Nepal’s March to Prosperity from Monarchy to Republic: Advance, Drift or Decline?

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Mapping Nepal's March to Prosperity

I. Framing the Inquiry

- Nepal’s political timeline
- Research period
- Research questions
- Methodology and data

Nepal’s political timeline:

Two and half centuries under monarchy and 16 years under the republic

- **Monarchical Period (1768-2008)** — **240 years**
  - Shah dynasty (de facto): 1768 – 1846
  - Rana rule (Shah de jure): 1846 – 1950
  - Shah dynasty (de facto restored): 1950 – 2008
    - *Transitional period: 1950 – 1960*
    - *Absolute monarchy: 1960 – 1990*
    - *Constitutional monarchy: 1990 – 2008*

- **Republic Era (2008 – Present)** — **16 years**
  - Proclaimed republic: 2008
  - New constitution: 2015
  - Federalism: 2017

Research period

Four turning points. Three regimes. FIFTY years of unfinished promise

1975 | 1990 | 2008 | 2024

1975-1990
Absolute Monarchy

1990-2008
Constitutional Monarchy

2008-2024
Republic

Research questions

1. How have economic outcomes—especially growth and living standards—evolved over 50 years across Nepal's *monarchy*, *constitutional monarchy*, and republican eras?

2. What role have *supply-side factors* (investment, education, health, infrastructure, trade) played in shaping these outcomes?

3. How have *demand-side policies* — fiscal, monetary *and remittances* — contributed to or constrained growth?

4. How have institutions shaped economic incentives and efficiency across regimes?

5. Is Nepal's march toward prosperity advancing, drifting, or declining — and what bold reforms could change its course?

Methodology

- Temporal comparison: Nepal across *four benchmark years* and *three regimes* and *50 years*
- Contemporaneous comparison: Nepal relative to Bangladesh and India over the same span
  - Why India and Bangladesh?
  - India: Nepal's largest trading partner, closest neighbor and shares a democratic system
  - Bangladesh: Similar stage of development and structural constraints
  - Others: Too small, too affluent, politically different—or in China's case simply too ahead

Why this study, why now?

- **Why this enquiry? Two confession and a call:**
  - I was — and still am — a staunch anti-monarchist.
  - I believed a republic would lift Nepal higher than monarchy ever could and never imagined I'd have to question that faith.
  - This study confronts that failure — and calls to reclaim what the republic once promised.
- **Why now?**
  - Public frustration with the republic is rising.
  - Monarchy vs republic debates are back.
  - No moment is more urgent to ask: Is Nepal advancing, drifting, or declining?

II. Prosperity Paradigm Across Three Regimes

- Nepal's future hinges on understanding what drives prosperity — and what derails it.

- To do so, this assessment focuses on per capita income – a clear, comparable measure of prosperity across time and political regimes – and their underlying drivers.

- While imperfect, per capita income remains the best available single indicator of prosperity — that is, of living standards.

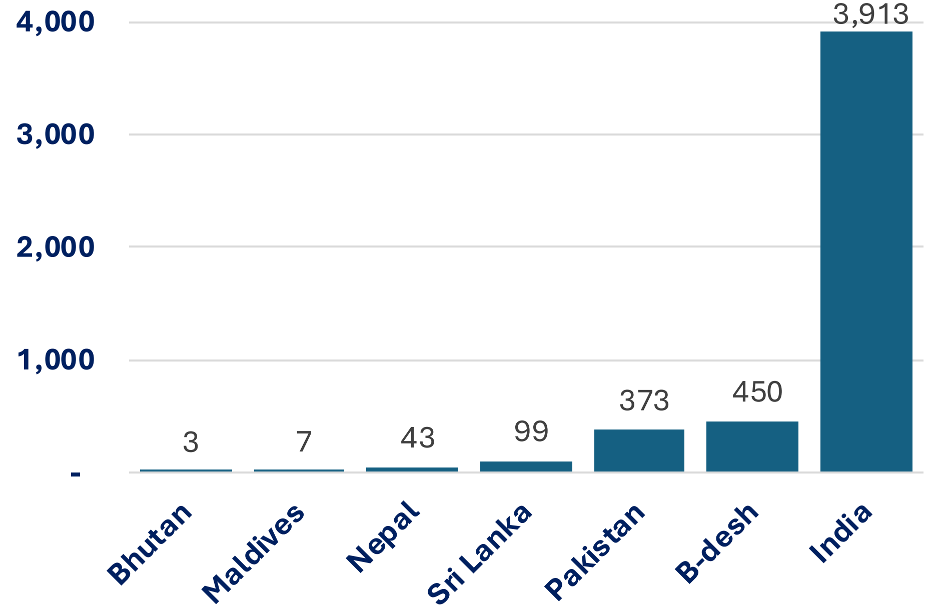
- Tracking this metric allows us to objectively assess how each regime improved citizens' material well-being – the core goal of governance.

- We analyze income growth under all three regimes, benchmark it against Bangladesh and India, examine tax burdens, and factor in the role of remittances.

South Asia, house of 25% of the world population, produces 4.6% of world output

- South Asia's GDP in 2024: US$4.9 trillion — just 27% of China's output.
- India makes up 80% of it; Bangladesh 9%.
- Nepal's share? Just 0.9%.

Gross domestic product in 2024 (current $ billions)



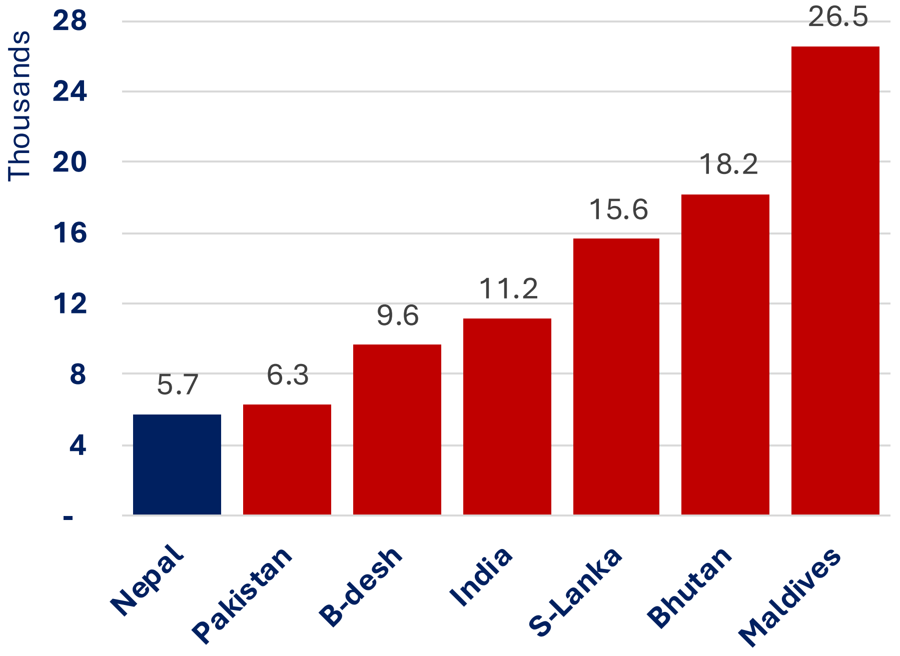
Source: World Bank

- **In 2024, Nepal's per capita income (PPP) was just $5,700.**

- **That's:**
  - – Less than 1/3 of Maldives and Bhutan
  - – 37% of Sri Lanka
  - – 51% of India, 59% of Bangladesh

Nepalis have the lowest living standards in the region

GDP per capita in 2024 (PPP constant 2024 $)



Source: World Bank

Note: Purchasing Power Parity (PPP) adjusts for differences in cost of living, allowing better cross-country income comparisons. It answers: *how much can people actually buy with their income within their own country?* But PPP isn't a measure of how rich a country is. It doesn't reflect global competitiveness, investment attractiveness, or fiscal strength. For that, **GDP at market exchange rates** matters—because international trade, investment, and debt are all settled in actual dollars, not PPP dollars.

In 2024, Nepal's GDP per capita (in 2024 prices) was US $1,447 and 192.5 thousands Nepali rupee.

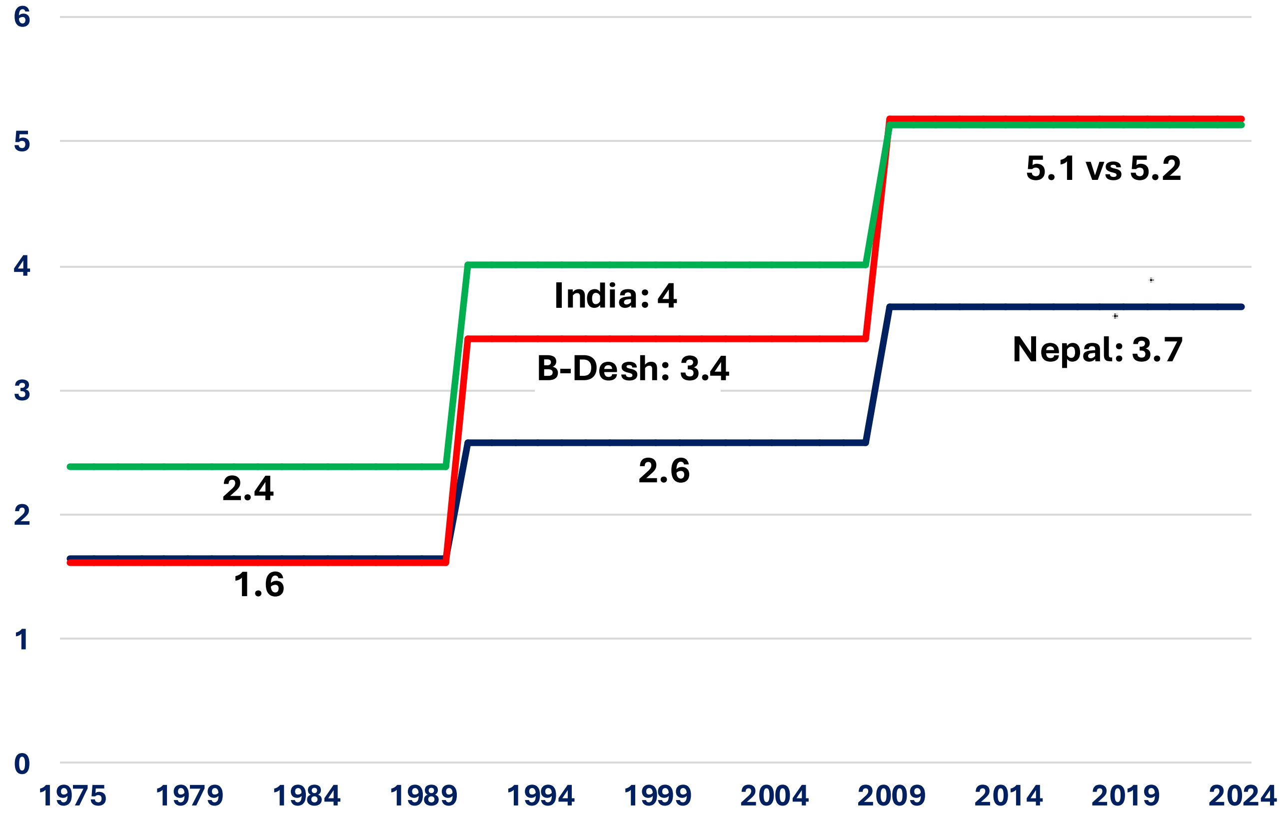
- Over the past 50 years, India consistently outpaced Nepal — growing 47% faster — while Bangladesh grew 30% faster.

- After becoming a republic, Nepal's per capita GDP growth rose by 1.1 percentage points — matching India's gain, but behind Bangladesh's 1.9 pp jump.

- Still, during the republic period, Nepal's growth lagged India by 1.4 pp and Bangladesh by 1.5 pp.

Nepal's growth accelerated under the republic but still trailed peers

Average annual GDP per capita growth (percent)



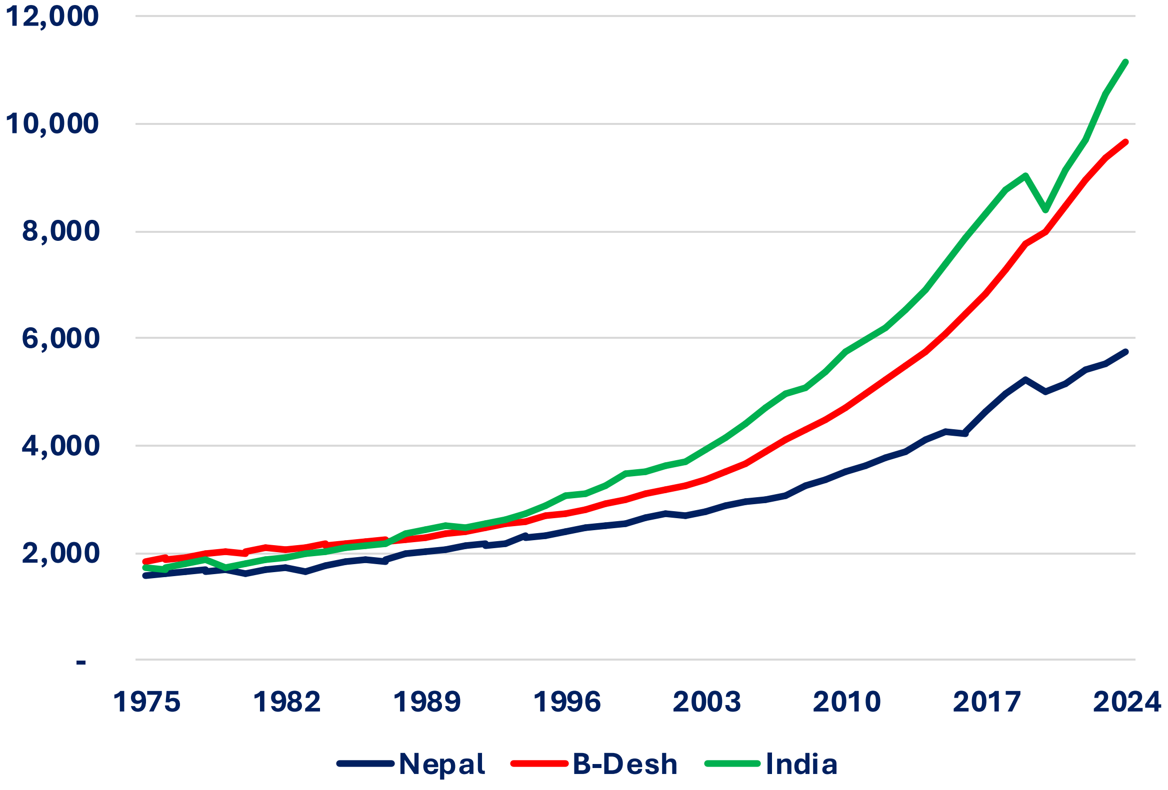
Source: World Bank

Once in similar circumstances, Nepal has now fallen far behind its peers — not only are they richer, they are also growing faster, widening the gap even more.

- At recent 5-year growth rates, it would take:
  - 21 years for Nepal to double its per capita income,
  - 14 years for Bangladesh, and
  - 10 years for India.

Nepal is falling behind in living standards — and the gap is accelerating

GDP per capita (PPP constant 2024 $)



Source: World Bank

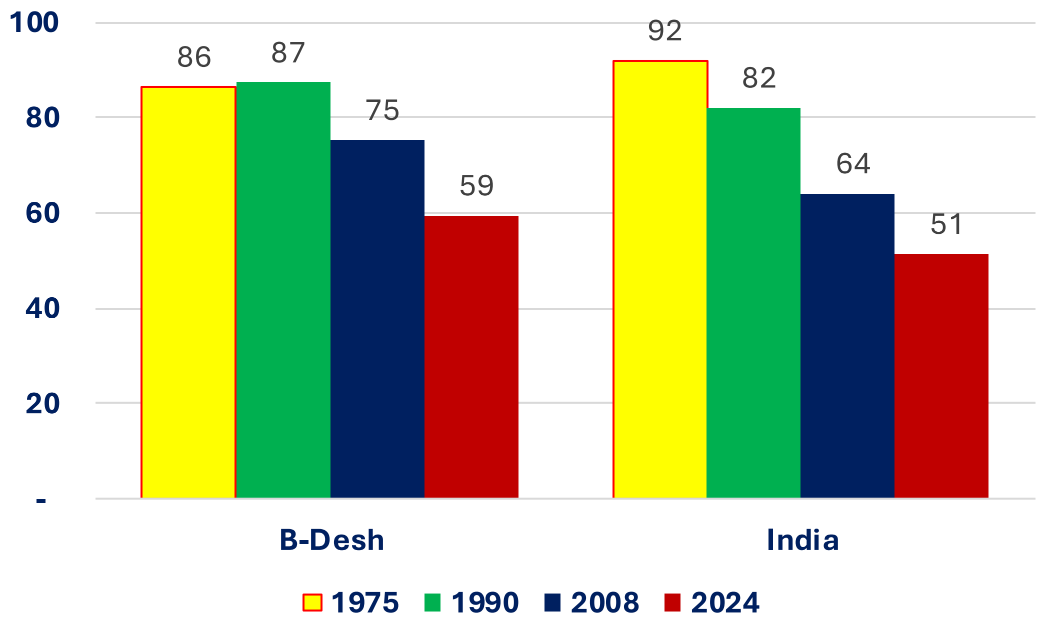
- In 1990, at the start of constitutional monarchy, Nepal's per capita income was 87% of Bangladesh and 82% of India.

- By 2008, just when the republic era began, it had dropped to 75% of Bangladesh's and 64% of India's.

- In 2024, under the republic, it has declined further to 59% and 51%, respectively.

Nepal's income has shrunk relative to its peers—consistently across regimes

Nepali's income as share of peer countries (%)



Source: World Bank

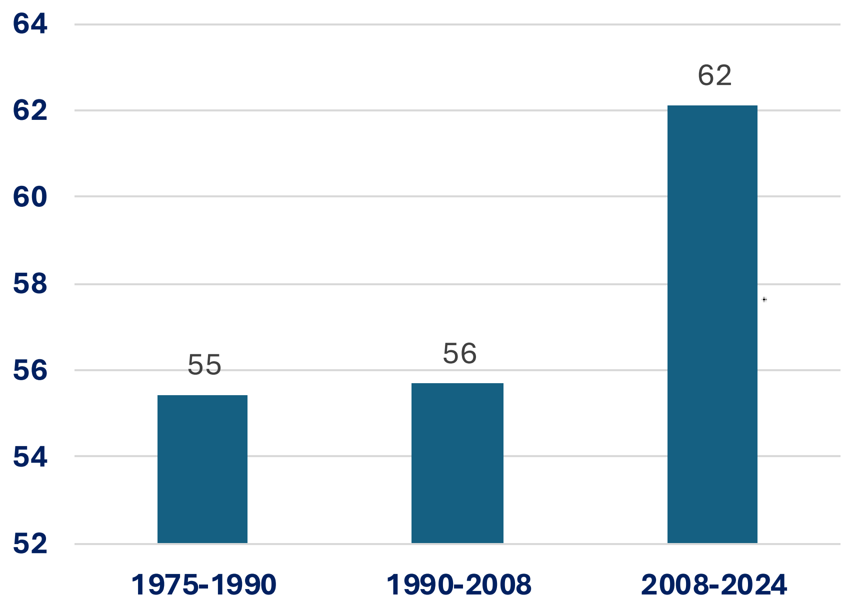
Not All Growth Is Equal: What the Regime Actually Added

- To assess a regime's true contribution to economic growth, we control for two key non-governance drivers:
  - Demographic Dividend: A growing working-age population (15–64) boosts output, regardless of regime.
  - Public Borrowing: Fiscal stimulus can raise growth temporarily without structural reform.
- These controls help isolate residual growth — the portion more credibly linked to regime-driven changes in policy, institutions, or governance.

Demography explains for most of the republic-era growth surge

Average annual share of population with ages 15-64 (%)

- **Working-age share of population rose by 6 percentage points during the republic era.**
- **This alone explains 0.6 percentage points of the 1.1-point GDP per capita growth surge.**



Source: World Bank

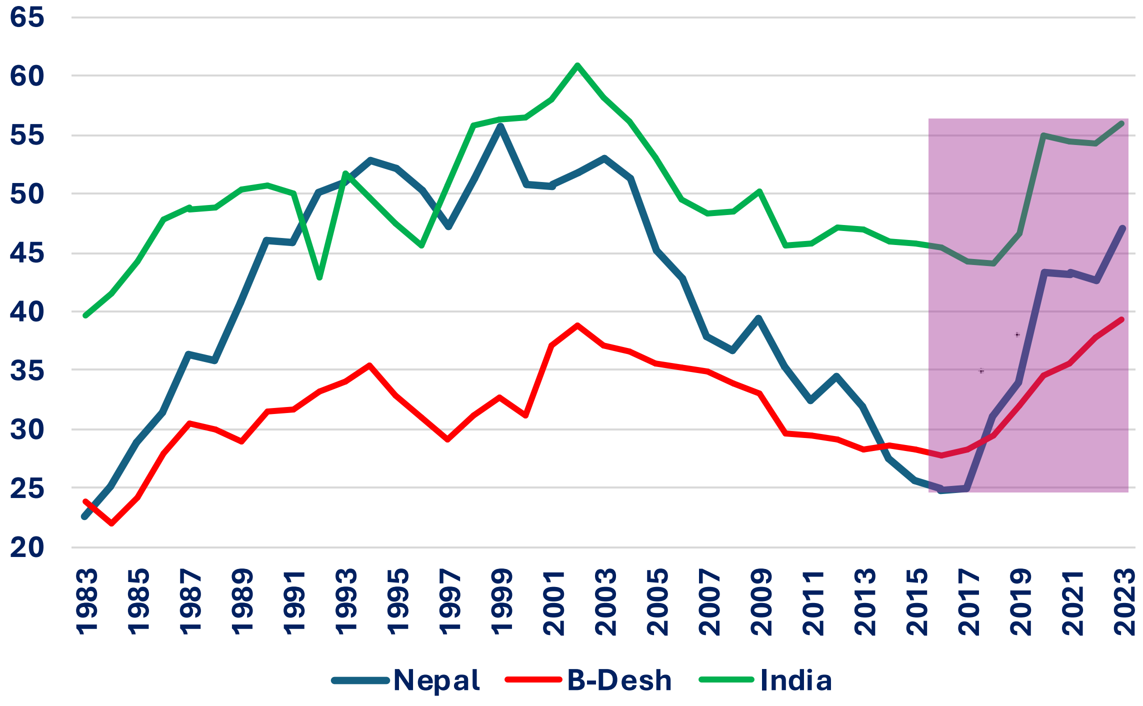
Note: We use the per capita economic growth (Y) elasticity of 0.1 (the lowest among the range of estimates), meaning that each one percentage change in demographic dividend (D) leads to 0.1% growth in Y. That is:

$$\left(\frac{\Delta Y}{Y}\right)/\frac{\Delta D}{D} = 0.1$$

- **Recent debt boom mirrors the final years of absolute monarchy.**
- **Since 2015, debt-to-GDP nearly doubled (24% → 44%), rising at 19% annually.**
- **Annual debt growth averaged 11% under the republic, far above the 8% rate during constitutional monarchy.**
- **Adjusting for debt-driven stimulus GDP per capita growth drops by 0.1 pp in the republic era, and 0.3 pp during absolute monarchy.**

Debt surged, but added little to growth

Government debt as share of GDP (%)



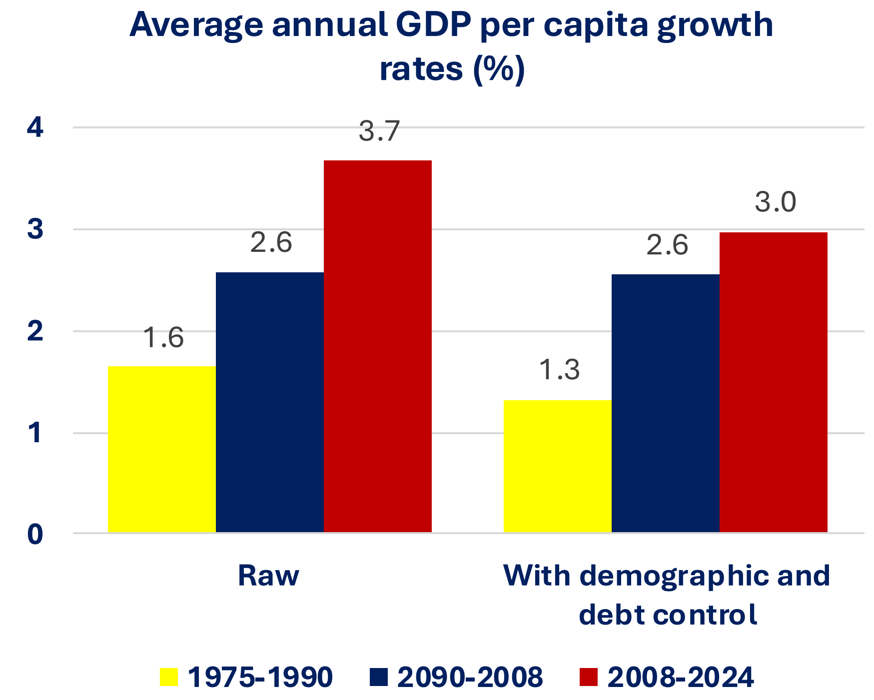
Source: International Monetary Fund

Note: Using a debt-growth elasticity of 0.03, debt expansion in 2008–2023 explains 0.09 percentage points of per capita GDP growth. A similar contribution existed in the monarchy era (1990–2008).
Thus, a part of observed growth in both periods was fueled by borrowing, not structural improvements.

Republic's growth premium shrinks when demographics & debt are accounted for

Average annual GDP per capita growth (%)

- **The first three bars show raw per capita GDP growth, with the highest rate (3.7%) during the republic era.**
- **But once demographics and public debt are accounted for, the republic's growth advantage shrinks—from 1.1 to just 0.4 percentage points.**
- **This adjustment offers a clearer view of how much governance and policy—not just population trends or borrowing—drove prosperity.**

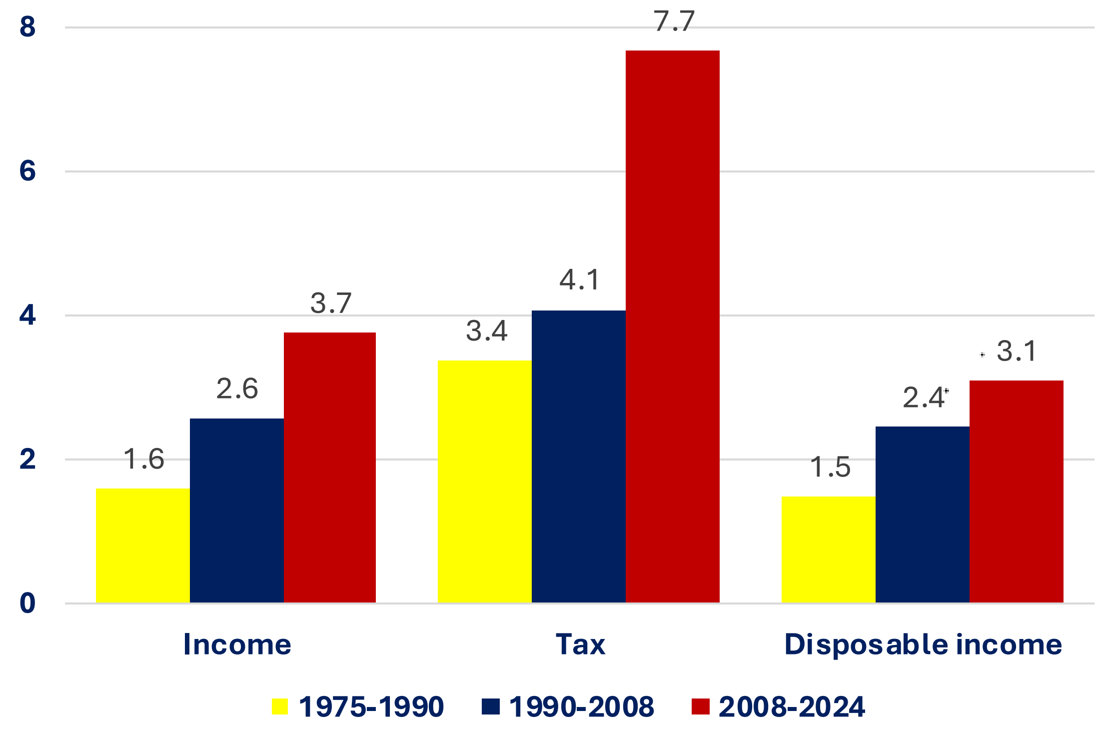


Source: Author's calculation based on World Bank and IMF data

- Even without adjusting for demography or debt, the republic's growth edge largely vanishes once tax growth is included—7.7% vs. 4.1% in earlier regime.
- Under the republic, after-tax income rose just 3.1%, only 0.7 pp better than under monarchy.
- Fully adjusted, republic-era income grew no faster than under monarchy: 2.4%.
- 🔴 The regime effect of a republic is neither a bonus nor a penalty—just noise with no net gain.

In the post-republic era, tax grew at more than twice the pace of income

Average annual per capita growth rates by regime (%)



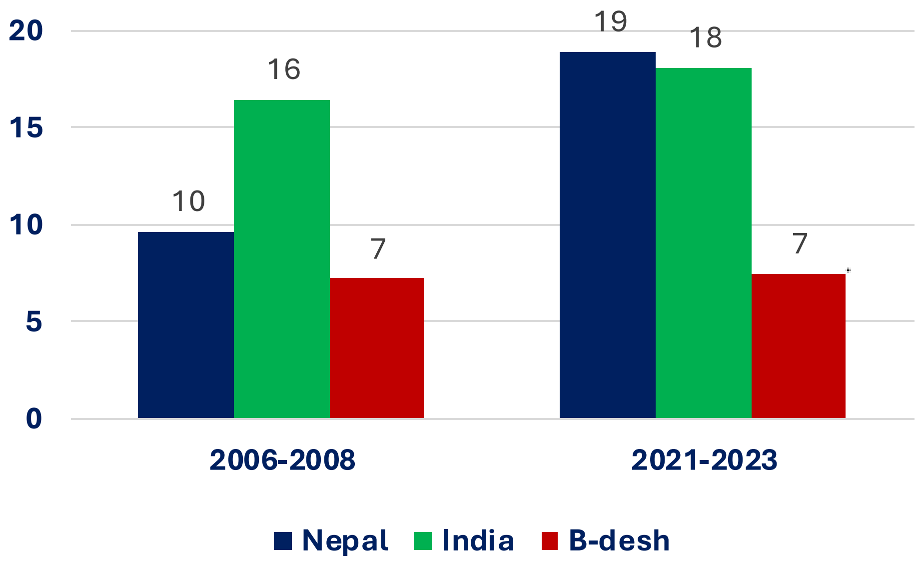
Source: Author's calculation based on data from Ministry of Finance, Nepal

Note: Tax per capita for year *t* was calculated by multiplying the average tax-to-GDP ratio for the relevant period by that year's GDP per capita. Disposable income was then derived by subtracting tax per capita from GDP per capita. Finally, growth rates for GDP per capita, tax per capita, and disposable income were computed across each period.

- Nepal's tax-to-GDP ratio nearly doubled, from 10% to 19% after becoming a republic—far outpacing its peers.
- In peers, tax and income moved together—so disposable income growth stayed close to overall growth. But in Nepal, tax doubled while income lagged, pulling down after-tax income growth even further.
- This imbalance shows Nepal extracted more from its people while delivering less prosperity in return.

The tax rate doubled in Nepal from monarchy to republic period

Average annual tax revenue as percent of GDP (%



Source: World Bank

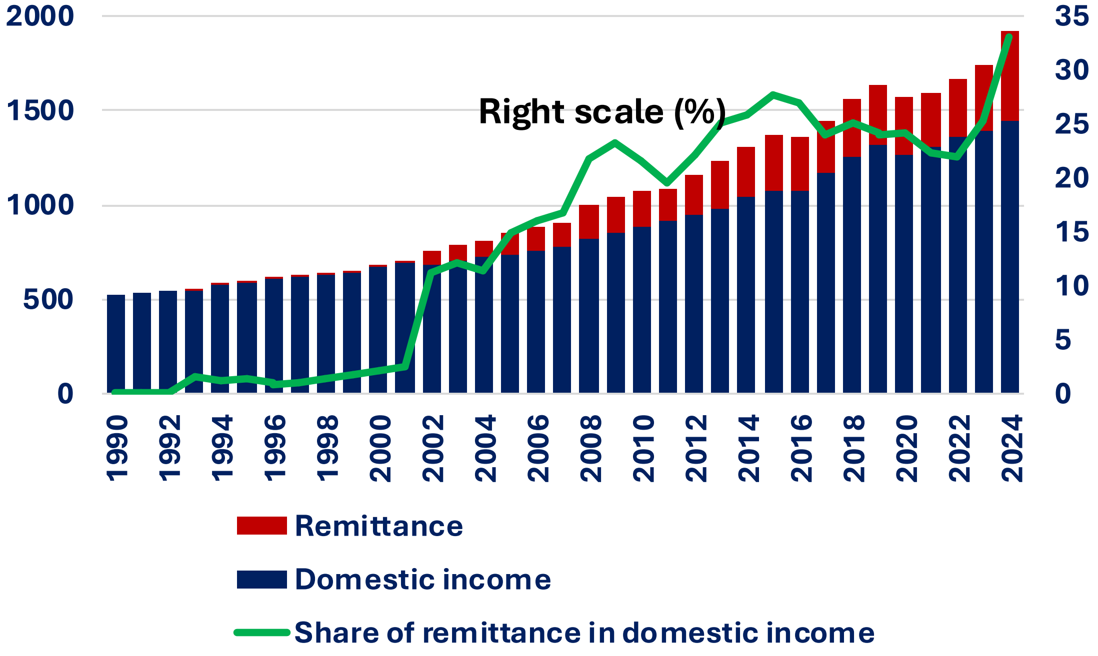
Remittances mask republic era growth failure

Per capita income in US $ (constant 2024 prices)

- Before 1993, Nepal had no remittance flows; under the monarchy, remittances averaged just 7% of domestic income, peaking at 22% in 2008.

- In the republic era, remittances averaged 25%, peaking at a staggering 36% in 2024 — the gap from the monarchy's 7% average is the "growth miracle" (or illusion) of the republic era.

- In 2024, an average remittance of $478 per person pushed national income to $1,926, masking the reality of a meager domestic income of just $1,447.



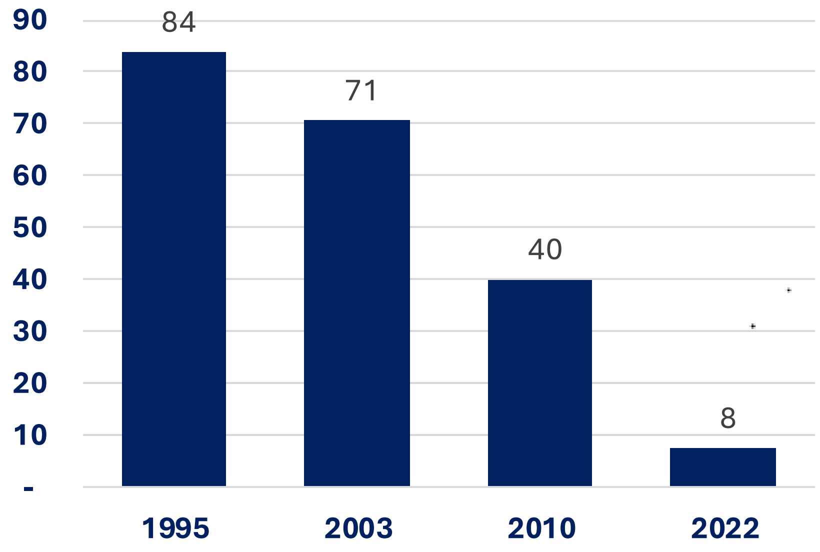
Source: World Bank

Note: Remittance in constant price was computed by multiplying the share of remittance in GDP (nominal figures) by real GDP per capita in US $.

Poverty declined consistently across all regimes, mainly on the back of remittances

- Remittances masked weak growth but delivered real poverty gains—at the cost of deeper structural vulnerabilities.
- Remittances drove about one-third of poverty reduction since the 1990s.
- Without them, poverty in 2022 would have been 31%—not 8%.

Poverty headcount ratio at $3.65 a day (2017 PPP) (% of population)



Source: World Bank

Note: Between 1995 and 2022, GDP per capita rose by 87% and remittances rose by 39%. In this period, poverty county fell by 76 percentage-points (90%). Using elasticity of poverty reduction with respect to income per capita growth of about 1%, remittances helped reduce the poverty by 23 percentage points (30% of total reduction).

Round up: Prosperity paradigm

- Nepal remained South Asia's slowest-growing economy, falling further behind India and Bangladesh with every regime change.
- The republic's growth boost disappears after adjusting for demography, debt, and taxes—unlike India and Bangladesh, whose gains mostly hold up.
- Tax grew nearly twice as fast under the republic as under monarchy, and far faster than income—squeezing disposable income and limiting welfare gains.
- Debt surged under the republic, driven more by consumption than productive investment—raising sustainability concerns.
- The demographic dividend was lost to outmigration, not harnessed through domestic job creation—deepening reliance on foreign income.
- Remittances inflated income statistics, but this was driven by outmigration—not by domestic reform, governance, or productivity.
- Bottom line: There was no regime premium—just a costly illusion of progress.

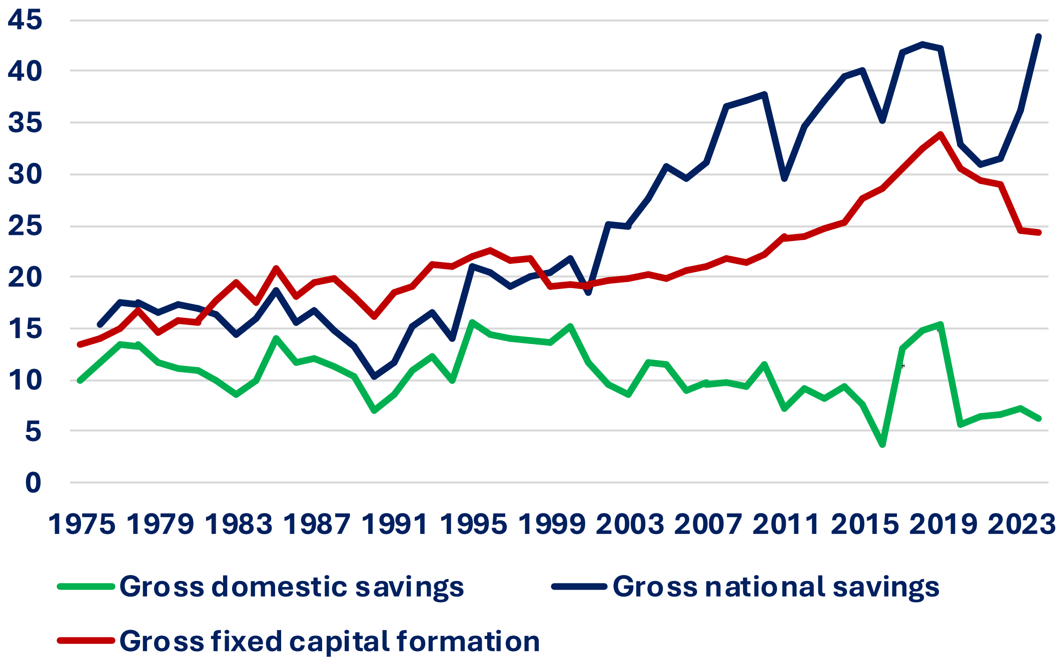
III. Productivity Foundations: The Supply Side of Prosperity

- **A country’s long-term prosperity depends on supply-side drivers—the core inputs that determine how much an economy can produce over time.**
- **They are called supply-side because they determine a country’s productive capacity—its ability to supply goods and services sustainably.**
- **To understand why Nepal’s economic growth has faltered, we must examine weaknesses in these core areas:**
  - Human capital
  - Physical capital
  - Affordability to build capital
  - Energy & infrastructure
  - Industrial base & international trade
  - Labor & migration

- Under the monarchy, the investment gap—difference between domestic saving and investment — was minimal.
- Under the republic, remittances surged while domestic saving collapsed, widening the gap between national and domestic savings from 25% to 35% of GDP.
- The investment gap rose from 11% to 18% of GDP, reflecting weaker domestic saving capacity.
- By 2024, national saving exceeded investment by 19% of GDP—suggesting that much of the remittance-driven savings was diverted to non-productive uses like land, gold, or capital flight.

Nepal's saving looks high—until you realize it isn't invested at home

Shares of savings and investment in GDP (%)

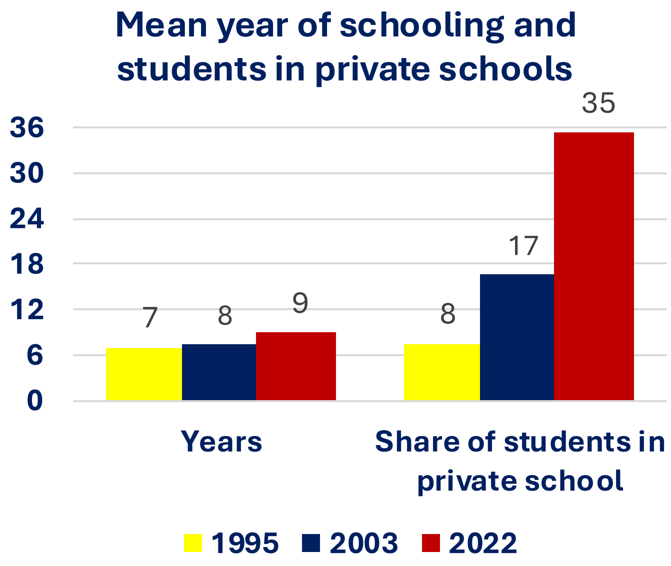


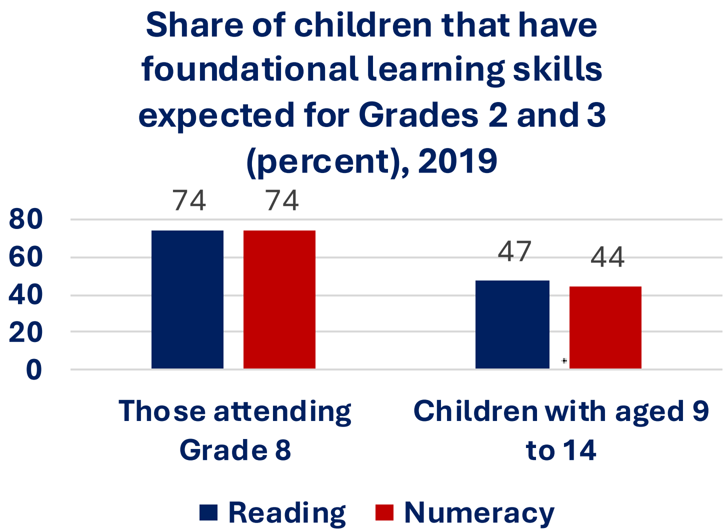
Source: World Bank

Note: **The gap between national and domestic savings reflects remittances, often called the remittance gap. The difference between domestic savings and investment (GFCF) is the investment gap. The space between national savings and investment shows remittance income not used for productive investment, but instead diverted to land, gold, idle deposits, or capital flight—forms of saving that do not contribute to GDP.**

Weak human capital is a hidden drag on economic prosperity

- Over three decades, average years of schooling rose modestly—from 7 to 9.
- Despite surge in private students, 1 in 4 Grade 8 students lacks foundational literacy and numeracy skills expected at Grades 2-3.
- Alarmingly, only 44% of children aged 9–14 meet these basic skills benchmark, pointing to a systematic failure in education quality.
- No regime prioritize learning, leaving Nepal ill-equipped to compete in a modern, knowledge-based economy.





Source: UNICEF 2022 and several NLSS reports

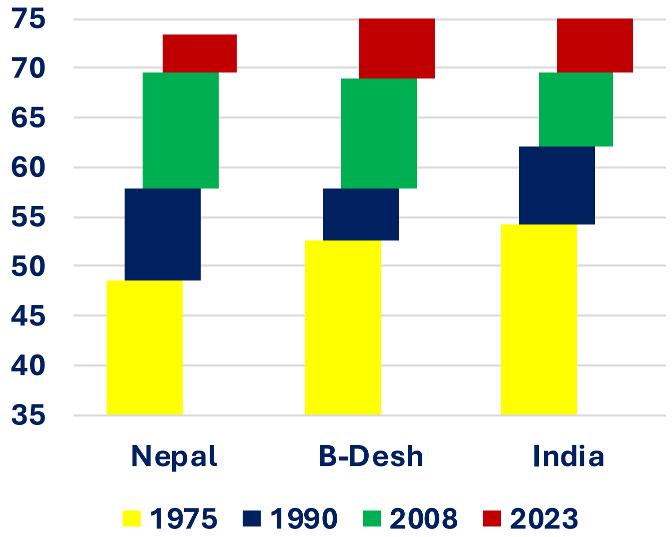
Health Progress Kept Pace—But Growth Didn't Follow

- **Health outcomes improved steadily, especially in the monarchy era—life expectancy rose fast and infant mortality dropped sharply.**

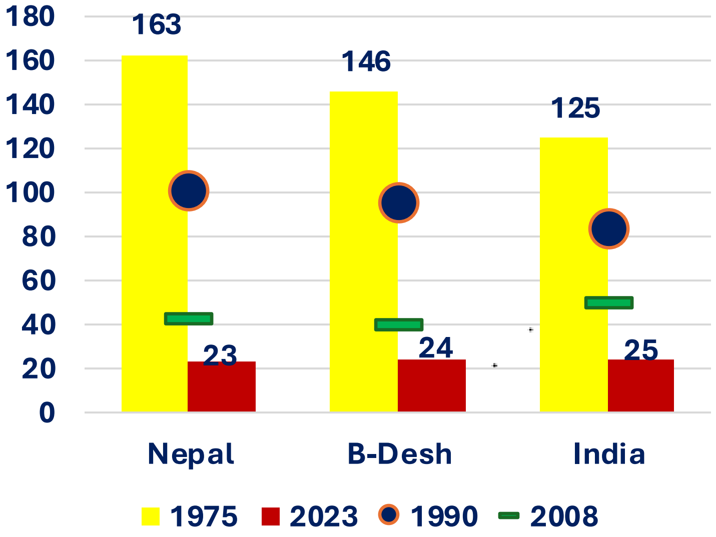
- **Under the republic, progress slowed—life expectancy gains lagged behind India and Bangladesh.**

- **These gains came from poverty reduction via remittances, not governance or economic reform—mirroring the broader growth illusion.**

Life expectancy at birth (years)



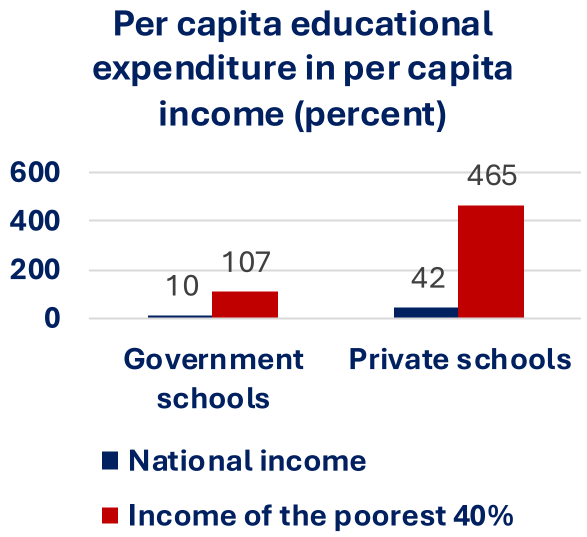
Infant mortality rate, per 1,000 live births



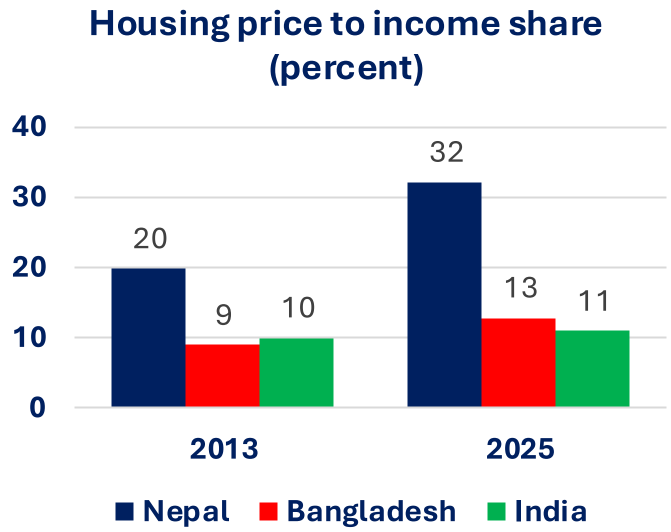
Source: World Bank

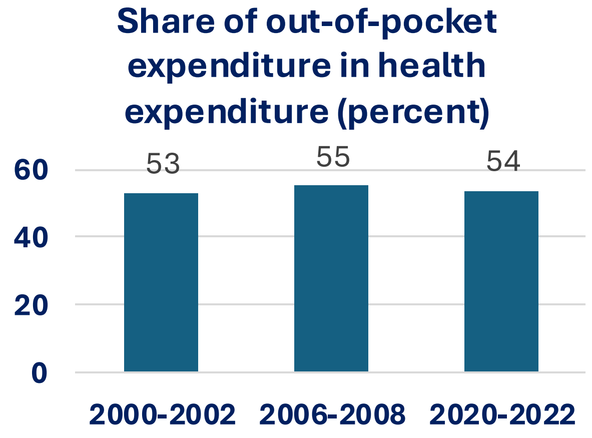
Affordability worsened in republic era–health education, and housing became costlier

- Under the republic, Nepal's house-price-to-income ratio jumped from 20 in 2013 to 32 in 2023, making it the 6th most unaffordable housing market globally.
- As costs outpaced earnings, even government schools now cost more than the income of the poorest 40%, putting basic education increasingly out of reach.
- With over half of all health spending paid out-of-pocket, growth has failed to deliver affordable and inclusive public services.



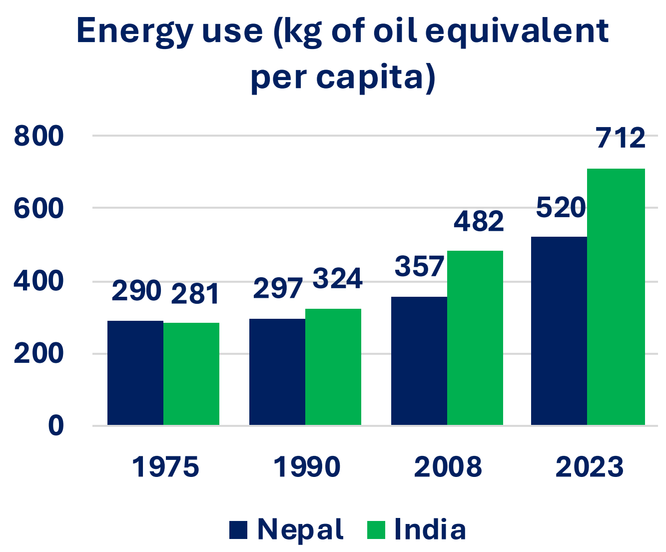
Source: NLSS IV 2024, World Bank and https://www.numbeo.com

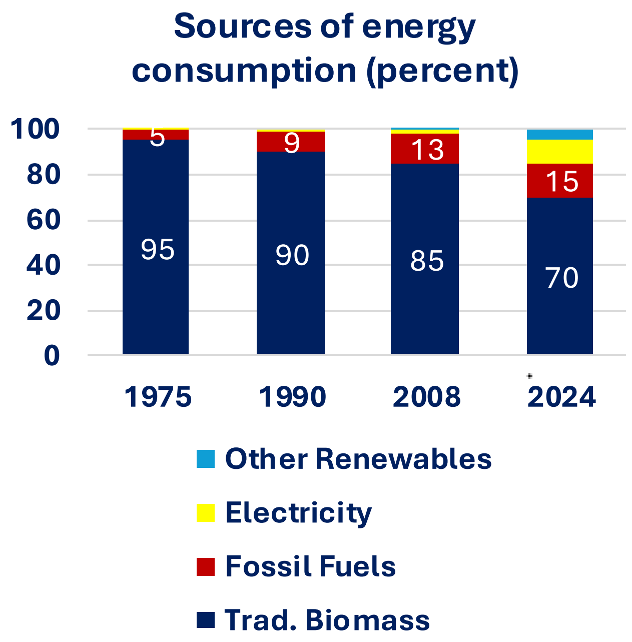




Too little, too traditional: energy shortfall inhibits growth

- Across regimes, Nepal has failed to modernize its energy system.
- In 1975, Nepal's per capita energy use was ahead of India's—but it has since fallen behind with every regime change.
- The continued reliance on traditional biomass and poor access to electricity(10%) reflect a systemic policy failure.
- This chronic energy shortfall has constrained productivity, job creation, and ultimately, growth.





Source: World Bank, NLSS IV and ChatGPT

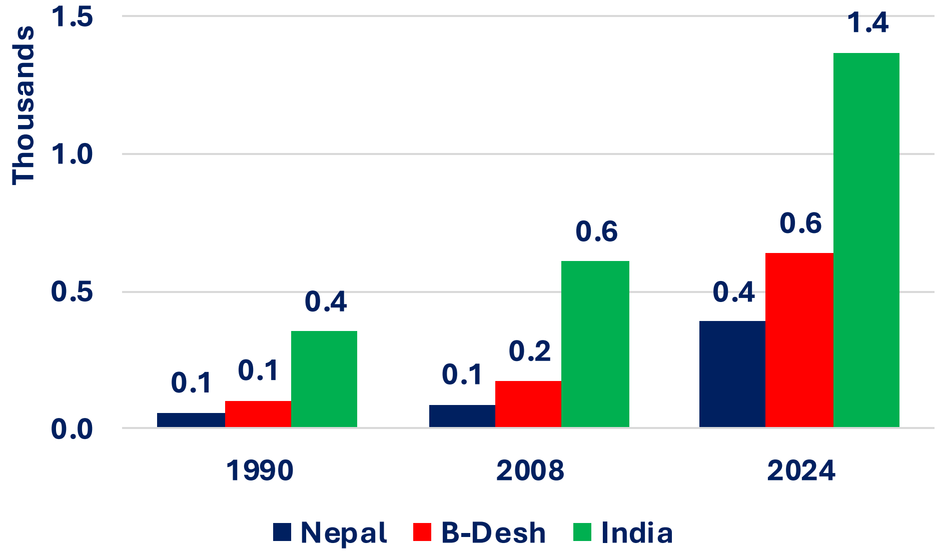
Nepal’s power production gains under the republic: too little, too late

Per capita electricity production (kWh)

- Nepal’s electricity generation rose from 0.1 kWh in 2008 to 0.4 kWh in 2024—but that’s only where India was in 1990.

- The power gap with India widened: Nepal fell further behind in 2024 than it was in 2008.

- The hydropower dream remains unfulfilled—and may fade entirely as solar and wind surge globally.

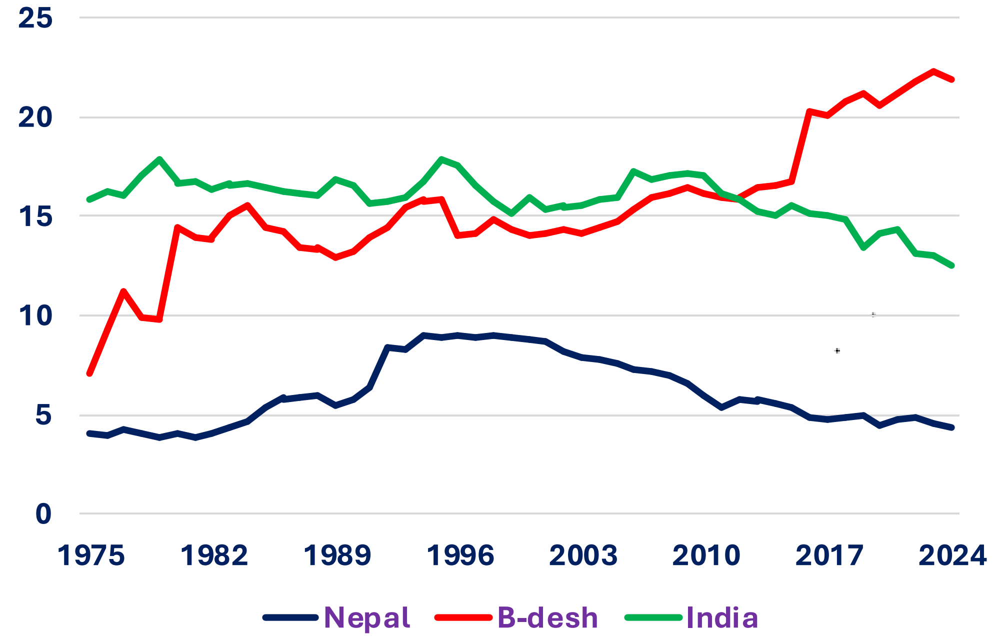


Source: World Bank

- One major reason for Nepal's low economic growth is the rapid erosion of its industrial base—accelerated under the republic.
- The manufacturing share of GDP fell from 9% in the late 1990s to just 5% in 2023.
- Meanwhile, Bangladesh surged ahead and India remained stable—leaving Nepal far behind in regional competitiveness.

Nepal's manufacturing sector has collapsed—defying regional trend

Share of manufacturing value added in GDP (%)



Source: World Bank

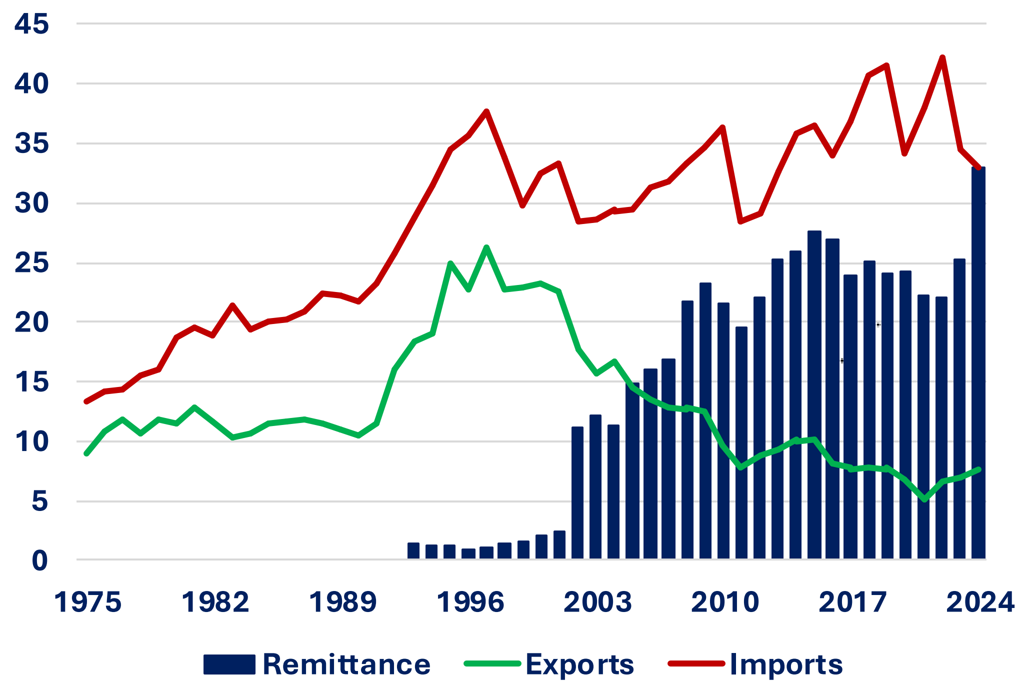
- **As industrial capacity collapsed, exports of goods and services fell from 26% of GDP in 1995 to just 8% in 2024—deepening external dependence.**

- **Imports surged, pushing the trade deficit from near-zero in 1975 to 26% of GDP by 2024—the highest in the region.**

- **Remittances became the fallback—not a growth engine—propping up imports, delaying structural reform, and driving mass labor outmigration.**

Trade shifted from exporting goods to exporting people

Share in GDP (%)



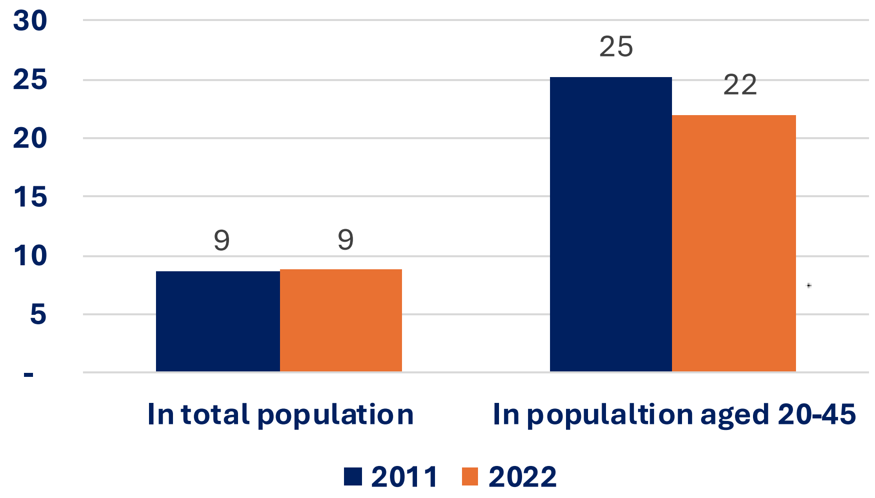
Source: World Bank

A generation left the country across both regimes

- **With remittances propping up the economy, labor outmigration became Nepal's default development strategy—sustained across both political regimes.**

- **Roughly one in four Nepalis of ages 20-45 lived abroad in both 2011 and 2022, reflecting entrenched despair over jobs and opportunity at home.**

Share of absentee population abroad (percent)



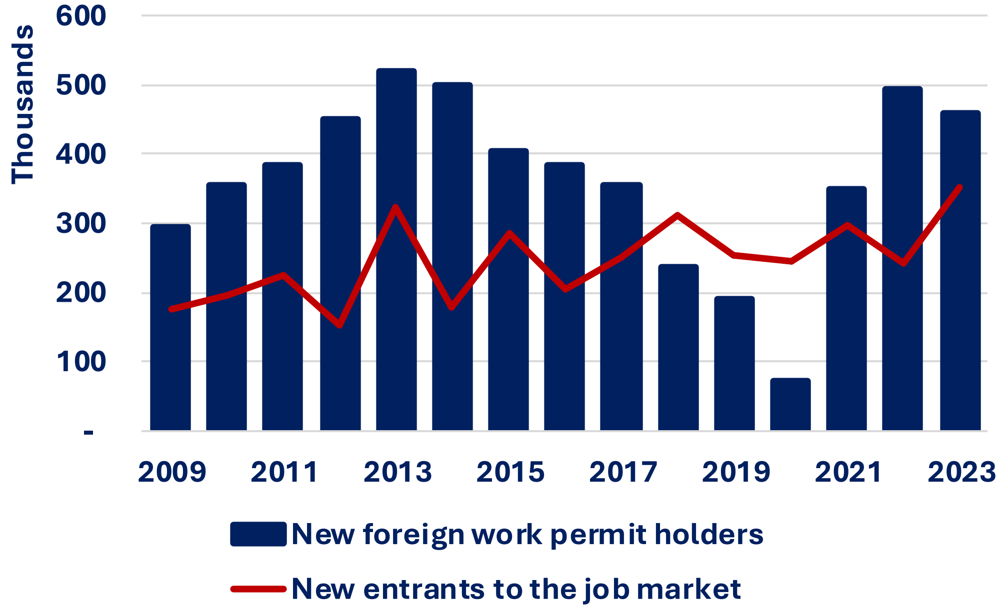
Source: Several report of NNLS and World Bank 2024 Report on Nepal

Note: To calculate the share of outmigration in the population aged 20–45, we assume most overseas workers fall within this age range. At least 90% is the conventional estimate.

- **Job creation failed in the republic era.**
  - **Outbound migration consistently exceeded the number of new job market entrants.**
  - **Yet, youth unemployment more than tripled—from 7% in 1995 to 23% in 2022.**
  - **Over 9 million work permits (6 million new, 3.3 million renewals) were issued under republic era—signaling a deeply broken domestic labor market.**

Migration became the safety valve for a failing job market

New labor market entrants vs. workers leaving for foreign jobs (thousands)



Note: To estimate the number of new entrants into job market, we use a demographic cohort-based approach grounded in the 2021 Population Census. Specifically, we take the number of individuals who turn 20 in each year—assuming this is the typical age at which most Nepalis enter the labor force. To account for those who may still be in school or otherwise not participating, we apply a labor force participation rate of 50% for this age group.

Source: Ministry of Labour, Employment and Social Security, Nepal and Population Census Report 2021, Nepal

Round up: the supply-side

- Savings without investment: Despite high national savings, investment has stalled—signaling a lack of productive opportunities and a weak growth engine.

- Human capital stalled: Years of schooling and skill levels remain low across regimes—and may worsen as educated youth continue to leave.

- Health gains masked inequality: Remittance-driven progress bypassed most workers, who still suffer poor health and reduced productivity.

- Affordability collapsed: Homeownership is out of reach, and quality education has become now a private luxury for the few.

- Hydropower dream shattered: Nepal's growth engine never started—energy use remains low and traditional, exposing the hollowness of its export claims.

- Industry crumbled: Manufacturing's share of GDP fell from 9% to 5%—exposing Nepal's lost competitiveness.

- Trade imbalances exploded: Imports surged, exports collapsed, while remittances masked deep structural fragility.

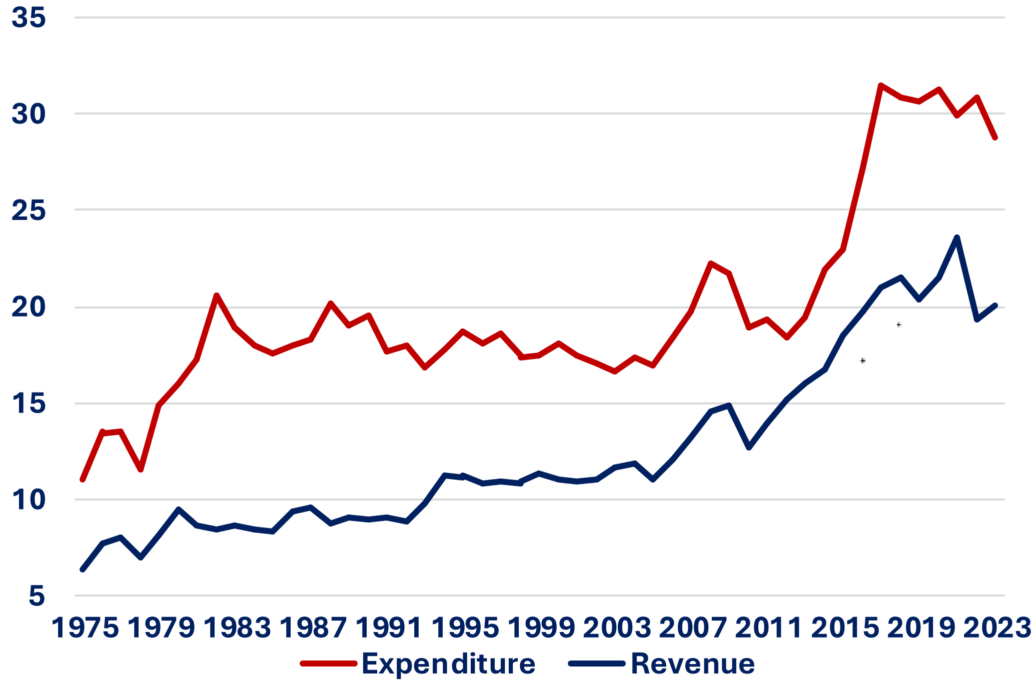
IV. Meeting the Moment: The Demand Side of Prosperity

- **After neglecting the supply side foundations, did Nepal at least get demand right?**
- **While supply-side drivers determine long-term potential, demand-side tools help realize that potential by stabilizing the economy and boosting activity during downturns.**
- **They are called demand-side because they affect aggregate demand—through public spending, taxation, interest rates, and credit availability.**
- **In Nepal's context, these levers have supply-side consequences too—reinforcing or weakening investment, productivity, and structural transformation.**
- **The key demand-side levers are:**
  - Fiscal policy (government spending and taxation)
  - Monetary policy (inflation, exchange rate, interest rate, liquidity,
  - Regulatory policy (rules that affect consumer and business behavior)

- Public spending surged from 22% to 30% of GDP (2008–2023)—outpacing revenue growth and expanding the fiscal footprint.
- Revenue rose from 15% to 20% of GDP, driven largely by higher taxes—but still lagged behind the spending boom.
- The widening fiscal gap fueled debt dependence, raising long-term risks to fiscal sustainability and crowding out capital investment.

Fiscal gap widens despite revenue gains under the republic era

General governments fiscal shares in GDP (%)



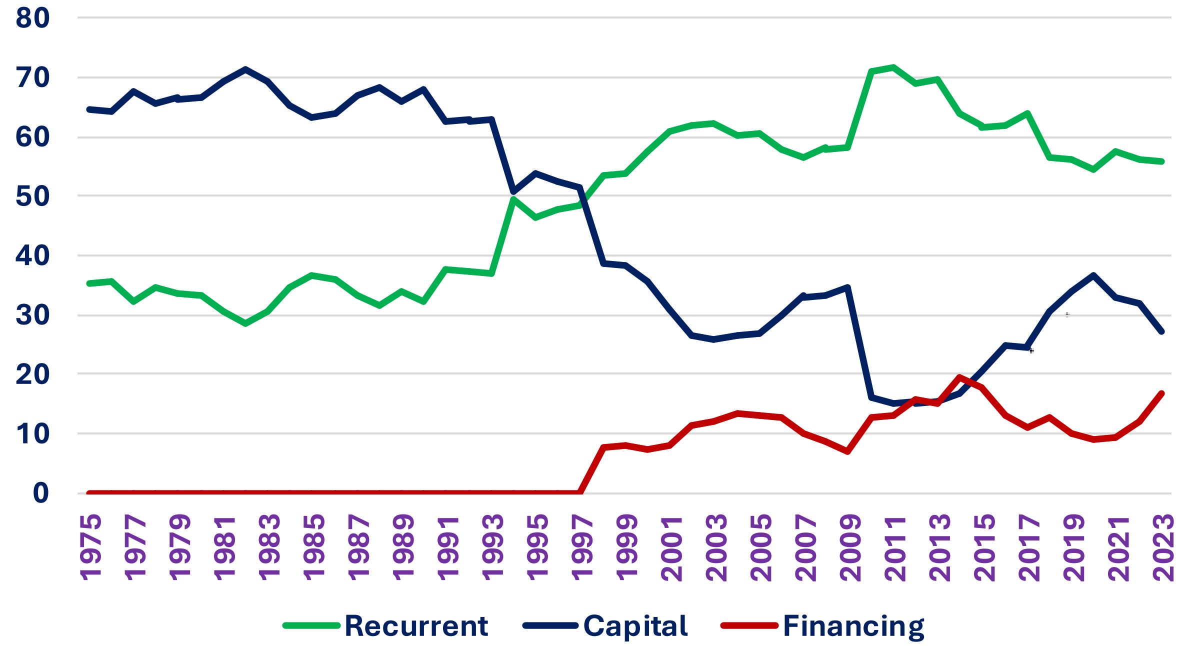
Source: Ministry of Finance Nepal: Economic Survey of Nepal, 2081/82, and Budget Speech 2083

- **Capital spending steadily declined, while recurrent expenditures dominated across all regimes.**

- **This shift reveals deep institutional bias—undermining long-term growth and shrinking Nepal's public investment capacity.**

Public spending shifted away from investment in every regime

General government expenditure composition (%)



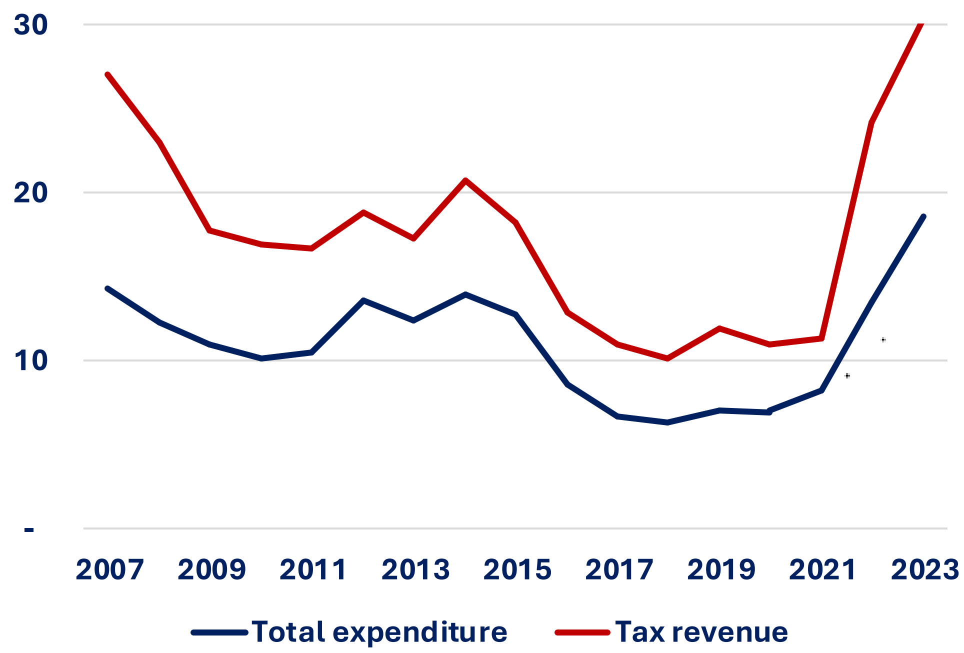
Source: Ministry of Finance Nepal: Economic Survey of Nepal, 2081/82, and Budget Speech 2083

Note: Government expenditure is the sum of three components: (i) Recurrent expenditure covers the day-to-day operating costs of the government, such as salaries, pensions, subsidies, and administrative expenses. (ii) Capital Expenditure: Allocated for long-term development projects like infrastructure, schools, roads, and energy, aimed at building the country's productive capacity. Financing : Refers to how the budget deficit is managed—through domestic or foreign borrowing, debt repayment, and other fiscal transactions.

- Debt servicing now absorbs nearly one-third of tax revenue, up from under 10% just a few years ago.
- The rising debt burden is crowding out development spending, shrinking the space for growth-oriented investment.
- This reflects mounting fiscal stress under the republic, driven by widening deficits and inefficient spending.

Debt service is eating up more of the government's tax income

Share of public debt servicing (%)

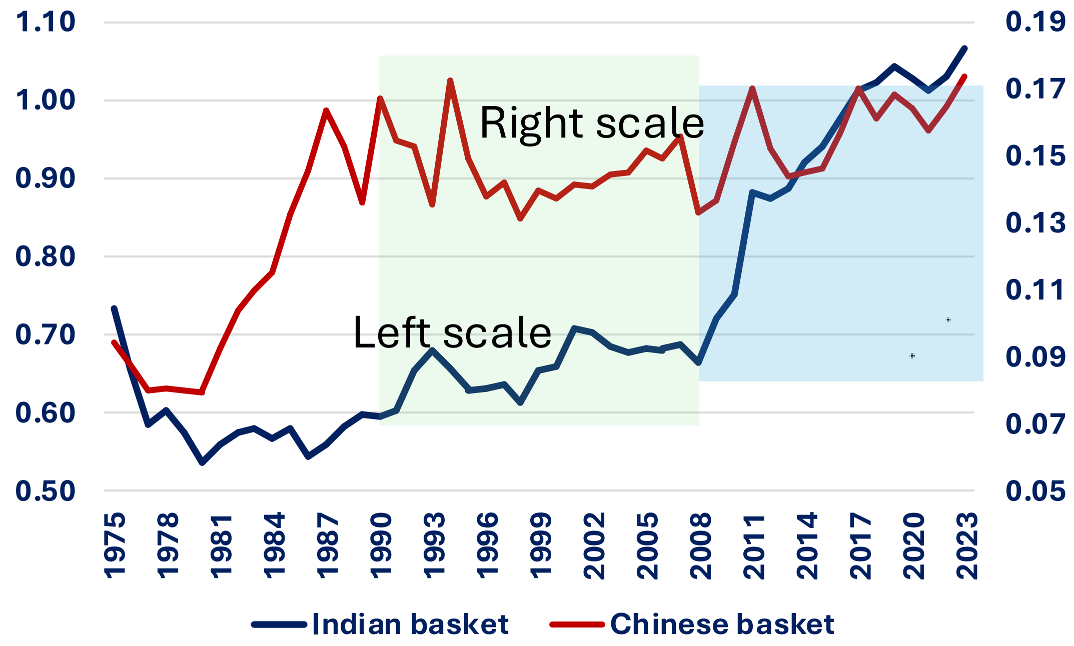


Source: Office of the Comptroller General, Nepal: Economic Survey of Nepal, 2081/82, and Budget Speech 2083

- **Nepal's real exchange rate has appreciated steadily under the republic, making its goods and services more expensive in global markets.**
  – With India, it rose by 58%: 14% from period 1975–1990 to 1990–2003, and another 44% from 2003 to 2023.
- **The RER also appreciated against China, though to a lesser extent,**
- **This sustained appreciation signals a deep loss of competitiveness—hurting manufacturing, depressing exports, and widening trade deficits.**

The republic era has seen a marked erosion in global competitiveness

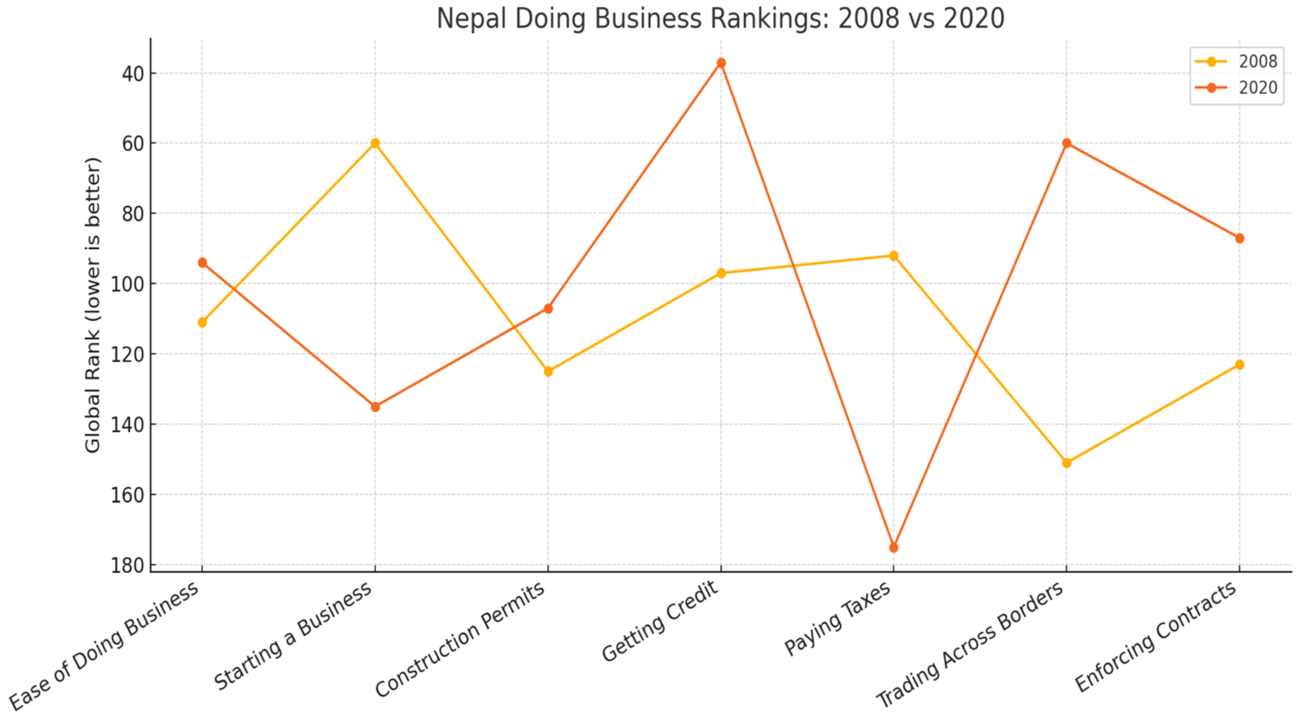
Real exchange rate (foreign basket per Nepali basket)



Source: Author's calculation based on data from World Bank

Both regimes failed to improve Nepal's hostile business climate

- **Nepal's global rankings in ease of doing business stagnated—or worsened—between 2008 and 2020.**
- **Little to no progress in key areas like construction permits, enforcing contracts, and cross-border trade.**
- **These bottlenecks signal persistent institutional weakness, deterring private investment and long-term growth.**



Source: Data accessed through ChatGPT

Round up: The demand-side

- Demand-side expansion lacked growth payoff—spending rose, but outcomes signaled deeper structural distress.
- Spending surged, but growth lagged—much of the 22% to 30% GDP rise in expenditure went to salaries and transfers, not investment.
- Capital investment collapsed—under all regimes, shrinking Nepal's capacity to build future assets.
- Debt burden soared—despite rising taxes, revenue couldn't keep pace, and debt servicing now absorbs nearly one-third of tax income.
- Competitiveness and business climate worsened—real exchange rate appreciation hurt exports, while regulatory barriers deterred private investment.

V. Institutional and Governance Constraints on Prosperity

- **Nepal's Nepal's failure to build a productive economy or manage demand effectively stems from chronic governance dysfunction—not just policy mistakes.**

- **Weak institutions and distorted incentives have blocked reforms across regimes—undermining investment, misdirecting spending, and eroding competitiveness.**

- **This section explores three systemic governance fault lines:**
  - Rule of law and institutional performance
  - Democratic representation and accountability
  - Recycling of elites across regimes

The Indices assess the state of democracy in numbers ranging from 0 (lowest achievement) to 1 (highest achievement). A score of 0 refers to the worst performance in the entire sample of country–years covered by a particular indicator, while a score of 1 refers to the best country-year performance in the sample. This means that a score of, for example, 0.65 for country x in year 2018 on Predictable Enforcement ranks this country's performance relative to the performance of all other 174 countries in Predictable Enforcement during the period from 1975 to 2022.

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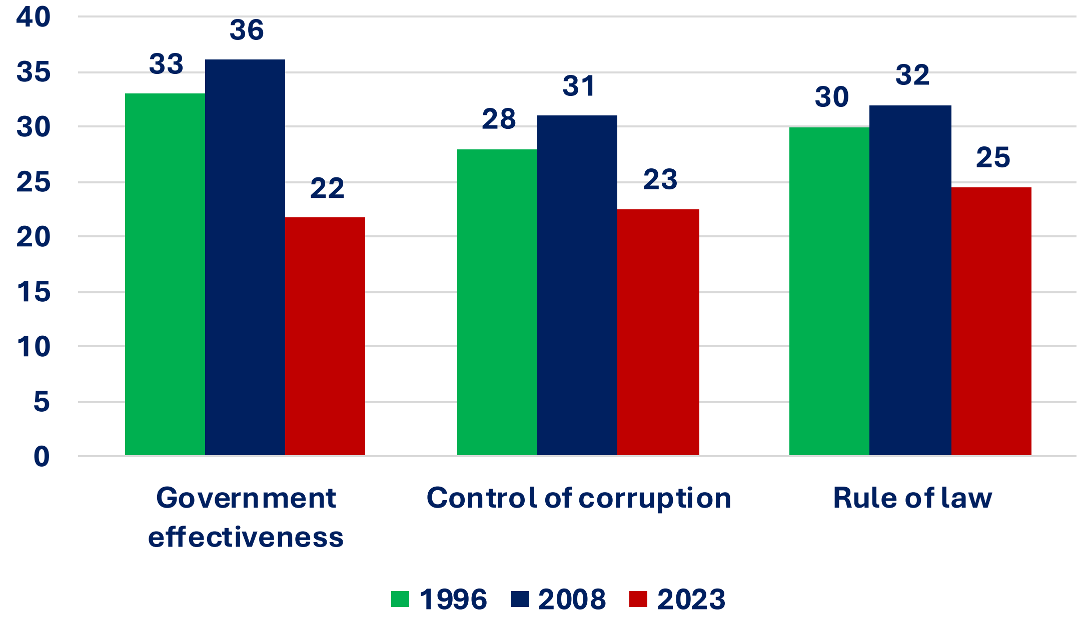
- **Governance has deteriorated in the republic era—Nepal's global rankings fell across all indicators.**
- **In 2008, Nepal ranked above 33 countries in government effectiveness; now just 22.**
- **Similar drops are seen in rule of law and corruption control.**
- **Public institutions are less responsive, more corrupt, and less bound by law—especially for those in power.**

The republic era has led to institutional decline

Governance performance (percentile ranking - higher the better)



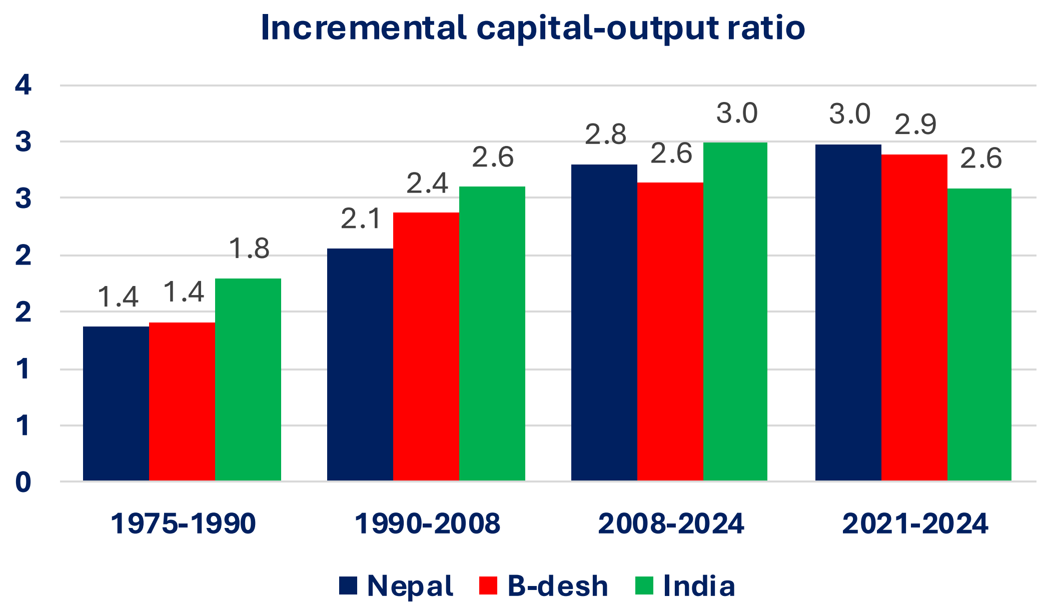
Source: World Bank: Worldwide Governance Indicators (WGI)

Note: The numbers represent global rankings—higher values indicate better governance. **Government effectiveness** measures the quality of public services and the degree to which the government delivers on its functions. **Control of corruption** assesses how effectively public institutions are protected from misuse for private gain. **Rule of law** evaluates how well laws are upheld by both the state and citizens.

Institutional decline shows up in weaker investment efficiency post-republic

Investment need to generate a unit increase in income

- Before the republic, Nepal's ICOR was lower than its peers—indicating more efficient use of capital.
- Post-republic, ICOR surged from 2.1 to 2.8—the worst regional deterioration—driven by governance decay.
- This 32% rise signals growing inefficiencies and deeper institutional failure.
- The decline has intensified over the last five years.



Source: Authors' calculation based on data from World Bank

Note: ICOR was computed as total investment (gross fixed capital formation) divided by GDP growth in each period (in local currency, current prices). A higher ICOR means lower investment efficiency.

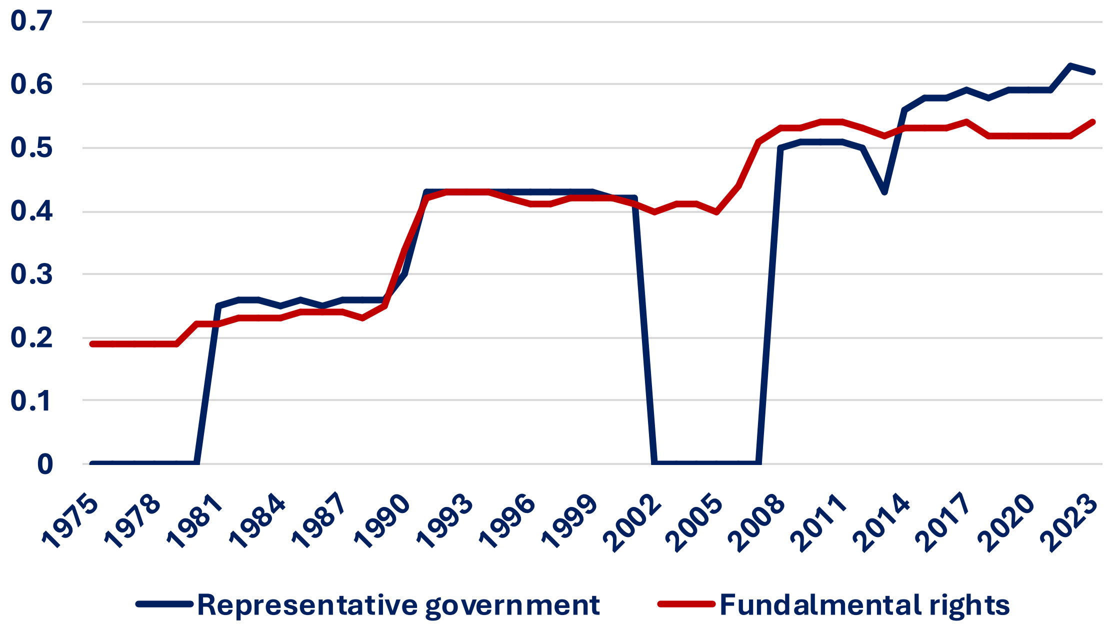
- **The only aspect not worsened—and slightly improved—under the republic is democratic rights and representation.**

- **Even here, gains over monarchy (excluding the 2002–2007 coup) are modest.**

- **What the scores reveal:**
  - Nepal is an electoral democracy, but with low trust, flawed elections, and barriers to competition.
  - Rights exist on paper, but implementation remains weak.

The last and the only area where the republic has an upper hand

Democratic progression in Nepal (0 = weakest, 1 = strongest democracy)



Source: International IDEA, The Global State of Democracy Indices, 2024

Note: The Indices assess the state of democracy in numbers ranging from 0 (lowest achievement) to 1 (highest achievement). The Representation Index measures the quality of electoral democracy—how well the political system reflects the will of the people through free, fair, and inclusive elections. Fundamental Rights—measures how well a country protects individual freedoms and civil liberties (composed of Access to Justice; Civil liberites; Social rights and equalities and Freedom of religion)

VI. Summary of Key Findings: 11 Hard Truths

1. **Rotation without transformation:** Nepal cycled through regimes, but none delivered real progress, as neither prosperity capacity was built nor potential tapped—only deepening the decline that began in the absolute monarchy's era.

2. **Regimes changed, stagnation stuck:** Nepal changed regimes, but not mindset. Each clung to the same failed formula—never breaking out of the low-growth trap.

3. **Peers sprinted ahead, Nepal fell further behind:** With faster growth and lower taxes, India and Bangladesh widened the gap—leaving Nepal less competitive and regionally sidelined.

4. **Productivity never took root:** Weak human and physical capital, poor infrastructure, overregulation, and political capture blocked investment and killed innovation—dragging productivity and prosperity down.

5. **Industry collapsed, jobs disappeared:** Manufacturing shrank, exports faltered, and Nepal couldn't generate even minimal jobs at home.

11 Hard Truths (contd.)

6. **Outmigration replaced policy:** With no jobs, millions left—turning a demographic dividend into a demographic disaster.

7. **Remittances masked decay:** They reduced poverty and boosted consumption—but without policy reform, they fueled structural decline and deepened dependence.

8. **Fiscal policy taxed more, built less:** Revenues rose, but capital formation stayed weak—most spending went to salaries, not productivity.

9. **Monetary policy ignored jobs—and overvaluation:** It stood still as the currency became overvalued, jobs vanished, and competitiveness eroded.

10. **Institutions blocked both progress and potential:** Politicized, weak institutions failed to build growth capacity—or activate it—leaving Nepal without a foundation or a future.

11. **Nepal drifted more than advanced—and now risks decline:** From monarchy to republic, the country's 50-year journey became a betrayal of the promised transformation under every regime.

VII. Reform Priorities and Strategic Levers

1. **Fix the republic—don't flee it:** The monarchy failed before; returning won't fix. Reform the republic to deliver.

2. **Stop the myth-making:** The numbers don't lie—republic-era leaders must not spin stagnation into success.

3. **Bring back the dream:** People once had hope; now they feel betrayed; restore belief with action, not slogans.

4. **Make job creation only agenda:** jobs boost growth, provide dignity, and give staying power to a fleeing population.

5. **Reverse the decline—or face unrest:** Stagnation breeds resentment. Sooner or later, it explodes.

6. **Rescue hollowed-out institutions:** End political capture. Institutions must serve everyone—not just the powerful.

7. **Bridge the aspiration gap:** Youth dream like South Koreans but are ruled like North Koreans, a volatile mismatch.

8. **Stop celebrating remittances as progress:** They eased poverty but hollowed out prosperity. Fix what's broken before the economy collapses.

9. **Live the republic's promise—or lose it:** If we keep falling behind each day, what exactly was the republic for?

10. **The question is not whether Nepal changed regimes; the real question is whether those regimes will finally change Nepal.**

Thank you!

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