



ALPHA CAPITAL
Fund for Contrarian Investors

NEWSLETTER

Third Quarter 2082/83



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**HOW WE
VIEW**

How We View | Economy

The geopolitical tensions that began in late February in the Middle East have since escalated into a full-scale conflict, disrupting critical oil infrastructure and key energy corridors, including the Strait of Hormuz. This escalation has introduced significant volatility across global commodities and financial markets. Supply disruptions in crude oil, natural gas, and fertilizers have placed considerable pressure on global trade flows, with Brent crude rising sharply from around US\$ 78 per barrel to over US\$ 112 by March 27.

For Nepal, an import-dependent and landlocked economy, the spillover effects have been immediate and unavoidable. The early optimism driven by the formation of a nearly two-thirds majority government has been overshadowed by external shocks. Nepal's structural reliance on India for fuel imports has amplified its exposure to global price movements, effectively transmitting international volatility into the domestic economy.

In response to rising international prices, Nepal Oil Corporation (NOC) has implemented multiple fuel price adjustments. As of Chaitra 27, petrol prices have reached an all-time high of NPR 219 per liter, while diesel and kerosene stand at NPR 207 per liter. LPG prices, which had previously been kept unchanged to cushion households despite reported losses exceeding NPR 416.37 per cylinder, also increased to NPR 2,010 per cylinder. The resulting inflationary pressures are primarily cost-push in nature, driven by imported energy prices. These pressures have been further exacerbated by hoarding behavior and panic buying, intensifying near-term inflation expectations.

Beyond inflation, the broader macroeconomic risks are becoming more pronounced. The ongoing conflict if persists in West Asia poses a structural threat to Nepal's remittance inflows, given that majority of migrant labor is concentrated in Gulf countries. Prolonged instability in the region could therefore weaken one of Nepal's key external buffers. At the same time, tourism, particularly from Europe (high spenders) is facing disruptions due to altered flight routes and rising airfares linked to higher aviation fuel costs. On the supply side, early signs of fertilizer shortages in India point to potential downstream stress in Nepal's agricultural sector. At the industry level, margins are being compressed across the board. The construction sector has already begun to reflect this strain, with the Federation of Contractors' Associations of Nepal (FCAN) calling for a "construction holiday" amid rising material costs.

Fiscal Stance

(Amounts in Lakhs)

Topic	Target Budget (FY 2082/83)	Actual up to Q3 End FY 2082/83	Percentage (FY 2082/83)	Target Budget (FY 2081/82)	Actual up to Q3 End FY 2081/82	Percentage (FY 2081/82)
1. Revenue	14,800,000	8,862,836	59.88%	14,193,030	8,314,045	58.58%
a) Tax Revenue	13,255,839	7,987,719	60.26%	12,842,096	7,441,539	57.95%
b) Non-Tax Revenue	1,544,161	875,117	56.67%	1,350,934	872,506	64.59%
2. Grants	534,469	156,141	29.21%	523,265	143,772	27.48%
3. Other Receipts	-	52,794		-	97,627	
Total Receipts of GoN	15,334,469	9,071,771	59.16%	14,716,295	8,555,444	58.14%



Total Expenditure	19,641,100	10,599,572	53.97%	18,603,030	9,985,212	53.68%
a. Recurrent	11,809,800	7,475,244	63.30%	11,406,645	6,780,903	59.45%
b. Capital	4,078,880	961,951	23.58%	3,523,540	1,029,008	29.20%
c. Financing	3,752,420	2,162,377	57.63%	3,672,845	2,175,301	59.23%

Source: FCGO

Nepal's fiscal stance in the third quarter of FY 2082/83 remains broadly stable compared to the same period last year, but a shift in expenditure composition points to weakening fiscal effectiveness. Revenue performance remains steady but unremarkable. Total receipts reached 59.16% of the annual target, only slightly higher than 58.14% a year ago. Tax revenue shows modest improvement, reflecting slightly better collection performance, though this does not necessarily indicate a strong underlying recovery in economic activity. However, this is offset by weaker non-tax revenue, indicating that earlier support from other sources has not been sustained. Grants remain low, with only a limited increase, continuing to reflect challenges in utilizing external assistance, especially given that the fiscal year is already in its third quarter. On the expenditure side, total spending stands at 53.97% of the budget, broadly unchanged from 53.68% last year. Yet this stability masks a shift in composition that weakens the overall fiscal impact. Recurrent spending has increased to 63.30% (from 59.45%), absorbing a larger share of resources and reflecting ongoing pressure from regular government obligations. In contrast, capital spending has declined significantly to 23.58% from 29.20% in the same period last year. Delays in project preparation, procurement bottlenecks, and slower administrative processes further compounded by budget revisions and political uncertainty have likely constrained execution. As a result, a substantial portion of allocated funds remains unspent, limiting progress in infrastructure and development projects. Financing expenditure declined slightly to 57.63% from 59.23%, indicating a somewhat slower pace of obligation repayment than a year earlier. This appears to reflect timing and execution factors rather than any meaningful shift in the broader fiscal stance.

Monetary Stance

Indicator	As of Q3 end FY 2082/83	As of Q2 end FY 2082/83	% Change Q-o- Q
Total Deposits (NPR billion)	7,845	7,696	1.94%
Total loan (NPR billion)	5,864	5,772	1.59%
CD Ratio (%)	74.03	74.18	-0.20%
Inte Bank Rate (%)	2.75	2.75	0.00%
Treasury Bill (%)			
28 Days	1.65	1.65	0.00%
91 Days	2.62	2.36	11.02%
182 Days	2.50	2.29	9.17%
364 Days	2.63	2.58	1.94%

Source: NRB

Nepal's banking sector continues to operate under conditions of high liquidity, although marginal improvement in credit growth is visible. The interbank rate remained stable at 2.75% in Q3, staying below the policy rate and equal to the lower bound of the interest rate corridor, indicating a continued liquidity surplus



in the system. Deposits grew by 1.94% quarter-on-quarter, while credit expanded by 1.59%, resulting in a slight decline in the credit-to-deposit (CD) ratio from 74.18% to 74.03%. Despite the modest pickup in lending, the decline in the CD ratio suggests that deposit mobilization continues to outpace credit demand, reflecting ongoing challenges in deploying liquidity effectively. Treasury bill yields presented mixed trends. Treasury bill yields edged up across longer tenors, indicating mild upward pressure on short-term rates, though banks continue to favor government securities amid weak credit demand. Despite this, recent regulatory measures including the relaxation of working capital loan provisions and the expansion of priority sector lending horizon reflects NRB's continued efforts to stimulate credit flow and support lending momentum.

Macroeconomic Indicators

Indicator	As of Falgun FY 2082/83	As of Falgun FY 2081/82	Y-O-Y Change
Inflation	3.62%	3.75%	-3.47%
Export (in billion)	191.11	158.17	20.83%
Import (in billion)	1289.25	1145.56	12.54%
Trade Deficit	1098.14	987.39	11.22%
Export to Import	14.82%	13.81%	7.36%
Travel Income (in billion)	55.39	56.78	-2.45%
Travel Payment (in billion)	145.12	147.57	-1.66%
Remittance (in billion)	1449.65	1053	37.67%
Forex Reserve in USD (\$)	23.08	17.26	33.72%
Forex Reserve Sufficiency (in Months)	18.5	14.5	27.59%

Source: NRB

CPI inflation decreased to 3.62% as of Falgun end, declining by 3.47% year-on-year, indicating easing price pressures on an annual basis. However, sequential trends suggest emerging pressure, with consumer prices rising sharply by 50% since the second quarter, reflecting the transmission of global geopolitical disruptions. The escalation in geopolitical tensions and rising uncertainty have begun to influence demand dynamics as well, with early signs of precautionary behavior and shifting consumption patterns. On the external front, exports grew by 20.83% year-on-year, outpacing import growth of 12.54%, resulting in a 7.36% improvement in the export-to-import ratio. Despite this, the trade deficit widened by 11.22%, underscoring the structural imbalance in Nepal's trade profile, where absolute import volumes continue to dominate. Nepal's Terms of Trade (ToT) improved marginally by 0.5%, driven by relatively stronger export prices compared to import prices. However, this improvement remains fragile. Given Nepal's import basket heavily skewed toward energy, the recent surge in global oil prices is likely to reverse this trend, reinforcing external sector vulnerabilities.



Foreign exchange reserves increased significantly by 33.72% year-on-year, reaching USD 23.08 billion, providing import cover of 18.5 months. This indicates strong external liquidity in the near term. However, underlying dynamics shows mixed signals. Both travel income and travel payments declined, suggesting disruptions in mobility likely linked to aviation constraints and rising travel costs amid geopolitical tensions. In contrast, remittance inflows surged by 37.67%, continuing to serve as the primary anchor of Nepal's external sector.

Conclusion

Overall, Nepal's macroeconomic environment remains characterized by contrasting signals—strong external buffers supported by remittance inflows and rising reserves, alongside persistent structural weaknesses in domestic demand, credit absorption, and fiscal execution. While inflationary pressures are primarily driven by external cost shocks, particularly energy prices, the broader economy continues to face constraints from weak private sector confidence and subdued investment activity.

Policy responses during the period reflect a gradual shift toward supporting investment and credit growth. Measures such as the removal of upper ceilings on FDI aim to attract higher foreign investment, while initiatives like the implementation of two-day weekly holidays are intended to moderate domestic fuel consumption. At the same time, targeted monetary and regulatory easing continues to focus on improving credit flow toward productive sectors.

However, despite these efforts, the overall policy mix remains supportive but not yet transformative. The persistence of excess liquidity, weak credit demand, and under-execution of capital expenditure suggests that a sustained recovery will depend more on restoring private sector confidence and accelerating structural reforms than on incremental policy adjustments alone.



How We View | Capital Market

This quarter proved highly volatile for the capital market, marked by sharp swings with movements exceeding +100 points on some days and dropping over -100 points on others. It began on a strong note, with both the index and turnover rising, largely driven by positive sentiment surrounding the pre-election period. However, the optimism was short-lived as profit booking set in soon after the initial rally.

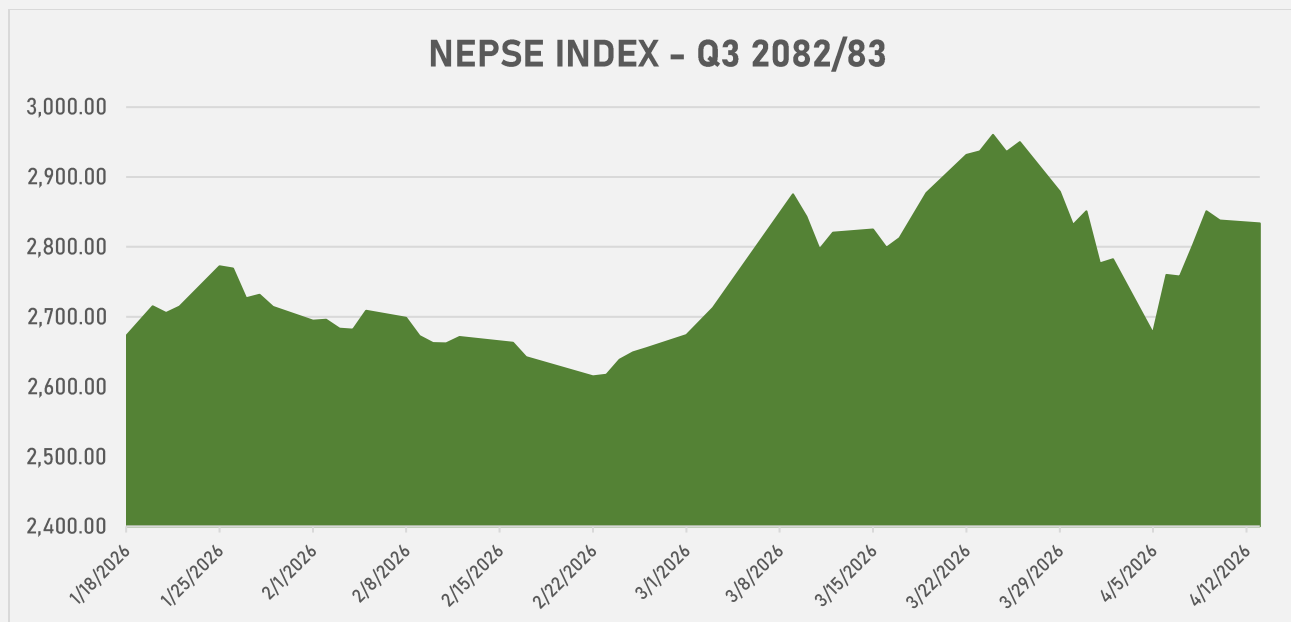
Following the elections, the market witnessed a dramatic surge—rising by 6% in a single day, triggering three circuit breakers and effectively halting trading. The index jumped by 162.93 points, and the post-election phase saw heightened investor enthusiasm, pushing the index close to the 3000 level while daily turnover crossed NPR 20 billion. This momentum, however, could not be sustained. Profit-taking, coupled with geopolitical tensions and the arrest of prominent individuals, led to a sharp decline in the index. In response, the newly appointed Finance Minister, Swarnim Wagle, reassured investors that there was no need for panic, emphasizing that the capital market remains one of the more transparent sectors of the economy and that only those engaged in illegal activities would face consequences. Consequently, SEBON took against a brokerage company which had enabled such activities.

Amid geopolitical tensions and constrained oil supply, the government made Sunday a holiday, which would have cut trading days to four. To keep the number of trading days unchanged, the Nepal Stock Exchange shifted trading to Fridays. At the same time, NEPSE introduced a series of trading reforms aimed at improving market efficiency, including adjustments in trading mechanisms, operational processes, and overall market structure to enhance liquidity and transparency.

On the regulatory front, SEBON introduced stricter IPO guidelines, significantly tightening the scrutiny process for companies seeking public issuance. The new directive allows deeper investigation into financial statements especially in cases involving high receivables, significant related-party transactions, significant fluctuations in profit margins, or reliance on non-operating income and reserves to meet listing criteria. It also mandates enhanced due diligence from auditors and issue managers, focusing on governance, financial integrity, and arm's length transactions.

Overall, NEPSE gained 192.17 points from last quarter's closing level of 2641.43. The market saw a sharp surge of 162.93 points in a single day following its reopening after the election, while the highest turnover during the period reached NPR 23.59 billion. On the downside, NEPSE also recorded a steep decline of 105.50 points in a single session amid high-profile arrests. By the end of the quarter, the index settled at 2833.60.





Sector Wise Sub-Indices	This Quarter Close	Previous Quarter Close	Change %
Manufacturing And Processing	11,689.89	8821.31	32.52%
Hydropower	4,042.84	3,382.09	19.54%
Hotels And Tourism	7,953.24	7,044.37	12.90%
Development Bank	5,999.85	5,577.85	7.57%
Banking	1,468.90	1369.44	7.26%
Mutual Fund	21.95	20.72	5.94%
Investment	106.77	102.09	4.58%
Non-Life Insurance	11,245.96	10,949.02	2.71%
Finance	2,478.96	2,423.26	2.30%
Microfinance	4,945.92	4,888.18	1.18%
Life Insurance	12,840.53	12,867.38	-0.21%
Trading Index	3,792.16	3,810.00	-0.47%
Others	2,112.45	2,357.74	-10.40%
NEPSE Index	2,833.60	2,641.43	7.28%

Source: NEPSE official website

Sectoral Dissection

Banking

Nepal's banking sector remained under pressure from persistent excess liquidity during the quarter, reflecting slow private sector borrowing. To manage the surplus, Nepal Rastra Bank absorbed NPR 35,920 billion



through liquidity absorption instruments across 175 auctions as of April 13, 2026. As short-term tools proved insufficient, the central bank also issued NPR 200 billion in one-year NRB Bonds. Even after these interventions, banks still had NPR 863 billion parked with NRB as of April 13, underscoring the depth of idle liquidity in the system.

In response, banks continued lowering deposit rates to discourage fresh inflows and reduce funding costs. The weighted average deposit rate for commercial banks fell to 3.45% by mid-March 2026, down from 4.54% a year earlier. As of April 14, 2026, total deposits across Class A, B, and C banks reached NPR 7,901 billion, while total loans stood at NPR 5,894 billion, resulting in a relatively comfortable credit-to-deposit ratio of 73.90%.

To support credit expansion, NRB introduced several policy relaxations during the quarter. Under the revised priority sector lending framework, commercial banks are now required to allocate at least 30% of their total lending to priority sectors, down from the earlier 40% threshold. Effective by Poush-end 2083 (mid-January 2027), banks must ensure that at least 10% of total lending is directed toward agriculture, reduced from the earlier 12% requirement set for Ashadh-end 2083 (mid-July 2026). In addition, a minimum of 20% of total loans must be channeled toward sectors such as tourism, micro, small and medium enterprises (MSMEs), energy, information technology, and export-oriented industries based on domestic raw materials. The revised framework not only eases compliance pressure on banks but also broadens the scope of priority sector lending by expanding eligible productive sectors. In addition, the earlier rule requiring borrowers to reduce outstanding working capital balances below 10% for at least seven consecutive days annually was relaxed to 30%, providing greater operational flexibility. Similarly, to boost credit flow toward priority sectors, NRB lowered the risk weight from 75% to 60% for small and medium enterprise loans up to NPR 30 million in agriculture, IT, and productive industries.

The quarter also saw several banks issue Perpetual Non-Cumulative Preference Shares, helping strengthen capital adequacy and improve lending headroom. However, the sector continued to face loan recovery challenges, with reports of bank staff facing threats during recovery efforts. To ease pressure on distressed but genuine borrowers, NRB introduced a more flexible blacklist policy: borrowers unable to repay due to circumstantial hardship rather than willful default may avoid immediate blacklisting. Moreover, if borrowers provide valid justification and begin repayment, banks and financial institutions may temporarily remove them from the blacklist for up to six months to support arrears recovery.

On the regulatory front, the quarter also saw leadership changes at NRB. Following the retirement of two deputy governors after their five-year term came to an end, the central bank appointed Kiran Pandit as the new deputy governor, signaling continuity in monetary and regulatory oversight.



Hydropower

The West Asia conflict has created both risks and opportunities for Nepal's hydropower sector. Ongoing projects are facing higher construction costs and possible delays due to rising crude oil prices and supply disruptions. This increases overall inflation, pushing up the cost of materials and services. At the same time, higher fossil fuel prices are encouraging a shift toward alternative energy sources, which benefits hydropower in the long run.

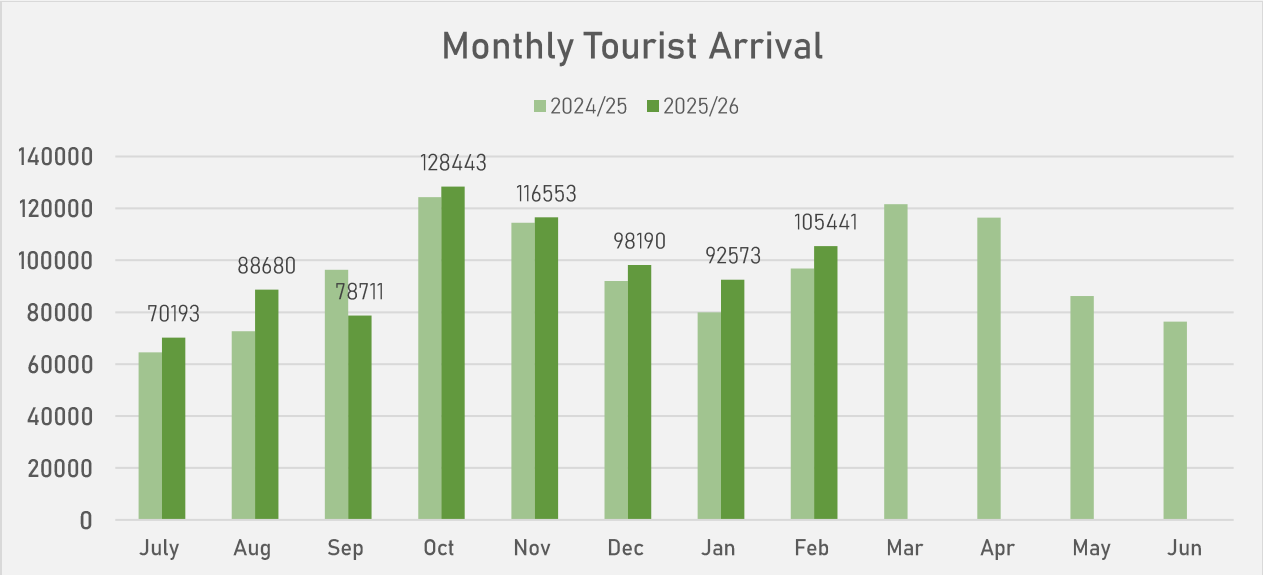
The Electricity Regulatory Commission (ERC) has introduced the "Directive on Open Access in Electricity Transmission and Distribution System, 2082," allowing producers and large consumers to use existing transmission lines by paying a fee. This means hydropower companies can now sell electricity directly to industries instead of depending only on the Nepal Electricity Authority. It opens up better pricing and revenue opportunities, especially for efficient players, and signals a shift from a fixed-return PPA model to a more competitive market where performance matters more.

Alongside this, the ERC is planning to tighten rules on conflict of interest to improve corporate governance in hydropower companies. Promoters and related parties may face limits on cross-holdings and decision-making influence. While this could slow some projects and require restructuring in the short term, it will improve transparency, strengthen investor confidence, and make the sector more attractive for investors.

Tourism

The tourism sector hasn't been able to catch a break for quite some time - starting with floods, followed by the Gen Z protests, and now the West Asia conflict. Despite this, the sector has shown notable resilience. The latest disruption has come through flight cancellations, especially by Middle Eastern airlines, which has affected tourists traveling from Europe and the US—segments known for higher spending. Many of these tourists have shortened their stays or returned earlier than planned. At the same time, rising aviation fuel prices have pushed airfares significantly higher, with domestic fares increasing by up to 50%. This has made travel more expensive, leading to trip cancellations and a drop in hotel bookings. As a result, during the peak March–May tourism season, the combined impact of flight disruptions, higher costs, and uncertainty has reduced tourist inflows, lowered occupancy rates, and put pressure across airlines and tourism-related businesses.





Source: NRB

Despite these repeated disruptions, the tourism sector has demonstrated strong resilience. Tourist arrivals in FY 2025/26 have generally remained higher than in FY 2024/25. Although there was a dip in September due to the protests, arrivals quickly rebounded in the following months and surpassed previous levels. However, cancellations during the peak March–May season are likely to weigh on overall revenues. Going forward, the sector is increasingly relying on tourists from India, China, and other Asian markets, highlighting both its adaptability and shifting demand base.

Insurance

Nepal’s insurance sector is navigating a complex mix of operational strain and strategic repositioning. On one side, non-life insurers are facing delays in reinsurance recoveries, with over NPR 2 billion yet to be reimbursed by domestic reinsurers. These delays—linked to large claims from recent floods and the Gen Z protests—are tightening liquidity and slowing claim settlements, exposing structural frictions within the reinsurance cycle.

At the same time, insurers are actively shifting their investment strategy. With declining bank interest rates compressing fixed deposit returns, total exposure to equities has risen to NPR 52.48 billion as of Poush 2082, marking a 57.78% year-on-year increase. Life insurers are leading this transition, signaling a broader move toward higher-yield assets in a low-rate environment.

Despite these pressures, the sector’s topline growth remains strong. Insurance premium collection has increased by 16.06% over the first eight months of the fiscal year, with life insurers contributing NPR 127 billion, non-life insurers NPR 32 billion, and micro-insurance segments adding smaller but growing volumes. The number of active life insurance policies has reached 16.21 million, pushing penetration up from 43.94% to 49.82%, while first-year premiums in life insurance have surged by 33.24%.



However, rising geopolitical risks are adding another layer of concern. Insurers have begun tightening underwriting standards, particularly for migrant workers in high-risk regions such as the UAE, Qatar, Israel, and Iran. Since standard policies exclude war-related risks, companies are increasingly restricting coverage in these markets. This shift could leave a significant portion of Nepal's remittance-driven workforce with reduced insurance protection, highlighting an emerging vulnerability in the sector.

Microfinance

Nepal's microfinance sector is entering a phase of consolidation and structural reset rather than expansion, with three microfinance institutions already announcing merger plans. After a period of aggressive credit growth in earlier years, the sector is now under heightened regulatory scrutiny from Nepal Rastra Bank, particularly on capital adequacy, interest rate discipline, and governance standards. Recent penalties on multiple institutions, along with tighter supervision, reflect the central bank's firm push toward financial discipline. At the same time, asset quality pressures are becoming evident, as non-performing loans of retail microfinance companies have risen from around 7% a year ago to 10.56% as of Poush 2082, signaling growing stress within the sector.



How We View | Real Estate

This quarter, Nepal's real estate and infrastructure sector has been shaped by a combination of external geopolitical pressures and internal policy shifts. Escalating tensions in West Asia—particularly involving Iran, the US, and Israel—have disrupted supply chains, driven up fuel prices, and created shortages of key construction inputs such as bitumen and steel. As a result, project costs have increased, and execution timelines have slowed across major infrastructure works. Concurrently, the formation of a new government has brought renewed focus on governance reform and improving project execution frameworks.

A key structural development is the proposed amendment to the Public Procurement Act, which aims to shift from a purely cost-based bidding system toward a more value-oriented approach. By discouraging abnormally low bids and introducing mechanisms such as performance-based contracting, reverse auctions, and clearer qualification criteria, the reform seeks to improve both execution quality and contractor accountability. Complementing this is a push toward digitized procurement through expanded e-Governance Procurement systems, enhancing transparency, competition, and efficiency in public project delivery.

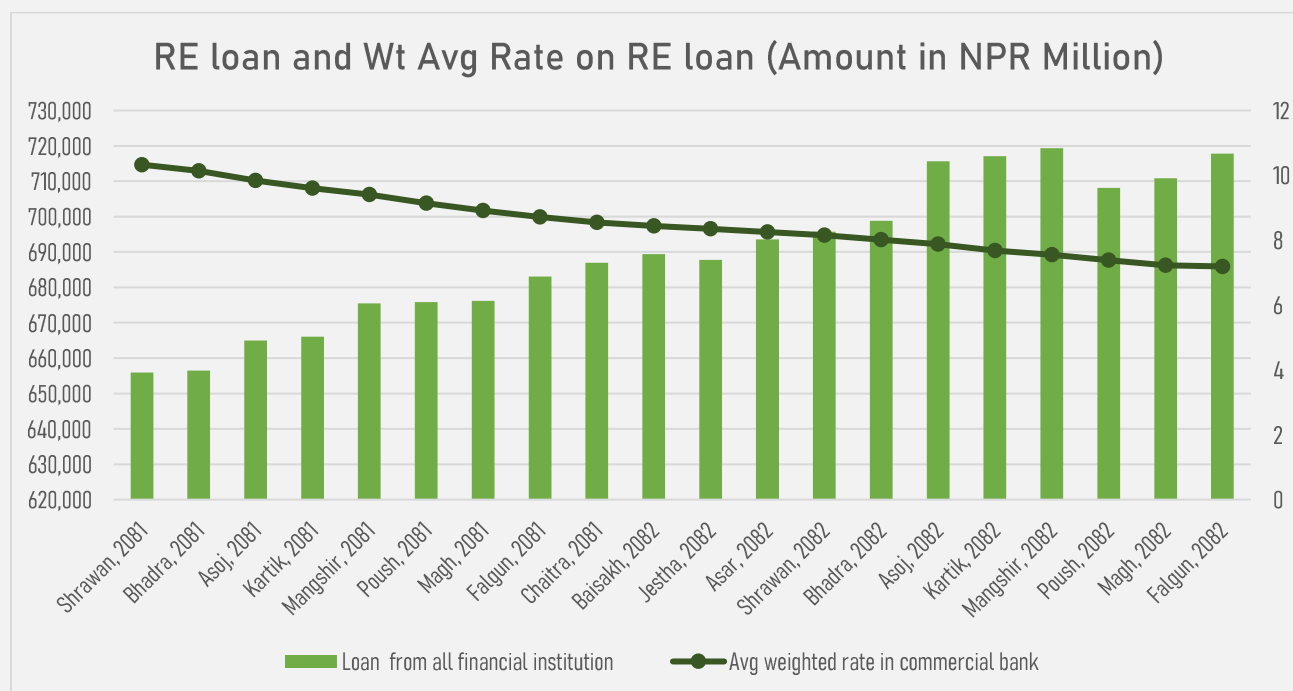
Infrastructure Development

On the ground, execution trends remain mixed but show gradual improvement. Certain highway projects, such as sections of the Pokhara–Mugling corridor, are nearing completion, indicating better construction momentum. However, key bottlenecks persist particularly in projects like the Narayanghat–Butwal highway and the Kathmandu–Terai Fast Track, where delays, terrain challenges, and rising costs continue to hinder progress.

The government has also taken a firmer stance on accountability, terminating stalled contracts and signaling stricter enforcement, including potential blacklisting of underperforming contractors. This marks a shift from past practices of repeated deadline extensions and reflects a move toward stronger execution discipline, even at the cost of short-term disruptions.

Overall, the sector is in a transition phase. While geopolitical shocks have exposed vulnerabilities to external cost pressures, ongoing policy reforms aim to address long-standing inefficiencies in procurement and execution. The outlook will depend on how effectively these reforms translate into improved project delivery, cost stability, and restored investor confidence in the coming quarters.





Source: NRB

The data indicates that overall credit flow to the real estate sector has remained relatively stable, despite a consistent decline in lending rates over the observed period. In the last two quarters, total real estate-related lending from financial institutions has remained at an average of NPR 715 billion, suggesting that lower interest rates have not translated into a proportionate surge in aggregate loan demand. Early data from the first two months of the current quarter also indicates a continuation of this trend, pointing toward a broadly stable lending environment.

However, a deeper breakdown of the data reveals a divergence in lending trends between residential (individual) and institutional segments. Residential housing loans have recorded a year-on-year growth of around 12%, reflecting improved accessibility and stronger end-user demand. This growth can be largely attributed to policy support, particularly the easing of loan-to-value (LTV) ratios, which has enhanced affordability for individual borrowers. In contrast, institutional lending to the real estate sector has contracted by approximately 5% on a year-on-year basis. This decline points toward subdued developer and investor activity, likely driven by an unfavorable policy environment, tighter regulatory oversight, and broader economic uncertainties that have reduced the attractiveness of large-scale real estate investments.

As a result, overall real estate lending has increased by a modest 5% on a year-on-year basis. This suggests that the sector is currently experiencing a gradual, retail-led recovery rather than a speculative or investment-driven expansion. However, the sustainability of this growth remains uncertain. With remittance inflows



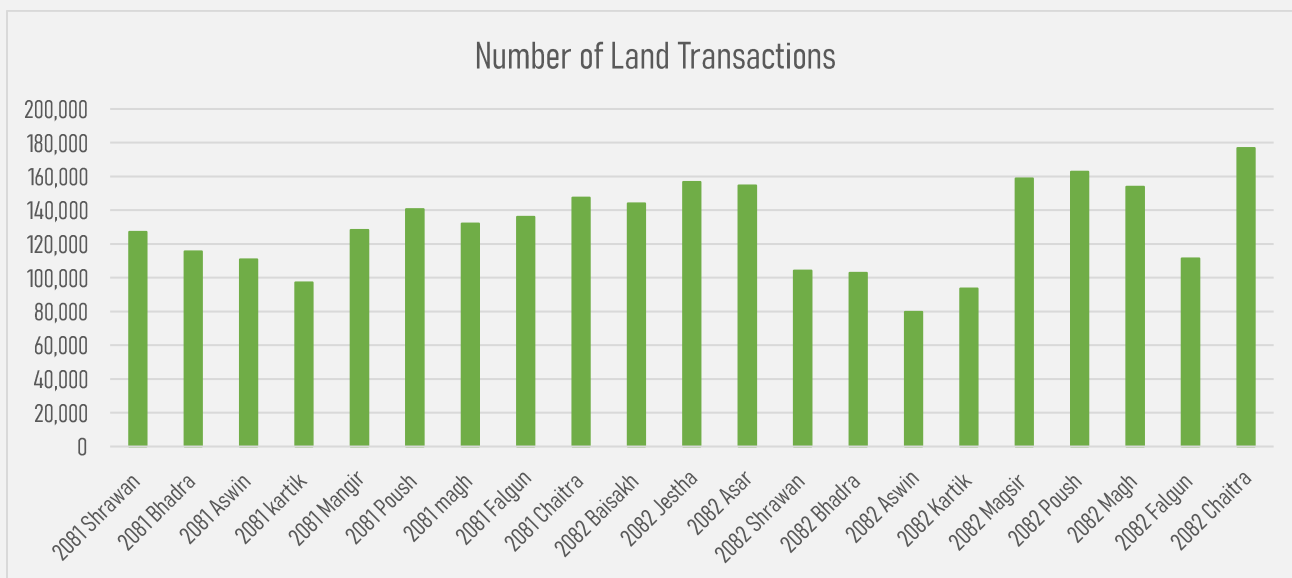
potentially facing pressure amid geopolitical tensions, and institutional lending continuing to contract, the current momentum appears narrowly driven by retail demand. Unless there is a revival in institutional credit and broader investment activity, maintaining even this modest growth trajectory may prove challenging in the coming periods.

Transaction Records

Time	Number of Transactions	CGT	Total Tax collection
2082 Magh	153,920	1,965,512,267	5,009,924,536
2082 Falgun	111,494	1,654,705,029	4,149,548,932
2082 Chaitra	176,771	2,527,470,073	6,165,750,117

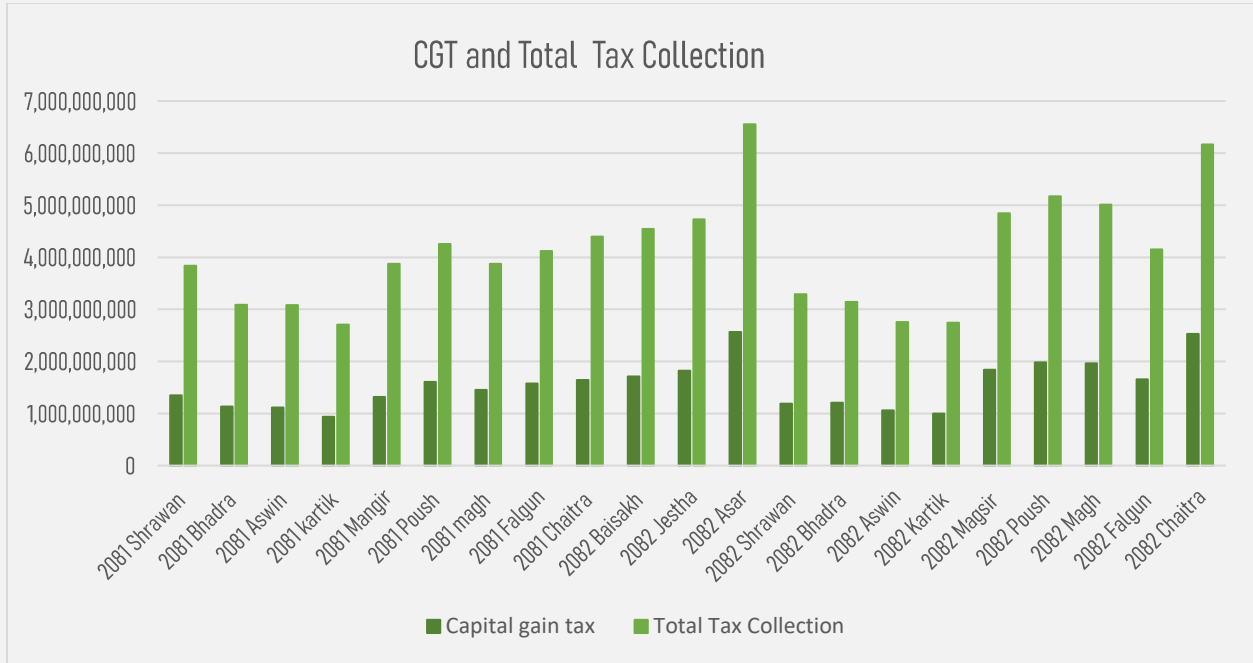
Time	Number of Transactions	CGT	Total Tax collection
2081 Magh	132,031	1,455,588,209	3,872,481,647
2081 Falgun	136,046	1,577,164,668	4,120,031,074
2081 Chaitra	147,416	1,645,200,912	4,394,749,648

Source: DOLMA



Source: DOLMA





Time	Q3 2081/82	Q2 2082/83	Q3 2082/83	Y-o-Y Change %	Q-o-Q Change %
Average land transaction	138,498	138,482	147,395	6%	6%
Average CGT	1,559,317,930	1,606,215,195	2,049,229,123	31%	28%
Average Total Tax	4,129,087,456	4,255,513,751	5,108,407,862	24%	20%

On a year-on-year monthly basis, Nepal’s real estate market reflects a temporary disruption followed by a strong recovery. While transaction activity slowed during the election period—likely due to delayed decision-making and reduced market participation—the market regained momentum toward the end of the period. This is most evident in Chaitra, where transactions increased by 20%, capital gains tax rose by 54%, and total revenue grew by 40% compared to same month previous year, marking a clear rebound in both activity and overall market strength.

At the quarterly level, the trend appears more stable and consistent. On a year-on-year basis, average transaction volumes increased by around 6%, while capital gains tax and total revenue recorded stronger growth of approximately 31% and 24% respectively. This indicates that, despite short-term fluctuations, the market has maintained a steady upward trajectory, with value growth outpacing the recovery in transaction



volumes—a pattern that is also reflected in the sequential improvement in average transaction levels from the previous quarter to the current quarter of FY 2082/83.

Looking at a broader timeframe—comparing the last two fiscal years (2081/82–2082/83) which is a 21-month dataset—the market shows a clear structural shift. The data indicates that transaction volumes, capital gains tax, and total revenue have all reached near their highest levels within this observed period. This simultaneous peak across all key indicators suggests strengthening market fundamentals and a transition toward a more value-driven environment.

Overall, the market appears to have moved beyond a temporary slowdown and is now in a phase of value-led expansion. While transaction growth remains moderate, the stronger rise in revenue indicators highlights improving market depth and capital concentration. Additionally, Nepal Rastra Bank (NRB) has introduced a new quarterly reporting framework for real estate transactions, which is not a continuation of past disclosures but a new system expected to provide more consistent and structured insights going forward.



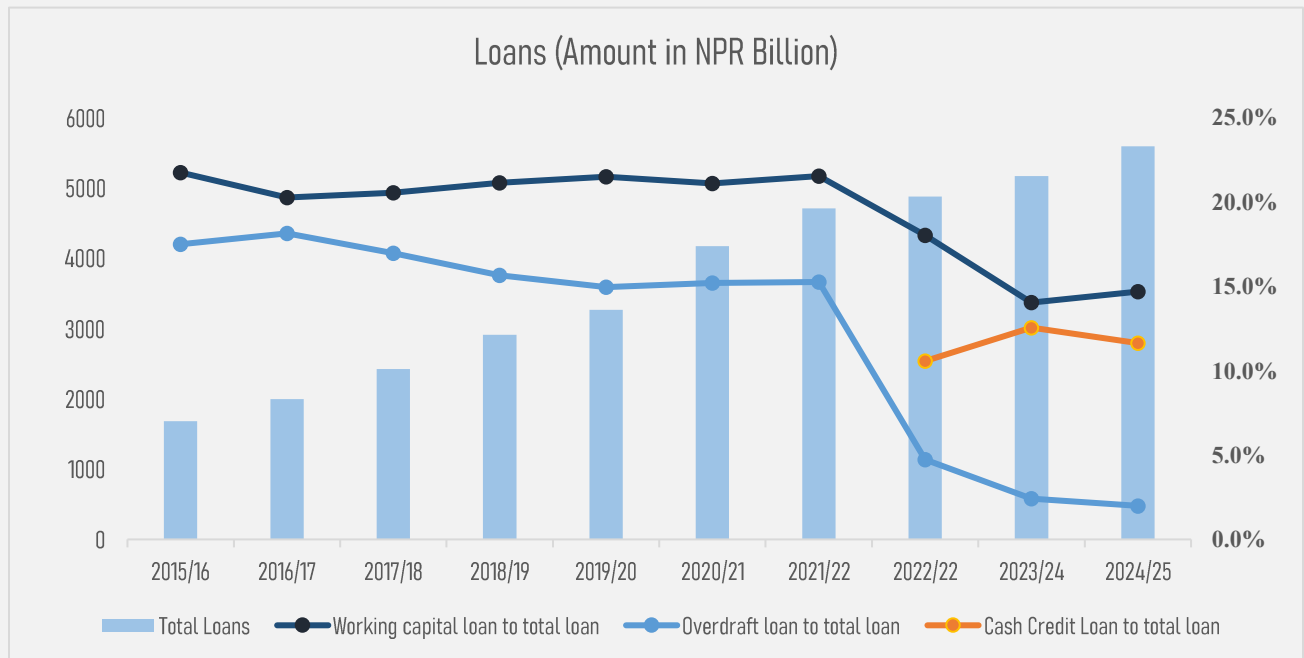
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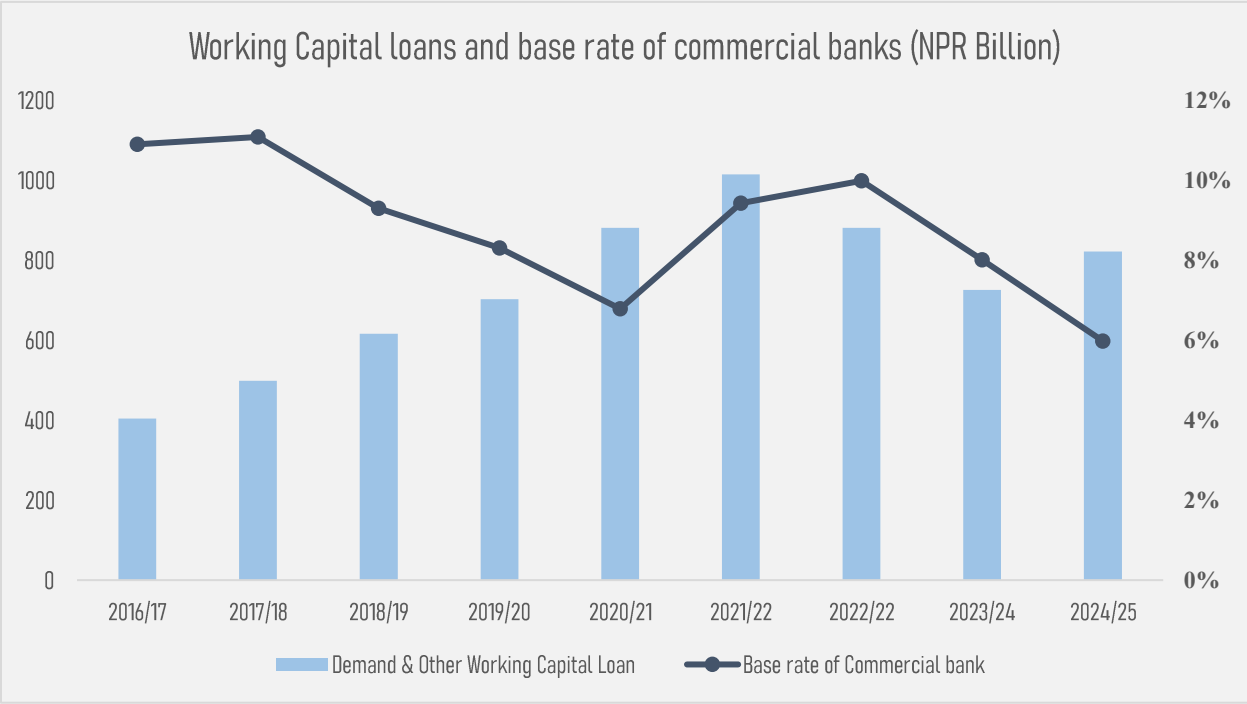
This Quarter Focus | Working Capital Lending in Nepal

A business can be profitable on paper and still face cash flow challenges. While sales may appear strong, the actual cash is not always immediately available, as it may be tied up in inventory or locked in unpaid receivables. At the same time, expenses such as salaries, supplier payments, rent, and logistics must be paid without delay. This mismatch between cash inflows and outflows creates liquidity pressure, especially during peak seasons or when customers delay payments. In such situations, a working capital loan becomes essential. It is a short-term financing solution designed to support the day-to-day operations of a business by bridging the gap between cash going out and cash coming in. Unlike long-term loans used for capital investment, it functions as a financial cushion, helping businesses maintain smooth operations even during temporary cash shortages.

To bring discipline and consistency to such financing, Nepal Rastra Bank introduced the Working Capital Loan Guidelines, 2022, effective from mid-October 2022. The guidelines were aimed at standardizing how banks determine working capital limits, strengthening monitoring practices, and reducing misuse or over-financing under the working capital category. Over time, the framework has been refined through amendments, including updates in January 2023 and August 2023, along with additional flexibility measures introduced in March 2026, particularly for procurement-related financing and businesses affected by infrastructure projects such as highway expansion.

From Overdraft Dominance to Cash Credit Discipline





The chart clearly illustrates two distinct phases in Nepal’s banking sector credit dynamics: a prolonged expansionary phase up to FY 2021/22 and a sharp structural correction thereafter. While total loans increased continuously throughout the period, the composition and quality of credit particularly working capital financing changed dramatically after 2022, reflecting both macroeconomic stress and decisive regulatory intervention by Nepal Rastra Bank (NRB).

Between FY 2015/16 and FY 2021/22, Nepal experienced rapid credit growth under relatively accommodative macroeconomic and monetary conditions. As shown in the chart, total loans rose steadily from NPR 1,682 billion to NPR 4,709 billion, reflecting strong liquidity, low interest rates, and policy support for economic expansion. During this period, working capital loans consistently accounted for around 20–22% of total loans, indicating a stable and significant reliance on short-term business financing.

However, a closer look at the composition of working capital lending reveals an increasing structural weakness. Overdraft loans dominated, accounting for 17.5% of total loans in FY 2015/16, peaking at 18.1% in FY 2016/17, and remaining elevated at 15–16% through FY 2021/22, as depicted by the light blue line in the chart. The persistence of overdraft lending at these levels suggests that such facilities were no longer used as temporary liquidity bridges but had evolved into quasi-permanent financing instruments.

This trend coincided with an extended period of excess liquidity and low borrowing costs, particularly following the COVID 19 shock. NRB’s supportive monetary stance aimed at sustaining economic activity



created conditions in which overdraft limits were repeatedly rolled over, often without meaningful principal repayment or strong linkages to inventory cycles, receivables, or turnover. Instead of financing working capital tied to productive activity, overdraft credit increasingly flowed into speculative and non-productive uses, including real estate and asset price trading.

By FY 2021/22, the macroeconomic consequences of this lending pattern became evident. Nepal faced a widening trade deficit, sharp import growth, declining foreign exchange reserves, and mounting balance-of-payments pressure. The chart reinforces this diagnosis: while total loans continued to rise sharply, the structure of credit increasingly favored flexible but weakly monitored overdrafts, amplifying overheating rather than productive investment. These conditions forced NRB to reconsider not just the pace of credit growth, but its quality and allocation.

The second phase, beginning in FY 2022/23, marks a decisive structural shift in Nepal's working capital financing framework. Although total loans continued to grow from NPR 4,880 billion in FY 2022/23 to NPR 5,592 billion in FY 2024/25, as shown by the rising bars, the share of working capital loans fell sharply, declining from 18% in FY 2022/23 to 14% in FY 2023/24, before stabilizing at 14.7% in FY 2024/25.

This adjustment coincided with monetary tightening, as NRB raised policy rates and absorbed excess liquidity to control inflation and stabilize the external sector. Higher interest rates significantly increased borrowing costs, dampening discretionary credit demand. Yet the most striking change visible in the chart is the collapse of overdraft lending, which fell from 15.3% of total loans in FY 2021/22 to 4.7% in FY 2022/23, and then further to around 2% by FY 2024/25.

This decline cannot be explained by market forces alone. Instead, it reflects explicit regulatory intervention through NRB's Working Capital Loan Guidelines, 2079. These guidelines-imposed limits on overdraft usage, restricted automatic rollovers, and required stronger linkage between credit limits and actual business activity. As a result, overdrafts previously used as permanent funding were systematically phased out.

Simultaneously, the chart illustrates a structural shift in working capital composition with the emergence of cash credit loans, represented by the orange line. Cash credit financing appears only from FY 2022/23 onward, rising to about 11% of total loans in FY 2022/23, increasing further to nearly 13% in FY 2023/24, before moderating slightly to around 12% in FY 2024/25. This pattern coincides with a sharp decline in the share of overdraft loans during the same period, indicating a deliberate rebalancing of short-term financing instruments. Unlike overdrafts, cash credit loans are drawing power based, asset linked, and self-liquidating, ensuring that credit utilization adjusts automatically with inventory levels, receivables, and actual business turnover. The growing share of cash credit therefore reflects a maturing approach to working capital management, emphasizing discipline, transparency, and closer alignment between credit expansion and real



economic activity.

Taken together, the chart and supporting data confirm that the post 2022 shift was not a cyclical contraction but a structural correction. NRB deliberately combined higher interest rates with stricter loan classification and supervision to discourage speculative borrowing, improve asset quality, and realign bank lending with the real sector. The replacement of overdrafts with cash credit represents a move away from credit-driven asset inflation toward discipline, transparency, and productivity-oriented financing.

In this sense, the decline in overdraft loans and the stabilization of working capital financing after FY 2022/23 mark a turning point in Nepal's banking sector signaling the transition from an easy credit regime to a more sustainable and prudentially sound financial system.

First Move from Collateral to Cash Flow: NRB's Working Capital Reform 2022

Nepal Rastra Bank (NRB) introduced the Working Capital Loan Guidelines, in August 2022, and they became effective from October 2022, marking a clear shift from collateral driven lending to cash flow and turnover based working capital finance. The primary purpose was to curb over financing, roll-over financing, and the diversion of working capital funds into non-productive uses, by ensuring that working capital limits reflect the borrower's actual operating cycle and sales turnover rather than collateral value alone. Under the original framework, NRB required banks to determine working capital limits mainly from projected annual turnover/sales and operating cycle indicators. For borrowers whose total working capital exposure from the entire banking system was up to NPR 2 crore, the cumulative working capital limit was capped at 20% of projected annual turnover, with tenure restricted to one year or less and renewal allowed only after fresh assessment. However, NRB allowed an expanded ceiling of up to 50% of projected turnover in justified cases, provided banks conduct and document detailed operating cycle analysis such as Cash Conversion Cycle (CCC), Inventory Conversion Period, Days Sales Outstanding (DSO), Lead Time, and Accounts Payable Period, and record the justification in the credit file; otherwise, the exposure would be treated as non-compliant.

Beyond the turnover caps, NRB introduced structural and technical controls to ensure working capital lending remains self-liquidating and operationally linked. For borrowers with working capital needs exceeding NPR 2 crore, banks were mandated to segregate requirements into Fluctuating Working Capital Need (FWCN) and Permanent Working Capital Need (PWCN) and structure lending instruments separately instead of providing a single revolving limit. A major technical reform was the strict enforcement of Drawing Power (DP): even when a limit is sanctioned, actual disbursement is restricted to the value of eligible and verified current assets (inventory, receivables, etc.) after applying margins, requiring physical verification, valuation, DP computation, and ensuring utilization never exceeds DP thereby eliminating "sanction based utilization" and tightening liquidity discipline against speculative withdrawals. NRB also formalized the distinction between short term operational liquidity and structural WC needs: FWCN (seasonal/cyclical) is financed through short



term facilities (generally up to 1 year) with renewal based on updated turnover and asset verification, while PWCN (baseline locked funds) is financed through periodic/term based structures (typically 3–10 years) to improve banks' asset–liability maturity matching and prevent long term finance being disguised as short term WC. To strengthen utilization control, banks must conduct regular inspections of current assets/liabilities, update reports in loan files, reassess DP, and require borrowers to route sales proceeds through accounts with the lending bank to validate real cash inflows and reported turnover targeting diversion, circular transactions, and inflated sales projections. Operationally, NRB restricted working capital limit increases during the last month of each quarter (Asoj, Poush, Chaitra, Asar), limited overdrafts only to natural persons (excluding firms/companies/institutions), and prohibited using cash credit limits to pay loan principal, interest, or bank charges (preventing self-servicing/evergreening). Finally, NRB also provided borrower side relief by restricting banks from charging prepayment penalties on periodic working capital loans repaid early, except in cases of loan takeover/transfer, as clarified through subsequent FAQs and amendments.

Transition and Tuning: The Revision of Working Capital Guidelines 2079

However, soon after the Working Capital Loan Guidelines were implemented in mid-October 2022, it became clear that the sudden change created serious practical problems for businesses and banks. Many firms already had working capital facilities far above the new ceilings, such as cash credit and revolving limits exceeding 20% of annual turnover (up to NPR 2 crore) or even higher limits that had been rolled over for years. Immediate compliance with the new rules would have meant sudden reduction of facilities, disruption of daily business operations, inability to purchase inventory, delayed supplier payments, and increased financial stress, particularly during a weak economic period. To address this, Nepal Rastra Bank introduced its first major revision in January 2023. Under this revision, borrowers who had working capital loans above the prescribed limits were allowed to adjust gradually instead of reducing limits at once. Excess working capital exposure could be paid down through a phased, installment based mechanism, with borrowers required to repay the excess amount over time starting with 10%, followed by 20% installments, and a final 30% repayment by mid July 2025. Banks were also instructed not to charge prepayment penalties on periodic working capital loans paid earlier than schedule (except in takeover or transfer cases). In addition, certain documentation and monitoring requirements were applied more practically, reducing compliance burden without abandoning asset verification or turnover based assessment. These changes were made due to strong pressure from the private sector, feedback from banks facing implementation difficulties, and NRB's own assessment that abrupt enforcement could negatively impact economic activity. While keeping the core policy intact turnover linked limits, Drawing Power based on verified current assets, and restrictions on overdrafts and cash credit misuse NRB softened execution to allow a smoother transition.

Further refinements were introduced in August 2023 through the amendment dated August 2023, focusing on making the policy more realistic and sector sensitive, especially for manufacturing and production based industries. NRB recognized that manufacturing firms naturally require higher and longer cycle working capital facilities due to larger inventory holdings, longer processing periods, and delayed receivables compared to trading or service businesses. As a result, the amendment adjusted key thresholds and applicability. For



example, the guideline was not applied strictly to borrowers with total working capital loans up to NPR 1 crore, and this exemption was extended up to NPR 3 crore for manufacturing industries. Similarly, for turnover linked assessment slabs, manufacturing firms were allowed higher practical ceilings (such as up to NPR 4 crore under the standard assessment category) compared to other sectors. Banks were explicitly guided to consider actual operating cycles including inventory conversion period, work in progress time, and receivable days when determining limits, rather than applying the same rigid turnover percentage across all sectors. Permanent working capital needs of such businesses were encouraged to be financed through periodic or structured credit facilities, instead of forcing them entirely into short term revolving limits like cash credit. The main reason for this amendment was the growing recognition that uniform ceilings did not suit all sectors equally, and that overly tight rules could unintentionally restrict productive industries, slow manufacturing activity, and affect employment. Through these changes, NRB aimed to balance financial discipline with economic reality, support real sector growth, and maintain stronger risk control without harming production and business continuity.

NRB Working Capital Flexibility Measures 2026

In March 2026, Nepal Rastra Bank introduced the latest round of easing measures under the Working Capital Loan Guidelines to address ongoing business stress and sector specific disruptions, while still maintaining regulatory discipline. One major change related to procurement working capital loans, where NRB shifted these facilities away from rigid long-term structures and directed banks to move them toward a periodic working capital structure. Under this approach, repayment terms are now to be determined based on each bank's own working capital policy and the borrower's actual cash flow capacity, rather than fixed tenures that may not match business cycles. In addition, NRB allowed a onetime rescheduling facility for certain existing procurement working capital loans, provided the bank conducts a proper cash flow assessment and documents clear justification. This rescheduling option must be exercised only once and completed by mid-July 2026, without automatically degrading the loan's classification if conditions are met. Furthermore, NRB introduced special restructuring and rescheduling relief for enterprises displaced by the expansion of the Mahendra Highway and the Mid Hill Highway, recognizing that such infrastructure projects disrupted regular business operations through relocation, loss of access, or temporary shutdowns. For such cases, banks are permitted to restructure or reschedule affected loans, subject to recovering at least 10% of the interest due and completing the process by July 2026.

The main reason behind these March 2026 amendments was to provide targeted flexibility during continued economic and operational stress, particularly where disruption was caused by public infrastructure development rather than poor borrower behavior. NRB aimed to support affected enterprises, maintain credit flow, and prevent unnecessary loan deterioration, while ensuring that loan classification and provisioning discipline remained stable through conditions such as cash flow analysis, justification requirements, and minimum interest recovery. These changes reflect NRB's evolving approach of balancing prudential regulation with practical economic realities, ensuring that working capital regulation supports business continuity without encouraging misuse or weakening financial stability.



Conclusion: Working Capital as a Stability Oriented Credit Tool

Working capital loans are critical because they keep businesses functioning in real time financing inventory, raw materials, supplier payments, and bridging cash flow gaps between sales and collections. At the macro level, working capital credit acts as a key liquidity transmission channel, supporting continuous production, trade, employment, and tax generating economic activity.

Yet because revolving facilities can be repeatedly drawn and renewed, they require close monitoring to prevent short term liquidity support from morphing into persistent leverage or speculative financing. In this context, Nepal's working capital framework functions as a stability oriented, counter cyclical guardrail, linking credit more closely to verifiable turnover and operating cycles while discouraging misuse.

The evolution of the guidelines from their introduction in 2022 to subsequent refinements demonstrates policy learning and adaptability. Looking ahead, as macro financial conditions evolve, further recalibration may be warranted to ensure that working capital regulation continues to balance healthy credit flow for productive businesses with financial system stability over the economic cycle.



