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Monitoring of countries graduating and
graduated from the LDC category:

Nepal



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Summary

The CDP found that Nepal has achieved a quick recovery from the impacts of the COVID-19. The country is on a path to meeting all graduation criteria.

The Government of Nepal has taken steps to prepare the STS and submitted the annual report to CDP and participated in the consultation meeting. The country has sought technical assistance under the Sustainable Graduation Support Facility (iGRAD) in identifying and crafting the smooth transition measures to be prioritized in its STS and for more south-south-exchanges with other graduating and graduated LDCs on specific issues or topics of interest to Nepal. The Committee recommends Nepal to continue taking concrete measures to promote productive capacity, including promoting cottage industry and diversifying the economy.

Macroeconomic situation

Nepal's GDP growth rate averaged 7.8 per cent in 2017-2019 as the country rebuilt after the devastating Gorkha earthquake of 2015 which was magnitude 7.8 earthquake, impacting more than 31,000 people.¹ The COVID-19 pandemic severely impacted economic activity in 2020, causing an 2.4 per cent contraction in GDP (fiscal year).² The travel and transportation industries, as well as the industrial sector were particularly hit hard by the pandemic.³ According to UN DESA, Nepal's real GDP is expected to rise by 5.8 per cent in 2022,⁴ with support coming mostly from private consumption and remittance inflows. However, tourism in the Himalayas, which contributed 10 per cent of GDP in 2019, would not return to pre-pandemic levels by 2023. A rise in capital spending, particularly for public health and welfare in the face of the coronavirus, led to a budget deficit in Nepal of 5.3 per cent of GDP in 2020.

Table 1. Selected macroeconomic data for Nepal, 2016-2021

Indicator	2016	2017	2018	2019	2020	2021
GDP growth rate (per cent, constant price)	0.4	9.0	7.6	6.7	-2.4	4.3
Inflation rate (%)	8.8	3.6	4.1	5.6	5.1	6.2
Government revenue (billions of national currency)	525.0	644.5	766.0	862.6	865.0	1,012.8
Government expenditure (billions of national currency)	494.5	727.3	967.6	1055.0	1073.6	1186.0
Government balance (billions of national currency)	30.5	-82.7	-201.6	-192.4	-208.6	-173.2
Government balance (per cent of GDP)	1.2	-2.7	-5.8	-5.0	-5.4	-4.0
Net ODA received (millions of US dollars)	1,064.5	1,269.7	1,452.4	1,332.7	1,758.9	1,567.4
Balance of Payments (millions of US dollars)						
Current Account	-167.8	-1032.6	-2748.5	-1753.6	-84.1	-5363.0
Goods, Credit (Exports)	762.3	835.7	932.3	1110.9	890.1	1721.7

¹ World Vision, 2015 Nepal Earthquake. See: <https://www.worldvision.org/disaster-relief-news-stories/2015-nepal-earthquake-facts>

² UN DESA, World Economic Situation and Prospects, 2023.

³ Nepal's statement on LDC Graduation for 2021 Triennial Review. See:

<https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/Nepal-2021-CDP-Plenary.pdf>

⁴ UN DESA, World Economic Situation and Prospects, 2023

Goods, Debit (Imports)	8,764.3	10,200.4	12,863.0	12,118.4	9,597.0	15,428.6
Balance on Goods	-8,002.0	-9,364.7	-11,930.7	-11,007.5	-8,706.9	-13,706.9
Services, Credit (Exports)	1,354.3	1,594.8	1,745.3	1,615.3	881.2	797.9
Services, Debit (Imports)	1,250.8	1,623.4	1,775.3	1,717.9	1,097.4	1,564.5
Balance on Services	103.5	-28.6	-29.9	-102.6	-216.2	-766.7
Balance on Goods and Services	-7,898.5	-9,393.3	-11,960.7	-11,110.1	-8,923.1	-14,473.6
Balance on Income	285.5	280.9	220.0	519.4	174.7	247.5
Balance on Current Transfers	7,445.1	8,079.8	8,992.1	8,837.0	8,664.3	8,863.1
Capital Account	164.6	149.1	133.9	142.1	115.4	118.0
Financial Account	553.2	-279.9	-1567.3	-653.4	270.8	-5036.9
Direct investment (net)	-106.0	-196.3	-68.3	-185.6	-126.6	-196.3
Portfolio investment (net)	...	0.0	0.0	0.0	0.0	0.0
Financial derivatives (other than reserves) and employee stock options
Other investment (net)	8.2	-455.7	-842.0	-806.2	-2,531.8	-2,466.3
Reserve assets	651.0	372.1	-657.1	338.4	2,929.2	-2,374.3
Reserves (months of imports)	10.3	9.4	6.6	7.5	12.5	6.8

Source: GDP growth is from UNSD, fiscal year. Inflation is from UN DESA, WESP 2023. Government balance is from IMF, World Economic Outlook Database. Net ODA is from OECD, OECD.Stat. All external sector indicators are from IMF, Balance of Payment Data Reports.

LDC criteria and supplementary indicators

Nepal's latest three-year average (2019-2021) per capita GNI is \$1,229, which is just above the graduation threshold of \$1,222 which was established at 2021 triennial review. Meanwhile, the country's EVI score of 24.6, and the HAI score of 77.4, both meeting the graduation thresholds with comfortable margins.

Table 2. Indicators for LDC identification, Nepal, 2019-2023

Year	GNI per capita	EVI	HAI
2019	935.5	24.6	72.5
2020	1,031.2	24.3	74.0
2021	1,135.4	24.4	75.4
2022	1,195.2	24.2	77.2
2023	1,228.9	24.6	77.4

Source: CDP Secretariat Time series estimates (LDC criteria) dataset (2002-2023), available at <https://bit.ly/LDC-data>

Notes: a) Year refers to the year of a (actual or hypothetical) review. The timeliness of source data varies by indicator; generally, criteria capture data up to two years prior to a review. See the 'read me' in the source as well as the data sheet (Annex 1) for details on original data sources.

b) Data for 2021 might differ from official triennial review data and previous monitoring reports due to data revisions.

During the COVID-19 pandemic, remittances continued to arrive at recipient families, providing buffers against income losses (see table 3 for selected supplementary graduation indicators). ODA as the proportion of GNI has risen in 2020. Access to water and sanitation has improved over time, and HDI and women empowerment index have been maintained.

Table 3. Selected supplementary graduation indicators, Nepal, 2018-2021

Indicator	2018	2019	2020	2021
Remittances (% of GDP)	25.0	24.1	24.3	22.6
ODA received as a percentage of GNI	4.4	3.9	5.2	
Water Access	89.2	89.6	90.1	
Sanitation access	69.2	72.9	76.6	
Human development index	0.6	0.6	0.6	0.6
Women empowerment index	0.8	0.8	0.8	0.8

Source: CDP Secretariat, Supplementary graduation indicators

Data gap

In 2020, Nepal had an overall statistical capacity index of 72, slightly higher than the average of South Asian countries (69, 8), and higher than the average of lower-middle-income countries (66.4).⁵ There is cause for concern about the methodology of the sources used, although the country does well in terms of frequency and accessibility.

Smooth transition, national plan and country specific factors

Nepal is scheduled to graduate on 24 November 2026, after a transitional period of five years. Nepal's departure from LDC status will be a turning point in its socioeconomic progress.

The participation rate of Nepal in monitoring is 100 per cent (four out of four occasions). It submitted annual reports in 2022 and 2023, and also attended consultation meetings both years.

Based on 2022-23 report by the Government, the impacts of COVID-19 pandemic were significant on the economic activities as well as living conditions and poverty, particularly on women. Public relief program included tax, lending, cash transfer and so on. Some impacts of LDC graduation are expected on carpet, Pashmina and garment industries. But the overall impact on growth would be minimal.

The National Planning Commission (NPC) is leading the graduation preparation. A consultative mechanism has been formed, and partnerships with other partners and UN entities are established. The government has been drafting the smooth transition strategy which would addresses six key issues: fiscal system; monetary policy; trades and industrial policy; financing; productive and decent employment; reducing vulnerabilities and enhancing resilience. The STS will be in line with 15th and 16th National Development Plans.

On 17 November 2022, the CDP conducted a virtual consultation with the Government of Nepal. The CDP suggested that Nepal should actively participate in the monitoring process, enhance its data capabilities, and include indicators about commerce. It also noted the continued reliance on remittances.

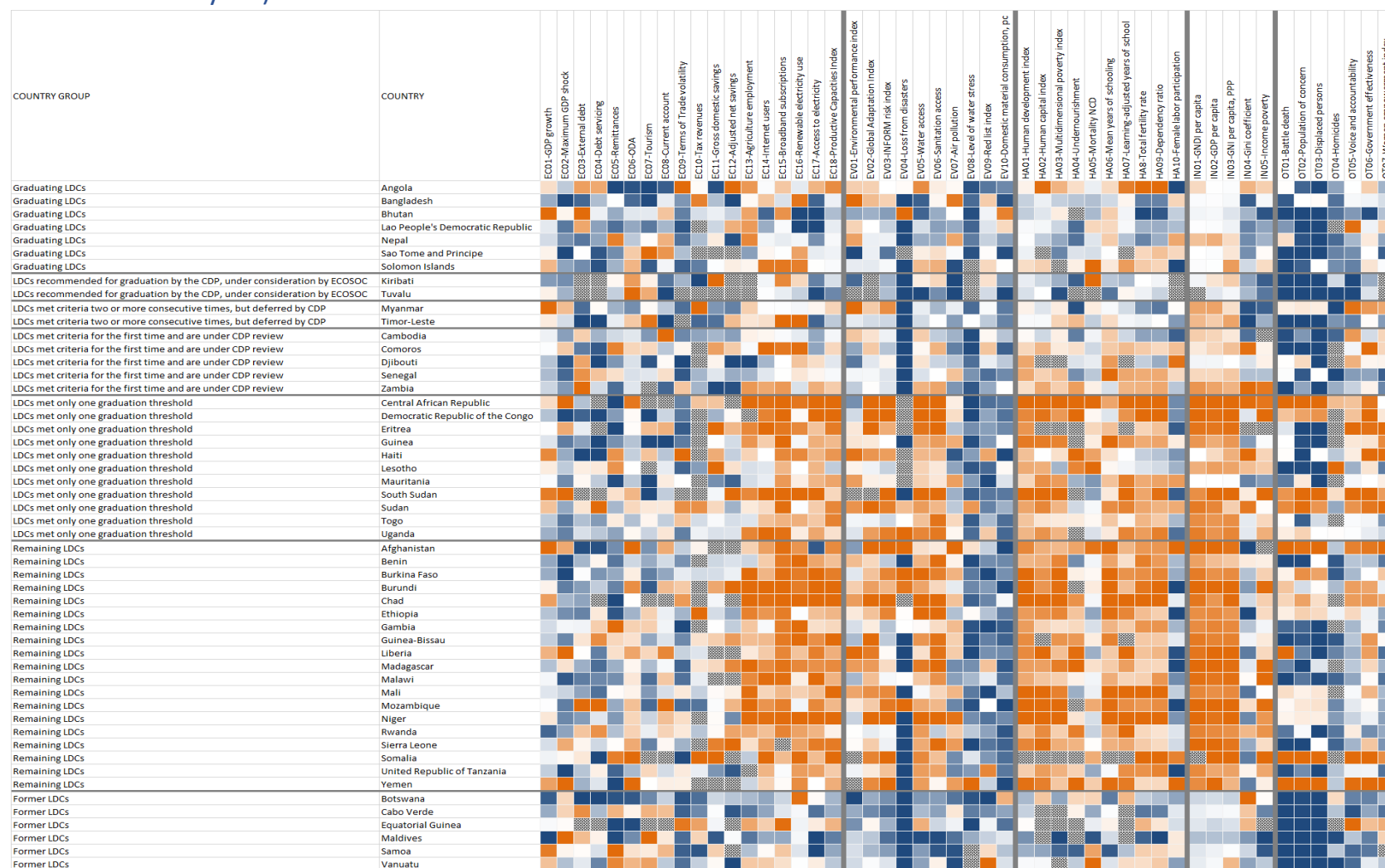
The Nepalese government highlighted that they benefitted from participating in the LDC graduation workshop which was organized by UN DESA, ESCAP, and Resident Coordinator's offices in Bangladesh, Lao PDR and Nepal, held in Bangkok in August 2022. They need experience sharing from other successful countries that have had a smooth graduation transition, strategy, and draft reports. Initial negotiations with the EU on general post-graduation support are still ongoing. In the last fiscal year, remittances increased by 4.8 per cent, equivalent to 20 per cent of GDP. The government representatives also

⁵ World Bank, WDI. See:

<https://databank.worldbank.org/reports.aspx?source=2&series=IQ.SCI.OVRL&country=NPL>



mentioned that Nepal has made major policies such as incremental interest rates for people who deposit remittances at Nepalese banks, and the opening of dollar accounts.

Annex 1: Heatmap extract of the supplementary graduation indicators (SGIs) for LDCs and former LDCs (2023 or latest available year)



Legend:

- Indicator furthest below reference point, indicating most concern (5th percentile)
- Indicator furthest above reference point, indicating least concern (95th percentile)

 Reference point (e.g. 33th percentile)
 No data available