After the Upheaval: Nepal's Economic Crossroads Post-Protests

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A Rebound Interrupted: Nepal's Turmoil and Economic Uncertainty

Kathmandu's streets fell eerily quiet under curfew, patrolled by soldiers, just days after mass protests rocked Nepal in early September 2025[1]. The trigger was an abrupt social media ban that backfired spectacularly sparking the largest anti-corruption demonstrations in decades and leading to violent clashes in which 19 people were killed[2]. By the time Prime Minister K.P. Sharma Oli resigned amid the public fury, fires lit by enraged youths had gutted government buildings across the country and shut down the capital's international airport[3][4]. This political earthquake struck just as Nepal's economy was finally finding its footing again, raising urgent questions about what comes next. Can the fragile economic rebound withstand the shock of upheaval? What do past crises in neighbors like Bangladesh and Sri Lanka suggest about the road to recovery? And how will Nepal balance immediate stability with the protesters' demands for deeper change?

Only weeks ago, Nepal's outlook seemed cautiously optimistic. Growth had been picking up after a sluggish year the Asian Development Bank projected the economy would expand around **4.4% in 2025, up from an estimated 3.9% in 2024**[5]. Inflation had eased to the mid-single digits, and higher remittance inflows from Nepalis working abroad were fueling robust consumer spending[6]. The government, backed by an IMF-supported reform program, touted progress on stabilizing finances and rebuilding investor confidence[7][8]. In short, Nepal in late 2024 and 2025 was on a slow but steady recovery path out of the pandemic slump and past economic missteps.

That nascent recovery is now at risk. The sudden eruption of unrest and the government's heavy-handed response delivered an immediate economic shock. In the span of 48 hours, Nepal's political order was upended; a nationwide internet and social media shutdown (quickly reversed amid the backlash) and an indefinite curfew ground daily commerce to a halt[1][9]. **Financial markets froze**: authorities closed the Nepal Stock Exchange for multiple days to preempt panic selling[10]. **Key infrastructure was paralyzed**, with Kathmandu's airport closed due to smoke from fires and some regional airports vandalized by protesters[4][11]. As the embers cool, Nepal faces a dual reality on one hand, an urgent need to restore order and reassure investors and citizens, and on the other, a groundswell of public demand for reform that cannot be ignored. The coming weeks and months will be pivotal in determining whether the economy stumbles or steadies in the aftermath.

Immediate Economic Fallout: Growth and Confidence Under Siege

In the short term, the economic damage from the protests and crackdown is tangible. The **worst unrest in decades** has not only caused tragic loss of life but also disrupted the basic arteries of Nepal's economy. Early assessments indicate that coordinated arson attacks have **inflicted billions of rupees in damage** to public infrastructure nationwide[12]. Provincial government complexes, courts, tax offices, and even customs posts were torched in all seven provinces[13][14]. Such destruction has *"paralyzed provincial governments, disrupted judicial services, and halted revenue and customs operations across multiple regions,"* with authorities struggling to maintain basic administrative functions[15]. The chaos effectively brought normal economic activity to a standstill in affected areas.

Some immediate impacts on the economy include:

- **Abrupt Slowdown in Growth:** With businesses forced to close during curfews and transportation links severed, daily output has taken a hit. Manufacturing and retail trade in urban centers were paused for days. Analysts fear Nepal could see a sharp dip in quarterly GDP as a result of the lost output and productivity in September.

- **Shaken Investor Confidence:** Even before the stock market shutdown, confidence was wavering. The sight of Parliament and ministry buildings in flames undermines the sense of stability that investors domestic and foreign rely on[16][17]. Plans for new investments may be put on hold until the political situation clarifies. Nepal's business community is likely rattled; memories of past political instability are fresh, and this episode reinforces concerns about policy continuity and security.

- **Tourism Setback:** Tourism, a mainstay of Nepal's economy, faces an abrupt setback. September usually brings trekkers and visitors to Nepal's peaks and cultural sites, but the unrest prompted flight suspensions and international headlines about violence[3]. Kathmandu's airport was shut as fires raged nearby[4], and even after reopening, global travelers may think twice. Key tourist infrastructure came under threat, for instance, protesters stormed Gautam Buddha International Airport in Lumbini, vandalizing offices and vehicles[11]. In the short term, hotel bookings and tour operations are seeing cancellations. The Nepal Tourism Board will have to work hard to project an image of safety once the dust settles.

- **Remittance Lifeline (Largely) Uninterrupted:** One stabilizing factor is remittances from Nepalis abroad, which account for roughly a quarter of GDP. Those flows are likely to continue in the near term regardless of internal unrest. If anything, diaspora communities might send additional support to families back home during the turmoil. However, the protests underscore a bitter irony: for years, *"a lack of jobs has driven millions to seek work in Malaysia, the Middle East and South Korea… from where they send money home"*[18]. This reliance on exporting labor is both a buffer and a symptom of Nepal's economic challenges. In the immediate crisis, remittances will help cushion household incomes even as local earnings fall but the longer-term goal is to create enough opportunity at home that young Nepalis aren't all forced overseas.

- **Public Spending Pressures:** The government (or any interim administration) will need to open the fiscal taps for emergency response. There are costs to repairing burned buildings, bolstering security, and potentially compensating victims of violence. Expect an unplanned increase in public expenditure at least in the current fiscal year to address the destruction and to fund programs aimed at placating protester demands (such as job schemes or anti-corruption initiatives). This comes at a time when Nepal's budget was already strained by slow revenue growth. If not managed carefully, higher public spending could widen deficits or divert funds from longer-term development projects.

- **Aid and International Support in Flux:** Development partners are watching Nepal closely. India's government convened a special security meeting and appealed for peace, emphasizing that *"Nepal's stability, peace, and prosperity are of utmost importance"* to the region[19]. Other international donors and lenders have similarly expressed concern. The United Nations Secretary-General, for instance, voiced deep concern over the violence[20]. In the very short term, some aid disbursements or loan negotiations might be paused until clarity emerges. However, Nepal's friends are unlikely to abandon it if anything, there may be offers of mediation or emergency assistance once a path to political dialogue is established. The key will be maintaining the confidence of multilateral partners like the World Bank, Asian Development

Bank, and IMF, who collectively underpin a significant portion of Nepal's development budget and foreign exchange resources.

All told, Nepal faces a sobering immediate aftermath: a likely dip in economic growth, a hit to business and consumer confidence, and the logistical nightmare of getting state functions back on track. The **short-term pain is indisputable** but the real question is whether this will remain a brief setback or spiral into a protracted economic downturn. That will depend on how quickly stability is restored and whether the country can address the underlying issues that led to the explosion of public anger.

The Medium-Term Outlook: Stability or Stagnation?

In the medium term (looking ahead 6–24 months), Nepal's economic trajectory will be shaped by how the political crisis is resolved and what policy choices come next. Will the country return to a semblance of stability with renewed reform momentum, or will instability linger and scare off investment for years? Several key factors will determine the **post-protest economic trajectory**:

- **Political Resolution and Reform:** Perhaps the most critical variable is the political outcome. The protesters largely youth-led have demanded an end to rampant corruption and more economic opportunities[18]. If the post-Oli leadership (whether a caretaker government or a new elected administration) genuinely heeds these calls, it could pursue governance reforms that improve the business climate in the medium term. For example, strengthening anti-graft institutions and increasing transparency in public spending would not only respond to public demands but also make Nepal more attractive to investors. On the other hand, if the ruling class merely reshuffles with no real change (or if a new regime turns increasingly authoritarian to stamp out dissent), the frustration that fueled the protests may persist underground a recipe for periodic instability that deters long-term investment. **Policy credibility** will be key: Nepal must convince its own entrepreneurs and foreign partners that it is committed to clean, stable governance going forward.

- **Continuation of IMF-Supported Reforms:** Before the protests, Nepal was in the midst of an IMF-backed economic reform program aimed at shoring up macroeconomic stability and instituting fiscal and financial reforms[7]. That program which signaled to donors and investors that Nepal's economy was on a stable path is now at an inflection point. A new government will need to decide whether to continue, renegotiate, or abandon those reform commitments. The smart course would be to **stay the course on reforms** (possibly with minor adjustments to account for new social spending needs). As the IMF's local mission noted earlier in 2024, the program was about more than money it demonstrated Nepal's progress on "revenues and spending, monetary and financial policies, and governance" to the world[7]. Indeed, Nepal had made important strides: data-driven monetary policy had rebuilt foreign reserves without resorting to import bans, and fiscal discipline kept public debt sustainable[8]. Preserving these gains is vital and if Nepal can uphold its reform commitments such as improving budget transparency, banking oversight, and anti-money-laundering rules, it stands to maintain international confidence. The **IMF and World Bank will remain engaged** as long as Nepal signals seriousness about stability and inclusive growth. Any backsliding (for instance, if populist policies trump fiscal prudence in a bid to calm the streets) could risk derailing donor support and undermining medium-term stability.

- **Investor Sentiment and Capital Flows:** Nepal has long struggled to attract foreign direct investment at scale, in part due to political uncertainty. The coming months present an opportunity albeit born of crisis to change that narrative. If the country manages a peaceful transition and visibly cracks down on corruption, it could paradoxically *improve* investor sentiment over the medium term, as a more accountable government could pave the way for a better business environment. Plans like the **Investment Summit** that Nepal was gearing up for can still be salvaged if reforms move forward showcasing "Nepal's improving institutional strength to the global community" was a goal, and it remains achievable with genuine governance improvements[21]. Conversely, if instability festers or if corruption concerns remain unaddressed, Nepal risks missing out on investment to regional competitors. International firms and Nepali diaspora investors will likely adopt a wait-and-see approach for the next few months. Restoration of stability say, through credible elections or a broad political agreement could unleash pent-up investment, whereas a slide back into infighting will keep capital on the sidelines.

- **Tourism Recovery Timeline:** Tourism is a resilient industry, but it is highly sensitive to perceptions of safety. Nepal's tourism rebound post-COVID was a significant contributor to its recent growth uptick. The medium-term impact on tourism will depend on whether the unrest is viewed as a short-lived blip or an ongoing risk. If calm returns by the autumn trekking season and the government undertakes aggressive marketing (perhaps leveraging social media positively, in contrast to the recent ban) to assure travelers, the tourism sector could bounce back in 2026. Countries that have experienced political turmoil often see tourism recover once stability and normal services resume for instance; Sri Lanka saw visitor numbers slowly return after its 2022 unrest once fuel and transport normalized. Nepal could follow a similar path, especially as its natural and cultural attractions remain a strong draw. However, any repeat of violence or a failure to conclusively resolve the political crisis would prolong the tourism slump. Much also depends on **infrastructure repairs** as the damage to airports and roads must be fixed quickly to avoid bottlenecks in tourist-heavy regions[11]. The government may consider special incentives for tour operators and airlines to restore routes and bookings. In sum, tourism's medium-term outlook ranges from a strong rebound (if stability and savvy promotion prevail) to a protracted downturn (if instability becomes a new normal).

- **Labor Market and Remittance Trends:** A grim long-term risk is that political instability accelerates the exodus of young talent. Nepal already sees hundreds of thousands of youths leave each year for lack of opportunities at home. If the domestic economy falters due to the crisis, more educated Nepalis might seek work or education abroad, depriving the country of human capital. This could in turn increase remittances in the medium term (as more workers send money back), which would prop up household consumption but it's a double-edged sword. Relying on ever-greater labor migration is not a sustainable development strategy; it can alleviate poverty but also hollow out the local workforce and innovation base. The best-case scenario is that the crisis spurs reforms that *create more jobs at home* (for example, investment in infrastructure and industries that employ youth). If the new leadership implements youth employment programs or skills training as part of a recovery plan, it could slowly reduce the dependence on foreign jobs. For now, though, Nepal will likely continue leaning on remittances as a financial stabilizer. The Nepali rupee's peg to the Indian rupee provides some monetary stability, but maintaining it requires adequate foreign reserves which is another reason the confidence of remittance-sending workers and external donors matters in the medium term.

- **Fiscal and Debt Dynamics:** In the wake of the protests, the government might increase spending to rebuild and to address social grievances. In the medium term, this raises questions about how to fund those expenditures. Nepal's public debt level, fortunately, has been relatively sustainable (under 40% of GDP) and it has access to concessional foreign loans. An uptick in borrowing from institutions like the ADB, World Bank or friendly nations is likely, to finance reconstruction of infrastructure and perhaps youth employment initiatives. **International assistance** could be a silver lining: if Nepal's partners view the country as making a genuine effort to improve governance, they may offer additional aid or soft loans to support reforms. Already, multilateral lenders account for roughly 25% of Bangladesh's GDP in long-term financing[22], and while Nepal's figures differ, the principle holds as continued backing from these lenders is *key* to the economy[23]. The IMF, for example, disbursed about $52 million in late 2023 as part of Nepal's program[8] and would likely consider augmenting support if the situation demands (and if policy commitments remain on track). However, if political turmoil were to deepen say, through unconstitutional means or prolonged violence, Nepal could face higher risk premiums and difficulty raising funds. Credit rating agencies would be alert to any sign that Nepal might veer toward a debt or balance-of-payments problem. So far, Nepal does not issue significant foreign-currency bonds (similar to Bangladesh, which had no foreign bonds and only 5% of GDP in short-term external debt, limiting immediate market fallout from its turmoil[24]). This insulates Nepal somewhat from global financial contagion. But domestic debt and banking stability could become concerns if the government resorts to heavy domestic borrowing or if protracted unrest undermines confidence in banks. Continued prudent monetary management by Nepal Rastra Bank which was praised for its data-driven approach pre-crisis[8] will be crucial to avoid inflation or liquidity issues as fiscal policy possibly loosens to address the crisis.

In summary, the medium-term economic outlook for Nepal ranges from cautious optimism to serious concern, depending on the path chosen. If leaders manage to **restore stability, enact genuine reforms, and maintain support from international partners**, Nepal's economy could regain momentum – the interruption of 2025 might then appear as a temporary setback on an otherwise upward trajectory. In this scenario, growth could revive to the 5%-plus range in a couple of years, tourism would rebound, and investor confidence would be gradually rebuilt on the back of improved governance. **Alternatively, if the underlying grievances are left to fester and political instability persists**, Nepal risks a stagnant economy where growth languishes, capital stays away, and its youth continue to depart in droves. Avoiding the latter outcome will require learning from countries that have faced similar turbulence. In that context, the experiences of Bangladesh and Sri Lanka – each grappling with political upheaval and economic recovery in recent years – offer valuable lessons for Nepal as it navigates this storm.

Lessons from Bangladesh: Political Upheaval and Economic Resilience

Nepal's northern neighbor, Bangladesh, offers a cautionary tale and a playbook of sorts on managing economic recovery amid political chaos. In 2024, Bangladesh experienced its own eruption of **youth-led protests** against perceived corruption, injustice, and economic stagnation which ultimately ousted its long-ruling prime minister. The parallels with Nepal are striking: a tech-savvy young generation, frustrated by joblessness and graft, taking to the streets in unprecedented numbers and forcing dramatic political change.

Bangladesh's crisis was brewing for some time. Despite decades of strong headline growth (often over 6% annually), underlying issues had been mounting. By 2023–24, **inflation was running around 10%**, foreign exchange reserves had dwindled to about three months of import cover, and nearly *"32 million young people in the nation of 170 million were out of work or education"*[25]. Inequality and allegations of cronyism in government further fueled public anger[26][27]. The spark in Bangladesh was somewhat different which was a controversy over affirmative action in government jobs but it tapped into the same vein of youth resentment over limited opportunities and governance failures[28][29].

When protests swept Bangladesh's cities in mid-2024, the government there initially responded with force, including internet blackouts and even **shoot-on-sight orders** against demonstrators at one point[30]. Such measures only intensified public fury. The economic toll quickly mounted: **nationwide curfews and shutdowns cost Bangladesh's economy an estimated US$10 billion in just a few weeks**, according to business groups[31]. The country's vital garment export industry which was normally accounting for over 80% of export earnings was hit hard as factories were forced to close during the unrest, racking up losses of about $150 million per day[32]. This illustrates a key lesson: heavy-handed responses like cutting off internet access can backfire economically, crippling modern business activity and foreign investor trust. In Bangladesh's case, industry leaders openly urged the government to restore connectivity and order, as supply chains were disrupted and prices of essentials spiked due to the turmoil[33].

Ultimately, Bangladesh's upheaval led to a momentous political shift. After protests left hundreds dead in clashes, Prime Minister Sheikh Hasina **resigned and fled the country in August 2024**, and the president dissolved parliament to pave way for new elections[34]. For the first time in over a decade, Bangladesh faced a real political changing of the guard. How did this affect the economy and recovery efforts? There are several takeaways:

- **Swift IMF Re-engagement:** Bangladesh was already under an IMF program (a $4.7 billion loan package approved in January 2023) when the protests hit[35]. The IMF's response to the political upheaval was telling it immediately emphasized it was *"fully committed to Bangladesh and its people"* despite the turmoil[36]. This vote of confidence was crucial. Continued support from multilateral lenders, which together account for roughly a quarter of Bangladesh's GDP in financing[22], helped stabilize market sentiment. Because Bangladesh had no international sovereign bonds and low external short-term debt, global financial markets did not exacerbate the crisis[24]. Nepal can draw a lesson here: maintaining clear communication with institutions like the IMF/World Bank and ensuring policy continuity (to the extent possible) can prevent a political crisis from becoming a full-blown financial crisis. In Bangladesh, the IMF and World Bank signaled readiness to continue disbursements as long as a legitimate government was in place, even as they monitored the situation closely[37].

- **Caretaker Governance and Economic Management:** Following the ouster of Bangladesh's government, an interim administration (backed tacitly by the military) took the reins to organize elections. During this sensitive period, economic management focused on calm and continuity. Bangladesh's central bank kept the currency stable and controlled inflation expectations (which were high but started to level off). Crucially, the interim leaders avoided populist temptations to overspend; instead, they stuck to key reforms agreed with the IMF like cutting costly fuel subsidies and improving tax collection which helped restore macroeconomic stability. The early signs of recovery were visible: within months, inflation began to plateau and the Bangladeshi taka stabilized. The commitment to reform reassured international partners. **The lesson for Nepal** is that any caretaker or new government should resist the urge for short-term giveaways that could jeopardize fiscal stability. Sticking to needed reforms (while explaining their importance to the public) builds credibility. At the same time, addressing immediate pain points for example, Bangladesh's interim government raised social safety net payments to help the poor cope with inflation can maintain public support.

- **Youth Engagement and Reforms:** In Bangladesh's case, the youth-led nature of the protests prompted the incoming authorities to pay more attention to youth inclusion. One concrete outcome was a renewed focus on job creation: the government (with donor support) announced initiatives for skills training and promised reforms in the education sector to better align with job markets. They also moved to repeal or amend controversial policies that had sparked youth ire for instance, revisiting the public sector recruitment quotas. While it's too early to declare success, these steps were important signals that the voices of young citizens had been heard. For Nepal, which has an even higher share of young people, incorporating youth perspectives into policy perhaps via formal consultative councils or special youth-focused development programs could be critical. Young Nepalis were at the forefront of the anti-corruption movement; sustaining their engagement in a productive way (rather than only in street protests) will help channel their energy into rebuilding the nation. Bangladesh's experience shows that when youth feel systematically ignored, they can destabilize a country; but if they are made stakeholders in the recovery (through entrepreneurship programs, technology and innovation hubs, and representation in decision-making forums), they can become drivers of progress.

- **Maintaining International Confidence:** Bangladesh's turmoil also highlighted the role of regional and global actors. India, as a neighbor, quietly coordinated with other partners to ensure Bangladesh's stability not unlike how India is now openly emphasizing the need for peace in Nepal[19]. Diplomatic support, including from China and Western nations, was contingent on a return to democratic order. Bangladesh avoided international isolation by committing to hold free elections and uphold its IMF obligations. Nepal similarly will need to balance its relationships reassuring India and China that it remains stable (Nepal's geopolitical position between the two giants is always a factor) and convincing Western donors that it is addressing human rights and governance concerns. A positive sign from Bangladesh: despite the chaos, foreign investors in key sectors like apparel largely stayed put, anticipating that Bangladesh's long-term fundamentals (cheap labor, big market) remained intact. Indeed, by mid-2025 Bangladesh was reporting a modest uptick in exports as factories reopened and global buyers regained confidence. This suggests that economies can recover relatively fast if the political cloud lifts. Nepal's fundamentals: a young workforce, rich tourism assets, hydropower potential are appealing in their own right. If the country can demonstrate that the post-protest period is one of renewal (cleaner governance, stable policy, and inclusion), investor confidence could return, much as it did in Bangladesh within a year of the uprising.

In essence, Bangladesh's story underscores that **political instability exacts an economic price, but prudent management and genuine responsiveness to public grievances can pave a recovery path**. It wasn't easy as Bangladesh endured a violent convulsion with tragic loss of life but the country avoided complete economic collapse by quickly restoring constitutional order and sticking with reforms alongside targeted relief. For Nepal, the takeaway is to act decisively to restore stability and credibility: engage youth and civil society in dialogue, double down on anti-corruption measures (perhaps passing long-pending laws or empowering watchdog agencies), and work hand-in-hand with international partners who can provide the financial buffer during the transition. The reward, as seen in Bangladesh, is the prevention of a deeper crisis and the seeds of a more resilient economy.

Sri Lanka's Saga: From Collapse to Cautious Recovery

Sri Lanka's recent turmoil provides another illuminating case for Nepal, albeit from a different starting point. Where Nepal and Bangladesh are facing turbulence amid rebounding (but still fragile) economies, Sri Lanka's 2022 crisis was a full-blown economic **meltdown** that coincided with massive protests. The island nation's experience offers lessons in the costs of delayed action and the importance of comprehensive reforms post-crisis as well as the pivotal role of youth and citizen movements in prompting change.

Not long ago, Sri Lanka was in the depths of an economic nightmare: **the worst crisis in its history since independence in 1948**[38]. Years of fiscal mismanagement, heavy debt, and external shocks (like the pandemic) led to a severe balance-of-payments crunch. By 2022, Sri Lanka's foreign reserves were nearly exhausted as the government actually ran out of the dollars needed to pay for critical imports like fuel and medicine[39]. The numbers tell the story of collapse: the economy contracted by 7.8% in 2022, inflation sky-rocketed to around **60%**, and the Sri Lankan rupee lost over 80% of its value in a free fall[38]. **Daily life descended into chaos**, with hours-long queues for petrol, cooking gas shortages, rolling electricity blackouts, and public hospitals running short of supplies[40]. This economic pain sparked the extraordinary *"Aragalaya"* protests, a broad-based citizens' movement (led in large part by disillusioned youth and the middle class) that peacefully demanded political accountability. By July 2022, protesters had forced President Gotabaya Rajapaksa to flee and resign after they dramatically occupied the presidential palace.

Sri Lanka's collapse carries a warning: it resulted largely from a *"crisis of governance"*, where corruption, nepotism, and denial of reality prevented timely corrective action[39][41]. Leaders delayed an IMF bailout and continued unsustainable policies until the economy imploded. When the breaking point hit, the social contract snapped, hence the massive protests. For Nepal, the Sri Lankan case is a stark reminder of why **good governance and early intervention** matter. Nepal is nowhere near Sri Lanka's level of distress as Nepali policymakers have, in fact, been more prudent (e.g., preemptively curbing imports when reserves dipped in 2022, and engaging the IMF early to avoid crisis[8]). But the **grievances of corruption and youth frustration are common threads**. Nepal's protesters, like Sri Lanka's, demand systemic change precisely to avert the kind of catastrophe Sri Lanka experienced. It's far better to implement reforms now, under manageable conditions, than to wait for a meltdown to force one's hand.

After Rajapaksa's ouster, Sri Lanka's Road to recovery has been arduous but instructive. Here's what happened and what Nepal might learn:

- **IMF Bailout and Macroeconomic Stabilization:** By necessity, Sri Lanka turned to the International Monetary Fund. In March 2023, after months of negotiations and the hard work of securing creditor assurances, the IMF approved a nearly $3 billion Extended Fund Facility for Sri Lanka[42]. This infusion, coupled with policy reforms, became the linchpin of Sri Lanka's recovery. The effects were soon visible: the Sri Lankan rupee, which had plunged, **appreciated about 15%** after the IMF deal as confidence crept back[43]. Soaring prices began to moderate as inflation, which was ~50-60% at its peak, fell to single-digit levels by mid-2023 (annualized inflation in early 2023 dropped below 5%, exceeding expectations)[43]. Interest rates that had spiked above 30% came down into the 20% range[44]. Essentially, Sri Lanka **passed the peak of its crisis and entered a phase of fragile stabilization**[45]. The takeaway for Nepal: if a crisis (economic or political) erodes stability, an IMF program can serve as a crucial anchor. Nepal thankfully hasn't defaulted or lost market confidence, but maintaining its IMF-supported program (or expanding it if needed) can reassure investors and prevent a slide toward instability. Also, Sri Lanka's experience shows that painful measures (like currency devaluation and subsidy cuts) can eventually bring inflation under control which is critical for protecting ordinary people's purchasing power.

- **Debt Restructuring and External Assistance:** A major piece of Sri Lanka's recovery puzzle has been dealing with its crushing debt. The country defaulted on its external debt in April 2022, an unprecedented step that Nepal, one hopes, will never have to take. Since then, Sri Lanka has been negotiating with creditors (from bilateral lenders like China, India, and Japan to private bondholders) to reduce and reschedule debt. Progress is slow; by mid-2023 Sri Lanka initiated domestic debt restructuring as well, which controversially imposed losses on pension funds of local workers[46]. The politics of this have been fraught, but from a macro perspective, debt relief is essential for Sri Lanka to regain viability. For Nepal, the lesson is to avoid getting into unsustainable debt in the first place and here Nepal has done relatively well so far, with debt levels manageable. Continued prudence in borrowing, especially on foreign currency terms, will serve Nepal well. Additionally, Sri Lanka's reliance on friends was notable: India stepped up with around $4 billion in credit lines, swaps, and aid to keep Sri Lanka's essentials flowing at the height of the crisis[47][48]. China's cooperation was more lukewarm (a point of frustration in Sri Lanka's case)[49]. In Nepal's context, leveraging the goodwill of neighbors and big donors can significantly ease recovery. India has already signaled support; China, which has investments in Nepal, would also be a key player. Proactive diplomacy to secure aid, trade concessions, or investment from these partners can accelerate Nepal's post-crisis rebound.

- **Governance Reforms and Anti-Corruption Efforts:** The Sri Lankan public's key demand was "system change", an overhaul of the corrupt political culture that led to disaster. In response, the new government under President Ranil Wickremesinghe (who, ironically, was part of the old elite but seen as a technocrat) promised governance reforms. Under IMF pressure, Sri Lanka did take steps: a new **anti-corruption law** was drafted in 2023, aiming to bolster investigative powers and tighten loopholes[50], however, its implementation has lagged. As one Sri Lankan analyst noted, *"most of the IMF program commitments still overdue are those related to governance,"* due to entrenched vested interests in parliament[51]. Many of the same politicians remain in power, diluting the appetite for true reform[52]. The result is a mixed picture: while the **economy is slowly recovering**, the *political culture* is changing much more slowly, if at all[53]. This holds a mirror to Nepal. If Nepali leaders only change faces at the top but not the way politics operates, public trust may not be restored and the cycle of disillusionment could continue. But if Nepal seizes this moment to enact meaningful anti-graft measures with independent corruption courts, public asset disclosures for officials, digitization of government services to reduce bribery opportunities, it could set itself apart. Policy continuity is important for economic stability, but so is **policy credibility**, which only comes when people believe their leaders are accountable. Nepal's IMF program already highlighted governance as a key pillar, including reforms at the central bank and anti-money laundering frameworks[21]. Doubling down on those, with added anti-corruption initiatives, would both honor the protesters' cause and likely unlock more international support (as donors love to see governance improvements).

- **Youth and Civil Society in Post-Crisis Nation-Building:** Sri Lanka's youth were the heartbeat of the Aragalaya movement by protesting creatively and peacefully, from occupying the President's house to running ad-hoc community kitchens for protestors. However, after the new government took charge, many youth activists became disillusioned as the establishment reasserted itself. The government even cracked down on some remaining protests and delayed local elections, citing economic constraints[54]. This has caused a degree of cynicism; some youthful leaders have retreated from public activism, frustrated by the slow pace of change. The lesson here is that **sustained youth engagement is hard but vital**. Nepal could take a different approach: rather than marginalize or suppress the Gen Z activists who led the anti-corruption protests, involve them in shaping the solutions. This could mean setting up advisory councils that include young professionals and students to monitor anti-corruption efforts, or launching public-private initiatives for youth employment where youth representatives have a seat at the table. The energy and idealism of Nepal's young protesters is an asset as they can be drivers of social entrepreneurship, digital innovation, and community development if harnessed. Sri Lanka's partial failure was not institutionalizing the spirit of Aragalaya into a long-term reform movement (beyond just removing one family from power). Nepal has a chance to do better by giving its young generation not just a voice on the streets, but a role in governance. Consider, for instance, how some countries have created "Youth Parliaments" or required a certain number of young members in constitutional reform committees. Such measures can bridge the gap between angry protest and actual policy change.

In Sri Lanka's case, two years on from the peak of protests, the **economy is inching back** as forecasts suggest a return to modest growth in 2024–2025 after a deep contraction[55]. People no longer queue for basic goods, and inflation is under control, which is a significant relief. Yet many ordinary Sri Lankans are hurting from austerity measures (higher taxes, higher utility prices) that were necessary to stabilize the economy[56]. This underlines a final lesson: **recovery often entails sacrifices**. The social consensus can fray if those sacrifices are seen as unfairly distributed. In Sri Lanka, there's criticism that the burden of recovery fell on the middle and working classes, while elites escaped unscathed[46][51]. For Nepal, social justice should be a consideration in any reform package. Tax evaders at the top must be brought into the net before asking ordinary citizens to pay more; corrupt officials must face consequences if people are told to tighten belts. Managing public expectations while doing the right things economically is a delicate dance. Transparent communication helped in Sri Lanka to some extent as the government regularly published progress on IMF targets, and technocrats like the Central Bank Governor held briefings to explain policy moves. Nepal's authorities would benefit from a similar approach: be open about the challenges, lay out a roadmap for recovery, and report progress and setbacks honestly. This can build public trust that the hardship endured now is leading to a better future.

Engaging Youth and Rebuilding Trust: A Path Forward for Nepal

The common thread through Nepal, Bangladesh, and Sri Lanka is the power of youthful populations demanding a fair shot at prosperity and honesty from their leaders. Nepal's Gen Z demonstrators have delivered a loud wake-up call. The onus is now on the Nepali state and whichever political configuration emerges to engage this generation in a constructive way. That means addressing their core grievances (corruption, unemployment, exclusion from decision-making) and channeling their energy into renewal rather than rebellion.

How might Nepal do this? Drawing on the regional lessons and Nepal's own context, a few **policy priorities** and approaches stand out:

1. **Concrete Anti-Corruption Actions:** Early, symbolic moves can send a strong signal. For example, establishing fast-track corruption tribunals to revisit major graft cases, or empowering agencies like the Commission for the Investigation of Abuse of Authority (CIAA) with more autonomy and resources. The burning of government offices even an anti-corruption office[57] shows the depth of public cynicism. To rebuild trust, there should be visible consequences for corruption: indictments of high-profile figures involved in recent scandals, protection for whistleblowers, and perhaps international forensic audits of big projects to assure no cover-ups. Such steps, while difficult for the political class, would resonate with the public and investors (who often cite corruption as a top barrier). Bangladesh's 2007–08 interim government, for instance, launched a sweeping anti-graft drive (though it later faltered). Nepal could coordinate with friendly countries to get technical help in tracing illicit money flows and recovering stolen assets which will be a win-win for credibility and the national coffers.

2. **Youth Employment and Entrepreneurship:** It's not enough to say "jobs will come." The government should outline and implement a Youth Employment Action Plan. This could include incentives for businesses to hire and train young workers (tax breaks or wage subsidies), expansion of vocational training programs in partnership with industries, and seed funding for young entrepreneurs (perhaps a government

venture fund or easier credit for start-ups). Engaging the private sector is key: Nepal's vibrant community of IT companies, for example, could absorb many skilled youths if properly nurtured. In tourism, empowering youth through community-based tourism projects could both create jobs and rebuild the sector's appeal. Additionally, creating more pathways for **returning migrants**, those Nepalis abroad who might come back if opportunities exist can bring skills and investment into the country. Recognizing that not everyone can or will return, Nepal can also better leverage its diaspora; for instance, issuing "diaspora bonds" or investment funds targeted at Nepali expatriates could channel remittance earnings into productive investments at home.

3. **Inclusive Dialogue and Constitutional Process:** To prevent further polarization, an inclusive national dialogue is essential. President Ramchandra Paudel's appeal for all sides, including the Gen Z protesters, to come to the table is a good start[58]. This dialogue could be institutionalized in a forum that advises on key reforms (much like an economic council or a peace dialogue table). Ensuring representation of youth leaders, civil society, business, and opposition voices will lend legitimacy to the reform process. If new elections are on the horizon (which seems likely after the PM's resignation), steps must be taken to make them fair and to encourage young voters and candidates. Sri Lanka's mistake of postponing elections hurt its democratic fabric; Nepal should avoid that by sticking to constitutional timelines unless absolutely unfeasible. A legitimate government with a fresh mandate will be in a stronger position to carry out tough economic reforms.

4. **Maintaining Macroeconomic Stability:** No matter how well-intentioned reforms are, they need a stable macroeconomic environment to bear fruit. Nepal should thus jealously guard its hard-won stability. That means keeping inflation in check (the central bank should remain vigilant about price pressures, especially if budget spending rises) and ensuring the currency peg to the Indian rupee remains sustainable through adequate reserve levels. If tourism and FDI falter in the short run, Nepal might consider arranging contingency credit lines from partners like India or multilateral institutions to bolster its foreign exchange reserves. The good news is Nepal's debt is mostly concessional; avoiding commercial borrowing will keep debt service manageable. As economic activity normalizes post-crisis, policy should shift back from damage control to growth promotion, for example, resuming infrastructure projects that can stimulate jobs (roads, hydroelectric plants, etc.). Here, **donor assistance** will be invaluable. Nepal can make a case to the international community: support us now in implementing reforms, and help finance the investments that will secure long-term stability (in infrastructure, education, green energy). Given Nepal's strategic importance and the global desire to see stable democracies, such an appeal would likely find sympathetic ears.

5. **Transparency and Communication:** Finally, Nepal must win the narrative. Misinformation and mistrust were partly why a social media ban was imposed and that move spectacularly backfired[2]. Instead of censorship, the government (interim or elected) needs to flood the space with accurate information. Regular updates on the

state of the economy, on progress in talks with protesters, on how reconstruction is proceeding, can help reduce rumors and fears. In the age of social media, being forthright and engaging on those very platforms (rather than silencing them) is the wiser strategy. Imagine a weekly briefing where officials answer citizen questions live on Facebook or X, such outreach could mend some of the disconnect between rulers and the young populace. Transparency in how public funds are used for recovery (e.g., publishing budgets for rebuilding projects and inviting independent audits) will also build confidence domestically and internationally that resources aren't being siphoned off.

Policy Lessons at a Glance

To summarize, the recent upheavals in South Asia yield a few **key policy lessons** that Nepal can harness:

- **Act Fast, But Don't Panic:** Restore calm quickly (as Nepal did with the curfew and lifting the social media ban) but avoid knee-jerk policies that hurt the economy. Keep essential services and information flowing to minimize economic paralysis[33].
- **Protect the Vulnerable:** In crises, the poor suffer most. Use public spending to cushion vulnerable groups, for example, expand cash transfers or food distribution in affected areas even as you pursue reforms. Bangladesh's unrest showed the importance of mitigating price spikes on essentials[59].
- **Stay Committed to Reform:** If you have an IMF or reform program, stick with it it's a lifeline. Adjustment may be needed, but don't abandon fiscal and monetary discipline. Credibility lost is hard to regain.
- **Leverage International Support:** Don't be shy to seek help. Whether it's financial aid, technical assistance, or diplomatic support, a country in crisis is not alone. Sri Lanka's neighbors and partners helped prevent an even worse humanitarian disaster[47][48]. Nepal should similarly capitalize on goodwill in the region and beyond.
- **Address Root Causes:** This is the big one: corruption and governance. Cosmetic changes won't satisfy people or investors for long. Structural reforms (legal, institutional, judicial) are needed to fight corruption. It's tough, but examples like new anti-corruption agencies (with independent prosecutors) or e-procurement systems to make government contracting transparent can make a difference over time.
- **Engage the Youth Dividend:** Turn a protest movement into a participatory recovery. Give youth a stake in monitoring reforms, in new public initiatives, in leadership roles. Countries that harness their youth (think of how young tech entrepreneurs transformed India's image, or how youth community service helped rebuild Aceh after the 2004 tsunami) reap immense benefits.

Conclusion: From Crisis to Opportunity?

Nepal's economy stands at a crossroads. The shock of September 2025 has undoubtedly set back the recent gains in growth and stability. In the immediate aftermath, forecasts are being downgraded as the ambitious 4–5% growth target for the year may be missed, investor confidence will take time to mend, and the tourism season will see a downturn. Yet, crises often carry the seeds of opportunity. The public upheaval has laid bare the challenges Nepal must tackle if it is to achieve lasting prosperity: endemic corruption, youth underemployment, and political volatility. By confronting these challenges head-on, Nepal could emerge stronger from this episode.

There are hopeful precedents. History shows that countries can rebound from political crises and even accelerate reforms in their wake. Indonesia, after the turmoil of 1998, implemented democratic and economic reforms that set the stage for two decades of growth. Closer to home, Nepal itself went through a civil conflict and the upheaval of abolishing the monarchy in the 2000s, yet managed to stabilize and make social progress in the decade that followed. The key is translating the public's demands into concrete change.

If Nepal's leaders make smart choices in the coming months by prioritizing stability, engaging constructively with protesters, and recommitting to good governance the country's economic rebound can resume. International partners stand ready to assist a Nepal that helps itself. For instance, the World Bank's latest update noted that Nepal's economy *"is expected to average 5.4% annual growth in the medium term"* if reforms continue[60]. That kind of optimism can become reality if the current crisis is managed wisely. Conversely, failure to rise to this occasion could condemn Nepal to years of lost potential, as investor trust evaporates and another generation of young talent leaves for foreign shores.

The streets of Kathmandu are calm for now, under the watchful eye of the army[1]. But true peace will only come when ordinary Nepalis feel they have a fair shot at a decent life at home and that those who govern do so in the public interest, not for private gain. The flames that engulfed government buildings across Nepal[12] were a dramatic illustration of public anger; with the right leadership, those flames can be metaphorically turned into a forge that tempers a stronger, more accountable state. It will require courage, compromise, and creativity from political elites, from the protest leaders, and from every stakeholder in Nepal's economy.

Nepal's recently rebounding economy has taken a hit, but it is not down for the count. The nation now has a chance to not just rebuild what was lost, but to **build back better** and to set itself on a more sustainable and inclusive economic path. The eyes of the region are on Nepal, hopeful that it will choose the path of reform and reconciliation. As the saying goes, every crisis is an opportunity in disguise. For Nepal, the opportunity is to fulfill the promise of a true New Nepal – one where growth and good governance go hand in hand, and where the aspirations of the young are the driving force for a brighter economic future.

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