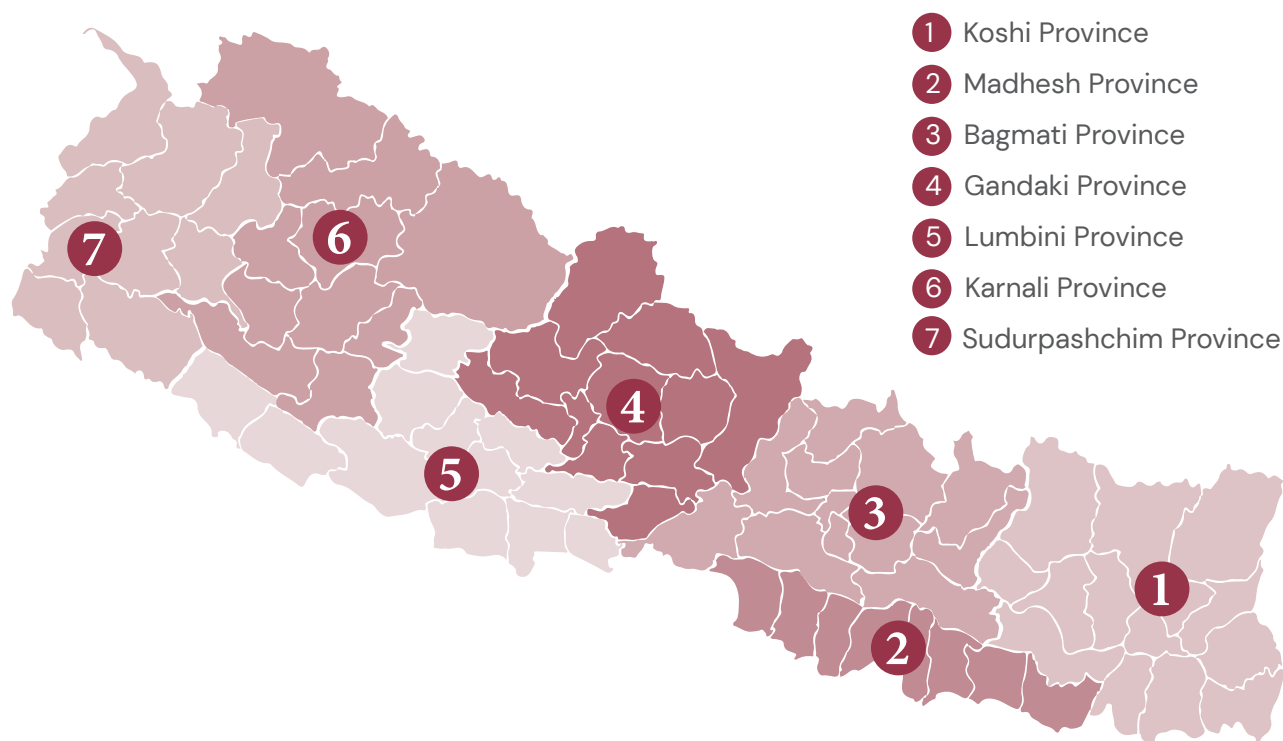




ISSUE 55 | JANUARY 2024

Strengthening the Himalayan Connect





KEY ECONOMIC INDICATORS

GDP (Preliminary estimate for FY 2023/24)****	USD 40.92 billion (NPR 5.38 trillion)	GDP growth rate (estimated for 2024)*	3.9%
GNI (PPP)****	USD 9.3 (NPR 1234.85)	Inflation (y-o-y)***	7.5%
Gross Capital Formulation (% of GDP)***	32.6%	Agriculture Sector (% of GDP)****	24.12%
HDI value**	0.602	Industry Sector (% of GDP)****	13.45%
HDI rank**	143	Service Sector (% of GDP)****	63.43%

* World Bank, Nepal Development Update (October 2023)

** HDI Figure from Human Development Report of UNDP

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

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

Contents

NEPAL FACTSHEET 2

EDITORIAL 5

1 GENERAL OVERVIEW 6

Political Overview 7

International Economy 11

2 MACROECONOMIC OVERVIEW 14

3 SECTORAL REVIEW 29

Agriculture and Livestock 30

Education 33

Energy and Environment 37

Health 40

Information and Communication Technology 43

Infrastructure and Real Estate 46

Tourism 50

4 MARKET REVIEW 54

Financial Market 55

Capital Market 62

5 SPECIAL SECTION: STRENGTHENING THE HIMALAYAN CONNECT 66

ENDNOTES 78

NEPAL ECONOMIC FORUM

Issue 55: January 2024

Publisher: Nepal Economic Forum
Website: www.nepaleconomicforum.org

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This issue of Nefport takes into account news updates from 1 Sep-
tember to 30 November.

The USD conversion rate for this issue is NPR 132.78 to a dollar, the
quarterly average for this issue.

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Editorial

The economic indicators during the review period (September 1 to November 30, 2023) showed marked improvements, including increased foreign exchange reserves and import cover. Despite the World Bank's conservative 3.4% growth prediction for FY 2023/24 AD (2080/81 BS), key indicators beyond GDP computation, like remittance and capital asset exchanges, continued their robust growth. Remittances surged to USD 3.6 billion (NPR 477.96 billion) in mid-November 2023. Further, in the same period, the current account saw a surplus of USD 725 million (NPR 96.38 billion), a significant shift from the USD 296 million (NPR 37.39 billion) deficit observed in the corresponding period in FY 2022/23 AD (FY 2079/80 BS). Remarkably, these positive trends occurred without direct government interventions.

On the political front, the fragile coalition saw the passage of a single bill in the parliament in the entire year of 2023. Scams, particularly gold smuggling cases involving organized groups and political patronage, remained pervasive in everyday discourse. The quarter also saw Ncell, one of Nepal's major foreign investment companies, changing owners from Malaysian-owned Axiata to a UK company owned by a Nepali, reflecting the controversial investors Nepal attracts and the deep involvement of politicians in proxy holdings of companies.

During the review period, Nepal's Cabinet passed the 'Directives on the Operation of Social Networking 2023', mandating social media sites to register and establish a liaison office in Nepal to be able to operate in the country. It also banned TikTok, stating concerns of social harmony — a decision that has been widely condemned as a threat to free speech.

Meanwhile, NEF continued its work on the Himalayan region by consolidating work on renewable energy, circular economy and its past work for the Himalayan Consensus through its incubation center, the Himalayan Future Forum (HFF). On October 6, 2023, an HFF inaugural meeting was held that brought together prominent voices from various fields to discuss climate change, communities, and connectivity in the Himalayan region. NEF looks forward to the first flagship HFF event on 16 and 17 February 2024. If you would like to attend the conference, do keep a lookout for more information on all of NEF and HFF's social media pages or write to us in the email provided below. In line with this initiative, the 55th edition of the Nefport aims to present perspectives on the Himalayas, as shared by speakers at the inaugural meet.

In particular, the special section, "Strengthening the Himalayan Connect" comprises of selected proceedings and addresses from the HFF inaugural event. We would like to thank Professor Mahendra P. Lama (Senior Professor, Jawaharlal Nehru University), Dr. Arnico Panday (Advisory Board, Nepal Economic Forum), and Iqbal Singh Sevea (Director, Institute of South Asian Studies, National University of Singapore) for their contributions during the meet. Additionally, we would like to extend our gratitude to the multiple participants in the roundtable discussion who aided in making the meet a holistic, informational and inclusive space.

We would also like to thank the voluntary contributions from many individuals as well as 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 for any further comments or feedback.



Sujeev Shakya
Chair, Nepal Economic Forum

1

General Overview



Political Overview

During the past quarter, the government grappled with challenges from political parties and the growing impact of social media. The controversial ban on TikTok, a popular social media app in Nepal, caused public outcry and drew criticism from political figures. In response, the government took a decisive step by issuing a directive to regulate social media operations, aiming to quell rising disharmony and disagreements.

Amidst these developments, Durga Prasain emerged as a protester, advocating for the abolition of the federal system and the restoration of the monarchy. Concurrently, another significant event in the past quarter was the unification of the Maoist Centre and the Nepal Socialist Party. This period also marked Prime Minister and Maoist leader Pushpa Kamal Dahal completing one year in office. Additionally, Kedar Karki, the Minister of Koshi Province, successfully secured a vote of confidence, solidifying his position within the province.

EXECUTIVE UPDATES

Government Imposes Immediate TikTok Ban

The Government of Nepal banned the popular social media application TikTok on November 13, citing that it affected social harmony in the community, by spurring communal violence in the form of protests and by instigating people.⁶ However, despite the ban, many people have been using Virtual Private Networks (VPNs) to dodge the ban and continue using the

application.⁷ As a result of the ban, the parent company of TikTok, ByteDance, has sent a letter to the Nepal Telecommunications Authority seeking clarifications. Further, ByteDance has maintained that the safety of its users is its priority in the way that it addresses content and human behavior.⁸

Meanwhile, leaders from both the ruling coalition and opposition have criticized the ban, maintaining that it violates people's freedom of expression and lacks effectiveness. Despite

FACTSHEET		
Particulars	Nepal's Rank	Score
Democracy Index 2022 ¹	101	4.49/10
Press Freedom Index 2023 ²	95	57.89/100
Index	Nepal's Rank	Score
Economic Freedom Index 2023 ³	142	51.4/100
Fragile States Index 2023 ⁴	55	80.2/120
Corruption Perception Index 2022 ⁵	110	34/100

these criticisms, the Supreme Court has declined to issue an interim order in response to petitions challenging the government's decision.⁹

Protests by Durga Prasain, CPN (UML)'s Youth Wing Gain Momentum

Durga Prasain, a businessman and former member of Communist Party of Nepal (Unified Marxist–Leninist) (CPN (UML)), has been gaining traction due to his protest against the current federal system, calling for the reinstatement of a Hindu monarchy in Nepal. The first protest held on this matter was on November 23, 2023 (Mangsir 07, 2080) under the campaign,

'Nation, Nationality, Religion-Culture, and Citizen Rescue'.¹⁰ His protests caught massive attention from the public as he allegedly spread his propaganda through TikTok, before the ban on the application.¹¹

In a similar development, CPN (UML)'s Youth Wing also staged demonstrations protesting against 'bad governance and corruption' on the same day in Tinkune.¹² Both the politically-charged protests led to government officials increasing security inside the valley, temporarily announcing various areas as prohibited zones where protests cannot be staged. As part of this, the Kathmandu District Administration Office (DAO) announced the area from Maitighar Mandala to New Baneshwor as a prohibited area for 30 days. Similarly, the Lalitpur DAO announced the area consisting of the Ministers' Quarters and United Nations House in Pulchowk as a prohibited zone for six months.¹³

Maoist Centre and Nepal Socialist Party Proceed with Unification

On November 19, 2023 (Mangsir 03, 2080), the Communist Party Nepal (Maoist Centre) (CPN (MC)) and the Nepal Socialist Party made public their decision to unify into a single party.¹⁴ According to a joint statement by both the parties, a Party Unification Coordination Committee shall be established to address changes regarding the party's name, organizational structure and such.¹⁵ The statement was released by both parties' representatives - Maoist

Centre's talks team coordinator, Krishna Bahadur Mahara, and Nepal Socialist Party's team coordinator, Ganga Narayan Shrestha.¹⁶

Organizational Shift in Rastriya Swatantra Party

In a meeting held in November of the Central Committee of Rastriya Swatantra Party (RSP), Swarnim Wagle, formerly of the Nepali Congress and the former Vice-Chair of the National Planning Commission, was appointed as the Vice-Chairperson of the RSP.¹⁷ This fulfills the party's requirement for two Vice-Chairpersons, with Dol Prasad Aryal already present as the other Vice-Chair. Additionally, in the same meeting, Lima Adhikari, Sumana Shrestha, Bipin Acharya, Manish Jha, Pratibha Rawal, Ramesh Prasain, and Deepak Bohra, among others, were appointed into various positions in the central committee of the party.¹⁸

LEGISLATIVE UPDATES

Cabinet Passes Directive on Social Media

The Council of Ministers, on November 9, 2023 (Kartik 23, 2080), passed a directive for the operation of social media in Nepal.¹⁹ Titled 'Directives on the Operation of Social Networking 2023,' it has made it mandatory for social media sites such as Facebook, X (formerly Twitter) and YouTube to set up offices in Nepal.²⁰ It further requires social media platforms operating in Nepal to register with the government within a three-month period for a license to operate, which will then need to

be renewed every three years. Similarly, the directive has banned the use of text, audio, video, or picture that spreads hatred against any gender, community, caste, religion, profession, or people from any particular group.²¹ The government has stated that the decision was made citing lack of Nepali representatives, that posed as a challenge for consumers of social media in Nepal.²² However, cyber law advocate and experts have stated that the directive lacks adequate explanations and legal clarity.²³

JUDICIAL UPDATES

Supreme Court Overturns President's Decision to Grant Amnesty to Regal Dhakal

On November 2, 2023 (Kartik 2, 2080), the Supreme Court decided to revoke the clemency granted to Regal Dhakal by President Ram Chandra Poudel.²⁴ Dhakal was charged of murdering Chetan Manandhar in 2015, and sentenced to life imprisonment.²⁵ Earlier, on October 19 (Kartik 2, 2080), President Poudel pardoned Dhakal on the occasion of Constitution Day.²⁶ The move was strongly criticized by the public and raised questions regarding the legal system in Nepal; with some claiming it to be a politically motivated move by the leaders in power. Following the decision, Chetan Manandhar's wife, Bharati Manandhar Sherpa, filed a writ on October 9 (Asoj 15, 2080) in the Supreme Court. As a result, Acting Chief Justice Ishwor Prasad Khatiwada, and Justices Sapana Pradhan Malla and Kumar Chudal revoked the President's decision after a

two-day trial, with an order for Dhakal's immediate arrest.²⁷

Judicial Council Recommends Six Justices

The Judicial Council recommended names of six justices for their appointment as Supreme Court justices. High court judges Saranga Subedi, Mahesh Sharma Paudel, Tek Prasad Dhungana and Abdul Majid Musalman, and senior advocates Bal Krishna Dhakal and Sunil Pokharel were the recommended names for the position.²⁸ Despite seven seats remaining vacant, the council has recommended only six names. They are yet to decide on the seventh one.²⁹ Furthermore, the recommended chief justices will be appointed by the President, only after a confirmation through a parliamentary hearing.³⁰

ELECTION UPDATES

National Assembly Elections Planned for January 2024

The National Assembly elections are scheduled to be held on January 25, 2024. This is due to the fact that around one-third or 20 of the Assembly's 59 members' terms will be coming to an end in March 2024.³¹ The election will decide the members for 19 seats, while the remaining will be chosen by the President, following a recommendation from the cabinet.³² In totality, the Assembly has 59 members. Out of them, 56 are elected, and three are nominated by the President on the recommendation of the Council of Ministers. Each of the seven provinces elects eight members, including a minimum

number women representatives and representatives from marginalized and differently abled communities as specified by quotas.

BILATERAL AND MULTILATERAL UPDATES

Nepal-India Border Posts Under Repair

The border posts located along the Nepal-India border, in Kanchanpur and Dhanusha, are scheduled to be repaired. The Armed Police Force from Nepal and the Sashastra Seema Bal (SSB) from India are set to collaboratively work on 4,000 border posts.³³ The restoration process for pillar number 185, located in Dhanusha, has already started. As per their agreement, the odd numbered pillars will be repaired by India's SSB while the even numbered pillars will be repaired by the Nepali Armed Police Force.³⁴ This comes following a delay of three years as the decision for the repairs was made in July 2020 by the Council of Ministers.

Nepal-China Transmission Line to be Constructed

Nepal and China have signed an agreement to move forward on the construction of the Jilong-Keyrung-Rasuwadhi-Chilime 220 KV Cross-Border Transmission Line, as discussed during Prime Minister Dahal's China visit in September 2023.³⁵ While both sides have committed to starting construction soon, completion of the project is predicted to take a long time, as the Detailed Project Report and the Environment Impact

Assessment alone is expected to take around three to four years.³⁶

UN Secretary General Antonio Guterres Visits Nepal

The United Nations Secretary General, Antonio Guterres, arrived in Nepal for a four-day official visit on October 28, following an invitation by Prime Minister Dahal.³⁷ He travelled to the Annapurna and Everest regions, spreading awareness regarding changing temperatures and climate change.³⁸

Guterres also addressed the federal parliament, emphasizing the issue of climate change and the requirement of funds for the same.³⁹ He appreciated Nepal's efforts and commitment to achieve net zero emissions by 2045 and he proposed an SDG Stimulus that would release at least USD 500 billion (NPR 66 trillion) a year for sustainable development and climate action.⁴⁰ In further developments, Prime Minister Dahal also spoke at the COP 28 Climate Summit as the chair of Least Developed Countries (LDCs), emphasizing how Nepal and similar countries have been vulnerable in terms of climate change.⁴¹

PROVINCIAL UPDATES

Radha Krishna Kandel Elected as CPN (UML) Lumbini Chair

On September 6, 2023, Radha Krishna Kandel, of Palpa, was elected as the Chairperson of the CPN (UML) Lumbini chapter, with support from the CPN (UML) Vice-Chair Bishnu Paudel.⁴² Kandel secured 479 votes to win against contesting candidate Hari Rijal. The election took

place in in the Lumbini provincial convention, that witnessed participation of 1,004 members, after party members could not come to an agreement on who the Chairperson should be.⁴³ Overall, the Kandel-led faction won all positions except for that of the deputy secretary.⁴⁴

Kedar Karki Secures Vote of Confidence in Koshi Province

Chief Minister Kedar Karki won the

vote of confidence from the Koshi Provincial Assembly on October 18, 2023. A total of 86 votes were cast in favor of Karki, while 5 votes were cast against him. Out of the 86 votes in his favor, 29 were from Nepali Congress, 39 from CPN (UML), 13 from CPN (Maoist Centre), four from CPN (Unified Socialist), and one from Janata Samajwadi Party.⁴⁵ Votes against him were cast by members from the Rastriya Prajatantra Party (RPP). As the

ruling coalition did not want to support CPN (UML) to lead the Koshi provincial government, Kedar Karki from Nepali Congress was chosen to lead the Koshi provincial government.⁴⁶ Earlier, Hikmat Karki from CPN (UML) and Uddhav Thapa from Nepali Congress failed to get the vote of confidence.

Outlook /

The debate between freedom of expression and social harmony in Nepal, sparked primarily by the extensive use of social media platforms such as TikTok, resulted in the controversial ban of the app. This decision triggered disagreements between the government and the public, leading to the issuance of a directive for social media operations, although the effectiveness of their implementation remains uncertain.

Simultaneously, unrest unfolded through protests, notably with Durga Prasain's demonstration, drawing public attention and controversy. While the current impact may seem limited, there is potential for the situation to escalate into more significant controversies and instability. The heightened awareness and consciousness of the public, evident in their engagement with social media and political events, may lead to more expressions of dissent and protests against the government amid ongoing changes.

International Economy

During the review period, from September to November, global growth was projected to decline, driven by persistent inflation, tighter monetary policies, and a surge in oil prices. The escalating conflicts between Ukraine–Russia and Israel–Palestine also exacerbated economic challenges, including an increased risk of trade barriers. Despite these concerns, there was an anticipation for core inflation to decrease gradually. Additionally, the global economy has secured commitments to address climate change, especially focusing on nations at the forefront of the climate crisis. In a landmark agreement, COP28 advocated transitioning away from fossil fuels and emphasized the need to finance renewables for developing nations. In addition, the UK, in particular, pledged financial support to the Innovative Finance Facility for Climate in Asia and the Pacific and the International Finance Facility for Education, aiming to foster a positive global impact in the realm of climate change and education. Simultaneously, new immigration policies in Western countries signalled a global shift in the labor market, indicating potential changes in market dynamics and economic productivity.

ECONOMIC CRISIS UPDATES

Middle East Conflict Casts Shadow on Global Economy

The conflict in the Middle East poses an additional threat to the global economy, which was already ailing with shocks following COVID-19 and the Russia-Ukraine war.⁵⁶ In the past quarter, the Israel-Palestine

conflict intensified, leading to a surge in oil prices and increased inflation, showing persistent vulnerabilities in the global economy.⁵⁷ The growing geopolitical tension has created economic instability, impacting investor confidence and causing fluctuations in financial markets.⁵⁸ Due to these reasons, the International Monetary Fund's (IMF's) analysis pointed

FACTSHEET

Global GDP growth in 2024 (expected)

2.7%⁴⁷

Global inflation in 2024 (expected)

5.2%⁴⁸

Global Multidimensional Poverty Index

18%⁴⁹

World Population

8.07 billion⁵⁰

Price of Brent Crude Oil in 2024 (expected)

USD 90 (NPR 11,904) per barrel⁵¹

Food Price Inflation

120.4% (November 2023)⁵²

Energy Price Inflation

202.89% (October 2023)⁵³

Shipping Price Inflation

6% (November 2023)⁵⁴

Coronavirus Vaccination (at least one dose)

79.86% of the global population⁵⁵

to declining longer-term growth trends, as economies struggled to lift productivity, faced mounting barriers to free trade, and witnessed a rise in public debt worldwide. The global economy is now widely expected to grow at a weak level over the medium term, coming in at just 3.1% in 2028.⁵⁹

INTERNATIONAL TRADE UPDATES

Houthi Seizure of Ships at Red Sea Affects Global Trade

On November 19, 2023, Houthi fighters hijacked a 189-meter-long Galaxy Leader Car carrier, traveling from Turkey to India. It is confirmed that the ship was seized for 'being Israeli-owned' in line with the Houthis' earlier announcement that the group would "not hesitate to target any Israeli vessel in the Red Sea or any place we can reach".⁶⁰ The Red Sea spans over 200 km, but its southern end, the Bab el-Mandeb passage, is less than 20 km wide, stretching from the Yemeni island of Mayyun to the coast of Djibouti and Eritrea. Annually, over 17,000 ships pass through the Red Sea, a crucial waterway for global trade. With nearly 1,500 ships transiting the straits every month, there may be scores that could be linked to Israel and are thus vulnerable to further Houthi hijackings, impacting the stability of global trade.⁶¹

KEY HIGHLIGHTS OF INTERNATIONAL REPORTS

Global Economy Projected to Decline in 2024

Global economic recovery

remains sluggish, with the baseline projection indicating a deceleration in overall economic growth. According to the IMF's 'Global Economic Outlook', global inflation is expected to undergo a gradual decrease, transitioning from 6.9% in 2023 to 5.8% in 2024.⁶² This decline is attributed to a combination of tighter monetary policy and reduced international commodity prices. However, core inflation is expected to decrease more gradually, with a return to target levels not anticipated until 2025 in most cases.⁶³ Moreover, the global economic growth is expected to slow further due to high interest rates, increased energy prices, and a deceleration in the world's top two economies: the United States and China. Further, geopolitical risks and rising conflicts could contribute to a worsening global financial outlook.⁶⁴

GLOBAL EVENTS UPDATE

China-EU Summit Insights

The 24th European Union (EU)-China summit, held in Beijing in December, marked the first in-person meeting in over four years. During the summit, EU leaders engaged in discussions about the concerning trade imbalance with China.⁶⁵ Tensions rose due to an influx of affordable Chinese electric vehicles, solar panels, and wind turbines into the European market, contributing to a record USD 426 billion (NPR 56.59 trillion) trade deficit with China last year.⁶⁶ European enterprises also voiced dissatisfaction over reduced market access in China.⁶⁷ Despite the differences between

the two nations, the summit held significance as China and the EU, being two major global players, share significant economic interdependence. However, the conclusion of the summit and agreements signed remained elusive, leaving the future trajectory of their relationship uncertain.

Highlights from COP28

The 28th edition of Conference of the Parties of the UNFCCC, held in Dubai from November 30 to December 12, marked a pivotal moment as countries collectively advocated for a transition away from fossil fuels.⁶⁸ The decision to shift recognized the need for financial support for developing countries to transition to renewables. Despite limited progress for nations on the front lines of climate change, there was a modest victory with the establishment of a fund amounting to around USD 700 million (NPR 92.94 trillion).⁶⁹ The summit also emphasized a global commitment to tripling renewable energy capacity by 2030, signaling a clear transition towards renewables as the primary energy sources in the coming decades.⁷⁰

Outlook /

The global economy, which was just recovering from aftermath of the Covid-19 blow, Russia-Ukraine war, high inflation and interest rates, is at a vulnerable phase due to the onset of the Israel-Palestine conflict. The global economy needs a proactive approach from the international agencies and government bodies to resolve pressing issues in order to ensure security and stability in doing global business, and to curb inflation and high interest rates. Similarly, for the sustainability of the global economy, the transition of countries from fossil fuels to renewables is a must, as demonstrated in the COP28 summit. While this move sends a strong message to markets and investors about the future of energy, it is highly dependent on the actions by independent governments.

2

Macroeconomic Overview



Macroeconomic Overview

During the review period, macroeconomic indicators suggested a slight decrease in inflation, an increment in gross foreign reserve, an increased trade deficit, and a depreciation of the Nepali currency against the US dollar. Given this, international agencies like the World Bank project a healthy growth profile for the Nepali economy, anticipating a 3.9% growth in 2024 following relaxations of the monetary policy. Further, Nepal's appeal to global investors has increased Foreign Direct Investments (FDI) by 79.1% compared to same period last year in 2022. Additionally, investments by development agencies have increased, with the World Bank's USD 103.84 million (NPR 13.79 billion) investment, comprising concessional loans and grants for Nepal's healthcare. However, the review period also saw Axiata attempting to exit Nepal with the sale of its holding in Ncell, a leading telecommunications provider, citing unfavorable macroeconomic indicators and a lack of good governance influencing multinational corporations' strategic moves in a country.

As per the 'Current Macroeconomic and Financial Situation' ending mid-October 2023, the Gross Domestic Product (GDP) at current prices was valued at NPR 5.38 trillion (USD 40.51 billion) in FY 2022/23 AD (2079/80 BS).⁷²

Figure 1 depicts the trend of annual GDP in Nepal at current prices. It is noticeable that the value of GDP grew by NPR 1.53 trillion from FY 2018/19 AD (2075/76 BS) to FY 2022/23 AD (2079/80 BS).⁷³ The contribution of agriculture sector in GDP has increased to 2.7% in FY 2023/24

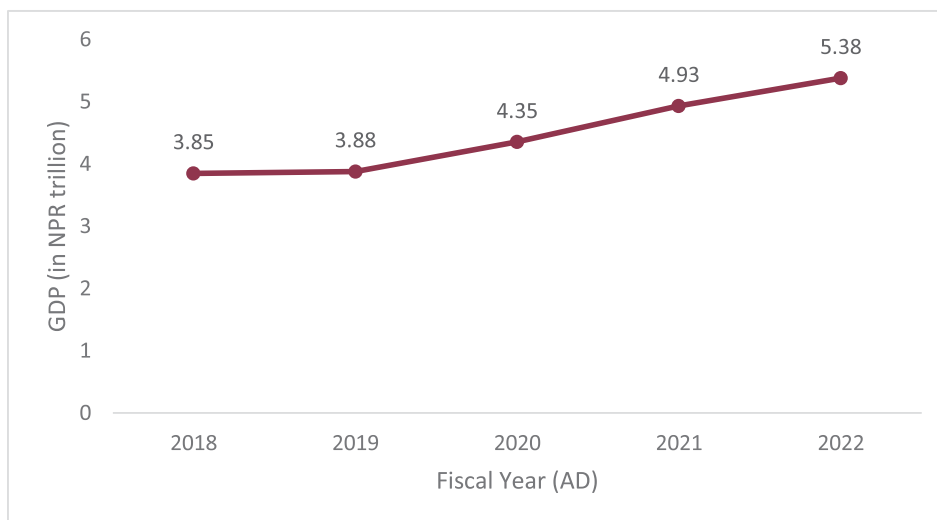
AD (2080/81 BS) compared with 2.2% in FY 2022/23 AD (2079/80 BS). With the introduction of the new budget and the monetary policy for the current FY 2023/24 AD (2080/81 BS), it remains to be seen how effective the policies will be in meeting the expected economic growth rate of 6%.⁷⁴ The World Bank anticipates Nepal's growth rate to be 3.9% in 2024 and then hike to 5% in 2025.⁷⁵ Similarly, as per the Asian Development Bank (ADB), Nepal's GDP growth is expected to be 4.3% in 2024 as compared to the estimated 1.9% growth rate in 2023. Both development agencies

FACTSHEET ⁷¹	
Particulars	Amount/ Percentage
GDP at current prices	NPR 5.38 trillion (USD 40.54 billion)
Year-on-year CPI (mid-October 2023)	7.50%
Food and beverage CPI (mid-October 2023)	8.38%
Non-food and service (mid-October 2023)	6.81%
Net Foreign Direct Investment (mid-October 2023)	NPR 3.37 billion (USD 25.45 million)
Remittance inflows (mid-October 2023)	NPR 365.34 billion (USD 2.75 billion)
Gross foreign exchange reserves (mid-October 2023)	NPR 1.64 trillion (USD 12.37 billion)
Total Domestic Debt (mid-October 2023)	NPR 1.18 trillion (USD 8.88 billion)
Total External Debt	NPR 1093.35 billion (USD 8.23 billion)
Government expenditure (mid-October 2023)	NPR 280.57 billion (USD 2.11 billion)
Government revenue (mid-October 2023)	NPR 219.11 billion (USD 1.65 billion)
Total exports (mid-October 2023)	NPR 40.87 billion (USD 307.80 million)
Total imports (mid-October 2023)	NPR 407.76 billion (USD 3.07 billion)
Total trade balance (mid-October 2023)	NPR -336.88 billion (USD -2.54 billion)
Current Account (mid-October 2023)	NPR 59.09 billion (USD 445.02 million)
Balance of Payment	NPR 99.07 billion (USD 746.12 billion)

have reduced their growth rates, as Nepal remains trapped in the vicious cycle of high inflation, low domestic growth and remittance dependency.⁷⁶

Figure 1. GDP in current prices over the last five years (in NPR billion)

Source: Current Macroeconomic and Financial Situation (based on annual data of FY 2022/23)



INFLATION

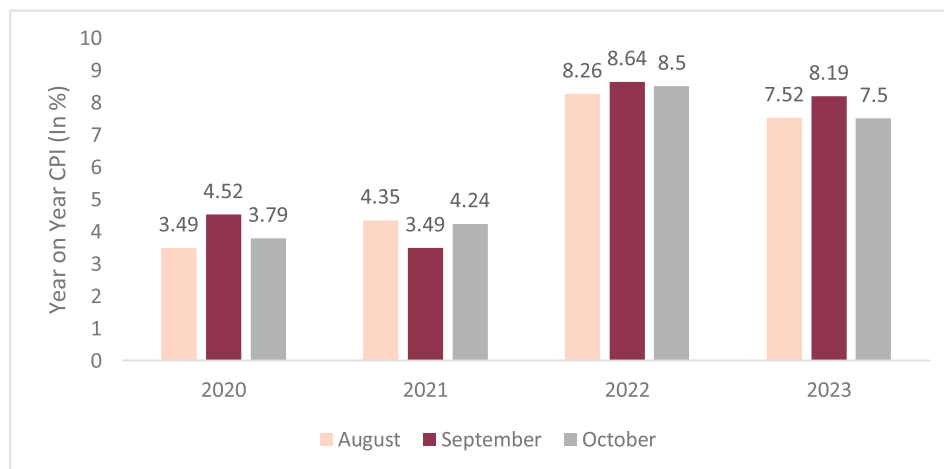
The Consumer Price Index (CPI) measures any country's average inflation rate. According to data released by NRB, the year-on-year CPI was 7.5% in mid-October of 2023 AD compared

to 8.5% in the same period in the previous year.⁷⁷ This shows a slight relaxation in inflation as compared to the previous year. As represented in Figure 2, the year-on-year CPI drastically hiked in 2022 AD, for all three months, with slight easing in the first

three months of FY 2023/24 AD (2080/81 BS). However, despite the easing, as of mid-October of 2023, the central bank has been unable to constrain annual inflation to the specified target rate of 7%.⁷⁸

Figure 2. Year-on-Year Consumer Price Inflation (CPI) index of the first three months of four consecutive FYs (in percentage)

Source: Current Macroeconomic and Financial Situation (based on three months data of FY 2023/24)



CONSUMPTION OF GOODS AND SERVICES

The Consumer Price Index (CPI)

is the weighted average price of a variety of consumer goods and services.⁷⁹ Table 1 shows the changes in prices of consumption

goods and services over two consecutive fiscal years.

Table 1. Food and Non-Food Consumer Price Index over two consecutive periods (in percentage)

Source: Current Macroeconomic and Financial Situation (based on three months data of FY 2023/24)

Headings	September/October 2022	September/October 2023
Consumer Price Inflation	8.5	7.5
Food and beverage	8.05	8.38
Non-food and service	8.85	6.81

FINANCE STATUS

Investments

In the review period, the net Foreign Direct Investment (FDI) increased by 79.1% to reach NPR 3.37 billion (USD 25.45 million) in the first three months of FY 2023/24 AD (2080/81 BS) from NPR 1.88 billion (USD 14.21 million) in the corresponding period of the previous FY 2022/23 AD (2079/80 BS).⁸⁰

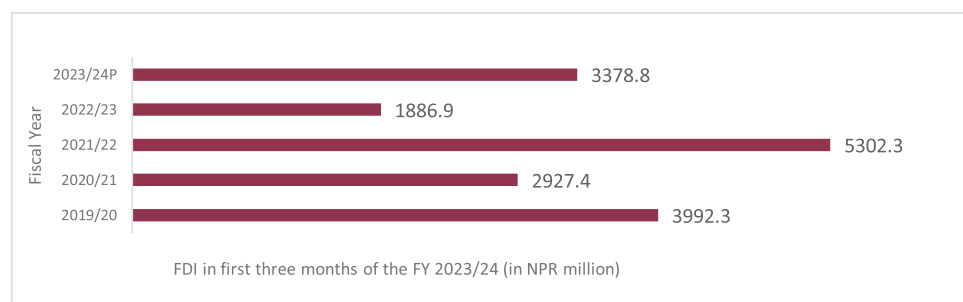
This substantial rise has been attributed to the government's continuous work in reforming

policy as well as process to attract FDI in Nepal. A major part of this is the implementation of a fast and streamlined approval process through the fast-track online system.⁸¹ The system was introduced with the aim of expediting FDI approvals under the Foreign Investment and Technology Transfer Act (FITTA). So far, the government has allowed for the approval process for investments up to NPR 500 million (USD 3.77 million) to be facilitated through the online portal.⁸² Further, FDI is now permitted in seven sectors,

including agriculture, forestry, infrastructure, information technology, manufacturing, service, energy, and tourism. Actively striving to streamline procedures and promote foreign investments, the Ministry of Industry, Commerce, and Supplies is concentrating its efforts on key sectors such as information technology, energy production, tourism, and manufacturing.⁸³ As part of this initiative, investors from any country can now secure initial investment approval online by submitting their applications.

Figure 3. Annual Net Foreign Direct Investments in Nepal for Five Consecutive FYs (in NPR million)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023/24)



FOREIGN ASSISTANCE

BILATERAL AND MULTILATERAL AID

Aid Disbursement from Donor Agencies

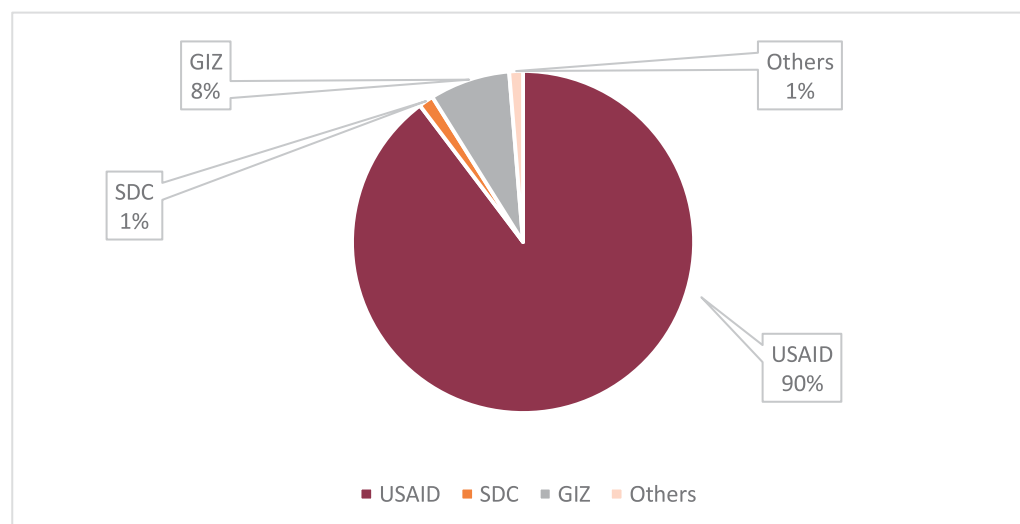
During the review period of

August 15 to November 15 2023, Nepal received aid from donor agencies such as the U.S. Agency for International Development (USAID), the Swiss Agency for Development and Cooperation (SDC), German Development Cooperation (GIZ) and others.⁸⁴ As

per the Ministry of Finance, the breakdown of the disbursements of the donor agency support has been presented in Figure 4.

Figure 4. Aid disbursement of donor agencies from August 15 to November 15, 2023 (in %)

Source: Ministry of Finance, 2023/24



PROJECT/PROGRAM-SPECIFIC AID

EU Commits NPR 289 Million (USD 2.17 Million) in Humanitarian Aid to Nepal

The European Union (EU) has pledged humanitarian aid of NPR 289 million (USD 2.17 million) to Nepal, as reported by EU in a press release issued from Brussels on November 16, 2023.⁸⁵ The allocated funds will be directed towards supporting shelter, clean water, sanitation, and healthcare services. Out of the total, NPR 86 million (USD 647,687) has been dedicated to enhance ongoing humanitarian initiatives, while NPR 28 million (USD 210,785) has been earmarked for the Nepalese Red Cross Society. Additionally, in-kind assistance, worth NPR 173 million (USD 1.3 million), such as tents and winterization kits, will be mobilized from the EU's European Humanitarian Response Capacity.⁸⁶ The objective of this aid is to deliver immediate relief and equip vulnerable families for the winter. Specifics regarding the distribution and

utilization of the aid, along with the implementation timeline, are anticipated to be determined through collaborative efforts between the EU and relevant authorities in Nepal.

Nabil Bank Joins Forces with EU-Funded BEEN-Project to Advance Sustainable Housing in Nepal

Nabil Bank entered a Memorandum of Understanding (MoU) with the Building Energy Efficiency in Nepal Project (BEEN-Project), funded by the European Union (EU) on October 6, 2023.⁸⁷ The partnership, signed by Nabil Bank's CEO and BEEN Project's Project Leader, will focus on creating financing packages, improving technical abilities for financial evaluations, and simplifying access to preferential financial schemes for sustainable structures. Funded by the EU's SWITCH-Asia Program, the collaboration aligns with efforts to promote low-carbon, resource-efficient, and circular economy practices.⁸⁸ As part of its commitment of

addressing climate change, Nabil Bank has also introduced 'Sustainable Housing Loan' initiative where BEEN provides technical assistance in training, promotions and awareness campaigns.

GRANTS AND CONCESSIONAL LOANS

Republic of Korea Donates Fully Automated Biochemistry Analyzers

The Embassy of the Republic of Korea donated fully automated biochemistry analyzers worth USD 402,500 (NPR 53.5 million) to Nepal on November 20, 2023.⁸⁹ At the handover, held at the Ministry of Health and Population, Park Tae-Young, the Ambassador of the Republic of Korea to Nepal, emphasized Korea's commitment to Nepal's healthcare development, aligning with their longstanding support as a development partner. Designating Nepal as a 'Priority Cooperation Country' for 15 years, South Korea has consistently aided key sectors, including health. Since 1991, the South

Korean government has allocated USD 188.6 million (NPR 25 billion) through KOICA for healthcare facilities and capacity-building projects. Additionally, Korea pledged USD 300,000 (NPR 39.83 million) in humanitarian aid in response to recent earthquakes in Karnali. Commemorating the 50th anniversary of diplomatic relations in 2024, Korea aims to strengthen bilateral cooperation with Nepal in various fields.⁹⁰

Switzerland Grants CHF 19.4 million (USD 22.4 million / NPR 3 billion) to Nepal

The Government of Switzerland has agreed to provide technical grant assistance of CHF 19.4 million (NPR 3 billion / USD 22.4 million) to Nepal. Of this, CHF 9.4 million (NPR 1.45 billion/ USD 10.94 million), approximately 48.45% of the total amount, will be allocated for the Trail Bridge Sector Wide Approach Framework III, a government initiative on construction and maintenance of trail bridges by all sectors of the government to aid safer river-crossing facility for disadvantaged groups.⁹¹ The remaining CHF 10 million (NPR 1.55 billion / USD 11.63 million) will go to the Provincial and Local Governance Support Program (PLGSP). The aid aims to enhance rural transport infrastructure and watershed management.⁹²

World Bank Approves NPR 2.65 billion (USD 20 Million) Grant to Support Nepal's Agriculture and Nutrition Sector

The World Bank has approved an NPR 2.65 billion (USD 20 million) grant for Nepal's Food and Nutrition Security Enhancement Project II (FANSEP-II).⁹³ Targeting over 55,000 small-scale farmers,

with an average farm size of 0.52 hectares in 16 rural municipalities, the project aims to enhance agricultural productivity and nutrition practices, and to scale up climate-smart agriculture. Aligned with Nepal's development goals and Sustainable Development Goals, the project focuses on three main components: climate and nutrition smart agricultural technology adaptation, income generation, and improving nutrition security. This initiative, supported by the Global Agriculture Food Security Program Trust Fund, builds on the success of its predecessor Food and Nutrition Security Enhancement Project which is closing on June 30 2024.⁹⁴

Asian Development Bank (ADB) Agrees to Provide NPR 13 billion (USD 97.74 million) Concessional Loan to Nepal

The Government of Nepal and the Asian Development Bank (ADB) signed a concessional loan agreement for the Rural Connectivity Project-Additional Financing, amounting to NPR 13.27 billion (USD 100 million). The agreement, signed by the Finance Secretary and ADB Country Director, aims to strengthen rural road connectivity and enhance the capacity of rural infrastructure agencies. The project is expected to have a transformative impact by establishing and maintaining year-round road connectivity across five provinces in Nepal, totaling 324 kilometers.⁹⁵

World Bank Aid Worth USD 103.84 Million (NPR 13.79 billion) to Improve Nepal's Health System

The World Bank has agreed to

provide NPR 13.79 billion (USD 103.84 million) to strengthen Nepal's healthcare system, with NPR 13.27 billion (USD 100 million) given in the form of a concessional loan and NPR 509.11 million (USD 3.84 million) in grants from the Health Emergency Preparedness and Response Trust Fund. The financing agreements for the Nepal Quality Health Systems Program Operation were digitally signed on October 27, 2023, marking the first World Bank-financed project in Nepal with digital signatures.⁹⁶ The program, signed by the Finance Secretary and WB Country Director, aims to enhance healthcare readiness, expand health insurance coverage, and strengthen emergency preparedness in selected provinces and local levels.⁹⁷

REMITTANCE AND MIGRATION

REMITTANCE INFLOWS

Remittances Increase by 30% in NPR Terms and 25.9% in USD Terms

In FY 2023/24 AD (2080/81 BS), Nepal experienced a notable increase in remittance inflows, with a rapid increase in outward migration contributing to the surge. Comparing the remittance inflows, the period of mid-June to mid-September in 2023 saw an inflow of NPR 365.34 billion (USD 2.75 billion).⁹⁸ This was a 30% increase as compared to an increase of 16.8% in the same period of the previous fiscal year.⁹⁹ The near-record outmigration of Nepali workers is expected to continue, reflecting positively on medium-term remittance inflows.

Figure 5. Annual Remittance Inflows to Nepal in Four Consecutive FYs (in NPR Million)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023/24)

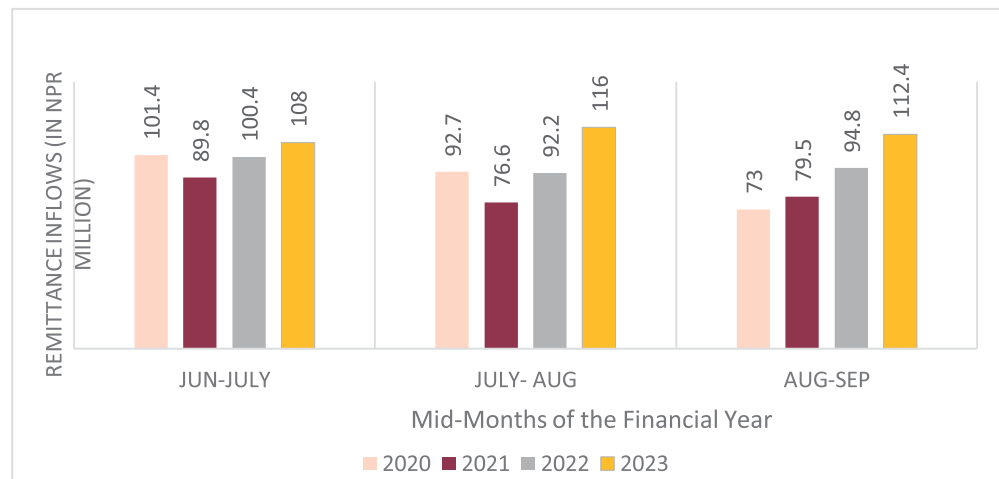
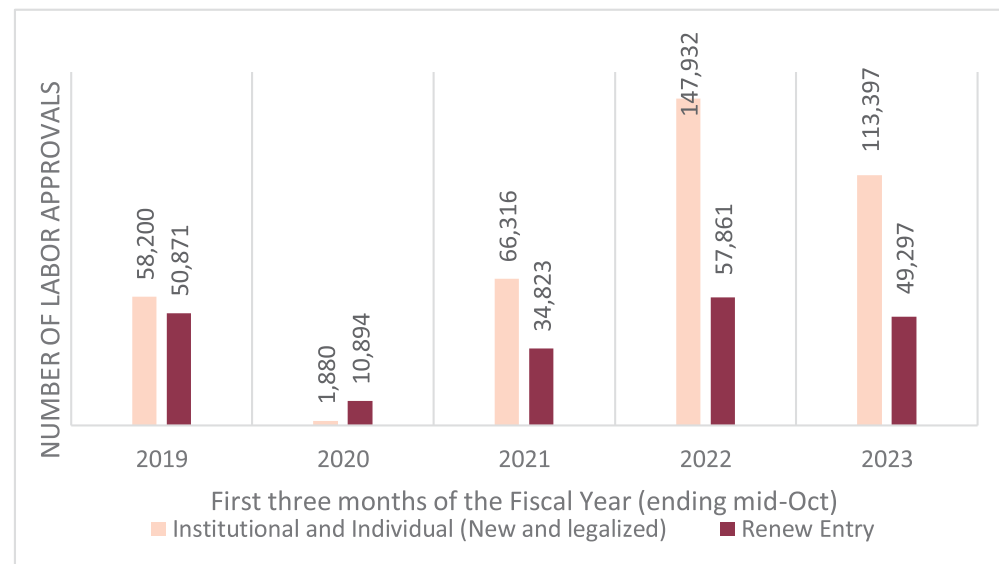


Figure 6. Number of Labor Approvals within the First Three Months of the Last Five Financial Years (Ending Mid-October)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023/24)



Decrease in Number of Migrant Workers Seeking Labor Approval

In the first quarter of the FY 2023/24 AD (2080/81 BS), the number of Nepali workers, both institutional and individual, taking first-time approval for foreign employment stood at 113,397, and approval for the renewed entry

stood at 49,297. This number, as seen in Figure 6, is comparatively lower than during the same period last year, with a decrease of 23.3% on new and legalized labor approvals and 14.35% on renewed entry. While the significant surge seen in FY 2022/23 AD (2079/80 BS) was seen due to the uplifting of Covid-19 travel restrictions in most countries, the numbers

seen in FY 2023/24 AD (2080/81 BS) are still significantly higher compared to the last five years.¹⁰⁰

Table 2. Top 10 Labor Destinations of Nepali Migrant Workers in the First Three Months of the Last Three FYs

S.No	Country	Three-months (ending mid-Oct)			Percent Change	
		2021	2022	2023	2022	2023
Institutional and Individual (New)						
1	UAE	6134	11187	26661	82	138
2	Malaysia	21	79881	21139	-	-74
3	Saudi Arabia	30618	8642	20538	-72	138
4	Qatar	23338	14539	10929	-38	-25
5	Kuwait	85	9688	9414	-	-3
6	Other	1731	10357	8716	-	-16
7	South Korea*	18	1905	3746	-	97
8	Malta	52	2860	2793	-	-2
9	Japan	23	934	2358	-	152
10	Romania	1052	2449	1700	133	-31

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023/24)

TOP 10 DESTINATIONS

As seen in Table 2, the Gulf region has been the primary labor destination for most Nepali migrant workers, among which UAE and Saudi Arabia has seen the most increase in labor influx from Nepali labor workers this year. Meanwhile, Malaysia saw a significant decrease in the number of people choosing the country as their labor destination. Interestingly, with the opening of work opportunities at lower-cost, East Asian countries like South Korea and Japan also saw a 97% and 152% increase in the number of Nepali labor workers compared to the same period in the previous fiscal year.

PLANS AND PROGRAMS TARGETED TOWARD MIGRANT WORKERS

eSewa Money Transfer Partners with MoneyGram

eSewa Money Transfer entered

into a collaboration with MoneyGram to streamline remittance disbursement and reception in cash. Under this agreement, remittances distributed by MoneyGram globally can be conveniently received at all authorized ESewa agents throughout Nepal.¹⁰¹

Government Unveils 47-Point Plan to Address Foreign Labor Migration Challenges

The Government of Nepal, currently chaired by Prime Minister Pushpa Kamal Dahal, has announced the unveiling of a comprehensive 47-point plan to address issues related to foreign labor migration. The meeting was held at Prime Minister's Office (PMO) on September 11 and 12, 2023, and was joined by the council of ministers.¹⁰² The decision aims to establish policy, legal, and procedural frameworks for a long-term solution, ensuring safe and systematic foreign employment. The plan highlights

exploring new destinations for foreign labor with bilateral labor agreements signed, ensuring the rights and social security of migrant workers, and simplifying the labor approval processes. The key initiatives also include the establishment of a Labor Migration Division within the Ministry of Foreign Affairs and the creation of a relief and rescue fund. The meeting also highlighted the importance of labor counselors and attachés with a minimum three-year term, implementing the 'employers pay principle' and fee specialization management.¹⁰³

Nepal Explores New Labor Destinations with MOUs Signed with Germany and Romania

The Government of Nepal gave approval to the Ministry of Labour, Employment and Social Security to sign Memoranda of Understanding (MoUs) with Germany and Romania to explore new job markets for Nepali migrant

workers at a cabinet meeting held on October 3, 2023.¹⁰⁴ The agreements aim to provide workers with fair compensation and social security protection. The general MoU with Romania allows all types of workers to seek employment, facilitated by private recruiting agencies.¹⁰⁵ As per the MoU with Germany, the aim is to send skilled workers through government-

to-government channels, with the Government of Germany upgrading workers' skills before employment.¹⁰⁶

Decrease in Uptake of the Youth-Migrant Returnee Workers' Loan

Compared with the numbers in mid-July 2022, a decreasing trend of youth returnee migrants

taking project loans can be observed in Table 3, as the number has decreased to 863 borrowers amounting to NPR 376.9 million (USD 2.84 million) in mid-October 2023. The outstanding loan amount has decreased significantly by 33.19% when we compare the figures in mid-July 2022 and mid-October 2023.

Table 3. Project loan for youth-returnee migrant workers

Type of Loan	Number of Borrowers				Outstanding Loan (in NPR million)			
	2022		2023		2022		2023	
	Mid-Jul	Mid-Oct	Mid-Jul	Mid-Oct	Mid-Jul	Mid-Oct	Mid-Jul	Mid-Oct
Project Loan for Youth-Returnee Migrant Workers	952	944	898	863	564.2	530.2	420.9	376.9

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023/24)

GOVERNMENT FIGURES

Government Reserves

According to the Current Macroeconomic and Financial Situation ending mid-October 2023, the gross foreign exchange reserve increased by 6.7% to NPR 1.64 trillion (USD 12.37 billion) in mid-October 2023 from NPR 1.53 trillion (USD 11.59 billion) in mid-July 2023. Out of all the reserves, the reserve held by NRB increased by 6.5% to NPR 1.43 trillion (USD 10.79 billion) in

mid-October 2023 from NPR 1.34 trillion (USD 10.13 billion) in mid-July 2023. The reserve held by Banks and Financial Institutions (BFIs) rose by 8.3% from NPR 193.59 billion (USD 1.45 billion) in mid-July 2023 to NPR 209.73 billion (USD 1.57 billion) in mid-October 2023. Out of this, Indian currency held a share of 21.7% of the total foreign exchange reserve.¹⁰⁷

Based on the country's imports in the first two months of the current fiscal year, FY 2023/24

AD (2080/81 BS), the foreign exchange reserves are expected to cover imports of goods and services for 12.6 months and 10.3 months respectively.¹⁰⁸ The ratios of reserves-to-GDP, reserve-to-imports, and reserves-to-M2 are 30.5%, 85.7%, and 26% respectively, as of mid-October 2023. Such ratios were 28.6%, 83%, and 25.1% respectively in mid-July 2023.¹⁰⁹

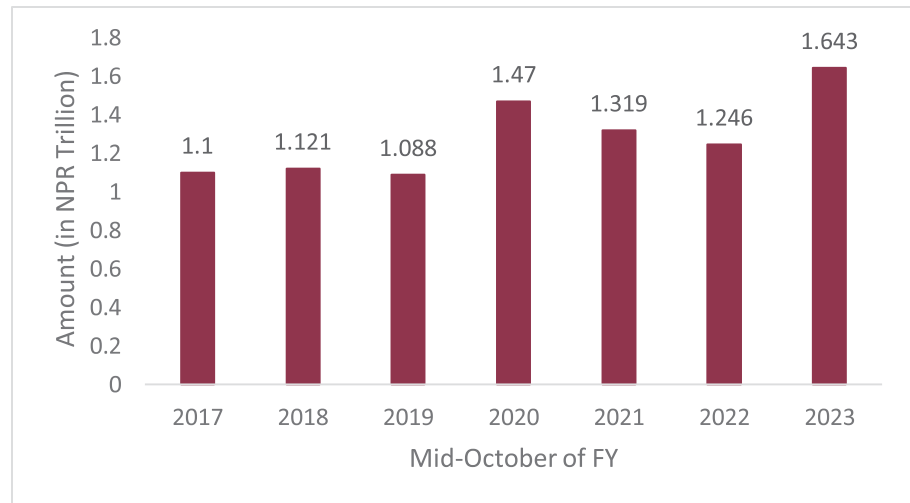
Table 4. Mid-month's Reserve-to-GDP Ratio (in %)

Particular	2021		2022		2023	
	Mid-Jul	Mid-Oct	Mid-Jul	Mid-Oct	Mid-Jul	Mid-Oct
Reserves/GDP	32.7	27.2	25.1	25.7	28.6	30.5

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)

Figure 7. Gross Foreign Exchange Reserves of Mid-October of the Last Seven Consecutive Years (in NPR trillion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2023)



Government Debt (Total, Domestic, and External)

The Government of Nepal has accrued domestic debt through various instruments such as treasury bills, development bonds, citizen saving bonds, and foreign employment bonds. The

other channels were facilitated by NRB, commercial banks, development banks, finance companies, and other entities. In total, the total domestic debt stood at NPR 1.17 trillion (USD 8.82 billion) in mid-October 2023 in comparison to NPR 954.4 billion (USD 7.18 billion) in

mid-October 2022.¹¹⁰ This shows the increase of internal debt by 23.5% in a year. Additionally, the government secured external loans amounting to NPR 1.09 trillion (USD 8.23 billion) as of mid-July, 2023.¹¹¹

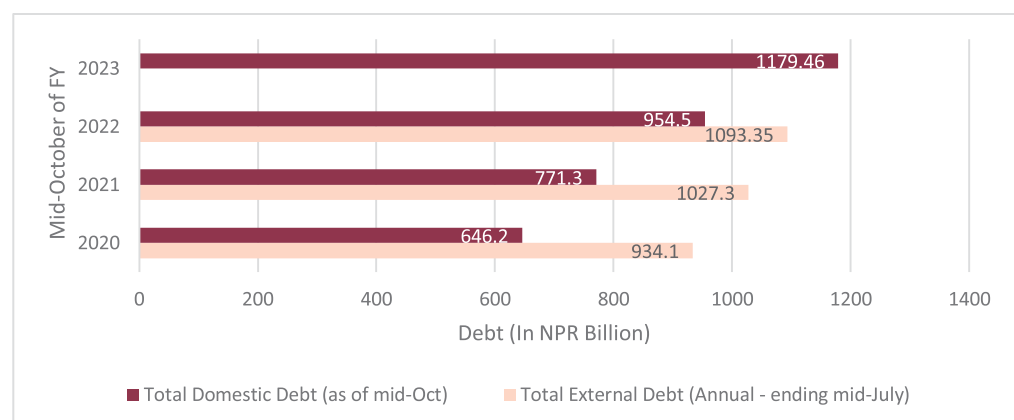
Table 5. Domestic Government Debt of Mid-October in the Last Four Years (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)

Particulars	Mid-October			
	2020	2021	2022	2023
Total Domestic Debt	646.2	771.3	954.5	1179.46
a. Nepal Rastra Bank	71.3	60	122.5	39.66
b. Commercial Banks	506.28	620.1	731.7	976.08
c. Development Banks	40.71	58	67.9	101.17
d. Finance Companies	16.03	20.6	21.00	21.98
e. Others	11.87	12.6	11.3	40.55

Figure 8. Total Domestic and External Debt Over the Last Four Mid-October of FYs (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Government Spending (Expenditure and Revenue)

The Financial Comptroller General Office (FCGO) of the Ministry of Finance has reported that the Government of Nepal spent a total of NPR 280.57 billion (USD 2.11 billion) during the first three months of FY 2023/24 AD (2080/81 BS). The total expenditure increased by 18.6% from the first three months of the FY 2022/23 AD (2079/80 BS). However, government

expenditure increased by only 0.9% in mid-October 2023 compared to mid-October 2022. In mid-October 2023, the recurrent expenditure, capital expenditure, and financial expenditure amounted to NPR 213.39 billion (USD 1.60 billion), NPR 17.83 billion (USD 0.13 billion), and NPR 49.35 billion (USD 0.37 billion), respectively.¹¹²

Moreover, revenue mobilization recorded a growth of 5% in mid-October 2023, which contrasts

with a decrease of 18.2% in the same period of the last fiscal year (mid-October 2022). The Government of Nepal also reported that the total revenue mobilization stood at NPR 219.12 billion (USD 1.65 billion), including the amount to be transferred to provincial and local governments. The tax revenue amounted to NPR 199.46 billion (USD 1.50 billion), and the non-tax revenue was NPR 19.65 billion (USD 147.98 million) in mid-October 2023.¹¹³

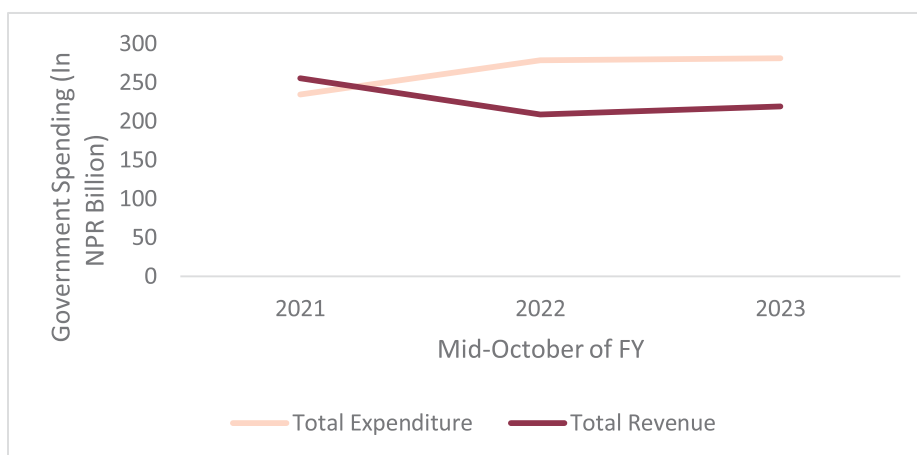
Table 6. Government Spending (Expenditures and Revenue) in the First Three Months of FY (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)

Particulars	2021	2022	2023
Total Expenditure (in NPR billion)	234.52	278.17	280.57
Recurrent expenditure	186.52	223.75	213.39
Capital expenditure	14.89	19.68	17.83
Financial Management	33.11	34.73	49.35
Total Revenue (in NPR billion)	255.04	208.48	219.12
Tax revenue	229.08	189.38	199.46
Non-tax revenue	25.96	19.2	19.65

Figure 9. Government spending (expenditures and revenue) growth as of mid-October in the last three FYs (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



TRADE STATUS

Foreign Trade Scenario

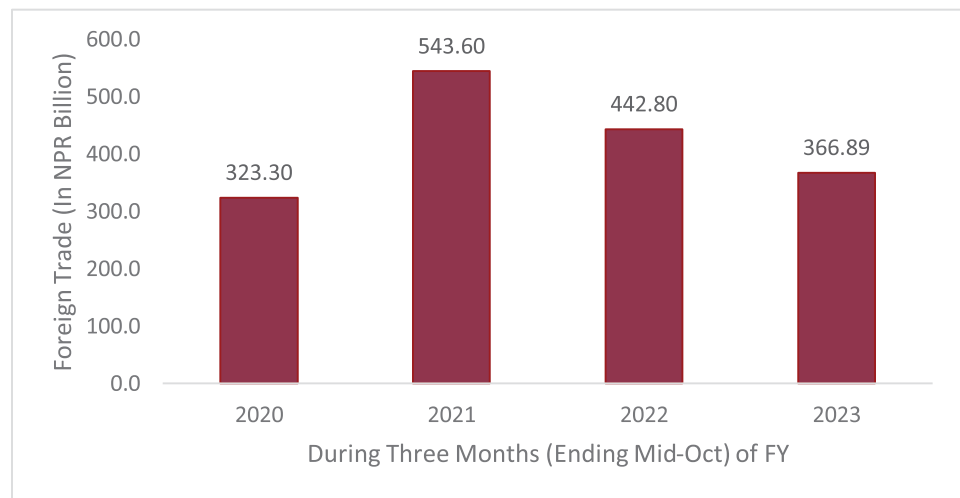
The total deficit increased to NPR 366.88 billion (USD 2.76 billion) during the three months

of FY 2023/24 AD (2080/81 BS), indicating an increase of 2.1% during the review period of the corresponding last year. The deficit had decreased by 13.1% in the corresponding period of the previous year in mid-October

2022. Additionally, the export-import ratio decreased to 10% in mid-October 2023 from 10.4% in mid-October 2022.¹¹⁴

Figure 10. Total foreign trade during three months at last four FY (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Top Imports and Exports

According to the Current Macroeconomic and Financial Situation ending mid-October 2023, the merchandise exports decreased by 2.3% to NPR 40.87 billion (USD 307.80 million) compared to the corresponding period of FY 2022/23 AD (2079/80 BS). In mid-October 2023, exports to India decreased by 9.4% whereas exports to China and other countries increased by 345.9% and 9.5% respectively compared to mid-October 2022. Exports of zinc sheet, particle board, juice, cardamom, polyester yarn and thread, among others, increased whereas exports of palm oil, soyabean oil, jute goods, woolen carpet, and rosin, among others, decreased.¹¹⁵ Overall, the

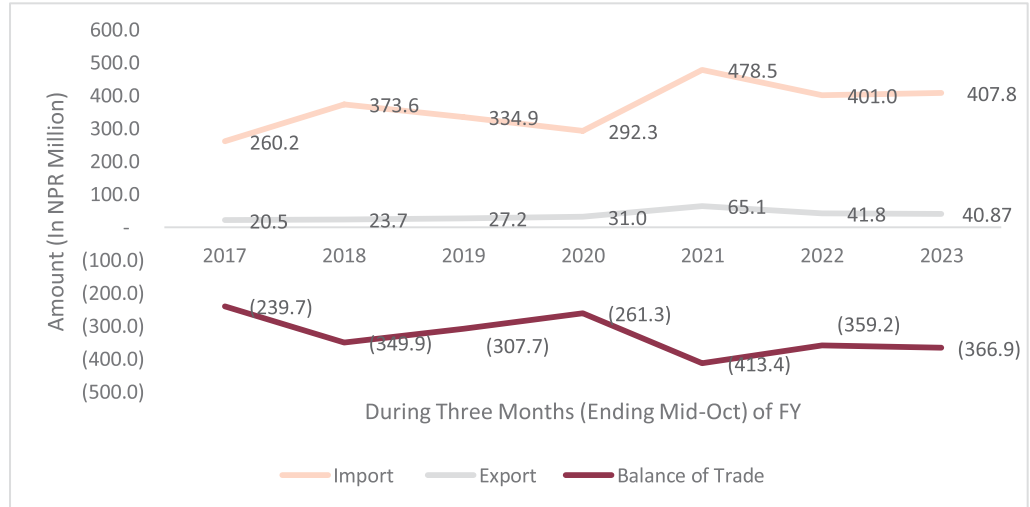
top five export commodities in mid-October 2023 were zinc sheets, which constituted 8.2% of total exports, polyester yarn and thread (7.3%), woolen carpet (7.2%), and juice and readymade garments (5.6%).

Likewise, the merchandise imports increased to NPR 407.76 billion (USD 3.07 billion) in mid-October 2023. An increase of 1.7% was seen in the corresponding period of FY 2022/23 AD (2079/80 BS). In mid-October 2023, the imports from India and China increased by 2.4% and 42.4% respectively – but imports from other countries have decreased by 22.8% compared to mid-October 2022. Imports of readymade garments, mill steel wire rods, bars, and

coils, chemical fertilizer, electrical equipment, and textiles, among others, have increased whereas imports of crude soybean oil, crude palm oil, petroleum products, gold, mill steel billet, among others decreased.¹¹⁶ Overall, the top five import commodities in mid-October 2023 were petroleum products (constituting 16.2% of total imports), transport equipment, vehicle and vehicle spare parts (4.2%), other machinery and parts (4.5%), chemical fertilizers (3.2%) and readymade garments (2.9%).

Figure 11. Total Imports, Exports, and Trade Balance During Three Months of the Last Seven FYs (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Balance of Trade

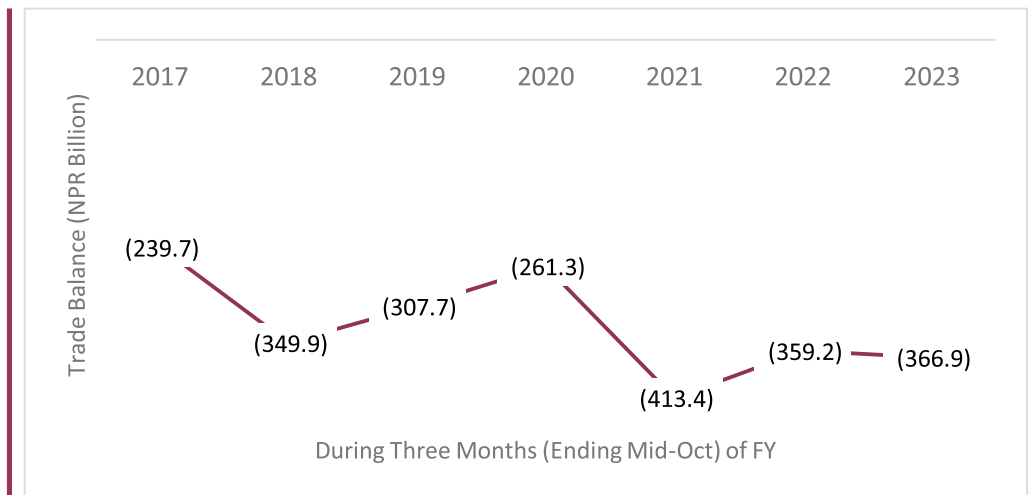
According to the Current Macroeconomic and Financial Situation ending mid-October

2023, the total trade deficit increased by 2.1% to NPR 366.88 billion (USD 2.76 billion) in mid-October 2023 as compared to a deficit of 13.1% in the

corresponding period in the previous year.¹¹⁷

Figure 12. Total Trade Balance During First Three Months of the Last Seven FYs (in NPR billion)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Balance of Payments

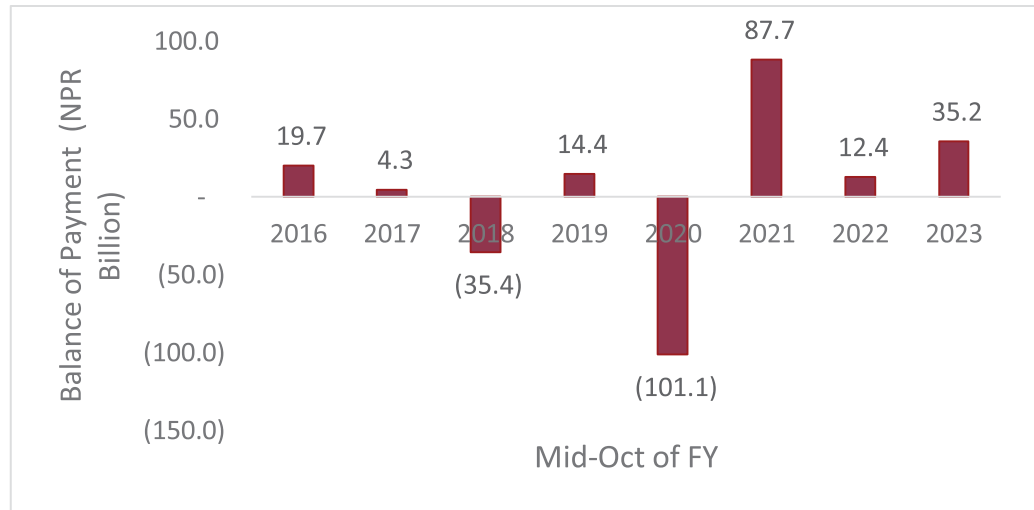
The current account remained at a surplus of NPR 59.09 billion (USD 445.02 million) in mid-

October 2023 against a deficit of NPR 35.24 billion (USD 265.40 million) in mid-October 2022. Balance of Payments (BOP) also registered a surplus of NPR 99.07

billion (USD 746.12 million) in mid-October 2023 against a surplus of NPR 12.43 billion (USD 93.61 million) in mid-October 2022.¹¹⁸

Figure 13. Balance of Payment trends of first three months of last eleven years (in NPR million)

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Exchange Rate Fluctuations

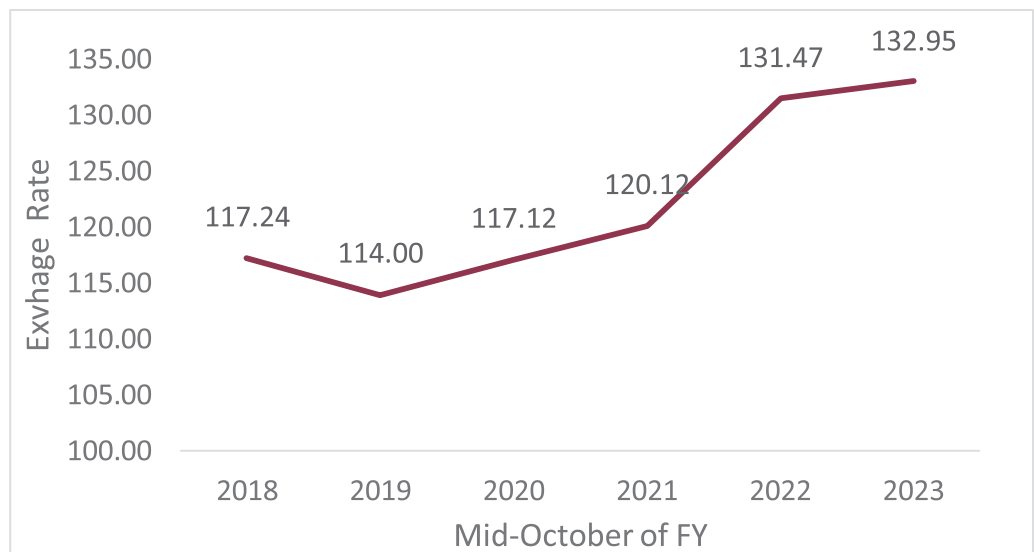
The Nepali currency vis-a-vis the US dollar depreciated by 1.34% in mid-October 2023 from mid-July 2023, compared to a depreciation of 3.01% in the same

period in mid-October 2022. In mid-October 2023, the buying exchange rate per US dollar was NPR 132.95, up from in mid-July 2023, when it was NPR 131.17.¹¹⁹ The country's heavy dependence on imported products and low

level of domestic production led to inflation during such changes in the USD, which also puts pressure on the balance of payments (BOP).¹²⁰

Figure 14. Exchange rate fluctuation in mid-October of the last six FY

Source: Current Macroeconomic and Financial Situation of Nepal (ending mid-Oct 2023)



Gold/Silver Updates

The import of gold decreased by 31.3% to NPR 7.94 billion (USD 59.79 million) in mid-October 2023 from NPR 11.15 billion (USD 83.97 million) in mid-October

2022. In mid-October 2023, the price of gold rose by 15.8% from USD 1664.75 per ounce to USD 1928.20 per ounce. The commodity also remained part of Nepal's top 15 imports. In the meantime, the import of silver

increased by 66.7% from NPR 513.6 million (USD 3.86 million) in mid-October 2022 to NPR 856.2 million (USD 6.44 million) in mid-October 2023.¹²¹

Conversely, the export of

silverware and pieces of jewellery, which comes under the top 20 commodities that Nepal exports, has been constantly decreasing. It saw a year-on-year decrease of 51.5% from NPR 215.8 million (USD 1.62 million) in mid-October 2022 to NPR 104.6 million (USD 0.78 million) in mid-October 2023.¹²²

Outlook

Nepal is continuously facing the inflationary pressure as its currency is continually depreciating against the US dollar, thereby impacting people's savings and personal spending.¹²³ As the nation navigates these economic challenges, remittances will continue to emerge as a crucial lifeline, continuously replenishing foreign exchanges reserves to support essential imports. Creating remittance funds for productive investments in sectors like agriculture, manufacturing, and technology could be done by utilizing the country's venture capital and private equity ecosystem.¹²⁴ Nepal will have to timely revise trade agreements and treaties with at the onset of the upcoming LDC graduation after which there will be increased tariffs on Nepalese exports, especially in the US and Europe. The government should also consider becoming a member of regional trade like Asia Pacific Economic Cooperation (APEC) to improve the access of export industries to market.¹²⁵ Diversifying the economy, boosting the local industries, attracting FDI, and creating a business-friendly environment should be the priority for the government to improve domestic production. Furthermore, the rising debt calls for a prudent public finance management to ensure enough capital funds for longer-term investment.

Overall, the macroeconomic situation has much to improve upon. In these conditions, the upcoming 16th five-year national plan will need to address the critical issues of trade deficit, remittance dependence, and low domestic production. Consequently, collaborative efforts at both the multilateral and bilateral levels will be essential to fund and support the structural shift of the economy.

3

Sectoral Review



Agriculture and Livestock

The agriculture and livestock sector, one of the major contributors to Nepal's economy, saw gradual improvement this past quarter. A major reason for this was that the spread of lumpy skin disease in cows came under control due to effective vaccination in various districts. Further, the Memorandum of Understandings (MoUs) signed between the Government of Nepal with the governments of China and South Korea on cooperation in the agricultural sector is hoped to bring development in the sector. However, various problems persisted in the sector this quarter. The primary one being that shortage of sugar intensified due to the ban on exports of sugar from India, despite the Government of Nepal making efforts to relieve this shortage.

PRODUCTION UPDATES

Decline in Orange Production

The Gandaki Province has witnessed a notable expansion in orange farming. In 2021, 7,945 hectares of land were dedicated to orange farming.¹⁴⁴ Subsequently, in 2022, this grew by 397 hectares and in 2023, it is expected to grow by 500 hectares.¹⁴⁵ The strategic efforts of the mandarin orange superzone, part of the Prime Minister's Agriculture Modernisation Project, have played a pivotal role in fostering this growth. However, in 2023, despite the increase in orange farming, there has been a decrease in the amount of oranges produced due to hailstone damage, lack of proper garden management of garden and the prevalence of diseases.¹⁴⁶ Specifically,

FACTSHEET	
Particulars	Amount/ Percentage
Agriculture sector's contribution to GDP	24.1% ¹²⁶
Growth rate for agriculture	2.73% ¹²⁷
GDP of the agriculture sector	NPR 1.29 trillion (USD 9.76 billion) ¹²⁸
Food and Beverage CPI Sep/Oct	8.38% ¹²⁹
Price decrease of ghee and oil	11.61% ¹³⁰
Price increase of milk products and eggs	11.92% ¹³¹
Price increase of Pulses and Legumes	8.17% ¹³²
Price increase in tobacco products	6.59% ¹³³
Price increase of Cereal grains and their products	12.23% ¹³⁴
Outstanding credit outflow for FY 2022/23	NPR 416.35 billion (USD 3.13 billion) ¹³⁵
Top 4 agricultural commodities imports (based on three months' data ending in mid-October 2023)	Rice/Paddy: NPR 5.55 billion (USD 41.7 million) ¹³⁶
	Edible oil: NPR 4.62 billion (USD 34.7 million) ¹³⁷
	Crude soyabean oil: NPR 4.46 billion (USD 33.5 million) ¹³⁸
	Vegetables: NPR 4.26 billion (USD 32 million) ¹³⁹
Top 4 agricultural commodities exports (based on three months' data ending in mid-October 2023)	Juice: NPR 2.29 billion (USD 17.2 million) ¹⁴⁰
	Cardamom: NPR 1.89 billion (USD 14.2 million) ¹⁴¹
	Jute goods: NPR 1.73 billion (USD 13 million) ¹⁴²
	Palm oil: NPR 1.32 billion (USD 9.9 million) ¹⁴³

in the Syangja district, a decline of approximately 25% in orange production is projected for 2023, with an estimated yield of around 17,000 tons compared to the 22,000 tons harvested in 2022.¹⁴⁷ This decline is noteworthy, considering that oranges are cultivated across an expansive area of 2,200 hectares in this district.¹⁴⁸

GRAPE UPDATES

GIZ Nepal's Green Resilient Agricultural Productive Ecosystems (GRAPE) program had many developments in the past quarter with the aim to strengthen sustainable agricultural ecosystems in the Sudurpashchim and Karnali provinces of Nepal. The program, contributing to Nepal's Nationally Determined Contributions (NDC) and the Green, Resilient, and Inclusive Development (GRID) approach for long-term sustainable economic development, conducted three pivotal activities to help fulfill their aim. Firstly, Local and Regional Economic Development (LRED) basic training sessions were organized to provide basic, advanced and masterclass-level training to federal and provincial decision makers.¹⁴⁹ Concurrently, agricultural experimentation at the Community Learning Centre in Barahtal, Surkhet demonstrated successful garlic cultivation within banana stems, enhancing garlic production and protecting against pests.¹⁵⁰ Lastly, on 28th August 2023, the Startup 2020 Conference witnessed the formal launch of the LRED Expert Pool.¹⁵¹ The expert pool aims to work with multiple stakeholders in Nepal to design, implement and monitor LRED.

MARKET UPDATES

Lamjung Cardamom Farmers Experience Increased Revenue Despite Decreased Production

Farmers in Lamjung have garnered NPR 240 million (USD 1.81 million) from selling 251 metric tons of cardamom seeds during FY 2080/81 BS (2022/23 AD). In comparison, in the previous financial year, they earned NPR 200 million (USD 1.51 million) from the sale of 380 metric tons of cardamom. This increase in revenue despite decreased production can be attributed to the fact that the price of cardamom per kilogram increased from NPR 550 / NPR 700 (USD 4.14 / USD 5.27) in the previous year to NPR 1,200 (USD 9.03) in FY 2080/81 BS (2022/23 AD). The decline in production has come as blessing in disguise as farmers have benefited from the price increase despite India's monopoly affecting prices. Meanwhile, the decrease in annual production was attributed to factors such as aging cardamom plants and poor management of plantations.

EXPORT AND IMPORT OF AGRO-COMMODITIES

Shortage of Sugar Intensifies

Nepal is confronting an intensified sugar shortage as the Government of India has banned its mills from exporting sugar since October, causing the price of sugar to shoot up by more than 36%.¹⁵² With an annual sugar requirement of approximately 270,000 tons and an annual deficit of about 100,000 tons, Nepal heavily relies on imports from India to meet domestic demand which has made the

situation worse.¹⁵³ Further, unscrupulous business practices, including sugar hoarding during this shortage, has additionally impacted the consumer.

In the past quarter, in order to address the crisis and control sugar pricing, Nepal's Finance Ministry approved the import of 20,000 tons of sugar and halved the import duty from 30%, along with an additional 13% VAT.¹⁵⁴ Simultaneously, the Government of India allowed the export of 25,000 tons of sugar to Nepal.¹⁵⁵

Tea Continues to be Major Export

During the initial four months of FY 2023/24 AD (2080/81 BS), tea continued to be a major export as Nepal achieved tea exports valued at NPR 1.49 billion (USD 11.22 million).¹⁵⁶ The primary market for Nepali tea remains India, while a notable surge in demand for Nepali organic tea has been observed in the European market, attributed to its distinctive flavor profile and high quality. Tea cultivation in Nepal is predominantly concentrated in the Koshi province, spanning approximately 27,000 hectares, with an annual production output of 23,745 metric tons, engaging over 17,000 farmers.¹⁵⁷

LIVESTOCK UPDATES

Lumpy Skin Epidemic Under Control

In the past quarter, the lumpy skin epidemic in Nepal was successfully brought under control due to effective vaccination initiatives. The disease, primarily affecting cattle, is transmitted by ticks, mites, and mosquitoes. It had been on a

rampage in the previous quarter, with the Ministry of Agriculture and Livestock recording 1.5 million affected livestock and 52,548 livestock deaths.¹⁵⁸ To combat the epidemic, over 1.3 million doses of vaccines were imported from Jordan, Tanzania and Turkey.¹⁵⁹ Subsequently, one million cattle received vaccinations. However, despite the vaccination drive, 73,636 livestock are still suffering from the disease.¹⁶⁰

GOVERNMENT PLANS

Nepal Signs MoUs with China and South Korea on Agricultural Cooperation

On September 26, 2023, among the 12 other agreements signed during Prime Minister Dahal's visit to China, the governments of Nepal and China also signed a

Memorandum of Understanding (MoU) regarding cooperation in the field of agriculture, livestock and fisheries.¹⁶¹ As per the MoU, firstly, in order to increase the export of Nepali citrus fruits to China, the Government of China will assist Nepal in meeting the phytosanitary requirements. Similarly, the two government will cooperate on the matter of variety breeding and standardized scale culture of Yak, Nak and mountain goats (chyangra). Significantly, the agreement also includes a clause on cooperation to establish an agricultural industrial demonstration park to further promote collaboration in agriculture.¹⁶²

Similarly, on November 2, 2023, an MoU between the governments of Nepal and South

Korea was signed by the Nepali Minister for Agriculture and Livestock Development Beduram Bhusal and the South Korean Minister for Agriculture, Food and Rural Affairs, Chung Hwang-Keun. The agreement is aimed at promoting cooperation in the fields of agricultural science and technology along with agriculture and livestock processing and production.¹⁶³ Further, with the signing of the MoU, Nepal Agricultural Research Council can work together with Korea Agricultural Research Council for research activities in the agricultural sector, development of agricultural infrastructure, construction of training centers, and development of agricultural markets.¹⁶⁴

Outlook

The past quarter saw many developments in the agriculture and livestock sector – from the signing of MoUs to control over the lumpy skin disease. However, these developments need to be maintained for further progress in the sector. The government must take action in order to maintain the momentum of the agreements and cooperation with other countries in order to combat the various issues the sector faces. A particular issue that can be seen right now is the sugar shortage created by excessive dependence on India. Cooperation with other countries to improve Nepal's agricultural sector can majorly help in combatting this by helping Nepal develop its agriculture through research and better infrastructure.

Education

The government has passed the School Education Bill 2080 after amending controversial provisions seeking to decentralize educational responsibilities to the municipal level and convert private schools into trusts. The change was seeming a response to the intense protests by educators in the previous quarter. However, the bill has not been able to appease all stakeholders as it still faces heavy criticism for a lack of focus on quality education and concerns of politicization of the Nepal Education Board.

Furthermore, the devastating Jajarkot earthquake has underscored the fragility of disaster response in critical public services, including education. The infrastructural damage, paired with mental and physical shocks, has exacerbated challenges related to education quality and absenteeism in earthquake-affected areas. The unpreparedness to handle a disaster of this magnitude has placed the Karnali region at risk of being unable to achieve its goal of complete literacy. Additionally, this further widens the education divide between rural and urban settlements.

KEY DEVELOPMENTS

House Endorses Amended School Education Bill 2080

The House of Representatives unanimously endorsed a proposal to consider the School Education Bill 2080 BS (2023 AD) on October 8, 2023. The Cabinet had approved the bill in August, but decided to make amendments before sending it to the Parliament following protests from teachers.¹⁷⁰ In response, the government and the Nepal Teachers Federation (NTF) had

signed a seven-point agreement after which the protesting teachers decided to withdraw and continue teaching. Among other points, the agreement states that a provision would be inducted in the bill to ensure teachers do not face any action without proper justification, and that they would not be transferred without the consent of the head teachers.¹⁷¹ Additionally, the relief quota teachers and the government signed a separate agreement which ensures their stability and better benefits. They had

previously shown dissatisfaction with the agreement signed by NTF.¹⁷²

Among various provisions, the amended bill has given existing private schools the liberty of choosing whether or not to convert into trusts. At the same time, schools opened after the bill's passage will need to be registered as trusts. This is expected to increase challenges for new entrants in the private education sector.¹⁷³ The bill has also given municipal levels the autonomy to appoint

FACTSHEET	
Education Indicators	
Mean years of schooling ¹⁶⁵	5.1
Net enrolment rate at secondary level (class 9–12) ¹⁶⁶	54.03%
Retention rate up to grade 12 ¹⁶⁷	35.60%
Literacy rate (5 years and above) ¹⁶⁸	76.20%
Ratio of gender equality (based on the secondary net enrolment rate) ¹⁶⁹	1

principals and to construct schools in an effort to encourage decentralization of education responsibilities.¹⁷⁴ However, this has raised the question of whether municipal governments are well-equipped, both in terms of skills and finances, for such responsibilities.

Provision Removing SEE Raises Concerns about Education Quality

The School Education Bill 2080 BS (2023 AD) triggered significant debate with its proposal to centralize secondary level major examinations in the 12th grade under the National Examination Board, and for examinations of grades 9, 10, and 11 to be conducted by the respective schools. This would effectively cancel the Secondary Education Examination (SEE) as the major centralized examination it currently is.¹⁷⁵ This has raised concerns among education providers about the possibility of a decline in school education, with teachers stating it could have a negative impact on students' learning habits and weaken the university admission base.¹⁷⁶ The situation for education quality is already in a dire state with around half the students having scored a grade point average lower than 2.40 in the SEE in 2023.¹⁷⁷

Tribhuvan University's Global Rank Declines

According to Times Higher Education's World University Rankings 2024, Tribhuvan University (TU) ranked between 1,201 to 1,500, a significant decline from the previous position between 801 to 1,000 in 2023.¹⁷⁸ The ranking methodology

considered institutions' performance in teaching research environment, research quality, industry, and international outlook. Following the ranking, TU issued a press release in October 2023, attributing the drop in ranking to changes in the evaluation criteria, namely the lower weightage given to research citations.¹⁷⁹ It further defended itself stating that its ranking had remained stable among Asian universities falling in the range band between 251 to 300 in 2023 as well as 2024.¹⁸⁰ However, critics have rejected the notion that the changes in evaluation criteria solely has caused the slip in TU's rankings. Rather, they believe that the lack of proactive measures from TU to address the root causes of its declining performance has allowed its issues to compound and reflect in its rankings.¹⁸¹ An example of mismanagement at TU is the prolonged vacancy of the Vice-Chancellor position, persisting since November 3, following the conclusion of Dr. Dharma Kanta Baskota's tenure.¹⁸²

Tribhuvan University School of Engineering Announces New Fees

The Tribhuvan University Institute of Engineering (IOE) has announced new fees for its undergraduate engineering and architecture courses. They have raised the fees from the previous NPR 318,000 (USD 2,395) to NPR 490,000 (USD 3,690).¹⁸³ Initially, IOE had planned to hike the fees to NPR 775,420 (USD 5,840). However, the hunger strikes and demonstrations held by students in protest, which also caused the annual engineering examination to be postponed, led to the

decision to lower the increased amount.¹⁸⁴

LITERACY ROADBLOCKS

Damage from Earthquake Affects Teaching-Learning Activities in Karnali

The 6.4 magnitude earthquake that struck Jajarkot and Rukum in Karnali damaged over 300 schools across the province.¹⁸⁵ Reportedly, a total of 317 classrooms of 44 schools in the epicenter of Berekot alone have suffered major damages, halting education activities for more than 9,800 students.¹⁸⁶ Affected municipalities and local residents have been attempting to resume curricular activities by setting up temporary structures in schools with damage.¹⁸⁷ However, budget constraints have made it challenging to procure sufficient and suitable tents, especially since providing essentials to people rendered homeless due to the disaster take priority.¹⁸⁸ Moreover, the tents provided to a limited number of schools are too small to accommodate all students, leading to younger students being given priority to use them.¹⁸⁹ With the onset of winter, this has led to several students falling ill and not being able to attend.¹⁹⁰

Challenging Infrastructure Continues to Hinder Literacy Goals in Karnali

A lack of easy access to quality education serves as a significant hurdle in achieving Karnali's goal of total literacy status by the end of FY 2023/24 AD (2080/81 BS).¹⁹¹ Multiple local units in Kalikot, Humla, Mugu, Jumla, and Dolpa are yet to achieve total literacy status i.e., a 95% literacy rate in

the people aged 15 to 59 years.¹⁹² Among the various challenges faced by students in the region, an example is that of students from Musinmela in Ward 2 of Soru Rural Municipality in Mugu who have walk to Kalika Secondary School in Libru, two hours away, to continue their education after grade 3.¹⁹³ This fact of students having to enrol in schools of neighboring villages to be able to access quality or further education is quite common in rural Karnali.¹⁹⁴ Parents have complained that the daily trek causes children to be too tired to focus on schoolwork and also poses a significant safety issue due to increasing landslides.¹⁹⁵ Furthermore, schools, even those considered to be of better quality in rural Karnali, have found themselves lacking necessary resources and infrastructure for the growing number of students, including enough classrooms, furniture, sufficient number of teachers, drinking water, and toilets.¹⁹⁶ The local government had spent NPR 5 million on schools in FY 2022/23 AD (2079/80 BS), but this has not been adequate to solve all of its issues.¹⁹⁷

Private Colleges Found Charging Fees from Scholarship Students

The Supervision Committee of Kathmandu Metropolitan City (KMC) has been investigating various private colleges accused of charging fees from scholarship students.¹⁹⁸ In 2023 AD (2080 BS), KMC had strictly implemented the law requiring academic institutions to allocate 10% of their total seats to deserving students

and those from underprivileged backgrounds.¹⁹⁹ To ensure this, KMC had nominated around 2,300 students for Grade 11 scholarships accordingly in August 2023.²⁰⁰ However, it has been revealed that around ten colleges had been collecting monthly fees of up to NPR 9,500 (USD 71.55) from their scholarship students, under various titles such as library fees, practical fees, and extracurricular fees, despite some of the colleges not even providing these facilities.²⁰¹ Some of the colleges involved are Golden Gate College, Global College, Kathmandu Model College, Everest College, Florida College, CCRC College, and Sifal College.

When responding to KMC's supervision committee on the matter, the principal of Global College of Management responded that they were charging weak students who required additional classes.²⁰² He further doubled down stating that the letter they had received from KMC was unclear as it only asked educational institutions to not charge monthly fees instead of asking them to not collect any money from the students.²⁰³

EDUCATION INVESTMENTS

Kathmandu University Launches Degree with Experiential Learning

Kathmandu University's Schools of Arts and Engineering launched the Bachelor of Craft and Design as a joint program on October 13, 2023. The four-year degree will adopt an experiential learning approach, and will

include practical, historical, and philosophical aspects of craft and design in the 135 credits it covers.²⁰⁴ The degree focuses on providing students with a versatile skill set applicable to diverse craft and design disciplines such as product design, furniture design, and fashion. It has also incorporated independent projects and peer learning seminars to engage students with various materials and processes.²⁰⁵

KOICA-Supported Nepal Technology Innovation Center Inaugurated

On October 11, 2023, President Ram Chandra Paudel inaugurated the Nepal Technology Innovation Center (NTIC) building in Kathmandu University. This initiative was funded by a grant assistance of USD 10 million (NPR 1.33 billion) by the Government of Korea, through the Korea International Cooperation Agency (KOICA). The Center aims to strengthen research and development in Nepal to better the quality of life and income status of Nepali rural populations through innovative technology.²⁰⁶ For this, NTIC has been equipped with advanced scientific instruments to develop business models for rural and isolated regions in Nepal. It aims to make research-based tools and technologies accessible to a wider demographic.²⁰⁷

Outlook /

Nepal has been struggling with a decline in quality of education, as evidenced in the dropping rank of TU and low CGPAs of students. It could lead to reduced competitiveness among graduates, which could provoke more youth to migrate for further education, adding stress on already vulnerable institutions. The Education Bill does little to combat this concern as it lacks provisions establishing minimum standards for teaching and learning, which are crucial to promote and sustain quality education. Unfortunately, the lack of proactive measures from the government will allow this issue to become more pervasive and complex.

Despite facing disasters at regular intervals, Nepal currently lacks a comprehensive, long-term strategy for disaster response and managing disruptions caused by such events. This deficiency became glaringly evident during the recent Jajarkot earthquake, where victims experienced a lack of access to proper emergency shelters, jeopardizing both education and healthcare. To address this gap, it is imperative to focus on proactive mitigation measures, including the construction of earthquake-resistant structures, to enhance preparedness for similar situations in the future. Immediate attention is required to structurally strengthen education and response programs, especially in the affected areas and other remote regions at high risk of disaster-related disruptions.

Energy and Environment

With increased risks of climate change, mitigation measures have been called upon for in all provinces. In terms of green energy initiatives, Nepal Electricity Authority (NEA) took steps to promote electric vehicle infrastructure by installing charging stations. Simultaneously, various private and international entities collaborated on the cause of green energy and infrastructure. Among these, the hydropower sector, in particular, attracted significant investments in the Upper Arun Hydroelectric Project and Dudhkoshi Project from international organizations such as the Asian Development Bank and the World Bank, signaling positive growth of renewable energy in Nepal. On the other hand, concerns arose as the Department of National Parks and Wildlife Conservation proposed amendments on present guidelines, leading to exemption for hydropower project developers to replant in areas they have taken over.

CLIMATE CHANGE RISKS

Climate Change Affects Provinces

According to a World Bank report, 'Climate risks, exposure, vulnerability and resilience in Nepal', published in November, there has been a rapid increase in the severity of heat and extreme rainfall in multiple provinces across Nepal. The provinces located in western Nepal, which used to have milder rain, are now faced with much higher precipitation.²¹³ Further, the report stated that northern Nepal is more vulnerable to increased landslides, mainly due to the poor coping ability of the region.²¹⁴ Similarly, areas including that of

Kathmandu and Pokhara are at high risk of flooding, according to spatial patterns presented in the report. This has been attributed to multiple reasons including a rapid increase in the built-up area in various provinces. As per the report, built-up area in Gandaki, Lumbini, Karnali and Sudurpaschim provinces has doubled since 2000, increasing socio-economic and environmental impacts.²¹⁵

CLIMATE CHANGE MITIGATION AND ADAPTATION

Rehabilitation Process Underway to Tackle Kagbeni Floods

After the Kagbeni flood on

FACTSHEET	
Indicators	
Total petroleum product imports (FY 2022/23 AD, 2079/80 BS)	NPR 309.88 billion (USD 2.36 billion) ²⁰⁸
Installed electricity capacity (FY 2022/23 AD, 2079/80 BS)	2684.4 MW ²⁰⁹
Highest peak time energy generation (August 2023)	2,120 MW ²¹⁰
Highest peak energy import (August 2023)	674 MW ²¹¹
Highest peak energy export (August 2023)	430 MW ²¹²

August 13, the attention of the local, provincial, and federal government has been concentrated to reconstruct and aid the affected village.²¹⁶ As part of this, the Kagbeni Settlement Restoration and Protection Committee, which was set up to collect funds to help flood victims at Varagung Muktichhetra Rural Municipality-4, gathered around NPR 8 million (USD 0.06 million) by the end of October 2023.²¹⁷ The amount was collected from local and provincial governments as well as locals residing abroad. According to the coordinator of the committee, the fund has been used for search, rescue and relief aid.²¹⁸ The complete restoration of the village is expected to take

three to four years, provided that coordinated efforts are met by the government.²¹⁹

Climate Insurance Introduced for Impact Mitigation

The Rockefeller Foundation has committed a substantial grant of USD 1 billion (NPR 132.78 billion) over a five-year period to develop climate strategies, with a portion earmarked for Nepal.²²⁰ As part of this, in a significant announcement on October 9, a collaborative effort was unveiled between the Rockefeller Foundation, Himalayan Everest Insurance, and Nepal Economic Forum. This partnership aims to introduce micro-insurance solutions in Nepal, designed to shield vulnerable communities from the impact of climate-related adversities; with the primary objective being that of bolstering climate resilience in Nepal by crafting insurance products tailored to various economic segments, particularly micro-insurance for the most vulnerable.²²¹

RENEWABLE ENERGY

Proposed Amendments to Hydropower Act Raise Environmental Concerns

Hydropower in Nepal, despite often being categorized as renewable energy, is not unanimously considered to be green energy. The recently proposed amendments to the 'National Parks and Wildlife Conservation Act' have furthered this divide. Currently, developers of hydropower plants are required to replant 25,000 trees for every 100,000 cut during development.²²² However, with the proposed amendments,

developers would be able to offer financial compensation instead of replanting. The government has defended the decision to amend the act as documenting the existing practices and bolstering the balance. However, experts have called out that changes should be made in a planned manner and development should go hand-in-hand with nature conservation.²²³

NEA Installs 51 Fast Charging Stations

On September 6, the Nepal Electricity Authority (NEA) inaugurated the 51 fast charging stations constructed along main highways, bus stations and in major cities of all seven provinces.²²⁴ These stations were constructed under the 'Electric Vehicle Charging Infrastructure Development Project', with investments from NEA, a concessional loan from the Asian Development Bank (ADB) and technical assistance from the Norwegian government, all as part of a budget of NPR 400 million (USD 3.01 million).²²⁵ Each of the charging stations are equipped with a 142-kilowatt capacity charger, a 50 kVA (kilovolt amperes) transformer for power supply and an online billing system and will be controlled from Kathmandu.²²⁶ This is the first phase of NEA's plans to install 500 charging stations across the country.

ADB and World Bank to Fund Two Hydropower Projects in East Nepal

The World Bank and Asian Development Bank (ADB) have taken the lead to fund two hydropower projects in

East Nepal. The World Bank is taking the lead to find more international investors for the Upper Arun Hydroelectric Project in Sankhuwasabha which holds a capacity of 1,061 MW.²²⁷ The estimated cost of the project is USD 1.75 billion (NPR 232.36 billion). Out of this, International investors are expected to invest USD 750 million (NPR 99,585 million), including USD 500 million (NPR 66,390 million) from the World Bank.

Similarly, another hydropower project that will be funded partly by the Asian Development Bank (ADB) is the Dudhkoshi hydroelectric project holding a capacity of 635 MW.²²⁸ The Dudhkoshi project's estimated cost stands at USD 2.2 billion (NPR 292.11 billion), with international investors contributing USD 1 billion (NPR 132.78 billion). Out of the contribution from international investors, ADB will be contributing USD 550 million (NPR 73,029 million).²²⁹

PLANS AND POLICIES

Nijgadh Airport Gets Green Signal from the Government

The construction of the Nijgadh Airport has been approved by the government. The decision was made by the Council of Ministers on November 9 on the basis of a report prepared by the expert group tasked with the evaluation of the project. Thus, the budget for FY 2023/24 AD (2080/81 BS) accommodates preparatory activities for the construction of the airport, including environmental impact assessments, settlement relocation, compensation distribution, and land

conservation.²³⁰ The expert group has recommended utilizing 80% of land in Kolhabi Municipality and 20% in Jitpur Simra sub-metropolitan city, to minimize excess environmental damage.²³¹ This decision has been met by a plethora of criticism due to the fact that the designated area for the airport includes a region characterized by a combination of forests, settlements, agriculture, and forested branches. Previous protests against the construction of the airport, in 2022, had led to a halt on any work on the airport as well as the creation of the aforementioned expert group, as mandated by the Supreme Court.²³²

Dugar Power And Tata Power Join Hands for Renewable Energy in Nepal

In the past quarter, Dugar Power Private Limited signed an agreement with Tata Power Renewable Energy Limited (TPREL) to invest in renewable energy in Nepal. TPREL is one of the leading groups in the renewable energy sector, having

powered some of the biggest industry and utility-scale international projects like a 3.411 MWp project in the Netherlands and a 3.376 MWp project in the USA, among others.²³³ The joint venture aims to use transformative solar technologies to produce a range of on- and off-grid energy solutions. The alliance is expected to be a significant milestone in accelerating Nepal's progress in renewable energy by providing solutions from kilowatt to megawatt levels.²³⁴

NEW DEVELOPMENTS

New Import Rule Highlights Benefits for Nepal

In the last week of October, India set a new quota for renewable energy, allowing renewable energy quotas to be met through countries outside India. It is likely to be implemented from April 1, 2024.²³⁵ This change is expected to be beneficial for countries currently selling energy to India, including Nepal. Nepal is currently permitted to sell 632 MW of power on the Indian

market out of which 522 MW has been authorized for sale in both the day-ahead and real-time markets. In the real-time market, Nepal has been selling 44 MW ever since India allowed competitors to enter the market starting in July 2023.²³⁶

Nepal-China Transmission Line Gets Approved

The construction of the Jilong-Keyrung-Rasuwadghi-Chilime Cross-Border Transmission line has been approved by both Nepal and China for its construction. The agreement was reached during Prime Minister Dahal's visit to China in September 2023.²³⁷ A feasibility study had been carried out for the project by the Nepal Electricity Authority (NEA), which proposed a length of 70 km holding 5,000 MW.²³⁸ A total of 16 km of the transmission line will be on Nepali side, the rest being on the Chinese side. Before starting the construction, a detailed project report (DPR) and Environment Impact Assessment must be conducted, which will take 3–4 years.²³⁹

Outlook

Nepal's current flash flood adaptation framework primarily focuses on immediate relief aid, lacking comprehensive measures for future resilience. Effective mitigation and preventive strategies remain crucial. As part of this, the micro-insurance program by the Rockefeller Foundation, offering a potential solution to climate disaster challenges, is a possible step forward in the matter. On the other hand, the construction of the Nijgadh airport raises multiple concerns over its ecological impact. It is imperative that proper research be undertaken over the matter before any concrete step is taken.

Health

During the review period, September to November, Nepal faced a spectrum of health challenges, including infectious diseases, antimicrobial resistance, and disease outbreaks in neighboring countries. Additionally, the Jajarkot earthquake not only heightened the risk of communicable diseases, but also exacerbated existing health issues due to cold weather. The healthcare system also faced additional strain due to a shortage of blood amidst rising demand. Meanwhile, while dengue cases declined in most districts, assaults on doctors triggered disruptions, protests, and impacted patient care. Furthermore, Nepal closely monitored a mysterious pneumonia outbreak in China and a Nipah outbreak in India, underscoring a heightened state of vigilance in the healthcare landscape.

HEALTH CHALLENGES

Jajarkot Earthquake Increases Vulnerability of Affected Populations

Following the earthquake of 6.4 magnitude in Jajarkot, public health experts expressed concern over potential outbreaks of communicable and vaccine-preventable diseases.²⁴⁶ The displacement of thousands, along with compromised hygiene conditions – particularly among children, new mothers, and the elderly – poses a significant threat. As of now, approximately two dozen fatalities have been reported due to cold-related illnesses, including hypothermia and pneumonia, after the earthquake.²⁴⁷ Additionally, the loss of houses has led to increased open defecation,

contaminating water sources and rendering the affected population more vulnerable to vector-borne diseases such as malaria, dengue, kala-azar, and scrub typhus. The area is also filled pregnant women and new mothers reporting insufficient care at local health facilities, with over 1,800 pregnant women and 1,000 new mothers residing under tarpaulins due to the heavy damage to infrastructure.²⁴⁸ In response, the Health Ministry has proactively deployed experts for onsite clinical mentoring, focusing on improving obstetric and newborn care.²⁴⁹ Additionally, government aid of NPR 100 million (753,125.47) has been allocated for rescue missions in Jajarkot and West Rukum districts.²⁵⁰

FACTSHEET	
Health Indicators	
Life expectancy (at birth) ²⁴⁰	71.2
Fertility rate (per woman) ²⁴¹	2.1
Infant mortality rate (per 1000 live births) ²⁴²	28
Neonatal mortality rate (per 1,000 live births) ²⁴³	21
Health Facilities ²⁴⁴	7858
Percentage of people fully vaccinated with basic antigens (12–23 months) ²⁴⁵	80%

Urgent Fight Against Antimicrobial Resistance

According to research conducted by the National Public Health Laboratory, the effectiveness of ciprofloxacin, a vital antibiotic for typhoid, has dropped by a concerning 15%.²⁵¹ Public health experts attribute this decline to the excessive use of antibiotics across humans, animals, and plants, contributing to the phenomenon known as antimicrobial resistance whereby microorganisms no longer respond to the excessively-used medicine. This makes infections harder to treat, risking severe illness and death.

Antibiotics constitute a staggering 37.8% of the prescribed medicines in Nepal, exceeding the standards set by

the World Health Organization (WHO).²⁵² Moreover, the issue is exacerbated in Nepal as antibiotics are readily accessible without prescriptions, leading many individuals to buy and use them without professional medical guidance. This practice results in incomplete medication courses, contributing to the escalation of antimicrobial resistance.²⁵³ This concerning pattern has extended to the agricultural and livestock sector, where around 70% of farmers use progressively higher doses of antibiotics for the faster recovery of sick animals.²⁵⁴

Blood Shortage Calls for Increased Blood Donation Programs

The Central Blood Transfusion Service (CBTS) is facing a critical shortage of blood in Kathmandu, despite initiatives by the provincial and local efforts to provide free blood.²⁵⁵ Although the provincial health ministry covers screening charges and supplies blood without a fee, consistent blood supply during emergencies remains a challenge.²⁵⁶ The shortage is compounded by a declining number of young, healthy donors leaving for foreign employment and an increase in ineligible donors with conditions like high blood pressure, blood sugar, and thyroid issues, placing an additional strain on blood donation resources.²⁵⁷ To address this, the CBTS has local governments to organize more blood donation programs and has encouraged regular volunteers.

Emerging Virus Threat

In the past quarter, neighboring

nations were on heightened alert due to the emergence of new viruses. Concerns were raised about a mysterious pneumonia virus suspected to have spread in northern China, leading to a surge in respiratory illnesses, particularly among children.²⁵⁸ Additionally, the Nipah virus, that was circulating in Kerala, India, was considered as another potential threat. This zoonotic disease has the potential to transfer from species like fruit bats, which are found abundantly in Nepal.²⁵⁹

Furthermore, the global surge in COVID-19 cases has intensified with the rapid spread of the JN.1 Omicron subvariant, comprising 15–29% of current cases, up from less than 0.1% in late October, as reported by the US agency Centers for Disease Control and Prevention (CDC).²⁶⁰ Although the CDC deems the global public health risk as "low," the UN health agency has expressed concerns about the virus given the Northern Hemisphere winter.²⁶¹

Number of Dengue Cases Decrease

During this quarter, Nepal experienced a notable reduction in dengue cases, with the numbers decreasing by half to 6,469 compared to the 13,840 cases reported in August.²⁶² The Epidemiology and Disease Control Division attributed this decline to the increased local awareness and successful implementation of the 'larva search and destroy campaign'. Quarterly data revealed a gradual decrease in dengue infections from 13,840 in August to 11,566 in September.²⁶³ Despite this, the aggregate annual figures still

remained high at around 39,738 cases in October 2023.²⁶⁴

While the overall number of infections has decreased, there have been disparities in infection rates among the different districts. While Sunsari, Dhading, and Morang experienced a decrease in the number of cases in September compared to that of August, Tanahun, Jhapa, and Kaski witnessed a significant surge in infections.²⁶⁵ Remarkably, the capital city reported significantly lower infection rates this year as the number of cases in October 2022 was 13,566 whereas, by the end of October this year, only 862 cases were reported.²⁶⁶

Doctors Protest Abuse Faced by Medical Professionals

On September 26, 2023, resident doctors at Nepal Medical College in Jorpati, Kathmandu, suspended all services in response to the assault on doctors at Manipal Teaching Hospital in Pokhara, shedding light on the increasing abuse faced by medical professionals.²⁶⁷ Their decision, fueled by a lack of government assurances regarding safety, significantly impacted the availability of the outpatient department, leading to increased challenges for patients in state-run health facilities across Kathmandu.²⁶⁸ Following the doctors' protest and concerns raised about the assaults, the government has agreed to take action against those involved, as per the Security of Health Workers and Health Organization Act-2066. Additionally, in response to the ongoing issues, the government has committed to draft a new medical service bill aimed at enhancing the

safety, security, and training of doctors.²⁶⁹

Bi-annual Vitamin A and Deworming Tablets Administered

As reported in the past quarter, the Nutrition Section of Nepal's Family Welfare Division's

estimates indicated that 2.7 million to 3.5 million children, aged 6 to 59 months, were recipients of the Vitamin A program.²⁷⁰ Simultaneously, the deworming tablet distribution, aligned with Vitamin A administration, occurred on November 2–3, focusing on children aged 1 to 5 years, with estimates

ranging from 2.4 million to 2.9 million recipients.²⁷¹ However, the program's coverage rate has declined from 93% to 80% over the years, raising concerns among healthcare professionals about potential increases in communicable cases among children.²⁷²

Outlook

As Nepal grapples with evolving health challenges, the outlook remains both promising and demanding. The commendable efforts by the government in ongoing vaccination campaigns signify positive strides toward public health resilience. However, the prospect of potential challenges, such as a reemergence of dengue cases in the summer due to factors like rising temperatures, necessitates a vigilant and adaptive healthcare strategy. Additionally, the pressing need for increased investment in public health, especially in disaster-related healthcare in regions like Jajarkot, calls for a proactive approach to strengthen the healthcare infrastructure. In the face of these challenges, fostering collaboration among healthcare stakeholders, sustained efforts by the government, and community engagement are crucial elements for a resilient and responsive healthcare system in Nepal's future.

Information and Communication Technology

During the review period, telecommunications regulators and providers made commendable efforts to expand services in remote areas, benefiting both locals and tourists. A notable development in the sector was that the government of Nepal implemented the Mobile Device Management System (MDMS) to curb grey market mobile imports as a move to control illegal smartphone inflow into the country. Additionally, on the government front, Nepal's Information and Communication Technology (ICT) sector advanced through cross-border e-payment integration with India, enabling smooth digital transactions. However, challenges still persisted, including unstable internet, increased costs from internet service providers (ISPs), and rising tax and regulatory burdens for IT firms and freelancers, hindering the nation's full potential.

Factsheet	
Tele density	119.26% ²⁷³
Internet data subscribers	39.81 million ²⁷⁴
Number of smartphone users	33.63 million ²⁷⁵
Internet penetration	135.90% ²⁷⁶
ICT goods import	NPR 81.87 billion ²⁷⁷ (USD 622.53 million)
Total digital payment transaction	NPR 5.786 trillion ²⁷⁸ (USD 43.99 billion)

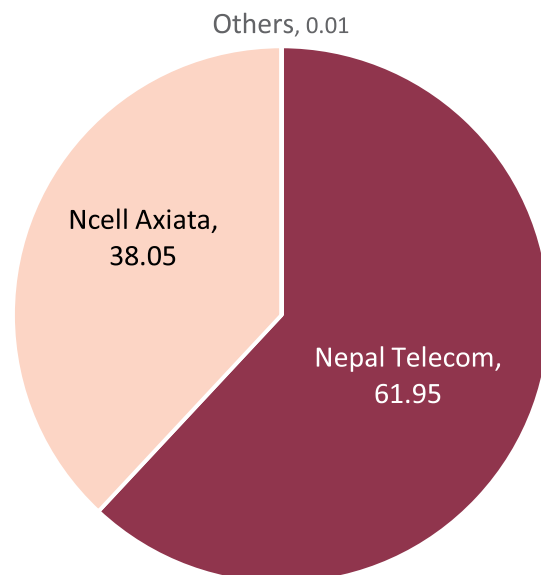
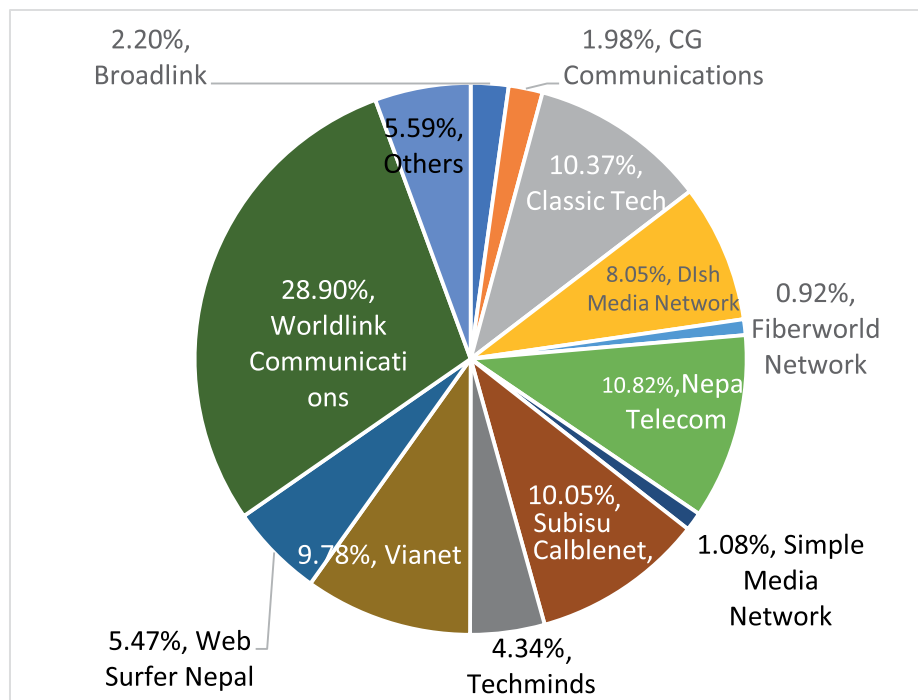


Figure 15. Market share of telephone operators

Source: NTA MIS Report, Asar 2080 (16 June to 16 July)

Figure 16. Market share of Internet Service Providers (ISPs) in Nepal

Source: NTA MIS Report, Asar 2080 (16 June to 16 July)



NEW DEVELOPMENTS

Telecommunications Expand Services to Remote Areas

On October 19, 2023 (Kartik 2, 2080), Nepal Telecom (NTC) launched 4G mobile network services in Kathekhola Rural Municipality-3 in Deurali, Baglung, offering voice and high-speed broadband services, deploying 2G for voice calls and 4G for mobile internet, with Voice Over Long Term Evolution (VoLTE) for simultaneous high-definition voice and data functions.²⁷⁹ Furthermore, NTC launched a high-speed Fibre to the Home (FTTH) internet service in Kamirechaur, Banglachuli Rural Municipality, combining internet, Internet Protocol Television (IPTV), and voice communication via a single fibre cable, inaugurated on Kartik 7, 2080 BS (October 22, 2023).²⁸⁰ Similarly, on 14th September 2023 (Bhadra 28, 2080), Ncell Axiata expanded

its 4G network in remote districts of Karnali and Far-West Nepal including Thuli Bheri Municipality in Dolpa, Chhayanath Rara Municipality in Mugu, Badimalika Municipality in Bajura, and Simikot Rural Municipality in Humla, providing digital connectivity and technology to locals.²⁸¹

Telcos Contribute to Government's Emergency Telecommunication Cluster

In response to the 6.4 magnitude earthquake that occurred on November 3rd (Bhadra 28), impacting Jajarkot, Bajhang, Doti, Bajura, Darchula, Achham, and Dolpa, the Government of Nepal initiated the activation of the Emergency Telecommunication Cluster.²⁸² The primary objective of this measure was to efficiently oversee and coordinate information and communication systems in the earthquake-affected areas. In alignment with this, NTC announced a

humanitarian measure — free voice and SMS services for residents in the affected areas for a duration of 5 days.²⁸³ Additionally, Ncell significantly contributed by offering relief packages valued NPR 5 million (USD 38,000) to earthquake-affected areas, encompassing complimentary voice, SMS, and data services. These resources remained valid for 15 days.²⁸⁴

Tilicho Lake Wired for Internet Access

On October 23, 2023, hoteliers and tourism entrepreneurs launched internet services around the Tilicho Lake in Manang.²⁸⁵ The connectivity is hoped to aid in efficient communication among hotels and other tourism businesses as well as to improve healthcare facilities for the tourists through better communication and coordination.²⁸⁶ This is a significant move as Tilicho Lake

is a major tourist hub, attracting over 200 international visitors daily. In 2023 itself, 14,214 tourists – both domestic and international – have visited the lake.²⁸⁷

NTA Boosts MDMS Implementation

The Nepal Telecommunications Authority (NTA) implemented the full version of the Mobile Device Management System (MDMS) on November 6, 2023, to blacklist unregistered mobile phones, commonly referred to as grey phones, following a 15-day grace period provided for the owners of such devices.²⁸⁸ NTA initiated the blacklisting process with high-end phones, blocking 1,500 iPhone 15 series phones from Nepali telecommunications. According to NTA's guidelines, users can avoid blacklisting by registering their phones in the NTA's MDMS system, allowing them to continue using carrier-provided services.²⁸⁹ To do this, they are required to pay registration fees based on their phone's price. At present, the registration fee for devices costing more than NPR 100,000 (USD 761.05) is set at NPR

10,000 (USD 76.11). Meanwhile, the registration fee for Android phones priced under NPR 100,000 (USD 761.05) and other regular phones is NPR 3,000 (USD 22.81) and NPR 300 (USD 2.28) respectively.²⁹⁰ Nepal's MDMS has the potential to generate a revenue of NPR 4 billion (USD 30.13 million) annually, aid police investigations, support entrepreneurs, and promote growth through tax payments and livelihood support.²⁹¹

Cross-Border Payment Commenced between India and Nepal

After years of planning and preparation, on 8 September 2023, the governments of Nepal and India partnered to begin the service of cross-border digital payment services, enabling Nepali users to make payments using mobile banking apps and digital wallets in India and vice versa.²⁹² The Memorandum of Understanding (MoU) to allow this move was signed during Global FinTech Fest 2023 by the CEOs of Nepal Clearing House Limited and the National Payments Corporation of India

(NPCI).²⁹³ The service, enabled by the Unified Payments Interface (UPI), is available at various establishments, including merchants, restaurants, cinemas, hotels, and departmental stores.²⁹⁴

Axiata Exits Nepal Ahead of Investment Summit

Malaysia's Axiata Group, the parent company of Ncell, decided to exit Nepal after seven years in the Nepali telecommunications sector. The decision was attributed to diminishing profits and operational challenges in the country.²⁹⁵ In 2016, Axiata had acquired an 80% stake in Ncell. However, it had a tumultuous time as it faced setbacks, including reputational damage due to unpaid capital gains tax by its predecessor, the Swedish company TeliaSonera.²⁹⁶ Axiata cited the increasingly challenging outlook in Nepal as the reason for the exit, reclassifying Ncell as an asset held for sale.²⁹⁷ Additionally, the company reported a decline in Ncell's revenue and profitability, impacting Axiata's overall performance.²⁹⁸

Outlook

The past quarter saw many initiatives aimed to take some steps towards fulfilling the potential of Nepal's digital and information technology sectors. The cross-border payment system was a major development as it could be a significant step towards improving Nepal's international financial transactions and global competitiveness. However, while this may encourage digital trade, issues such as security and high costs remain. Meanwhile, although the implementation of Mobile Device Management Systems (MDMS) is expected to reduce illegal smartphone inflows, improve device management, and increase tax revenue, it poses challenges for citizens and small businesses. To fully realise its potential, the sector requires increased government support and investment in order for Nepal to break through barriers, reach new heights, and significantly contribute to overall development.

Infrastructure and Real Estate

The three-month review period, from September to November 2023, was marked by a devastating earthquake in Rukum West and Jajarkot, causing significant damage to around 8,000 houses and claiming the lives of at least 153 people. In response, the provincial government has prioritized the reconstruction of government and public structures. On the other hand, despite the announcement of new developmental projects and the launch of the MCC Nepal Compact Program, there has been sluggish development in existing infrastructure and various obstacles in road construction. However, on a positive note, the progressive monetary policy implemented in the last quarter has led to an increase in residential housing loans, aligning with Nepal Rastra Bank's (NRB's) goal of enhancing the availability of housing loans to a broader demographic.

Innovative Bridges Connecting Communities

On 24 October, 2023, the Department of Roads (DOR) created a Design and Advance Technology Cell (DATC) for new technology to make bridges across the country more attractive and durable.³⁰⁰ So far, Biayapur in Pokhara and the Narayani Bridge in Chitwan will be built under this program. According to the Bridge Branch of the DOR, a total of NPR 10 million (USD 75,298.67) and NPR 3 billion (USD 22.58 million) is expected to be spent on the design and construction of the respective structures.³⁰¹

On a similar note, Nepal is also demonstrating an advancement

in its bridge-building technology by attempting to build the world's second-longest suspension bridge which is 524 m long and 185 m above the Kali Gandaki river.³⁰² The bridge has the potential to significantly shorten the distance and thereby improve the transfer of agricultural products by linking Bangechar of Baglung district with Adubari of Parbat district.³⁰³

India Leads the Race Over China for Railways in Nepal

As part of the Belt and Road Initiative (BRI), a major cross-border, 170-kilometer rail project is supposed to be built to connect Kerung (Gyirong) in southern Tibet to Kathmandu, passing via the Rasuwa region of Nepal.³⁰⁴ However, according to

Factsheet ²⁹⁹	
FY 2022/23 AD (2079/80 BS) up to mid-July 2023	
Total length of road	34100 km
New roads constructed	104 km
Total number of bridges constructed	75
Construction of railway	56 km

government officials, the project is less likely to move ahead because the two nations have not been able to agree on its financing modality.³⁰⁵ On the other hand, India has already prepared the Final Location Survey of the proposed cross-border Raxaul-Kathmandu railway and shared it with Nepali authorities for feedback. Additionally, the Indian railway has arrived at the bordering town of Raxaul while the Chinese railway has not reached any of Nepal's borders yet, due to which the Nepal-China cross border railway would take much longer.³⁰⁶

Pokhara Airport Under Investigation for Corruption

Pokhara Regional International

Airport (PRIA), built with a significant USD 216 million (NPR 29 billion) loan from China, is under investigation by Nepal's Commission for the Investigation of Abuse and Authority (CIAA). It is suspected that a New York Times (NYT) article, reported in September 2023, on the matter has led to this probe. According to the article, China's CAMC Engineering had prioritized its own business interests by inflating the project's cost and undermining Nepal's efforts to uphold quality control.³⁰⁷ Following the release of the article, the CIAA confirmed that an investigation into the airport, still in its preliminary stages, is underway in response to a complaint about irregularities with the project.³⁰⁸ The New York Times were informed by the engineering consultants working on the project that the CAMC's work did not meet international standards. As an example, according to Murari Gautam, an outside consultant brought on by CAAN and one of the sources of the NYT article, CAMC completed the runway's earth-filling work but has failed to give documentation that it had tested for soil density.³⁰⁹

Operation of Chobhar Dry Port Secured by Trans Nepal Freight Services

The Nepal Intermodal Transport Development Board (NITDB) has given the permission to operate the Chobhar Dry Port to a private entity named Trans Nepal Freight Services, starting from December 2023. Officials of the NITDB have stated that the management and operation of the dry port was decided through a competitive system according to the Terminal

Leasing Out Regulation 2070 BS (2013/14 AD). Trans Nepal Freight has been chosen to run the dry port for five years at a cost of NPR 28.8 million (USD 216,900), with an agreement to share a minimum rent and charge for five years as per the rule.³¹⁰ The dry port was built in 2022 with a loan of NPR 1.67 billion (USD 12.58 million) from the World Bank.³¹¹

MCC Transmission Line Projects Canceled Over High Costs

The Millennium Challenge Corporation (MCC) contract program, funded by the US government, aims to elevate road networks and electricity transmission lines in Nepal. However, despite being on a five-year deadline, starting from its Entry Into Force date of August 30, 2023, the Millennium Challenge Account (MCA) Nepal issued a notice in October 2023 that all the contracts for its transmission line project were canceled due to a great difference between the proposed cost and the actual estimated cost.³¹² The lowest bid received by MCA was quoted at around USD 365 million (NPR 48 billion), 66% more than the initial estimates of USD 226 million (NPR 30 billion).³¹³ Concerns arose due to the fact that accepting such high costs would leave insufficient funds for other projects. Contrarily, the cancellation of bids has created uncertainty regarding the timeline of the project and caused great concern regarding the reduced execution period.

Slow Progress of Kathmandu-Terai Fast Track Project

The four-lane Kathmandu-Terai

expressway, that is estimated to connect Kathmandu Valley with the southern plains in just over 2 hours has seen quite slow progress in the past quarter.³¹⁴ With the revised Detailed Project Report (DPR), the Kathmandu-Terai fast-track project has seen additional delays due to an increase in the number of required bridges and tunnels. The project now includes three additional 3.36 km, 1.63 km and 1.43 km-long tunnels at Mahadevtar, Dhedre, and Lane Danda, respectively. Additionally, the number of bridges has increased from 87 to 89.³¹⁵ The estimated cost of the project has increased significantly since its inception in 2008 when the Asian Development Bank (ADB) estimated the cost to be around NPR 70 billion (USD 52.71 million). According to an estimation by Korea's Soosung Engineering, the cost rose to NPR 112 billion (USD 843.5 million) in 2019, and further increased to NPR 211 billion (USD 1.58 billion) in 2023. Following this, the new deadline has been set as April 2027 by the Nepal Army with the current estimated cost of NPR 211 billion (USD 1.58 billion).³¹⁶

Road Constructions See Sluggish Progress

The cost of the Nagdhunga-Naubise tunnel road, which was originally estimated to require NPR 13.33 billion (USD 100 million), is projected to increase by NPR 4 billion (USD 30 million) due to unexpected geological challenges and an extended construction timeline.³¹⁷ The project should have been completed within 30 months, by April 26, 2023, according to the initial contract agreement.

However, this deadline was later extended to April 25, 2024.³¹⁸

Similarly, the extension of the Narayanghat–Gondrang road to six lanes faced a budgetary shortfall just before the contract expires in Mangsir, 2080 BS (mid–November to mid–December 2023). No additional budget has been allocated by the government in the current fiscal year, despite the project requiring over NPR 450 million (USD 3.39 million).³¹⁹ The deadline for the construction was extended after the expiration of an initial deadline of Falgun 2079 BS (mid–February to mid–March 2023 AD).³²⁰

Residential House Loans Increase with Progressive Monetary Policy

As reported in mid–October 2023 by the Nepal Rastra Bank (NRB), personal residential home loans have increased by NPR 27 billion (USD 203.34 million) to a total of NPR 374.90 billion (USD 2.8 billion).³²¹ This growth is attributed to the policy of increasing the initial housing loan cap to NPR 20 million (USD 150625), released early in FY 2023/24 AD (2080/81 BS), aimed at promoting responsible lending and managing market risks to ensure financial stability in the housing and real estate sectors.³²²

Government Responds to Jajarkot Earthquake with Foreign Nations' Assistance

On November 3, 2023, an earthquake of magnitude 6.4 hit Nepal's Jajarkot District. The epicenter of the earthquake was near the Barekot rural municipality. As a result of the tragedy, 153

people were confirmed dead along with the total destruction of 17,824 houses.³²³ As of now, the provincial government has taken the responsibility for rebuilding the government offices, schools, police stations, and irrigation projects.³²⁴ Meanwhile, the central government and home ministry have also authorized the disbursement of NPR 100 million (USD 753,125.47) and NPR 5.5 million (USD 41,421.90), respectively, to help the earthquake victims.³²⁵ Each family of a deceased person is set to receive monetary aid of NPR 200,000 (USD 1506.25) while the families that lost more than one member in the earthquake will be receiving NPR 300,000 (USD 2259.38), as per the government's decision.³²⁶

Additionally, the European Union (EU) provided NPR 289 million (USD 2.18 million) as humanitarian relief support and the Australian government allocated NPR 51 million (USD 384,058.22) to distribute aid packages to survivors of the earthquake.³²⁷

Green Ventures Zone to be Created in Pokhara by PMC and KOICA

In the review period, Pokhara Metropolitan City (PMC) and Korea International Cooperation Agency (KOICA) signed a Memorandum of Understanding (MoU) for a mutual cooperation project that will provide a platform for business incubation. The agreement paves the way to contribute to both environmental sustainability and the development of innovation and socially responsible business as the project includes

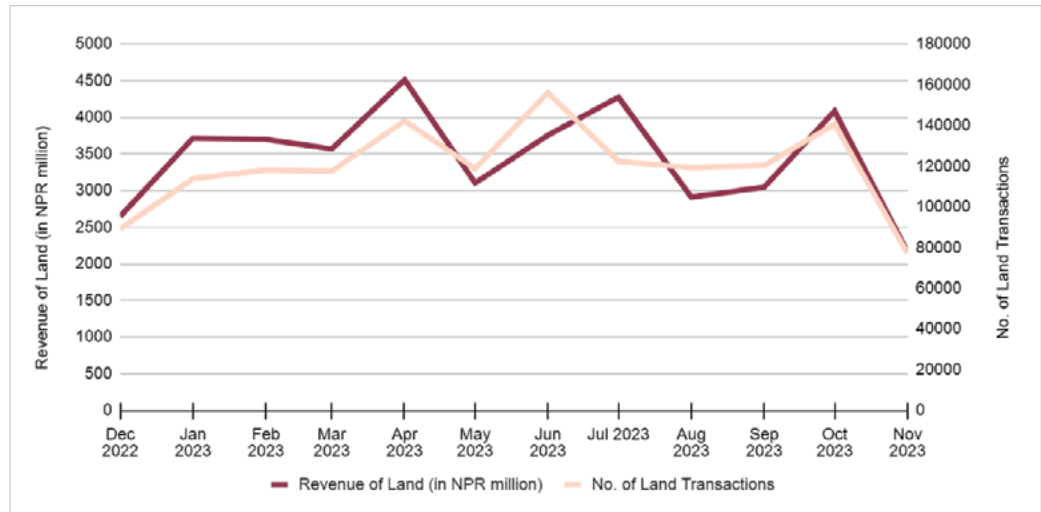
the establishment of Recycle Upcycle enterprises, the creation of a Green Ventures Zone (GVZ) and the promotion of waste segregation at the household level to address waste management. 0.51 hectares of the Basundhara Park area will be provided by PMC for the establishment of the GVZ.³²⁸ As per the agreement, the GVZ will serve as an information hub for recycling, upcycling, innovation and startups, thereby converting waste into assets. The ultimate goal of the project is to contribute to sustainable urban development by linking youth to employment, generating income from waste, and reducing the burden on waste dumping sites.³²⁹

Land Transactions Lose Momentum

According to the most recent data from the Department of Land Management, from August to October 2023, the number of land transactions reached a maximum of 140,590 in October 2023 but fell thereafter. Despite the decrease in land transactions, the revenue generated was NPR 12.21 billion (USD 91.92 million) from August to mid–November 2023. However, in totality, land revenue dropped by NPR 22.91 billion (USD 172.54 million) from February to July 2023.

Figure 17. Revenue from land transactions and number of land transactions

Source: Department of Land Management and Archive



Outlook

The first quarter of the current fiscal year, FY 2023/24 AD (2080/81 BS) brought about some progress, but predominantly, the infrastructure and real estate sector in Nepal faced various challenges. While the sector showed an openness to utilizing new technology for infrastructure projects using programs such as the Design and Advance Technology Cell (DATC), infrastructure development continued at a very sluggish pace. This underscores challenges in project management, quality control and financial transparency, indicating a lack of government oversight in the infrastructure sector. The November earthquake in Rukum West and Jajarkot further highlighted the need to improve roadways and communication infrastructure in Nepal. It is imperative for the government to prioritize designing and implementing a proper disaster response plan, and also adopting mitigation measures during reconstruction.

In the past quarter, the real estate sector, on the other hand, showed an increasing accessibility to housing loans as a result of the progressive monetary policy, leading to an emphasis on structural housing policy and urban planning.

Tourism

During the review period, from September to November, the tourism industry experienced a notable growth in tourist arrivals as well as many developments in the sector. The number of tourism-related infrastructure also increased in the past quarter, with a special focus on community forests. As part of this, Tiger Hill Park in the Tanahun community forest opened its doors to the public, featuring various adventurous activities. Additionally, new domestic flights from Manthali to Lukla began, and an international flight agreement with Rwanda is in progress to boost tourism in Nepal. Despite these positive developments, the sector's performance in the securities market and the rising outstanding credit within the tourism industry emphasize that the sector is still grappling with various issues.

TOURIST ARRIVAL UPDATES

Growing Number of Tourists

On its way to overcome the adverse effects of Covid-19 on the tourism sector, Nepal has succeeded in attracting a substantial number of tourists, welcoming a total of 117,306 tourists in October 2023. This is as compared to 88,582 tourists in the same period last year in 2022.³⁴⁰ Despite the rise, tourist numbers have not yet exceeded the pre-pandemic level of 2019, when Nepal welcomed 134,096 visitors during the same period.³⁴¹ The tourists stayed for an average length of 13.1 days, with an average daily expenditure of USD 40.5 (NPR 5,326.16) which decreased from 15.5 days and USD 84 (NPR 10,738) respectively, when compared to the same

period in the last FY 2022/23 AD (2029/80 BS).³⁴²

MOUNTAINEERING UPDATES

65 Permits Granted for Mountaineering

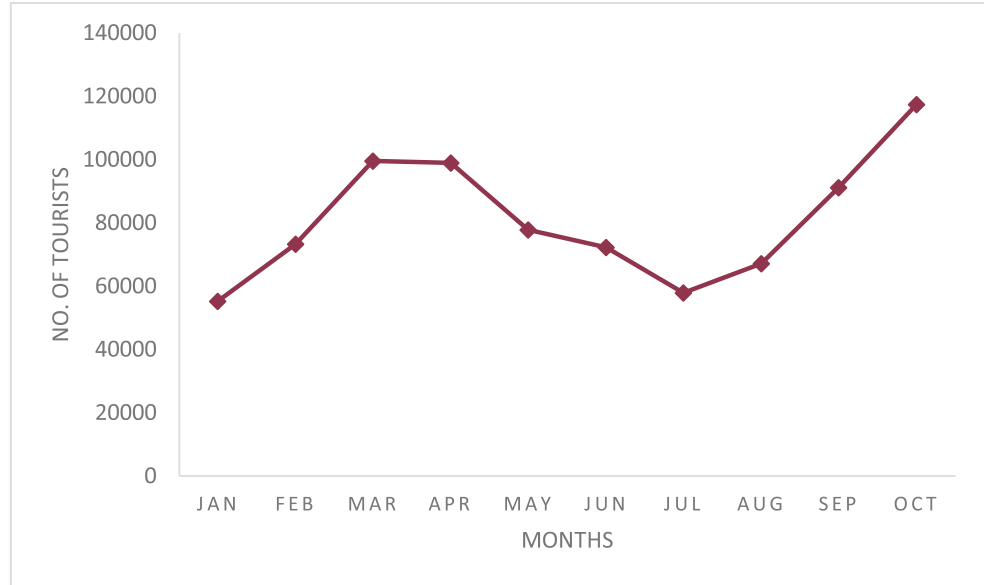
The Department of Tourism (DoT) collected over NPR 7.4 million (USD 55,731.28) by issuing 65 climbing permits in the autumn season - which covers the period of September to November 2023.³⁴³ The number of issued climbing permits decreased from 1,435 along with a substantial decrease in revenue from NPR 93 million (USD 707,530.3), as compared to the same period of the last FY 2022/23 AD (2079/80 BS).³⁴⁴ Among the permit recipients from 20 different countries, 57 are men and 8 are women. Notably, 12 climbers from Russia, 8 from China, and

Factsheet
No. of tourist arrivals (as of October 2023) 809,678³³⁰
Outstanding Credit to the tourism industry NPR 24.83 billion (USD 187 million)³³¹
Number of hotels listed in NEPSE 6³³²
Consumer Price Inflation (for restaurants and hotels) 14.42%³³³
The average length of stay of a tourist 13.1 days³³⁴
Average spending per tourist per day USD 40.5 per day (NPR 5,137.5)³³⁵
Number of hotels registered (with star rating) 173³³⁶
Number of tourist standard hotels 1,228³³⁷
Number of registered casinos 24³³⁸
Number of registered travel agencies 3,501³³⁹

6 from Canada have secured permission.³⁴⁵ The majority, comprising 61 individuals, are climbing Mount Manaslu, with 54 men and 7 women organised into 6 different teams scaling the 8163 m peak. Additionally, 4 climbers, including 3 men and 1 woman, are ascending Raksha Urai Mountain, standing at 6593 m.³⁴⁶

Figure 18. Number of Tourist Arrivals from January to October 2023

Source: Current Macroeconomic and Financial Situation (Based on Three Months Data, 2023/24)



FINANCIAL SITUATION

Cash Flow in Tourism Sector:

Cash flow in the tourism sector witnessed recovery as the arrivals of tourists increased.³⁴⁷ In the first 10 months of 2023, travel income increased to NPR 7.7 billion (USD

58.6 million) as compared to NPR 5.5 billion (USD 49.1 million) in the same period last FY 2022/23 AD (2079/80 BS).³⁴⁸ Similarly, travel spending increased to NPR 16.2 billion (USD 123.2 million) as compared to NPR 8.1 billion (USD 61.7 million) in the same period

in 2022.³⁴⁹ For further perusal, month-wise travel income and travel spending have been shown in Figure 19 and Figure 20.

Figure 19. Travel Income of Tourists from January to October of 2022 and 2023 AD

Source: Current Macroeconomic and Financial Situation (Based on three months data, 2023/24)

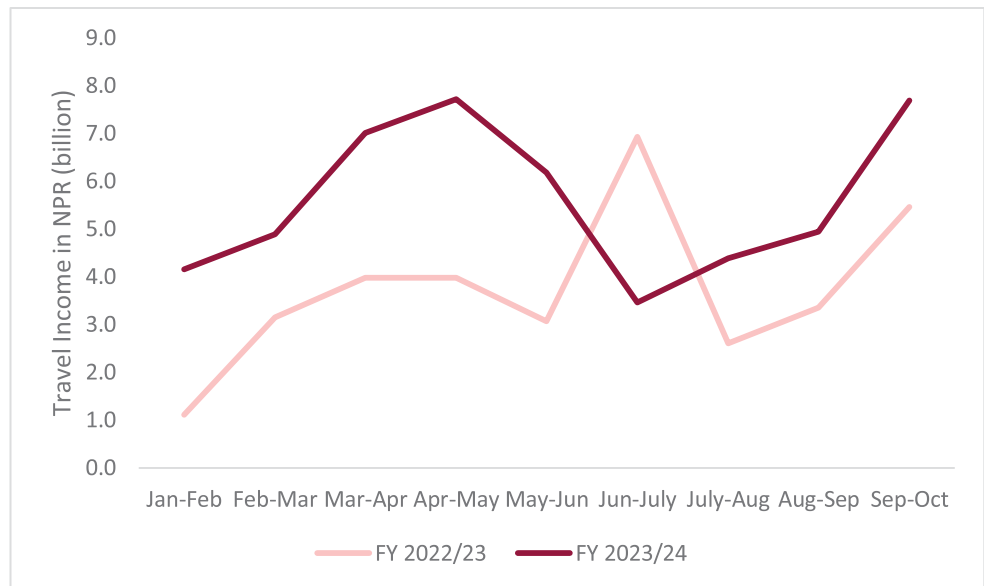
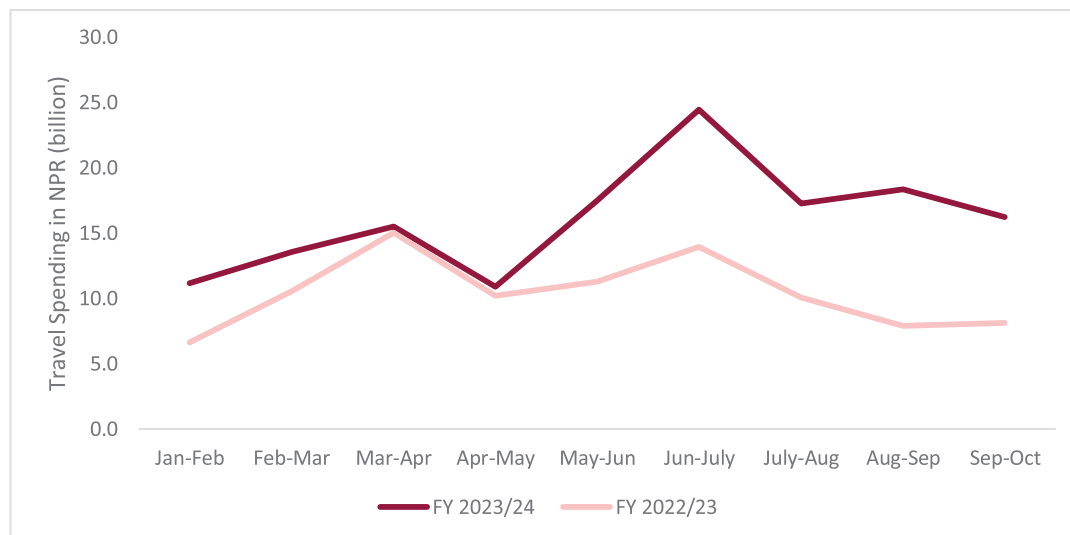


Figure 20. Travel Spending of Tourists from January to October of 2022 and 2023 AD

Source: Current Macroeconomic and Financial situation (Based on three months data 2023/24)



Credit to the Tourism Sector

Credit is essential for the growth of Nepal's tourism sector as it enables businesses to invest in improving infrastructure, marketing, and services. This includes upgrading hotels,

transportation, and recreational facilities. As of October 2023, the total outstanding credit for tourism activities such as trekking, mountaineering, camping, rafting, etc was NPR 24.83 billion (USD 188.89 million), up from NPR 24.80 billion (USD 188.58 million) in the

same period in 2022.³⁵⁰ Similarly, the total outstanding credit by banks to hotels increased to NPR 182.18 billion (USD 1.39 billion) compared to NPR 160.31 billion (USD 1.22 billion) in the same period in 2022.³⁵¹

Table 7. Sectoral Outstanding Credit by Banks and Financial Institutes (BFIs)

Source: Current Macroeconomic and Financial situation (Based on three months data 2023/24)

Sector	October 2022	October 2023
Tourism (Trekking, Mountaineering, Resort, Rafting, Camping, etc.)	NPR 24.8 billion (USD 188.58 million)	NPR 24.83 billion (USD 188.89 million)
Hotel	NPR 160.31 billion (USD 1.22 billion)	NPR 182.18 billion (USD 1.39 billion)

Securities Market Performance

According to the latest quarterly report from the Nepal Rastra Bank (NRB), 'Current Macroeconomic and Financial Situation Based on Three Month's Data 2023/24', the total number of hotels listed in NEPSE stands at six.³⁵² From these hotels, in mid-October 2023, the collective market capitalization reached NPR 88.47 billion (USD

673.26 million).³⁵³ This constitutes 2.89% of NEPSE's total market capitalization.³⁵⁴ This represents a substantial increase from NPR 44.37 billion (USD 337.93 million) recorded during the same period in 2022.³⁵⁵ Notably, however, the total turnover for hotel and tourism businesses in the first 10 months of 2023 amounted to only NPR 67.6 million (USD 509,112.82).³⁵⁶ This represents a

substantial decrease from NPR 874 million (USD 6.6 million) as compared to the same period in 2022.³⁵⁷

NEW DEVELOPMENTS

Growing Tourism in Community Forests

Wildlife tourism has been seeing an increasing popularity in Nepal, particularly among Indian

tourists in Chitwan. According to hoteliers from the district, one of Nepal's popular destinations for wildlife tourism, Indian tourists have been visiting in large groups and are the demographic making up the second-highest proportion of total visitors, after Nepalis.³⁵⁸ The increased interest in wildlife tourism has moreover presented community forests with an opportunity to establish a new source of revenue. As a result, an eco-corridor stretching over 2,020 hectares of land has been set up in the Dhakaha buffer zone community forest in Chitwan to encourage wildlife tourism, including jungle safaris.³⁵⁹ Moreover, four other community forests in the buffer zone of the Chitwan National Park are planning to establish an eco-corridor to attract visitors.³⁶⁰

Community forests in other areas have also started exploring tourism as an option for revenue generation. As a result of this, Barahi Community Forest, in the Myagdi Rural Municipality-1 in

Tanahun district, constructed the Tiger Hill Park with the objective of encouraging both domestic and foreign tourism.³⁶¹ The park, which was constructed with the support of the Division Forest Office and the community forest's management, costed NPR 625,000 (USD 4,707).³⁶² Alongside already operating adventurous facilities such as rock-climbing and eco-trekking, the park also has plans for building a mini zoo, a view tower and a picnic spot.³⁶³

Manthali to Lukla Flights Launched

Flights from Manthali in Ramechhap district to Lukla airport began from September 24, 2023 (Asoj 8, 2080), with Tara Air, Summit Air, and Sita Air operating the routes.³⁶⁴ The decision was made considering the increased air traffic at Kathmandu Airport during the tourist season.³⁶⁵ With the start of the tourist season, these airlines intend to increase flight capacity, subject to

favourable weather conditions.³⁶⁶ Notably, Manthali Airport near Kathmandu, approximately 132 km away, is the only airport in the eastern region with refuelling services and is designated for emergency plane landings.³⁶⁷

Air Service Agreement Signed with Rwanda

Nepal's Ministry of Tourism is actively working to improve global connectivity through air service agreements in order to boost tourism and business.³⁶⁸ As part of this, an air agreement with Rwanda has been signed, expanding Nepal's flight destinations to 41 countries.³⁶⁹ This agreement was signed on Mangsir 19, 2080 (December 5, 2023) aiming to boost the tourism sector in Nepal.³⁷⁰ Additionally, a similar agreement with Switzerland is near-completion and a proposal for an air agreement with Indonesia has been presented to the cabinet, aiming to promote tourism and trade.³⁷¹

Outlook

The increasing tourist attractions such as eco-corridor and Tiger Hill Park with various adventures such as rock climbing, bird watching, hiking etc. are driving the growing tourist influx. With federalism, local governments see opportunities in leveraging existing natural resources such as forests to develop tourism products, which will promote SMEs, provide employment opportunities for communities. However, these products are aimed at domestic tourists and low-value tourism, which could have a negative impact on existing biodiversity if not managed properly.

In terms of the introduction of a new flight route from Manthali to Lukla, this is expected to reduce air traffic at Kathmandu Airport during tourist season and improve connectivity to various destinations. However, tourists may prefer a direct flight due to cost-effectiveness, potential cancellation issues, and insufficient infrastructure, making the direct option more convenient. The government's efforts to construct airports and facilitate flight operations in other remote areas with untapped tourist attraction potential as well as international flights, could further stimulate tourism growth. By strategically expanding infrastructure and accessibility, the government can play a pivotal role in attracting more tourists and fostering the overall development of the tourism sector.

4

Market Review



Financial Market

During the review period 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 the previous year. The improvement in BoP is credited to an increase in remittances although capital transfers and the amount of Foreign Direct Investments (FDIs) witnessed a decline. Meanwhile, commercial banks reduced the interest rates and adjusted premium rates in response to the decline in loan demand in the first quarter of FY 2023/24 AD (2080/81 BS). Furthermore, commercial banks witnessed a significant increase in bad debts, mainly attributed to harsh economic conditions. On the contrary, despite the private sector's criticism of Banks and Financial Institutions (BFIs) regarding their reluctance to increase lending for the private businesses during the current slowdown, private sector lending by BFIs witnessed an increase.

First Quarter Performance Analysis of Commercial Banks

As per the unaudited first quarterly results of commercial banks for FY 2023/24 AD (2080/81 BS), the operating profit of commercial banks decreased by 13.82%, while the net profit fell by 18.57%.

At the end of first quarter of FY 2023/24 AD (2080/81 BS), Nepal Investment Mega Bank had the highest net profit of NPR 1.52 billion (USD 11.46 million), followed by Nabil Bank and Global IME Bank with a net profit of NPR 1.47 billion (USD 11.06 million) and NPR 1.23 billion (USD 9.26 million) respectively. Meanwhile, Himalayan Bank and Prabhu Bank had a whopping increase

of 98.35% and 46.70% in their net profits. On the other hand, Siddhartha Bank registered the lowest net profit of NPR 42.86 million (USD 323,012.47).

In terms of reserves and surplus, Rastriya Banijya Bank held the highest amount of reserves of NPR 38.20 billion (USD 287.77 million) followed by Nabil Bank and Nepal Investment Mega Bank with NPR 28.39 billion (USD 213.75 million) and NPR 25.89 billion (USD 195.11 million) respectively. In total, seven banks fared better than the reserves and surplus industry average of NPR 14.68 billion (USD 110.46 million).

Overall, in FY 2023/24 AD (2080/81 BS), deposits at commercial bank grew by 29.13%, compared to

Factsheet ³⁷²
Consumer Price Index (mid-October 2023) 7.50%
Gross Foreign Exchange Reserve (mid-October 2023) NPR 1643.09 billion (USD 12.36 billion)
Buying Exchange Rate per USD (mid-October 2023) NPR 132.95
Weighted Average 91-day Treasury Bill Rate (mid-October 2023) 4.94%
Weighted Average Interbank Transaction Rate (mid-October 2023) 2.26%
Weighted Average Deposit Rate (mid-October 2023) 7.90%
Weighted Average Lending Rate (mid-October 2023) 12.11%
Average Base Rate of Commercial Banks (mid-October 2023) 10.34%

the corresponding period in FY 2022/23 AD (2079/80 BS). The highest deposits were mobilized by Global IME Bank, Nabil Bank and NIC Asia Bank with NPR 443.01 billion (USD 3.33 billion), NPR 414.85 billion (USD 3.12 billion), and NPR 363.64 billion (USD 2.74 billion), respectively. Whereas, Standard Chartered

First Quarter Performance Analysis of Commercial Banks																		
Bank	Paid-up Capital (Share Capital)	Reserve & Surplus (Reserves)	Deposit	Loans and Advances			Operating Profit (Up to this Quarter)			Net Profit (Profit of the Period)			NPL (%)	Cost of Fund (LCY)	Base Rate (%)			
				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
				1st QTR	1st QTR	% Change	1st QTR	1st QTR	% Change	1st QTR	1st QTR	% Change	1st QTR	1st QTR	1st QTR			
Nabil Bank	27,056,997.00	28,390,497.00	414,853,856.00	334,095,240.00	353,566,488.00	24.17	305,696,739.00	2,230,446.00	(4.88)	1,469,300.00	1,571,537.00	(6.51)	2.33	7.89	7.91	(0.02)	9.68	
Nepal Investment Mega Bank	34,128,595.00	25,893,823.00	361,197,718.00	192,301,438.00	304,240,470.00	87.83	168,609,245.00	1,629,397.00	59.90	1,522,299.00	1,140,597.00	33.47	1.57	7.85	7.68	0.17	9.99	
Standard Chartered Bank	9,429,454.00	8,356,508.00	119,100,792.00	100,007,296.00	79,387,802.00	19.09	79,218,329.00	1,165,417.00	2.01	827,700.00	811,397.00	2.01	0.77	6.51	7.14	(0.63)	8.42	
Himalayan Bank	21,656,615.63	17,077,421.01	280,367,787.42	170,602,791.99	235,111,922.12	64.34	152,558,725.36	789,409.97	91.04	1,056,183.61	532,475.87	98.35	2.31	8.72	8.56	0.16	10.86	
Nepal SBI Bank	10,120,628.71	7,422,083.16	160,697,838.78	127,414,786.59	119,186,960.12	26.12	112,194,489.43	893,412.96	(23.84)	479,178.03	627,357.81	(23.62)	0.36	8.07	7.85	0.22	10.25	
Everest Bank	10,698,094.00	10,468,234.00	213,770,050.00	173,844,552.00	165,483,046.00	22.97	147,981,390.00	1,231,866.00	(9.45)	780,759.00	862,237.00	(9.45)	0.33	7.74	7.75	(0.01)	9.7	
NIC Asia Bank	14,917,566.92	16,210,967.89	363,642,442.36	304,914,759.17	294,094,123.69	19.26	259,258,631.06	2,526,962.67	38.94	1,010,383.86	1,756,779.38	(42.49)	0.59	8.31	8.18	0.13	10.56	
Machhapuchhre Bank	11,621,357.27	4,911,294.76	148,858,369.64	144,916,993.70	130,475,925.89	2.72	133,540,888.30	644,087.65	21.65	542,239.51	451,183.44	20.18	1.30	7.53	8.42	(0.89)	10.01	
Kumari Bank	26,225,861.34	12,915,835.15	321,688,043.73	173,976,522.98	276,582,285.61	84.90	155,820,723.89	1,431,344.83	(69.49)	263,935.12	1,001,459.38	(73.64)	4.89	1.28	8.58	8.75	(0.17)	10.91
Laxmi Sunrise Bank	21,670,238.00	14,389,586.00	292,198,666.00	296,243,475.00	248,925,516.00	-1.37	250,744,511.00	710,623.00	(31.76)	103,041.00	503,472.00	-79.53	4.69	1.72	8.25	8.32	(0.07)	10.80
Siddhartha Bank	14,089,980.19	10,992,591.26	216,655,587.22	192,956,142.81	186,617,834.74	12.28	179,935,013.49	720,865.27	(88.93)	42,862.88	498,250.32	(91.40)	3.44	2.15	7.50	8.35	(0.85)	9.63
Global IME Bank	35,771,060.00	21,106,714.00	443,001,663.00	279,869,723.00	357,373,059.00	58.29	261,568,656.00	1,690,087.00	6.42	1,225,754.00	1,189,545.00	3.04	4.38	2.10	8.17	8.17	-	10.07
Citizens Bank International	14,200,974.01	6,447,445.34	172,449,310.26	154,719,708.66	142,289,769.29	11.46	135,599,542.35	712,475.49	(20.30)	402,455.63	501,215.55	(19.70)	3.97	2.89	8.3	8.92	(0.62)	10.6
Prime Commercial Bank	19,402,575.72	9,472,017.63	195,994,574.71	158,983,689.17	164,893,179.38	23.28	148,280,402.55	1,252,341.98	31.35	1,151,522.40	874,170.40	31.73	3.67	1.80	8.77	8.90	(0.13)	10.64
Sanima Bank	12,460,115.06	5,210,636.34	185,551,967.3	152,399,345.16	149,863,211.92	21.75	144,693,096.31	768,450.20	(5.99)	482,909.95	548,220.25	(11.91)	1.79	0.91	7.98	8.47	(0.49)	9.75
NMB Bank	18,366,706.00	9,877,737.00	201,706,491.00	180,696,263.00	192,649,919.00	11.63	178,713,766.00	1,291,935.00	6.51	963,209.00	904,134.00	6.53	2.84	1.90	8.05	8.02	0.03	9.85
Prabhu Bank	23,542,490.00	10,932,836.00	276,148,727.00	170,409,201.00	236,664,237.00	62.05	151,083,637.00	1,018,777.00	51.32	1,034,214.00	705,006.00	46.70	3.97	1.68	7.67	7.58	0.09	10.14
Public Sector Banks																		
Nepal Bank	14,694,022.93	21,447,909.44	251,089,952.33	196,581,958.97	180,411,224.69	27.72	167,455,554.93	794,029.35	(86.91)	142,370.39	604,098.05	(76.43)	3.84	2.36	7.08	6.92	0.16	9.19
Rastriya Banijya Bank	15,637,377.1	38,204,543.01	325,631,619.69	321,659,484.33	237,155,320.48	24.60	230,010,876.86	1,778,317.88	(24.48)	869,808.24	1,251,524.15	14.54	3.62	2.48	6.26	6.51	0.10	8.32
Agriculture Dev. Bank	18,884,386.08	13,928,418.72	209,175,920.18	164,408,444.18	183,009,629.22	27.23	175,979,969.88	246,553.53	(468.43)	-888,071.47	220,953.11	(501.93)	5.33	2.38	8.2	7.29	0.91	10.38
Total	374,575,094.91	293,657,098.71	5,153,760,606.05	3,991,001,815.71	4,237,981,824.15	29.13	3,538,944,187.41	23,526,799.78	(13.82)	13,482,054.15	16,555,612.71	(18.57)	3.29	1.66	7.87	7.98	(0.11)	9.88

Bank recorded the lowest deposits from customers of only NPR 119.10 billion (USD 896.77 million). As opposed to this, Nepal Investment Mega Bank (NIMB) had the highest increase in deposits of 87.83%.

In terms of credit growth, the total credit growth of commercial banks was 19.75%, compared to 9.81% in the corresponding period of the previous FY 2022/23 AD (2079/80 BS). Among the commercial banks, Global IME Bank held the highest loan and advances portfolio of NPR 357.37 billion (USD 2.69 billion) followed by Nabil Bank and Nepal Investment Mega Bank at NPR 353.57 billion (USD 2.66 billion) and NPR 304.24 billion (USD 2.29 billion) respectively. Meanwhile, Standard Chartered Bank had the lowest credit disbursement of NPR 79.39 billion (USD 597.42 million).

Lastly, the average percentage of Non-Performing Loans (NPL)

of commercial banks stood at 3.29% as compared to 1.66% in the same period last FY 2022/23 AD (2079/80 BS). Furthermore, the average cost of funds was 7.87% against the 7.98% in the same period last FY 2022/23 AD (2079/80 BS). Similarly, the average base rate stood at 9.98%, during the review period, which was 10.29% in the same period last FY 2022/23 AD (2079/80 BS). The highest base rate was that of Kumari Bank at 10.91% followed by Himalayan Bank at 10.86%. On the other hand, Rastriya Banijya Bank Limited had the lowest base rate at 8.32%.

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. These are based on the three months’ data ending in mid-October of FY 2023/24 AD (2080/81 BS), as

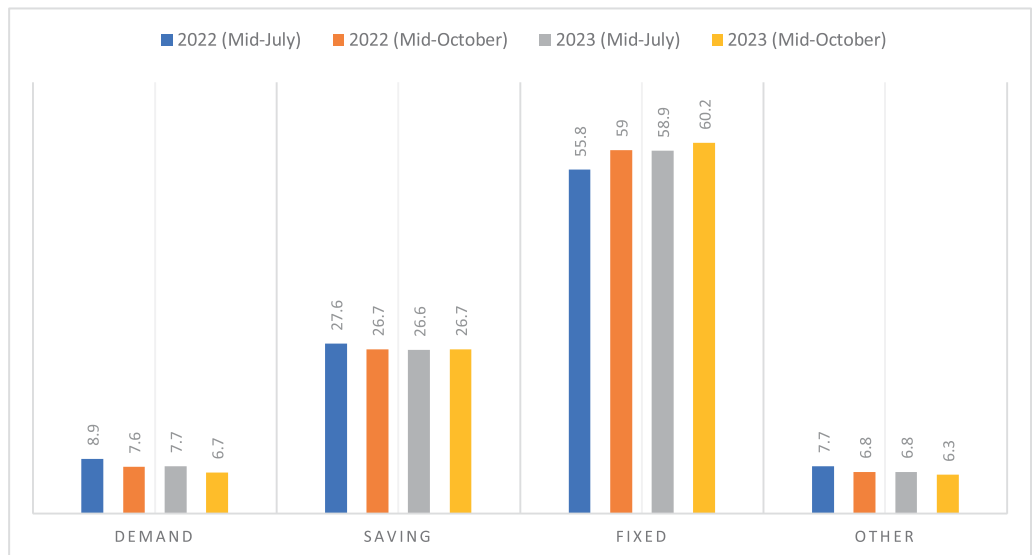
published by the NRB.³⁷³

Deposit and Credit Mobilization

The deposits at BFIs grew by 2.8% as compared to 0.4% in the same period last FY 2022/23 AD (2079/80 BS). Furthermore, on a year-on-year basis, deposits at BFIs experienced a substantial expansion of 14.9% by mid-October 2023. Among the total number of deposits, demand deposits, saving deposits, and fixed deposits accounted for 6.7%, 26.7%, and 60.2% respectively. These proportions have experienced a slight change compared to a year ago when the respective shares were 7.6%, 26.7%, and 59.0%.

Figure 21. Deposit Mix at Banks and Financial Institutions (Percentage Share)

Source: Current Macroeconomic and Financial Situation based on three months’ data, Nepal Rastra Bank, FY 2023/24

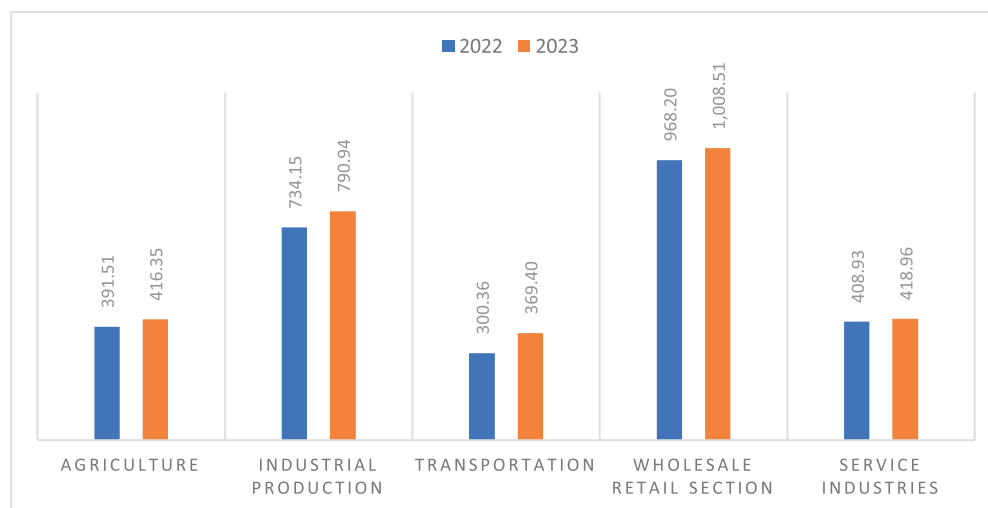


Similarly, in the review period, credit provided to the private sector by BFIs witnessed a rise of 2.3%. This increase contrasts with the previous year's corresponding period, where credit grew by 1.3%. Looking at the year-on-year basis, the credit extended to the private sector from BFIs experienced a 4.8% increase in mid-October 2023.

Additionally, BFIs witnessed an increase in outstanding loans to various sectors. The construction sector witnessed a rise of 5.9%, the industrial production sector saw an increase of 5.1%, the agricultural sector experienced a growth of 0.4%, while the transportation, communication, and public sectors observed a substantial growth of 4.5% in

outstanding loans, compared to the first quarter in the last FY 2022/23 AD (2079/80 BS). Moreover, as compared to the same period last year, outstanding loans to the service industry increased by 2.7%, while the wholesale and retail trade sector experienced a modest increase of 2.4%, and the consumable sector saw a rise of 1.4%.

Figure 22. Sector-wise Outstanding Credit of Banks and Financial Institutions (Amount in NPR in billion)



Source: Current Macroeconomic and Financial Situation based on three months' data, Nepal Rastra Bank, 2023/24

BFIs also experienced changes in the extension of various types of loans. Term loans witnessed an increase of 7%, while real estate loans, including residential personal home loans, saw a more modest growth of 3.1% compared to last FY 2021/22 AD (2078/79 BS). Furthermore, trust receipt loans for imports experienced an increase of 15.8% and margin nature loans increased by 6.2%. However, hire purchase loans decreased by 18.5% and overdraft loans decreased by a significant 39.7%, primarily due to the reclassification of loans from the recent year.

Liquidity Management

In the first quarter of FY 2023/24 AD (2080/81 BS), NRB injected

a total liquidity of NPR 239.49 billion (USD 1.80 billion) based on turnover. This liquidity injection consisted of NPR 1.20 billion (USD 9.03 million) through the standing liquidity facility (SLF) and NPR 238.29 billion (USD 1.79 billion) through the Overnight Liquidity Facility (OLF). In the same period last FY 2022/23 AD (2079/80 BS), NPR 2.36 trillion (USD 17.73 billion) net amount of liquidity was injected through various instruments of open market operations including SLF. Compared to last FY 2022/23 AD (2079/80 BS), the net amount of liquidity injected has decreased by NPR 2.12 trillion (USD 15.95 billion) this FY 2023/24 AD (2079/80).

Moreover, NRB injected liquidity

amounting to NPR 166.54 billion (USD 1.25 billion) through the net purchase of USD 1.256 billion (NPR 166.93 billion) from the foreign exchange market. In comparison, in the corresponding period of the previous year NPR 154.04 billion (USD 1.16 billion) liquidity was injected through the net purchase of USD 1.200 billion (NPR 159.21 million).

Additionally, NRB purchased Indian currency (INR) equivalent to NPR 95.54 billion (USD 719.15 million) through the sale of USD 720 million (NPR 95.57 billion) in the first quarter FY 2023/24 AD (2079/80 BS). Comparatively, in the corresponding period last year, INR equivalent to NPR 130.41 billion (USD 981.34 million) was purchased through the sale

of USD 1.02 billion (NPR 135.43 billion).

Foreign Exchange Reserves and Adequacy

In the first quarter of FY 2023/24 AD (2079/80 BS), the total value of foreign exchange reserves rose

by 6.7% to NPR 1.64 trillion (USD 12.32 billion) in mid-October 2023, 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 8.3% to NPR 209.73 billion (USD 1.58 billion) in mid-October 2023 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 22% as of mid-October 2023.

Table 8. Foreign Exchange Adequacy Indicators

Source: Current Macroeconomic and Financial Situation based on 3 months' data, Nepal Rastra Bank, 2023/24

	FY 2022/23 AD (2079/80 BS) (Mid-July)	FY 2023/24 AD (2080/81 BS) (Mid-October)
Total Foreign Reserve		
In NPR	1.54 trillion	1.64 trillion
In USD	11.71 billion	12.33 billion
Ratios		
Reserve-to-GDP	28.6%	30.5%
Reserve-to-Imports	83.0%	85.7%
Reserve-to-M2	25.1%	26.0%

Based on the imports in the first quarter of FY 2023/24 AD (2080/81 BS), the foreign exchange reserves of the banking sector have been deemed sufficient to cover approximately 12.4 months of prospective merchandise imports and 10.3 months of both merchandise and services imports.

Interest Rates

The weighted average rate for the 91-day treasury bills remained steady at 4.94%, compared to 10.14% in the corresponding month of the previous FY 2022/23 AD (2079/80 BS). Meanwhile, the weighted average inter-bank transaction rate among commercial banks, which

was 8.51% a year ago, decreased to 2.26% in the first quarter of FY 2023/24 AD (2080/81 BS). Additionally, the average inter-bank rate of BFIs, which serves as the operating target of monetary policy, stood at 2.26% in mid-October of FY 2023/24 AD (2080/81 BS).

In the same period, the average base rate of commercial banks experienced a decrease, falling from 10.34% a year ago to 9.94%. Furthermore, the weighted average deposit rate and lending rate of commercial banks in the first quarter of FY 2023/24 AD (2080/81 BS) stood at 7.90% and 12.11% respectively. Comparatively, these rates were 8.16% and 12.19% one year ago.

Balance of Payment

During the review period, the Balance of Payment (BoP) was at a surplus of NPR 99.07 billion (USD 746.05 million), which witnessed a percentage increase of 697.45% compared to the corresponding period of the previous year, where the BoP was at a surplus of NPR 12.43 billion (USD 93.65 million).

KEY DEVELOPMENTS

NRB and FNCCI Sign MoU to Develop a Comprehensive Economic Policy

Nepal Rastra Bank (NRB) and The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) signed a Memorandum

of Understanding (MoU) on 3rd November 2023 to create a comprehensive economic policy, fostering a conducive environment for industry and business.³⁷⁴ The agreement involves fact-based studies on various issues, aiming to increase private sector participation in future policy-making. The FNCCI will provide necessary information for the central bank's study, while the NRB will offer technical assistance. The MoU is valid for five years and includes the establishment of a facilitation cell for implementation.³⁷⁵

Commercial Banks Experience Significant Rise in Bad Debts

Nepal's commercial banks witnessed a more than twofold increase in bad debts in the first three months of the current FY 2023/24 AD (2080/81 BS), attributed to non-recovery of loans amid the ongoing economic slowdown. Financial reports unveiled by the banks revealed a 103.53% surge in cumulative bad debt from mid-July to mid-October compared to the same period last year.³⁷⁶ Among 'A' class banks, the average bad debt rose to 3.39% of total debts, up from 1.66% a year ago. Six commercial banks, including Agriculture Development Bank Limited, Kumari Bank, and Nepal Investment Mega Bank, reported bad debts exceeding 4%.³⁷⁷ Other banks have also experienced a notable increase in bad debts, signalling an alarming trend and possible challenges in financial performance.³⁷⁸

Banks Lower Interest Rates as Loan Demand Decreases

Commercial banks reported a 18.6% decrease in net profits in the first quarter of the fiscal year, attributing it to reduced demand for loans amid an economic downturn.³⁷⁹ In response to a decline in loan demand, they reduced interest rates and adjusted premium rates on loans. The increase in their loan loss provisions to NPR 16 billion (USD 120.47 million) from NPR 7 billion (USD 52.68) further contributed to a decline in profits.³⁸⁰

Modest Improvement in Private Sector Lending by BFIs

Nepali BFIs increased private sector lending by NPR 109.03 billion (USD 820.33 million) in the first three months of the current FY 2023/24 (2079/80 BS), reflecting a growth of 2.3%. This compares to a 1.3% increase of NPR 59.11 billion (USD 444.66 million) in the same period of the previous fiscal year 2022/23 (2078/79 BS).³⁸¹ Despite the private sector's grievances, which link BFIs to the continuous recession, the increase in credit given to private enterprises sends a good signal due to the decrease in interest rates.³⁸²

NRB Instructs BFIs to Conduct Collateral Auctions Before Blacklisting Loan Defaulters

NRB adopted a more lenient approach towards loan defaulters, directing BFIs to evaluate collateral before blacklisting debtors. The central bank's

directive on 30th November 2023, mandates BFIs to auction the collateral before blacklisting and, if auction proceeds are insufficient to cover the debt, extend a 90-day deadline for debt repayment. Previously, BFIs blacklisted defaulters after a 35-day notice.³⁸³ The directive further allows blacklisted individuals to use banking services for receiving pension and social security allowances. Moreover, joint-venture businesses with blacklisted partners will now be able to continue conducting banking transactions. Recent data from the Credit Information Bureau (CIB) indicates a rising trend in the past five years, with 73,371 defaulters blacklisted by BFIs as of mid-November, adding 14,775 new entries from August 2023 – November 2023.³⁸⁴

Outlook /

The banking sector's proactive response to the economic slowdown is notable, with commercial banks reducing interest rates due to decreased loan demand. This reduction has contributed to an improvement in private sector lending. However, the rising bad debts in Nepal's banking sector raise concerns about stability and economic slowdown. Careful risk management and proactive measures are imperative. The NRB's lenient collateral auction approach, despite blacklisting defaulters, fosters financial inclusion amid a growing trend in loan defaults reported by the Credit Information Bureau. This may potentially escalate non-performing loans in the near future. On the other hand, Nepal's BoP surplus, boosted by remittances, offers stability, but the diversification and strengthening of external financial inflows is needed due to declining capital transfers and FDIs.

In overview, Nepal's financial landscape reveals a diverse terrain. Encouraging steps taken in partnership with the International Monetary Fund (IMF), coupled with substantial monetary policy adjustments, highlight a hopeful path toward economic growth. At the same time, the NRB has embarked on a comprehensive audit of the ten largest commercial banks, underscoring a dedication to fortifying the banking sector. While strategic measures and proactive responses within the banking industry seek to tackle challenges, the key to stability and enduring economic well-being lies in diligent risk management and consistent efforts.

Capital Market

During the review period, from September 3 to November 30, 2023, the secondary market experienced a modest downturn, closing at 1,858.53, marking a decline of 5.21% since September 3, 2023. The market was unable to sustain the growth at the 2000 index level. This is despite the fact that Nepal Rastra Bank (NRB) issued a much-awaited circular on October 5, 2023, which raised the margin share securities lending cap to NPR 150 million (USD 1.13 million) for individual investors and NPR 20 million (USD 150,625) for institutional investors. Additionally, the decline was exacerbated by increased selling pressure during the festive season, contributing to overall market instability. Overall, in spite of regulatory changes and a decrease in bank interest rates, investors remained cautious, keeping the index fluctuating between the 1800 and 2000 index level.

Factsheet ³⁸⁶		
S.No.	Indicator	Data
1	NEPSE Index (mid-October, in points)	1864.62
2	Stock market capitalization (mid-October)	NPR 2.861 trillion (USD 21.54 billion)
3	Number of companies listed at NEPSE (mid-October)	263

Secondary Market

During the review period (September 1 to November 30, 2023), the Nepal Stock Exchange (NEPSE) index decreased by 5.21%, closing at 1858.53 points. The total market capitalization at the end of the review period amounted to NPR 2.86 trillion (USD 21.54 billion).³⁸⁵ Within this, all sectors experienced losses. The most significant decrease was seen by the Microfinance sub-index (-8.16%) followed by the Commercial Bank sub-index (-8.12%), Hotels & Tourism sub-index (-5.86%) and Non-Life Insurance sub-index (-5.34%).

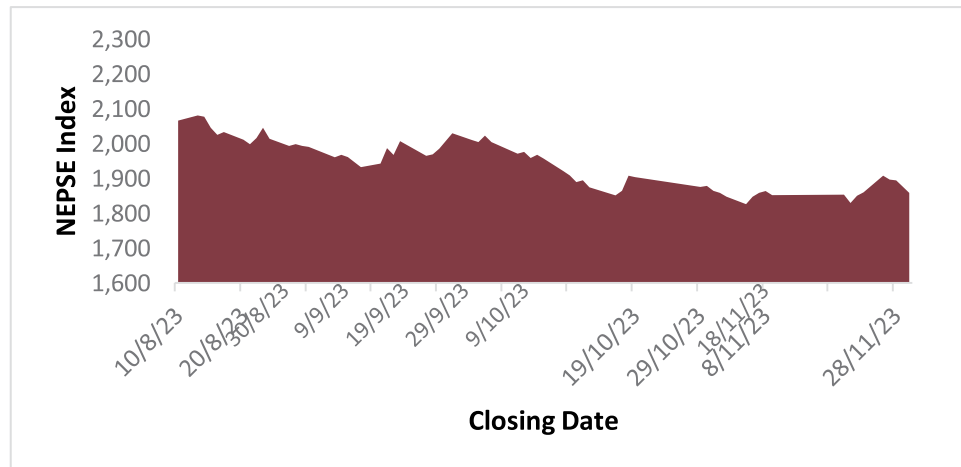
Table 10. Key Market Indicators

Source: Nepal Stock Exchange (NEPSE)

	03-Sep-23	30-Nov-23	% Change
NEPSE Index	1,960.78	1,858.53	-5.21%
Sub-Indices			
Commercial Bank	1,251.73	1,150.04	-8.12%
Development Bank	3,677.56	3,628.71	-1.33%
Hydropower	1,990.08	1,966.70	-1.17%
Finance	1,665.72	1,632.29	-2.01%
Non-Life Insurance	10,406.08	9,850.89	-5.34%
Others	1,438.04	1,411.96	-1.81%
Hotels & Tourism	5,448.25	5,129.22	-5.86%
Investment	69.10	66.78	-3.36%
Microfinance	3,555.18	3,264.92	-8.16%
Mutual Fund	18.67	17.74	-4.98%
Life Insurance	10,681.25	10,208.44	-4.43%
Manufacturing & Processing	5,117.25	4,865.83	-4.91%
Trading	2,870.17	2,740.28	-4.53%

Figure 23. NEPSE Index Movement

Source: Nepal Stock Exchange (NEPSE)



Primary Market

During the review period, the Securities Board of Nepal (SEBON) granted initial public offering (IPO) approval to Sarbottam Cement Ltd and Himalayan Reinsurance Limited. From these IPOs, about NPR 7.04 billion (USD 53.07 million) is

anticipated to be raised from the market.³⁸⁷

Likewise, during the review period, companies such as Muktinath Krishi Company, Nepal Warehousing Company, Vision Lumbini Urja Company, Chirkhwa Hydro Power, Sonapur Minerals and Oil, Mid Solu Hydropower

Company, Mathillo Mailun Khola Jalvidhyut, Hathway Investment Nepal, and Citizen Life Insurance Company successfully raised funds from the general public.³⁸⁸ These companies were able to collect NPR 5.34 billion (USD 40.22 million) in total from the primary market.

Table 10. Public Issue Size of IPO-Approved Companies

Source: SEBON, Initial Public Offerings Approved

Name of the company	Public Issue Size (Total Shares)
Sarbottam Cement Ltd.	2,400,000
Himalayan Reinsurance Limited	30,000,000

KEY DEVELOPMENTS

SEBON Proposes Measures for NRNs to Enter Securities Market

On September 10, 2023, SEBON published a study report focused on the involvement of non-resident Nepalis (NRNs) in the country's securities market, with the objective of facilitating their participation

in the secondary market. As per the recommendations, NRNs interested in investing in Nepal's securities market should establish a dematerialization (DEMAT) and non-resident external account in a local bank, following specific documentation such as an NRN identity card and passport. Additionally, the report advises that it should be necessary for those seeking to

invest amounts exceeding NPR 13.278 million (USD 100,000) to open an external account in a bank of 'A' category, subject to SEBON's approval.³⁸⁹ The report also outlines restrictions on direct investments in NEPSE, conditions for trading in mutual funds, and the disclosure of legal heirs. Furthermore, the study suggests modifications to the repatriation process, allowing it after three

years, with the aim of smoothly integrating non-resident Nepalis while ensuring compliance with regulatory requirements.³⁹⁰

Changes Made through 7th Amendment to Securities Registration and Issue Regulation

On September 5, 2023, SEBON introduced substantial amendments through the 'Seventh Amendment to the Securities Registration and Issue Regulation, 2073' (2016). This amendment brought about many key changes including the barring of businesses, with less than 10 years remaining on their license, from applying for securities registration, with exceptions for those subject to periodic license renewal. The amendment also waived the previous requirement for public companies to undergo a full financial year before qualifying for public securities issuance. Other significant amendments include the authorization of green bond issuance for incorporated entities and the introduction of securities issuance at a premium for entities meeting specific SEBON's criteria. Specifically, companies with a paid-up capital exceeding NPR 1 billion (USD 7.53 million) are allowed to issue securities at a premium, subject to the condition that they have registered a net profit for the two preceding years. These amendments collectively aim to modernize processes, foster responsible investment practices, and facilitate a more streamlined approach to securities issuance in Nepal's financial market.³⁹¹

NRB Raises Margin Lending Limits for Individuals and Institutions

The Nepal Rastra Bank (NRB) amended the Integrated Guidelines 2023, removing the margin lending cap of NPR 120 million (USD 903,081.80). The new decision sets the upper limit at NPR 150 million (USD 1.129 million) for individuals and NPR 200 million (USD 1.50 million) for institutional investors, thereby addressing concerns from share market investors about the restrictive impact of the previous cap.³⁹² NRB's decision reflected a responsive approach to market dynamics, aiming to enhance liquidity in the capital market. In comparison, the previous cap had restricted margin lending to NPR 400/1200 million (USD 3.01/9.03 million) for individual investors.³⁹³

SEBON Restricts Mutual Fund IPO Sales for Six Months After Allotment

SEBON implemented a regulation affecting Mutual Fund Schemes. This directive prohibits the sale of IPO shares by mutual funds within six months of allotment. The aim is to curb the influx of IPO shares from mutual funds shortly after their listing on the stock exchange. The directive, which was enforced from November 7, 2023 (Kartik 21, 2080), ensures that at least 5% of shares offered for public issuance by institutions are reserved for mutual funds. The new framework applies to the Central Depository Services (CDS) and Clearing Limited, along with all fund managers.³⁹⁴ In case of scheme completion or termination before the stipulated

timeframe, the mutual fund is allowed to sell or transfer its held shares. This directive aims to regulate IPO sales and enhance stability in Nepal's securities market.

Sarbottam Cement Makes History with First Nepali IPOs at Book Building Prices

As per book building guidelines 2021, Sarbottam Cement introduced the book-building process for its initial public offerings (IPOs), making it the first Nepali company to utilize this method for raising finance through primary issue. Essentially, the book-building process involves the company's qualified institutional investors (QIIs) determining the price at which company issues the offer price to for an IPO.³⁹⁵ SEBON granted approval for Sarbottam Cement to release 12.90% of its issued capital of NPR 4.65 billion (USD 34.98 million). Initially, 40% of this, equivalent to 2.4 million shares, is allocated to Qualified Institutional Investors (QIIs). The remaining 60%, totaling 3.6 million units of shares, is designated for the general public in the second stage. The company initiated its IPOs for institutional investors, establishing a cut-off price at NPR 401 (USD 3.02) per unit with a ceiling at NPR 601.50 (USD 4.52) per unit. Likewise, for the general public, the IPO shares are slated to be float at a 10% discount from the cut-off price of NPR 360.9 (USD 2.71).³⁹⁶

Outlook

Despite positive indicators, the market underwent a significant downturn. Despite initial expectations of positive market momentum followed by the central bank's decision to raise the margin lending threshold, the market struggled and failed to maintain an upward trajectory due to heightened selling pressure, particularly during the holiday season. Similarly, the hits in the market were also caused by the delayed first-quarter monetary policy review for FY 2023/24 AD (2080/81 BS) by the NRB, which added complexity to the situation. Moreover, ongoing challenges in the economy, such as lower credit growth, increased non-performing loans, and inflation surpassing the budgeted 6.50%, contributed to the market's uncertainties. Despite the external sector's resilience and an influx of foreign exchange reserves, macroeconomic challenges and lower corporate earnings of listed companies further dampened investor sentiment.

Amidst these challenges, the demand for flexibility persisted, and the revision of the cap and the focus on adjusting interest rates showcased the support for sustainable growth in Nepal's financial landscape in the coming days. The upcoming policy review, with its aim to lower key policy rates, instills hope for economic stability. Investors are closely monitoring these stock market events and adopting a "wait and watch" approach. Despite existing concerns about economic growth and the monetary situation of the country, NRB's unwavering commitment to prudence and stability presents a positive outlook. This commitment can help regain confidence in navigating financial challenges with resilience.

5

Special Section

Strengthening the
Himalayan Connect



Introduction

The Himalayan region, known for its breathtaking natural beauty, plays a pivotal role in shaping global climate patterns. Despite its significance, it remains somewhat isolated from national and regional development dialogues. This exacerbates the wide spectrum of challenges the region encounters, including heightened vulnerability to climate change and restricted flow due to its unique topography. Recognizing the need for greater integration, the Himalayan Future Forum (HFF) was established to serve as a platform for fostering connections and addressing region-specific issues and solutions.

HFF is an initiative designed to facilitate comprehensive dialogues on the Himalayas, bringing together stakeholders from different countries and sectors, including Bhutan, Nepal, India, and countries directly affected by the mountains, such as Bangladesh. Currently incubated at the Nepal Economic Forum (NEF), HFF aspires to evolve into a separate not-for-profit entity. The forum will primarily focus on three themes: **climate, community, and connectivity**, nurturing discussions on a wide array of topics and perspectives.

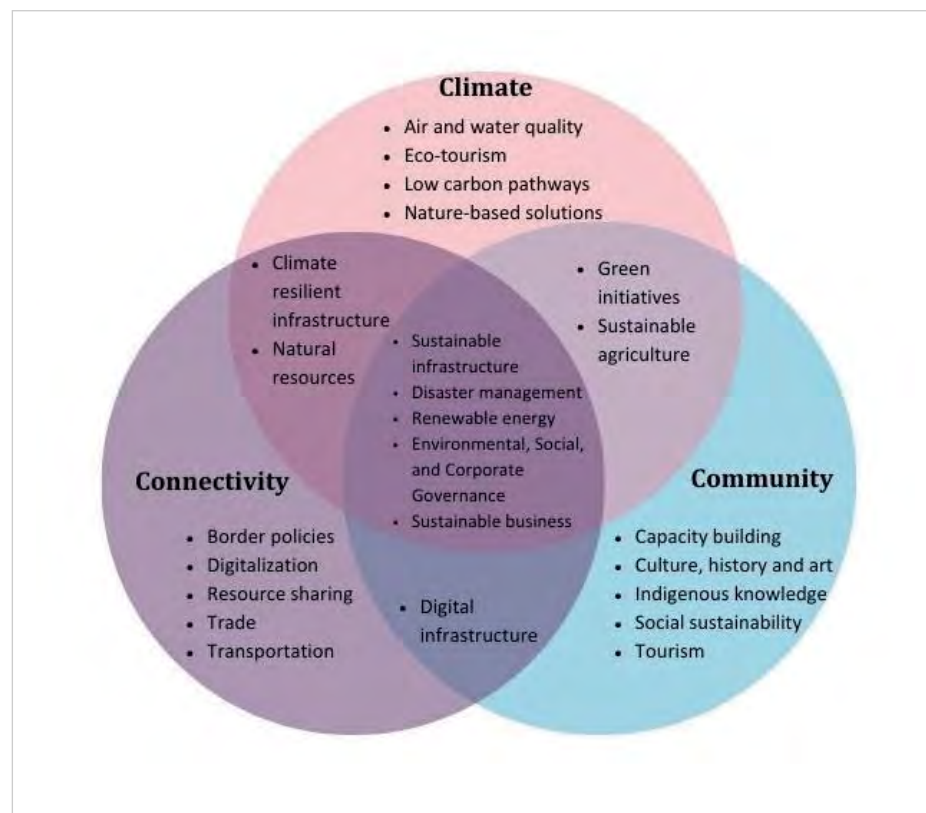


Figure 24:
Thematic Areas of
the HFF

On October 6, 2023, HFF hosted its Inaugural Meet, attracting 43 stakeholders who shared their work on the region and their visions for the forum. HFF envisions a dynamic and productive future, with plans for annual meetings and events across the Himalayan region, creating crucial collaborative spaces to address multifaceted problems. Excerpts from various keynote speakers and stakeholders from this inaugural event have been featured in the following Special Section of the 55th edition of the Nefport.

The first flagship event of the HFF has been scheduled for February 16 and 17, 2023. The two-day event will comprise of keynote speeches, panel discussions, conversations, and presentations with diverse profiles and perspectives.



Keynote Presentation

By **Mahendra P. Lama**

Senior Professor, Jawaharlal Nehru University

The Himalayan Future Forum is a precious meeting for the people, the institutions, the governments, and all the other agencies in the Himalayas. Here, I will be highlighting the critical aspects of the topics we have been discussing, and which we have witnessed, to re-examine past interventions and policies in an effort to design more robust ones in the future.

A Missing Dedicated Space

The mountain regions, particularly the Himalayas, can be observed to have similarities in multiple areas including heritage, biodiversity, governance, political economy, culture, pilgrimage, and trade. Another thing it has in common is that it has been a theatre of conflict. It has seen the liberalization war, border-related conflicts, the Maoist movement, two separate state movements, and refugees triggering state action. I believe the Himalayas has seen about every type of conflict except nuclear warfare. Despite this, we figure marginally in the global debate. We think that we, the Himalayan region, are the key negotiators and that we are also the first victims. We know that we are the major determinants in the entire climate change chain of adverse impact. However, we do not have a dedicated forum today

where we can come together, further discussions, and devise futuristic plans and programs. We do not have such a forum where representatives from the government, private sector, civil society, and community could come together and interact to be able to holistically deal with the issues we have been facing. We believe that now is the right time to come together to discuss and support various governments in formulating policies that would be of value and have far-reaching implications to the region.

Weak Harmony as an Inhibitor

Development interventions usually have come in the form of fairly scattered planning, driven by broad macro situations and triggered by largely common national institutions. However, they fail to consider the numerous exogenous shocks alongside local or indigenous actions. We have found that there is a lack of harmonized and organized policy intervention in terms of the Himalayas as a region. We have further witnessed unscientific development models that have been imposed and practiced in the region. Despite having a history of closed, integrated cross-border interaction, it has been disrupted by a chain of practice. A highly critical feature

of the Himalayan region is that it is land-based. Entire actions related to the region would also be integrated with the land, the borders, the borderland, and the community. However, somewhere along the way, this connection was disintegrated. Today, we are trying to re-integrate them, in the sense of bringing biodiversity, intellectual heritage, and institutions together.

The Himalayan Connect

It is a difficult process to think of the Himalayas as a single entity. To re-integrate them, we have brought various models of regionalism, sub-regionalism and neo-regionalism. Moreover, the entire cause of land connectivity is changing in the present day. As far as Himalayan lands are concerned, connectivity is the most critical factor. It is interesting to note that people are trying to reconnect by going back to history and seeing what old routes could be utilized for as far as it benefits the entire Himalayan range.

In a land route, unlike in a sea or an air route, we are able to see the other side of the fence. We are able to quite easily access the environment, people, food, culture, trade, rivers, and biodiversity, among other

components. As the sea route became the most cost-efficient route for transportation of goods and services, we prioritized our resources to develop it further. On the other hand, borderlands and land routes have not had growth of a similar magnitude by far. When comparing the technology being used in sea routes and air routes to that of land routes, one can see that the trained manpower being deployed there is strikingly different than the ones in land borders. In addition to this, land routes have garnered a negative image, being overwhelmingly talked about in terms of narcotics, arms, contrabands, and smuggling activities.

We have been seeing a few fundamental changes in the approaches to connectivity in various countries, including India, Bangladesh, Nepal, Bhutan and Myanmar. In India, for instance, we have the Act East Policy and Neighborhood First Policy, enacted by the Prime Minister, which focuses on connectivity issues and interactions among communities. There is also the example of a trilateral highway which connects India, Myanmar, Thailand, and further extends to other countries, including Laos and Cambodia. Moreover, there are multiple upcoming projects seeking to strengthen inter-country connectivity. Bhutan will be connected to India through railway lines via Kokrajhar as well as multiple waterways. Nepal and Bangladesh will also be connected in a similar manner. Making a concentrated effort to bring similar initiatives together, which focus on connectivity, community and climate change,

would create tremendous value.

Harnessing Local Knowledge and Resources

In between Myanmar and China, there is a distance of over 2,000 kilometers, and there are around 2,416 border points between Myanmar and Thailand. Between Myanmar and China and Myanmar and Thailand, trade of almost USD 6 billion (NPR 796.68 billion) takes place at the border level, with a majority being between Myanmar and Thailand. Meanwhile, the total trade India has with Myanmar is hardly around USD 2 billion (NPR 265.56 billion). Why is this happening despite much intent and extensive relations between India and Myanmar? This brings us to yet another issue: In order to establish connectivity in the mountains, we have to make regional initiatives as far as the entire connectivity projects are concerned. It raises the question of how we will connect our connectivity projects with the larger dynamics of the region, and where mountain areas would be of critical importance.

We are further thinking of looking into the flows from the mountain areas while crisscrossing connectivity projects. I think the way this connectivity is created, generated and constructed; the flows are going to be absolutely massive. These flows would include production centers located 1,000–2,000 kilometers away, but this is a big challenge. This is why some of us think that there is a need to revive a bit of the Ricardian Theory of Competitive Advantage – what is our core competitiveness in the mountain areas. If we could

integrate the traditional medicinal systems chain of Nepal, Bhutan, India, Bangladesh and Myanmar, I think no other geography could be able to compete with them on the topic.

The mountains also house a diverse range of textiles and styles. In Nepal, there are many different tribes and communities, which many do not consider. In Arunachal Pradesh of India, there are 30 different varieties of ethnic groups, and 20 in Nagaland. Similarly, there are multiple ethnic groups in Sikkim, Myanmar and Bhutan. Every community and ethnic group will have its own textile designs. A critical flow in this connectivity project would simply be the unique designs from the Himalayan region, which could be a path-breaking initiative.

Additionally, we have electricity as an emerging variety of intervention and connectivity. We have national transmission lines interconnected between India–Bangladesh, India–Bhutan, and India–Nepal. It is becoming a critical intervention in terms of cross-border energy trade and is expected to make a huge difference. Therefore, I would suggest that we should focus on understanding the nature of connectivity, what kind of connectivity we require in the mountain areas, and in what ways it could be used for the greater good.

Challenges from Climate Change

We have seen the effects of climate change in various parts across the Himalayan belt, including in the Western and

Eastern regions. The discourse on water resources is of utmost importance in this topic. In Tibet or geographies like Lhasa, the two major tributaries – the Indus and Brahmaputra, are fast drying up.

The challenge is four-fold at this stage. The first challenge is on how to bridge the gap between the stock of knowledge available with the scientific community and the policy level, and then again translate them into public policy interventions. Secondly, a question that many of us are asking today is whether the developmental model, which has been operationalized in the mountain areas, is correct, appropriate, and the most far-reaching model. Then, we have

the challenge of cross-border environmental injuries. And lastly, a major challenge is that our institutions are not well-coordinated when working on different themes in the Himalayas.

I would like to end by saying that our efforts in the forum should be to make a reservoir of advanced data information systems. We would like to see this forum conduct a range of policy studies, bringing a range of experimentations from European countries and Scandinavian countries, and see in what way they can be made useful to governments. Yet another topic of emphasis for us all would be on how to integrate and harmonize the needs and

aspirations of the communities in the mountain areas. Finally, the last attempt would be to bring cross-border institutions to a common platform.

In the February meeting for the Himalayan Future Forum, I would suggest to invite a few Chief Ministers of the mountain states and also policy makers who are familiar with community interventions in the mountain areas, research institutions, International Non-Governmental Organizations (INGOs), civil societies, private sector and media. It would set the tone for the entire future course of action.



Remarks on the Himalayan Future

By Arnico Panday

Advisory Board Member, Nepal Economic Forum

I remember the conversation we had before the COVID-19 pandemic. It was when the Himalayan Consensus Summits were coming to an end, and we wanted to keep its spirit alive and further grow it. I was the one who had blurted out the name ‘Himalayan Future Forum’ and it is on my shoulders to share the thought process behind it. I believe the simplest way to do so is to pick it apart, a word at a time.

The Himalayan Region

‘Himalayan’ refers to the region that extends across multiple countries — from Northeastern Pakistan through Southwestern China, various parts of Northern India, much of Nepal, Bhutan, all the way to Northern Myanmar. It is the region that has quite an extreme contrast, from highest mountains to the deepest gorges. However, it is also a place where topography and nature has constrained human activities and development while providing immense beauty and opportunities. As Professor Lama had mentioned, it is a region with hundreds of different languages and ethnic groups, but also shares commonality in the way people live, think and celebrate. It is further united by common concerns, including

earthquakes, climate change, floods and landslides, changing livelihoods, and out-migration — which has seen an acceleration in the mountain areas. However, heavy boundaries and mutual suspicions divide it, creating a region where borders halt the movement of people and goods. On the other hand, these borders are crossed freely by wildlife.

Looking into the Future

The Himalayan Region is faced with a common future of shared opportunities and prosperity that builds on the immense beauty of the region and its ability to inspire and to attract. The first, second, fifth and eighth most-populous countries in the world — India, China, Pakistan, and Bangladesh respectively — are located in our region. This is a future we need to prepare for.

We have learned, in recent years, that even if global average temperatures were to stabilize at 1.5°C above pre-industrial levels, temperatures in high mountains would still be around 1.8°C to 2.2°C above pre-industrial levels. Aside from the fact that stabilizing the average temperature at 1.5°C is looking increasingly unlikely, it would still be more warming than ideal, especially in the Himalayas. We will see a lot more

changes, including an increased loss of ice and snow. Even at the current level of 1.1°C above pre-industrial, countries such as Nepal and Pakistan are faced with devastating floods. In October 2023 itself, a large dam in Sikkim got washed away with heavy downstream consequences. Places that had been safe for centuries are no longer deemed safe, and designs that served well in the past are no longer adequate. The past is no longer an indicator of the future. It will be very different, and we all need to work together to prepare for it.

A Unifying Forum

We are gathered here in the largest metropolis in the Himalayan region, and also the freest and the most accessible country in the region. Nepal Economic Forum (NEF) sees it both as an opportunity and a responsibility to use our location to bring people together and unite people in common understanding, building common narratives and friendships. As an incubation initiative by the NEF, the Himalayan Future Forum (HFF) will host dialogues that will help us find common solutions to common problems, sharing experiences, and learning ideas.

I look forward to HFF breaching

taboos, addressing the uncomfortable, and going beyond what governments and existing structures allow. A decade from now, let us look back and evaluate the achievements of

this forum and have it not only come to the number of events we held, but also tangible outcomes resulting from these events and conversations. Let us work together to plan and build

up a forum that truly leads us to a better future for the Himalayan region by building community and connectivity in the face of climate change.



Remarks from the Partner Organization

By Iqbal Singh Sevea

Director, Institute of South Asian Studies,
National University of Singapore

On behalf of the Institute of South Asian Studies at the National University of Singapore, it is my pleasure to thank all of you for being part of this inaugural round table discussion of the Himalayan Future Forum (HFF). I am particularly glad to be among some old friends and see some new collaborators in the group. We are delighted to partner with the Nepal Economic Forum in this important initiative. As we have heard so far, HFF is focusing on three themes – climate, community, and connectivity. These are fundamental for understanding the impact of climate change, shaping development narratives, and ensuring sustainable futures.

Diverse Terrain and Challenges

As a region, South Asia has a distinctively complex environmental history and terrain. The Himalayan region is not environmentally homogeneous. As somebody who lives outside of the region, we generally see it as one of snow, mountains, and glaciers. While this is an extremely beautiful image, it is an image that imposes uniformity on the terrain and neglects its biodiversity. This is a point that has been brought up by previous speakers as well.

If we look carefully at the Himalayan region, we find that it is diverse in climatic conditions, vegetations, flora, and livestock. This naturally implies that the challenges the region face are diverse as well. The Western Himalayas, for instance, are warming faster than the Eastern Himalayas. Furthermore, in the case of Nepal itself, there is much more information available about the impact of climate change from the Everest region compared to substantially less scientific knowledge about the other distinct parts of the Himalayan region. Here, I believe, a forum like HFF can play an important role in bringing together a broad range of stakeholders to map climatic shifts, impacts, and concerns.

The South Asian Connection

Any discussion of the future of the Himalayan region is intimately tied to the future of South Asia. The Himalayan region is vital for its resources like water, and, increasingly so, electricity. It is also tied to the rest of South Asia by culture and community networks developed over centuries. If we look at a conventional map of South Asia, we would find a number of South Asian countries being depicted as skirted by the Himalayan region. However,

if we know anything about the environment and climate, it is that rivers, climatic shifts, and environmental disasters do not follow such respective maps and boundaries. Furthermore, there is nothing natural about the way the regions are framed and mapped as they are presented through various geopolitical lenses. If we adopt a much more and much needed environmental lens and map the extensive and crucial water bodies, we will find that the Himalayan region is actually the core of the interconnected environmental terrain that impacts South Asia.

Opportunities from the Himalayas

The issue of connectivity, both in terms of concerns as well as solutions, is crucial. On a related note, hydropower has emerged as an important resource and the region is endowed with significant potential of this clean energy source. It is now a significant part of the exports of countries like Nepal and Bhutan. The surplus of hydropower capacity and the demand for clean energy has led to the construction and proposal of several new hydropower projects in Nepal, Bhutan, and India. This has created an opportunity for

South Asia, which is widely known as the least integrated region, to develop transmission lines and create an integrated electricity grid in the region. It has grown into a fast-progressing idea with the agreement between India, Nepal, and Bangladesh for trade and electricity being in the final stages. Such development of the region presents opportunities to foster connectivity and linkages. However, increasing hydropower capacity and the building up of transportation infrastructure, among other developments, must be cognizant of the challenges and threats that the region faces.

Innovating New Solutions

It is important to note that the Himalayan region is increasingly confronting climatic issues that accompany economic growth and rapid urbanization. The accelerating depletion of glaciers, urbanization, and infrastructural developments raise major issues around the future of development in this region and contribute to global warming and instability of hydrological features. This forces us to envision a development path which can be adapted and adjusted to the emerging threats of climatic change. Furthermore, it creates a need for innovation

and research to develop solutions which can help create a sustainable development in the regions. This requires various stakeholders from local communities, academia, policy makers, development organizations, and the private sector to work together. HFF aims to provide a platform that will not only enable these important conversations, but also shape solutions for the future.

Participant Proceedings from the Himalayan Future Forum Inaugural Meet



Binija Nepal

Program Component
Manager, GIZ Nepal

Binija Nepal mentioned GIZ Nepal has co-financed a project called Green Resilient Agricultural Productive Ecosystems (GRAPE) that is working on agriculture and climate change. It is currently conducting research on the ground with the farmers to test what technology is best suited for the shifting climate. Although its working areas only cover Sudurpashchim and Karnali, it aims to spread the knowledge to other regions of Nepal. Through HFF, she aims to share their knowledge and hopes to have a platform where policy dialogues can take place for green growth.



Nyema Zam

Founder,
Samuh Mediatech

Nyema Zam talked about creating digital opportunities and content in the region. The global streaming platforms are alluring, yet they do not provide any benefits to the region. Although her start-up is based in Bhutan, she mentioned that Nepal has the biggest creativity industry in the region and Nepal and other countries here should work on building similar digital platforms.



Pratik Pradhan

Vice President,
Butwal Power Company Limited

Pratik Pradhan emphasized climate and the future giving an example of the recent events of infrastructure damage caused by cloud bursts. He suggested minimizing carbon emissions by investing in hydropower in Nepal and using the country's hydropower potential to build regional connectivity for export.



Sangjay Choegyal
Hospitality Consultant

Sangjay Choegyal elaborated on luxury tourism. He mentioned the increasing desire of travelers from the younger generation to connect with communities due to the isolation felt in the current social life. These travelers look for more than just a casual visit – they value the luxury of time and space and giving back to the location they visit. The Himalayan region should explore this market by providing an experience with genuine connectivity for travelers.



Stephen Danyo
Sector Lead, Sustainable
Development World Bank

Stephen shared that the World Bank is working on the Green, Resilient and Inclusive Development (GRID) project with 16 development partners. He declared possible collaboration for the project with interested attendees of the Inaugural Meet. Further, he reminded the attendees that Nepal has excelled in resolving many issues like eradicating malaria, fighting COVID-19, increasing forest cover, and increasing its GDP growth. However, it has also faced simultaneous casualties of joblessness and climate crisis. To set Nepal's leadership in the region, he suggested the government and the private sector have to allocate budgets for development.



Suman Basnet
Team Leader, Nepal Renewable
Energy Program

Suman Basnet pointed out the shift from dependency on fossil fuels and now to renewable energy. Nepal has stringent dichotomous views on using either hydro or solar for renewable sources and on focusing on either domestic or export markets. Instead, the country should look forward to using both sources and target both markets to optimize its energy potential. HFF should create a common platform to discuss this issue.



Shrinkhala Khatiwada
Director, Gaatha

Urban planning in the Himalayan region is different from the conventional designs taught at Harvard, according to Shrinkhala Khatiwada. The planning here requires integrating aspects of the plausible impacts of climate change. Alternatively, she explained how she was inspired by looking at the relevant use of cable cars for commuting, harmonizing with its topography in the Central American city of Medellin in Colombia. She further elucidated the chaos of urban planning in cities like Pokhara due to ever-changing tourism target markets by the government. According to her, looking into the luxury tourism market is important for the economy and future collaborations should be encouraged.

Learn more about other work produced by Nepal Economic Forum



NEF's publication, 'Introspecting Change' probes into Nepal's socio-economic journey from 2006 to 2021 – of what has been achieved and what is yet to be achieved. The publication presents a wealth of data spanning over a decade, covering diverse sectors such as tourism, agriculture, energy, and more.

Click [here](#) to get the report.



The Nefsearch titled, "Dissecting Nepal's Trade: Trends, Challenges, and Future Potentials" analyzes the trends of trade in Nepal along with its future prospects. This Nefsearch has been authored by Pooja Suwal, Pratisha Lakhey and Sagar Jung Karki.

Click [here](#) to read the report.



"The 54th edition of Nefport, "Fueling Regional Connectivity" special, traverses the journey of hydropower in Nepal with a specific focus on regional interconnectivity, as discussed by experts on the matter.

Click [here](#) to read the report.



NEF has launched its Economic Dashboard - NEFData! It covers three sectors with a vast array of economic data. Additionally, for the first time, get insights into capital and recurrent expenditure for defense.

Click [here](#) to start exploring.



Nefmeet 2023, 'Economic Transformations and Beyond' concluded on 18 July 2023 on a thought provoking and inspiring note. It focused on the launch of the latest NEF Publication and NEFData dashboard.

Click [here](#) to watch the event



The Neftalk titled 'Digital Services at the Base of the Pyramid' was co-organized by the World Bank, and Nepal Economic Forum's Center for Digital Transformation on 27 April, 2023.

Click [here](#) to watch the event.

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