

NEPAL AT THE CROSSROAD

POLITICAL ECONOMY IN THE POST GEN-Z MOVEMENT

I. THE GEN-Z UPRISING: A SYSTEMIC BREAKING POINT

The Gen-Z movement of September 2025 represents a fundamental rupture in Nepal's political order, signaling the exhaustion of a development model built on political patronage and remittance-fueled consumption. Unlike the ideological movements of the past, this uprising centers on demands for institutional integrity, economic justice, and generational accountability. With 77 fatalities and an estimated NPR 84.46 billion in material damage across 54 districts, the protests reflect not transient anger but a profound, structural rejection of a system perceived as extractive and unjust. This mobilization is driven by a generation that is the most educated (77.4% literacy) and digitally connected (empowered by a 96% mobile broadband penetration) in Nepal's history. Yet it now finds itself confronting chronic unemployment, elite impunity, and a state incapable of converting political freedoms into economic opportunity.

II. DIAGNOSIS: THE STRUCTURAL CONTRADICTIONS OF NEPAL'S POLITICAL ECONOMY

A. Lack of fiscal prudence

The most glaring evidence of Nepal's allocative inefficiency lies in the widening gap between the cost of running the state and the investment in building the nation.

- ❖ Public expenditure increased from 20% of GDP in the previous decade to 27% after 2015, driven largely by high recurring expenditure, which rose from 13.2% to 18.4% of GDP.
- ❖ Capital expenditure (CAPEX) peaked at 7.8% of GDP (Rs. 270 billion) in FY 2017/18 but has since declined to 3.6% of GDP (Rs. 222 billion) in FY 2024/25. The average CAPEX during 2017–2019 was 7% of GDP (Rs. 240 billion), compared to 4.3% over the last six years.
- ❖ Financial expenditure (Rs. 592 billion) in the last two years exceeded capital expenditure (Rs. 415 billion) by 1.4 times.
- ❖ Government revenue has stagnated over the last three years, declining from its peak of 22.4% of GDP in FY 2022 to 19.6% in FY 2024/25.
- ❖ Fiscal deficit has remained high at 5.8% of GDP over the past nine years since 2015, compared to 3.2% in the previous decade.
- ❖ Domestic debt of Rs. 565 billion raised in the last two years has been insufficient to cover debt servicing (Rs. 592 billion). Over the past decade, domestic debt has grown more than 6.4 times, rising from 8.1% of GDP to 20.8% of GDP.

B. The Externalization of Discontent: Trade and Remittance Leakage

Allocative inefficiency has turned remittances from a development tool into a consumption subsidy.

- ❖ **The 6.5:1 Import Gap:** By 2024/25, imports reached NPR 1.8 trillion against exports of NPR 277 billion.
- ❖ **The "Complacency Trap":** High Forex reserves (USD 21.5 Billion) act as a mask for this failure. These reserves, built on the labor of the 3.4 million citizens who emigrated in the last four years, allowed the political elite to delay structural reforms by providing a false sense of macroeconomic stability.

C. Political Volatility as a Permanent Condition

Nepal's political history is a chronicle of instability, characterized by frequent regime changes without corresponding economic transformation.

- ❖ **Constitutional Churn:** Nepal has adopted seven different constitutions under four distinct political systems since 1948, reflecting perpetual state re-formation.

- ❖ **Executive Instability:** The post-1990 period has seen 30 different Prime Ministers. Since the implementation of federalism in 2017, 34 Chief Ministers have cycled through office, with average tenures below 19 months. In the Democratic Republic period (2008-2025) alone, 14 governments were formed, each of whose average tenure was just 1.41 years.
- ❖ **Gerontocratic Cycle:** Power remains concentrated within a small, aging elite. One leader has served as Prime Minister five times over a 27-year span, exemplifying a system of recycled leadership that stifles renewal.
- ❖ **Tangible Economic Cost:** Pervasive general strikes between 2008-2013 directly reduced annual GDP growth by up to 2.15%, quantifying the price of perpetual political disruption.

D. An Economic Model of Slow Growth and Deep Vulnerability

Superficial gains on the external sector mask an economy built on weak, external foundations, vulnerable to both internal and external shocks.

The Macroeconomic Facade vs. Structural Reality (2025):

Indicator	Achievement	Structural Reality
Per Capita Income	USD 1,517	Driven by remittances, not productivity. Over 4 million citizens are formally employed overseas.
GDP Growth	3.06% avg. since COVID-19 pandemic against long term average of 4.4%	Economy in secular stagnation since COVID-19; Industry contributes <13% compared to more than 20% during 1990s; manufacturing has collapsed to <5% of GDP.
External Stability	USD 21.5 Billion Forex Reserves (as of mid-Nov 2025)	Buffer from remittances, not export earnings. Reveals a critical lack of competitiveness.
Debt Level	136% of GDP	The economy is overleveraged with an all-time high debt level of 135.8% of GDP (Sovereign debt of 43.7% of GDP and Private Sector debt of 92.1%) making it vulnerable to interest rate, credit risk and other associated risks.
Poverty Reduction	20.27% Poverty Rate (Annual expenditure <NPR 72,908)	Achieved via remittance transfers, not domestic job creation. 34 of the 77 districts are depopulating.
Infrastructure Access	99% Electricity Access	Productive utilization is minimal. Chronic power cuts plagued the economy until 2016. Nepal's capita electricity consumption 380 kWh against the global average of around 3500 kWh.

The "Complacency Trap": A Self-Reinforcing Cycle

- ❖ **Temporary Twin Stability:** Social peace is maintained by exporting discontent via mass outmigration; macroeconomic balance is secured by remittance inflows, not trade.
- ❖ **Economic Assumptions:** Narratives of tourism riches and 40,000 MW of hydropower potential (\$9-10B) foster optimism bias, and remain insufficient for attaining developed-country status by 2100 BS.
- ❖ **Speculative Foundation:** An 'easy living' culture is financed by hyper-inflated land prices and easy credit, creating a financialized economy detached from production. The land within Kathmandu's Ring Road alone is valued at equivalent to the national GDP.

Chronic Inefficiency in Capital Allocation:

- ❖ **Never-Ending Pride Projects:** The Melamchi Water Supply Project has taken nearly 30 years; the Babai Irrigation Project, 36 years; and national highways remain unfinished even after 20+ years. Cost overruns, schedule delays, and unmet public expectations undermine project quality, while economic benefits accrue only after completion.

- ❖ **Misallocated Agricultural Budget:** Despite a federal agriculture budget of NPR 57.29 billion, NPR 27.95 billion was allocated to fertilizer subsidies in FY 2024/25, while only 7.65% was transferred to provincial and local governments. About 11.5% of total bank credit amounting to over NPR 643 billion was extended to the agriculture sector.

E. Governance: Patronage & Institutional Failure

The state is subordinated to political patronage, eroding public service delivery.

- ❖ The Constituency Development Fund exploded from NPR 250,000 in 1994 to NPR 50 million per constituency before its ban in 2023 epitomizing public finance as political currency.
- ❖ Premature welfarism adds fiscal strain without improving productivity—for instance, the Senior Citizen allowance consumes nearly a fourth of per capita income, paying Rs. 87 billion to about 1.9 million people aged 68 and above. Despite rising life expectancy, eligibility has dropped from 75 to 70 and now 68, disproportionately benefiting the middle class.
- ❖ Nepal's minimum wage is the region's highest and even exceeds per capita income, eroding competitiveness.
- ❖ Administrative atrophy is systemic: Tribhuvan University suffered a 407-days office lockout between 2019-2023 (28% of VC's total tenure), symbolizing a "Padlock Trap" that paralyzes human capital development.
- ❖ The judiciary is in crisis, with over 171,000 pending cases (26,228 Pending in the Supreme Court alone as of FY 2023/24), vacant benches, and a history of politicization eroding its independence.

F. Society: Fragmentation & Demographic Decline

Constitutional inclusion clashes with entrenched hierarchy and a demographic exodus.

- ❖ Losing demographic dividend despite having the youngest demographic in the region - becoming old before becoming rich. Excessive outmigration of youth is turning Nepal into "old age home."
- ❖ A persistent caste-based hierarchy excludes major groups from power, resources and wealth
- ❖ Education is bifurcating private school enrollment rises (19% to 30%) while 57% of public schools shrink below 100 students.
- ❖ The Diaspora Paradox drains the nation: Around 15% of the population lives abroad, making the economy reliant on remittances.
- ❖ Youth are politically excluded: Over 4.5 million (24.7% of eligible voters) are disenfranchised, barring one in six from the democratic process.

G. Education: Mismatch & Systemic Atrophy

Resource allocation ignores a shrinking youth population and mass exodus.

- ❖ An "Empty School" crisis exists: Primary students fell by 1.5 million (30%), yet ~34,000 schools remain open, representing a massive sunk cost.
- ❖ Tribhuvan University remains paralyzed by political friction, with leadership tenures collapsing.
- ❖ Student outflow is critical: 639,148 obtained study-abroad NOCs in a decade, with over 100,000 leaving annually or 300 every day in the last four years, draining the nation's talent.
- ❖ Nepal produces 27% education graduates for teaching, but only 17% in STEM—critical for global market integration.

III. THE CONVERGING CRISIS AND FUTURE TRAJECTORIES

The interaction of these four failings—political instability, a rentier economy, captured institutions, and social fragmentation—has pushed Nepal to a breaking point. The Gen-Z movement is the direct outcome of this convergence. The nation now faces divergent paths determined by the political response to this awakening.

Dimension	Path A: Reform & Renewal	Path B: Stagnation & Incrementalism	Path C: Crisis & Institutional Decline
Economy	Strategic use of natural endowments, FOREX, and retirement funds for growth and employment. Pride projects completed via reformed public investment. Moving away from crony capitalism and crony socialism. Integrate with global markets by building competitiveness and transitioning from labor export to service export. Private sector enabling policies to enhance investment in productive sectors. Clean up the financial sector through financial sector reforms.	Remittance dependence continues, and the current extent of outmigration continues. The economy continues to be overleveraged. Projects remain stalled. Both public and private investment and employment remain stalled. Current level of fiscal deficit continues, and delays in financial sector reform builds risk.	Remittance flows become volatile. Major corrections and disruption in the capital market leads to loss of wealth. Fiscal constraint deepens. Financial instability spills over broader macroeconomic instability. Capital flight accelerates. All this leads to an economic crisis.
Governance	Transparent, accountable institutions. Curbing of patronage networks. Judicial independence has been restored.	Superficial reforms. Patronage politics continues under new labels. Weak accountability persists.	Deepening corruption levels and institutional decay. Heightened political interference in all arms of the state.
Social Contract	Youth aspirations are central to policy. Meritocracy prioritized over mediocrity. Diaspora engaged as partners and exercised political rights of voting.	Youth frustration slowly builds. Migration remains the primary "safety valve." Exclusion continues.	Youth disillusion turns into sustained anger. Social unrest and political violence rise.
Outcome	Sustainable, inclusive growth. Restored public trust. Demographic dividend harnessed.	Protracted stagnation. Eroding state legitimacy. Growing vulnerability to external shocks.	Democratic backsliding. Economic collapse. Loss of the gains from past political struggles.

Conclusion: Nepal stands at a definitive crossroads. The Gen-Z uprising is the direct consequence of a system failing under its own contradictions: a patronage-based economy, captured institutions, and a massive youth exodus. The nation's future hinges on whether its leaders channel this profound discontent into genuine structural reform or allow the current trajectory of decline and democratic decay to continue.