

BUSINESS / ECONOMIC ANALYSIS

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Nepal is living through an economic paradox. The country has accumulated unusually strong external buffers, remittance inflows remain enormous, the balance of payments is in surplus and the banking system is carrying far more deposits than loans. Yet businesses still complain about weak demand, young Nepalis continue to leave for work, private investment remains cautious and the economy does not feel remotely as wealthy as the headline financial numbers might suggest.

The contradiction becomes easier to understand once three different ideas are separated: having foreign exchange, having liquidity in banks, and creating productive income inside the economy. Nepal currently has considerable strength in the first two. Its harder problem is the third.

The numbers look unusually comfortable

Nepal Rastra Bank's latest macroeconomic indicators, based on the first month of fiscal year 2026/27, show remittance inflows of about Rs 215 billion and a balance-of-payments surplus of roughly Rs 90 billion. Private-sector credit was growing at 7.1 percent year on year. Consumer inflation, however, had accelerated to 5.96 percent after unusually low average inflation in the previous fiscal year.

The banking system also appears liquid. NRB's September indicators showed total deposits at roughly Rs 8.38 trillion and lending at about Rs 6.02 trillion, with the credit-to-deposit ratio near 71 percent. Put simply, banks are not facing a shortage of deposits.

Earlier in 2026, the World Bank reported another striking number: Nepal's foreign-exchange reserves had reached about \$22.5 billion by mid-January, sufficient to cover around 18 months of imports of goods and services. For a country that has periodically worried about external vulnerability, these are powerful buffers.

But reserves are not national income sitting in a vault

A country's foreign-exchange reserves are not equivalent to a household's savings account that can simply be divided among citizens and spent. Reserves support external payments, confidence in the currency regime and protection against sudden disruptions in foreign earnings or import financing. They are insurance for the economy.

Insurance can make a household safer without making its monthly salary larger. Nepal's reserves work in a similar way. They strengthen the country's ability to withstand shocks, but they do not automatically create factories, productive firms, skilled jobs or higher wages.

Where the dollars are coming from matters

A large share of Nepal's external strength is connected to remittances—the money earned by Nepalis working abroad and sent home. For families, this income can be transformative. It pays for food, education, healthcare, housing and debt. At the national level, it brings foreign currency into the country and supports consumption.

But remittance success contains an uncomfortable economic circularity. Nepal becomes externally stronger partly because so many Nepalis have had to earn their incomes outside Nepal. The country receives the dollars. The foreign labour market creates much of the income.

Rs 215 billion in one month tells two stories

A monthly remittance inflow of around Rs 215 billion is impressive as a financial statistic. It is also evidence of the extraordinary scale at which Nepal's household economy is connected to employment abroad. Remittances can simultaneously strengthen household welfare and expose the weakness of domestic job creation.

The more useful question is what happens to the money after it arrives.

The missing transformation

Economies become richer over long periods when capital, labour, technology and institutions combine to produce more valuable goods and services. That usually requires firms willing to invest, workers able to become more productive and infrastructure capable of supporting production.

Nepal's financial inflows do not automatically make that transformation happen. Remittance income may support consumption, land purchases, housing, education, savings and loan repayment. All can be rational household choices. But a country does not necessarily build a larger productive base merely because household deposits increase.

The World Bank's diagnosis is that Nepal has achieved major poverty reduction without comparable transformation in domestic growth, investment or job creation. Weak infrastructure, regulatory constraints, limited competition and low productivity remain persistent barriers.

Why banks can have money and businesses can still feel starved

Banks having liquidity does not mean banks can—or should—lend every available rupee. A viable loan requires a borrower with sufficient expected cash flow, acceptable risk and a project capable of repaying the debt.

If businesses see weak demand, unpredictable policy, difficult approvals or uncertain returns, cheaper money alone may not persuade them to expand. Banks also become more cautious when non-performing loans rise. The World Bank reported that Nepal's gross non-performing loan ratio had climbed to 5.4 percent by mid-January 2026.

The CD ratio reveals capacity, not necessarily opportunity

A credit-to-deposit ratio around 71 percent indicates considerable room relative to the deposits banks hold. It does not prove that enough commercially sound investment projects exist to absorb that capacity.

Nepal may not primarily have a shortage of money. It may have a shortage of sufficiently attractive, scalable and predictable ways to convert financial resources into productive investment.

Private investment is the bridge

Between financial stability and household prosperity sits private investment. A company building a factory creates demand for construction, machinery, logistics, electricity, accountants, engineers and workers. A technology company exporting services brings foreign income into Nepal without requiring workers to leave. Tourism can convert landscapes, culture and hospitality into local employment. Hydropower can create an exportable product while supporting domestic industry.

These activities turn capital into productive capacity. The problem is not simply getting money into banks. It is creating an environment in which firms believe deploying that money inside Nepal will produce an acceptable return.

Government investment has the same conversion problem

The public sector faces its own version of the problem. In the first half of FY2025/26, according to the World Bank, capital-budget execution was only about 12.1 percent. Public capital spending has also lagged debt servicing for several years.

Infrastructure is one mechanism through which public money can raise private productivity. Roads reduce transport costs. Reliable electricity enables production. Digital infrastructure expands markets. Irrigation changes agricultural economics. A government can allocate a large capital budget on paper without generating the same economic effect as actually completing useful infrastructure.

Why the economy can feel weak even when macro indicators look strong

Ordinary people do not experience foreign-exchange reserves directly. They experience wages, prices, rent, employment, business sales, interest payments and opportunities. A household can hear that reserves are at historic highs while simultaneously watching a family member prepare to leave for the Gulf, Europe, Japan or Australia.

Both facts can be true because they describe different layers of the economy. The balance of payments describes Nepal's transactions with the outside world. A family's economic confidence depends much more directly on whether stable income can be generated at home.

Inflation has returned to the conversation

NRB's first-month FY2026/27 data put national consumer inflation at 5.96 percent, with food and beverage inflation at 6.77 percent. That is a marked change from FY2025/26, when annual average inflation was 3.08 percent according to NRB.

One month does not establish a full-year trend, but the acceleration matters because inflation changes how households experience nominal income. A family receiving more rupees is not necessarily better off by the same amount if essential costs rise.

Nepal's external strength is still valuable

None of this means reserve accumulation is meaningless. Strong reserves give Nepal resilience. A country with adequate foreign currency is better positioned to handle import bills, external volatility and periods of pressure on foreign earnings. The balance-of-payments surplus provides a cushion rather than an emergency.

The achievement should therefore be understood correctly: Nepal has strengthened its financial defence. The next challenge is building a stronger economic offence.

The labour-export model has limits

Migration will remain an important part of Nepal's economy. Trying to stop workers from taking better opportunities abroad would reduce household choice and could weaken one of the country's most important income streams.

The strategic problem is different: migration should increasingly become an option rather than the default route to economic advancement. A healthy economy can send workers abroad while simultaneously creating competitive opportunities at home.

What would make the reserves feel more real?

The answer is not distributing the reserves or forcing banks to lend. It is improving the conversion mechanisms between financial strength and productive activity.

Nepal needs firms that can scale, infrastructure that lowers the cost of doing business, more predictable regulation, faster execution of public investment, stronger competition, healthier banks and sectors capable of selling valuable products and services beyond the domestic market.

Hydropower, tourism, digital services and agribusiness all have substantial potential. None is a magic solution. Each requires execution, investment and institutions.

The better question for Nepal

The country has accumulated a substantial external safety buffer. It has not yet accumulated an equally powerful domestic production engine.

Remittances bring money home. Banks store much of the country's financial savings. Foreign-exchange reserves protect the external position. Those are important achievements. But prosperity requires another step: converting financial stability into productive investment, productivity, businesses and jobs.

That is the gap Nepal now has to close.

The most important economic statistic of the next decade may therefore not be how many months of imports the country can finance. It may be how many Nepalis can build a productive future without first having to leave Nepal to finance it.

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