

Nepal's Economic Transformation amidst Political Challenges

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Summary

Nepal's economic transformation is among the least talked about in South Asia. Yet, it is one of the most compelling stories in the region. Since 2004, its gross domestic product has increased sixfold from US\$7 billion (S\$11.90 billion) in 2004 to US\$44 billion (S\$66.70 billion) in 2024.¹ The financial sector has played a pivotal role in enabling this transformation, with Nepal being the third highest globally in terms of private sector credit growth. Remittances have soared from US\$2 billion (S\$3.40 billion) to US\$11 billion (S\$16.70 billion) in 20 years, providing household consumption and investments.²

Nepal's fiscal indicators are thriving. It remains the country that pays the highest duties on vehicles, similar to Singapore, and has the highest tax-to-gross domestic product (GDP) ratio in South Asia.³ Social indicators have dramatically improved, with life expectancy moving from 54.77 years in 1990 to nearly 72 years in 2024.⁴ Primary school enrolment is close to a hundred per cent, and the literacy rate has increased from 59 per cent in 2000 to 76 per cent in 2024.⁵ Poverty has reduced from 25.16 per cent in 2011 to 20.27 per cent in 2023 as per the *Nepal Living Standard Survey 2022/23*.⁶ Remarkably, 81 per cent of Nepalis live in their own homes, and four out of five Nepali families have at least someone working or living abroad. The population has increased by 10 million between 1991 and 2021 – a 50-per cent increase in over three decades. The Nepali diaspora now spans over 180 countries around the world.

The transformation has been immense. However, despite this socioeconomic progress, Nepal's political challenges have remained the topic of global attention. Therefore, it is important to understand what these challenges are and what the future looks like.

¹ Sujeev Shakya, 'Uncertainty is the Only Constant', Nepal Economic Forum, 9 July 2024, <https://nepaleconomicforum.org/uncertainty-is-the-only-constant/>.

² Raynor de Best, 'Value of personal remittances in Nepal from 2000 to 2023, based on remittance inflow from any other country', *Statista*, 12 February 2025, <https://www.statista.com/statistics/880745/nepal-value-of-remittances/>.

³ 'Tax Revenue (% of GDP) - Nepal', World Bank, 2021, <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=NP>.

⁴ 'Nepal Burden of Diseases 2019', Nepal Health Research Council, 2021, https://nhrc.gov.np/wp-content/uploads/2022/02/BoD-Report-Book-includ-Cover-mail-6_compressed.pdf; and 'Nepal Life Expectancy 1960-2025', MacroTrends, 2022, <https://www.macrotrends.net/global-metrics/countries/npl/nepal/life-expectancy>.

⁵ 'Education', UNICEF Nepal, <https://www.unicef.org/nepal/education>.

⁶ 'Nepal Living Standards Survey IV 2022/23: Statistical Report', National Statistics Office, June 2024, <https://data.nsonepal.gov.np/dataset/b6c3c19b-4b15-44bf-8653-1571e76dad14/resource/e2d52301-1c25-498b-8732-4326c62a2372/download/nlss-iv.pdf>.

The 2015 Constitution and Geopolitics

Nepal's political journey has been turbulent. After the second uprising, popularly called the *Jana Andolan II* in 2006, the autocratic Shah monarch was forced to abdicate the throne, marking the end of 240 years of the Shah-Rana rule. Nepal became a federal democratic republic, and the process to write a new constitution began with the first constituent assembly taking shape in 2008.

However, the journey was bumpy, and it took a big Gorkha earthquake in April 2015 to finally push the politicians to expedite the writing of the constitution. The constitution was not a perfect one, and when it was promulgated in September 2015, institutionalising a three-tiered governance, India forced an economic blockade on the country reeling under the impact of an earthquake. This began the nosediving of the India-Nepal relationship, which had then just recovered from the visit of Prime Minister Narendra Modi in November 2014.⁷ This also forced Nepal to look at China for alternatives in terms of transit, and Nepal effectively became free from being an 'India-locked' status.⁸ This moment prompted China's President Xi Jinping to make a brief visit in October 2019, and China continued to engage with Nepal through different people-to-people programmes like scholarships, exchange visits and developing relationships with political parties, symbolising a geopolitical shift.

Federalism – Nepal is not Kathmandu Anymore

The federal structure of Nepal has the provision of seven provinces and 753 local governance units comprising metropolitan, municipality and village municipalities. Since the promulgation of the constitution, two local elections have been held in 2017 and 2022. In 2022, there were 145,011 candidates (89,313 men and 55,698 women) who registered to run for 35,221 seats, with women taking up nearly 40 per cent of contestants. Of these, 390 were elected unopposed.⁹

The sheer reach and decentralisation of democracy to far corners of Nepal have changed how Nepalis perceive governance and development. During the COVID-19 pandemic, it was the local governments that ensured that the response was quicker, and vaccination rollouts worked well. Similarly, when landslides block roads, the local governments are swift to act. Additionally, local governments pushing for telecommunication towers and electricity connections have made Nepal pretty much connected a hundred per cent with electricity, phone services and internet. Rural roads and thousands of bridges now connect the previously isolated regions, also helping in moving goods. Local tourism has flourished, and economic activity is no longer confined to Kathmandu. Till 2015, 80 per cent of the economy was concentrated in the capital (a sixth of the population). Today, the movement of

⁷ 'India-Nepal Bilateral Relations Slide: Perspective From Kathmandu', Council on Foreign Relations, 22 June 2020, <https://www.cfr.org/blog/india-nepal-bilateral-relations-slide-perspective-kathmandu>.

⁸ Sujeev Shakya, 'Freedom from being "India-locked": On Nepal-India relations', *The Hindu*, 4 December 2021, <https://www.thehindu.com/opinion/op-ed/freedom-from-being-india-locked/article62111391.ece>.

⁹ 'Federalism in Action – Nepal's Local Elections 2022: Two Steps Forward but One Step Back?', *Forum of Federations Blog*, 9 August 2022, <https://forumfedblog.org/federalism-in-action-nepals-local-elections-2022-two-steps-forward-but-one-step-back/>.

economic activities besides the capital has visibly decentralised, though this remains under-discussed.

Political Players Need to Change

While the economic activities and political structure have changed, the political actors have not, and that has led to great frustration amongst the Nepali public. It is a problem that does not have a quick fix, but Nepalis want to find a quick solution.

Three familiar political leaders – K P Sharma Oli, Pushpa Kamal Dahal ‘Prachanda’ and Sher Bahadur Deuba – have been playing the game of musical chairs (I refer to them as the ‘Prachanda-Oli-Deuba (POD) Cartel’ in my socials. Oli of the Communist Party (CPN) of Nepal (Unified Marxist-Leninist) has been able to stay at the helm, splitting and uniting the communist parties. He has become prime minister for the third time at the age of 72 years. He has managed to sideline his two key opponents within his party by pushing them to split and forming a new party.¹⁰ He continues to expel people who confront him.

Dahal ‘Prachanda’, or the fierce one, rose to prominence leading a violent insurgency that took 13,000 lives. He became prime minister for the first time in 2008, winning the highest number of seats for the CPN (Maoist Centre) in the constituent assembly. He became prime minister twice after that. The 70-year-old Dahal has been part of different coalitions and is accused of proliferating his family’s involvement in a dynastic manner. The *Kathmandu Post* columnist Deepak Thapa talked about the multiple members of the family involved in politics.¹¹ He also sidelined his strongest competitor, Baburam Bhattarai, and holds a monopolistic hold over party leadership, anointing his daughter as successor.

Deuba, the oldest of the trio, is 79 years. He has become the prime minister five times. A shrewd politician, he split with the Nepali Congress to start his faction and then reunited to lead the party since 2016. He pushed his opponent, Ram Chandra Paudel, to become the President and kept the Koirala clan at bay by playing different family factions against one another. In 2024, he pushed for the appointment of his wife, Arzu Rana Deuba, 16 years younger than him, hoping she would become the next prime minister when the coalition leadership changes.¹²

The ‘POD Cartel’ has been Nepal’s prime ministers for the past 10 years. They operate like a cartel, distributing different government positions amongst themselves irrespective of their being part of a coalition or opposition. Every business and professional associations, though divided along party lines, have the same line of patronage and people switch loyalties very

¹⁰ Bal Krishna Sah, ‘Rawal lambastes Oli for being autocratic’, *The Himalayan Times*, 2 January 2025, <https://thehimalayantimes.com/kathmandu/rawal-lambastes-oli-for-being-autocratic>.

¹¹ Deepak Thapa, ‘Prachanda and Company’, *The Kathmandu Post*, 9 February 2023, <https://kathmandupost.com/columns/2023/02/09/prachanda-and-company>.

¹² ‘Rastriya Swatantra Party emerges as third largest in initial PR votes count’, *myRepublica*, 21 November 2022, <https://myrepublica.nagariknetwork.com/news/rastriya-swatantra-party-emerges-as-third-largest-in-initial-pr-votes-count>.

quickly.¹³ This has encouraged a wide set of power brokers and deal makers, making corruption sink deep into society with rising impunity. They pursue the prosecution of people they do not like and work with the judiciary to acquit their circle members despite being involved in a similar set of crimes.¹⁴ This 'big three' handle all serious matters, sporadically divulging proceedings through 'sources'.¹⁵ This practice has sparked criticism for protecting corrupt people, promoting nepotism, favouritism and 'bhagbanda' (distribution of power and perks amongst the group based on political loyalties rather than on merit).¹⁶

The frustration against these leaders led to the rise of independent parties in the elections of 2022, with a new party formed 114 days before the elections which ended up with 20 seats in the parliament. It was the third-largest party with total votes in the proportional representation.¹⁷ The Kathmandu mayor is a 33-year-old engineer who won a landslide victory as an independent, and that is what people are looking forward to in terms of change and with half the population under 25 years, they seek the change fast.

There is much frustration amongst the people. There was a campaign of #NoNotAgain during the 2022 elections against the old leaders.¹⁸ The President of the Rastriya Swatantra Party, Rabi Lamichhane, became a key player in shaking the fundamental equation among the 'POD Cartel'. He won a landslide victory in the 2023 elections as he represented the aspirations of people.¹⁹ A decision on the citizenship case made him resign from his parliamentary seat.²⁰ He contested again and won by a large margin. He has been taken into custody multiple times since October 2024, with cases against him ranging from fraud, money laundering and organised crime.²¹ Members of the party belonging to the 'POD Cartel' have gone scot-free for similar crimes.²²

¹³ Nabraj Lama, 'Intersection of Politics and Professions: Nepal's Paradoxical Scenario', *myRepublica*, 1 September 2023, <https://myrepublica.nagariknetwork.com/news/intersection-of-politics-and-professions-nepal-s-paradoxical-scenario>.

¹⁴ 'Rotten at the Root', *The Kathmandu Post*, 17 June 2024, <https://kathmandupost.com/editorial/2024/06/17/rotten-at-the-root>.

¹⁵ 'Prachanda, Oli and Deuba meet after Police arrest Khand', *Ratopati*, 10 May 2023, <https://english.ratopati.com/story/27698/after-police-arrest-khand->.

¹⁶ Sujeev Shakya, 'Power Struggles and Scandals in Nepal's Political Sphere', *East Asia Forum*, 2 February 2024, <https://eastasiaforum.org/2024/02/02/power-struggles-and-scandals-in-nepals-political-sphere/>.

¹⁷ Sujeev Shakya, 'New Faces in Nepal's Politics: A Phase of Change', *The Hindu*, 7 December 2022, <https://www.thehindu.com/opinion/lead/new-faces-in-nepals-politics-a-phase-of-change/article66223342.ece>.

¹⁸ Diwakar Dhakal, '"No Not Again": What Nepalis need to be aware of?', *myRepublica*, 1 November 2022, <https://myrepublica.nagariknetwork.com/news/no-not-again-what-nepalis-need-to-be-aware-of>.

¹⁹ Ajaya Bhadra Khanal, 'Cries of Help', *The Kathmandu Post*, 20 April 2025, <https://kathmandupost.com/columns/2025/04/20/cries-of-help>.

²⁰ 'The Rise and Fall of Rabi Lamichhane', *Nepali Times*, 27 January 2023, <https://nepalitimes.com/news/the-rise-and-fall-of-rabi-lamichhane>.

²¹ 'How will Rastriya Swatantra Party move forward without Rabi?', *Khabarhub*, 10 April 2025, <https://english.khabarhub.com/2025/10/456566/>.

²² Shishir Dhakal, 'Investigation, Impunity, and Suspension: Clash of Crime, Corruption, and Political Favor Among Nepal's Representatives', *Nepal News*, 25 December 2024, <https://nepalnews.com/s/feature/investigation-impunity-and-suspension-clash-of-crime-corruption-and-political-favor-among-nepals-representatives/>.

India's Role in Nepali Politics

India's involvement in Nepali politics is nothing new. Prachanda and the Maoist leaders took shelter and ran operations from India during the insurgency. It may not necessarily be the federal government, but some members of the ruling Bharatiya Janata Party, especially from the state of Uttar Pradesh, have been pushing the agenda of the Hindu Kingdom in Nepal. Amish Mulmi wrote in *Himal South Asian*, "A point of special concern for Nepal's democratic leaders has been the appearance at royalist rallies of posters showing Ajay Mohan Singh Bisht, better known as Yogi Adityanath. There are legitimate fears over whether Bisht, a Hindutva hardliner and the chief minister of the Indian state of Uttar Pradesh, has backed the return of the king. Bisht and Gyanendra Shah have had multiple meetings, and these carry special resonance because Bisht is also the *mahant* of the Gorakhnath *math*."²³

The Indian media do not have any on-the-ground correspondents in Kathmandu. They discover stories via social media. The major ones that have supported the establishment continue to present a picture that there is a great sense of people's sentiment in Nepal that the monarchy should return. They provide space to journalists who are willing to provide opinions in favour of the monarchy and over-amplify pro-monarchy sentiments using unverified social media narratives. Outlets like *Aaj Tak* in India, which is watched in Nepal too, as feeds come on social media, propagate that China will be isolated if the monarchy returns in Nepal.²⁴

As writer Amish Mulmi opines, "Members of the RSS and its affiliates have propagated the idea that Nepal's current monarchist upsurge is part of a battle between atheist communists aligned with China and Hindus aligned with India."²⁵ Many Nepalis working in western international organisations who are losing their relevance in a Nepal that is transforming, also echo the same sentiments and brief their bosses on how serious this movement is, and there is the China factor to consider.

Why the Monarchy Will Not Return

Nepal is a country which has more than half its young population not having any memory of the functioning of the autocratic Shah regime. However, these Nepalese feels that the monarchy would be better than the current functioning of the 'POD Cartel'. The history of the 46 years of the Shah's rule (especially the 30 years of Panchayat from 1960 to 1990 and the year of direct rule of Gyanendra Shah) had the era of geopolitical challenges, economic upheavals and a society that had a wide gap between the elites, who were close to palace, and the general public.

²³ Amish Raj Mulmi, "The Incomplete End of Nepal's Hindu Monarchy", *Himal Southasian*, 5 April 2025, <https://www.himalmag.com/politics/nepal-monarchy-protests-hindutva-india-rss>.

²⁴ 'नेपालको राजाको पक्षमा भारतको हिन्दुत्ववादी नेताको भ्रम', *Aaj Tak*, 1 अप्रिल 2025, <https://www.aajtak.in/explained/story/nepal-protests-on-pro-monarchy-and-hindu-nation-impact-on-relation-with-china-ntcpmj-dskc-2205427-2025-04-01>.

²⁵ Amish Raj Mulmi, "The Incomplete End of Nepal's Hindu Monarchy", *Himal Southasian*, 5 April 2025, <https://www.himalmag.com/politics/nepal-monarchy-protests-hindutva-india-rss>.

The idea of restoring the monarchy fails to acknowledge that the royal regime was fraught with repression, lack of accountability and elite dominance. The monarchy's recent resurgence is largely driven by nostalgia, algorithmic amplification and regional political calculations. However, it lacks grassroots legitimacy or a coherent agenda for democratic governance.

I have my biases against the last king, Gyanendra, as I had a close insider experience. I served 18 years in a business group where his investment company was a partner firm. In my publication, *Unleashing the Vajra – Nepal's Journey Between India and China*, I wrote, "I had to continuously explain how the former king had very few investments, and perhaps it was not the political forces and Nepali people, it was Gyanendra who was responsible for the end of the institution of monarchy and the 240-year-old Shah dynasty." His problem remains that he never selects the right advisors, and he strongly believes that he is never wrong. In March 2025, he chose an 86-year-old former home minister, Navaraj Subedi, whose name people had forgotten, to oversee the work of the coordination committee in leading the fight in favour of the monarchy. The commander chosen for the protest Durga Prasai was a maverick who took to the streets after he could not pay back his loans. Protected by some politicians, he emerged as the rogue saviour of people who, like him, had defaulted on loans. Nepali Times in an editorial "Many defaulters have rallied around businessman Durga Prasai, himself a wilful defaulter who failed to pay back bank loans for a hospital in Jhapa and held nationwide demonstrations earlier this year. Prasai urged his supporters to stop servicing their loans and to force banks to cancel their debt."²⁶

The protests in support of the monarchy on 28 March 2025 turned violent. My argument has been that sustaining public protests in today's Nepal, where daily wages are US\$15 (S\$22.75) per day, is difficult. Further, leaders do not have large houses to accommodate people who come from villages to protest, as in earlier times. Transportation costs have gone up, and many young people who could be their potential recruits are working in the Middle East or Europe. Further, with pictures on social media accessible to embassies and other authorities, people who still have the intention to travel for work or pleasure are worried they may not get police certificates or visas, looking at the chaotic situation.

Closure to the Monarchy Chapter

I completely agree with author Amish Mulmi, who wrote this succinct analysis in *Himal South Asia*, in which he says, "Violent pro-monarchy protests reveal Nepal's incomplete transition from a Hindu kingdom to a secular republic, with nationalist myths and India's Hindu Right feeding into royalist resurgence."²⁷ The political leaders, especially the 'POD Cartel' just have proliferated the monarchy institutions. The president would like to stand at a religious function exactly at the same spot that the Kings did, rather than questioning why

²⁶ Many defaulters have rallied around businessman Durga Prasai, himself a wilful defaulter who failed to pay back bank loans for a hospital in Jhapa and held nationwide demonstrations earlier this year. Prasai urged his supporters to stop servicing their loans and to force banks to cancel their debt. See Shristi Karki, 'Street politics: Anti-establishmentarians take to the streets hoping to tap on discontent among Nepalis', Nepali Times, 23 November 2023, <https://nepalitimes.com/news/street-politics>.

²⁷ Amish Raj Mulmi, 'The incomplete end of Nepal's Hindu monarchy', *Himal Southasian*, 7 April 2025, <https://www.himalmag.com/politics/nepal-monarchy-protests-hindutva-india-rss>.

a President of a secular nation should oversee a religious function. Prime ministers are happy to step into the shoes of chancellor of the universities, previously held by the King.²⁸ Ministers love to play musical chairs in different institutions that were created with the royal decree to recruit and reward sycophants like the Lumbini Development Trust and Pashupati Area Development Trust. These institutions had the Queen as the chair, and now Ministers chair these institutions without reforming them. Different businesses, professionals and other organisations were created to perpetuate sycophancy and help during self-service events like birthday celebrations of the King having worked in a royal family investment company for 18 years, I have witnessed these activities. In *Unleashing Nepal*, I write about royal patronage to businesses and how it was difficult for businesses to come into being before 1990 without the blessings of the royal family.²⁹

Nepal needs to use this moment to look back upon institutional structuring and how to keep it away from politics in a manner that the monarchs and palace intervene. The recent report of the High-Level Commission on Reforms of April 2025 points out many ex-officio positions that need to be disbanded;³⁰ perhaps it is time to look at more of those reforms.

For the 'POD Cartel', it is hoped that this is a wake-up call and that it understands the frustrations of the Nepali people who are tired of the current leaders' way of running the country. They have an opportunity to transform for the better, or they risk vanishing from the political sphere in 2028 when Nepal will vote again. The economic transformation of Nepal has taken place despite poor leadership, political uncertainty and a section of the business community that perpetuated crony capitalism. Changes are needed to accelerate the pace of the transformation.

Navigating Transformation

Nepal's journey over the past two decades is a story of resilience and quiet progress, often overshadowed by political noise. Its economy, social indicators and decentralisation successes deserve far more attention. However, sustained transformation requires political renewal – moving beyond the entrenched 'POD Cartel' and empowering a new generation of leaders committed to transparency and reform. Only then can Nepal realise the full potential of its democratic and economic awakening.

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²⁸ 'TU Chancellor should be selected through open competition: VC Baskota', *myRepublica*, 2 November 2023, <https://myrepublica.nagariknetwork.com/news/chancellor-of-university-should-be-selected-through-open-competition>.

²⁹ Sujeev Shakya, 'Unleashing Nepal, Chapter 2', September 2009, https://thuprai.com/book/unleashing-nepal/?srsltid=AfmBOorZC IZYlrPLlj_KFQQO667_OTCwlvOyKXE14tmkKcXMaFpFRrl.

³⁰ Sujeev Shakya, 'Nepal Reform 2.0 – Will Words Translate into Action', Nepal Economic Forum, 15 April 2025, <https://nepaleconomicforum.org/nepal-reform-2-0-will-words-translate-into-action/>.