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Monitoring of countries graduating
from the list of LDCs

Nepal



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Summary

Nepal is steadily advancing towards sustainable graduation, with its GNI per capita nearing the graduation threshold in 2024 while continuing to meet HAI and EVI. The government is in the final stages of refining the STS, aligning it with the national development plan. Although the economy experienced a significant slowdown due to the COVID-19 pandemic and the global food, energy and finance crises have caused macroeconomic challenges, recovery has been relatively swift, particularly with the revival of the tourism and manufacturing sectors. Sustained efforts in implementing effective policies focused on economic diversification, trade policy with synergy with investment promotion, and disaster risk reduction will be crucial in achieving sustainable graduation.

Regarding the adequacy of the length of the preparatory period for Nepal, the country has effectively mitigated the adverse effects of the COVID-19 pandemic to some extent and made significant progress in preparing for sustainable graduation after the extended five-year preparatory period and for a smooth transition. The Committee concurred that further extending the additional preparatory period for Nepal beyond 2026 is unnecessary. The Committee will continue to closely monitor the progress in preparing and implementing its STS, including the support received by development and trading partners.

Macroeconomic situation

The economic landscape took a severe hit in 2020 due to the COVID-19 pandemic. The GDP growth slowed to 2.1 per cent as reported by UN DESA (see table 1), while the IMF estimated a 2.4 per cent contraction.¹ Industries such as travel, transportation, and manufacturing bore the brunt of this crisis. Nepal experienced a rebound, showcasing real GDP growth at 4.2 per cent in 2020, 5.3 per cent in 2021, and an expected 4.1 per cent in 2023. Although a recovery is underway, the growth trajectory remains below pre-pandemic levels of 6.2-6.4 per cent in 2018-19, influenced by global crises in food, fuel, energy, and geopolitical situations.

Inflation persists at 7.2 per cent in 2023, with the exchange rate against USD escalating by 12 per cent from November 2022 to November 2023, and stays at a high level till Jan 2024.² This devaluation strains foreign reserves, debt servicing, and the living standards of the populace.

Increased capital spending during the pandemic, especially in public health and welfare, caused Nepal to incur a budget deficit of 5.4 per cent of GDP in 2020. The fiscal balance is anticipated to be negative at around -5.9 per cent in 2023 due to heightened expenditure.

Tourism, a significant contributor at 10 per cent of GDP in 2019, has shown remarkable recovery in the Himalayas since the pandemic's onset. Nepal Tourism Board data from 2023 indicates a staggering 98 per cent recovery in tourism activities, nearly returning tourist numbers to pre-pandemic levels.

Potential economic risks revolve around higher-than-expected inflation impacting consumption and growth, shifts in Government policies, and an increase in inequality stemming from reduced investments in human capital, particularly affecting the unemployed population yet to recover from the pandemic's aftermath.³

¹ IMF, World Economic Outlook Database, October 2023 edition, accessed 11 Oct 2023

² Nepal Central Bank, <https://www.nrb.org.np/forex/>, accessed 24 Jan 2024.

³ World Bank, 2023. Nepal's Growth Faces Slowdown Amidst Domestic and External Challenges. <https://www.worldbank.org/en/news/press-release/2023/04/04/nepal-s-growth-faces-slowdown-amidst-domestic-and-external-challenges>

Table 1. Selected Macroeconomic Data for Nepal, 2017-2023

Indicator	2017	2018	2019	2020	2021	2022	2023
GDP growth rate (per cent, constant price)	6.2	6.4	3.2	2.1	4.2	5.3	4.1
Inflation rate (%)	3.6	4.1	5.6	5.1	4.1	6.6	7.2
Government revenue (billions of national currency)	644.5	766.0	862.6	865.0	1,012.8	1,141.3	1041.0
Government expenditure (billions of national currency)	727.3	967.6	1055.0	1073.6	1186.0	1,296.8	1,356.1
Government balance (billions of national currency)	-82.7	-201.6	-192.4	-208.6	-173.2	-155.4	-315.0
Government balance (per cent of GDP)	-2.7	-5.8	-5.0	-5.4	-4.0	-3.2	-5.9
Net ODA received (millions of US dollars)	1,269.7	1,452.4	1,332.7	1,759.2	1,598.5	1,208.2	
Balance of Payments (millions of US dollars)							
Current Account	-1,032.6	-2,748.5	-1,753.6	-84.1	-5,363.0	-2,470.8	
Goods, Credit (Exports)	835.7	932.3	1,110.9	890.1	1,721.7	1,497.8	
Goods, Debit (Imports)	10,200.4	12,863.0	12,118.4	9,597.0	15,428.6	13,435.0	
Balance on Goods	-9,364.7	-11,930.7	-11,007.5	-8,706.9	-13,706.9	-11,937.1	
Services, Credit (Exports)	1,594.8	1,745.3	1,615.3	881.2	797.9	1,235.1	
Services, Debit (Imports)	1,623.4	1,775.3	1,717.9	1,097.4	1,564.5	2,027.4	
Balance on Services	-28.6	-29.9	-102.6	-216.2	-766.7	-792.3	
Balance on Goods and Services	-9,393.3	-11,960.7	-11,110.1	-8,923.1	-14,473.6	-12,729.5	
Balance on Income	280.9	220.0	519.4	174.7	247.5	335.2	
Balance on Current Transfers	8,079.8	8,992.1	8,837.0	8,664.3	8,863.1	9,876.4	
Capital Account	149.1	133.9	142.1	115.4	118.0	71.7	
Financial Account	-279.9	-1,567.3	-653.4	270.8	-5,036.9	-1,338.2	
Direct investment (net)	-196.3	-68.3	-185.6	-126.6	-196.3	-65.5	
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives (other than reserves) and employee stock options	
Other investment (net)	-455.7	-842.0	-806.2	-2,531.8	-2,466.3	-2,192.8	
Reserve assets	372.1	-657.1	338.4	2,929.2	-2,374.3	920.1	
Reserves (months of imports)	9.4	6.6	7.5	12.5	6.7	7.1	

Source: GDP growth and inflation are from UN DESA, WESP, and 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

In the 2024 Triennial Review, Nepal's per capita GNI is approximated at \$1,300, remaining just below the graduation threshold of \$1,306 (see table 2). Despite the country's concerted efforts, external factors such as the COVID-19 pandemic and global crises have prevented Nepal from reaching the graduation threshold in 2024. However, Nepal's EVI score stands at 29.7, and the HAI continues its upward trajectory, reaching 76.3, meeting the graduation criteria.

Table 2. Indicators for LDC Identification, Nepal, 2020-2024.

Year	GNI per capita	HAI	EVI
2020	1,031	72.3	28.2
2021	1,135	73.7	28.2
2022	1,197	75.0	28.5
2023	1,241	75.8	29.5
2024	1,300	76.3	29.6

Source: CDP Secretariat, Time series estimates (LDC criteria) dataset (2002-2024), available at <https://bit.ly/LDC-data>

Note 1: For GNI per capita, Year refers to the year of a (actual or hypothetical) review. The data reflects the latest three-year average available for a review, i.e., the value for 2024 refers to the 2020-2022 average. Data differ from previous official triennial review data due to data revisions.

Note 2: For EVI and HAI, 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.

Note 3: Data differ from previous official triennial review data due to data revisions, changes in data sources, methodological changes and most notable, changes in composition of the composite indices HAI and EVI. Minor differences can also occur due to rounding.

Nepal has shown ongoing progress in enhancing selected supplementary graduation indicators, as outlined in Table 3. The country has maintained its Human Development Index (HDI) and women's empowerment index, while also making strides in improving access to water and sanitation. See Annex for more indicators.

Table 3. Selected Supplementary Graduation Indicators, Nepal, 2018-2022

Indicator	2018	2019	2020	2021	2022
Water Access	89.8	90.3	90.8	91.2	91.2
Sanitation access	69.2	72.9	76.6	80.4	80.4
Human development index	0.60	0.61	0.60	0.60	0.60
Women empowerment index	0.7	0.7	0.7	0.7	0.7

Source: CDP Secretariat, Supplementary graduation indicators (SGI) dataset (2000-2024), available at <https://bit.ly/LDC-data>

Productive Capacity

The productive capacity index (PCI) of Nepal lies substantially above LDC average. Among its components, private sector and structural change stand out, both close to ODC average and evidence of Nepal's strong manufacturing sector. The largest gaps with ODC average exist in hard infrastructure – energy, transport and Information and Communication Technology (ICT) – but also in terms of institutions. In human capital, Nepal has almost closed the gap to ODC average, while its natural capital score lies above ODC average as is typical for LDCs.

In the period 2012-2022, Nepal made steady progress in overall productive capacities and most of its components. The most impressive headway was made in ICT, where the score almost doubled during this

period. The exceptions are natural capital and transport where the scores in 2022 were slightly lower than in 2012. Nepal's score in structural change category of the PCI paints wrong picture. Despite its score on this category is much higher than the median score of LDCs, Nepal exhibits one of the weakest performance in the share of manufacturing value added in GDP.

Table 4: Productive Capacity Index, Nepal, 2022

	PCI	Human capital	Natural capital	Energy	Transport	ICT	Institutions	Private sector	Structural Change
Nepal	40.4	41	43.1	33.8	25.4	43.2	44.2	46.3	52.5
Other developing countries	46.8	44.3	38.4	61.2	34.1	49.6	51.1	50.9	53.2
LDCs	30.9	27.9	49.8	26.3	19.7	25.2	38.3	37.8	41

Source: UNCTAD

Data Gap

In 2020, Nepal's overall statistical capacity index reached 72, surpassing the South Asian countries' average of 69.8 by 2 points and outperforming the average of lower-middle-income countries, which stood at 66.4.⁴ However, there are concerns regarding the methodologies employed by the sources, despite Nepal's commendable performance in terms of data frequency and accessibility.

Smooth transition

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 (three national monitoring report and three consultation meetings in three monitoring cycles).

The Government reports its development prospects as follows:

1. **Hydropower Development:** Nepal, rich in water resources, has the potential to generate 42,000 MW of economically viable hydroelectricity. Despite reaching only 3001 MW in the fiscal year 2022/23, recent power exports to India have created a conducive environment for further hydropower development, marking Nepal's entry into a power surplus era.
2. **Tourism Sector:** The tourism sector holds significant potential for Nepal's economic development, given its unique natural and cultural heritage. Proximity to India and China, along with diverse attractions such as mountainous landscapes, religious destinations, and cultural heritage, positions Nepal as a promising tourism hub.
3. **Use of Forest Resources:** Nepal possesses abundant biodiversity, providing opportunities for domestic value addition through the use of botanical resources and herbs. The country has the potential to leverage its rich biodiversity for economic gains.
4. **Hub of Health and Education:** Development prospects include establishing Nepal as a hub for higher education and health services. Investments in the health sector, information technology,

⁴ World Bank, WDI. See:

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

and systematic healthcare services can contribute to making Nepal a center for quality education and health.

5. **Development of ICT Sector:** The expanding use of Information and Communication Technology (ICT) in development, increased investment, growing digital literacy, and advancements in mass communication present prospects for the development of the ICT sector.
6. **Demographic Dividend:** Nepal's demographic structure, with approximately 40 per cent of the population under the age of 18 and over 45 per cent in the 15–34 years age group, indicates a demographic window of opportunity.

The Nepal STS will identify actions to address development challenges including:

1. **Low Productive Capacity:** Structural problems, including poor market linkages, constrain the enhancement of productive capacity, technological capability, and institutional strength. Addressing these issues is crucial for mobilizing resources in high-return sectors.
2. **Poor Infrastructure:** Challenges include poor transport infrastructure, connectivity issues, and limited adoption of value chain approaches, hindering the expansion of markets and commercializing agriculture.
3. **Low Human Resource Development:** Nepal faces challenges in high-quality human resource development, hindering the utilization of demographic dividends. Increasing opportunities for productive employment and developing skilled human resources are vital tasks.
4. **High Youth Unemployment Rate:** The labor market experiences issues related to both supply and demand, with a high youth unemployment rate of 69%. Structural impediments and underutilization of the labor force pose significant challenges.
5. **Low and Fluctuating Economic Growth and High Poverty:** Achieving equitable economic prosperity and improving citizens' lives face challenges, requiring rapid economic growth, modern infrastructure, and a substantial reduction in poverty and income inequality.

Nepal's preparation towards LDC Graduation is well under progress:

1. **High-level Steering Committee:** A High-level Steering Committee, chaired by the National Planning Commission, oversees the preparation of the LDC graduation strategy. Collaborative efforts involve consultations with provincial government representatives, development partners, and engagement with multilateral agencies.
2. **LDC STS:** Nepal is finalizing the STS, focusing on macroeconomic stability, trade and investment, economic transformation, building productive capacity, climate change and disaster risk management, and social inclusion. The STS aligns with the Sixteenth Five-year National Development Plan and provincial development plans.
3. **Sixteenth National Development Plan:** The Sixteenth National Development Plan, with a vision of "Good Governance, Social Justice, and Prosperity," aims to address structural obstacles, achieve sustainability post-graduation, and align with the STS.
4. **Nepal Trade Integration Strategy (NTIS) 2023:** The NTIS 2023, implemented from 2023 to 2028, focuses on increasing trade-to-GDP ratio, goods and services exports to GDP, and mitigating the impact of LDC graduation by enhancing trade enabling environments and diversifying products and markets.
5. **Proposed Institutional Set up:** The government has established a robust institutional mechanism, including a High-level Coordination Committee, Steering Committee, Monitoring and Evaluation

Committee, Province-level Implementation Committee, and Municipality-level Implementation Committee, to ensure a smooth and sustainable LDC graduation.

The Committee held a consultation meeting with the Government on 29 November 2023. The discussions revolved around key topics related to Nepal's STS and the challenges posed by the COVID-19 pandemic and other crises on the country's graduation path.

The Government emphasized the urgency of establishing a timeline for the STS preparation. The goal is to consult with partners and finalize the STS by the end of 2023. Nepal is in the drafting phase of a national development plan, and efforts are underway to align the STS with this plan. Notably, Nepal faces the unique challenge of graduating based on two criteria, and the Government expressed concerns about sustaining graduation without economic capacity. Consideration is given to maintaining achievements and addressing vulnerabilities post-graduation, with a focus on trade and ODA mitigation.

The Government discussed the adverse effects of the COVID-19 pandemic on Nepal's economy and social dimensions. Although certain sectors have recovered, challenges persist, particularly in vulnerable areas. The spike in food and fuel prices further complicated the situation.

The Government also highlighted a significant decrease in government revenue, emphasizing the need for a shift in focus towards the production of basic core items and structural changes. The devaluation of the currency and its impact on global market inflation pose challenges. Social protection measures, including visas for single women, marginalized communities, and the elderly, are recurrent but critical during crises. Nepal has endorsed a social security framework, allocating almost 15% of the total budget for social protection.

The CDP members encouraged a sector transformation towards technological change and innovation to enhance productivity. The promotion of cottage industries and economic diversification is crucial. Challenges with capacity limitations are expected to persist even after graduation, requiring trade-related capacity building.

Discussions touched upon negotiations with main trade partners to ensure sustainable trade post-graduation. The extension of support measures for five to eight years, including Duty Free Quota Free (DFQF), was proposed to cope with potential challenges. Climate change vulnerabilities and disaster risks were also highlighted, with suggestions for UN support through knowledge sharing and capacity development.

In sum, the discussions underscored the multifaceted challenges and proactive measures needed for Nepal's graduation, emphasizing the integration of climate change considerations and the identification of specific areas requiring support in the STS.


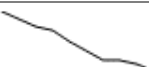


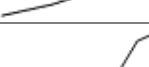




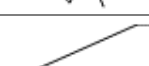


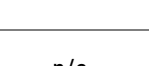
Annex 1. Supplementary graduation indicators (SGIs)

The supplementary graduation indicators (SGIs) complement the official LDC criteria. They provide quantitative, internationally comparable data for vulnerabilities and other factors that are not fully captured by the LDC criteria but that might be relevant for graduation from the LDC category.

For more detailed information on indicators and data sources, see the SGI dataset available on the CDP website.

All data are current as of 13 March 2024.

Indicator		Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
ECONOMIC VULNERABILITY	GDP growth rate (%)	United Nations Statistics Division	5.61	2022		
	GDP growth volatility	United Nations Statistics Division	2.81	2022		
	External debt (% of GNI)	World Bank	22.26	2022		
	Total debt servicing (% of exports and primary income)	World Bank	10.62	2022		
	Personal Remittances, received (% of GDP)	World Bank	22.76	2022		
	ODA received as percentage of GNI	World Bank	4.22	2021		
	Tourism receipts as share of exports	World Bank	13.44	2020		
	Current account balance (% of GDP)	World Bank	-6.17	2022		
	Standard deviation of net barter terms of trade over 20 years	World Bank	9.76	2021		
	Cereal import dependency	Food and Agriculture Organization	0.26	2021		
	Tax revenue as share of GDP	World Bank	17.49	2021		
	Gross domestic savings (% of GDP)	World Bank	5.77	2022		

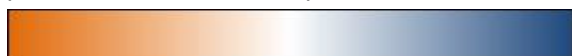
Indicator		Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Adjusted net savings (% of GNI)	World Bank	24.42	2021		
	Share of employment in agriculture	International Labour Organization	61.39	2022		
	Productive capacities index	United Nations Conference on Trade and Development	40.35	2022		
	Percentage of individuals using the internet	World Bank	51.63	2021		
	Renewable electricity capacity per capita	International Renewable Energy Agency	7.67*10 ⁻²	2022		
	Percentage of population with access to electricity	World Bank	89.90	2021		
ENVIRONMENTAL VULNERABILITY	Environmental Performance Index	Yale/Columbia University	28.30	2022		n/a
	Global Adaptation Index	University of Notre Dame ND-GAIN	43.54	2021		
	INFORM Climate Change Risk Index	European Commission - Joint Research Center	5.00	2022		n/a
	Economic loss from natural disaster (% of GDP)	United Nations SDG Global Database	1.62*10 ⁻³	2021		
	Annual mean levels of fine particulate matter (e.g. PM2.5) in cities (population weighted)	United Nations SDG Global Database	36.43	2019		
	Access to at least basic sanitation (% of population)	United Nations SDG Global Database	80.39	2022		
	Access to at least basic drinking water (% of population)	United Nations SDG Global Database	91.24	2022		
	Freshwater withdrawal as a proportion of available freshwater resources	United Nations SDG Global Database	8.31	2020		
	Proportion of water basins experiencing high surface water extent changes	United Nations Water	17.00	2020		n/a
	Red list index, showing trends in overall extinction risks of species	United Nations SDG Global Database	0.83	2023		

	Indicator	Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Change in forest cover (percentage)	United Nations SDG Global Database	0.00	2020		n/a
	Domestic material consumption per capita	United Nations SDG Global Database	16.31	2019		
HUMAN ASSETS	Human development index	United Nations Development Programme	0.60	2022		
	Multidimensional poverty index	United Nations Development Programme	7.43*10 ⁻²	2019		n/a
	Proportion of population covered by at least one social protection benefit	United Nations SDG Global Database	16.90	2020		
	Prevalence of undernourishment	Food and Agriculture Organization	5.40	2022		
	Mortality from CVD, cancer, diabetes or CRD between exact ages 30 and 70 (%)	World Bank	21.50	2019		
	Diphtheria tetanus toxoid and pertussis (DTP3) immunization coverage among 1-year-olds (%)	World Health Organization	90.00	2022		
	Gross secondary school enrolment rate	United Nations Educational, Scientific and Cultural Organization	89.55	2023		
	Mean years of schooling	United Nations Development Programme	4.49	2022		
	Learning-adjusted (expected) years of school	World Bank	7.23	2020		
	Total fertility rate (live birth per woman)	United Nations Development Programme	1.99	2023		
	Dependency ratio, i.e. the ratio of youth (Age 0-14) and elderly (age 65+) to population of age 15-64	United Nations Development Programme	53.18	2023		
	Labor force participation rate, female (% of female population ages 15+) (modeled ILO estimate)	World Bank	28.37	2022		
INCOME	Gross national disposable income (GNDI) per capita, market exchange rates	World Bank	1647.21	2022		
	GDP per capita, market exchange rates	United Nations Statistics Division	1290.01	2022		

Indicator		Source	Latest available data	Year most recent data refer to	Relative performance in latest year (legend below)	Trend (last decade)
	Gross national income (GNI per capita) at purchasing power parity conversion factors	World Bank	4750.00	2022		
	Gini coefficient of disposable income	Standardized World Income Inequality Database	37.40	2010		n/a
	Percentage of population below international poverty line (\$2.15)	World Bank	8.20	2010		n/a
OTHER	Battle deaths per 100,000, 20-year average	Uppsala University	1.19	2022		
	Population of concern to UNHCR as percentage of total population	United Nations High Commissioner for Refugees	6.78×10^{-2}	2022		
	Stock of persons internally displaced by conflict as percent of total population	International Displacement Monitoring Centre	0.00	2022		
	Intentional homicides (per 100,000 people)	World Bank	2.29	2019		
	Voice and accountability, capturing perceptions of citizens' participation in selecting governments as well as of freedom of expression, association, and media	World Bank	-4.91×10^{-2}	2022		
	Government effectiveness, capturing perceptions of the quality of public services and policies	World Bank	-0.92	2022		
	Women empowerment index, providing information on women's civil liberties, civil society participation, and political participation	Varieties of Democracy	0.70	2022		

Legend:

On the chromatic scale below, dark blue indicates the most positive performance relative to a reference point; and the darkest orange indicates the poorest relative performance. The reference point is determined, for each indicator, as the performance of the group of LDCs relative to all developing countries (e.g. the 33rd percentile).



n/a denotes that a trend cannot be presented due to either only one data point or no data being available for the last ten years.