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Monitoring of countries graduating and
graduated from the list of LDC category:
Nepal

**SUSTAINABLE
DEVELOPMENT GOALS**

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Summary

The CDP found that, despite fast growth in recent years, Nepal's GNI per capita is still below the graduation threshold. The income growth was also hampered by the COVID-19 pandemic, especially due to the large impacts on the tourism sector. Government expenditure for public health and welfare increased, but protection for vulnerable people during COVID-19 pandemic appears to be limited.

The Government of Nepal has taken steps to prepare the STS and submitted the annual report to CDP. The Committee recommends the country to take concrete measures to promote productive capacity, including promoting cottage industry and diversifying the economy.

The CDP recommends ECOSOC to call for international community to continue providing technical and financial assistance to Nepal, particularly, on promoting productive capacity and build resilience against natural disasters.

Macroeconomic situation

Recovering from the devastating Gorkha earthquake of 2015 (magnitude 7.8 earthquake, affecting more than 31,000 people),¹ Nepal's GDP growth rate averaged 7.8 percent over 2017-2019. In 2020, however, the economy was hit hard by the COVID-19 pandemic, resulting in GDP contraction by 8.5 percent (calendar year).² Meanwhile, the IMF estimated a moderate decline of -2.1 per cent.³ Tourism, transport and manufacturing are some of the sectors that are most affected by the pandemic.⁴

Real GDP growth of Nepal forecast to expand by 5 to 5.5. percent in 2022, according to various sources,⁵ underpinned by domestic demand of India, Nepal's major trading partner, and private consumption followed by remittance inflows. Though, tourism in the Himalayas, which accounted for 10 percent of the country's GDP in 2019, is not expected to recover to pre-pandemic level until 2023.

The fiscal deficit of Nepal was 5.3 percent of GDP in 2020, due to increase in capital expenditure, especially for public health and welfare against the coronavirus. The country's tax to GDP ratio is 19.8 percent.⁶

Indicator	2015	2016	2017	2018	2019	2020
GDP growth rate (per cent, constant price)	3.3	0.6	8.2	6.7	7.0	-8.5
Inflation rate (%)	7.9	8.8	3.6	4.1	5.6	5.1
Government revenue (billions of national currency)	442.2	525.0	644.5	766.0	862.6	865.0
Government expenditure (billions of national currency)	428.3	494.5	727.3	967.6	1055.0	1073.6
Government balance (billions of national currency)	14.0	30.5	-82.7	-201.6	-192.4	-208.6
Government balance (per cent of GDP)	0.6	1.2	-2.7	-5.8	-5.0	-5.3
Net ODA received (millions of US dollars)	1224.4	1064.5	1269.7	1452.3	1332.6	

¹ World Vision, 2015 Nepal earthquake: Facts, FAQs, and how to help, retrieved from <https://www.worldvision.org/disaster-relief-news-stories/2015-nepal-earthquake-facts>

² UN DESA, World Economic Situation and Prospects, 2022.

³ IMF (2021). World Economic Outlook, accessed 31 January 2022.

⁴ National Planning Commission (2021). Nepal's Statement on LDC Graduation for 2021 Triennial Review, accessed 8 January 2022.

⁵ UN DESA, World Economic Situation and Prospects, 2022; EIU Economic Intelligence Unit (2021). Nepal country report, accessed 8 January 2022.

⁶ World Bank, WDI, accessed 8 January 2022.

Balance of Payments (millions of US dollars)						
Current Account	2446.6	-167.8	-1032.6	-2748.5	-1753.6	-84.1
Goods, Credit (Exports)	813.2	762.3	835.7	932.3	1110.9	890.1
Goods, Debit (Imports)	6510.7	8764.3	10200.4	12863.0	12118.4	9597.0
Balance on Goods	-5697.6	-8002.0	-9364.7	-11930.7	-11007.5	-8706.9
Services, Credit (Exports)	1430.5	1354.3	1594.8	1745.3	1615.3	881.2
Services, Debit (Imports)	1200.8	1250.8	1623.4	1775.3	1717.9	1097.4
Balance on services	229.7	103.5	-28.6	-29.9	-102.6	-216.2
Balance on Goods and Services	-5467.9	-7898.5	-9393.3	-11960.7	-11110.1	-8923.1
Balance on income	350.5	285.5	280.9	220.0	519.4	174.7
Balance on current transfers	7564.1	7445.1	8079.8	8992.1	8837.0	8664.3
Capital Account	161.6	164.6	149.1	133.9	142.1	115.4
Financial Account	2511.6	553.2	-279.9	-1567.3	-653.4	270.8
Direct investment (net)	-51.9	-106.0	-196.3	-68.3	-185.6	-126.6
Portfolio investment (net)	...	...	0.0	0.0	0.0	0.0
Financial derivatives (other than reserves) and employee stock options	...	...	...	...	...	...
Other investment (net)	198.3	8.2	-455.7	-842.0	-806.2	-2,531.8
Reserve assets	2,365.1	651.0	372.1	-657.1	338.4	2,929.2
Reserves (months of imports)	12.5	10.3	9.4	6.6	7.5	12.5

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

The GNI per capita of Nepal is estimated as \$1197.8 in 2022, which is lower than the graduation threshold of \$1242. Nepal is the first and the only country expected to graduate without meeting the income criterion. Meanwhile, the country's EVI score for 2022 slightly decreased to 23.8, still satisfying the threshold level of 32 or below. The HAI also continued to increase, scoring 76.5, which is well above the graduation threshold of 66.

Nepal continued to make progress in most of other supplementary graduation indicators (see Table 3 for selected indicators). Remittances continued to flow in during the COVID-19 pandemic, providing buffers for recipient households to address income losses. HDI and women empowerment index have been maintained, and access to water and sanitation have increased. ODA as the percentage of GNI has decreased in 2020 and requires attention on how to meet the need for development financing to recover from the impacts of the COVID-19 pandemic and to achieve the SDGs. There is no updated data for air pollution.

Table 2. Indicators for LDC identification, Nepal, 2018-2022.

Year	GNI per capita	EVI	HAI
2018	905.1	24.7	71.0
2019	955.4	24.5	72.6
2020	1,050.2	24.3	74.0
2021	1,151.7	24.0	75.1
2022	1,197.8	23.8	76.5

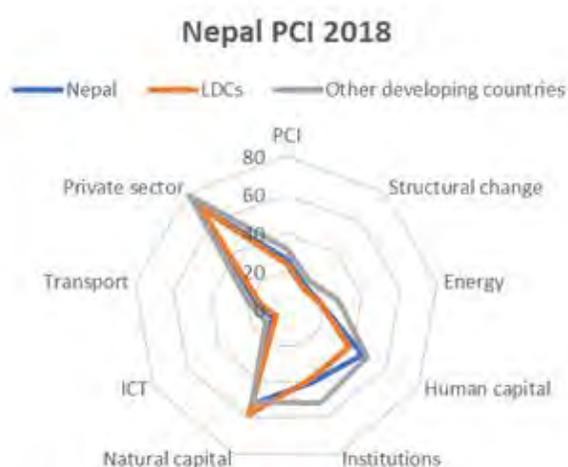
Source: CDP Secretariat

Table 3. Selected supplementary graduation indicators, Nepal, 2017-2021.

Indicator	2017	2018	2019	2020	2021
Remittances (% of GDP)	27.0	23.9	25.0	24.1	24.1
ODA received as percentage of GNI	5.0	4.3	4.3	4.4	3.9
Water access	88.3	88.7	89.2	89.6	90.1
Sanitation access	62.0	65.6	69.2	72.9	76.6
Human development index	0.58	0.59	0.59	0.60	0.60
Women empowerment index	0.7	0.7	0.7	0.7	0.7
Air pollution	96.3	98.1	99.7		

Source: CDP Secretariat

Productive Capacity



Nepal has a level of development of productive capacities above that of the LDC group. The country's development and path towards graduation has been largely pushed by two factors. First, its relative specialization in manufacturing, which places it ahead of LDC in terms of Structural Change. Second, the country has invested in "soft" components of productive capacities such as education, health and institutions, all areas in which it outperforms the LDC group.

By contrast, Nepal underperforms the LDC group in terms of Energy, an area in which it moreover stands 34% below other developing countries. This is surprising, given the country's endowment and potential in

the sector of hydropower. Still, this has been one of the dimensions in which the country progressed most during the 2010s.

The most remarkable progress during that period was achieved in ICTs, thanks to strong investment to expand the infrastructure and uptake of digital technologies.

Table 4. Productive Capacity Index, Selected Countries, 2018 value.

Country	PCI	Energy	Human capital	ICT	Institutions	Natural capital	Private sector	Structural change	Transport
Angola	22.2	22.8	35.9	5.0	32.2	51.9	65.6	12.3	10.5
Bangladesh	26.8	25.3	44.7	6.7	37.7	58.1	72.7	16.5	13.6
Bhutan	30.1	22.4	46.5	9.2	63.3	41.5	73.9	16.7	21.7
Lao PDR	27.1	23.5	41.0	8.2	40.1	46.0	78.0	20.6	12.5
Nepal	26.3	18.3	46.2	7.8	39.9	52.3	70.6	15.9	14.8
Sao Tome and Principe	26.7	19.6	43.7	7.2	48.4	46.7	75.8	16.3	15.2
Solomon Islands	26.2	21.2	40.0	5.5	46.9	44.7	81.1	13.5	20.7
Vanuatu	29.4	23.1	41.2	6.7	55.5	46.2	80.4	17.7	24.2
LDCs	23.9	18.8	37.9	6.1	38.2	58.2	71.0	14.0	13.4
ODCs	31.9	27.8	48.7	12.4	51.4	51.3	77.7	19.4	19.2

Source: UNCTAD.

Data gap

Nepal's overall statistical capacity index was 72.2 in 2020, slightly higher than the average score of South Asian countries (69.8) and lower middle income countries (66.4).⁷ Methodology of source data is a particular concern, while the country scores better on periodicity and availability.

Smooth transition, national plan and country specific factors

Nepal is scheduled to graduate on 24 November 2026, after a five-year transitional period. A resolution on its graduation was adopted during the UN General Assembly on 24 November 2021. It is the first and the only country considered for graduation without reaching the income criterion. Nepal's LDC graduation will be a milestone for its socio-economic development.

Nepal submitted its annual country report on smooth transition strategy (STS) in November 2021.⁸ The government is preparing a smooth transition and graduation strategy, focusing on cooperation among development partners and other stakeholders. The report analyses anticipated impacts of LDC graduation and COVID-19 on Nepal's development progress. It specifies the country's preparation for graduation as well, which includes 1) forming LDC Steering Committee; 2) establishing consultative mechanism; 3) calling for international advocacy; 4) organizing focal units to manage relevant activities; 5) preparing LDC graduation strategy; 6) taking measures against COVID-19.

⁷ World Bank, WDI, accessed 8 January 2022.

⁸ National Planning Commission (2021). Report on the Preparation of the Transition and LDC Graduation Strategy of Nepal, accessed 7 January 2022.

Current Fifteenth Plan (Fiscal Year 2019/20-2023/24)⁹ is also in line with Nepal's preparation for LDC graduation. Its long-term vision 2043 aims to graduate the country from the LDC category by 2022, based on the following strategies: 1) achieving rapid, sustainable and employment-oriented economic growth; 2) ensuring universal and quality health service and education; 3) developing internal and cross-border interconnectivity and sustainable cities/settlements; 4) increasing production and productivity; 5) providing complete, sustainable and productive social security and protection; 6) building a just society with socio-economic equality and poverty alleviation; 7) protecting and mobilizing natural resources along with building their resilience; 8) promoting national unity and provincial balance, strengthening of public service.

LDC graduation will affect the country's exports. Currently 25 countries are granting LDC-specific preferences to Nepal, and losses are expected to concentrate in exports to EU.¹⁰ Nepal would benefit from EU's Everything-But-Arms (EBA) arrangements for additional three years after the graduation, but it may face higher tariffs and quotas after then.¹¹ Besides, Nepal has signed India-Nepal Free Trade Agreement, South Asian Association for Regional Cooperation (SAARC) Agreement on a South Asian Free Trade Area (SAFTA) and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC).¹²

Nepal is highly vulnerable to climate risks such as earthquakes and floods. It ranked 44th out of 191 countries from 2022 INFORM Risk Index.¹³ Hence, climate change and disaster reduction are essential for the country. From Green Climate Fund, Nepal has received \$87.8 million and \$4.5 million for 3 projects and 3 readiness activities, respectively. It was also subsidized by GEF for 23 national projects (\$39 million) and 19 regional/global projects (\$236 million). From LDCF, the country received \$32 million for 7 national projects and \$9 million for 1 regional/global project. In fact, Nepal is one of few LDCs that has yet to exhaust the \$10 million ceiling under the LDCF in the GEF-7 cycle.¹⁴

Addressing current pandemic situation is still a serious concern for Nepal. The government launched the vaccination programme on 25 January 2021, 49.1 per cent of the population has been vaccinated as of 31 Dec 2021.¹⁵ Recovering from the impacts of the coronavirus, natural hazards and potential trade losses will be major challenges in coming years.

The CDP held a virtual consultation with the Government of Nepal on 8 December 2021. Nepal is preparing a smooth transition strategy (STS), which will be finalized by early 2022. It is led by the LDC Steering Committee, focusing on structural transformation, productive capacity, institutional capacity, resilience and the LDC graduation. The representative of Nepal showed keen interest in working closely with the UN system and called for international assistance. The government also highlighted the importance of reinforcing knowledge and technology.

One of the challenges for LDC graduation is economic diversification. As Nepal is reliant on light manufacturing exports, the loss of LDC-specific trade benefits will severely affect the economy. Regarding

⁹ National Planning Commission (2021). Fifteenth Plan (Fiscal Year 2019/20-2023/24), accessed 7 January 2022.

¹⁰ International Trade Centre, UN-OHRLLS (2021). Nepal's exports after LDC graduation: Implications of tariff changes and compensatory strategies, accessed 8 January 2022.

¹¹ Central Department of Economics (CEDECON), Tribhuvan University (2020). Nepal's Exports and WTO: Position and Priorities, accessed 8 January 2022.

¹² International Trade Administration, Nepal-Country Commercial Guide, retrieved from <https://www.trade.gov/country-commercial-guides/nepal-trade-agreements>

¹³ European Commission, Country Risk Profile, retrieved from <https://drmhc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Country-Risk-Profile>

¹⁴ GEF (2021). GEF Corporate Scorecard, accessed 7 January 2022.

¹⁵ CDP secretariat (2022). COVID-19 vaccination in LDCs – Status report as of 31 December 2021. Updated information is available at <https://www.un.org/development/desa/dpad/least-developed-country-category/covid-19-and-the-ldcs.html>

the relationship with the EU, the government mentioned that it already requested for continuous support after the graduation. Additionally, it has submitted the proposal on extension of transition period to WTO, and efforts are being made to mobilize its members. At the same time, Nepal also put emphasis on improving its product quality to remain competitive in the global market.

During the meeting, Enhanced Monitoring Mechanism (EMM) and crisis response indicators were introduced by the CDP Secretariat. There were comments that Nepal should actively engage in the monitoring process, improve data capacity and add trade related indicators. Among indicators, remittance, which accounts for one fourth of GDP, was pointed out. The government mentioned that it is offering rebates on transactions using formal channels and allowing foreign currency accounts to prevent liquidity crisis. Besides, the country plans to enhance climate resilience, considering its inherent vulnerability to natural disasters. Nepal informed that some of developing partners have already made commitments to provide supports in this sector.

