

Reshaping the Future of Nepal's Economy

Anjeela Pradhan (Gorkhaly)²

Abstract

Nepal's economy has not been of any great success and satisfactory. Nepal has encountered inherent development constraint, which includes poverty; widening income inequality; unemployment and underemployment; rise in leisure class; decrease in production and productivity, capital flight; extensive corruption; absence of rule of law and order; institutionalized crime, BOP deficit, environmental degradation etc. The failures in economy have been more than the achievements and the problems created have been more than the problems solved, so ordinary people are unable to get the fruit of development. In these years every one use to feel development works do not seem satisfactory related to rapid increase in the economic problem normally day by day plus especially after the pandemic. However, it does not mean Nepal's economy is heading towards wrong direction and we should abandon the path of economy. But the pace of heading is slow. So, for the reshaping the economy the Government need to be more liberal as well as strict where production, income and employment can be increased and be more watchful in disciplining both private and public sector and use of PPPs model for improving its efficiency especially in agriculture sector.

Keywords: per capita income, public private partnership

Background

Nepal has been declared Federal Democratic Republic with seven states by its Constitution of 2015. It is further divided into 753 local levels including 460 Village Municipalities, 276 Municipalities, 11 Sub-metropolises and 6 Metropolises with 77 administrative districts (CBS, 2018). Around 79.85 percent of the populations of Nepal live in rural areas and the remaining 20.15 percent in urban areas (Macrotrends, 2020). Many political and economic changes have taken place in the history of Nepal during past decades. The political changes in Nepal in remarkable speed. Nepal has undergone a radical political transformation since 2006 i.e., dramatic changes marked by the end of

² Gorkhaly is Associate Professor of Department of Economics, Ratna Rajyalaxmi Campus, TU.
Email: anjeela_05@yahoo.com

the civil war and abolition of the monarchy. Nepal inherited a crippled economy from the Rana regime and continues to be (Pyakurel, 2013).

Nepal's masses are steeped in poverty both in rural and urban areas, its agriculture is in back – geared and industry is in bad shape. There was wide spread unemployment in the all sectors of the economy, price level is rising continuously etc. All these problems helped to make Nepal to be grouped on low-income countries within the third world country not even the developing economy.

Whatever political changes have taken place; economic performance of the country has remained less than satisfactory. Nepal has remained one of the world's poorest countries, with seven million Nepalese lacking adequate food or basic health and education. The majority of Nepalese have continued long-suffering with their rural lives. So, the purpose of this article is to get the over view picture of Nepalese economics before and after the March 24 i.e., Lockdown which is only deteriorating not alarming. As precaution is better than cure, though actual fact the situation is not so desperate, we need to think about betterment of the economy. I have suggested some of the necessary strategies Nepal need to follow for reshaping the future of Nepalese Economy. This paper is prepared without inclining in any group or political party, but only through the experience, literature review and knowledge keeping in the mind of one and only of people's benefit. This paper is written with keeping in the mind of one of the French Philosopher's sayings "the one and only religion of mankind is and always has been hope i.e., being optimistic".

Objectives:

- To give the overview current economic picture of Nepal before and after the lockdown (March 24, 2020)
- To suggest strategies to reshape the Nepal's Economy.

Methodology

The writing is specially based on the secondary data based on economic surveys published by MOF and other literature reviews and descriptive analysis is done by comparing the Nepalese economy before and after the pandemic.

Overview of Current Economic Picture of Nepal (Before March 24, 2020)

Before the Nepal Government announced a nationwide strict lockdown on March 24 to protect its people from corona virus, a majority of the macroeconomic indicators have remained satisfactory as economic activities in all production sectors have remained high, economic growth rate is expected to be 7 per cent during this Fiscal Year.

Gross domestic product per capita has reached US \$ 1,085 in fiscal year 2019/20 (MOF, 2019). The disposable per capita income has increased to \$ 1388 from \$1364. Poverty has gradually decreased due to factors like high economic growth, investment on social and economic infrastructure and increment in the flow of remittance. Handfuls of the Nepalese people are enjoying the income of the developed countries people. But the proportion of employed population below \$1.90 purchasing power parity a day is 12.5% (ADB, 2017). Absolute poverty was 18.7 percent in 2018/19.

In 2018/19 as Nepal's overall economic activity has been encouraging in the fiscal year and the annual GDP growth rate achieved of 7 percent which is the highest recorded growth in the last ten years since FY 1993/94. Economy has expanded as a result of increase in agricultural production due to favorable monsoon, speed up in reconstruction works and resolution of energy crisis. Likewise, additional factors contributing in the expansion of economic activity include the commercialization of agriculture, stability-oriented politics, reduction in closures and strikes, and reform in government policies and programs (MOF, 2018).

Nepalese economy is in the stage of structural transformation. Contribution of agriculture sector (28.2 percent) and industrial sector (13.7percent) in GDP is declining, whereas share of service sector (58.1percent) increased (MOF, 2019), which is not a good sign. The service sector only consumes the goods produced by agricultural and industrial sectors; means do not produces the goods but only flows the income in the economy which increases the purchasing power. This again tends to increase inflation; the import and it arise the BOP disequilibrium.

Agriculture, the backbone of Nepalese economy, has provided direct employment to about two third of the population of working force. Though the proportion of population depending on agriculture for livelihood continues to be two third of working

labor force, contribution of the agriculture sector to the economy is declining. In spite of sizeable of the working force engaged in agriculture, the motive of production is still far from being commercial; their main objective of production is to meet their own needs rather than to sell in market. This sector has not developed to the extent desired level for failing to link these sectors with other sectors of the economy. In rural area, especially the outflow of men and the inflow of remittances have made Agriculture sector suffered in two ways -- Firstly there is less labour farm available and we can see productive agricultural farms left uncultivated. Secondly remittance earner's families do not consider agriculture as a dignified occupation. Whereas in urban sector migration there used to be population pressure on land and small land holding decreased the agro productivity.

Human capital level is also lower, though it is difficult to measure the level of human capital; however, it can be indicated with the statistics about education, health etc. Better education system and the proper health conditions are vital to grow the economy in future. Research has shown that the rate of return is highest on the investment in education, particularly in primary education. This tends the economy to grow faster in the future. In economic survey (MOF, 2019), it is stated that as per the statistics of Academic Session 2018, net enrollment rate at primary level (grade 1-5) has reached 97.1 percent, 93.1 percent at basic level (grades 6-8) and 47.6 percent at secondary level (grades 9-12). The contribution of education and health sector to GDP has reached to 7.1 and 1.7 percent in fiscal year 2018/119.

Nepal has less and poorer level of physical capital, which includes factories, infrastructures like road, railways, schools and hospital etc. which has decreased the production potentiality.

By mid-March 2020 the total length of road has extended to 34,347 Km which was 32,879 Km in 2018/19. The operating time of the airport has been expanded to 22 hours per day. No. of international airlines operating flights to Nepal was 29 till 2018/19 and reached to 30 by mid-March 2020. No. of airports operating in all season are 35. The other means of transportation, Nepal's railway line has total length of 56 km out of which only 5 km is currently operating. By mid-March 2019, the total number of telephone users has reached to 407 million, By February of FY 2018/19, the total number of mobile phone users has been 407 million and internet users are 187 million. Mobile facility has

been expanded to all 77 districts of the country, and its access has covered about 90.0 percent of the total land area.

In case of External Sector, after the adoption of trade liberalization, Nepal's trade deficit has continued to rise with the increase at higher rate since last few years. But in this fiscal year Due to recent adoption of double-edged strategy of substituting imports and enhancing exports by Nepal government, the growth rate of merchandise import has been decreasing and export sector has been improving during the last few months of FY 2018/19. By the mid – March 2020 merchandise exports have increased by 12.9 percent whereas imports have decreased by 7.5 percent, which helped to reduce down the merchandise trade deficit and betterment of BOP with 36 billion 610 million BOP Surplus and 1trillion 156 billion foreign currency reserve. Till mid-March of FY 2019/20, trade deficit has contracted by increased by 4.3 percent; Rs. 887.88 billion to 847.23 billion. The BOP recorded a surplus of Rs. 37.84 billion during mid-March of FY 2019/20 against the deficit of Rs. 59.99 billion during the same period of the previous FY. Current account balance had been in deficit of Rs. 124.93 billion till mid-March 2019/20 and during the same time of the previous FY it has been recorded the deficit of Rs. 191.49 billion. Remittance inflow recorded a notable growth of 23.4 percent to Rs. 582.19 billion during the mid-March of FY 2018/19. But in the same period of this FY 2019/20, it had increased by 1.8 percent to Rs. 592.42 billion. Total foreign exchange reserve has been US \$ 9.50 billion by mid- July 2019 and \$ 9.60 by mid – March 2020. Out of the total foreign exchange reserve, the share of reserves with Nepal Rastra Bank has been 86. 5 percent, and the share of Indian currency reserves to total reserve has been 22.3 percent by mid-March 2019. Considering the merchandise imports till the mid-March of FY 2018/19, the foreign exchange reserve of banking sectors is sufficient to finance the imports of goods equivalent to 10 months and imports of goods and services equivalent to 8.8 months, (MOF, 2018/19).

There is a rapid shift of population from the rural area to urban area and country to abroad known as migrants (includes brain drain as well as muscles drain). This both internal and external migration has a negative impact on the development of Nepal. There are insufficient farm labor and industrial workforce. Rural migrants often fail to get the job i.e., productivity in rural will may be low but zero in urban. Nepal is heavily

dependent on remittances, which amount to as much as 29% of GDP (USCIA, 2017) also according to the report of Department of Immigration of Tribhuvan International Airport 1500 plus Nepali youths migrate abroad daily to foreign job market. These two facts depict how severe is the situation of youth migration in Nepal. Though muscles drain will helps to bring the return in the form of remittance (nearly one hundred billion each year), it is used in unproductive sector which is most sensitive to justify. There is increment in consumption. With imbalance in import and export, existence of uncultivated land, trade deficit is prevalent and inflation has challenged Nepalese economy. Besides educated migrants (brain drain) not only provide their expertise in especially developed countries but settle there by discarding Nepali citizenship, sell their property and take it to their residence country to live in comfort i.e., capital flight as well as take their families and relatives also.

The financial sector mobilizes savings and allocates credit across space and time. An efficient financial sector reduces the cost and risk of producing and trading goods and services and thus makes an important contribution to raising the standard of living (Herring and Santo Mero, n.a.). Status of overall financial soundness indicators has been satisfactory while that of access to finance is improving. Financial sector has helped towards maintaining macroeconomic stability. Macroeconomic indicators have remained satisfactory as a result of satisfactory progress of the financial sector. Though number of Banking and Financial Institution has decreased, financial transaction has been expanded significantly along with the enhancement in financial sector accessibility. By the mid-March of 2020, there are all together 162 banks and financial institutions in operation including 27 Commercial Banks, 23 Development Banks, 22 Finance Companies and 89 Micro Finance Institutions. Similarly, one Infrastructure Development Bank is also in operation. Furthermore, 40 insurance companies, 34,837 Cooperatives, Employees' Provident Fund, Citizen Investment Trust and Postal Savings Banks are also in operation.

Foreign Dependency: In the time of Rana regime Nepal used to be like a closed economy which only depend on Great Britain in some extend and after the democracy of 1951, Nepal has to depend highly on foreign assistance both aid and grant to lead it in the path of development. Nepal received the foreign assistance. Over-dependency on foreign aid has made the people parasites.

Overview of Current Economic Picture of Nepal (Before March 24, 2020)

After the lockdown started Nepalese economy headed to the worst condition than before as almost all the economic activities has been completely halted. This lockdown has highly affected almost all the classes' and all the sectors of the economy of people though the degree is different. The outbreak has affected each and people's lives.

The impact has already started to surface in number of sectors like tourism, trade and production linkages, supply and health. Especially the entire service industries: tourism, aviation and hospitality sector have been hit hardly by the outbreak. All the businesses and movements shut down for three months. Even after lockdown has been loose the business is unable to be run smoothly. All the economic indicator like remittance inflows, private sector credit, capital expenditure and foreign trade is going down. "Remittance inflows declined by 6.1 per cent in the 10 months of the current fiscal year against an increase of 19.6 per cent in the same period of the previous year,". Similarly, the government revenue collection was just Rs. 16.1 billion in the tenth month of the current fiscal compared to Rs. 59.1 billion last year. Private sector credit mobilization witnessed a negative growth to -15.9 billion in May-June this year. Nepal's import also declined nearly by 50% compared to last year. The export trade also suffered badly. The country's export decreased by 65% in mid-May to mid-June respectively to last year. The trade deficit contracted because of lower imports; the current account deficit narrowed by 44.3 percent during the first half of FY2020. The export-import ratio increased to 8.0 per cent in the review period from 6.7 per cent in the corresponding period of the previous year.

A prolonged outbreak of COVID-19 is likely to affect growth significantly with a further deceleration or contraction in services and industrial production. So, economic growth is expected to fall in Nepal to a range between 1.5 and 2.8 percent in FY2020 reflecting lower remittances, trade and tourism, and broader disruptions caused by the COVID-19 outbreak. Economic growth during FY2021 is also likely to remain subdued due to the lingering effects of the pandemic with some recovery expected in FY2022, (IBRD, 2020).

Meanwhile, foreign direct investment (FDI) has increased by 84% in the 10 months of this fiscal against the last year. Balance of Payments (BOP) remained at a surplus of Rs. 120.90 billion against a deficit of Rs. 68.20 billion of the previous year; meaning that outflow of money from the country is lower than what the country is earning in this year than previous year. The trade deficit narrowed down by 14.2 per cent in the ten months of 2019/20, such deficit had expanded by 19.7 per cent in the same period of the previous year. Narrowed trade deficit, improvement in foreign direct investment leads to a BOP surplus of Rs 120.9 billion in first 10 months of current FY 2019/20. Foreign exchange reserves and current account witnessing surpluses. The total foreign exchange reserves, reserves held by NRB increased by 20% in mid-May 2020 than mid-July 2019. According to the NRB, the reserves can support 10.8 months of imports of goods and services. This year also there was loss in Current Account but the loss has been decreases nearly by 50% than previous year. Meanwhile, the inflation rate stood at 5.83% in the first ten months, down from 6.74% in the first nine months of the current fiscal year, (NRB, 2020).

Due to the pandemic everywhere, economic activities have slowed down and world economy in 2020 is going to sink by 3 percent according to IMF's prediction. So, there is and will be the return of migrated population both sellers of muscle as well as brain. As per the analysis by the Asian Development Bank, the outbreak of this deadly disease will hit almost every sector of the Nepali economy, shaving up to 0.13 per cent off the gross domestic product and rendering up to 15,880 people jobless, (ADB, 2020). About 31.2 percent of the population that are estimated to live between \$1.9 and \$3.2 a day face significant risks of falling into extreme poverty, primarily because of reduced remittances, foregone earnings of potential migrants, job losses in the informal sector, and rising prices for essential commodities as a result of COVID-19. It is forecasted that GDP of Nepal will be 2.3 and 3.1 in 2020 and 2021.

Strategies for Reshaping the Future of Nepalese Economy

Nepal experiences inherent development constraints such as hyperinflation; low production and productivity; rise of leisure class, widening income inequality, rising unemployment, absence of the rule of law etc. Additionally, the emerging structural

problem in trade, foreign direct investment, poverty etc has affected Nepal's growth potential negatively (Pyakurel, 2013).

Every people must be able to live better life. Poverty, inequality and underdevelopment in one place is the threat to other, we need to think about reshaping of Nepal's economy for the future generation as well as future of the world economy also.

The above scenario especially after lockdown situation shows that Nepal has a challenge to reshape the future of its economy and there is a pressing need to reshape the future of the Nepalese economy, which helps to achieve sustainable, inclusive, balanced growth of Nepal with greater equity, reduced poverty, and guarantee of competitiveness, improved social development, good governance, and a clean and healthy environment.

Now which is the key sector that should be emphasized to uplift the economy? To reshape the Nepalese economy in future, after the lockdown, here I put few strategies that Nepal needs to include within the new policy to revive the economy. In my opinion in this situation even expenditure on tourism that is considered never ending and ever-increasing business can't reshape the economy as tourist will not be able to come.

Agriculture

First and foremost, strategy a government should be the development of the agriculture sector. Agriculture in Nepal is a mode of living rather than a profitable profession. As long as agriculture remains merely subsistence in nature the country can't be prosperous. It is said that agriculture is tale of despair to tell. The situation must be change concentrating on commercialization, modernization and diversification of agriculture sector as the aim of long-term Agriculture Perspective Plan (1995-2015) to alleviate poverty. Here modernization in agriculture incorporates application of the latest technology, use of high yielding variety of seeds, chemical fertilizer, crop protection measures etc. which helps to increase the productivity. Commercialization is the production of agricultural crops for sale in the market, rather than for family consumption. It requires a thorough repair to make it an economic nature. Irrigation facility and other technical aids must be provided. Off season vegetable must be encouraged to produce whose value will be high. There is a need of Agriculture diversification; transforming itself from a supply-driven to a demand-demand scenario, which helps to increase income, employment and output, enhance export and reduce

import. Besides traditional food crop farming, there must be encourage cash crop, mix of crop, high value commodities like milk, fruits, vegetables, spices, asparagus, mushroom etc., off season vegetables, poultry farming, horticulture, livestock, fisheries, farm forestry, herbs production etc. (Gurung,2012).

Priority for agriculture will help to wipe the vulnerability of Remittance as it directly generates provides the employment opportunities at home for hundreds of millions of young people who are joining the labour market every year, so Nepalese people do not have depend on foreign employment specially in gulf countries. Similarly, it helps to correct the BOP deficit by increase in export and decrease in import of agricultural product. It also helps to bring political stability in the economy, etc. that leads Nepal in the path of development.

Education

We can develop our country by increasing the number of skilled, semi- skilled and unskilled human resources through education and training and providing the employment opportunity in nation and it help to increase the per capita income. Education is a basic human right and a significant factor in the development of children, communities, and countries. Education is most valuable factor to reshape the economy by helping to increase the income and leading a person from intergenerational poverty to prosperity. Education gives people the skills they need to help themselves out of poverty and moves toward the prosperity. If one gets education then s/he will be able to get to a better job than uneducated labor's work.

Especially education for women/girl helps to benefited to all the society (Summers, 1994). Chief economist of the World Bank and current top economic advisor for President Obama, Lawrence Summers, claimed that “educating girls’ yields a higher rate of return than any other investment available in the developing world.” The education also plays a great role in the development of agriculture. If education is given it can change the concept of people about agriculture i.e., it is also one of the occupations which uplift the std. of living, the students can perform better in the agriculture field, they can invent the new ideas which improve the rate of agriculture and their quality. Nowadays the nation gives a chance to the student to study about the agriculture which is very good process because if the new talent knows the advantages of agriculture in the

role of country, then they can solve all the problems in the field of agriculture if they study the agriculture. In this way education also helps to uplift the agriculture sector that helps to reduce the migration problem. And by this way if the agriculture of a country is healthy then that country can perform better in the competition of advancement in the world. Therefore, the education plays a great role in agriculture which is very important for the development of country. Similarly, if the leaders of a country are well educated and qualified then they can control all the system of that country very well. They can think positive and can compete with another country easily in the field of development and prosperity of a country.

Giving the education is same as giving fishing rod rather than fish i.e., empowering. Developing education sector is that strategy which helps to remove the gender, income inequality. It brings marginalized, minor and backward Citizens like children, youths, women, senior citizens, Madhesi, Muslim, Dalit, indigenous people, ethnics (Janajatis), physically challenged people and socially, economically and geographically backward communities into mainstream of the society by empowering them.

The present education system of Nepal is wholly theoretical, which has created the problem of educated unemployed. Proper attention should be paid to develop technical and vocational education. Higher education facility must be filtered; means only sharp brain person who wants to be engage in research should be provided the higher education and others has to divert in technical and vocational education according to the need of the economy as well as the liking of the person. Besides, education helps in the development of every field of life.

Here public health care is not as effective as private health care and the private health care is not affordable for everyone. Government should take extensive measures of having effective and affordable public health care which is accessible at every part of a country.

Infrastructure

Nepal is an infrastructure deficient country. To maintain current growth rates and meet demands for infrastructure, Nepal requires an additional investment which can be done through PPPs model (Public-private partnerships model). PPPs can help to close this

growing funding deficit and to meet the immense demands for new or improved infrastructure and service delivery in sectors like water, transport, and energy (among others). In countries with diverse and numerous needs, PPPs can fill gaps in implementation capacity as well as the scarcity of public funds.

Others

As corruption is a major threat of our economy, there should be immediate judgment and severe punishment for the corruption, which should dare people to get into the world of corruption

In case of bribery both giver and taker are responsible for such crimes. This should be considered as a huge crime and punishment should be severe and given to both. Then bribery will be eradicated. For rapid industrialization, Government should follow the policy of encouraging the cottage and small industry in the country.

Many migrated people will lose their jobs, they will be treated as second class citizens and they will be in a hard time mentally as well as physically and returns back to Nepal which directly and indirectly brings the problem of unemployment. This can be solved by redirecting their skill, knowledge and energy to strengthen the country's economic system. According to the experts returned peoples new skill and mindset could act as the "changing agent" of the economy. The outbreak of the COVID-19 has given the fresh challenges. Remembering the proverb "Success is an awful teacher and failure teaches you more" one can take advantage by engaging youths who are in the country as well as returned migrants and potential-to-return migrant in economic activities. The returned migrant's skill can be used in their specialization field and other options. Financial sector must be properly guided and watched.

Conclusion

It is believed that to reshape the future of Nepal's economy, Government with selfless, without political biasness must build a healthy system based on liberal and strictness in which health, education must be affordable and approachable to all the citizens. This will tend to develop the agriculture sector, tourism sector and all the sectors that reshapes Nepal's economy. The concentration on the development of Agriculture, education, tourism, infrastructure helps to uplift of the economy and achieve the challenges i.e., to achieve balanced and inclusive development by addressing

geographically between village and towns, mountains, hills and terai as well as on the basis of castes, groups and genders.

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