

Nepal's Binding Constraints to Growth

Bishwambher Pyakuryal
Professor of Economics
Tribhuvan University

I. Introduction

- Sequencing of Nepal's political changes: first democratic movement in early 1990; second peoples' movement in 2006, and declaration of Federal Democratic Republican State on Wednesday, May 28, 2008.
- Overemphasis of political restructuring has overshadowed the need for economic restructuring.
- ADB, DFID, and ILO-supported initiative in diagnosing growth constraints and identifying opportunities in Nepal is just completed.

II. Issues for assessing growth constraints

- Inability to produce export products and failure to maintain real exchange rate regime with IC
- The gross foreign exchange reserves ↑ Rs. 212.6 billion (US\$ 3.1 billion) compared to Rs. 165.1 billion in mid-July 2007
- The workers' remittances rose by 42.5 per cent (Rs. 142.7 billion) by contributing to 17.4% to the GDP. Its contribution in gross foreign exchange reserves is approximately 33 per cent.
- Such growth is encouraging but not sufficient to replace Nepal's dependency on foreign loan.

II. Issues for assessing growth constraints Contd.

Cost Competitiveness Indicators

Table 1: Index of Cost Competitiveness Indicators of Nine Asian Countries, 1999

COUNTRY	LABOR COST PER WORKER (A)	VALUE ADDED PER WORKER (B)	UNIT LABOR COST (C)
Nepal	100	100	100
India	130	205	81
China	180	271	72
Bangladesh	110	130	90
Indonesia	120	276	87
Thailand	480	390	94
Sri Lanka	160	195	105
Malaysia	960	909	93
Philippines	600	742	93

Note: A = average labor cost per worker manufacturing, B = value added per unit of labor, C = labor cost per unit of output manufacturing according to the internationally accepted definition of the U.S. Department of Commerce.

II. Issues for assessing growth constraints Contd

Deteriorating trade & diversion of foreign exchange reserve

- The ratio of merchandise trade deficit to GDP is 20.0% (Rs. 165.3 billion)
- Trade deficit w/India is 64 per cent of the total merchandise trade (Rs. 105.9 billion)
- Import upsurge from India is 24.7% against just 3.5% from other countries
- Increased import and purchase of IC worth 70,602.53 million by selling US\$

II. Issues for assessing growth constraints Contd

Increasing debt liability, and cut back in public sector investment

- The country is experiencing a diversion of resources from productive sectors and fulfilling the terms of increasing debt liability
- The budgetary allocation shows a cut back on public sector investment and inadequate infrastructure development to attract potential investors
- The low infrastructure expenditure can be said as the single most important macro constraint on Nepal's economy.



III. Reason for identifying growth constraints

- Nepal government has adopted expansionary fiscal policy in the budget 2009/10.
- First, there is a need to reconcile between inflationary economic forces and expansionary fiscal policy. Secondly, this situation necessitates diagnosing growth constraints and possibilities for increasing future investments.



IV. Selected Growth Constraints

- It is advisable to find out the likely constraints for growth before making investment decisions.
- If Nepal's infrastructure is a constraint to growth, then we need to find out what infrastructure e.g. power, transportation, telecommunications etc. are relatively important constraints to growth?

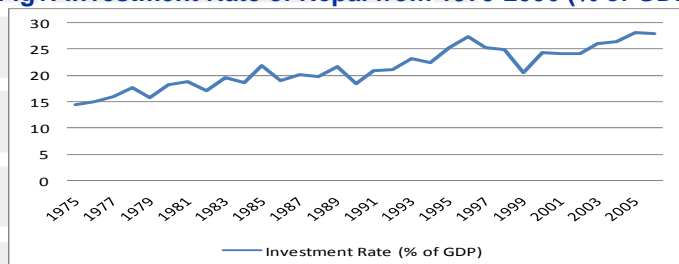
IV. Selected Growth Constraints....Contd

(a) Low investment rate

- In 1995, Nepal's investment rate (25.2%) was very close to India (26.2%). Bangladesh (19.1%), Pakistan (18.5%) and Sri Lanka (24.2%) were lagging behind Nepal. But, since 2007, only Pakistan is lagging behind Nepal.

IV. Selected Growth Constraints....Contd

Fig1: Investment Rate of Nepal from 1975-2006 (% of GDP)



Source: Economic Surveys, MOF

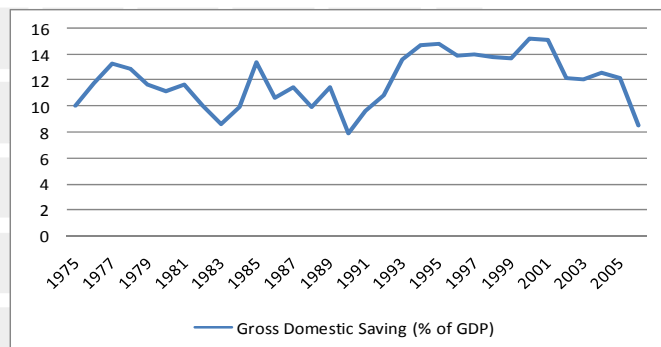
IV. Selected Growth Constraints....Contd

(b) Low domestic savings rate

- Domestic Saving Rate is lowest in South Asia and it is almost one third of Bhutan. The highest Gross Domestic Saving was in 2000 (15.17 percent of GDP).
- It is interesting to note that GNI per capita increased by more than fifty percent from the year 1995 to 2006 (WDI, 2008) but Gross Domestic Saving decreased from 14.8 percent in 1995 to 9.4 percent in 2006 indicating the fact that low domestic saving rate is one of the major constraints for growth.

IV. Selected Growth Constraints....Contd

Fig 2: Gross Domestic Saving 1975-2006 (% of GDP)



GDP: Gross Domestic Product

Source: Economic Survey (various issues), MOF

IV. Selected Growth Constraints....Contd

- Although there is deficit trade balance, current account surplus is maintained 'cause of large amount of workers remittance, which increased by 23.9 percent annually from 1991-2006.
- From the year 2000-2006, remittance was 75 percent of trade balance and 89 percent of saving-investment gap. For two consecutive years from 2000, remittance exceeded the saving-investment gap.
- It indicates that saving is not a problem for Nepalese economy. But decline in remittance inflow may seriously affect the economy.

(c) Investment Constraints

(i) Labor and Technology

- Nepal's total factor productivity growth rate is about fifty percent of India, which has contributed negatively.

Table 2: Total Factor Productivity- Nepal Vs India

Period	Growth Rate	Nepal Growth Rate Adjusted	Growth Rate	India Growth Rate Adjusted
1980-1984	0.57	1.34	0.58	0.57
1985-1989	1.24	1.47	2.63	2.64
1990-1994	2.27	0.14	2.01	2.02
1995-1999	0.14	0.64	2.90	2.90
1980-2000	1.11	0.91	2.08	2.08

Source: APO

Note: Growth rate adjusted for business fluctuations

(c) Investment Constraints....contd

- Nepalese manufacturing sector is dependent on India for skilled labor. ILO study reports that manufacturing sector hires about 15 percent of total skilled labor force from India.
- Similarly, Nepal's position in the Labor related regulation is also poor in comparison to other south Asian countries.

Table 3: Comparison of Labor-Related Regulations with Regional Countries

	Difficulty of Hiring Index	Rigidity of hours Index	Difficulty of firing Index	Rigidity of Employment Index	Non-wage Labor Cost (% of salary)	Firing costs (weeks of wages)
Afghanistan	0	40	30	23	0	0
Bangladesh	44	20	40	35	0	104
Bhutan	0	0	20	7	1	10
India	0	20	70	30	17	56
Maldives	0	0	0	0	0	9
Nepal	67	20	70	52	10	90
Pakistan	78	20	30	43	11	90
Sri Lanka	0	20	60	27	15	169

Investment Constraints.....contd.

ii. Infrastructure

- Infrastructure in Nepal is one of the poorest and Road density is smallest in the region.
- Road density is least in Midwestern region.

预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_8233

