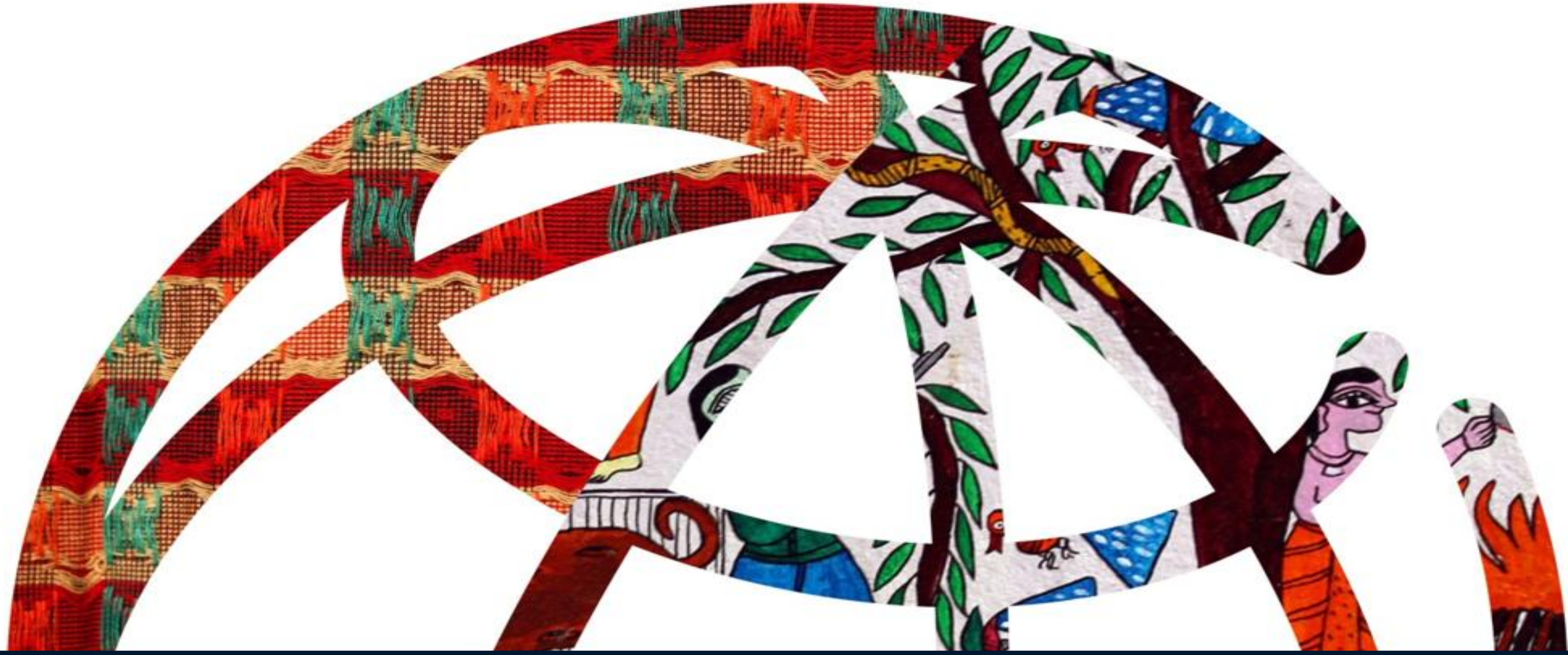

Presentation on November 2025 Nepal Development Update

Reforms to Accelerate Public Investment

Kathmandu University School of Management, Balkumari, Lalitpur

November 13, 2025

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Outline

Part I: Nepal's Macroeconomic Performance in FY25 and Outlook over FY26-27

1. **How did Nepal's economy do in FY25?**
   - Key economic highlights in FY25
   - Key economic challenges in FY25

2. **What is the outlook of Nepal's economy over FY26-27?**
   - Impact of the recent unrest on the economy
   - Projections of Key macroeconomic indicators over FY26-27
   - Key risks to the projections

Part II: Special topic of the NDU: Reforms to Accelerate Public investment

- Analysis of key bottlenecks of public investment across project cycle
- Recommendations for accelerating public investment in Nepal

Part I: Nepal's macroeconomic performance in FY25 and outlook over FY26-27

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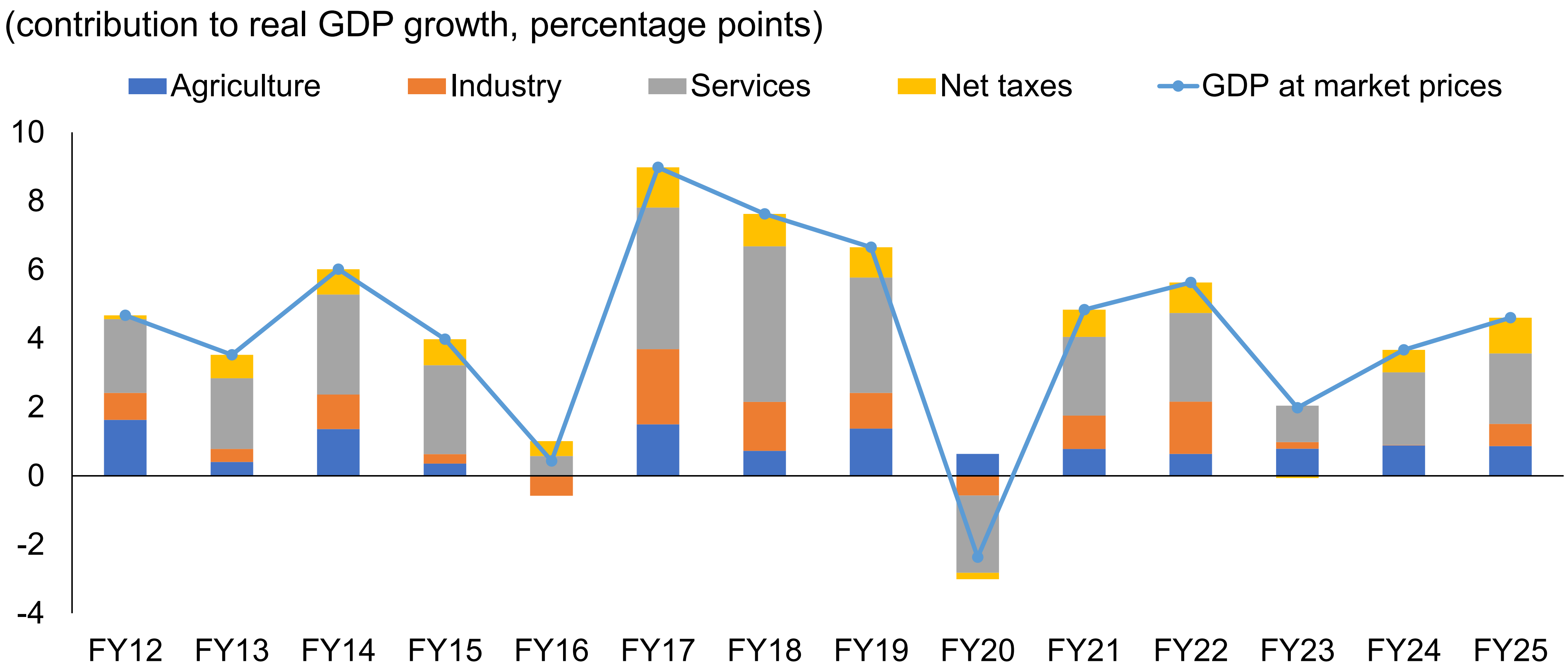
How did Nepal’s economy do in FY25? *Better, growing at 4.6 percent in FY25, compared to 3.7 percent in FY24. This was in the context of moderate inflation rate, lower fiscal deficit, and strengthened external position. However, the economy faced some challenges as well.*

Nepal's economic growth picked up to 4.6 percent in FY25, driven by the industrial sector, notably a rebound in manufacturing and construction activities.



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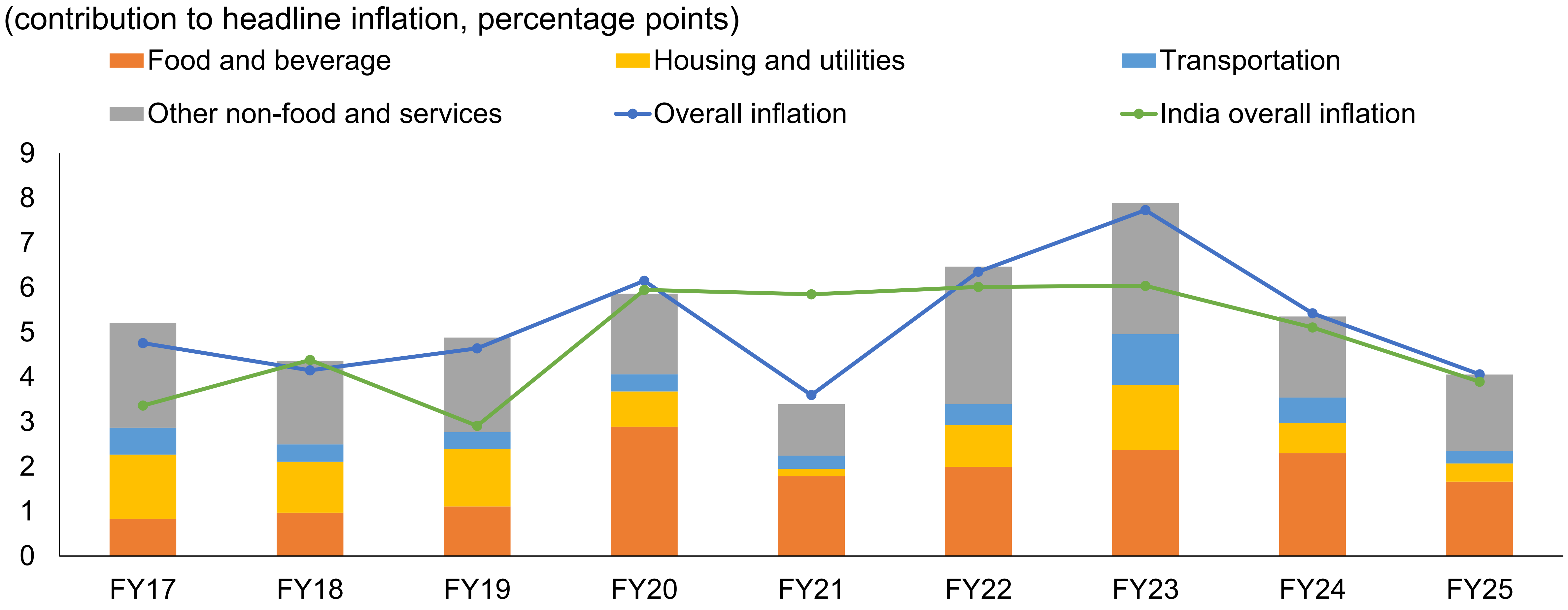
On the demand side, growth in FY25 was driven by re-exports of edible oils and private consumption.

- A surge in the exports of goods and services **(+17.7 percent)**, driven by re-export of edible oils to India was a key contributor to growth.

- An increase in private consumption **(+1.8 percent)**, supported by higher remittances (**+2.9 percentage points of GDP**) and the expansion of digital payments (**+24.1 percent**) also significantly contributed to growth.

- Investment contributed less **(+1.5 percent)** to growth in FY25, as private investment was almost stagnant, while public investment slightly increased due to higher budget allocations rather than improved execution.

Inflation rate declined to 4.1 percent in FY25 from 5.4 percent in FY24, driven by declines in both food and non-food prices.



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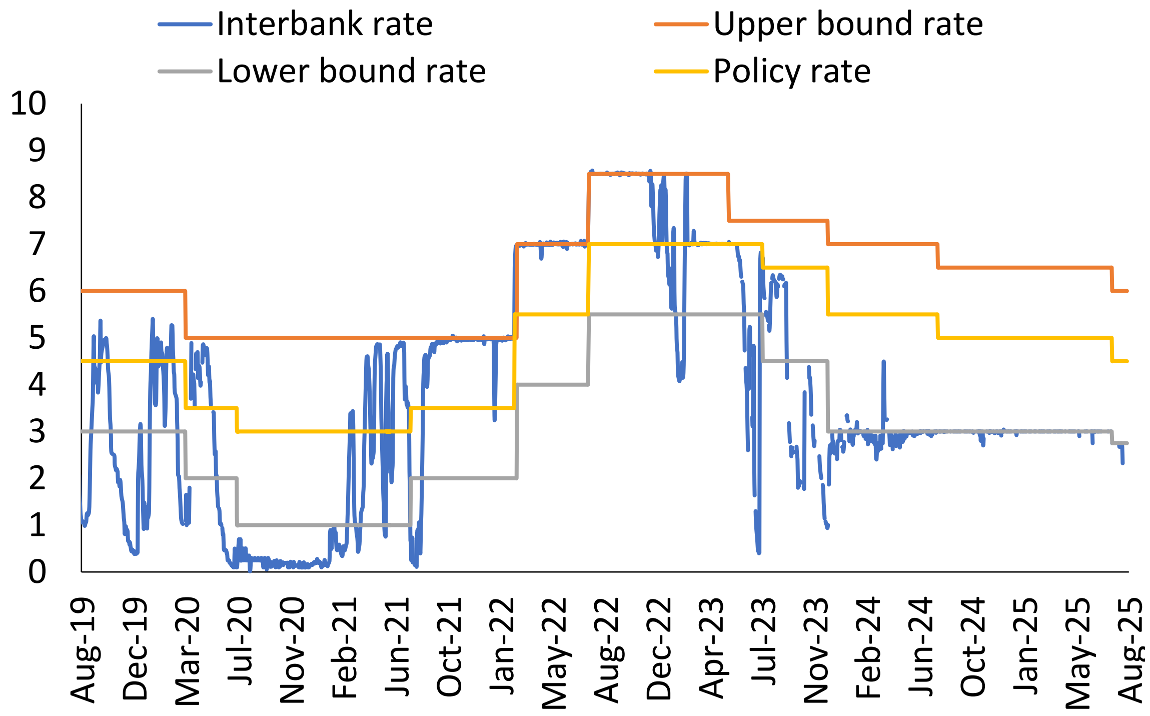
The NRB continued reducing the policy rate, leading to a decline in the lending interest rates in FY25.

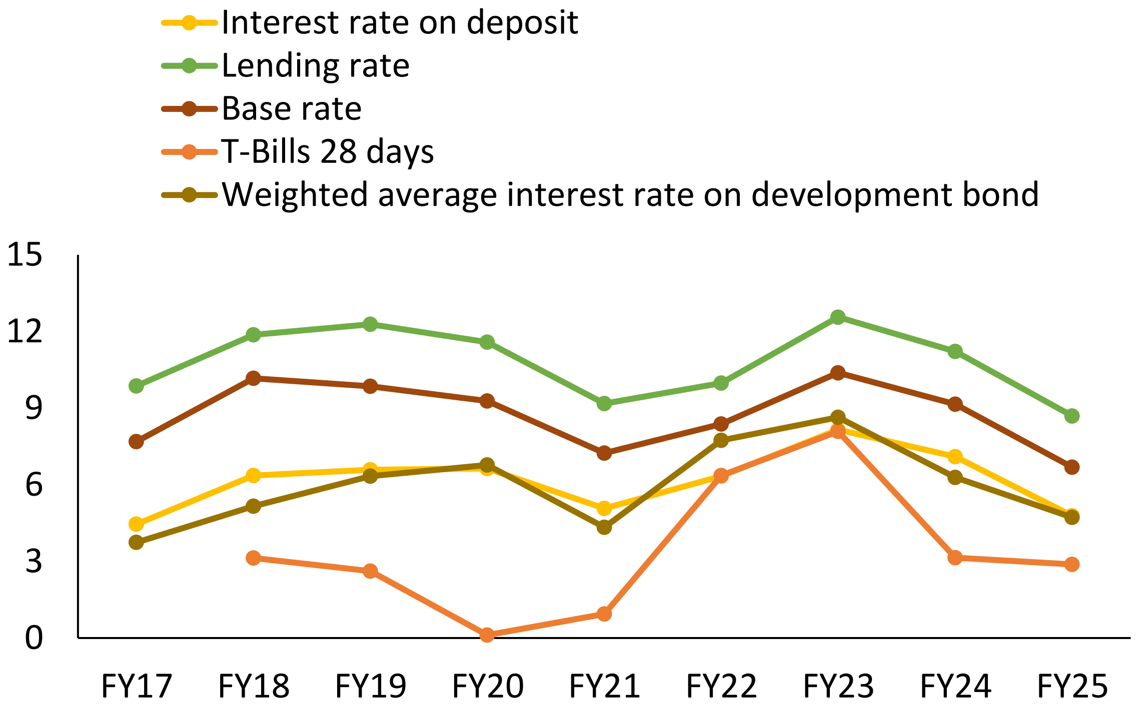
The NRB reduced the policy rate to 5.0 percent at the beginning of FY25…

(weighted average, percent)



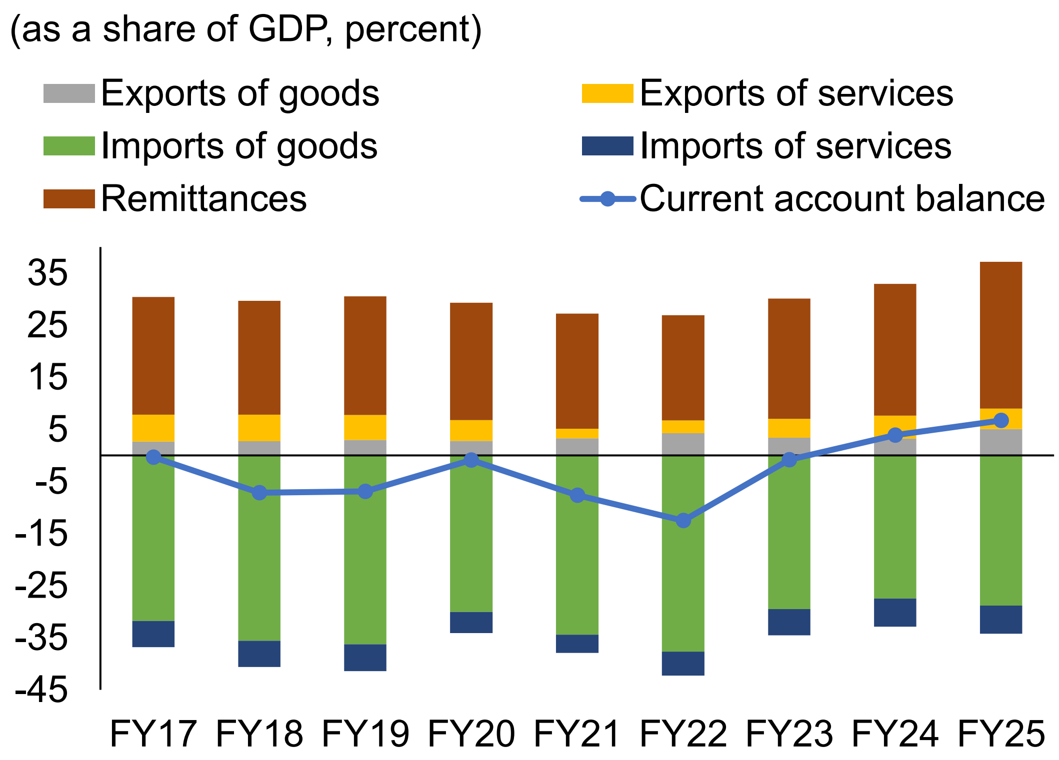
…leading to a decline in the lending interest rates.

(percent)

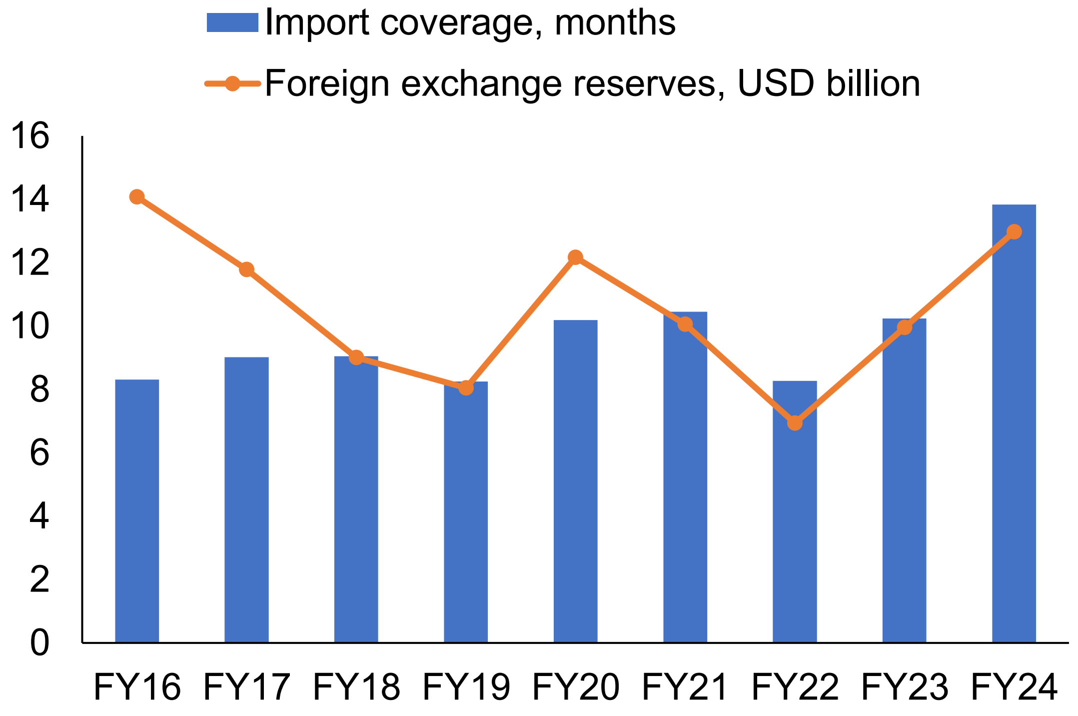


Nepal's current account surplus widened to 6.7 percent of GDP, driven by higher remittance inflows, leading to more than 15 months of imports coverage in FY25.

The current account surplus widened…



…leading to a significant accumulation of foreign exchange reserves in FY25.



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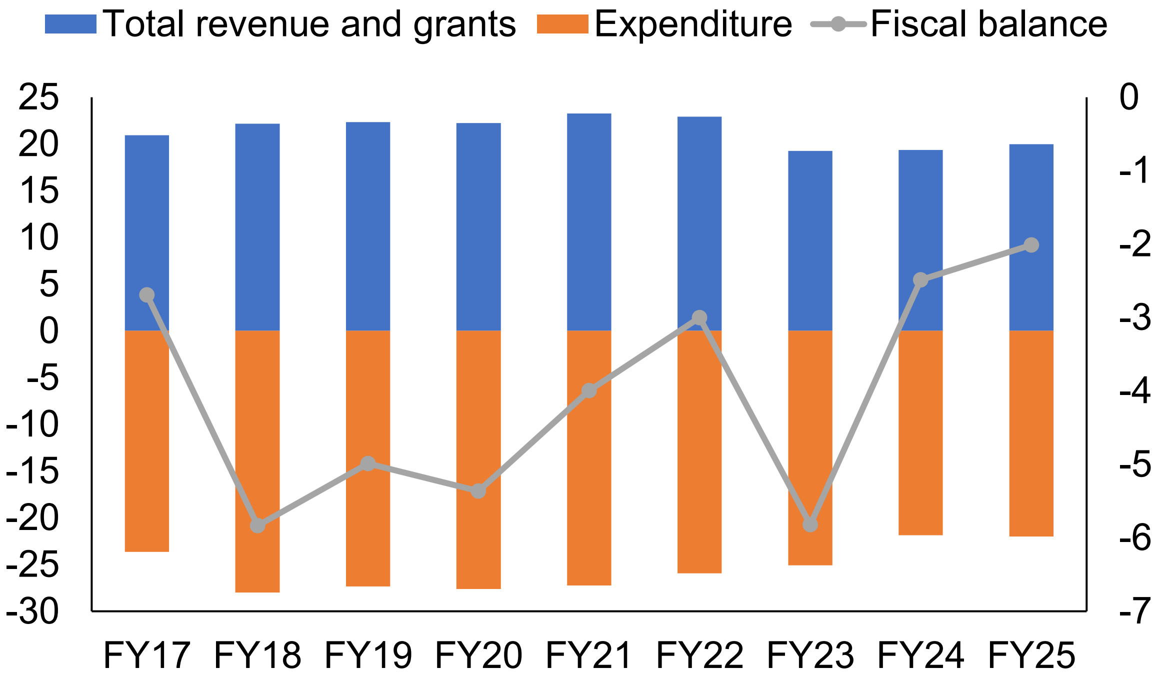
Nepal's fiscal deficit narrowed to 2.0 percent of GDP in FY25, driven by higher revenue collection, while expenditure marginally increased.

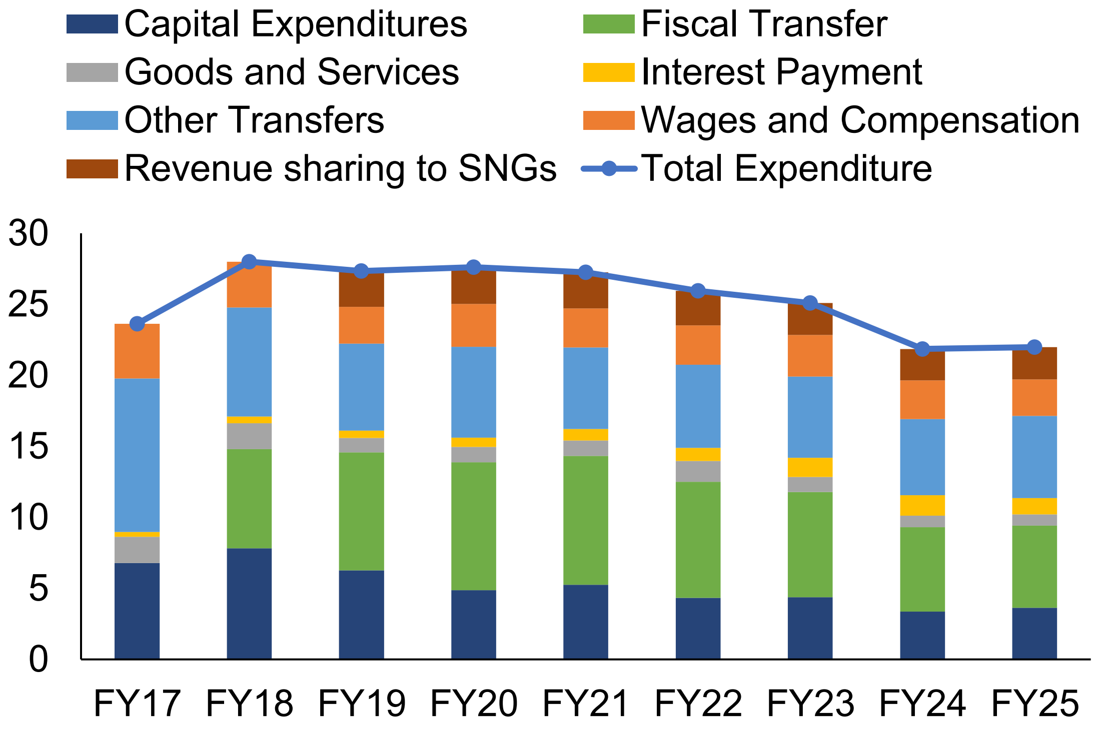
Fiscal deficit further narrowed due to higher revenue in FY25…

(as a share of GDP, percent)



…even as total spending marginally increased due a slight increase in capital expenditure.

(as a share of GDP, percent)



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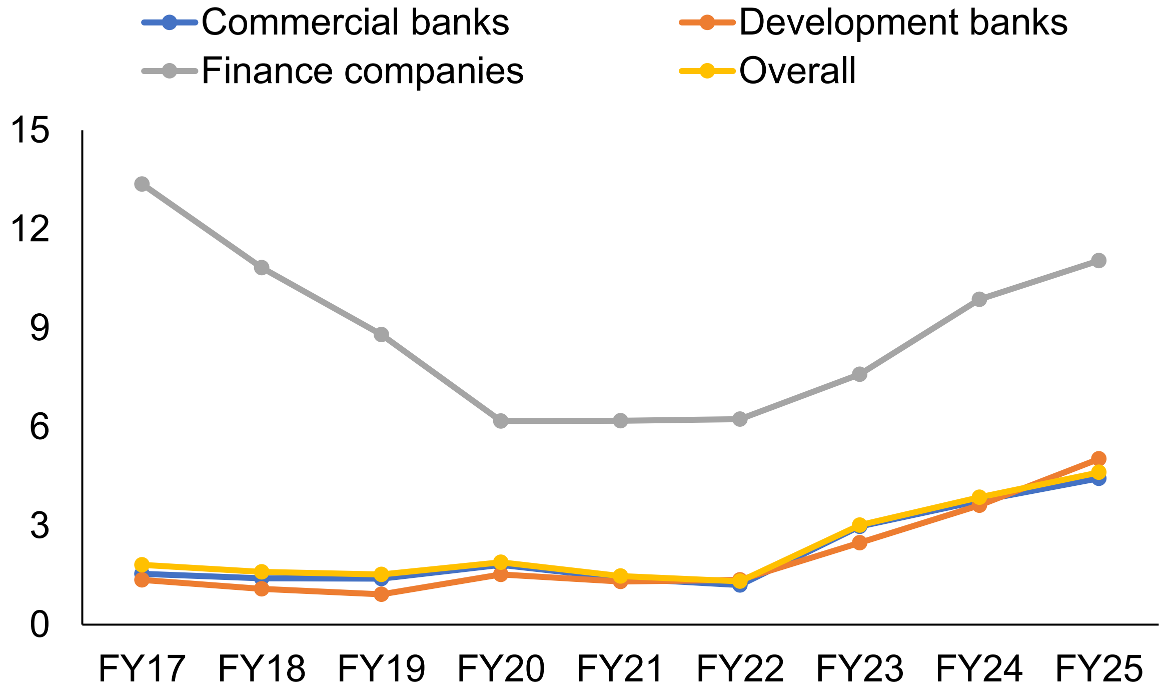
Pressures were on the rise in the financial sector, with an increase in non-performing loans (NPLs), which reached 4.6 percent by end of FY25, from 3.9 percent in F24.

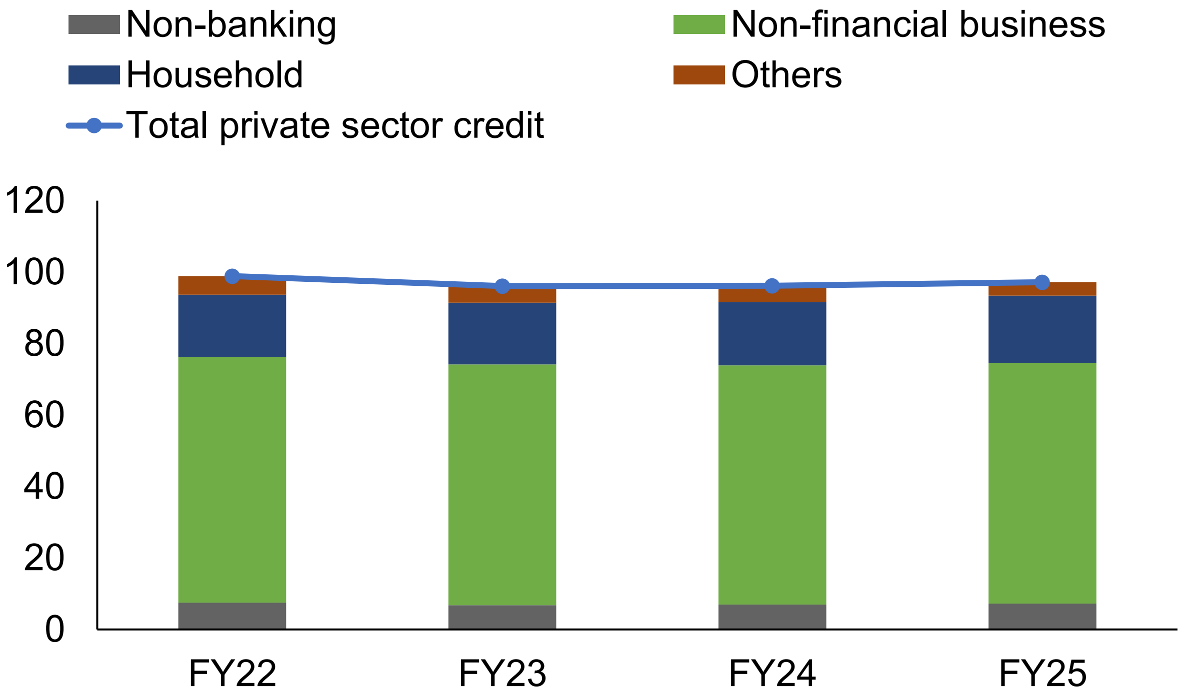
NPLs were on the rise, especially for finance companies…

(NPL ratio, percent)



… contributing to a marginal increase in the private sector credit, despite the record-low lending rates in FY25.

(as a share of GDP, percent)



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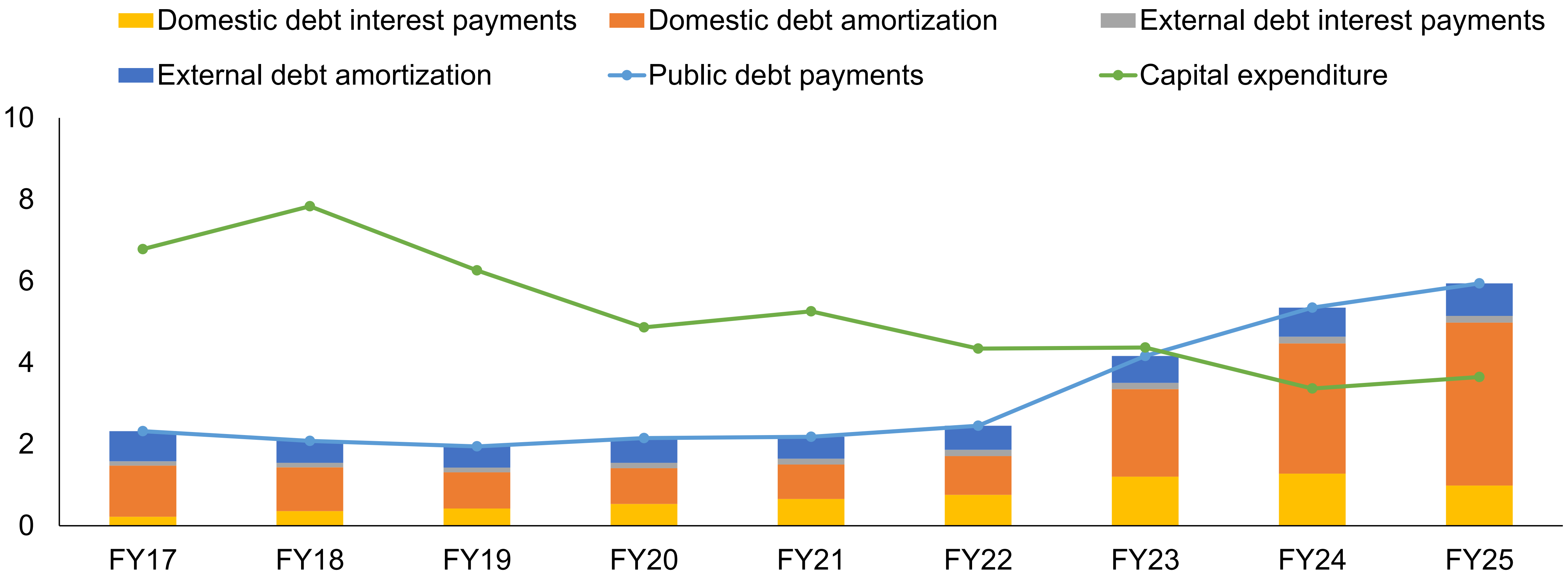
Capital spending has remained lower than debt servicing spending since FY24, mainly due to higher domestic debt payments.

(as a share of GDP, percent)



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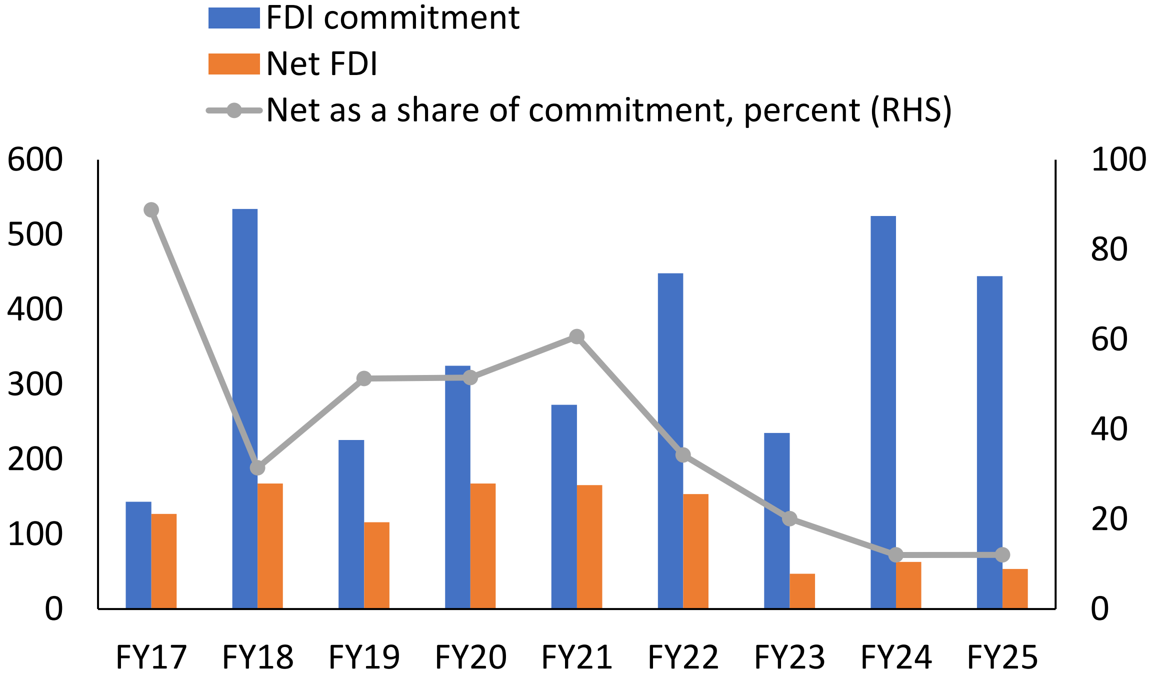
FDI flows remained limited in FY25 with a significant gap between commitments and realization.

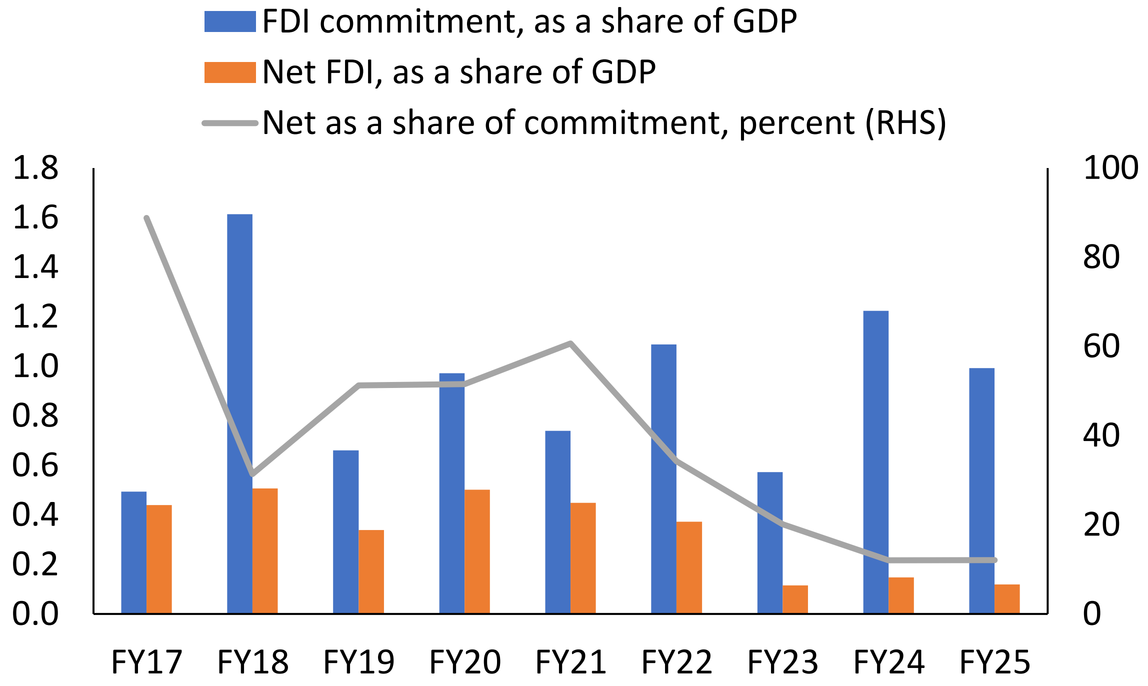
Nepal attracts very little FDI…

(foreign direct investment commitment vs net, USD million)



… with a significant gap between commitments and actual FDI inflows.

(foreign direct investment commitment vs net, as a share of GDP)



What is the outlook of Nepal's Economy? *Recent political unrest is expected to negatively affect Nepal's economic prospects in the short term. Progress in reconstruction may support a rebound in growth in FY27, but there is considerable uncertainty.*

Growth is expected to slow to 2.1 percent in FY26, reflecting the impacts of the recent unrest.

- **Reflecting the recent political unrest, growth is projected to slow to 2.1 percent in FY26 in the baseline scenario, with a potential range of 1.5 to 2.6 percent.** Consequently, poverty rate (at USD 4.2/day) is projected to increase, reaching 6.6 percent in FY26.

- **The services sector, particularly tourism and insurance,** is likely to be the main channel through which economic growth will be negatively affected in FY26.

- **Inflation is projected to remain moderate in FY26** but expected lower domestic paddy output could keep food price inflation elevated.

- **The fiscal deficit is expected to widen to 2.8 percent of GDP in FY26,** due to higher spending on reconstruction and elections and slower growth in tax revenue, reflecting weaker imports growth.

- **The current account surplus is expected to widen to 7.3 percent of GDP in FY26,** due to higher remittances.

Growth is expected to rebound to 4.7 percent in FY27, supported by reconstruction efforts.

- **Reconstruction efforts are expected to begin in FY26 and gain momentum next year, supporting a recovery in real GDP growth to 4.7 percent in FY27.** Services are also expected to rebound in FY27 as the impact of the recent unrest dissipates.

- **Inflation is projected to remain within the NRB target of around 5 percent in FY27,** supported by (i) an anticipated easing of global commodity prices, and (ii) moderating inflation in India.

- **The fiscal deficit is projected to narrow in FY27** as revenues recover alongside imports and higher economic growth.

- **The current account surplus is projected to narrow in FY27** as the trade deficit widens, and remittance inflows stabilize.

Macroeconomic projections of selected key indicators (annual percent change unless indicated otherwise)

	FY22	FY23	FY24	FY25e	FY26f	FY27f
Real GDP growth, at constant market prices	5.6	2.0	3.7	4.6	2.1	4.7
Private Consumption	6.8	0.7	1.1	1.8	1.2	2.8
Government Consumption	9.6	-21.2	13.3	-0.4	11.6	0.4
Gross Fixed Capital Formation	3.4	-15.8	2.0	1.5	0.9	13.0
Exports, Goods and Services	34.1	4.3	11.8	17.7	5.2	9.3
Imports, Goods and Services	16.4	-18.8	-2.5	3.2	1.7	7.3
Real GDP growth, at constant factor prices	5.3	2.3	3.4	4.0	2.1	4.7
Agriculture	2.4	3.0	3.4	3.3	2.4	3.1
Industry	10.7	1.3	0.1	4.5	4.1	8.3
Services	5.3	2.2	4.4	4.2	1.3	4.4
Inflation (Consumer Price Index)	6.3	7.7	5.4	4.1	4.2	4.5
Current Account Balance (% of GDP)	-12.5	-0.9	3.9	6.7	7.3	6.5
Net Foreign Direct Investment (% of GDP)	0.4	0.1	0.1	0.1	0.1	0.1
Fiscal Balance (% of GDP)	-3.2	-5.8	-2.5	-2.0	-2.8	-2.5
Revenues (% of GDP)	22.9	19.3	19.4	20.0	20.2	21.1
Debt (% of GDP)	40.5	42.8	42.6	43.6	45.2	45.2
Primary Balance (% of GDP)	-2.4	-4.6	-1.2	-0.9	-1.6	-1.3
International poverty rate ($4.2 in 2021 PPP) [a,b]	9.1	8.7	7.9	7.1	6.6	5.9

Sources: MoF, NRB, and NSO for history and estimates. World Bank staff for forecasts. Notes: e =estimate; f = forecast.

The outlook is subject to mixed risks.

- **On the upside**, a successful political transition, sustained sound macroeconomic management, and structural reforms to support private sector and strengthen governance could boost investor confidence and support economic growth.

- **On the downside, the outlook is subject to both domestic and external risks.** Externally, heightened global trade tensions could dampen both tourist arrivals and remittance inflows, which are critical for Nepal's economy.

- **A key domestic risk is weak investor sentiment amid increased political and economic uncertainty resulting from the recent unrest.** Investors may adopt a "wait and see" approach due to the uncertain environment.

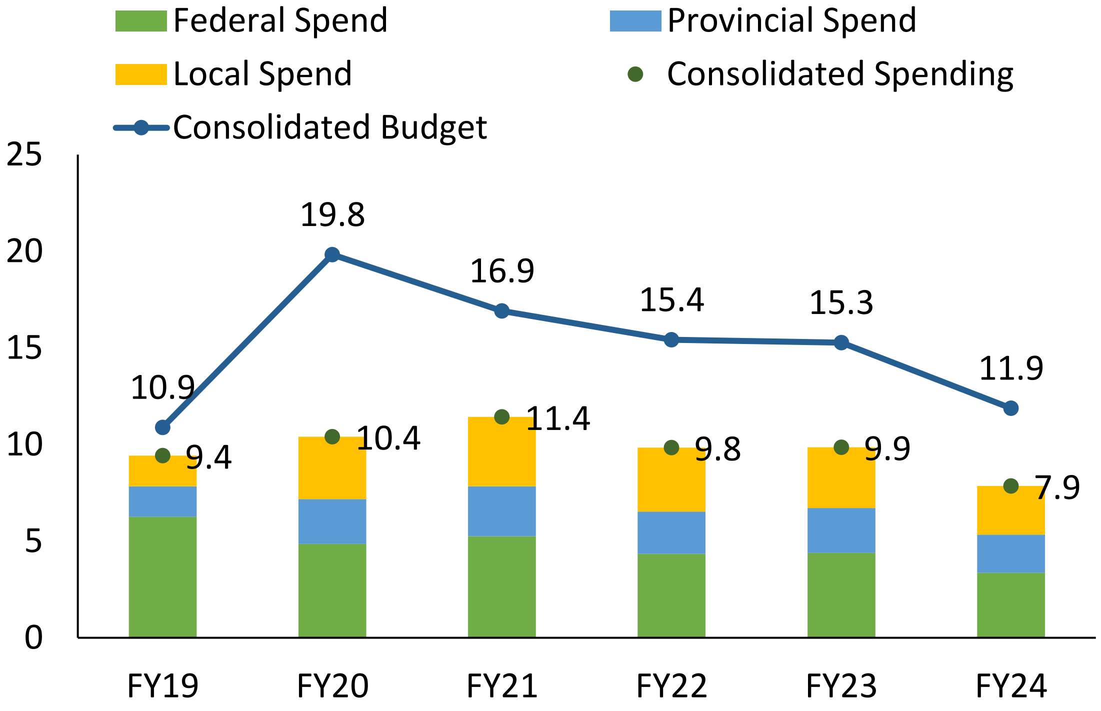
- **A further deterioration in asset quality within the banking and financial sector represents an additional risk** to Nepal's growth outlook.

Part II: Reforms to Accelerate Public Investment

Infrastructure gaps in Nepal stem from legacy of low public investment
Public investment declines since FY21 peak due to i) substantial reduction in capital allocations and ii) weakened budget execution

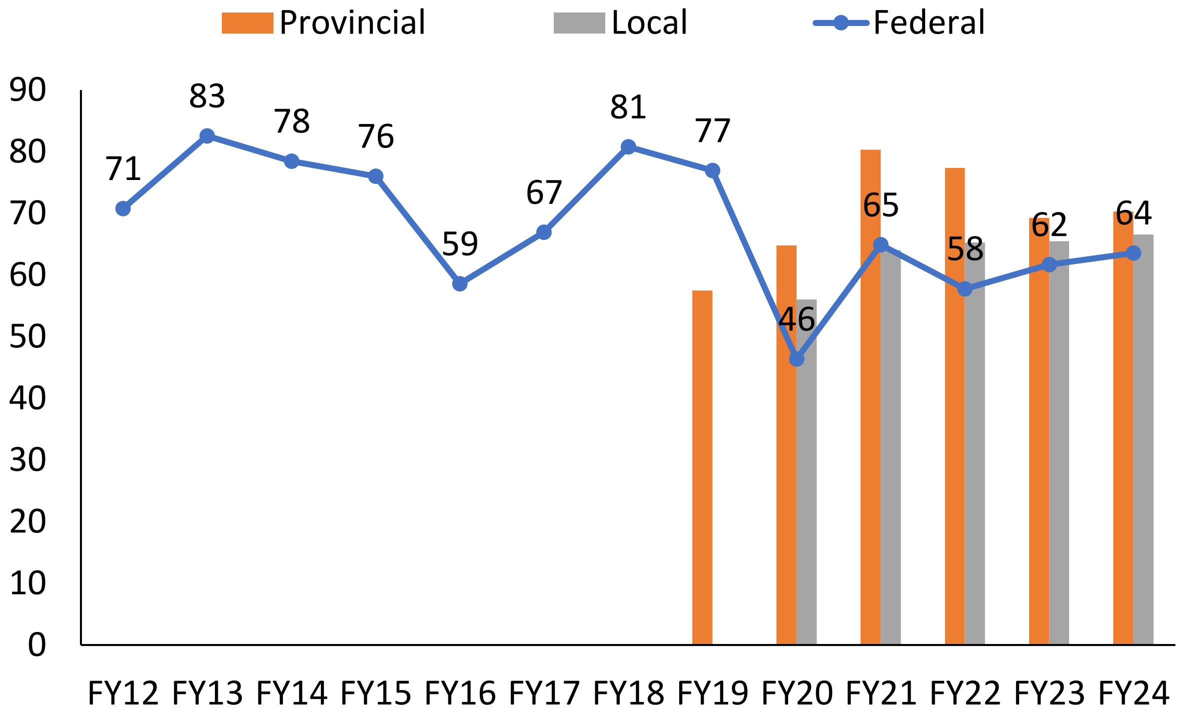
Capital allocations across all levels of government decreased over FYs 20-24.

(consolidated capital budget and actual spending by level of government, as a share of GDP)



Federal execution rates fell from average of 74 percent over FYs 12-19 to 60 percent over FYs 20-24.

(capital budget execution rate by level of government, percent)



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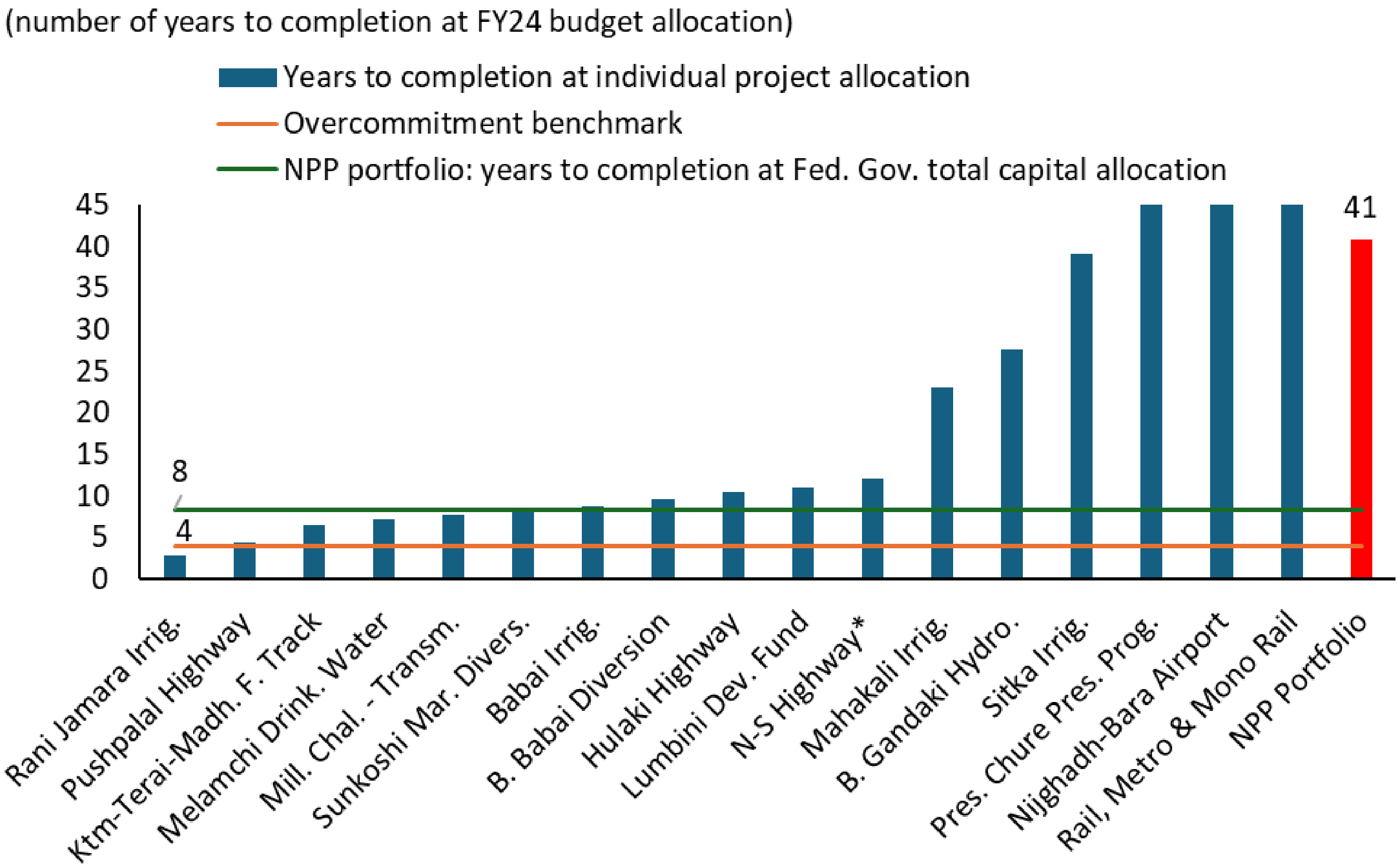
Public Investment effectiveness is hindered by weaknesses at the planning and budgeting stage

Based on allocation provided in FY24 budget for 17 National Pride Projects, it would take 41 years to complete subset of projects.



National Project Bank (NPB)/NPB Management Information System (NPBMIS) weaknesses lead to:

i) **Persistent misalignment of Ministry/Department/Agency (MDA) capital allocations with needs;**

ii) **Portfolio overcommitment.**

Public Investment Bottleneck	Recommendations
Investment Planning and Budgeting **Lead: Ministry of Finance & National Planning Commission**	**Improve Monitoring of Ongoing Projects** • **Develop standardized excel tool to monitor large-scale projects** (Short-Term) • **Enhance the National Project Bank (NPB) Management Information System (NPBMIS)** for project monitoring including integration with the Medium-Term Expenditure Framework (MTEF), Line Ministry Budget Information System (LMBIS), Computerized Government Accounting System (CGAS) (Medium-Term)
	Rationalize the public investment portfolio (Medium-Term)
	Refine National Project Bank (NPB) Guidelines by: i) **tailoring NPB entry requirements to project scale, sector, and risk profile,** and ii) **development of templates for project preparation/appraisal** (Short-Term)

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Obtaining tree cutting clearances takes 22-24 months – on average - from Environmental Impact Assessment (EIA) to tree cutting initiation, driven by circular process requiring manual tree census

1. After EIA assessment, Project focal point requests forest area to be cleared and only then tree census begins
10 Months

→ 2. DoF at MoFE reviews the request
15-20 days

→ 3. DoF sends request to concerned Province Forest Directorate/ Divisional Forest Office
15-20 days

→ 4. Division Forest Office (DFO) forwards it to Forest Office Sub-divisions for survey & counting/numbering*.
10 Months

→ 5. Survey data of trees to be felled is forwarded to DFO by SDFOs who then sends it to DoF-MoFE.
15-20 Days

→ 6. MoFE sends the survey report to cabinet for approval
1 Month

→ 7. Agreement between DoF and project proponent for approved trees to be felled**
15-20 days

→ 8. Trees to be cleared are marked by the DFO/SDFOs along with proponent***.
15-20 days

→ 9. Cutting id initiated by the contractors

Processing Timeline

- EIA assessment takes 10-12 months.
- Each step typically requires an average of 15-20 days for large-scale road projects.
- **Step 4 is the most time-consuming taking several months to complete.**

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Public Investment Bottleneck	Recommendations
Tree Cutting Clearance **Lead: Ministry of Forests & Environment**	**Streamline the Tree Cutting Clearance Process by:** • **Mandating preparation of tree census,** with active involvement of Divisional Forest Offices (DFOs), **as part of the Environmental Impact Assessment (EIA)** (Short-Term) • **Reassigning tree census approval from Cabinet to Ministry of Forests and Environment (MoFE)** (Short-Term)
	Leverage digital solutions for tree censuses and tree cutting clearances • **Digitalize Tree Cutting Clearance Business Process** (Short-Term) • **Employ modern IT solutions (e.g. Laser Imaging Detection and Ranging - LiDAR) for mapping and valuation of forest areas** (Short-Term)

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Government-led land acquisition takes, on average, 2-3 years to complete.

Outdated Land Acquisition Act (LAA, 1977) and lack of harmonized land valuation standard leads to disputes over compensation amounts.

1. Project team initiate the Land acquisition process requesting district office to obtain required land related data
2. District Office takes preliminary decision for data collection, putting notice for land acquisition
3. Project team in collaboration with the district office prepares a report including necessary data
4. Project Team in coordination with MoHA and concerned line ministry request/acquire cabinet approval for the required land*
5. Compensation Determination Committee (CDC) conducts land evaluation and determines the compensation rate
6. Completion of the process - Land Ownership is transferred from Landowner to Project team
7. Initiation of the Land Acquisition

Steps 1 to 3 took 9 months for the Nepal Strategic Road Connectivity Project (SRCTIP)

Steps 4 took 14 months for the Nepal Strategic Road Connectivity Project (SRCTIP)

Step 5 -7 took 12 months for the Nepal Strategic Road Connectivity Project (SRCTIP)

NB: Recent amendment to the Land Acquisition Act (2025) **eliminated the cabinet approval requirement**.

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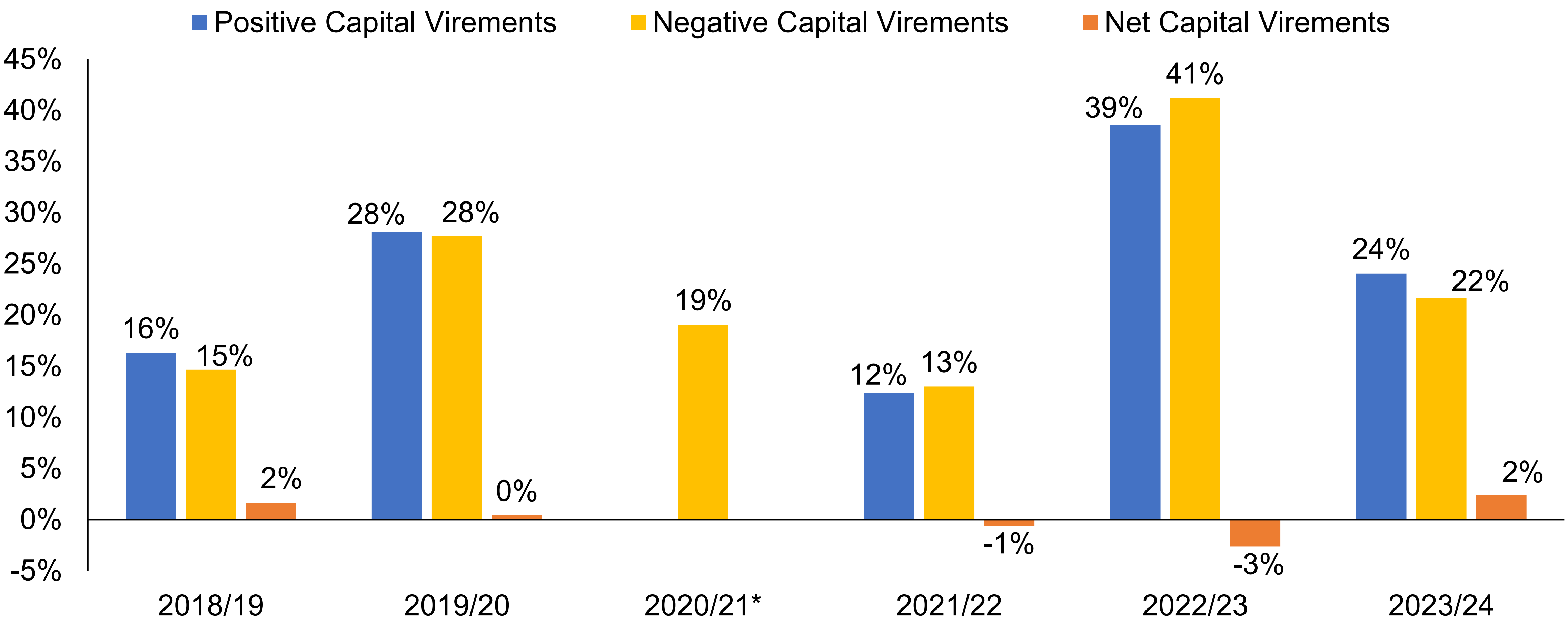
PIM Bottleneck	Recommendations
Land Acquisition **Lead: Ministry of Home Affairs & Ministry of Land Management**	**Amend the Land Acquisition Act (1977) to incorporate market value considerations in Compensation Determination System (Medium-Term)**
	Improve Land Valuation System through common valuation standard for taxation, land acquisition and other purposes – potentially via land valuation law **(Medium-Term)**

Budget planning inefficiencies lead to high volume of capital virements Limited virement discretion makes reallocation process cumbersome.

Nepal Capital Virements as share of Original Capital Budget



NB: Virements refer to the reallocation of funds across approved budget appropriations during budget execution.

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Public Investment Bottleneck	Recommendations
Virement Process **Lead: Ministry of Finance**	**Increase Line Ministry discretion over capital-related virements by:** **i) Enforcing existing regulations on activity-level changes**; **ii) Allowing reallocations up to 25 percent of the original budget subhead capital allocation**; and **iii) Extending Line Ministry Budget Information System (LMBIS) virement functionality to Line Ministries** (Short-Term)
	Enable processing of virements during Quarter 1 and Month 12 of FY (Short-Term)
	Develop Virement Guideline for Line Ministries clarifying the rules applicable to each type of virement (Short-Term)

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Cumbersome business processes and lack of mechanisms to reject abnormally low bids affect timeliness and effectiveness of procurement.

PIM Bottleneck	Recommendations
Procurement **Lead: Public Procurement Management Office**	**Enhance procurement process through regulatory amendments**: • **Additional screening of qualified bids to determine abnormally low bids** • **Streamline variation orders, cost estimate and bid/proposal approval by granting more authority to project-in-charge** through higher decision thresholds • **Amend contract termination clause by reducing contractor liability to incremental costs incurred by the Public Entity** for completion of works
	Streamline procurement processes through standard business process workflow: • **Develop procurement manuals** to facilitate implementation of legislation • **Establish clear, pre-defined approval workflows** to expedite contract awards

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