NEPAL

Population[1] million	Poverty[2] millions living on less than $4.20/day
29.7	2.7
Life expectancy at birth[3] years	School enrollment[4] primary (% gross)
70.4	123.0
GDP[5] current US$, billion	GDP per capita[6] current US$
42.9	1447.3

Sources: WDI, MFMod, and official data. 1/ 2024. 2/ 2022 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

Recent unrest and heightened uncertainty are likely to have a material short-term economic impact: growth is projected to decline weighed down by the services sector; poverty reduction is expected to slow; and the fiscal deficit is expected to widen. Economic recovery is predicated on reduced uncertainty and a pick-up in reconstruction activities. Key risks include continued political uncertainty and increased domestic financial sector vulnerabilities.

Key conditions and challenges

Nepal experienced its worst unrest in decades on September 8–9, 2025. A social media ban triggered youth-led protests against corruption, followed by widespread unrest causing significant human and economic losses. The damage to public and private infrastructure is still being assessed. On September 9, Nepal's Prime Minister resigned and on September 12, the President appointed an interim administration tasked with holding a parliamentary election on March 5, 2026.

The protests reflected frustration with governance and deeper discontent over the lack of economic opportunities for Nepal's youth. This lack of opportunity stems from structural weaknesses holding back private enterprises, including a complex and uncertain business environment, corruption, high trade and transport costs, and inadequate infrastructure. As a result, growth has been slower than peers—at an average of 4.3 percent over FY12–24—and job creation has been limited. Youth unemployment reached nearly 22.7 percent in FY23, one of the highest levels in South Asia. As a result, labour migration has become the dominant livelihood strategy. Remittances, averaging nearly 23 percent of GDP over FY12–24, have sustained basic consumption. Without remittances, an estimated 2.6 million more people would have been in poverty.

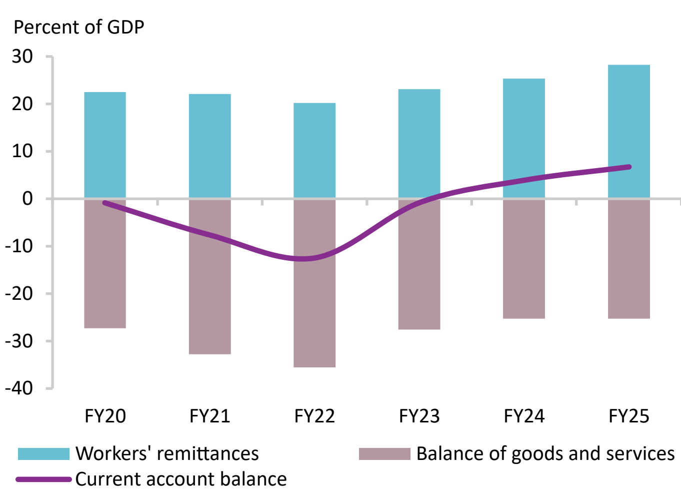
To address these structural challenges, implementing reforms proposed by the High-Level Economic Reform Commission in April 2025 will be critical. Key priorities include simplifying tax policy and streamlining tax administration, creating policy certainty, tackling corruption and cutting red tape, streamlining administrative processes, and accelerating infrastructure investment. Effective implementation could help strengthen governance, boost growth and shared prosperity, and create more jobs.

Recent developments

Growth picked up marginally from 3.7 percent in FY24 to 4.6 percent in FY25, supported by a rebound in manufacturing and construction activities. Higher hydropower generation and stronger wholesale and retail trade also contributed to the pickup.

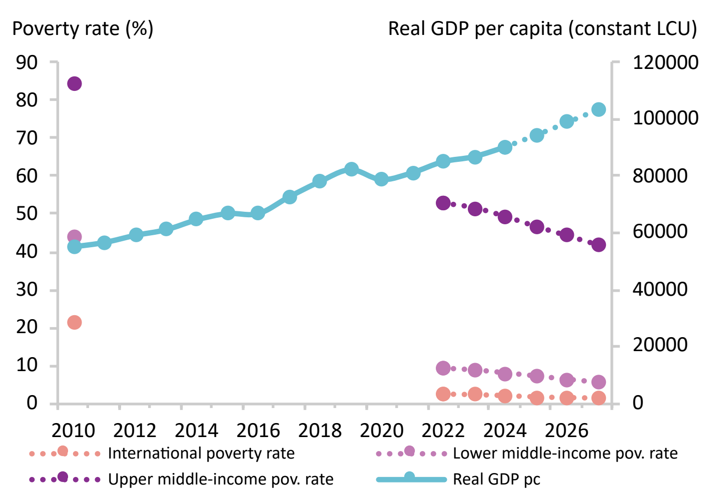
Headline inflation eased to 4.1 percent in FY25 from 5.4 percent in FY24, falling below the central bank's 5 percent ceiling. This moderation reflected declines in both food and non-food inflation possibly

FIGURE 1 / The current account surplus widened to a record high in FY25



Sources: National Statistics Office, Nepal Rastra Bank, and World Bank staff calculations.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

reducing the negative impact on vulnerable households. At the start of FY25, the central bank cut the policy rate by 50 basis points to stimulate private sector lending. However, credit-to-GDP remained sluggish despite ample liquidity, and non-performing loans (NPLs) rose to 4.6 percent, reflecting underlying weaknesses in the real sector.

The fiscal deficit narrowed to a nine-year low of 2 percent of GDP in FY25, supported by stronger tax collections and inability to execute the capital expenditure budget. Trade-related revenues were boosted by higher merchandise imports while non-trade revenues rose due to increased excise duties on alcoholic beverages reflecting higher production and rate adjustments. With public debt at 43.6 percent of GDP and a highly concessional external debt profile, Nepal remained at a low risk of debt distress.

The current account remained in surplus for second consecutive year in FY25 due to record-high re-exports of edible oils and remittance inflows. Imports were largely driven by crude edible oil purchases, mainly from Argentina and Brazil, while refined edible oil exports to India fueled export growth. This trade pattern is a direct result of tariff differentials that make domestic refining and re-export of edible oils profitable. Foreign exchange reserves strengthened, reaching 15.4 months of import coverage by end-FY25.

Outlook

Reflecting recent unrest and heightened political and economic uncertainty, GDP growth is projected to decline to 2.1 percent in FY26 in the baseline scenario, with a potential range of 1.5–2.6 percent. As a result, poverty (USD 4.2/day) forecasts for FY26 (6.6 percent) and FY27 (5.9 percent) are slightly higher than the forecasts before the recent unrest (6.2 percent and 5.4 percent, respectively).

The baseline assumes a sharp decline in international tourist arrivals and spillover effects of asset losses on the insurance industry in FY26. Consequently, the services sector is expected to weigh on GDP growth. Industrial activity will slow as private investment, and non-hydro construction declines amid weaker investor confidence. The agricultural sector will be affected by delayed rainfall in a major rice-producing province. Reconstruction efforts are expected to begin in FY26 and gain momentum in FY27, supporting the recovery.

Inflation is expected to remain within the central bank's 5 percent ceiling over the medium term, supported by easing global commodity prices and moderating inflation in India. The current account surplus is projected to widen in FY26, reflecting higher remittances, savings repatriated by returning migrants, and slower imports growth, and is projected to narrow beginning FY27 as reconstruction-related imports pick up.

The fiscal deficit is expected to widen in FY26 due to higher spending on reconstruction and elections and slower revenue growth due to weaker imports growth. The deficit is expected to narrow in FY27 as revenues recover in line with imports. Public debt is projected to increase in FY26, reflecting the higher fiscal deficit, and stabilize thereafter. Overall, Nepal is projected to remain at a low risk of debt distress.

The outlook is subject to mixed risks. Key downside risks include persistent political uncertainty weighing on economic activity, higher NPLs straining the domestic financial sector, continued presence on the Financial Action Task Force (FATF) Grey List, and disruptions to public services and core administrative processes reflecting damage to public infrastructure. On the upside, a successful political transition and sustained macroeconomic management could strengthen investor sentiment and support a stronger economic recovery.

Recent history and projections

Recent history and projections	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	5.6	2.0	3.7	4.6	2.1	4.7
Private consumption	6.8	0.7	1.1	1.8	1.2	2.8
Government consumption	9.6	-21.2	13.3	-0.4	11.6	0.4
Gross fixed capital investment	3.4	-15.8	2.0	1.5	0.9	13.0
Exports, goods and services	34.1	4.3	11.8	17.7	5.2	9.3
Imports, goods and services	16.4	-18.8	-2.5	3.2	1.7	7.3
Real GDP growth, at constant factor prices	5.3	2.3	3.4	4.0	2.1	4.7
Agriculture	2.4	3.0	3.4	3.3	2.4	3.1
Industry	10.7	1.3	0.1	4.5	4.1	8.3
Services	5.3	2.2	4.4	4.2	1.3	4.4
Employment rate (% of working-age population, 15 years+)	75.6	75.6	75.7	75.9	76.1	76.3
Inflation (consumer price index)	6.3	7.7	5.4	4.1	4.2	4.5
Current account balance (% of GDP)	-12.5	-0.9	3.9	6.7	7.3	6.5
Net foreign direct investment inflow (% of GDP)	0.4	0.1	0.1	0.1	0.1	0.1
Fiscal balance (% of GDP)	-3.2	-5.8	-2.5	-2.0	-2.8	-2.5
Revenues (% of GDP)	22.9	19.3	19.4	20.0	20.2	21.1
Debt (% of GDP)	40.5	42.8	42.6	43.6	45.2	45.2
Primary balance (% of GDP)	-2.4	-4.6	-1.2	-0.9	-1.6	-1.3
International poverty rate ($3.00 in 2021 PPP)[1,2]	2.4	2.3	2.0	1.5	1.4	1.2
Lower middle-income poverty rate ($4.20 in 2021 PPP)[1,2]	9.1	8.7	7.9	7.1	6.6	5.9
Upper middle-income poverty rate ($8.30 in 2021 PPP)[1,2]	52.6	51.5	49.3	46.7	45.5	43.3
GHG emissions growth (mtCO2e)	-6.3	-0.5	3.1	3.1	2.8	3.5

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.
1/ Calculations based on SAR-POV harmonization, using 2022-LSS-IV. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.
2/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.