



Nepal

Overview

The Federal Democratic Republic of Nepal is a lower-middle income, relatively small, landlocked state in South Asia. Since parliamentary democracy was restored in 2006 after a four-year period of monarchy, Nepal has faced political instability, with tensions between its far larger neighbors—India to the south and the People’s Republic of China (PRC, or China) to the north—largely defining its foreign policy. Congressional interest in Nepal has focused on oversight of U.S. assistance, including a Millennium Challenge Corporation (MCC) Compact, and the status of Tibetan refugees in Nepal. An interim government took power in Nepal after youth-led protests led to the resignation of the prime minister in September 2025. Following March 5, 2026, parliamentary elections, a new government took office on March 27, under Prime Minister Balendra Shah.

Background

Nepal is a country of approximately 30 million people that has undergone political transformations since 2006, when a 10-year-long armed insurgency by Maoist militants ended after claiming at least 13,000 lives. That year, Nepal’s king responded to weeks of pro-democracy protests by ending direct monarchical rule and reinstating parliament, which he had dissolved in 2002 (Nepal’s parliament had existed in various forms since 1948). Nepal became a republic with the abolition of the monarchy in 2008, and a new constitution was adopted in 2015, introducing a federal system and creating seven provinces. Nepal now has a bicameral legislature with 275 Members in the House of Representatives and 59 Members in the National Assembly, the body’s upper house. The prime minister serves as the head of government, and the indirectly-elected president serves a largely ceremonial role. Though democratization has not been smooth, Nepal’s government has brought former insurgents into the political system and Nepal experienced peaceful transitions of power through free and fair elections prior to the 2025 protests.

Nepal has three main geographic areas: the low-lying, agriculturally-productive Terai region bordering India; an intermediate central hill zone; and more mountainous parts of the country. Never colonized, Nepal was largely isolated until the early 1950s, and its difficult physical environment presents challenges for economic development.

U.S. Relations and Assistance

The State Department describes U.S.-Nepal relations as friendly. U.S. policy seeks to assist Nepal’s development as a “peaceful, prosperous, resilient and democratic society” by supporting “effective governance, promot[ing] political stability and economic development, decreas[ing] the country’s dependence on humanitarian assistance, and increas[ing] its ability to make positive contributions to

regional security and the broader global community.” Prior to the Trump Administration’s 2025 foreign assistance review and the effective closure of the U.S. Agency for International Development, U.S. assistance programs in Nepal focused on agriculture, democracy, human rights, good governance, education, the environment, climate change, gender equality, and global health. In 2015, a 7.8 magnitude earthquake near Kathmandu killed nearly 9,000 people; the United States provided \$130 million to Nepal for relief efforts. An MCC Compact with Nepal, signed in 2017, includes \$500 million to “spur investments, accelerate economic growth, and reduce poverty” by expanding Nepal’s electricity transmission infrastructure and improving its road maintenance regime. Nepal’s parliament ratified the Compact in 2022. Nepal has since committed an additional \$197 million—the largest up-front partner contribution in MCC’s history. A November 2025 amendment to the Compact further increased funding by \$50 million.

Thousands of Tibetans fled to India and Nepal following China’s annexation of Tibet in the 1950s. The Nepali government says it is hosting approximately 12,500 Tibetan refugees. Observers estimate 10,000 additional, undocumented Tibetans in the country. Congress appropriated \$13 million for Tibetans outside Tibet, with a portion of those funds being for programs to support Tibetans in Nepal, for Fiscal Year 2026.

Figure I. Nepal in Brief

Area: 56,956 square miles; about the size of Iowa

Population: 29.7 million (2024)

Religions: Hindu 81.2%, Buddhist 8.2%; Muslim 5.1%; Kirat Mundhum 3.2%; Christian 1.8% (2021)

Ethnic Groups: 142 castes/ethnicities (2021)

Government: Federal parliamentary republic with a bicameral legislature

GDP/GDP per capita: \$42.91 billion/ \$5,737 (PPP) (2024)

Multidimensional Poverty: 20.1% (2022)

Life Expectancy: 70 (2023)

Literacy: 69% (2019)

Major Exports: Soybean oil, palm oil, carpets and other textile floor coverings, cardamom, felt (2022)

Export Destinations: India 72%, United States 11%, Germany 2.5%, Turkey 2%, United Kingdom 1.8% (2022)

Data from the World Bank, the United Nations, and the Government of Nepal



Recent Political Developments

Shifting alliances among the country’s political elite have contributed to government instability since Nepal became a republic in 2008. Between 2015 and 2025, three men served as prime minister of Nepal across eight cabinets, effectively

rotating through the position as parliamentary coalitions shifted. At the same time, the country has faced persistent economic challenges.

In September 2025, youth-led protests broke out after the government banned 26 social media platforms for failing to comply with new regulations. The initially peaceful demonstrations, which tapped into broader disaffection with the country's political establishment and frustrations over corruption and nepotism, were overtaken by widespread unrest after police opened fire on protestors. Overall, at least 76 people were killed, and over 2,000 were injured. Prime Minister K.P. Sharma Oli resigned in response to mounting pressure, and an interim government was instated with a planned term of six months.

The March 5, 2026, elections delivered a repudiation to the political forces that had dominated Nepal's politics for almost 20 years. The Rastriya Swatantra Party (RSP), a relatively new, centrist formation, ran under the leadership of Shah, who had been elected mayor of Kathmandu as an independent in 2022. The RSP won 182 of 275 seats, two seats short of a supermajority, marking a significant shift in Nepal's parliamentary dynamics. Some analysts note that Shah has been "short on specifics" in terms of how he intends to govern. Upon taking power, the new government unveiled a 100-point framework for governance reform. How Shah approaches fighting corruption and pursuing accountability for the September 2025 violence may influence public sentiment toward his administration. Some observers forecast that his foreign policy will be pragmatic and centered on national interests.

Nepal's Relations with India and China

Nepal pursues an "independent" foreign policy based on non-alignment. Some observers have viewed Nepal as a buffer state between India and China. Nepal has historical ties with both countries, driven in part by geography and in part by shared religious and cultural traditions. India and China continue to seek more diplomatic and economic engagement with Nepal. The Nepali Ministry of Foreign Affairs describes the country's relationship with China as always having been "friendly and cordial." Nevertheless, Nepal has historically had closer ties with India.

India and Nepal have had a tradition of close coordination on issues of defense and foreign affairs, based on the 1950 India-Nepal Treaty of Peace and Friendship. Nepal is dependent on India as its primary source of imports and as its main export market, as well as for sea access through the Indian port of Kolkata. Nepal-India relations cooled after India unofficially blockaded Nepal in 2015 in response to Nepal's adoption of a constitution that India asserted did not adequately protect the interests of the Madhesi people, who live mostly in the Terai region and share cultural ties with India. Protesting what he called New Delhi's blockade and trade monopoly with Nepal, then-Prime Minister Oli signed a Transit and Transport Agreement with China in 2016, allowing Nepal to use PRC ports for third-country trade. Nepal-India tensions rose again in 2020 after Nepal issued a map including the Lipulekh, Kalapani, and Limpiyadhura regions as its territory, exacerbating a decades-old border dispute.

China has expanded ties with Nepal since 2015. China and Nepal held their first-ever combined military exercises in 2017, and the next month signed a Memorandum of Understanding on Nepal's participation in China's Belt and Road Initiative (BRI). Overall progress on the 10 BRI projects outlined by Nepal and the PRC has been described as "glacial." Nepal's government has not publicly commented on reported PRC encroachment—such as unlawful patrolling and construction—into Nepal's PRC-bordering Humla district.

Economy

According to the World Bank, the reduction of Nepal's poverty rate from over 55% in 1995 to 0.37% in 2022 was "remarkable" but occurred "without transformative domestic growth, investment, or job creation." The World Bank assesses that slow growth stemming from structural weaknesses in the private sector and high youth unemployment have made labor migration a "primary livelihood strategy" for Nepalis, an estimated 1.7 million of whom work in the Middle East. Foreign remittances equaled 26% of GDP in 2024. The new RSP government faces a range of economic challenges, including high youth unemployment, the return of migrant workers from Persian Gulf states and disruptions to remittance flows due to U.S. and Israeli military operations against Iran, and energy shortages.

Human Rights, Trafficking, and Migrant Workers

According to the State Department, major human rights concerns in Nepal include credible reports of "arbitrary or unlawful killings; torture or cruel, inhuman, or degrading treatment or punishment; arbitrary detention; serious restrictions on freedom of expression and media freedom, including violence or threats of violence against journalists and unjustified arrests of journalists; and trafficking in persons, including forced labor." In its 2025 Trafficking in Persons Report, the Department placed Nepal on the "Tier 2 Watchlist," judging that it "does not fully meet the minimum standards for the elimination of trafficking" but noting "significant efforts to bring [Nepal] into compliance with those standards." Many Nepalis working abroad are subject to harsh conditions, abuse, and exploitation.

Congressional Interest

Congressional engagement on Nepal has included supporting democratic institutions, promoting regional stability, alleviating poverty, promoting human rights and sustainable economic growth, supporting Tibetan refugees, and helping build resilience to climate change and natural disasters. A Congressional Caucus on Nepal, formed in 2011, has 11 members. Some Members of Congress have supported programs to promote and preserve Tibetan culture and language in the refugee and diaspora Tibetan communities in Nepal and to assist in the education and development of the next generation of Tibetan leaders.

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IF10216

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