NBSM

MOORE

NEPAL ECONOMIC UPDATE

Macroeconomic & Financial Situation

A data-driven review of Nepal's economy based on eleven months' data ending mid-June, Fiscal Year 2025/26.

AT A GLANCE

3.0%
Real GDP Growth, FY25/26 Est.

2.89%
Average Inflation

19.1 months
Forex Exchange Reserve Cover

+38.2%
Remittance Inflows

Rs 926bn
Balance of Payments Surplus

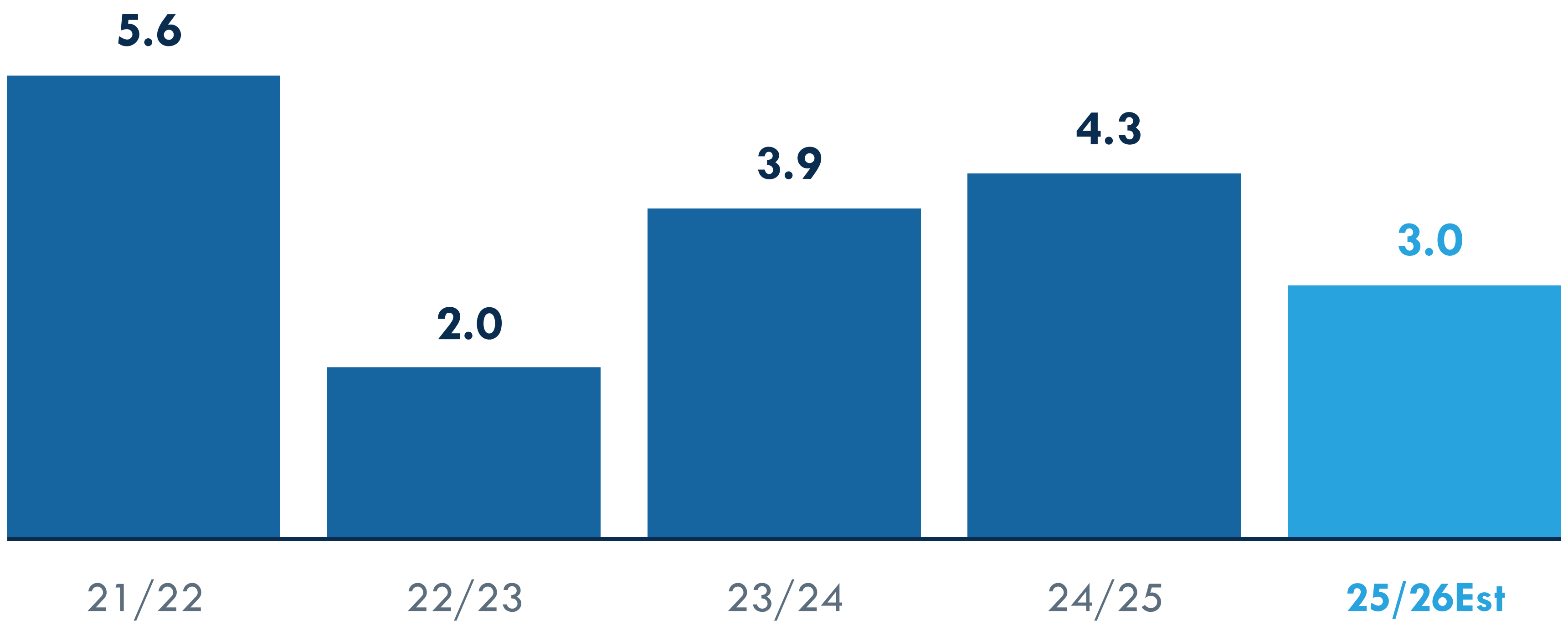
2,724
NEPSE Index

Stability has come at the cost of momentum

Growth is easing to sub-potential rates as political disruption and weak investment bite, even as average inflation stays contained, though headline and wholesale prices are now turning up.

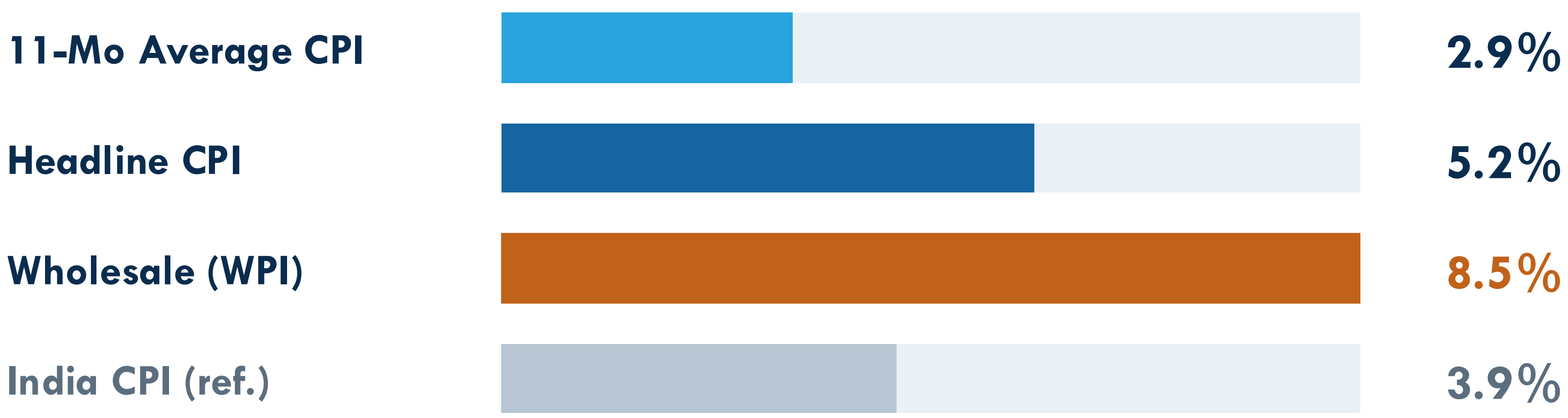
Real GDP growth

Annual %, fiscal year



Inflation, mid-June 2026

y-o-y %, by measure



The gap between a benign 2.9% average and an 8.5% wholesale reading signals imported, currency-driven cost pressure, amplified by a 9.8% rupee depreciation, now feeding into the pipeline.

MOMENTUM

At ~3%, output sits well below the 7% target. The shortfall is investment-led, not a demand shock.

PRICE OUTLOOK

A benign average masks building pipeline pressure as a weaker rupee lifts imported costs.

POLICY READ

Space to support demand exists, but easing alone cannot lift growth without spending execution.

Sources: NRB; IMF; World Bank

Remittances, not production, hold the economy together

Nepal runs a large trade deficit and a widening fiscal gap. Both are financed by money earned abroad: remittances now exceed the entire trade deficit, while domestic exports remain a fraction of what the country consumes and imports.

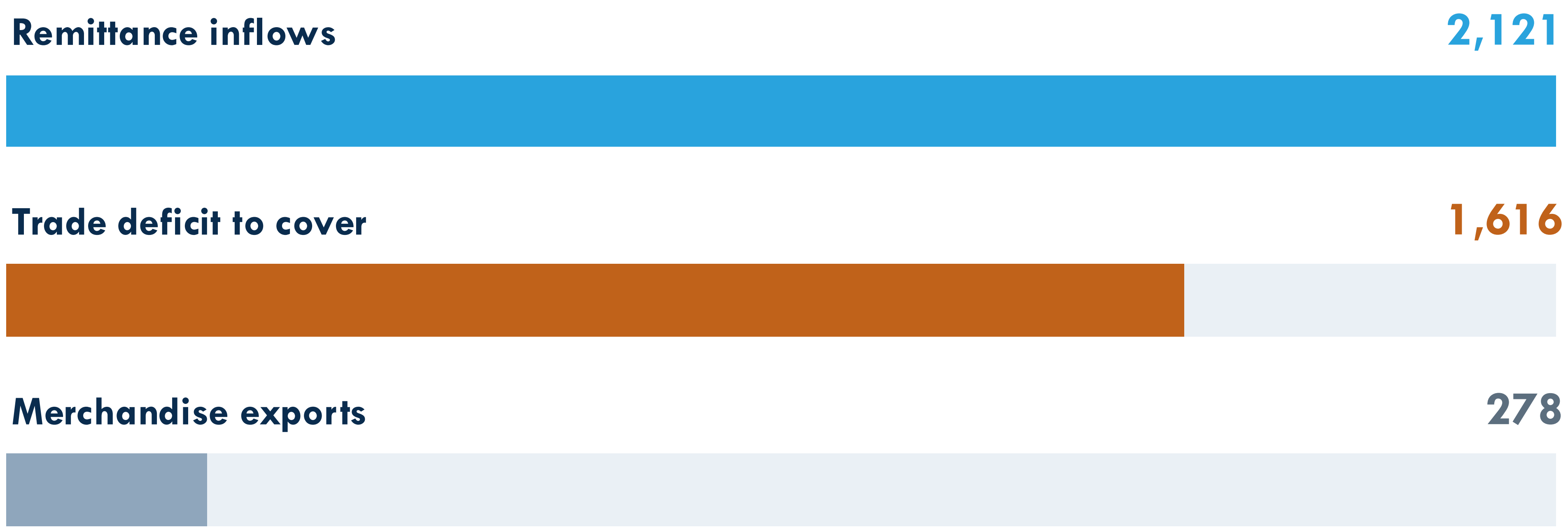
THE TWIN IMBALANCES

Trade deficit Rs 1,616bn
Imports Rs 1,894bn against exports of just Rs 278bn

Fiscal deficit Rs 265bn
Expenditure Rs 1,347bn against revenue of Rs 1,081bn

Capital expenditure −7.5%
Development spending is shrinking as recurrent costs rise

WHAT FINANCES THE GAP (RS BILLION)



Rs 926bn
Balance-of-payments surplus

19.1 mo
Import cover in reserves

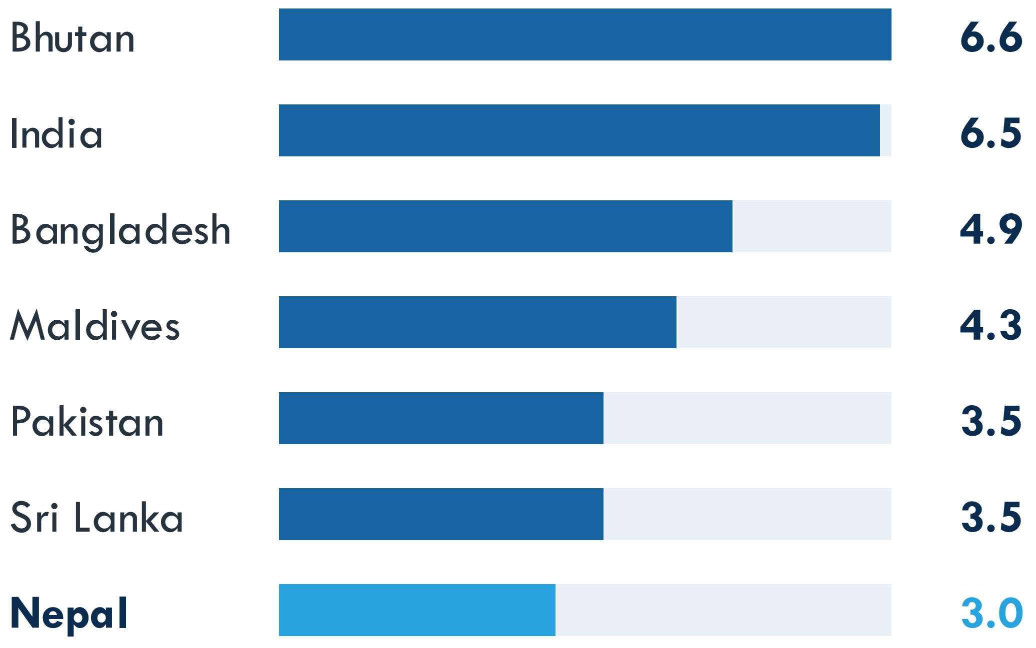
> The economy's external and fiscal stability rests on foreign labour income, not domestic output. It is a powerful buffer today, but a structural vulnerability if remittances slow.

Stable prices, but lagging on growth and income

Against its neighbours, Nepal stands out for low, well-managed inflation, but sits near the bottom of the region on both economic growth and per-capita income.

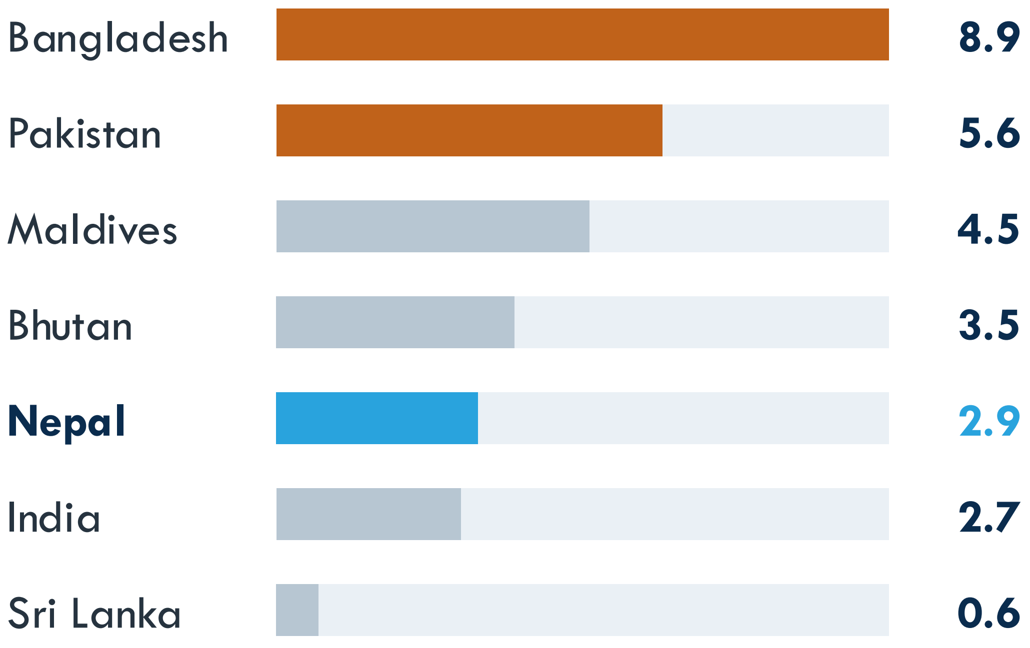
Real GDP growth

Annual %, FY2025/26 est.



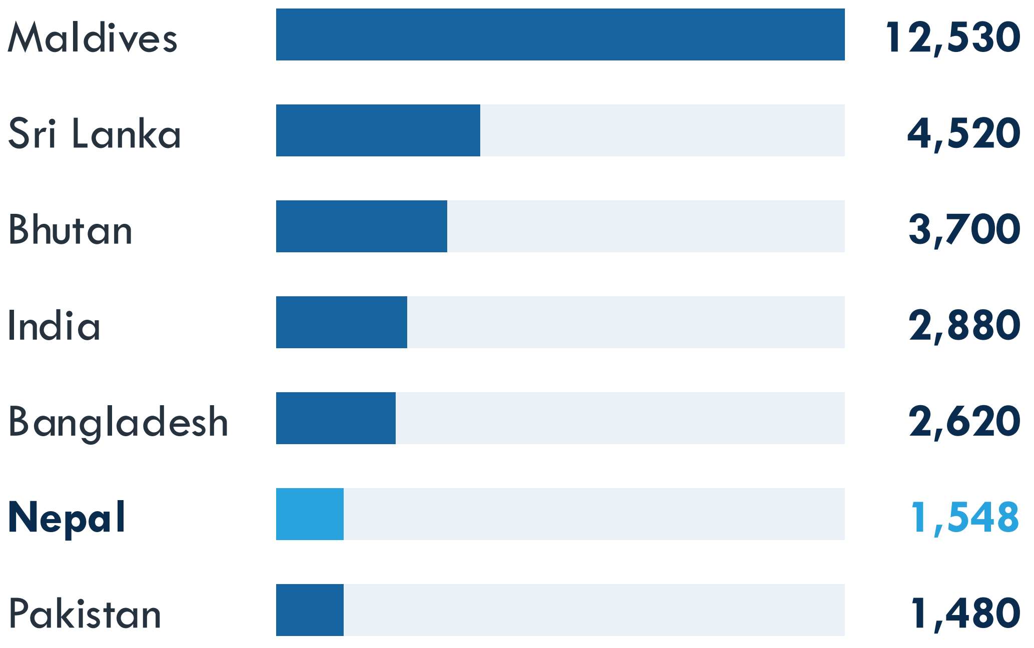
Inflation

CPI %, 2025 / latest



GDP per capita

Nominal USD, latest



STABILITY EDGE

Nepal's inflation is the region's lowest, as a credible peg and soft demand keep prices in check.

GROWTH GAP

At ~3%, Nepal grows at half India's and Bhutan's pace; regional convergence is stalling.

INCOME FLOOR

Per-capita income is the lowest shown, driven by remittance-funded consumption rather than productivity.

Sources: IMF WEO; World Bank South Asia Update; ADB Outlook; national statistics offices

Liquidity-rich, but credit-light

Deposits are outpacing loans and lending rates have fallen sharply, yet credit demand stays soft, while elevated non-performing loans warrant caution and equity markets tread water.

Deposits are growing faster than credit

Interest rates have fallen sharply

6.64%	4.88%	2.73%
Lending rate from 7.99%	Base rate from 6.09%	Interbank from 2.99%

ASSET QUALITY WATCH

Non-performing loans have climbed against a real-estate-heavy loan book.

5.6%
NPL ratio

CAPITAL MARKETS

2,724	70.5%	+106%
NEPSE Index from 2,655	Market Cap to GDP	FDI Equity to Rs 22.8bn

Cheaper credit has not revived borrowing: the binding constraints are project pipelines and confidence, not the cost of capital.

TRANSMISSION WORKS

Policy easing has passed fully through to lending rates now near record lows.

DEMAND IS THE BRAKE

Credit lags deposits: firms are not borrowing despite abundant, cheap liquidity.

WATCH ASSET QUALITY

Rising NPLs on a property-heavy book are the key downside risk for banks.

Source: Nepal Rastra Bank, eleven-month data FY 2025/26

Stability is secured; growth is the unfinished task

Base case LIKELY

External surpluses persist; growth stays sub-potential near 3 to 4% and inflation settles at 5 to 6% as credit recovers only gradually.

Upside REFORM-LED

Capital-budget execution and reform ignite private credit; tourism and hydropower broaden the export and earnings base.

Downside SHOCK

A remittance normalisation or political disruption pressures reserves and the rupee as asset quality deteriorates further.

GOVERNMENT

Convert fiscal space into investment; fix capital-budget execution.

NRB & BANKS

Channel liquidity to productive sectors; guard asset quality.

BUSINESSES

Lock in low-cost funding; hedge currency and input-cost risk.

INVESTORS

Stability supports carry; watch the credit-cycle turn and NPLs.

BOTTOM LINE Nepal has bought stability but not yet growth. With reserves at a generational high and capital at its cheapest, the decisive task is to invest that policy space, and to broaden the economy beyond remittances.