NEPAL

Table 1	2023
Population, million	30.9
GDP, current US$ billion	40.9
GDP per capita, current US$	1324.0
International poverty rate ($2.15)[a]	0.4
Lower middle-income poverty rate ($3.65)[a]	7.5
Upper middle-income poverty rate ($6.85)[a]	44.1
Gini index[a]	30.0
School enrollment, primary (% gross)[b]	123.0
Life expectancy at birth, years[b]	70.5
Total GHG emissions (mtCO2e)	50.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth accelerated in FY24, driven by tourism, hydropower, and remittance-driven private consumption. Reduced recurrent spending lowered the fiscal deficit, while lower imports and higher remittances led to the first current account surplus in years. Despite reduced monetary poverty, 14.5 million Nepalis remain vulnerable to climate risks, and millions may fall back into poverty due to climate shocks and persistently weak local economic opportunities. While medium-term growth is projected to be around 5 percent, risks remain, including political.

Key conditions and challenges

Nepal's economy has demonstrated remarkable resilience, growing at an average of 4.5 percent over the past decade despite significant external shocks. Over 20 percent of the population is classified as poor using the revised national poverty line. However, welfare has significantly improved in the last decade, mainly due to increased remittances. As a result, extreme poverty, applying the international poverty line of $2.15 per day, has been nearly eliminated, and the percentage of Nepalis living on less than $3.65/day and $6.85/day has significantly reduced. Consumption inequality has also decreased, with the Gini index falling from 32.8 to 30.0 and the prosperity gap narrowing. Without remittances, over 2.6 million more people would be classified as poor. Human capital has improved, with 94 percent of households gaining electricity access, up from 70 percent. Progress includes reduced distance to public hospitals and increased availability of paved roads. Spatial inequalities persist, with the poorest provinces like Sudurpashchim and Karnali experiencing longer distances to paved roads and lower electricity access compared to national averages.

Vulnerability to climate shocks also remains a challenge. Although poverty reduction is particularly salient in rural areas, poverty remains predominantly rural. Poverty incidence varies significantly across provinces, with the poverty rate (based on the national poverty line) as high as 34.2 percent in Sudurpashchim and as low as 11.9 percent in Gandaki. Inequality (Gini index) in urban areas (30.3) is higher than in rural areas (28.7). Sluggish job creation with a high youth unemployment rate (22.7 percent in 2022/2023) makes emigration a preferred option for Nepalis across the income distribution (particularly the young male), contributing to a loss of skilled workforce.

Despite these positive developments, Nepal's per capita income level remains below its peers. Persistent challenges such as low productivity and weak international competitiveness hinder sustained high growth rates. Additionally, challenges related to the effective implementation of federalism and other governance issues constrain economic progress.

Recent developments

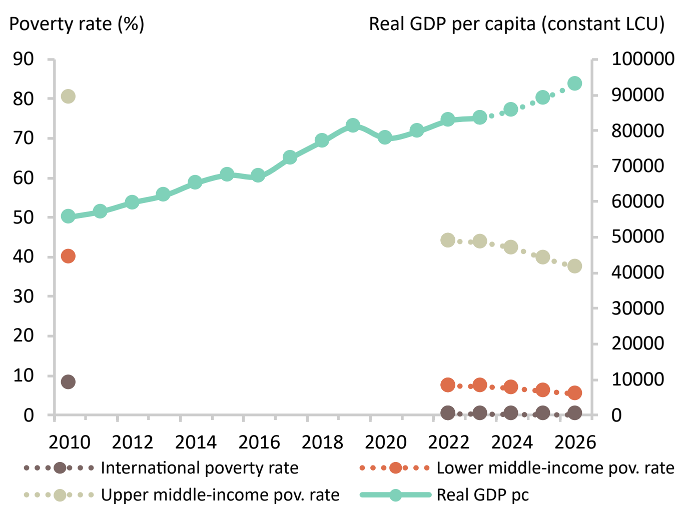
Growth accelerated to 3.9 percent in FY24, from 2 percent in FY23. The services sector was a key driver, fueled by a surge in tourist arrivals that boosted activities in transportation, accommodation, and food services. Increased hydropower and paddy productions also supported growth. On the demand side, high remittances boosted private consumption, while low capital spending kept public investment subdued.

Headline inflation fell to 5.4 percent in FY24 from 7.7 percent in FY23, below the central

FIGURE 1 Nepal / The current account balance turned positive in FY24

Sources: World Bank staff calculations and Nepal Rastra Bank.

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



Source: World Bank. Notes: see Table 2.

bank's 6.5 percent target, mainly due to reduced non-food and services inflation.

The current account balance turned positive for the first time in eight years in FY24, driven by increased remittances from record migration in FY23 and lower imports of intermediate goods. Exports increased due to record-high electricity exports and growth in export services from higher tourist arrivals. Consequently, foreign reserves grew, reaching 13 months of import cover at end-FY24.

The fiscal deficit narrowed to a seven-year low of 2.6 percent of GDP in FY24, largely due to reduced recurrent expenditure driven by austerity measures and lower intergovernmental transfers. Domestic revenue collection improved slightly, with increases in both trade and non-trade revenues. The fiscal deficit was financed through a combination of domestic and external concessional borrowings. Public debt reached 42.7 percent of GDP by end-FY24. However, Nepal remains at a low risk of debt distress due to both external and overall public debt.

The central bank reduced the policy rate twice in FY24, from 7 percent to 5.5 percent, to stimulate private sector credit. However, credit as a proportion of GDP remained stagnant, while non-performing loans rose to a record 4 percent.

Outlook

Growth is projected to accelerate to 5.1 percent in FY25 and 5.5 percent in FY26. The wholesale, retail, construction, and manufacturing, which together account for over one-fifth of the GDP, are poised to benefit from the central bank's loosening of monetary policy and easing of regulatory requirements. This is anticipated to stimulate private investment, while remittance-driven private consumption, along with hydropower and tourism exports, is expected to bolster growth.

Inflation is anticipated to remain moderate due to declining global commodity prices and increased agricultural production. As a result, the poverty ($3.65/day) is expected to decline to 6 percent in 2025 and 5.4 percent in 2026. However, 14.5 million people are vulnerable to falling into poverty due to climate change hazards, particularly in the northern mountainous areas.

The current account surplus is expected to moderate in FY25 in response to increased imports. However, a projected increase in net electricity exports is expected to partially offset this. Remittances are expected to stabilize at around 25 percent of GDP following the peak migration in FY23. Under the baseline scenario, foreign reserves are projected to remain sufficient to cover imports for over nine months at end-FY26.

A gradual reduction in the fiscal deficit is expected over the medium term, driven by decreased recurrent expenditure and revenue measures. New tax measures in the FY25 budget and the implementation of the Domestic Revenue Mobilization Strategy are anticipated to increase revenue collection. While planned capital expenditure is projected to rise, its execution is likely to remain constrained by the slow implementation of the national project bank. Public debt is also expected to decline due to smaller fiscal deficits and higher economic growth.

While Nepal's medium-term outlook remains generally positive, it faces several downside risks. Increased financial sector vulnerabilities could curtail private sector credit. Political instability might lead to inconsistent policies, deterring investors. Delays in implementing capital expenditures could negatively impact growth. Externally, regional instability and trade disruptions could reduce tourism and domestic demand. Emigration is crucial for poverty reduction, but high vulnerability persists due to a weak labor market and reliance on inadequate and non-responsive social assistance programs.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.8	5.6	2.0	3.9	5.1	5.5
Private consumption	8.0	6.8	0.7	1.1	1.8	2.9
Government consumption	-1.7	9.6	-21.2	-11.1	5.8	5.5
Gross fixed capital investment	9.8	3.4	-10.0	18.4	16.5	13.1
Exports, goods and services	-21.3	34.1	3.3	18.1	11.3	13.2
Imports, goods and services	18.8	16.4	-18.7	-2.3	10.4	9.7
Real GDP growth, at constant factor prices	4.5	5.3	2.3	3.5	5.1	5.5
Agriculture	2.8	2.4	2.8	3.0	3.3	3.4
Industry	6.9	10.7	1.4	1.3	4.9	7.5
Services	4.7	5.3	2.4	4.5	6.1	6.0
Inflation (consumer price index)	3.6	6.3	7.7	5.4	5.0	4.5
Current account balance (% of GDP)	-7.7	-12.5	-0.9	3.9	2.6	1.7
Net foreign direct investment inflow (% of GDP)	0.4	0.4	0.1	0.1	0.2	0.2
Fiscal balance (% of GDP)	-4.0	-3.6	-5.8	-2.6	-2.2	-1.9
Revenues (% of GDP)	23.3	22.9	19.3	19.4	20.0	20.3
Debt (% of GDP)	39.9	40.5	42.9	42.7	42.2	41.3
Primary balance (% of GDP)	-3.2	-2.7	-4.5	-1.1	-0.8	-0.7
International poverty rate ($2.15 in 2017 PPP)[a,b]	..	0.4	0.3	0.3	0.2	0.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	..	7.5	7.3	6.8	6.1	5.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	..	44.1	43.6	42.3	39.6	37.4
GHG emissions growth (mtCO2e)	3.2	-1.1	-0.4	3.6	3.8	4.1
Energy related GHG emissions (% of total)	32.6	31.3	30.1	31.4	32.7	34.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SAR-POV harmonization, using 2022-LSS-IV. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2022) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.