

# Impact Analysis of Inflation on Social & Psychological Aspects in Nepal

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## Abstract

*This paper assesses the impact of inflation caused by the earthquake and the pandemic that took place in 2015 and 2019 respectively. Both of the natural disasters affected the economic health of Nepal adversely. The article has uncovered the repercussion of both the hazards in the social and psychological lives of Nepalese people. The major objective of the research has been to explore the implications of inflation in social and psychological aspects of the people in general and children in particular. The behaviors of children primarily in the downtrodden families have been found rude and anti-social because of their exposure to the hardships and challenges faced by their parents in the aftermath of the earthquake and the pandemic. The paper has been drafted based on the secondary resources. The method as used is the mixed research design as the article consists of both qualitative and quantitative data. The main finding of the research is that the government failed to do two things in the aftermath to address the social and psychological implications of the events. The first the government should have reformulated the policies to mitigate the inflation and the secondary it should have allocated a separate budget for the underprivileged communities so that they could come to normalcy in the aftermath.*

**Keywords:** Inflation, effect, development, decision, purchasing power, consumer

## Introduction

Inflation plays a significant role in affecting the condition of economy of a country. Its impact is beyond the imagination on the financial status of developing countries including Nepal. The aspects that are usually affected by inflation are consumers' purchasing power, the interest rates in the banks, investors' decisions, and the economic growth of a society. Because of inflation, consumers compromise with both quantity and quality of the products and services available in the market. They lack purchasing power that forces them to consume low-quality goods. They cannot afford to buy healthy foods as well. Their living standard gets down and finally they look regressive rather progressive. The impact of inflation on commercial banks reflects in different forms. The most important

one is that the central banks are forced to control spending and borrowing for the stability of the prices. Consumers are badly affected by inflation as they are forced to control their economic activities. The higher the prices of the products and services in the market, the lower their interest is in consuming the things. This ultimately affects the psyche of consumers that they behave as if they are economically downtrodden. Their aspirations and interests get down. Indeed, inflation is a critical economic indicator that affects almost all aspects of economic activity ranging from policy making process to consumption.

## Discussion

The paper discusses the impact of inflation on social aspects of people in general and Nepalese people in particular. In developing nations like Nepal, inflation is a major worry that affects child care and mental health of children. Inflation can lead parents to work more; reducing the time they have for their children due to financial pressures. The economic pressure, in addition to the prevalence of poverty in Nepali households, has a direct impact on the behavior and mental well-being of children. Poverty within families can cause a lack of proper food, restricted medical assistance, and limited educational chances, leading to children suffering from depression, academic difficulties, and anxiety disorders. This research analyzes how increasing inflation affects Nepali households, specifically looking at the behavior and anxiety of children when their guardians are not present.

Even though inflation in Nepal has dropped from 7.82% to 4.4% in the last year, there is still uncertainty among the population, largely due to the 2020 pandemic-induced recession. During this period, social security programs provided minimal protection for employed individuals, resulting in widespread layoffs. According to the National Planning Commission, 708,000 people in Nepal have become unemployed because of Covid-19, either on a temporary or permanent basis. During the period when working remotely became common, employers started reducing benefits, implementing unpaid time off, and reducing hours worked. Many families continued to experience the repercussions of the pandemic, with little to no financial support from the government. This has led parents to work extra hours and even take on additional jobs in order to survive. Despite many challenges people in the aftermath were exposed to, they were bound to continue striving for better days.

The impact of the pandemic directly reflected in inflation that pushed the world in economic crisis in general and Nepal in particular. The inflation finally impacted on both social and psychological aspects of Nepalese households. Despite the government's attempts to assist marginalized groups with the Child Grant, which provides monthly cash transfer of Rs 532 per child (up to two children per family under five), this aid is insufficient to cover child-related expenses. Human Rights Watch reports that only approximately one-third of

children under the age of five currently receive the Grant, with only 6 percent of all children in the country benefiting from it. Many businesses fail to comply with the regulations set by the government of Nepal Department of Labor and Occupational Safety, leading to employees being paid less than 20,350 per month.

In the end, children's mental health is significantly impacted by parents being away for extended periods of time because of work obligations. Numerous studies show that a large number of mental illnesses begin in childhood and adolescence (Kessler, 2005). About 50% of neuropsychiatric disorders are believed to start by age 14. This is especially important in Nepal, where the proportion of children under 14 years old is 27.8% of the total population (Central Bureau Statistics, 2021). Because of financial difficulties experienced by families, parents frequently have to spend more time outside the home, resulting in adverse effects on their children's academic achievements and emotional health (Layte, 2017). The family disintegration was the immediate repercussion. Many male parents were forced to leave the country for foreign employment primarily India as they found easy to move there. Financial conditions of the family determined the household's progress and cultural practices as well. Because of the reduction in the purchasing power, Nepalese families were discouraged to celebrate the festivals and were bound to compromise with the low spending on the rituals and rites.

The connection between financial struggles within the household and behavioral issues in children is mainly attributed to the Family Stress Model (FSM). As per this model, financial strain negatively affects family dynamics and relationships, leading to lower quality interactions between parents and children and the emergence of behavioral issues in kids (Gibbons, 2023). The parents or guardians could not behave well with their children due to frustration caused by economic hardships. The impact of the financial crisis fell on the families in the urban settlement more than on the families in the villages. The latter could cope up with the challenges with the help of the fellow villagers but the people in the city suffered more. That is why, they could not maintain chemistry in connecting with their children. The results took the children's behavioral issues that can vary from conditions such as Attention-Deficit/Hyperactivity Disorder (ADHD), Oppositional Defiant Disorder (ODD), and anxiety disorders.

In the end, these problems may appear as difficulty concentrating, rebellious actions, excessive anxiety, and isolating oneself socially. Parents usually seek psychiatric help for their children, especially Nepalese boys, when symptoms like aggression start to appear, as issues like anxiety disorders, ADHD, and ODD may not be accurately evaluated (Adhikari, 2015). Boys typically exhibited more externalizing behavioral issues than girls, which are identified by behaviors like aggression, impulsivity, coercion, and noncompliance.

Afterwards, when children exhibit these behavior problems or mental health disorders, societal and cultural factors can worsen the situation. The Office of the Surgeon General states that cultural beliefs can greatly impact individuals' willingness to seek help, how they deal with challenges, the backing they get from loved ones and society, and their progress in treatment. In Nepal, people usually view disorders and behavioral problems with stigma. Stigma and discrimination continue to be major barriers preventing individuals in communities from seeking mental health treatment (Luitel, 2015). The mental health leads people to expressing unusual behaviors in society. The relationship between the personality growth and societal factors demonstrates individuals with the sound economy enjoy better mental and psychological health. Their interpersonal relations are healthy as well. The families have fewer issues regarding the conflicts and disagreements.

Furthermore, there is a lack of clinical psychologists making it difficult to access counseling or psychotherapy services. NGOs offer specific counseling services to specific groups, including conflict-affected individuals, human trafficking survivors, domestic and gender-based violence victims, and refugees, through trained para-professional counselors. Despite the lack of organized information regarding the management of mental health conditions by traditional or religious healers, these healers are commonly acknowledged as the main providers of mental health care within the community (Luitel, 2015). Nevertheless, if individuals suffering from disorders or behavioral conditions are not accurately diagnosed, the consequences can be serious, resulting in distress, disability, or even suicide without adequate treatment.

Yet, there is a deficiency of research in Nepalese communities, particularly in determining the timing and source of mental health issues in children and their impact on daily functions, hindering proper diagnosis. Although many communities do not view mental health as a significant health issue, there is a lack of awareness regarding how families perceive these symptoms and their impact on relationships (Adhikari, 2015). It is difficult to develop a successful intervention for these issues due to the absence of information. Ignorance results into ignorance or lack of information as well. The families cannot afford to get informed about the basics of life. Ignorance about the worldly affairs becomes a barrier to the social development of the people. Adhikari (2015) has stated that indicative signs of behavioral problems in Nepali children include enduring sadness, irritability, hyperactivity, and difficulty in making friends.

In reality, parents and teachers frequently fail to notice these indicators because they are unaware of mental health issues and are influenced by societal stigma. An example of a prevalent issue among children in remote areas of Nepal was behavioral problems like addiction, defiance, theft, as well as behaviors observed in interviews such as wandering

aimlessly, skipping school, and engaging in fights. In efforts to address these problems, verbal communication and interventions were scheduled; nevertheless, there were occurrences of physical discipline from community members as well as teachers and parents.

Because the majority of these behavioral issues and mental health issues originate from financial insecurity, it is the responsibility of different organizations to acknowledge and reduce these issues. Due to inadequate support from the community and a lack of societal systems to reintegrate them, some children with behavioral issues end up getting involved in more serious criminal activities. Additionally, being friends with and being close to peers engaging in anti-social behaviors can lead to child behavioral issues (Adhikari, 2015). Therefore, parents can assist in tackling these problems by engaging in open discussions with their children about financial matters, imparting resilience skills, and maintaining consistent routines.

Hence, schools and community support systems are essential in providing education, activities, and emotional support to children from disadvantaged backgrounds. Instead of promoting discipline through punishment, children can instead be provided with support and direction to improve. Furthermore, parents in low-income households face various stressors and obstacles, including economic strain, work-related challenges (juggling multiple jobs, unfavorable working environments, and irregular schedules) that may lead to ineffective parenting behaviors (Kessier, 2005). Hence, receiving professional counseling can assist both parents and children in managing their emotions related to financial stress.

According to the most recent Current Macroeconomic and Financial Situation Report from Nepal Rastra Bank, inflation in Nepal has climbed to 7.87% during the initial 10 months of the current fiscal year (FY) 2021/22. This has led to the highest level in six years. The inflation rate for food and beverages during the initial 10 months of the fiscal year was 7.13%, while non-food and services saw an inflation rate of 8.45%. According to the report, the cost of edible oil and ghee rose by approximately 25%, whereas the prices of fruits, dairy products and eggs, pulses, and tobacco products went up by 12.61%, 11.30%, 10.53%, and 9.70% correspondingly compared to the previous year. Likewise, the cost of transportation rose by more than 21%, while education increased by 11.64% year-on-years, within the non-food and services sector. The annual inflation rate over the past seven years is illustrated (Bajraacharya, 2022). Diverse effects of inflation led the country towards decline in different sectors. When all services and products got expensive, the people from the underprivileged communities suffered and are still facing hardship in Nepalese society.

Bajraacharya (2022) has further stated that the increasing inflation, especially impacting low-income families who allocate a higher portion of their earnings towards food, poses a greater obstacle to a comprehensive economic recovery. The drop in actual income is most evident in underdeveloped nations such as Nepal. This is because poverty is more noticeable among the most at-risk individuals, given that salary increases are still limited and fiscal assistance measures to lessen the effects of increasing food and fuel costs are also limited. As a result, an increase in food inflation would exacerbate food insecurity and drive more individuals into poverty as Nepal grapples with the effects of the pandemic. As of January 31, 2017, the 2016 Nepal Demographic and Health Survey revealed that 4.6 million individuals in Nepal were still facing food insecurity. Out of this population, 20% of households experienced mild to moderate food insecurity, 22% experienced moderate to severe food insecurity, and 10% experienced severe food insecurity. The numbers could increase even more because of the increasing inflation.

Moreover, Nepal Rastra Bank data shows an increase in annual imports of paddy and rice. During the fiscal year 2021/22, Nepal brought in grains, rice, and paddy valued at NPR 45.28 billion from primarily Indian sources. Several countries, such as India, have started implementing restrictions on the export of food grains due to increasing prices. India, having already stopped exporting wheat and sugar, is expected to take similar action with rice and paddy, potentially causing a food crisis in Nepal. Moreover, scarcities of necessary food items would also lead to a rise in illegal market transactions, forcing the average citizens to spend more on products.

These efforts ensure children stay well and succeed in school, no matter the economic challenges they face. Inflation can exacerbate feelings of inequality by frequently enlarging the wealth disparity. Social comparisons and perceived injustices that result can cause shame and low self-esteem, ultimately heightening the likelihood of mental health problems. A significant portion of Nepal's needs must be fulfilled through imports. When we bring in products from other countries, we are also bringing in inflation. Therefore, the increasing volume of imported goods in Nepal also brings imported inflation. Therefore, inflation caused by imports is another factor contributing to inflation in the nation. This is the main and widespread impact of inflation. Consumers experience a decrease in purchasing power when prices increase gradually over time since a fixed amount of money will buy diminishing amounts of goods.

Unemployment tends to decrease initially while inflation rises as a consequence. Observations from the past have shown a negative link between unemployment and inflation, which inspired the creation of the Phillips curve illustrating this connection. Increased inflation can lead to higher demand and lower real wages, resulting in increased

employment, at least temporarily. The cost of continuously high inflation will need to be paid eventually, leading to a difficult economic downturn that changes people's future predictions. Chronic underperformance in the economy will otherwise occur.

Consumers are the most affected group by price increases as inflation diminishes their buying power. Their funds have limited purchasing power, restricting their access to goods and services. The majority of buyers hesitate before purchasing expensive items like new appliances or cars during periods of high inflation. During these times, prospective home buyers may also face financial strain as increased prices lead to elevated interest rates, resulting in more costly borrowing. Inflation also has a negative impact on individuals with fixed incomes. Even people who are retired and receiving benefits from Social Security have been facing challenges and are forced to compromise with the low quality of living. They get cost-of-living adjustments on their benefits. However, their life declines. The gradual decrease in the quality of life can affect them adversely.

## Conclusion

Increased inflation has altered family dynamics and impacted children's mental health, exacerbated by parental absence, leading to anxiety and behavioral issues in children. Ignoring these obstacles may result in lasting effects like decreased academic achievement, mental health issues, and an increased likelihood of substance abuse or, in severe situations, suicide and criminal behavior in impacted children, presenting significant risks to Nepal's future societal health. Many children could experience different types of mental health issues, potentially due to financial struggles and cultural factors, necessitating intervention. Ultimately, with increased support from parents, communities, and policymakers, the problems and anxiety experienced by children can be reduced. Inflation is an indicator of how fast prices of products and services are increasing within a particular economy. Inflation may happen when prices go up because of higher production expenses like raw materials and salaries. An increase in consumer demand for goods and services may lead to inflation when customers are eager to pay higher prices for the product.

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