NEPAL

Table 1	2023
Population, million	30.9
GDP, current US$ billion	41.2
GDP per capita, current US$	1332.2
International poverty rate ($2.15)[a]	8.2
Lower middle-income poverty rate ($3.65)[a]	40.0
Upper middle-income poverty rate ($6.85)[a]	80.4
Gini index[a]	32.8
School enrollment, primary (% gross)[b]	118.8
Life expectancy at birth, years[b]	68.4
Total GHG emissions (mtCO2e)	49.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2010), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

GDP growth is projected to increase from 1.9 percent in FY23 to 3.3 percent in FY24, driven by revived tourism and improved electricity generation. Decreased expenditure is anticipated to trim the fiscal deficit, while a current account surplus is expected due to reduced merchandise imports and increased remittances. Monetary easing could also support medium-term growth. Despite significant reduction in poverty over the past decade, concerns persist over vulnerability to relapse and short-term risks such as high inflation and other shocks.

Key conditions and challenges

Nepal's economy experienced an average growth rate of 4.5 percent over the past decade, punctuated by four significant external shocks in 2015 (earthquake), 2016 (India blockade), 2017 (landslide), and 2020 (COVID-19). Remittances, accounting for approximately one-quarter of the country's GDP for a decade, have driven private consumption. The new household survey data shows a 66 percent increase in average real per capita consumption between FY11 and FY23, alongside a significant decline in the poverty rate by 21.6 percentage points to 3.6 percent over the same period (based on the 2011 national poverty line). Remittances were a major factor in poverty reduction, contributing an estimated 32 percent.

Despite these positive developments and achieving lower-middle-income country status in FY20, Nepal's per capita income level still lags its peer countries. Persistent challenges such as low productivity and fiscal pressures from the transition to fiscal federalism impede progress. Sluggish private sector growth, geographic and environmental challenges, weak international competitiveness, and governance issues pose further obstacles. Although both the inequality and prosperity gap have decreased, about 20.3 percent of the population still live below the new national poverty line, which is 70 percent higher than the 2011 poverty threshold. The incidence of poverty varies across the seven provinces of Nepal, reflecting spatial disparities across the country.

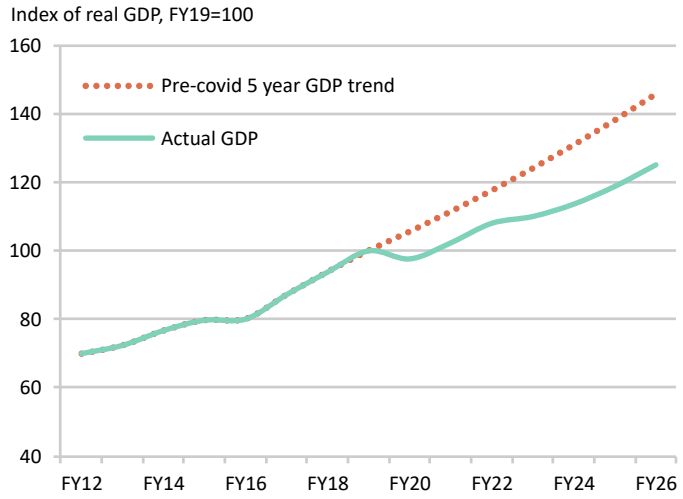
Limited job opportunities are another characteristic of Nepal's economy. Consequently, emigration remains a preferred option for Nepalis across the income distribution, with poorer households benefiting increasingly more from remittances over the past decade. On average, migrant workers earned three times more than domestic workers. Self-employment or unpaid work comprised a third of all employment in FY23, while over half of those with secondary education and a quarter with tertiary education were unemployed.

Recent developments

After a 1.9 percent growth in FY23, high-frequency indicators show improvement in growth in the first half of FY24 (H1FY24) compared to H1FY23. Industrial growth benefited from higher hydropower generation, while services saw gains from a 46.8 percent (year-on-year) increase in tourism arrivals. Agriculture grew due to increased paddy production. However, weak domestic demand persists despite a 1 percentage point policy interest rate cut in December 2023.

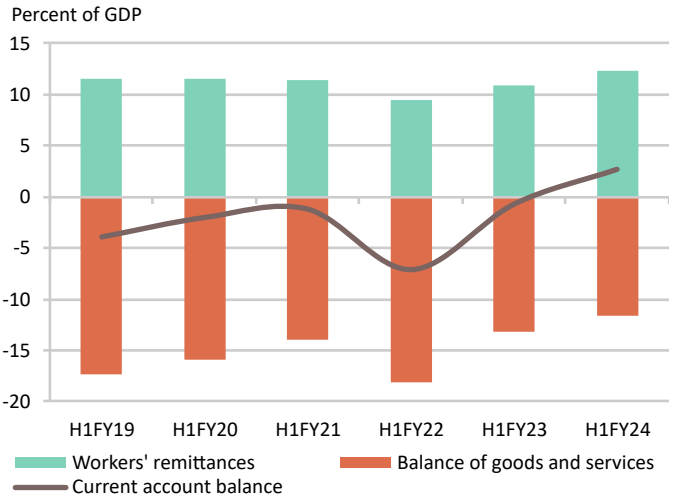
Average inflation cooled to 6.5 percent in H1FY24 from 8 percent in H1FY23, driven by an easing in prices of transportation and housing and utilities. However, inflation expectations appear persistent, and poor households may face rising prices

FIGURE 1 **Nepal** / Real GDP levels: Actual vs. pre-covid trend



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

FIGURE 2 **Nepal** / Current account deficit



Sources: World Bank staff calculations and Nepal Rastra Bank.

due to increased shipping costs from Red Sea supply disruptions.

The current account balance turned from a deficit in FY23 to a surplus in H1FY24, the first time since H1FY16. This was supported by (a) strong remittance inflows, which grew by 22.6 percent year-on-year, and (b) declining imports of food, beverages, and industrial supplies, which narrowed the trade deficit. Additionally, exports increased due to higher earnings from tourism. Consequently, official foreign exchange reserves grew and reached 12.1 months of import cover by the end of H1FY24.

The fiscal deficit widened to 6.2 percent of GDP in FY23, driven by lower revenues owing to import restrictions. However, the deficit declined in H1FY24, reflecting improvement in income tax collections following provisions in the FY24 budget requiring banks and financial institutions to pay income tax on profits received through mergers or acquisitions and issuance of Further Public Offerings at a premium rate, and a decrease in expenditure, partly due to lower capital budget execution and austerity measures.

Outlook

Growth is projected to recover from 1.9 percent in FY23 to 3.3 percent in FY24, and further accelerate to an average of 5 percent in FY25-FY26, supported by monetary policy easing. The services sector is expected to remain the primary driver of real GDP growth and job creation over the medium term. However, most service sector jobs remain low productivity and informal. Industrial growth, particularly in the electricity sub-sector, is projected to strengthen due to significant additions in hydroelectric capacity, which could boost productivity. The economy could also benefit in the medium term from increased private investment if reforms are implemented to improve the business environment.

Consumer price inflation is expected to remain elevated in FY24 compared to the FY17-23 average, increasing short-term poverty and vulnerability risks, before gradually declining, reflecting moderation in global commodity prices and lower inflation expectations.

The current account balance is projected to turn into a surplus in FY24, the first since FY16, due to robust remittances growth and lower merchandise imports. The surplus will narrow in subsequent years as import growth outpaces that of exports. While electricity exports are set to continue, the recent surge in remittances, from record migration in FY23, is projected to subside.

Tax revenues are expected to decline further in FY24, despite some tax reforms, due to lower merchandise imports and revenue loss from increases in electric vehicle imports at lower tax rates. Spending is also forecast to decline driven by lower capital spending, as well as reduced fiscal transfers to subnational governments and administrative spending. The overall fiscal deficit is projected to narrow to 3.1 percent of GDP in FY24. Buoyed by strong GDP and merchandise imports growth, revenues are expected to expand over the medium term. Public investment is also expected to rise post-FY24, supported by the implementation of the National Project Bank. The fiscal deficit is projected to further narrow in FY25 and FY26. This would stabilize the debt below 41 percent of GDP by the end of FY26.

The forecast is subject to both domestic and external risks. Externally, geopolitical uncertainty may lead to a rebound in international commodity prices, affecting all sectors. A slowdown in partner countries could reduce remittance inflows and tourism, hindering growth and poverty reduction progress. In addition, the social protection programs are largely untargeted, have limited reach among the poor, and lack shock responsiveness. This poses fiscal risks and hinders social program effectiveness. These pressures, along with a weak domestic labor market, could further impact the poor and vulnerable population. Furthermore, persistent inflation expectations and lower domestic demand will weigh on the economy and the people. Natural disasters pose additional risks to sustaining welfare gains.

TABLE 2 Nepal / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.8	5.6	1.9	3.3	4.6	5.3
Private consumption	8.0	6.8	4.1	3.5	3.7	3.7
Government consumption	-1.7	9.6	-35.2	-16.5	9.2	9.3
Gross fixed capital investment	9.8	3.8	-10.9	-4.4	15.4	12.1
Exports, goods and services	-21.3	34.1	5.5	5.4	12.5	14.7
Imports, goods and services	18.8	15.1	-17.2	-4.5	13.1	9.7
Real GDP growth, at constant factor prices	4.5	5.3	2.2	3.3	4.6	5.3
Agriculture	2.8	2.2	2.7	2.2	2.4	2.5
Industry	6.9	10.8	0.6	2.9	5.7	8.6
Services	4.7	5.3	2.3	4.0	5.4	5.8
Inflation (consumer price index)	3.6	6.3	7.7	6.7	6.0	5.5
Current account balance (% of GDP)	-7.7	-12.6	-1.3	3.9	1.6	1.0
Net foreign direct investment inflow (% of GDP)	0.4	0.4	0.1	0.2	0.4	0.6
Fiscal balance (% of GDP)	-4.0	-3.7	-6.2	-3.1	-2.8	-2.7
Revenues (% of GDP)	23.3	23.1	19.2	18.7	19.6	20.1
Debt (% of GDP)	39.9	40.8	42.7	42.5	41.7	40.8
Primary balance (% of GDP)	-3.2	-2.7	-4.8	-1.7	-1.6	-1.7
GHG emissions growth (mtCO2e)	3.2	-0.5	-1.1	1.6	2.4	2.9
Energy related GHG emissions (% of total)	34.1	32.8	31.1	31.1	31.8	32.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.