Overview of the Nepalese Economy

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Introduction to Nepalese Economy

- Nepal is one of the least developed countries in the world and is officially the Federal Democratic Republic of Nepal.

- It is a landlocked country having low per capita income and mass poverty.

- The structure of the economy is fragile, the economic environment is less favorable, the performance of the economy is weak, and development indicators are not favorable as expected.

- The economy is heavily dependent on the import of basic materials and foreign employment. It imports essential commodities like fuel, construction materials, fertilizers, metals, and most consumer goods, and export products like carpets, beverages, textile, tea, and plastic.

Introduction to Nepalese Economy….

- Furthermore, the economy of Nepal is been characterized by a long period of political transition and an uncertain economic environment. Due to such socio-economic and political hurdles, several social and economic problems like high unemployment, inequality, and poverty have existed in the country.

- Agriculture, a subsistence sector is the mainstay of life and is providing employment to the majority of the working force of Nepal.

- There is optimistic development in resource mobilization by the government of Nepal. The high remittance inflows are working as the lubricants for the sluggish/inactive economy.

Introduction to Nepalese Economy….

- However, the received amount of remittance is not used in productive uses, rather it is creating dependency, brain drain, unproductive consumption in the economy, and destruction of social and family relations.

- Therefore, the Nepalese economy is more fragile, uncertain, challenging, import-oriented, remittance and aid-based, and dependent. However, with the implementation of federal republic governance mechanism, formation and operation of all levels of the governments, the hope and expectations of the people have increased and now the main target of the government should be accelerating investment in productive resources in order to foster economic growth and thereby reducing unemployment, inequality, poverty and creating self-reliance economy.

Some Important Facts of the Nepalese Economy

- GDP at current price:3464.31 Arba
- Economic growth rate:2.27 %
- Per capita income (In SD): USD1085
- Remittance income: 879.5 Arba
- Contribution of agriculture sector to GDP:27.6 %
- Contribution of non-agriculture sector to GDP: 72.4 %

- Rate of inflation:4.6%
- Hydroelectricity generation in MW:1233MW
- Absolute poverty:16.67%
- Human development index: 0.579 (147th rank)
- Forest area:40.4%
- Dependent population in agriculture sector:60.4%
- Trade balance: 1321.4 Arba

Contemporary Features of Nepalese Economy

- Nepal is a small, underdeveloped, and landlocked country sandwiched between two Asian economic powers, China and India. Nepal has an ample amount of natural resources and it has abundant potential for economic development through the full utilization of water resources, development of tourism, and modernization in agriculture.

- However, Nepal is still counted as one of the poorest countries, where 16.67% of people are living within the absolute poverty line. The massive earthquake of April 2015, the Indian blockade of 2015, and the COVID-19 crisis have made the economy weaker and lagged.

- Specific contemporary features of the Nepalese economy are below.

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Contemporary Features of Nepalese Economy…

1. Low per capita income
2. Mass poverty
3. Excessive dependency on agriculture
4. Underutilization of natural resources
5. High trade deficit
6. Dualistic and mixed economic system

7. Rapid population growth
8. Remittance economy
9. Landlocked country
10. Difficult topography
11. Absence of good governance
12. Low productivity of agriculture and industry and etc.

Contemporary Features of Nepalese Economy…

Low per capita income(PCI)

The Nepalese economy is featured as one of the economies having low per capita income, which is one of the basic problems of the economy. The per capita income of Nepal is US$1085 and it is very low as compared to neighboring countries like China, India, and other developed countries of the world.

Mass poverty

The per capita income of Nepal is very low, distribution of income is highly unequal, unfair labor market and as a result, Nepal is facing massive poverty. About 16.67 percent population in Nepal are living below the poverty line and they are unable to fulfill even their basic needs like food, clothes, shelter, health facility, education, safe drinking water, and so on. Those people who are below the intake of 2144 calories of energy from food considered as absolutely poor. The crisis created by the COVID-19 increases the risk of poverty.

Contemporary Features of Nepalese Economy…

Excessive dependency on agriculture

Agriculture, a subsistence sector is the mainstay of life and is providing employment to the majority of the working force of Nepal. This sector has the highest contribution to the GDP of the country. Its contribution to GDP is about 27.6 percentage and about 61 percentage of people are engaged in agriculture directly and indirectly.

Under utilization of natural resources

Nepal is very rich in natural resources like water resources, forest resources, and mineral resources. However, the utilization of these available resources is very less and inefficient. For example, Nepal has more than 6000 rivers and they have the capacity to produce about 83000 MW hydroelectricity. Despite such a huge potentiality of energy production, Nepal is able to produce only 1233MW hydroelectricity which is about 1.5 percent of the total capacity.

Contemporary Features of Nepalese Economy…

High trade deficit

The trade deficit is the condition of having an excess amount of import as compared to the amount of export. Nepal is facing high trade deficit problem due to an excessive increase in imports and a very slow increase in export. In the FY 1990/91, Nepal's trade deficit was Rs.18.2 billion, which increased to Rs.3121.4 billion in the fiscal year 2019/20. The data shows that the trade deficit in Nepal is increasing rapidly and it should be reduced by an increase in the production of goods and services in the country and adopting appropriate policies by the government.

Dualistic and mixed economic system

The economy of Nepal is dualistic in nature. It has characteristics of both traditional and modern sectors. Nepal has the majority of the population engaged in traditional occupations like agriculture and also people engaged in modern market-oriented industrial sectors as well. Similarly, the mixed economic system is followed by the country consisting of Public enterprises on one hand and the free-market system is also there on the other hand.

Contemporary Features of Nepalese Economy…

Rapid population growth

There is rapid population growth in Nepal. According to the population census, 2010/11, the population growth rate of Nepal is 1.35 and which is very high as compared to the population growth rate of developed countries. The major causes behind rapid population growth in Nepal are illiteracy, early marriage, social and religious beliefs, polygamy, etc. Rapid population growth has created unemployment, disguised unemployment and underemployment problems in the economy.

Remittance economy

Nepal has problems of unemployment and underemployment as there are no good opportunities for employment in the country. Therefore, a large number of youths have migrated to foreign countries to seek better job opportunities. Specifically, Nepalese youths have gone to Gulf countries and, Malaysia. More than 47 lakhs of Nepalese youths are in foreign employment for their betterment and livelihood. The remittance received from the migrant worker was Rs. 879 billion in 2019. The inflow of remittance is helping to finance imports, to improve the living standards of people, and reduce poverty. So Nepalese economy is also known as the remittance economy.

Macroeconomic Indicators of Federal State of Nepal

- If we have to know the recent trend and scenario of the economy then we have to go for analysis of different macroeconomic indicators or macroeconomic variables of the economy.

- Economic indicators show the economic activities, their relations, and interdependence in the economy. These indicators are statistical measures of the specific sector of the economy. So they are useful to analyze the economic performance of the country as well as making international comparisons.

- Among various economic indicators GDP, GNP, per capita income(PCI), and Price level(Inflation) are important and most useful for international comparison too. The following table shows the major macroeconomic indicators of the Federal State of Nepal.

Macroeconomic Indicators of Federal State of Nepal…

Economic Indicators	Fiscal Year				
	2003/04	2016/17	2017/18	2018/19	**2019/20**
1.GDP(Rs. In billion)	536.8	2674.5	3031.03	3464.3	**-**
2.GNP(Rs. In billion)	535.1	2705.5	3067	3498	**-**
3.GDP growth rate	4.4	8.2	6.7	7.1	**2.5***
Per capita income in US$	292	887	1005	1039	**1085**
Rate of inflation	4.0	4.5	4.2	4.9	**4.6**

Source: Economic Survey, 2019/20
* Projected

Macroeconomic Indicators of Federal State of Nepal…

Gross Domestic Product (GDP)

For the performance evaluation of an economy, GDP and the growth rate of GDP are important indicators. The size of the GDP of Nepal is very low as compared to its neighboring countries. In the FY 2014/15, the GDP of Nepal was Rs. 2120.5 billion, which has increased to Rs. 3436.3 billion in the FY 2019. In terms of growth rate, the growth rate of Nepal in 2020 was expected 2.5 percent due to the economic crisis created from COVID-19.

Gross National Product (GNP)

GNP also helps to evaluate the economic performance of a country. Its size in Nepal is also low. Data shows that GNP is increasing but at a very low rate.

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Macroeconomic Indicators of Federal State of Nepal…

Per Capita Income (PCI)

Here per capita, income means GDP per capita. The per capita GDP of Nepal is very low compared to other developing countries of the globe. In SAARC countries Nepal's rank in terms of GDP per capita is second, only more than Afghanistan. In FY 2020 it was expected to reach USD 1085. It was 1039 (Rs. 117,286) in 2019. Over the last decade per capita GDP average annual growth rate was 10.8 percent.

Price Level/Rate of Inflation

The increase in the general price level is called inflation. It measures the stability of the macroeconomic environment. Higher inflation adversely affects savings, investment, and growth. Thus, the stability of price is essential for sustained growth. The average inflation of Nepal for the past 10 years averaged at 8.4 percent which is very high than the required threshold level.

Macroeconomic Indicators of Federal State of Nepal…

Other annual data of inflation is presented in the above table.

Trade Balance

It is the gap between a country's export and import at a given time. If the value of exports exceeded that of imports, the balance is known as the surplus balance of trade, and the opposite is known as the deficit trade balance. Nepal's trade deficit has been increasing continuedly and it was 38.2 percent of GDP in 2019.

Unemployment

According to the central bureau of statistics 2018 at the time of the survey, Nepal had 2,07 crore people of the working-age population, and out of them, 11.4 percent were unemployed. Females reported a higher unemployment rate which was 13.1 percent

Macroeconomic Indicators of Provinces of Nepal

- The structure of the federal democratic republic of Nepal consists of 7 provinces and 753 local levels. Out of a total of 753 local levels, there are 460 rural municipalities, 276 municipalities, 11 sub-metropolitan cities, and 6 metropolitan cities.

- Some of the macroeconomic indicators of the central government of Nepal and the seven provinces are shown below.

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Macroeconomic Indicators of Provinces of Nepal…

Indicators	Nepal	Provinces (For FY 2019/20)						
		1	2	Bagmati	Gnadaki	5	Karnali	Sudur Paschim
Size of GDP (at basic price) in Rs. million	3208519	518748	454941	1109904	287170	461586	139401	236769
Share to National GDP	100	15.8	13.8	35.8	8.9	14.2	4.3	7.2
Economic growth rate (at basic price) in percent	2.3	3.4	2.3	1.2	2.7	2.0	3.6	4.1
Per capita income in USD	1051	919	645	1917	1192	803	597	683
Unemployment rate	11.4	10.2	20.1	7	9	11.2	9.7	11.5

Source: Economic Survey, 2019/20

Macroeconomic Indicators of Provinces of Nepal…

Economic Growth Rate

The rate of increase in the value of GDP is known as the economic growth rate. The measurement of province-wise GDP was started from 2018/19. For FY 2019/20, among the seven provinces, the growth rate of Sudur Paschim is the highest(4.1) and that of Bagmati is the lowest (1.2). Looking at contribution to national GDP, Bagmati has the highest 35.8 percent and Karnali Pradesh has the lowest 4.3 percent.

Poverty

Poverty has been measured by two different statistics as headcount poverty and multidimensional poverty rate. As per the economic survey 2018/19, out of the total population, 18.7 percent lives in absolute poverty. The highest absolute poor population (33.9%) lives in Sudur Paschim. The lowest number of population living under absolute poverty is in Province 1 (12.4%).

Macroeconomic Indicators of Provinces of Nepal…

Inequality

It is the situation of unequal distribution of income or wealth or assets among individuals. So it is the gap between rich and poor. It can be measured with the help of the Gini coefficient whose value ranges from 0-indicates with no inequality to 1-indicates perfect inequality. According to the economic survey 2018/19, the Gini coefficient of Nepal is 0.3. And out of 7 provinces, province 1, Gandaki and Karnali have a value of 0.4 and the lowest is Province No. 2 with a value of 0.2.

Unemployment

It is the problem refers to a situation in which a person is willing and able to work but is unable to find any job. According to the economic survey, the unemployment rate of Nepal for FY 2018/19, the highest level of unemployment was in Provence 2 with a 20.1 % level of unemployment. Provence 3 had a 7 % unemployment rate which was the lowest among the 7 provinces.

References and Suggested Readings

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