



Dispatches from The Hall of Ideas!

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NEW GOVERNMENT, NEW MANDATE: WHAT ECONOMIC REFORMS SHOULD COME FIRST?*

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There is a new government in place, and it carries a lot of hopes and aspirations. One might even wonder what the government can achieve within its first year. In answering this question, we must look at the current structure of our economy, and that structure makes it very difficult to produce transformative results within a single calendar year. It is an honest accounting of deep-seated structural problems and fundamental instabilities that have accumulated over many years and cannot be reversed by a change in government alone. For nearly two years, the government has operated at a level of fiscal efficiency so low that revenue collection has proven insufficient even to cover the state's daily operational expenditures. This is not a minor imbalance. Over the past seven months alone, a deficit of approximately 180 billion rupees has been recorded.

This fiscal instability is compounded by a worsening unemployment crisis, particularly among the new generation, and by an inflationary environment that has become increasingly persistent. Today,

inflationary pressures are felt by everyday citizens. Foreign direct investment currently stands at a mere 0.18% of GDP. Countries like Cambodia which entered the WTO alongside Nepal at the 2003 Cancun Ministerial Meeting has seen double-digit investment ratios and have since managed to sustain significant growth.

Given this reality, the Government of the day is restricted in what it can do in the first year. Perhaps the most important thing that the government can do is restore the confidence of the private sector and focus on fixing the policy bottlenecks that exist. Indeed, these changes will not result in quick growth within a year's time but would rather set the stage for long-term growth.

These fixes are well-known. For instance, if one wants to start a business in Nepal, they must visit 4-6 different government offices. To modernise this, a digital approach has been proposed: specifically, a business icon within a public application that would allow entrepreneurs to interact with government processes in a streamlined, transparent, and accountable way. This is not a radical technological proposal. But simplifying entry is only half of the problem. The exit must also be addressed. The complexity of the current environment means that if a business is failing, and many will fail because that is the nature of entrepreneurship, the process

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of stopping operations and settling liabilities is difficult. Beyond regulation, there is a structural problem in how capital and risk are managed in Nepal. There is no robust system of plan-based or project-based lending, a system in which an individual can secure a loan based on the merit of their business plan rather than on the physical collateral they happen to own. This matters enormously for equity. Young people without land or property cannot access capital, regardless of the quality of their ideas.

Plan-based lending carries higher risk, and that concern is acknowledged. But looking at what African nations, India, and Bangladesh have done, how they have learned to manage these risks through security insurance systems, there is no reason why Nepal cannot adopt a similar approach. The infrastructure for this already exists in a partial form. There is a security insurance system available for loans up to 5 lakhs that remains critically underutilised, not because it is poorly designed, but because many small entrepreneurs are simply unaware of its existence or are put off by the bureaucracy required to access it. This is a solvable problem. It requires communication, simplification, and political will, not a fundamental redesign.

Of all the complaints heard from the business community, the most frequent and the most

visible in repeated, unpredictable shifts in raw material taxes. They are signals that in Nepal, the rules of the game can change at any moment, and that businesses cannot make long-term predictions with any confidence.

To attract external investment, policies must be more attractive and more predictable than those of competitors such as Bangladesh, India, Cambodia, and Rwanda. This is the benchmark. There is a need to ensure immediate permissions, market growth protections, and the ability for investors to repatriate profits, which remains a deeply challenging issue for FDI in Nepal. Without these guarantees, an investor will naturally choose more stable environments in neighbouring states, where the middle class is growing at a higher rate and the policy environment, while imperfect, is at least consistent.

Perhaps the most pressing issue at present is Nepal's graduation from Least Developed Country status, currently slated for 2025 and 2026. Graduation is presented in some quarters as a matter of national esteem, a symbol of development progress. But the concern here is with the economic vulnerability that remains unaddressed beneath that surface achievement. In practice, graduation means losing Everything But Arms access and other zero-duty facilities in the European Union and other WTO member markets. These are not marginal trade



corrosive is the absence of policy stability. This has been visible in the sponge iron industry. It has been

preferences. They specifically impact sectors including carpets, garments, felt products, tea,



and coffee, industries that collectively employ approximately five hundred thousand people, many of whom are women. Bangladesh's response to a similar situation is worth studying carefully. Bangladesh immediately requested a deferral until 2029 to allow adequate time to prepare their export schemes and build the competitiveness required to survive without preferential access. Nepal must take this example seriously. The risk of being, as it has been put, artificially rich in data while losing concrete international trade benefits could lead to significant and entirely avoidable socioeconomic costs. The argument is not that Nepal should resist development. It is that transition management is as important as the transition itself.

Against this landscape of structural challenges, it is equally important to be clear about where genuine and substantial opportunity exists, provided the government is willing to adopt a proactive sectoral strategy. The Information and Communication Technology sector is a compelling example of what targeted policy can achieve. By maintaining low tax rates, the ICT sector has grown so significantly. In the energy sector, with 7,000 megawatts of electricity under construction, there will soon be a surplus even in the dry season. But electricity should not be viewed merely as a product for export. It should be viewed as a raw material, an input that can dramatically reduce the cost of domestic production across sectors. Tourism requires a shift in strategic focus. Rather than competing primarily on the basis of high-altitude trekking

and mountaineering, a market that is inherently limited by physical and environmental constraints, the priority should be on hill station tourism and destination wedding offerings targeted explicitly at the massive and rapidly expanding middle-class market in neighbouring India. Cricket is also an untapped resource. TU ground, reimagined as an international destination for tournaments involving India, Pakistan, and Bangladesh, could revitalise the local economy in ways that more conventional tourism strategies cannot.

Nepal has demonstrated, repeatedly and remarkably, the capacity to absorb shocks: political instability, devastating earthquakes, a global pandemic. This resilience is real and deserves acknowledgement. But resilience is not enough. The new government must act as a genuine facilitator of entrepreneurship. It must guarantee tax stability for the next decade, not as a favour to business, but as a basic precondition for the investment decisions that job creation requires. It must work collaboratively, transparently, and consistently with the private sector to navigate the challenges of LDC graduation and global market volatility. The regulatory maze, the financing gap, the policy instability, and the cultural distance between the public and private sectors must all be addressed.

