

NEPAL'S ECONOMIC OUTLOOK FOR 2026

Macro Analysis · Sector Review · Investment Implications

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Executive Summary

Nepal's economy stands at a critical juncture in 2026. The country demonstrates commendable macroeconomic stability — with controlled inflation, record-high foreign exchange reserves, growing remittance inflows, and a recovering tourism sector. However, significant structural challenges persist, including weak industrial growth, heavy import dependency, sluggish private sector investment, rising banking sector stress, and an overreliance on remittance-driven consumption.

"Stable But Fragile" — Nepal's economic stability is maintained primarily through remittances and external inflows rather than robust domestic production and productivity.

~5.1%	\$13.1B	~4.7%	11.2 mo
GDP Growth Forecast FY2026	Remittance Inflows (Est.)	CPI Inflation (FY2025E)	Import Cover (Forex Reserves)

Source: NRB, World Bank, IMF estimates. E = Estimated. F = Forecast.

GDP Growth & Economic Trajectory

Nepal's GDP growth trajectory has been uneven over the past half-decade. The COVID-19 pandemic caused a sharp contraction in FY2020, followed by a strong recovery in FY2021–22. Growth moderated considerably in FY2023 due to tightening monetary policy, reduced credit growth, and subdued consumer demand. The medium-term outlook points to a gradual rebound toward the 5% range, contingent on structural reforms, improved energy availability, and private sector revival.

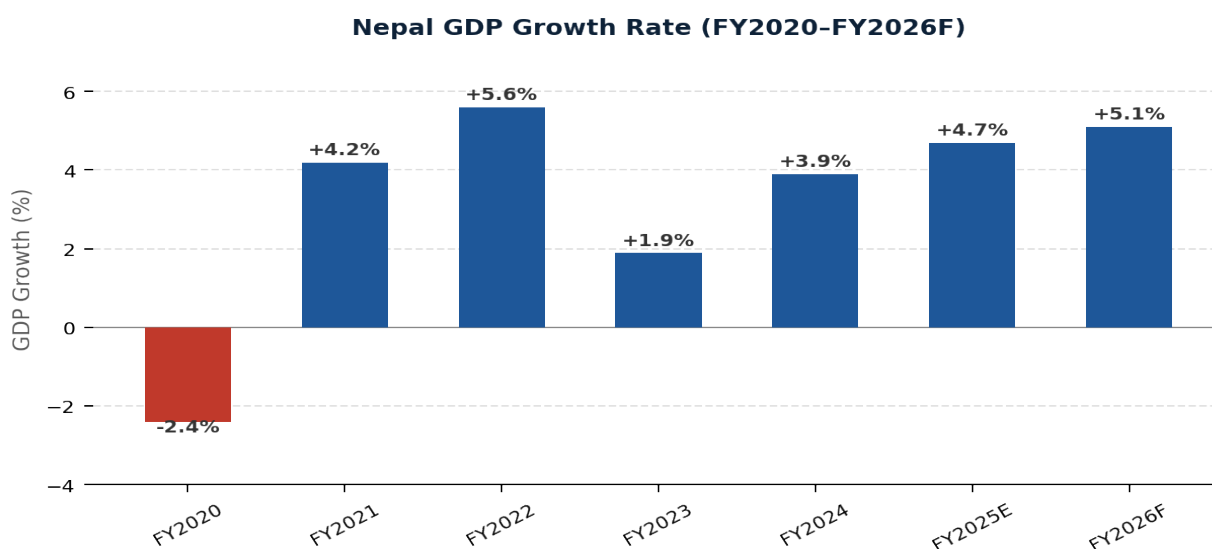


Figure 1: Nepal GDP Growth Rate FY2020–FY2026F. Source: NRB, World Bank, IMF.

Growth Drivers & Constraints

- Remittance-driven domestic consumption remains the primary demand-side engine.
- Infrastructure investment — particularly hydropower — offers medium-term growth potential.
- Private sector credit growth recovering after contractionary monetary policy in FY2023.
- Political instability and frequent government changes dampen investor confidence.
- Industrial output remains structurally weak, constrained by power supply gaps and logistics.

Key Macroeconomic Indicators

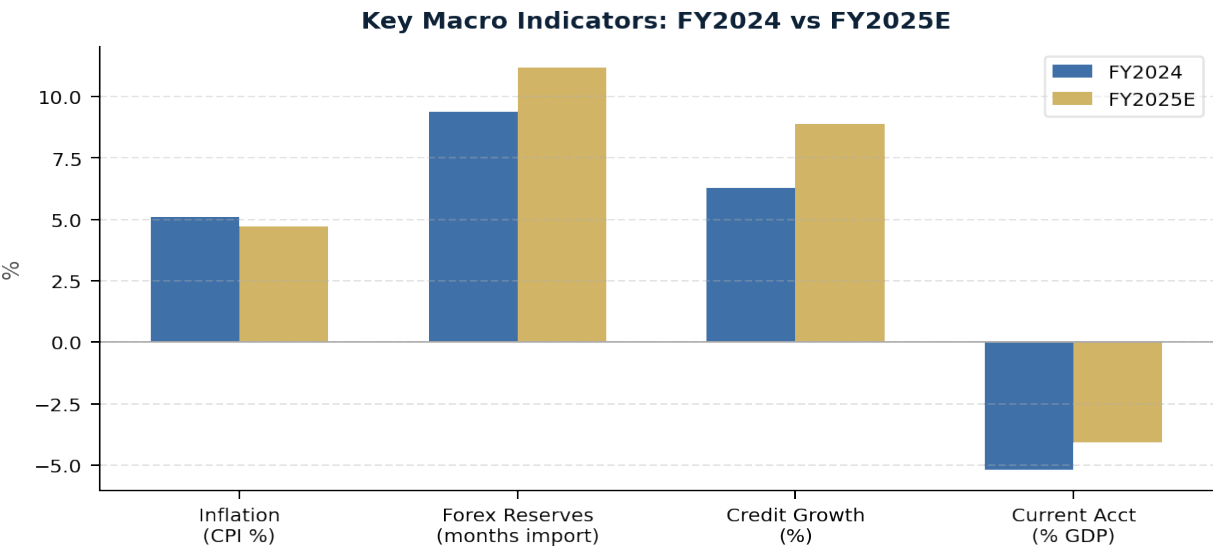


Figure 2: Key macro metrics comparison FY2024 vs FY2025E. Source: NRB, CBS Nepal.

Remittances: The Structural Backbone

Remittance inflows remain Nepal's single most important economic stabiliser. At an estimated USD 13.1 billion in FY2025 — equivalent to approximately 26% of GDP — remittances fund household consumption, support foreign exchange reserves, and cushion current account deficits. Nepal ranks among the world's highest remittance-to-GDP economies, a reflection of its large migrant worker diaspora, primarily in Gulf countries, Malaysia, and South Korea.

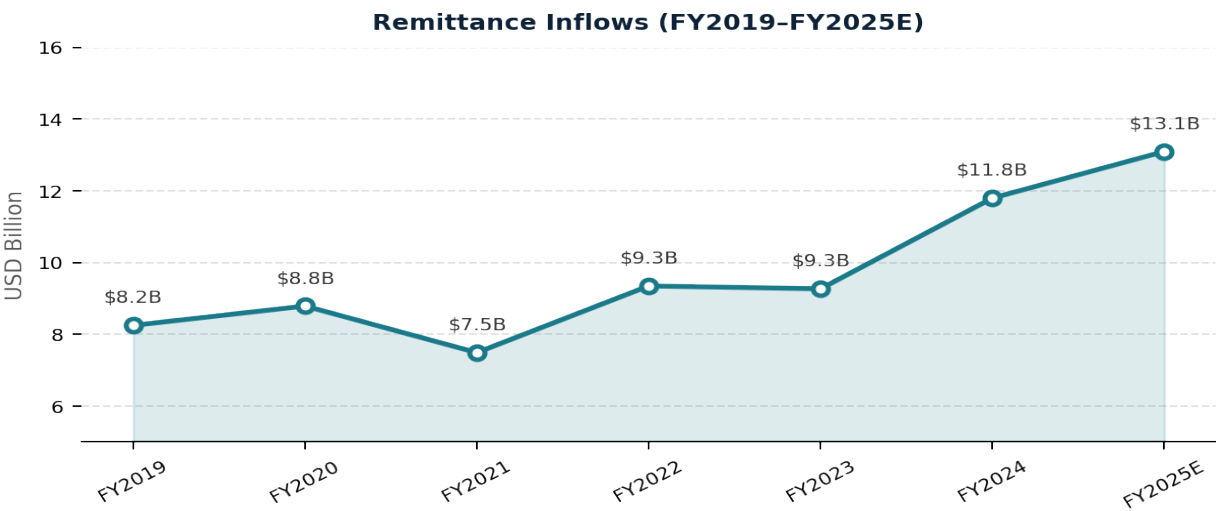


Figure 3: Nepal Remittance Inflows FY2019–FY2025E (USD Billions). Source: NRB.

Structural Dependency Concerns

While remittances provide critical macroeconomic support, overreliance creates significant vulnerabilities. Shocks in Gulf economies, tightening of foreign labour policies, or geopolitical disruptions can rapidly impair inflows, exposing Nepal's consumption-dependent economy. Diversification of growth drivers remains a long-term policy imperative.

Regional Remittance Comparison (% of GDP)

Country	Remittance/GDP (%)	Status
Nepal	~26%	High Dependency
Bangladesh	~5%	Moderate
Pakistan	~8%	Moderate-High
Sri Lanka	~6%	Moderate
India	~3%	Low Dependency

Table 1: Remittance-to-GDP comparison. Source: World Bank, 2024.

Sector Overview & Economic Structure

Nepal's economic structure is dominated by services, which account for over half of GDP. Agriculture, while declining as a share of output, still engages the majority of the rural population. The industrial sector remains underdeveloped relative to peer economies, reflecting historical constraints around energy availability, infrastructure deficits, and limited capital formation.

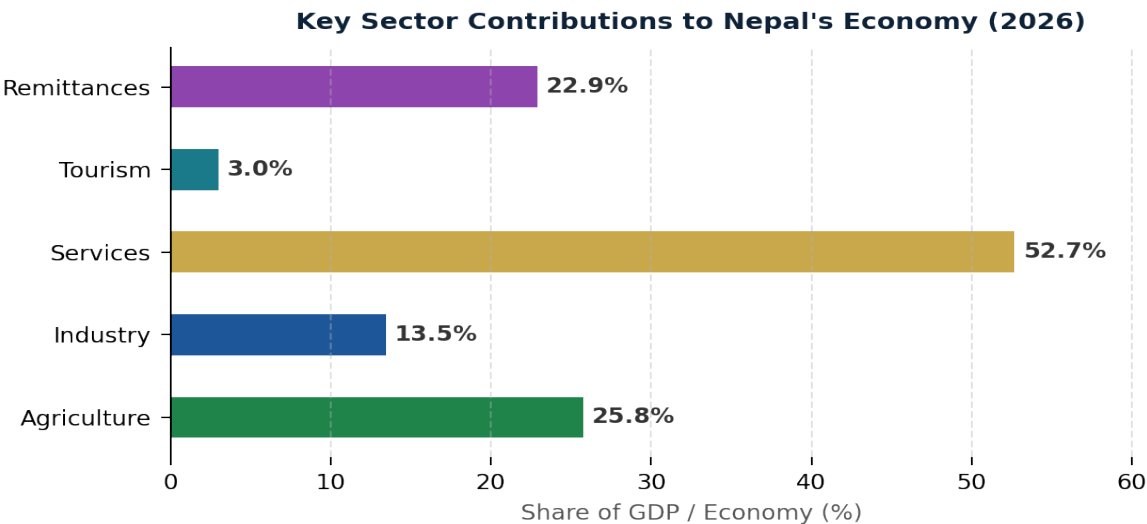


Figure 4: Sector contributions to Nepal's economy (2026). Source: CBS Nepal, NRB.

Hydropower: The Strategic Asset

Hydropower represents Nepal's most significant long-term economic asset. With an estimated theoretical potential of 83,000 MW and economically feasible capacity of over 42,000 MW, Nepal has developed only a fraction of this resource. Ongoing projects and cross-border energy export agreements with India have begun to accelerate sectoral investment. Power exports are increasingly viewed as a transformative foreign exchange earner that could meaningfully reduce the structural current account deficit.

Tourism Recovery

Tourism is recovering steadily following the pandemic-era collapse. Visitor arrivals have rebounded, with renewed interest in trekking, mountaineering, and cultural tourism. The government's "Visit Nepal" promotional campaigns and expanded air connectivity are supportive tailwinds. However, the sector's contribution to GDP remains below pre-COVID peaks and is constrained by infrastructure limitations.

Risks & Structural Challenges

Despite positive macro indicators, Nepal faces a constellation of structural and cyclical risks that warrant careful monitoring by policymakers and investors.

Political Instability

Frequent government changes and coalition fragility reduce policy continuity and long-term investment planning.

Banking Sector Stress

Rising NPLs, compressed NIMs, and slower credit growth challenge bank profitability and financial stability.

Import Dependency

A wide trade deficit (~40% of GDP) driven by fuel, gold, and consumer goods creates persistent current account pressure.

Remittance Shock Risk

Any disruption to Gulf or Malaysian economies could impair the \$13B+ inflow critical to household consumption.

Climate Vulnerability

Nepal is highly exposed to climate-related risks — flooding, glacial outbursts — threatening agriculture and infrastructure.

Investment Climate

Regulatory uncertainty, land acquisition challenges, and bureaucratic friction limit FDI and private sector growth.

Policy Priorities & Recommendations

Priority	Recommendation	Time Horizon
Fiscal Consolidation	Improve revenue mobilisation; reduce unproductive recurrent spending	Short-term
Private Investment	Streamline FDI approvals; strengthen investment protection frameworks	Short-medium
Hydropower Export	Accelerate cross-border power trade with India and Bangladesh	Medium-term
Financial Sector	Strengthen NPL resolution; improve capital adequacy; digitise credit delivery	Medium-term
Productive Diversification	Develop agro-processing, IT services, and manufacturing value chains	Long-term

Governance Reform	Enhance political stability; reduce regulatory uncertainty for businesses	Ongoing
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Table 2: Policy priority matrix. Source: Market.Nerds Research.

Conclusion & Outlook

Nepal's economic story in 2026 is one of resilience tested by structural fragility. The macro fundamentals — controlled inflation, healthy foreign exchange buffers, recovering tourism, and robust remittance flows — provide a stable near-term foundation. Yet the absence of a dynamic, diversified productive base means that external shocks can disproportionately destabilise the economy.

The medium-term trajectory hinges on Nepal's ability to translate its extraordinary hydropower potential into a foreign exchange-generating export industry, attract quality FDI in value-added sectors, and sustain governance improvements that underpin investor confidence. The structural reform agenda is well understood; what remains insufficient is the political will and institutional capacity to execute it consistently.

Nepal's economic potential is significant. The path from "stable but fragile" to "stable and dynamic" runs through structural reform, energy transformation, and a sustained commitment to private sector-led growth.

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