, and addresses structural and governance constraints. Key priorities include creating fiscal space for development and targeted social spending through stronger revenue mobilization and expenditure efficiency; strengthening monetary operations to enhance policy transmission; and addressing financial sector vulnerabilities through improved NPL resolution and stronger supervision. Sustained improvements in governance and institutional capacity will be key to improving business environment, crowding in private investment, and rebuilding social trust to foster private sector-led inclusive growth and promote job opportunities.

A. Fiscal Policy for Development

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

even though Nepal has one of the highest tax revenue-to-GDP ratios in the region. To increase customs revenue collection, the authorities developed a CCIS (end-December 2025 SB, met) and introduced a transaction-based valuation system. Further efforts are needed to implement the 2024 DRMS, especially in revenue administration. The collection of VAT and income tax arrears can be improved by developing a plan to manage arrears and an automated system to send reminders and other administrative and legal notifications. The FY2026/27 budget should reduce tax



expenditures, drawing on the government's estimates published last July.¹¹ Staff welcome the tax policy unit being established at the MoF, which will help formulate future budgets.

21. Further efforts to boost public investment and improve spending efficiency would enhance medium-term growth.

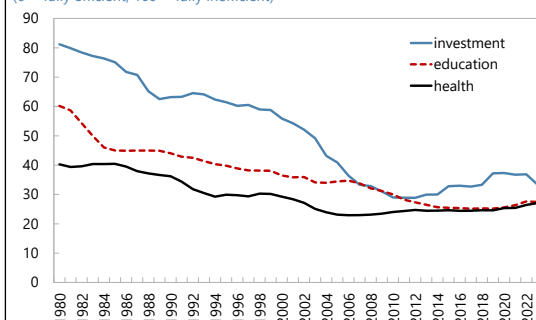
To relieve bottlenecks in public investment execution, the FY2025/26 budget included reforms to procurement and permitting processes¹² and the authorities published revised NPB guidelines. The authorities should ensure that these guidelines are enforced—in particular, that all qualifying projects are appropriately registered in the project bank. Budgets need more realistic revenue projections to prevent cash rationing and mid-year budget cuts. Budget realism would also improve spending efficiency, which has stagnated in the last decade compared to the most efficient economies. To spend more efficiently, staff also recommend upgrading the medium-term fiscal framework by improving medium-term expenditure forecasts and developing an overall fiscal strategy (Annex VI). Spending reviews would be useful, for example in fertilizer subsidies, which totaled 0.4 percent of GDP in FY2024/25.¹³

22. Social benefits reach a broad cross-section of the population but mainly focuses on the elderly

(Text Table 4). Despite marginally missing the indicative target on child welfare grants, authorities have implemented other targeted measures to support children, such as the FY2025/26 budget increasing the public-school midday meal program by one-third. A new budget code for child welfare payments will be introduced, which will improve data collection and help to reduce fragmentation of child benefits. The social safety net can be strengthened through better-targeted and transparent measures, with priority given to cushioning households from the adverse effects of potentially rising food and energy prices.

Public Spending Efficiency Gaps

(0 = fully efficient; 100 = fully inefficient)



Sources: Source: Bankowski, Cho, and Sher (forthcoming).

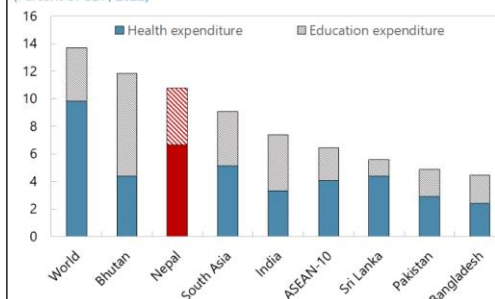
Text Table 4. Nepal: Social Spending in FY2024/25
(Percent of GDP)

Benefit type	Amount
Social security	2.3
Senior citizens	1.5
Disability	0.1
Widows	0.2
Children	0.1
Mothers	0.005
Prisoners	0.03
Other	0.2
Unknown	0.05
Local govt child educ/health	0.3
Federal govt in-kind health	0.03
Child vaccines	0.04
Total	2.6

Source: Authorities and IMF staff calculations.

Health and Education Expenditure

(Percent of GDP, 2022)



Sources: World Development Indicators (WDI) and IMF staff calculation.

¹¹ Further revenue mobilization reforms appear in Annex III of [Nepal: Fifth Review under the Extended Credit Facility Arrangement](#).

¹² Details of the reforms are discussed in [Nepal: Sixth Review Under the Extended Credit Facility Arrangement](#).

¹³ The authorities could also open agricultural inputs to private sector provision, as discussed in ["Climate Change, Food Insecurity and Remittances in Nepal," IMF Country Report No. 23/159, 2023](#).

Authorities' Views

23. The authorities agree on the importance of expanding fiscal space while improving capital expenditure and protecting the vulnerable. The authorities remain committed to implementing the DRMS, including through rationalizing tax exemptions. They viewed increasing capital budget execution as a high priority and requested further IMF TA to strengthen public investment management. They acknowledged the importance of protecting the vulnerable and noted the new budget code will help assess total social programs for children. They also highlighted that while they would like to increase the social safety net, it depends on more resources and better targeting. The authorities also acknowledged the need to improve the budget realism.

B. Safeguarding Macroeconomic and Financial Stability

24. The NRB should continue with efforts to further enhance liquidity management and the effectiveness of the IRC. To manage excess liquidity, the NRB has increased OMOs, particularly at longer maturities, and raised the non-deliverable forwards (NDF) limit for BFIs.¹⁴ Although NDF would help absorb FX liquidity in the short-term, strengthening monetary operations will help enhance liquidity management and guard against a credit boom as loan demand recovers. Further increasing the volume of OMOs (including at longer maturities if the drivers of excess liquidity remain intact), improving the calibration of OMOs, and enhancing liquidity forecasting (particularly for FX inflows and government cash flow)—would enable the interbank rate to gradually rise towards the policy rate. The NRB has gradually narrowed the IRC and made it symmetric, in line with staff and TA recommendations. Ensuring a separation between monetary policy formulation and operational implementation would help align the interbank rate with the monetary policy stance.

25. The NRB is designing a comprehensive strategy to improve NPL recoveries. NPLs rose to 5.4 percent in January 2026 and are indicated higher by the LPR. The NRB has required banks with NPLs above 5 percent to submit comprehensive NPL management strategies and will prioritize supervisory measures to encourage NPL resolution. The authorities are preparing a legal framework for an Asset Management Company (AMC). To be effective, the AMC will first require improvements to the debt recovery framework, including the insolvency law, and improvements in the real estate market to dispose of repossessed collateral. The AMC must require timely loss recognition by the banks, establish a sufficiently discounted acquisition price, give precedence to cash recoveries, and designate a sunset date to incentivize loan workouts.

26. New forbearance measures were introduced that need to be calibrated. NRB has ended most forbearance measures, including those associated with the Gen-Z protests but recently added one to mitigate the impact of highway widening projects. As with other forbearance, this needs to be time bound and ring-fenced to ensure that it is provided only to solvent borrowers who are able to repay their loans. Recent loosening of the working capital loan (WCL) guidelines to respond to temporary market weakness necessitates that strict ordinance be issued to govern and

¹⁴ In addition to longer-maturity deposit collect auction, one-year NRB bonds have been issued for the first time in 10 years. NDF limit for BFIs has been increased from 15 percent of core capital to 20 percent in FY2024/25 and to 30 percent in FY2025/26.

enforce proper utilization of WCLs, ensuring they are limited in scope have strict eligibility criteria, and are phased out expediently. The authorities expanded directed lending to include, among others, technology firms though did not increase the overall lending level. Only SME portfolios will be guaranteed by the DCGF, necessitating careful monitoring of the impact of directed lending on asset quality. Staff recommend phasing out the directed lending practices and expanding the credit guarantees under DGF to cover additional priority economic sectors. The authorities relaxed the blacklisting regime to allow more discretion by banks to work with borrowers in difficulty, which is a move in the right direction if banks are able to work constructively with borrowers. The probation period in the ACR for non-forborne NPLs has been aligned with the BCBS-standard (end-December 2025 SB; not met, completed with delay) which will help with accurate classification of NPLs.

27. The NRB needs to ensure that banks improve their credit risk practices while enhancing its own credit risk supervisory oversight as recommended in the 2023 Financial Sector Stability Report (FSSR) (Annex VII). This will ensure that bank loan portfolios will be stronger, necessitating lower provisioning against future loans, with a commensurate positive impact on bank capital ratios and loss absorbing capacity in the banking sector. A move away from NRB's sectoral directed lending policies would facilitate banks' sound underwriting of new loans.

28. Consistent with the 2023 FSSR recommendations, the NRB should strengthen recovery planning requirements for banks and develop a thorough resolution framework. Following additional revisions by the NRB in consultation with staff to address certain key gaps in the bank resolution framework, the amendments are in the process of being submitted to Parliament (end-October 2025 SB; not met) (part of prior action).¹⁵ Steps should be taken to strengthen deposit insurance and to fully operationalize an Emergency Liquidity Assistance framework, in line with international best practice and recommendations from the 2023 FSSR—including by introducing a robust process for analyzing the solvency and viability of potential recipients. In addition, inter-agency crisis coordination mechanisms should be established.

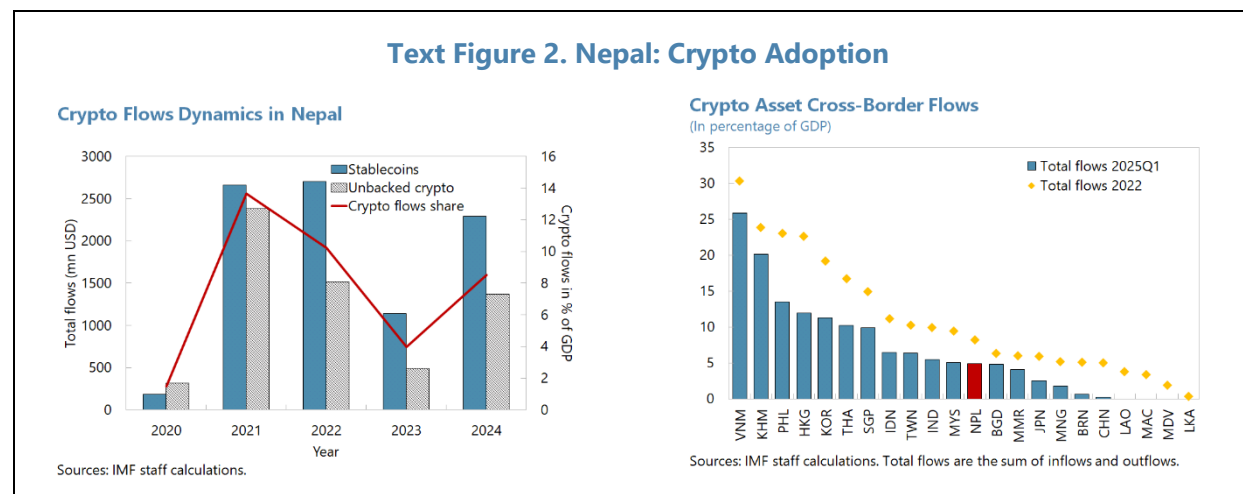
29. The authorities have strengthened supervisory oversight of SACCOs. The recently established National Cooperatives Regulatory Authority (NCRA) has begun developing a licensing regime, reporting requirements, and regulatory standards for the sector. NCRA expects that ten thousand SACCOs will choose to be licensed over the medium term. This will increase the stability of the system as NCRA provides close monitoring of their financial performance. It will be important to also develop an appropriate resolution regime, one not entirely focused on mergers and acquisitions as is the current practice. Removing weak institutions from the system is critical to improving overall system stability.

30. Rise in crypto adoption in Nepal warrants close monitoring. Flows of stablecoins and unbacked crypto assets grew markedly between 2019-24, although adoption remains modest relative to peers (Text Figure 2), despite legal prohibition on crypto transactions. A clear and well-sequenced regulatory framework—aligned with international standards—would help safeguard

¹⁵ The 2023 FSSR Report and accompanying Background Note on the Financial Sector Safety Net have identified gaps in areas such as emergency liquidity assistance, the early intervention mechanism, recovery and resolution planning, group resolution, resolution objectives and principles, resolution tools and powers and legal safeguards.

financial stability and integrity and consumer protection, while limiting circumvention of capital controls or large-scale deposit outflows.

Text Figure 2. Nepal: Crypto Adoption



31. The authorities have drafted amendments to the NRB Act which are broadly aligned with the SGA recommendations; however still not aligned with best practices addressing vulnerabilities affecting the NRB's institutional autonomy. The SGA-related amendments to the NRB Act is in the process of being submitted to Parliament (prior action, pending). Once enacted, the authorities should promptly implement these changes, including updating the relevant Rules and Bylaws. The authorities have also implemented most of the 2021 Safeguards Recommendations unrelated to the NRB Act.

32. The authorities have accelerated reforms to strengthen the AML/CFT framework and implement the Financial Action Task Force (FATF) Action Plan. Following addition to the FATF grey list in February 2025, the authorities have published Implementation Procedures and sectoral guidelines for banks and payment service providers for implementing UN Security Council Resolutions (UNSCRs) (with IMF TA), increased supervisory resources for banking sector, and issued directives for real estate.^{16,17} Sustained efforts are needed to advance AML/CFT reforms, including updating the National Risk Assessment covering entity transparency, ensuring effective implementation of UNSCRs, improving supervision across sectors, and strengthening investigative and supervisory capacity. Notably, the authorities are monitoring the economic impact of grey-listing through a stocktaking exercise with BFIs and should continue to deepen these efforts.

¹⁶ The authorities had also made progress in the run-up to grey listing, including amending AML/CFT laws with Fund TA (end-July 2024 SB, met).

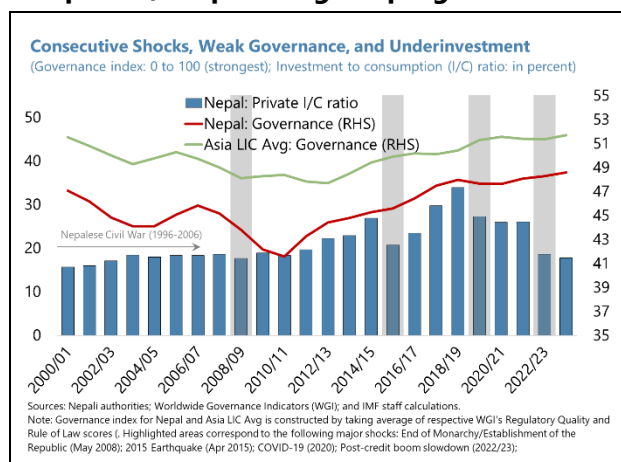
¹⁷ These relate to the financing of terrorism and proliferation of weapons of mass destruction.

Authorities' Views

33. The authorities agreed with staff recommendations that continued efforts are needed to reduce excess liquidity, address financial sector vulnerabilities, and further strengthen the AML/CFT framework. The authorities committed to continue strengthening liquidity management to absorb the large excess liquidity, with the help of IMF TA, including by conducting OMOs at various maturities. They agreed on the need for further narrowing the IRC and gradually aligning the interbank rate close to the policy rate. The authorities acknowledged that financial sector vulnerabilities remain concerning and require close scrutiny. They will continue to seek IMF TA as they further refine and enhance their regulatory framework. Highlighting the progress on strengthening the AML/CFT framework, the authorities remain committed to continue advancing broader AML/CFT reforms, including completing the national risk assessment, strengthening risk-based supervision across sectors, enhancing the use of financial intelligence, increasing capacity and coordination in investigation, as well as strengthening confiscation measures.

C. Strong Governance to Foster Private Sector-Led Inclusive Growth

34. Weak governance and anti-corruption frameworks and public service delivery remain a persistent structural constraint on Nepal's development, despite tangible progress over time. Since FY2010/11, reforms have strengthened Nepal's legal frameworks, transparency, and institutional design, particularly in Public Financial Management (PFM).¹⁸ More recently, reforms under the ECF-supported program—such as strengthened fiscal transparency and accountability and legal upgrades to the AML/CFT framework—have helped align policies more closely with international standards. The authorities are undergoing the IMF GCD exercise for Nepal—the second country in Asia-Pacific.¹⁹



Nevertheless, Nepal continues to lag regional and income-level peers in key governance dimensions.²⁰ A central challenge has been the gap between policy formulation and implementation: while laws and strategies have advanced, limited administrative capacity, uneven enforcement, frequent political and bureaucratic turnover, and coordination constraints have slowed effective execution.

¹⁸ See, for instance, the latest progress report on "Nepal Public Financial Management Multi-Donor Trust Fund (January–June 2025)" coordinated by the World Bank. For more details, see: www.t.ly/h0kVQ

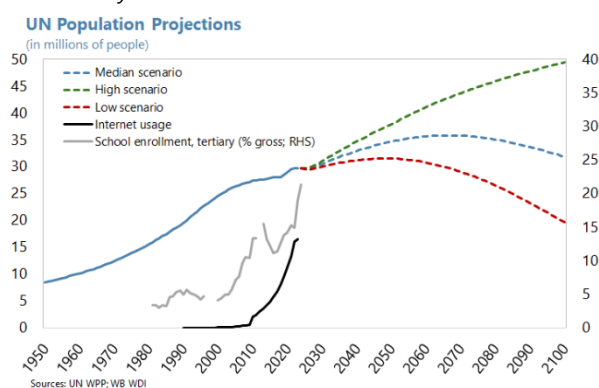
¹⁹ The GCD exercise has been previously conducted for Sri Lanka in Asia-Pacific region. The exercise focuses on four state functions—fiscal governance, rule of law, financial sector oversight, and AML/CFT, as well as the effectiveness of the anti-corruption framework.

²⁰ According to World Governance Indicators (WGI), Nepal consistently ranks below most regional and income-level peers in government effectiveness, regulatory quality, and the rule of law.

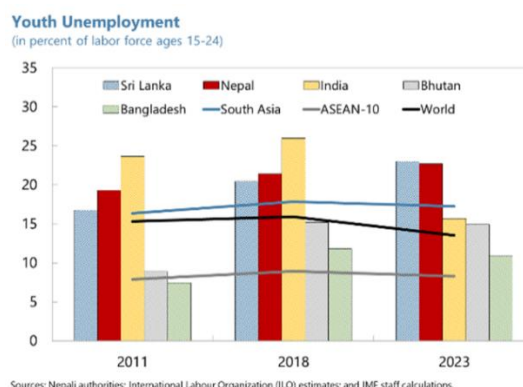
35. Governance weaknesses interact with demographic pressures and limited domestic opportunities, reinforcing low social trust, underinvestment, and subdued economic potential.²¹ Nepal's demographic transition—characterized by a large, increasingly educated and connected working-age population—has raised expectations for opportunity and mobility. However, weak job creation and slow structural transformation have constrained the economy's capacity to absorb new entrants productively. Governance shortcomings amplify these labor-market frictions: policy uncertainty and perceived unfairness reduce investment incentives, while uneven access to opportunities and services weakens institutional trust. Outward migration for work and study and remittance dependence have emerged as key coping mechanisms, supporting household incomes and macroeconomic stability, but also reducing incentives for domestic structural adjustment and pressure for reforms. The resulting low-trust-low-investment equilibrium, with over-reliance on external income, has limited the realization of Nepal's demographic dividend and dampened medium-term growth prospects.

Text Figure 3. Nepal: Demographics, Youth Unemployment, and Remittances

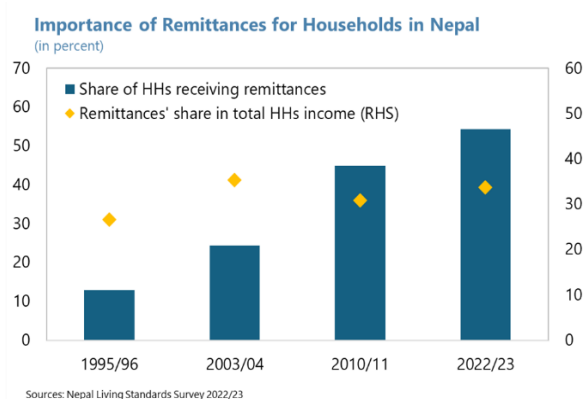
Demographic transition along with improved education and better connectivity have raised expectations for opportunity and mobility.



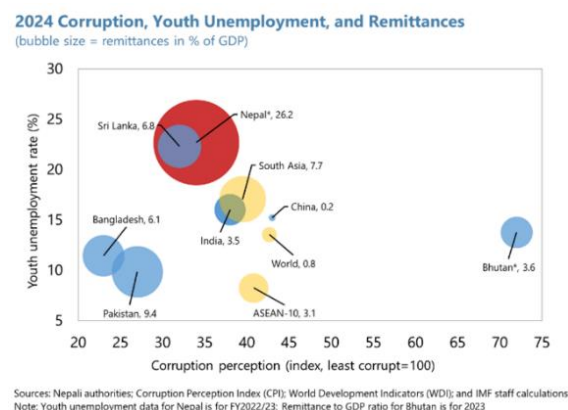
However, weak job creation relative to peers, slow structural transformation, and persistent informality limit the economy's ability to absorb new entrants productively.



Emigration has become a key coping strategy, with over half of all households receiving remittances from abroad.

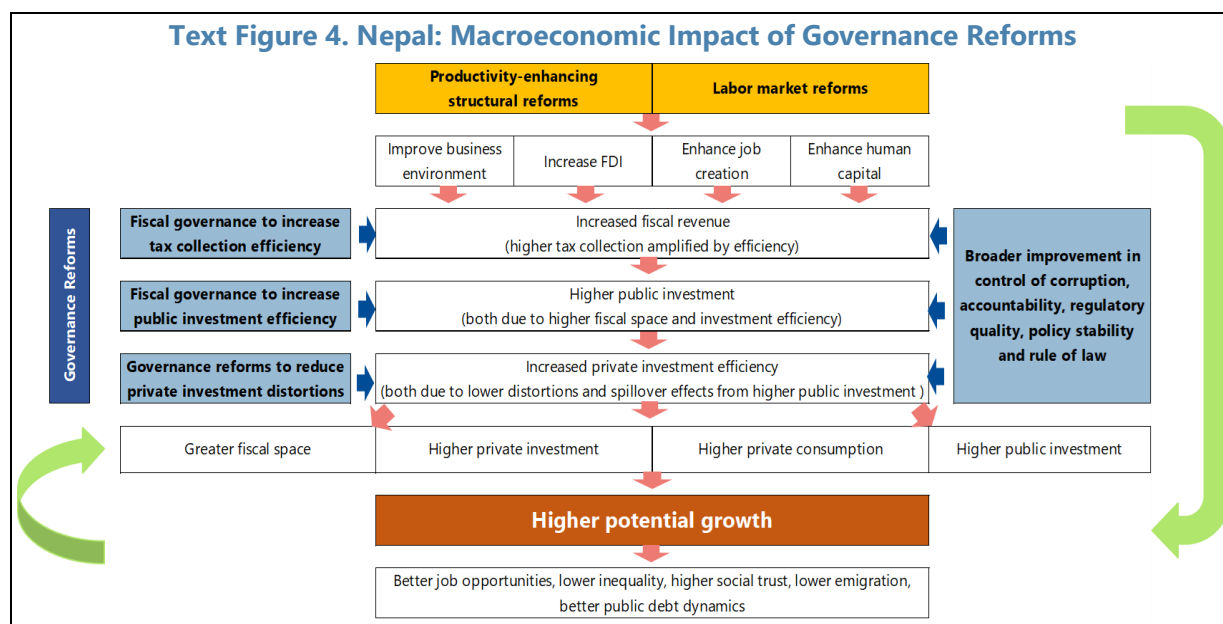


As a result, Nepal stands out in terms of remittance-dependence, spurred by youth unemployment and perception of corruption.



²¹ See 2026 *Nepal: Selected Issues* paper "Governance, Demographic Transition, and Migration in Nepal".

36. Breaking this cycle requires a layered reform approach anchored in governance improvements that raise the returns to broader economic reforms. Strengthening governance—through greater transparency, more predictable rule-based administration, stronger institutions, and effective enforcement—would ease coordination and credibility constraints. Enhancing the independence of the anti-corruption institution, and enforcement of the asset declaration and conflicts of interest systems can help reduce corruption and governance vulnerabilities. Reforms aimed at investment, competition, and public service effectiveness will then more likely deliver durable macroeconomic gains, supporting job creation and productivity growth. Staff analysis suggests that implementing governance reforms to raise public investment efficiency, strengthen VAT collection, and reducing distortions for private investment could boost real GDP by 13 percent over ten years. These combined reforms could also help stimulate private investment while reducing consumption inequality by creating employment and fiscal space for social transfers, and improve public debt dynamics.²²



37. Advancing broader structural reforms will reinforce governance efforts and strengthen economic resilience. Recommendations from the authorities' High-Level Economic Reform Advisory Commission provide a roadmap to reduce high business costs, strengthen institutional capacity, and enhance financial integrity.²³ These efforts can be further supported by greater digitalization of public administration, streamlined procurement, and improved intergovernmental coordination, helping lower transaction costs and enhancing transparency. Addressing persistently high youth unemployment will require parallel investments in human capital, private-sector development, and job creation in strategic sectors, supported by stronger local

²² See 2026 *Nepal: Selected Issues* paper "Macroeconomic Benefits of Governance Reforms".

²³ See [Nepal: Sixth Review Under the Extended Credit Facility Arrangement](#).

implementation capacity.²⁴ Adapting to and adopting emerging technologies, including AI, is vital to further boost productivity and expand employment opportunities. Given Nepal's high exposure to natural disasters, targeted investments in disaster preparedness—such as food security systems, early warning mechanisms, and climate-resilient infrastructure—can help mitigate vulnerabilities and support economic resilience and medium-term growth.²⁵

Authorities' Views

38. The authorities welcomed the 2026 Article IV focus on governance and appreciated staff's analytical work. They appreciated the holistic analysis of governance vulnerabilities which helped to capture spillovers across sectors. They acknowledged the potential macroeconomic gains from stronger governance and agreed with staff policy recommendations emphasizing the need to anchor Nepal's reform strategy in governance improvements. They highlighted the interim government's initiative to develop a handover blueprint for the incoming administration, outlining governance reforms to improve public service delivery. The incoming administration, in turn, has articulated a reform agenda centered on accelerating growth and job creation through sector-led expansion—particularly in the digital economy, tourism, and productive sectors—underpinned by governance reforms to strengthen transparency and support private investment. In this context, the authorities welcomed the launch of the IMF's Governance and Corruption Diagnostics (GCD) and expressed strong interest in its timely completion. They saw merit in synthesizing recommendations from the selected issues papers (SIPs), the ongoing GCD, and their own blueprint to design a sequenced reform action plan to address governance vulnerabilities. They further reaffirmed their commitment to continue strengthening disaster preparedness and climate-resilient investment, given Nepal's high exposure to natural hazards.

PROGRAM MODALITIES

39. Nepal's capacity to repay the Fund remains adequate and the program is fully financed for the remainder of the program (Text Table 5).²⁶ Nepal has an adequate capacity to repay the Fund, with outstanding Fund credit projected to peak in FY2025/26 at SDR 407.9 million, equivalent to 1.2 percent of GDP or 12.6 percent of exports (Table 10). 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. Strengthened reserve position provides a potent backstop to external shocks. The risk of debt distress is assessed to be low, with public debt sustainable over the medium term (see DSA).

²⁴ For details see World Bank's [Nepal Human Capital Review](#) (2025), which provides a comprehensive assessment of the country's human capital and offers actionable recommendations to strengthen education, health, and skills to support higher productivity, employment, and long-term growth.

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

²⁶ Over the next few years, projected budget support from development partners is expected to focus primarily on financing the Reforms to Accelerate Investment and Scale Employment Program and the Kathmandu Valley Water Supply Sector Reform Program.

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

External financing need		Fiscal financing need	
	FY2025/26		FY2025/26
	Proj.		Proj.
External financing requirement	-7.3	Total revenue and grants	19.9
of which:		Expenditure	22.4
Current account deficit ^{1/}	-6.4	Fiscal deficit	2.5
Financing sources	-7.9	Total financing	2.0
Foreign borrowing	1.5	Net acquisition of financial assets	0.7
Current and capital grants	0.7	Net incurrence of liabilities	2.6
FDI, net	0.2	Foreign borrowing	0.6
Change in reserves (+ decrease)	-10.3	Domestic borrowing	2.0
External financing gap	0.5	Fiscal financing gap	0.5
Financing commitments so far:	0.5	Financing commitments so far:	0.5
IMF: ECF	0.2	IMF: ECF	0.2
Asian Development Bank	0.3	Asian Development Bank	0.3
World Bank	0.0	World Bank	0.0

Sources: Nepali authorities; and IMF staff estimates.

1/ Current account excludes official transfers.

Note: Current baseline forecast is as of March 19, 2026.

40. 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) continue to be observed. Nepal has three exchange restrictions and one MCP, which were in place prior to the ECF-supported program.²⁷ The USD Foreign Exchange and Money Dealers Association of Nepal (Fedan) exchange rate resulting in the MCP has not witnessed impermissible spreads, thereby limiting the economic impact. The authorities do not plan to seek Board approval for the exchange restrictions and plan to gradually phase them out. Staff encourage the authorities to remove the exchange restrictions.

41. IMF capacity development (CD) has supported the implementation of critical reforms under the ECF, including on fiscal reforms, enhanced financial sector stability, and good governance (Annex VIII). While Nepal's macroeconomic data have some shortcomings, they are broadly adequate for surveillance (Annex IX). Improving the data quality of National Accounts and external sector data would enhance data assessment. CD delivery provides support in these areas.

42. Future engagement. The authorities remain interested in surveillance and CD after the ECF arrangement ends in May 2026. Staff will continue to engage with the authorities through a Post Financing Assessment (PFA).²⁸

²⁷ The 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. The MCP arises from the Fedan exchange rate used for USD remittance transactions between remittance companies and their offshore partners.

²⁸ Nepal's outstanding credit to the Fund is expected to exceed 200 percent of quota during FY2025/26-FY2027/28 (Table 10).

STAFF APPRAISAL

43. Growth recovery is expected to gather pace post-elections, as market confidence improves, though risks are skewed to the downside. Real GDP growth has been revised down to 3.0 percent in FY2025/26, in part reflecting the impact of the unrest, and is projected to gradually strengthen in FY2026/27 and onwards, as confidence recovers and capital spending execution improves. Inflation is expected to pick up in line with economic recovery and rising oil prices but will remain within the NRB's target. The external position remains substantially stronger than implied by medium-term fundamentals but is projected to gradually moderate over the forecast horizon as remittance growth normalizes and import demand picks up with the acceleration of capital projects. However, risks to the outlook point down reflecting both uncertainty around policy continuity and other domestic risks, and potentially more protracted negative spillovers from the deteriorating external economic environment.

44. Program performance was broadly adequate with all PCs met, three out of four SBs completed, and a corrective action planned for missed SBs. The PCs on net international reserves and the primary fiscal deficit were met, together with all standard continuous PCs. The IT on child allowance spending was missed marginally. Three SBs were completed, with two met on time. A prior action on submitting the NRB Act amendments related to SGA recommendations and bank resolution framework to Parliament is proposed for this review.

45. Further efforts to mobilize revenues would underpin fiscal sustainability and support increase in capital expenditure. The expansionary near-term fiscal stance is appropriate. The customs compliance improvement strategy is welcome, as is the establishment of tax policy unit. Going forward, further efforts are needed to mobilize domestic revenues, especially by tackling tax arrears and eliminating tax exemptions, in line with the DRMS. To enhance spending efficiency, the authorities should upgrade the medium-term fiscal framework. Lifting obstacles to capital expenditure is a high priority, especially by making budgets more realistic. Enhancing targeted social protection—particularly by expanding the coverage and per-beneficiary allowance of the child grant—would support vulnerable households. If severe downside risks to growth begin to materialize, fiscal support should be limited, temporary, and targeted towards the vulnerable.

46. The current monetary policy stance is appropriate but inflation and external sector developments should be closely monitored. The NRB should stand ready to adjust the monetary policy stance if second-round price and external sector pressures were to arise. Increasing the volume of OMOs, enhancing liquidity forecasting, and ensuring a separation between monetary policy formulation and operational implementation, would help align the interbank rate with the policy rate. 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.

47. The completion of the Loan Portfolio Review is a welcome step to more accurately determine the banking system's health. Along with the recent alignment of the Asset Classification Regulation with the BCBS standard, the LPR sheds light on the extent to which banks

will need to reclassify loans and make additional loan loss provisions. It will be important for the NRB to guide banks back to regulatory capital compliance as needed and to incorporate qualitative observations made in the LPR report into enhancements to the supervisory regime. The NRB should instruct banks to improve on the shortcomings in credit practices that are identified in the disseminate the qualitative section findings of the report, via a circular, which identify common shortcomings in bank credit practices and require improvements. It should then expand the application of the LPR diagnostic approach to the remaining portfolios of the ten largest banks as well as to the full portfolios of the remaining ten commercial banks.

48. Financial sector vulnerabilities warrant efforts to further strengthen financial sector oversight. The NRB should improve risk-based supervision as recommended by the FSSR. Relaxation of the working capital loan (WCL) guidelines due to temporary market weakness should be carried out in a manner that ensures that these loans are limited to solvent borrowers encountering short-term liquidity challenges and are used only for operating expenses. The new regulatory agency for SACCOs is operational and staff recommend finalizing its licensing, reporting, and supervisory regime.

49. Amendments to the NRB Act in line with IMF staff recommendations will help improve NRB governance and strengthen the bank resolution framework. Although amendments related to the SGA include important measures to strengthen the NRB's mandate, governance, financial and personal autonomy, and accountability practices, the draft law does not address a key vulnerability affecting its institutional autonomy, notably the continued presence of Finance Secretary as a voting Board member. Amendments to the bank resolution framework fill important gaps identified in the 2023 FSSR but will benefit from stronger enhancements in the future.

50. Following significant progress on improving the AML/CFT framework, further efforts are needed to improve implementation effectiveness. Sustained momentum on AML/CFT reforms is needed to enable Nepal's exit from the grey list. Priorities include effectively implementing the updated UNSCR framework, boosting investigation capacity, and strengthening risk-based supervision across sectors, including by enhancing supervisory resources.

51. Sustained progress on structural reforms—anchored in stronger governance—remains essential to foster more inclusive growth with job opportunities. Strengthening governance and institutional credibility will enhance the effectiveness of the broader structural reform agenda, aimed at improving business environment, creating jobs, and enhancing public service delivery. This, in turn, will help unlock private investment, boost competitiveness, and support private-sector-led growth. Scaling up investment in skills, technology adoption, and natural disaster-resilient infrastructure, alongside strengthened social protection will help ensure that growth is sustainable, resilient, job-rich, and inclusive.

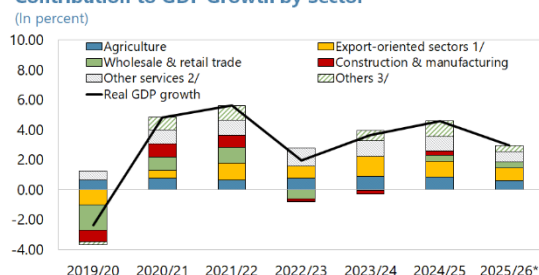
52. Staff support the completion of the seventh and final review of the ECF-supported program and the disbursement of the eighth tranche in the amount of SDR 31.32 million. Given that Nepal's outstanding credit to the Fund exceeds 200 percent of quota, staff recommend

initiation of a PFA. With the completion of the ECF program, staff recommend that Nepal returns to the standard 12-month Article IV consultation cycle.

Figure 4. Nepal: Recent Macroeconomic Developments

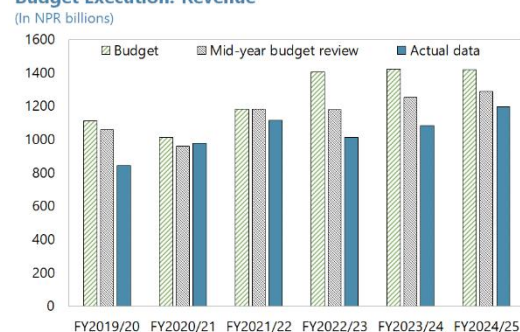
A rebound in construction, manufacturing, and trade underpinned the FY2024/25 growth momentum, which was disrupted in September 2025 by social unrest.

Contribution to GDP Growth by Sector



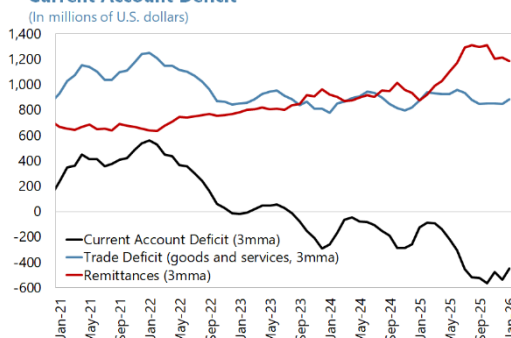
Revenue collection dropped markedly in FY2022/23 and has since been recovering slowly...

Budget Execution: Revenue



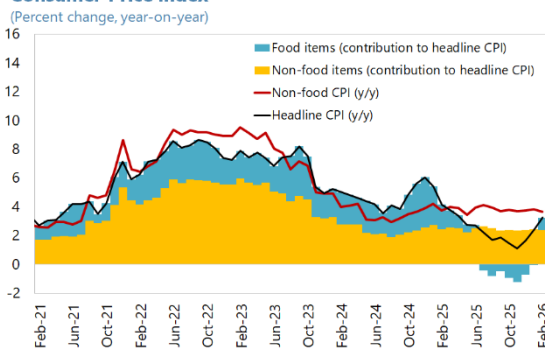
The trade deficit remained stable as import growth, primarily crude soybean oil, was offset by higher exports of processed soybean oil.

Current Account Deficit



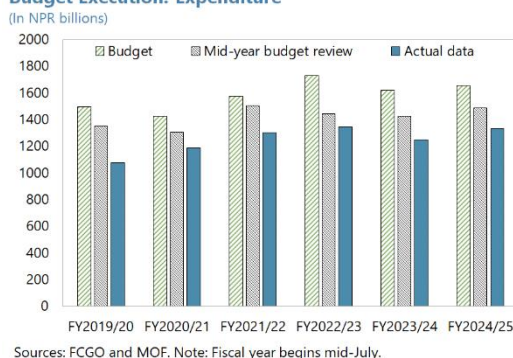
Headline inflation declined to multi-year lows, underpinned by favorable food price dynamics and stable non-food inflation.

Consumer Price Index



...which has constrained spending and reinforced budget under-execution.

Budget Execution: Expenditure



Relatively higher domestic inflation compared to trading partners has led to continued REER appreciation, eroding Nepal's external competitiveness.

Exchange Rates

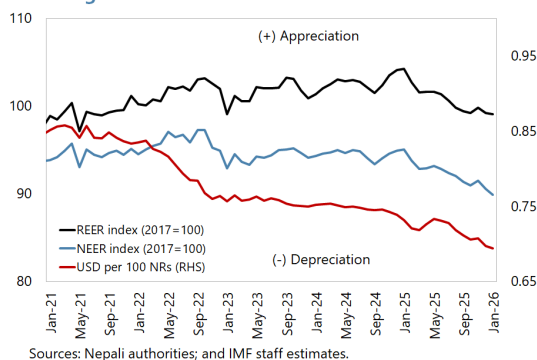
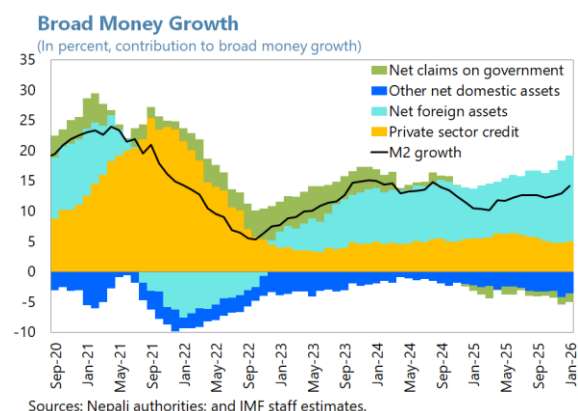
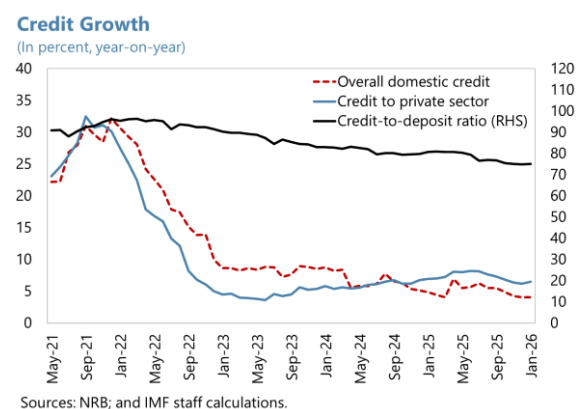


Figure 5. Nepal: Recent Monetary Sector Developments

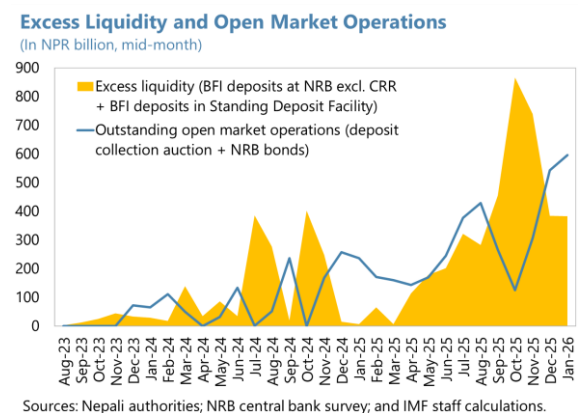
Net foreign asset accumulation continues to dominate broad money growth...



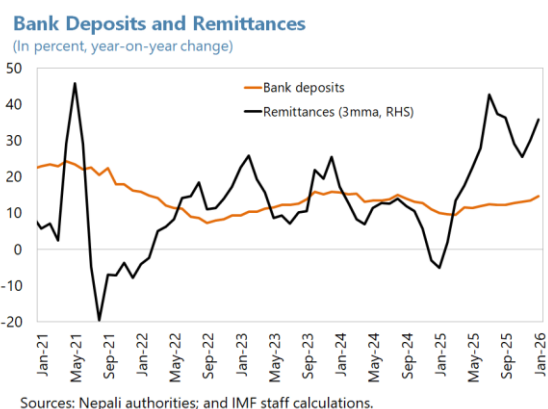
...but alongside a moderation in private sector credit growth and subdued government borrowing.



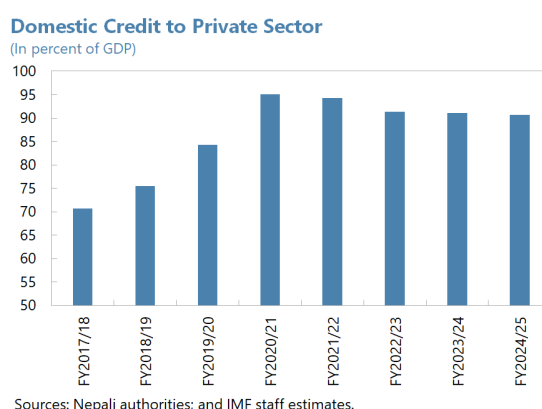
High FX inflows and weak credit growth have led to large excess liquidity...



...with strong remittance inflows sustaining bank deposit growth...



The moderation in private sector credit since FY2023 has allowed a gradual deleveraging.



...which has kept the interbank rate at the bottom of the interest rate corridor.

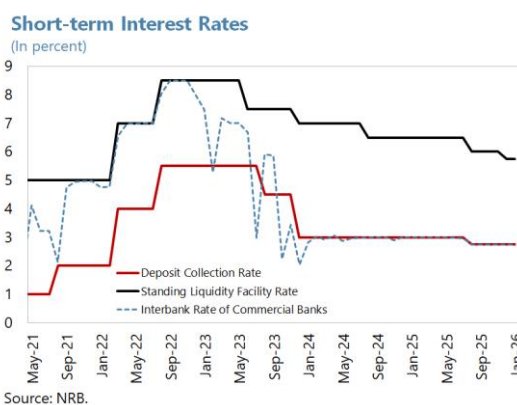
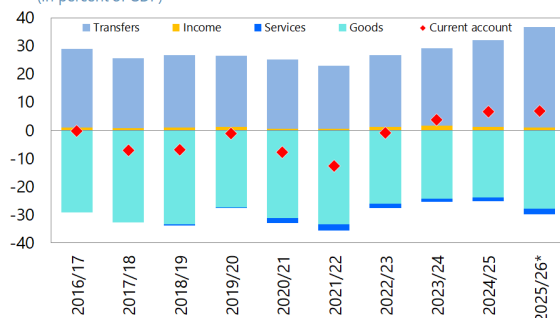


Figure 6. Nepal: External Sector Developments

In FY2024/25 the current account surplus further increased, driven by weaker-than-expected imports and persistently high remittances.

Current Account

(In percent of GDP)



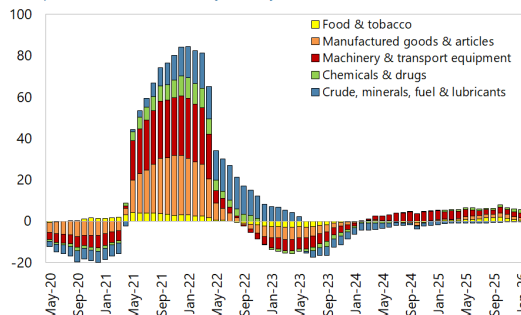
Note: 2025/26 GDP is an estimate.

Sources: Nepali authorities; and IMF staff estimates.

Import recovery continued, supported by balanced contributions across sectors.

Contribution to Import Growth

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



Sources: Nepali authorities; and IMF staff calculations.

Exports have rebounded since 2021, but remain well below the 2000-09 levels, and below peers.

Exports of Goods and Services

(In percent of GDP)

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

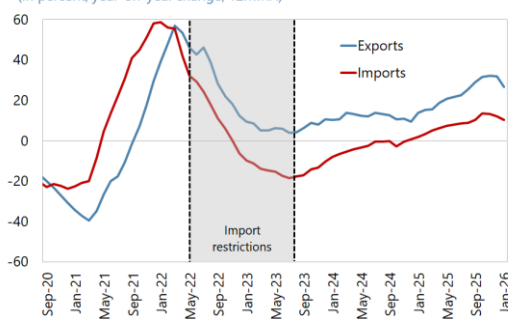
1/ LIC: Low Income Countries are defined by the World Bank as those with a GNI per capita between \$1,145 or less in 2023.

2/ Sri Lanka: latest data is 2024.

The surge in exports is driven by the re-export of processed soybean oil made from imported crude soybean oil.

Exports and Imports

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

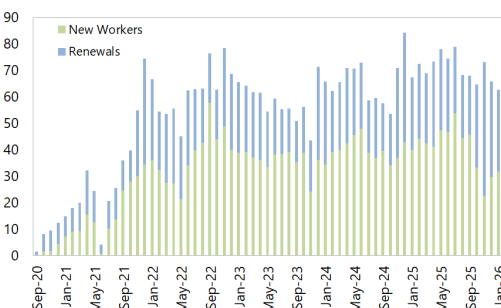


Sources: NRB; and IMF staff calculations.

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

Total Foreign Employment

(Thousands of workers)

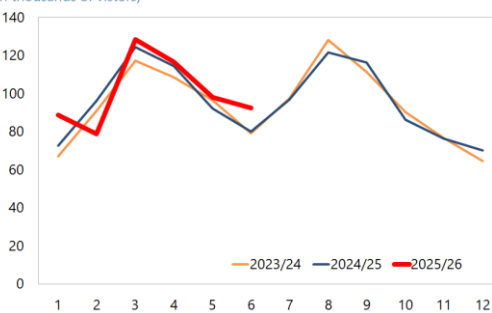


Sources: Nepali authorities; and IMF staff estimates.

The tourism sector was negatively affected by the September protests but recovered swiftly in October.

International Visitor Arrivals

(In thousands of visitors)



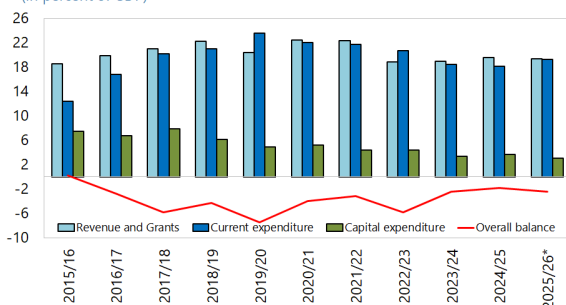
Source: Nepali authorities.

Figure 7. Nepal: Recent Fiscal Developments

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

Central Government Fiscal Performance

(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

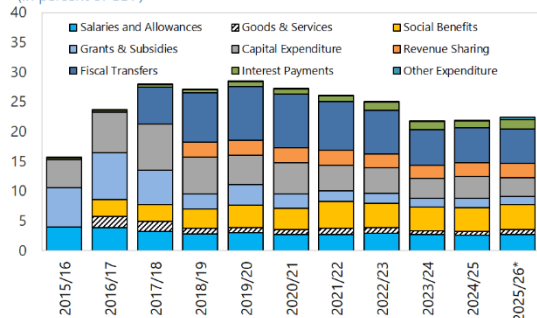
Notes: 2025/26 GDP is projection.

Overall balance calculated as total revenue and grants minus expenditure.

The composition of spending remained stable in FY2024/25.

Central Government Fiscal Expenditure

(In percent of GDP)



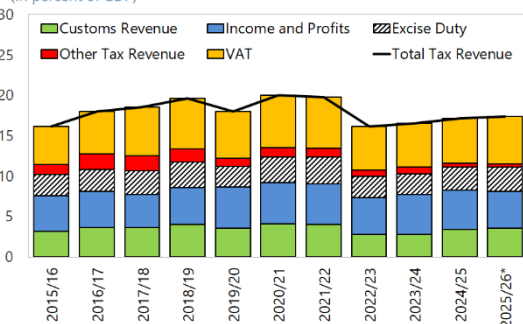
Note: 2025/26 GDP is projection.

Sources: Nepali authorities; and IMF staff estimates.

The composition of tax revenues shifted more toward import-related sources in FY2024/25, ...

Central Government Tax Revenues

(In percent of GDP)



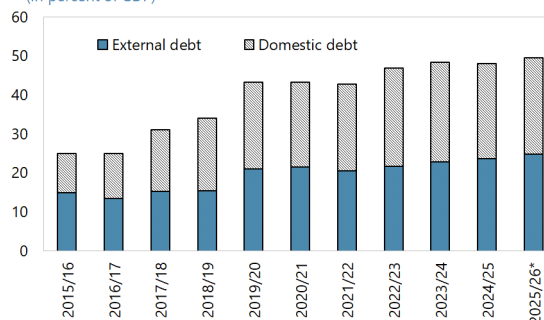
Note: 2025/26 is a projection.

Sources: Nepali authorities; and IMF staff estimates.

Total public debt increased to 48 percent of GDP in FY2024/25.

Public Debt

(In percent of GDP)



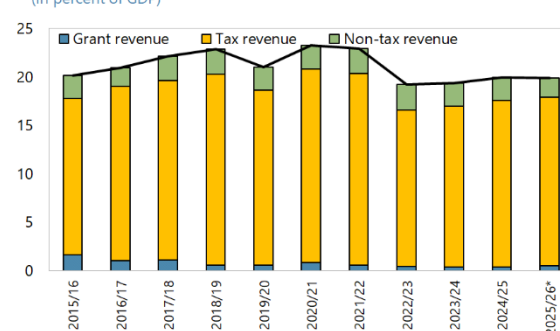
Note: 2025/26 GDP is projection.

Sources: Nepali authorities; and IMF staff estimates.

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

Central Government Fiscal Revenues (Incl. Grants)

(In percent of GDP)



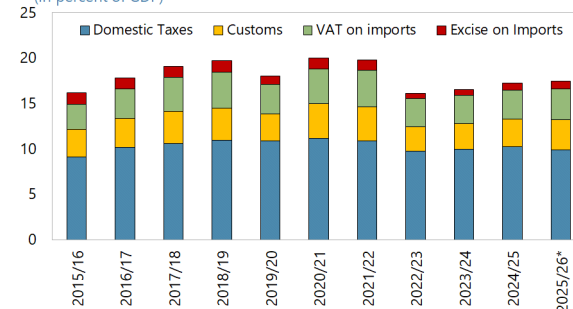
Note: 2025/26 is a projection.

Sources: Nepali authorities; and IMF staff estimates.

...driven by an increase in customs tax revenues.

Tax Revenue by Source

(In percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

Notes: 2025/26 GDP is an estimate.

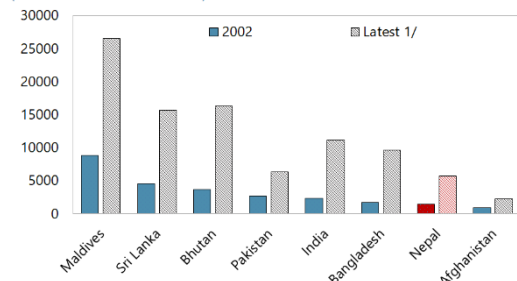
Domestic taxes are calculated as the residual by subtracting customs, VAT on imports and excise on imports from total tax revenue.

Figure 8. 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)



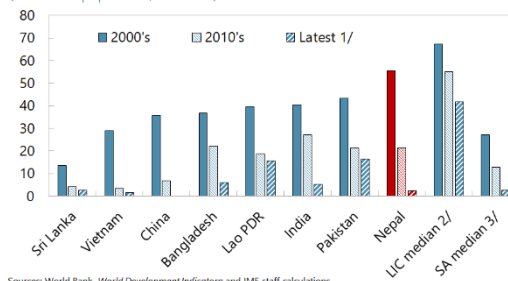
Sources: World Bank, World Development Indicators; and IMF staff calculations.

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

...yet poverty fell significantly over the last two decades.

Poverty Headcount Ratio at USD 3.00 per Day

(Percent of population, 2021 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 (2022); Nepal (2022).

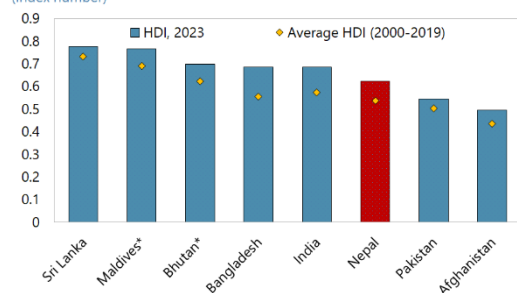
2/ LIC: Low Income Countries are defined by the World Bank as those with a GNI per capita between \$1,145 or less in 2023.

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)



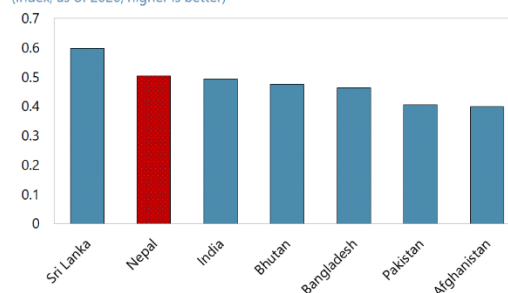
Sources: UNDP; and IMF staff calculations.

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

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

Human Capital Index 1/

(Index, as of 2020; higher is better)



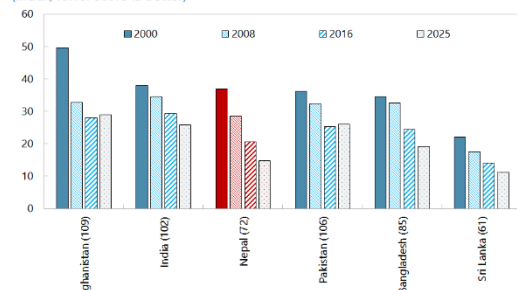
Source: The World Bank, Human Capital Project.

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 has been a tangible improvement in living standards, including relating to hunger,...

Global Hunger Index 1/

(Index, lower score is better)



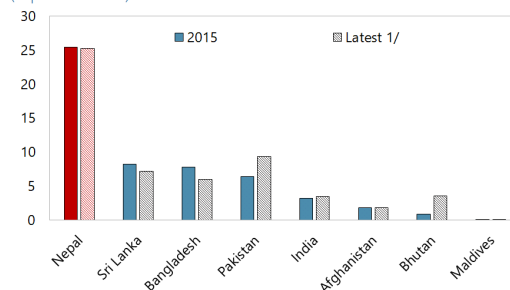
Sources: Global Hunger Index; and IMF staff calculations.

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.

... with one of Nepal's most important safety nets coming from remittances.

Remittances Received

(In percent of GDP)



Sources: World Bank, World Development Indicators and IMF staff calculation.

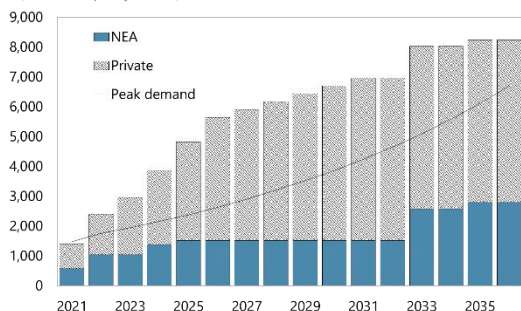
1/ Nepal (2024); Sri Lanka (2023); Bangladesh (2024); Pakistan (2024); India (2024); Afghanistan (2023); Bhutan (2023); Maldives (2024)

Figure 9. Nepal: Changes in the Environment and Pollution

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)

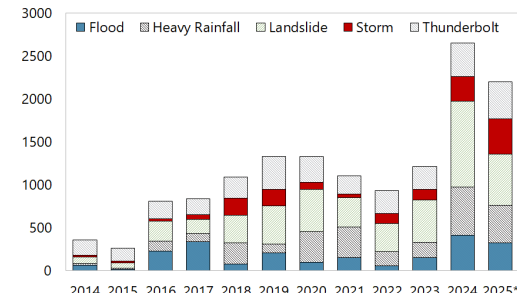


Source: World Bank CCDR 2022.

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

Number of Climate Related Incidents

(Count)



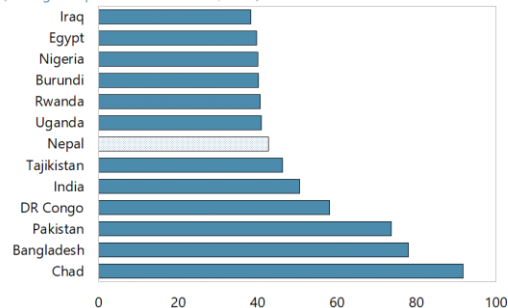
Sources: BIPAD Government of Nepal; and IMF staff calculations.

Note: 2025 data is from 1/1/2025 to 12/22/2025.

Pollution is trapped by Nepal's mountainous geography making it the 7th most polluted country...

PM2.5 Concentration of the Most Polluted Countries

(Micrograms per cubic meter of air, 2024)

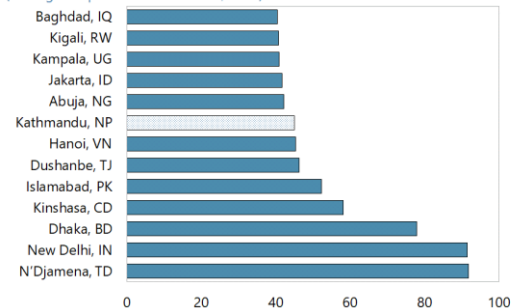


Source: 2024 World Air Quality Report.

... and Kathmandu is the 8th most polluted capital city.

PM2.5 Concentration of the Most Polluted Capitals

(Micrograms per cubic meter of air, 2024)

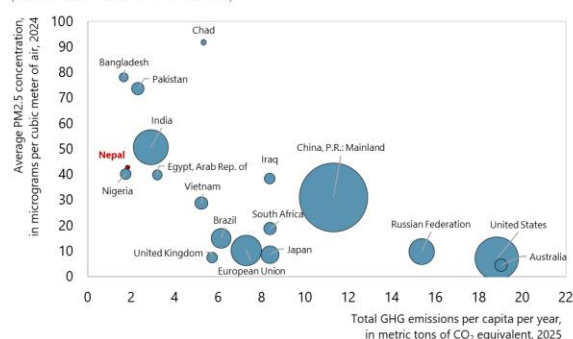


Source: 2024 World Air Quality Report.

Yet despite high pollution exposure, Nepal's greenhouse gas emissions are among the lowest globally.

GHG Emissions and PM2.5 Pollution

(bubble size = total GHG emissions)

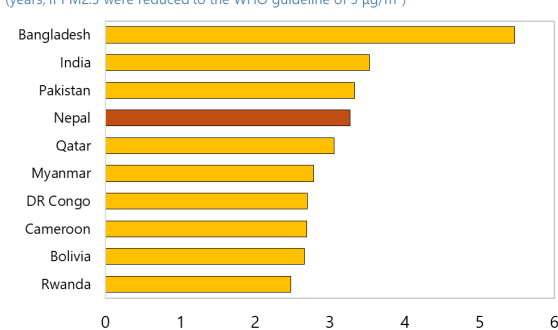


Sources: 2024 World Air Quality Report, 2025 UNFCCC and CRT tables.
Note: Total GHG Emissions exclude land-use, land-use change and forestry.

Nepal could potentially gain 3.3 years in life expectancy if annual pollution was reduced to the WHO guidelines.

Potential Gain in Life Expectancy

(years; if PM2.5 were reduced to the WHO guideline of 5 µg/m³)



Source: 2025 Air Quality Life Index (AQLI)

Table 2. Nepal: Selected Economic Indicators, 2022/23-2030/31 1/

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
			Est.	Projections					
Output and Prices (annual percent change)									
Real GDP	2.0	3.7	4.6	3.0	4.6	5.3	5.1	5.0	5.0
Headline CPI (period average)	7.7	5.4	4.1	3.1	5.0	5.0	5.0	5.0	5.0
Headline CPI (end of period)	7.4	3.6	2.6	5.1	5.0	5.0	5.0	5.0	5.0
Fiscal Indicators: Central Government (in percent of GDP)									
Total revenue and grants	19.3	19.4	20.0	19.9	21.6	21.7	21.7	21.9	22.1
of which: Tax revenue	16.1	16.5	17.2	17.4	18.6	18.8	18.9	19.1	19.4
Expenditure	25.1	21.8	21.8	22.4	24.9	24.8	24.8	24.9	25.1
Recurrent expenditure	20.7	18.5	18.2	19.3	20.1	19.2	18.7	18.8	19.0
Capital expenditure	4.4	3.4	3.6	3.1	4.8	5.6	6.1	6.1	6.1
Operating balance	-1.4	0.9	1.8	0.6	1.5	2.4	3.0	3.1	3.1
Net lending/borrowing	-5.8	-2.5	-1.9	-2.5	-3.3	-3.2	-3.1	-3.0	-3.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions	-5.8	-2.5	-1.9	-2.5	-3.3	-3.2	-3.1	-3.0	-3.0
Net acquisition of financial assets	-0.9	0.0	1.8	0.7	0.9	0.9	0.9	0.9	0.9
Net incurrence of liabilities	4.9	2.5	3.6	3.1	4.2	4.0	4.0	3.9	3.8
Foreign	1.6	1.6	1.6	1.1	1.7	1.4	1.4	1.5	1.6
Domestic	3.2	0.9	2.0	2.0	2.4	2.6	2.5	2.4	2.2
Money and Credit (annual percent change)									
Broad money	11.6	13.5	12.5	11.0	10.5	10.4	10.4	10.3	10.3
Domestic credit	8.8	6.3	6.2	6.1	7.3	8.3	9.0	9.6	10.3
Private sector credit	4.6	6.1	8.1	6.6	7.8	8.4	9.0	9.6	10.3
Saving and Investment (in percent of nominal GDP)									
Gross investment	31.1	30.4	31.8	34.9	40.5	40.6	40.1	39.7	39.1
Gross fixed investment	24.6	24.3	25.7	29.1	34.4	34.0	33.4	33.0	32.4
Private	20.2	21.0	22.0	26.0	29.6	28.4	27.3	26.9	26.3
Central government	4.4	3.4	3.6	3.1	4.8	5.6	6.1	6.1	6.1
Change in Stock	6.6	6.1	6.1	5.8	6.1	6.6	6.7	6.7	6.7
Gross national saving	30.3	34.3	38.5	41.8	42.5	40.3	38.4	36.7	35.1
Private	31.7	33.4	36.7	41.2	41.0	37.9	35.4	33.5	32.0
Central government	-1.4	0.9	1.8	0.6	1.5	2.4	3.0	3.1	3.1
Balance of Payments									
Current account (in millions of U.S. dollars)	-361	1,663	3,006	3,166	972	-162	-987	-1,942	-2,824
In percent of GDP	-0.9	3.9	6.7	6.9	2.0	-0.3	-1.7	-3.0	-4.0
Trade balance (in millions of U.S. dollars)	-10,699	-10,431	-10,651	-12,715	-15,594	-17,184	-18,834	-20,550	-22,170
In percent of GDP	-26.1	-24.3	-23.8	-27.7	-32.4	-32.5	-32.3	-32.0	-31.5
Exports of goods (y/y percent change)	-19.9	-2.5	64.7	19.8	10.1	9.0	8.5	8.0	7.9
Imports of goods (y/y percent change)	-22.0	-2.5	9.4	19.5	20.4	10.0	9.4	8.9	7.9
Workers' remittances (in millions of U.S. dollars)	9,485	10,864	12,636	15,196	15,691	16,233	16,794	17,374	17,975
In percent of GDP	23.1	25.3	28.2	33.1	32.6	30.7	28.8	27.1	25.5
Gross official reserves (in millions of U.S. dollars)	10,954	14,547	18,637	21,827	23,577	24,390	24,525	23,997	22,913
In months of prospective imports	9.3	11.4	12.4	12.4	12.1	11.6	10.7	9.7	8.7
Memorandum Items									
Public debt (in percent of GDP)	47.0	48.3	48.1	49.6	49.4	48.3	47.2	46.1	45.3
Nominal GDP (in billions of U.S. dollars)	41.0	42.9	44.8	45.8	48.1	52.9	58.3	64.2	70.4
Nominal GDP (in billions of Nepalese Rupees)	5,367	5,709	6,107	6,505	7,148	7,900	8,720	9,616	10,604
Net International Reserves (in millions of U.S. dollars)	10,509	14,016	18,031	21,226	23,029	23,906	24,120	23,687	22,672
Primary Deficit (in billions of Nepali Rupees)	239	58	43	58	125	128	135	138	153
Primary Deficit (in percent of GDP)	4.5	1.0	0.7	0.9	1.8	1.6	1.5	1.4	1.4
Tax Revenue (in billions of Nepalese Rupees)	866	945	1,050	1,133	1,329	1,484	1,651	1,840	2,053
Private sector credit (in percent of GDP)	91.4	91.1	92.1	92.2	90.5	88.8	87.6	87.1	87.1
Exchange rate (NPR/US\$; period average)	130.8	133.0	136.3	...	...	...	...	...	...
Real effective exchange rate (average, y/y percent change)	1.1	0.7	-0.1	...	...	...	...	...	...

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

1/ Fiscal year ends mid-July.

Notes: 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.

Current baseline forecast is as of March 19, 2026.

Table 3a. Nepal: Summary of Central Government Operations, 2022/23-2030/31 1/

(In Billions of Rupees)

	2022/23	2023/24	2024/25	2025/26			2026/27	2027/28	2028/29	2029/30	2030/31
			Est.	Budget	6th Review Proj.	7th Review Proj.	Projections				
	(In billions of Nepalese rupees)										
Total Revenue and Grants	1,034	1,106	1,220	1,533	1,416	1,294	1,541	1,711	1,892	2,107	2,347
Total revenue	1,011	1,083	1,195	1,480	1,374	1,261	1,481	1,652	1,836	2,045	2,279
Tax revenue	866	945	1,050	1,326	1,217	1,133	1,329	1,484	1,651	1,840	2,053
<i>of which:</i> Income and profits tax	243	283	298	394	338	294	323	357	394	444	511
Customs	151	158	209	251	226	234	292	323	354	387	420
Excise duty	143	146	175	213	197	197	229	261	296	335	368
VAT	287	310	342	395	401	381	455	510	570	634	710
Other	42	46	26	73	55	27	30	33	36	40	44
<i>By source:</i> Domestic taxes	522	569	599	792	705	627	688	777	875	994	1,127
Import-related taxes	344	375	450	534	512	506	640	707	776	847	925
Non-tax revenue & Other Receipts	145	138	145	154	157	129	152	168	186	205	226
<i>Of which:</i> Non Tax Revenue	92	114	92	154	136	83	99	109	120	133	146
Other Receipts	53	24	53	0	20	46	54	59	65	72	80
Grants 2/	23	23	25	53	42	33	60	59	56	62	68
Expenditure	1,346	1,246	1,333	1,754	1,658	1,455	1,779	1,962	2,162	2,395	2,663
Recurrent expenditure	1,111	1,055	1,110	1,346	1,345	1,254	1,435	1,520	1,630	1,808	2,016
<i>Of which:</i> Interest payments	73	82	70	109	108	104	112	123	135	150	163
Salaries and allowances	156	152	157	180	180	177	194	207	228	252	278
Grants & subsidies	90	83	95	130	132	91	129	139	150	165	182
Social benefits	219	227	244	267	267	267	294	321	350	381	420
Goods & services	50	39	41	56	56	56	61	68	75	82	91
Fiscal transfers 3/	397	339	357	418	418	377	436	435	436	490	562
Revenue sharing 4/	120	126	141	165	161	157	184	208	234	262	293
Other current expenditure	6	6	5	21	24	24	26	20	23	25	28
Capital expenditure	235	192	223	408	313	202	343	442	532	587	647
Operating balance	-77	51	109	187	71	40	106	191	262	299	331
Net lending/borrowing	-312	-140	-113	-220	-242	-161	-237	-251	-270	-288	-316
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0
Net financial transactions 5/	-312	-140	-113	-220	242	-161	-237	-251	-270	-288	-316
Net acquisition of financial assets	-49	2	109	73	90	43	61	68	75	82	91
Foreign	0	0	0	4	0	0	0	0	0	0	0
Domestic (net)	-50	2	109	69	89	43	61	67	74	82	91
Sale of equity	37	7	7	7	17	8	9	10	11	12	13
Lending minus repayment	41	42	45	62	73	48	52	58	64	70	78
Change in cash/deposit	-127	-47	56	0	0	-13	0	0	0	0	0
Net incurrence of liabilities	263	142	222	293	332	204	299	319	345	370	407
Foreign	88	92	100	182	125	72	124	110	124	144	172
Domestic	174	50	122	111	206	132	175	209	221	227	235
Memorandum Items											
Primary balance (billions of Nepali Rupees)	-239	-58	-43	-112	-135	-58	-125	-128	-135	-138	-153
Primary balance (in percent of GDP)	-4.5	-1.0	-0.7	-1.7	-2.0	-0.9	-1.8	-1.6	-1.5	-1.4	-1.4
Public debt (in percent of GDP)	47.0	48.3	48.1	..	49.5	49.6	49.4	48.3	47.2	46.1	45.3
External (in percent of GDP)	21.8	22.8	23.7	..	23.4	24.8	24.8	24.0	23.3	22.7	22.4
Domestic (in percent of GDP)	25.2	25.5	24.4	..	26.1	24.8	24.5	24.3	23.9	23.4	22.9
Resources for sub-national governments (billions of Nepalese Rupees)	518	465	499	583	579	535	620	642	670	753	855
(in percent of GDP)	9.6	8.1	8.2	8.7	8.5	8.2	8.7	8.1	7.7	7.8	8.1
Nominal GDP (billions of Nepalese Rupees)	5,367	5,709	6,107	..	6,806	6,505	7,148	7,900	8,720	9,616	10,604

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/ Includes equalization, conditional, complementary, and special grants.

4/ 30 percent of VAT and domestic excise revenues are shared with sub-national governments.

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

Note: Current baseline forecast is as of March 19, 2026.

Table 3b. Nepal: Summary of Central Government Operations, 2022/23-2030/31 1/
(In Percent of GDP)

	2022/23	2023/24	2024/25	2025/26		2026/27	2027/28	2028/29	2029/30	2030/31
			Est.	Budget	6th Review Proj.	7th Review Proj.	Projections			
	(In percent of GDP, unless otherwise indicated)									
Total Revenue and Grants	19.3	19.4	20.0	22.9	20.8	19.9	21.6	21.7	21.9	22.1
Total revenue	18.8	19.0	19.6	22.1	20.2	19.4	20.7	20.9	21.1	21.5
Tax revenue	16.1	16.5	17.2	19.8	17.9	17.4	18.6	18.8	18.9	19.4
<i>of which:</i> Income and profits tax	4.5	5.0	4.9	5.9	5.0	4.5	4.5	4.5	4.5	4.8
Customs	2.8	2.8	3.4	3.7	3.3	3.6	4.1	4.1	4.1	4.0
Excise duty	2.7	2.6	2.9	3.2	2.9	3.0	3.2	3.3	3.4	3.5
VAT	5.3	5.4	5.6	5.9	5.9	5.9	6.4	6.5	6.5	6.6
Other	0.8	0.8	0.4	1.1	0.8	0.4	0.4	0.4	0.4	0.4
<i>By source:</i> Domestic taxes	9.7	10.0	9.8	11.8	10.4	9.6	9.6	9.8	10.0	10.6
Import-related taxes	6.4	6.6	7.4	8.0	7.5	7.8	9.0	9.0	8.9	8.7
Non-tax revenue & Other Receipts	2.7	2.4	2.4	2.3	2.3	2.0	2.1	2.1	2.1	2.1
Of which: Non Tax Revenue	1.7	2.0	1.5	2.3	2.0	1.3	1.4	1.4	1.4	1.4
Other Receipts	1.0	0.4	0.9	0.0	0.3	0.7	0.7	0.8	0.8	0.8
Grants 2/	0.4	0.4	0.4	0.8	0.6	0.5	0.8	0.7	0.6	0.6
Expenditure	25.1	21.8	21.8	26.2	24.4	22.4	24.9	24.8	24.8	25.1
Recurrent expenditure	20.7	18.5	18.2	20.1	19.8	19.3	20.1	19.2	18.7	18.8
<i>Of which:</i> Interest payments	1.4	1.4	1.2	1.6	1.6	1.6	1.6	1.6	1.6	1.5
Salaries and allowances	2.9	2.7	2.6	2.7	2.6	2.7	2.7	2.6	2.6	2.6
Grants & subsidies	1.7	1.5	1.6	1.9	1.9	1.4	1.8	1.8	1.7	1.7
Social benefits	4.1	4.0	4.0	4.0	3.9	4.1	4.1	4.1	4.0	4.0
Goods & services	0.9	0.7	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Fiscal transfers 3/	7.4	5.9	5.9	6.2	6.1	5.8	6.1	5.5	5.0	5.1
Revenue sharing 4/	2.2	2.2	2.3	2.5	2.4	2.4	2.6	2.6	2.7	2.7
Other current expenditure	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Capital expenditure	4.4	3.4	3.6	6.1	4.6	3.1	4.8	5.6	6.1	6.1
Operating balance	-1.4	0.9	1.8	2.8	1.0	0.6	1.5	2.4	3.0	3.1
Net lending/borrowing	-5.8	-2.5	-1.9	-3.3	-3.6	-2.5	-3.3	-3.2	-3.1	-3.0
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial transactions 5/	-5.8	-2.5	-1.9	-3.3	3.6	-2.5	-3.3	-3.2	-3.1	-3.0
Net acquisition of financial assets	-0.9	0.0	1.8	1.1	1.3	0.7	0.9	0.9	0.9	0.9
Foreign	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-0.9	0.0	1.8	1.0	1.3	0.7	0.9	0.9	0.9	0.9
Sale of equity	0.7	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Lending minus repayment	0.8	0.7	0.7	0.9	1.1	0.7	0.7	0.7	0.7	0.7
Change in cash/deposit	-2.4	-0.8	0.9	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.9	2.5	3.6	4.4	4.9	3.1	4.2	4.0	4.0	3.9
Foreign	1.6	1.6	1.6	2.7	1.8	1.1	1.7	1.4	1.4	1.5
Domestic	3.2	0.9	2.0	1.7	3.0	2.0	2.4	2.6	2.5	2.2
Memorandum Items										
Primary balance (billions of Nepali Rupees)	-239.0	-58.2	-43.0	-111.9	-134.6	-57.5	-125.2	-128.4	-134.6	-152.8
Primary balance (in percent of GDP)	-4.5	-1.0	-0.7	-1.7	-2.0	-0.9	-1.8	-1.6	-1.5	-1.4
Public debt (in percent of GDP)	47.0	48.3	48.1	-	49.5	49.6	49.4	48.3	47.2	45.3
External (in percent of GDP)	21.8	22.8	23.7	-	23.4	24.8	24.8	24.0	23.3	22.4
Domestic (in percent of GDP)	25.2	25.5	24.4	-	26.1	24.8	24.5	24.3	23.9	22.9
Resources for sub-national governments										
(billions of Nepalese Rupees)	518	465	499	583	579	535	620	642	670	753
(in percent of GDP)	9.6	8.2	8.2	8.7	8.5	8.2	8.7	8.1	7.7	7.8
Nominal GDP (billions of Nepalese Rupees)	5,367	5,709	6,107	-	6,806	6,505	7,148	7,900	8,720	10,604

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/ Includes equalization, conditional, complementary, and special grants.

4/ 30 percent of VAT and domestic excise revenues are shared with sub-national governments.

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

Note: Current baseline forecast is as of March 19, 2026.

Table 4. Nepal: Balance of Payments, 2022/23-2030/31 1/

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
			Est.	Projections					
			(in millions of US dollars)						
Current Account	-361	1,663	3,006	3,166	972	-162	-987	-1,942	-2,824
Current account (excluding official transfers)	-460	1,575	2,822	2,937	567	-556	-1,362	-2,355	-3,277
Trade balance	-10,699	-10,431	-10,651	-12,715	-15,594	-17,184	-18,834	-20,550	-22,170
Exports, f.o.b.	1,406	1,371	2,258	2,706	2,978	3,246	3,521	3,802	4,104
Imports, f.o.b.	-12,104	-11,802	-12,910	-15,421	-18,572	-20,430	-22,356	-24,352	-26,274
Of which: oil	-2,335	-2,170	-2,100	-2,604	-2,617	-2,683	-2,785	-2,841	-2,910
Services (net)	-612	-421	-664	-955	-927	-1,073	-943	-965	-1,043
Receipts	1,470	1,899	1,751	1,700	1,687	1,804	1,987	2,187	2,399
Of which : tourism	476	619	650	642	721	794	874	963	1,056
Payments	-2,081	-2,320	-2,415	-2,655	-2,614	-2,876	-2,930	-3,152	-3,442
Income	479	704	578	482	409	397	438	482	529
Credit	737	988	849	831	776	801	882	971	1,065
Debit	-258	-284	-271	-349	-366	-403	-444	-489	-536
Current transfers	10,470	11,810	13,672	16,354	17,084	17,697	18,352	19,091	19,860
Credit, of which:	10,530	11,861	13,729	16,412	17,145	17,764	18,427	19,173	19,950
General government	100	88	132	230	407	394	376	414	454
Workers' remittances	9,485	10,864	12,636	15,196	15,691	16,233	16,794	17,374	17,975
Debit	-59	-50	-57	-59	-61	-68	-74	-82	-90
Capital Account 2/	58	44	72	115	203	197	188	206	226
Financial Account	1,731	1,215	802	1,438	1,980	2,098	2,347	2,629	2,942
Direct investment	47	63	54	101	106	116	128	141	155
Portfolio investment	0	0	0	0	0	0	0	0	0
Other investment (net)	1,684	1,152	748	1,337	1,875	1,981	2,219	2,488	2,788
Of which: Trade credit	917	576	626	483	617	730	841	942	1,016
Official loans	652	633	575	505	833	738	829	958	1,143
Errors and Omissions	663	747	797	0	0	0	0	0	0
Overall Balance	2,091	3,668	4,676	4,719	3,156	2,132	1,547	894	344
	(in percent of GDP)								
Current Account	-0.9	3.9	6.7	6.9	2.0	-0.3	-1.7	-3.0	-4.0
Current account (excluding official transfers)	-1.1	3.7	6.3	6.4	1.2	-1.1	-2.3	-3.7	-4.7
Trade balance	-26.1	-24.3	-23.8	-27.7	-32.4	-32.5	-32.3	-32.0	-31.5
Exports, f.o.b.	3.4	3.2	5.0	5.9	6.2	6.1	6.0	5.9	5.8
Imports, f.o.b.	-29.5	-27.5	-28.8	-33.6	-38.6	-38.6	-38.3	-38.0	-37.3
Services (net)	-1.5	-1.0	-1.5	-2.1	-1.9	-2.0	-1.6	-1.5	-1.5
Receipts	3.6	4.4	3.9	3.7	3.5	3.4	3.4	3.4	3.4
Of which: tourism	1.2	1.4	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Payments	-5.1	-5.4	-5.4	-5.8	-5.4	-5.4	-5.0	-4.9	-4.9
Income	1.2	1.6	1.3	1.1	0.9	0.8	0.8	0.8	0.8
Credit	1.8	2.3	1.9	1.8	1.6	1.5	1.5	1.5	1.5
Debit	-0.6	-0.7	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Current transfers	25.5	27.5	30.5	35.7	35.5	33.4	31.5	29.8	28.2
Credit, of which:	25.7	27.6	30.6	35.8	35.7	33.6	31.6	29.9	28.3
General government	0.2	0.2	0.3	0.5	0.8	0.7	0.6	0.6	0.6
Workers' remittances	23.1	25.3	28.2	33.1	32.6	30.7	28.8	27.1	25.5
Debit	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital Account 2/	0.1	0.1	0.2	0.2	0.4	0.4	0.3	0.3	0.3
Financial Account	4.2	2.8	1.8	3.1	4.1	4.0	4.0	4.1	4.2
Direct investment	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	4.1	2.7	1.7	2.9	3.9	3.7	3.8	3.9	4.0
Of which: Trade credit	2.2	1.3	1.4	1.1	1.3	1.4	1.4	1.5	1.4
Official loans	1.6	1.5	1.3	1.1	1.7	1.4	1.4	1.5	1.6
Errors and Omissions	1.6	1.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	5.1	8.5	10.4	10.3	6.6	4.0	2.7	1.4	0.5
Memorandum Items									
Imports (y/y percent change)	-22.0	-2.5	9.4	19.5	20.4	10.0	9.4	8.9	7.9
Exports of G&S (in percent of GDP)	7.0	7.6	8.9	9.6	9.7	9.5	9.4	9.3	9.2
Imports of G&S (in percent of GDP)	34.6	32.9	34.2	39.4	44.1	44.0	43.4	42.9	42.2
Remittances (y/y percent change)	13.9	14.5	16.3	20.3	3.3	3.5	3.5	3.5	3.5
Total external debt (in percent of GDP)	26.5	26.5	27.6	29.3	29.8	29.2	28.8	28.4	28.3
Gross official reserves (in mil U.S. dollars)	10,954	14,547	18,637	21,827	23,577	24,390	24,525	23,997	22,913
In months of prospective imports	9.3	11.4	12.4	12.4	12.1	11.6	10.7	9.7	8.7
As a share of broad money (in percent)	23.4	27.9	32.6	36.6	36.5	34.3	31.4	27.9	24.3
Net international reserves (in mil. U.S. dollars) 3/	10,509	14,016	18,031	21,226	23,029	23,906	24,120	23,687	22,672
Nominal GDP (in mil U.S. dollars) 4/	41,048	42,914	44,810	45,844	48,090	52,928	58,294	64,168	70,396

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 March 19, 2026.

Table 5. Nepal: Monetary Indicators, 2022/23-2030/31 1/

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
			Est.	Projections					
Nepal Rastra Bank	(In billions of Nepalese rupees, end-period)								
Reserve money	926	997	1,158	1,314	1,459	1,613	1,781	1,964	2,166
Net domestic assets	-514	-960	-1,401	-1,874	-2,053	-2,032	-1,891	-1,642	-1,293
Claims on public sector	3	-73	-118	-126	-140	-156	-174	-193	-214
Claims on private sector	7	9	8	8	9	9	11	12	13
Claims on banks & financial institutions	1	0	0	0	0	0	0	0	0
Other items (net)	-525	-896	-1,290	-1,756	-1,921	-1,885	-1,728	-1,461	-1,092
Net foreign assets	1,440	1,958	2,559	3,188	3,512	3,644	3,672	3,605	3,459
Monetary Survey									
Broad money	6,145	6,974	7,846	8,705	9,615	10,611	11,712	12,915	14,242
Narrow money	961	949	1,157	1,284	1,418	1,565	1,727	1,905	2,101
Quasi-money	5,184	6,025	6,688	7,421	8,197	9,046	9,984	11,010	12,141
Net domestic assets	4,683	4,946	5,140	5,471	6,051	6,907	7,975	9,240	10,716
Domestic credit	6,169	6,558	6,963	7,385	7,926	8,588	9,360	10,258	11,313
Credit to public sector	1,266	1,356	1,338	1,386	1,457	1,573	1,717	1,878	2,075
of which : Credit to central government	1,005	1,057	1,021	1,040	1,073	1,157	1,275	1,416	1,574
Credit to private sector	4,903	5,202	5,625	5,999	6,469	7,015	7,643	8,380	9,239
Other items(net)	-1,486	-1,612	-1,823	-1,913	-1,875	-1,681	-1,386	-1,018	-597
Net foreign assets	1,462	2,028	2,706	3,234	3,564	3,704	3,737	3,674	3,525
	(Twelve-month percent change)								
Reserve money	12.1	7.7	16.1	13.5	11.0	10.5	10.4	10.3	10.3
Broad money	11.6	13.5	12.5	11.0	10.5	10.4	10.4	10.3	10.3
Net domestic assets	7.5	5.6	3.9	6.4	10.6	14.1	15.5	15.9	16.0
Domestic credit	8.8	6.3	6.2	6.1	7.3	8.3	9.0	9.6	10.3
Credit to public sector	28.8	7.1	-1.3	3.6	5.1	7.9	9.2	9.4	10.4
Credit to private sector	4.6	6.1	8.1	6.6	7.8	8.4	9.0	9.6	10.3
Net foreign assets	27.3	38.7	33.4	19.5	10.2	3.9	0.9	-1.7	-4.1
Memorandum Items									
Private credit (in percent of GDP)	91.4	91.1	92.1	92.2	90.5	88.8	87.6	87.1	87.1
Net international reserves (in mil. U.S. dollars) 2/	10,509	14,016	18,031	21,226	23,029	23,906	24,120	23,687	22,672
Net Foreign Assets, NRB (in percent of GDP)	26.8	34.3	41.9	49.0	49.1	46.1	42.1	37.5	32.6
Nominal GDP (in billions of Nepalese Rupees) 3/	5,367	5,709	6,107	6,505	7,148	7,900	8,720	9,616	10,604

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 March 19, 2026.

Table 6. Nepal: External Financing Requirements and Sources, FY2024/25-2026/27 1/

(In Millions of U.S. Dollars)

	2024/25	2025/26	2026/27
		Proj.	Proj.
Gross external financing requirements	-4,150	-3,368	-1,189
Current account excluding official transfers (+ = deficit)	-2,822	-2,937	-567
Amortization of medium- and long-term debt	243	402	420
Other net capital flows (- = inflow) 2/	-1,572	-832	-1,042
Available financing	-3,279	-3,601	-1,189
Current and capital grants	256	344	608
Medium- and long-term borrowing excluding exceptional financing	599	673	1,253
FDI, net	54	101	106
Portfolio investment, net	0	0	0
Change in reserves (+ = decrease) 3/	-4,187	-4,719	-3,156
Financing Gap	-871	234	0
Exceptional/additional financing 4/	322	234	0
IMF: ECF arrangement	41.9	83.6	0
Asian Development Bank	0	150	0
World Bank	280	0	0
Memorandum items			
Gross official reserves (in millions of U.S. dollars)	18,637	21,827	23,577
In months of prospective imports	12.4	12.4	12.1

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 March 19, 2026.

Table 7. Nepal: Financial Soundness Indicators, 2020/21–2025/26 Q2

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 Q2
Capital Adequacy						
Regulatory capital to risk weighted assets	14.19	13.58	13.42	12.92	12.95	12.57
Tier 1 capital to risk weighted assets	11.12	10.81	10.59	10.20	10.13	9.58
Asset Quality						
NPLs to total gross loans	1.48	1.31	3.02	3.86	4.62	5.42
Loan loss provisions to NPLs	70.24	68.25	62.17	70.51	74.41	74.44
Deposits and Credits						
Credit to deposit ratio 1/	...	86.22	81.63	79.09	76.59	75.00
Credit to core capital cum deposit 1/	76.32	...	...	...	...	...
Liquidity						
Cash & bank balance to total deposits	9.51	8.03	8.05	7.43	8.00	10.52
Total liquid assets to total deposits	26.18	27.52	27.10	26.44	24.92	27.10
Exposure to Real Estate						
Share of real estate and housing loans	11.54	12.01	12.27	12.68	12.40	12.23
Share of loans collateralized by fixed assets	74.71	75.06	76.87	76.22	73.90	73.45
Revolving Loans						
Overdraft 2/	15.19	15.25	15.32	14.96	13.63	13.46
Demand & working capital loans	21.09	21.51	18.05	14.04	14.68	14.59

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 8. 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%
Total			282.42	180%

Source: IMF staff estimates.

1/ Nepal's quota is SDR 156.9 million.

Table 9. Nepal: Quantitative Performance Criteria (PC) and Indicative Targets (IT) 1/

(Cumulative Rs. Million unless Otherwise Indicated)

	FY2024/25				FY2024/25			
	13-Jan-25				15-Jul-25			
	Program target	Adjusted target	Outturn	Status	Program target	Adjusted target	Outturn	Status
Quantitative performance criteria under the ECF-supported program:								
Primary deficit of the federal government (ceiling; in NPR million) 1,3,4,6,7,10/	233,270	245,837	-18,701	met	256,943	254,543	121,298	met
Stock of NRB's net international reserves (floor; in U.S. dollars million) 1,8/	9,649	9,559	15,533	met	10,229	10,129	18,198	met
Accumulation of external payments arrears (ceiling) 2/	0	0	0	met	0	0	0	met
Indicative targets under the ECF-supported program:								
Indicative target: federal government spending on child allowance (floor; in NPR million) 5/	3,092	3,092	1,890	not met	6,987	6,987	6,936	not met
Indicative target: floor on tax revenue of the federal government 9,11/	392,743	392,743	424,698	met	902,288	902,288	908,678	met
Memorandum items:								
Revenues of the budgetary central government under the program (in NPR million) 1,3/	..				..		1,000,212	
Revenue targets of the budgetary central government (in NPR million) 1,3/	..				1,125,209			
Ceiling of primary deficit adjustor for revenue shortfalls (in NPR million) 6/	..				..			
Foreign-financed project loan disbursements (in NPR million) 1,3/	9,191		21,758		91,912		89,512	
Primary deficit adjustor for foreign-financed project loan disbursements (in NPR million) 1,3/	..		12,567		..		-2,400	

Sources: Nepali authorities; and IMF staff estimates/projections based on the Nepali fiscal year and calendar.

1/ The quantitative targets, indicative targets, program exchange rates and adjustors are defined in the Technical Memorandum of Understanding (TMU). Foreign currency deposits of commercial banks and other financial institutions held at the NRB are considered reserve related liabilities and excluded.

2/ This quantitative target is applied on a continuous basis.

3/ Cumulative from the beginning of the fiscal year.

4/ Excludes interest payments. The program primary deficit definition also excludes grants and other receipts from the revenue side, so figures in this table are higher than those reported in the macroeconomic framework.

5/ The social spending indicative target will initially be a floor on spending on the child protection grant. This indicative target will start in the second review with the test dates beginning in July 2022. The initial floor will be FY2020/21 outturns plus an additional amount to reflect the announced one third increase in budget.

6/ The program targets for the primary deficit include adjustors for the level of revenue collection. The upward adjustment to the ceiling is capped at NPR 61,009 million for the January 14, 2024 test date. The adjustor will be phased out starting at the July 15, 2024 test date.

7/ The program targets for the primary deficit include adjustors for foreign-financed project loan disbursements on concessional terms. Foreign-financed project loan disbursements is the difference between total external financing and budget support from development partners.

8/ NIR floor target for July 15, 2024 testing date is set about 0.8 months of imports above the adequacy level to provide margin in case of external shocks or if imports pick up faster than projected, while keeping reserves well above adequacy. The margin was gradually reduced to 0.6 months of imports for the targets.

9/ This is a program indicative target, not a revised target of the Budget. The Budget target remains NPR 1,248.620 million.

10/ Revenue sharing for province and local levels and other receipts are also excluded.

11/ Revenue sharing for province and local levels, nontax revenue and other receipts are also excluded.

Table 10. Nepal: Indicators of Capacity to Repay the Fund, FY2025/26-2038/39 1/

	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	2038/39
Fund obligations based on existing credit (millions of SDR)														
Principal	34.9	39.2	47.1	58.8	69.0	47.1	42.4	34.5	22.8	12.6	3.1	0.0	0.0	0.0
Charges and interest	2.9	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
Fund obligations based on existing and prospective credit (millions of SDR)														
Principal	34.9	39.2	47.1	58.8	69.0	47.1	48.6	40.8	29.0	18.8	9.4	0.0	0.0	0.0
Charges and interest	2.9	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
Total obligations based on existing and prospective credit														
Millions of SDR	37.9	42.4	50.2	62.0	72.2	50.2	51.8	43.9	32.2	22.0	12.6	3.1	3.1	3.1
Billions of Nepali Rupees	7.2	8.5	10.3	12.8	14.9	10.5	10.8	9.1	6.7	4.6	2.6	0.7	0.7	0.7
Percent of exports of goods and services	1.2	1.2	1.4	1.6	1.7	1.1	1.0	0.8	0.5	0.3	0.2	0.0	0.0	0.0
Percent of debt service	1.8	2.2	2.5	3.4	3.7	2.4	2.3	1.8	1.2	0.8	0.4	0.1	0.1	0.1
Percent of GDP	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	0.6	0.6	0.6	0.7	0.7	0.5	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Percent of quota	24.1	27.0	32.0	39.5	46.0	32.0	33.0	28.0	20.5	14.0	8.0	2.0	2.0	2.0
Outstanding IMF credit based on existing and prospective drawings														
Millions of SDR	407.9	368.7	321.6	262.8	193.8	146.7	98.0	57.3	28.2	9.4	0.0	0.0	0.0	0.0
Billions of Nepali Rupees	77.3	73.7	66.1	54.2	40.1	30.5	20.4	11.9	5.9	2.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	12.6	10.9	8.8	6.6	4.5	3.1	1.9	1.0	0.5	0.1	0.0	0.0	0.0	0.0
Percent of debt service	19.0	19.2	15.9	14.4	9.9	7.1	4.4	2.4	1.1	0.3	0.0	0.0	0.0	0.0
Percent of GDP	1.2	1.0	0.8	0.6	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Percent of government revenue	6.1	5.0	4.0	3.0	2.0	1.3	0.8	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of quota	260.0	235.0	205.0	167.5	123.5	93.5	62.5	36.5	18.0	6.0	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDR)														
Disbursements	27.8	-39.2	-47.1	-58.8	-69.0	-47.1	-48.6	-40.8	-29.0	-18.8	-9.4	0.0	0.0	0.0
Repayments and repurchases	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	0.0
	34.9	39.2	47.1	58.8	69.0	47.1	48.6	40.8	29.0	18.8	9.4	0.0	0.0	0.0
Memorandum items:														
Exports of goods and services (millions of SDR)	3,235	3,390	3,663	3,989	4,332	4,696	5,141	5,638	6,179	6,772	7,423	8,136	8,917	9,775
Debt service (billions of NPR)	406.9	384.0	416.3	377.1	406.6	428.0	463.1	501.0	543.5	592.1	649.8	709.8	784.5	862.4
Nominal GDP (at market prices, billions of NPR)	6,505	7,148	7,900	8,720	9,616	10,604	11,685	12,875	14,187	15,634	17,229	18,989	20,929	23,068
Government revenue (billions of NPR)	1,261	1,481	1,652	1,836	2,045	2,279	2,498	2,750	3,029	3,334	3,671	4,041	4,450	4,900
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 11. Nepal: Structural Benchmark Status and Modifications

(April 2025-May 2026)

Measure	Original Target Date	Status	Proposal
Cross-Cutting Institutional Reforms to Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption			
The MOF submits to Parliament amendments to modernize the NRB Law, addressing key recommendations of the 2021 Safeguards Assessments Report. ^{1/}	End-April 2025	Not met	
Revenue Mobilization			
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	Met	
Financial Sector Regulation & Supervision			
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". ^{2/}	End-December 2025	Not met, (completed with delay)	
Launch for 10 largest Banks in-depth onsite inspections assisted by independent international third-party auditors. ^{3/}	End-May 2025	Not met, (completed with delay)	
NRB completes in-depth on-site inspections for the 10 largest Banks, assisted by independent international third-party auditors. ^{4/}	End-December 2025	Met	
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. ^{5/}	End-October 2025	Not met (part of prior action)	
The MOF submits to Parliament amendments to the NRB Act, addressing certain recommendations of the 2021 Safeguards Assessments Report, as included in the draft law reviewed in June 2025, in the areas of the NRB mandate, governance and oversight, financial and personal autonomy, and transparency and accountability, and key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report.		Pending	Prior Action

^{1/} 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.

^{2/} This SB corresponds to the end-August 2023 SB that was met by issuing updated regulations, but later partially reversed.

^{3/} 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 5th review to end-May 2025.

^{4/} 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 5th review to end-December 2025.

^{5/} This SB corresponds to the end-April 2025 SB that was not met and was reset at the 6th review to end-October 2025.

Annex I. Implementation of Main Recommendations of the 2023 Article IV Consultation¹

2023 Article IV Recommendations	Policy Actions Since 2023 Article IV Consultation
Fiscal Policy	
Undertake gradual, growth-friendly fiscal consolidation anchored in prudent budgets.	- Adopted FY2023/24, FY2024/25, and FY2025/26 budgets that kept deficits within ECF guardrails. All QPCs on primary budget deficit of the federal government and all ITs (except one) on federal tax revenues were met. - Developed and approved a comprehensive Domestic Revenue Mobilization Strategy (DRMS) in June 2024 to underpin medium-term growth-friendly consolidation. - Published comprehensive tax expenditure report in 2025 to guide removal of inefficient tax exemptions.
Rationalize recurrent spending and upgrade public investment management.	- Starting with the FY2023/24 budget, introduced measures to curtail spending duplication with subnational governments. - Approved a PIMA-based action plan to improve the efficiency of public investment and integrate climate resilience into project appraisal. Adopted the 16th Plan in 2024, which incorporates steps from the PIMA-based action plan. - Approved the revised National Project Bank (NPB) guidelines for project identification, appraisal, selection, and prioritization. Started integrating the NPB Management Information System with the Line Ministry Budget Information System to ensure a consistent pipeline and more strategic capital budgeting.
Strengthen fiscal transparency, PFM, and debt management.	- Implemented cash-flow forecasting shared regularly between FCGO, PDMO, and NRB. - Started consolidating extra-budgetary units (EBUs) into the central accounts: FCGO increased the number of federal and provincial EBUs included in the financial statement from 99 EBUs in FY2023/24 to 149 EBUs in FY2024/25, supported by amendments that strengthen its authority to request information from line ministries and subnational governments. - Strengthened transparency and corporate governance of public enterprises (PEs): 16 of 20 wholly-owned PEs and 19 of 20 majority-owned PEs published FY2022/23 statements or ceased operations, and the four priority non-financial PEs had FY2022/23 accounts audited.
Enhance management of fiscal risks and better target social support.	- Implemented a fiscal risk registry and subsequently published both a fiscal risk section in the FY2024/25 Fiscal Policy Statement and a comprehensive fiscal risk statement after the FY2025/26 budget, covering PPPs and government guarantees. - Continued development of the National Social Registry (NSR) to better identify low-income households and enable more targeted social transfers. - Protected and somewhat re-targeted social spending in the FY2025/26 budget by maintaining the child grant program in the 25 poorest districts, expanding the school midday-meal program, strengthening nutrition and maternal health benefits, and raising the eligibility age for the senior allowance to contain costs.
Monetary Policy	
Maintain a cautious, data-driven monetary policy stance consistent with the exchange-rate peg.	Conducted monetary policy with the primary objective of maintaining price and external stability under the Indian rupee peg, using the policy rate and interest rate corridor (IRC) to keep inflation near the NRB's target while preserving FX reserve buffers.
Strengthen the monetary policy operating framework and liquidity management.	- Operationalized the interest rate corridor by introducing intraday and overnight lending facilities and a Standing Deposit Facility (SDF), using repos/reverse repos and deposit auctions more actively for liquidity management, and operating the interbank rate within the IRC. Gradually narrowed the IRC and made it symmetric. - Used improved government cash-flow forecasts (shared among FCGO, PDMO, and NRB) to better coordinate fiscal cash management and NRB's liquidity operations.

¹ Prepared by Yaroslav Hul.

2023 Article IV Recommendations	Policy Actions Since 2023 Article IV Consultation
Avoid distortionary import and exchange restrictions when addressing external pressures.	- Committed not to re-introduce import and exchange restrictions akin to those introduced in 2022. - Addressed legacy exchange restrictions and multiple-currency practices, including relaxing restrictions on the exchange rate used for remittance transactions and salary transfer of non-resident foreign nationals, in the context of easing Article VIII restrictions.
Financial Sector Policies	
Reinforce prudential regulation, supervision, and the macroprudential toolkit. Proactively address asset-quality risks and strengthen crisis-management tools.	- Implemented the Supervisory Information System (SIS) for class A, B, and C banks (excluding the on-site module), and the on-site module of the SIS for class A banks. - Aligned Nepal's loan classification and provisioning standards with Basel guidance through an updated Asset Classification Regulation (ACR). - Completed loan portfolio review (LPR) of the ten largest banks, with in-depth on-site inspections conducted by international third-party auditors. - In process of implementing the Post-LPR Roadmap to guide banks back to regulatory capital compliance as well as an Action Plan to enhance the NRB's supervisory approach to incorporate lessons learned from the LPR exercise. - Amendments to the NBR Act that address many key relevant gaps in the current in the bank resolution framework in line with the recommendations of the 2023 Financial Sector Stability Report are in the process of being submitted to Parliament. - Required banks with NPL levels in excess of 5 percent of gross loans to submit comprehensive NPL management strategies to the NRB. - The related party lending provisions are being reformed. - Relaxed the Working Capital Loan (WCL) Guidelines in February 2026 in response to temporary market weakness, which had previously been tightened to prevent misuse.
Reform directed lending and credit-guarantee schemes while tightening oversight of non-bank entities.	- Launched review of the current directed lending requirement to better target productive sectors. However, this resulted in an expansion of sectors subject to directed lending targets though not an expansion of the overall level of bank portfolios affected. - Launched a comprehensive restructuring of the SACCOs framework: The National Cooperatives Regulatory Agency (NCRA) became operational in 2025 and is developing a licensing, reporting, and supervisory framework for these entities. - Initiated reforms of the Deposit and Credit Guarantee Fund (DCGF) to improve risk sharing and reduce contingent liabilities.
Structural Policies	
Improve the business and investment climate to crowd in private and foreign investment. Boost productivity and support a greener, more resilient growth model.	- Adopted the Bill on Facilitating Investment, amending legal acts to simplify business registration and compliance, streamline FDI approvals, ease land acquisition for investment projects, and relax restrictions on investments in forest areas. Passed additional five laws to enhance governance, advance privatization, reduce regulatory bottlenecks, strengthen fiscal discipline, and improve oversight of SACCOs. - Developed a 3-year action plan based on recommendations from the High-Level Economic Reform Commission, which includes 408 measures to improve macro fundamentals, restore private-sector confidence, and strengthen institutional capacity. - To ensure policy continuity, interim government prepared a handover blueprint for the new administration outlining ongoing and pending governance reforms.
Strengthen the AML/CFT framework, governance and anti-corruption institutions.	- Amendments to the NRB Act strengthening NRB's autonomy and governance practices, with a view of implementing the recommendations of the 2021 Safeguards Assessment (SGA), is in the process of being submitted to Parliament. - Audited FY2021/22 and FY2023/24 NRB's financial statements, with the service of experts with international experience in central bank auditing. - Implemented most of non-NRB Act-related 2021 SGA recommendations. - Amended the Assets (Money) Laundering Prevention Act (ALPA) in 2024 and again in early 2025, and enacted secondary regulations, to address deficiencies identified by the APG and FATF and bring the AML/CFT legal framework in line with international standards.

2023 Article IV Recommendations	Policy Actions Since 2023 Article IV Consultation
	• Modernized the anti-corruption legal framework by passing amendments to the Prevention of Corruption Act (2002) and submitting amendments to the CIAA Act (1991) to Parliament, expanding CIAA's jurisdiction over Cabinet decisions and reinforcing procurement oversight.

Annex II. Performance and Lessons Learned Under the 2022-26 ECF Program¹

Amidst a challenging macroeconomic environment and frequent political changes, the ECF program remained on track and helped enhance macroeconomic stability and catalyze critical reforms. The ECF program highlighted the importance of navigating shocks—both political and natural disasters, engaging with a broad spectrum of stakeholders, and integrating CD with program objectives in delivering results. Post-program, it will be critical to build on the foundations of structural reforms implemented during the program and carry forward more in-depth reforms, including on the governance framework to achieve durable and inclusive growth.

A. Program Context and Performance

1. The ECF Program was approved amidst the Covid-19 pandemic. Nepal was severely impacted by the pandemic as domestic activity and tourism plummeted, resulting in fiscal and external financing needs. The program was approved in January 2022 with the objective of mitigating the impact of the pandemic and protecting vulnerable groups; preserving macroeconomic and financial stability; supporting the reform agenda for sustained growth and poverty reduction; and catalyzing additional financing from development partners.

2. Program performance has been adequate with improved macroeconomic prospects. Growth has more than doubled from 2 percent in FY2023 to above 4 percent in FY2025. Inflation has declined from over 7 percent at the beginning of the program and was below the NRB's target in FY2025. Fiscal deficits widened initially due to the impact of the pandemic but have since declined gradually, helping stabilize public debt at a low risk of debt distress. More significantly, the current account balance has improved from a large deficit at the onset of the program to a surplus, leading to about one year of import coverage and helping to support the exchange rate peg (Panel A). The authorities have met all quantitative performance criteria (PCs) and continuous PC under the program (Table A). The indicative target (IT) on tax revenue was met except for the fifth review. Despite these achievements, the IT on child grant spending was missed multiple times during the program, albeit by a small margin.² However, all eligible children who applied received the grant as the authorities had buffers in the budget in case they underestimated the number of applicants. Having this IT in the program has highlighted the need to take a deeper look into the social protection efforts. As a result, the authorities are finalizing a new budget code for all social programs targeted towards children including the welfare payments. This will help the authorities to accurately assess the overall benefits for children and identify areas where improvement can be made, including whether the per-beneficiary allowance could be increased or coverage expanded by increasing the districts covered and/or expanding the eligibility criteria within districts.

¹ Prepared by Arpitha Bykere.

² The grant targets 0–5 year-olds in 25 districts with the lowest socio-economic indicators and all Dalit children nationwide.

3. Structural benchmarks (SBs) under the program have laid the foundation of reforms critical for economic development. The authorities have made progress in implementing SBs on fiscal structural reforms, sequenced financial sector regulation and supervision reforms, and governance and institutional reforms (Table B). Examples include:

- Fiscal framework and transparency have advanced with the DRMS, fiscal risk statement, and tax expenditure report. Public investment management has been strengthened through the PIMA Action Plan and enhanced National Project Bank guidelines.
- Financial sector oversight has improved with the rollout of the Supervisory Information System, and completion of the LPR. This will be further strengthened by the reform of the bank resolution framework in the NRB Act (this reform is still ongoing).
- Governance, financial integrity and transparency have been strengthened through upgrades to the AML law, improvements to the NRB's institutional framework in the NRB Act (this reform is still ongoing), enhanced external auditing of the NRB, and improved accountability of public enterprises and extra-budgetary units.

4. Discussions with the authorities helped to implement reforms that went beyond explicit program conditionality. For example, monetary operations have been modernized through an operational interest rate corridor and clearer signaling, with the help of CD. Financial sector supervision has been strengthened through a framework for identifying Domestically Systemically Important banks, Expected Credit Loss guidelines under the Nepal Financial Reporting Standard 9 (NFRS9), and a new regulatory framework for SACCOs. Enactment of the Public Debt Management Act has strengthened and consolidated debt management functions in the Public Debt Management Office. The authorities have removed a long-standing exchange restriction on the salaries of non-resident foreign nationals and reduced the number of currencies that are affected by official action and subject to monitoring under the multiple currency practices (MCP) policy. Similarly, the authorities are undergoing the IMF Governance and Corruption Diagnostic (GCD) which is well aligned with the objective of identifying governance vulnerabilities in multiple areas, although the GCD was not an SB.

B. Key Lessons from the Program

5. The program is an anchor for macroeconomic stability amidst shocks. Since the onset of the program, Nepal has weathered successive domestic and external shocks. This includes the Covid-19 pandemic, the 2022 oil price shock, several natural disasters, including the November 2023 floods and September 2024 earthquake, and the September 2025 social unrest that led to a fall in the government. In addition, Nepal has faced political uncertainty due to frequent changes in the government. Despite these shocks, growth continued to recover gradually, and fiscal and external buffers continuously increased, with the economy on a stronger foothold at the end of the program (Section A). QPCs and ITs under the program have provided an anchor against these shocks and increased resilience.

6. Broad engagement with stakeholders matters amid political volatility. The program has remained on track in the face of a challenging political environment. Staff have worked with seven governments during the seven reviews. Transitions in government have sometimes delayed the reform momentum, but the program was always on-track.³ Early engagement with new governments on program objectives, targets and SBs, and potential economic benefits helped maintain policy continuity. In addition to regular staff visits and review missions, strong policy dialogue was maintained through virtual meetings between HQ and the authorities, and regular check-ins through the Resident Representative Office. These were augmented with policy recommendations notes to help the authorities weigh in on possible policy options and compare cross-country experiences. Maintaining a strong dialogue on reforms with development partners, private sector, and civil society also helped to get broader consensus.

7. The Fund-supported program has played an important catalytic role in mobilizing external financing. The Debt Sustainability Analysis—assessing a low risk of debt distress—along with IMF Assessment Letters and Staff Reports, have informed lending decisions by the World Bank and the ADB and supported continued access to concessional financing and budget support. Consistent with this, disbursements from these development partners increased during the program period compared to the pre-program period. This close coordination has facilitated timely disbursements and helped ease external financing pressures.

8. CD plays a critical role in supporting program implementation. Capacity constraints and high staff turnover have been one of the challenges in program implementation and CD delivery. Since the inception of the program, extensive CD has been delivered through HQ and SARTTAC in fiscal, monetary and financial, governance, and external sector statistics areas (Annex VIII). CD delivery has supported the implementation of SBs as well as other critical reforms beyond the SBs. For instance, FAD and SAARTAC have conducted several missions to support the development of the DRMS and fiscal risk statement to enhance fiscal sustainability. FIN and LEG have held several missions to support drafting amendments to the NRB Act to strengthen NRB's governance. LEG has supported legal drafting for implementing the UNSCRs to help exit the FATF grey list.

9. Notwithstanding program achievements thus far, durable growth and strong job creation will require continued and deeper structural reforms. A key element of in-depth structural reforms requires laying the foundations for enhancing good governance. In this context, the authorities are undergoing a GCD exercise for Nepal. The exercise focuses on four key state functions—fiscal governance, financial sector oversight, AML/CFT, and rule of law—and paves way for reforms to reduce governance and corruption vulnerabilities and improve accountability. Once the vulnerabilities are identified, an Action Plan by the authorities will be needed to address these vulnerabilities and improve institutional credibility. Reforms are also needed to create employment opportunities, particularly for the youth and in strategic sectors, by improving human capital and private sector business environment.

³ The extension of the program was partly due to the transitions in the government.

10. Macroeconomic policies have better outcomes when supported by governance

reforms. SBs under the program have supported governance reforms in several areas: The PIMA Action Plan, revised National Project Bank guidelines, and tax expenditure report have enhanced fiscal governance; amendment to the AML law has strengthened the AML/CFT governance framework; and external audit of the NRB and amendments to the NRB Act (this reform is still ongoing) would strengthen central bank governance. The recent social unrest underlines the need for further strengthening governance and anti-corruption frameworks to achieve better macroeconomic outcomes and durable and inclusive growth. The completion and publication of the GCD report in 2026 will provide a pathway to assess and address governance and corruption weaknesses.

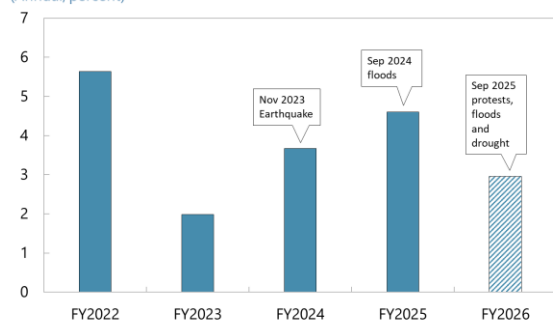
11. Reforms need to be sustained beyond the program to have sustained impact. To safeguard the hard-won macroeconomic stability under the program and achieve sustainable and inclusive growth, it is critical to maintain the reform momentum after the completion of the program. It is imperative to continue to fully implement the structural reforms introduced during the program—examples include the DRMS, National Project Bank Guidelines, and PIMA Action Plan. The authorities should build on the tax expenditure report and fiscal risk statement to reinforce fiscal sustainability. Following the completion of the LPR—the first in more than a decade—it is essential to implement the post-LPR roadmap and the remaining FSSR recommendations to safeguard financial sector stability (Annexes IV and VII).

Annex II. Figure 1. Nepal: Macroeconomics Performance under ECF Program

After the post-credit boom slowdown in FY2022/23, nascent growth recovery has been interrupted by successive shocks.

Real GDP Growth

(Annual; percent)

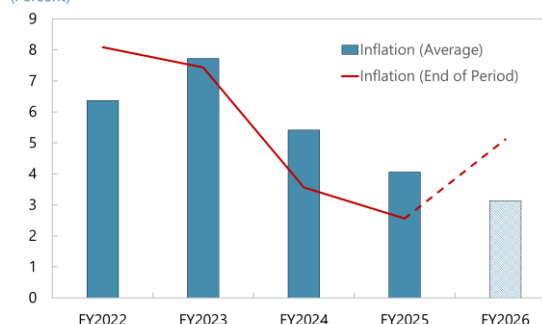


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 data is projection.

Inflation has eased post FY2023, supported by soft domestic demand and favorable price dynamics in India but could reverse due to oil price shocks.

CPI Inflation

(Percent)

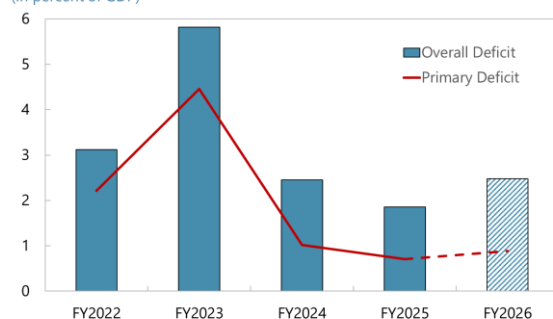


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

Expenditure controls helped to narrow the fiscal deficit post FY2022/23...

Fiscal Balance

(In percent of GDP)

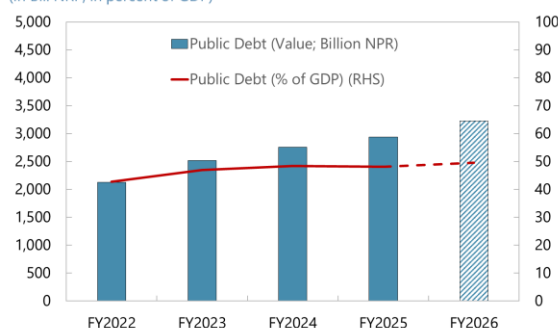


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

...which helped to slow the pace of debt accumulation after a sizable rise in the debt-to-GDP ratio in FY2022/23.

Public Debt

(In Bil. NPR, in percent of GDP)

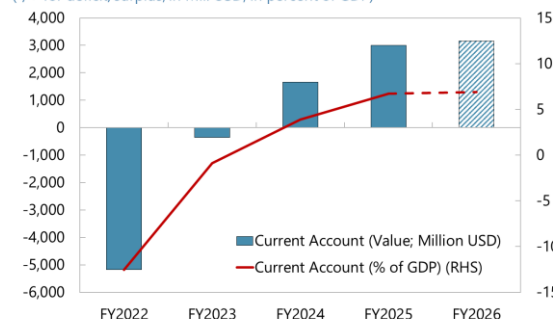


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

The current account balance reversed course during the program due to weak imports and buoyant remittances...

Current Account

(-/+ for deficit/surplus; in Mil. USD; in percent of GDP)

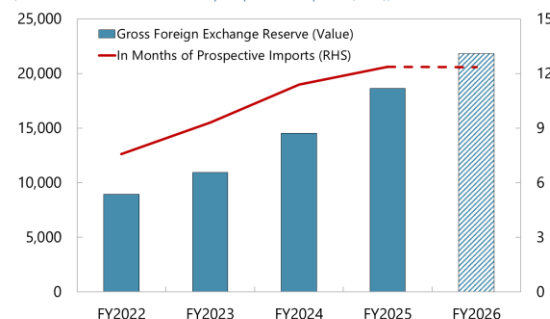


Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

...which contributed to a significant buildup of reserves, with import coverage of about 12 months.

Gross Foreign Exchange Reserves

(In Mil. USD and in months of prospective imports (RHS))



Sources: Nepali authorities; and IMF staff estimates and projections.
Note: FY2026 is projection.

Annex II. Table 1. Nepal: Performance of Quantitative Performance Criteria and Indicative Targets under ECF Program 1/

Review Test-date	1st Jan-22	2nd Jul-22	3rd Jul-23	4th Jan-24	5th Jul-24	6th Jan-25	7th Jul-25
Quantitative Performance Criteria (QPC):							
1. Primary deficit of the federal government (ceiling; in NPR million) 2/				Met	Met	Met	Met
2. Stock of NRB's net international reserves (floor; in U.S. dollars million)	Met	Met	Met	Met	Met	Met	Met
3. Accumulation of external payments arrears (ceiling)	Met	Met	Met	Met	Met	Met	Met
Indicative Targets (IT):							
1. Primary deficit of the federal government (ceiling; in NPR million) 2/	Met	Met	Met				
2. Indicative target: federal government spending on child allowance (floor; in NPR million) 3/		Met	Not Met	Not Met	Not Met	Not Met	Not Met
3. Indicative target: floor on tax revenue of the federal government 4/					Not Met	Met	Met
Sources: Nepali authorities; and IMF staff estimates/projections based on the Nepali fiscal year and calendar.							
1/ For details on the QPC and IT, please refer to Table 8.							
2/ During the fourth review, the primary deficit target was changed from IT to QPC.							
3/ This indicative target was added in the second review.							
4/ This IT was added in the fifth review.							

Annex II. Table 2. Nepal: Progress on Structural Benchmarks (SBs) under ECF Program

Review	1st and 2nd	3rd	4th	5th	6th	7th
Fiscal Reforms	Publish customs tax exemptions	- Develop fiscal risk register - Develop government cash flow forecasting to be shared regularly with PDMO and NRB - Publish non-customs tax exemptions	Approve domestic revenue mobilization strategy	- Audit financial statement of four priority public enterprises for FY2023 - Publish financial statement of public enterprises 2/	- Publish fiscal risk statement - Publish tax expenditures report - Approve domestic and import tax expenditures reports	Adopt Customs Compliance Improvement Strategy
Financial Sector Reforms	- Enhance bank reporting template to monitor Covid impact - Approve Action Plan for implementing bank Supervisory Information System (SIS)	Implement SIS for Class A, B, C banks	Implement onsite module of SIS for Class A banks	Request for Proposal specifies LPR to be based on Basel standards 1/	- Procure independent international consultant for LPR 1/ - Finalize post-LPR roadmap	- Complete onsite LPR for 10 largest banks - Launch LPR for 10 largest banks - Realign asset classification regulation with Basel guidelines - Submit NRB Act amendments on bank resolution framework to Parliament 5/
Institutional and Governance Reforms	- Publish Covid-related government expenditure - Publish Covid-related health procurement 1/ - External audit of NRB's FY2022 financial statement - Issue Poverty Reduction and Growth Strategy Paper	Approve PIMA Action Plan	- Amend AML Law - External audit of NRB's FY2024 financial statement	- External audit of NRB's FY2025 financial statement - Revise National Project Bank Guidelines - Report all extra-budgetary units in annual financial statement 3/ - Submit Safeguards Assessment amendments to NRB Act to Parliament 4/		
Sources: Nepali authorities; and IMF staff.						
Color code: ■ SB met; ■ SB not met, completed with delay; ■ SB not met.						
1/ These SBs were prior action.						
2/ 16 out of 20 wholly-owned and 19 out of 20 majority-owned public enterprises published the FY2023 financial statement or discontinued operations, helping improve corporate governance practices.						
3/ Although the SB is not met, progress has continued on including additional extra-budgetary units (EBUs) at the federal and provincial level in the financial statement: The number of EBUs included has increased from 99 in the FY2024 financial statement (for which the SB was due) to 149 EBUs in the FY2025 financial statement. Amendments to the Financial Procedures and Fiscal Responsibility Act in 2025 has strengthened FCGO's authority to request such information from line ministries and subnational government.						
4/ Draft amendments include advancements to strengthen NRB's mandate, governance, financial and personal autonomy, and accountability practices. Although amendments fall short of best practices, such as on the Finance Secretary's presence on NRB Board as voting member, several safeguards are incorporated to mitigate such influence and reinforce NRB's autonomy.						
5/ Once the prior action for the seventh review on submitting the NRB Act amendments related to safeguards assessment and bank resolution framework to Parliament is completed, this SB will be considered as completed with delay.						

Annex III. External Sector Assessment^{1,2}

Overall Assessment: Nepal's external position in FY2024/25 was substantially stronger than the level implied by fundamentals and desirable policies. Continued weak domestic demand combined with robust remittance inflows led the current account surplus to further strengthen to 6.7 percent of GDP, up from 3.9 percent in FY2023/24. Although import recovery has continued since last year—and is expected to pick up further through FY2025/26 on the back of higher reconstruction-related capital spending—the current account is still projected to record another surplus in FY2025/26. Over the medium term, as economic activity gradually normalizes and the surge in remittances moderates, the EBA-lite estimated current account gap is expected to narrow toward zero, bringing the external position closer to levels implied by fundamentals and appropriate policies. Foreign exchange reserves have continued to increase and remain at adequate levels, providing support to the exchange rate peg to the Indian rupee and offering a buffer against Nepal's structural external vulnerabilities, including frequent natural disasters and high dependence on remittance inflows. We also note that the Nepal's external sector assessment is subject to uncertainty due to large net errors and omissions in balance of payment data.

Potential Policy Responses: Growth friendly gradual fiscal consolidation over the medium-term, 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. 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. It is important to continue strengthening external sector data to better capture balance of payments pressures.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net IIP was estimated at USD 5,704 million (12.6 percent of GDP) at end-FY2024/25 (mid-July 2025). As in many developing economies, the bulk of Nepal's external assets—about 90 percent—consists of reserve assets held by the Nepal Rastra Bank (NRB). External liabilities are dominated by concessional loans from multilateral and bilateral sources (67 percent of total liabilities), while foreign direct investment (FDI) remains relatively low at 15.9 percent, reflecting a weak business climate and barriers to cross-border investment. The net IIP increased from USD 2,288 million (5.6 percent of GDP) in FY2023/24, driven by a continued current account surplus. The consecutive increases in the IIP over the past three years mark a reversal of the earlier multi-year trend, when the net IIP fell from 17 percent of GDP in FY2015/16 into negative territory by FY2021/22, largely due to persistent and sizable current account deficits.

¹ Prepared by Melih Firat.

² The assessment is based on FY2024/25 (mid-2025) data for Nepal and end-2025 (forecasted) data for other countries.

Assessment. Nepal's net IIP is likely to continue rising in FY2025/26, given the projected current account surplus. At present, the absolute net IIP remains on an improving trajectory, with no immediate sustainability concerns.

FY2024/25
(% GDP)

NIIP: 12.6

Gross Assets:
47.2

Debt Assets: 0.0

Gross Liab.:
34.6

Debt Liab.:
24.9

Current Account

Background. After seven years of current account deficits between FY2017 and FY2023, Nepal recorded surpluses in the last two consecutive years. The deficit during the pandemic era reflected accommodative monetary policy, a credit and real estate boom, and elevated commodity prices. Subsequent policy responses—including monetary tightening, the unwinding of pandemic-era

Nepal: Current Account Dynamics

(In percent of GDP)



Sources: Nepali authorities and IMF staff calculations.

financial sector support, and import restrictions—helped halt the credit boom, particularly in import-related sectors, while low execution of public capital spending further contributed to the narrowing of the deficit. More recently, the post-pandemic recovery in tourism, the strong rebound in remittances, and a surge in exports supported the external position, leading to current account surpluses of 3.9 and 6.7 percent of GDP in FY2023/24 and FY2024/25, respectively.

Assessment. Reflecting the continued strengthening of the surplus in FY2024/25, the EBA-lite CA model indicates a current account gap of 8.8 percent of GDP, with an adjusted CA surplus of 4.7 percent of GDP relative to an adjusted CA norm of -4.1 percent of GDP. The CA gap estimate remains subject to uncertainty related to public and private capital expenditure execution and issues with respect to data quality. The cyclical CA adjustment in FY2024/25 was relatively small, reflecting the

negative output gap, broadly similar to the previous year. Remittances and tourism have recovered from the pandemic lows, and the COVID-19 adjustors are now set to zero. A natural-disaster adjustor is applied following the September 2024 flooding, which temporarily disrupted imports. Looking ahead, the CA gap is

Nepal: EBA-lite Model Results, 2025

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	6.7	
Cyclical contributions (from model) (-)	0.2	
Natural disasters and conflicts (-)	1.8	
Adjusted CA	4.7	
CA Norm (from model) 2/	-4.1	
CA Gap	8.8	-8.4
o/w Relative policy gap	-4.5	
Elasticity	-0.1	
REER Gap (in percent)	-69.7	66.7
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

expected to remain strong in FY2025/26 before gradually narrowing toward zero over the medium term, driven by a recovery in import growth as public project implementation accelerates and capital expenditure and credit growth rise.

Real Exchange Rate

Background. Following a period of sustained appreciation during 2014–2017, Nepal's real effective exchange rate (REER) remained broadly stable between 2018 and 2022, including throughout the COVID-19 pandemic. However, the REER appreciated again in FY2022/23 and FY2023/24, and continued to rise in FY2024/25 by about 0.5 percent, despite a modest 0.6 percent nominal depreciation of the Nepali rupee against the U.S. dollar, as domestic inflation exceeded that of Nepal's main trading partners, India and China. The Nepali rupee depreciated further against the U.S. dollar during the first three months of FY2025/26, while inflation in Nepal has remained higher than in its trading partners.

Assessment. The REER appreciation in FY2024/25 is consistent with the EBA-Lite CA model's finding of a large positive current account gap. By contrast, the EBA-Lite IREER model estimates a 66.7 percent REER gap relative to its equilibrium level, implying a negative CA gap. This inconsistency arises because the FY2024/25 current account surplus was driven primarily by non-price factors, including weaker-than-expected imports due to delays in public investment and low capital expenditure execution, a slowdown in credit amid rising financial sector vulnerabilities, and strong growth in remittances. Given the dominant role of non-price factors, the CA model serves as the primary anchor for the external position assessment in FY2024/25. Using the standard trade balance elasticity with respect to the REER of -0.13 , the CA model implies that the REER would have needed to appreciate by 70 percent to close the CA gap, indicating that the external position was substantially stronger than implied by fundamentals and desirable policies.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account remains largely closed, and portfolio flows are negligible. Net capital and financial account inflows nonetheless increased substantially from 0.3 percent of GDP in FY2015/16 to 6.5 percent of GDP in FY2021/22, driven mainly by higher official loan disbursements and trade credit inflows (1.9 and 2.2 percent of GDP, respectively). Since then, net inflows have trended downward, with declines in both gross inflows and outflows, although gross inflows fell more sharply. As a result, net inflows decreased to 2 percent of GDP in FY2024/25, reflecting in particular a drop in the absorption of concessional external financing (official loans). Official loans from multilateral sources are expected to remain robust in the coming years, supporting Nepal's socio-economic development, while financing from bilateral sources remains subject to geopolitical uncertainties. External borrowing by banks, other sectors, and non-resident deposits also declined in FY2024/25, possibly linked to the easing trend in domestic monetary policy. FDI remained limited at just 0.12 percent of GDP in FY2024/25, with no clear signs of improvement in FY2025/26.

Assessment. As Nepal's financial account remains mostly closed and financial inflows are dominated by long-term concessional loans from multilateral and bilateral development partners, vulnerabilities associated with capital flows are limited.

FX Intervention and Reserves Level

Background. Nepal is a landlocked economy that relies heavily on India for trade. Under the bilateral trade treaty, Nepal can settle trade with India in Indian rupees, and foreign direct investment from India can also be made in Indian rupees. Around one-quarter of Nepal's official reserves are held in Indian rupees. Reserves declined 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 widened sharply. Following monetary tightening and other policy measures, reserves stabilized, and the recent surge in remittances together with weaker-than-expected imports contributed to an upward trend, with reserves reaching US\$19.4 billion in mid-October 2025 (10.6 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 weighs the benefits of holding reserves—such as reducing the probability and severity of external stress events—against the opportunity cost, assuming a sovereign borrowing rate of 6.2 percent, the average for low-income countries. The model implies an optimal reserve level of about 5 months of prospective imports. Given Nepal's high vulnerability to natural disasters and its dependence on remittances, a modification of the ARA methodology increases the optimal level to 5.7 months, incorporating an additional absorption loss of 2 percent of GDP, equivalent to the 90th percentile of recent natural disaster damage and remittance shocks. This estimate remains unchanged from the previous ESA, despite lower-than-expected imports in FY2024/25, as the import recovery continued in the first quarter of FY2025/26 and is expected to accelerate over the remainder of the fiscal year.

Annex IV. Financial Sector Governance: Loan Portfolio Review (LPR) and Post-LPR Approach¹

The recently completed LPR identifies asset quality weaknesses that would require sequenced corrective measures to ensure continued financial stability. This annex focuses on these corrective measures steps to strengthen supervision. Staff recommend that NRB: (i) ensure banks adhere to regulatory guidelines, (ii) close any identified regulatory gaps, and (iii) further align loan classification with international standards. Staff also urge the NRB to make any necessary refinements to the post-LPR Roadmap to ensure that banks achieve capital compliance in a timely manner.

- 1. In April 2025, the NRB developed, in consultation with IMF staff, the “Post Loan Portfolio Review (LPR) Roadmap.”** This roadmap lays out a post-LPR adjustment approach that was crafted given full consideration of the existing legal and regulatory framework currently in place in Nepal. Under this approach, the ten banks will be grouped according to the impact the reclassification has on their capital levels and subject to corrective actions accordingly.
- 2. The Roadmap envisions that the NRB will issue instruction letters to the ten banks after receiving the Consolidated Loan Portfolio Review Report.** This will entail an urgent focus on bringing non-compliant banks up to a 6 percent Tier-1 capital level and 8.5 percent CAR within six months of the NRB issuing its instructions (July 2026). This will then be followed by having the banks return to 8.5 percent Tier-1 and 11 percent CAR within one year thereafter (July 2027). The NRB is encouraged to reassess the viability of these timelines given the magnitude of capital needs identified in the LPR report. It is reasonable to expect that multiple banks attempting to raise substantial amounts of capital simultaneously will tax the capacity of investors. This challenge will be compounded when the NRB rigorously examines the loan portfolios of other banks.
- 3. The NRB will require the banks to submit time-bound NPL Resolution Strategies.** These plans should be designed in a manner that takes into account obstacles to NPL recovery, reasonable recovery targets, and write-offs when necessary. The NRB will review and approve the plans and will monitor progress in their implementation.
- 4. In light of the findings of the LPR exercise, the NRB is developing an Action Plan to improve its supervisory processes in a manner that incorporates the qualitative findings of the report.** As the LPR also provides qualitative observations on bank credit practices and regulatory approaches, staff advise the NRB to use these to enhance the supervisory approach, enabling it to better assess bank asset quality and capital strength going forward. A failure to address current practices will result in ongoing asset quality weaknesses in the system, leading to persistently high NPL levels, and weak bank capitalization. The NRB should instruct banks, via a circular, to improve on the shortcomings in credit practices that are identified in the disseminate the qualitative section findings of the report, via a circular, which identify common shortcomings in bank credit practices and require improvements. The NRB needs to capitalize on the thorough analysis of

¹ Prepared by Paul Leonovich.

the auditors to ensure better credit underwriting standards, borrower adherence to loan terms and conditions including repayment schedules, and prompt action to address payment arrears.

5. The NRB should take concrete steps to align its regulatory framework with BCBS standards, particularly in the area of asset classification. This will ensure that problem assets are appropriately classified based on their expected repayment and that NPLs meet an appropriate (3 month) period of performance prior to being reclassified to performing credits. The NRB needs to ensure strict compliance with its regulatory requirements to mitigate the further buildup of NPLs in the banking sector.

6. Importantly, the NRB needs to end the practices of evergreening of loans and of any excessive lending to related parties. Evergreened loans currently outstanding should be reclassified to NPL status with banks compelled to accurately provision against them and charge capital accordingly. The NRB should also follow international standards related to large exposures and related party transactions. This will create a more equitable and stable banking system in Nepal, directing credits toward the financing of productive economic endeavors.

Annex V. Risk Assessment Matrix^{1,2}

Source of Risks	Likelihood / Time Horizon	Expected Impact	Policy Response
Domestic Risks			
Intensification of financial sector vulnerabilities	High Short to Medium Term	High. 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.	• Continue implementing risk-based supervision to limit potential financial sector consequences. • 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. • Take structural actions to address increasing stress in the savings and credit cooperative sector, to prevent negative spillovers to the banking sector. • Continue implementation of the financial sector reforms under the program. • Protect fiscal policy space to allow for an appropriate response to downside risks. • Implement FSSR recommendations.
Frequent and/or severe natural disasters	High Medium to Long term	High. 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.	• Improve disaster risk management and resilience in public investment and building codes. • Build and maintain fiscal and reserve buffers. • Maintain and strengthen social safety nets. • Implement recommendations from the climate module of the PIMA. • Accelerate enacting recommendations of the CCDR on reducing vulnerability to climate change while promoting growth.
Lower than expected tax revenue collection	High Short to Medium Term	Medium. Cuts to public expenditure, reduced fiscal space, and/or higher public debt.	• Implement the DRMS. • 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.

¹ 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 views 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.

² The RAM was coordinated by Yaroslav Hul.

Lower than expected execution of public investment	High Short to Medium Term	Medium. Lower private investment and economic growth.	• Improve public investment management, including implementation of PIMA recommendations to enhance capex. • Improve the budgeting process to underpin budgets with realistic analysis.
Continued policy uncertainty	Medium Short to Medium Term	High. The post-election transition could delay policy decision-making, prolonging uncertainty and slowing reforms. Investment and consumption does not pick-up, economic activity is disrupted, and recovery stalls.	• Preserve policy continuity and protect priority spending. Restore and preserve public confidence in policymaking by ensuring transparency, accountability, and inclusion in policy implementation. Communicate the benefits of structural reforms clearly. Protect the most vulnerable and shield high-quality capital expenditure. • Bolster financial-sector resilience. • Secure buffers and financing for continuity. Coordinate with development partners to frontload concessional financing if needed.
External Risks			
Labor shortages and remittances	High Short to Medium Term	Medium. Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term	• Maintain adequate reserve levels and fiscal policy space as buffers, including by mobilizing alternative concessional financing, strengthening donor coordination, enhancing domestic revenue mobilization, and improving the efficiency of public spending. • Provide targeted policy support to the vulnerable within the available fiscal space. • 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.
Commodity price volatility	High Short to Medium Term	Medium. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	• Continue to develop hydropower to diversify energy sources. • Accelerate structural reforms to diversify import sources and improve agricultural and food security. • Ensure convergence between domestic and global commodity prices, while protecting the vulnerable. • Maintain adequate reserves and fiscal policy space to use as a buffer. Any fiscal support should be temporary, targeted at vulnerable households, and preserve energy-saving incentives. • Stand ready to tighten monetary policy in case of second-round effects.

Annex VI. Fiscal Governance: Fiscal Rules and Framework¹

Nepal has improved its fiscal framework in recent years, including by introducing the Public Debt Management Act in 2022, which set a limit on external debt. Nepal also adopted strategies for debt management, domestic revenue mobilization, and public financial management reform. To further improve fiscal governance and public institutions, this annex takes stock of Nepal's fiscal framework and recommends reforms to promote more effective management of public resources and public debt.

A. Nepal's Current Fiscal Rules and Framework

1. Nepal has two laws that govern the accumulation of public debt. These include:

- *Domestic borrowing.* Under the constitution (Article 251), the National Natural Resources and Finance Commission (NNRFC) recommends annual gross domestic borrowing limits for the federal, provincial, and local governments.² These limits are typically announced by the NNRFC before the budget preparation begins for the next fiscal year. There is no rule governing what numerical gross limits the NNRFC should propose, and several factors and economic conditions are taken into consideration before recommending the ceiling. The final annual gross domestic borrowing ceilings adopted in the budget are generally close to the limits set by the NNRFC.
- *External debt.* Under the Public Debt Management Act (PDMA) (section 5), stock of external debt cannot exceed one third of previous years' GDP. Furthermore, under the PDMA, only the federal government is allowed to borrow externally.

2. There is scope to refine Nepal's fiscal rules. The IMF recommends combining a debt anchor with an operational rule.³ The debt anchor is a limit on the stock of debt (gross or net of assets) as a percent of GDP, which must be achieved over the medium term, and the operational rule is a rule (for example, a budget balance or expenditure rule) that guides fiscal policy in the short term. About 2/3 of countries worldwide have such a system of rules in place, although compliance varies across countries.⁴ In Asia-Pacific region as well, 23 countries out of 37 have a fiscal rule with an explicit debt anchor or ceiling on total public debt, being the most prominent (17 countries)⁵. Relative to this standard, Nepal lacks a limit on the stock of domestic debt, and its annual borrowing limit is not fixed but shifts each year at the discretion of the NNRFC. The NNRFC limit constrains the budget insofar as the NNRFC is independent of the MoF and has traditionally set the limit at about

¹ Prepared by Pranav Gupta, Saraswiti Sharma, Galen Sher (lead), and Bryn Welham.

² The Public Debt Management Act also specifies (Section 6) that provincial and local governments must obtain permission from the federal government in order to borrow.

³ See, for example, Victor Duarte Lledo, and Paolo Dudine. 2018. "How to Select Fiscal Rules: A Primer", *IMF How To Notes* 2018/001.

⁴ Acalin, Julien, Virginia Alonso-Albarran, Clara Arroyo, Waikeli Raphael Lam, Leonardo Martinez, Anh D. M. Nguyen, Francisco Roch, Galen Sher, and Alexandra Solovyeva. 2025. "Fiscal Guardrails against High Debt and Looming Spending Pressures", *Staff Discussion Notes* 2025/004.

⁵ Flores, Enrique, Pranav Gupta, Yinqiu Lu, Paulo Medas, Dinar Prihardini, Hoda Selim, Weining Xin and Masafumi Yabara, "Upgrading Fiscal Frameworks in Asia-Pacific", *IMF DP/2024/008*

5 percent of GDP in recent years. Therefore, the limit only shapes stakeholders' expectations about future fiscal policy to a modest degree.

3. In contrast to Nepal, peer countries' rules tend to limit overall deficits and debt directly.

India has a budget balance rule, which limits the overall central government deficit to 3 percent of GDP, and a debt rule, which limits central government debt to 40 percent of GDP and general government debt to 60 percent.⁶ Indonesia has a budget balance rule, which limits the overall general government deficit to 3 percent of GDP, and a debt rule that limits general government debt to 60 percent of GDP. *Cambodia* has a budget balance rule limiting the overall general government deficit to 5 percent of GDP and a system of debt ceilings. *Maldives* is phasing in a budget balance rule that limits the central government deficit to 3.5 percent of GDP and a debt rule that limits general government debt to 60 percent of GDP. *Sri Lanka* replaced its deficit and debt rules in 2024 with an expenditure rule, which limits central government primary expenditure to 13 percent of GDP. Although, it must be noted that implementation of fiscal rules remains challenging in some countries.

Annex VI. Figure 1. Nepal: Fiscal Rules in Peer Countries

(Blue = rule; gray = no rule)

	Expenditure rule	Budget balance rule	Debt rule
Cambodia			
India			
Indonesia			
Maldives			
Sri Lanka			
Nepal			

Source: IMF Fiscal Rules Database and authors.

4. Several agencies in Nepal are responsible for ensuring and monitoring compliance with the rules, as well as promoting transparency and accountability. The PDMA requires the MoF to evaluate the implementation of the PDMA every five years (including compliance with the external debt limit) and submit a report to the relevant committees of the federal parliament. The Public Debt Management Office (PDMO) prepares the annual borrowing calendar, conducts bond auctions, and ensures timely debt servicing.⁷ The Financial Comptroller General Office (FCGO) provides consolidated financial reports of income and expenditures annually. The Office of the Auditor General (OAG) oversees the final audits of all financial transactions of each government office and submits an annual report to the President, which is then forwarded to the federal parliament. The Public Accounts Committee in parliament examines these annual reports, examines revenues and expenditure estimates, reviews government policies and programs, and issues directives to ministries and agencies.

5. Nepal also has institutions and processes that support fiscal policymaking over the medium term. Federal, provincial, and local governments are required to prepare a Medium-Term

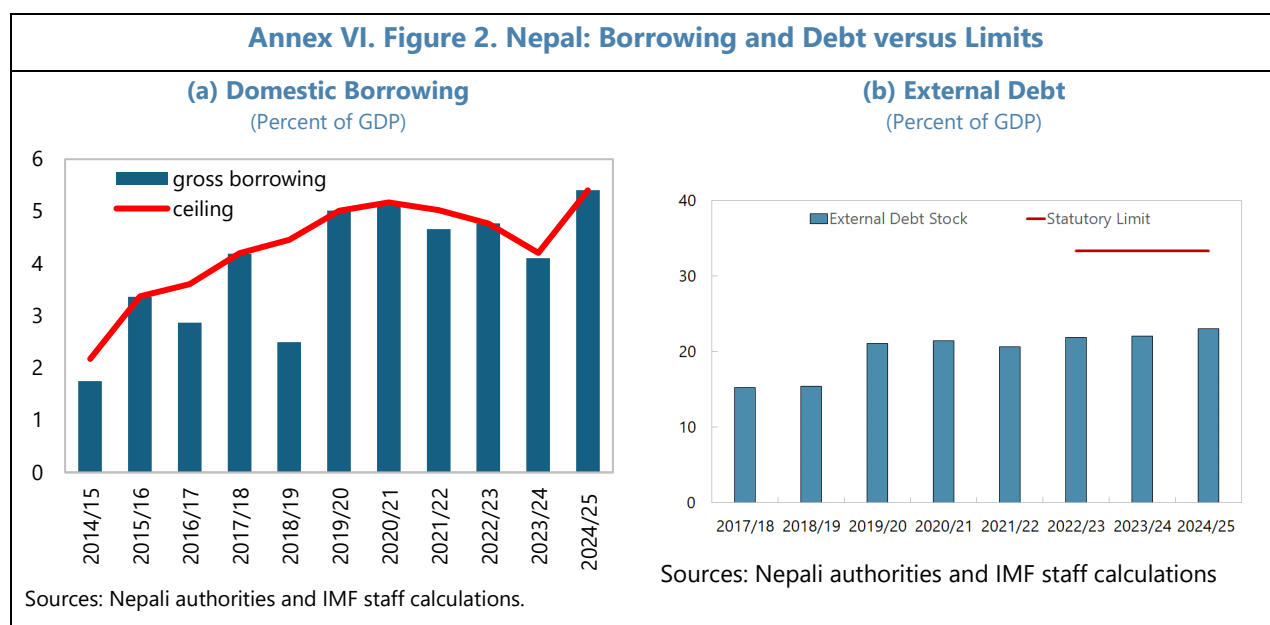
⁶ Alonso, Virginia, Clara Arroyo, Ozlem Aydin, Vybhavi Balasundharam, Hamid R. Davoodi, Gabriel Hegab, W. Raphael Lam, Anh Nguyen, Natalia Salazar Ferro, Galen Sher, Alexandra Solovyeva, and Nino Tchelishvili. 2025. "Fiscal Rules At A Glance: An Update 1985—2024." Technical Manual, September.

⁷ For external debt, front office tasks are managed by the Foreign Aids Division at the MoF, instead of the PDMO.

Expenditure Framework every year. The National Planning Commission publishes this framework for the federal government, covering revenues, expenditures, and financing over a three-year horizon. The authorities have been upgrading their assessment of fiscal risk and published a comprehensive fiscal risk statement with the FY2025/26 budget, analyzing the sensitivity of budget estimates and public debt projections to various fiscal risks, including PPPs and bond guarantees, and providing policy options to mitigate these risks. Finally, although Nepal lacks an overall fiscal strategy, it has adopted strategies for debt management (in 2025), domestic revenue mobilization (in 2024), and public financial management reform (in 2025).⁸ These forecasts, risk assessments, and strategies are important building blocks of a Medium Term Fiscal Framework (MTFF).

B. Performance of Nepal's Fiscal Rules and Operational Framework

6. The annual gross domestic borrowing limit tends to bind, while the external debt limit does not. Most countries do not operate fiscal rules with different limits for domestic and external borrowing. Nepal is unusual in this sense as it has an annual gross domestic borrowing limit (on a flow basis) and a ceiling on external debt (on a stock basis). In recent years, the domestic borrowing limit has been binding in about 7 of the past 11 years (Annex VI Figure 2, panel a).⁹ In contrast, Nepal's foreign debt peaked at an estimated 23.2 percent of GDP in FY2024/25 and has remained well below the limit of 33 percent of GDP (panel b).



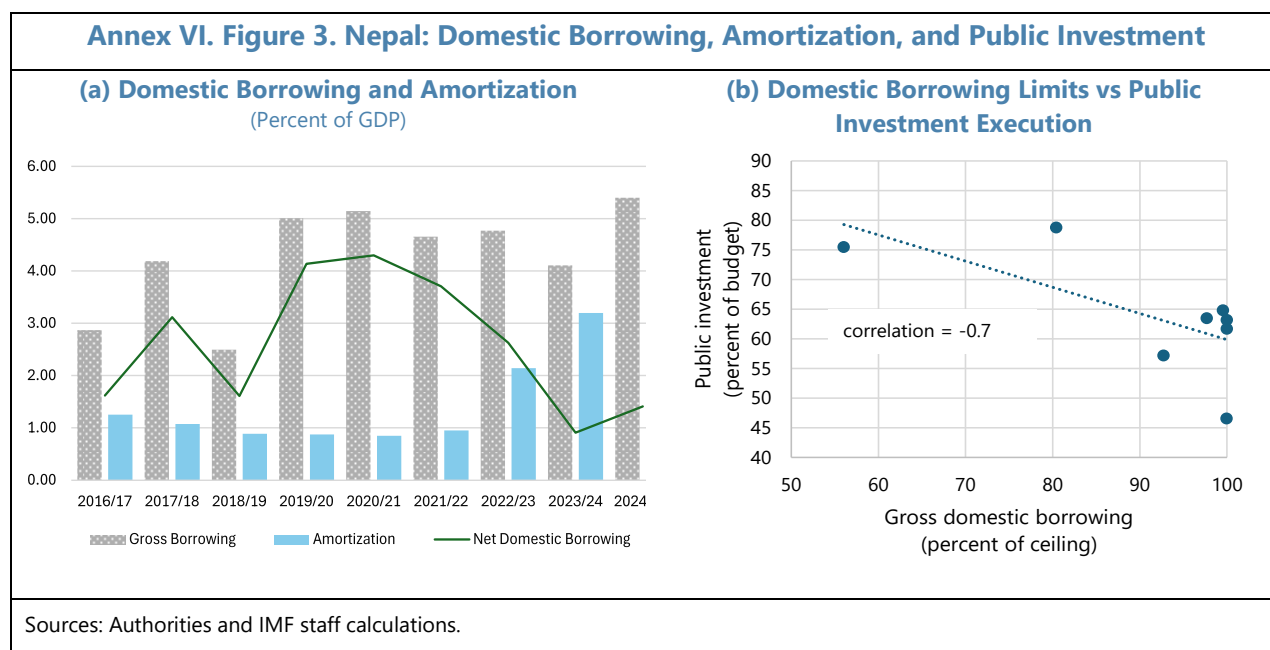
7. Rising amortization within a stable gross borrowing ceiling has increased financing pressures in recent years. Given the large reconstruction needs following the 2015 earthquake, Nepal raised the ceiling on domestic gross borrowing from about 4 percent of GDP to 5 percent and

⁸ Furthermore, the periodic plan provides a framework for the allocation of resources over the long term.

⁹ For this calculation, the borrowing limit is classified as binding in years where gross borrowing was at least 95 percent of the limit.

maintained this higher level to help finance policies to mitigate the negative impact of COVID-19. Given the shallow domestic markets, a large part of the borrowing occurred at shorter maturities. To tackle the rising share of short-term debt, the government adopted a debt management strategy in 2024 that aimed to roll over short-term debt into longer-maturity development bonds. The share of treasury bills has since fallen to around 25 percent of total domestic debt. However, this has resulted in a rise in amortization, leading to a sharp reduction in net financing available for the budget.

8. Budgets in Nepal tend to be too optimistic ex ante, which constrains public investment, when combined with the domestic borrowing limit.¹⁰ In Nepal, the economic growth and fiscal revenue projections underlying the budget are seen as targets that need to be set ambitiously to deliver good outcomes. Combined with the domestic borrowing limit, this ambitiousness inevitably leads to expenditure cuts after the mid-year budget review, which tend to affect capital expenditure more than current expenditure. Furthermore, the recent stability of the domestic borrowing limit has caused the increased financing needed for amortization to crowd out the primary deficit, contributing to under-execution of capital projects.¹¹ In years when the domestic borrowing limit has been more binding (i.e., closer to 100 percent of the limit), public investment execution has been lower (Annex VI Figure 2, panel b).¹² This suggests that Nepal's fiscal framework is not preserving public investment and could be improved. Furthermore, a flat limit on domestic borrowing increases the risk of fiscal policies being more procyclical.



¹⁰ Jha, Naresh and Stephen Turnbull. 2025. "Nepal: Addressing Issues in Capital Budget Execution." Technical Assistance Report, International Monetary Fund, February.

¹¹ In principle, there is a degree of equivalence between limits on borrowing gross and net of amortization, because the net limit can be inferred from the gross limit and *vice versa*. However, Nepal has held its borrowing limit steady relative to GDP in recent years, even as amortizations have increased, which has eroded borrowing room.

¹² It must be noted that while low capital expenditure execution may be associated with borrowing limits, weakness in public investment management and other structural issues also contribute to the under-execution of capital projects.

C. Policy Recommendations

9. In the near term, it would be useful to develop a methodology for setting the domestic borrowing limit, to constrain the NNRFC's discretion and make the limit more predictable.

This methodology could begin qualitatively, with an assessment of economic slack and fiscal risk. For example, in years with more economic slack, the borrowing limit could be higher, provided that in years with less slack, the limit is set lower. This would help make the fiscal stance countercyclical. The limit should also allow for a buffer in case substantial fiscal risks (like natural disasters) materialize. The PDMO is developing its own debt sustainability analysis, which will support the assessment of annual borrowing capacity. The calibration of the debt limit should continue to take into account the financing needed for amortization.

10. The government should consider moving from a gross limit to a net limit on domestic borrowing.

A net limit would avoid the risk of unintentional impacts, such as crowding out net borrowing and public investment or running up a deficit in the Treasury Single Account when amortization is volatile. A net limit would link the rule more closely to debt accumulation and avoid the need to forecast amortization when setting the limit each year—especially useful when forecasting capacity is low. A net limit would also be more in line with international practice.

11. Fiscal forecasting urgently needs to be made more realistic. Fiscal targets, which can be ambitious, should be published separately from the budget. Macroeconomic assumptions should be disclosed, along with a comparison against those of independent forecasters. Ideally, these would be published in a separate, pre-budget report. The methodology for projecting revenues, including tax buoyancy assumptions, should be disclosed. A tax revenue estimation working group, involving the central bank, private sector, and academia, could even be formed and tasked with revenue projections. Revenue forecasting could also be improved by coordinating more closely with the relevant agencies on each revenue line item.

12. Over the medium term, Nepal should further develop its MTEF. In addition to the revenue forecasts highlighted above, medium-term revenue and expenditure forecasts should be improved. For example, these could be compared each year with those of prior years, and reasons for revisions explained. More detailed data should be collected on medium-term expenditure commitments to improve medium-term expenditure forecasts. The MTEF should include multi-year commitments for investment projects. An integrated fiscal strategy should be developed as well as estimates of the fiscal consequences of revenue and expenditure policy proposals at the level of individual policies. The assessment of fiscal risks should also be strengthened. Key recommendations include: (i) reactivating fiscal risk management institutions; (ii) using sensitivity and forecast variance analysis to better manage fiscal risk from macroeconomic volatility; (iii) improve capacity to identify

and manage fiscal risk from natural disasters; (iv) strengthen the monitoring of the financial health of SOEs.¹³

13. With the support of a more developed MTFF, Nepal should move to a system of fiscal rules that combines a debt anchor with an operational rule. Calibrating a medium-term debt anchor requires a probabilistic assessment of future debt trajectories, which in turn requires a mature debt sustainability analysis. This analysis depends crucially on having more reliable medium-term revenue and expenditure forecasts. To monitor the rules effectively, Nepal could consider establishing an independent fiscal council, by for example expanding the responsibilities of the parliamentary Public Accounts Committee. A well-defined escape clause would also be needed to handle major shocks, like natural disasters.

14. It would be useful to undertake a full assessment of Nepal's framework of fiscal institutions and rules. The Fund stands ready to provide technical assistance on this topic.

¹³ Details on these recommendations, as well as additional recommendations on fiscal risks, appear in Welham, Bryn, Naresh Jha, John Grinyer, Marie-Hélène le Manchec. 2025. "Nepal : Managing Fiscal Risks and Developing a Fiscal Risk Statement." Technical Assistance Report, International Monetary Fund, June.

Annex VII. Progress on Implementing 2023 FSSR Recommendations¹

Recommendation	Time Frame ¹	Status
Banking Supervision and Regulation		
Develop risk specialists in banking supervision to keep pace with planned regulatory changes and developments in the sector (e.g., liquidity, credit, information technology, IFRS, etc).	MT	In progress. Training of supervision staff is ongoing with CD support SARTTAC.
Develop analytical tools for offsite surveillance to support forward-looking analysis and maximize use of data from the Supervisory Information System (SIS).	ST	Completed. SIS has been fully rolled out and analytical tools developed.
Assess liquidity regulations and supervisory processes, including contingency funding plans, and undertake a quantitative impact study to prepare for the introduction of the LCR.	MT	Completed. The authorities are in the process of implementing the LCR and NSFR effective mid-July 2025.
Assess credit risk supervision processes, regulations for problem loans, undertaking a targeted review of the NRB's Working Capital Guideline and restructured loans to ensure a consistent application.	ST	In progress. However, WCL has recently been relaxed to address temporary weaknesses in the market, undoing the previous tightening measures which had been aimed at ending misuse of the facilities.
Undertake a comprehensive review of the capital management framework, including definition of capital, buffer regime, application of pillar 2, and the supervisory review process.	MT	In progress.
Reconsider phasing-out directed lending programs where banks have not built expertise in risk management for this type of lending (e.g. agriculture sector).	ST	In progress. The NRB has begun examination of the directed lending program and has sought IMF input on this. However, progress has complicated by a recent expansion of economic sectors included in the directed lending requirements.
Stress Testing		
Revise existing micro stress testing of solvency and liquidity to make the projections more realistic and useful in guiding supervisory and prudential policies.	MT	Not yet started.
Build a top-down macro stress testing framework for solvency based on explicit macroeconomic scenarios, credit risk satellite model(s), and consistent projection of banks' balance sheets and P&L items over a 3-year horizon.	MT	Not yet started.
Strengthen regular macro-financial and systemic risk surveillance and raise the analytical quality of the annual Financial Stability Report.	MT	Not yet started.

¹ Prepared by Paul Leonovich.

Crisis Management		
Introduce recovery planning requirements and start with resolution planning.	MT	In progress. NRB Act Amendments is in the process of being submitted to parliament.
Operationalize resolution framework and align associated laws, by-laws, and regulations.	ST	In progress. Amendments to the NRB Act are being finalized for submission to parliament.
Strengthen the role of the DCGF as a safety net.	ST	In progress. The DCGF is building its institutional capacity to serve this function.
Improve inter-agency cooperation on crisis preparedness.	MT	Not yet started.
Strengthen the emergency liquidity assistance (ELA) framework to turn it into an instrument for solvent banks in exceptional cases.	ST	Not yet started.
Payment Systems		
Strengthen the legal framework and oversight function to provide a high degree of legal certainty of transactions and sound payment oversight.	MT	Not yet started.
Identify and designate systemically important payment systems, formally adopt the Principles for FMIs in regulations and apply them to designated payment systems.	ST	Not yet started.
Enhance the RTGS system, increase utilization and fully automate intraday liquidity facility to achieve Delivery Versus Payment.	LT	Not yet started.
Improve the cyber and operational resilience of major payment systems, including the RTGS system, and their participants, as well as of the NRB.	MT	Not yet started.
Consider activity-based risk-focused payment legislation to keep pace with innovation, protect e-money funds, and make fully informed decision on whether to issue CBDC.	LT	In progress. IMF TA on CBDC has been provided.
Financial Inclusion		
Implement a formal information sharing agreement with cooperative authorities to ensure a timely flow of data on SACCOs.	MT	Not yet started.
Work with the Ministry of Land Management, Co-operative, & Poverty Alleviation (MoLCP) to develop a coordinated supervision program for SACCOs with cooperative authorities, with the goal of minimizing risks to the wider financial sector.	MT	In progress. The National Cooperatives Regulatory Agency (NCRA) has been established and is in the process of developing its licensing, reporting, and supervisory regime for SACCOs.
Replace the required interest rate ceiling for Class D MFIs with a base rate plus premium used for banks, supported by risk-based supervisory procedures and experienced staff.	ST	Not yet started.
Develop and implement a robust FCP function, including dedicated law, subordinate regulations, and supervisory tools and resources.	LT	Not yet started.
^{1/} Time Frame: Short-Term (ST): < 6 months; Medium Term (MT): around 18 months; Long Term (LT): around 30 months.		
Note: This table summarizes recommendations from the Technical Assistance Roadmap which were assigned a high priority, among others. Within each area, recommendations are further ordered by priority of implementation.		

Annex VIII. Integration of Capacity Development with Extended Credit Facility Objectives¹

Since the start of the IMF ECF arrangement in Nepal, capacity development (CD) efforts have been closely aligned with the program's reform objectives. Overall, CD utilization has been extensive, and the close integration of CD activities with program priorities has helped achieve the program's objective of implementing cross-cutting institutional reforms that improve governance, strengthen fiscal institutions, enhance financial sector supervision, and reduce corruption vulnerabilities. In addition, Nepal has received the extensive Technical Assistance (TA) that goes beyond direct program support including in data compilation and reporting, debt management, central bank digital currency, and forensic auditing have helped build capacity.

A. Integration of CD with the IMF ECF Arrangement

1. Fund CD has played a pivotal role in advancing the priority reform agenda, with several key reforms achieved under the program through CD support. On the fiscal front, the government has adopted a Domestic Revenue Mobilization Strategy (DRMS), published a tax expenditure report, undertaken TADAT and PIMA assessments, initiated the consolidation of operational extra-budgetary units, revised project bank guidelines to improve capital execution, cash flow forecasting, and published a fiscal risk statement. In the monetary and financial sector, supervision has been strengthened through the full implementation of the Supervisory Information System (SIS), commencement of regular NRB audits by experienced international auditors, amendments to regulations on asset classification and Lender of the Last Resort (LOLR) facility, and enhanced capacity to implement IFRS 9 and the Expected Credit Loss (ECL) model. Furthermore, with substantial support from FIN-LEG, amendments to the NRB Act have been agreed upon and are expected to be submitted to Parliament before the program ends.

2. Integration of CD in Fund's Surveillance and Lending. CD delivery in Nepal has been well integrated with the objectives of the ongoing ECF arrangement. The country team has regularly coordinated and worked closely with CD providers and the authorities to develop a CD delivery plan and ensure that CD activities are consistently aligned with the authorities' reform priorities and effectively support program implementation. Given the frequent transfers of key counterparts and technical staff at various institutions—including the Ministry of Finance, Inland Revenue Department, Department of Customs, Financial Comptroller General Office, and Nepal Rastra Bank—proper sequencing, prioritization, and follow-up have been essential.

3. Collaboration with International Partners. Nepal continues to benefit from CD provided by various bilateral and multilateral international partners, including the World Bank Group, Asian Development Bank, various United Nations agencies, the European Union, Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ), Japan International Cooperation Agency, and the UK Foreign, Commonwealth and Development Office, among others. IMF Resident Representative

¹ Prepared by Rekha Ghimere, Pranav Gupta and Saraswoti Sharma.

Office staff regularly engage with these international development partners through joint meetings to discuss ongoing CD activities across agencies, improve coordination, and ensure consistency in policy advice.

B. CD Priorities and Reforms

4. The main objectives of CD in Nepal are to support the authorities' main reforms under the ECF. The CD support focused on four main areas (i) Enhancing the fiscal framework and improving transparency; (ii) Strengthening monetary operations and financial supervision (iii) Improving Governance; (iv) Bolstering the quality of data.

Enhancing the Fiscal Framework and Improving Transparency

5. Tax Policy and Revenue Administration. Multiple TA missions from FAD and SARTTAC have supported the authorities in formulating and adopting a Domestic Revenue Mobilization Strategy (DRMS), a structural benchmark (SB) under the program. This strategy aims to reform the country's tax policy and administration to enhance economic efficiency, foster greater equity, and strengthen government **finances** with higher domestic revenue collection. Subsequently, TA missions supported establishing the first tax expenditure reporting in Nepal, with Tax Expenditure Report published for FY 2022/23 and FY 2023/24, including revenue foregone related to VAT, income tax, customs duty and rebates under the Finance Bill. Additionally, FAD provided support in the development of a Customs Compliance Improvement Strategy (SB). SARTTAC CD in September 2023 also supported the Large Taxpayers Office of the IRD in improving audit outcomes through the implementation of risk-based audit processes, supported by advanced data analytics, whereas FAD provided a TA in March 2026 on structuring, operationalizing and strengthening the newly created Revenue Policy Analysis Unit.

6. Strengthening Cash Flow Management. SARTTAC missions have been instrumental in institutionalizing a cash-flow forecasting framework (SB) and supporting authorities to improve cash flow forecasting to further strengthen government cash management in Nepal. Mission team shared the Cash Flow Forecasting Tool (CFAT) developed by the Fund for cash forecasting and supporting related decisions. Consequently, authorities have formulated cash management guidelines to ensure effective cash management in Nepal.

7. Fiscal Sustainability and Strengthening Fiscal Risk Management. FAD and SARTTAC have provided TA and training to the authorities in developing a Fiscal Risk Register (SB). Initially, authorities took stock of key fiscal risks and developed a register. Subsequently, a comprehensive Fiscal Risk Statement was prepared and published to systematically report on various fiscal risks in line with IMF ECF program. These reforms have led to review and publication of detailed analysis of the nature and scale of fiscal risks, along with recommendations for mitigation of those risks. In line with Fund's recommendation (SB), the four priority nonfinancial PEs (NEA, NOC, NAC and Nepal Telecom) have published their audited financial statements for FY 2022/23.

8. Fiscal Transparency and Governance. CD by STA and SARTTAC provided recommendations on enhancing the institutional table in relation to EBUs and its coverage in annual financial statements which is in line with the ECF program (SB). The authorities introduced an ordinance in Financial Procedures and Fiscal Responsibility Act which provided mandates for EBUs to maintain their accounts in accordance with prescribed standards and to submit their annual financial statements to the respective authorities. Notably, EBUs coverage has improved significantly in FCGO's annual financial statements, with 93 EBUs included in FY 2022/23, 99 EBUs in FY 2023/24, and 149 EBUs in FY 2024/25, including both federal and provincial levels. Nepal is Asia's second country to undertake the IMF Governance and Corruption Diagnostic. This comprehensive assessment aims to identify and analyze corruption vulnerabilities within the country, focusing on core state functions that are deemed macro-critical. The findings and recommendations from this assessment are crucial in systematically addressing the identified vulnerabilities, and to strengthen Nepal's anti-corruption mechanisms, thereby contributing to a more transparent and accountable governance structure within a country.

9. Public Investment Management. SARTTAC mission in Feb 2024 assisted in formulating an Action Plan, drawing on recommendations of a Public Investment Management Assessment (SB), to improve the efficiency of public investment spending and strengthen climate resilience. With the Fund support, the authorities formulated a revised National Project Bank (Operational and Management) Guidelines 2025 to streamline the design, prioritization, and selection of investment projects (SB). Similarly, CD led by SARTTAC assisted the authorities in addressing challenges that lead to the low capital budget execution, and selection particular focus on enhancing the processes related to project preparation, appraisal, selection.

Strengthening Monetary Operations and Financial Supervision

10. Monetary Operations and Development of the Interbank Market. The SARTTAC TA mission focused on assessing progress in modernizing Nepal's monetary operations framework and enhancing monetary policy transmission by streamlining instruments, operations, and arrangements for money market development. The mission recommended a phased approach to better align interbank call rates with the policy rate, improve liquidity forecasting, and advance the interbank market and collateral framework. Following these recommendations, NRB removed restrictive conditions on access to Standing Deposit Facilities, enabling banks and financial institutions to manage liquidity with greater flexibility.

11. Improving the Foreign Reserves Management Framework. The SARTTAC TA mission addressed weaknesses identified in the 2021 IMF Safeguards Assessment in Nepal's reserve management framework, including risk management, governance, oversight, and Strategic Asset Allocation (SAA). The mission recommended a phased approach to enhance the Middle Office by building capacity, broadening its responsibilities, and ultimately establishing a fully independent unit to ensure the segregation of investment management and risk control activities. The NRB has implemented several of the TA recommendations and is in the process of implementing the remaining recommendations with the support of SARTTAC.

12. Financial Sector Stability Review (FSSR) and Strengthening Financial Supervision. The FSSR mission, conducted in 2022, covered banking supervision, stress testing, crisis management, payment systems, financial inclusion, and financial statistics. The team reviewed Nepal's financial sector oversight capacity and proposed a Technical Assistance Roadmap to enhance risk identification, analysis, and mitigation for financial stability. As a result, a key benchmark of the ECF program to strengthen financial sector supervision was achieved with NRB's full implementation of the Supervisory Information System (SIS) for Class A banks, including the onsite inspection module (SB), and completion of a Loan Portfolio Review of the 10 largest commercial banks by an independent international auditor (SB). Further training was provided with a focus on Expected Credit Loss (ECL) model implementation processes, including framework documentation, governance, staging assessment, estimation, post-estimation activities, consistency in forward-looking estimates, internal governance, and building staff technical expertise.

13. Central Bank Digital Currency. At the request of the NRB, several TA missions were conducted to support NRB's plan to launch a pilot wholesale CBDC in 2026. These missions addressed various aspects of CBDC, such as its concepts and objectives, legal considerations, stakeholder engagement, potential use cases for wholesale CBDC, and macro-financial implications.

Improving the AML/CFT Framework and Governance

14. Improving the AML/CFT Framework. Nepal's AML/CFT framework faces significant challenges, including capacity constraints and fragmented coordination among multiple agencies, which limit effective implementation. As part of the ECF program and with support from the IMF Legal Department, the Assets Money Laundering Prevention Act was amended, establishing a strong foundation for ongoing reforms ahead of FATF intensive monitoring (SB). Furthermore, to support authorities' efforts to exit Nepal from the FATF grey list, the IMF LEG team has been assisting authorities with legal drafting, providing updated language for the ALPR focused on implementing UN Security Council Resolutions (UNSCR). The IMF team also supported the publication of implementation procedures for UNSCRs related to terrorism and proliferation financing and updated STR/SAR guidelines by NRB.

15. NRB Act Amendments. Following the key recommendations of the 2021 Safeguards Assessment, the ECF program focused on strengthening the mandate, governance, and autonomy of NRB. IMF's Legal and Finance Departments conducted several missions (both in-person and virtual) to engage with the authorities on amending the NRB Act. After rigorous discussions, the authorities have agreed on amendments to the NRB Act incorporating several key SGA recommendations, and the Act is expected to be submitted to Parliament for legislative approval before the end of the program (SB).

16. Audit of NRB's Financial Statements. The 2021 Safeguards Assessment (SGA) recommended that the Auditor General engage reputable international auditors with experience in applying International Standards on Auditing and auditing central banks to conduct NRB's financial statement audits starting from FY2021/22. IMF's Finance Department provided virtual TA to advise the Office of the Auditor General in this regard, and the audit of NRB has been conducted by

auditors with international experience for the past three years (consecutive SBs). This reform has strengthened NRB's accountability and enhanced the credibility and transparency of its financial reporting.

Bolstering the Quality of Data

17. External Sector Statistics. A STA mission assisted NRB in transitioning its external sector statistics (ESS) compilation to align with the principles outlined in the sixth edition of the Balance of Payments Manual (BPM6). Following this mission, NRB began publishing balance of payments data compliant with BPM6 from the first month of FY 2024/25, ensuring consistency with the IIP presentation.

18. Government Finance Statistics (GFS). CD by STA and SARTTAC on GFS and Public Sector Debt Statistics (PSDS) is assisting authorities with improvements in quality of fiscal statistics in line with GFSM 2014. This includes conducting a census of government EBUs and entities, developing a financial balance sheet, preparing Public Sector Institutional Unit table, among others.

19. National Accounts. SARTTAC TA and training on Input Output Tables (IOTs) has assisted the authorities with converting the Supply and Use Tables (SUTs) into IOTs. Another SARTTAC TA mission provided hands-on training on back casting methods to officials, covering recompilation, fixed and variable-ratio splicing and residual/ratio estimation techniques.

20. Residential Property Price Index (RPPI): TA mission was held to support NRB in developing reliable RPPIs, which is crucial for financial stability and monetary policy. Earlier experimental indices based on tax records and bank data were volatile and inconsistent, prompting NRB to seek expert guidance. The mission reviewed hedonic regression methods and identified appropriate datasets, emphasizing differentiation between land with and without structures.

Challenges and Mitigating Factors

21. The authorities generally have good ownership of the Fund-supported program and see CD as critical to ensure its success. Risks of delayed implementation of CD recommendations are high due to limited skilled human resources, absorption capacity constraints and frequent transfer of technical staff. The Fund's resident representative office will continue to play a critical role in the coordination of CD between the authorities and CD providers.

Annex VIII. Table 1. Nepal: Capacity Development in Support of Program Objectives and Reforms

Priority TA Area	Main Activities Done/Planned	Objective/Conditionality
Improve Governance and Fiscal Transparency (Enhancing coverage of fiscal accounts)	SARTTAC TA mission (in person) to advice on the adoption of GFS 2014 standards, including consolidation of operational extra-budgetary funds into annual financial statements (July 2022) ; SARTTAC TA mission (in person) to provide advice in expanding the coverage of EBU's (August 2023) ; STA TA mission (in person) to access the status of GFS and PSDS compilation in accordance with the GFSM 2024 (December 2025) .	Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption
Improve Governance (Enhancing AML/CFL legal framework)	Participation of LEG staff in an online discussion to support the drafting of the guidelines to implement UN Security Council Resolutions (February 2024) ; Participation of two LEG Staff Members in the Asia Pacific Group SIP mission (February 2024) ; LEG mission (in-person) on the Forensic Audit Training (November-December 2023) .	Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption; Enhance AML/CFT legal framework in line with the FATF Action Plan
Strengthening the Nepal Rastra Bank (NRB) institutional framework, in support of NRB's policy mandates and implementation of SAG recommendations	LEG mission on Central Bank Risk Management (virtual) (February 2022) ; LEG-FIN TA several missions (in person and virtual) to assist in drafting of amendments to the NRB Act (January-August 2022) ; FIN desk-based TA (virtual calls) to provide advice to the Office of the Auditor General in conducting the NRB audit through experienced international auditors (July, October 2022) ; MCM conducted an onsite risk management TA assisted by STX from Reserve Bank of India and a workshop with NRB Board on Governance and Risk Management in collaboration with LEG, FIN and APD (February 2022, April 2023) ; SARTTAC mission (in person) on the improvement of the NRB's Foreign Reserves Management Framework (September 2023) .	Enhance financial Transparency and Governance and Reduce Vulnerability to Corruption

Annex VIII. Table 1. Nepal: Capacity Development in Support of Program Objectives and Reforms
(continued)

Enhance Fiscal Transparency and lay the foundations for a Domestic Revenue Mobilization Strategy (DRMS)	FAD TA mission (in person) to assess Nepal's tax systems, identify tax exemptions, and to support formulate mobilization plan (August-September 2022) ; FAD follow-up mission (in person) on the preparation of Domestic Revenue Mobilization (February 2024) ; FAD TA mission (in person) for developing tax expenditure policy for domestic revenue mobilization (September 2024) ; SARTTAC Workshop (in-person) on "Risk Based Audit Techniques (December 2024) . FAD Workshop (in person) on strengthening income tax expenditure reporting and evaluation to IRD (March 2025) ; FAD TA mission (in person) on developing the Customs Compliance Improvement Strategy (July 2025) ; FAD TA mission (virtual) in finalizing the Customs Compliance Improvement Strategy (November-December 2025) .	Domestic Revenue Mobilization, with an emphasis on Tax Policy Matters
Enhance Tax Administration and provide inputs for the DRMS	FAD TA mission (in person) to access Nepal's revenue administrations for developing the DRMS (August-September 2022) ; Pre-TADAT training conducted by SARTTAC (November 2022) ; TADAT mission (in person) to assess in detail Nepal's tax administrations (December 2022) ; FAD TA mission (in person) on stocktaking progress of reforms to the Inland Revenue Department (August 2023) ; SARTTAC mission (in person) to improve the risk-based audit in the Large Taxpayers Office (April 2023) ; FAD Post TADAT Study Tour (virtual) (December 2023) ; FAD Post-TADAT to developing a strategic response to TADAT Findings (December 2023) ; FAD TA mission (in person) to support database management and reporting for IT Customs Systems (January 2024) ; FAD-SARTTAC mission (in person) to support the finalization of the Domestic Revenue Mobilization Strategy (DRMS) (April 2024) ; FAD TA mission (in person) for customs reforms roadmap for Domestic Revenue Mobilization (September-October 2024) ; SARTTAC Workshop (in-person) on developing of compliance improvement plans to the Inland Revenue Department (April, 2025) .	Tax Administration Component of Revenue Mobilization

Annex VIII. Table 1. Nepal: Capacity Development in Support of Program Objectives and Reforms
(continued)

Enhance Fiscal Transparency and Strengthening Fiscal Risks Management	FAD TA (virtual) on identification of fiscal risks (April 2022); SARTTAC training mission (in person) to MOF officials for the setting of a fiscal risk register, (September 2022); SARTTAC training (in person) on the design of a full-fledged Medium-Term Fiscal Framework and Macro-Fiscal Forecasting (February 2023); Follow up SARTTAC training mission (virtual) provided to MOF officials to finalize the establishment of a Fiscal Risk Register (February 2023); FAD TA mission (in person) on managing fiscal risks and developing a fiscal risk statement (June 2025).	Fiscal Sustainability and Fiscal Risks Management
Improve Public Debt and Cash Management, to improve Debt Transparency and Risk Management	SARTTAC mission (in person) in June 2023 , on the development of a cash-flow forecasting framework; SARTTAC training (in person) to follow up on the implementation of the cash-flow forecasting framework (June 2024); MCM-FAD TA mission (in person) to assist authorities in strengthening the public debt management functions (January 2024).	Fiscal Sustainability and Fiscal Risks Management
Raise the Quality of Growth through more Efficient Capital Expenditures Execution that Support Climate Resilience	FAD TA mission(virtual) to conduct a Public Investment Management Assessment (PIMA) and the Climate PIMA module (March-April 2021) SARTTAC mission (in person) for the formulation of an Action Plan for implementation of PIMA recommendations (February 2024); SARTTAC TA mission (in-person) on Addressing Issues in the Capital Budget Execution (January 2025).	Equitable and Sustainable Growth

Annex VIII. Table 1. Nepal: Capacity Development in Support of Program Objectives and Reforms
(concluded)

Enhanced Financial Sector Regulations & Supervision	SARTAAC TA mission (virtual) on strengthening the monetary policy framework under an exchange rate peg (March 2022) ; MCM desk-based TA (virtual) on draft amendments to regulations on asset classification and LOLR (May, November 2022) . Financial Sector Stability Review (FSSR) several missions (in person and virtual), with a focus on banking supervision and regulation, payment systems, stress-testing, financial inclusion, financial sector statistics, and crisis management (May, November 2022) ; STA TA mission (in person) on developing a framework for compiling the Monetary and Financial Statistics and dissemination (March 2023) ; SARTTAC follow-up mission (in-person) on strengthening risk based supervisory systems (December 2023) ; MCM follow-up TA mission (in person) to devise a medium-term TA road map to implement FSSR recommendations (March 2024) ; SARTTAC TA mission (in person) on monetary operations and development of the interbank market (April-May 2024) ; SARTTAC training (in person) on strengthening supervisory framework for IFRS9 and ECL (September 2024) . MCM TA missions (in person and virtual) on the feasibility analysis of CBDC and its preparation (July, November 2024) .	Preserve and Strengthen Financial Sector Stability
Enhanced Data Quality and Improving Statistical Techniques	SARTTAC TA mission (in-person) on GDP data sources review (May 2022) ; SARTTAC TA mission on national accounts symmetric input output tables (October 2022) ; SARTTAC TA mission (in-person) on updating and improving the Producer Price Index (June 2023) ; SARTTAC TA mission (in-person) on improvement of National Accounts (July 2023) ; SARTTAC TA mission (in-person) on developing institutional sector accounts (March 2024) ; STA TA mission (in person) on- the External Sector Statistics (June 2024) ; STA TA mission (in-person) on residential property price index (October 2024) ; SARTTAC TA mission (in-person) on the development of supply and use tables (August 2025) ; SARTTAC TA mission (in person) on compilation of Tourism Satellite Accounts (November 2025) .	Strengthen Data Compilation and Evaluation

Annex IX. Data Issues ¹

Annex IX. Table 1. Nepal: Data Adequacy Assessment Rating 1/

B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	C	A	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	B	A		
Granularity 3/	C		B	C	A		
			A		A		
Consistency			A	C		B	
Frequency and Timeliness	C	A	C	A	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank. 1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics. 2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I). 3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. Overall data provided to the Fund has some shortcomings, in part reflecting capacity constraints for a low-income economy. National Accounts. Sectoral coverage is generally adequate. However, quarterly GDP for the production side is only available in volumes and at basic prices (the component of taxes less subsidies on products—which accounts for about 10 percent of GDP and is highly volatile—is not estimated, contrary to international recommendations). Quarterly GDP for the expenditure side is not available. The base year of the national accounts is outdated (2010/11) and is also the last year for which a supply and use table is available. Historical data revisions are frequent and often substantial, in particular for the quarterly series. The final annual GDP estimate is released with a lag of about nine months. These limitations hinder real-time assessment of economic activity and adversely affect the accuracy of projections. Prices. CPI data provides a broadly adequate basis for assessing overall inflation trends in a timely manner. However, some key analytical breakdowns—such as core price index, tradables vs. non-tradables price indexes—are not available. Also, more granular information beyond the standard aggregate components is not readily available, limiting the ability of identifying the precise sources and drivers of price pressures. Fiscal. The consolidated financial statements cover general government, but not all extra-budgetary units are included. Granularity could be improved by providing further breakdowns of central government transfers to local governments, some of which (e.g., equalization/conditional grants) are large. The frequency of many central government fiscal series is monthly, which is very timely; however, the Government Finance Statistics and social spending data are lagged by around 4-5 years, with the latest available data being for 2021, which hampers fiscal policy advice. External. The coverage, frequency, and timelines of all the components of balance of payments are broadly adequate for surveillance. Nonetheless, improvements in the collection of (i) trade credits and advances in assets and liabilities and (ii) currency and deposits in assets are needed for the reduction in errors and omissions. In addition, the lack of granularity in some international investment position data and sector coverage for exports and imports somewhat hamper surveillance. Monetary and Financial. The Nepal Rastra Bank publishes monthly data on its website and provides supplementary data to the Fund. The data is sufficiently granular and covers the overall sector as well as individual banks. Financial Soundness Indicators data is deemed sufficient for surveillance purposes based on the above characteristics; however, data quality can be improved (see Corrective actions and capacity development priorities section).							
Changes since the last Article IV consultation. N/A.							
Corrective actions and capacity development priorities. Capacity development for National Accounts and GFS is ongoing and should continue. For financial sector data, capacity development for data collection and analysis is needed to improve data accuracy.							
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. N/A.							
Other data gaps. N/A.							

Annex IX. Table 2. Nepal: Data Standards Initiatives

Nepal participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since June 2017.

1/ Coordinated by Arpitha Bykere.

Annex IX. Table 3. Nepal: Table of Common Indicators Required for Surveillance

(As of February 28, 2026)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Nepal ⁸	Expected Timeliness ^{6,7}	Nepal ⁸
Exchange Rates	Mid-January 2026	2/18/2026	M	M	D	M	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mid-January 2026	2/17/2026	M	M	M	M	1M	45D
Reserve/Base Money	Mid-January 2026	2/17/2026	M	M	M	M	2M	5W
Broad Money	Mid-January 2026	2/17/2026	M	M	M	M	1Q	5W
Central Bank Balance Sheet	Mid-January 2026	2/17/2026	M	M	M	M	2M	5W
Consolidated Balance Sheet of the Banking System	Mid-November 2025	2/17/2026	M	M	M	M	1Q	5W
Interest Rates ²	Mid-January 2026	2/17/2026	M	M	M	M	...	3D
Consumer Price Index	Mid-January 2026	2/17/2026	M	M	M	M	2M	3W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2024/25	8/25/2025	A	A	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Mid-January 2026	1/22/2026	M	M	Q	A	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Mid-Apr - Mid-Jul 2025	12/17/2025	Q	Q	Q	Q	2Q	1M
External Current Account Balance	Mid-January 2026	2/18/2026	M	M	Q	Q	1Q	1M
Exports and Imports of Goods and Services	Mid-January 2026	2/17/2026	M	M	M	M	12W	1M
GDP/GNP	2024/25	10/8/2025	A	A	Q	A	1Q	2M
Gross External Debt	Mid-Apr - Mid-Jul 2025	11/25/2025	M	Q	Q	A	2Q	6M
International Investment Position	Mid-Apr - Mid-Jul 2025	11/25/2025	Q	Q	A	Q	3Q	1M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "-."

Appendix I. Letter of Intent

Kathmandu, Nepal

April 7, 2026

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

Dear Ms. Georgieva,

1. The ECF-supported program is fully consistent with the objectives and priorities of the Government of Nepal and has played a critical role in maintaining macroeconomic and financial stability, building resilience, and implementing reforms that promote stronger and inclusive growth over the medium- to long-term. This Letter of Intent (LOI), along with the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU), outlines the policies and reforms that we have implemented, and set out the objectives of the government's reform program. 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.
2. For the seventh and final review of the ECF-supported program, we have met the mid-July 2025 primary deficit and net international reserves quantitative targets by large margins, and the indicative target (IT) on tax revenue was comfortably met (Table 2 of MEFP). The IT on child allowance was narrowly missed, with actual spending less than 1 percent short of the target, despite all eligible applicants receiving their due payments. We also continued to comply with all continuous performance criteria. We made further progress on the Structural Benchmarks (SBs), with two SBs—on adopting a Customs Compliance Improvement Strategy (CCIS) and completing the onsite Loan Portfolio Review (LPR)—met. The SB on realigning asset classification regulations with Basel Committee on Banking Supervision (BCBS) guidelines was completed with a delay in January 2026. We will submit the Nepal Rastra Bank (NRB) Act amendments related to the bank resolution framework and the 2021 Safeguards Assessment to Parliament, by registering the amendments with the Parliament Secretariat, as a prior action for the seventh review under the ECF-supported program.
3. Protest-related damages and economic uncertainty have weighed on economic activity and private sector confidence, delaying investment decisions. Additionally, the war in the Middle East has added to uncertainty. While we have taken steps to support affected sectors and maintain prudent macroeconomic policies, growth in FY2025/26 is expected to weaken to 3-3.5 percent. Reduced political uncertainty and greater policy predictability following the elections are expected to boost confidence and facilitate a gradual recovery. Inflation remained low—at 3.6 percent y/y in March 2026—reflecting subdued domestic demand and favorable import prices.

Nepal's external position is expected to strengthen further in FY2025/26, supported by buoyant remittance inflows and tourism revenues in the first half of the fiscal year, and moderate import growth. Fiscal revenue growth remained modest and capital expenditure has fallen short of target. Challenges in the financial sector are rising, with non-performing loans (NPLs) increasing to 5.4 percent at mid-January 2026 and will possibly increase further based on the recently completed LPR, impacting bank capital. Despite robust levels of liquidity in the system, inflation-adjusted private sector credit growth remains constrained at 2.7 y/y in March 2026. We will closely monitor the economic impact on Nepal's economy stemming from the war in the Middle East and adopt prudent policy measures to preserve macroeconomic stability while protecting the vulnerable.

4. Against this backdrop, we are maintaining prudent fiscal policy—emphasizing revenue mobilization, acceleration of capital expenditure, and targeted support to vulnerable households—to boost sustainable and inclusive economic growth. We continue to implement our Domestic Revenue Mobilization Strategy to increase revenues. In recent months, we have rolled out a new online valuation system for customs duty collection, legislated higher penalties for customs undervaluation, and established a new team to analyze the implications of tax policy proposals. We also adopted a Customs Compliance Improvement Strategy. Capital expenditure has been weak this fiscal year, due to the protests and brief uncertainty, as well as the need to suspend many small, under-prepared projects. Nevertheless, we expect capital expenditure to increase as some small projects have recently been resumed and as reconstruction after the protests commences in earnest.
5. On the monetary policy front, we will remain focused on price and external sector stability as the primary objectives, while also maintaining financial sector stability. The recent oil price shock will increase inflation but it is projected to remain within target. Foreign exchange reserve will remain at comfortable levels. Under the current outlook, we will continue to maintain a cautiously accommodative monetary policy stance, but will stand ready to adjust the monetary policy stance if second-round price and external sector pressures were to arise. We will further strengthen the monetary policy toolkit to enhance liquidity management. We will continue to conduct open market operations across varied maturities to reduce excess liquidity, and improve liquidity forecasting. We remain committed to enhancing the effectiveness of the interest rate corridor (IRC), including by gradually aligning the interbank rate closer to the policy rate, further narrowing the IRC, and keeping the IRC symmetric.
6. The ECF-supported program entailed a range of banking sector reforms vital to strengthening Nepal's financial sector. A more detailed bank resolution regime in line with international standards has been incorporated into the drafted amendments to the NRB Act. Legislation is being drafted for the establishment of an Asset Management Company (AMC) to deal with bank NPLs, and we will exercise extreme caution in its design, incorporating international best practices. We have phased out forbearance measures related to the Gen-Z protests and commit to limit other regulatory forbearances and ensure it is targeted, timebound, and phased out as soon as possible. This will apply to the recent addition of forbearance for those affected by the

highway expansion projects as well as the relaxation of the working capital loans (WCL) guidelines that was adopted in response to temporary market weakness. Recognizing the difficulties experienced by the savings and credit cooperatives (SACCO) sector, we will prioritize the resolution of the problematic SACCOs and continue to enhance the capacity of the newly established SACCO regulator.

7. The on-site LPR audit of the ten selected banks was completed at the end of December 2025 and the NRB has received the final consolidated report as well as the individual bank reports in January 2026. To address the LPR outcomes, we will take a two-pronged approach. To address any provisioning and capital needs identified in the report, we are implementing a roadmap. This roadmap also takes account of aligning 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. Concurrently, we will draw on the report to enhance our supervisory process to make our oversight of commercial banks more robust.
8. We have continued to make progress in strengthening the AML/CFT framework in line with the FATF Action Plan, with the aim of exiting from the list of Jurisdictions under Increased Monitoring within the agreed timeline. In particular, we have addressed most items in the Action Plan related to Targeted Financial Sanctions. We also remain committed to advancing broader AML/CFT reforms, including by updating the National Risk Assessment and strengthening AML/CFT supervision across sectors, including by addressing resource and capacity constraints in supervisory bodies.
9. We are committed to further enhancing the governance framework of the NRB. Draft amendments to the NRB Act include key recommendations of the 2021 Safeguards Assessment to strengthen the NRB's mandate, governance, financial and personal autonomy, and accountability practices. The proposed amendments represent progress, and we will strive to further enhance NRB's institutional autonomy. Once enacted, we will align the relevant Rules and Bylaws and the Internal Audit Charter with the new law. Additionally, we have implemented most of the Safeguards Recommendations not related to the NRB Act.
10. We reaffirm our strong commitment to advancing broader governance and institutional reforms as a cornerstone of Nepal's medium-term development strategy. Building on progress achieved under the ECF-supported program, we will continue to strengthen our approach to identifying vulnerabilities and prioritizing structural reforms to enhance transparency, accountability, and public service delivery. In this context, the Good Governance Blueprint and the 100-point Roadmap will provide a clear framework for reform continuity. We recognize that good governance and strong institutions are central to improving investment climate, raising productivity, creating quality jobs, reducing inequality, and fostering inclusive and durable growth. In this context, we are also committed to completing IMF's TA on Governance and Corruption Diagnostics.

11. We remain committed to continue with policy measures and structural reforms aimed at maintaining macroeconomic and financial stability, enhancing regulatory framework and institutions, and achieving sustainable and inclusive medium-term growth. In view of the macroeconomic policies implemented to achieve the program objectives, the implementation of key structural reforms under the program, and the policy commitments outlined in the MEFP, we request for the completion of the seventh (final) review. We intend to remain in close consultation with the IMF and provide timely information necessary for the completion of the seventh review.
12. With this progress and commitment, we request SDR 31.32 million to be made available for the seventh review under the ECF-supported program. We do not intend to introduce measures or policies that could generate balance-of-payment 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 TMU, the staff report and other ECF-related documents, on the IMF's website.
13. 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 IMF to Nepal, especially since the approval of the ECF. Beyond the program engagement, we look forward to continuing our close cooperation with the IMF through a Post Financing Assessment.

Sincerely yours,

/s/

Dr. Biswo Nath Poudel
Governor, Nepal Rastra Bank

/s/

Hon. Dr. Swarnim Wagle
Minister of Finance

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 outlines in detail the progress we have made toward meeting the objectives of the economic reform program and our policy plans to further advance these objectives beyond the program period. Tables 1 and 2 summarize performance to date and progress on quantitative targets and structural benchmarks under the ECF.

Background

1. Nepal has recently experienced important political developments following youth-led protests in September 2025. The protests led to the establishment of an interim government, that ensured policy continuity and reform momentum. Parliamentary elections were held in March 2026 which resulted in a single majority government—the first since 1999. We recognize the importance of responding to the youth-led call to strengthen governance and anti-corruption measures, and promote youth employment, while preserving the reform momentum achieved under the ECF-supported program. While protest-related damages, disruptions, and heightened uncertainty weighed on economic activity and delayed private investment decisions, the smooth political transition post-elections is expected to restore business confidence, support pick-up in investment and consumption, and accelerate the recovery in domestic demand. Addressing financial sector challenges will be vital to preserve financial stability and improve credit quality and credit allocation. Improving execution of capital investment is critical to catalyze the recovery and address infrastructure bottlenecks. Structural reforms to strengthen governance, boost job creation and productivity, improve business confidence, and mobilize domestic revenues to support development expenditure will play a crucial role in harnessing demographic dividends, bolstering resilience, and ensuring sustainable, inclusive 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 seventh 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 restricting low-priority recurrent spending in the context of revenue shortfall and low execution of capital expenditure. Child grant spending missed the program's indicative target once again, albeit marginally, although all eligible children who applied received the grants (Table 2). Two structural benchmarks (SBs)—on adopting a Customs Compliance Improvement Strategy (CCIS) and completing the onsite Loan Portfolio Review (LPR)—were met. The SB on realigning asset classification regulations with Basel Committee on Banking Supervision (BCBS) guidelines was completed with a delay in January 2026. We will submit the NRB Act amendments related to the

bank resolution framework (end-October 2025 SB) and the 2021 Safeguards Assessment to Parliament by registering the amendments with the Parliament Secretariat, as a prior action for the seventh review under the ECF.

Recent Macroeconomic Developments and Outlook

3. Economic activity softened in the first half of FY2025/26, reflecting protest-related disruptions and weaker agricultural output, with subdued demand contributing to a strong external position and disinflation. Economic uncertainty ahead of the March 2026 elections, delayed private investment decisions, and continued under-execution of capital spending weighed on economic activity, particularly in construction and manufacturing. Agricultural production was adversely affected by a delayed monsoon and October 2025 floods. At the same time, growth was supported by resilient tourism and uninterrupted hydropower generation. Election-related spending and higher mobility provided a temporary lift to public administration activities, transportation services, and household consumption. Inflation remained low in H1 FY2025/26—at 2.4 percent y/y in January 2026—reflecting subdued demand, low inflation in India, and favorable international commodity prices. The external position continued to strengthen, with buoyant growth in remittances, resilient tourism revenues, and still subdued import growth. Supported by current account dynamics, 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 from H2 FY2025/26 onwards—supported by improving confidence following the elections and somewhat better execution of public investment—and inflation will remain within target. Measures to enhance project implementation, together with supportive policy and regulatory actions and still-accommodative lending conditions, are expected to stimulate private demand and support growth recovery. Nevertheless, the war in the Middle East is expected to adversely impact growth in FY2025/26 with real GDP growth projected at 3-3.5 percent. Inflation is expected to increase gradually from recent lows—as domestic demand strengthens and import commodity prices pick up—but will remain within the NRB’s policy target ceiling of 5.0 percent, anchored by our prudent and data-driven monetary policy. Despite temporary disruptions to remittances, and higher value of oil imports, continued current account surplus will keep international reserves well above adequacy levels in FY2025/26. Multiplier effects from infrastructure investment and sectoral recovery are expected to become more visible in FY2026/27 and will bolster broader economic activity. 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 remain tilted to the downside, reflecting domestic challenges and uncertain global economic environment. We recognize that improving the execution of growth-enhancing capital spending is critical to accelerating the recovery, while more realistic budgeting will be key to avoiding procyclical expenditure adjustments. Strengthening business and investor confidence is crucial to reviving private sector dynamism, supporting investment, and

fostering job creation at home, which remains essential to reducing outward migration and achieving sustainable medium-term growth. While the elections were conducted as planned, the onboarding period may temporarily slow reform momentum in the short-term. Financial sector risks also remain elevated, requiring timely actions to identify and address a potential further rise in bank nonperforming loans and persistent weaknesses in the cooperative sector. Delays in addressing the identified deficiencies in the AML/CFT framework in a timely manner could delay Nepal's exit from the FATF's list of Jurisdictions under Increased Monitoring, with potentially adverse implications for the economy. Nepal remains vulnerable to climate-related shocks, including floods and weather variability, which can disrupt agricultural production, exacerbate poverty, and weigh on growth. External risks include a sharper-than-expected slowdown in major remittance-source and trading-partner economies, prolonged disruptions to travel and trade routes, renewed increases in global commodity prices, and declines in external financing amid intensified geopolitical tensions including war in the Middle East and elevated global uncertainty. These external shocks could have a pronounced impact on prices, food security, and economic activity, with disproportionate effects 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 will continue to pursue prudent, forward-looking, and data-driven fiscal and monetary policies and stand ready to adjust the policy stance as needed.

Economic and Financial Policies

Fiscal Policy

6. We expect a moderate and countercyclical fiscal expansion in FY2025/26. Tax revenue increased 5.5 percent year-on-year in the first 6 months of FY2025/26, held back by income tax revenues, which contracted as the decrease in interest rates reduced interest income, and as asset values and transaction volumes declined after the protests. These revenues fell short of our budget targets. In response, we suspended 1.2 percent of projected GDP in small and underprepared public investment projects (consisting of 1.9 percent of projected GDP in originally suspended projects and a subsequent 0.7 percent of projected GDP in resumed projects), and we issued a circular instructing line ministries to restrict hiring of external consultants, office expenses, and travel. Our mid-year budget review also announced a request for line ministries to voluntarily surrender budgets that they will be unable to spend in the last quarter of the fiscal year. These measures will prevent accumulating arrears this fiscal year.

7. We remain committed to a gradual growth-friendly fiscal consolidation over the medium term to maintain public debt stability. Our FY2025/26 budget and mid-year budget reviews are broadly consistent with the program objective to keep public debt stable at a moderate level. The budget includes new tax measures, lifts obstacles to capital spending, and provides further incentives to encourage private sector investment.² Over the medium term, we aim to increase the

² For details, see the Memorandum of Economic and Financial Policies of the Sixth Review of the ECF.

revenue-to-GDP ratio back to pre-pandemic levels and improve capital expenditure execution and efficiency.

Revenue Mobilization

8. We are committed to enhancing revenue collection, focusing on domestic sources, for sustainable development. The QPC on the primary deficit and the IT on revenue collection for July 2025 were met. We continue to implement the Domestic Revenue Mobilization Strategy (DRMS). Key steps include our published report on tax expenditures (end-April 2025 SB, not met, completed with delay) and our adoption of a Customs Compliance Improvement Strategy (end-December 2025 SB, met), which includes measures to enhance accuracy in duty assessment, promote voluntary compliance, strengthen enforcement, balance trade facilitation and control, tackle informal trade, ensure adequate staffing and capacity development, and build a culture of compliance and integrity.

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. 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), which will be used to generate policy options for the FY2026/27 budget. We are assessing our tax framework for transfer pricing, jointly with the OECD. We have established a separate Revenue Policy Analysis Section under the Revenue Management Division. The Section will analyze the implications of tax policy proposals.

10. To enhance tax administration, we will improve voluntary tax compliance and enforcement. We have implemented an online valuation database system for supporting the valuation of imported goods, which will increase the accuracy of customs duty collection. We have established revenue leakage control committees at the central and local levels to enhance coordination. To facilitate international trade, we are rolling out a blue lane for trusted importers, where imports will only be checked via a post-clearance audit. To reduce bottlenecks, we are developing a time registry system to measure the time taken for each step of the customs process. We enacted a new Customs Act in December 2025, including to increase penalties for under-valuation. Some domestic tax services, including registration, have been devolved to local governments. We are taking measures to recover tax arrears from non-residents. 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 0.7 percent of GDP in resumed capital projects will boost public investment in the second half of this fiscal year. To improve inter-agency coordination, the FY2025/26 budget introduces accountability measures—such as responsibility for cost overruns—for agencies that do

not take project-related decisions in a timely manner. Damages from the protests amount to Rs. 84 billion, of which the public sector accounts for around 53 percent. Almost all reconstruction will begin in FY2026/27, boosting capital expenditure. Tendering for the FY2026/27 fiscal year will be allowed to begin before the fiscal year starts, providing extra lead time. We will enhance the credibility of revenue forecasts in the budget, to ensure project continuity and better execution of the capital budget.

12. We will strengthen the National Project Bank (NPB) to enhance the efficiency of capital spending. To improve public investment efficiency and strengthen capital spending management, 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). A supplementary guideline was issued in June 2025 (end-March 2025 SB, not met, completed with delay). The revised guidelines strengthen the project appraisal and selection process. We will reinforce implementation of these guidelines by mandating that all big projects (above Rs. 30 million) undergo rigorous technical, economic, and financial appraisal prior to budget inclusion. We will establish a national dashboard system for projects costing more than Rs. 500 million. To enhance coordination and real-time information sharing across levels of government, we are drafting guidelines for subnational and local project banks. We will update the NPB Management Information System (NPBMIS) and integrate it with the Line Ministry Budget Information System (LMBIS) and the Medium-Term Expenditure Framework (MTEF), enabling a consistent approach to project management across government. Over time, we subsequently plan to integrate the NPBMIS with the Provincial Project Bank Management Information System (PPBMIS) and the Local Project Bank Management Information System (LPBMIS).

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, although full implementation is yet to be achieved. We are committed to improving our regular cash flow forecasts to 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, as well as guidelines that we are drafting for the accounting, reporting, and banking arrangements of

extra-budgetary units (EBUs), 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. We have established a new dedicated Fiscal Risk Section under Economic Policy Analysis Division, Ministry of Finance. With the help of IMF TA, we have published a comprehensive fiscal risk statement and strategy (end-August 2025 SB, met) for FY2025/26, alongside our regular Fiscal Policy Statement. The statement systematically analyzes the sensitivity of budget estimates and public debt projections to various fiscal risks. We have included PPPs as well as guarantees in this statement. We are planning to improve future fiscal risk statements by including government loans and other risks associated with the alternative investment financing vehicle. We plan to publish an updated fiscal risk statement for FY2026/27 before the end of FY2025/26.

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). The FY2024/25 financial statements included 118 EBUs at the federal level and 31 at the provincial level, improving coverage significantly from the 90 federal and 9 provincial in FY2023/24. We will continue to increase the coverage of EBUs in future financial statements. For this purpose, the FCGO and OAG have developed a mapping that reconciles their different definitions of EBUs.

Social Spending

17. We are committed to further enhancing our social safety net to support our poverty alleviation efforts. 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, including for children. 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. The indicative target for the child grant for FY2024/25 was narrowly missed, with spending 1 percent below target. 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, benefiting more children than the child grant. 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). We have approved guidelines for a new budget code for child welfare payments, which will improve data collection and help us to reduce fragmentation of child benefits, with the aim to increase benefits for children. 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. We will continue to strengthen our

social safety net through better-targeted and transparent measures, with priority given to cushioning households from the adverse effects of potentially rising food and energy prices.

Monetary and Exchange Rate Policy

18. Our monetary policy will remain focused on price and external sector stability as the primary objectives, while also maintaining financial sector stability. Domestically, inflation is projected to remain within target, and domestic demand remains weak, with growth expected to recover gradually. At the same time, the external position has remained resilient, with foreign exchange reserve cover at comfortable levels. Large remittance inflows—along with weak private sector credit demand—has resulted in large deposits in banks and financial institutions and build-up of excess liquidity. The interbank rate and interest rates on open market operations (OMOs) have remained around the lower bound of the interest rate corridor (IRC), while bank lending rates and deposit rates have continued to decline. Under the current outlook for inflation and external sector, we will continue to maintain a cautiously accommodative monetary policy stance.

19. We will continue to strengthen the monetary policy toolkit to enhance liquidity management. We have increased the volume of OMOs conducted via Deposit Collection Auctions to absorb excess liquidity. In addition, we have issued NRB bonds—the first time in 10 years—in December 2025-January 2026 amounting to Rs. 200 billion with one-year maturity. We will continue closely monitoring the liquidity situation in the system and conduct OMOs across varied maturities to reduce excess liquidity, supported by improved liquidity forecasting and Fund TA. We remain committed to enhancing the effectiveness of the IRC, including by gradually aligning the interbank rate closer to the policy rate, further narrowing the IRC, and keeping the IRC symmetric.

Financial Sector Policies

20. We continue to work on designing a comprehensive strategy to improve bank NPL recoveries. Aggregate gross NPL levels of the financial sector rose further to 5.4 percent in January 2026 and are indicated higher by the recently completed LPR. NPLs are likely to continue to rise due to delayed loan recovery and weak economic conditions. To improve NPL recoveries, we have required banks with NPLs above 5 percent to submit comprehensive NPL management strategies. The NRB will continue to prioritize supervisory measures to encourage and facilitate NPL resolution. We are preparing a legal framework for an Asset Management Company (AMC). To be effective, the AMC will first require improvements to the debt recovery framework, including the insolvency law, and improvements in the real estate market to dispose of repossessed collateral. The AMC must require timely loss recognition by the banks, establish a sufficiently discounted acquisition price, give precedence to cash recoveries, and designate a sunset date to incentivize loan workouts.

21. The loan portfolio review of the 10 largest banks has been completed, and steps are now being initiated to address its findings. The onsite inspection was completed in December 2025 (end-December 2025 SB), and the final consolidated report and individual bank reports have been provided to the NRB. The LPR identified loans within its sample set that required reclassification and additional provisioning in line with the existing regulatory framework and

international best practices. The report also highlighted areas of regulatory regime that can be enhanced to ensure that NPLs are accurately reported. To address these issues, we have developed a roadmap to guide banks in addressing the identified provisioning and capital needs in accordance with timebound quantitative targets to return to full regulatory capital compliance. This roadmap references the December 2025 alignment of the asset classification regulation with BCBS Guidelines on “Prudential Treatment of Problem Assets”. In addition, we are developing an Action Plan to incorporate the qualitative findings of the report into our regulatory and supervisory approach to improve reporting requirements.

22. We are better aligning the bank resolution framework and the asset classification regulation with international standards. We have worked with IMF staff to develop draft amendments to the bank resolution regime in the NRB Act. The amendments, once passed by parliament and enacted, will 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). These draft amendments together with the amendments based on the 2021 Safeguards Assessment is in the process of being submitted to Parliament (1126) (Prior Action). We commit to further refining the legislation in future to more clearly delineate between restructuring and resolution activities, allow for fuller burden sharing by unsecured and uninsured private sector creditors, and other enhancements as advised by IMF staff. We have also aligned the asset classification regulation with the continuous repayment period of three months for reclassification of 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, completed with delay). This will allow the BCBS standard to be applicable as we implement the post-LPR roadmap and refine our banking supervision regime.

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 continue preparing 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 prioritize the implementation of the Technical Assistance roadmap.³ In February 2026, we relaxed the working capital loan (WCL) guidelines to respond to temporary market weaknesses. We will reverse this relaxation once the economic conditions recover and enforce proper utilization of WCLs, ensuring that any additional future adjustments are limited, time-bound, and do not impact the scope or core purpose of the guidelines. Also in February, we introduced an additional category of forbearance to address those affected by two highway expansion projects and broadened the economic sectors subject to directed lending targets to include, among others, the information technology sector.

³ We are training the supervision staff, and the supervisory information system (SIS) has been fully rolled out. We are finalizing the review of our capital adequacy framework and are in the process of implementing the Liquidity Coverage Ratio and Net Stable Funding Ratio effective mid-July 2025.

Going forward, we will ensure regulatory forbearance continues to be 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 including through enhancements to our onsite examination process based on the qualitative findings of the LPR. We will continue to seek IMF TA as we further refine and enhance our regulatory framework. We stand ready to use other macro-prudential tools to mitigate the buildup of financial vulnerabilities.⁴

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 several development banks, and regular supervisory actions in other banks and financial institutions. For Banks and financial Institutions (BFIs) that are facing capital issues, NRB has taken remedial action including suspension of dividend payments and will require all BFIs facing capital issues to prepare capital restoration plans to be approved and monitored by NRB. Given additional weaknesses in some BFIs, NRB in recent years has taken prompt corrective actions, including in one case taken over management control pursued restructuring. NRB will stand ready to 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.⁵ We are streamlining 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 the establishment of the National Cooperatives Regulatory Authority (NCRA) in January 2025, we are aiming to strengthen the NCRA by developing its data collection, registration, regulation, and supervision protocols for SACCOs. It will operate in coordination with local authorities and will closely cooperate with NRB on regulatory issues. Going forward, we will classify SACCOs based on size of balance sheet and risk and will focus our efforts on dealing with the sixteen SACCOs identified as problematic. We will establish a judicial recovery mechanism to improve the recovery of problematic SACCO loans to repay depositors. Future participation of SACCOs in the Deposit and Credit Guarantee Fund (DCGF) will be preceded by dealing with problematic SACCOs and finalizing the registration process and undertaking effective supervision. We will introduce the necessary legal amendments to strengthen the DCGF, allow the DCGF to set membership criteria for eligible SACCOs, and will establish a separate Fund from that of the banking sector.

⁴ 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).

⁵ 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 32.6 percent of Class A banks' total loan portfolio as of mid-January 2026.

Governance and Other Structural Reforms to Boost Growth

26. We are committed to further enhancing the governance framework of the NRB. The draft amendment to the NRB Act is in the process of being submitted to Parliament (Prior Action). These amendments include key recommendations of the Safeguards Assessment to strengthen the NRB's mandate, governance, financial and personal autonomy, and accountability practices. The proposed amendments represent progress, and we will strive to enhance NRB's institutional autonomy.⁶ Once enacted, we will align the relevant Rules and Bylaws and the Internal Audit Charter with the new law. Additionally, we have implemented most of the 2021 Safeguards Recommendations unrelated to the NRB Act.

27. We remain committed to advancing AML/CFT reforms and addressing deficiencies in our AML/CFT framework. We have made progress in strengthening the AML/CFT framework in line with the FATF Action Plan aiming to exit from the list of Jurisdictions under Increased Monitoring within the agreed timeline. With IMF TA, we have addressed most of the items in the Action Plan related to Targeted Financial Sanctions (TFS). The Asset (Money) laundering Prevention Rules (ALPR) was amended, and the TFS directives, Implementation Procedures of Targeted Financial Sanctions (IP-TFS), as well as Guidance on delisting and unfreezing of assets were issued and updated to address the related deficiencies. We will continue to demonstrate effective and consistent implementation of this enhanced framework. We are also committed to advancing broader AML/CFT reforms, including completing the National Risk Assessment; increasing NRB and other supervisors' capacity; and updating supervision manuals and sectoral directives. We will continue addressing resource constraints to ensure effective, risk-based AML/CFT supervision across banks, financial institutions and designated non-financial businesses and professions (DNFBPs). We are committed to improving the use of financial intelligence, money laundering investigations and confiscation/asset management framework. We are also committed to advancing beneficial ownership (BO) transparency, including working toward a central BO registry. We will continue to advance ongoing efforts to monitor any potential economic implications of grey listing to enable us to better coordinate and manage policy responses in areas with significant implications.

28. Recognizing public demand for good governance and anti-corruption measures, we have stepped up efforts in this area. The recently published Good Governance Blueprint and the 100-point Roadmap will guide reform implementation. The blueprint reflects key governance challenges highlighted in the recent Gen-Z protests, including on transparency, accountability, and public service delivery—areas that have been central to concerns raised by the youth—and provides a coherent reform framework to support continuity as the new government assumes office. The 100-point Roadmap focuses on enhancing transparency, public service delivery, and anti-corruption strategy. Recognizing that good governance and strong institutions are central to advancing the broader reform agenda, we view governance reforms as an essential anchor to boosting private

⁶ Despite the Finance Secretary remaining on the NRB Board, the amendments would introduce several safeguards to reinforce NRB's autonomy. These include increasing the number of Board members, disqualifying government and public entity officials and employees from the Board, tightening monetary financing to the government and public entities, as well as strengthening the appointment tenure for Board Directors and dismissal procedures. We will also ensure future amendments consider quorum requirements to be in line with international best practices to strengthen Board's oversight responsibilities.

investment, improving productivity, creating quality jobs, strengthening human capital, and reducing incentives for outward migration—thus reducing inequality and fostering inclusive durable growth. 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. Nepal has become the second country in the Asia and Pacific Region to embark on a IMF Governance and Corruption Diagnostics (GCD), highlighting our firm commitment to root out vulnerabilities.⁷ Once the GCD report is complete, it will provide an action plan with specific, sequenced recommendations and reform priorities. This action plan together with the blueprint and the 100-point Roadmap will inform the measures to improve governance and reduce corruption. We are also modernizing our anticorruption framework by updating legal provisions and enhancing fraud detection and enforcement capabilities.⁸

29. We are also accelerating structural reforms to unlock Nepal’s growth potential and build a more resilient, inclusive, and sustainable economy with equal job opportunities.

Building on the recently adopted bills, we are enhancing governance, advancing privatization, reducing regulatory bottlenecks, strengthening fiscal discipline, and improving oversight of the cooperative sector.⁹ Drawing on the recommendations of the High-Level Economic Reform Advisory Commission, we have developed a comprehensive, time-bound action plan comprising 408 measures over the next three years to strengthen macroeconomic fundamentals, restore private sector confidence, and enhance institutional capacity. We are also scaling up climate-related investments in line with our Nationally Determined Contributions and National Adaptation Plan, with a focus on climate-smart agriculture, sustainable forest management, resilient infrastructure, and disaster risk financing. Implementation of the 16th Plan—now reflected in the 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 reforms are expected to catalyze private investment, create job opportunities, enhance competitiveness and resilience, and support a robust, green, and inclusive long-term growth trajectory.

⁷ For Nepal, the GCD covers fiscal governance focused on Public Financial Management (PFM) and revenue administration, financial sector oversight, rule of law, and anti-money laundering and countering the financing of terrorism. It will also assess the effectiveness of the anti-corruption legal and institutional framework in supporting macroeconomic objectives.

⁸ 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.

⁹ The Bill on Facilitating Investment was enacted in August 2025. Additionally, five ordinances were passed into laws, including “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”.

Risks and Contingencies

30. Downside risks and global uncertainty remain, but we stand ready to adjust policies as needed to respond. A major commodity price shock or a sharp slowdown in remittance inflows could require monetary policy tightening to preserve external stability and keep inflation in check. Amid elevated global geopolitical tensions including war in the Middle East and high uncertainty, foreign exchange reserve buffers are adequate to cushion against temporary shocks. We will closely monitor the economic impact on Nepal's economy stemming from the war in the Middle East and adopt prudent policy measures to preserve macroeconomic stability while protecting the vulnerable. Nepal's high exposure to natural disasters represents an additional risk to macroeconomic stability and external financing needs. In the event of shocks too large to be absorbed through policy adjustment and our existing buffers alone, we would seek additional support from 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 continued reform commitments.

31. Given the downside domestic risks, we are prepared to implement risk-mitigating policies. Should revenue mobilization efforts fall short, we would prioritize protecting growth-enhancing capital investment and critical social spending, while safeguarding fiscal sustainability through expenditure reprioritization and public investment efficiency measures as needed. Financial sector vulnerabilities could pose risks to macroeconomic and external stability by increasing potential fiscal costs and, in the event of stress, putting pressure on external buffers. The NRB has completed the LPR which identified underlying vulnerabilities and weaknesses in banks' credit underwriting practices and continues to strengthen supervisory practices and its framework for addressing bank stress. In the event of bank stress, the NRB stands ready to provide liquidity support to viable institutions, while triaging deeper solvency problems.¹⁰ Finally, we will implement policies to prevent spillovers from the difficulties in SACCOs, for instance through the registration and regulation of SACCOs.

Financing and Program Monitoring

32. 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.

¹⁰ Triage refers to addressing solvency problems through (i) using banks' resources, (ii) restructuring, or (iii) resolution/liquidation.

33. The ECF program is monitored on a semi-annual basis 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. We are requesting that an amount of SDR 31.32 million is made available for the seventh review; 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.

34. Beyond the program, we will continue to engage with the IMF through a Post Financing Assessment. With IMF's outstanding credit to Nepal projected to remain above 200 percent of quota during FY2026-FY2028, we will engage with the IMF on a Post Financing Assessment. We are committed to undertaking policies which will ensure continued macroeconomic and financial stability.

Table 1. Nepal: Structural Benchmark Status and Modifications

(April 2025-May 2026)

Measure	Original Target Date	Status	Proposal
Cross-Cutting Institutional Reforms to Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption			
The MOF submits to Parliament amendments to modernize the NRB Law, addressing key recommendations of the 2021 Safeguards Assessments Report. ^{1/}	End-April 2025	Not met	
Revenue Mobilization			
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	Met	
Financial Sector Regulation & Supervision			
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". ^{2/}	End-December 2025	Not met, (completed with delay)	
Launch for 10 largest Banks in-depth onsite inspections assisted by independent international third-party auditors. ^{3/}	End-May 2025	Not met, (completed with delay)	
NRB completes in-depth on-site inspections for the 10 largest Banks, assisted by independent international third-party auditors. ^{4/}	End-December 2025	Met	
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. ^{5/}	End-October 2025	Not met (part of prior action)	
The MOF submits to Parliament amendments to the NRB Act, addressing certain recommendations of the 2021 Safeguards Assessments Report, as included in the draft law reviewed in June 2025, in the areas of the NRB mandate, governance and oversight, financial and personal autonomy, and transparency and accountability, and key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report.		Pending	Prior Action

^{1/} 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.

^{2/} This SB corresponds to the end-August 2023 SB that was met by issuing updated regulations, but later partially reversed.

^{3/} 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 5th review to end-May 2025.

^{4/} 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 5th review to end-December 2025.

^{5/} This SB corresponds to the end-April 2025 SB that was not met and was reset at the 6th review to end-October 2025.

Table 2. Nepal: Quantitative Targets ^{1/}

(Cumulative Rs. million unless otherwise indicated)

	FY2024/25				FY2024/25			
	13-Jan-25				15-Jul-25			
	Program target	Adjusted target	Outturn	Status	Program target	Adjusted target	Outturn	Status
Quantitative performance criteria under the ECF-supported program:								
Primary deficit of the federal government (ceiling; in NPR million) 1,3,4,6,7,10/	233,270	245,837	-18,701	met	256,943	254,543	121,298	met
Stock of NRB's net international reserves (floor; in U.S. dollars million) 1,8/	9,649	9,559	15,533	met	10,229	10,129	18,198	met
Accumulation of external payments arrears (ceiling) 2/	0	0	0	met	0	0	0	met
Indicative targets under the ECF-supported program:								
Indicative target: federal government spending on child allowance (floor; in NPR million) 5/	3,092	3,092	1,890	not met	6,987	6,987	6,936	not met
Indicative target: floor on tax revenue of the federal government 9,11/	392,743	392,743	424,698	met	902,288	902,288	908,678	met
Memorandum items:								
Revenues of the budgetary central government under the program (in NPR million) 1,3/	..				..		1,000,212	
Revenue targets of the budgetary central government (in NPR million) 1,3/	..				1,125,209			
Ceiling of primary deficit adjustor for revenue shortfalls (in NPR million) 6/	..				..			
Foreign-financed project loan disbursements (in NPR million) 1,3/	9,191		21,758		91,912		89,512	
Primary deficit adjustor for foreign-financed project loan disbursements (in NPR million) 1,3/	..		12,567		..		-2,400	

Sources: Nepali authorities; and IMF staff estimates/projections based on the Nepali fiscal year and calendar.

1/ The quantitative targets, indicative targets, program exchange rates and adjustors are defined in the Technical Memorandum of Understanding (TMU). Foreign currency deposits of commercial banks and other financial institutions held at the NRB are considered reserve related liabilities and excluded.

2/ This quantitative target is applied on a continuous basis.

3/ Cumulative from the beginning of the fiscal year.

4/ Excludes interest payments. The program primary deficit definition also excludes grants and other receipts from the revenue side, so figures in this table are higher than those reported in the macroeconomic framework.

5/ The social spending indicative target will initially be a floor on spending on the child protection grant. This indicative target will start in the second review with the test dates beginning in July 2022. The initial floor will be FY2020/21 outturns plus an additional amount to reflect the announced one third increase in budget.

6/ The program targets for the primary deficit include adjustors for the level of revenue collection. The upward adjustment to the ceiling is capped at NPR 61,009 million for the January 14, 2024 test date. The adjustor will be phased out starting at the July 15, 2024 test date.

7/ The program targets for the primary deficit include adjustors for foreign-financed project loan disbursements on concessional terms. Foreign-financed project loan disbursements is the difference between total external financing and budget support from development partners.

8/ NIR floor target for July 15, 2024 testing date is set about 0.8 months of imports above the adequacy level to provide margin in case of external shocks or if imports pick up faster than projected, while keeping reserves well above adequacy. The margin was gradually reduced to 0.6 months of imports for the targets.

9/ This is a program indicative target, not a revised target of the Budget. The Budget target remains NPR 1,248,620 million.

10/ Revenue sharing for province and local levels and other receipts are also excluded.

11/ Revenue sharing for province and local levels, nontax revenue and other receipts are also excluded.

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 145.2 per one USD, which corresponds to the exchange rate on February 10, 2026. Gold holdings will be valued at USD 4719.7 per troy ounce, the price in January 2026 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 February 10, 2026 exchange rates reported in Table 1:

Table 1. Nepal: Program Exchange Rates ^{1/}	
Currency	Program Exchange Rate
U.S. dollars / Nepali rupee	0.007
U.S. dollars / U.K. pound	1.368
U.S. dollars / Indian rupee	0.011
U.S. dollars / Chinese yuan	0.145
U.S. dollars / Euro	1.189
U.S. dollars / Japanese yen	0.006
U.S. dollars / Brunei dollar	0.791
U.S. dollars / Korean won	0.001
U.S. dollars / Kuwaiti dinar	3.277
U.S. dollars / Malaysian ringgit	0.255
U.S. dollars / Australian dollar	0.707
U.S. dollars / Bahrain dinar	2.660
U.S. dollars / Canadian dollar	0.737
U.S. dollars / Danish krone	0.159
U.S. dollars / Hong Kong dollar	0.128
U.S. dollars / Swedish krona	0.112
U.S. dollars / Swiss franc	1.304
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	0.032
U.S. dollars / U.A.E. dirham	0.272
U.S. dollars / Singapore dollar	0.790
U.S. dollars / SDR	1.379
1/ The reference date for exchange rates is February 10, 2026.	

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.¹

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

Date	Cumulative over the period from January 15, 2025 to July 15, 2025 (USD million)
July 15, 2025	140

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).

¹ 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 projection for foreign-financed project loan disbursement for the last test date is presented in Table 4.

Table 4. Nepal: Foreign-Financed Project Loan Disbursement Projected under the Program	
Date	Cumulative over the respective fiscal year (Million NPR)
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^{1/}

Data	Frequency	Submission Lag^{2/}
Ministry of Finance		
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 ^{3/}
Mid-year budget review. The MOF Mid-year budget review reports will be used as the basis for program monitoring.	A	30 calendar days ^{4/}
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)

Data	Frequency	Submission Lag
Public Debt Management Office		
Stock of outstanding external debt payment arrears of the general government (if any) by creditor.	Q	30 calendar days
Nepal Rastra Bank		
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 th 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 accounts/funds at NRB, including treasury accounts, pre-funding accounts, VAT refunds, 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 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)

Data	Frequency	Submission Lag
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 BFIs 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
Note: A = Annually; Q = Quarterly; H=Half-yearly; M = Monthly; W = Weekly. 1/ Reports and data are provided in English. Data are provided in excel files. 2/ After the end of respective week, month, quarter, or fiscal year in Nepali calendar, unless otherwise indicated. 3/ 30 calendar days after the delivery of the budget speech. 4/ 30 calendar days after January 15.		



NEPAL

April 7, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Rupa Duttagupta and Koshy Mathai (IMF) and Manuela Francisco and Sebastian Eckardt (IDA)

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

Joint Bank-Fund Debt Sustainability Analysis	
Risk of External Debt Distress	Low
Overall Risk of debt Distress	Low
Granularity in the Risk Rating	Not Applicable
Application of Judgment	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).¹ While the present value (PV) of the external debt-to-exports ratio breaches the indicative threshold under a combined shock scenario—mechanically suggesting a moderate risk rating—staff judgment is applied, as in the previous DSA, to override the mechanical signal given Nepal's exceptionally high remittances inflows. Remittances, which amount to more than three times the value of exports, constitute 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. Together with predominantly concessional external financing, they support the country to 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 48.1 percent of GDP in FY2024/25, lower than projected in last year's DSA.

¹ 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 October 2025 World Economic Outlook (WEO) and the 2024 World Bank Country Policy and Institutional Assessment (CPIA) index.

This better-than-expected outcome reflects primary expenditure control, and an improvement in the negative Treasury Single Account (TSA) balance, despite an increase in the net acquisition of financial assets. Looking ahead, public debt is projected to peak at 49.6 percent of GDP in FY2025/26 before gradually declining over the medium term. This trajectory is predicated on sustained fiscal consolidation—as envisaged under the ECF-supported program and reaffirmed in the FY2025/26 budget—including reforms to mobilize domestic revenue. 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 2020–2025 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 52.5 billion by the end of FY2024/25 (0.86 percent of GDP), which is included in the debt stock.² 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).³ 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. Although, the consolidated net balance across all government accounts was positive—at 1.1 percent of GDP in 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.⁴ The structural drivers of the negative TSA balance in Nepal include weaknesses in cash management and fragmented public sector cash holdings. The negative TSA balance declined to 2.8 percent of GDP in FY2024/25, from 4 percent in FY2023/24, partly supported by fiscal consolidation efforts and higher import-related revenue collection. In addition, in early January 2025 the government adopted an ordinance on Public Financial Management (PFM) related matters. One of the objectives of the ordinance is to improve cash management over the medium-term through better oversight of Extra Budgetary Units and expanded authority of the Ministry of Finance (MOF) to transfer the balance available in any government fund, established under law to the Federal Consolidated Fund. Nevertheless, 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.

² The stock of guarantees increased by NPR 3.1 billion since the last DSA.

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

⁴ These cash balances can only be counted to reduce net debt.

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 (2.11 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 0.9 percent of GDP annually since 2017, but increased sharply to 1.8 percent in FY2024/25 from near zero 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 gradually return to its historical average over the medium term. The government has recently completed "Fiscal Risk Statement and Strategies" aimed at containing SOE-related fiscal risks. Key measures include: (i) enhancing institutional governance and financial performance of Public Enterprises (PEs) by: (a) introducing a performance-linked incentive system for PE employees, restricting financial rewards for entities with negative retained earnings or delayed audit submissions, and (b) deploying a dynamic management information system for strengthening oversight capacity of MOF; (ii) restructuring PEs through PPPs and strategic equity partnerships; (iii) monitoring, analyzing and disclosing contingent liabilities of PEs; and (iv) expediting the audit of PEs. These reforms should help contain SOE fiscal risks and prevent persistently elevated NAFA. Importantly, the contingent liability stress test for SOE debt is applied in addition to the NAFA already embedded in the baseline. 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.⁵ Overall, SOE-related fiscal risks remain elevated and require close monitoring.⁶ Strengthening risk oversight should include timely

⁵ Other major SOEs, including Nepal Oil Corporation, were profitable in FY2024/25. For more details on SOE risks in Nepal, see the 2023 Selected Issues Paper on "Public Enterprises and Fiscal Risks".

⁶ A substantially larger than the default value of SOE debt shock in the contingent liability stress test does not lead to a breach in threshold and remain below the most extreme shock scenario.

publication and audit of SOE financial statements and the expansion of the fiscal risk registry to incorporate subnational governments and PPPs, in line with the published fiscal risk statement. 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—including rising non-performing loans (NPLs), weaker capitalization, and subdued credit growth—warrant continued vigilance, particularly in the savings and credit cooperative (SACCO) sector (SR 1129). The recently completed loan portfolio review (LPR) for the ten largest banks by the Nepal Rastra Bank (NRB) is a welcome step (SR 1117)⁷.

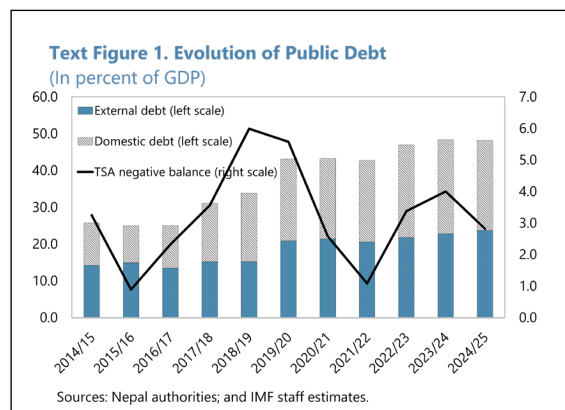
4. Public debt management practices are steadily improving, though scope for further progress remains. The enactment of the Public Debt Management Act (PDMA) in October 2022 marked a significant milestone, consolidating debt management functions within the Public Debt Management Office (PDMO). The Act 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. Since 2022, Nepal has received multiple TA missions on revenue administration and tax policy (including six in 2024 and three in 2025), which have supported database management and reporting for IT Customs Systems, strengthened tax expenditure reporting, enhanced risk-based audits, and improved customs revenue mobilization. In parallel, the Ministry of Finance has developed a fiscal risk registry covering key fiscal risks—including those related to SOEs and government guarantees—and has begun publishing the Fiscal Risk Statement to identify, disclose, and propose mitigation measures for these risks.⁸ 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 strengthening. 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.

⁷ Sensitivity analysis indicates that a higher assumed financial market shock would not result in a breach of any indicative thresholds under the contingent liability stress test (remain below the "growth" and "combination of shocks" in "most extreme shock" comparisons"). The focus of the LPR is only on banks and not on SACCO exposure.

⁸ The first "Fiscal Risk Statement and Strategies" was published on July 30, 2025, and it is expected that the MOF will continue publishing such a report on annual basis.

BACKGROUND ON DEBT

5. Nepal's total public debt has followed a steadily rising trend over the past decade (Text Figure 1). The increase began in 2016, reflecting the fiscal costs associated with the transition to fiscal federalism and post-earthquake reconstruction following the 2015 earthquake. Public debt rose further in FY2019/20 in response to the COVID-19 pandemic and continued to increase thereafter, as the initial post-pandemic rebound in credit and imports gave way to a slowdown. The subsequent moderation in economic activity weighed on GDP growth and constrained tax revenues. As a result, public debt has nearly doubled, rising from 25 percent of GDP in FY2015/16 to 48.1 percent in FY2024/25.



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 about 80 percent of total external public debt in FY2024/25 (Text Table 2). These loans are characterized by low interest rates (averaging 1.3 percent) and long maturities (averaging 32 years), resulting in a high degree of concessionality. As a result, the present value (PV) of external debt is estimated at just 17.2 percent of GDP in FY2024/25. 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 marginally since the pandemic, reflecting political and capacity constraints that have limited the execution of externally financed capital projects. This underscores the importance of improving the utilization of concessional external financing from development partners.⁹ 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*. Given the still-high degree of concessionality in Nepal's external borrowing, the transition to IDA Gap status is not expected to materially affect external debt sustainability.¹⁰

⁹ The World Bank and ADB are expected to remain the main sources of external financing on concessional terms, as Nepal still has access to IDA resources. However, for Nepal, the challenge is the ability to mobilize external resources. For instance, according to the latest data from the PDMO, as of mid-December 2025, Nepal has only mobilized 11.8 percent of the total \$1.7 billion external borrowing expected in FY26.

¹⁰ IDA blend term credits at fixed rates comes with 25-years final maturity, 5-years grace period, and a fixed interest rate of 1.5% in SDR, with an overall concessionality of 35%.

Text Table 2. Nepal: Decomposition of Public Debt and Debt Service by Creditor, 2025-27

	Debt Stock (end of period)			Debt Service					
	2025			2025	2026	2027	2025	2026	2027
	(In million US\$)	(Percent total debt)	(Percent GDP)	(In million US\$)			(Percent GDP)		
Total¹	21,417	100	48.1	4,768	5,076	1,782	10.7	11.4	4.0
External	10,545	49.2	23.7	421	482	532	0.9	1.1	1.2
Multilateral creditors ²	9,224	43.1	20.7	337	395	452	0.8	0.9	1.0
IMF	477	2.2	1.1						
World Bank	5,026	23.5	11.3						
ADB	3,386	15.8	7.6						
Other Multilaterals	335	1.6	0.8						
Bilateral Creditors	1,015	4.7	2.3	84	87	80	0.2	0.2	0.2
Paris Club	460	2.1	1.0	22	25	25	0.0	0.1	0.1
o/w: JICA	420	2.0	0.9						
EXIM Bank of Korea	35	0.2	0.1						
Non-Paris Club	555	2.6	1.2	62	62	55	0.1	0.1	0.1
o/w: EXIM Bank of China	247	1.2	0.6						
EXIM Bank of India	273	1.3	0.6						
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
Domestic	10,872	50.8	24.4	4,346	4,594	1,250	9.8	10.3	2.8
Held by residents, total	10,872	50.8	24.4	4,346	4,594	1,250	9.8	10.3	2.8
Held by non-residents, total	0	0.0	0.0	0	0	0	0.0	0.0	0.0
T-Bills	2,735	12.8	6.1	3,032	3,559	0	6.8	8.0	0.0
Bonds	6,467	30.2	14.5	1,315	1,035	1,250	3.0	2.3	2.8
Loans ³	1,670	7.8	3.8	0	0	0	0.0	0.0	0.0
Memo items:			0.0						
Collateralized debt ⁴	0	0.0	0.0						
o/w: Related	0	0.0	0.0						
o/w: Unrelated	0	0.0	0.0						
Contingent liabilities	382	1.8	0.9						
o/w: Public guarantees	382	1.8	0.9						
o/w: Other explicit contingent liabilities ⁵	0	0.0	0.0						
Nominal GDP	44,481								

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 increased more rapidly than external debt in recent years. It rose from 10.1 percent of GDP in FY2015/16 to 24.4 percent in FY2024/25, 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 led to a marked 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).¹¹ These pressures

¹¹ The higher domestic debt service in 2025 relative to the previous DSA reflects the amortization of the large volume of short-term Treasury bills issued in 2024. As of mid-December 2025, Development Bonds and Treasury Bills account for 76 percent and 22.5 percent of outstanding domestic debt, respectively, consistent with the authorities' efforts to

(continued)

have been driven in part by a substantial increase in interest payments. More recently, however, interest rates on domestic debt have declined, trending toward 3–5 percent depending on the instrument. In FY2024/25, more than 85 percent of total government interest expenditure—equivalent to about 1 percent of GDP—was allocated to servicing domestic debt. With some repayment of domestic obligations, a slowdown in new issuance, and an expected recovery in revenue and grants, the debt service-to-revenue ratio is projected to decline, though it is expected to remain elevated relative to peers over the medium term, posing risks to debt sustainability. However, both the domestic debt-to-GDP and debt service-to-revenue ratios are now projected to be somewhat lower than in the previous vintage, reflecting (i) a smaller negative TSA balance than previously forecast—an improvement assumed to persist over the medium term—and (ii) a smaller-than-expected primary deficit in FY2024/25, alongside a projected narrower primary deficit over the remainder of the projection period. In terms of composition, around 30 percent of domestic debt was held in short-term Treasury bills (with maturities up to one year) in FY2024/25, while just under 70 percent consisted of medium- to long-term development bonds (with maturities of 3 to 7 years) (Text Table 2). However, the share of development bond issuance increased in the first half of FY2025/26 and is expected to contribute to a decline in the domestic debt service to revenue ratio starting this fiscal year. Consistent with these dynamics and a lower-than-expected primary deficit, gross financing needs are projected to decline over the medium term. Domestic financial institutions—predominantly commercial banks—are the main holders of government domestic 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 remains relatively low but has increased in recent years. While the government and the NRB have encouraged commercial banks to access external financing, bank external borrowing has been constrained by limited market access, relatively high cost, and regulations by authorities, such as a maximum spread limit on banks' foreign loans and limits on the set of potential lenders. Excluding trade credit, external debt of banks and other private sectors stood at around 2.5 percent of GDP in FY2019/20, but picked up during 2021–25, reaching an estimated 3.8 percent of GDP in FY2024/25. This increase reflects tighter domestic monetary conditions and a widening differential between domestic and external funding costs. Reflecting this recent trend, private medium- and long-term external debt is assumed to rise gradually to 5.5 percent of GDP over 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 affirmation of Nepal's BB- sovereign risk rating by Fitch in November 2025.

BACKGROUND ON MACRO FORECASTS

9. Economic growth in Nepal is estimated to have strengthened in FY2024/25, relative to the previous year, although significant structural challenges persist. Real GDP growth was supported by

lengthen maturities. From 2026 onward, domestic debt service as a share of revenue and grants is projected to decline.

construction, manufacturing and export-oriented sectors, alongside strong remittance inflows. While credit growth remained subdued, imports showed signs of recovery. The external position strengthened markedly, underpinned by robust remittances and a surge in exports, resulting in a sizable accumulation of international reserves. Despite an accommodative monetary policy stance, the credit-to-GDP ratio continued to decline from its post-pandemic peak, reflecting weak private sector credit demand and capital constraints in the banking system. Growth is expected to slowdown in FY2025/26, as the impact of September 2025 protests and delays in reconstruction weigh on near-term activity, and reflecting also spillovers from the war in the Middle East. Gen-Z protests inflicted losses of about 1.4 percent of FY2024/25 GDP, with private sector losses estimated at about 40 percent of the total (around 0.6 percent of GDP). The recovery in FY2026/27 and beyond is projected to be supported by a rebound in construction and manufacturing linked to improved investment climate post-election, advancing of post-protest reconstruction activity, and higher capital spending following fiscal measures to reprioritize projects and improve execution efficiency. Import growth accelerated during the first four months of the current fiscal year, but the pace of growth has slowed since then and is expected to pick up during the remainder of the fiscal year, reflecting higher oil prices. Nonetheless, the macroeconomic outlook remains constrained by persistent structural weaknesses, including low domestic job creation, sizable infrastructure gaps, and high exposure to natural disasters, which are exacerbated by climate change and environmental degradation.

10. Growth and inflation. The economy is estimated to have grown by 4.6 percent in FY2024/25, broadly in line with projections in the previous DSA (Text Table 3). Real GDP growth is projected to moderate to 3 percent in FY2025/26, reflecting protest-related disruptions, negative spillovers from the war in the Middle East, and weaker agricultural output, before stabilizing at around 5 percent over the medium and long term, as substantial negative output gap gradually closes. Inflation eased to 4.1 percent in FY2024/25, supported by declining global commodity prices. It is projected to decline further to 3.1 percent in FY2025/26—reflecting in part subdued domestic demand—before gradually converging to 5 percent over the medium and long term. This trajectory hinges on Nepal’s exchange rate peg to the Indian rupee, which serves as a nominal anchor for inflation,¹² together with the NRB’s cautious, data-driven monetary policy stance and continued stability of energy and food prices.

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 use of concessional external financing to scale up high-quality social and capital spending. Key growth drivers include tourism-related services, improved capital expenditure execution,¹³ as well as stronger FDI inflows and better access to finance, which is expected to benefit from several institutional reforms. The issuance of the revised National Project Bank Operational Procedures in March 2025 (and a supplementary guideline in June 2025), implementation of the Public Investment Management Assessment (PIMA) action plan by the

¹² According to the latest World Bank MPO and IMF WEO forecasts, India’s inflation rate is expected to be around 4 percent.

¹³ The World Bank’s Nepal Development Update (November 2025) emphasizes that accelerating public investment would require implementing key reforms, including (a) strengthening project planning and budgeting, (b) streamlining land acquisition and tree-cutting processes, (c) improving cash management efficiency, and (d) amending procurement laws and regulations to speed up project delivery.

National Planning Commission in February 2024, and a 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.¹⁴ In addition, authorities announced further legislative reform, including a revision of the Land Acquisition Act and an amendment of the Public Procurement Act.

12. The industrial sector is also expected to contribute more meaningfully to growth, supported by a 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 slowdown the recovery.

13. Additionally, Nepal is subject to natural disasters requiring comprehensive and scaled-up adaptation and mitigation measures. According to the World Bank's 2022 Country Climate and Development Report (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 2040–2060.¹⁵ In light of this, adaptation and mitigation efforts could build on existing policy successes—such as community forestry and hydropower development—while advancing climate-smart urbanization, strengthening low-carbon and resilient infrastructure, improving disaster risk management, and mobilizing climate finance.

¹⁴ 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.

¹⁵ The RCP 4.5 is a scenario, where emissions peak around 2040 and then decline, and average global temperatures rise 2.5°C.

Text Table 3. Nepal: Selected Macroeconomic Assumptions 1/

	Previous DSA 2/				Current DSA				Current vs. Previous	
	24/25	25/26	MT	LT	24/25	25/26	MT	LT	MT	LT
Real growth (%)	4.3	5.2	5.1	5.0	4.6	3.0	5.0	5.0	0.0	0.0
CPI (period average, %)	4.2	4.3	4.9	5.0	4.1	3.1	5.0	5.0	0.1	0.0
Revenues and grants (% GDP)	19.6	20.2	22.0	22.5	20.0	19.9	21.8	21.9	-0.3	-0.6
Primary expenditure (% GDP)	20.9	22.8	23.8	24.1	20.7	20.8	23.4	23.6	-0.5	-0.5
Net acquisition of non-financial assets (% GDP)	3.4	4.6	5.5	6.0	3.6	3.1	5.7	6.2	0.2	0.2
Primary balance (% GDP)	-1.3	-2.5	-1.8	-1.6	-0.7	-0.9	-1.6	-1.7	0.2	-0.1
Net acquisition of financial assets (% GDP)	1.3	1.3	1.3	1.3	1.8	0.7	0.9	0.9	-0.5	-0.5
Net incurrence of liabilities (% GDP)	4.2	4.9	4.7	4.6	3.6	3.1	4.0	4.0	-0.8	-0.6
Net domestic financing (% GDP)	2.5	3.0	3.3	3.2	2.0	2.0	2.4	2.5	-0.9	-0.7
Exports of G&S (% GDP)	9.3	8.6	8.6	8.5	8.9	9.6	9.5	9.0	0.9	0.5
Imports of G&S (% GDP)	35.7	39.5	38.6	30.6	34.2	39.4	43.3	35.6	4.7	5.0
Remittances (% GDP)	26.7	25.8	23.6	15.3	28.2	33.1	28.9	18.9	5.4	3.7
Current account balance (% GDP)	3.9	-1.4	-2.9	-3.4	6.7	6.9	-1.4	-4.2	1.5	-0.8

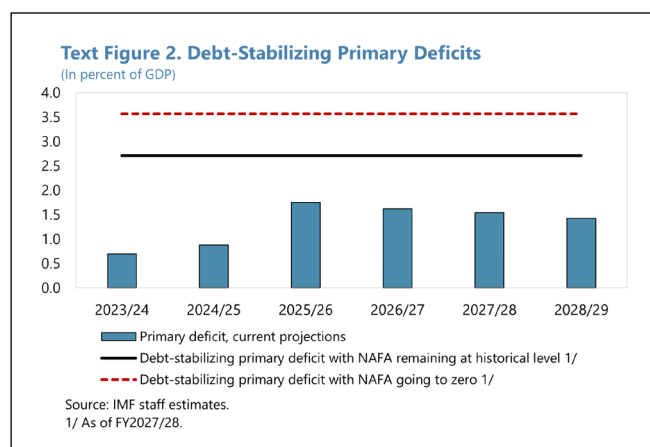
Note: MT (medium term) is the average over the next 5 years, and LT (long term) is the average over the following 6-19 years.

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 6th Review IMF CR 2025/285.

14. Fiscal: The primary deficit narrowed significantly to 0.7 percent of GDP in FY2024/25, from 1 percent in FY2023/24, and was lower than projected in the previous DSA. This improvement reflected weaker-than-expected primary expenditure. Looking ahead, the primary deficit is projected to widen modestly to 0.9 percent of GDP in FY2025/26 and 1.8 percent of GDP in FY2026/27, reflecting a gradual improvement in expenditure execution. To better target capital spending toward high-priority projects, budgeted allocations for other projects where procurement has not commenced are expected to be reallocated.



15. Fiscal developments over the medium-term: The primary deficit is projected to decline gradually to 1.4 percent of GDP over the medium term and stabilize at around 1.8 percent of GDP over the long term, consistent with the consolidation path under the ECF-supported program (Table 2). Continued improvements in the fiscal balance will depend on the sustained efforts to mobilize domestic revenue—guided by the Domestic Revenue Mobilization Strategy adopted in June 2024—and on reducing duplication of spending responsibilities across levels of government. According to this strategy, the tax revenue-to-GDP ratio is expected to increase by 4.7 percentage points between FY23 and FY29, driven by (i) baseline trend tax revenue increase (2.2 percentage points of GDP), (ii) policy measures (2.4 percentage points), and (iii) administrative improvements (0.1 percentage point). Capital expenditure is expected to

increase over the medium term, supported in part by implementation of the public investment management action plan prepared in April 2024 as part of the ECF framework. Improved efficiency in the expenditure, notably through reducing duplication of spending across the three levels of government, will help achieving the growth friendly consolidation. The FY2025/26 budget, announced in May 2025, is broadly aligned with the projected fiscal consolidation path. Staff also support the authorities' intention to avoid a supplementary budget and caution against election-related fiscal slippages, which could pose risks to the consolidation path. To support consolidation, staff recommended closing VAT exemptions and gradually phasing out tax holidays and concessions granted to special industries, while acknowledging that these measures involve politically sensitive tradeoffs. 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, additional revenue-enhancing measures that promote equity and efficiency will be needed. Customs revenues are expected to strengthen alongside implementation of the recently developed Customs Compliance Improvement Strategy (CCIS).

16. Net acquisition of financial assets: The dynamics of the existing debt stock and the projected fiscal path imply a debt-stabilizing primary deficit of about 3.6 percent of GDP (Text Figure 2). However, once the continuation of sizable NAFA is taken into account, the implied debt-stabilizing primary deficit is significantly lower, at around 2.7 percent of GDP. NAFA increased in FY2024/25 relative to previous years but is projected to gradually return toward its historical average. Under these assumptions, the proposed fiscal path is expected to stabilize public debt, provided that NAFA remains broadly in line with historical patterns—net of changes in the Treasury Single Account (TSA) balance—as observed over recent years.

17. External sector: The current account (CA) strengthened markedly to 6.7 percent of GDP in FY2024/25, from a surplus of 3.9 percent of GDP in FY2023/24, driven primarily by record-high remittances, a surge in exports, and weaker-than-expected imports. Export growth was led by a sharp increase in soybean oil exports, reflecting tariff-related arbitrage opportunities, and was further supported by the continued recovery in tourism (Text Table 3). Despite a pickup in import growth in the first seven months of FY2025/26, buoyant remittance inflows (despite possible temporary disruptions in inflows from the Gulf) and solid export performance are expected to further strengthen the CA surplus to 6.9 percent of GDP in the current fiscal year. Over the medium term, the CA balance is projected to gradually weaken as domestic demand recovers and deferred import demand materializes, turning into a deficit by FY2027/28 and widening to around 4 percent of GDP over the long term as growth returns to potential. Exports are expected to normalize gradually to about 9 percent of GDP, as temporary factors—particularly those supporting soybean oil re-exports—fade. Remittances, while projected to remain substantial, are expected to decline gradually as a share of GDP over the long term, reflecting slower growth in migrant-hosting countries and a moderation in new overseas deployments. Nevertheless, remittance inflows are projected to remain high, at around 29 percent of GDP in the medium term. Reflecting these dynamics, gross international reserves are projected to rise at 12.4 months of prospective imports in FY2025/26 and then gradually decline, stabilizing at around 8.7 months of import coverage over the medium term. However, the authorities should consider the opportunity cost of holding excessive reserves and carefully assess the tradeoffs given Nepal's development needs. Structural reforms, including improvements in the business

environment and stronger public investment management and execution, would help channel remittance inflows toward more productive uses.

18. Financing: External government financing increased in FY2024/25, both in nominal terms and as a share of GDP, and 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 expected increase in external financing over the medium term (Text Table 4). In line with these projections, external financing is now expected to average around 2 percent of GDP over the medium term.

- 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 remain broadly stable in the near term before gradually rising to around 4-5 percent over the medium term, in line with projected inflation and an assumed gradual unwinding of excess liquidity and normalization of monetary policy. However, it is important to highlight that current domestic rates are suppressed by excess liquidity, and a faster-than-assumed unwinding would represent a credible downside risk to the debt service path. 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. In line with recent practice, around one-third of newly issued domestic debt is assumed to be short-term, implying a non-negligible degree of refinancing risk.
- In this context, the authorities have stepped up efforts to extend the maturity profile of domestic debt, consistent with the Medium-Term Debt Management Strategy (MTDS) for FY2025/26-FY2027/28. The strategy aims to gradually reduce reliance on short-term Treasury bills and increase the share of medium- and long-term treasury bonds through a calibrated implementation approach. Under the MTDS baseline, the average time to maturity (ATM) of domestic debt is projected to increase from 3.1 years to 3.7 years, while the ATM of the total public debt portfolio rises from 8.0 years in 2025 to 9.9 years by 2028.
- Recent auctions of longer-term bonds (ranging from three to eleven years) have attracted demand significantly above the amount offered, supporting the feasibility of the authorities' strategy. Nonetheless, the absence of an active secondary market limits liquidity in longer-term instruments, and the transition away from Treasury bills will need to be carefully sequenced to avoid liquidity pressures or auction volatility. Moreover, the concentration of domestic debt holdings in the banking sector continues to pose rollover and market concentration risks. At the same time, the gradual development of new institutional investors—including life and non-life insurance companies, retirement funds, and investment funds—could support demand for longer-duration instruments over time, given their longer-term liability structures.

Text Table 4. Nepal: External Borrowing Program, FY2025/26

PPG external debt contracted or guaranteed	Volume of new debt, US\$ million 1/	Present value of new debt, US\$ million 1/
Sources of debt financing	907	458
Concessional debt, of which 2/	797	402
Multilateral debt	630	320
Bilateral debt	167	82
Non-concessional debt, of which	110	55
Semi-concessional debt 3/	110	55
Commercial terms 4/	0	0
Uses of debt financing	907	458
Project financing	757	
Budget financing	150	
<i>Memorandum items</i>		
Indicative projection FY2026/27	1,284	776
Indicative projection FY2027/28	1,206	752

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.

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

- Unexpected changes in external debt over the past five years fall within the 25-75 percent interquartile range of the distribution across all LICs. By contrast, public debt change over the same period lies at the lower end of the distribution, reflecting Nepal's more conservative than expected fiscal stance.
- The public debt-creating flows over the next five years are broadly in line with the historical five-year average (Figure 3). Compared to the previous DSA, the contribution of future GDP growth is smaller, reflecting the recent downward revision to the growth path. The contribution of the primary deficit is also lower, consistent with the authorities' commitment to stabilize debt over the medium-term, already demonstrated during the past two years. External debt-creating flows differ markedly: the current account contribution is substantially smaller owing to the projected persistence of current account surpluses in the near term. The larger residual contribution mainly reflects the accumulation of international reserves alongside continued increases in external debt.

- The projected 3-year fiscal adjustment is well-below the 75th percentile across all LICs with Fund-supported programs since 1990 (Figure 4). The adjustment is expected to materialize more in the medium-term.
- The divergence between actual growth rate in FY2025/26 and the growth path implied by fiscal multipliers reflects protest-related disruptions. This gap narrows significantly in FY2026/27, as political stability is assumed to improve following elections and the growth impact of the mild fiscal expansion converges toward standard multiplier assumptions. 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, with consolidation resuming over the medium-term.
- The implied impact of public investment on economic growth is similar to that in the previous DSA and in line with historical averages. If capital spending proves more targeted and efficient, as envisaged by the authorities', this would constitute an upside risk to the baseline and help mitigate potential growth trade-offs from fiscal consolidation.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

20. 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 October 2025 World Economic Outlook and the 2024 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.

21. 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 (FY2026/27) 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.¹⁶ 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. In this context, the availability of contingent financing, such as the US\$ 100 million IDA DPC CAT DDO 2, would provide important buffer to support climate resilience and disaster response.

Text Table 5. Nepal: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity and Thresholds					Applicable thresholds	
Country	Nepal				APPLICABLE	
Country Code	558				APPLICABLE	
Debt Carrying Capacity	Strong				EXTERNAL debt burden thresholds	
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage		PV of debt in % of Exports	240
Strong	Strong	Strong	Strong		GDP	55
	3.14	3.14	3.14		Debt service in % of Exports	21
					Revenue	23
Calculation of the CI Index					TOTAL public debt benchmark PV of total public debt in percent of GDP	
						70
Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) ± (C)	Contribution of components	New framework	
CPIA	0.39	3.39	1.31	42%	Cut-off values	
Real growth rate (in percent)	2.72	3.63	0.10	3%	Weak	CI < 2.69
Import coverage of reserves (in percent)	4.05	57.31	2.32	74%	Medium	2.69 ≤ CI ≤ 3.05
Import coverage of reserves*2 (in percent)	-3.99	32.84	-1.31	-42%	Strong	CI > 3.05
Remittances (in percent)	2.02	15.49	0.31	10%		
World economic growth (in percent)	13.52	3.04	0.41	13%		
CI Score			3.14	100%		
CI rating			Strong			

EXTERNAL DEBT SUSTAINABILITY

22. All external debt indicators remain below their indicative thresholds under the baseline scenario (Figure 1, Table 1, Table 3). External debt in FY2024/25 was slightly lower than projected in the previous DSA, and reliance on external borrowing is expected to decline gradually over the medium and long term.¹⁷ Consequently, the public and publicly guaranteed (PPG) external debt is projected to fall steadily to 21 percent of GDP by FY2035/36. The present value (PV) of the PPG external debt-to-GDP ratio is expected to remain within the range of 13–15 percent over the medium term, well below the 55 percent indicative threshold. 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.

23. External debt vulnerabilities are most pronounced under the combined shock scenario. The PV of external PPG debt-to-exports ratio breaches its indicative threshold in a combined shocks stress test

¹⁶ 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.

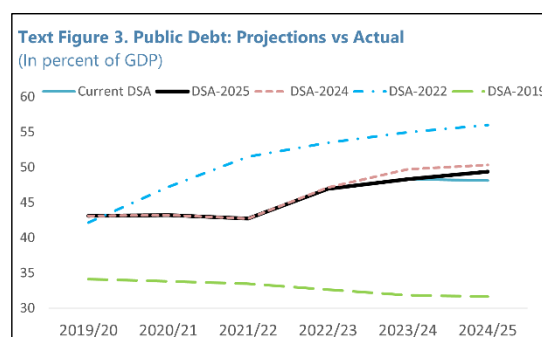
¹⁷ Residuals in Table 1 stems from large current account surplus forecasted in the next fiscal year which adds to the reserves. Residuals decline as current account dynamics normalize over the medium-term.

scenario, with the breach driven primarily by the export shock component.¹⁸ By contrast, the external debt service-to-exports ratio remains below its threshold. 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 and 65 percent spikes in exports in FY2021/22 and FY2024/25 due to a massive increase in the palm oil re-export driven by a loophole in custom tariffs between Nepal and India. 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

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

Public debt in FY2024/25 was lower than projected in the previous DSA, reflecting a lower-than-expected primary deficit and significant reduction in the negative TSA balance. 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 slowed down (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 49.6 percent of GDP in FY2025/26 and gradually decline thereafter. The PV of public debt-to-GDP is projected to rise from 37.9 percent to a peak of 39 percent, remaining well below the 70 percent benchmark. However, Nepal's debt service-to-revenue ratio has increased sharply over the past four years—exceeding 60 percent—driven by a high share of short-term domestic debt (about one-third of the total) and a recent decline in the revenue-to-GDP ratio. This ratio is projected to decline to around 30 percent over the medium term, supported by reduction in principal repayments on existing debt, PDMO's domestic debt maturity extension efforts, declining interest costs, 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' commitment to the suggested fiscal consolidation path and the recent efforts to extend the maturity profile of domestic debt—by reducing reliance on shorter-maturity Treasury bills—will be critical to mitigating these vulnerabilities.

25. 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. Under this shock, the PV of public debt-to-GDP ratio increases but remains

¹⁸ The PV of external PPG debt-to-exports ratio also breaches the threshold for multiple years in the only exports shock scenario, but not for the real GDP growth only shocks scenario.

comfortably below the 70 percent benchmark in the final year of the projection period (FY2035/36). The PV of debt-to-revenue and the debt service-to-revenue ratios also rise markedly, reflecting the combined effects of weaker growth and revenue performance. However, none of the indicative thresholds are breached. As with exports, the growth shock calibration is particularly large for Nepal, as the calibration window includes the 2015 earthquake and the COVID-19 pandemic, which significantly depressed economic activity. Under all other stress-test scenarios, the PV of public debt-to-GDP remains below its indicative threshold.

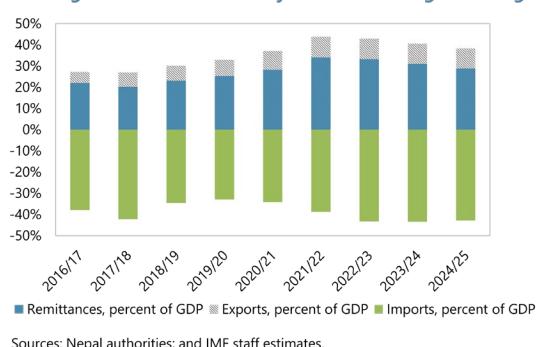
OTHER FACTORS TO ACCOUNT FOR

26. 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 23.4 percent of GDP in 2016-2025) is one of the largest in the world, and its remittance-to-exports ratio is by far the largest in the world (2018-24 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 6.4 percent versus 28.5 percent for export growth in the last 10 years—providing an important cushion in times of economic adversity.¹⁹ 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.²⁰ 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 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. At the same time, it is important to highlight that a faster than expected decline in remittances (whether driven by Gulf labor market tightening or other source-country

Text Figure 4. Remittances: Key Source of Foreign Exchange



¹⁹ 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.

²⁰ The remittances-to-GDP ratio has remained above 20 percent since FY2012, with an average of 19.6 percent over the period FY2001 to FY2025.

policy shifts) would pose a material downside risk to external sustainability, as they are Nepal's main source of foreign exchange earnings.

RISK RATINGS AND VULNERABILITIES

27. 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 breaches its indicative threshold under a combined shock scenario, suggesting a mechanical rating of moderate 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 13.4 percent of GDP in FY2024/25, 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.²¹ 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 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 FY2024/25 and FY2025/26 (projected) grew faster than projected in the previous DSA, and there are good prospects for an upside going forward, especially in the hydropower sector. Strengthening export competitiveness will be key to mitigating debt sustainability risks, given Nepal's high dependence on remittances and tourism as sources of foreign exchange earnings. Nevertheless, uncertainty around the baseline projections, the calibration of the shocks, and the debt risk assessments is exceptionally high in light of the major shocks that hit Nepal (including the 2015 earthquake and the COVID-19 pandemic) and 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.

28. 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 market further to facilitate domestic borrowing and moving towards longer-maturity debt replacing

²¹ 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.

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

29. The authorities broadly agreed with the debt sustainability assessment. They reiterated their commitment to continued growth-friendly fiscal consolidation and maintaining a low risk of debt distress. They welcomed the staff's scenario analysis illustrating debt dynamics under alternative revenue performance paths and agreed on the importance of sustained revenue mobilization to preserve debt sustainability. They also concurred on the importance of lengthening the maturity profile of public debt and noted ongoing efforts in this regard, including an increased share of longer-term bond issuances relative to short-term Treasury bills in public debt. Finally, they reaffirmed their intention to continue utilizing concessional external financing.

Table 1. Nepal: External Debt Sustainability Framework, Baseline Scenario, 2023-2046

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2046	Historical	Projections
External debt (nominal) 1/	26.3	26.5	27.5	29.2	29.7	29.2	28.8	28.4	28.2	27.3	24.0	21.8	28.4
of which: public and publicly guaranteed (PPG)	21.8	22.8	23.7	24.8	24.8	24.0	23.3	22.7	22.4	21.0	17.6	19.0	22.7
Change in external debt	1.6	0.2	1.0	1.6	0.6	-0.5	-0.5	-0.3	-0.2	-0.2	-0.3		
Identified net debt-creating flows	0.8	-5.2	-7.9	-7.9	-3.5	-1.3	0.1	1.5	2.5	2.7	2.8	0.6	0.4
Non-interest current account deficit	0.5	-4.2	-7.0	-7.2	-2.3	0.0	1.4	2.7	3.7	3.8	3.9	1.8	1.5
Deficit in balance of goods and services	27.6	25.3	25.3	29.8	34.4	34.5	33.9	33.5	33.0	28.4	21.1	29.5	31.8
Exports	7.0	7.6	8.9	9.6	9.7	9.5	9.4	9.3	9.2	9.1	8.8		
Imports	34.6	32.9	34.2	39.4	44.1	44.0	43.4	42.9	42.2	37.5	30.0		
Net current transfers (negative = inflow)	-25.5	-27.5	-30.7	-35.7	-35.5	-33.4	-31.5	-29.8	-28.2	-23.4	-16.3	-26.4	-29.1
of which: official	-0.2	-0.2	-0.3	-0.5	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6		
Other current account flows (negative = net inflow)	-1.5	-2.0	-1.6	-1.3	-1.1	-1.0	-1.0	-1.1	-1.1	-1.1	-1.0	-1.3	-1.1
Net FDI (negative = inflow)	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2
Endogenous debt dynamics 2/	0.4	-0.8	-0.8	-0.5	-1.0	-1.2	-1.1	-1.0	-1.0	-0.9	-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	-0.5	-0.9	-1.2	-0.8	-1.3	-1.4	-1.4	-1.3	-1.3	-1.3	-1.1		
Contribution from price and exchange rate changes	0.6	-0.2	0.0	...	...	...	...	...	...	...	...		
Residual 3/	0.8	5.4	9.0	9.6	4.1	0.8	-0.6	-1.8	-2.7	-2.9	-3.1	0.6	-0.4
of which: exceptional financing	-0.5	-0.8	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	13.4	13.9	14.4	14.1	13.8	13.5	13.5	13.2	11.7		
PV of PPG external debt-to-exports ratio	...	...	149.4	144.1	148.4	147.5	145.8	145.2	146.1	145.5	133.2		
PPG debt service-to-exports ratio	10.3	10.2	8.6	10.9	10.8	10.6	10.4	10.0	8.8	7.9	8.0		
PPG debt service-to-revenue ratio	3.8	4.1	3.9	5.4	5.1	4.8	4.7	4.4	3.8	3.4	3.3		
Gross external financing need (Million of U.S. dollars)	1512.9	-512.3	-2149.1	-2239.4	79.9	1372.4	2343.3	3419.3	4371.8	6839.9	12744.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	2.0	3.7	4.6	3.0	4.6	5.3	5.1	5.0	5.0	5.0	5.0	4.2	4.8
GDP deflator in US dollar terms (change in percent)	-2.3	0.9	-0.2	-0.6	0.3	4.5	4.7	4.8	4.4	4.7	4.8	2.1	3.8
Effective interest rate (percent) 4/	1.3	1.4	1.2	1.0	1.0	1.0	1.1	1.3	1.3	1.4	1.0	1.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	4.1	13.7	22.6	9.9	5.9	8.2	9.1	8.7	8.6	9.6	9.6	6.6	8.9
Growth of imports of G&S (US dollar terms, in percent)	-18.5	-0.5	8.5	18.0	17.2	10.0	8.5	8.8	8.0	7.5	7.6	7.0	9.7
Grant element of new public sector borrowing (in percent)	...	...	...	40.1	40.8	40.8	40.8	40.8	40.8	40.8	40.8	...	40.7
Government revenues (excluding grants, in percent of GDP)	18.8	19.0	19.6	19.4	20.7	20.9	21.1	21.3	21.5	21.3	21.1	20.4	21.1
Aid flows (in Million of US dollars) 5/	178.8	176.0	183.8	660.0	1093.7	1040.2	1083.9	1191.4	1307.7	2012.8	4715.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.3	1.9	1.7	1.6	1.6	1.6	1.5	1.4	...	1.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	52.2	55.0	55.3	53.9	53.9	53.9	54.5	56.3	...	54.1
Nominal GDP (Million of US dollars)	41,048	42,914	44,810	45,844	48,090	52,928	58,294	64,168	70,396	112,938	292,520		
Nominal dollar GDP growth	-0.3	4.5	4.4	2.3	4.9	10.1	10.1	10.1	9.7	9.9	10.0	6.5	8.8
Memorandum items:													
PV of external debt 7/	...	...	17.2	18.2	19.3	19.3	19.3	19.3	19.4	19.6	18.1		
in percent of exports	...	...	192.1	189.5	199.2	202.4	204.1	206.3	209.5	214.9	206.0		
Total external debt service-to-exports ratio	46.4	41.6	26.3	26.0	27.6	29.2	30.1	30.6	29.8	26.9	8.0		
PV of PPG external debt (in Million of US dollars)	...	...	5991.3	6351.6	6925.6	7450.9	8033.1	8694.2	9502.9	14954.9	34311.2		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	0.8	1.3	1.1	1.1	1.1	1.3	1.3	1.0		
Non-interest current account deficit that stabilizes debt ratio	-1.1	-4.5	-8.0	-8.8	-2.9	0.6	1.9	3.0	3.9	4.0	4.2		

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 α = 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. FY2025/26 and FY2026/27 reflects the substantial reserve accumulation despite large current account surplus.

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

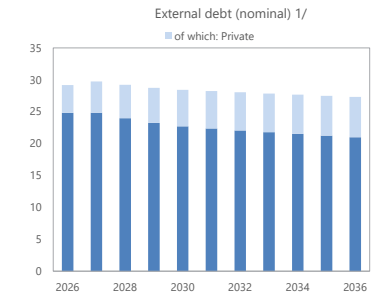
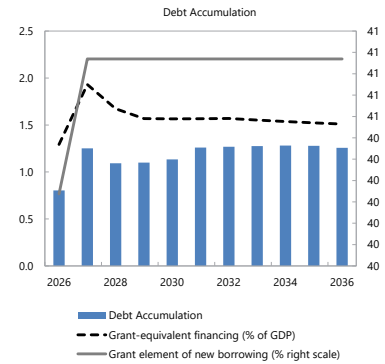


Table 2. Nepal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2023-2046

(In Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections													Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2046	Historical	Projections	
Public sector debt 1/ of which: external debt	47.0 21.8	48.3 22.8	48.1 23.7	49.6 24.8	49.4 24.8	48.3 24.0	47.2 23.3	46.1 22.7	45.3 22.4	44.7 22.1	44.2 21.8	43.8 21.5	43.4 21.3	43.1 21.0	42.2 17.6	38.7 19.0	45.9 22.7	
Change in public sector debt	4.2	1.4	-0.2	1.4	-0.2	-1.1	-1.1	-1.0	-0.8	-0.6	-0.5	-0.4	-0.4	-0.3	0.0			
Identified debt-creating flows	1.9	-0.1	1.3	-0.9	-0.3	-0.5	-0.6	-0.4	-0.2	0.1	0.2	0.2	0.3	0.3	0.6	2.2	-0.2	
Primary deficit	4.5	1.0	0.7	0.9	1.8	1.6	1.5	1.4	1.4	1.6	1.6	1.6	1.6	1.6	1.8	2.8	1.5	
Revenue and grants	19.3	19.4	20.0	19.9	21.6	21.7	21.7	21.9	22.1	22.0	22.0	22.0	22.0	21.9	21.8	21.2	21.7	
of which: grants	0.4	0.4	0.4	0.5	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6			
Primary (noninterest) expenditure	23.7	20.4	20.7	20.8	23.3	23.3	23.2	23.3	23.6	23.6	23.6	23.6	23.6	23.6	23.6	24.0	23.2	
Automatic debt dynamics	-1.7	-1.1	-1.2	-2.4	-2.9	-3.0	-3.0	-2.7	-2.5	-2.4	-2.3	-2.2	-2.2	-2.2	-2.1			
Contribution from interest rate/growth differential	-1.4	-1.2	-2.2	-2.4	-2.9	-3.0	-3.0	-2.7	-2.5	-2.4	-2.3	-2.2	-2.2	-2.2	-2.1			
of which: contribution from average real interest rate	-0.6	0.4	-0.1	-1.0	-0.7	-0.5	-0.6	-0.4	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1			
of which: contribution from real GDP growth	-0.8	-1.7	-2.1	-1.4	-2.2	-2.5	-2.4	-2.3	-2.2	-2.2	-2.1	-2.1	-2.1	-2.1	-2.0			
Contribution from real exchange rate depreciation	-0.2	0.1	1.1	—	—	—	—	—	—	—	—	—	—	—	—			
Other identified debt-creating flows 7/	-0.9	0.0	1.8	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.2	0.8	
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)	-0.9	0.0	1.8	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.1	-0.3	
Residual	2.4	1.5	-1.5	2.3	0.0	-0.6	-0.5	-0.6	-0.6	-0.7	-0.6	-0.6	-0.6	-0.6	-0.5			
Sustainability indicators																		
PV of public debt-to-GDP ratio 2/	---	---	37.9	39.0	39.0	38.4	37.7	37.0	36.5	36.1	35.8	35.6	35.5	35.4	36.3			
PV of public debt-to-revenue and grants ratio	---	---	189.8	196.3	180.7	177.2	173.8	169.0	164.8	163.9	162.9	162.0	161.5	161.1	167.0			
Debt service-to-revenue and grants ratio 3/	52.8	67.7	62.9	57.1	36.1	29.3	26.0	30.2	36.6	31.9	31.6	31.2	31.3	31.5	31.0			
Gross financing need 4/	13.7	14.2	15.0	12.9	10.4	8.8	8.0	8.9	10.4	9.4	9.4	9.3	9.3	9.4	9.4			
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	2.0	3.7	4.6	3.0	4.6	5.3	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.2	4.8	
Average nominal interest rate on external debt (in percent)	1.0	1.0	1.0	0.8	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.3	1.3	1.3	1.3	0.9	1.1	
Average real interest rate on domestic debt (in percent)	-2.2	2.1	2.7	1.4	-0.2	-0.4	-0.7	-0.7	-0.8	-0.4	-0.3	-0.3	-0.2	-0.3	-0.3	-2.4	-0.3	
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.1	0.4	5.0	—	—	—	—	—	—	—	—	—	—	—	—	-0.2	---	
Inflation rate (GDP deflator, in percent)	5.7	2.6	2.3	3.5	5.1	5.0	5.0	5.0	5.0	4.9	4.9	4.9	5.0	5.0	5.0	5.3	4.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.8	-10.9	6.0	3.5	17.3	5.2	5.0	5.5	6.1	5.0	5.0	5.0	5.0	5.0	5.0	6.8	6.1	
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.2	-0.4	0.9	-0.6	2.0	2.7	2.7	2.4	2.3	2.2	2.1	2.0	2.0	1.9	1.8	0.3	2.0	
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 (-): 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.

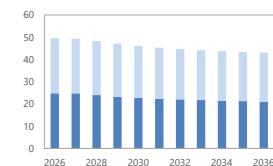
7/ Mostly reflects the net acquisition of financial assets

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

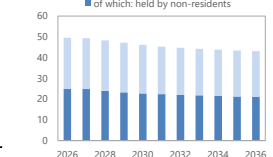


Figure 1. Nepal: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2026-2036



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

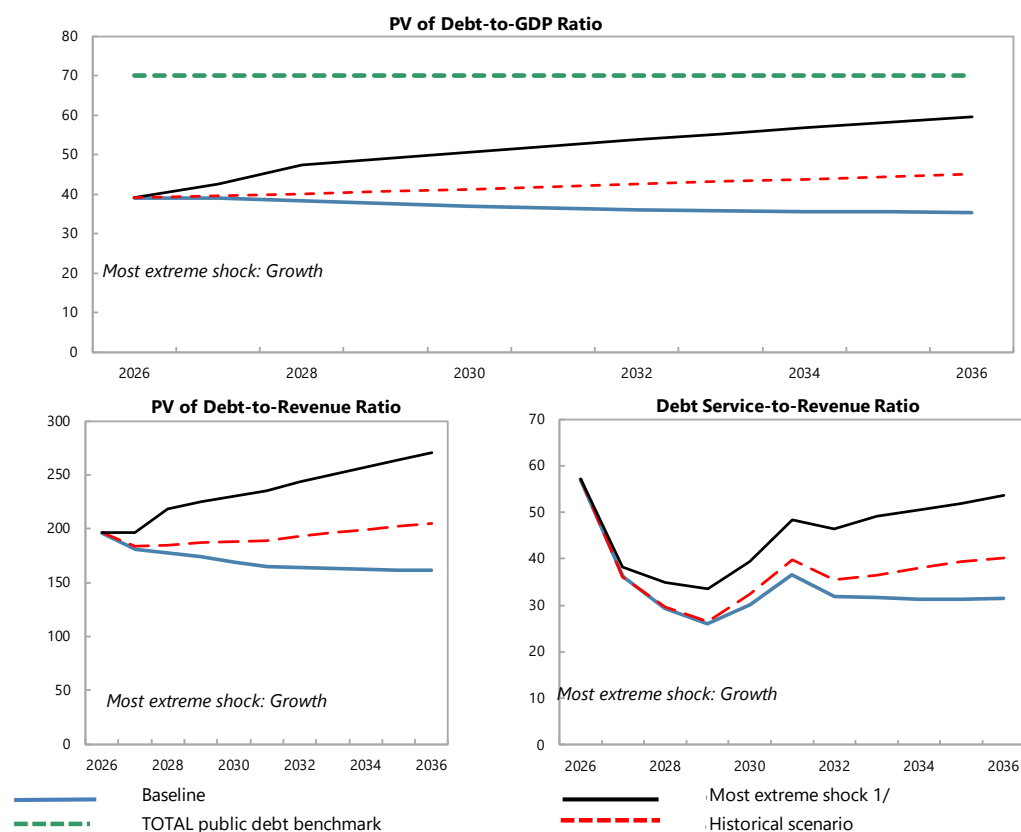
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
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 2036. 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, 2026-2036

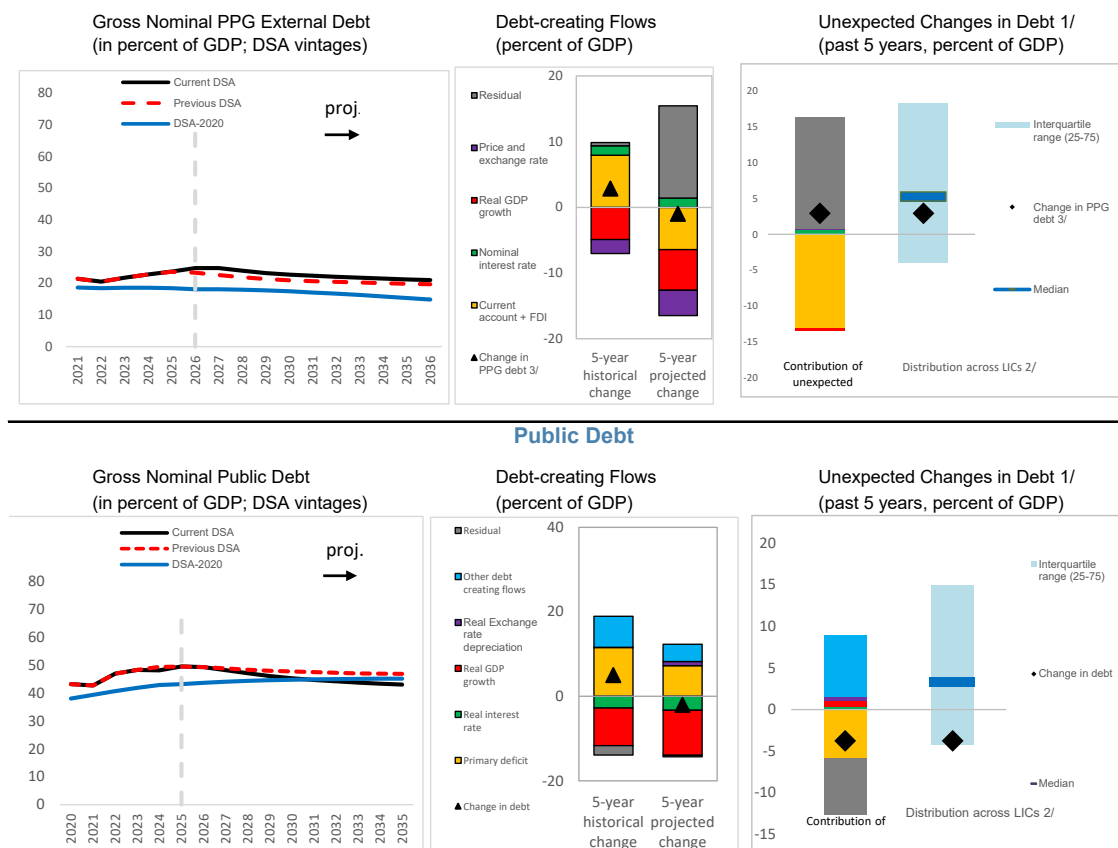
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	24%	19%
Domestic medium and long-term	51%	55%
Domestic short-term	25%	26%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest 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	-1.1%	-1.1%

* 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 2036. 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

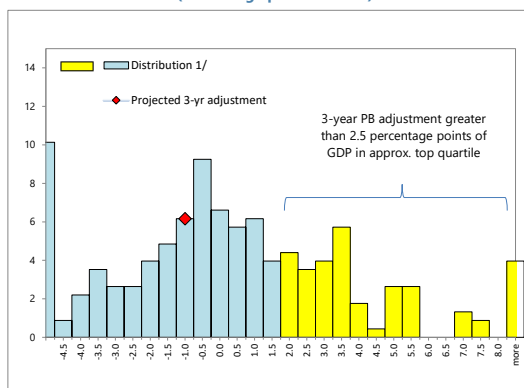
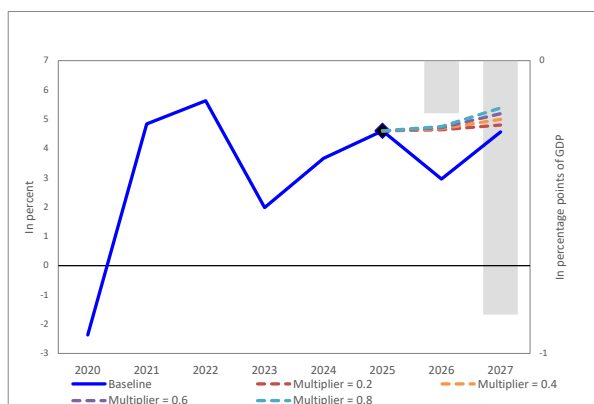
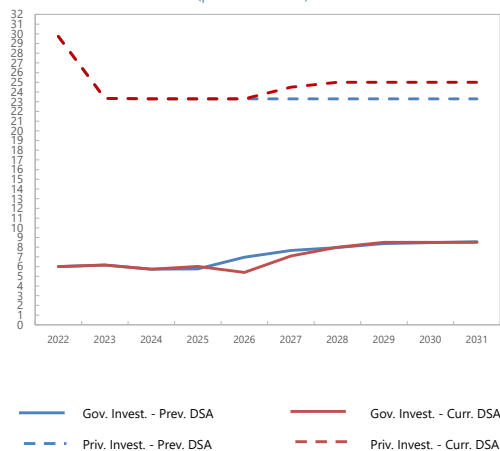
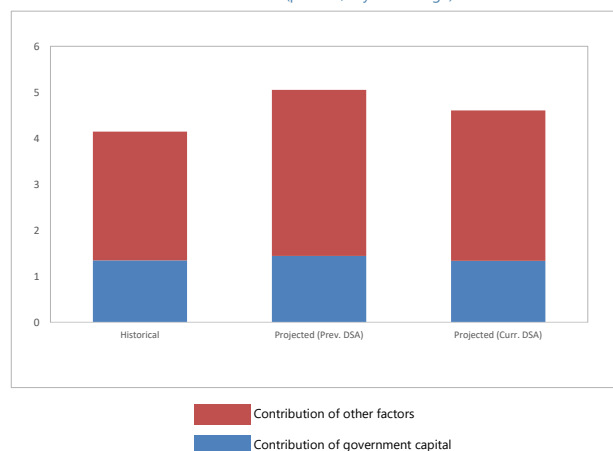


A year indicates the end of the corresponding fiscal year, e.g. 2023 stands for FY2022/23

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

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

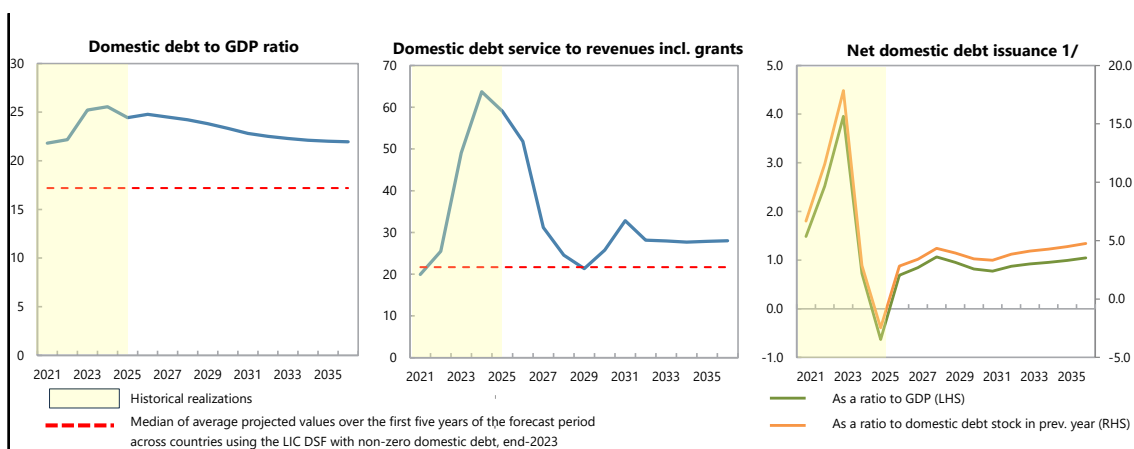
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

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)**

A year indicates the end of the corresponding fiscal year, e.g. 2024 stands for FY2023/24

Figure 5. Nepal: Indicators of Domestic Public Debt, 2021-2036

(Percent)

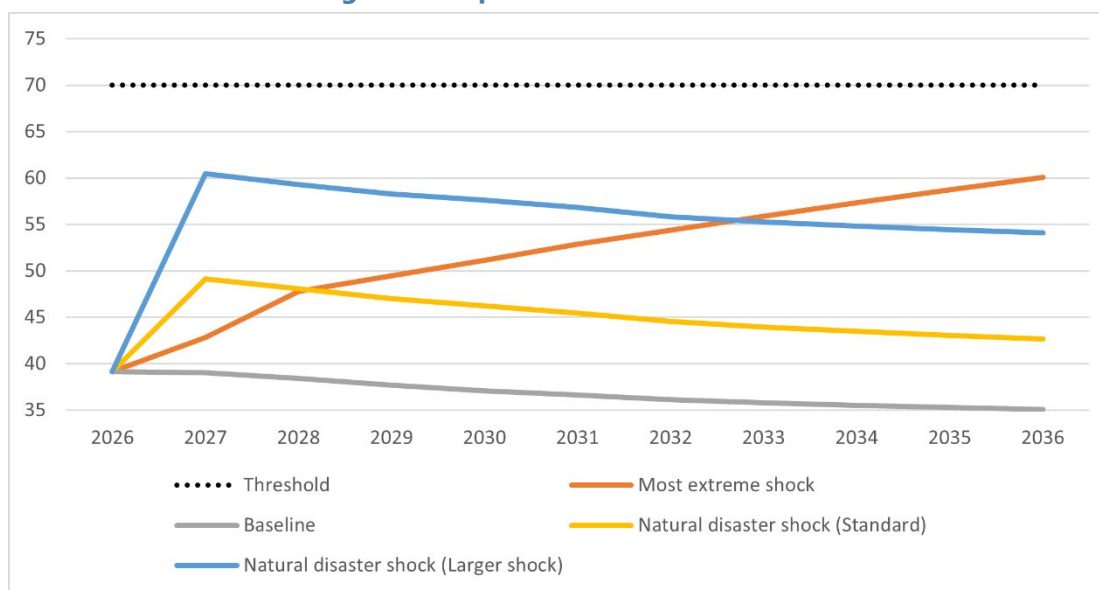


Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	67%
Short-term	33%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	-0.4%
Avg. maturity (incl. grace period)	5
Avg. grace period	3
Domestic short-term debt	
Avg. real interest rate	-1.1%

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, 2026-2036

(In percent)

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to GDP Ratio											
Baseline	13.9	14	14	14	14	13	13	13	13	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	14	17	18	18	17	17	16	15	14	12	11
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	15	15	15	15	15	15	14
B3. Exports	14	16	17	17	17	16	16	16	16	15	15
B4. Other flows 3/	14	21	27	26	25	24	24	23	22	21	20
B5. Depreciation	14	18	11	11	11	11	11	11	12	12	13
B6. Combination of B1-B5	14	24	28	27	26	25	25	24	23	22	22
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	16	16	16	16	16
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	144	148	148	146	145	146	146	146	146	146	145
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	144	171	186	190	187	179	169	159	148	135	122
B. Bound Tests											
B1. Real GDP growth	144	148	148	146	145	146	146	146	146	146	145
B2. Primary balance	144	153	157	156	156	157	159	160	160	160	159
B3. Exports	144	198	272	267	264	264	262	259	257	253	249
B4. Other flows 3/	144	221	279	271	265	261	255	250	241	231	222
B5. Depreciation	144	148	88	89	91	94	97	99	101	106	110
B6. Combination of B1-B5	144	253	263	312	305	301	295	289	279	268	258
C. Tailored Tests											
C1. Combined contingent liabilities	144	159	161	159	158	161	164	164	164	164	164
C2. Natural disaster	144	166	168	167	167	170	174	175	175	176	177
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	10.9	11	11	10	10	9	9	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	11	11	11	12	12	10	10	10	11	11	11
B. Bound Tests											
B1. Real GDP growth	11	11	11	10	10	9	9	8	8	8	8
B2. Primary balance	11	11	11	11	10	9	9	9	9	9	9
B3. Exports	11	13	16.5	16.8	16	14	14	13	14	15	14
B4. Other flows 3/	11	11	12	13	12	11	11	10	13	15	14
B5. Depreciation	11	11	11	9	9	8	8	8	7	5	5
B6. Combination of B1-B5	11	12	15	16	15	13	13	12	16	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	11	11	10	9	9	9	8	8	8
C2. Natural disaster	11	11	11	11	11	9	9	9	9	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	5	4	4	4	4	3	3	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	5	5	5	5	5	4	4	4	5	5	5
B. Bound Tests											
B1. Real GDP growth	5	5	6	5	5	4	4	4	4	4	4
B2. Primary balance	5	5	5	5	4	4	4	4	4	4	4
B3. Exports	5	5	5	5	5	4	4	4	4	4	4
B4. Other flows 3/	5	5	6	6	5	5	5	4	6	6	6
B5. Depreciation	5	6	6	5	5	4	4	4	4	2	3
B6. Combination of B1-B5	5	5	6	6	6	5	5	5	6	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	5	5	4	4	4	4	4	4
C2. Natural disaster	5	5	5	5	5	4	4	4	4	4	4
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, 2026-2036

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to-GDP Ratio											
Baseline	39.0	39.0	38.4	37.7	37.0	36.5	36.1	35.8	35.6	35.5	35.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	39.04	39.65	40.01	40.63	41.23	41.89	42.53	43.19	43.82	44.45	45.04
B. Bound Tests											
B1. Real GDP growth	39.04	42.48	47.47	49.12	50.64	52.18	53.76	55.31	56.80	58.25	59.63
B2. Primary balance	39.04	42.18	44.70	43.63	42.63	41.74	40.98	40.36	39.85	39.44	39.07
B3. Exports	39.04	40.08	41.39	40.56	39.72	39.03	38.52	38.13	37.76	37.38	37.06
B4. Other flows 3/	39.04	46.06	50.90	49.55	48.24	47.12	46.19	45.40	44.40	43.30	42.32
B5. Depreciation	39.04	39.84	37.27	35.54	33.69	32.06	30.79	29.68	28.57	27.58	26.71
B6. Combination of B1-B5	39.04	40.43	40.97	38.01	37.32	36.76	36.39	36.13	35.91	35.77	35.66
C. Tailored Tests											
C1. Combined contingent liabilities	39.04	47.38	46.15	45.00	43.91	42.85	41.96	41.29	40.75	40.29	39.85
C2. Natural disaster	39.04	49.05	48.01	47.05	46.15	45.25	44.50	43.98	43.58	43.25	42.93
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	196	181	177	174	169	165	164	163	162	161	161
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	196	184	185	187	188	189	193	196	199	202	205
B. Bound Tests											
B1. Real GDP growth	196	197	218	225	230	235	243	250	257	264	271
B2. Primary balance	196	196	206	201	195	189	186	183	181	180	178
B3. Exports	196	186	191	187	181	176	175	173	172	170	169
B4. Other flows 3/	196	214	235	228	220	213	210	206	202	197	193
B5. Depreciation	196	185	173	164	154	145	140	135	130	126	122
B6. Combination of B1-B5	196	188	189	175	170	166	165	164	163	163	162
C. Tailored Tests											
C1. Combined contingent liabilities	196	220	213	207	200	194	191	188	185	183	182
C2. Natural disaster	196	227	222	217	211	204	202	200	198	197	196
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	57	36	29	26	30	37	32	32	31	31	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	57	36	30	26	32	40	35	36	38	39	40
B. Bound Tests											
B1. Real GDP growth	57	38	35	34	39	48	47	49	50	52	54
B2. Primary balance	57	36	34	32	33	41	41	39	35	34	35
B3. Exports	57	36	29	26	30	37	32	32	32	32	32
B4. Other flows 3/	57	36	30	27	31	38	33	32	33	34	34
B5. Depreciation	57	34	29	24	29	35	29	29	29	29	29
B6. Combination of B1-B5	57	35	29	26	30	37	32	32	31	31	32
C. Tailored Tests											
C1. Combined contingent liabilities	57	36	41	30	32	46	44	38	35	35	37
C2. Natural disaster	57	37	43	31	34	48	47	41	37	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

April 7, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department

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FUND RELATIONS

(As of February 28, 2026)

Membership Status: Joined September 6, 1961; accepted Article VIII, Sections 2, 3, and 4 on May 30, 1994.

General Resources Account:

	SDR Million	% Quota
Quota	156.90	100.00
Fund Holdings of Currency (Holdings Rate)	140.92	89.81
Reserve Tranche Position	16.00	10.20

SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	218.48	100.00
Holdings	103.63	47.43

Outstanding Purchases and Loans:

	SDR Million	% Allocation
RCF Loans	141.21	90.00
ECF Arrangements	251.10	160.04

Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	01/12/22	May 11, 2026	282.42	251.10
ECF ¹	11/19/03	Nov 18, 2007	49.90	49.90
ECF ¹	10/05/92	Oct 04, 1995	33.57	16.79
SAF	10/14/87	Oct 13, 1990	26.11	26.11

1/Formally PRGF

Outright Loans (In SDR Million):

Type	Date of Commitment	Date Drawn/Expired	Amount Approved	Amount Drawn
RCF ¹	05/06/20	May 08, 2020	156.90	156.90
RCF ¹	07/31/15	Aug 10, 2015	35.65	35.65
RCF ¹	05/28/10	Jun 06, 2010	28.52	28.52

1/Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e., Board approval date.

Overdue Obligations and Projected Payments to the Fund¹:

(In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2026	2027	2025	2026	2027
Principal	31.38	39.23	51.00	62.76	56.49
Charges/interest	2.30	3.08	3.08	3.08	3.08
Total	33.68	42.31	54.08	65.84	59.54

1/When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR)¹: (In SDR Million)

Date of Catastrophe	Board Decision Date	Amount Committed	Amount Disbursed
N/A	04/13/20	2.85	2.85
N/A	10/02/20	3.57	3.57
N/A	04/01/21	3.57	3.57
N/A	12/15/21	3.57	3.57

1/ As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangement

The currency of Nepal is the Nepalese rupee. Nepal's exchange rate arrangement is a conventional peg to a single currency unit. The Nepalese rupee (NPR) is pegged to the Indian rupee at a rate of NPR 1.6 per Indian rupee. As of February 28, 2026, the exchange rate of the Nepalese rupee was US\$1= NPR 145.57.

Nepal maintains three exchange restrictions that 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. Nepal also maintains a Multiple Currency Practice (MCP) that arises from the Foreign Exchange and Money Dealers Association of Nepal (FEDAN) exchange rate used for remittance transactions between remittance companies and their offshore partners. Since August 7,

2025, the USD FEDAN exchange rate resulting in the MCP has not witnessed any impermissible spreads.

Safeguards Assessment

An updated safeguards assessment of the NRB was completed in 2021. The assessment found limited progress in addressing earlier safeguards recommendations and confirmed persistent weaknesses in governance and oversight. It also identified significant control vulnerabilities in key operational areas, exacerbated by the frequent rotation of staff and department heads, which undermines specialization and weakens management ownership and accountability.

The 2021 safeguards assessment made recommendations in key areas including: (i) a comprehensive modernization of the central bank legal framework to strengthen the NRB's governance, autonomy, and accountability; (ii) to enhance transparency of the NRB by aligning its financial reporting with international standards; (iii) to improve the quality of external audit of the NRB through engagement of reputable international auditors with experience in central bank auditing in accordance with International Standards on Auditing; (iv) to enhance the internal audit's autonomy, capacity, and audit practices; and (v) to improve internal controls in key areas, including in foreign reserves management, lending to banks, and reporting of monetary data to prevent the risk of misreporting to the Fund.

Since then, the NRB has implemented most of these recommendations. Draft legislative amendments to the NRB Act are broadly aligned with the safeguards recommendations to strengthen the NRB's autonomy, governance, and accountability framework, and [will be submitted to Parliament in March/April 2026]. Once enacted, the authorities should move promptly to implement the amendments, including by updating the relevant Rules and Bylaws.

2023 Article IV Consultation

The last Article IV consultation discussions were held during February 15-28, 2023, combined with the First and Second Reviews under the ECF arrangement. The Executive Board concluded the Article IV consultation on May 1, 2023 (IMF Country Report No. 2023/158). With the completion of the ECF arrangement on May 11, 2026, it is proposed that Nepal returns to the standard 12-month Article IV consultation cycle.

Resident Representative

Mr. Pranav Kumar Gupta has been the Resident Representative for Nepal since November 2024. He is based in Kathmandu, Nepal.

Technical Assistance since 2023 Article IV Consultation:

	Purpose	Year
FAD	Progress on reforms to the Inland Revenue Department (IRD)	2023
	Post-TADAT study tour (virtual)	2023
	Developing a strategic response to TADAT Findings	2023
	Preparation of domestic revenue mobilization	2024
	Developing tax expenditure policy for domestic revenue mobilization	2024
	Database management and reporting for IT Customs Systems	2024
	Customs reforms roadmap for domestic revenue mobilization	2024
	Strengthening income tax expenditure reporting and evaluation to IRD (workshop)	2025
	Developing the Customs Compliance Improvement Strategy	2025
	Managing fiscal risks and developing a fiscal risk statement	2025
FAD-SARTTAC	Finalization of Domestic Revenue Mobilization Strategy	2024
LEG	Forensic Audit Training	2023
	Drafting of guidelines to implement UNSC Resolutions (virtual discussion)	2024
MCM	Medium-term TA roadmap to implement FSSR recommendations	2024
	Feasibility analysis of CBDC and its preparation (in-person and virtual)	2024
MCM-FAD	Strengthening public debt management functions	2024
SARTTAC	Expanding the coverage of Extra Budgetary Units	2023
	Improving NRB's foreign reserves management framework	2023
	Strengthening risk-based supervisory systems	2023
	Updating and improving the Producer Price Index	2023
	Improving the National Accounts	2023
	Developing a cash-flow forecasting framework	2023
	Monetary operations and development of interbank market	2024
	Strengthening supervisory framework for IFRS9 and Expected Credit Loss	2024
	Risk-based audit techniques (workshop)	2024
	Developing institutional sector accounts	2024
	External sector statistics	2024
	Residential Property Price Index	2024
	Implementation of cash-flow forecasting framework	2024
	Formulation of Action Plan for implementation of PIMA recommendations	2024
	Addressing issues in capital budget execution	2025
	Compilation of Tourism Satellite Accounts	2025
	Developing compliance improvement plans for IRD (workshop)	2025
STA	Strengthening GFS and PSDS compilation in accordance with GFSM 2014	2025

INFORMATION ON THE ACTIVITIES OF OTHER IFIS

Information on the activities of other IFIs in Nepal can be found at:

- World Bank: <http://www.worldbank.org/en/country/nepal/overview>
- Asian Development Bank: [Nepal and ADB | Asian Development Bank](#)



NEPAL

June 2, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—SUPPLEMENTARY INFORMATION

Approved By

Rupa Duttagupta (APD)
and Koshi 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 Staff Report on April 8, 2026. The update does not alter the thrust of the staff appraisal.

1. The economy has thus far remained resilient to spillovers from the Middle East war, but there are signs of inflationary pressures. GDP growth picked up to 4.1 percent y/y in the second quarter (mid-October 2025 to mid-January 2026), suggesting that the economy was on a path to recovery before the war in the Middle East. In response to the war, the authorities have allowed fuel and public transport prices to increase, reduced customs duty and infrastructure tax on fuel, and rationalized fuel use¹. Data through April shows that inflation has ticked up to 4.5 percent y/y owing to higher food and transport, costs but remains below the Nepal Rastra Bank's (NRB) 5 percent target. The current account surplus has continued to strengthen, with remittance growth remaining resilient and outpacing higher imports, keeping import cover above 12 months.
2. The new government has laid out its economic and governance reform agendas. In May, the government announced a 'New Phase of Economic Reform Series' focused on broader structural reforms to foster higher economic growth, including by improving foreign investment climate, developing capital markets, and strengthening civil services. Additionally, the authorities have started to implement their 100-point governance roadmap.

¹ The government has introduced a two-day weekend for government offices, reduced fuel allowance for government employees, and supplied half-filled LPG cylinders.

They have issued eight key ordinances to strengthen governance in several areas, including relating to political appointments in public institutions, public procurement processes, regulation of cooperatives, and money laundering investigations and prosecutions.² The new government has also welcomed the IMF's ongoing Governance and Corruption Diagnostic.

3. The newly announced budget measures for FY2026/27 are broadly in line with staff's recommended fiscal stance.

- The budget envisages a primary deficit of 1.9 percent of GDP with revenues forecasted to be at about 23 percent of GDP and expenditures at 26 percent of GDP. The envisaged fiscal expansion is expected to be driven by cuts to personal income tax and other taxes (preliminary estimates of 1.5 percent of GDP). However, tax revenue collection is expected to be raised by a new tax on certain goods imports (Domestic Production Promotion Tax) and services, increase in tax compliance, and improved tax administration. The budget also envisages an ambitious increase in capital expenditure to 6 percent of GDP, an increase in civil services pay for the first time in four years and a doubling of nutrition allowance for Dalit children across the country to NPR 1000 per child per month.
- The expansionary fiscal stance is in line with staff recommendation to support the economy given the slack and additional downside risks to growth posed by spillovers from the war in the Middle East. However, the revenue projections are subject to risks given downside risks to the authorities' underlying growth projections and the risk that the new tax measures do not fully compensate for the envisaged tax cuts. If capital spending is implemented as projected, this would boost employment and growth, though potentially lower revenue outcomes would also risk a possible reduction in capital spending as seen in previous years. Staff welcome the expected increase in spending for children's nutrition, which was a broader objective of protecting the vulnerable under the ECF-supported program.

4. The authorities are strengthening financial sector oversight. Increasing financial sector vulnerabilities continue to be a concern with NPLs rising to 5.6 percent in mid-April. Following the completion of the Loan Portfolio Review (LPR) of the 10 largest banks, the NRB plans to undertake an in-depth assessment of the banking sector and improve supervision. Fully addressing the LPR findings in the 10 largest banks remain critical. The NRB continued to maintain tight provisioning requirements to safeguard the financial sector. The lowering of risk-weighting for directed lending to SMEs should be reversed.

² These include Special Provisions on Dismissal of Public Officials, and amendments to the Public Procurement Act, Prevention of Money Laundering Act, Cooperatives Act, Constitutional Council (Functions, Duties, Power and Procedures) Act, certain Nepal Acts related to Academy of Health Sciences, certain Nepal Acts relating to Universities, and an ordinance to amend 19 different Acts including Land Use Act, Forest Act, Contribution-based Social Security Act, Foreign Employment Act, and Insurance Act.

5. The Prior Action on submission of the draft amendments to the NRB Act to Parliament was completed on May 25 by registering the bill in the House of Representatives. With this, the end-October 2025 structural benchmark on submitting the NRB Act amendments related to the bank resolution framework to Parliament is not met, completed with delay. The draft amendments address certain recommendations of the 2021 Safeguards Assessment relating to the NRB's mandate, governance and oversight, financial and operational autonomy, and transparency and accountability. The draft amendments also introduce important improvements to the bank resolution framework, largely in line with the 2023 FSSR. However, the legal framework can be further strengthened in several areas through further engagement.³

³ On Safeguards Assessment, the legal framework can be strengthened on provisions related to Board composition, protection of Board remuneration, prohibition on capital reduction, and treatment of unrealized revaluation gains. The authorities indicated that some of these issues are addressed in Nepal's broader legal framework. The authorities also noted that retaining in the NRB Act judicial powers, i.e., to suspend, modify, or revoke bank resolution actions or decisions is grounded in the Constitution. Further strengthening of the bank resolution and central bank legal framework would nonetheless be warranted.

Table 1. Nepal: Structural Benchmark Status and Modifications

(April 2025-May 2026)

Measure	Original Target Date	Status
Cross-Cutting Institutional Reforms to Enhance Fiscal Transparency and Governance and Reduce Vulnerability to Corruption		
The MOF submits to Parliament amendments to modernize the NRB Law, addressing key recommendations of the 2021 Safeguards Assessments Report. ^{1/}	End-April 2025	Not met
The MOF submits to Parliament amendments to the NRB Act, addressing certain recommendations of the 2021 Safeguards Assessments Report, as included in the draft law reviewed in June 2025, in the areas of the NRB mandate, governance and oversight, financial and personal autonomy, and transparency and accountability, and key relevant gaps in the current bank resolution framework in line with recommendations of the 2023 Financial Sector Stability Report.	Prior Action	Met
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. ^{2/}	End-October 2025	Not met (completed with delay)
Revenue Mobilization		
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	Met
Financial Sector Regulation & Supervision		
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". ^{3/}	End-December 2025	Not met, (completed with delay)
Launch for 10 largest Banks in-depth onsite inspections assisted by independent international third-party auditors. ^{4/}	End-May 2025	Not met, (completed with delay)
NRB completes in-depth on-site inspections for the 10 largest Banks, assisted by independent international third-party auditors. ^{5/}	End-December 2025	Met

^{1/} 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.

^{2/} This SB corresponds to the end-April 2025 SB that was not met and was reset at the 6th review to end-October 2025.

^{3/} This SB corresponds to the end-August 2023 SB that was met by issuing updated regulations, but later partially reversed.

^{4/} 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 5th review to end-May 2025.

^{5/} 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 5th review to end-December 2025.

**Statement by Idwan Hakim, Executive Director for Nepal, Kaweevudh Sumawong,
Alternate Executive Director, and Wishnu Mahraddika, Senior Advisor to
Executive Director
June 5, 2026**

Introduction

On behalf of the Nepalese authorities, we thank Executive Directors, management, and staff for the Fund's continued engagement and support through surveillance, financial assistance, and capacity development. The authorities appreciate the close policy dialogue and analytical rigor during the 2026 Article IV consultation and Seventh Review of Extended Credit Facility (ECF), which provide a comprehensive assessment of Nepal's recent macroeconomic developments, policy challenges, and reform priorities. They broadly concur with staff's assessment and policy priorities and appreciate the focus on governance, resilience, and inclusive growth.

The completion of the Seventh and final review marks an important milestone. The Fund-supported program has played a critical role in helping preserve macroeconomic and financial stability amid repeated shocks, rebuild buffers, and advance key structural and governance reforms. With a renewed political mandate following the March 2026 elections, the authorities remain committed to sustaining reform momentum beyond the program period.

Recent Economic Developments and Outlook

Economic activity softened in the first half of FY2025/26, reflecting protest-related disruptions, delayed private investment, and weaker agricultural output following adverse weather conditions. Growth is expected to recover gradually in the second half of the fiscal year as confidence improves following the March 2026 elections and strengthened public investment execution. While inflation has risen recently, partly reflecting recent pressures stemming from energy prices and global supply disruption, it is expected to remain within

the Nepal Rastra Bank's (NRB) target for 2025/2026, against a backdrop of subdued domestic demand and generally low imported inflation.

Despite emerging tensions in the Middle East, external position remains strong. This reflects continued resilience in remittance inflows and tourism receipts, which have supported ongoing reserve accumulation. The authorities recognize staff's assessment that, over time, careful consideration will be needed to balance reserve accumulation with development and investment priorities, while preserving adequate buffers against external shocks. The authorities stand ready to adjust policies in response to evolving domestic and external risks. At the same time, the authorities underscore Nepal's demonstrated resilience and strengthened policy frameworks, reinforcing confidence in the economy to preserve stability while supporting a durable recovery.

Program Performance

Program implementation under the ECF has been broadly satisfactory, notwithstanding a challenging domestic environment marked by political transition and capacity constraints. All quantitative and continuous performance criteria for the review were met, reflecting prudent macroeconomic management and sustained commitment to program objectives. While performance against some indicative targets was mixed, the authorities agree that continued attention to social spending execution will be important to reinforce the program's inclusive growth objectives.

Progress on structural benchmarks has continued. Key benchmarks—the completion of the in-depth loan portfolio review (LPR) of the ten largest banks and adoption of a Customs Compliance Improvement Strategy—have been met. Delays in other reforms, including amendments to the NRB Act and alignment of asset classification regulations with Basel Committee guidelines, appear to largely reflect implementation challenges associated with the political transition and capacity constraints. The authorities have since taken corrective actions and advanced a clear roadmap to embed completed reforms and strengthen implementation going forward.

Monetary and Financial Sector Policy Direction

Monetary policy will remain focused on maintaining price stability and safeguarding the external position, while supporting the gradual recovery in domestic demand. In an environment of subdued inflation and weak credit demand, the NRB intends to maintain a cautiously accommodative stance, while continuing to strengthen liquidity management, including through open market operations and improved liquidity forecasting, and enhance the effectiveness of the interest rate corridor to better anchor short-term market rates. The

NRB stands ready to recalibrate the policy stance should inflationary or external pressures emerge.

In the financial sector, the authorities will continue to place emphasis on safeguarding stability, strengthening supervision, and addressing rising vulnerabilities, including an uptick in non-performing loans. The recent completion of the in-depth LPR of the ten largest banks represents a key milestone in strengthening transparency and supervision. Follow-up actions are underway under a time-bound roadmap to address identified provisioning and capital shortfalls. The authorities remain committed to phasing out regulatory forbearance, strengthening risk-based supervision, improving NPL resolution, and addressing weaknesses in the cooperative sector. Early intervention and macroprudential tools will also be deployed as needed.

The authorities remain firmly committed to strengthening the AML/CFT framework and completing actions necessary to exit the FATF's Increased Monitoring. Progress has been made in implementing the FATF Action Plan, including through legislative amendments, updated targeted financial sanctions procedures, and enhanced implementation of UN Security Council resolutions. Efforts will continue to focus on effective and consistent implementation, enhanced supervisory capacity, improved use of financial intelligence, and greater beneficial ownership transparency.

Fiscal Policy

Fiscal policy in FY2025/26 remains moderately countercyclical, balancing support for the recovery with the need to safeguard debt sustainability. Despite revenue shortfalls earlier in the fiscal year, the authorities met the primary balance performance criterion through timely policy adjustment and prudent expenditure management. Over the medium term, fiscal policy will continue to aim at maintaining public debt at a moderate and stable level while creating space for priority development and social spending.

The authorities reaffirm their commitment to a gradual and growth-friendly fiscal consolidation, supported by sustained revenue mobilization efforts and improvements in public investment efficiency. Revenue measures continue to be guided by the Domestic Revenue Mobilization Strategy, including rationalizing tax expenditures, strengthening customs compliance, and modernizing tax policy and administration. Over the medium term, the authorities aim to restore the revenue-to-GDP ratio back to its pre-pandemic level, supported by enhanced compliance, improved use of revenue administration databases and reporting systems, as well as strengthened institutional capacity. On the expenditure side, efforts are focused on improving the execution and efficiency of capital spending, including through reforms to the National Project Bank and strengthened project appraisal and coordination. Social spending remains a priority, with continued support for child grants, health, and nutrition programs.

At the same time, fiscal reforms are advancing to strengthen cash and fiscal risk management, including through the publication of a comprehensive fiscal risk statement alongside the FY2025/26 budget, expanded coverage of public enterprises and public-private partnerships, improved reporting and auditing requirements, and institutional reforms to enhance transparency and coordination across different levels of government—measures viewed as essential to sustaining fiscal discipline and supporting Nepal’s medium-term development objectives.

Structural Reform

Structural reforms remain central to the authorities’ strategy to strengthen resilience and unlock Nepal’s growth potential. Governance and institutional reforms—including through public financial management, revenue administration, and financial sector oversight—are being advanced to improve transparency, accountability, and policy credibility. Legislative and institutional reforms to strengthen central bank governance and fiscal risk management represent important progress in this regard. Reflecting strong public demand for better governance, reforms are also guided by a governance blueprint and the ongoing Governance and Corruption Diagnostic, which is expected to deliver a sequenced action plan of reform agenda to address institutional vulnerabilities, reinforce accountability, and support confidence.

Growth-oriented structural reforms are also being accelerated to improve the business environment, crowd in private investment, and support job creation. Implementation of the 16th Development Plan prioritizes productivity and employment in agriculture, industry, and tradable services, alongside reforms to reduce the cost of doing business, streamline procurement, and digitalize public administration. Climate-related investments and reforms, aligned with Nepal’s Nationally Determined Contributions and National Adaptation Plan, are being scaled up to enhance resilience to climate shocks.

Conclusion

The Nepalese authorities reaffirm their strong commitment to prudent macroeconomic management and to sustaining reform momentum beyond the ECF-supported program. While acknowledging remaining challenges and downside risks, they are encouraged by the economy’s resilience, the improving external position, and the progress achieved under the program in anchoring stability and advancing key reforms. The authorities remain focused on safeguarding macroeconomic and financial stability, strengthening governance and institutions, and advancing growth-enhancing fiscal and structural reforms to support durable, inclusive, and resilient growth. They look forward to continued close engagement with the Fund and other key development partners.