

Nepal's Crippling Economy: Public Frustration and Government Response

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Summary

Nepal's internal economy is facing significant challenges, causing growing frustration among the public. The government is under pressure to improve the economy and overall governance sooner than later. It has chosen to make necessary amendments in relevant legislations, but through ordinance. While the intent of doing so appears reasonable, there are questions on the government's aversion to due parliamentary processes and the risk of such acts setting wrong precedence for the future.

The current coalition government in Nepal has completed six months in office. Its formation coincided with the start of the fiscal year (FY) 2024-2025 in Nepal. This is not a new government formed after fresh elections. It was formed by toppling the earlier coalition government, purportedly to address the country's [pressing political and economic challenges](#). On the economic front, which is the focus of this paper, the situation has not changed much in the past six months.

As was the case then, [external sector indicators are robust](#). The country's current account and balance of payments are in surplus, and its foreign exchange reserves are sufficient for more than 17 months of merchandise imports and more than 14 months of merchandise and services imports. There was also some increase in exports and imports. However, the internal economy has continued to remain weak. The year-on-year consumer price inflation (CPI) as of mid-December 2024 stood at 6.05 per cent, whereas it was 4.95 per cent the year earlier. The CPI was fuelled by food and beverage inflation at 9.99 per cent against non-food inflation of 3.92 per cent.

The [demand for goods and services](#) has remained suppressed. The manufacturing sector is performing well below its capacity. The construction sector has been on a [continuous squeeze](#) for the past several quarters. There is excess liquidity in the financial system and interest rates have fallen considerably but private credit growth is minimal. The economy has not been able to create adequate jobs for the workforce, largely due to the mass out-migration of youth, which has continued unabated. The positive outlook about foreign exchange is due to the massive remittance receipts that Nepal receives from the youth employed abroad rather than because of the country's actual economic performance. Public debt has been soaring, but capital expenditure has remained low. All this has generated frustrations among the general public and the business community alike.

With a view to identifying the main causes of the economic malaise that the country is in and to chart an appropriate course of action for the immediate term to jumpstart the economy, the government constituted a commission comprising experts and private sector

representatives. The commission has [submitted its interim report](#) and is working to submit its final report soon.

The government had also formed a task force to undertake reforms necessary for better service delivery to the public and make amendments to the existing legal provisions that have hindered investments in the country, among other things. The task force comprised former senior bureaucrats, legal experts and political party representatives, who worked closely with senior leaders of the political parties in the current coalition. It was mandated to study the relevant laws and recommend changes. The task force identified [a number of provisions in several laws](#) that required amendment and suggested them to the government.

The current government, formed by the two largest political parties and several other smaller parties, has more than an absolute majority in the parliament. Therefore, it should not be difficult for it to make the amendments as recommended by the task force following due parliamentary process. Yet, the government chose to make the amendments through ordinances.

The government has made [amendments to various provisions in several laws](#) related to the economy. Some of these laws include the Foreign Exchange Control Act, Revenue Tribunal Act, Black Marketing Act, Investigation and Control of Revenue Loss Act, Mediation Act, Company Act, Banks and Financial Institutions Act, Special Economic Zones Act, Foreign Investment and Technology Transfer Act, Public Private Partnership Act and Industrial Enterprises Act.

Strong opposition to the amendments has not been visible so far. However, there are questions about the process. Even some of the leaders of the ruling parties have [publicly criticised](#) the process of making the legal amendments through ordinances, especially when the government has more than an absolute majority in parliament.

Some of the leaders of the ruling parties, who have welcomed the move, have [responded to the criticism](#), stating that the amendments were needed immediately. Getting them through parliament might take long, even years, as has happened in the past. Moreover, since the ordinances would have to get through the parliament within six months to become permanent laws, this should not be considered bypassing of the parliament.

It is true that Nepal's parliament does not have [a good track record](#) of passing laws on time. And given the state of the country's economy and people's frustration towards the government, perhaps there was a sense of urgency in the government to get things done quickly. However, why could this not be accomplished through the parliamentary process, more so given the current strength of the government? If there are problems in parliamentary functions, it is the responsibility of the largest political parties that have formed the government to rectify them.

There might be good intentions in making the amendments through ordinances, but this could set a wrong precedence. Nepal's political parties have made use of ordinances in the past with ill motives too. While addressing the current economic challenges is necessary,

and the government is hard-pressed to act sooner than later, it is more important to follow due process. Identification of the causes that lengthen the parliamentary process of law-making and rectifying them should be a priority. Otherwise, there is a danger that ruling through ordinances will become the norm.

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