

NEPAL LDC GRADUATION

Economic Impact Analysis

Transition from November 2026 to 2029
Government of Nepal's Case for a 3-Year Extension



Nepal's LDC Status & The Extension Request



Current Status

Nepal has been classified as a Least Developed Country (LDC) since 1971, benefiting from preferential trade, concessional financing, and targeted development support from the international community.



Scheduled Graduation

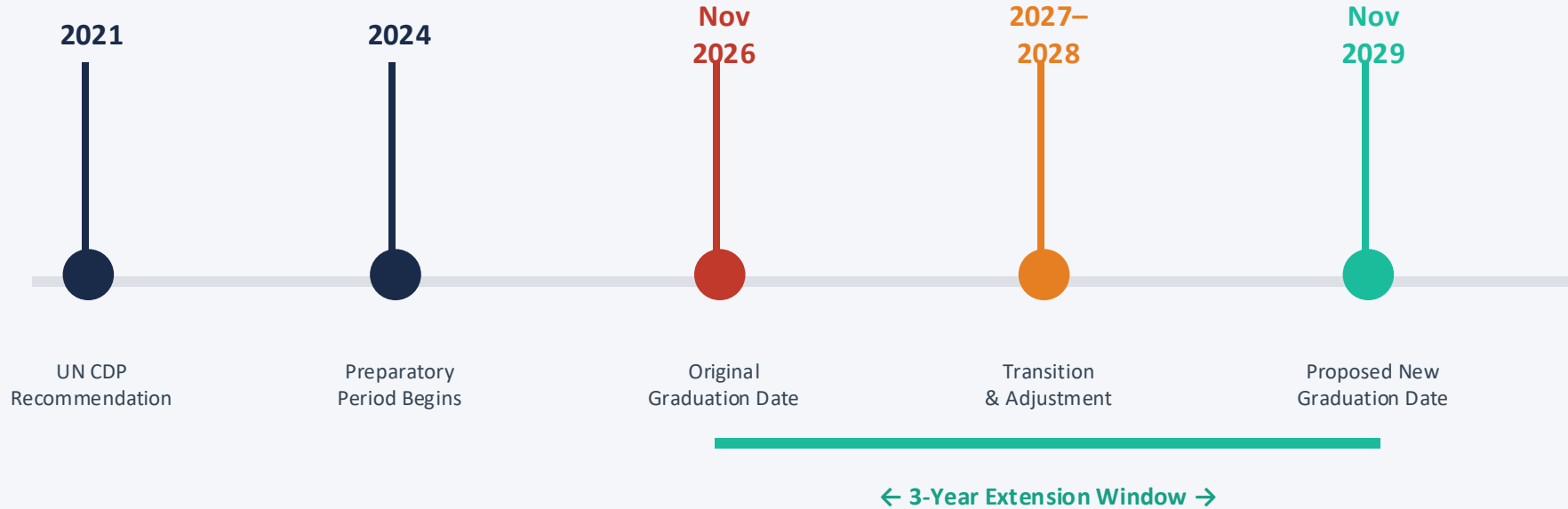
Nepal was originally scheduled to graduate from LDC status in November 2026 following a UN recommendation. Graduation would remove automatic access to a range of special measures and benefits.



Extension Request

The Government of Nepal (GoN) and private sector formally request a 3-year extension to November 2029, citing economic vulnerabilities, post-COVID fragility, and premature readiness concerns.

Two Scenarios: Immediate vs. Extended Graduation

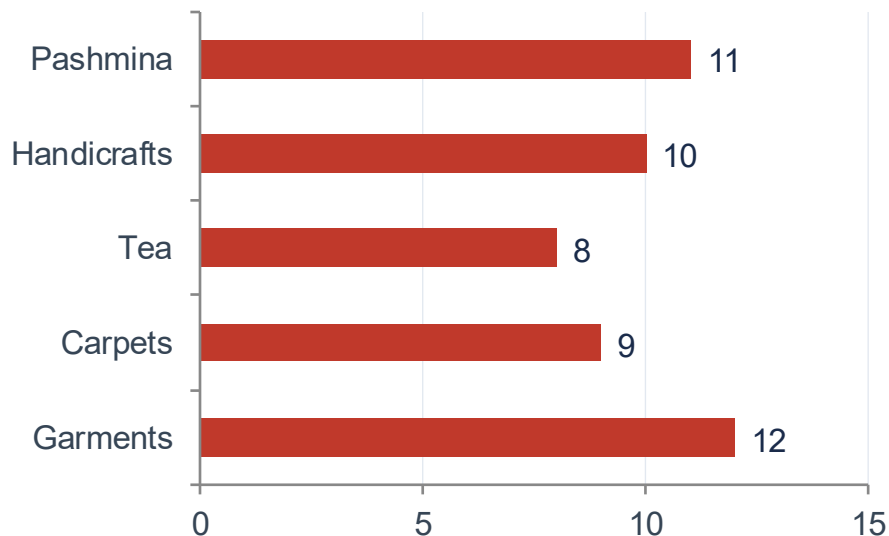


Scenario A – Immediate Graduation (2026): Abrupt loss of LDC benefits; high economic shock risk

Scenario B – Extended Graduation (2029): Managed transition; time to build resilience and reform

Impact on Export Competitiveness

Post-Graduation Tariff Increases by Export Sector (%)



Export Decline

4–5%

Reduced EU EBA duty-free access



Compliance Cost

↑ High

Must shift to GSP+ standards



Jobs at Risk

50K–100K

Export sector employment



Market Share

Eroded

Competitors retain LDC advantages

⚠ Nepal's garments, carpets & handicrafts face 8–12% tariff hikes, directly threatening USD 800M+ in annual exports

Aid, Loans & Development Finance at Risk

\$100–200M

Annual aid reduction
estimated

+1–2%

Borrowing cost
increase

\$2–3B

Infrastructure
financing gap

+0.5–1%

GDP fiscal
pressure

Financing Source	Current (LDC)	Post-Graduation	Estimated Impact
World Bank IDA	Highly concessional (0.75–1.25%)	Harder terms (3–5%)	Higher debt servicing
ADB Grants/Loans	Priority LDC allocation	Blend / market rates	Reduced concessional share
Bilateral Aid Grants	Priority LDC grants	Redirected to active LDCs	USD 100–200M/yr loss
Climate Finance	Automatic LDC eligibility	Must compete globally	Reduced climate funds
IMF Facilities	PRGT access (0% interest)	Standard facilities apply	Higher IMF borrowing cost

Economic Outlook Without Extension

01 Export Shock

Duty-free access under EU EBA and UK GSP LDC ends. Garments, carpets, tea face 8–12% tariff hike instantly. Estimated 4–5% decline in export earnings (~USD 40–50M/yr).

02 Fiscal Stress

Annual aid grants drop by USD 100–200M. Budget deficit widens by 0.5–1% of GDP. Infrastructure projects face financing gaps of USD 2–3 billion.

03 Jobs at Risk

50,000–100,000 export sector jobs threatened. Industries unable to quickly meet GSP+ compliance standards may downsize or relocate production.

04 Climate Vulnerability

Nepal loses automatic access to LDC climate funds (LDCF, SCCF). Must compete with middle-income nations for climate adaptation financing despite being highly climate-vulnerable.

05 Loss of WTO Flexibility

Export subsidy exemptions under WTO LDC rules end. Production costs rise. Technology transfer provisions reduce. Industrial modernization slows significantly.

06 Human Capital Gap

Reduced eligibility for LDC-targeted scholarships, training programs, and capacity-building. Diplomatic support and UN participation funding decreases, raising government expenditure.

Opportunities & Benefits of a 3-Year Extension

01 Trade Adjustment Period

Retain EU EBA and UK GSP LDC preferences. Time for exporters to diversify markets, meet GSP+ standards, and upgrade production capacity to compete post-graduation.

02 Fiscal Breathing Room

Continue receiving priority grant-based ODA. Sustain concessional loan access from WB IDA and ADB. Reduce risk of infrastructure financing gaps disrupting key projects.

03 Employment Protection

Protect 50,000–100,000 export-sector jobs during a structured transition. Allows industries time for productivity investment and workforce upskilling.

04 Climate Finance Access

Continue accessing LDC-priority climate funds (LDCF, SCCF) to implement the National Adaptation Plan and build resilience against floods, droughts, and glacial lake outbursts.

05 Structural Reform Window

Time to advance GSP+ compliance, strengthen institutions, liberalize trade, diversify exports beyond garments to ICT, tourism, and hydropower.

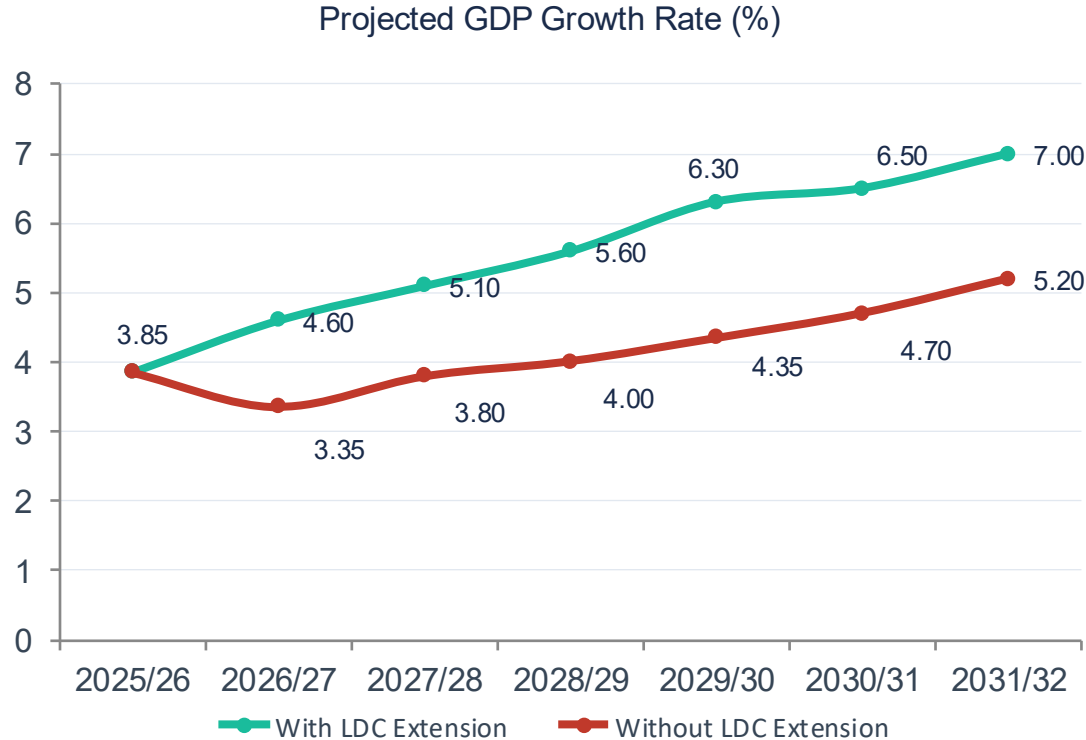
06 Human Capital Building

Continued access to LDC scholarships, capacity-building programs, and UN diplomatic support. Reduces government expenditure while building long-term national capability.

Graduation 2026 vs. Extension to 2029

	Immediate (2026)	Extension (2029)
Export Revenue	-4 to -5% decline	Maintained / gradual adjustment
Aid & Grants	-USD 100-200M/yr	Continued access maintained
Borrowing Costs	+1-2% interest rate rise	Concessional terms retained
Infrastructure Finance	USD 2-3B gap	IDA/ADB priority access kept
Jobs at Risk	50K-100K jobs threatened	Protected with adjustment time
Climate Funds	Must compete globally	Priority LDC access continues
WTO Flexibilities	Subsidy exemptions end	Retained for 3 more years
Fiscal Pressure	+0.5-1% of GDP deficit	Gradual, managed fiscal path

GDP Growth: With vs. Without LDC Extension



~1.8%

GDP Difference by 2031

Cumulative GDP growth gap

\$200M+

Cumulative Export Loss

Over 5 years without extension

100K

Job Protection

Workers safeguarded with extension

\$600M

Aid Revenue Saved

3-year grant access preserved

Nepal's Case for a 3-Year LDC Extension



Request UN CDP Approval

Formally defer Nepal's graduation from November 2026 to November 2029 under the extended preparatory period provisions.



Transition Support Plan

Implement a comprehensive Smooth Transition Strategy (STS) with GoN commitments on trade reform, GSP+ readiness, and fiscal consolidation.



Donor Community Engagement

Engage bilateral donors, World Bank, and ADB to maintain concessional financing and grants through the transition period until 2029.



Structural Reform Commitment

Nepal commits to export diversification, industrial policy reform, climate resilience investment, and private sector capacity-building during the extension.