

An illustration of a protest in a city. In the foreground, a woman with dark hair and a red shirt has a determined, shouting expression. Behind her, other protesters are visible, some with their fists raised. A sign in the background reads "NO TO CORRUPTION". The background shows traditional buildings under a blue sky with clouds.

NO TO  
CORRUPTION

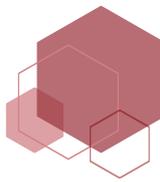
# What Next?

The Economic Cost of Revolution.



**Himalayan Capital**

A Subsidiary of Himalayan Bank Limited



## The Prelude: Simmering Discontent

While it would be easy to assume that the recent upheaval in Nepal rose overnight, the truth is quite far from it. The overhaul we saw happening just in the span of 36 hours is the byproduct of decades of simmering discontent, especially among the youth, who have had to bear the weight of governance failures aided by high levels of corruption, which has only been exacerbated by a plethora of unfulfilled promises. Let's be clear, Nepal is not new to movements for change, it has had many since the dying days of the Rana Regime. However, this movement has been unique, in that it sprouted, not from the machinations of political organization that had happened many times before but rather by a desire for better governance and equal opportunity and treatment for all among the youth. The fact that this movement was then catalyzed by a quasi-ban on social media platforms only adds to the discontent created by varying issues that led to this insurrection.

In hindsight, it seems like such a movement was a foregone conclusion. Decades upon decades of Political instability and bureaucratic inefficiency had led to unemployment/lack of proper employment opportunities which was fermenting discontent among the masses, if not for the escape provided by foreign employment and better opportunities abroad. This discontent had now finally reached a crescendo owing to egregious displays of decadence and extravagance by the kins of the political elite hypothesized to not be gotten via legitimate means and which had propagated like wildfire among the masses through the windows of social media. The trust in institutions among the youth had been falling gradually but experienced a severe decline due to this situation of perceived unfairness and a decision which seemingly helped reign in free thought and its expression thereof in the guise of regulation. Combined these and other myriads of factors drove a movement that reflected a latent frustration, a quiet storm which had accumulated beneath the surface of apparent stability.

## The Trigger: Social Media Ban and Symbolic Overreach

The immediate spark came when the government had imposed a ban on social media platforms under the pretext of non-registration requirements. Platforms such as Facebook, YouTube, and X were blocked. Although, rationalized from an economic and regulatory standpoint, this ban seemed logical to a certain degree, a lack of trust in the government's actions meant this initiative was widely perceived as an attack on freedom of expression. For students and young citizens whose daily lives, education, and civic engagement were entwined with digital communication, the move symbolized broader authoritarian tendencies. The ban did not create the underlying discontent but exposed it, galvanizing a population already frustrated with systemic corruption.

## The Escalation: Protests, Violence, and Revolution

Protests erupted rapidly, beginning on **8 September 2025**, led largely by students and young citizens demanding accountability. Clashes with security forces escalated into violence, leaving at least **19 dead on the first day** with many being students. Tear gas, rubber bullets, and live ammunition intensified tensions. Far from abating when the social media ban was repealed, demonstrations spread across Kathmandu and other cities, escalating into full-scale unrest.



By the second day, the protests had transformed into a revolution. Citizens attacked government offices, political party headquarters, and private properties linked to political elites. Iconic state symbols, including Singha Durbar, Parliament, and even the President's residence, were set on fire. Billions of rupees in public and private property were destroyed. The human and material toll signaled that this was no ordinary protest: it was a nationwide demand for systemic accountability.

### **Political Consequences: Government Collapse and Interim Leadership**

The Prime Minister, **K. P. Sharma Oli**, resigned on 9 September 2025, acknowledging the gravity of the situation and hoping his departure would ease tensions. Several ministers also stepped down, including the Home Minister, who took moral responsibility for student deaths. An interim government, led by former Chief Justice Sushila Karki backed by those spearheading the movement was formed and the parliament was dissolved calling for fresh elections on **5 March 2026**. The swift collapse underscored the depth of public dissatisfaction and the fragility of Nepal's political institutions.

### **Economic Cost of Revolution: Borrowing, Debt, and Inflation**

Revolutions impose substantial economic costs, and Nepal is no exception. Efforts such as reconstruction of public infrastructure, stabilization measures, and election-related expenditures are likely to increase government borrowing. While Nepal currently has significant excess liquidity, which may initially accommodate these expenditures without immediate inflation, the medium-term outlook could still see inflationary pressures if borrowing and spending accelerate unchecked.

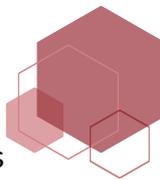
Rising government debt will also test fiscal sustainability, affecting debt servicing costs and longer-term financial stability. Although remittance inflows provide a partial cushion—supporting foreign exchange reserves and household consumption, they cannot fully counteract domestic capital flight or declining investor confidence.

As reconstruction, relief, and compensation programs absorb funds, inflationary pressures may emerge over the mid-term, meaning citizens could bear the burden indirectly through higher taxes, levies, or reduced purchasing power.

### **Risk of Capital Flight and Investor Confidence**

Nepal's recent unrest has sharply highlighted the vulnerability of investor confidence. Political instability, violent protests, and the deliberate destruction of property worth billions of rupees have created an environment where wealth itself becomes a target. Multiple branches of major shopping malls such as Bhat-Bhateni, luxury hotels including Hilton Kathmandu and Varnabas Museum Hotel, independent resorts in Pokhara, corporate offices, media houses, banks, telecom networks, auto showrooms, educational institutions, and private residences have been either totally or partially destroyed across Kathmandu, Pokhara, Chitwan, Morang, Makwanpur, Jhapa, and Sunsari.

The threat extends beyond financial loss. High-net-worth individuals and business leaders may face personal risk from mob violence, a stark reminder that success in such volatile



conditions can make one a target. Attacks appear to disproportionately impact businesses and individuals perceived to be connected to the ruling elite, reflecting underlying social discontent over wealth accumulation, which fuels unrest and heightens economic risk.

The immediate consequences are evident: operational disruptions in banking and telecom services, destruction of high-value assets, and widespread damage to commercial infrastructure create uncertainty that can deter both domestic and foreign investment. Investors may become risk-averse, while capital flight could reduce domestic liquidity and place pressure on the Nepalese economy.

### **Fiscal Stress: Borrowing, Inflation, and Market Implications**

The September 2025 protests created profound uncertainty for the NEPSE market, testing both liquidity resilience and investor confidence. Government borrowing for reconstruction, stabilization, and election-related preparations is expected to rise, potentially putting upward pressure on bond yields and making fixed-income instruments relatively more attractive. While liquidity in the market remains sufficient, investor demand is likely to be subdued due to heightened risk aversion, inflationary pressures, and uncertainty over political and economic stability. Structural market frictions—including uneven settlement practices, T+2 inefficiencies, and leveraged broker positions—may further constrain immediate policy interventions, even if the Nepal Rastra Bank adopts an accommodative stance.

### **Phase-By-Phase Market Outlook**

#### **Short-Term (Immediate: Next 1–2 Weeks)**

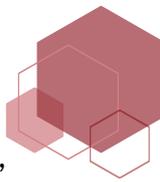
After reopening from several days of closure, NEPSE immediately hit a 6% negative circuit-breaker, reflecting panic selling amid political and economic uncertainty. However, the decline was not accompanied by high trading volumes, suggesting limited participation rather than broad-based liquidation.

To stabilize market functioning and protect investor property, regulators intervened by suspending the weighted-average 15-minute pricing provision. This regulatory move, combined with relief sentiment, helped restore order. On the very next trading day, the index rebounded by 4.5%, demonstrating that swift policy action and liquidity inflows can trigger rapid, short-term recovery even in a fragile environment.

Nonetheless, the rebound does not imply that structural weaknesses have been resolved. Investor confidence remains fragile, and volatility is expected to persist as markets react to announcements on reforms, reconstruction financing, and corporate restructuring.

#### **Mid-Term (1–3 Months)**

Investor sentiment may remain highly sensitive. Liquidity is available, but confidence issues persist due to ongoing interim governance. Loan restructuring programs, particularly for corporates affected by property destruction or business interruptions, could temporarily boost the affected sectors by improving cash flow expectations. Similarly, interest capitalization measures may enhance corporate earnings visibility, supporting market rallies.



Gains during this period are likely to be perception-driven, influenced by progress in reforms, debt adjustments, and visible stabilization.

### **Long-Term (6–12 Months)**

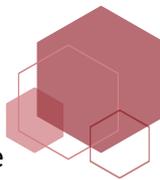
Sustained market recovery depends on full reform implementation, transparent governance, and restored investor confidence. If these conditions are met, NEPSE could rebound to pre-protest highs or exceed them, supported by pent-up liquidity and reconstruction-driven investment. Structured loan repayments, interest capitalization, and corporate balance-sheet stabilization will strengthen the financial sector and reinforce investor trust. Long-term gains are expected to be fundamentally stronger in sectors tied to infrastructure, domestic consumption, and reconstruction, while external-shock-sensitive industries remain vulnerable.

### **Economic and Structural Shocks**

The September 2025 Gen Z protests stand as one of the costliest episodes of unrest in Nepal's modern economic history, leaving both tangible and symbolic damage in their wake. Preliminary reports from the Nepal Insurance Authority indicate claims already surpassing NPR 20.7 billion, with final settlements expected to approach NPR 30-35 billion. The bulk of this burden falls on a handful of major insurers, accounting for nearly half of the annual non-life premium volume, a scale of shock unprecedented for a single event. The insurance data only partially captures the damage; the true economic toll extends far beyond claims, encompassing destroyed assets, disrupted livelihoods, and a nationwide erosion of confidence in business and governance.

The destruction on the ground was widespread and strategically targeted. Retail chains, most notably Bhat-Bhateni, saw multiple branches destroyed across Kathmandu, Biratnagar, and Bharatpur, while malls like GG Landmark sustained partial damage. Thousands of small independent shops, the backbone of Nepal's SMEs, were looted or vandalized, threatening permanent closures and mass unemployment. The hospitality sector, struggling to recover from pandemic-era losses, was similarly hit: resorts in Chitwan's tourist belt and hotels in Pokhara suffered partial to total destruction, imperiling local tourism and related service industries. High-profile residences, corporate offices, media houses, telecom facilities, auto showrooms, and even a cable car site in Kathmandu were attacked, signaling a blurred line between economic and political targets. While Kathmandu bore the brunt of the destruction, the ripple effects reached Pokhara, Biratnagar, Bharatpur, Jhapa, Makwanpur, Sunsari, and Dhangadhi, illustrating the nationwide reach of the unrest.

The economic consequences are profound and multifaceted. Insurance companies now may face acute liquidity stress, with the scale of claims likely to force asset liquidation or expensive borrowing, while global reinsurers are expected to raise premiums, increasing the future cost of coverage. Many SMEs, lacking insurance, face permanent closure, reducing employment, income, and consumption in local communities. Destroyed assets, often serving as bank collateral, elevate the risk of defaults and rising non-performing loans. Reconstruction efforts will increase demand for imports such as steel, cement, and machinery, potentially widening Nepal's trade deficit. Simultaneously, household and investor confidence has been severely



shaken; even the Dashain festival, historically a peak consumption period, failed to generate normal levels of economic activity, leaving cash locked and consumption deferred.

Beyond these immediate financial effects, the protests constitute a structural shock to Nepal's economy. The targeted destruction of household names, commercial hubs, and infrastructure carries enormous symbolic weight, eroding trust in institutions, destabilizing markets, and signaling that political and social discontent can translate into direct economic targeting. For insurers, banks, and businesses, the event represents a stark reminder of vulnerabilities in risk management, contingency planning, and social cohesion. Without decisive policy action, targeted protection of assets, and initiatives to restore investor and public confidence, the long-term repercussions could extend far beyond the current crisis, slowing recovery and reshaping Nepal's economic landscape for years to come.

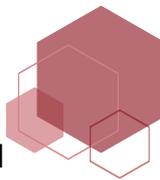
## Broader Risks and Global Parallels

Several factors will determine Nepal's market trajectory: the extent of capital flight, government borrowing and debt servicing, confidence restoration, and structural reforms. Past parallels illustrate potential outcomes: Sri Lanka's 2022 unrest led to a market collapse with prolonged stagnation until external support arrived. In 2024, Bangladesh experienced a short-lived rebound following protest, but it stalled due to inflation and reserve stress. Nepal may experience a brief relief rally followed by fragility, with eventual stabilization contingent on reforms, political credibility, and restored investor confidence.



### Colombo Stock Exchange (CSE) Pre and Post Protest

The Colombo Stock Exchange (CSE) experienced sharp swings around Sri Lanka's 2022 protests. Before March 2022, the index was rallying on speculative optimism despite severe economic weaknesses, including shortages of fuel, food, and foreign reserves. When mass protests erupted on March 15, 2022, confidence collapsed, and the ASI plunged as political instability and economic chaos deepened. During the protest months, volatility remained high, with investors fleeing risk amid uncertainty. The turning point came in November 2022 with the resignation of President Gotabaya Rajapaksa and the announcement of an IMF-backed stabilization program. Confidence began to return, and with the IMF agreement finalized in March 2023, the index steadily recovered. By 2024–2025, the ASI surged to



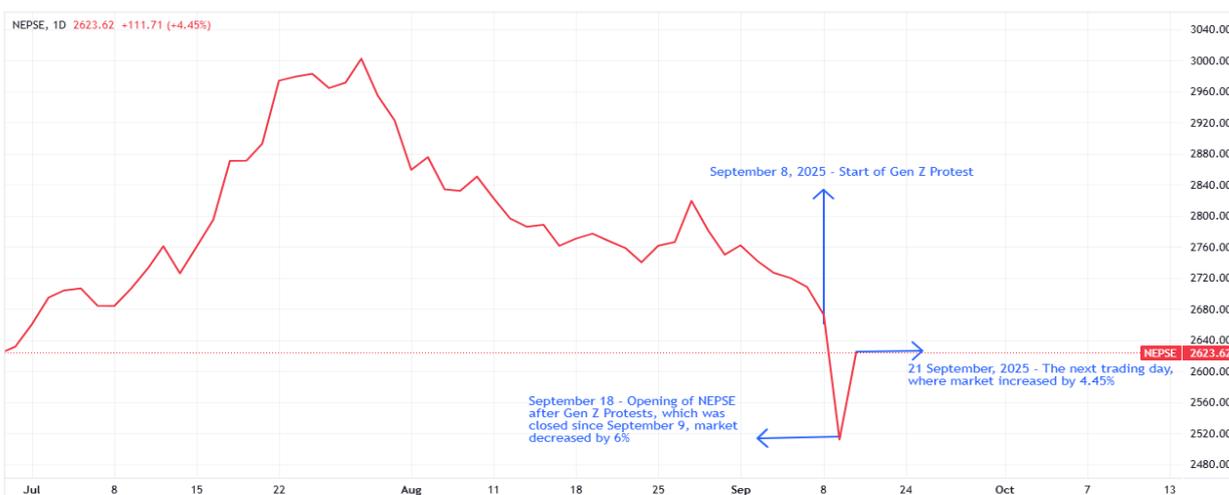
record highs above 20,000, driven by reforms, easing inflation, stabilizing reserves, and renewed investor optimism.



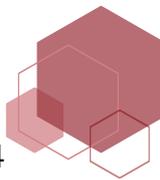
### Dhaka Stock Exchange Broad (DSEX) Pre and Post Protest

The **DSEX** entered 2024 on relatively stable ground, trading above 6,000 points. However, from June 6, 2024, when mass protests erupted over the quota/job reform issue, the index fell sharply as investor confidence weakened amid political instability. The situation escalated further in July 2024, when student protests gained momentum, driving heightened volatility and accelerated selling pressure. By the time protests ended on August 3, 2024, after the government abolished the quota system, the market had already lost significant ground, reflecting both economic uncertainty and shaken investor sentiment.

Post-protest, the DSEX stabilized but remained subdued through late 2024, as inflationary concerns and pressure on reserves weighed on sentiment. The real recovery began in mid-2025, with the index climbing back above 5,500 as confidence slowly returned, supported by relative calm and hopes of economic adjustment.



### Nepal Stock Exchange (NEPSE) Pre and Post Protest



A similar dynamic has been visible in Nepal's NEPSE. The exchange was closed from 8 to 14 September 2025 due to the political upheaval, and when trading resumed on 18 September, the market plunged by 6% to 2,511.91 points, triggering a circuit breaker. Yet, in the very next trading session on 21 September, NEPSE rebounded by 4.44% to 2,623.62, reflecting a short-lived relief rally as investors responded to political change and expectations of stabilization.

This pattern mirrors the initial volatility seen in Bangladesh and Sri Lanka, where sharp declines were followed by tactical rebounds once some clarity emerged. However, while these movements show that markets can respond positively to immediate signals of reform or accountability, the long-term trajectory of NEPSE will depend on future policies, fiscal management, and investor confidence. Without structural reforms and credible governance, short-term rallies are unlikely to translate into sustainable growth, leaving the recovery fragile and uneven.

### **Conclusion: Between Ruin and Renewal**

Nepal's September 2025 upheaval underscores how governance failures translate into economic instability. The costs are immense: billions in insured and uninsured losses, capital flight, weakened confidence, and a fragile stock market. Even Dashain has failed to revive sentiment.

If elections are held on time and reforms follow, Nepal may mirror Bangladesh's fragile stabilization. If not, fiscal mismanagement and instability risk pushing Nepal closer to Sri Lanka's path of systemic crisis.

The road ahead is uncertain. The crisis has revealed deep vulnerabilities but also an opportunity: to rebuild institutions, restore trust, and transform a moment of destruction into a foundation for renewal.

**Disclaimer:** *Investment in markets has its own risks. The information contained herein is based on analysis and on sources that we consider reliable. This Report is a proprietary document prepared by Himalayan Capital Limited (HCL)'s Research Unit. HCL does not assume any liability for any financial or other loss resulting from this report in consequence of any undertaking made based on this report.*

**Himalayan Capital Limited**  
IT Plaza, Kamaladi, Kathmandu,  
Contact: 01-5970675  
[www.himalayancapital.com](http://www.himalayancapital.com)  
[info@himalayancapital.com](mailto:info@himalayancapital.com)