

Performance of Nepalese Economy : An Appraisal

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INTRODUCTION

Economic Development has become one of the most popular slogans in almost all the developing countries all over the world and we, Nepalese people, also are not the exceptions in this respect. But the appropriate determination of the way towards the path of development has become a very difficult and equally debated task, and the process of economic development itself has become complex. To attain higher rate of national income is generally taken as the important sign of development, but it can not be accepted as the single and sufficient requirement for the development of a country. Poverty elimination, general upliftment of the living standards of masses of people and expansion of education in each and every corner of the country with the elimination of illiteracy and ignorance should also be taken as the major dimensions of development phenomenon. Therefore, literacy rate, death and birth rates, life expectancy, percapita income, population above or below the poverty line etc. are the various elements which are considered to identify the position of country in the ladder of development. But, because the income growth is necessary to fulfill different needs of the people, it is necessarily a primary goal of development programme, and increase in investment in the productive activities to increase the income of a country is obvious. But the inability to increase such investments has remained as the most serious problems in the country like Nepal. Lack of adequate resources is forcing the country to have deficit financing as the only easily available tool to meet the expenditure, often inviting a high rate of inflation resulting real investment in productive activities low and forcing to fall into the debt trap. Due to this reason, Nepal has still remained among the five poorest countries of the world. A large proportion of the total budget is required to pay the interest of the foreign debt and a very small portion of the budget is met by the government revenue. As a result, policy makers are found to be looking

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outside for an appropriate model. In course of this process sometimes they adapted the Nurksian doctrine of balanced growth and when this failed to bring desired result, they turn towards the Hirschman's approach of unbalanced growth and put their resources in infrastructures. With apparent indicators of development they found some hope in the Rostowvian Stages of Growth and experimented with classical internationalist and structuralism approaches. Coming to the second half of this twentieth century they have turned towards the advices of advanced countries and international financial institutions. But despite of these various efforts, they often find themselves standing upon the stagnant equilibrium of underdevelopment, poverty and backwardness.

DEVELOPMENT PERFORMANCES LOF NEPAL

The historical records of GDP growth rates during the past ten years shown in the Table 1 justifies above statement.

Table 1
Growth Rate of Real GDP and Real GDP Per Capita at 1982-1992

Price1990 Constant

Year	GDP Percent Change	GDP Per Capita Percent Change
1982	3.8	1.1
1983	-3.0	-5.5
1984	9.7	6.8
1985	6.1	3.4
1986	4.3	1.6
1987	3.9	1.4
1988	7.4	4.8
1989	4.5	1.9
1990	7.9	5.2
1991	4.6	0.9
1992	2.1	-2.8

Source: IMF, International Financial Statistical Year Book, 1994

From the above Table 1, we see that the growth rate of GDP Percapita is not only low but also has become negative in certain years as in 1992. The growth rate of GDP is one of the basic indicators to show the direction taken by the economy and the negative change in this

variable is the most serious sign of stagnation that represents, in general, the worsening of the living standards of the people during the recent years. Low rate of GDP growth followed by a high rate of population growth is the serious problem of the country which is further intensified by the rate of inflation which is high, and have worsen the life of the general public.

Table 2
Inflation Rate 1981/82-1993/94

Year	Inflation Rate	Year	Inflation Rate
1981/82	10.5	1987/1988	11.1
1982/83	14.2	1988/89	8.1
1983/84	6.3	1989/90	11.5
1984/85	4.1	1990/91	9.8
1985/86	15.9	1991/92	21.0
1986/87	13.3	1992/93	8.9
		1993/94	9.0

Source: Economic Survey, Various Issues, MOF/HMG/N.

The Table 2 shows that the inflation rate is at peak during the year 1991-92 and it has fallen to about 9 percent in the year 1993/94. On the other hand, the revenue GDP ratio of the country is very small and the internal borrowing development expenditure ratio is very high showing large budget deficits. The Table 3 shows this situation.

Table 3
Revenue GDP Ratio and Internal Borrowing Development Expenditure Ratio 1988/89-1992/93

	1988/89	1989/90	1990/91	1991/92	1992/93
Revenue GDP Ratio	9.1	9.3	9.2	9.3	9.2
Internal Borrowing Development Expenditure Ratio	23.4	18.8	27.5	26.9	25.9

Source: Calculated by the Author from Economic Survey, Various Issues, MOF/HMG, Nepal.

Thus, the revenue collected by the government appears only about 9.2 percent of the GDP. It forces the government to be largely dependent

upon internal borrowing and foreign debts to cover its expenditure. That is why, more than 25 percent of the development expenditure is met by internal borrowing in Nepal as shown in the Table 3. Similarly, a large percentage of government deficits is met by foreign debt in our country (Table 4).

Table 4
Government Deficits and Government Foreign Debt 1989-1991

Year	Government Deficits (Percentage of GDP)	Government Foreign Debt (Percentage of GDP)	Government Grants Received (Percentage of GDP)
1989	10.3	37.6	2.2
1990	7.7	42.8	2.0
1991	6.2	42.3	2.4

Source: IMF, International Financial Statistics Year Book, 1994.

We see that in the years 1990 and 1991, the government foreign debts amounted to 42.8 and 42.3 percent of GDP respectively. That is why, a very large portion of GDP is needed every year for the repayment of principal and interest. In the year 1993/94, government needed 1084.1 million Nepalese Rupees, 0.6 Percent of GDP, for the repayment of principal and 684.3 million Nepalese Rs, 0.4 percent of GDP, for paying interest. It was still larger in the year 1992/93 in which 0.8 percent of GDP was needed for the repayment of the principal and 0.5 percent of GDP for the payment of interest (Ministry of Finance 1993/94). Similarly, the current account also shows large deficits in the foreign trade of the country. Thus, we see that despite its different efforts to improve the economic situation of the country, we have not still succeeded to overcome our major misfortunes. Further more, the problem seems to have more worsened as the GDP percapita of the country as the basic indicator of economic development even appears to have decreased.

CONSTRAINTS

In its efforts to attain rapid economic development, Nepal started the process of economic liberalization with the implementation of structural adjustment program (SAP) in 1986/87. But steps to make economic reforms were accelerated during the 1990s. Privatization has

also become a popular slogan during these years and some of the public enterprises were transferred to the private sector. The government tried to improve the tax structure also. Although some of these reforms have shown some positive effects in the economy, the agricultural sector that provides over 55 percent of the real GDP has been mostly outside the purview of economic reform initiatives. On the other hand, as the non-agricultural sector is largely limited in the urban areas, near about 80 percent of the population living in rural areas is less affected by such reforms. The gap between the rural and urban areas appears to have increased and the life of the rural people also appears to have further worsened even during the recent years. It is also noticeable that the density of population in urban areas is more higher in comparison to rural areas resulting a higher number of representative in the parliament. Therefore, the probability of having a strong political pressure for the improvement of such areas is also greater, thus increasing the probability of more resources to be used for the betterment of urban life. It does not mean that the resources used for urban areas at present are larger than the needs, but it shows only the fact that there is less bargaining power in favour of rural people to obtain resources for the development. Therefore, the development strategy cannot be succeeded in Nepal unless and until it does not try to increase the agricultural output and strengthen the rural economy.

Even in case of reform policies such as liberalization and privatization, perhaps we are not clear sufficiently about the dimension and magnitude upto which these policies are necessary and useful to strengthen the economy. Some extent of state intervention is seen even in the United States, and other advanced countries like Japan and England, but overall state management also has failed to give proper direction to the economy. Therefore, it is essential to define the magnitude of such reform policies according to our needs.

Consumption has also remained as one of the obstacles in the way of economic development in our country. It is reducing the volume of government revenue on the one hand and also reducing the quality of development projects implemented on the other hand. We can even find the records of the projects completed in paper reports and amount spent but not done anything in actual practice. Abolition of any such practices is not impossible but such action requires political and moral commitments which are lacking and protection from some powerful positions has made it difficult and even impossible to probe into the

cause. Administrative machinery should be efficient, clean and confident for the rapid economic growth of a country and it is possible only when the government is determined to control and abolish corruption and favoritism. Similarly, it should also be kept free from political pressures so that efficiency can be increased.

CONCLUSION

Time has now come to find out a proper and appropriate macro-economic framework or model to guide our efforts to achieve economic progress. We cannot improve our life unless we make efforts ourselves. If each and every political parties have their major objective to improve the life of the people and to strengthen the country, then they all should be guided by such framework which is best for inducing the process of development. The model should be a general equilibrium nature which does not neglect any sector or variable in economy in general and therefore, concentrates its attention in the overall upliftment of the society.

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