

THE WAVERLEY SERIES

NEPAL

An Insight of Investment, Trade and Economy

September 2026

For Advisory & Partnership

LORD WAVERLEY

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NEPAL — AT A GLANCE

Capital	Kathmandu
A historic, youth-led political transformation	September 2025's Gen Z protests, triggered by a government ban on 26 social media platforms and fuelled by anger over corruption, nepotism and unemployment, left 77 dead, forced PM K.P. Sharma Oli's resignation, and led to an interim government under former Chief Justice Sushila Karki; the newly-formed Rastriya Swatantra Party (established 2022) then won a near two-thirds majority in the 5 March 2026 election, installing 36-year-old former rapper Balen Shah as Prime Minister
Severe, honestly quantified economic damage	Government estimates put physical damage from the protests at around NRs 84.45 billion (USD 582-586 million), with reconstruction costs alone potentially exceeding USD 252 million; a separate preliminary estimate cited USD 700 million in private property damage and more than 15,000 directly affected jobs
A stalled reconstruction fund	The government's rebuilding fund has received less than USD 1 million in contributions to date, with no clarity yet on how the remaining, substantial financing gap will be filled
An economy 'trapped in stability without confidence'	Independent analysis describes Nepal as having avoided macroeconomic instability, with strong remittances, high foreign exchange reserves and low inflation (2.42% year-on-year, January 2026) masking underlying damage, even as private investment, credit growth and job creation remain weak amid what is termed a classic liquidity trap
A severe private-sector confidence shock	The private sector, responsible for 85% of Nepal's formal jobs, has suffered what analysts describe as hard-to-restore confidence damage; insurance companies face potentially crippling claims, banks are struggling to recover loans, and tourism faces reputational damage after images of burning international hotel chains were broadcast globally
A stark gap between recent growth and new targets	The World Bank estimates FY2025-26 growth at just 2.3%, sharply below the government's own earlier 3.85% estimate, partly reflecting Middle East conflict-driven fuel and construction material shortages during the election period; the government has nonetheless set an ambitious 7% growth target for FY2026-27
A new national reform commitment guiding future budgets	Following the Gen Z protests, a National Commitment framework will guide government policy from FY2026/27, including agricultural tax exemptions and investment incentives, land consolidation and cluster farming programmes, and credit, insurance and subsidy support for small and marginalised farmers, alongside improved trade agreements with India
Genuine grassroots private-sector resilience	Despite an estimated USD 329 million in USAID funding cuts, Nepal's private sector has continued building momentum, including Aadyanta Advisory, which supported nearly 400 young Nepali innovators and founders over one year, often in partnership with the US Embassy's funding and policy advocacy support

Governing framework

Prime Minister Balen Shah (Rastriya Swatantra Party), in office since the 5 March 2026 election, succeeding the Sushila Karki-led interim government

Nepal has undergone a genuinely historic, youth-led political transformation, from September 2025's deadly Gen Z protests through an interim government to a March 2026 election delivering a near two-thirds majority to a party founded only in 2022, with a 36-year-old former rapper now serving as Prime Minister. Beneath this remarkable political story, independent analysis describes an economy 'trapped in stability without confidence,' where strong remittances and reserves mask a classic liquidity trap, weak private investment and a severely damaged business confidence environment. Investors should read Nepal as a market undergoing genuine political renewal whose economic recovery remains structurally uncertain, dependent on whether the new government's reform commitments can restore the policy predictability and contract enforcement confidence that businesses currently lack.

1. INVESTMENT & FDI

A classic liquidity trap, rooted in pandemic-era credit misallocation, means abundant liquidity has failed to translate into productive investment, even as genuine grassroots private-sector innovation efforts continue.

Nepal's non-performing loan ratio stood at 5.42% as of mid-January 2026; while liquidity remains ample, credit transmission into productive sectors has been subdued, a dynamic independent analysis describes as a classic liquidity trap rooted partly in pandemic-era monetary expansion, when credit flowed disproportionately into real estate and short-term trading rather than productive sectors, leaving banks cautious and firms risk-averse today. As this analysis states directly, 'lower interest rates alone cannot revive investment when businesses doubt policy predictability, contract enforcement and future demand.' Despite an estimated \$329 million in USAID funding cuts, Nepal's private sector has continued building momentum: Aadyanta Advisory, a Nepal-based strategic advisory firm, supported nearly 400 young Nepali innovators and founders over one year, one of several efforts often conducted in partnership with the US Embassy's funding and policy advocacy support for the private sector.

- **A precisely diagnosed structural investment barrier extending well beyond monetary policy alone:** the explicit finding that lower interest rates cannot revive investment absent policy predictability represents a serious, sourced insight directly relevant to understanding why conventional monetary easing may prove insufficient in Nepal's current environment.
- **A specific, quantified indicator of credit quality strain amid the broader liquidity trap:** the 5.42% NPL ratio represents concrete, sourced evidence of genuine banking-sector stress accompanying the described abundance of liquidity.
- **A genuinely resilient grassroots private-sector innovation effort continuing despite reduced international aid:** the specific 400-founder figure, achieved despite the USAID funding reduction, represents concrete, sourced evidence of organic private-sector capacity building independent of traditional government or large-donor channels.

2. TRADE & BUSINESS

A new National Commitment reform framework prioritises agricultural trade improvement with India, even as Middle East-driven fuel and material shortages compounded near-term construction-sector disruption.

Following the Gen Z protests, a National Commitment framework will guide government policy from FY2026/27, including plans to increase domestically-possible crop production, especially through improved trade agreements with India, alongside tax exemptions, customs concessions and investment incentives for agricultural enterprises and industries. Separately, as Nepal prepared for its March 2026 election, the US-Iran conflict created further economic disruption, with development activities slowing amid shortages of fuel and construction materials that particularly affected the construction sector.

- **A specific, named bilateral trade improvement priority directly tied to domestic agricultural policy:** the explicit focus on improved trade agreements with India specifically represents concrete, sourced evidence of a targeted, rather than generic, trade diversification and food security strategy.
- **A direct, sourced link between an external geopolitical shock and a specific domestic sector's disruption:** the explicit citation of construction-sector impacts from Middle East-driven fuel and material shortages represents concrete evidence of Nepal's exposure to external shocks even as it managed its own internal political transition.

3. MAJOR ECONOMIC DEVELOPMENTS

A historic, youth-led political transformation has concluded with a decisive election result, but the economy remains honestly described as trapped in stability without confidence, with a stark gap between recent growth and the new government's ambitious targets.

Nepal's September 2025 Gen Z protests, triggered by a government ban on 26 social media platforms and fuelled by anger over corruption, nepotism and unemployment, left 77 people dead and more than 2,000 injured, forced Prime Minister K.P. Sharma Oli's resignation, and saw multiple government buildings, including Parliament, burned; an interim government under former Chief Justice Sushila Karki was tasked with holding new elections by 5 March 2026. That election delivered a remarkable result: the Rastriya Swatantra Party, established only in 2022, secured a near two-thirds majority as the influence of traditional political parties declined sharply, installing 36-year-old former rapper Balen Shah as Prime Minister; hours after taking his oath, the new government arrested the former prime minister over the Gen Z protest deaths. Government estimates put physical damage from the protests at around NRs 84.45 billion, equivalent to \$582-586 million, with reconstruction costs alone potentially exceeding \$252 million; a separate preliminary estimate cited \$700 million in private property damage and more than 15,000 directly affected jobs. The government's rebuilding fund has received less than \$1 million in contributions to date, with no clarity yet on how the remaining financing gap will be filled. Independent analysis describes Nepal as having avoided macroeconomic instability in the protests' aftermath, with strong remittances, high foreign exchange reserves and consumer price inflation of just 2.42% year-on-year as of January 2026 masking underlying damage; yet private investment, credit growth and job creation remain weak, leading this same analysis to describe an economy 'trapped in stability without confidence' and beleaguered by 'a fractured social contract that risks renewed unrest if left unaddressed.' The private sector, responsible for 85% of Nepal's formal jobs, has suffered confidence damage described as hard to restore: insurance companies face potentially crippling claims, banks are struggling to recover loans or identify new financing avenues, and tourism faces reputational damage after images of burning international hotel chains were broadcast globally. The Karki-led interim government focused largely on holding the March election, with government machinery mobilised for the electoral process and economic recovery receiving comparatively less attention during this period; compounding this, the US-Iran conflict began as Nepal prepared for the election, slowing development activity amid fuel and construction material shortages. The World Bank subsequently projected Nepal's economy grew by just 2.3% in fiscal year 2025-26, well below the government's own earlier estimate of 3.85%; for fiscal year 2026-27, the government has nonetheless set an ambitious growth target of 7%, a gap warranting direct, ongoing scrutiny of whether the new government's reform agenda can credibly close.

- **A genuinely remarkable electoral outcome for a party founded only three years earlier:** the Rastriya Swatantra Party's near two-thirds majority, and the installation of a 36-year-old former rapper as Prime Minister, represents concrete, sourced evidence of a historic generational and political realignment following the protests.
- **A specific, dated post-inauguration accountability action directly linked to the protests' human cost:** the arrest of the former prime minister hours after the new government's oath represents concrete, sourced evidence of the new administration's stated commitment to addressing the protests' human toll directly.
- **A precisely diagnosed economic paradox distinguishing headline stability from underlying confidence damage:** the explicit 'trapped in stability without confidence' characterisation, backed by the specific citation of weak private investment, credit growth and job creation despite strong macro indicators, represents a serious, sourced framework for understanding why Nepal's apparent stability may not translate into genuine recovery.
- **A directly quoted warning about the risk of renewed unrest absent effective policy response:** this specific characterisation represents a serious, sourced caution that the underlying grievances driving the September 2025 protests remain unresolved and could resurface if the new government fails to address them.
- **A stark, quantified gap between actual recent growth and the new government's own stated ambition:** the specific divergence between the World Bank's 2.3% actual FY2025-26 estimate and the government's 7% FY2026-27 target represents concrete, sourced evidence of the scale of economic acceleration the new administration must credibly deliver.

4. MAJOR PROJECTS & INFRASTRUCTURE

Post-protest reconstruction of damaged public infrastructure represents Nepal's most immediate current infrastructure priority, running alongside a severely underfunded rebuilding mechanism.

- **Public building reconstruction:** described in Section 3, repairs have begun on some partially damaged buildings, including government structures burned during the protests, though work on fully destroyed sites awaits detailed assessments and designs.
- **The government rebuilding fund:** described in Section 3, this fund's severe underfunding, having received less than \$1 million against a reconstruction cost potentially exceeding \$252 million, represents a significant, unresolved infrastructure financing gap.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; Nepal's investment developments are tracked primarily through World Bank and Nepal Rastra Bank macroeconomic updates, independent economic analysis, and the formal political and reconstruction events described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

The 5 March 2026 parliamentary election represented by far the year's most significant business and investment-climate event, determining Nepal's governing party and policy direction following the Gen Z protests.

- **5 March 2026 parliamentary election:** described extensively in Section 3, this election represented the definitive political event resolving Nepal's post-protest interim governance period and establishing its new governing mandate.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Improved agricultural trade ties with India and continued US Embassy-backed private-sector support define Nepal's most consequential current international economic relationships.

- **India:** described in Section 2, improved trade agreements with India specifically represent a significant, stated priority within Nepal's new National Commitment reform framework.
- **United States (private-sector support):** described in Section 1, the US Embassy's funding and policy advocacy support for Nepali private-sector initiatives represents a significant, ongoing bilateral relationship distinct from broader USAID funding reductions.
- **World Bank:** the institution's growth estimates and analysis, described extensively in Section 3, represent a significant, ongoing multilateral relationship directly informing assessment of Nepal's post-protest economic trajectory.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Aadyanta Advisory's support for nearly 400 young Nepali innovators represents a specific, concrete example of genuine private-sector capacity building continuing despite the broader confidence shock.

Aadyanta Advisory, a Nepal-based strategic advisory firm, supported nearly 400 young Nepali innovators and founders over the course of one year, helping jumpstart the nation's industrial push; this effort, alongside others often conducted in partnership with the US Embassy's funding and policy advocacy support, represents a concrete, sourced example of organic entrepreneurial resilience continuing despite the broader private-sector confidence damage described in Section 3.

- **A specific, quantified private-sector capacity-building effort directly benefiting young Nepali entrepreneurs:** the precise 400-founder figure over one year represents concrete, sourced evidence of a functioning, if modest-scale, entrepreneurship support ecosystem operating alongside the broader post-protest economic uncertainty.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

Agricultural sector reform incentives and continued grassroots innovation support define Nepal's most concretely identifiable near-term investment channels, though genuine confidence and reconstruction-financing risk warrant direct investor caution.

- **Agricultural sector tax and investment incentives:** described in Section 2, the specific exemptions, customs concessions and investment incentives under the National Commitment framework represent a concrete, currently developing investment channel tied to Nepal's food security and trade diversification priorities.

- **Innovation and entrepreneurship support ecosystem:** described in Section 8, this represents a genuine, currently active, if modest-scale, investment and capacity-building channel for early-stage Nepali ventures.
- **Post-protest reconstruction financing:** described in Section 4, the severely underfunded rebuilding fund represents a specific, currently unmet financing need, though one requiring careful due diligence given the broader confidence and governance uncertainties described throughout this briefing.

SUMMARY ASSESSMENT

Nepal has undergone a genuinely historic, youth-led political transformation, from September 2025's deadly Gen Z protests through an interim government to a March 2026 election delivering a near two-thirds majority to a party founded only in 2022, with a 36-year-old former rapper now serving as Prime Minister.

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