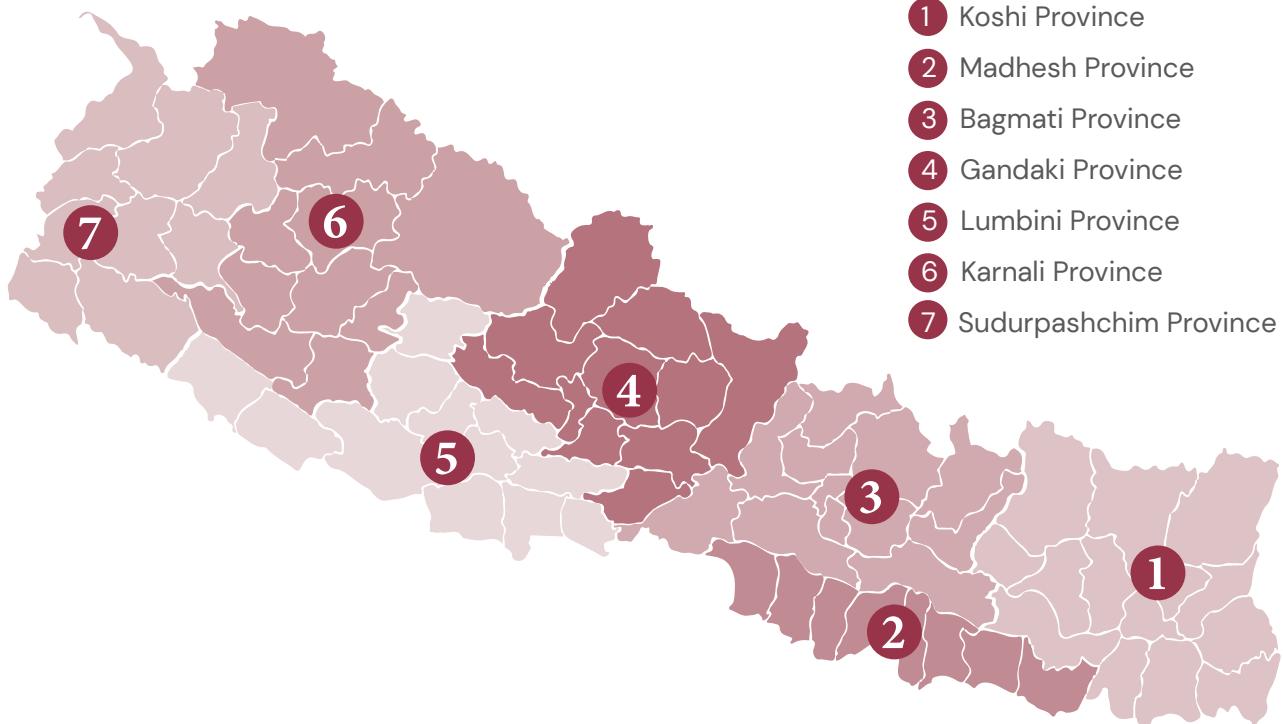


# Decoding the Creative Industry



## Nepal Factsheet



## KEY ECONOMIC INDICATORS

|                                               |                                       |                                       |        |
|-----------------------------------------------|---------------------------------------|---------------------------------------|--------|
| GDP (Preliminary estimate for FY 2023/24)**** | USD 40.91 billion (NPR 5.70 trillion) | GDP growth rate (estimated for 2024)* | 3.3%   |
| GNI (PPP)****                                 | USD 9.3 (NPR 1236.25)                 | Inflation (y-o-y)***                  | 4.61%  |
| Gross Capital Formulation (% of GDP)***       | 30.5%                                 | Agriculture Sector (% of GDP)****     | 24.12% |
| HDI value**                                   | 0.601                                 | Industry Sector (% of GDP)****        | 13.45% |
| HDI rank**                                    | 146                                   | Service Sector (% of GDP)****         | 63.43% |

\* World Bank, Nepal Development Update (April 2024)

\*\* Human Development Report of UNDP (2023-24)

\*\*\* Current Macroeconomic and Financial Situation of Nepal Based on Nine Months Data 2023/24

\*\*\*\*Current Macroeconomic and Financial Situation of Nepal Based on Annual Data 2022/23

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# Editorial

During the review period (March 1 to May 31, 2024), the government released the budget for FY 2024/25 AD (2081/82 BS), amounting to NPR 1.75 trillion (USD 13.17 billion). One of the highlights within this was the government's target of ramping up Information Technology (IT) exports to NPR 3 trillion (USD 22.57 billion) as well as creating around 1.5 million jobs in the sector within the next ten years, as part of the 'Decade of Information Technology' announcement. Alongside such exciting developments, Nepal's general macroeconomic indicators also remained positive. In particular, the forex reserves witnessed a boost, mainly due to remittances reaching a record-high of NPR 1.08 trillion (USD 8.15 billion).

Moreover, despite a challenging political landscape, with Prime Minister Dahal securing the vote of confidence for the fourth time and ongoing instability in some provincial governments, foreign investments continued to flow into Nepal. This resilience can be partly attributed to the third Investment Summit and the introduction of new laws to streamline the foreign investment process. It is expected to continue to bolster investments, with the ordinance issued prior to the summit being accepted by the House of Representatives and being enforced as law. This is particularly notable as Nepal's foreign investment landscape already saw a 147.33% year-on-year increase to NPR 6.48 billion (USD 48.74 million). Additionally, investment has also continued to serve as a tool for diplomacy, with both India and China showing a strong interest in Nepal's energy projects.

Another positive development in the review period was the increasing demand of creative industries. The creative industry, encompassing industries that rely on individual creativity, skill, and talent, including arts, entertainment, technology, media, design, and cultural tourism to drive economic growth and innovation, is a fast-growing industry. Recently, it has been valued at around USD 2 trillion (NPR 265.86 trillion) while supporting 50 million jobs globally.<sup>1</sup> This trend is evident in Nepal, which has recently seen successful concerts and film festivals, indicating a robust demand and supply for artistic talent. The 57<sup>th</sup> edition of Nefport examines this very expanding role and potential of the creative economy in Nepal.

Nefport 57, titled 'Decoding the Creative Industry,' attempts to give shape to the discourse surrounding the growing creative industries in Nepal due to this industry not only attracting increasing investments and profitability, but also serving as a crucial tool to address social inequalities and foster innovation. In order to provide examples of the significance of the creative industry, each sectoral overview in this edition includes a case study that exemplifies the widespread application of creative skills in recent years. Similarly, our special section features diverse contributions from external writers such as Bhushita Vasistha (Writer) and Kiran Shrestha (Team Leader, Nepalaya) as well as from our internal team – namely Nasala Prajapati (Coordinator, Himalaya Future Forum) and Ankur Guragain (Intern, NEF). We are extremely grateful to these authors and everyone who has contributed voluntarily, as well as to our readers and patrons who have supported and engaged with us throughout our journey.

We are working continuously on recalibrating our Nefports to make them more useful to our readers. Please feel free to write to us at [info@nepaleconomicforum.org](mailto:info@nepaleconomicforum.org) or to any of our social media handles for any further comments or feedback.



**Sujeev Shakya**  
Chair, Nepal Economic Forum

# 1

## General Overview



# Political Overview

The political turmoil from the last quarter continued to prevail in this review period with changing dynamics within the coalition government. After Janata Samajbadi Party (JSP) pulled out from the government, Prime Minister Pushpa Kamal Dahal was compelled to undergo a vote of confidence motion for the fourth time during his current tenure. Furthermore, the opposition party, the Nepali Congress, obstructed the parliament demanding a parliamentary probe to investigate the Home Minister's potential involvement in the Cooperatives Fund embezzlement. On the contrary, amidst this internal turbulence, Nepal saw positive developments in its international relations with different diplomatic visits including the Nepali Foreign Minister's visit to China, as well as the visits of the Emir of Qatar and the Japanese State Minister to Nepal.

## EXECUTIVE UPDATES

### PM Dahal Secures Vote of Confidence for the Fourth Time

The split of the Janata Samajbadi Party (JSP) and its subsequent withdrawal from the coalition on May 5, 2024 triggered the need for Prime Minister Pushpa Kamal Dahal to seek a vote of confidence within sixty days of change in coalition, as per article 100(2) of the constitution.<sup>8</sup> Consequently, on May 20, 2024, the Prime Minister passed this vote of confidence by receiving 157 votes from among the 158 members present in the parliament.<sup>9</sup> While Prem Suwal,

the only member from Nepal Majdoor Kishan Party in the parliament, was the sole person present who voted against PM Dahal, Nepali Congress (NC) did not participate in this voting.<sup>10</sup> Despite being the main opposition party, NC decided to forego participating in this vote of confidence due to their dissatisfaction with the current Home Minister and President of Rastriya Swatantra Party (RSP) Rabi Lamichhane's alleged involvement in the embezzlement of cooperatives' money before he joined politics.<sup>11</sup> Notably, this is the fourth time that the Prime Minister had to undergo a vote of

| FACTSHEET                                     |                       |           |
|-----------------------------------------------|-----------------------|-----------|
| Particulars                                   | Nepal's Rank / Status | Score     |
| Democracy Index 2023 <sup>2</sup>             | 98                    | 4.60/10   |
| Freedom in the World Index 2024 <sup>3</sup>  | Partly Free           | 62/100    |
| Press Freedom Index 2024 <sup>4</sup>         | 74                    | 60.52/100 |
| Economic Freedom Index 2024 <sup>5</sup>      | 130                   | 52.1/100  |
| Fragile States Index 2023 <sup>6</sup>        | 55                    | 80.2/120  |
| Corruption Perception Index 2023 <sup>7</sup> | 108                   | 35/100    |

confidence during this tenure.

### Government of Nepal Introduces New Map on 100 Rupee Banknotes

On May 20, 2024, the government authorized the Nepal Rastra Bank (NRB) to replace the old map on the front of the NPR 100 banknote with the new map, which includes the disputed regions of Limpiyadhura, Lipulekh, and Kalapani.<sup>12</sup> Expressing displeasure at Nepal's decision, India's External Affairs Minister S. Jaishankar stated that while both countries were having talks on boundary matters, Nepal's unilateral actions would not

change the ground reality.<sup>13</sup> While the intention had mixed opinions in the public domain, with some calling it the right approach as Nepal, being a sovereign state, made its own decision, others considered the decision undiplomatic. Chiranjivi Nepal, the economic advisor to the President of Nepal, also called it an inappropriate move. However, following the backlash to his comments, Nepal chose to resign from his post.<sup>14</sup>

### Arrest of Kantipur Media Group Chairman Kailash Sirohiya Sparks Outcry

Kailash Sirohiya, Chairman of Kantipur Media Group (KMG), was arrested from his central office in Thapathali without any prior questioning on May 21, 2024.<sup>15</sup> The arrest was carried out in response to a complaint filed by Indrajit Mahato, a member of Rastriya Swatantra Party (RSP), at the Dhanusha District Police Office. As per the complaint, Sirohiya was accused of holding multiple citizenships thereby calling for an investigation under the Citizenship Act 2006.<sup>16</sup> However, nine days after his arrest at his office in Kathmandu, Lalitpur Police released Sirohiya on the condition that he would appear before the police when summoned.<sup>17</sup> Sirohiya's arrest led to divided public opinion. While supporters of the arrest argued it was a matter of citizenship and legal process and thus essential for national integrity and justice, critics viewed it as retaliation for KMG's investigative reports on a cooperative scam involving Home Minister Rabi Lamichhane, thereby threatening press freedom and democracy.<sup>18</sup>

Notably, the International Federation of Journalists (IFJ) and the Federation of Nepali Journalists (FNJ), along with the US Embassy in Nepal, condemned the arrest as an undemocratic move to silence critical journalism, emphasizing the need to protect media independence and journalists from governmental overreach.<sup>19</sup>

### LEGISLATIVE UPDATES

#### Nine Laws Amended for Investment Facilitation

On April 28 and 29, Nepal hosted the third Investment Summit with the aim of positioning itself as a potential investment hub for investors across the world.<sup>20</sup> As a precursor to this, in order to make a favorable environment for investment and attract foreign investors, Nepal amended nine different laws through an ordinance on April 28, 2024.<sup>21</sup> The laws amended through this ordinance are Land Act (2021 BS), National Parks and Wildlife Conservation Acts (2029 BS), Land Acquisition Act (2034 BS), Special Economic Zone Act (2073 BS), Public-Private Partnership and Investment Act (2075 BS), Foreign Investment and Technology Transfer Act (2075 BS), Forest Act (2076 BS), and Industrial Enterprise Act (2076 BS). The major changes made through the ordinances were the compensation limit for registration of land acquisition, minimum export percentage of exports of goods produced in special economic zones, provision of Non-Resident Nepali (NRNs) investment, provision of approval of foreign investment in Nepal, and provision of allowing the government to grant approvals

for mineral excavations in forest areas after assessing its impact on the environment. Following many debates and discussions regarding the ordinance, it is now been registered as a concrete law.

### JUDICIAL UPDATES

#### Government of Nepal Passes 16<sup>th</sup> Five-Year Plan

The five-year plan for FY 2024/25 – 2028/29 AD (2081/2082 – 2085/2086 BS), formulated by the National Planning Commission, was approved by the Council of Ministers on May 14, 2024.<sup>22</sup> With the main goals of "good governance, social justice and prosperity", the 16<sup>th</sup> plan focuses on job creation, enhanced productivity, health, education, and sustainable resource management. Notably, the plan has set a target of a 7.1% economic growth rate and a per capita income of USD 2,413 (NPR 320,929) by FY 2028/29 AD (2085/2086 BS). Additionally, building on the momentum of the 15<sup>th</sup> five-year plan that enabled Nepal's graduation from the LDC category, the 16<sup>th</sup> plan aligns with the longer economic vision of Nepal to graduate to a middle-income country by 2030 AD.<sup>23</sup>

#### Political Standoff Leads to Formation of Cooperative Investigation Committee

In the past quarter, Home Minister Rabi Lamichhane's alleged involvement in the misuse of cooperative funds again became a key issue as the opposition, led by the Nepali Congress (NC), demanded the creation of a parliamentary panel to investigate fraud charges against the Home

Minister.<sup>24</sup> In order to have their demands met, NC obstructed the parliamentary proceedings from the second week of March till May 28, when a four-point agreement was reached on the Terms of Reference (ToR) of the parliamentary committee.<sup>25</sup> As per the agreement, a seven-member parliamentary investigation committee was formed, led by CPN-UML lawmaker Surya Thapa and including members from the Nepali Congress and the Rastriya Swatantra Party (RSP). After intense negotiations, the ToR ultimately did not specifically mention the Home Minister's name.<sup>26</sup> However, it includes an investigation on Surya Darshan Savings and Credit Cooperative where funds were allegedly transferred to Gorkha Media Network, the operator of Galaxy Television where Home Minister Lamichhane formerly served as a managing director.

## ELECTION UPDATES

### By-Elections Conducted in Ilam and Bajhang

On April 27, 2024, by-elections in Ilam Constituency 2 and Bajhang (A) were conducted in order to fill seats left vacant by the deaths of Subas Chandra Nembang in Ilam-2 and Prithvi Bahadur Singh in Bajhang (A).<sup>27</sup> With a total of 19 candidates contesting in Ilam and 11 candidates contesting in Bajhang, the voter turnout was 60% and 50% in the two regions respectively. On the next day itself, it was announced that Daman Bahadur Bhandari, from CPN-UML, had won the election in Bajhang (A) while Suhang Nembang, Subas Chandra Nembang's son, won the election in Ilam-2.<sup>28</sup>

## BILATERAL AND MULTILATERAL UPDATES

### Governments of Qatar and Nepal Signed Eight Memorandums and Agreements on Various Sectors

Nepal and Qatar signed eight memorandums and agreements during the Emir of Qatar Sheikh Tamim bin Hamad Al-Thani's official visit to Nepal. The high-level bilateral meeting in Kathmandu on 24 April, 2024 included six deals at the government level and two deals related to the private sector.<sup>29</sup> The two sides have signed Memorandums of Understanding for cooperation in the following fields and between the following bodies:

- In the field of Culture and Arts between the Ministry of Culture, Tourism and Civil Aviation of Nepal and the Ministry of Culture of the State of Qatar
- In the field of Education, Higher Education and Scientific Research between the Government of Nepal and the Government of the State of Qatar
- In the field of Youth and Sports between the Government of Nepal and the Government of the State of Qatar
- Cooperation between the Office of the Attorney General of Nepal and the Public Prosecution of the State of Qatar
- Cooperation in the Field of Diplomatic Training and Education between The Institute of Foreign Affairs (IFA) of the Government of

Nepal and The Diplomatic Institute of the Ministry of Foreign Affairs of the State of Qatar

- The Agreement on Cooperation and Exchange of News between National News Agency, Nepal (RSS) and Qatar News Agency (QNA)

Additionally, in the private sector, an agreement was signed between the Qatar Chamber of Commerce and Industry (QCCI) and the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) to expand the Joint Business Council.<sup>30</sup> Similarly, the MoU between QCCI and the FNCCI was renewed.

### Foreign Minister of Nepal Visits China

Deputy Prime Minister and Minister of Foreign Affairs, Narayan Kaji Shrestha, was on an official China visit from March 24, 2024 to April 1, 2024 at the invitation of Chinese Foreign Minister Wang Yi.<sup>31</sup> During his stay, he met with multiple Chinese political leaders, including Chinese People's Political Consultative Conference (CPPCC) Chairperson Wang Huning, Foreign Minister Wang Yi, and Vice Minister of the Communist Party of China's Foreign Department Sun Haiyan. Further, Minister Shrestha engaged in high-level discussions centered around increasing bilateral connectivity.<sup>32</sup> In line with this, 14 trade routes with Nepal located in the Tibetan Autonomous Region were reopened, and the direct bus service connecting Kathmandu in Nepal with Lhasa in the Chinese autonomous region was resumed.<sup>33</sup> Contrary to

expectations, the Belt and Road Initiative execution plan was not signed during this visit. However, both sides continue to show enthusiasm about the subject, and expect it to be finalized soon.<sup>34</sup>

### China Exempts Regular Visa Fees for Nepali Travelers

China announced free visas for Nepali citizens, effective since May 1, 2024, aiming to boost friendship and ease personnel exchange.<sup>35</sup> Nepal had long requested this exemption, and it was also reiterated during Deputy Prime Minister and Foreign Minister Narayan Kaji Shrestha's China visit.<sup>36</sup> While regular visa processing fees are waived, express and service fees apply, which range from NPR 2,700 (USD 20.31) to NPR 4,000 (USD 30.09).<sup>37</sup>

### Japanese Foreign Minister Discusses Enhancing Bilateral Cooperation

Japanese Foreign Minister Kamikawa Yoko concluded her day-long visit to Nepal on May 5, 2024, following high-level

meetings focused on enhancing economic development and cultural cooperation between Japan and Nepal.<sup>38</sup> Most notably, she met with her Nepali counterpart, Deputy Prime Minister and Minister for Foreign Affairs Narayan Kaji Shrestha and discussed bilateral relations and cooperation to further strengthen economic and people-to-people relations. There were also talks to encourage Japan enhancing support in Nepal's development priority sectors, including agriculture, hydropower, infrastructure, energy, trade, and tourism.<sup>39</sup> Such bilateral cooperations were also a focal point of discussion in Minister Kamikawa's calls with Prime Minister Dahal and President Paudel.<sup>40</sup>

### PROVINCIAL UPDATES

#### Chief Ministers Elected in Koshi and Sudurpaschim Governments

Hikmat Karki of the Communist Party of Nepal – Unified Marxist Leninist (CPN-UML) was appointed as the Chief Minister

in Koshi government on May 9, 2024.<sup>41</sup> He had garnered support from 52 members from the 93-strong province assembly. Karki will be leading the Koshi government for the third time in 17 months as the outgoing chief minister, Kedar Karki, refused to take the floor test within 30 days after CPN-UML and CPN (Maoist) withdrew their support on April 8, 2024.<sup>42</sup>

Likewise, Dirga Bahadur Sodari of CPN (Unified Socialist) was appointed the chief minister of Sudurpaschim province on April 18, 2024.<sup>43</sup> He acquired support from Maoist Center, CPN (UML), Nagarik Unmukti Party (NUP), and one independent lawmaker.<sup>44</sup> However, the opinions among NUP leaders were divided, with Laxman Kishor Chaudary from NUP filing a writ petition against the appointment of Sodari on April 21, 2024, claiming it unconstitutional. However, this petition was later scrapped by the Supreme Court.<sup>45</sup>

## Outlook //

Recent political and legal developments in Nepal indicate significant implications for governance and institutional integrity. Prime Minister Dahal securing a vote of confidence for the fourth time amidst coalition changes underscores the fragility and volatility within the current political landscape. Within this instable landscape, the government's introduction of a new map on currency notes, despite diplomatic tensions with India, reflects a firm stance on territorial claims, which could impact bilateral relations. On the other hand, the continuation of scandals such as the arrest of Kantipur Media Group's chairman and allegations against Home Minister Rabi Lamichhane raises concerns about the state of transparency and rule of law in the country. However, on a positive note, legislative amendments aimed at facilitating investment signify a proactive approach to economic growth, yet the process by which they were passed remains questionable and their successful implementation remains critical. Additionally, the new five-year plan's ambitious targets for economic growth and job creation, coupled with the formation of an investigative committee to address allegations against the Home Minister, illustrate ongoing efforts to address systemic

issues and promote transparency. These developments collectively highlight a pivotal period for Nepal, where strategic governance and effective policy implementation will be essential to ensure stability and progress.

# International Economy

During the review period (March 1 to May 30), the world economy continued facing tensions in the Middle East such as the Iran-Israel conflict, Israel's war on Gaza, and the Houthis' extension of maritime attacks beyond the Red Sea. Despite grim predictions as contributed by these challenges, the global economy maintained its resilience and saw modest improvements in growth rate forecasts for 2025. However, this estimation remains well below the historical average, highlighting the previous quarter's concern that the 2020s may mark the weakest half-decade of global growth since the 1990s. Meanwhile, the past quarter also continued to see a positive shift towards sustainable development with the enhancement of climate action frameworks to support national climate strategies and the World Bank's plan to dedicate 45% of its annual financing to climate initiatives by 2025. Parallel to these economic and environmental efforts, significant global political developments also unfolded amid a year with a variety of national elections held worldwide.

## ECONOMIC CRISIS UPDATES

### Entering the Tepid Twenties?

As per the International Monetary Fund's (IMF's) estimation in its 'World Economic Outlook' published in April 2024, global growth has been anticipated to continue being grounded in 2025 at a rate of 3.2%, similar to its previous forecast of 3.1%.<sup>54</sup> Additionally, advanced economies are expecting a slight increase in economic growth from 1.7% in 2024 to 1.8% in 2025.<sup>55</sup> The

major contributor to this number is the strong labor productivity shown by the US, which surged by 0.7% in 2023 as compared to the 1.6% decline in 2022.<sup>56</sup> However, although the global economy has shown marginal growth, the medium-term outlook for global growth of 3.2% remains well below its historical average of 3.8%. Furthermore, emerging economies are expecting a modest slowdown from 4.3% in 2023 to 4.2% in both 2024 and 2025 as the rest of the world still grapples with a low productivity

## FACTSHEET

Global GDP Growth in 2024 (expected)

3.1%<sup>46</sup>

Global Inflation in 2024 (expected)

5.9%<sup>47</sup>

Global Multidimensional Poverty Index

18%<sup>48</sup>

World Population

8.1 Billion<sup>49</sup>

Price of Brent Crude Oil in 2024 per Barrel (Expected)

USD 85.41  
(NPR 11,353.55)<sup>50</sup>

Food Price Index

119.1<sup>51</sup>  
(May 2024)

Energy Price Index

119.1<sup>52</sup>  
(May 2024)

Shipping Price Inflation

57%<sup>53</sup>  
(February 2024)

rate.<sup>57</sup> According to the report, if issues on productivity are not addressed, we may be heading towards a Tepid Twenties – an idiom coined by IMF managing director Kristalina Georgieva to highlight an inactive and disappointing decade marked by depressed growth and spiraling debt.<sup>58</sup>

## INTERNATIONAL FINANCIAL UPDATES

### World Bank and IMF Collaborate to Enhance Climate Action

On May 31, 2024, the World Bank Group (WBG) and the International Monetary Fund (IMF) issued a press release announcing their work on an enhanced WBG-IMF collaboration framework to help countries in scaling up climate change action.<sup>59</sup> Through this collaboration, the two organizations aim to leverage their analytics, technical assistance, financing and policy expertise to enhance country-driven reform programs, thereby providing support for the country's climate strategies, policy reforms, and climate investments. This framework works on three principles: identifying the country's climate challenges and necessary reforms; supporting the implementation of reforms through technical assistance and financing; and assisting the establishment of country-led platforms to mobilize additional climate finance. Thus, this framework is expected to significantly increase resources for climate action initiatives and provide robust support for countries, developing partners, and members of the private sector working on climate change issues.

## INTERNATIONAL TRADE UPDATES

### Houthis Intensify Attacks in the Red Sea

This past quarter, Iran-backed Houthis continued with their barrage of maritime attacks, striking container ships well beyond the Red Sea and into the previously unaffected area of the north-west Indian Ocean.<sup>60</sup> They claimed to continue targeting vessels associated with Israel to show solidarity with Palestine until a ceasefire deal is reached in the Israel-Gaza conflict.<sup>61</sup> While they previously only concentrated on attacking vessels in the Red Sea ever since their attacks began in October 2023, since March 2024, they extended the attacks beyond this area, targeting commercial vessels sailing between Asia and Europe around South Africa's Cape of Good Hope – the longer alternative to the Suez Canal that connects the Mediterranean Sea to the Red Sea.<sup>62</sup> Consequently, the total number of commercial vessels passing through the Suez Canal saw an 85% drop in traffic, from 1,094 in November 2023 to 159 in April 2024.<sup>63</sup> On the other hand, Cape of Good Hope saw a drastic increase in vessel traffic from 1,682 ships in November to 2,873 in April.<sup>64</sup> Such detours and rerouting has significantly driven up shipping costs to USD 4,760 (NPR 632,746.80) in April from a previous market average of USD 1,234 (NPR 164,035.62) in mid-November.<sup>65</sup>

### US Imposes 100% Tariffs on Chinese EVs

On May 14, 2024, the Joe Biden administration imposed 100% tariffs on Chinese-made electric

vehicles (EVs), quadrupling it from a previous tax rate of 25%.<sup>66</sup> Additionally, levies on lithium-ion EV batteries also jumped from 7.5% to 25% and doubled from 25% to 50% on semiconductors.<sup>67</sup> There were also steep hikes imposed on critical minerals, steel, aluminum, and solar panels. The US government has deemed these tariff impositions as necessary to manage unfair trade practices and to protect the US auto industry from cheap, subsidized imports since trading partners have often accused China of unfairly favoring its indigenous firms with subsidies.<sup>68</sup> While the US is a relatively small market for China, this move poses as a potential challenge in the EU as Chinese cars comprise nearly 19.5% in Europe's EV market which is likely to face even fierce competition now from a possible surge in Chinese EV imports.<sup>69</sup>

## KEY HIGHLIGHTS OF INTERNATIONAL REPORTS

### Surge in Global Carbon Pricing Revenue

The World Bank's 'State and Trends of Carbon Pricing 2024' report revealed an unprecedented milestone recently: carbon pricing revenue reached a record USD 104 billion (NPR 13.82 trillion) in 2023, covering 24% of global emissions.<sup>70</sup> This is significant as carbon pricing is a significant measure to bring down carbon emission and drive investment into greener options by putting a price on carbon pollution.<sup>71</sup> The report noted that the reason for growth in revenue from carbon pricing was due to the expansion in carbon pricing instruments, which reached a total of 75, and large middle-income countries such as Brazil,

India, Chile, Colombia, and Turkey making progress in adopting carbon pricing strategies.<sup>72</sup> This revenue is even more important as over half of the collected revenue is allocated to finance climate and nature-related programs. However, despite the growth in revenue, global carbon price coverage and level remain insufficient to meet the Paris Agreement goals. Less than 1% of global greenhouse emissions are covered by a direct carbon price at or above the range recommended by the High-Level Commission on Carbon Prices to limit temperature rise to below 2 degrees Celsius.<sup>73</sup>

## KEY DEVELOPMENTS

### Tensions Rise in Iran

The dynamics in the Middle East took a turn in the first two weeks of April 2024 due to a series of attacks and counterattacks between Iran and Israel. On April 1, an Israeli airstrike targeted an Iranian consulate in Damascus, Syria, killing seven Islamic Revolutionary Guard Corps members.<sup>74</sup> The Israeli military has been assaulting Syria for more than a decade, taking advantage of the chaos following its civil war that started in 2011.<sup>75</sup> Two weeks later, Iran retaliated with an unprecedented drone and missile barrage, prompting Israel to respond with its own missile attacks on an airbase in Iran on April 19.<sup>76</sup> Due to such violent exchanges, which ended abruptly after Iran dismissed the attacks, Citigroup had estimated global oil prices to rise above USD 100 (NPR 13,293) per barrel.<sup>77</sup> This imitates the trend seen during the Russia-Ukraine conflict where oil prices had soared up to

USD 120 (NPR 15,951.60) a barrel.<sup>78</sup> However, these estimations did not transpire as the Brent crude oil increased up to only USD 92.18 (NPR 12,253.49) per barrel before declining during the quarter.<sup>79</sup> With stable growth at 3.2% and inflation rates steady to 5.9% after decent fluctuations, the global economy managed to maintain its resilience despite such bleak predictions.<sup>80</sup> However, with the presidential elections to be held on June 28 after the Iranian president died in a helicopter crash in May, Iran finds itself in a politically tense juncture amidst several other geopolitical crises such as its involvement in the war between Israel and Hamas, and its threats of closing the Strait of Hormuz where 20% of the world's total oil supply passes through.<sup>81</sup>

### Rise of Nationalist and Populist Victories Witnessed in Elections Across the World

Amidst the "year of elections", this review period was marked by a mix of populist, nationalist and left-wing election victories, reflecting a complex global political landscape. In Russia, Vladimir Putin secured his fifth term in presidential elections held on March 17, 2024, thereby signaling that the Ukraine war is here to stay.<sup>82</sup> On the other hand, in India, Narendra Modi secured a tight third term on June 4, 2024 with support from the National Democratic Alliance (NDA) coalition, amid accusations of jailing political opponents and freezing their bank accounts.<sup>83</sup> Notably, while Prime Minister Modi's party, the Bharatiya Janata Party (BJP), won 303 seats in the 2019 elections, they failed to reach the majority of 272 seats

in this election and only got 240 seats – a massive deviation from what was predicted in the majority of exit polls.

Meanwhile, in Maldives, President Mohamed Muizzu's People's National Congress (PNC) party took control of the parliament by winning 71 of the first 93 seats in the election held on April 27, 2024.<sup>84</sup> President Mohamed Muizzu's pro-China stance appears to have resonated with the electorate. Parallelly, in South Korea, the Democratic Party (DP) emerged victorious against the ruling People Power Party (PPP) in the parliamentary elections held on April 10, 2024, winning 175 out of 254 constituency seats.<sup>85</sup> Also, notably, Claudia Sheinbaum became Mexico's first female president on June 2, 2024.<sup>86</sup> Additionally, in South Africa, the African National Congress (ANC) lost the majority for the first time in 30 years during the elections held on June 1, 2024. However, they managed to form a government through a coalition.<sup>87</sup>

Along with these elections, many other countries also held elections during the review period, including Iran, Portugal, Slovakia, Senegal, Kuwait, the Solomon Islands, Togo, Panama, Chad, The Dominican Republic, Lithuania and Madagascar.<sup>88</sup> However, in North Korea, elections were postponed due to a constitutional amendment demand from Kim Jong-un, and in Ukraine, the presidential election was suspended due to the continuing military emergency.<sup>89</sup>

## Outlook /

Looking ahead, the global landscape stands at a critical juncture at the midpoint of the 2020s. Disruptive forces, such as record-breaking national elections, escalating conflicts, and advancements in green technology, are reshaping global dynamics. The results of national elections and changes in government policies could globally impact the flow of global trade and geopolitics. In the aftermath of the pandemic, mounting debt levels have emerged as a significant challenge, particularly in developing countries, underscoring the urgent need for prudent fiscal policies. Additionally, in 2024, global trade is expected to be resilient through concerted efforts towards re-globalization as opposed to fragmentation. Meanwhile, while climate-friendly efforts like COP28, the Green Climate Fund, and the transition to electric vehicles contribute to the green transition, a financing gap persists, especially for emerging and middle-income nations. Navigating this complex global landscape will require decisive action from nations, both at individual and multilateral levels, to address economic recovery, environmental stewardship, and geopolitical complexities.

# 2

## Macroeconomic Overview



# Macroeconomic Overview

During this review period from March to May 2024, the macroeconomic situation of Nepal exhibited positive trends in external flows. Particularly, remittance inflows surged to NPR 1.08 trillion (USD 8.15 billion) and contributed to record-high foreign exchange reserves of NPR 1.91 trillion (USD 14.36 billion). The trend of surging net foreign direct investment (FDI) seen in the previous review period continued, with FDI increasing by 147.33% to NPR 6.48 billion (USD 48.74 million). However, Nepal's total foreign trade contracted compared to the preceding period to NPR 1.28 trillion (USD 9.63 billion) due to a decline in both imports and exports. Notably, this review period was marked by the release of two key publications – the Economic Survey for FY 2023/24 AD (2080/81 BS) and the budget for FY 2024/25 AD (2081/82 BS). The former estimated a 3.9% economic growth, 6% inflation, and per capita income of USD 1,456 (NPR 193,546.08) for FY 2023/24 AD (2080/81 BS). With the main theme of “economic reform”, the latter has set a target of a 6% economic growth rate and 5.5% inflation for the upcoming fiscal year. Furthermore, the budget size is NPR 1.86 trillion (USD 13.98 billion), out of which NPR 1.14 trillion (USD 8.57 billion) has been allocated for recurrent expenditure, NPR 352.35 billion (USD 2.64 billion) for capital expenditure, and NPR 367.28 billion (USD 2.76 billion) for financial management.

## Gross Domestic Product (GDP)

According to the Nepal Rastra Bank (NRB)'s 'Current Macroeconomic and Financial Situation' report, the Gross Domestic Product (GDP) at current prices stood at NPR 5.7 trillion (USD 42.87 billion) in the

first nine months of FY 2023/24 AD (2080/81 BS).<sup>91</sup> This indicates an increase in GDP value by around 6.74% from the previous fiscal year 2022/23 AD (2079/80 BS). Figure 1 represents the trend of GDP rise over the five consecutive fiscal years from FY 2019/20 AD (2076/77 BS) to FY

| FACTSHEET <sup>90</sup>         |                                         |
|---------------------------------|-----------------------------------------|
| Particulars                     | Amount/Percentage                       |
| GDP at current prices           | NPR 5.7 trillion (USD 42.87 billion)    |
| Year-on-year CPI                | 4.61%                                   |
| Food and Beverage CPI           | 5.21%                                   |
| Non-food and Service CPI        | 4.14%                                   |
| Net Foreign Direct Investment   | NPR 6.48 billion (USD 48.74 million)    |
| Remittance inflows              | NPR 1.08 trillion (USD 8.12 billion)    |
| Gross foreign exchange reserves | NPR 1.91 trillion (USD 14.36 billion)   |
| Total Domestic Debt             | NPR 1.17 trillion (USD 8.8 billion)     |
| Total External Debt             | NPR 1.17 trillion (USD 8.8 billion)     |
| Government expenditure          | NPR 909.39 billion (USD 6.84 billion)   |
| Government revenue              | NPR 748.04 billion (USD 5.62 billion)   |
| Total exports                   | NPR 11.34 billion (USD 85.30 million)   |
| Total imports                   | NPR 116.73 billion (USD 878.13 million) |
| Total trade balance             | NPR -105.34 billion (USD -7.92 billion) |
| Current Account                 | NPR 179.48 billion (USD 135.01 million) |
| Balance of Payment              | NPR 365.16 billion (USD 2.74 billion)   |

2023/24 AD (2080/81 BS).

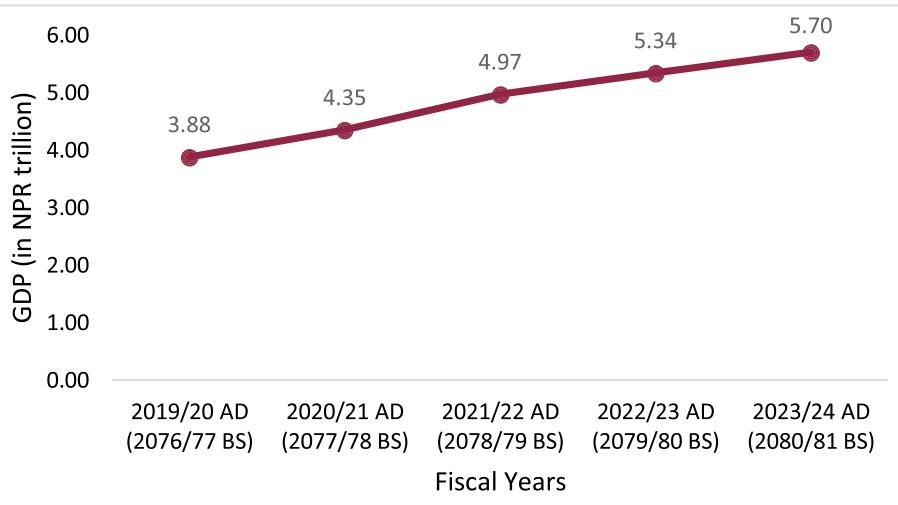
Moreover, the Ministry of Finance released the new budget of NPR 1.86 trillion (USD 13.99 billion)

for FY 2023/24 AD (2081/82 BS) on May 28, 2024.<sup>92</sup> The budget has targeted a GDP growth of 6% for the upcoming fiscal year. Similarly, the government has

aimed to limit the inflation rate to 5.5%.<sup>93</sup>

**Figure 1. GDP in Current Prices over the Last Five Years (in NPR trillion)**

Source: Current Macroeconomic and Financial Situation of Nepal (based on annual data, FY 2023/24 AD (2080/81 BS))<sup>94</sup>



### Inflation

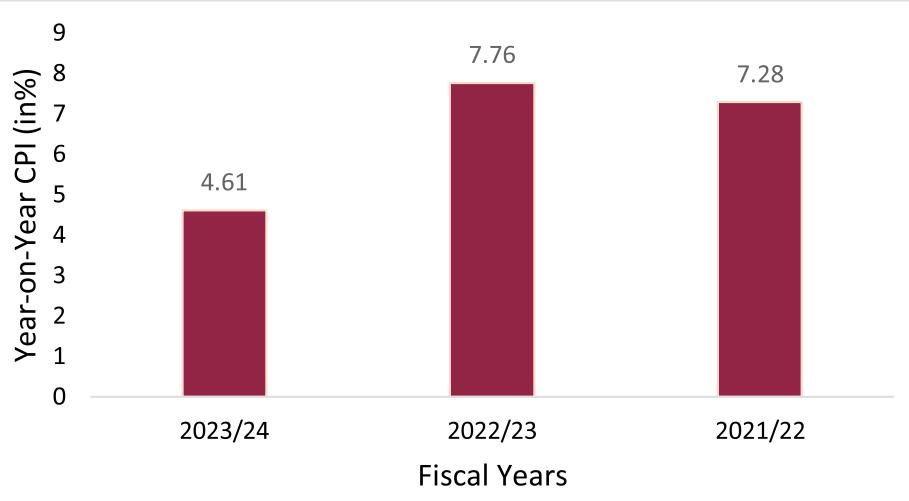
As per the central bank's data, the Consumer Price Index (CPI) reached 4.61% in mid-April compared to 7.76% in the same period last year.<sup>95</sup> Figure 2 depicts the year-on-year changes in CPI

over the last three years until mid-April of 2024. Apart from the central bank, the World Bank Development Update for April 2024 also projected CPI of Nepal to be 6.7%, caused mainly by the removal of VAT exemptions, export restrictions by India,

and higher minimum support prices for crops.<sup>96</sup> Similarly, the Asian Development Bank (ADB) forecasted the average inflation to be 6.5% in 2024, citing a drop propelled by the decline in inflation in India.<sup>97</sup>

**Figure 2. Year-on-year CPI for the Last Three Years Ending Mid-April**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2021/22 AD (2078/79 BS))<sup>98</sup>



The Consumer Price Inflation (CPI) is used to measure the average inflation in a country. The CPI gauges the overall effect of price changes for a diverse

array of products and services. It represents the rise in the price level of a basket of goods and services needed for daily living.<sup>99</sup> Table 1 illustrates the CPI along

with patterns of consumption over the last three years ending mid-April.

**Table 1. Consumer Price Index over Two Consecutive Years (in percentage)**

Source: *Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2022/23 AD (2079/80 BS))<sup>100</sup>*

| Headings                 | Mid-April 2023 | Mid-April 2024 |
|--------------------------|----------------|----------------|
| Consumer Price Inflation | 7.76           | 4.61           |
| Food and Beverage        | 6.93           | 5.21           |
| Non-food and service     | 8.42           | 4.14           |

As depicted in Table 1, the inflation on food and beverages witnessed a decrease from 7.76% in mid-April 2023 to 4.61% in mid-April 2024.<sup>101</sup> The decline was attributed to a slight fall in the price index of ghee and oil by 10.1%. However, the price indexes of spices, vegetables, cereal grains, non-alcoholic drinks, pulses, and legumes surged compared to the previous year.<sup>102</sup> Likewise, in the non-food and service category the inflation decreased to 4.14% contributed mainly by the decline in price index of transportation sub-category.<sup>103</sup>

### Budget Highlights for FY 2023/24 AD (2081/82 BS)

The budget for FY 2024/25 AD (2081/82 BS) was unveiled with a size of NPR 1.86 trillion (USD 13.99 billion). This is about 6.2% more than the original budget for FY 2023/23 AD (2080/81 BS), which was NPR 1.75 trillion (USD 13.34 billion).<sup>104</sup> A large chunk of the budget, around 61.31% of the total budget, has been allocated to recurrent expenses,

followed by financial expenditure, which is about 19.74%, and capital expenditure of 18.94% of the budget.<sup>105</sup> The estimated collection of government revenue from taxes is NPR 1.26 trillion (USD 9.48 billion), and the difference is estimated to be covered by external or internal loans and grants. Additionally, the government has aimed to curtail inflation to 5.5% in the new fiscal year.<sup>106</sup> With the promise of an 'Economic Revival', the main theme of this budget is 'Economic Reform'. For this reform, the government aims to build and increase the confidence in the private sector to increase investment and facilitate economic growth and employment creation. The budget also focuses on strategic areas such as agriculture, energy, information technology, tourism, industrial promotion, infrastructural development.<sup>107</sup>

## GOVERNMENT FIGURES

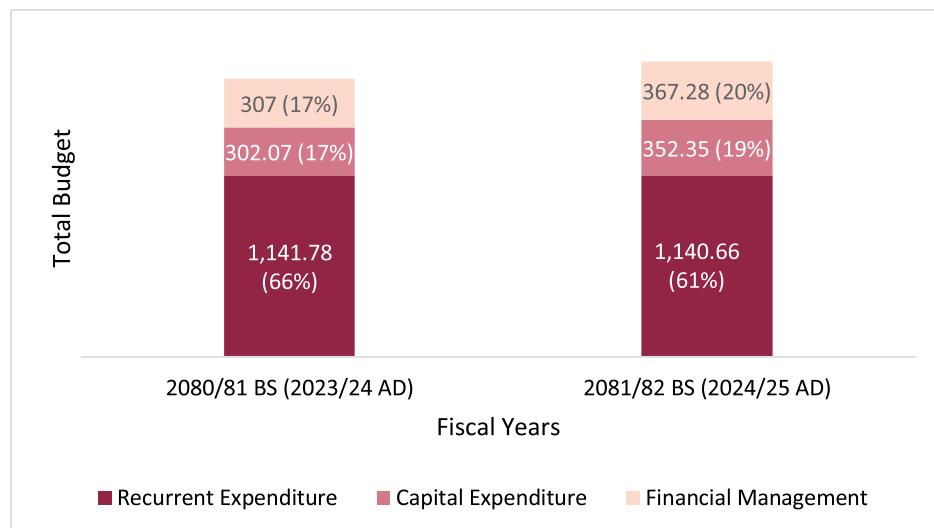
### Government Reserves

According to the 'Current Macroeconomic Financial

Situation ending mid-April 2024' report, the gross foreign exchange reserves were at a record of NPR 1.91 trillion (USD 14.36 billion) as of mid-April 2024. The foreign reserves saw a 24.2% surge when compared to the NPR 1.53 trillion (USD 11.5 billion) in mid-July 2023.<sup>108</sup> Of the total foreign exchange reserves, those held by the NRB increased by 25.4%, rising from NPR 1.34 trillion (USD 10.08 billion) in mid-July 2023 to NPR 1.68 trillion (USD 12.63 billion) in mid-April 2024. Meanwhile, reserves held by banks and financial institutions (BFIs) GREW by 15.5%, from NPR 193.59 billion (USD 1.45 billion) in mid-July 2023 to NPR 223.65 billion (USD 1.68 billion) in mid-April 2024.<sup>109</sup>

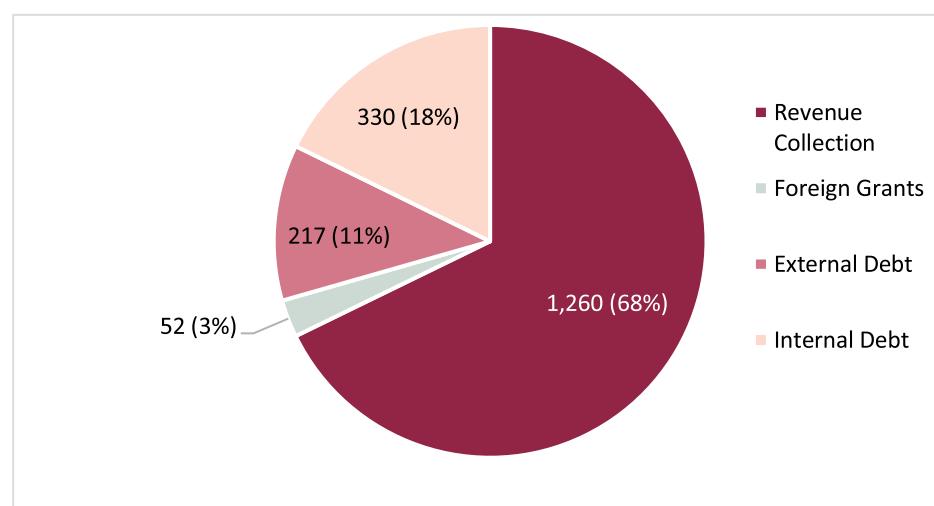
**Figure 3. Fiscal Expenditure in the Budget for FY 2080/81 BS (2023/24 AD) (in NPR billion)**

Source: Budget Speech FY 2024/25 AD (2081/82 BS), Ministry of Finance, Government of Nepal<sup>110</sup>



**Figure 4. Sources of Funds for Budget for FY 2081/82 BS (2024/25 AD) (in NPR billion)**

Source: Budget Speech FY 2024/25 AD (2081/82 BS), Ministry of Finance, Government of Nepal<sup>114</sup>



As per the central bank, the foreign reserves are adequate to import merchandise imports for 15 months and services imports for 12.5 months.<sup>111</sup> Moreover, in mid-April 2024, the ratios of reserves-to-GDP, reserves-to-imports, and reserves-to-M2 stood at 33.5%, 104%, and 28.9% respectively.<sup>112</sup>

The increment in the foreign reserves of the government has both positive and negative indication for the country's economy. Although this may seem like progress, economists argue that increasing foreign exchange reserves can lead to a low-growth trap without investments in productive sectors.<sup>113</sup> Due to

exports struggling to compete in the international market, the government's source of foreign currency is largely limited to remittances. On a brighter note, Nepal is in a much better position regarding debt stability as the foreign reserves are well-positioned to pay for foreign debts and scheduled imports.

**Table 2. Reserves-to-GDP Ratio in mid-April of the Last Three Years (in %)**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2021/22 AD (2078/79 BS))<sup>115</sup>

| Particular            | 2022      | 2023      | 2024      |
|-----------------------|-----------|-----------|-----------|
|                       | Mid-April | Mid-April | Mid-April |
| Reserves-to-GDP Ratio | 23.7      | 26.8      | 33.5      |

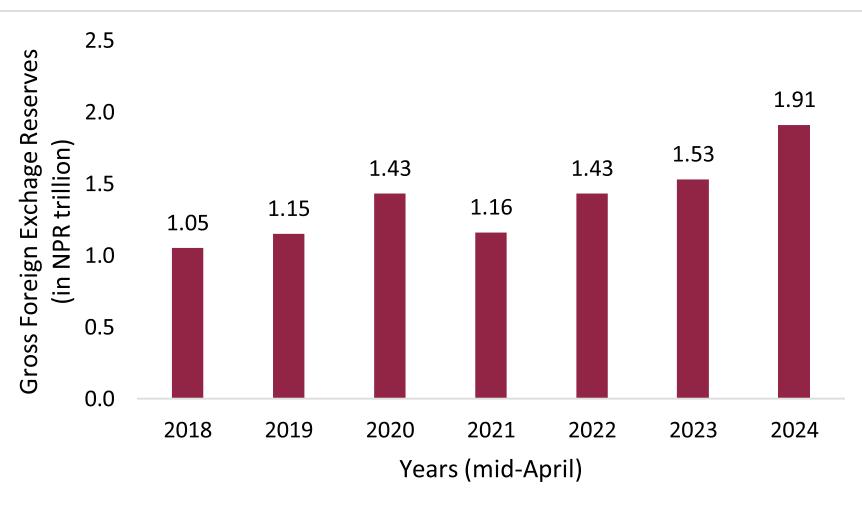
The reserves-to-GDP ratio has been rising over the last three years, as depicted in Table 2. This trend indicates that foreign reserves are increasingly becoming a significant portion of GDP. However, the foreign

currency reserves have been primarily driven by remittances, which are also the largest source of foreign exchange in Nepal. The trend of gross foreign exchange reserves as of mid-April for the last seven fiscal years are shown

in Figure 5. It is noticeable that there has been an upward drift in the amount of foreign reserves over the years, especially after the COVID-19 pandemic in 2020.

**Figure 5. Gross Foreign Exchange Reserves in Mid-April of the Last Seven Consecutive Years (in NPR trillion)**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2018/19 AD (2075/76 BS))<sup>116</sup>



### Government Debt

Nepal's domestic debt encompasses various forms, such as treasury bills, development bonds, citizen saving bonds, and foreign employment bonds. These debts are managed by Nepal Rastra Bank (NRB), along with commercial banks, development banks, finance

companies, and other financial institutions. In mid-April 2024, the total domestic debt stood at NPR 1.17 trillion (USD 8.8 billion) compared to NPR 1.03 trillion (USD 8.8 billion) in mid-April 2023 with an increase by 13.59%.<sup>117</sup> Table 3 below illustrates the trend of total domestic debt in the preceding three fiscal years. Additionally, external

debt reached NPR 1.17 trillion (USD 8.8 billion), with a surge of 14.7% from 1.02 trillion (USD 7.67 billion) in mid-April 2023.<sup>118</sup> The reason behind this increase in government's liquidity crunch were due to factors, such as rising recurrent expenditure and diminishing revenue collection.

**Table 3. Domestic Government Debt as of mid-April in the Last Three Years (in NPR billion)**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2021/22 AD (2078/79 BS))<sup>119</sup>

| Particulars                | Domestic Debt (in NPR billion) |          |          |
|----------------------------|--------------------------------|----------|----------|
|                            | 2021                           | 2022     | 2023     |
| <b>Total Domestic Debt</b> | 876.53                         | 1,033.03 | 1,175.56 |
| Nepal Rastra Bank          | 90.85                          | 90.44    | 23.24    |
| Commercial Banks           | 694.90                         | 808.42   | 1,010.45 |
| Development Banks          | 60.04                          | 84.48    | 94.85    |
| Finance Companies          | 18.40                          | 21.90    | 21.88    |
| Others                     | 12.32                          | 27.77    | 25.12    |

## Government Spending

According to the data from the Financial Comptroller General Office (FCGO), in the first nine months of FY 2023/24 AD (2080/81 BS), the total government expenditure was NPR 909.39 billion (USD 6.84 billion), while the total revenue

was NPR 748.04 billion (USD 5.62 billion).<sup>120</sup>

Capital and recurrent expenditures decreased by about 10.12% and 9.74%, respectively, compared to the previous year. In contrast, financial expenditure has risen by 30.18%.<sup>121</sup> On a positive note, total

revenue generation has improved by 9.39%, with tax collection up by 8.92% and non-tax revenue by 13.65%.<sup>122</sup> This substantial reduction in capital expenditure has been attributed to factors such as political instability, adverse weather, floods, and festivals.<sup>123</sup>

**Figure 5. Aid disbursement share of donor agencies from December 1, 2023 to February 29, 2024 (in %)**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine-months data, FY 2023/24 AD (2080/81 BS) to FY 2022/23 AD (2079/80 BS))<sup>124</sup>

| Particulars              | FY 2022/23 AD (2079/80 BS) | FY 2023/24 AD (2080/81 BS) |
|--------------------------|----------------------------|----------------------------|
| Recurrent expenditure    | 706.77                     | 644.03                     |
| Capital expenditure      | 107.24                     | 97.38                      |
| Financial management     | 129.04                     | 167.99                     |
| <b>Total Expenditure</b> | <b>943.05</b>              | <b>909.39</b>              |
| Tax revenue              | 616.12                     | 671.12                     |
| Non-tax revenue          | 67.69                      | 76.93                      |
| <b>Total revenue</b>     | <b>683.81</b>              | <b>748.04</b>              |

## FINANCE STATUS

### Investments

In the first nine months of FY 2023/24 AD (2080/81 BS), the net Foreign Direct Investment (FDI) increased by about 147.33% to reach NPR 6.48 billion (USD 48.74 million) compared to NPR 2.62 billion (USD 19.71 million) in the corresponding period in FY 2022/23 AD (2079/80 BS).<sup>125</sup> This rise was mainly attributed to the government's decision to reduce the minimum threshold for foreign investors from NPR 50 million (USD 376,137.82) to NPR 20 million (USD 150,455.13), thereby incentivizing small-scale investments. According to the Department of Industries (DoI), a total of 269 foreign investment

industries were registered during this period, with 253 categorized as small industries, underscoring the impact of this policy change.<sup>126</sup>

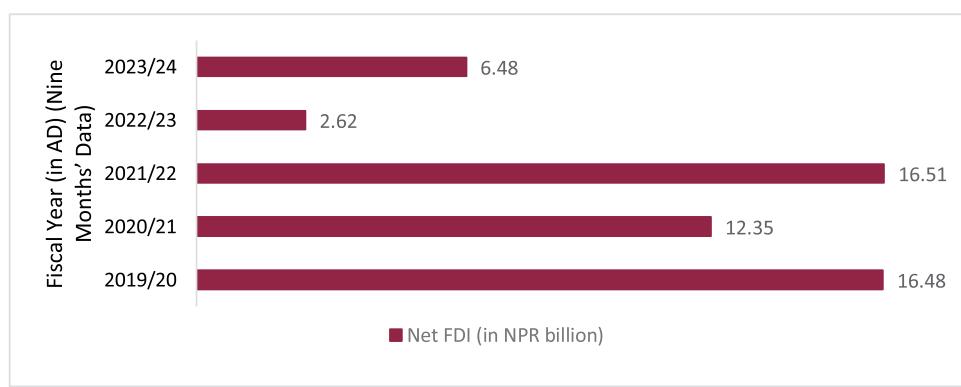
Government policy revisions have been attributed to play a pivotal role in attracting foreign investors to Nepal, especially due to investor expectations from the third Investment Summit (April 28 and 29, 2024). During the summit, the government started implementing the much-awaited automated approval system for foreign investment pledges up to NPR 500 million (USD 3.76 million). It proved to be successful with the DoI receiving 26 proposals through the system by May 8, 2024, just a week after its launch.<sup>127</sup> The summit

also saw the approval of various foreign investments, detailed in their respective sectoral review sections of this issue.

Furthermore, in a bid to further streamline investment processes and attract more foreign capital, the government issued an ordinance on April 28, 2024, amending eight acts to encourage investment-friendliness.<sup>128</sup> While it was largely welcomed for its potential to boost economic growth, the government's approach of issuing the ordinance sparked controversy, with critics arguing that it involved rushing and bypassing the parliament.<sup>129</sup> Despite this, the measures taken demonstrate Nepal's commitment to creating a more investor-friendly environment.

**Figure 6. Net Foreign Direct Investments in Nepal until Mid-April for Five Consecutive FYs (in NPR billion)**

Source: *Current Macroeconomic and Financial Situation of Nepal* (based on nine months data ending mid-April, FY 2019/20 AD (2076/77 BS) to FY 2023/24 AD (2080/81 BS))<sup>130</sup>



## FOREIGN ASSISTANCE

### Aid Disbursements from Donor Agencies

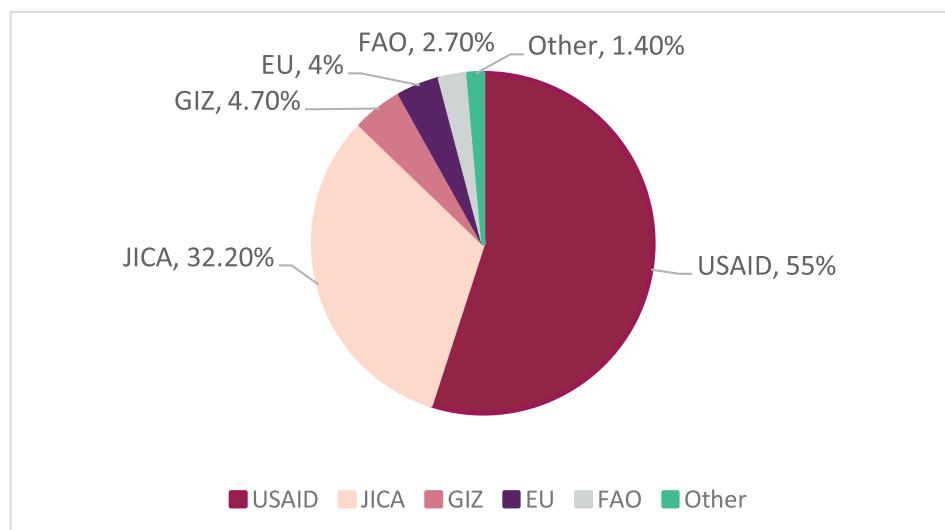
During the review period, from March 1 to May 31, 2024, Nepal received aid disbursements from multiple donor agencies including the United States Agency for International Development (USAID), Japan International

Cooperation Agency (JICA), German Development Cooperation (GIZ), and Food and Agriculture Organization, as illustrated in Figure 7.<sup>131</sup> USAID emerged as the leading contributor in the current review period comprising 55% of total disbursements. It is a significant increase from the previous quarter (December 1, 2023 to February 29, 2024), where USAID

had contributed only 14% of total aid disbursements – the lowest proportion then. In the previous quarter (December 1, 2023 – February 29, 2024), the Government of Norway and the World Food Programme had made up half the contributions.<sup>132</sup>

**Figure 7. Aid Disbursement Share of Donor Agencies from March 1, 2024 to May 31, 2024 (in %)**

Source: *Aid Information Management System (AIMS)*, Ministry of Finance<sup>133</sup>



## BILATERAL AND MULTILATERAL AID

### Project / Program-specific Aid

#### World Bank Launches USD 4.6 million (NPR 611.48 million) Gender-Based Violence Response Project

The 'Institutionalizing Gender-

Based Violence Response in Federal Nepal Project' was launched on May 21, 2024 by the Government of Nepal and the World Bank.<sup>134</sup> It is expected to benefit around 49,000 women in six municipalities in Koshi and Lumbini provinces.<sup>135</sup> The project seeks to increase women's and girls' access to multi-sectoral

gender-based violence (GBV) response services, including legal aid, counseling, and medical interventions.<sup>136</sup> The three-year project is financed by a USD 4.6 million (NPR 611.48 million) grant from the State and Peacebuilding Fund (SPF) – a World Bank multi-donor trust fund used to finance conflict prevention, crisis

response, and resilience. It will be implemented by the Ministry of Women, Children, and Senior Citizens.<sup>137</sup>

### World Bank Approves USD 80 million (NPR 10.63 billion) to Strengthen Financial Sector

The World Bank approved a USD 80 million (NPR 10.63 billion) development policy credit for Nepal on May 6, 2024.<sup>138</sup> It is the third operation of the 'Nepal Finance for Growth Development Policy Credit' program, which has been designed to support the country's Green, Resilient, and Inclusive Development (GRID) transition.<sup>139</sup> In line with the GRID objectives, improving banking and insurance supervision, fostering financial innovations, and increasing financial inclusion, particularly for women entrepreneurs.<sup>140</sup> Furthermore, the project, which will run until April 2025, supports Nepal's climate agenda by encouraging green financial products and including climate-risk in financial assessments.<sup>141</sup>

### USAID Providing Funds of USD 85 million (NPR 11.30 billion) for Access to Quality Education

The United States Agency for International Development (USAID), on March 4, 2024, announced the disbursement of funds up to USD 85 million (NPR 11.30 billion) to support increased access to quality education, with a focus on marginalized youth and early-grade students.<sup>142</sup> The funding will support three areas: USAID Early Grade Learning, USAID Education Direct Financing, and USAID Equity and Inclusion in Education.<sup>143</sup> Under the Early Grade Learning Activity,

USAID will collaborate with local governments across all seven Nepali provinces to improve outcomes of children in grades 1 to 3, over the course of five years.<sup>144</sup> Similarly, the Equity and Inclusion Activity also spans over five years and will be implemented by Plan International.<sup>145</sup> It focuses on reducing dropouts and returning children to classrooms. USAID will also be working with the government in planning, budgeting, and implementing activities under the Education Direct Financing Activity.<sup>146</sup>

### UNDP Nepal Launches Insurance and Risk Financing Initiative

The United Nations Development Programme (UNDP) in Nepal launched the Insurance and Risk Finance Initiative on March 19, 2024, with the objective of addressing Nepal's vulnerability to natural disasters which has caused around USD 7 billion (NPR 930.5 billion) in damages from 1980 to 2020.<sup>147</sup> Recognizing that disaster response and recovery costs are unsustainable, the initiative aims to enhance financial resilience through insurance and risk financing mechanisms. The initiative requires close collaboration between the UNDP team and various government bodies including the Ministry of Finance, Nepal Insurance Authority, and the National Disaster Risk Reduction and Management Authority (NDRRMA).<sup>148</sup> This effort is part of UNDP's global Insurance and Risk Finance Facility, implemented in over thirty countries, to advocate for insurance as a vital tool in managing shocks and accelerating recovery.<sup>149</sup>

## GRANT AND CONCESSIONAL LOANS

### Tibet to Provide Financial Aid to Nepali Northern Border Districts for Five Years

The Tibet Autonomous Region of China will be funding a five-year initiative in Nepal's northern border districts, offering logistical and material support for economic and social development projects.<sup>150</sup> They will be providing around NPR 370 million (USD 2.78 million) each year under the initiative, which will be used to build schools and health facilities, install solar electricity, and for other small projects in the 15 border districts.<sup>151</sup> The projects for the will be finalized on the Second Meeting of the Aid Projects to Nepal. China had previously implemented similar small-scale programs along the border districts, providing NPR 3 million (USD 22,568.27) to each local administrative unit from 2014 to 2018.<sup>152</sup>

### FCDO Grants GBP 13 million (NPR 2.18 billion) for Earthquake Relief in Western Nepal

The Foreign, Commonwealth and Development Office (FCDO) of the British Embassy in Kathmandu has provided a grant of GBP 13 million (NPR 2.18 billion) in support of the Joint Recovery Action Plan for the Western Nepal Earthquake (JRAP).<sup>153</sup> The plan was jointly launched by the National Disaster Risk Reduction and Management Authority (NDRRMA) and the Humanitarian Country Team in February 2024. The funding will be used to address water sanitation and hygiene, nutrition, protection,

shelter, and food security needs of around 50,000 earthquake-affected individuals.<sup>154</sup> In addition to this, the program will aid three local governments of the affected areas in rehabilitating and reconstructing drinking water supply facilities, small irrigation systems, micro-hydro structures, schools, and rural roads, amounting to GBP 4.2 million (NPR 704.42 million).<sup>155</sup>

### Finland Commits EUR 13 million (NPR 1.87 billion) Grant for Climate Adaptation Efforts

The Cabinet of Nepal has decided to accept the EUR 13 million (NPR 1.87 billion) grant from the Republic of Finland, pledged to support local climate adaptation programs.<sup>156</sup> It is part of the Local Adaptation to Climate Change (LACC) project, a climate resilience and sustainable natural resource

management initiative by the Government of Nepal, Finland, and the European Union (EU).<sup>157</sup> The LACC project aims to help residents in the Sudurpaschim and Karnali provinces adapt to environmental changes and make their lives and livelihoods resilient to climate change.<sup>158</sup> It is a part of a EUR 51 million (NPR 7.32 billion) collaboration, with the EU and Nepal contributing EUR 18 million (NPR 2.58 billion) and EUR 20 million (NPR 2.87 billion) respectively, alongside Finland's aforementioned contribution.<sup>159</sup>

### REMITTANCE AND MIGRATION

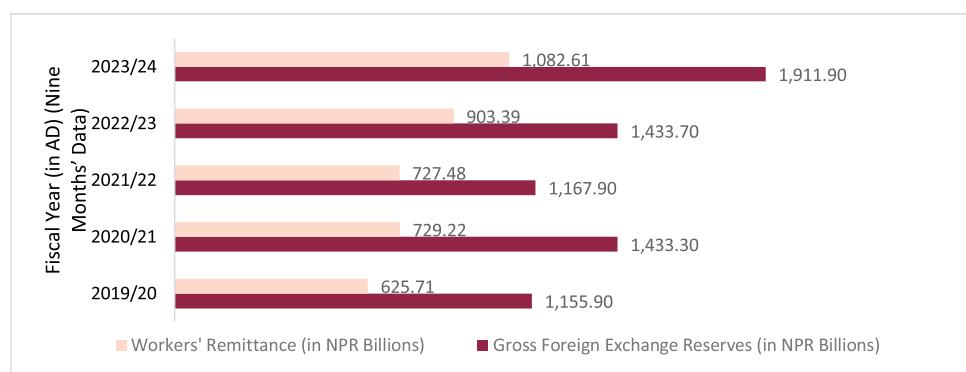
#### Increase in Remittances and Foreign Exchange Reserves

During the first nine months of the FY 2023/24 AD (2080/81 BS), remittance inflows increased by 19.8% from NPR 903.39 billion

(USD 6.92 billion) in FY 2022/23 AD (2079/80 BS) to NPR 1.08 trillion (USD 8.15 billion) this year.<sup>160</sup> The increase can be attributed to the fact that the number of Nepalis seeking foreign employment has continued to increase. In the review period itself, 329,422 Nepalis took first-time approval for foreign employment and 212,721 for renewed entry.<sup>161</sup> Additionally, the depreciation of the Nepali currency against the US dollar by 1.23% in mid-April 2024 compared to the previous month contributed to the increased value of remittances sent home.<sup>162</sup> This surge in remittance has also continued to contribute to Nepal's forex reserves, which reached a record-high NPR 1.91 trillion (USD 14.36 billion) in mid-April 2024 – a 24.2% increase from NPR 1.54 trillion (USD 11.71 billion) in mid-July 2023.<sup>163</sup>

**Figure 8. Workers' Remittances and Gross Foreign Exchange Reserves**

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine months data ending mid-April, FY 2019/20 AD (2076/77 BS) to FY 2023/24 AD (2080/81 BS)<sup>164</sup>



### Top Ten Labor Destinations

As observed in Table 5, 329,422 Nepali migrant workers sought employment abroad for the first time in the initial nine months of FY 2023/24 AD (2080/81 BS). This is a 15.1% decrease as compared to FY 2022/23 AD (2079/80 BS) when this figure was 387,839. In

terms of the destinations that these migrants travelled to, the Gulf region continued to serve as the primary destination, with the United Arab Emirates (UAE) and Saudi Arabia experiencing a labor influx growth of 131.1% and 35.2%, respectively. Another emerging destination appeared to be Japan, which observed

a significant surge of 101.6% in the number of Nepali migrant workers, as compared to the corresponding period in FY 2022/23 AD (2079/80 BS). On the other hand, Malaysia, South Korea, and Romania exhibited declining trends.

**Table 5. Top 10 Labor Destinations of New Nepali Migrant Workers in the First Nine Months of the Last Three Consecutive FYs**

| S.N. | Country      | Nine Months' Data          |                            |                            | Percent Change             |                            |
|------|--------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|      |              | FY 2021/22 AD (2078/79 BS) | FY 2022/23 AD (2079/80 BS) | FY 2023/24 AD (2080/81 BS) | FY 2022/23 AD (2079/80 BS) | FY 2023/24 AD (2080/81 BS) |
| 1    | UAE          | 41,963                     | 39,682                     | 91,695                     | -5.4                       | 131.1                      |
| 2    | Malaysia     | 547                        | 187,278                    | 59,959                     | 34,137                     | -68.0                      |
| 3    | Saudi Arabia | 108,447                    | 39,625                     | 53,561                     | -63.5                      | 35.2                       |
| 4    | Qatar        | 63,153                     | 31,785                     | 31,501                     | -49.7                      | -0.9                       |
| 5    | Kuwait       | 12,002                     | 23,923                     | 22,288                     | 99.3                       | -6.8                       |
| 6    | South Korea  | 2,274                      | 12,016                     | 10,245                     | 428.4                      | -14.7                      |
| 7    | Romania      | 3,270                      | 9,932                      | 8,052                      | 203.7                      | -18.9                      |
| 8    | Japan        | 616                        | 3,853                      | 7,766                      | 525.5                      | 101.6                      |
| 9    | Maldives     | 2,053                      | 2,670                      | 4,415                      | 30.1                       | 65.4                       |
| 10   | Malta        | 939                        | 4,682                      | 4,204                      | 398.6                      | -10.2                      |
| 11   | Other        | 20,767                     | 32,393                     | 35,736                     | 56                         | 10.3                       |
|      | Total        | 256,031                    | 387,839                    | 329,422                    | 51.5                       | -15.1                      |

Source: Current Macroeconomic and Financial Situation of Nepal (based on nine months data ending mid-April, from FY 2021/22 AD (2078/79 BS) to FY 2023/24 AD (2080/81 BS))<sup>165</sup>

## TRADE STATUS

### Foreign Trade Scenario

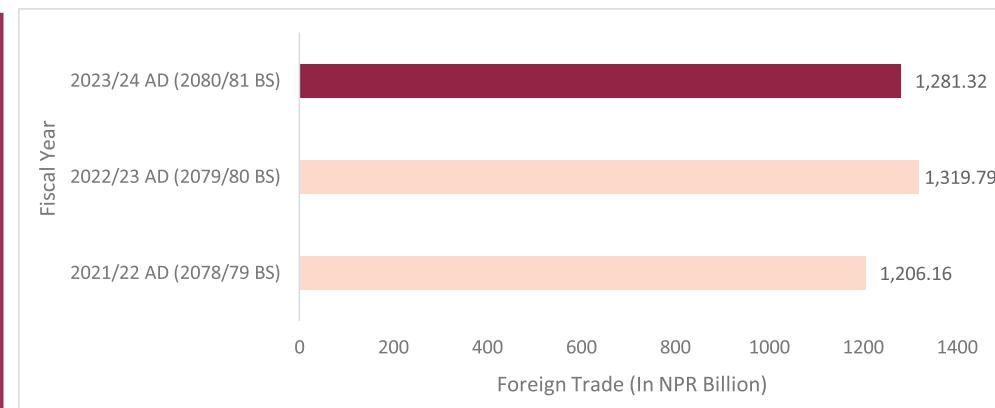
During the first nine months of FY 2023/24 AD (2080/81 BS), Nepal's total foreign trade contracted to NPR 1.28 trillion (USD 9.63 billion) from NPR 1.31 trillion (USD 9.91 billion) in the corresponding period of FY 2022/23 AD (2079/80 BS) due

to a decline in both imports and exports.<sup>166</sup> The country continued to import far more than it exports, with imports amounting to NPR 1.16 trillion (USD 8.77 billion), i.e. 91.1% of total trade, and exports amounting to NPR 113 billion (USD 1 billion), i.e. 8.9% of total trade, during the review period.<sup>167</sup> India remained Nepal's largest trading partner, making up 63.02% of

total trade, followed by China and other countries.<sup>168</sup> Notably, China's share in total trade rose from 12.36% to 17.08%, while the share of other countries fell from 24.24% to 19.90% during the review period.<sup>169</sup>

**Figure 9. Total Foreign Trade in the First Nine Months of FYs**

Source: Current Macroeconomic and Financial Situation of Nepal ending mid-April for FY 2021/22 AD (2078/79 BS) to FY 2023/24 AD (2080/81 BS)<sup>170</sup>



### Top Imports and Exports

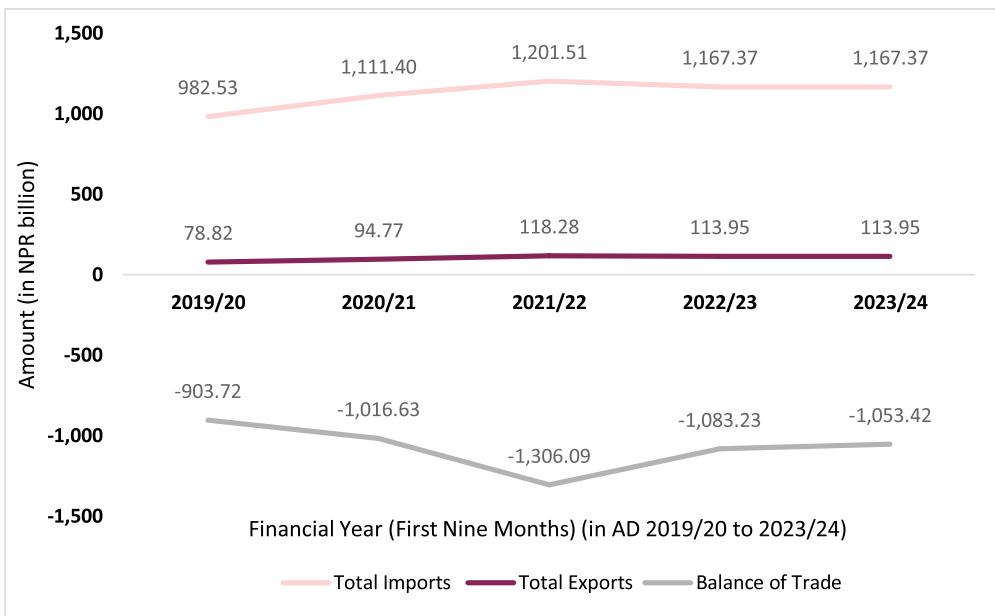
Nepal's import landscape was dominated by petroleum products, which accounted for 18.74% of total imports, followed by machinery and parts (4.75%), transport equipment and vehicle parts (4.69%), medicine (2.84%), and sponge iron (2.5%) during the

first nine months of FY 2023/24 AD (2080/81 BS).<sup>171</sup> Likewise, the top five commodities on the export front included zinc sheets (7.53%), polyester yarn and thread (7.24%), woolen carpets (6.86%), juice (5.53%), and cardamom (5.51%).<sup>172</sup> Notably, palm oil exports oversaw a drastic decline from NPR 17.29 billion (USD 130

million) to NPR 5.7 billion (USD 40 million), whereas, electricity exports surged from NPR 8.43 billion (USD 60 million) to NPR 12.43 billion (USD 90 million) during the review period.<sup>173</sup>

**Figure 10. Total Imports, Exports, and Trade Balance during the First Nine Months of the Last Five FYs**

Source: Current Macroeconomic and Financial Situation of Nepal ending mid-April FY 2021/22 AD (2078/79 BS) to FY 2023/24 AD (2080/81 BS)<sup>174</sup>



### Balance of Trade

In the past quarter, Nepal continued to grapple with a substantial trade deficit, albeit showing a slight improvement. During the first nine months

of FY 2023/24 AD (2080/81 BS), the trade deficit stood at NPR -1,053 billion (USD -7.91 billion), compared to NPR -1,083 billion (USD -8.14 billion) in the corresponding period of FY 2022/23 AD (2079/80 BS).<sup>175</sup>

Notably, Nepal recorded a trade deficit with 127 out of its 154 trading partner countries.<sup>176</sup> Moreover, the persistently low ratio of exports-to-imports at 9.76% underscored the hurdles in enhancing export

competitiveness without structural reforms.<sup>177</sup> The share of the trade deficit with India remained relatively stable at 61.87%.<sup>178</sup> However, the share of the trade deficit with China increased from 14.94% to 20.38% whereas the share with other countries excluding India decreased from 23.14% to 17.75% during the review period.<sup>179</sup> This shift can be traced to a growing dependency on imports of Chinese goods as China's share in total imports increased from 13.52% to 18.57% whereas imports from other countries excluding India declined from 23.75% to 18.93% during the review period.<sup>180</sup>

### Gold/ Silver Updates

According to the Federation of

Nepal Gold and Silver Dealers' Association, the price of standard gold (24K) is NPR 141,500 (USD 1064.47) as of early June 2024.<sup>181</sup> This is the maximum price of gold in this quarter. Compared to the maximum of NPR 121,400 (USD 913.26) in the previous quarter, it is a 16.5% increase. This is mostly due to the increase in customs on the import of gold from 15% to 20% in the upcoming FY 2024/25 AD (2081/82 BS), as outlined in the recent budget.

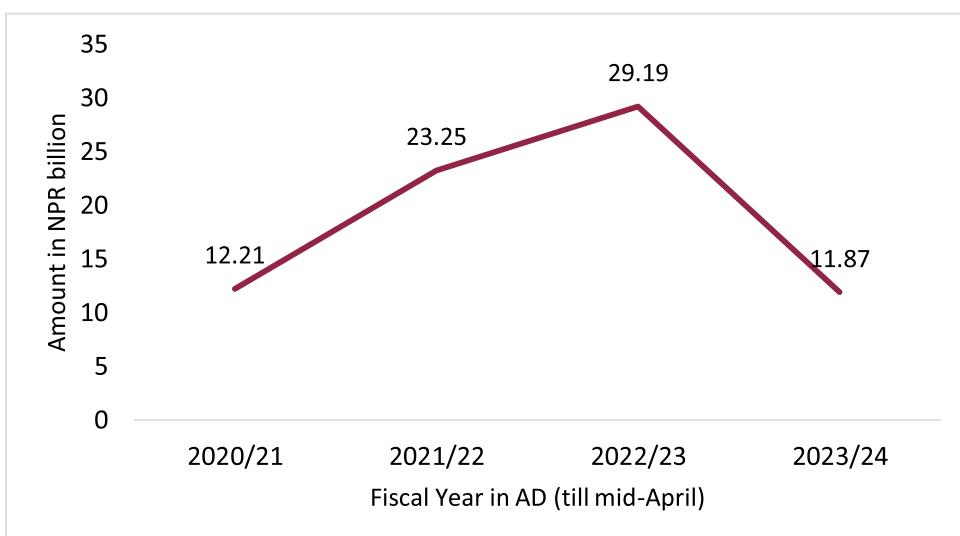
The import of gold for the first nine months of FY 2023/24 AD (2080/81 BS) stands at NPR 17.74 billion (USD 133.45 million), which is a 52.4% decrease compared to the same period in the previous fiscal year.<sup>182</sup> The decrease in the import of gold is largely due

to the daily quota imposed by the government, which allowed Nepali gold traders to import only 20 kilograms of gold per day.

Due to the increase in the price of precious metals in the international market, the price of silver has also been increasing alongside gold. The price of silver stands at NPR 1875 (USD 14.1) as of the end of May 2024, which is a 34.4% increase from the same period in the previous year.<sup>183</sup> The import of silver in the first nine months of FY 2023/24 AD (2080/81 BS) stands at NPR 27.88 billion (USD 209.73 million). Compared to the previous year, it is about 66.5% increase.<sup>184</sup>

**Figure 11. Gold Imports over the Last Four Fiscal Years (in NPR billion)**

Source: Current Macroeconomic and Financial Situation of Nepal ending mid-April FY 2021/22 AD (2078/79 BS) to FY 2023/24 AD (2080/81 BS)<sup>185</sup>

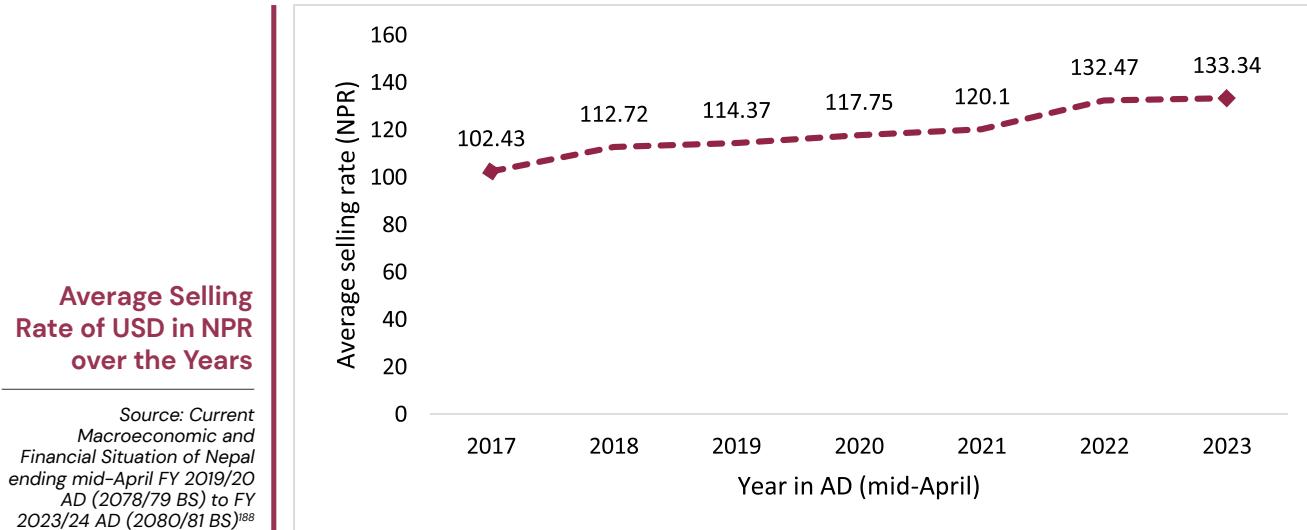


### Exchange Rate

Nepali currency depreciated by 1.63% against the USD from mid-April 2024 to mid-April 2023. The buying exchange rate per US dollar stood at Rs.132.80 in mid-April 2024 compared to Rs.130.67 in mid-April 2023.<sup>186</sup> Of the total

foreign exchange reserves, the reserves held by NRB increased 25.4 percent to NPR 1688.21 billion (USD 12.70 billion) in mid-April 2024 from NPR 1345.78 billion (USD 10.12 billion) in mid-July 2023.<sup>187</sup> This growth can be credited to the increasing outflux of Nepali workers who then send

money back home. However, this is likely a short-term phenomenon that has raised concerns about the sustainability of the forex reserves.



## Outlook

The budget for FY 2024/25 AD (2081/82 BS) positions Nepal for a transformative fiscal year ahead, focusing on economic reform and targeting economic growth of 6%. With an expansionary budget size of NPR 1.86 trillion (USD 13.98 billion), this fiscal year's budget marks a substantial 21.56% rise compared to the previous year's mid-term revised figure of NPR 1.53 trillion (USD 11.5 billion). If not implemented well on time, the new budget might also need revision after the mid-term review. Given the new initiatives and strategies, the budget is likely to drive progress in agricultural modernization, energy self-sufficiency, and IT sector expansion, potentially boosting productivity and job creation. However, historical underperformance in capital expenditure, increased internal debt, and weak implementation may hinder achieving these ambitious goals.

On the external front, the positive momentum in foreign direct investment, driven by policy reforms such as the automated approval system, is expected to foster growth. Contributions from international agencies like USAID, the World Bank, and UNDP will continue to support Nepal's development projects on various fronts, such as gender-based violence response, financial sector stability, education, and climate adaptation. Moreover, the continuous surge in remittances will imply that foreign exchange reserves will continue to rise. Additionally, the rise in China's share in Nepal's trade from 12.36% to 17.08% signals a future shift in trade dynamics. However, Nepal's economy will remain vulnerable to global market volatility, particularly currency depreciation and rising gold and silver prices.

# 3

## Sectoral Review



# Agriculture and Livestock

Nepal's agriculture sector saw significant changes this quarter, which spanned from March to May 2024. In the fiscal budget for FY 2024/25 AD (2081/82 BS), the government declared the period of 2045-55 AD (2081-91 BS) as the "agricultural investment decade" with support for various programs such as contract farming and infrastructure development. However, the budget for the sector was also marked by a 2.9% reduction which raised significant concerns about resource allocation. The budget cut also raised concerns due to the fact that existing challenges like unpaid insurance subsidies have left farmers vulnerable during the monsoon season and climate change has jeopardized yields with erratic rainfall and increased pests. Nevertheless, despite these hurdles, the sector also witnessed positive developments unrelated to the government such as the women of Gulmi thriving in agriculture and even potentially attracting migrant workers back home.

| FACTSHEET                                                                                    |                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Particulars                                                                                  | Amount/Percentage                                                                                                                                                                                             |
| Agriculture sector's contribution to GDP                                                     | 24.0% <sup>189</sup>                                                                                                                                                                                          |
| Growth rate for agriculture                                                                  | 3.05% <sup>190</sup>                                                                                                                                                                                          |
| Food and Beverage CPI 2023/2024                                                              | 5.9% <sup>191</sup>                                                                                                                                                                                           |
| Year-on-year price increase of coarse rice                                                   | 21.4% <sup>192</sup>                                                                                                                                                                                          |
| Year-on-year price increase of medium-grain rice                                             | 11.0% <sup>193</sup>                                                                                                                                                                                          |
| Year-on-year price increase of apple                                                         | 17.6% <sup>194</sup>                                                                                                                                                                                          |
| Year-on-year price increase of milk                                                          | 4.7% <sup>195</sup>                                                                                                                                                                                           |
| Year-on-year price increase of fish                                                          | 8.9% <sup>196</sup>                                                                                                                                                                                           |
| Year-on-year price increase of carrots                                                       | 18.1% <sup>197</sup>                                                                                                                                                                                          |
| Year-on-year price increase of black beans                                                   | 15.0% <sup>198</sup>                                                                                                                                                                                          |
| Year-on-year price decrease of oranges                                                       | -7.60% <sup>199</sup>                                                                                                                                                                                         |
| Year-on-year price decrease of mustard oil                                                   | -13.2% <sup>200</sup>                                                                                                                                                                                         |
| Year-on-year price decrease of soybean oil                                                   | -20.1% <sup>201</sup>                                                                                                                                                                                         |
| Top 3 agricultural commodities imports (based on nine months' data ending in mid-April 2024) | Rice/paddy: NPR 17.5 billion (USD 131.23 million) <sup>202</sup><br>Edible oil: NPR 12.9 billion (USD 97.02 million) <sup>203</sup><br>Crude soybean oil: NPR 10.9 billion (USD 81.34 million) <sup>204</sup> |
| Top 4 agricultural commodities exports (based on nine months' data ending in mid-April 2024) | Juice: NPR 6.30 billion (USD 47.98 million) <sup>205</sup><br>Cardamom: NPR 6.28 billion (USD 47.27 million) <sup>206</sup><br>Palm oil: NPR 5.71 billion (USD 43.00 million) <sup>207</sup>                  |

## PRODUCTION UPDATES

### Lumbini Province Witnesses Irrigation Challenges

Lumbini province has seen a significant decrease of 50% in the area allocated to growing spring paddy due to a lack of irrigation and an increased amount of migration. While in FY 2022/23 AD (2079/80 BS), spring paddy plantation covered 3,038 hectares in the province, this reduced to 2,677 hectares in FY 2023/24 AD (2080/81 BS).<sup>208</sup> Due to the fact that spring paddy needs better irrigation, most farmers plant it only during the summer rains, despite paddy being one of the major sources of food grain in Nepal. However, this is not a problem local to the province. Even though 1.44 million hectares of land in the country is suitable for growing paddy, Nepal only utilizes a small portion, around 104,712 hectares, for spring paddy cultivation.<sup>209</sup>

## EXPORT AND IMPORT OF AGRO-COMMODITIES

### Large Cardamom Price Surges due to Limited Supply

In the first week of March 2024, the price of large cardamom witnessed a surge to NPR 2075 (USD 15.61) per kilogram as compared to the price of NPR 1250 (USD 9.40) in August 2023.<sup>210</sup> This surge has been attributed to a limited supply due to the presence of greater demand despite lower production of the spice in India and Bhutan following unpredictable weather patterns and rising pest and disease outbreaks caused by climate change. In the past year itself, the production of the spice saw a 60% decrease. However, while the

increase in prices is noteworthy because large cardamom is one of the biggest exports from Nepal, this doesn't necessarily lead to higher income for the cardamom farmers themselves, particularly those in districts like Ilam, Panchthar, Taplejung, Sankhuwasabha, Tehrathum, Bhojpur, and Dhankuta, where cardamom is their main source of livelihood.<sup>211</sup>

### Karnali's Organic Province Status Undermined by Reliance on Imports

In 2018, as per the Karnali Province Agriculture Act, the province was declared to be an organic province to expand organic farming and improve farm efficiency.<sup>212</sup> However, despite this move and the subsequent increase in organic agricultural production, more than half of the province's food grains, fruits, and vegetables come from imports, with an additional 30% sourced from other provinces in Nepal. In the first six months of FY 2080/81 BS (2023/24 AD) itself, while food exports from Karnali amounted to NPR 710 million (USD 5.34 million), the import of agricultural products amounted to NPR 710 million (USD 5.34 million).<sup>213</sup> The major causes behind this have been the lower cost of agricultural imports, a lack of testing facilities in Karnali, seasonal production and the fact that only 75% of the 299,399 hectares of farmland in Karnali is cultivated. While the government has annually allocated NPR 5 billion (USD 37.61 million) to programs that foster self-sufficiency in the province, this has not addressed most of the challenges faced by farmers in Karnali.<sup>214</sup>

## LIVESTOCK UPDATE

### DDC Receives Concessional Loan to Pay Dairy Farmers

In the last quarter, the state-owned Dairy Development Cooperation (DDC) and the private sector had an overdue payment of NPR 7 billion (USD 52.66 million) to dairy farmers across Nepal, leading to protests being staged in the capital by numerous dairy farmers.<sup>215</sup> The corporation owed a total of NPR 1 billion (USD 7.58 million) to the farmers, with farmers in East Nepal deprived of payment for more than a year.<sup>216</sup> In order to tackle these problems, in March, the Ministry of Agriculture and Livestock provided a concessional loan of NPR 300 million (USD 2.26 million) to DDC to pay back farmers.<sup>217</sup> However, despite this and the government promising to settle dues by April 3, some farmers have still not received their payments as of April 9.<sup>218</sup>

Thus, the disagreement between dairy farmers and the DDC has continued as farmers claim the dairy earns enough to pay them, with the corporation reporting a net profit of NPR 50 million (USD 376,138) in the second half of 2023 AD. Meanwhile, the corporation cites the deteriorating quality of raw milk has led to them adding powdered milk, thereby increasing the cost of production.<sup>219</sup>

## GOVERNMENT PLAN UPDATES

### Government Announces Agriculture Decade in New Budget

In the FY 2024/25 AD (2081/82 BS)

budget, announced on May 28, 2024, the government declared that FY 2024/25 AD (2081/82 BS) to FY 2034/35 AD (2091/92 BS) would be observed as an “Agriculture Decade”. Through this move, the government aims to improve investment in the sector through partnerships with

the government, cooperatives, and private sector.<sup>220</sup> In addition, the government also plans to promote contract farming to stabilize the market and prices; provide government land for collective farming; and provide legal provisions for the commercial cultivation of

medicinal marijuana.<sup>221</sup> In order to facilitate this Agriculture Decade, the government has also allocated a large percentage of the new budget to physical infrastructure projects in agriculture, as shown in Table 6.

**Table 6. Budget Allocation for Physical Infrastructure Projects in the Agriculture Sector**

| Particular                                                                                                                     | Allocated Budget                                      |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Development of hydropower and water resource irrigation                                                                        | NPR 36.81 billion (USD 276.91 million) <sup>222</sup> |
| Karnali Irrigation Development Program                                                                                         | NPR 820 million (USD 6.89 million) <sup>223</sup>     |
| Sunkoshi Marin Diversion                                                                                                       | NPR 23.12 billion (USD 23.47 million) <sup>224</sup>  |
| Lamki main canal – branch canal construction                                                                                   | NPR 2.87 billion (USD 21.59 million) <sup>225</sup>   |
| 300 start-ups working on agriculture production near the highways (ensuring market availability and commercialize agriculture) | NPR 1.12 billion (USD 8.43 million) <sup>226</sup>    |

However, despite declaration of the “Agriculture Decade” and positive moves towards improving the sector, the budget allocated to the sector for FY 2081/82 BS (2024/25 AD) witnessed a 2.9% reduction as compared to the previous year’s budget.<sup>227</sup> Within this, a notable decrease in the budget allocation has been in regards to the purchase of chemical fertilizers. As per the new budget, NPR 27.95 billion (USD 210 million) has been allocated to buy chemical fertilizers, a 6.8% reduction as compared to the previous fiscal budget.<sup>228</sup> This has raised concerns among farmers as the reduction in chemical fertilizers will impact the crop efficiency in the paddy plantation season, leading to lower paddy output.<sup>229</sup>

## KEY DEVELOPMENTS

### Unpaid Government Subsidies Stall New Policies and Claims

According to the Farmers Group Federation and Nepal Kisan Federation, the Government of Nepal has not paid subsidies worth NPR 2.5 billion (USD 18.81 million) for agriculture insurance fees since March 2023.<sup>230</sup> This has resulted in insurance companies delaying the sale of new agricultural insurance policies as well as the payment of such insurance claims. This is particularly worrying as the monsoon season presents various threats like heavy rains, floods, and potential barn roof collapse which in turn jeopardizes crops and livestock and should, thereby, be covered

by insurance. Despite the gravity of the situation, the issue has not been properly addressed by The Nepal Insurance Authority, which has further made the insurance companies reluctant to resume sales until the government pays them the subsidy.<sup>231</sup>

### Gulmi Women Becoming Increasingly Independent due to Agriculture

According to the 2023 agriculture census report by the National Statistics Office (NSO), the number of female-headed households in Nepal has risen significantly – from 19% in 2011 to 32.4% in 2023.<sup>232</sup> This translates to over 1.3 million women becoming the primary earners and decision-makers within their families. A noteworthy example

of this has been in Gulmi where a trend of women's success in agriculture is emerging whereby many women are not only thriving in this field but also convincing their husbands to return from migrant work abroad citing the

opportunities that agriculture holds.<sup>233</sup> Initially, while economic pressure pushed women in the area to seek alternative sources of income with agriculture emerging as a viable option, now, women farmers in Gulmi not only

farm traditional crops but also manage diverse farms and raise cows, buffaloes, goats, poultry, and have even ventured into coffee and honey production.<sup>234</sup>

## Outlook /

The agricultural sector in Nepal is facing multiple challenges and opportunities. While it contributes significantly to the country's GDP, with a growth rate of 3.05% in comparison to FY 2079/80 BS (2022/23 AD), various factors such as unpaid government subsidies, climate change, market fluctuations, and irrigation problems pose significant obstacles to its sustainability and growth. Recognizing the sector's importance, while the government has designated the next decade as the "Agriculture Decade," demonstrating its commitment to fostering investment in agriculture, the move of decreasing the budget allocated to the sector is contradictory to the positive steps. Overall, while there are promising initiatives and a clear recognition of agriculture's importance, the sector still faces challenges that need to be addressed to ensure its growth.

## CREATIVE INDUSTRY IN THE AGRICULTURE AND LIVESTOCK SECTOR

### Private Sector Transforming Nepali Agriculture

Private initiatives in Nepal are leaning towards creative innovations to produce and market agricultural products. For instance, Mutta, an agro-tech company, is growing hydroponics on the outskirts of Kathmandu.<sup>235</sup> By utilizing vertically layered systems, they significantly increase production efficiency, using less land to cultivate more nutrient-rich products.<sup>236</sup> Similarly, another private initiative – Khatapana – is pioneering the digitization of the agriculture sector. This company provides financial management services, enabling farmers to plan agricultural activities by tracking expenses and revenue to make informed decisions.<sup>237</sup> Khatapana believes that effective financial management can help farmers transition from subsistence farming to a profitable occupation.<sup>238</sup>

Kathmandu Organics is another initiative using the creative industry for agriculture. This company links the smallholder farmers to the consumers through their apps, mitigating the use of preservatives and artificial colors. Currently, Kathmandu Organics has reached 50 districts of Nepal, establishing a supply chain of high-quality agricultural products using natural processes and traditional farming techniques. These private sector initiatives not only enhance agricultural productivity and profitability but also promote sustainable practices and empower local farmers through technology and innovation. By supporting sustainable agriculture and economic growth, these initiatives contribute significantly to the overall development of Nepal's agricultural sector.

# Education

Nepal's education sector was a focal point of political discourse this quarter following debates on the Education Bill 2080 and the appointment of Sumana Shrestha as the new Education Minister. While many steps were taken by the new minister's administration and other government organizations to make the education scenario better, many schools continued to fare badly in the quarter. For example, public schools across Nepal continued to struggle with student enrollment, as over 50% of these schools reported having fewer than 100 students. Due to this shortage of students and an additional shortage of staff, there were also instances such as that of community schools in Shuklaphanta Municipality in Kanchanpur which had to merge. In order to tackle problems like these, the budget for FY 2024/25 AD (2081/82 BS) was unveiled, allocating NPR 203.66 billion (USD 1.53 billion) to the Ministry of Education, Science, and Technology for various plans and programs.

## KEY DEVELOPMENTS

### KMC Expands Capacity to Teach Additional Students

In the past quarter, the Kathmandu Metropolitan City (KMC) worked proactively to improve the education sector. Firstly, it expanded its capacity to accommodate an additional 12,000 students for the academic session of 2081/82 BS (2024/25 AD). While in the previous year, approximately 39,952 students had been enrolled, through the KMC's actions, 47,694 students can be enrolled from early childhood development to grade 10.<sup>244</sup> Besides this, in order to improve the public

education, KMC also increased its investment in educational reforms, allocating approximately NPR 2.75 billion (USD 20.68 million) for the sector this year. This includes NPR 922.9 million (USD 6.94 million) for regular programs, NPR 50 million (USD 376.22 thousand) for the KMC Pride Project (Mahanagar Gaurav Yojana) focusing on education, and another NPR 50 (376.22 thousand USD) million for the Swarnim Yojana. Of the total, NPR 1.47 billion (USD 11.05 million) will be raised from internal sources, while NPR 1.27 billion (USD 9.55 million) will come from various associations which have not yet been disclosed.<sup>245</sup>

| FACTSHEET                                                                                       |       |
|-------------------------------------------------------------------------------------------------|-------|
| Indicators                                                                                      |       |
| Mean years of schooling <sup>239</sup>                                                          | 5.1   |
| Net enrolment rate at secondary level (class 9–12) <sup>240</sup>                               | 57.9% |
| Retention rate up to grade 12 <sup>241</sup>                                                    | 37.2% |
| Literacy rate (5 years and above) <sup>242</sup>                                                | 76.2% |
| Ratio of gender equality (female/male based on the secondary net enrolment rate) <sup>243</sup> | 0.93  |

### Textbooks Reach All Districts in Time

This year, as with the previous year, public schools received textbooks on time unlike what used to happen earlier. Three days before the start of this year's academic session, the Janak Shiksha Material Center distributed textbooks of all subjects to the 77 districts through nine sales centers across the country.<sup>246</sup> For the timely delivery, the center printed and sold 17.5 million books for grades 5 to 12. Meanwhile, the task of printing and distributing textbooks for classes grades 1 to 4 was entrusted to the private

sector. The timely distribution aligned with the efforts of Prime Minister Pushpa Kamal Dahal and Education Minister Sumana Shrestha to ensure that books reached the market before the academic session began.<sup>247</sup>

### Kanchanpur's Community Schools Undergo Mergers

Over the past quarter, many schools in Kanchanpur underwent mergers due to the shortage of students and staff in schools. Shantipur Basic School and Dharma Janata Secondary School in Shuklaphanta Municipality merged due to the fact that the former school has only had three teachers and 15 to 20 students for many years.<sup>248</sup> Similarly, Milan Basic School also merged with Shivashakti Secondary School because the former had only one teacher for 14 students.<sup>249</sup> Unfortunately, this is not a situation unique to these schools. Many schools across Kanchanpur had to merge or downgrade due to these very problems of an imbalance in the teacher-student ratio.

### Rolpa Schools Teaching Students Livelihood Skills

Recently, the Siddhartha Secondary School in Jinabang, Palpa, launched its 'Kamaundai Padhdai' or the 'Earn as You Learn' campaign which is operated by The Ministry of Labour, Employment and Social Security.<sup>250</sup> The aim of the program is to equip students with academic knowledge as well as practical skills, such as learning how to make bamboo baskets, in order to make them self-reliant. In 2023, as part of this program, a group of 46 students earned NPR 350,000 (USD 2,632.96) by

selling the potatoes they had grown. While the program has not been adopted by most schools across Nepal, Siddhartha school's approach has helped increase its popularity throughout the district which will hopefully translate to more schools embracing this initiative.<sup>251</sup>

## PLANS AND PROGRAMS

### 2081/82 BS (2024/25 AD) Budget Increases Allocation to the Education Sector

In the release of the budget for FY 2024/25 AD (2081/82 BS), on May 28, the finance minister demonstrated the government's strong commitment to the education sector, as a total of NPR 203.66 billion (USD 1.53 billion) was announced to have been allocated to the Ministry of Education, Science, and Technology. This is a 3.23% increase from last year's NPR 197.29 Billion (USD 1.48 Billion) budget. The budget for the sector, which is almost 11% of the total budget size, has been assigned for the implementation of various educational programs and the promotion of practical and quality education.<sup>252</sup> A notable aspect of this budget is the allocation of NPR 600 million (USD 4.51 million) to provide scholarships to low-income and marginalized families for students in grades 6 through 12. Previously, these scholarships were only available to students in grades 9 to 12. This expansion is expected to benefit an additional 45,000 students. Furthermore, the government's focus on increasing access to education has been made further evident in its plans to increase the mid-day meal allocation in districts such as Humla, Jumla,

Mugu, Dolpa, and Kalikot, which is expected to motivate parents to send their children to school. Addressing the need of the hour, through the budget, the government also expressed its target to motivate students to follow careers aligned with their interests and skills by offering career counseling starting at the school level.

### Government Enforces Stricter Actions Against Politically Active Teachers

On April 17, 2024, the Ministry of Education, Science and Technology announced their intensified efforts to not only track down, but also enforce stricter regulations against teachers, professors and government employees involved in political activities.<sup>253</sup> This enforcement follows the fact that there have been an increasing number of complaints of teachers being politically involved that have persisted even after an order from Patan High Court prohibiting school teachers to engage in active politics on October 2, 2021.<sup>254</sup> The court ruling had aimed to ensure that the teachers prioritize their educational responsibilities, as political involvement was seen to divert their attention from teaching responsibilities, compromising students' studies and future prospects.<sup>255</sup> To address the issue, in accordance with the existing law, the Ministry of Education, along with support from the Election Commission, intensified their efforts to collect evidence to take action against the violators by dismissing teachers and professors who are found to have been involved in any active political party.<sup>256</sup>

## KMC Presses Schools to Reflect Nepali Identity in Names

After issuing a one month ultimatum on March 29 2024, the Kathmandu Metropolitan City (KMC) issued another notice on April 3, 2024 urging institutional schools within the jurisdiction to adopt names that reflect and resonate with Nepali culture and identity.<sup>257</sup> The directive was issued as per Rule 154 (1) of the Education Regulations, 2059 BS (2002 AD), and Rule (70) of the KMC School Education Management Regulations 2018, which mandates that schools must adopt names that reflect the

Nepali identity.<sup>258</sup> KMC cautioned the educational institutions that failure to comply with the directive would result in a halt of the student enrollment process and further actions against the institutions.<sup>259</sup> It is noteworthy that the KMC Education Department had issued a similar notice on April 30 2023, to bring uniformity in the school names and logos.<sup>260</sup> But many schools did not comply due to concerns over branding and potential loss of reputation following name changes which led to several private schools relocating to neighboring municipalities.<sup>261</sup> This time however, in response

to the notice, around 200 private schools applied to change their names by April 16, 2024.<sup>262</sup> Notably, although more institutions are willing to change their names, there has been some confusion for the schools running plus two and bachelor programs with certificate-missing students on whether their documents should be issued under the old name or the new one. Thus, for schools facing this confusion, until officials have worked out a solution, leniency has been granted in this matter.

## Outlook //

Recent developments in Nepal's education sector from March to May 2024 present both challenges and opportunities for the country. The merger of community schools in Kanchanpur due to teacher and student shortages highlighted ongoing difficulties in rural education, thereby emphasizing the need for targeted support. Conversely, Kathmandu Metropolitan City's initiatives to expand student intake and the Ministry of Education's successful approach to ensure timely textbook delivery demonstrated a commitment to improving infrastructure, which could lead to better learning outcomes. Additionally, the introduction of livelihood skills education in Rolpa can be seen as a significant step forward, enhancing students' employability. Moreover, the increased budget for FY 2024/25 AD (2081/82 BS) offers substantial potential for progress, contingent on effective implementation and maintenance of projects.

## CREATIVE INDUSTRY IN THE EDUCATION SECTOR

### Minister for Education Unveils 'Center Randomized' Exam Center Allocation Code

Minister for Education, Science, and Technology Sumana Shrestha recently publicized a GitHub account sharing a new source code named 'Center Randomized'.<sup>263</sup> This Python-based code is designed to automate the assignment of examination centers for students, with an initial pilot phase for class 12 in Kathmandu. The software aims to eliminate irregularities and systematically designate exam centers within a two-kilometer range of their schools. Minister Shrestha emphasized that this technology will save time and human resources compared to the current manual system, enhancing efficiency and reducing administrative burdens.

Considering GitHub is a developer platform that allows developers to create, store, manage, and share their code, this move allows for proper transparency and accessibility in regards to something that is essential to all students. Not only is this initiative by the Ministry of Education a step towards modernizing educational infrastructure, it is also a significant learning opportunity for students and other sectors within the government to improve systems in the country. Thus, continued support and refinement of such initiatives could lead to sustainable benefits and enhanced efficiency in educational administration and beyond.

# Energy and Environment

During the review period (March 1 to May 31), Nepal faced severe environmental challenges, including hazardous air quality, widespread wildfires, and escalating drought conditions, which adversely affected public health, biodiversity, and ecological stability. In the face of these adversities, Nepal maintained its proactive stance seen in the previous review period by making strides in its energy sector. Notably, an investment of NPR 53 million (USD 398.78 thousand) was confirmed for the Upper Arun hydropower project which, with Nepal's first accredited assessor now appointed, can be evaluated according to the Hydropower Sustainability Standards. International collaborations further bolstered Nepal's energy sector, including the electricity export tariffs' agreement with Bangladesh, renewed trade agreements with India, and partnerships with the EU for rural electrification. Additionally, the introduction of 40 new electric buses and nine charging stations across the country promoted sustainable mobility. Moreover, Nepal's budget for FY 2024/25 AD (2081/82 BS) was announced which encompasses provisions to boost electricity capacity, promote renewable energy, engage the private sector in sustainable energy, impose green taxes, and allocate funds for environmental conservation, highlighting the country's commitment to transition towards energy security.

## POLLUTION RISKS AND MANAGEMENT

### Hazardous Air Quality Raises Health Concerns

Kathmandu's Air Quality Index (AQI) exceeded the WHO's safe limit of 50  $\mu\text{g}/\text{m}^3$  during April

and May 2024, soaring over 400  $\mu\text{g}/\text{m}^3$ , thereby ranking the city as the most polluted city in the world.<sup>270</sup> According to experts, this deterioration in air quality is attributed to transboundary pollution from India and China; rampant forest fires across Nepal; agricultural residue burning;

## FACTSHEET

### Indicators

|                                                                                      |                                                      |
|--------------------------------------------------------------------------------------|------------------------------------------------------|
| Total Petroleum Product Imports (based on annual data of FY 2023/24 AD (2080/81 BS)) | NPR 218.78 billion <sup>264</sup> (USD 1.64 billion) |
| Peak Energy Demand (in the month of Falgun 2080 (Feb-Mar 2024))                      | 1860 MW <sup>265</sup>                               |
| Total Electricity Capacity (for FY 2023/24 AD (2080/81 BS))                          | 4500 MW <sup>266</sup>                               |
| Peak Energy Generation (August 2023)                                                 | 1230 MW <sup>267</sup>                               |
| Highest Energy Import (in the month of Falgun 2080 (Feb-Mar 2024 AD))                | 643 MW <sup>268</sup>                                |
| Total Domestic Energy Consumption (2023)                                             | 10,693 GWh <sup>269</sup>                            |

and vehicular emissions.<sup>271</sup> The severe air pollution led to widespread health issues, including a significant rise in respiratory and cardiovascular hospital visits, and disrupted tourism, particularly in Pokhara.<sup>272</sup> However, despite the problems that poor air quality poses and

despite Kathmandu Valley's Air Pollution Management Action Plan mandating a public health emergency declaration when AQI exceeds 300, authorities did not enforce this measure.<sup>273</sup> This is due to the fact that this provision is yet to be implemented since its approval by the Council of Ministers in February 2020.<sup>274</sup>

### Wildfires Ravage Across Nepal

Nepal witnessed nearly 5000 incidents of forest fires engulfing over 2300 hectares of forest land during the pre-monsoon season from March to May 2024.<sup>275</sup> These wildfires were often sparked by burning crop residue or discarded cigarette butts.<sup>276</sup> In response to the crisis, the Nepali army deployed 12,500 personnel, with additional support from the Armed Police Force, Nepal Police, and local communities.<sup>277</sup> During the wildfire, at least ten lives were lost and several people were injured.<sup>278</sup> Notably, despite recognizing forest fires as a disaster, the government's failure to officially classify fire victims as disaster victims has hindered the provision of adequate support for those affected.<sup>279</sup>

### Drought Emerges as the Leading Climate Stressor

The first half of 2024 saw minimal rainfall in Nepal, which failed to sufficiently moisten the soil or effectively curb wildfires, and even exacerbated air pollution.<sup>280</sup> This is an indication of the growing threat of unprecedented weather patterns, particularly

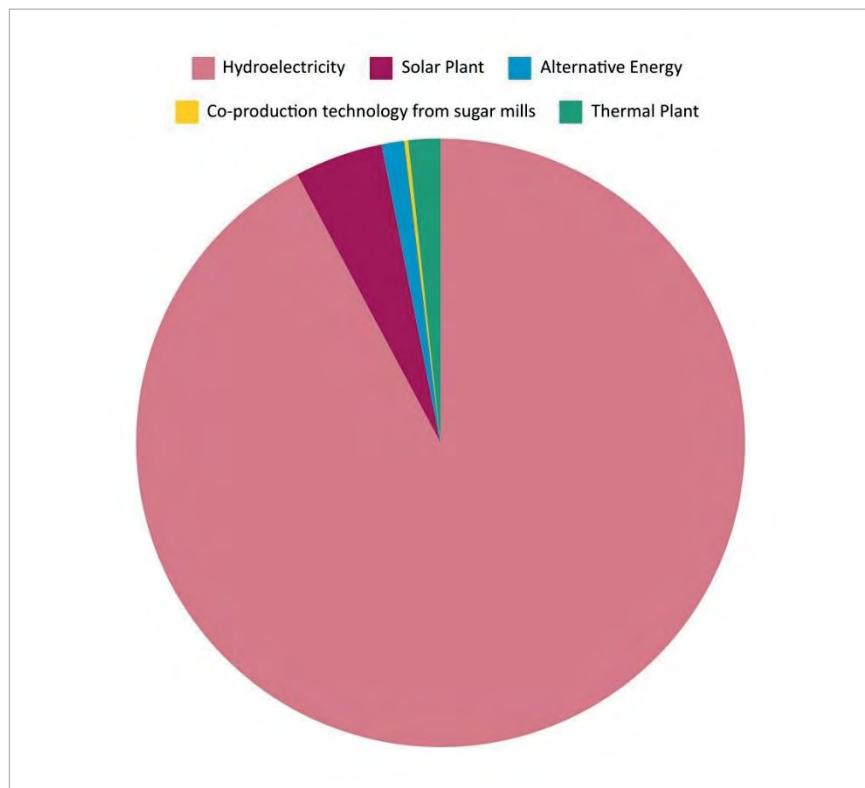
droughts, due to climate change. According to the National Climate Change Survey 2022 released by the National Statistics Office (NSO) in May 2024, droughts are the predominant climate stressor in Nepal as they have led to a host of problems.<sup>281</sup> These prolonged dry spells have led to reduced crop yields, heightened pest activity, and dwindling water supplies, affecting nearly 65% of households over the past 25 years.<sup>282</sup> As global warming escalates, the likelihood of severe droughts and floods rises and poses significant risks to food security, forest fires, and water availability for the future generations.<sup>283</sup>

## ENERGY PRODUCTION AND TRADE

### Investment Totaling NPR 99.20 Billion (USD 746 million) Approved for Four Renewable Energy Projects

Nepal has been making many advances in its energy sector, particularly in terms of hydroelectricity, which constitutes 92% of total power as of May 2024, as seen in Figure 13. In alignment with this progress, in the past quarter, the country signed agreements for three new hydroelectric projects and a solar project prior to the third Investment Summit. On April 4, 2024, during the 57<sup>th</sup> board meeting of the Investment Board of Nepal (IBN), chaired by Prime Minister Pushpa

Kamal Dahal, an investment totaling NPR 99.20 billion (USD 746 million) was approved for these four major energy projects. Of the NPR 99.20 billion (USD 750 million), the 166 MW Super Tamor Project will receive NPR 34.59 billion (USD 260 million), the 42 MW Upper Modi-A Project will receive NPR 10.08 billion (USD 76 million), and the 139.2 MW Lower Manang Marsyangdi Hydro Project will receive NPR 33.41 billion (USD 251 million). Additionally, the 250 MW Solar Plant in Kohalpur and Banganga will receive NPR 21.10 billion (USD 159 million), funded by Risen Energy Singapore.<sup>284</sup>



**Figure 13. Sources of Power Generation in Nepal**

### Nepal and Bangladesh Finalize Electricity Export Tariff

On May 15, 2023, Nepal and Bangladesh agreed to sign a tripartite agreement involving the Nepal Electricity Authority (NEA), Bangladesh Power Development Board (BPDB), and the NTPC Vidyut Vyapar Nigam Ltd. (NVVN).<sup>286</sup> Since then, the tariff rate and transmission negotiations were underway with NEA officials initially proposing rates of USD 0.067 to 0.069 (NPR 8.90 to 9.17) per unit during discussions in Dhaka and Singapore on January 2024.<sup>287</sup> Following a host of such discussions, on March 12, 2024, during a World Bank event in Singapore, NEA Managing Director Kulman Ghising and BPDB Chairman Mahbubur Rahman finally agreed on a set electricity

export tariff.<sup>288</sup> According to the agreement, Nepal will initially export 40 MW of electricity to Bangladesh, comprising 24 MW from the Trishuli project and 16 MW from another undisclosed power plant, for five years at price ranging from USD 0.0625 to 0.065 (NPR 8.30 to 8.64) per unit, with transactions taking place in US dollars.<sup>289</sup> The electricity will be transmitted to Bangladesh's national grid at Bheramara via the Baharampur transmission line in India as per the tripartite agreement.<sup>290</sup>

### India Renews Medium-Term Electricity Trade Agreement

After prolonged negotiations, on March 28, 2024, India renewed its electricity trade agreement with Nepal for an additional three months. According to the

renewal, India will supply 554 MW of electricity to Nepal (out of the 650 MW of electricity sought by NEA), but only from 6 AM to 6 PM. This agreement covers 500 MW via the Dhalkebar-Muzaffarpur line and 54 MW through the Tanakpur-based transmission lines. However, it is notable that the renewal came just three days before the previous agreement's expiration on March 31, despite NEA's earlier request for a year-long renewal.<sup>291</sup> Nepal has been buying electricity through the Indian Energy Exchange (IX) market, with a five-year permit renewed annually, since 2022, to relieve power shortages especially in the dry season/winter when domestic electricity production is slow. Without the import of the needed 600 MW from India during the dry season,

the energy ministry often warns of potential a 10-hour load-shedding.<sup>292</sup>

## HYDROPOWER

### Investments in Upper Arun and Dudh Koshi Hydropower Projects Begin

Building up on the objectives outlined in the Memorandum of Understanding (MoU) signed during COP28 in the previous quarter, the World Bank started leading the construction of the 1,063 MW Upper Arun hydropower project from March 3, 2024.<sup>293</sup> This project is estimated to cost USD 1.75 billion (NPR 232.63 billion), with the World Bank planning to contribute USD 550 million (NPR 73.11 billion) and acting as the anchor that attracts investments from other financial institutions.<sup>294</sup> In addition to this, the Government of Nepal will also invest NPR 53 million (USD 398.78 thousand) by sourcing money from domestic banks and financial institutions through co-financing arrangements, with 51% equity raised from the founders of the project and 49% from the public.

Likewise, the Asian Development Bank (ADB) is set to head the construction of the Dudh Koshi Reservoir hydropower project which is expected to produce 3.44 billion units of energy annually.<sup>295</sup> The estimated cost of its construction is projected at USD 2.2 billion (NPR 292.45 billion) with USD 550 million (NPR 73.11) as a loan and USD 30 million (NPR 3.99 billion) as a grant from the ADB.<sup>296</sup> Additional funding will come from the European

Investment Bank and the Asian Infrastructure Investment Bank as well. Thus, the ADB and the World Bank are actively following through with its commitment to strengthen Nepal's hydroelectricity production by spearheading these projects whose constructions are expected to commence from 2026.

### Government Advances Studies for the Development of Hydro Projects

From February 3, 2024, the Department of Electricity Development (DOED) pushed forward the feasibility studies of 20 hydropower projects which had not begun construction due to such pending assessments.<sup>297</sup> These projects aim to produce an estimate of 6,000 MW of hydroelectricity in total, among which eight projects have a capacity of 100 MW each.<sup>298</sup> In addition to this, the department is also conducting the studies of the 1,720 MW Khimti Shivalaya Storage project and the 844 MW Kaligandaki Multipurpose Project which were showcased in the Nepal Investment Summit 2024 in April.<sup>299</sup> Moreover, the feasibility assessments of other significant hydropower projects - namely the Burbang, Kokhajor reservoir-based, Humla Karnali cascade, Kaligandaki-I, Lower Badigad and Mugu Karnali projects - have reached their final stages of evaluation.<sup>300</sup> With the completion of these studies, the government plans to advance with their development which adds on to the variety of existing projects with a total capacity of

5,763 MW which are in different stages of construction.

### Krishna Bahadur Kumal Becomes Nepal's First Accredited Assessor for Hydropower Sustainability Standards

Krishna Bahadur Kumal has marked a key development in Nepal's hydropower electricity industry with his appointment as the nation's first Accredited Assessor for Hydropower Sustainability Standards (HSS) after his completion of specialized training and field assessments on HSS in April 2024.<sup>301</sup> The HSS, launched by the Hydropower Sustainability Council, is a multi-stakeholder group based in Canada which is composed of members of NGOs, governments, and financial institutions from around the world. Through its work, the initiative recognizes hydropower projects for their environment, social and governance (ESG) performances, helps set minimum expectations for the sector, and awards projects for meeting these expectations.<sup>302</sup> On November 2023, three hydropower projects from Nepal - the 9.51 MW Mai Beni Hydropower Station, the 110.20 MW Upper Chuwa Lurupya Khola and the 98.17 MW Chuwa Khola semi-reservoir projects - had received the HSS global certification based on their consideration of environmental and ecological balance during construction, along with their maintenance of transparency in governance.<sup>303</sup> Thus, Kumal, in his new role, will be responsible for assessing more such hydropower

projects to ensure that they conform with HSS standards.

## NEW DEVELOPMENTS

### Sajha Yatayat Strides Towards Greener Transportation

On April 9, Sajha Yatayat marked a milestone in enhancing public transportation efficiency and sustainability by inaugurating Nepal's largest electric vehicle charging station. The new charging station, located in the parking yard of Sajha's Pulchowk office, is equipped with 24 charging points with a total capacity of 1.1 MW. This initiative is part of Sajha's electrification plans that have so far already led to the launch of 40 electric buses in 2024.<sup>304</sup> As part of this electrification plan, the company

has also begun converting diesel buses into electric ones, in collaboration with Solution Plan.<sup>305</sup> Notably, in order to encourage this initiative, the government has invested a total of NPR 3 billion (USD 23 million).

### President Passes Ordinance on Forest and Natural Resources and Wildlife Conservation Act

On April 28, 2024, President Ram Chandra Paudel issued an ordinance amending eight laws to improve the investment climate ahead of the third Investment Summit, as shown in the Table 7.<sup>306</sup> Among these eight law, notably, the amendments to the Natural Resources and Wildlife Conservation Act of 2029 now allows for foreign investment in protected areas

enabling projects like cable car lines in the Annapurna region and a hotel in Rara National Park. Moreover, after declaring national parks as "not highly sensitive", the government has also allowed for the construction of big infrastructure projects in those areas.<sup>307</sup> Contrarily, the amendment to the Forest Act, 2076, has restricted mineral extraction for industries except to specific purposes like forestation or environmental studies. Due to these changes, critics are extremely concerned about the negative impact on conservation and local communities that these changes will bring.<sup>308</sup>

### Amended Acts

|                                                      |
|------------------------------------------------------|
| Land Act, 2021                                       |
| Public-Private Partnership and Investment Act, 2075  |
| National Parks and Wildlife Conservation Act, 2029   |
| Foreign Investment and Technology Transfer Act, 2075 |
| Land Acquisition Act, 2034                           |
| Forest Act, 2076                                     |
| Special Economic Zone Act, 2073                      |
| Industrial Enterprises Act, 2076                     |

**Table 7. Eight Amended Acts in April 28 Ordinance for Better Investment**

Source: Nepal Economic Forum, "Rethinking Reforms: Nepal's Investment Facilitation Ordinance 2081 (2024), Issuu, May 2, 2024.<sup>309</sup>

## 2024 Investment Summit Provides Avenue for Investment in Hydroelectricity by Nepali Diaspora

On April 29, an agreement was signed between Hydro Electricity Investment and Development Company Limited (HIDCL) and the National Coordination Council (NCC) of the Non-Resident Nepali Association (NRNA) to attract investments from Nepali workers abroad to Nepal in hydro sector.<sup>310</sup> The agreement entails the operation of remit hydropower projects which utilizes a part of remittances from the non-resident Nepalis for the hydropower projects as an equity investment.<sup>311</sup> As a part of the remit Hydro Initiative, HIDCL will invest in the Simbuwa Khola (70.3 MW) and Ghunsa Khola (77.5 MW) hydro projects in Taplejung. This initiative was implemented by the third Investment Summit committee aligning with NEA's directive to collect over USD 13 billion (NPR 1.73 trillion) in investments for hydropower generation, transmission, and infrastructure to support electricity exports.<sup>312</sup> Notably, the summit extended an invitation to the non-resident Nepalis by offering incentives in various sectors in accordance to the NRN Bylaws 2009 AD.<sup>313</sup>

## EU and Nepal Join Forces for Global Gateway for Rural Electrification

On May 17, 2024, the European Union (EU) and the Government of Nepal inaugurated a EUR 65 million (NPR 9.33 billion) project titled 'Efficient Transmission of Electricity from Renewable Energy Sources in Nepal' to enhance rural electrification

in the Nuwakot and Rasuwa districts as well as to connect Nepali households with clean, affordable, and reliable energy.<sup>314</sup> This initiative marks a 50-year partnership between the EU and Nepal, and will extend the Chilime-Trishuli 220 kV transmission line by 28 km, adding 78 towers and two new substations at Chilime and Trishuli, aiming to integrate 650 MW of hydropower into the national grid.<sup>315</sup> Led by the EU, this project is co-financed by the Government of Nepal, the German government via its development bank KfW (with a grant of EUR 14 million / NPR 2 billion), the European Investment Bank (through a loan of EUR 25 million / NPR 3.6 billion), and the EU through its Asia Investment Facility (contributing EUR 2.25 million / NPR 323 million).<sup>316</sup> This effort is part of the EU's Global Gateway strategy, which aims to mobilize EUR 300 billion (NPR 43.065 trillion) in investments from 2021 to 2027 in order to address global investment gaps in digital, energy, and transport sectors by creating essential links.<sup>317</sup>

## New Budget Prioritizes Capacity Building in Green Energy

In the NPR 1.86 trillion (USD 13.995 billion) FY 2024/25 AD (2081/82 BS) budget unveiled on May 28, 2024, the Government of Nepal has prioritized significant investment in the energy and environment sectors. The budget has allocated NPR 50.74 billion (USD 382 million) to boost electricity capacity to 4500 MW, up from 3600 MW in the previous budget, by adding 900 MW in the national grid. This expansion aims to increase per capita electricity

consumption from 380 kWh in FY 2023/24 AD (2080/81 BS) to 450 kWh in FY 2024/25 AD (2081/82 BS). Additionally, in response to the water scarcity during dry seasons, some amount of the budget has also been allocated to study six reservoir-based projects.<sup>318</sup> Moreover, the budget has also included programs to encourage private sector participation in constructing transmission line and distribution, promoting clean energy and producing green hydrogen.<sup>319</sup>

Notably, to support environmental sustainability, the budget has also introduced a green tax on petroleum products and coal to reduce carbon emissions. As observed in Table 8, taxes on electric vehicles have also been increased based on their kilowatt capacity. Furthermore, NPR 15.70 billion (USD 118 million) has been allocated to the Ministry of Forests and Environment to support environmental initiatives.<sup>320</sup> Compared to the previous budget, these measures reflect a heightened focus on renewable energy and environmental conservation.

**Table 8. New Tax Provisions for Electric Vehicles in Nepal**

| Motor Capacity   | FY 2024/25 AD (2081/82 BS) Budget |              | FY 2023/24 AD (2080/81 BS) Budget |              | Change in Taxes |              |
|------------------|-----------------------------------|--------------|-----------------------------------|--------------|-----------------|--------------|
|                  | Excise Duty                       | Customs Duty | Excise Duty                       | Customs Duty | Excise Duty     | Customs Duty |
| Up to 50 Kw      | 5%                                | 15%          | 0                                 | 10%          | 5%              | 5%           |
| 50 kW to 100 kW  | 15%                               | 20%          | 10%                               | 15%          | 5%              | 5%           |
| 101 kW to 200 kW | 20%                               | 30%          | 20%                               | 20%          | 0               | 10%          |
| 201 kW to 300 kW | 35%                               | 60%          | 45%                               | 40%          | -10%            | 20%          |
| Above 301 kW     | 50%                               | 80%          | 60%                               | 60%          | -10%            | 20%          |

Source: Ministry of Finance, Budget Speech 2081/82 BS, May 2024.<sup>321</sup>

## Outlook //

Nepal stands at a critical juncture between balancing its energy needs and safeguarding the environment. As a mountainous region, Nepal is particularly vulnerable to the ramifications of global warming which calls for global de-carbonization efforts. Challenges such as transboundary pollution, forest fires, drought, energy access disparities, grid modernization, the recent ordinance allowing investment in protected areas, as well as climate change impacts, amplify the complexity of the task at hand. While private and public sectors collaborate on establishing proper charging stations, heavy taxes on electric vehicles pose additional constraints. Overcoming these challenges requires continued proactive efforts from the government together with the society at large.

In consideration of all this, Nepal's budget for FY 2024/25 AD charts a course towards boosting electricity capacity from 3600 MW to 4500 MW. This aligns with the government's broader focus on reservoir-based projects, transmission infrastructure, rural electrification, and enhanced power trade agreements with neighboring nations like India and Bangladesh. These strategic initiatives address seasonal energy surpluses, stabilize domestic demand, and explore export opportunities. Additionally, the Remit Hydro initiative, which leverages remittances from the Nepali diaspora complements these efforts by tapping into the additional financial resources. Overall, these concerted efforts signal a positive trend toward sustainability across the energy and environmental sectors of Nepal.

## CREATIVE INDUSTRY IN THE ENERGY AND ENVIRONMENT SECTOR

### Implementation of 3Rs in Environmentally Friendly Concerts

Coldplay has become a notable example in the creative industry for its efforts towards sustainability. This narrative began in 2019 when lead vocalist Chris Martin announced that the band would not tour until they could offer environmentally friendly concerts. "You think there will always be other enterprises or organizations capable of addressing the issue of climate change. But then you realize there is no such thing as them; they are you," Martin proclaimed.<sup>322</sup> This commitment materialized in 2022 with the launch of their "Music of the Spheres" tour, guided by three principles: reduce, reinvent and restore.

The band implemented a 12-point strategy focusing on sustainable logistics, travel, stage performances, electricity, water, waste management, and more.<sup>323</sup> Their innovative measures include kinetic energy floors, power-generating bicycles, the use of advanced biofuel called Sustainable Aviation Fuel in partnership with DHL, and the use of recyclable BMW i3 batteries to power their performances entirely through renewable energy.<sup>324</sup> Additionally, they planted over 5 million trees, one for each ticket sold.<sup>325</sup> After successfully implementing all these efforts, their sustainability report indicated a 47% reduction in carbon emissions compared to 2016.

Coldplay's efforts highlight the potential for sustainability in the creative industry and this model can motivate similar initiatives in Nepal. Currently, concerts and large events are not very sustainable in Nepal. Thus, by learning from initiatives such as those by Coldplay, local artists can blend creativity with environmental care and also make that their unique selling point. By investing in renewable energy sources for large events, community engagement, and partnerships with organizations holding similar values, etc. the creative industry could help Nepal promote a culture of sustainable practices within its vibrant creative landscape.

# Health

During the review period, from March 1 to May 30, 2024, Nepal's health sector faced a mix of persistent issues along with proactive reforms and measures. Health issues from air pollution persisted as in the previous quarter and the situation was further exacerbated by the spread of new COVID sub-variants in parts of Nepal. Despite this, it was also observed that much of the health equipment in the hospitals were either unused or dysfunctional which highlighted the shortfall of Nepal's health infrastructure. While these challenges persisted, the government instead diverted its attention to actively addressing bans on e-cigarettes and two popular Indian spice brands that were deemed to be detrimental to public health. However, on a positive note, the government also introduced key proposals such as extending the civil retirement age, mandating health insurance for organized sectors, and introducing various new programs and campaigns for public health.

| FACTSHEET                                                      |         |
|----------------------------------------------------------------|---------|
| Health Indicators                                              |         |
| Average life expectancy (at birth) <sup>326</sup>              | 71.3    |
| Fertility rate (per woman) <sup>327</sup>                      | 1.9     |
| Infant mortality rate (per 1,000 live births) <sup>328</sup>   | 28      |
| Neonatal mortality rate (per 1,000 live births) <sup>329</sup> | 21      |
| Number of total health facilities <sup>330</sup>               | 7,858   |
| Healthcare workers <sup>331</sup>                              | 102,686 |

## PLANS AND PROGRAMS

### Government Proposes Extension of Civil Service Retirement Age

The Ministry of Federal Affairs and General Administration (MoFAGA) introduced a Federal Civil Service Bill in the House of Representatives on March 5, 2024, to amend the federal civil service regulation, proposing to increase the retirement age of civil servants from 58 years to 60 years.<sup>332</sup> Public administration experts welcomed this proposal as the life expectancy of Nepalese has grown in the last 31 years, when the retirement age was last

set. The current retirement age at 58 years was set as per The Civil Service Act 1993, reflecting the average life expectancy of Nepali people at that time.<sup>333</sup> However, as published in the Nepal National Census 2021, the life expectancy of Nepalis at birth reached 71.3 years in 2021.<sup>334</sup> Besides the increase in life expectancy, another reason for the proposal was to decrease government pension liability, which increased from NPR 37 billion (USD 278.34 million) in FY 2016/17 AD (2073/74 BS) to NPR 75 billion (USD 564.2 million) in FY 2022/23 AD (2079/80 BS). With around 300,000

pensioners, from the civil service, security forces, education sector, intelligence services, judiciary, etc, this growing liability has strained government resources.<sup>335</sup> As a result, the Pension Management Fund is short of NPR 25 billion (USD 188.07 million) to pay pensions, with the Pension Management Office has appealing for more funds from the finance ministry in early February 2024.<sup>336</sup>

### Government Issues Guidelines to Prevent Hospitalization as an Excuse for Avoiding Custody

On May 6 2024, the Ministry of Home Affairs (MoHA) of

Nepal issued comprehensive guidelines to prevent the misuse of hospital admissions by individuals attempting to evade lawful custody.<sup>337</sup> Over the many years, various high-profile individuals, including politicians, businessmen, actors, and athletes, have sought hospital stays for various illnesses following their arrests. This trend continuously sparked criticism over the preferential treatment of individuals, thereby leading the MoHA to take this step. Under the new guidelines, hospital admission will only be permitted if the individual has a genuine physical or mental condition that requires medical attention, as determined by registered medical professionals of Nepal Medical Council (NMC). Additionally, individuals seeking a hospital admission more than 48 hours must provide a valid reason for the extension of stay.<sup>338</sup> While this was considered to be an important step for a better future, NMC noted and recommended that the accused be admitted to state-run health facilities as doctors in private hospitals are more vulnerable to pressure exerted by those attempting to evade lawful custody.

### Government to Expand Child Nutrition Grant Program

During the 'Policy Dialogue on Social Protection and Child Grant in Nepal' event on May 1, 2024, the Ministry of Women, Children, and Senior Citizens announced its plans to expand its child nutrition grant program to cover all 77 districts of the country.<sup>339</sup> The Child Grant was introduced in 2009 AD to provide better nutrition for children below 5 years of age.<sup>340</sup> Currently, as part

of the program, the government distributes NPR 532 (USD 4) to general children below 5 years of age in 25 selected districts, and to children below 5 years of age from Dalit households in all 77 districts.<sup>341</sup> However, considering the growing need of an expansion of the program, the government is committed to broadening the scope of the nutrition grant program and increasing the low grant amount of NPR 532 (USD 4), to ensure that every child in Nepal receives essential nutrition support for healthy growth and development.

## KEY DEVELOPMENTS

### Budget for Health Sector Increases by 2.5%

As part of the annual budget for FY 2024/25 AD (2081/82 BS), the Government of Nepal has allocated NPR 86.34 billion (USD 649.51 million) for the health sector, representing about 4.6% of the total budget.<sup>342</sup> The announced budget allocation is a 2.5% increase from the previous fiscal year, when NPR 83.99 billion (USD 631.91 million) was allocated to the sector.<sup>343</sup> Continuing from the previous budget, the new budget allocation also primarily supports ongoing health programs such as safe motherhood programs and child health programs along with providing financial aid to people suffering from severe diseases or facing expensive treatment plans for certain conditions.<sup>344</sup> Additionally, the budget also includes grants to hospitals like Tribhuvan University Teaching Hospital, Nepal Army Hospital, Nepal Police Hospital, and many more for their operations.<sup>345</sup> Besides this, the government

has further introduced a few new programs and initiatives, such as the establishment of the Sita Dahal Memorial College of Naturo-therapy and Yogic Science under the Kathmandu University.<sup>346</sup>

### Nepal to Implement Ban on Vapes and E-Cigarettes

On May 7 2024, the National Health Education, Information and Communication Center (NHEICC) initiated the process to ban e-cigarettes and vapes in Nepal due to the significant health risks associated with their use, including chronic lung disease, asthma, and cardiovascular disease.<sup>347</sup> This decision comes in response to the import of 3.2 million e-cigarettes in FY 2022/23 AD (2079/80 BS) alone, indicating an alarming rise in vape use among Nepalis.<sup>348</sup> A survey conducted by the Nepal Development Research Institute (NDRI) further supported this decision by revealing that 34.1% of the total Nepali population use tobacco in some form, with 18% being youths aged 15 to 24 years old.<sup>349</sup> Among these youths, 58% use e-cigarettes and vapes often under the misconception that e-cigarettes and vapes are healthier alternatives to smoking traditional cigarettes.<sup>350</sup> However this is not true, as excessive use of e-cigarettes and vapes poses similar health risks, as shown in studies such as one from the American College of Cardiology published on April 2 2024, which found that individuals who have used e-cigarettes or vapes at any point in their lives have a 19% higher risk of developing heart failure compared to those who have never used them.<sup>351</sup>

## Mandatory Health Insurance Program Introduced for Organized Sector

While presenting the government's policies and programs for the FY 2024/25 AD (2081/82 BS) during a joint meeting of the House of Representatives and National Assembly on May 14 2024, President Ram Chandra Paudel unveiled a new policy mandating health insurance for all organized sectors in Nepal.<sup>352</sup> The organized sectors mentioned in the policy includes both temporary and salaried individuals working in the government, non-government, and other formal sectors across the country. The policy, set to be implemented later in 2024, requires organized sector employees to contribute 1% of their starting salary scale towards health insurance. Employers and the government will then each make an equivalent contribution, ensuring comprehensive health coverage for workers.<sup>353</sup>

## Nepal Prohibits Sale of Popular Indian Spice Brands Everest Masala and MDH

Following bans imposed by several countries including Singapore, Hong Kong, and the Maldives, Nepal also prohibited the sale and import of the Indian spice brands Everest Masala and MDH, as brought into effect from May 17, 2024.<sup>354</sup> The ban comes in response to allegations made by the Food Regulatory Agency of Hong Kong, which claimed that the products contained high levels of the pesticide ethylene oxide, commonly known as carcinogen.<sup>355</sup> Following the claim, the Department of Food Technology and Quality

Control, Nepal's food regulatory body, tested the samples of the implicated products on April 23 2024 and the results, released almost a month later, confirmed the presence of ethylene oxide at levels exceeding recommended limits, thereby prompting the ban.<sup>356</sup>

## HEALTH RISKS

### Confirmation in the Spread of New COVID Sub-variants

Following an increase in Covid infection cases in Kathmandu in April, on May 24, 2024, the spread of COVID sub-lineages KP.1, KP.2, KP.3, and KP.4, which stem from the Omicron variant, was confirmed in the country.<sup>357</sup> The National Public Health Laboratory detected these sub-lineages in 31 swab samples out of 42. Additionally, Omicron's JN.1 and BA.2 sub-variants were also detected in these swab samples. While the JN.1 sub-variant is considered to have a lower public risk, the UN Health body classified the KP.2 sub-variant, which is part of the FliRT group of variants, under monitoring for any signs of increased transmissibility or severity. FliRT variants are new strains of COVID-19 that begin with either KP or JN and are members of a group of SARS-CoV-2 variants.<sup>358</sup>

## HEALTH INFRASTRUCTURE

### Survey Reveals that 14% of Health Equipment in Nepal are Underutilized

In May 2024, a survey of biomedical equipment in Nepal's public health institutions was released by the Department of Health Services in collaboration with Lifeline Enterprises, a

private company that provides services in the field of supply and maintenance of various biomedical equipment. According to the report, approximately 2,645 pieces of health equipment remain uninstalled across Nepal's health institutions.<sup>359</sup> Covering 19,174 hospitals from October 2023 to April 2024, the study reported that 14% of the total health equipment across the country remains unused despite being in proper condition.<sup>360</sup> Most of this unused equipment was imported during the COVID-19 pandemic and has remained unused due to the decrease in COVID-19 patients.<sup>361</sup> Besides this, the survey also highlighted that essential health equipment is dysfunctional or broken in many hospitals.<sup>362</sup> For example, they found that CT scan machines at Bir Hospital have deteriorated over time due to the lack of biomedical engineers to repair and operate such equipment.<sup>363</sup>

## Ministry of Health to Launch National Micronutrient Survey with CDC and USAID Assistance

The Ministry of Health and Population (MoHP) announced plans to conduct a national micronutrient status survey with technical assistance from the Centre for Disease Control and Prevention (CDC) of the United States and financial support from the United States Agency for International Development (USAID).<sup>364</sup> The survey aims to assess the population's micronutrient status by gathering data on nutrients such as vitamin A, iron, iodine, folic acid, zinc, and evaluating the prevalence of anemia in the country.<sup>365</sup> This

data will help the government and policymakers formulate effective health policies.<sup>366</sup> Additionally, the survey will also serve as an outcome indicator

for the National Vitamin A Program (NVAP) – the Vitamin A supplementation and fortification program that has been in place since 2003 and which provides

high-dose vitamin A capsules to children aged 6–59 months and postpartum mothers.<sup>367</sup>

## Outlook /

Nepal's health sector is improving due to many proposed government reforms and initiatives as mentioned above. These improvements in the health sector will help create a robust health ecosystem in Nepal. However, urgent measures need to be taken for many significant challenges this sector experienced during this review period. The major concerns include the rise in air pollution and the emergence of new COVID sub-variants contributing to respiratory illnesses. There is a need to create awareness in the community to prevent air pollution due to the haphazard burning of vegetation for farming and incidents of wildfires. Further, the air pollution that comes across the Indian border requires to be properly monitored and controlled. Additionally, the utilization of only 14% of health equipment highlights the need for better resource management in the health sector to be prepared for potential health emergencies in the country.

## CREATIVE INDUSTRY IN THE HEALTH SECTOR

### Integrating Art into Healthcare: NYC Health + Hospitals' Innovative Approach

In 2019, NYC Health + Hospitals, which is one of the largest municipal health care delivery systems for New Yorkers, launched the 'Arts in Medicine' program with the support of the Laurie M. Tisch Illumination Fund. This fund supports organizations and programs that enhance access and opportunity for all New Yorkers while promoting healthy and vibrant communities.<sup>368</sup> The 'Arts in Medicine' program aims to enhance the well-being of not only the patients but of the hospital staff and the community as well by emphasizing the therapeutic power of the arts in healthcare.<sup>369</sup> Through this initiative, they wish to not only to help patients in their recovery but also to reduce stress, improve emotional health, and combat burnout among healthcare workers.

Some examples of initiatives within the program are the introduction of unique projects like HHArt of Medicine, which utilizes art observation to improve clinical skills, and SoulCollage, which are workshops designed to help staff express emotions through collage-making.<sup>370</sup> Additionally, as part of this program, communal murals were also created through collaboration among artists, hospital staff, and community members, thereby transforming healthcare environments to be more uplifting.<sup>371</sup> Additionally, patient-oriented programs were introduced and expanded across various hospitals and clinics in New York City. For example, the Music & Memory program is tailored for patients with Alzheimer's disease or dementia, while the Lullaby Project is designed for pregnant patients or new mothers.<sup>372</sup>

Integrating similar art-based programs and initiatives in Nepal could not only uplift the country's healthcare environment but can also create a more holistic healthcare system that not only addresses physical ailments but also supports mental and emotional well-being.

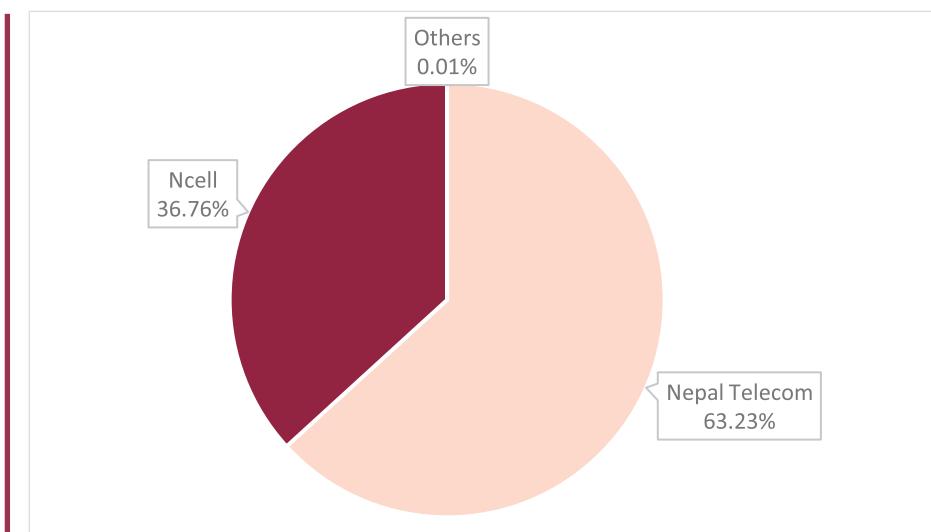
# Information and Communication Technology

The Information and Communications Technology (ICT) landscape continued its positive momentum from the past quarters, seeing a significant highlight in the budget for FY 2024/25 AD (2081/82 BS). Through the budget, supportive programs were introduced to fulfil Nepal's goal of dramatically increasing IT exports within the coming decade, reflecting the country's optimism and commitment towards the sector. Moreover, this quarter witnessed strides in digital infrastructure, namely through a joint-venture to build a supercloud data center facility. However, private companies in the ICT sector facing issues due to harsh regulations was observed as a recurring theme. This was exemplified in Ncell being ordered to pay NPR 20 billion (USD 150 million) in lump for its license renewal, and the Internet Service Providers (ISPs) having their services disrupted. Such inflexible regulations have contributed to a difficult business environment in Nepal, as exemplified by Axiata's infamous exit from the Nepali market in December 2023.

| FACTSHEET                                                                |               |
|--------------------------------------------------------------------------|---------------|
| Indicators                                                               |               |
| Number of fixed phone users <sup>373</sup>                               | 354,070       |
| Number of smartphone users <sup>374</sup>                                | 34.87 million |
| Broadband internet subscriptions <sup>375</sup>                          | 42.34 million |
| Number of transactions from e-wallets (March– April 2024) <sup>376</sup> | 24,484,072    |

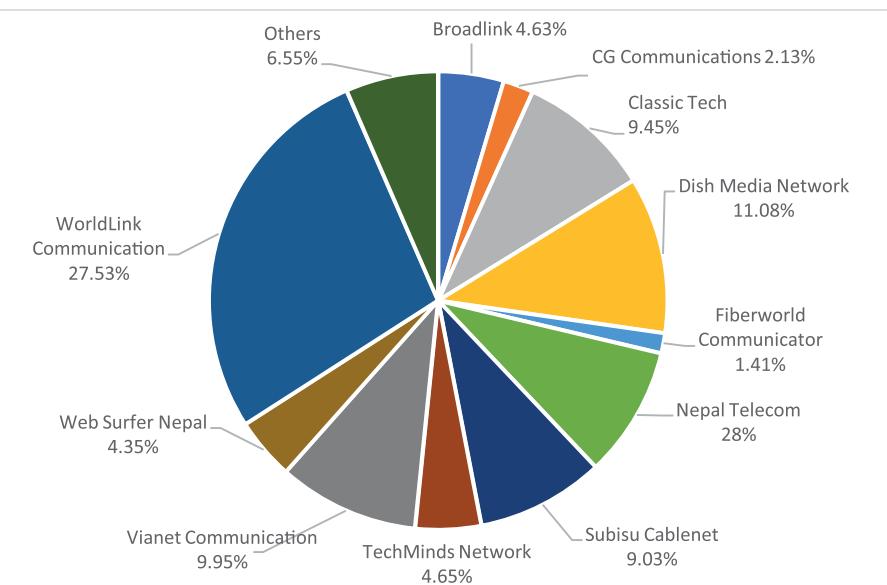
**Figure 14. Market Share of Telephone Operators (based on sim subscriptions)**

Source: Nepal Telecommunications Authority, Telecommunication Indicators, Chaitra 2080 (March 14 to April 12, 2024)<sup>377</sup>



**Figure 15. Market Share of Internet Service Providers (ISPs) in Nepal**

Source: Nepal Telecommunications Authority, Telecommunication Indicators, Chaitra 2080 (March 14 to April 12, 2024)<sup>378</sup>



### ISPs Prepared to Clear Dues to Telecommunications Authority

Internet Service Providers (ISPs) will be settling a pending amount of around NPR 4 billion (USD 30.09 million) to the Nepal Telecommunication Authority (NTA) following a Supreme Court order on May 12, 2024. The ISPs had incurred the amount in rural telecommunications development fees and royalty charges since FY 2017/18 AD (2074/75 BS).<sup>379</sup> Due to non-payment, NTA had refused to grant the foreign exchange facility to ISPs till they cleared their dues, rendering them unable to pay foreign vendors from whom they source the bandwidth.<sup>380</sup> This had led to ISPs owing over NPR 4 billion (USD 30.1 million) to the Indian vendors.<sup>381</sup> Consequently, Airtel – a leading Indian telecom provider – suspended bandwidth to the Nepali ISPs on May 2, 2024, which was restored after five hours following coordination between the NTA and Airtel.<sup>382</sup> However, the sudden disruption in services alongside a lack of clarity on when they would be restored had

caused a considerable amount of inconvenience and panic among the public.<sup>383</sup>

### Nepal's First Supercloud Data Center Facility to be Constructed with Indian Joint Venture

On April 29, 2024, Yotta Data Services, an Indian digital transformation service provider, announced a joint venture with Nepal's Bhuramal Lunkarandas Conglomerate (BLC) Holdings to build Nepal's first supercloud data center facility, named 'K1', in Ramkot, Kathmandu.<sup>384</sup> While BLC Holdings is involved in a wide range of sectors, including agriculture, healthcare, mining, and community development, the joint-venture marks their expansion into digital services, as well as Yotta's entry into the Nepali market. The multimillion facility, resulting from this joint venture, will be developed with an overall capacity of up to 4MW critical IT load and will spread across approximately 0.55 hectares.<sup>385</sup> Furthermore, it will offer advanced data security,

customized business solutions, cybersecurity expertise, indigenous hyperscale cloud offering, and other key features.<sup>386</sup> In addition to this, K1 will also offer Yotta's cloud platforms such as Shakti Cloud.<sup>387</sup>

### NTA Denies Ncell's Request for Installment Payments to Pay for License Renewal

In the past quarter, NTA denied Ncell's request to pay for its third license renewal in installments. Ncell, which is the leading private telecommunications company in Nepal, had submitted NPR 4 billion (USD 30 million) to NTA on May 27, 2024, alongside a formal letter requesting to pay the NPR 20 billion (USD 150 million) renewal fee in five installments instead of as a lump amount.<sup>388</sup> In the letter, Ncell had cited the cause as being its lack of flexibility to make such a huge payment at once.<sup>389</sup> However, NTA maintained that Ncell will need to pay the remaining NPR 16 billion (USD 120 million) by August 30, 2024, as well as an additional fine of NPR 3 billion (USD 22 million) for failing

to pay the lump sum.<sup>390</sup> Failure to do so would lead to Ncell's license being revoked, unless the Council of Ministers decides otherwise. NTA's strict stance comes from their concerns of the private company attempting to default on payments if provided an installment facility, especially given the possibility of Ncell being converted into a state-owned company.<sup>391</sup>

### NTC Submits Payment to NTA for License Renewal

Unlike Ncell, the Nepal Telecommunication Corporation (NTC) paid NTA NPR 20 billion (USD 159 million) on 9 May 2024 to renew its operating license.<sup>392</sup> As the previous 10-year license was set to expire on 10 May 2024, the NTA board decided in March to charge NTC with this amount for a 5-year license renewable.<sup>393</sup> Last year, NTC and NTA were in discussion for the payment structure, with NTC reluctant to pay the full amount in one installment, similar to its rival Ncell.<sup>394</sup> However, NTA decided to move ahead with its plan to

provide the license for the first 10 years at NPR 20 billion (USD 159 million) followed by NPR 20 billion (USD 159 million) for an additional five years.<sup>395</sup> Although the Minister for Communication and Information Technology initially assured NTA of license renewal, NTA still needs to wait for the amendment framework and its authorization from the government.<sup>396</sup>

### Nepal Envisions a Decade of Information Technology in National Budget

In the budget speech on 28 May, the Finance Minister declared the decade from FY 2081/82 BS (2024/25 AD) to FY 2091/92 BS (2034/35 AD) as the decade of information and technology in Nepal, with the aim of transforming the country into an IT hub.<sup>397</sup> This initiative envisions Nepal becoming a leading center for IT services and innovation which will thereby generate significant economic benefits through employment opportunities, exports, and investments. According to this

plan, the government has put forward an aim of exporting IT services worth NPR 3 trillion (USD 22.57 billion) over the decade, generating direct employment for half a million people and indirect employment for one million people.<sup>398</sup>

The national budget also unfolded an approach to reinforcing the ICT infrastructure with the NPR 7.35 billion (USD 55.29 million) allocated to the Ministry of Communication and Information.<sup>399</sup> As part of this, the budget has laid out plans to establish IT parks in Kathmandu and Butwal that would provide free working space to an IT company for up to three years.<sup>400</sup> Moreover, as per the budget, students interested in pursuing undergraduate and graduate degrees in IT will now eligible for concessional loans from the Government of Nepal.<sup>401</sup> Similarly, the Digital Nepal Framework from 2019 is set to be amended with a budget allocation of NPR 690 million (USD 5.19 million).<sup>402</sup>

## Outlook //

Looking ahead to the next quarter, Nepal's IT sector is poised for notable developments as the country enters its 'IT decade,' characterized by ambitious goals for IT exports and job creation. The Government of Nepal's transformative ICT initiatives, such as amending the Digital Nepal Framework and expanding IT infrastructure, are expected to establish Nepal as a regional IT hub and fuel future economic growth. Furthermore, Internet Service Providers (ISPs) gearing up to clear pending dues to the NTA, with an anticipated settlement of around NPR 4 billion (USD 30 million), promises to alleviate financial strains and foster stronger vendor relationships, thereby enhancing the operational landscape for ISPs. Concurrently, the collaborative endeavor between Yotta Data Services and Nepal's BLC Holding to construct Nepal's inaugural supercloud data center, 'K1', represents a milestone venture aimed at bolstering data security and technological infrastructure in the country, signaling a significant leap forward in the digital ecosystem. However, amidst these progressive endeavors, challenges persist, as exemplified by recent developments surrounding Ncell's license renewal and the ambitiousness of the budget plans, indicating potential hurdles that need to be addressed to ensure sustainable growth.

## CREATIVE INDUSTRY IN THE INFORMATION AND COMMUNICATION TECHNOLOGY SECTOR

### Public Sector Increasingly Utilizing Apps to Deliver Services

The adoption and usage of mobile apps has seen an exponential increase in recent years. Public organizations across the world have utilized this trend to design and implement digital applications for increased and more efficient access to services.<sup>403</sup> In a similar attempt, the Government of Nepal released its Nagarik App (translation: Citizen App) in 2021, which over 800,000 Nepalis are using as of May 2024.<sup>404</sup> The platform allows the user to access various government documents and services, such as PAN registration, Voter Card Pre-Registration, national identification documents, vehicle tax payments, and municipal representatives' contacts, among others. This has led to a lot more convenience as being able to access a wide range of government documents and services around the clock and on a single application allows users to forego bureaucratic hurdles, tedious waiting periods, and travel.

The success of the Nagarik App has even encouraged local governments to launch their own respective apps. For instance, Lalitpur Metropolitan City (LMC) has launched its LMC Alert Mobile Application which allows users to send an instant alert to the LMC Police Office. The service is open 24-hours, and users can send up to 21 different incident alerts including on topics of firefighting, sexual violence, mortuary transport, ambulance, heritage protection, disaster, and black market.<sup>405</sup> The increased adoption of such applications is a notable step as it pushes forward the drive for smart cities, where public services are easily and efficiently accessible.

# Infrastructure and Real Estate

The three-month review period from March to May 2024 saw notable advancements in Nepal's infrastructure and real estate sectors, building on the previous quarter's positive outlook. The government took significant steps by expanding and privatizing mining infrastructure, and outlining the implementation of many infrastructure projects in the FY 2081/82 BS (2024/25 AD) fiscal budget. The review period was also marked by meaningful innovations in Nepal's transportation industry with Hyundai establishing Nepal's first four-wheeler plant and the final breakthrough in Nepal's first road tunnel. However, things such as urban wastewater management remained a critical challenge, leading the Nepal Real Estate Conference 2024 to emphasize the need for a policy shift to address urban development issues. These achievements, while significant, highlight both the progress made and areas that require ongoing attention and improvement in the sectors.

## Government Takes Steps to Expand and Privatize Mining Infrastructure in Nepal

On March 29, 2024, Nepal's Department of Mines and Geology (DMG) issued excavation permits to 159 mines and opened bids for ten more mines, including gold and iron excavation by inviting the private sector for participation.<sup>410</sup> This policy shift aims to address the government's limitations in handling extensive mining operations single-handedly and to improve mining infrastructure through private sector expertise.<sup>411</sup> Consequently, Jhumlawag in Rukum, home to Nepal's largest iron mine, is

transitioning to private-sector management under a public-private partnership (PPP) model, as declared in the third Investment Summit on April 29. Notably, the Investment Board Nepal has mandated that the private permit recipients must commence digging within two years.<sup>412</sup> This strategy is expected to ensure timely project completion and increased revenue, as evidenced by the DMG's collection of NPR 333.2 million (USD 2.51 million) in revenue from license issuance over the past eight months of FY 2023/24 AD (2080/21 BS).<sup>413</sup> Also, to ensure only productive and feasible projects proceed, the

## FACTSHEET

### FY 2023/24 AD (2080/81 BS) up to mid-March 2024

|                                                    |           |
|----------------------------------------------------|-----------|
| Total Length of Road <sup>406</sup>                | 34,267 km |
| New Road Constructed <sup>407</sup>                | 28 km     |
| Total Number of Bridges Constructed <sup>408</sup> | 67        |
| Construction of Railway <sup>409</sup>             | 62 km     |

department has revoked licenses from 107 mines and companies that failed to comply with work schedules.<sup>414</sup>

## First Automotive Assembly Plant for Four-Wheelers Inaugurated in Nawalparasi

On May 10, 2024, Hyundai, in collaboration with Laxmi Group, the official dealer for Hyundai in Nepal, inaugurated the country's first automotive assembly plant for four-wheelers in Nawalparasi. While several two-wheeler assembly plants exist, Hyundai's initiative is the first for four-wheelers. Prime Minister Pushpa Kamal Dahal and Hyundai's Unsoo

Kim officiated the inauguration and emphasized its importance for the growth of Nepal's transport infrastructure and automotive industry, while also celebrating 50 years of diplomatic relations between Korea and Nepal.<sup>415</sup> The establishment of the plant, which will start with the local production of Hyundai Venue SUV, has made Hyundai the sole assembler of four-wheelers in Nepal.<sup>416</sup> The plant, located on a 2.5-hectare site in Nawalparasi-13, is capable of producing 5,000 units annually. It has been equipped with technology worth over NPR 1.5 billion (USD 11.28 million) and was estimated as an NPR 5.01 billion (USD 37.70 million) investment in 2020.<sup>417</sup> Notably, the Government of Nepal has supported the project by providing significant tax breaks on customs duties, excise duties, and income taxes.<sup>418</sup>

### Final Breakthrough Achieved in Nepal's First Road Tunnel

Nepal's first commercial tunnel route, the Nagdhunga-Sisne Khola 2,688m main tunnel construction project, made its final breakthrough on 15 April 2024.<sup>419</sup> The tunnel connecting Belambu in Chandragiri to Sisnekhola in Dhading is valued at NPR 22 billion (USD 165.52 million), with the Government of Japan providing three-quarters of the funding through highly concessional loans to the Government of Nepal.<sup>420</sup> The tunnel serves as a sustainable economic development and is expected to greatly reduce traffic congestion.<sup>421</sup> Although the project was set to be completed within June 2023, even now road slope work within the tunnel and the installation of lighting and

oxygen pipes still remains.

### MCA-Nepal and Linxon India Sign Contract on Construction of 400 kV Substation

On May 7, 2024, Millennium Challenge Account-Nepal (MCA-Nepal) signed a contract to construct a 400 kV substation in Nawalparasi, Lumbini Province, estimated to be completed in 39 months.<sup>422</sup> MCA-Nepal, the body responsible for implementing the Millennium Challenge Corporation (MCC) projects in Nepal, awarded the substation project to Linxon India Pvt Ltd, an India-based contractor providing power supply solutions. This substation is part of the USD 500 million (NPR 66.46 billion) Electricity Transmission Project which is co-funded by the US government's MCC and the Government of Nepal, aiming to enhance Nepal's energy infrastructure.<sup>423</sup> In addition to this, MCA-Nepal is also finalizing contracts for similar substations in Nuwakot and Tanahun to meet the growing domestic electricity demand and facilitate cross-border electricity trade, therefore positioning Nepal as a potential energy hub. The Nuwakot substation in Ratmate is a USD 51.6 million (NPR 6.86 billion) project and has been awarded to Techno Electric and Engineering Company Ltd, India. It has the capacity of 1000 MVA making it one of the largest substations in Nepal. Meanwhile, discussions for the Tanahun substation are ongoing.<sup>424</sup>

### Urban Wastewater Management in Nepal Faces Critical Challenges

On March 12, 2024, the

International Water Association published a study titled 'Urban wastewater management in Nepal', which emphasizes the challenges arising from rapid urbanization. The report identifies a significant gap between the generation and treatment of wastewater, revealing major gaps in infrastructure and urban planning. According to the report, over 85% of Nepali urban households (from 1999 to 2023 AD) relied on onsite sanitation systems, rather than centralized treatment facilities, resulting in wastewater treatment at the origin itself. This limited infrastructure has contributed to prevalent maintenance issues and heightened risks of contamination.<sup>425</sup> Currently, centralized treatment plants are predominantly located in the capital city with only two of the seven provinces having public sewerage systems which covers about 10% of the country's households. This situation emphasizes the urgent need for improved governance, resource allocation, and advanced treatment technologies to ensure sustainable wastewater infrastructure in Nepal's urban areas.<sup>426</sup>

### Nepal Real Estate Conference 2024 Highlights Need for Policy Shift

The Nepal Real Estate Conference 2024, held on May 5 and 6 in Lalitpur, focused on the urgent need for policy reforms to bring Nepal's real estate sector in line with global standards.<sup>427</sup> The suggested reforms include updating regulations and frameworks to promote sustainable development, increase transparency, and

attract foreign investment. These reforms aim to modernize the sector through international best practices, enhance urban planning, and ensure environmental sustainability. According to industry experts present at the conference, the policy shift is crucial to address pressing issues such as unplanned urban growth, poor infrastructure, and the lack of investor confidence coming from bureaucratic inefficiencies and legal uncertainties.<sup>428</sup> The conference also highlighted that while the real estate sector previously contributed approximately 10% to the GDP in FY 2021/22 AD (2078/79 BS), it witnessed a 50% decline in land transactions in FY 2022/23 AD (2079/80 BS), thereby substantiating their calls for a progressive policy shift.<sup>429</sup>

### Koshi Corridor Transmission Line Boosts Nepal's Hydropower Potential

The third phase of the 220 kV Koshi Corridor Transmission Line Project has been completed, linking the Basantapur and Dhungesanghu substations in eastern Nepal.<sup>430</sup> This 35-km transmission line was

signed in January 2018 for USD 24.5 million (NPR 3.25 billion) and its completion was celebrated on April 12, 2024, by starting electricity flow through the transmission line. The development of the project, by Sanima Middle Tamor Hydropower Limited, involved constructing a total of 127 towers for the transmission line in the substation and to facilitate the evacuation of power generated by the 73-MW Middle Tamor Hydropower Project, also developed by Sanima.<sup>431</sup> This transmission line was built in the third phase of the USD 250 million (NPR 33.23 billion) Koshi Corridor Project, which is financed by the Export-Import Bank of India.<sup>432</sup> This is part of a broader effort to harness over 2000 MW of power potential from eastern Nepal's rivers.<sup>433</sup>

### New Budget Proposes Private Sector Collaboration for Infrastructural Development

For the fiscal year 2024/25 AD (2081/82 BS), the Government of Nepal has allocated NPR 1.55 trillion (USD 11.66 billion) to the Ministry of Physical Infrastructure and Transport, marking an increase of NPR 243 billion (USD

billion) as compared to the previous budget. This budget hike aims to improve the country's industrial infrastructure, with Koshi and Lumbini provinces designated as industry hubs. Additionally, as part of the budget, the government announced the Gandaki Economic Triangle Scheme, which aims to integrate the development of Bharatpur, Pokhara and Butwal and transform it into a vibrant economic zone. This ambitious initiative will be implemented through the public-private-partnership (PPP) model, with an NPR 2 billion (USD 15.05 million) investment in roads, bridges and public transit systems. Besides this, the government has also proposed collaborations with the private sector to address unemployment through apprenticeship and training programs, wage subsidies, and returnee entrepreneurship programs, among other initiatives to build human capital to mobilize them for various infrastructural projects, thereby ensuring inclusive development.<sup>434</sup> The budget allocation for these major infrastructural projects is detailed in Table 9.

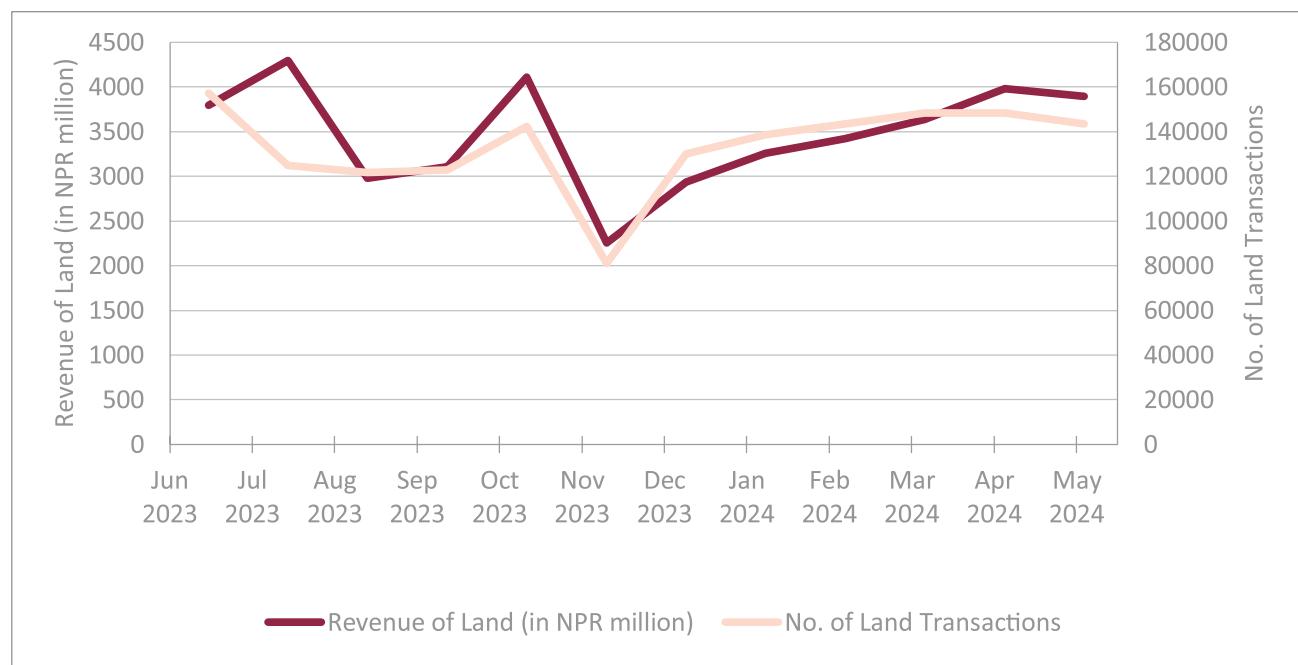
**Table 9. FY 2081/82 BS (2024/25 AD) Budget Allocation for Infrastructure Projects**

| Projects                                    | Budget Allocated                       |
|---------------------------------------------|----------------------------------------|
| East-West Highway Expansion and Upgradation | NPR 29.88 billion (USD 224.82 million) |
| Kathmandu-Tarai Madhes Expressway           | NPR 22.54 billion (USD 169.59 million) |
| Madhyapahari Pushpalal Lokmarg Construction | NPR 3.68 billion (USD 27.69 million)   |
| Hulaki Highway                              | NPR 3.30 billion (USD 24.83 million)   |

|                                                                       |                                      |
|-----------------------------------------------------------------------|--------------------------------------|
| Construction of North-South Corridor (Koshi, Kaligandaki and Karnali) | NPR 4.43 billion (USD 33.33 million) |
| Remaining Construction of Madan Bhandari Highway                      | NPR 3.60 billion (USD 7.09 million)  |
| Mugling–Ambukhairni Section Extension                                 | NPR 9.57 billion (USD 71.99 million) |
| Shaheed Marg                                                          | NPR 1.25 billion (USD 9.40 million)  |
| Bheri– Dhorpatan Corridor                                             | NPR 3.86 billion (USD 29.05 million) |
| Syafrubeshi– Rasuwagadhi Road Upgradation                             | NPR 1.80 billion (USD 13.54 million) |
| Bridges under National Highways and Strategic Roads                   | NPR 2.46 billion (USD 18.51 million) |
| Construction of Tunnel, Flyover and Intersection                      | NPR 5.63 billion (USD 42.37 million) |
| Highway Maintenance                                                   | NPR 6.54 billion (USD 49.21 million) |
| Railway Development                                                   | NPR 3.88 billion (USD 29.20 million) |

Source: Budget of Nepal 2081/82 BS, Ministry of Finance<sup>435</sup>

**Figure 16. Revenue from Land Transactions and Number of Land Transactions**



Source: Department of Land Management and Archive<sup>436</sup>

### Land Transactions Lose Momentum

According to the most recent

data from the Department of Land Management, from March to May 2024, the government collected land revenue of over NPR 11.41

billion (USD 85.86 million) from property transactions. While the number of land transactions reached a maximum of 146,708

in March 2024, it slightly decreased since then. Notably, despite the revision of land use regulations, and positive economic indicators, sustained growth in the sector has not been achieved due to issues in land classification and the recent surge in cooperative-related problems.<sup>437</sup> The slowdown is concerning given the projected 8.33% contribution of the real

estate sector to Nepal's GDP for the FY 2023/24 AD (2080/81 BS), along with an estimated growth rate of 2.98% for the sector.<sup>438</sup> In order to address these problems of declining investor confidence and economic stability, the NRB has adjusted the debt service to gross income ratio for real estate purchases through the comprehensive third quarter review of the monetary policy

published on May 17, 2024.<sup>439</sup> As per the new development, the ratio has been increased from the 50% to 70% conditional on proof of tax payment, thereby making loans more accessible to a broader segment of the population.<sup>440</sup>

## Outlook //

The past quarter saw Nepal's infrastructure and real estate sectors being driven by strategic initiatives and significant budget allocations, regardless of the various hurdles they faced. Among the various developments, the programs as part of the FY 2024/25 AD (2081/82 BS) budget, such as 8.09% of the budget being dedicated to physical infrastructure, will hopefully help Nepal in its aim to achieve Sustainable Development Goals (SDGs) as well as to achieve the middle-income status. Additionally, the government onboarding the private sector through Public-Private-Partnership (PPP) models to ensure timely project completions will hopefully enhance overall infrastructural growth prospects. However, the delays in large-scale projects, urban waste management issues as well as decline in land transactions, indicate a need for policy reforms and improved governance. Addressing these challenges and capitalizing on opportunities can significantly advance Nepal's path to a better future.

## CREATIVE INDUSTRY IN THE INFRASTRUCTURE AND REAL ESTATE SECTOR

### Leveraging Stadium Infrastructure for Economic Growth in Nepal

The Bank of Kigali Arena (BK Arena) in Rwanda, completed in 2019, showcases how multifunctional stadiums can drive economic growth. Renamed in May 2022 after a six-year, USD 7 million (NPR 930.51 million) sponsorship deal with the Bank of Kigali, the project is one of Africa's largest arena naming-rights deals.<sup>441</sup> This 10,000-seat indoor arena, costing around USD 104 million (NPR 13.83 billion), hosts various events beyond sports, including music concerts, cultural events, and international conferences. It was chosen as the host of various important events such as the 2021 FIBA Afrobasket Finals and was selected by the National Basketball Association to launch the Basketball Africa League (BAL).<sup>442</sup> Moreover, the arena has been a catalyst for MICE (Meetings, Incentives, Conferences, and Exhibitions) travel to Rwanda, attracting international events like the Youth Connekt Summit. With at least 50 events annually, each generating USD 200,000 (NPR 26.59 million) or more, the arena has generated substantial revenue along with income from naming rights.<sup>443</sup>

This success demonstrates the potential of such infrastructure to transform a city into a regional hub for sports and entertainment. Nepal can replicate this model to stimulate its own economic growth. By upgrading the Dashrath Stadium in Kathmandu or constructing new venues, Nepal can attract international events and boost local economies. Furthermore, integrating creative industry elements

into these projects can enhance cultural engagement and build a sustainable urban landscape, positioning Nepal as a key player in the regional sports and entertainment market.

# Tourism

This quarter showed positive signs for Nepal's tourism with a significant increase in tourist arrivals as the spring tourist season began. Within this, there were many new initiatives, including the global LGBTQ conference, the launch of an international tourism campaign, and the designation of Pokhara as the tourism capital. Likewise, the government allocated NPR 12 billion (USD 90.27 million) for the tourism sector in the new budget for FY 2023/24 AD (2081/82 BS) – an increase from the NPR 9.38 billion (USD 69.81 million) allocated in FY 2022/23 AD (2080/81 BS) – to fund new tourism initiatives like developing Janakpur as a wedding destination and Lumbini as a birthing hub.

## TOURIST ARRIVALS

### Nepal Experiences Record-Breaking Tourist Arrivals

The tourism industry, following the massive dip during the COVID-19 pandemic, is experiencing a remarkable comeback in 2024, with tourist arrivals reaching record highs. Compared to the previous year, Nepal has witnessed a staggering 27.42% surge in tourist arrivals. As of April 2024, over 416,069 tourists entered the country, surpassing the total number of visitors in 2023 which was 326,528.<sup>452</sup> The rise in tourist arrivals can be linked to several factors like increased global travel confidence post-pandemic and Nepal's ongoing efforts to promote itself as a premier adventure destination. Additionally, improved infrastructure, such as the

newly built Gautam Buddha International Airport and Pokhara Regional International Airport, has made Nepal more accessible to international travelers.<sup>453</sup> While India remains the leading source country with over 110,000 visitors exploring Nepal, the tourism industry is witnessing a rise in arrivals from other countries as well. Within this, China and the United States are significant contributors, sending over 38,000 and 36,000 tourists respectively.<sup>454</sup> According to the Ministry of Culture, Tourism and Civil Aviation (MoCTCA), most of the foreign tourists visiting Nepal in 2023 were aged between 31 to 45 years.<sup>455</sup> These tourists comprised 31.25% of the total tourists in Nepal.<sup>456</sup> This implies that the majority of the tourists were into trekking and adventure. Stakeholders believe that it will be

## FACTSHEET

Number of tourist arrivals (March 2024 to April 2024)

239,542<sup>444</sup>

Outstanding credit to the tourism industry

NPR 24.78 billion (USD 186.41 million)<sup>445</sup>

FDI in the tourism sector (as % of total FDI)

45%<sup>446</sup>

The average stay of a tourist

13.1 days<sup>447</sup>

Average spending per tourist per day

USD 40.5 (NPR 5383.66)<sup>448</sup>

Number of registered hotels (with star rating)

173<sup>449</sup>

Number of registered casinos

28<sup>450</sup>

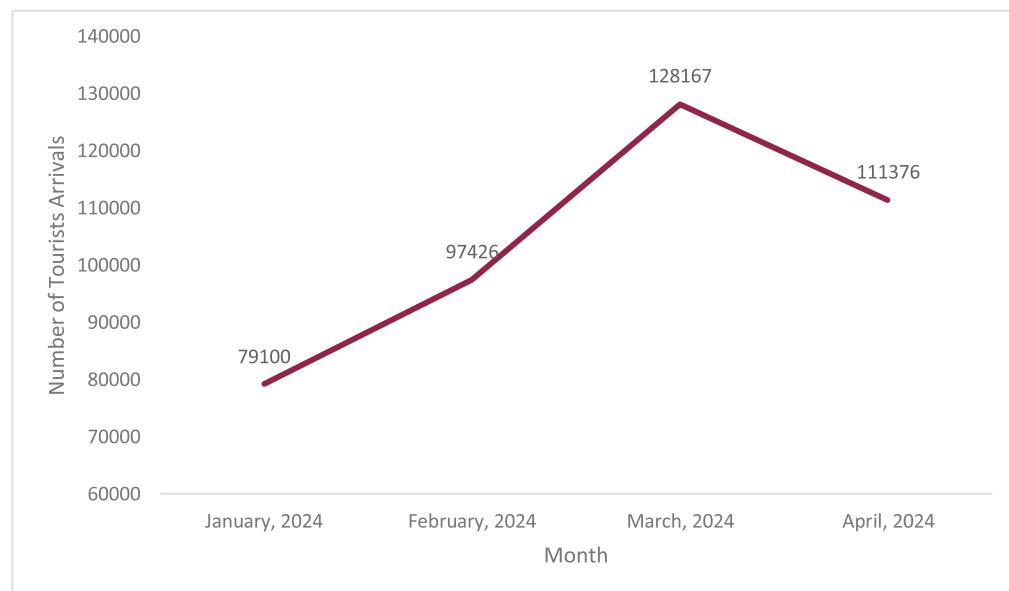
Number of registered travel agencies

4845<sup>451</sup>

advantageous for Nepal's tourism sector if this demographic is targeted effectively.<sup>457</sup>

**Figure 17. Number of Tourist Arrivals per Month in 2024**

Source: Current Macroeconomic and financial situation (based on annual data, FY 2023/24 AD (2080/81 BS))<sup>458</sup>



## MOUNTAINEERING UPDATES

### International Dialogue on Mountains, Humans, and Climate Change Convenes

A two-day international conference on 'Mountains, People, and Climate' was organized by Nepal's Ministry of Forests and Environment on May 23 to 24, 2024. The event focused on the critical issue of climate change and its severe impact on mountain communities. Over 200 participants, including international stakeholders, government representatives, and climate scientists gathered to discuss solutions for the various problems the region faces.<sup>459</sup> In the particular, the conference highlighted ideas of "Locally Led Adaptation" and "Advancing Mountain Agenda" and celebrated the inclusion of mountain issues in COP28 while discussing how to move forward with this momentum.<sup>460</sup>

### Everest Climbing Season 2024: Triumphs, Challenges, and Records

In the past quarter, Nepal's

Department of Tourism granted permits to a total of 1,000 mountain climbers from all around the world for the spring season. Within this, DoT issued permits for 30 mountains, including Everest, which generated significant revenue of NPR 689.97 million (USD 5.19 million).<sup>461</sup> Following this, while over 600 successful Everest summits were completed between March to May 2024, five climbers died and three went missing in their attempt to climb the highest peak in the world. On the other hand, the season witnessed incredible achievements. Kami Rita Sherpa broke records by becoming the first person to summit Everest 30 times. Similarly, Purnima Shrestha became the first woman to climb Everest three times in a single season while Punjho Jhangmu Lama set a new record, reaching the summit from EBC in 13 hours and 31 minutes.<sup>462</sup>

### Supreme Court's New Regulations Safeguard Mount Everest

In March 2024, Nepal's Supreme Court issued new regulations to safeguard Mount Everest and

promote responsible climbing practices. These regulations address concerns about climate change's impact on the mountain and the growing number of climbers. According to the rules, in order to ensure a controlled number of climbers, permits will only be issued based on Everest's capacity.<sup>463</sup> Additionally, helicopter flights above Base Camp have been banned except for emergencies, minimizing noise pollution and avalanche risks. Furthermore, to promote waste reduction and environmental protection, climbers must now list their equipment before and after their ascent, with a refundable deposit on returning the items.<sup>464</sup>

## FINANCIAL SITUATION

### New Budget Targets Development of Cultural Heritage and Infrastructure

The government has set aside nearly NPR 12 billion (USD 90.27 million) for the tourism sector in the new fiscal budget for FY 2024/25 AD (2081/82 BS), a substantial 28% increase compared to the previous year.

As portrayed in the budget, the government aims to attract 1.6 million tourists by promoting Nepal's rich cultural heritage.<sup>465</sup> In particular, they plan to promote Janakpur, the wedding site of Lord Ram and Goddess Sita, as a unique wedding destination and Lumbini, the birthplace of Gautama Buddha, as a destination for childbirth ceremonies.<sup>466</sup> Additionally, the budget prioritizes infrastructure development with NPR 5.46 billion (USD 41.07 million) allocated for building hiking trails, eco-resorts, and improving access roads in tourist areas.<sup>467</sup>

### **Tourism Rebound Fuels Profits and Growth in Hotels**

Nepal's hotel industry is experiencing a significant upward trend in profits, driven by a surge in international tourism. According to the unaudited financial reports released by the Nepal Stock Exchange (NEPSE) for FY 2080/81 BS (2023/24 AD), there have been impressive net profit increases across major hotel chains. Taragaon Regency Hotels leads the pack with a significant 39.54% increase, earning NPR 333.2 million (USD 2.51 million) while Chandragiri Hills follows closely with a 38.82% increase in revenues amounting to NPR 107.9 million (USD 812,000).<sup>468</sup> Similarly, other notable gains were reported by Soaltee Hotel with an 11.08% increase in revenues and Oriental Hotels' 9.91% increase in revenues.<sup>469</sup> This positive trend directly correlates with a surge in foreign visitors as, by April 2024, Nepal had already welcomed 416,069 international tourists, reflecting a remarkable 27.42% increase compared to 2023.

Given these positive trends, the National Statistics Office has estimated a 21.84% growth in the accommodation and food services sector.<sup>470</sup>

## **NEW DEVELOPMENTS**

### **Nepal Targets Multi-Billion Dollar LGBTIQ Tourism Market**

Nepal organized the first LGBTIQ tourism conference on 20 April 2024 in Kathmandu, displaying a move towards Lesbian, Gay, Bisexual, Trans, Intersex or Queer (LGBTIQ) tourism.<sup>471</sup> This conference, which followed the first legally accepted same-sex marriage in Nepal, is the first step in the country's attempt to capitalize on rainbow tourism which will contribute to Nepal's economy while promoting inclusion and empowerment within the LGBTIQ community.<sup>472</sup> This is a significant attempt as, according to the 2023 Wealth and Travel Data Report by LGBT Capital, the global annual purchasing power of LGBTIQ consumers was USD 4.7 trillion (NPR 624.77 trillion) as of 2023.<sup>473</sup>

### **Pokhara and Gandaki Province Officially Designated as Tourism Hubs**

On March 17, 2024, Pokhara was officially declared to be the tourism capital of Nepal during a ceremony, following the city fulfilling a criteria based on 20 different indicators jointly created by provincial and municipal governments.<sup>474</sup> Similarly, the provincial government also declared Gandaki province as the tourism hub of Nepal.<sup>475</sup> With this move, the government is hoping to promote sustainable tourism development, resulting

in improved living standards, job creation, and poverty alleviation in the region.<sup>476</sup>

### **Appointment of NTB CEO and Members in Limbo**

The appointment of the CEO and members of the Nepal Tourism Board (NTB) has been delayed for months following a host of controversies. While the CEO recommendation committee established in February 11 had shortlisted sixteen candidates for the position to be appointed within 65 days, this encountered a major obstacle when a written petition was filed against the process.<sup>477</sup> Following this written petition, the Patan High Court instructed the government to pause the selection process and further issued an order on April 22 declaring the sub-committee illegal.<sup>478</sup> The court declared the nominations of Milan Devkota and Madan Kumar Acharya, who are members of the sub-committee formed to select the CEO, as well as the NTB board members, illegal. Judge Sudarshan Raj Pandey issued requiring the defendants or their representatives to provide a written response within 15 days, including any evidence against the interim order. Following this, the court will later consider the arguments on whether to make the interim order permanent.

## **PROGRAMS, EVENTS AND CAMPAIGNS**

### **USAID and NTB Unveil 2024 International Tourism Campaign**

The Nepal Tourism Board and USAID launched the 2024 International Tourism Campaign

on April 1, 2024 in collaboration with Stellar, a global travel storytelling platform.<sup>479</sup> During this campaign, various international content creators from Stellar will capture videos and photos of major destinations like Pokhara, Kathmandu, Bardiya and Ilam, highlighting Nepal as a year-round premier travel destination by focusing on its diverse landscapes, rich biodiversity, and vibrant culture.<sup>480</sup> Being the second campaign of its kind, it aims to reach 20 million views, thereby promoting Nepal's tourism worldwide. The 2023 version of

this campaign reached over 16.3 million people and generated USD 15.8 million (NPR 2.1 billion) in earned media value.<sup>481</sup>

## POLICIES AND REGULATIONS

### Tourism Stakeholders Lobby for a Free Visa Policy to Boost Arrivals

Tourism entrepreneurs and stakeholders have demanded a free visa policy to boost tourist arrivals in Nepal.<sup>482</sup> According to the tourism professionals, Nepal's visa policy has hampered the tourist inflow from Western

countries as Nepal presently offers only free visas to Chinese citizens for 150 days and SAARC citizens for 30 days. They have argued that the policy could act as a welcoming message to potential tourists while not being detrimental to government revenues generated from issuing visas, as the revenue generated by tourist visits would outpace the visa revenues.<sup>483</sup>

## Outlook //

The positive trend in tourism numbers creates optimism for Nepal's tourism sector, bolstered by new initiatives, events, and programs. The increased tourism budget for FY 2023/24 AD (2081/82 BS) and the designation of 2025 as Nepal Special Tourism Year reflect a growing recognition of the sector's importance. However, significant challenges remain in infrastructure development, enhancing tourist experiences, and effective marketing and promotion. To fully realize its potential, Nepal must diversify beyond its traditional adventure tourism focus and strategically position tourism as a key source of foreign currency and sustainable employment.

## CREATIVE INDUSTRY IN THE TOURISM SECTOR

### Dubrovnik's Tourism Boom: Impact and Lessons for Nepal

Dubrovnik, a UNESCO World Heritage Site in Croatia, demonstrates how a popular series can influence a city's image. Famous as the filming location for King's Landing in HBO's 'Game of Thrones', Dubrovnik has seen a dramatic shift since the series was released. This medieval trading city now relies heavily on tourism, which is a major contributor to Croatia's economy, amounting to 18% of the GDP – the highest percentage in Europe. Prior to the show's debut in 2011, Dubrovnik was primarily known as a historical trading center. Tourism existed, but it was not the economy of the city. However, the show greatly transformed Dubrovnik into a pop culture phenomenon.

This success story offers valuable lessons for Nepal, a country rich in its own cultural and historical treasures. Nepal has 10 UNESCO World Heritage Sites, including the scenic mountains and the historic city of Kathmandu. By promoting them, and posing as a filming location for movies and shows, Nepal has the potential to replicate the success of Dubrovnik.

# 4

## Market Review



# Financial Market

During the review period, based on data from the first nine months of FY 2023/24 AD (2080/81 BS), Nepal's Balance of Payments (BoP) remained at a surplus and marked a significant increase compared to the same period in FY 2022/23 AD (2079/80 BS). This improvement in BoP is credited to an increase in remittances and Foreign Direct Investments (FDIs) along with a contraction of imports, thereby decreasing the trade deficit. Consequently, the significant improvement in the BoP as well as the increased remittance inflows accelerated the deposit growth in Banks and Financial Institutions (BFIs) up to the first nine months of FY 2023/24 AD (2080/81 BS). The past quarter, from March to May 2024, also saw the long-awaited endorsement of the anti-money laundering bill, aligning Nepal with the international standards to address the issue of money laundering.

## Third Quarter Performance Analysis of Commercial Banks<sup>485</sup>

As per the unaudited third quarterly results of commercial banks for FY 2023/24 AD (2080/81 BS), the operating profit of commercial banks decreased by 8.29%, while the net profit fell by 14.41% compared to the same period in the previous FY 2022/23 AD (2079/80 BS).

In the third quarter of FY 2023/24 AD (2080/81 BS), Nabil Bank had the highest net profit of NPR 4.67 billion (USD 35.14 million), followed by Global IME Bank and Nepal Investment Mega Bank (NIMB) with a net profit of NPR 3.31 billion (USD 24.91 million) and NPR 3.28 billion (USD 24.68 million) respectively. Additionally,

compared to the same period in the last FY 2022/23 AD (2079/80 BS), the Agriculture Development Bank and Laxmi Sunrise Bank witnessed a notable increase of 97.22% and 27.70% in their net profits, amounting to NPR 2.05 billion (USD 15.43 million) and NPR 1.62 billion (USD 12.19 million) respectively. On the other hand, Nepal Bank registered the lowest net profit of NPR 130.51 million (USD 981,922).

In terms of reserves and surplus, Rastriya Banijya Bank held the highest amount of reserves of NPR 37.41 billion (USD 281.45 million) followed by Nepal Investment Mega Bank (NIMB) and Nabil Bank with NPR 29.85 billion (USD 224.57 million) and NPR 27.78 billion (USD 209.04 million) respectively. In total,

## Factsheet<sup>484</sup>

Consumer Price Index (mid-April 2024)

4.61%

Gross Foreign Exchange Reserve (mid-April 2024)

NPR 1.91 trillion (USD 14.37 billion)

Buying Exchange Rate per USD (mid-April 2024)

NPR 132.80

Weighted Average 91-day Treasury Bill Rate (mid-April 2024)

3.00%

Weighted Average Interbank Transaction Rate (mid-April 2024)

3.10%

Weighted Average Deposit Rate (mid-April 2024)

6.53%

Weighted Average Lending Rate (mid-April 2024)

10.55%

Average Base Rate of Commercial Banks (mid-April 2024)

8.51%

eight banks fared better than the reserves and surplus industry average of NPR 15.67 billion (USD 117.85 million).

Overall, by the end of nine months of the current FY 2023/24 AD (2080/81 BS), deposits at commercial banks grew by 11.87%, compared to the corresponding period in FY 2022/23 AD (2079/80 BS). The highest deposits were mobilized

| Q2 Analysis of Commercial Banks (2023-24) |                                 |                              |                 |                  |          |                  |                  |                    |                 |              |          |                |               |                                       |          |          |                                   |      |        |      |
|-------------------------------------------|---------------------------------|------------------------------|-----------------|------------------|----------|------------------|------------------|--------------------|-----------------|--------------|----------|----------------|---------------|---------------------------------------|----------|----------|-----------------------------------|------|--------|------|
|                                           |                                 | (in ₹)                       |                 |                  |          |                  |                  |                    |                 |              |          |                |               |                                       |          |          |                                   |      |        |      |
|                                           |                                 | Deposit                      |                 |                  |          |                  |                  | Loans and Advances |                 |              |          |                |               | Operating Profit (Up to this Quarter) |          |          | Net Profit (Profit of the Period) |      |        |      |
| Bank                                      | Paid-up Capital (Share Capital) | Reserve & Surplus (Reserves) | FY 23/24        | FY 22/23         | % Change | FY 23/24         | FY 22/23         | % Change           | FY 23/24        | FY 22/23     | % Change | FY 23/24       | FY 22/23      | % Change                              | FY 23/24 | FY 22/23 | % Change                          |      |        |      |
| Nabil Bank                                | 27,056,997.00                   | 27,780,508.00                | 440,436,431.00  | 363,487,636.00   | 21.17    | 368,756,617.00   | 323,514,411.00   | 13.98              | 6,684,226.00    | 7,486,653.00 | (10.72)  | 4,668,029.00   | 5,116,74.00   | (8.76)                                | 4,044    | 3,87     | 6.51                              | 8.16 | (165)  | 8.36 |
| Nepal Investment Bank                     | 34,128,595.00                   | 29,847,120.00                | 403,386,034.00  | 350,197,847.00   | 15.19    | 312,240,548.00   | 311,248,619.00   | 0.32               | 5,407,878.00    | 5,651,274.00 | (4.31)   | 3,275,277.00   | 3,046,123.00  | 7.52                                  | 4,666    | 3,94     | 6.57                              | 8.13 | (156)  | 8.52 |
| Standard Chartered Bank                   | 9,429,454.00                    | 8,446,789.00                 | 110,065,253.00  | 107,412,436.00   | 2.47     | 79,241,386.00    | 80,072,184.00    | (1.04)             | 3,509,204.00    | 3,738,066.00 | (6.12)   | 2,447,122.00   | 2,610,087.00  | (6.24)                                | 2,14     | 0.90     | 4.42                              | 7.24 | (282)  | 6.53 |
| Himalayan Bank                            | 21,656,615.63                   | 19,151,770.88                | 298,625,886.51  | 263,485,153.27   | 13.34    | 233,178,426.61   | 237,351,424.33   | (1.76)             | 3,518,933.84    | 2,525,916.35 | 39.31    | 1,948,181.22   | 1,738,862.82  | 12.04                                 | 4,966    | 4,56     | 7.53                              | 8.92 | (139)  | 9.84 |
| Nepal SBI Bank                            | 10,500,152.28                   | 7,316,861.64                 | 174,566,049.90  | 140,341,180.92   | 24.39    | 122,551,375.19   | 120,239,795.16   | 1.92               | 1,645,841.42    | 2,556,851.37 | (35.63)  | 1,164,177.87   | 1,803,285.80  | (35.44)                               | 1,98     | 0.97     | 7.50                              | 8.10 | (0.60) | 8.95 |
| Everest Bank                              | 11,767,904.00                   | 11,923,290.00                | 214,577,060.00  | 186,158,814.00   | 15.27    | 178,638,560.00   | 160,897,118.00   | 11.03              | 3,726,539.00    | 3,522,886.00 | 5.78     | 2,608,464.00   | 2,466,064.00  | 5.77                                  | 0.70     | 0.70     | 6.03                              | 8.09 | (206)  | 8.13 |
| NIC Asia Bank                             | 14,917,566.92                   | 17,449,561.19                | 327,167,643.65  | 314,808,743.72   | 3.93     | 277,181,146.88   | 266,210,650.47   | 4.12               | 3,625,277.82    | 5,783,110.35 | (37.31)  | 1,914,891.67   | 4,014,924.55  | (52.31)                               | 3.08     | 0.85     | 6.79                              | 7.97 | (1.18) | 8.86 |
| Machhapuchchhre Bank                      | 11,621,357.27                   | 5,549,425.40                 | 149,060,074.07  | 150,913,140.05   | (1.23)   | 126,992,903.38   | 128,498,944.58   | (1.17)             | 1,347,114.94    | 1,945,153.13 | (30.75)  | 855,446.56     | 1,351,952.47  | (36.73)                               | 3.68     | 2.37     | 6.37                              | 8.60 | (223)  | 8.97 |
| Kumari Bank                               | 26,225,861.34                   | 13,830,641.66                | 318,862,108.29  | 303,286,788.28   | 5.14     | 274,532,315.15   | 275,855,911.80   | (0.48)             | 2,261,874.88    | 1,860,061.25 | 21.60    | 1,052,794.53   | 1,820,295.53  | (42.16)                               | 4.95     | 3.97     | 7.58                              | 8.95 | (1.37) | 9.63 |
| Laxmi Sunrise Bank                        | 23,187,155.00                   | 17,849,050.00                | 311,610,777.00  | 296,243,475.00   | 5.19     | 249,675,259.00   | 247,870,138.00   | 2.23               | 2,231,756.00    | 1,996,514.00 | 11.78    | 1,615,903.00   | 1,265,345.00  | 27.70                                 | 5.49     | 1.82     | 6.78                              | 8.51 | (173)  | 9.12 |
| Siddhartha Bank                           | 14,089,980.19                   | 12,404,625.70                | 226,667,382.47  | 212,563,318.15   | 6.64     | 193,018,987.22   | 181,491,543.05   | 6.35               | 2,445,968.66    | 2,137,750.67 | 14.42    | 1,684,090.73   | 1,490,010.04  | 13.02                                 | 2.52     | 3.95     | 6.40                              | 8.36 | (196)  | 8.46 |
| Global IME Bank                           | 36,128,770.00                   | 22,443,174.80                | 459,772,609.00  | 409,882,438.00   | 12.17    | 366,602,143.00   | 362,082,967.00   | 1.25               | 4,743,230.00    | 6,066,067.00 | (22.28)  | 3,306,552.00   | 4,358,264.00  | (24.13)                               | 4.74     | 3.96     | 6.96                              | 8.62 | (166)  | 8.84 |
| Citizens Bank International               | 14,200,974.01                   | 7,079,092.65                 | 182,504,924.05  | 160,623,108.33   | 13.62    | 152,569,900.46   | 139,072,226.87   | 9.71               | 1,861,734.43    | 1,769,312.57 | 5.23     | 1,211,416.81   | 1,236,061.60  | (1.99)                                | 3.76     | 3.98     | 6.95                              | 8.88 | (193)  | 8.99 |
| Prime Commercial Bank                     | 19,402,575.72                   | 10,281,344.00                | 202,541,744.88  | 166,391,775.13   | 21.73    | 177,500,985.20   | 152,107,408.46   | 16.69              | 4,111,766.03    | 3,523,943.70 | 16.68    | 2,878,746.22   | 2,467,556.93  | 16.66                                 | 4.29     | 3.06     | 7.75                              | 9.09 | (134)  | 9.27 |
| Sanima Bank                               | 13,581,525.41                   | 5,658,832.02                 | 186,962,077.19  | 164,288,918.75   | 13.80    | 160,379,434.45   | 144,063,439.37   | 11.33              | 2,063,204.58    | 2,480,891.81 | (16.84)  | 1,439,442.81   | 1,711,613.82  | (15.90)                               | 1.89     | 2.27     | 6.60                              | 8.70 | (210)  | 8.35 |
| NMB Bank                                  | 18,366,706.00                   | 10,923,020.00                | 224,277,615.00  | 197,733,364.00   | 13.42    | 192,447,806.00   | 185,779,399.00   | 3.59               | 3,302,481.00    | 3,830,553.00 | (13.79)  | 2,241,595.00   | 2,682,532.00  | (16.44)                               | 2.86     | 2.96     | 7.74                              | 8.31 | (0.57) | 9.15 |
| Prabhu Bank                               | 23,542,490.00                   | 9,862,736.00                 | 278,334,829.00  | 277,451,905.00   | 0.32     | 229,901,422.00   | 242,539,775.00   | (5.21)             | 3,572,755.00    | 2,719,485.00 | 31.38    | 1,812,458.00   | 1,954,625.00  | (7.27)                                | 4.81     | 3.48     | 6.15                              | 8.40 | (225)  | 8.48 |
| Public Sector Banks                       |                                 |                              |                 |                  |          |                  |                  |                    |                 |              |          |                |               |                                       |          |          |                                   |      |        |      |
| Nepal Bank                                | 14,694,022.93                   | 22,561,305.13                | 261,479,359.35  | 229,334,965.91   | 14.02    | 185,998,574.52   | 173,773,548.40   | 7.04               | 585,329.54      | 2,221,617.52 | (73.65)  | 130,509.11     | 1,782,330.00  | (9268)                                | 4.85     | 4.16     | 5.81                              | 7.19 | (138)  | 7.99 |
| Rastriya Banijya Bank                     | 15,637,377.05                   | 37,407,281.73                | 368,281,793.71  | 321,654,940.22   | 14.50    | 246,707,464.06   | 227,308,982.42   | 8.53               | 3,376,261.10    | 5,064,997.69 | (33.34)  | 2,374,823.75   | 3,576,774.55  | (33.60)                               | 4.30     | 3.88     | 6.29                              | 6.42 | (113)  | 7.31 |
| Agriculture Dev. Bank                     | 18,884,386.08                   | 15,641,123.82                | 228,087,78.78   | 181,555,093.22   | 25.63    | 196,020,831.54   | 177,736,539.14   | 10.29              | 2,674,664.50    | 1,449,953.92 | 84.47    | 2,053,166.23   | 1,041,037.97  | 97.22                                 | 3.30     | 4.20     | 6.34                              | 7.81 | (147)  | 8.68 |
| Total                                     | 379,020,465.83                  | 313,406,126.82               | 5,367,267,35.85 | 4,797,815,290.95 | 11.87    | 4,324,136,056.66 | 4,137,715,025.05 | 4.51               | 6,266,717,27.74 | 6,833,058.33 | (8.29)   | 4,068,3,087.51 | 47,534,011.08 | (14.41)                               | 3.65     | 2.99     | 6.60                              | 8.22 | (162)  | 8.62 |

by Global IME Bank, Nabil Bank and Nepal Investment Mega Bank (NIMB) with NPR 459.77 billion (USD 3.46 billion), NPR 440.44 billion (USD 3.31 billion), and NPR 403.39 billion (USD 3.03 billion), respectively. Whereas, Standard Chartered Bank recorded the lowest deposits from customers totalling to only NPR 110.07 billion (USD 828.35 million). Contrarily, compared to the same period in the previous FY 2022/23 AD (2079/80 BS), the Agriculture Development Bank recorded the highest increase in deposits in commercial banks of 25.63% by the end of nine months of FY 2023/24 AD (2080/81 BS), amounting to NPR 228.09 billion (USD 1.72 million).

In terms of credit growth, the total credit growth of commercial banks was 4.51%, compared to the same period in the previous FY 2022/23 AD (2079/80 BS). Among the commercial banks, Nabil Bank held the highest loan and advances portfolio of NPR 368.76 billion (USD 2.77 billion) followed by Global IME Bank and

Nepal Investment Mega Bank (NIMB) at NPR 366.60 billion (USD 2.76 billion) and NPR 312.24 billion (USD 2.35 billion) respectively. Meanwhile, Standard Chartered Bank had the lowest credit disbursement of NPR 79.24 billion (USD 596.18 million).

Lastly, the average percentage of Non-Performing Loans (NPLs) of commercial banks stood at 3.65% as compared to 2.99% in the same period last FY 2022/23 AD (2079/80 BS). Furthermore, the average cost of funds was 6.60% against the 8.22% in the same period in the last financial year. Similarly, the average base rate stood at 8.62%, during the review period, as compared to the 10.52% in the same period in FY 2022/23 AD (2079/80 BS). The highest base rate was that of Himalayan Bank at 9.84% followed by Kumari Bank at 9.63%. On the other hand, Standard Chartered Bank had the lowest base rate at 6.53%.

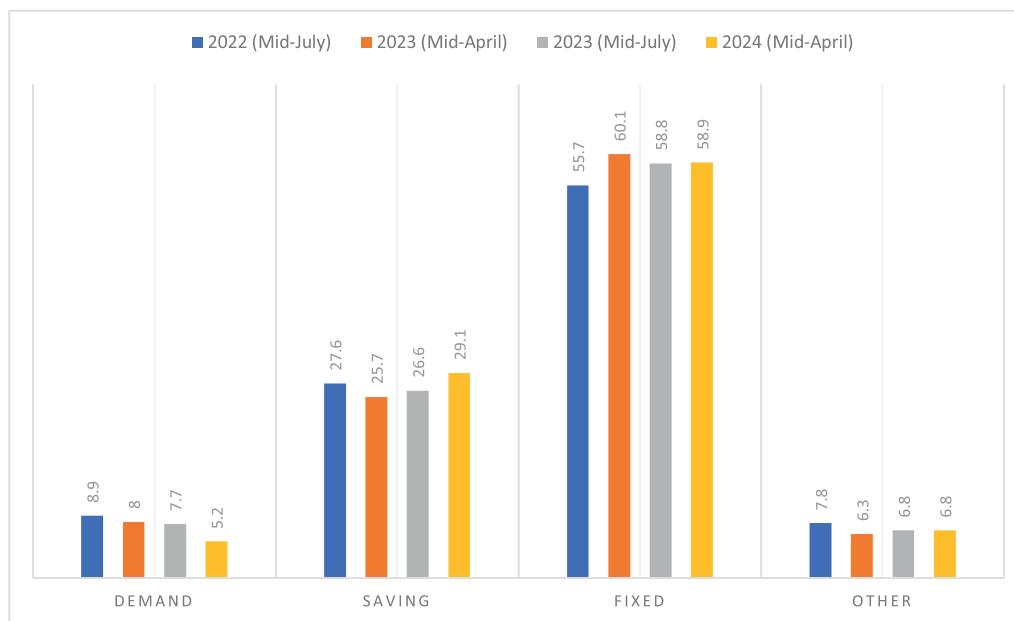
## KEY INDICATORS

Some of the key macroeconomic

indicators as per the Current Macroeconomic and Financial Situation report published by Nepal Rastra Bank (NRB) are highlighted below.<sup>486</sup> These are based on the nine months' data of FY 2023/24 AD (2080/81 BS) ending in mid-April of 2024 AD.

## Deposit and Credit Mobilization

The deposits at BFIs grew by 7.2% in the review period as compared to 7.0% in the same period last FY 2022/23 AD (2079/80 BS). Furthermore, on a year-on-year basis, deposits at BFIs experienced an expansion of 12.5% by mid-April 2024. Among the total number of deposits, demand deposits, saving deposits and fixed deposits accounted for 5.2%, 29.1%, and 58.9% respectively. These proportions have experienced a slight change compared to a year ago when the respective shares were 8.0%, 25.7%, and 60.1%.



**Figure 18. Deposit Mix at Banks and Financial Institutions (Percentage Share)**

Source: Current Macroeconomic and Financial Situation based on nine months' data, Nepal Rastra Bank, FY 2023/24 AD (2080/81 BS)<sup>487</sup>

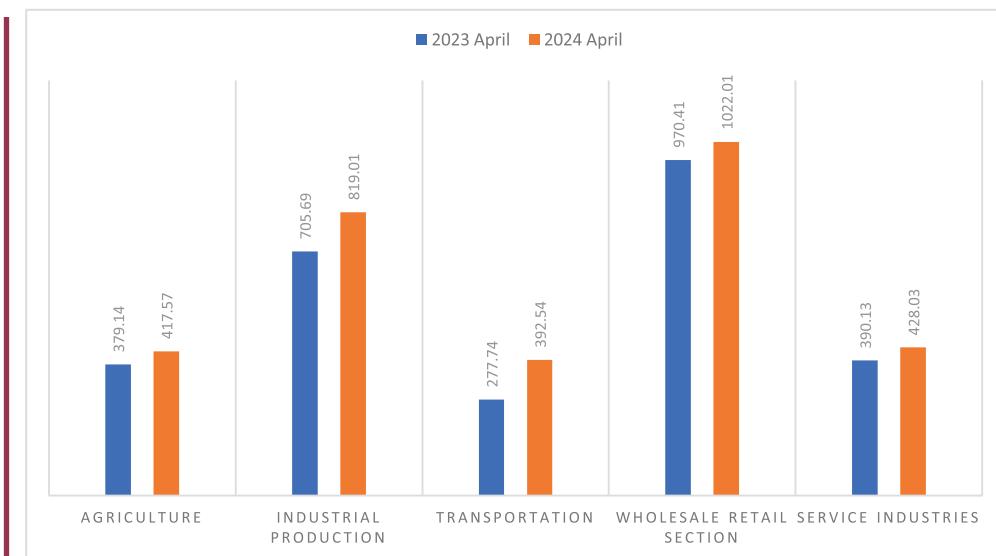
Similarly, in the review period, credit provided to the private sector by BFIs witnessed a rise of 4.6%, compared to the corresponding period last year. This increase contrasts with the data in the first nine months of FY 2022/23 AD (2079/80 BS), where credit grew by 3.5%. Looking at the year-on-year basis, the credit extended to the private sector from BFIs experienced a 4.9% increase in mid-April 2024.

Additionally, BFIs witnessed an increase in outstanding loans to various sectors. The industrial production sector witnessed a rise of 8.8%, the construction sector saw an increase of 8.7%, the agricultural sector experienced a growth of 0.7%, while the transportation, communication, and public sectors observed a substantial growth of 11.0% in outstanding loans, compared to the third quarter in FY 2022/23

AD (2079/80 BS). Moreover, as compared to the same period last fiscal year, outstanding loans to the service industry increased by 4.9%, while loans to the wholesale and retail trade sector experienced an increase of 3.8%, and the consumable sector saw a rise of 5.7%.

**Figure 19. Sector-wise Outstanding Credit of Banks and Financial Institutions (Amount in NPR in billion)**

Source: Current Macroeconomic and Financial Situation based on nine months' data, Nepal Rastra Bank, FY 2023/24 AD (2080/81 BS)<sup>488</sup>



BFIs also experienced changes in the extension of various types of loans. Term loans witnessed an increase of 17.8%, while real estate loans, including residential personal home loans, witnessed a growth of 6.9%, and margin nature loans increased by 12.9% compared to FY 2022/23 AD (2079/80 BS). However, overdraft loans decreased by 43.7%, primarily due to the reclassification of loans from the last year. Furthermore, trust receipt loans for imports and hire purchase loans experienced a decrease of 0.2% and 16.9% respectively.

### Liquidity Management

In the first nine months of FY 2023/24 AD (2080/81 BS), NRB injected a total liquidity of NPR 795.21 billion (USD 5.98 billion) based on turnover. This liquidity injection consisted of NPR 1.20 billion (USD 9.02 million) through the Standing Liquidity Facility (SLF) and NPR 794.01 billion (USD 3.87 billion) through the Overnight Liquidity Facility (OLF). In the same period last FY 2022/23 AD (2079/80 BS), a net amount of liquidity amounting to NPR 4.44 trillion (USD 33.41 billion) was injected through various

instruments of open market operations including SLF. Thus, compared to the last financial year, the net amount of liquidity injected decreased by NPR 3.64 trillion (USD 27.38 billion) in this financial year.

Moreover, NRB injected liquidity amounting to NPR 568.58 billion through the net purchase of USD 4.28 billion from the foreign exchange market. In comparison, in the corresponding period of the previous year, a liquidity of NPR 557.81 billion was injected through the net purchase of USD 4.27 billion.

Additionally, NRB purchased Indian currency (INR) equivalent to NPR 366.99 billion through the sale of USD 2.76 billion in the first nine months of FY 2023/24 AD (2079/80 BS). Comparatively, in the corresponding period last year, INR equivalent to NPR 462.14 billion was purchased through the sale of USD 3.54 billion.

### Foreign Exchange Reserves and Adequacy

Up to the third quarter of FY 2023/24 AD (2080/81 BS), the total value of foreign exchange reserves rose by 24.2% to NPR 1.91 trillion (USD 14.37 billion) in mid-April 2024, compared to NPR 1.54 trillion (USD 11.59 billion) in mid-July 2023. Similarly, the reserves

held by BFIs, excluding the NRB, increased by 15.5% to NPR 223.65 billion (USD 1.68 billion) in mid-April 2024 from NPR 193.59 billion (USD 1.46 billion) in mid-July 2023. Within this, the proportion of Indian currency in the total reserves amounted to 21.6% as of mid-April 2024.

**Table 10. Foreign Exchange Adequacy Indicators**

Source: Current Macroeconomic and Financial Situation based on 9 months' data, Nepal Rastra Bank, 2023/24 AD (2080/81 BS)<sup>489</sup>

|                              | Mid-July 2023 | Mid-April 2024 |
|------------------------------|---------------|----------------|
| <b>Total Foreign Reserve</b> |               |                |
| In NPR                       | 1.54 trillion | 1.91 trillion  |
| In USD                       | 11.71 billion | 14.36 billion  |
| <b>Ratios</b>                |               |                |
| Reserve-to-GDP               | 28.8%         | 33.5%          |
| Reserve-to-Imports           | 83.0%         | 104%           |
| Reserve-to-M2                | 25.0%         | 28.9%          |

Additionally, based on the imports up to the third quarter of FY 2023/24 AD (2080/81 BS), the foreign exchange reserves of the banking sector have been deemed sufficient to cover approximately 15 months of prospective merchandise imports and 12.5 months of both merchandise and services imports.

### Interest Rates

The weighted average rate for the 91-day treasury bills remained steady at 3.00% as of mid-April 2024 AD, compared to 9.74% in mid-April 2023. Meanwhile, the weighted average interbank transaction rate among

commercial banks, which was 7.01% a year ago, decreased to 3.10% as of mid-April 2024.

In the same period, the average base rate of commercial banks experienced a decrease, falling from 10.48% a year ago to 8.51% this year. Furthermore, the weighted average deposit rate and lending rate of commercial banks as of mid-April 2024 stood at 6.53% and 10.55% respectively. Comparatively, these rates were respectively 8.26% and 12.84% one year ago.

### Balance of Payment

In the first nine months of FY 2023/24 AD (2080/81 BS), ending in mid-April 2024 AD, the Balance

of Payment (BoP) was at a surplus of NPR 365.16 billion (USD 2.75 billion), which witnessed a percentage increase of 109.55% compared to the corresponding period of the previous year, where the BoP was at a surplus of NPR 174.28 billion (USD 1.31 billion).

**Highlights from the Third Quarter Review of the Monetary Policy 2023/24 AD (2080/2081 BS)**  
 Published on May 17, 2024<sup>490</sup>

**Highlights from the third quarter review of the monetary policy**

The average Consumer Price Index (CPI) up to mid-April 2024 stood at 4.61%. In the same month of the previous year, the average CPI stood at 7.76%.

There has been a decrease in both short-term and long-term interest rates due to the easy liquidity situation in the banking system. The average base rate of commercial banks decreased from 10.48% in mid-April 2023 to 8.51% in mid-April 2024.

The bank rate of 7.0% remains unchanged.

In FY 2023/24 AD (2080/81 BS), it is projected that comprehensive money supply will increase by 12.5%, while credit to the private sector will rise by 11.5%. However, till mid-April 2024, on an annual point basis, comprehensive money supply increased by 12.3% while credit to the private sector increased by 4.9%, highlighting weak growth rate of loans to the private sector.

The weighted average interbank rate among banks and financial institutions (BFIs) fell from 7.01% in mid-April 2023 to 3.10% in mid-April 2024.

The loan loss provision for good loans provided by the BFIs has been reduced by NRB from 1.25% to 1.20%, potentially freeing up capital for further investment and strengthening the financial health of banks.

The NRB has reduced the risk weightage on hire purchase loans provided by BFIs from existing 125% to 100%.

To enhance liquidity and profitability, BFIs can now sell up to 20% of their primary capital investments made in the mid-category in a single fiscal year.

For the purchase of home/land, Debt Service to Gross Income Ratio has been increased from previous 50% to 70%, conditional on proof of tax repayment.

**KEY DEVELOPMENTS**

**Nepal's Banking Sector Leads in Gender Parity at Entry-Level, but Senior Roles Lag Behind**

According to the International Finance Corporation (IFC) report titled 'Women's Advancement in Banking in Emerging South Asian Countries', Nepal's banking industry leads in South Asia

in gender parity at entry-level positions with 46% female representation amidst an overall percentage of 42% female representation.<sup>491</sup> However, despite this, women were found to hold only 23% of the senior management roles, as highlighted by the 2024 report examining gender diversity in six leading Nepali banks. This is significantly higher than the

38% female representation in banks in Sri Lanka, and 18% representation in Bangladesh, with senior management representation at 20%, and 12% respectively. The report further examined gender diversity in commercial banks across Bangladesh, Nepal, and Sri Lanka, where women make up 30% of the banking workforce, which is below the global average of 52%.

It also identified barriers such as inequitable hiring, inadequate professional development, unfair evaluations, and sociocultural constraints that hinder women's career growth.<sup>492</sup> Finally, the report also highlighted the way forward by underlining the importance of diversity, equity, and inclusion, and suggested recommendations to deal with these barriers, noting that banks with more women in senior roles perform better financially.<sup>493</sup>

#### Majority Commercial Banks Under Special Surveillance under NRB

In April, NRB placed 18 out of 20 commercial banks under special surveillance due to suspected regulatory non-compliance.<sup>494</sup> Following NRB's 37 onsite inspections of these banks over the past year, only Standard Chartered Bank

Nepal and Machhapuchchhre Bank Limited were not under scrutiny.<sup>495</sup> According to the 'Bank Supervision Report 2022/23', they found several significant issues in most commercial banks, including flaws in credit systems, operational risk management, and policy implementation. Additionally, the task force found that while banks have policies like Recovery Planning and Compliance Policy, they often fail to review and update them promptly. Moreover, they found that banks face a host of issues in terms of their systems including inadequate Management Information Systems (MIS), lack of information security audits, and insufficient credit appraisals for personal loans. They also found that video surveillance systems are quite deficient, with issues like insufficient backup duration, poor visibility, and improper camera positioning –

all of which is concerning as it hinders effective misconduct investigation, fraud detection, and suspicious activity reporting.<sup>496</sup>

#### BFIs' Lending to Private Sector Increases by Only 4.3%

In the first eight months of FY 2023/24 AD (2080/81 BS), BFIs increased their lending by only 4.3% as compared to the end of FY 2022/23 (2079/80 BS) – the breakdown of which can be seen in Table 11.<sup>497</sup> Within this, BFIs' private sector lending fell short of NRB's target through its monetary policy for FY 2023/24 AD (2080/81 BS) of an 11.5% growth. Despite reduced interest rates, low loan demand, and lacking business confidence amidst an economic slowdown hindered lending expansion.

**Table 11. Breakdown of Loans by BFIs in First Eight Months of FY 2023/24 AD (2080/81 BS)**

| Loan Type             | Amount (NPR)                           | Percentage Change Compared to Last Year |
|-----------------------|----------------------------------------|-----------------------------------------|
| Private Sector        | NPR 5.09 trillion (USD 38.32 billion)  | 4.3%                                    |
| Manufacturing Loans   | NPR 817 billion (USD 6.14 billion)     | 8.7%                                    |
| Home Loans            | NPR 384 billion (USD 1.57 billion)     | 10.4%                                   |
| Cash Credit Loans     | NPR 643 billion (USD 4.83 billion)     | 24.6%                                   |
| Fixed Term Loans      | NPR 1.83 trillion (USD 13.78 billion)  | 15.9%                                   |
| Share Loans           | NPR 85.70 billion (USD 644.53 million) | 12.3%                                   |
| Working Capital Loans | NPR 788 billion (USD 5.93 billion)     | (10.4%)                                 |
| Real-estate Loans     | NPR 248 billion (USD 1.87 billion)     | (0.5%)                                  |
| Hire Purchase Loans   | NPR 126 billion (USD 946.43 million)   | (20.7%)                                 |
| Education Loans       | NPR 46.79 billion (USD 351.93 million) | (16.2%)                                 |

## Non-Performing Loans (NPLs)

### Increase to 3.65%

In the first nine months of FY 2023/24 AD (2080/81 BS), NPLs of commercial banks increased to 3.65%, up from 3.02% in the same period last year.<sup>498</sup> This rise, reported by 20 commercial banks in their third quarterly financial reports, represents an increase in loans of NPR 34.90 billion (USD 262.60 million), bringing the total sum of NPLs to NPR 164.90 billion (USD 1.24 billion).<sup>499</sup> Laxmi Sunrise Bank reported the highest percentage of NPLs at 5.49%, up from 1.82% last year. Meanwhile, Himalayan Bank and Kumari Bank

also saw significant increases, with NPLs rising to 4.96% and 4.95%, respectively. Even banks known for low NPLs, such as Standard Chartered Bank Nepal and Nepal SBI Bank, experienced increases, with NPLs rising to 2.14% and 1.98%, respectively.<sup>500</sup> This increasing trend in NPLs has mostly been attributed to increased bad debts amidst an economic slowdown.<sup>501</sup>

### Budget of NPR 1.86 trillion (USD 13.99 billion) Announced for FY 2024/25 AD (2081/82 BS)

For FY 2024/25 AD (2081/82 BS), a budget of NPR 1.86 trillion (USD 13.99 billion) was

announced on May 28, 2024.<sup>502</sup> From this amount, a total of NPR 1.14 trillion (USD 8.57 billion) and NPR 352.35 billion (USD 2.65 billion) will be used for recurrent and capital expenses respectively. Additionally, NPR 367.28 billion (USD 2.76 billion) has been allocated to financial management, which includes the strategic handling of government funds, including debt management, investments, and ensuring the efficient and effective use of resources to meet the country's economic goals.

## Major Highlights of FY 2024/25 AD (2081/82 BS) Fiscal Budget for the Financial Market<sup>503</sup>

The Government of Nepal (GoN) has estimated an economic growth rate of 6% and inflation of 5.5% for FY 2024/25 AD (2081/82 BS).

Financial legislation will be aligned with international standards and the NRB's capacity for oversight and supervision will be enhanced. Additionally, amendments will be made to the Nepal Rastra Bank Act and the Foreign Exchange Regulation Act to modernize the financial sector and establish a robust regulatory system.

To expand government-backed investment funds for startups and innovative businesses, the government has planned to develop the Nepal Start-up Board and set up a start-up fund of NPR 1 billion (USD 7.52 million), along with the provision of low-interest loans and financial assistance programs to support business growth and sustainability.

The income tax on interests earned by foreign banks' subsidiaries has been reduced to attract foreign investments in the financial sector. There has also been a reduction in tax on interest on loans from foreign banks and financial institutions.

The promotion of digital banking, mobile banking, QR code technology, and the adoption of the latest banking technologies will be prioritized to provide banking services in remote and rural areas.

Local level governments will be encouraged to collaborate with financial institutions for social banking initiatives, which will include providing micro insurance to low-income groups and marginalized communities.

In order to increase public trust towards BFIs, awareness programs will be conducted on customer interest protection, customers' responsibilities towards banks and financial institutions, credit management and other issues.

The continuation of providing an additional 1% interest rate on remittance accounts will be implemented to encourage remittances through the banking channel.

Business incubation centers will be established in every province to support new ventures. Additionally, BFIs will be incentivized to offer loans for new ventures, and private equity and venture capital funds will be supported by various agreed funds.

## Outlook //

Over the past quarter, the financial sector saw many developments that could possibly provide a foundation for economic growth. Among them, the decrease in CPI could lead to a possible increase in the stability of prices and the reduction in loan loss provisions could increase in the possibility of greater economic activity. In addition to this, the budget for FY 2024/25 AD (2081/82 BS) is expected to hopefully add to the growth and stability through various measures, including digital banking and financial inclusion initiatives. However, the decline in both short-term and long-term interest rates, as well as the drop in the average base rate of commercial banks, pose a variety of challenges. These reductions may be indicative of excessive liquidity in the banking system, which could lead to inflationary pressures or asset bubbles if not managed effectively. Additionally, the sluggish credit growth to the private sector and the increase in NPLs highlight underlying weaknesses in the economy, such as weak loan demand and rising credit risks. Overall, while there are positive signs for the financial market, such as price stability and government support, challenges remain that could impact its future performance.

# Capital Market

During the review period, from March 3, 2024 to May 30, 2024, despite a slight dip towards the end of the period and a budget announcement that failed to excite investors, the overall secondary market volume surged significantly by 5.57%. While at the beginning of the period, the NEPSE index rose, reflecting investor optimism driven by declining interest rates, the market lost its positive momentum, hitting a low of 1,958.75 points on May 6, 2024 due to waning investor confidence resulting from disappointing third-quarter results from listed companies, especially in the financial sector. However, the trend again reversed, with the NEPSE index rising and peaking on May 22, 2024 at 2131.49 points due to the expectation of favorable government policies in the FY 2024/25 AD (2081/82 BS) budget.

| FACTSHEET                                                      |                                        |
|----------------------------------------------------------------|----------------------------------------|
| Indicator                                                      | Data                                   |
| NEPSE Index (mid-April, in points) <sup>505</sup>              | 2025.71                                |
| Stock market capitalization (mid-April) <sup>506</sup>         | NPR 3.212 trillion (USD 24.16 billion) |
| Number of companies listed at NEPSE (mid-April) <sup>507</sup> | 272                                    |

| Index                        | 03-March-2024 | 30-May- 2024 | % Change |
|------------------------------|---------------|--------------|----------|
| <b>Main Indices</b>          |               |              |          |
| NEPSE                        | 1960.30       | 2069.53      | 5.57%    |
| Sensitive                    | 349.73        | 370.19       | 5.85%    |
| Float Index                  | 133.06        | 140.18       | 5.35%    |
| <b>Sub-Indices</b>           |               |              |          |
| Banking                      | 1054.46       | 1119.25      | 6.14%    |
| Development Banking          | 3809.61       | 4054.80      | 6.44%    |
| Finance                      | 1729.05       | 2148.83      | 24.28%   |
| Microfinance                 | 3471.39       | 4357.91      | 25.54%   |
| Hydropower                   | 2439.00       | 2485.48      | 1.91%    |
| Hotels and Tourism           | 5037.62       | 5341.28      | 6.03%    |
| Manufacturing and Processing | 6725.03       | 6748.95      | 0.36%    |
| Life Insurance               | 9768.45       | 10092.13     | 3.31%    |
| Non-Life Insurance           | 10229.86      | 10574.47     | 3.37%    |
| Trading                      | 2736.90       | 2749.23      | 0.45%    |
| Mutual Funds                 | 17.89         | 18.83        | 5.25%    |
| Investment                   | 74.32         | 76.04        | 2.31%    |
| Others                       | 1656.12       | 1636.21      | -1.20%   |

**Table 12. Key Market Indicators**

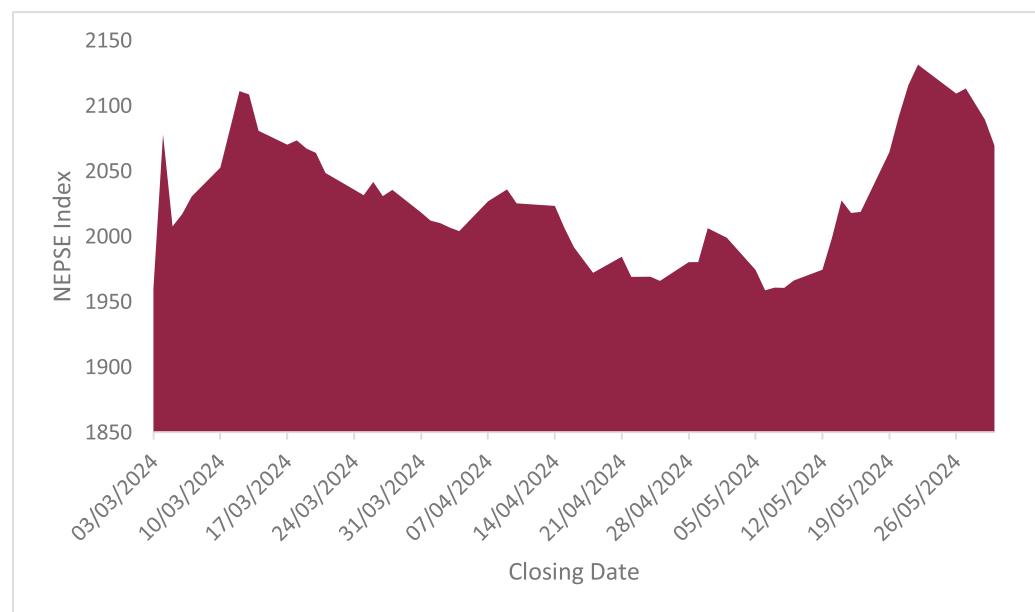
Source: Nepal Stock Exchange<sup>504</sup>

## Secondary Market

During the review period from March 3 to May 30, 2024, the NEPSE index closed at 2069.53 points, reflecting an increase of 109.23 points (5.57%) showing a bullish trend in the quarter with a peak on May 29, 2024, at 2153.39 points. However, NEPSE concluded its last week of the quarter reporting a loss of 2.91%. Despite this, the total market

capitalization at the end of the review period was NPR 3.28 trillion (USD 24.68 billion).<sup>509</sup> Among the main indices, the sensitive index rose the most (5.85%) and among sub-indices, only one sector witnessed a decrease in the quarter while all others increased. The 'Others' sector was the only sector with a negative yield in the quarter as it reported a 1.20% decrease in the index. Among other indices,

the 'Microfinance' and 'Finance' sector reported the maximum yield with a staggering rise of 25.54% and 24.48% respectively. Likewise, the Development Banking (6.44%), Banking (6.14%) and Hotels and Tourism (6.03%) sectors were other sectors which showed higher growth in the review period. Figure 19 shows the daily changes of NEPSE index during the review period.



## KEY DEVELOPMENTS

### Increased Loanable Funds Fail to Boost Investor Confidence

Over the past quarter, Banks and Financial Institutions (BFIs) have been issuing margin loans, which are loans against shares, in significant amounts.<sup>510</sup> According to NRB records, the issuance of margin loans increased by 12.9% during mid-July 2023 and mid-April 2024. In comparison, the real estate sector loans only saw a 4.3% increase during the same period. As of mid-April, BFIs issued margin loans worth NPR

86.18 billion (USD 648.31 million) to investors in the share market. BFIs also issued additional loans worth NPR 208 billion (USD 1.56 billion) to the private sector, with share loans making up 4.75% of the total loans.<sup>511</sup> Moreover, the margin lending in loans above NPR 10 million (USD 75,249) increased by 17.7%, and in the NPR 2.5 million – NPR 5 million group (USD 18,806 – USD 37,626), it grew by 11%. However, despite this increased lending, the confidence of investors in Nepal's secondary market remained low, with the share market index

declining to 2,006.53 points as of mid-April 2024 from 2,097.10 points in mid-July 2023.<sup>512</sup>

### SEBON Reduces Stockbrokers' Commission Rates by 10%

Effective from May 14, the Securities Board of Nepal (SEBON) announced a 10% reduction in the commission rates of stockbrokers following approval from the Ministry of Finance (MoF) after a six-month review of the proposal.<sup>513</sup> According to the new policy, the revised rates will have a lower limit of 0.243% and an upper

limit of 0.36%. Additionally, the commission rates will vary based on transaction volume with a rate of 0.36% for transactions up to NPR 50,000 (USD 376); 0.33% for NPR 50,000 – 500,000 (USD 376 – 3,764); 0.306% for NPR 500,000 – 2 million (USD 3764 – 15,000); 0.27% for NPR 2 million – 10 million (USD 15,000 – 75,000); and 0.243% for amounts over NPR 10 million (USD 75,000). This move aims to address investor demands for lower fees and is expected to attract more people to invest in the stock market.<sup>514</sup>

#### **SEBON Releases Comprehensive Guidelines for Informed Investing**

As part of Global Money Week 2024, held from March 18–24, SEBON introduced comprehensive guidelines to help investors make informed decisions given Nepal's economic and political landscape.<sup>515</sup> Global Money Week, initiated by Child and Youth Finance International (CYFI), is a week-long campaign educating children and youth

about financial concepts through activities like fairs and games, aiming to empower them with skills for informed financial decision-making and promote financial inclusion and stability. The guidelines released during this, which hope to help investors navigate the stock market with greater confidence and awareness, provide a long list of suggestions. Some suggestions include investors being advised to focus on realistic return rates, consider currency fluctuations, and diversify their investments.<sup>516</sup> The guidelines further highlight the importance of relying on verified information, mitigating risks through diversification, and establishing strategies for unforeseen impacts. SEBON also further emphasized understanding securities' characteristics and aligning investments with environmental, social, and governance factors. Additionally, it suggested that investors should independently assess risk tolerance, use authorized channels for primary market shares, and participate in

training programs for continuous market monitoring.<sup>517</sup>

#### **Investor Participation Increases in Nepal's Capital Market**

As per the Economic Survey for FY 2023/24 AD (2080/81 BS), the number of DEMAT accounts totaled 6.22 million as of mid-March 2024.<sup>518</sup> This represents a significant increase from previous figures, indicating a growing trend in investor participation. Similarly, the number of MeroShare accounts also rose to 5.26 million, reflecting a substantial increase in investor engagement.<sup>519</sup> This surge in accounts could be attributed to several factors, including increased awareness about investing, greater accessibility to financial markets, and the convenience of online trading platforms. Experts have noted that this trend suggests a positive outlook for the Nepali capital market, with more individuals taking an active interest in investment opportunities.

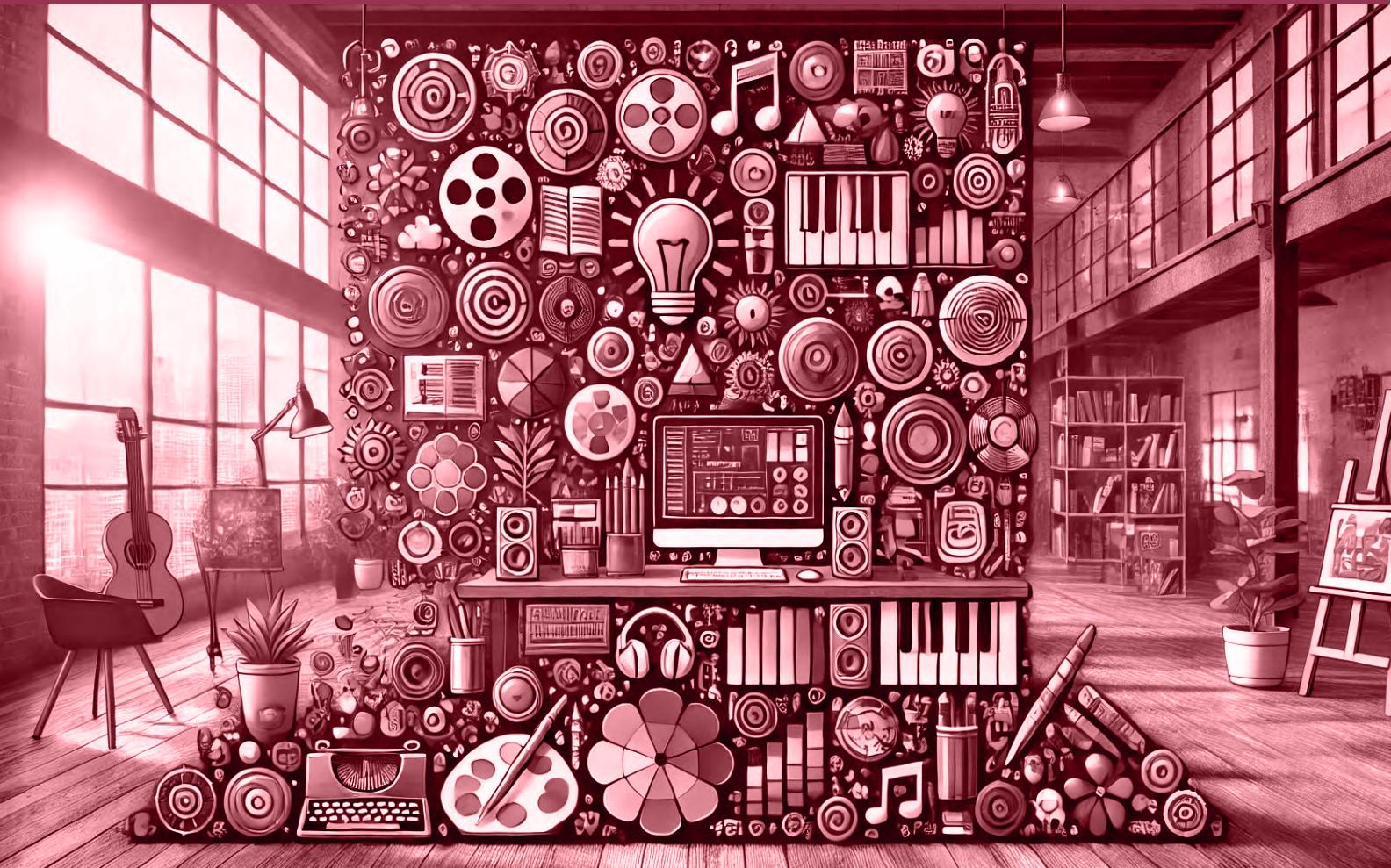
## **Outlook //**

Despite no significant IPOs, some developments in the sector in the past quarter reveal an interesting scenario. The increase in margin loans issued by BFIs suggests that market liquidity may remain robust, potentially attracting more participants. Along with this, SEBON's recent decision to reduce stockbrokers' commission rates could further incentivize investing, aligning with the growing trend of investor participation noted in the Economic Survey. However, the persisting challenge of low market confidence, reflected in the decline in the share market index, poses a significant hurdle. Despite SEBON's efforts to promote informed decision-making through comprehensive guidelines, restoring investor trust remains crucial. The market may see increased activity as investors navigate these mixed signals, emphasizing the need for measures that not only stimulate participation but also bolster confidence in the market's resilience and long-term prospects. Thus, while challenges such as low market confidence persist, these initiatives and guidelines provide a framework for bolstering investor trust and fostering a more resilient capital market ecosystem in Nepal.

# 5

## Special Section

Decoding the Creative industry



# Introduction

The creative industry is an evolving concept that differs across countries and over time. Its formal definition can be traced to the United Kingdom's "Creative Britain" strategy under Prime Minister Tony Blair's leadership in 1997.<sup>520</sup> Specifically, the UK's Department of Culture, Media, and Sport defined the creative industry by linking creativity with intellectual property to highlight its potential to generate wealth and employment.<sup>521</sup> Also known as the "orange economy," this diverse sector includes 13 subsectors: advertising, architecture, art and antique markets, crafts, design, designer fashion, film and video, interactive leisure software, music, performing arts, publishing, software and computer games, and television and radio.<sup>522</sup>

At the heart of the creative industry is the creation of value. Not just limited to aesthetic pursuits, the creative industry revolves around investment in human capital to drive endogenous growth.<sup>523</sup> According to an United Nations Conference on Trade and Development (UNCTAD), the creative industries accounted for 3.1% of global GDP, i.e. USD 2 trillion (NPR 266 trillion), and nearly 50 million jobs worldwide in 2022.<sup>524</sup> Notably, with women comprising about half of its workforce and more people aged 15–29 than any other sector, it is a champion of gender diversity and young talent.<sup>525</sup> Understanding the industry's potential, countries like the United States, the United Kingdom, South Korea, France, and China have unlocked the transformative potential of creativity to drive sustainable development.<sup>526</sup>

Nepal's creative industry has deep historical roots in its integrational artisanship. The Lichhavi era laid the foundation for art and architecture, while the Malla era ushered in the "golden age of creativity" around 1200 AD.<sup>527</sup> Nepal's creative spirit is woven into its multi-ethnic, multi-lingual, multi-religious, and geographically diverse society, as recognized by the Constitution of Nepal, 2015.<sup>528</sup> At present, Nepal's creative industry fuses centuries-old craftsmanship with 21st-century innovations. Indigenous knowledge passed down through generations coexists with contemporary artistic expressions in a digital landscape. Additionally, Nepal is emerging as a tech-savvy nation with total IT service exports reaching USD 515 million in 2022.<sup>529</sup>

This special section of Nefport 57, "Decoding the Creative Industry," attempts to traverse these various facets of Nepal's creative industry. Through the insights of experts, artists, and entrepreneurs, the articles revisit Nepali "bohemians" in a new light. Whether in literature, films, or music, the creative industry stimulates social change. For example, Nepa-laya's Peace Concert Tours, headlined by Nepathyā, brought hope and drew crowds even in conflict zones like Dang during the Civil War in 2003. The future of the creative industry lies in blending traditional techniques with modern technologies and shifting perspectives. Nepal's unique position as a "phantom colony," influenced by colonial powers without formal occupation, offers a distinct perspective in postcolonial literature. Additionally, Kathmandu can leverage its cultural heritage for economic diversification as a Creative City of Film within the UNESCO Creative Cities Network (UCCN). By leveraging its creative industry, Nepal can position itself as a hub of creative excellence in South Asia.



# The Phantom Colony : Nepal and the Missing Links of Postcolonial History

**Bhushita Vasistha**

Writer

I spent the last two years as a Fulbright Scholar in the Creative Writing program at San Jose State, California. I was the only brown person in the first two semesters of the fiction workshop. My thesis novel was based on the Nepali Civil War. When I submitted the first chapter for the workshop, most of my classmates — otherwise very well-read people — admitted that they did not know anything about the war or Nepal, for that matter. But that was understandable. Nepal had never been colonized by white people; they were not obligated to remember us. When I learnt the fact, as the only non-colonized brown person in the Postcolonialism class, I joked that it would have been better if we were colonized; having a powerful enemy to blame on is half the therapy.

Jokes aside, the Post Colonialism class was a wonderful introduction to the contextual study of literature from India, Kenya, Zimbabwe, Algeria, Sri Lanka, China, and Korea, among other colonized nations. The works of writers like Arundhati Roy, Ngugi wa Thiong'o and Tsitsi Dangarembga have won critical acclaim on their own, but being braided to the larger narratives of Postcolonialism has given them exposure into college textbooks

worldwide and granted longevity that prizes alone cannot. The classroom discussion made me wonder why Nepali literature has yet to receive the global attention all our neighbouring countries are receiving and what can be done to bridge the gap.

About four years ago, I had chanced upon an article by Ajit Baral pondering over the dystopian future of Nepali publishing.<sup>530</sup> At that time, I was working as a Publishing Editor in Publications Nepalaya. Every week, I dove into the slush pile retrieving a few manuscripts I thought were worthy of global readership. And yet, Ajit was right, we did not have an international market and the once robust domestic market was shrinking dramatically.

Ajit's article introduced me to JN Aton, who published the first book in Nepal, 'Grammar of the Nepali Language', in 1820. That year marked the sixty-third year of the East India Company's arrival and eventual colonization of India, the seventh-largest country in the world by land area. It was a miracle that Nepal, which is about 22 times smaller the size of India, resisted full colonization. This isolation, however, had its consequences. For one, when imperialism gave

way to the political awakening of South Asia in the 1940s, India and China already had pervasive rail and road connections that covered significant national and international destinations.

On the other hand, Nepal, a land-locked nation, had a mere 356 km of national road connectivity in the 1950s, with no proper transportation channels to connect with its neighbors. However, this disconnection is more expansive than rails or roads; Nepal has also been equally disconnected from the global literary scenario. For example, it is telling that the DSC prize for South Asian literature, in its ten years of history, has never had a single Nepali author in its shortlists.

Until 1951, Nepal was closed to the world, forbidding foreigners from entering the kingdom. In the age of roving empires, Nepal managed to escape colonization entirely, fermenting a robust, oracular literary ecosystem. Nepal had encapsulated itself during the deforming era of colonial conquest. But this isolation has also deprived our art and culture from travelling beyond our physical borders. Consequently, Nepal has become

a distant romantic dream which needs to be humanized more in the global literary scene to arouse interest in its literature.

The way forward is definitely to translate Nepali literature and share it with the world. But before we do that, building the larger contextual narrative on which these works can find firm footing is important. In the Postcolonialism class, I realized

that although the East India Company had never physically colonized Nepal, we functioned as the colonial masters' satellite office. We pandered to their proclamations of "civilization" as any physically colonized state did. But so far, postcolonial studies haven't focused heavily on these phantom colonies yet.

This is a wonderful opportunity for Nepali academia to

conceptualize the notion and relocate Nepali political history on the world map. As a phantom colony, we can offer a new lens to understand the optics and operatives of Southeast Asian colonial history through our folksongs, folk literature, and political movements, which today is poorer for not understanding the complete machinery of imperialism.



# Bohemians' Industry

By Kiran Krishna Shrestha

Team Leader, Nepa~laya

During Nepal's Maoist conflict period, my company, Nepa~laya managed several editions of the Peace Concert Tours across the war-torn country. Our headlining band was Nepathyā. In 2003, we were scheduled to perform in Dang. The district where the Maoists had attempted their first successful attack on an Army camp. The air was tense. Though a curfew was not announced officially, an unofficial curfew was followed by everyone from dusk to dawn. All shops would close in Tulsipur bazaar as the sun set and everyone would rush home before dusk. The situation was not at all favorable to organize a show. But the unexpected happened – over 20,000 people turned out for the show. The media reported people's participation as their symbolic referendum for peace. We were later told that after the show, shops in the area had started to open till 7 pm. The market had regained confidence. That day, I was reassured of the power of music. The potential power it holds to keep hope alive among people during times of distress.

I have followed Bono and his band U2 closely. While music was one reason, the main reason was their social imagery. Reading about how Bono had successfully played a role in bringing Google

and Facebook to Ireland was a testimony to how a nation can benefit from the soft power of celebrity artists.

Countries like Ireland were lucky to have citizens like Bono, while others spend a fortune to build such power. Norway's investment in the Ibsen brand, and Jazz music in Nepal are examples of how nations are working on rebranding their images through cooperation with the creative industry.

In another instance, while attending the Frankfurt Book Fair in 2012, I was surprised to see the scale at which New Zealand was promoted there. Literary and cultural representation was highlighted through events and a special pavilion had been made to showcase the Kiwis. When asked how the nation was selected as the guest of honor, a simple answer followed – "You need to pay."

In 2017, Netherlands and Flanders became the guest of honor. As per the agency working on the project, the project cost was EUR 5.7 million.<sup>531</sup> Among other accomplishments, the affiliation and investment got 300 Dutch books translated into the German language, thereby proving to be a justified investment. I cannot

see Nepal going to this level of diplomacy and promotion soon. However, it could start with the state showing an interest in utilizing its already allocated budget to empower events that have gained international repute. Film festivals like Films South Asia, KIMFF, and music festivals like Kathmandu Jazz could be a few examples.

I recall meeting an official related to the Nepal Tourism Board at an event. I was sharing with him how Nepathyā promoted tourism through its songs, words, and visuals screened at concerts. Before I could finish, he bluntly said, "If you are looking for sponsorship, our budget for this year has already been used." I softly replied, "We are doing fine without your sponsorship. As we have been promoting Nepal within Nepal and beyond through our shows, please feel free to share your views on how you can utilize us better. For free!" He just smiled and left. I am yet to hear from him.

While Nepathyā was performing at the Warfield Theater in 2016 in San Francisco, I remember the venue manager telling me, "It was amazing to see how the Nepali crowd reacted to your show. It reminds me of watching K-Pop 10 years ago. 10 years ago, there

were only Koreans attending, 5 years ago it was half Korean. And now we see almost no Koreans."

The Korean Wave through its entertainment content started with a few TV dramas making it to the Chinese TV, CCTV in 1997. In 2003 and 2004, Japan's TV, NHK aired a few Korean Dramas. Soon, the demand for Korean drama extended to more than 90 countries. This contributed to the promotion of Korean culture, fashion, music, food, and consumer goods among foreign viewers.<sup>532</sup>

With the increasing trend of migration of Nepali people to first-world nations which include Australia, Japan, Canada, the USA, the UK, and European nations, Nepali diaspora will surely grow. There will certainly be creative minds making their way to recognition in their respective capacities. These immigrant populations can be expected to expand the horizons for Nepal in the future as the Indian and

Chinese diaspora did and are doing for their respective nations.

In 2008, humans crossed the mark towards being a predominantly urban species with more than half of the global population now living in cities rather than rural areas. Along with this, with half the population being under the age of 25, the choice of migration will no longer remain limited to immediate financial self-interest. The value of creativity and connectivity the city offers will be valued more over employment and security. This is a typical global phenomenon being observed among the youth.<sup>533</sup> We may not be able to compete with the developed nations in terms of employment and security. But, as John Hartley states, we may have a competitive advantage if we start investing in connectivity and creativity.<sup>534</sup>

Along with other economic indicators, it may also be time for us to consider improving on the

Bohemian Index.<sup>535</sup> The Bohemian index is a location quotient that measures the percentage of bohemians in the area as per occupational data compared to the national population. The list of professions under Bohemians includes authors, designers, musicians and composers, actors and directors, craft artists, painters, sculptors, artists, photographers, dancers, performers, and related workers.

Soon, a city with a higher Bohemian index will be considered a suitable one for the creative industry to thrive. David Parrish explains creative industries as businesses that originate through creativity, which has the potential and capacity to create jobs, and wealth and regenerate economies.<sup>536</sup> So, the mayors of our cities could start exploring ways to rate high on the Bohemian index which will hopefully trigger the reason for skilled national and international bohemians to visit and live.

# Kathmandu's Creative Journey with UNESCO Creative Cities Network



**By Nasala Prajapati**  
Coordinator, Himalayan Future Forum  
and



**Ankur Guragain**  
Intern, Nepal Economic Forum

Sustainable urban development requires culture and creativity to diversify the economy and enhance the citizen's quality of life.<sup>537</sup> To facilitate this, UNESCO initiated the Creative Cities Network (UCCN) in 2004 to integrate creativity into sustainable development.<sup>538</sup> UCCN is a global network aiming to bolster cooperation between UNESCO-recognized creative cities that strategically prioritize the creative industry for urban growth. This network recognizes seven forms of creativity: art, design, film, gastronomy, literature, media arts, and music.<sup>539</sup> In a recent development, Kathmandu joined this network as a creative city of film in 2023.<sup>540</sup> This article aims to capture the potential benefits of the UCCN global network for Kathmandu and explore actions needed to ensure the city can fully capitalize on these benefits.

Creative cities of film foster innovative thinking and development by stimulating

cross-city collaborations in cultural industries, placing creativity at the center of local development and engagement.<sup>541</sup> The preamble of the UCCN introduced in 2004 emphasizes leveraging the network to enhance local governance. This brings a treasury of best practices, common challenges, and collective experience available to cities within the network.<sup>542</sup>

The UCCN brings forth a nuanced perspective in which creativity is prioritized over tourism to reap the long-term benefits of investing in the country's creative ecosystem. Sharing projects and research planning strategies are valuable assets accessible to the cities within the network.

## Kathmandu as a Creative City of Film

Kathmandu joined the UCCN as a creative city of film in 2023, courtesy of its intangible and tangible cultural heritage, which helps it express cultural stories

interwoven with the inhabitants' daily lives. To inaugurate participation in the network, Kathmandu's mayor, Balen Shah, attended the Cannes Film Festival on 17 May 2024, at the invitation of the Mayor of Cannes.<sup>543</sup> Cannes is also a UCCN member as a Creative City of Film and is renowned for its grand annual film festival, which showcased films to more than 35,000 visitors in 2024.<sup>544</sup> Building on this initial engagement, Kathmandu is expected to join the Annual Conference in Barga from 1 to 5 July 2024, thereby further strengthening its ties within the network.<sup>545</sup>

In order to be a part of the network, Kathmandu presented its cultural and creative assets and submitted its four-year action plan including specific projects initiatives or policies, to be implemented in the eventuality of designation, during its application to join the UCCN.<sup>546</sup> Subsequent to the designation, the Deputy Mayor of Kathmandu,

Sunita Dongol, announced the establishment of a council to further the works on the Creative City of Film with an emphasis on research and policy to develop and expand the film sector.<sup>547</sup> She also mentioned supporting the film industry's management, marketing, and safeguarding.<sup>548</sup>

### Navigating the UCCN Landscape

Leveraging the benefits of the UCCN weaves a subtle web that crafts larger positive implications for Nepal's economy. It paves way for the cultivation of creative industries which may be crucial for the country to shift from an economy streamlined by tourism. As Nepal graduates to a developing country by November 2026, the UCCN can be crucial in developing an economy cushioned by integrating the creative industry into urban development and planning.<sup>549</sup> This can help combat the gradual dilution of Kathmandu's heritage fitted for tourist needs. Becoming a UCCN member benefits the city through the exchange of knowledge of best practices and experiences.<sup>550</sup> Furthermore, inclusion in the UCCN welcomes international support from the creative cities network into the development of policies and planning, realizing the untapped potential of the creative industry.<sup>551</sup>

However, for Kathmandu's recognition as a creative city of film to be a success, it requires rigorous efforts from national policymakers.<sup>552</sup> These efforts need to transcend the general assumption of a creative city as a prize and focus on evidence-based inventive responses.<sup>553</sup>

The success of Creative City and its film industry relies on tailored creative vision and supporting strategies.<sup>554</sup> Additionally, efforts are required by UNESCO for the good governance of the creative city network by analyzing the successes and failures.<sup>555</sup>

Global cities, including Kathmandu, can greatly benefit from its association with UCCN. Branding through UNESCO provides recognition, generating a greater quantity of tourists and investors.<sup>556</sup> For this, however, a well-designed branding strategy is necessary for the city. A city's brand is dependent on the portrayal of its present and future to its local and global communities, including potential investors, residents, and tourists.<sup>557</sup> Further, branding should include historical values, geographical values, and changing socio-economic challenges.<sup>558</sup> Including the creative industry in the branding efforts aids the preservation of local culture and the protection of Kathmandu's ingenuity.<sup>559</sup>

Creating endogenous distinctive qualities and ensuring quality urban design principles are also essential to building an enhanced creative city.<sup>560</sup> Endogenous distinctiveness focuses on the potential of the city including its tangible and intangible heritage, urban morphology and landscape, and socio-culture.<sup>561</sup> Quality urban planning can be achieved through thorough planning and development, and quality life for people.<sup>562</sup> Creative cities encapsulate the creativity industry to preserve the city culture. The dubbing of Kathmandu as a creative city helps re-invent obsolete spaces

in large urban spaces.<sup>563</sup> Rich with architectural marvels, this can bolster dying skill-based occupations which have helped to contribute to the city's aesthetics. Implementation of such measures at a larger scale can potentially help uplift skill-based industries.

### Lessons from Other Creative Cities

As a novel city integrating the creative industry, Kathmandu can learn from the experiences of UCCN veterans such as Croatia, Turkey, Barcelona and Glasgow. Kathmandu can learn much from the bottom-up growth approach implemented in creative cities in Croatia.<sup>564</sup> This approach is organized in three stages: mapping existing creative services, developing action plans to manage existing services to encourage local development, and developing city branding and implementation strategy.<sup>565</sup> On the other hand, a study on a film city in Turkey suggests building a strong film industry to produce creativity through investing in local innovative talent in education and training.<sup>566</sup> Thus, although Kathmandu's current creativity is attributed to its tangible and intangible cultural heritage, it has the potential to source creativity from technological innovations.<sup>567</sup>

Further, Barcelona's success in boosting cultural spending and global visibility, along with Glasgow's focus on both social integration and creative sector growth, also offers valuable insights for Kathmandu's Creative City of Films initiative.<sup>568</sup> Following Barcelona's lead in proactive urban planning and

increased cultural investment could enhance Kathmandu's international appeal and foster collaborations on a global scale.<sup>569</sup> Similarly, Glasgow's approach highlights the importance of addressing social disparities while nurturing creative industries, guiding Kathmandu in balancing cultural advancement with societal well-being.<sup>570</sup>

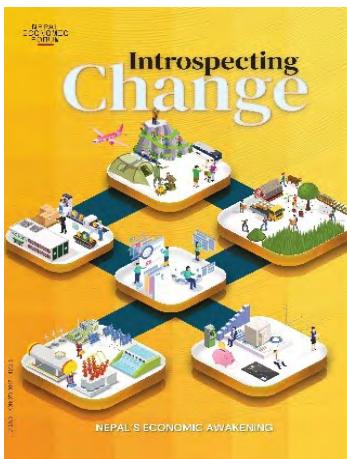
While these cities provide excellent examples, each belongs to a developed nation. Nepal may not have the same resources available to these cities. Therefore, it is important to tailor the policies of the Creative City initiative to fit Kathmandu's specific context.

### Embracing Kathmandu's Creative Future

Kathmandu's designation as a Creative City of Film within the UCCN represents a significant step toward integrating culture and creativity into sustainable urban development. This initiative not only highlights the city's rich cultural heritage but also emphasizes the potential for economic diversification and urban rejuvenation through creative industries. By leveraging the UCCN's global platform, Kathmandu can enhance its international recognition, attract tourism and investment, and share best practices with other member cities. However, the

success of this endeavor relies on meticulous planning, robust branding strategies, and the active involvement of local policymakers and stakeholders. Embracing lessons from other creative cities and fostering innovation beyond traditional cultural products can help Kathmandu realize its full potential, ensuring that its cultural and creative sectors become key drivers of sustainable urban development and economic growth.

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