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# ISSUE BRIEF

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## **The Impact of Recurrent Political Attacks on Nepal's Private Sector: Morale, Investment, and Policy Implications**

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# **The Impact of Recurrent Political Attacks on Nepal’s Private Sector: Morale, Investment, and Policy Implications**

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## **Abstract**

The private sector accounts for the overwhelming share of Nepal’s economy, contributing more than four-fifths of total output and providing the bulk of formal and informal employment as it contributes some 81.55 percent to gross domestic product (GDP) and generates over 85.6 percent of employment. Despite major contribution, recurrent political protests, including the earlier political protests too, have been increasingly targeting businesses, undermining confidence, destroying infrastructure, and threatening long-term investment prospects.

This article examines the 8-9 September 2025 protests as a case study to assess economic damages, analyze investor morale, and identify implications for policy and stability. Drawing on reports from industry associations, media coverage, and comparative studies, this paper argues that the direct targeting of enterprises in Nepal sets it apart from regional peers and amplifies economic vulnerability.

Without institutional reforms, that too as soon as possible, to safeguard private property and restore trust of private sector, Nepal risks protracted stagnation and capital flight.



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## Introduction

The private sector is the backbone of Nepal’s economy, as it contributes 81.55 percent to GDP and 85.6 percent to employment generation.<sup>1</sup> However, consistent targeting of private sector during every political unrest reveals a paradox: while indispensable to economic stability, businesses are increasingly vulnerable to political manipulation and social hostility.

The 8-9 September 2025 ‘GenZ’ protests against corruption exemplify this vulnerability. Initially peaceful and disciplined, the demonstrations escalated after political infiltration, resulting in loss of lives, and damages of private properties exceeding NRs. 210.64 billion ( $\approx 3.5\%$  of GDP).

Larger corporate houses like Chaudhary Group (CG), IME Group, and Bhatbhateni Supermarket suffered widespread destruction, jeopardizing jobs, credit flows, and investor confidence. Though they have claimed to bounce back, it's easier said than done.

This study seeks to analyze the impact of recurrent political attacks on Nepal’s private sector, emphasizing morale, investment - both domestic and foreign - and policy implications. It relies primarily on secondary data and reports produced during or immediately after the protests by the business associations like Federation of Nepalese Chamber of Commerce & Industries (FNCCI), Hotel Association Nepal (HAN), Bhatbhateni Supermarket and media reports of losses and damages. Independent verification of the full scale of losses is still pending, and the figures cited here should be regarded as preliminary. Likewise, this analysis does not incorporate survey-based measures of business confidence, which remain a critical area for future research.



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## Historical Cost of Conflicts

Political instability has long been recognized as a deterrent to economic performance. A study conducted by Alesina et al. (1996) found that political uncertainty depresses investment<sup>2</sup>, while Campos and Nugent in 2002 highlighted its role in eroding entrepreneurial morale<sup>3</sup>. Later a study demonstrated that uncertainty shocks reduce managerial risk-taking, thereby amplifying economic slowdown.<sup>4</sup> North in his study emphasized the importance of stable institutions in sustaining economic performance, underlining the link between governance and growth.<sup>5</sup>

In fragile states, instability erodes what the World Bank terms '*confidence capital*', a prerequisite for both domestic and foreign investment.<sup>6</sup> Ari Aisen and Francisco José Veiga (2007) further identified that political instability leads to higher inflation, reduced economic growth, and a slowdown in poverty reduction.<sup>7</sup> Empirical cross-country evidence by Aisen and Veiga suggests that nations with high political instability experience 2-2.5 percentage points lower GDP growth annually compared to stable economies.<sup>8</sup>

South Asia offers diverse experiences of political instability and its economic consequences. Sri Lanka's political turmoil, particularly during the 2018 constitutional crisis, disrupted governance and tourism, leading to a 19 percent decline in tourist arrivals.<sup>9</sup>

Bangladesh, while facing frequent general strikes, sustained robust average annual GDP growth above 6 percent between 2010 and 2019, as disruptions were concentrated in logistics rather than systematic targeting of enterprises.<sup>10</sup>

Comparative regional data from the United Nations Conference on Trade and Development (UNCTAD) indicate that fragile and conflict-affected states in South Asia attract nearly 26 percent less foreign direct investment (FDI) relative to more stable



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developing economies.<sup>11</sup> This demonstrates the sensitivity of external investors to political risks within the region.

Nepal presents a unique case where business houses are frequently direct targets of political unrest, making instability particularly damaging to economic confidence. According to the report published by Nepal Rastra Bank (NRB), recurring *bandhs* (general strikes) between 2008 and 2013 cost the economy an estimated Rs. 117 billion in lost productivity.<sup>12</sup>

The Asian Development Bank (ADB) observed that Nepal's investment-to-GDP ratio has stagnated around 25 percent, significantly below the South Asian average of 32 percent, primarily due to prolonged political uncertainty.<sup>13</sup>

Similarly, NRB in 2021 reported that inflation averaged 6.2 percent between 2010 and 2020, partly attributable to disruptions in supply chains and investor hesitation linked to political volatility.<sup>14</sup> Poverty reduction also slowed to less than 1 percent annually during periods of heightened political instability, underscoring its adverse impact on long-term development outcomes.

### **Major Economic Damages**

- **Bhatbhateni Supermarket:** 12 outlets destroyed, 9 looted; losses estimated at NRs. 10.86 billion; 8,000 jobs threatened. (Bhatbhateni 2025)<sup>15</sup>
- **Chaudhary Group (CG):** Factories in Satungal and showrooms in Thapathali vandalized; damages in billions.



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- **IME Group:** Cable car infrastructure in Chandragiri and Maulakalika and Global IME bank branches, and ATMs attacked, harming both jobs and capital markets.
  - **Hotel:** According to HAN, Hilton Hotel in Kathmandu alone suffered damages exceeding NRs. 8 billion, while the total nationwide loss is estimated at over NRs. 25 billion. The HAN said many affected hotels will not be able to resume operations without repair and reconstruction, affecting the jobs of more than 2,000 workers.<sup>16</sup>
  - **Financial sector:** NRs. 50 Million and 18 Kg Gold Looted from Rastriya Banijya Bank inside the Parliament premises in New Baneshwor.<sup>17</sup> Over 68 bank branches burned or looted; ATMs destroyed.<sup>18</sup>
  - **Foreign firms:** Ncell office building in Lainchour, Tata Motors, Hyundai, and Suzuki showrooms, Hilton Hotel arson and damaged; Ncell alone reported more than NRs. 1 billion in losses.<sup>19</sup>
  - **SMEs:** Though the larger enterprise may bounce back in a while, the Small and Medium Enterprises (SMEs) will not be able to bounce back due to their limitation. The locally registered - registered in the local governments – and unregistered but supporting their family with their small businesses will lose their livelihood and become unemployed, risking them to fall below the poverty line. The SMEs that have been shut during the devastating earthquake in 2015 and Corona pandemic (2020) have yet not been completely able to stand on their feet.



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## **Macroeconomic Impact**

Nepal's total GDP for the fiscal year 2024-25 is projected to be NRs. 6,107 billion, according to preliminary estimates from the National Statistics Office (NSO)<sup>20</sup> released in April and May 2025. On the basis of sub-sectoral multiplier calculation using econometrics model, the 8-9 September 2025 protests cost Nepal between 2.8 percent and 4.2 percent of GDP, depending on multiplier strength of different sub sectors. The central case (~3.5% GDP loss) suggests a near-halving of projected fiscal year 2025-26 growth.

Likewise, anticipated insurance claims seem to exceed manifold of 2015 earthquake claims,<sup>21</sup> as the 2015 devastating earthquake had NRs. 17 billion claims, apart from increased risk of non-performing loans (NPL) of the banks and financial institutions (BFIs) due to widespread business disruption. The BFIs that have been already burdened will see the rise in the NPL, squeezing their capacity to lend.

## **Investor confidence and morale**

- Public targeting of high-profile entrepreneurs including Binod Chaudhary, Chandra Dhakal, Min Bahadur Gurung, and Shekhar Golchha intensified perceptions of hostility toward business.<sup>22</sup>
- The planned attack on residence of more than a dozen noted entrepreneurs, by the infiltrators, created distrust between the society and business fraternity.
- Entrepreneurial morale weakened, with firms adopting defensive rather than expansionary strategies.
- Foreign investors signaled caution, with risk of capital withdrawal.



### **Key baseline anchors (sources)**

- Nominal GDP (FY2024/25, purchaser's price): **NRs. 6,107 billion** (NSO preliminary).
- NRB: annual CPI inflation (2024/25)  $\approx$  **4.06%**; mid-2025 CPI was low (months shown in NRB reports).
- ADB / World Bank: pre-shock growth expectations for Nepal were in the **~4.4–4.5%** (FY25) and **~5.1%** (FY26) range (ADO / World Bank updates). Use **5.1%** as a plausible pre-shock FY2025/26 baseline for growth.
- Aggregate loss under multiplier scenarios applying Conservative/Central/Optimistic sets to each sector and then convert results into percent of GDP (with GDP = NRs. 6,107 billion, NSO projection for fiscal year 2024-25).

### **Sectoral direct damages (baseline)**

- Retail (Bhatbhateni + Auto showrooms): **NRs. 12.86 billion**
- Hotels / Hospitality: **NRs. 25.0 billion**
- Telecom (Ncell): **NRs. 1.0 billion**
- Banks/Financial: **NRs. 3.4 billion**
- Manufacturing (CG): **NRs. 15.0 billion**
- Infrastructure (IME cable cars etc.): **NRs. 8.0 billion**
- SMEs (broad): **NRs. 60.0 billion**

**Total direct loss = NRs. 125.26 billion**



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**\*Sector specific multipliers are chosen to represent plausible conservative/central/optimistic linkage strengths:**

- Retail & Auto: **1.3 / 1.6 / 1.9**
- Hotels: **1.6 / 2.0 / 2.4** (tourism has stronger local linkages → higher multiplier)
- Telecom: **1.2 / 1.5 / 1.8**
- Banks/Financial: **1.1 / 1.4 / 1.7** (financial sector has limited immediate local demand links)
- Manufacturing (including Chaudhary): **1.4 / 1.8 / 2.2**
- Infrastructure: **1.8/ 2.1/ 2.4**
- SMEs (mixed): **1.2 / 1.5 / 1.9**

### **Conservative scenario**

- Retail (1.3):  $12.86 \times 1.3 = \mathbf{16.72b}$
- Hotels (1.6):  $25 \times 1.6 = \mathbf{40.00b}$
- Telecom (1.2):  $1 \times 1.2 = \mathbf{1.20b}$
- Banks (1.1):  $3.4 \times 1.1 = \mathbf{3.74b}$
- Manufacturing (1.4):  $15 \times 1.4 = \mathbf{21.00b}$
- Infrastructure (1.8):  $8 \times 1.8 = \mathbf{14.40b}$
- SMEs (1.2):  $60 \times 1.2 = \mathbf{72.00b}$

**Total conservative = 169.06b (≈2.77% of GDP)**



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## **Central scenario**

- Retail (1.6):  $12.86 \times 1.6 = 20.58\text{b}$
- Hotels (2.0):  $25 \times 2.0 = 50.00\text{b}$
- Telecom (1.5):  $1 \times 1.5 = 1.50\text{b}$
- Banks (1.4):  $3.4 \times 1.4 = 4.76\text{b}$
- Manufacturing (1.8):  $15 \times 1.8 = 27.00\text{b}$
- Infrastructure (2.1):  $8 \times 2.1 = 16.80\text{b}$
- SMEs (1.5):  $60 \times 1.5 = 90.00\text{b}$

**Total central = 210.64b ( $\approx 3.45\%$  of GDP)**

## **Optimistic scenario**

- Retail (1.9):  $12.86 \times 1.9 = 24.44\text{b}$
- Hotels (2.4):  $25 \times 2.4 = 60.00\text{b}$
- Telecom (1.8):  $1 \times 1.8 = 1.80\text{b}$
- Banks (1.7):  $3.4 \times 1.7 = 5.78\text{b}$
- Manufacturing (2.2):  $15 \times 2.2 = 33.00\text{b}$
- Infrastructure (2.4):  $8 \times 2.4 = 19.20\text{b}$
- SMEs (1.9):  $60 \times 1.9 = 114.00\text{b}$

**Total optimistic = 258.22b ( $\approx 4.23\%$  of GDP)**



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## Discussion

The findings highlight three interconnected risks:

### 1. **Erosion of investor confidence**

Despite the Constitutional guarantee of Right to Property, direct and selective attacks on enterprises and residence of entrepreneurs create systemic uncertainty. Unlike neighbouring economies Nepal's protests frequently destroy private property against the Right to Property (Article 25) of Constitution of Federal Republic of Nepal (2015), deterring both domestic reinvestment and foreign capital inflows.

### 2. **Wrong message to foreign investors.**

Foreign direct investment (FDI) in Nepal is very low compared to the neighbouring countries. Nepal's net FDI was approximately 0.1% of its GDP in 2024 and 0.16032% of its GDP in 2022<sup>23</sup>, which is considered a low ratio compared to regional neighbours, according to the NRB, though it has also highlighted substantial potential for improvement in attracting foreign capital and investment. The data, available up to July 2024, shows this ratio has fluctuated, reaching an all-time high of 0.5 percent in July 2012 and a low of -0.1 percent in July 2006, also due to political instability.

### 3. **Psychological and social costs**

Targeting entrepreneurs cultivates a perception that business success is illegitimate, further widening the trust gap between society and the private sector. Likewise, employment loss in the country will force the youths to migrate – for



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dangerous, dirty and difficult (3D) jobs – in many countries where there are less social security and human rights compared to Nepal.

#### 4. **Comparative distinctiveness**

Compared to Sri Lanka and Bangladesh, Nepal is considered to have more liberal political system. However, in Sri Lanka and Bangladesh, political unrest disrupted economic activities but rarely centered on enterprises. Nepal's vulnerability is therefore unique, with business enterprises caught at the frontline of political competition, time and again, due to alleged affiliation of entrepreneurs with political parties or political leaders.

### **Conclusion**

Recurrent attacks on Nepal's private sector undermine not only physical infrastructure but also the intangible foundations of growth like trust, morale, and investor confidence. The 8-9 September 2025 protests, resulting in damages of NRs. 210.64 billion to private sector, underscore the severity of risks facing businesses. The severe human casualties – especially from teenaged children to all the GenZ - more than 100 could not be compensated at any cost.

The arson on public infrastructure like Singh Durbar, the seat of Prime Minister and almost all the ministries including Finance Ministry and Industry, Commerce Ministry, will also hit the private sector due to lack of proper ecosystem, regulatory mechanism and urgent support that private sector need creating governance vacuum, especially in such difficult times. It will not only weaken the regulatory institutions but also help increase



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disparity in economic distribution and push poverty up, due to delay in intervention in the socio-economic division. Due to vacuum of government mechanism to monitor, the supply channels have been broken, which will help increase inflation. The rising inflation due to failure in monitoring the market and supply chain will also pull the people on the border line of absolute poverty down the poverty line again.

Thus, policy responses must include stronger legal protections - to fight against impunity - compensation mechanisms, insurance innovations, and structured public-private dialogue. Without such measures, Nepal risks long-term stagnation, capital flight, and the collapse of entrepreneurial confidence.



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## Endnotes:

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