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Issue Brief

Nepal's Coalition Shifts: Domestic and Foreign Policy Implications

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S*ummary*

The March 2024 changes in Nepal's ruling coalition marked the third alteration within a span of two years since the parliamentary elections held in November 2022. These changes have had significant domestic and foreign policy implications.

Nepal’s brush with representative politics has been marked by aborted democratic experiments, monarchical assertions, Maoist insurgency, *jan andolans* (people’s movements) and unending political drama caused by its leaders of all hues, ready to sacrifice the interests of the nation for acquiring power through manipulation of the system. Frequent changes in governments have led to multiple crises shattering the hopes of the people for progress and development, fuelling instability and turmoil in society from time to time.

On 4 March 2024, Prime Minister Pushpa Kamal Dahal ousted his year-long coalition partner, Nepali Congress (NC) and inducted Communist Party of Nepal-Unified Marxist Leninist (CPN-UML) along with smaller parties as his allies forming a new coalition to stay in power.¹ The shift in the ruling coalition marked the third alteration within a span of two years since the parliamentary elections held in November 2022.

A Troubled Democratic Journey: The Past and Present

In the mid-18th century, modern Nepal emerged under the Shah dynasty, which established an absolute monarchy. From 1846 to 1950, the Rana dynasty was in power. In 1950–51, a nationwide uprising ousted the Rana regime, leading to Nepal’s first democratically elected government within a monarchical set-up. However, King Mahendra dissolved the parliament in 1960, ushering in three decades of authoritarian rule under the party-less Panchayat System.²

In 1990, the first People’s movement (Jan Andolan I) restored multiparty democracy, but issues persisted. The situation was worsened by the Maoist insurgency in 1996, driven by popular grievances of poverty and inequality, leading to civil war until the Comprehensive Peace Accord was signed in November 2006. Finally, the second People’s movement (Jan Andolan II) in 2006 abolished the monarchy, establishing Nepal as a ‘Federal Democratic Republic’ in 2008, with a new constitution in 2015.³

All in all, over 70 years, Nepal has had seven constitutions, marred by conflict, political instability, factionalism and violent protests, influencing its internal politics. Nepal witnessed six constitutions (in 1948, 1951, 1959, 1962, 1990 and 2007) marking the incremental progress in democratic governance in the country from

¹ [“Prime Minister Dahal Set to Change Coalition Partners, Pick New Ministers”](#), *The Kathmandu Post*, 4 March 2024.

² Deepika Dhakal, [“Nepal’s Road to Democracy: A Reflection”](#), *Friedrich-Ebert-Stiftung Asia*, 23 February 2024.

³ *Ibid.*

limited democracy under the Ranas through constitutional monarchy and republican democracy.

The 2015 constitution recommends elections for the House of Representatives and provincial legislatures through a mix of First-Past-The-Post (FPTP) and Proportional Representation (PR) systems. There are 265 seats in the lower house at the national level out of which 165 seats are elected from single-member constituencies on FPTP basis, while rest 110 seats are allocated under PR.

Since 2015, the NC under Sher Bahadur Deuba, the CPN-UML led by KP Sharma Oli and the CPN-Maoist Centre led by Pushpa Kamal Dahal (Prachanda) have formed coalition governments, taking smaller parties as partners. The federal coalitions have typically involved CPN-Maoist in alliance with one of the other two main political parties—CPN-UML and NC— who have not formed any alliance between them so far and always tried to exploit divisions within the ruling coalition.⁴ Thus, since 2015, Nepali politics has been characterised by political opportunism, with Prachanda's party playing a pivotal role in the ruling coalition.

The Outcome of 2022 Parliamentary Elections

The federal and provincial assembly elections took place in November 2022. In the lead-up, the NC and CPN-MC formed an electoral alliance, whereas other political parties like CPN-UML, CPN-Unified Socialist (CPN-US), Rashtriya Swatantra Party (RSP) and Rashtriya Prajatantra Party (RPP) contested independently. The NC and CPN-MC had come together to counter CPN-UML leader K.P. Sharma Oli's policies, during his prime ministership (February 2018–July 2021).

Following the elections, out of 275 seats, NC secured the highest number with 89 seats, followed by CPN-UML with 78 seats, and CPN-MC with 32 seats. The elections witnessed the rise of the Rashtriya Swatantra Party (RSP) led by journalist Rabi Lamichhane, a youth-centric party formed in July 2022. They utilised social media and grassroots campaigning to appeal primarily to urban and educated youth. The party did not espouse any specific ideology and campaigned for Nepal's national interests and against corruption.⁵ They secured 20 seats, making them the fourth-largest party.

⁴ Santhosh Sharma Poudel, [“Nepal’s Prime Minister Dahal Changes Partners Mid-stream”](#), *The Diplomat*, 13 March 2024.

⁵ Aarushi Gupta, [“Assessment of the Nepal Elections 2022”](#), Vivekananda International Foundation, 13 February 2023.

SN	Political Parties	FPTP	PR	Total
1.	Nepali Congress (NC)	57	32	89
2	CPN-UML	44	34	78
3	CPN -MC	18	14	32
4	CPN-US	10	--	10
5	Rastriya Swatantra Party (RSP)	08	13	21
6	Rastriya Prajatantra Party (RPP)	07	07	14
7	Janata Samajwadi Party (JSP)	07	06	13
8	Lokantantrik Samajwadi Party (LSP)	04	--	04
9	Nagarik Unmukti Party (NUP)	02	--	02
10	Nepal Workers Party and Peasants Party (NWPP)	01	--	01
11	Rastriya Janamorchha (RJ)	01	--	01
12	Janamat Party (JP)	01	05	06
13	Independent	05	--	05
14	Total	165	110	275

Source: [Election Commission of Nepal](#). National Parties are marked in green.

Since no party could secure a majority, it resulted in a hung Parliament. The NC which emerged as the single largest party was expected to form the government. However, the power dynamics shifted dramatically, when Prachanda asserted his claim to be the prime minister. When NC refused to support him, he aligned with the CPN-UML and won the support of five other smaller parties. Prachanda was finally sworn in as the 38th Prime Minister on 26 December 2022.⁶

However, within two months, by February 2023, disagreements over the selection of the President emerged as the primary catalyst for the collapse of CPN-MC and CPN-UML coalition. Prachanda supported NC leader Ram Chandra Poudel over his ally, CPN-UML's candidate, Subas Chandra Nemwang as president.⁷ This discord paved the way for a coalition with the NC, which continued for the next 15 months.

The March 2024 Political Realignment

Fast forward to March 2024, PM Prachanda yet again expelled his year-long coalition partner, Nepali Congress (NC), and inducted CPN-UML, along with RSP and Janata

⁶ [“President Appoints Pushpa Kamal Dahal as Prime Minister”](#), *Kathmandu Post*, 25 December 2022.

⁷ [“Political Upheaval Brews in Nepal: Report”](#), *Nepal News*, 6 March 2023.

Samajbadi Party (JSP).⁸ Together, they have entered into an eight-point agreement aimed at addressing governance, development and social justice. The agreement underscores the urgency of adopting transitional justice legislation, implementing federalism-related laws, formulating a common minimum program to steer national policies, and maintaining balanced international relations.⁹ Crucially, the agreement does not mention details of the power-sharing arrangements that made the coalition possible.

Examining the reasons for the division, it appears that internal divisions within the coalition parties outweigh external interventions. In early 2024, the coalition government in Nepal faced significant internal tensions, particularly between Prime Minister Prachanda and then Finance Minister Prakash Sharan Mahat of the NC. PM Prachanda criticised Mahat’s approach to addressing the nation's economic challenges.

Prachanda's attempts to convince NC leader Sher Bahadur Deuba to replace underperforming ministers, including Mahat, was met with staunch resistance which intensified the strain within the coalition.¹⁰ Further discord arose during the process of election to the chairman of the National Assembly (the upper house). Prachanda’s party, the CPN-MC, refused to support NC's candidate, Krishna Prasad Sitaula, creating a significant rift over this key appointment.¹¹ This disagreement underscored the lack of unity and cooperation within the coalition, highlighting the fragile nature of the alliance.

Additionally, during the NC's Mahasamiti meeting (19–22 February 2024) at Godavari, Lalitpur, two critical developments exacerbated internal tensions. Firstly, Gagan Thapa, a prominent NC leader, opposed the formation of pre-election alliances, a stance that contradicted the Maoist Centre’s strategy for the 2027 general elections. Secondly, discussions within the meeting suggested a potential ideological shift, with nearly half of NC central committee members (1,063 out of 2,300) advocating for the restoration of a Hindu state.¹²

Besides, Prachanda's decision was also driven by personal ambitions and considerations for his party's future. The CPN-MC and NC coalition would have

⁸ Rashtriya Samachar Samiti, “[Ruling Coalition Partners Reach Eight-point Deal](#)”, *The Himalayan Times*, 4 March 2024.

⁹ Ibid.

¹⁰ Kamal Dev Bhattarai, “[Explainer: Why Did Nepal’s PM Suddenly Change His Coalition Partners](#)”, *The Wire*, 7 March 2024.

¹¹ Ibid.

¹² Sanjeev Satgainya, “[Nepal’s Communist Bloc: New Coalition, Old Politics](#)”, *The Hindu*, 10 March 2024.

limited his tenure to one more year after which the prime ministership would have passed on to NC. But forming a new coalition could extend his leadership by three more years. This strategy, along with the NC's decision to adopt an independent course in the next elections in 2027, prompted Prachanda to align with KP Sharma Oli, securing his political future and that of his party. Finally, the NC was frustrated by the selective targeting of its leaders, including Bal Krishna Khand, in corruption scandals like the fake refugee case.¹³

Reasons for Chronic Political Instability

The instability of coalition governments in Nepal can be attributed to several key factors, including a complex electoral system, personal ambitions of political leaders, and external pressures. The mixed electoral system in Nepal, which combines single-member constituencies and proportional representation, has led to extreme political fragmentation and the proliferation of political parties. In Nepal, a party only needs 3 per cent of the total valid votes to gain a PR seat and become a national party, allowing even smaller parties with a relatively low vote share to secure parliamentary representation. This multiplicity of parties vying for seats increases the likelihood of coalition governments, as no single party is likely to achieve an outright majority.

While the PR system aims to address social inequality through inclusivity, it inadvertently results in a fragmented political landscape. Most political parties are also faction-ridden, which stands in the way of their developing a common political agenda. Such fragmentation complicates consensus-building on critical issues such as federalism and socio-economic policies. While the system aims to address social inequality, its implementation has resulted in governance challenges. Proposed electoral reforms, like adopting First Past the Post (FPTP) for the lower house and proportional representation for the upper house, may alleviate some of these issues.

Personal ambitions further exacerbate instability as political leaders often prioritise their own craving for power over striving for collective interests. For example, Prachanda has switched alliances six times in the last seven years to protect himself from arrest and stay in power, as he faces charges of war crimes. In 2023, he admitted to his involvement in the death of nearly 5,000 people during the Maoist Insurgency. Additionally, he was acquitted in the Cantonment Corruption Case, where Maoist leaders were accused of embezzling billions of Nepali rupees.

¹³ [“Deuba Under Pressure to Pull Out of Coalition”](#), *The Annapurna Express*, 21 September 2023.

External actors or foreign powers have also exerted pressure on the coalition governments to advance their agendas, further straining coalition governments and impacting their stability and effectiveness. Together, these factors have created a volatile political environment in Nepal, suggesting that electoral reform and a shift towards collective governance is the only way out.

Impact of Unstable Political Coalitions

Internal Politics

The shift in coalition partners at the federal level has caused significant disruptions at the provincial level too. Despite constitutional autonomy, provincial leadership has had to adhere to decisions made by central leaders due to the centralised structure of political parties.

Prior to the coalition shift, the Nepali Congress led provincial governments in Koshi, Gandaki, Lumbini, and Sudurpaschim provinces, with its members serving as chief ministers. However, the shift in coalition has led to challenges in government formation in these provinces. In Sudurpaschim and Gandaki, government formation has been stalled by court cases filed by opposition parties challenging the appointment of the chief ministers.¹⁴ In Koshi, Chief Minister Kedar Karki’s refusal to resign has complicated government formation despite changes in the national coalition.¹⁵

Moreover, frequent changes in federal governments disrupt house sessions, delaying the enactment of crucial bills. For instance, the Nepali Congress has obstructed House proceedings and demanded that a parliamentary committee should investigate allegations of a cooperative scam by Deputy PM and Minister for Home Affairs Rabi Lamichhane. Despite efforts from Prachanda, leaders from major political parties have failed to resolve the parliamentary deadlocks, delaying crucial bills like the Transitional Justice Bill, which has been pending for 17 years, denying justice to thousands of victims of Nepal’s Maoist Insurgency.

Beyond political issues, the country’s economy is in a state of free fall. According to the World Bank, Nepal’s GDP growth has averaged around 4.2 per cent since 2008, well below the 7 per cent needed for significant developmental transformation.¹⁶ The

¹⁴ [“After Gandaki, Government Formation in Sudurpaschim Challenged in Court”](#), *The Kathmandu Post*, 22 April 2024.

¹⁵ Purushottam Poudel, [“Koshi CM Karki Refuses to Quit, Dismisses Need for Floor Test”](#), *The Kathmandu Post*, 8 May 2024.

¹⁶ [“Nepal Development Update”](#), *The World Bank*, 6 October 2022.

Ministry of Finance's economic survey data shows a substantial increase in the trade deficit, rising from 14 per cent to over 50 per cent of GDP since 2008.¹⁷ Moreover, this modest growth heavily relies on remittances rather than sectors like tourism or export-oriented industrialisation. Consequently, there are insufficient employment opportunities, especially for the youth, leading to a mass exodus of approximately 6,00,000 working-age citizens annually seeking opportunities abroad.¹⁸

External Geopolitics

The shift in coalition partners in Nepal has prompted geopolitical competition between its two immediate neighbours, India and China. Both have significant interests in Nepal, driven by strategic, economic and geopolitical considerations. India aims to maintain influence in Nepal to safeguard its security interests and ensure stability along its northern border. On the other hand, China views Nepal as a key component of its Belt and Road Initiative (BRI) and aims to strengthen economic ties and expand its geopolitical influence in the region.

While the new coalition assures that it would follow a balanced foreign policy, whenever the major left parties, CPN-MC and CPN-UML, form an alliance, rumours in Kathmandu often give rise to speculations about growing Chinese influence. It is also true that China is no longer indifferent to internal politics within Nepal. For instance, in 2018, Beijing actively advocated merger of the Oli and Prachanda-led communist parties and formation of the Nepal Communist Party (NCP). It allegedly backed efforts to maintain unity within the NCP amidst internal disagreements.

However, former Prime Minister and CPN-UIML's chairman KP Sharma Oli asserted that China had nothing to do with the recent change in coalition in Nepal.¹⁹ India views the ruling coalition change as an internal matter and has expressed its readiness to cooperate with any government in Kathmandu. China, on the other hand, has been seen to be attempting, in recent years to bolster strategic ties with communist forces in Nepal. Of late, it has been seen that Prachanda has tried to improve his party's relations with Chinese leadership.

Two months into the new coalition, several significant developments have unfolded. One of the three Deputy Prime Ministers in Prachanda's cabinet and CPN-MC leader, Narayan Kaji Shrestha, undertook an official visit to China shortly after assuming office in March, resulting in the decision to immediately finalise a bilateral agreement to implement the Belt and Road Initiative (BRI). Subsequently, in mid-April, Dev

¹⁷ [“Economic Survey 2022/23”](#), Ministry of Finance, Government of Nepal, 13 March 2024.

¹⁸ Kiran Paudel, [“Nepal's Economy and Federalism”](#), *The Kathmandu Post*, 2 February 2024.

¹⁹ [“China Had No Role in Change of Ruling Coalition, UML Chief Oli Clarifies”](#), *The Kathmandu Post*, 13 March 2024.

Gurung, the general secretary of CPN-MC, undertook a 10-day visit to Beijing, engaging with Liu Jianchao, the minister of the International Department of the Communist Party of China Central Committee (IDCPC).

China has also sought to oblige Prachanda with whatever concessions it can offer while expressing China's opposition to any third-party activities in Nepal directed at China. China announced the exemption of regular visa fees for all Nepali travellers effective from 1 May 2024. Moreover, during a recently concluded Investment Summit in Kathmandu, China sent a delegation of 300 members, surpassing the approximately 200 Indian delegates present. This is a marked departure from China's previous show of apathy towards the 2023 investment summit under the NC-led government, indicating heightened Chinese investments and involvement in Nepal in the foreseeable future.

It is imperative to mention here that India remains Nepal's principal trading partner and the largest source of foreign investments. Approximately two-thirds of Nepal's merchandise trade and around one-third of trade in services are conducted with India. In January 2024, India and Nepal also signed a long-term agreement for the export of power, underscoring the enduring importance of the Indo-Nepal economic relationship.²⁰ Despite concerns about the coalition leaning more towards China, the positive trajectory of the Kathmandu–New Delhi bilateral relationship will persist regardless of the ruling party. Nonetheless, India may encounter obstacles in achieving smooth cooperation and may experience delays in delivering projects funded or invested by India.

Conclusion

With Deputy Prime Minister Upendra Yadav and Minister of State Dipak Karki, both from JSP-N, resigning in May 2024, there appears to be no end to political instability in Nepal. This is despite PM Dahal winning a vote of confidence with 157 votes in the 275-member House of Representatives, the fourth such vote in 16 months.²¹ With the current PM declaring himself an agent of “upheaval”, advancements towards achieving stability will likely be futile. Hence, while Beijing could attempt to make further inroads into Nepal, India should not perceive Nepal as a lost cause and stay engaged with whichever party or coalition comes to power in Kathmandu in the days to come.

²⁰ Yubaraj Ghimire, “[India, Nepal Sign Power Pact, MoU in Renewable Energy](#)”, *The Indian Express*, 5 January 2024.

²¹ “[Nepal PM Prachanda Wins Vote of Confidence in Parliament](#)”, *The Hindu*, 20 May 2024.

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