

From Economic Survey 2067/77

The economic growth rate of the country in past decade averaged 4.6 percent. Likewise, the average growth rate of agriculture and non-agriculture sectors stood at 3.2 and 5.0 percent. Economy has gradually been shifting from agriculture sector to non-agriculture sector. Contribution of agriculture sector to GDP is in declining trend while that of non-agriculture sector to GDP is gradually increasing. Service sector under the non-agriculture to GDP is gradually increasing. The average contribution of agriculture sector to GDP in last 10 years is 3.2 and non-agriculture sector is 5.0. The contribution of agriculture sector to GDP is recorded as 27.6 percent. **The share of consumption to GDP in 2076/77 stood at 81.9 percent.** Due to the covid-19, reduction in international tourist and less remittance inflow, aggregate saving will be low in this fiscal year 2077/78.

1. Define economic growth.
2. What is the percentage share of Gross Domestic saving to GDP in FY 2076/77?
3. Explain the reasons or what are the challenges that slowed down the Nepalese economic growth during the last 25 years.
4. How can fiscal and monetary policy enhance to achieve continuous pace of economic growth?

Economic growth is sustained expansion in economic activities over a long period of time. But for the short period, economic growth in this fiscal year is an increase in the production of economic goods and services compared to the production of previous fiscal year.

Problems regarding agriculture sector: - (agriculture, forestry and fishing)

Fragmentation of arable land

High dependency on whether

Scarcity of improved seeds and fertilizer

Traditional way of farming

Problems regarding manufacturing and service sector: - (hotel and restaurant, transport and communication, financial intermediaries, education, health, tourism etc.)

Decade long Maoist insurgency

Strike and bandha

Load shedding

Political transition

Earthquake

Indian blockade

Covid-19

Objectives of the economy

Full employment

Price stability

Capital formation

Economic Equality

Favorable balance of payment

Economic growth

Fiscal policy

Fiscal policy refers to the policy undertaken by the government to regulate government finance. Fiscal policy includes the receipts and expenditure of the government.

Instruments

Budget: deficit, surplus and balanced budget

Taxation: direct tax and indirect tax

Government expenditure: regular and development expenditure

Borrowing: internal and external borrowing

Monetary policy: Monetary policy refers to the policy undertaken by central bank to control and regulate the supply of money to achieve predetermined objectives.

Instruments:

Bank rate: minimum lending rate at which central bank lends money to the commercial bank at the time of shortage of cash reserve

Cash reserve ratio: it is the portion of total deposit that should maintain by commercial banks in the form of cash reserve with central bank. When CRR increases, commercial bank should keep more cash in reserve so, credit expansion of the bank's decreases.

Open market operation: act of purchase and sell of government securities and treasury bills by the central banks is called open market operation.

GDP and GNP

The basic difference between GNP and GDP is related with the two terms:

- i. Domestic territory
- ii. Nationality

Domestic territory is closely related with GDP whereas nationals is related with GNP. However, GDP is preferable to GNP as a policy variable because of these reasons.

- I. Economic performance should be measured in the same term what the other countries are doing and other countries have been doing in terms of GDP.
- II. GDP is easier to measure, since data on net foreign earnings are poor.

Difficulties of measuring national income in developing countries

1. **Large non-monetized sector:** Large part of agriculture product is not brought in the market for sale. It is either directly consumed by the producers or is exchanged for other goods.
2. **Illiteracy:** More than 30 percent people are illiterate in Nepal. So, they cannot provide the actual information regarding their income and output.
3. **Backward People:** socially backward people or superstitious do not disclose income easily and correctly.
4. **Lack of occupational specialization:** receive income partly from farming, partly from job; which makes calculating national income difficult.
5. **Lack of efficient and trained manpower:** problem in collecting data, statistical calculation and uniformity in data collection

Need or Importance of National Income Accounting

1. Basis of National Policies
2. Helpful in Economic Planning
3. Indicator of Economic Welfare
4. To know the distribution of income
5. For international comparison
6. Indicator of economic structure
7. Suggests for receiving foreign aid.