Nepal Economy Update

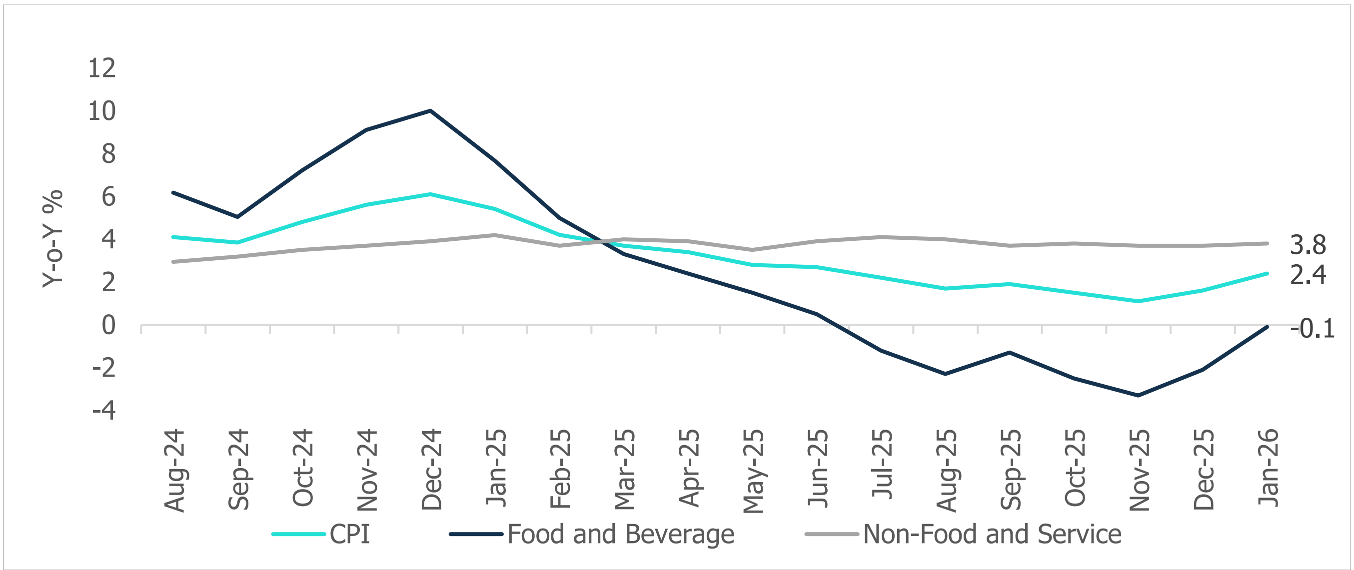
February 27, 2026 | Economics

Nepal's macroeconomic conditions remained steady in mid-January, with a slight increase in inflation alongside continued strength in the external sector. The moderation in food and beverage category deflation and a marginal uptick in non-food and services prices led to a modest rise in headline inflation. At the same time, record-high foreign exchange reserves, steady remittance inflows, and a sizeable current account surplus kept the balance of payments position comfortable. The tourism sector also showed signs of gradual recovery, with arrivals increasing on a year-on-year basis despite a sequential dip. However, the approaching elections remain a key watchpoint, with potential implications for policy continuity and near-term economic momentum.

Inflation

Nepal's consumer price inflation increased to 2.4% year-on-year (y-o-y) in mid-January, from 1.6% in mid-December. Deflation in the food and beverage category was at -0.1% (y-o-y) from -2.1% a month earlier. Meanwhile, non-food and services inflation edged marginally higher to 3.8% from 3.7%.

Consumer Price Inflation



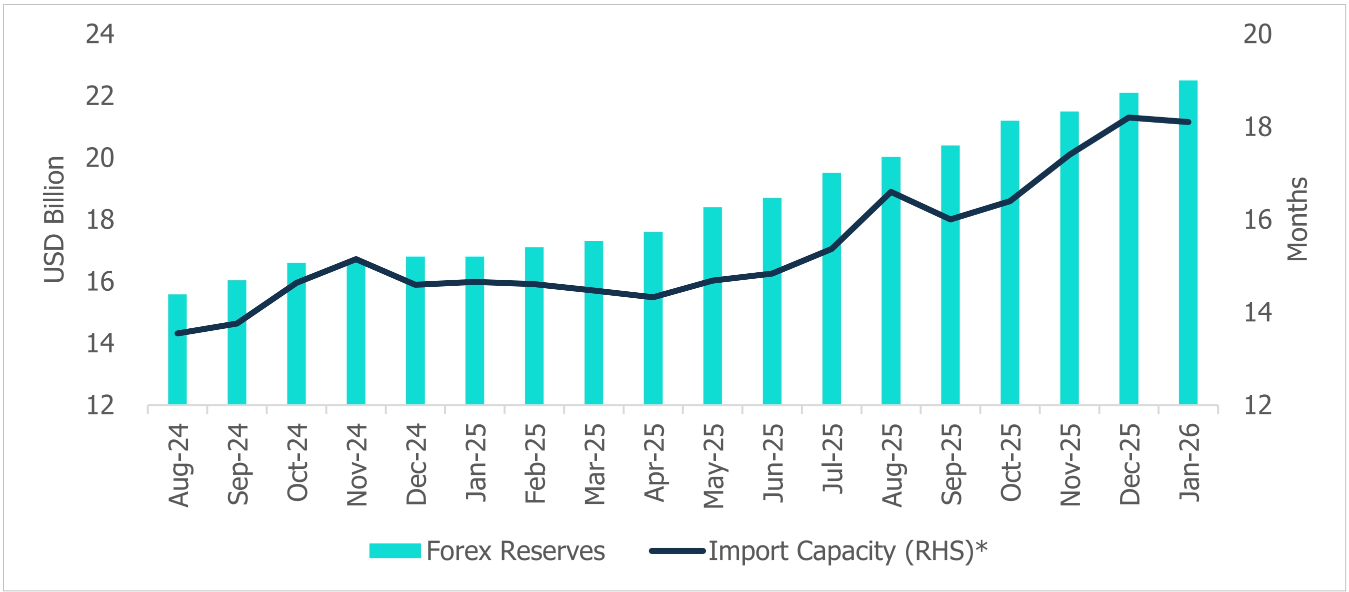
Source: Nepal Rastra Bank

External Sector

In mid-January, Nepal's foreign exchange reserves climbed to a record USD 22.5 billion, marking a double-digit growth of 15.4% from mid-July. The current reserve level is adequate to cover 18.1 months of projected merchandise and service imports. Meanwhile, remittance inflows increased to Rs 192.6 billion in mid-January, compared to Rs 183.2 billion in the previous month.

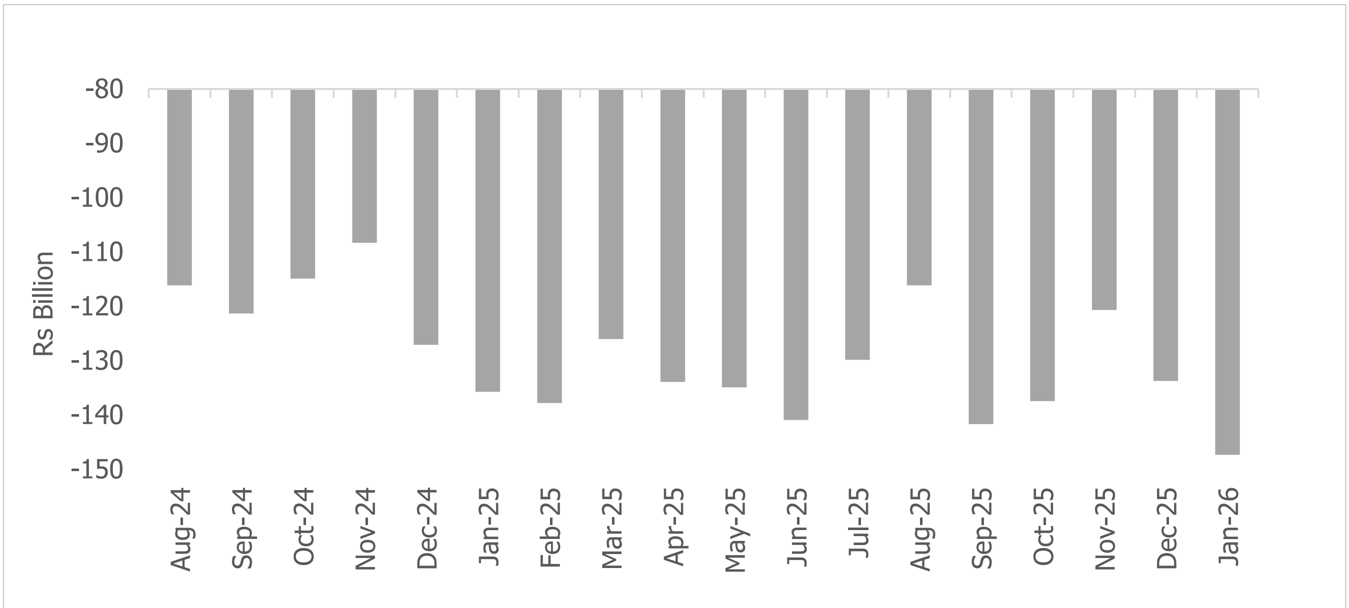
In mid-January, Nepal's merchandise exports grew by a modest 1.5% y-o-y to Rs 25.5 billion, slowing from 9.6% growth in the previous month. Merchandise imports rose to Rs 172.8 billion (from Rs 156.7 billion a month earlier), with growth picking up to 7.4% y-o-y from 5.8% in the preceding month. As a result, the trade deficit widened to Rs 147.3 billion from Rs 133.7 billion in the previous month.

Forex Reserves and Import Cover



Source: Nepal Rastra Bank (*Import capacity includes cover for merchandise & services)

Trade Deficit



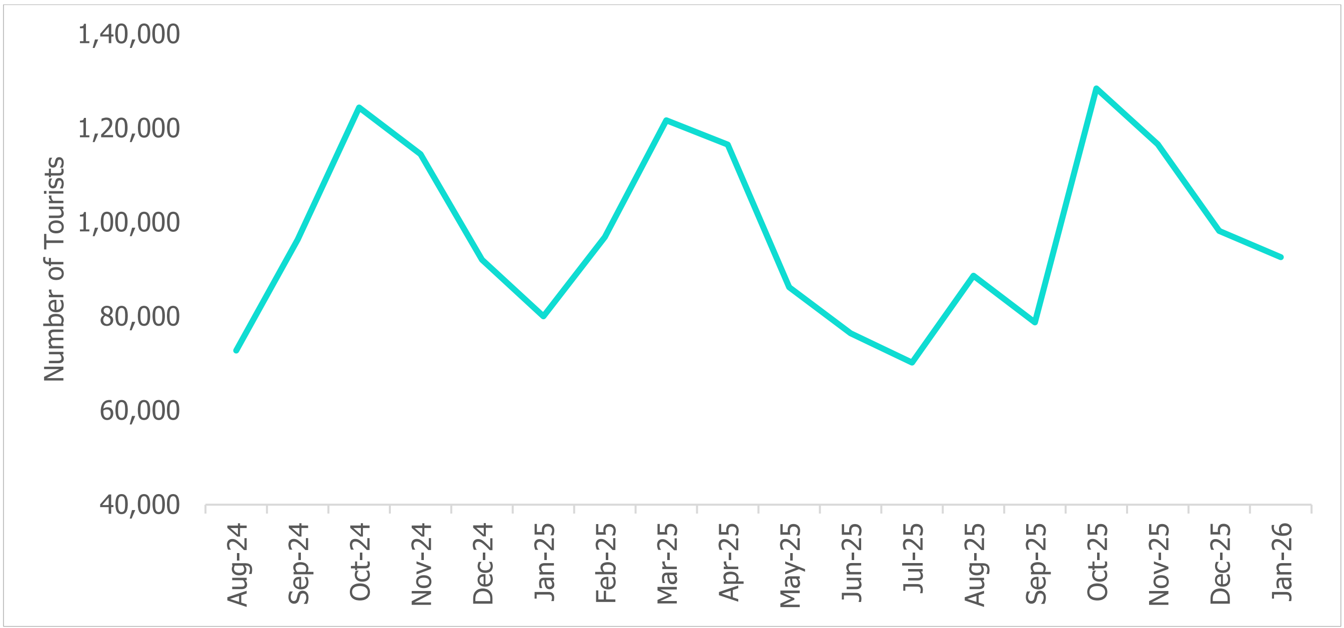
Source: Nepal Rastra Bank

During the H1 of the fiscal year, Nepal recorded a current account surplus of Rs 429.9 billion, a sharp increase from Rs 165.7 billion in the same period last year. Net capital transfers also strengthened to Rs 10.8 billion, up from Rs 4.3 billion a year earlier. Moreover, foreign direct investment (equity only) also increased to Rs 8.2 billion from Rs 6.5 billion in the corresponding period. Consequently, the balance of payments surplus expanded to Rs 501.2 billion, compared with Rs 249.3 billion a year ago.

Tourism

Tourist arrivals in Nepal declined by 5.7% in mid-January compared with the previous month. However, on a year-on-year basis, arrivals increased by 15.7%, indicating some recovery in the sector. Overall, Nepal received 6.0 lakh tourists during the first six months of the fiscal year, slightly higher than 5.8 lakh in the corresponding period last year.

Tourist Arrivals



Source: Nepal Rastra Bank

Monthly Data of Key Economic Variables

Indicators (Mid-Month)	September 2025	October 2025	November 2025	December 2025	January 2026
Consumer price inflation (y-o-y%)	1.9	1.5	1.1	1.6	2.4
Wholesale price inflation (y-o-y%)	2.1	1.3	2.7	2.8	5.2
Merchandise export growth (y-o-y%)	81.7	91.7	44.9	9.6	1.5
Merchandise import growth (y-o-y%)	20.8	27.1	15.3	5.8	7.4
Trade deficit (Rs billion)	141.7	137.5	120.7	133.7	147.3
Workers' remittances (Rs billion)	174.7	201.2	133.8	183.2	192.6
Foreign exchange reserves (USD billion)	20.4	21.2	21.5	22.1	22.5
Domestic credit (y-o-y%)	5.5	4.9	4.2	4.1	4.2
Deposits (y-o-y%)	12.5	13.0	13.4	13.9	14.8
Repo rate (%)	4.50	4.50	4.50	4.25	4.25
Bank rate (%)	6.00	6.00	6.00	5.75	5.75
Weighted average deposit rate (%)	4.0	3.9	3.7	3.7	3.6
Weighted average lending rates (%)	7.7	7.5	7.4	7.3	7.1

Source: Nepal Rastra Bank

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