

Monetary Policy

2025/26

HIGHLIGHTS



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Governor Professor Dr. Biswo Nath Poudel unveils Monetary Policy 2082-83 (2025-26)

On 11 July 2025, Governor Professor Dr. Biswo Nath Poudel presented the Monetary Policy for the FY 2082-83 (2025-26). The policy is designed considering both national and international economic conditions, incorporating a review of previous policies and a thorough analysis of proposed measures for the current fiscal year. The key highlights of the policy are as follows:

Overall Economic Situation

The Central Bureau of Statistics projects an economic growth of 4.61% for FY 2024/25

Fiscal Year: 2024/25 2023/24			
A	Economic Growth Rate	4.61%	3.87%
B	Gross Domestic Savings to GDP	6.6%	6.2%
	- Gross National Savings to GDP	36.2%	35.4%
	- Gross Fixed Capital to GDP	24.1%	24.3%
C	Average Annual Consumer Inflation Rate	4.24%*	6.83%
* Average inflation as of Mid-July)			
D	Overall BOP - Surplus (Rs in billion) (as of Mid-July)	491.44	425.76
	Foreign Exchange Reserve - Sufficient for goods and services import	14.7 months	12.6 months
	Weighted average 91-day Treasury Bills Rate (as of mid-July)	2.94%	3.00%
	Weighted average base rate of commercial banks (as of mid-June)	6.09%	8.17%
	Weighted average interest rate on deposits of the commercial banks (as of mid-June)	4.29%	6.17%
	Weighted average interest rate on loans of the commercial banks (as of mid-June)	7.99%	10.15%

Implementation Status of Previous Policies

- ❑ The loan loss provision was reduced from 1.2% to 1.0%, the countercyclical capital buffer was set at 0% for FY 2081/82, loan restructuring in sectors such as construction was facilitated until Ashad 2082, and the risk weight on margin loans was reduced from 125% to 100%.
- ❑ The loan classification rule was revised to require that loans in the watchlist category remain there for 6 months before being upgraded to the pass category, replacing the earlier rule that required 6 months of regularization for non-performing loans.
- ❑ The Guideline on Targeted Financial Sanctions for Financial Institutions was implemented to ensure reporting institutions comply with anti-money laundering obligations.

- ❑ The maximum loan limit eligible under the Regulatory Retail Portfolio for capital adequacy calculation has been increased from Rs 20 million to Rs 25 million.
- ❑ Nepal Green Finance Taxonomy was introduced to promote increased lending and investment by BFIs in environmentally friendly sectors.
- ❑ Foreign exchange regulations were eased by increasing limits on convertible currency accounts, simplifying foreign investment and loan provisions, introducing swap transaction regulations to manage forex risk, and raising the non-deliverable forward limit from 15% to 20% of core capital.
- ❑ The import limit through Document Against Payment and Document Against Acceptance has been raised to US\$100,000 (previously it was US\$60,000), the draft/TT exchange facility limit to US\$50,000 (previously it was US\$35,000), and a new system allows unrestricted exchange for payments to Nepal government bodies under the Public Procurement Act, including the use of multiple payment methods.
- ❑ The Digital Finance Innovation Hub has been established with stakeholder and private sector participation to provide policy and regulatory information and enhance regulatory access for financial innovators in banking and payment systems.
- ❑ The infrastructure and institutional framework have been established to operationalize the National Payment Switch fully.
- ❑ The Consumer Price Index and Salary and Wage Index are now published using fiscal year 2080/81 as the base year.
- ❑ In line with the Monetary Policy for FY 2081/82, various regulations and guidelines, including those on bank account freezing, social responsibility, cooperatives, and microfinance, have been issued. Microfinance institutions are now required to publish their financial statements in accordance with the Nepal Financial Reporting Standards (NFRS).

International Economic Situation

- ❑ The global economy is projected to slow from 3.3% in 2024 to 2.8% in 2025, due to rising geopolitical tensions and stringent trade policies.
- ❑ Advanced economies are expected to grow by 1.4% and emerging economies by 3.7% in 2025.
- ❑ Global inflation is expected to fall, with projections for 2025 at 4.3%, down from 5.7% in 2024.
- ❑ In response, major central banks have begun lowering interest rates to support economic activity.

National Economic Situation and Scenario

Real Sector

- ❑ The National Statistical Office estimates a 4.61% economic growth for FY 2081/82, with all major sectors expected to expand.
- ❑ Timely monsoon, seed subsidies, fertilizer availability, and fixed support prices support agricultural growth.

- ❑ Key infrastructure projects, including tunnels and hydropower facilities, are nearing completion, which is boosting the industry and services sector.
- ❑ Tourism has rebounded to pre-COVID levels, and the government is promoting IT service exports and SMEs.
- ❑ With a 6% growth target for FY 2082/83, increased capital expenditure, low interest rates, and improved investment policies aim to drive economic expansion.

Inflation

- ❑ Consumer inflation averaged 4.24% (for 11 months) in FY 2081/82, down from 5.44% the previous year, due to improved agricultural conditions and lower external costs.
- ❑ With a favorable monsoon and declining Indian inflation, Nepal's inflation is projected to stay around 5% in FY 2082/83.

External Sector

- ❑ Exports grew by 77.8% and imports by 13.1% in FY 2081/82, resulting in a 6.3% increase in the trade deficit.
- ❑ Remittance inflows rose by 15.5%, contributing to a current account surplus of Rs 307.31 billion and a balance of payments surplus of Rs 491.44 billion.
- ❑ Foreign exchange reserves increased by 25.9%, now sufficient to cover 14.7 months of imports, with a stable outlook for the next fiscal year.

Government Finance

- ❑ Government spending rose by 8.6% and revenue by 10.5% in FY 2081/82, mostly from taxes.
- ❑ Rs 414.19 billion in loans were taken, and Rs 266.66 billion repaid.
- ❑ Rs 19.64 trillion budget for FY 2082/83 includes a Rs 596 billion deficit to be covered by borrowing.

Monetary and Financial Sector

- ❑ Broad money grew by 8.2% despite low domestic asset expansion, primarily due to higher foreign assets.
- ❑ Credit rose, interest rates fell, but bad loans increased to 5.24%.

Direction, Framework and Measures of Monetary Policy for FY 2082-83 (2025-26)

Basis of Direction

- ❑ Demand is improving, driven by lower inflation and robust foreign reserves.
- ❑ However, weak capital formation despite low interest rates calls for better resource allocation.
- ❑ Policy reforms are necessary to enhance credit flow and mitigate global economic risks.

Direction of Monetary Policy

- ❑ The monetary policy adopts a cautiously expansionary stance to support economic growth while maintaining macroeconomic stability i.e., low inflation and robust forex reserves.
- ❑ Regulatory consistency aims to improve credit access, reduce concentration, and ensure financial stability.

- ❑ Open market operations and the interest rate corridor have been strengthened to enhance monetary expansion.

Structure and Objectives of Monetary Policy

- ❑ Monetary policy will target 6% economic growth, 5% inflation, and adequate foreign reserves for FY 2082/83.
- ❑ Broad money supply is projected to grow by 13% and private sector credit by 12% during the same period.

Monetary Measures

- ❑ The bank rate, which is the upper limit of the interest rate corridor, has been reduced from 6.5% to 6%, and the deposit collection rate, which is the lower limit of the interest rate corridor, has been set at 2.75% from 3%. The policy rate has been reduced from 5% to 4.5%.
- ❑ The provision related to the Standing Liquidity Facility (SLF) remains unchanged.
- ❑ The existing arrangements regarding Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) provisions for BFIs are continued.
- ❑ To enhance the effectiveness of structural liquidity management within the banking system, Nepal Rastra Bank will issue NRB bonds as needed.
- ❑ Interbank transactions among BFIs will be made more systematic and transparent through system enhancements, enabling real-time monitoring by the central bank.

Financial Sector and Foreign Exchange Policy

- ❑ As the economy recovers, rising non-performing loans and non-banking assets are putting pressure on banks' capital and lending capacity. To maintain financial stability, priorities include strengthening capital, improving loan management, and establishing asset management companies to manage NPAs and NBAs.
- ❑ High liquidity and low interest rates provide opportunities for economic growth. To support this, banks must self-regulate and carefully assess borrowers' projects and capabilities. Gradual alignment with international regulatory standards and stronger risk-based supervision are essential for ensuring responsible lending and financial stability.
- ❑ With rapid technological advancements, the financial sector must embrace modern technology to enhance skills and opportunities. Banks and financial institutions should be encouraged to provide specialized services while maintaining institutional diversity, ensuring financial products are accessible and competitive in the evolving market.
- ❑ Policy measures on prudential regulation, foreign exchange, payment systems, and anti-money laundering have been aligned with the monetary policy for fiscal year 2082/83.

Regulation and Supervision

- ❑ The second financial sector reform strategy will be implemented after approval by the GoN for the sustainable development and expansion of the financial system, addressing the existing opportunities and challenges seen in the financial system.

- ❑ The loan limit for financing the construction/purchase of private residential houses has increased from Rs 20 million to Rs 30 million. For first-time home construction/purchase, the loan-to-value (LTV) ratio may be maintained at up to 80%, while for others, it may be maintained at up to 70%.
- ❑ The working capital guideline will be revised as necessary, based on the nature of the business and the loan repayment/income cycle, including agriculture, small and cottage industries, education, health, sports, communication, and media houses.
- ❑ Existing provisions for classifying loans and loan loss provisions will be studied and reviewed.
- ❑ The following arrangements will be made to facilitate credit in agriculture and micro, household, small, and medium enterprises, aiming to improve the living standards of low- and middle-income households:
 - a) BFIs will be allowed to disburse agricultural and commercial loans up to Rs 1 million by evaluating collateral such as crops, arable land, and agribusiness assets.
 - b) Minimum loan loss provisions will be applied during the grace period for loans up to Rs 1 million granted under this scheme.
- ❑ The following provisions will be made for loans disbursed to industrial entrepreneurs in the areas surrounding the Hulaki Rajmarga and Madhya Pahadi Rajmarga to promote hotels and restaurants that have obtained the Food Hygiene Standardization Logo from the Department of Food Technology and Quality Control, as well as industrial businesses located near the main markets along these highways:
 - a) Loans up to Rs 30 million for small and medium enterprises in these areas will be included and classified as loans for the designated sector.
 - b) Arrangements will be made to allow disbursement of such loans by adding an interest rate premium up to a maximum of 2% premium above the base rate.
- ❑ The arrangement for capitalizing interest on loans disbursed to the energy production sector will be reviewed.
- ❑ The existing credit limit for margin lending, disbursed against shares from banks and financial institutions for a single borrower, will be increased from Rs 150 million to Rs 250 million.
- ❑ Policy-level facilitation will be provided to the existing system of blacklisting due to the dishonor of cheques.
- ❑ BFIs will also be able to adopt the policy of providing loans based on the customer's credit score.
- ❑ The Domestic Systemically Important Bank Framework will be issued and implemented to identify Domestic Systemically Important Banks (DSIB) and implement additional regulatory and supervisory arrangements for such banks.
- ❑ Guidelines on the Internal Liquidity Adequacy Assessment Process (ILAAP) will be issued to strengthen the liquidity risk management of commercial banks.
- ❑ Necessary facilitation will be provided to firms/companies related to land development and building construction that are in operation after being registered with an agency approved by the GoN for the restructuring and rescheduling of loans they have availed.
- ❑ National level "D" class microfinance institutions will now be allowed to operate loans up to 15 times their core capital, just like "B" class development banks and "C" class finance companies. This limit has been removed for institutions that meet the required capital adequacy ratios under Basel II and III and are in compliance with all necessary regulatory standards.
- ❑ BFIs may include the regulatory reserve arising from the non-banking assets in supplementary capital, provided such assets are realized within two years.
- ❑ To support BFIs in managing non-performing loans and non-banking assets, a draft law and regulatory framework for establishing an asset management company will be prepared and submitted to the GoN.
- ❑ Necessary reforms will be implemented in the interest rate calculation methods of banks and financial institutions to make them more realistic and transparent.
- ❑ The base rate calculation methodology of banks and financial institutions will be improved to make it more realistic.
- ❑ As stated in the Budget Statement of the Government of Nepal for Fiscal Year 2082/83 (2025/26), legal and procedural arrangements will be initiated for the establishment of 'Neo Banks' to expand financial access.
- ❑ In light of the strengthening of the electronic payment system, the existing branch expansion policy of banks and financial institutions will be reviewed.

Foreign Exchange Management

- ❑ Commercial banks will be better equipped to manage foreign exchange risk, which will help attract foreign investment.
- ❑ The *Foreign Investment and Loan Management Bylaws, 2078*, issued by NRB, will be amended to improve the investment climate and overall economic environment.
- ❑ The process for repatriation of principal, interest, dividends, and other returns will be simplified for foreign investors, foreign-invested industries/companies, and branches, liaison offices, or permanent establishments of foreign companies operating in Nepal.
- ❑ Based on the recommendations of the gold import and distribution study report, and in coordination with the Government of Nepal, the current system for gold import and distribution will be reviewed.
- ❑ The limit on non-deliverable forward (NDF) exposure for banks and financial institutions, currently capped at 20% of core capital, will be increased to 25%.
- ❑ The foreign exchange facility for Nepali citizens traveling to countries other than India will be raised from the current USD 2,500 to USD 3,000 per visit.
- ❑ Given the growing contribution of remittance companies to the economy, a study will be conducted to classify such companies based on their capital and transaction volume.
- ❑ Convertible foreign currencies will be expanded to include those from countries with rising foreign

exchange transactions, such as Bangladesh and Sri Lanka.

- ❑ The remittance exchange rate (FEDAN's rate) mechanism will be reviewed periodically to ensure market alignment.
- ❑ Policy provisions will be introduced to regulate interbank transactions in convertible foreign currencies.

Payment System

- ❑ An efficient and secure payment system will be developed to increase transactions and financial access through electronic means.
- ❑ To strengthen the payment system, a review will be conducted of the existing strategic framework, and a new strategy will be formulated.
- ❑ To facilitate loans being disbursed based on electronic transactions for micro, small, and medium enterprises (MSMEs), necessary amendments will be made in the relevant regulatory provisions.
- ❑ The inspection and supervision of institutions involved in payment-related transactions will be risk-based.
- ❑ Systemically important payment systems will be identified, and a directive will be issued for their effective monitoring and supervision, ensuring institutional capacity and strategic framework.

AML/CFT

- ❑ Effective coordination will be ensured among the concerned authorities to complete the tasks outlined in the action plan provided for Nepal's removal from the Financial Action Task Force (FATF)'s Increased Monitoring List (Grey List). To ensure full implementation of the national strategy and action plan related to this bank, supervision, investigation, and enforcement measures will be further strengthened.
- ❑ The priority actions (Immediate Outcomes) and recommended improvements (Technical Compliance Recommendations) related to regulatory agencies, as highlighted in Nepal's Third Round Mutual Evaluation Report published by the Asia Pacific Group (APG), will be implemented with high priority.
- ❑ The Financial Intelligence transmitted by the Financial Information Unit (FIU) to the concerned agencies will be automated to facilitate improved effectiveness in investigative processes.

right people
right size
right solutions