ALPHA CAPITAL
Fund for Contrarian Investors

NEWSLETTER

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HOW WE VIEW

How We View | Economy

Nepal's economy was already navigating a difficult period, characterized by weak private-sector confidence, sluggish investment and policy uncertainty. The formation of a new government and concerns among business leaders over investigations and arrests of prominent business figures had added to an already cautious investment environment. While the broader economy was struggling to gain momentum, certain sectors, particularly hydropower and, to some extent, tourism, had begun showing encouraging signs. However, the recent devastating floods in the Bhotekoshi and Trishuli river basins have threatened this progress, adding further pressure to an already struggling economy.

In its Nepal Development Update (October 2026), the World Bank estimated Nepal's GDP growth at 3.9% in FY 2026, down from 4.4% in FY 2025, primarily due to slower agricultural growth. Following the August 2026 floods, the World Bank projected a further slowdown to 3.7% in FY 2027, reflecting the anticipated economic impact of the disaster. Similarly, in its Asian Development Outlook (September 2026), the Asian Development Bank (ADB) estimated GDP growth at 3.9% for FY 2026, compared to 4.4% in FY 2025, and revised its FY 2027 forecast downward to 4.1% from 4.5%, citing damage to infrastructure and hydropower facilities. These projections suggest that the floods could further aggravate Nepal's existing economic challenges amid subdued investment and weak economic activity.

Hydropower had emerged as one of Nepal's most promising sources of long-term growth. Electricity exports to India and Bangladesh generated NPR 29.32 billion in FY 2025/26, representing a 67.96% increase from the previous year. This growth had reinforced expectations that hydropower could become a significant source of foreign exchange earnings. However, the floods have exposed the sector's vulnerability to natural disasters, affecting 13 hydropower projects with a combined capacity of approximately 759 MW, alongside solar power plants, substations and transmission infrastructure. These disruptions could affect electricity generation, delay project completion, increase financing costs and weaken investor confidence, potentially undermining one of the few sectors demonstrating strong momentum.

Tourism had also begun showing encouraging signs despite an otherwise challenging environment. Indian tourist arrivals by air reached an all-time high in June, exceeding 40,000 for the second consecutive month, largely supported by increased pilgrimage traffic to Mount Kailash and Manasarovar during Nepal's traditionally slower tourism season. However, the floods have dealt another blow to the sector, damaging hotels, restaurants, tourism infrastructure and cultural heritage sites. Severe damage to Syafrubesi, a major gateway to the Langtang region, and disruptions to the Kailash–Manasarovar pilgrimage route have further affected tourism activities.

The timing was particularly unfortunate, as the floods occurred just ahead of the September–November peak

tourism season, which typically accounts for nearly 33% (average 2021-2025) of annual foreign visitor arrivals. International concerns over safety and accessibility have contributed to booking cancellations, potentially affecting destinations beyond the directly damaged areas. Tourism authorities and travel companies have launched the "Nepal Calling" campaign to reassure visitors that much of the country remains open. On a positive note, the government has introduced fee waivers at Pokhara International Airport to encourage international connectivity, with Flydubai becoming the first international airline to operate daily scheduled flights from the airport.

Perhaps the most immediate nationwide economic concern arises from disruptions to transportation and trade infrastructure. The floods affected 69 km of roads and 37 motor bridges, while the closure of two major border crossings with China forced traders to divert imports through alternative routes, including Korala in Mustang. Transporters have reported freight costs per container almost doubling, raising concerns over higher prices for imported goods.

For an import-dependent economy like Nepal, disrupted trade routes, higher freight costs and supply shortages could intensify inflationary pressures. Even before the floods, Kathmandu Valley was experiencing LPG shortages, which have been further complicated by transportation disruptions despite increased imports and emergency distribution measures. Rising costs of essential goods could erode household purchasing power and weaken consumption, adding to the challenges of an economy already struggling with subdued demand and low consumer confidence.

The financial consequences could also be substantial. According to the Rapid Damage and Needs Assessment Report led by the National Disaster Risk Reduction and Management Authority (NDRRMA), the total economic impact is estimated at NPR 408.29 billion, with reconstruction and recovery needs assessed at NPR 723 billion. As per the report, recovery needs exceed the assessed value of damage and losses because they include reconstruction, disaster risk reduction and resilience measures that extend beyond the replacement of damaged assets. The largest differences arise in the energy and disaster risk reduction estimates, which remain subject to detailed engineering, financing and implementation review.

Additionally, according to the Nepal Insurance Authority, approximately NPR 21 billion in preliminary insurance claims had been filed with non-life insurance companies as of September 28, 2026.. Businesses affected by damaged assets and operational disruptions may face difficulties meeting their financial obligations, potentially increasing loan impairment losses for banks and financial institutions. Meanwhile, substantial reconstruction and rehabilitation requirements could strain government finances and divert resources from other development priorities.

The floods have also arrived at a particularly unfavorable time for Nepal's investment climate. According to the Department of Industry, foreign direct investment commitments declined by nearly 11%, from approximately NPR 64.96 billion in FY 2024/25 to NPR 58.01 billion in FY 2025/26. Even before the disaster,

policy uncertainty, bureaucratic hurdles, weak demand and project implementation delays had constrained investment activity. Beyond the immediate impact of the floods, Nepal's growing exposure to climate-related risks could further discourage investment, particularly in capital-intensive sectors such as hydropower, tourism and infrastructure, where recurring natural disasters may increase project costs, financing risks and uncertainty over long-term returns.

In response, the government has announced relief measures, including customs and tax exemptions, loan restructuring facilities and concessional credit for affected businesses. Preparations are also underway for a broader economic recovery package aimed at restoring private-sector confidence and mobilizing international assistance for reconstruction. The reconstruction activities could stimulate economic activity through increased demand for construction materials, employment and infrastructure investment. The World Bank projects GDP growth to recover to 5.2% in FY 2028, partly supported by reconstruction and rehabilitation efforts. However, the sustainability of this recovery will depend on timely implementation, effective resource mobilization and the government's ability to address the structural challenges that had already been constraining investment and economic growth.

Fiscal Stance (Amounts in Lakhs)

Topic	Target Budget (FY 2083/84)	Actual up to Q1 End FY 2083/84	Percentage (FY 2083/84)	Target Budget (FY 2082/83)	Actual up to Q1 End FY 2082/83	Percentage (FY 2082/83)
1. Revenue	15,803,183	2,986,132	18.90%	14,800,000	2,490,514	16.83%
a) Tax Revenue	14,033,183	2,793,459	19.91%	13,255,839	2,343,280	17.68%
b) Non-Tax Revenue	1,770,000	192,673	10.89%	1,544,161	147,234	9.53%
2. Grants	617,454	79,850	12.93%	534,469	20,073	3.76%
3. Other Receipts	0	25,434		-	21,291	
Total Receipts of GoN	16,420,637	3,091,416	18.83%	15,334,469	2,531,879	16.51%
Total Expenditure	21,243,444	3,962,661	18.65%	19,641,100	3,645,894	18.56%
a. Recurrent	12,705,890	2,916,559	22.95%	11,809,800	2,568,060	21.75%
b. Capital	4,311,063	284,223	6.59%	4,078,880	191,834	4.70%
c. Financing	4,226,491	761,879	18.03%	3,752,420	886,000	23.61%

Source: FCGO

Nepal's fiscal performance during the first quarter of FY 2083/84 showed notable improvement compared to the same period last year. Total government receipts increased by 22.1% to NPR 309.14 billion, driven by a 19.2% rise in tax revenue and a 30.9% increase in non-tax revenue. Total government expenditure grew by 8.7% to NPR 396.27 billion, while recurrent and capital expenditure combined increased by 15.97%. Capital expenditure recorded particularly strong growth of 48.2% to NPR 28.42 billion. Meanwhile, financing expenditure declined by 14.0% due to reduced interest rates. Despite these improvements, overall budget utilization remained largely unchanged at 18.65%, compared to 18.56% last year, highlighting the continued

need for more effective budget implementation.

Monetary Stance

Indicator	11-Oct, 2026	13-Oct, 2025	% Change
Total Deposits (NPR billion)	8,515	7,444	14.39%
Total loan (NPR billion)	6,077	5,625	8.04%
CD Ratio (%)	70.79	74.65	-5.17%
Inte Bank Rate (%)	2.75	2.75	0%
Treasury Bill (%)			
28 Days	1.4316	1.5501	-7.64%
91 Days	1.0093	1.9123	-47.22%
182 Days	0.9146	2.4917	-63.29%
364 Days	1.9499	2.6105	-25.31%

Source: NRB

Nepal's banking system continued to experience excess liquidity during the period under review, as deposit growth significantly outpaced credit expansion. Total deposits increased by 14.39% year-on-year to NPR 8,515 billion as of October 11, 2026, while total loans grew by only 8.04% to NPR 6,077 billion. The Credit-to-Deposit (CD) ratio declined to 70.79% from 74.65% a year earlier, indicating increased lending capacity within the banking sector. The interbank rate remained unchanged at 2.75%, while Treasury bill yields declined across all tenors, reflecting continued downward pressure on short-term interest rates. Notably, the 91-day Treasury bill yield fell from 1.9123% to 1.0093%, while the 182-day yield declined from 2.4917% to 0.9146%.

Overall, these developments reflected a banking environment characterized by abundant liquidity, declining short-term yields and subdued credit expansion. Despite favorable financing conditions, lending growth remained relatively modest, suggesting that lower borrowing costs alone were insufficient to stimulate private-sector borrowing. Weak business confidence, subdued investment demand, deteriorating loan quality and greater emphasis on credit discipline may have contributed to slower credit growth. Rising non-performing loans also placed pressure on banks' risk appetite and lending capacity. This reflects the ongoing challenge of stimulating private-sector investment and economic growth, despite sufficient liquidity and favorable borrowing conditions.

Macroeconomic Indicators

Indicator	As of Bhadra FY 2083/84	As of Bhadra FY 2082/83	Y-O-Y Change
Inflation (in %)	6.34	1.87	239.04%
Travel Income (in billion)	14.94	11.58	29.02%
Travel Payment (in billion)	41.1	47.31	-13.13%

Remittance (in billion)	436.36	352.08	23.94%
Forex Reserve in USD ($)	26.48	20.41	29.74%
Forex Reserve Sufficiency (in Months)	17.8	16	11.25%
	As of Asoj FY 2083/84	As of Asoj FY 2082/83	Y-O-Y Change
Export (in billion)	114.28	72.78	57.03%
Import (in billion)	646.78	468.08	38.18%
Trade Deficit (in billion)	532.49	395.30	34.71%
Export to Import (in %)	17.67	15.55	13.64%

Source: NRB and Department of Customs

Nepal's macroeconomic environment witnessed rising inflation during the first two months of FY 2083/84. Inflation increased sharply to 6.34% in Bhadra from 1.87% a year earlier, indicating growing price pressures on households and businesses. Remittance inflows remained a key pillar of Nepal's external sector, increasing by 23.94% to NPR 436.36 billion. Strong remittance receipts continued to support foreign exchange accumulation. Foreign exchange reserves increased by 29.74% to USD 26.48 billion, with reserve adequacy improving to 17.8 months of merchandise and services imports from 16 months a year earlier. Meanwhile, travel income increased by 29.02% to NPR 14.94 billion, while travel payments declined by 13.13% to NPR 41.10 billion, out of which NPR 29.55 was for education. Meanwhile, international tourist arrivals increased by 6.21% to 865,920 during the first nine months of 2026, compared to the same period in 2025.

During the first three months of FY 2083/84, merchandise exports rose by 57.03% to NPR 114.28 billion, while imports increased by 38.18% to NPR 646.78 billion. Despite stronger export growth, the significantly larger import base widened the trade deficit by 34.71% to NPR 532.49 billion. Nevertheless, the export-to-import ratio improved to 17.67% from 15.55%, reflecting some improvement in export performance.

Overall, Nepal's external sector remained resilient, supported by strong remittance inflows and substantial foreign exchange reserves. However, rising inflation, a widening trade deficit, and continued reliance on remittances underscored persistent structural weaknesses and the need to strengthen domestic production and export competitiveness.

Conclusion

Nepal's economy continued to face subdued domestic demand, weak private-sector investment and persistent policy uncertainty, despite substantial liquidity in the banking system and a relatively strong external position. Deposit growth continued to outpace credit expansion, reflecting limited investment appetite and cautious lending practices amid deteriorating loan quality, while rising inflation placed additional pressure on

household purchasing power. Strong remittance inflows and substantial foreign exchange reserves provided economic stability, although the widening trade deficit and continued dependence on external income highlighted underlying structural weaknesses.

Against this backdrop, the recent floods have introduced additional challenges, particularly through damage to hydropower projects, transportation networks and tourism infrastructure in affected regions. While the broader hydropower and tourism sectors continue to offer long-term growth opportunities, disruptions to critical infrastructure could temporarily constrain economic activity and increase reconstruction costs. Overall, Nepal's principal challenge remains translating its financial liquidity and external-sector strength into productive investment and sustainable domestic growth. Restoring business confidence, ensuring policy stability and improving investment conditions will be essential to achieving a more broad-based economic recovery.

How We View | Capital Market

Nepal's capital market has seen an expanding reform agenda during the first quarter of FY2083/84, with initiatives addressing institutional participation, public issuance, trading mechanisms and investor protection. The Ministry of Finance's action plan and a series of regulatory consultations have outlined a broader direction for market development. Our assessment centers on the substance and implementation of these measures.

A major development has been the government's 21-point Capital Market Strengthening and Revival Action Plan, 2083, introduced in September. The plan covers market-oriented IPO pricing, stronger intermediaries, institutional investment, corporate bonds, participation by Non-Resident Nepalis and improvements to trading and settlement infrastructure. It also proposes changes to capital gains taxation and arrangements for recognizing investment losses. However, several require legislative amendments, regulatory approval or infrastructure development. We therefore view the plan as an implementation agenda, with its credibility dependent on timely execution and coordination among the responsible institutions.

Among the measures already translated into regulatory action, Nepal Rastra Bank's September amendment reduced the prescribed holding period for eligible investments in listed shares and debentures by Class A, B and C banks and financial institutions from six months to 45 days. The change provides greater flexibility in portfolio management and could support institutional participation in the secondary market. Alongside this relaxation, the central bank strengthened requirements for board-approved investment policies, portfolio classification, valuation, stress testing and risk monitoring. We view the combination as significant: greater investment flexibility comes with stronger accountability for managing market exposure. Its effect on equity demand will nevertheless depend on individual institutions' capital positions, investment limits, risk appetite and assessment of available opportunities.

Reform of the primary market has also received considerable attention. SEBON's August white paper sets out a phased approach covering legal and policy reform, improvements to the book-building framework, digital infrastructure and, over time, stronger institutional participation in price discovery. It also emphasizes the responsibilities of issue managers, auditors and credit rating agencies. In our view, these priorities address an important requirement for sustainable market development: investors need a credible basis for assessing the quality and pricing of securities entering the market. The benefits will depend on whether stronger due diligence and accountability become consistent features of the issuance process.

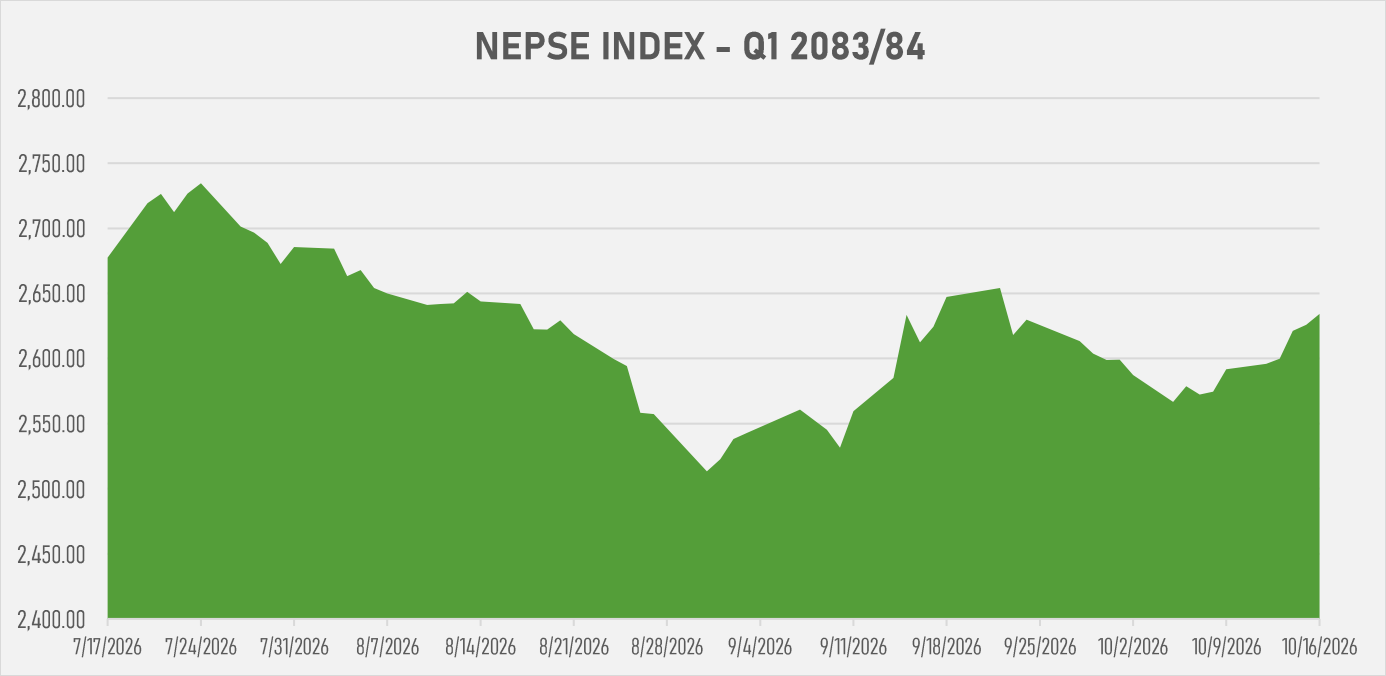
The proposed Directive on General Eligibility for Public Issuance, released for consultation in September, gives this agenda a more specific regulatory direction. The draft addresses financial eligibility, governance, the suitability of promoters and management, disclosure, professional responsibility and monitoring of issue proceeds. Implementation will require a balance between investor protection and access to capital, particularly across industries with different operating cycles and funding requirements. As the directive remains a

consultation draft, its final provisions and subsequent enforcement will determine its practical significance.

SEBON has separately advanced consultations on margin lending and debenture issuance, indicating an effort to broaden the services and instruments available within the capital market. We see potential for these initiatives to improve financing choices and support a more diversified market. Their effectiveness, however, will require clear responsibilities for intermediaries, appropriate collateral and exposure controls, reliable disclosures and adequate supervisory capacity. Expanding access to financing can increase participation, but the quality of the associated risk-management framework will be equally important for maintaining orderly market conditions.

The September concept paper on intraday trading is another notable development. SEBON has presented the initiative as a subject for consultation and assessment of market readiness. The proposed approach initially considers buying and subsequently selling securities within the same trading day, while more complex arrangements would require additional legal and operational infrastructure. The paper highlights pre-trade checks, real-time risk monitoring, margin management, automated position closure and surveillance. We consider this sequencing appropriate. Intraday trading could improve trading flexibility, but its introduction would need to follow demonstrable readiness across brokers, the exchange and clearing systems to contain settlement and leverage-related risks.

Taken together, these developments provide a constructive direction for Nepal's capital market. Our outlook remains measured, with attention focused on the conversion of proposals into enforceable rules and functioning market facilities. Greater institutional participation, stronger issuance standards and improved trading infrastructure could support market depth over time. For investors, however, regulatory progress should remain one part of the assessment alongside other fundamental aspects and corporate performance.



Sector Wise Sub-Indices	This Quarter Close	Previous Quarter Close	Change %
Banking	1,574.47	1,426.16	10.40%
Manufacturing And Processing	10,589.93	10,145.50	4.38%
Hydropower	3,561.87	3,537.30	0.69%
Life Insurance	11,939.62	11,938.24	0.01%
Investment	94.82	95.14	-0.34%
Development Bank	5,511.01	5,572.23	-1.10%
Hotels And Tourism	6,913.38	7,073.09	-2.26%
Microfinance	4,507.17	4,612.21	-2.28%
Trading	3,187.89	3,301.50	-3.44%
Others	1,776.04	1,898.24	-6.44%
Finance	2,199.30	2,365.50	-7.03%
Mutual Fund	19.75	21.79	-9.36%
Non-Life Insurance	9,572.38	10,814.22	-11.48%
NEPSE	**2,634.17**	**2,597.80**	**1.40%**

Source: NEPSE

Sector-wise Market Capitalization and Trading Turnover

Sector / instrument	Market Cap (NPR bn)	% of Market Cap	Q1 Turnover (NPR bn)	% of Q1 Turnover
Banking	1,217.89	26.86%	40.37	14.50%
Development Bank	204.64	4.51%	14.92	5.36%
Finance	71.15	1.57%	9.80	3.52%
Microfinance	342.27	7.55%	9.43	3.39%
Life Insurance	366.53	8.08%	6.12	2.20%
Non-Life Insurance	184.05	4.06%	3.24	1.17%
Hydropower	792.95	17.49%	130.41	46.84%
Manufacturing and Processing	391.36	8.63%	37.22	13.37%
Investment	299.31	6.60%	14.16	5.09%
Trading	178.96	3.95%	0.53	0.19%
Hotels and Tourism	138.11	3.05%	6.23	2.24%
Others	347.13	7.66%	5.37	1.93%
Mutual Funds			0.89	0.32%
Debentures			4.02	1.44%
Promoter Shares			2.46	0.88%

Source: NEPSE. Market capitalisation as of October 16, 2026; turnover for the first quarter of FY 2083/84 (mid-July to mid-October 2026). Blank market-capitalisation cells indicate data were not supplied for those instruments.

Trading activity remained heavily concentrated in hydropower during the first quarter. Although the sector accounted for 17.49% of NEPSE market capitalisation at quarter-end, it represented 46.84% of quarterly turnover. Manufacturing and Processing also recorded a disproportionately large share of trading (13.37% of turnover against 8.63% of market capitalisation). In contrast, Banking accounted for the largest share of market value (26.86%) but only 14.50% of turnover, while Life Insurance and Microfinance likewise contributed less to trading than their respective market weights. These contrasts point to uneven trading interest and liquidity across sectors, rather than necessarily indicating differences in underlying investment quality.

Sectoral Dissection

Banking

Nepal Rastra Bank (NRB) introduced several regulatory amendments during the quarter aimed at improving investment flexibility and strengthening risk management within banks and financial institutions. A

significant change was the reduction of the minimum holding period for investments in listed shares and debentures from six months to 45 days for Class A, B and C financial institutions. The relaxation provides greater flexibility in securities portfolio management and could encourage institutional participation in the secondary market.

NRB also maintained the countercyclical capital buffer at zero percent for commercial banks for FY 2083/84, avoiding additional capital requirements under this provision. Alongside these changes, the central bank strengthened expectations regarding investment policies, portfolio valuation and risk monitoring. While the measures support greater flexibility, their impact on investment activity will depend on banks' capital positions, risk appetite and credit demand.

Insurance

Nepal's insurance sector entered the quarter with an expanding premium base. According to the Nepal Insurance Authority (NIA), total gross premium collection reached NPR 256.52 billion by mid-July 2026, comprising NPR 204.60 billion from life insurance and NPR 51.92 billion from non-life insurance. Active life insurance policies stood at approximately 16.79 million, while overall life insurance coverage, including foreign employment policies, reached 52.04%.

During the quarter, the insurance industry also faced additional pressure from flood-related claims, particularly in affected hydropower and infrastructure projects. The resulting exposure highlighted the importance of catastrophe-risk assessment, adequate reinsurance arrangements and timely claims settlement. The latest insurance business statistics available before the quarter-end cutoff were for mid-September 2026, with the regulator publishing separate reports for life and non-life insurers.

Hydropower

The hydropower sector faced significant disruption during the quarter following severe floods and landslides that damaged generation facilities and transmission infrastructure. According to the government's preliminary assessment released in September, 13 hydropower projects and two transmission lines were affected, involving approximately 783 MW of generation capacity. The damage interrupted operations at several projects and highlighted the sector's vulnerability to extreme weather events.

Despite these disruptions, electricity exports remained an important source of revenue. Nepal continued selling surplus electricity to India through bilateral agreements and electricity exchange markets, although damaged infrastructure and temporary shutdowns constrained generation at affected facilities.

Tourism

Nepal's tourism industry maintained positive visitor momentum during the quarter despite disruptions caused by floods and landslides. According to the Nepal Tourism Board, international tourist arrivals reached

88,248 in September 2026, an increase of 12.1% from 78,711 in September 2025. Total arrivals during the first nine months of 2026 reached 865,920, indicating continued recovery in international travel demand.

India remained Nepal's largest source market in September, contributing 17,425 visitors, followed by China with 11,212 and the United States with 8,299. However, damaged roads, disrupted border connectivity and adverse travel advisories created challenges for tourism operators, particularly in affected mountain destinations.

Microfinance

Nepal Rastra Bank introduced regulatory measures during the quarter to improve operational flexibility and strengthen oversight of microfinance institutions. In September, NRB permitted microfinance institutions affected by natural disasters to relocate or merge damaged branches without obtaining prior approval, provided they notify the central bank within seven days. The measure aims to ensure continuity of financial services in disaster-affected areas.

The sector also faced growing concerns over asset quality and regulatory compliance. According to NRB's supervisory findings published in September, non-performing loans among retail microfinance institutions exceeded 10%, while eight institutions reported capital adequacy below the prescribed 8% requirement. Ten institutions faced supervisory action for regulatory deficiencies. Meanwhile, the government reached agreements with protesting microfinance borrowers, including commitments to review debt recovery practices, borrower grievances and loan restructuring arrangements.

THIS QUARTER FOCUS

Walk into almost any shop in Nepal today, whether it's a pharmacy in Pokhara or a momo stall in Butwal, and you'll find a small QR code taped to the counter. Ten years ago, that counter held a cash box and a credit notebook. Today, paying by phone is simply how Nepal shops.

The shift has been fast. In the month between mid-July 2026 and mid-August, Nepalis made 72.4 million QR payments, more than three times the 20.8 million made in the same month two years earlier, according to Nepal Rastra Bank (NRB).

This matters particularly in Nepal, where millions of households depend on remittances, access to banking services remains uneven, and small businesses have traditionally relied on cash and personal trust. Digital payments are gradually changing this landscape. From tea stalls in Chitwan to small shops in remote towns, more businesses can now accept payments directly through mobile phones, making everyday transactions faster, simpler, and less dependent on cash.

Still, the story is only half written. Nepali fintech is mostly about moving money. Digital lending, insurtech, wealth apps and open banking are only beginning, slowed by regulation, thin margins and uneven trust. The real question is whether Nepal can turn its payments success into a full digital financial system, one that also helps people borrow, save, insure and invest.

This report explores that question in five parts: how the sector was built, who leads it today, how NRB regulates it, what is growing beyond payments, and what could hold it back.

HOW WE GOT HERE

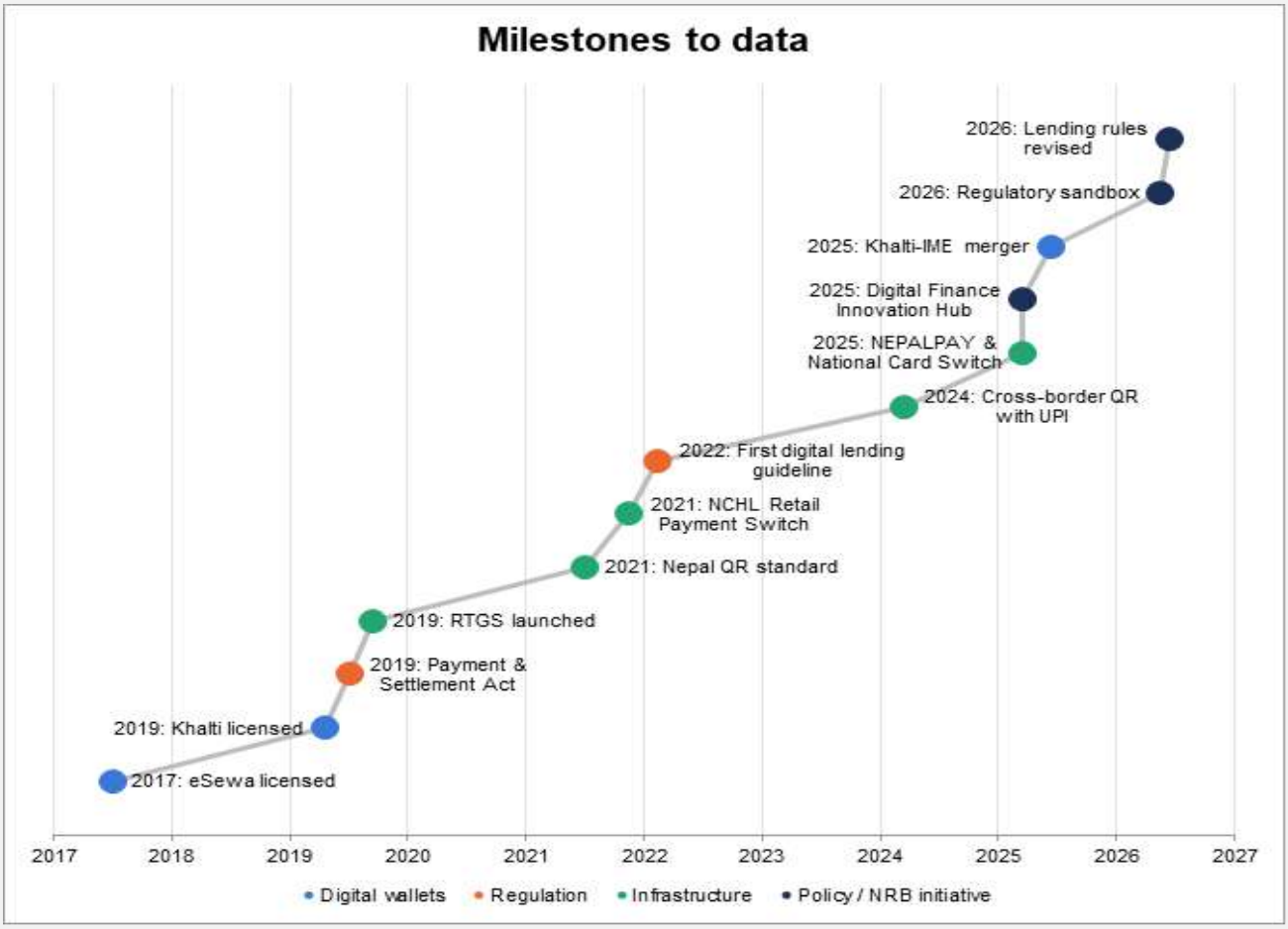
Nepal's fintech sector wasn't built in one go. It came together in four layers: wallets first, then the law, then shared payment rails, and only lately, room to try things beyond payments.

Wallets led the way. eSewa (2009) and Khalti (2017) started life as apps for paying bills and topping up phones. NRB licensed them as payment service providers (PSPs) in 2017 and 2019, respectively. Banks soon launched their own mobile banking apps, and these now reach far more people than wallets do.

Then came the law. NRB introduced a licensing policy in 2016, followed by the Payment and Settlement Act, 2019 which strengthened NRB's power to license and supervise two kinds of firms: payment system operators (PSOs), which run the rails, and PSPs, which deal with customers. In 2019, NRB also launched its Real-Time Gross Settlement (RTGS) system for large payments.

Next, the apps learned to talk to each other. Nepal Clearing House Ltd (NCHL) runs connectIPS and the Retail Payment Switch, while Fonepay, Nepal Payment Solution and Smart Choice Technologies run rival switches. The turning point was a common QR standard in 2021. Suddenly any app could scan any shop's code, and QR became the normal way to pay.

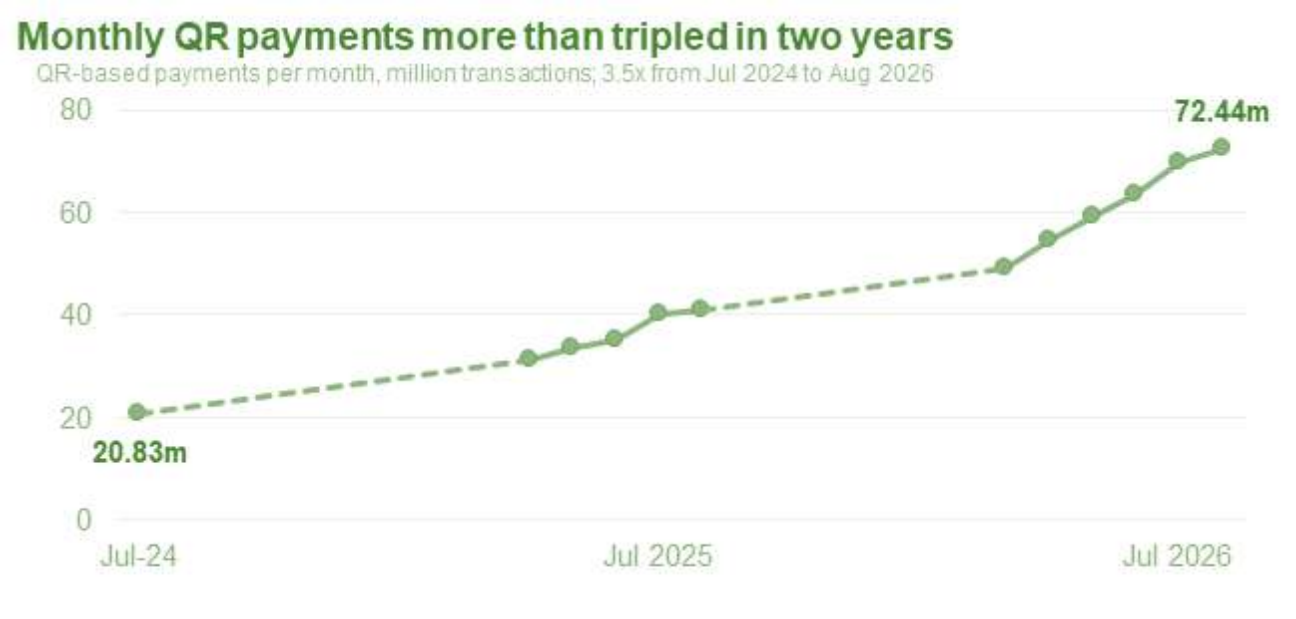
The fourth layer is being laid right now: an innovation hub, a regulatory sandbox and new rules for digital lending. The timeline below shows how each piece fell into place.



DIGITAL PAYMENTS: WHERE THE ACTION IS

According to Payment Oversight Report 2024/25, QR payments nearly doubled in a single year. In FY 2024/25, the number of transactions rose 92.5% to 326 million, and their value rose 91.8% to NPR 958 billion. QR is now the retail payment Nepalis use most.

Around 2.9 million merchants displayed a QR code in FY 2024/25, and most of them were small shops. Card machines never reached these sellers. Point-of-sale terminals handled only 12.5 million transactions in the same year, a sliver of QR's volume.



Source: NRB

And the growth hasn't faded as QR got bigger.

Channel (Mid-Aug to Mid-Sep 2026)	Transactions	Value (NPR billion)	Growth in value (y/y)
Mobile banking	81,194,440	614.7	31.30%
Faster payment systems (connectIPS, IBFT)	22,185,158	583.3	31.50%
Wallets	51,494,949	49.1	13.30%
QR-based payments	75,581,982	167.9	65.90%
Debit cards	10,080,040	74.8	−14.4%
Point of sale (POS)	937,805	4.4	4.20%

Source: NRB

Two things stand out. Bank mobile apps, not wallets, move most of the money: in mid-August to mid-September 2026, they carried NPR 615 billion, ahead of faster payment systems, while wallets handled many small payments averaging under NPR 1,000 each. And debit cards are losing ground: their value fell 14% year on year, while QR payments grew 66%.

Who runs the rails

It helps to picture the market in three tiers:

- Operators run the payment networks: NCHL (connectIPS and the National Payment Switch), Fonepay (a major payment network), Nepal Payment Solution, SmartChoice Technologies, plus international card networks Visa, Mastercard and UnionPay.
- Wallets serve consumers: eSewa and the merged IME Khalti are among the leading names in a field of roughly 22 non-bank PSPs (as per Payment Oversight Report 2024/25).

- Banks and financial institutions are licensed PSPs too: NRB lists 20 commercial banks, 17 development banks, 15 finance companies and 12 microfinance institutions (Payment Oversight Report 2024/25).

Users have piled in. By mid-July 2025 there were 27.7 million mobile banking users and 26.8 million wallet users, up from 8.9 million wallet users in 2021. One caveat: many people hold several accounts, so these numbers count accounts, not individual people.

Payments across borders

Cross-border QR is the newest frontier, and it is growing fast. In FY 2025/26, Nepali merchants accepted 2.85 million cross-border QR payments worth NPR 7.7 billion, nearly three times the 917,983 payments (NPR 2.67 billion) of the year before. The pace has held into FY 2026/27: in mid-August to mid-September 2026 alone, merchants took 306,867 such payments worth NPR 792 million, more than double the same month a year earlier. Most come from Indian visitors paying with UPI: in FY 2024/25, the last year with a breakdown, UPI accounted for 99% of payments, with Alipay+, WeChat Pay and UnionPay making up the rest. Money now flows the other way too. NRB has also approved outbound QR payments for Nepalis travelling to Sri Lanka, plus person-to-person transfers with India through NCHL's cross-border switch.

REGULATON: NRB AS REFEREE, OPERATOR AND COACH

Almost every corner of Nepali fintech answers to one institution: Nepal Rastra Bank. For years, its main role was policing payments. In 2025–26, that began to change, and the central bank started actively making room for new products.

The rulebook

The framework rests on a few core texts: the NRB Act, 2002; the Payment and Settlement Act, 2019 and its 2020 bylaw; a 2023 licensing policy for payment institutions; and the annual Payment Systems Unified Directives. Together, they set capital requirements, transaction limits, fee caps, KYC rules and reporting duties. A 2023 Cyber Resilience Guideline adds security standards, and NRB has also issued AI Guidelines for licensed institutions.

New tools for innovation

2. Digital Finance Innovation Hub (March 2025). Innovators can approach NRB to understand how existing regulations apply to their proposed products and receive non-binding guidance before investing heavily in development. This helps them identify regulatory hurdles early and avoid costly mistakes.

3. Regulatory sandbox (from 14 May 2026). Banks, PSOs, PSPs and fintech startups can test products under temporarily relaxed rules. Unlicensed startups can join by partnering with a licensed bank, and

financial inclusion counts in selection. A sandbox place is not a license, though; graduates must still apply the normal way.

3. Fintech Strategy for Digital Financial Services (2026/27–2030/31). Published in September 2026, it sets out NRB's five-year plan to improve digital infrastructure, encourage fintech-friendly regulation and support innovation beyond payments.

Shared infrastructure

NRB wants all domestic electronic transactions to settle through a single National Payment Switch, run by Nepal Clearing House Limited (NCHL). It has three parts: the Retail Payment Switch, the National Card Switch with the NEPALPAY card scheme, and NPIx for cross-border payments. NRB has also adopted a framework to identify systemically important payment systems for closer oversight. However, NCHL's governance structure raises potential conflicts of interest. While NCHL is licensed and supervised by NRB like other payment system operators, NRB also holds a 9.45% ownership stake in the company, and its Board has traditionally been chaired by an NRB Executive Director. This dual role as regulator and shareholder, alongside its representation in NCHL's leadership, raises questions about regulatory independence and equal treatment of competing payment operators.

Enforcement

NRB has shown it will remove weak players. In FY 2024/25, it refused to renew Nepal Paytime's license, cancelled those of Paywell Nepal and Sajilo Pay, and formally warned Prabhu Technology, Khalti, iCash and Fintech Pvt. Ltd. Four PSPs were also denied approval to publish their financial statements.

BEYOND PAYMENTS: LENDING, REMITTANCE AND CAPITAL MARKETS

Beyond payments, Nepali fintech is still small. Banks lent only about NPR 3 billion digitally in FY 2023/24, based on the available published figures.

Digital lending - NRB's digital lending guidelines, revised in June 2026, allow banks to provide online loans of up to NPR 500,000 for salary or business-income account holders and NPR 200,000 for others, both for up to three years. Micro, small and medium enterprises can borrow up to NPR 500,000 for short-term working capital (up to one year) and NPR 1 million for longer-term needs, with repayment periods set by banks. Banks may partner with wallets and tech firms, but they keep all the risk.

The real prize is data: daily QR receipts from millions of shops could support cash-flow lending to businesses with no collateral or audited accounts.

Remittance - Remittances hit a record NPR 2,363 billion in FY 2025/26, up 37.1%, while digital wallets are making it easier to receive and spend money without withdrawing cash. eSewa Money Transfer pays out to 10.9 million eSewa wallets, bank accounts or 11,000 cash points. Meanwhile, IME Pay and Khalti merged in

2025, bringing remittance and wallet services closer together. Nepalis abroad can also use supported services to pay household bills back home.

Capital markets - Nepal now has 8.1 million demat accounts, 5.1 million active MeroShare users and 3.56 million online trading accounts. But trading infrastructure remains a concern. In August 2026, SEBON directed NEPSE to conduct IT audits, facilitate mobile trading, integrate centralized KYC and temporarily suspend AI-based order entry pending further study.

Insurance and wealth - Insurtech and robo-advice are still early, with no dedicated rules yet. The 2026 sandbox is their likeliest route to scale.

CHALLENGES: FRAUD, WEAK FIRMS AND UNEVEN ADOPTION

Growth has outrun the safeguards. Fraud is rising, some wallet firms fail basic controls, and fewer than half of account owners actually pay digitally.

Fraud and cybersecurity

Of 501 fraud-related suspicious transaction reports NRB's Financial Intelligence Unit reviewed for early 2024, 319 involved online scams: fake parcels and prizes, social media impersonation, bogus investment sites and stolen OTPs. Digital wallets were frequently used to move the money, yet PSPs filed relatively few suspicious reports.

It hasn't stopped. In June 2026 Nepal Telecom warned of fake connectIPS and bank SMS messages, and Nepal Police is exploring an Anti-Cyber Scam Centre involving NRB, banks, payment providers, telecom regulators and internet service providers.

Weak governance at smaller players

NRB's FY 2024/25 inspections found payment providers issuing more e-money than they held in settlement accounts, leaving many customers' KYC unverified, and operating without adequate disaster recovery plans or security testing. In one case, a compliance officer with super-admin access transferred settlement funds into wallets. Some firms also had accumulated losses and negative reserves that raised concerns about their ability to continue operating.

Uneven adoption

Only 47% of Nepal's account owners made or received a digital payment in 2024, against 54% in India and 78% in Bangladesh, according to World Bank data cited by NRB.

Infrastructure isn't the problem. 4G reaches 749 of 753 local levels, mobile data fell from USD 2.25 to USD 0.43 per GB between 2019 and 2024, and about 76% of Nepalis own a smartphone. What's missing is trust, digital skills and reasons to stay digital.

Market infrastructure

Some money systems are fragile too. Complaints about broker TMS platforms prompted SEBON's August 2026 directive, and NRB lists outages and unclear dispute resolution rules among the top risks for payment operators.

WHAT COMES NEXT: FROM PAYMENTS TO A FULL FINANCIAL SYSTEM

Nepal has won the payments battle. The harder part is turning payment data into credit, savings and investment products that are safe and profitable, and five developments will show how that goes over the next two to three years.

The first is the regulatory sandbox: which products NRB admits, and whether any earn full licenses, will show how far non-bank firms can go. The second is digital lending, where the test is whether app-based loans can scale without a corresponding rise in defaults. Third, capped fees reward scale, so expect more wallet mergers and bank–wallet tie-ups.

Fourth, the National Payment Switch could cut costs and ease oversight by routing transactions through one NCHL hub, but it would shift power away from private operators. Finally, cross-border links with India, Sri Lanka and Chinese wallets tie payments to tourism and remittance and could matter most for ordinary families.

The biggest risk is trust. One fraud wave, switch outage or wallet failure could undo years of progress, so strong supervision, protection for e-money and better fraud reporting matter as much as any new product.

For investors and banks, value is shifting from moving money to using the data it leaves behind. The winners will lend, insure and invest on top of Nepal's payment rails while keeping a hands-on regulator on the side.

