

Midterm Assessment of FY26 Monetary Policy Released by Nepal Rastra Bank

March 24, 2026

The midterm review reinforces an accommodative stance, prioritizing growth and financial stability. With the interest rate framework largely intact, the central bank signals policy continuity. The emphasis remains on expanding credit, supporting businesses, and advancing financial sector reforms, underpinned by stable inflation and comfortable reserve levels.

1. Policy Stance

- The NRB continues to maintain an accommodative monetary policy stance, aiming to support economic recovery and credit expansion.
- The NRB has also kept the key policy rates largely unchanged (policy rate remains at 4.5% and bank rate unchanged at 6%), indicating a preference for stability rather than aggressive tightening or easing.

2. Macroeconomic backdrop and policy rationale

The review highlighted several positive macroeconomic trends:

A. Inflation:

- Nepal's inflation in FY26 has remained exceptionally low compared to prior years: CPI inflation: 1.11% (4 months), 1.63% (5 months), rising to 3.25% by 7 months — still below historical averages.
- Food and beverage prices recorded negative inflation during certain months, driven by falling vegetable prices.
- Wholesale price inflation rebounded over 6%, driven by intermediate and capital goods costs. Inflation has been declining and remains within manageable levels.

B. Foreign Exchange Reserves:

- Reserves have increased by 21.3% y-o-y, ensuring ample buffer against potential external shocks.
- Gross Forex Reserves: Rs. 3,302.66 Bn (USD 22.76 Bn) as on mid-February 2026 — enough for ~18 months of imports.

C. Trade Balance and Net Exports:

- Despite robust remittance flows, Nepal continues to face a trade deficit. However, export growth has been encouraging at 32%, with key exports like textiles, spices, and vegetables showing upward momentum.

D. Credit and Banking Sector Analysis

- Despite accommodative monetary policies, the credit growth has been weaker than expected, growing at just 4.0% during the review period.
- The banking sector has excess liquidity, but the demand for credit from the private sector remains subdued.

- The government's fiscal stimulus and NRB's policy easing have not yet fully translated into widespread credit demand.

3. Measures to Boost Credit and Economic Activity

To address weak lending and investment, NRB introduced several measures:

- Relaxation of working capital loan guidelines to make borrowing easier for businesses.
- Encouragement of lending to productive sectors such as manufacturing and infrastructure.
- Expansion of priority sector financing and consortium financing for large projects.

4. Financial Sector and Regulatory Adjustments

Key regulatory changes included:

- Increase in non-deliverable forward transaction limits (from 25% to 30% of core capital).
- Promotion of digital payments and reduction of cheque-based transactions.
- Support for financing technology and innovation sectors such as data centres and AI infrastructure.

FY26 at a Glance: Major Changes and Midterm Review

Policy item	FY25 (prior)	FY26 policy (2026 policy)	Mid-term review (Feb 2026)
Policy stance	"Cautiously accommodative" stance continued	"Cautiously accommodative" stance reaffirmed	Instruments kept unchanged (stance effectively maintained)
Bank rate/corridor ceiling	Reduced to 6.5% (from the earlier level)	Reduced further to 6.0%	Unchanged
Corridor floor (deposit collection rate)	Kept unchanged (at time of FY2024/25 statement)	Reduced to 2.75% from 3.0%	Unchanged
Policy rate	Reduced to 5.0%	Reduced to 4.5%	Unchanged
Cash Reserve Ratio (CRR)/Statutory Liquidity Ratio (SLR)	Unchanged	Unchanged	Unchanged (CRR – 4% and SLR 12% for Class A and 10% for B and C FIs)
Working-capital annual "clean-up" rule	Existing: reduce outstanding below 10% for 7 consecutive days annually (baseline referenced by NRB)	Policy signalled need-based amendments	Relaxed to 30%; tenor for permanent WC set by cash-flow analysis
Non-Deliverable Forward (NDF) exposure limit (FX derivatives)	Earlier review workstream; subsequent increases referenced in NRB policy documentation	FX risk-management facilitation continues	Limit increased 25% → 30% of primary capital
Blacklisting/credit information	Plan to revise cheque-dishonour-driven blacklisting and account-freezing practices	Continued facilitation and reform intent	Time-bound delisting window (up to six months) operationalised for certain cases

Note: FY refers to the twelve months ending mid-July

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