

Strong Buffers, Narrow Pipes: Nepal's Macroeconomy One Year On

Nepal's external buffers are stronger than a year ago, with reserves covering 18.8 months of imports, while deposits are growing at twice the pace of private credit. For the financial system, the next opportunity is to convert that strength into productive investment, and this article sets out how.

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Every year, Nepal Rastra Bank's first month report is the earliest hard evidence of how a new fiscal year has begun. The 2026/27 edition covering the month to mid-August 2026 shows an economy that looks stronger than a year ago on its external buffers and comparatively softer on nearly everything that turns those buffers into growth. Gross foreign exchange reserves stand at USD 25.84 billion, enough to cover 18.8 months of merchandise and services imports. Inflation has risen to 5.96 percent from 1.68 percent a year earlier at the same period. Deposits at banks and financial institutions (BFIs) are growing at 14.5 percent while private sector credit grows at 7.0 percent.

This article reads the two Augusts of 2025 and 2026 side by side. Its argument is that Nepal's binding constraint has shifted from scarcity to conversion. The country is no longer short of foreign exchange, deposits or government cash. It is, however, still short of mechanisms that convert those balances into productive capital.

I. The Two Augusts at a Glance

The table sets mid-August 2025 against mid-August 2026 for the indicators:

Indicator	Mid-August 2025	Mid-August 2026
<i>CPI inflation, y-o-y (%)</i>	1.68	5.96
<i>Food and beverages inflation, y-o-y (%)</i>	-2.28	6.77
<i>Wholesale price inflation, y-o-y (%)</i>	2.37	8.27
<i>Merchandise export growth, one month (%)</i>	95.7	61.7
<i>Merchandise import growth, one month (%)</i>	11.4	31.0
<i>Trade deficit growth, one month (%)</i>	2.5	24.9
<i>Remittance inflows, one month (Rs billion)</i>	177.41	215.05
<i>Remittance growth in USD terms (%)</i>	25.0	10.2
<i>Current account surplus (Rs billion)</i>	78.29	94.59
<i>Balance of payments surplus (USD million)</i>	641.17	589.54
<i>Government revenue, one month (Rs billion)</i>	84.47	92.23
<i>Government capital expenditure, one month (Rs billion)</i>	0.73	1.33
<i>Fixed deposits, share of total deposits (%)</i>	48.4	35.6
<i>Commercial bank weighted average deposit rate (%)</i>	4.02	3.15
<i>Commercial bank weighted average lending rate (%)</i>	7.76	6.48
<i>Interbank rate (%)</i>	2.75	2.75
<i>NEPSE index</i>	2,788.37	2,643.84
<i>Market capitalisation to GDP (%)</i>	75.10	68.90

There are three features that definitely stand out. Prices have turned decisively; the external accounts remain in surplus but the dollar-denominated surplus is narrowing even as the rupee figure grows and the price of money has fallen sharply while the volume of lending has barely moved.

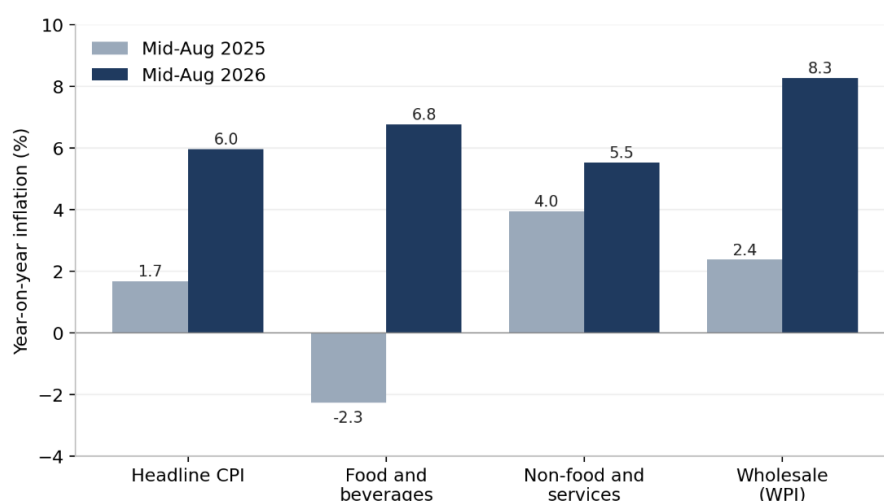
II. Prices: The Disinflation Window Has Closed

A year ago, Nepal was enjoying an unusually gentle price environment. Food and beverage prices were falling at 2.28 percent, and headline inflation was

1.68 percent. Today, food and beverage price inflation is 6.77 percent and non-food and services inflation is 5.52 percent giving a headline inflation of 5.96 percent. The swing in food prices alone, from -2.28 to +6.77, is a nine-point reversal in twelve months. The pressure is broad as ghee and oil prices are up 15.62 percent, fruit 15.39 percent and meat and fish 8.65 percent, while transportation costs have risen 13.17 percent. The wholesale picture shows more pressure than the retail one. Wholesale inflation has climbed to 8.27 percent from 2.37 percent, and within it intermediate goods prices are rising at 13.62 percent while consumption goods are flat at -0.05 percent. Intermediate goods are the inputs producers buy to make other products. When they inflate at 13.62 percent while final consumption goods do not move, producers are absorbing a margin squeeze that will eventually be passed on. Retail inflation at 5.96 percent is therefore likely to underestimate the pressure still to come.

Inflation has turned: food prices swung nine points in a year

Year-on-year price inflation, mid-August 2025 vs mid-August 2026 (Table 1; paras. 1, 7)



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

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The external source is visible. Brent crude is USD 92.02 a barrel against USD 67.30 a year ago which is a 36.7 percent increase, and import unit values are up 14.5 percent against 6.5 percent for exports, so the terms of trade have worsened by 7.0 percent. Nepal's inflation is also higher than that of its main trading partner, India, whose rate was 4.82 percent in August 2026 against Nepal's 5.96 percent.

III. The External Sector: The Strongest Buffer, With Thinner Momentum

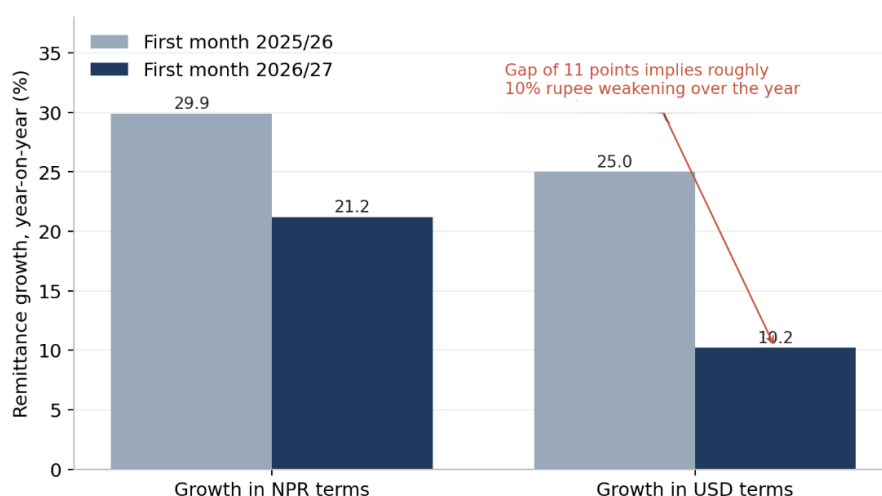
The reserve position is the best news in the report. The mid-August reserve figure has risen in every year since 2022, and the report shows the 2026 bar

standing well above the roughly USD 20 billion visible for 2025. The foreign reserves rose 2.1 percent in dollar terms in the month alone, and the ratios of reserves to GDP, imports and broad money stand at 59.8 percent, 157.0 percent and 44.5 percent. By any conventional adequacy test, Nepal's external liquidity is comfortable.

The flow behind that stock is less reassuring than the stock itself. Remittances were Rs. 215.05 billion in the month, up 21.2 percent in rupee terms, but in dollar terms the increase was only 10.2 percent, to USD 1.40 billion, compared with 25.0 percent a year earlier. The eleven-point gap between the two growth rates implies that the rupee has weakened by roughly 10 percent against the dollar over the year, so a large part of the rupee gain is currency translation. The balance of payments surplus is USD 589.54 million, below the USD 641.17 million of a year ago, even though the rupee figure edged up to Rs. 90.34 billion from Rs. 89.30 billion. Net foreign assets grew 2.3 percent in the month against 3.4 percent a year earlier.

Remittance growth is slowing once the currency is stripped out

Remittance inflows: Rs215.05 billion (USD 1.40 billion) in first month of 2026/27 (paras. 20-21)



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

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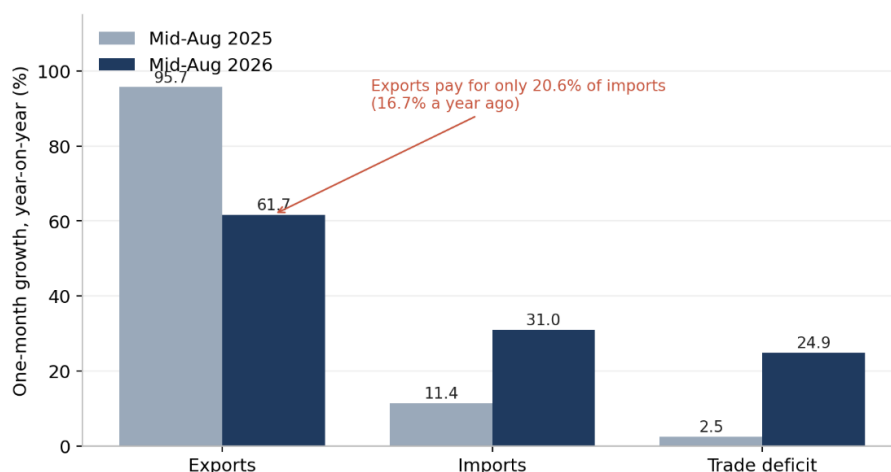
Trade tells the same story, with imports accelerating faster than exports. Imports grew 31.0 percent to Rs. 187.44 billion, while exports grew 61.7 percent to Rs. 38.70 billion, and the trade deficit widened 24.9 percent to Rs. 148.74 billion, against growth of only 2.5 percent a year earlier. The export growth is real but sits on a very small base. The export-import ratio improved to 20.6 percent from 16.7 percent, which still means exports pay for one-fifth of what Nepal buys abroad. Final consumption goods account for 71.6 percent of exports and capital goods for 0.1 percent, so the export basket is not yet one that builds productive capacity. On the import side the capital goods share

rose to 9.0 percent from 7.6 percent, a modest sign that some investment demand is returning.

There are two items that deserve attention. Travel payments fell 26.6 percent to Rs. 15.92 billion, with the education component down from Rs. 14.31 billion to Rs. 10.80 billion. That relief on the services account flatters the current account, which rose to a surplus of Rs. 94.59 billion from Rs. 78.29 billion. Meanwhile first-time foreign employment permits slipped to 42,693 from 44,466, though renewals rose to 27,748 from 23,644. Nepal's external strength rests on a workforce abroad that is not growing as fast as it was, and on a one-off compression of overseas education spending.

Imports are accelerating faster than exports can cover

Merchandise trade, first month of fiscal year, growth rates (paras. 10-12)



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

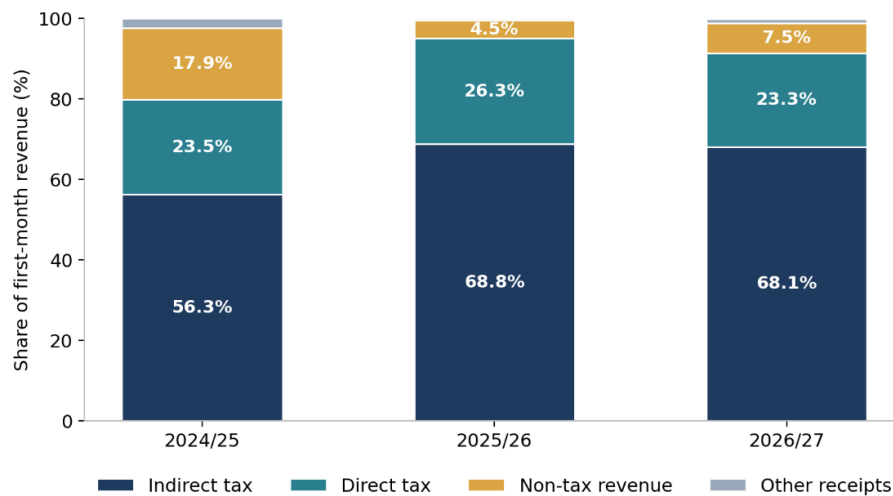
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IV. The Fiscal Position: Strong Revenue, Spending Yet to Catch Up

Government revenue in the first month reached Rs. 92.23 billion, up 9.2 percent, with tax revenue at Rs. 85.19 billion and non-tax revenue at Rs. 7.03 billion, up 85.4 percent. The composition has shifted toward consumption-based taxes: direct taxes, which fall on income and profits, provided 23.3 percent of revenue against 26.3 percent last year, while indirect taxes on consumption and trade still supplied 68.1 percent. A revenue base this dependent on trade and consumption rises with imports and falls when they do.

Two-thirds of revenue still rides on consumption and trade

Composition of government revenue, first month of each fiscal year (Chart 4; para. 34)

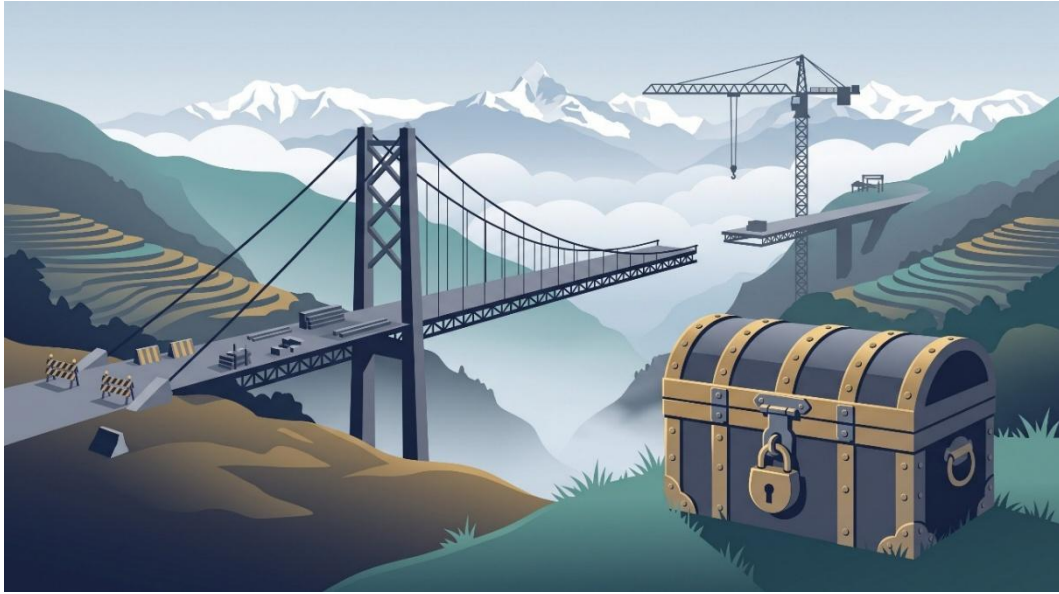


Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

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Expenditure moved the other way: total spending fell 9.5 percent to Rs. 41.89 billion, recurrent expenditure rose 15.8 percent to Rs. 21.40 billion, financial expenditure fell 29.3 percent, and capital expenditure rose 82.9 percent to Rs. 1.33 billion against Rs. 0.73 billion last year. That is 3.2 percent of the month's spending. The report's own table shows capital expenditure of Rs. 8.55 billion in the same month of 2024/25, so the year-on-year gain reflects a recovery from an unusually low base, and capital spending has yet to return to its normal pace. The provincial figures show the same pattern more strongly: provincial governments spent Rs. 14 million against resource mobilisation of Rs. 7.43 billion.

The unspent balances are visible in the banking system. The government's cash balance with NRB reached Rs. 361.81 billion in mid-August, up from Rs. 277.46 billion in mid-July, and the monetary sector's net claims on government have fallen 27.5 percent year on year. Put plainly, government balances held in the banking system are drawing liquidity away from the private economy until they are deployed into public investment. In a month when remittances totalled Rs. 215.05 billion, capital expenditure was Rs. 1.33 billion, a ratio of about 162 to one that shows the scale of the room for public investment.

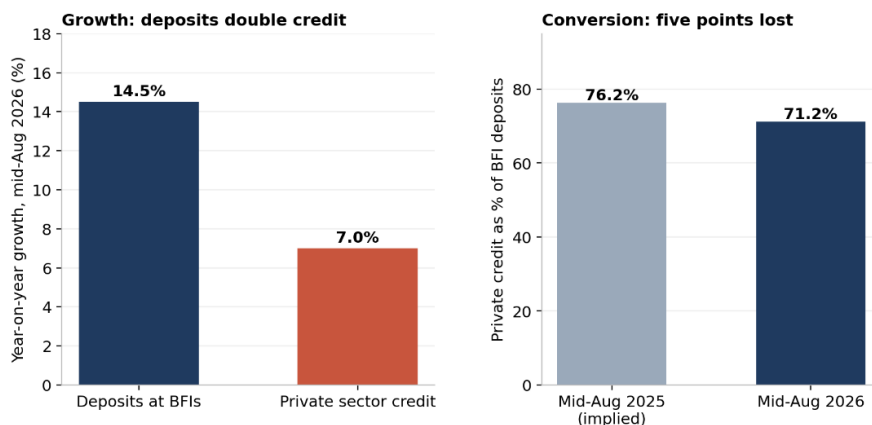


V. Money and Credit: Abundant Liquidity, Subdued Lending

This is where the report is most revealing. Deposits at BFIs grew 14.5 percent year on year to Rs. 8,256.21 billion, while private sector credit grew 7.0 percent to Rs. 5,880.64 billion. Working back from these growth rates, private credit stood at about 76 percent of deposits a year ago and about 71 percent today, a five-point fall in the share of deposits that reaches borrowers. In the month itself, credit rose 0.4 percent while deposits fell 0.3 percent, and the monetary sector's claims on the private sector grew 0.7 percent.

Deposits are growing twice as fast as lending

BFI deposits (Rs8,256.21 bn) and private sector credit (Rs5,880.64 bn), paras. 43, 46



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal. 2025 ratio back-calculated from NRB y-o-y growth rates. [Infometrics Credit Rating Nepal](#).

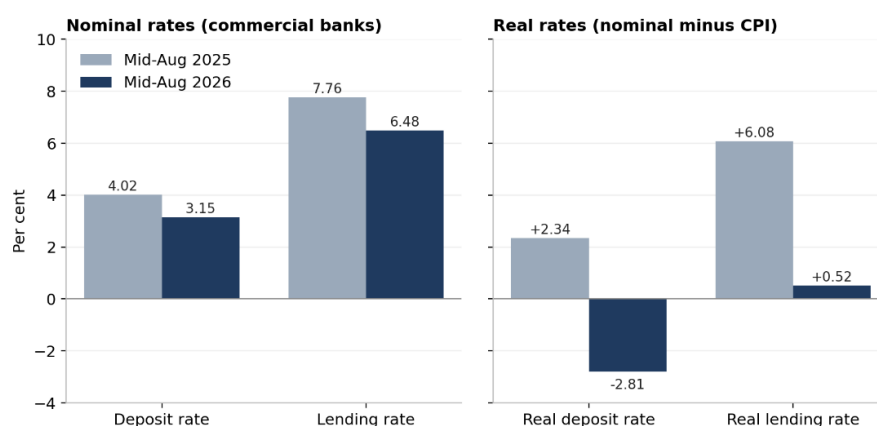
NRB's own liquidity operations show how much surplus money is sitting unused. In the month NRB absorbed Rs. 2,273.30 billion through deposit collection auctions (Rs. 379.50 billion) and the standing deposit facility (Rs. 1,893.80

billion), and Rs. 1,265.80 billion of absorbing instruments remains outstanding. The standing deposit facility is a window at which banks can park surplus cash with NRB. Banks are using it on this scale because parking funds with the central bank is currently more attractive than lending them out. The absorption was smaller than a year earlier, when it reached Rs. 3,638.35 billion, which shows that the liquidity glut has eased but not disappeared. Meanwhile NRB injected Rs. 101.87 billion by buying USD 665.8 million, adding to the very liquidity it then sterilises.

Prices have done what prices can do. Commercial bank base rates fell from 5.78 percent to 4.72 percent, deposit rates from 4.02 percent to 3.15 percent and lending rates from 7.76 percent to 6.48 percent. Development banks and finance companies show similar declines, with finance company lending rates down from 9.98 percent to 8.52 percent. Yet inflation has meanwhile risen from 1.68 percent to 5.96 percent, and this changes what those rates mean. Measured against headline inflation, the commercial bank real deposit rate has moved from about +2.3 percent to about -2.8 percent, and the real lending rate from about +6.1 percent to about +0.5 percent. These are simple nominal-minus-CPI calculations. Savers now earn a negative real return on deposits. Borrowers face almost no real cost of capital, and still credit grows at only 7.0 percent. Cheaper money has not summoned lending, which tells us the constraint is not price.

Savers now pay to hold deposits; borrowers face almost no real cost

Commercial bank weighted average rates, mid-August 2025 vs mid-August 2026 (Table 5; para. 1)



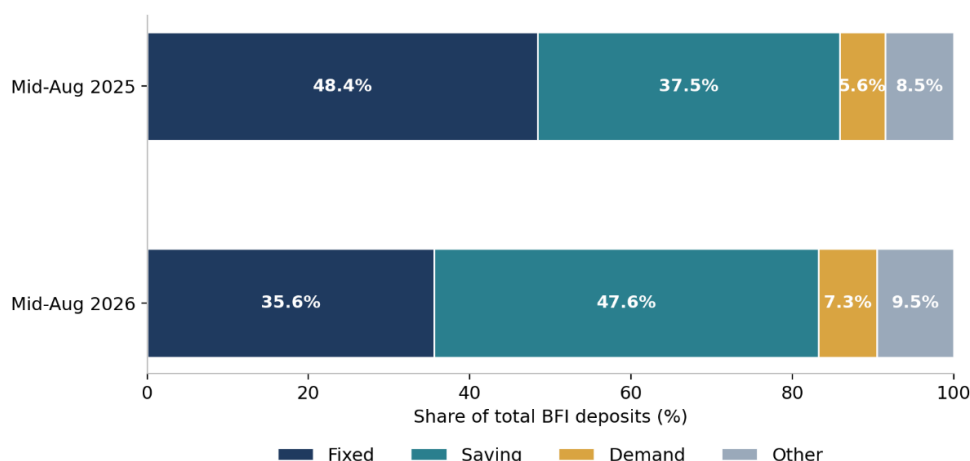
Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal. Real rates are weighted average rate minus y-o-y CPI inflation (Infomerics Nepal calculation). **Infomerics Credit Rating Nepal**

The structure of deposits points to the reason. Fixed deposits, the stable long-term funding that supports long-gestation loans, have fallen from 48.4 percent of total deposits to 35.6 percent, while savings deposits have risen from 37.5 percent to 47.6 percent and demand deposits from 5.6 percent to 7.3 percent. Banks' funding has become shorter and more liquid just as the economy needs longer-dated finance for infrastructure and energy. Lending practice has been

slower to adapt. Some 63.0 percent of outstanding credit is secured against land and building, and 15.3 percent against current assets. Lending that depends on property collateral favours borrowers who already own property and is less accessible to those whose assets are future cash flows.

Long-term funding has fallen from 48% to 36% of deposits

Composition of deposits at banks and financial institutions (Table 4; para. 44)



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

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Sector movements confirm the caution. In the month, lending to mines grew 3.7 percent, metal and machinery 3.0 percent and construction 2.1 percent, while finance, insurance and fixed assets contracted 5.1 percent, agriculture 0.9 percent and consumable loans 0.6 percent. Deprived sector lending fell 7.3 percent and overdrafts 2.6 percent. The financial inclusion data point in the same direction. Deposit accounts number 63.67 million but loan accounts only 2.04 million, about 31 deposit accounts for every loan account, and the number of BFI branches has fallen from 11,526 to 11,329 over the year. Nepal has built a very wide funnel for savings and a very narrow one for credit.

VI. Soundness, Markets and Digital Payments

The financial soundness indicators give no cause for alarm but leave little room for complacency. Core capital to risk-weighted assets stands at 9.89 percent, total capital at 12.68 percent and net liquid assets to deposits at 37.59 percent, while the NPL ratio was 5.66 percent as of mid-July 2026. The report offers no year-ago comparison for these ratios, so we do not infer a trend. An NPL ratio above 5 percent with credit growing at 7.0 percent is workable. It would not remain so if growth were accelerated through looser underwriting, which is why the quality of the next credit expansion matters as much as its size.

The equity market has not shared in the macroeconomic good news. The NEPSE index closed at 2,643.84, down from 2,788.37, and market capitalisation fell to Rs. 4,547.75 billion from Rs. 4,656.27 billion, taking the ratio to GDP from 75.10 percent to 68.90 percent. Listings grew from 274 companies to 305, of which 111 are hydropower companies carrying 18.3 percent of market capitalisation. Hydropower is the sector where cheaper debt should matter most and where equity valuations are most sensitive to the financing environment. Infomerics Nepal assesses the debt service capacity of private power producers through the framework set out in its methodology (Infomerics Credit Rating Nepal, 2023), and in that framework the interaction of lending rates, tenor and revenue certainty is central.

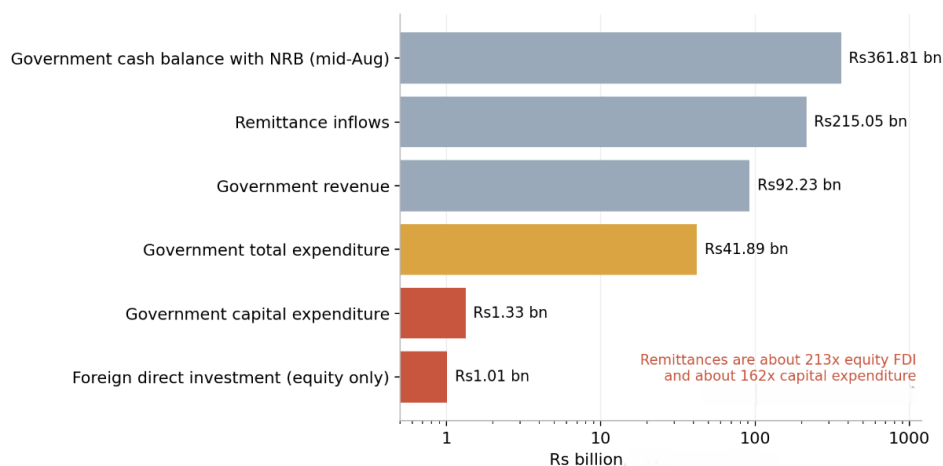
The brightest line in the report is digital payments. In one month, mobile banking handled 78.65 million transactions worth Rs. 580.56 billion and QR payments handled 72.44 million transactions worth Rs. 164.43 billion, against 9.65 million debit card transactions worth Rs. 71.08 billion. QR payments nearly match mobile banking in transaction count while averaging about Rs. 2,270 per transaction, which suggests that small-value retail payments are moving onto digital rails. A system that records 150 million digital payments a month holds a large body of transaction data that could underpin cash-flow-based lending.

VII. The Conversion Gap

We propose that these observations be organised around a single idea, the Conversion Gap, defined as the distance between the financial resources an economy accumulates and the productive capital it forms from them. Nepal's report this year shows three distinct gaps at once.

The Conversion Gap: plenty of money, very little investment

Selected flows and balances, first month of 2026/27 (paras. 20, 25, 32-35)



Source: Nepal Rastra Bank (2026), Current Macroeconomic and Financial Situation of Nepal.

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- The first is the deposit-to-credit gap: deposits grow at 14.5 percent but private credit at 7.0 percent, and the credit-to-deposit ratio has slipped from about 76 percent to about 71 percent.
- The second is the revenue-to-investment gap: revenue of Rs. 92.23 billion and a cash balance of Rs. 361.81 billion sit beside capital expenditure of Rs. 1.33 billion.
- The third is the remittance-to-investment gap: remittances of Rs. 215.05 billion compare with equity foreign direct investment of Rs. 1.01 billion, a ratio of roughly 213 to one.

Each gap is measurable monthly from NRB's own report, and Infomerics Nepal will track all three. A narrowing of the three together would be a more reliable sign of an investment cycle than any single headline growth number.

VIII. Imperatives and The Way Forward

The macroeconomic implications for credit assessment are clear. Nepal's external liquidity supports a stable view of sovereign foreign currency payment capacity, and the 18.8 months of import cover is a genuine strength. Against that, rising inflation, negative real deposit rates, a widening trade deficit and weaker terms of trade tell us the cushion is being drawn on to absorb external price shocks, not being built up by export earnings. For borrowers the picture divides. Cheaper credit helps leveraged power producers and construction firms, but intermediate input inflation of 13.62 percent erodes margins, and collateral requirements limit access.

Several questions follow from the evidence.

- If the real lending rate is already close to zero, what further stimulus can price-based easing deliver?
- If the government holds Rs. 361.81 billion in cash while capital expenditure runs at Rs. 1.33 billion, what is the cost to the wider economy of leaving that balance undeployed?
- If depositors are leaving fixed deposits for savings accounts, how will banks fund the ten-year loans that hydropower and infrastructure require?

The answers point to specific actions by named institutions:

- Nepal Rastra Bank should regard the case for further rate cuts as largely played out, given a real lending rate near 0.5 percent and wholesale inflation of 8.27 percent, and should shift its effort from the price of liquidity to its tenor. That means replacing part of the Rs. 1,893.80 billion

monthly standing deposit facility absorption with term-lending windows that reward banks for funding long-tenor, cash-flow-secured projects.

- NRB should publish a monthly Conversion Gap dashboard alongside this report, showing the credit-to-deposit ratio, the real deposit and lending rates, and the sectoral credit flow, so that policymakers, banks and rating agencies work from a common reference.
- The Ministry of Finance and the Financial Comptroller General Office should set a first-quarter capital expenditure floor in the annual budget circular and report capital expenditure against the government's cash balance every month, so that the relationship between a Rs. 361.81 billion balance and Rs. 1.33 billion of capital spending is transparent to all stakeholders.
- BFIs should reduce reliance on land and building collateral, which now secures 63.0 percent of credit, and build cash-flow underwriting using the transaction data now generated by mobile banking and QR payments.
- NRB and the Ministry of Finance should design a long-dated, remittance-linked savings instrument that gives households an alternative to a negative-real-return savings account and gives the system the stable funding that fixed deposits are providing less of.

None of these measures requires new foreign exchange, since Nepal has it. They require institutional coordination to move existing balances from where they sit to where they are needed.

Nepal has built a reserve that can buy nineteen months of imports; it now has to build an economy that can earn them.

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