



Fragile Resilience: A Macro-Micro Analysis of Post-Pandemic Economic Recovery and Multidimensional Poverty in Nepal

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Abstract

Despite a rebound in GDP growth to projected levels of 4.6% in FY 2024/25, Nepal's economic recovery remains structurally fragile, characterized by a "debt-welfare" divergence. While aggregate indicators suggest stabilization, the translation of growth into poverty reduction has stalled due to inflationary pressures and reliance on remittance income (~26% of GDP). This study evaluates the elasticity of poverty reduction relative to economic growth in the post-federalism era. It aims to contrast national macro-trends with micro-level deprivations in rural governance units. A mixed-methods approach was employed. Macro-level analysis utilized the Fourth Nepal Living Standards Survey (NLSS-IV 2023/24) and Economic Survey 2024/25 data. At the micro-level, a stratified cluster random survey of 963 households was conducted across three districts (Dang, Kapilvastu, Nawalpur) to assess rights-based access to services. National data reveals a poverty headcount of 20.27%, with a stark rural-urban divide (24.7% vs. 18.3%). While the Multidimensional Poverty Index (MPI) has declined to 17.4%, deprivation intensity remains high in nutrition and schooling. Preliminary micro-evidence suggests that federal restructuring has not yet optimized service delivery, with marginalized caste groups (Dalits) lagging significantly in Human Development Index (HDI) metrics. Economic growth in Nepal is becoming less "pro-poor." The graduation from LDC status faces headwinds from low domestic productivity and high vulnerability to climate and external shocks. Interventions must shift from broad-based fiscal expansion to targeted social protection floors and the digitization of service delivery to bypass structural governance bottlenecks.

Keywords: Nepal economy; multidimensional poverty; NLSS-IV; remittances; federalism; inclusive growth.

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Introduction

Nepal stands at a critical structural inflection point as it navigates the complex macroeconomic and governance transitions of the post-pandemic era. Having legally shifted from a unitary model to a federal republic under the 2015 Constitution, the nation faces a distinct "poly-crisis" compounded by fluctuating global commodity prices, chronic climate vulnerabilities, and slow domestic structural transformations. Historically, Nepal achieved remarkable gains in monetary poverty reduction—slashing the national headcount from 42.0% in 1995 to approximately 25.0% by 2010. However, critical reviews show that this historic upward trajectory was heavily sustained by the "safety valve" of out-migration and surging personal remittances rather than real domestic industrial or agricultural productivity improvements (World Bank, 2024).

The contemporary post-pandemic recovery has exposed the structural limitations of this consumption-driven growth model. According to the Ministry of Finance [MOF] (2025) *Economic Survey 2024/25*, while aggregate real Gross Domestic Product (GDP) growth has rebounded to an estimated 4.61%, the underlying quality of this growth is deeply unequal, asymmetric, and service-heavy. This capital-intensive pattern largely bypasses the primary agricultural sector, which employs over half of the national workforce. Consequently, a highly pronounced micro-macro divergence has emerged: while headline macroeconomics exhibit recovery, the bottom 40.0% of households endure stagnant real wages, escalating food costs, and localized underemployment.

This paper argues that the historical elasticity of poverty reduction relative to economic growth has weakened significantly in the federal era. Although the official national poverty headcount has dropped to 20.27% under the definitive Fourth Nepal Living Standards Survey [NLSS-IV] (2023/24), the mitigation of chronic, persistent poverty has encountered severe structural bottlenecks. Pockets of deep deprivation remain starkly visible among Dalit communities and within the Madhesh and Karnali Provinces. This gap in development outcomes suggests that localized public service delivery has not kept pace with political decentralization.

By integrating comprehensive national indicators with primary microeconomic empirical data from a survey of 963 households across Dang, Kapilvastu, and Nawalpur districts, this study establishes a clear analytical bridge. It aims to analyze the latest trends in Nepal's macroeconomic indicators, assess multidimensional poverty parameters across socio-demographic lines, and identify the specific institutional capacity bottlenecks that hinder local governments from executing equitable social protection floors.

Methods and Materials

This study employs a rigorous concurrent mixed-methods research design that deliberately bridges macro-level economic realities with micro-level microeconomic granularities through the integration of comprehensive secondary datasets and localized primary household data. By adopting this concurrent structural approach, the

investigation simultaneously evaluates overarching fiscal indicators against real-time, household-level socioeconomic realities, establishing a multidimensional analytical framework. To map broader living standards and health outcomes across Nepal, national-level insights were systematically extracted from institutional datasets: the Fourth Nepal Living Standards Survey (NLSS-IV 2022/23), the *Nepal Demographic and Health Survey (NDHS 2022)*, and the Ministry of Finance's definitive *Economic Survey 2024/25*. This combination of empirical platforms establishes a highly dependable baseline, capturing demographic realities, household consumption choices, and sectoral economic trends up through the current multi-year developmental phase.

To safeguard the internal validity of the quantitative components against volatile macroeconomic shifts, specific high-frequency financial variables were subjected to a rigorous cross-verification process. Recognizing that consumer purchasing power and household capital inflows fluctuate rapidly, temporal data reflecting consumer price index (CPI) inflation metrics and inbound foreign remittances were reconciled using the Nepal Rastra Bank (NRB) monthly macroeconomic reports up through mid-2025. Triangulating the broader annualized data from the Ministry of Finance with the monthly banking balance-of-payments updates from the NRB helps neutralize potential recall bias or reporting lags within the larger national surveys. Consequently, this multi-layered database design enables a highly accurate, contemporary mapping of how shifting national financial baselines directly dictate the real-world livelihood strategies of Nepali households.

Results

This section presents the empirical findings of the study, synthesized from the concurrent mixed-methods analysis of macro-level fiscal parameters and micro-level household data. By blending national indicators with localized evidence, the following subsections unpack the structural nuances of Nepal's contemporary economic landscape, highlighting how overarching financial trends directly translate into household-level socio-economic realities.

Macroeconomic Context: The Divergent Recovery

The macroeconomic landscape of Nepal exhibits a distinct "K-shaped" trajectory, where aggregate national economic recovery masks profound structural disparities between different sectors and income groups (ADB, 2024). While corporate asset appreciation, real estate valuation, and the digital economy show resilient growth, the sluggish rebound of traditional sectors underscores an uneven distribution of fiscal gains that disproportionately marginalizes the rural economy.

This section transitions the empirical analysis from macro-level national parameters down to the micro-level household mechanics across the targeted districts. All macroeconomic data have been updated using the Ministry of Finance Economic Survey 2024/25 and the Fourth Nepal Living Standards Survey (NLSS-IV 2023/24) published by the National Statistics Office.

The fiscal year 2024/25 has signaled a cautious recovery. Regarding GDP growth, the economy is estimated to grow by 4.61%, driven primarily by the energy sector (hydropower exports) and a resurgence in tourism (MOF, 2025). However, the agricultural sector's contribution to GDP has declined to 25.16%, raising concerns about food security for rural populations. As for remittance dependence, remittance inflows reached a record high, contributing approximately 26.9% to GDP (World Bank, 2025). While this buffers household consumption, it exposes the economy to external geopolitical shocks. Similarly, the per capita Gross National Income (GNI) has risen to USD 1,517, propelling Nepal towards LDC graduation (NRB,

Table 1

Trend analysis of macroeconomic indicators between pre-federal era and current status (FY 2024/25)

Macroeconomic	Baseline Status (Pre-	Updated Status (As of
Real GDP Growth Rate	7.50% (FY 2016/17)	4.61%
Nominal GDP Size	\$25.00 Billion (2018)	NRs. 6.107
Per Capita Gross	\$750.00 (2018)	USD 1,517
Average Consumer	4.50% (2018)	4.72%
Total Public Debt	\$12.00 Billion Budget Size	NRs. 2.676 Trillion
Agriculture Share of	27.00% (FY 2017/18)	25.16%
Industry Share of GDP	14.30% (Historical)	12.83%
Services Share of GDP	58.70% (Historical)	62.01%

Source: Ministry of Finance (2025); Nepal Rastra Bank (2025); National Statistics Office (2025).

This way, the macroeconomic recovery of Nepal is characterized by a service-heavy consolidation alongside persistent structural vulnerabilities. The aggregate growth remains disconnected from the primary sector where the largest share of vulnerable populations resides.

This service-heavy consolidation is explicitly mirrored in the shifting composition of Nepal's domestic output, where the expanding services sector (now at

62.01% of GDP) starkly contrasts with a shrinking industrial and manufacturing footprint (12.83%). This imbalance underscores a classic "premature deindustrialization" trend, where the domestic economy bypasses robust industrial development in favor of low-productivity, informal service jobs. Consequently, the urban upper quintiles—who possess the financial literacy and digital capital to invest in booming real estate and tech-driven markets—reap the bulk of these macroeconomic rewards. Meanwhile, the rural labor force remains tethered to a low-yield agricultural sector that continues to lose relative economic weight. This structural wedge fuels the "K-shaped" recovery, systematically concentrating new capital within formal urban networks while withholding meaningful income growth from agrarian and informal workers.

Furthermore, this structural imbalance leaves the economy dangerously dependent on external stabilizers, most notably high-frequency remittance inflows, which distort local purchasing power and fiscal stability. While a record-high remittance contribution of 26.9% to GDP effectively acts as a socioeconomic safety net by masking immediate consumption poverty, it simultaneously drives up real estate and land prices, placing urban asset ownership far out of reach for lower-income groups. This dynamic is further aggravated by an outstanding public debt that has climbed to NRs. 2.676 Trillion (43.8% of GDP), which heavily restricts the fiscal space available for local governments to deploy targeted social protection programs. As consumer inflation hovers around 4.72%, eroding the real wages of the rural poor, the disconnect between aggregate national indicators and the microeconomic realities of vulnerable households deepens. The resulting fiscal squeeze confirms that while Nepal's technical path toward Least Developed Country (LDC) graduation remains intact, the underlying distribution of wealth remains highly fractured and deeply unsustainable.

Poverty Dynamics

An examination of income-based poverty dynamics reveals a persistent gap between national growth statistics and the lived realities of low-income, rural households. Despite structural shifts and steady remittance inflows at the macro level, entrenched socioeconomic vulnerabilities and high dependency ratios continue to lock historically marginalized communities into a self-reinforcing poverty trap.

Poverty reduction has slowed substantially over the past decade. By updating the National Statistics Office monetary threshold to **NRs. 72,908 per person per year** to match contemporary consumption baskets, the structural rigidity of rural and regional poverty comes to light.

Table 2

Trend Analysis of Poverty Metric/Dimension Between two NLSS Survey Periods

Poverty Metric /	NLSS-III /	NLSS-IV /	Key Structural Driver /
National	25.16%	20.27%	Growth-poverty
Urban Poverty	15.50%	18.34%	Inflationary pressures
Rural Poverty	27.40%	24.66%	Underemployment and
National Gini	0.328 (2014)	0.320	Modest wealth
Urban Gini	0.353 (2014)	0.341	High concentration of
Rural Gini	0.311 (2014)	0.304	Homogenous asset
Global	28.60%	17.40%	Driven primarily by

Source: CBS, 2012; NSO, 2024.

The national poverty rate stands at 20.27%, a significant reduction from 25.2% in 2011. However, this pace has slowed compared to the 1995–2010 period. Poverty is increasingly a rural phenomenon. The rural poverty rate is 24.66%, compared to just 18.34% in urban areas. Income inequality persists, with the Gini coefficient hovering around 0.32, indicating that the gains of growth are concentrating in the top quintiles.

The deceleration in poverty reduction highlights a profound structural rigidity within Nepal's distribution mechanics, where the historical "growth-poverty elasticity" has dropped to a critical low. While the marginal decrease in the national Gini coefficient from 0.328 to 0.320 might suggest subtle wealth equalization, the reality is a widening spatial divide. Urban centers are grappling with a rising poverty headcount—climbing from 15.50% to 18.34%—which is heavily fueled by the expansion of municipal boundaries that absorb rural fringes without extending proper economic infrastructure, alongside a steep rise in living costs. Conversely, the rural poverty rate remains stubbornly high at 24.66%, driven by chronic underemployment and recurrent climate-induced agricultural shocks. Because rural asset structures remain homogenous and largely dependent on foreign remittance cash transfers just to survive, low-income households are unable to accumulate productive capital. This structural imbalance leaves them acutely vulnerable to minor economic shocks, turning what looks like national growth into localized financial stagnation.

Multidimensional Poverty (MPI)

Beyond purely monetary metrics, the multidimensional poverty assessment exposes severe deprivations in essential non-income dimensions, particularly in healthcare access, educational quality, and basic living infrastructure. The spatial and demographic distribution of the Multidimensional Poverty Index (MPI) confirms that the deepest pockets of deprivation remain heavily concentrated among rural populations, urban slum dwellers, and specific marginalized castes.

Beyond monetary metrics, the MPI (2021/2025 update) reveals that 17.4% of Nepalis are multidimensionally poor. The primary contributors to MPI are under-nutrition and years of schooling. The Human Development Index (HDI) varies starkly by social group. Madhesi Dalits continue to report the lowest HDI values (approx. 0.400), significantly lower than the national average (0.602).

This stark social stratification highlights how multidimensional deprivation operates along deep-rooted geographic and ethnolinguistic fault lines, rather than just uniform economic boundaries. While a national MPI of 17.4% marks visible progress, it masks the severe deprivations in health and educational quality that remain concentrated within specific marginalized populations. The fact that undernutrition and low school completion rates remain the primary drivers of this index points to a systemic failure in the public delivery of social services. For children in rural areas and informal urban settlements, these early-life deficits in cognitive and physical development permanently restrict future upward economic mobility. This dynamic turns human capital deficits into an institutionalized barrier, ensuring that the benefits of national economic growth bypass marginalized households and reinforce historical patterns of social exclusion.

This exclusion is further verified by the deep chasm in Human Development Index (HDI) values across different social strata, illustrating that macroeconomic indicators are entirely disconnected from structural human welfare.

The severe disparity between the national average HDI of 0.602 and the dismal 0.400 reported for Madhesi Dalits reflects a historical legacy of institutional neglect and unequal resource distribution. This gap underscores that poverty in Nepal cannot be solved through cash transfers or remittance reliance alone; it requires dismantling the systemic bottlenecks that prevent marginalized groups from accessing high-quality public schooling, maternal healthcare, and clean living infrastructure. Consequently, until public investment policies pivot from generic regional fund distribution to highly targeted, identity-conscious socio-economic interventions, the deepest pockets of multidimensional poverty will remain untouched by the country's broader path toward graduation.

Discussion and Conclusion

The contemporary economic trajectory of Nepal reveals deep-seated structural barriers that foster an uneven, "K-shaped" recovery, where macroeconomic growth fails to translate into equitable wealth distribution. While affluent urban quintiles capitalize

on the expanding digital economy, financial market instruments, and rapid real estate asset appreciation, the rural populace remains marginalized due to stagnant agricultural productivity and limited market integration (World Bank, 2023). This widening disparity strongly validates classic "poverty trap" frameworks, which posit that systemic deficits perpetuate intergenerational destitution (Azariadis & Stachurski, 2005). Specifically, rural households are constrained by high demographic dependency ratios and a deficit in high-quality human capital accumulation, primarily driven by underfunded public education systems. Consequently, despite aggregate national economic growth, these structural vulnerabilities create a self-reinforcing cycle that prevents low-income families from accumulating the requisite savings or skills to exit poverty.

This economic divide is further compounded by a pervasive gendered dimension, wherein deeply entrenched patriarchal norms systematically skew socio-economic outcomes against women. Although raw statistics indicate high rates of female labor force participation, this labor is disproportionately concentrated in informal, unpaid, or low-wage subsistence agricultural work that lacks social security benefits (International Labour Organization [ILO], 2020). Progress has been made through state-level fiscal interventions; for instance, institutional data from the National Living Standard Survey highlights that targeted tax rebates successfully increased female land ownership from 11.0% in 2004 to 19.7% in recent years (Central Bureau of Statistics [CBS], 2011).

However, legal ownership does not automatically equate to financial agency. Societal expectations and intra-household power dynamics dictate that actual executive control, decision-making power, and the right to liquidate or leverage these real estate assets remain overwhelmingly dominated by male relatives, thereby diluting the transformative potential of asset-based gender equity reforms (Agarwal, 1994).

Finally, these socio-economic vulnerabilities are exacerbated by ongoing institutional and governance challenges associated with Nepal's sweeping transition to a federal governance structure. While the decentralization mandated by the 2015 Constitution was explicitly engineered to bring public service delivery closer to marginalized communities, localized implementation has encountered severe operational friction. Recent methodological pilot assessments conducted within the Dang and Kapilvastu districts reveal critical "capacity bottlenecks" at the municipal government level (Government of Nepal [GoN], 2022). These local authorities frequently struggle with inadequate administrative infrastructure, weak financial management systems, and a shortage of technical personnel, which directly hinders their ability to execute capital budgets and deploy allocated social protection funds effectively. Ultimately, until these local bureaucratic bottlenecks are resolved through systematic civil service capacity-building, federalism will continue to fall short of its promise to deliver inclusive growth and robust safety nets to the country's most vulnerable populations.

Nepal's economy in 2025 is resilient yet unequal. While the headline growth of ~4.6% and poverty reduction to 20.27% are positive milestones, they mask deep structural vulnerabilities. The reliance on remittances is unsustainable as a long-term poverty alleviation strategy. True resilience requires shifting the focus from "remittance-led consumption" to "productivity-led growth" in agriculture and domestic manufacturing.

To drive sustainable economic growth, policy makers must Prioritize Agricultural Modernization by shifting financial support away from traditional chemical fertilizer subsidies toward climate-smart irrigation technologies. While fertilizer subsidies provide short-term relief, they often lead to soil degradation and fail to address the core vulnerability of the Terai region: erratic monsoon patterns. Investing in solar-powered drip irrigation and rainwater harvesting secures year-round water access, strengthens crop resilience against climate change, and directly boosts agricultural productivity. This strategic pivot transforms farming from a subsistence activity into a high-yield, sustainable commercial sector that secures Nepal's food supply.

To ensure equitable growth, the government must build Digitized Social Safety Nets centered around a unified national social registry. The current welfare distribution system often overlooks vulnerable populations, leaving urban slum dwellers and marginalized Dalit communities as the "invisible poor" who miss out on essential state support. A centralized, data-driven digital registry accurately maps household poverty levels and enables direct mobile or bank transfers. This modernization eliminates bureaucratic intermediaries, plugs financial leakages, and guarantees that social security funds directly reach the hands of those who need them most.

Finally, mitigating the high rate of youth departure requires urgent Vocational Education Reform that updates the Council for Technical Education and Vocational Training (CTEVT) curriculum. The current educational framework produces graduates whose skills do not match the needs of Nepal's fastest-growing domestic industries, such as hydropower, tourism, and information technology. Aligning technical training with these high-growth sectors ensures that young Nepalis gain relevant, high-paying skills. Providing a viable path to prosperous domestic careers bridges the local labor shortage and reduces the desperate reliance on low-skilled foreign migration.

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