

Prospects and Challenges of Inclusive Growth in Nepal

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Abstract

Using the Harrod-Domar formulation, this paper quantifies the investment requirements for the 8% and 10% growth and analyzes the prospects and challenges based on the corresponding saving-investment gap and the current incremental capital-output ratio. Next, using the Solow's extension it details the challenges to achieve the 8% and 10% growths in Nepal. Finally, the paper discusses the policies and programs to enhance the inclusive growth in Nepal.

Based on the current incremental capital-output ratio (7.61), Nepal needs to invest 61% of its GDP for development activities to achieve an 8% growth and 76.1% of its GDP to achieve a 10% growth. With the average saving rate of 34% in the past 16 years, the country faces 27% saving-investment gap to achieve an 8% growth and 42.1% to achieve a 10% growth. Thus, in the current situation, both the 8% and the 10% growths are pretty much impossible. But, if the government is able to reduce the corruption rate (Corruption rank: Nepal 122, China 77, India 81. Corruption index: Nepal 31, China 41, India 40) and enhance the good governance in the next five years, enhance the application of modern technologies in agriculture and all other sectors of the economy, and re-structure the current land use policy; the current incremental capital-output ratio can reduce to 5 or less. With that progress, an 8% and even a 10% growth is possible if the country can follow the most recent trend in domestic saving (average domestic saving was 43.4% in the last 5 years).

More than 65% of the Nepalese are still engaged in agriculture and their contribution is only 28% of Nepal's GDP. Most of the poor are illiterate or school dropouts, they live in the rural part of the country and their access to health and employment is pretty much limited. Thus, for the inclusive growth country must have specific policies to enhance the farmer's productivity, and to provide better access to quality schooling and health services. That will automatically reduce the poverty, help to keep the income inequality low and enhance the opportunity for the rural peasant in other sectors of the economy.