

के समृद्धि - कस्को समृद्धि

चन्दन सापकोटा

सिनियर फेलो, नेपाल एकोनोमिक फोरम

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The views expressed in this document are those of the author and do not necessarily reflect the views and policies of the Nepal Economic Forum (NEF) and its advisory board.

Structural Transformation & Prosperity

Chandan Sapkota

Senior Fellow, Nepal Economic Forum

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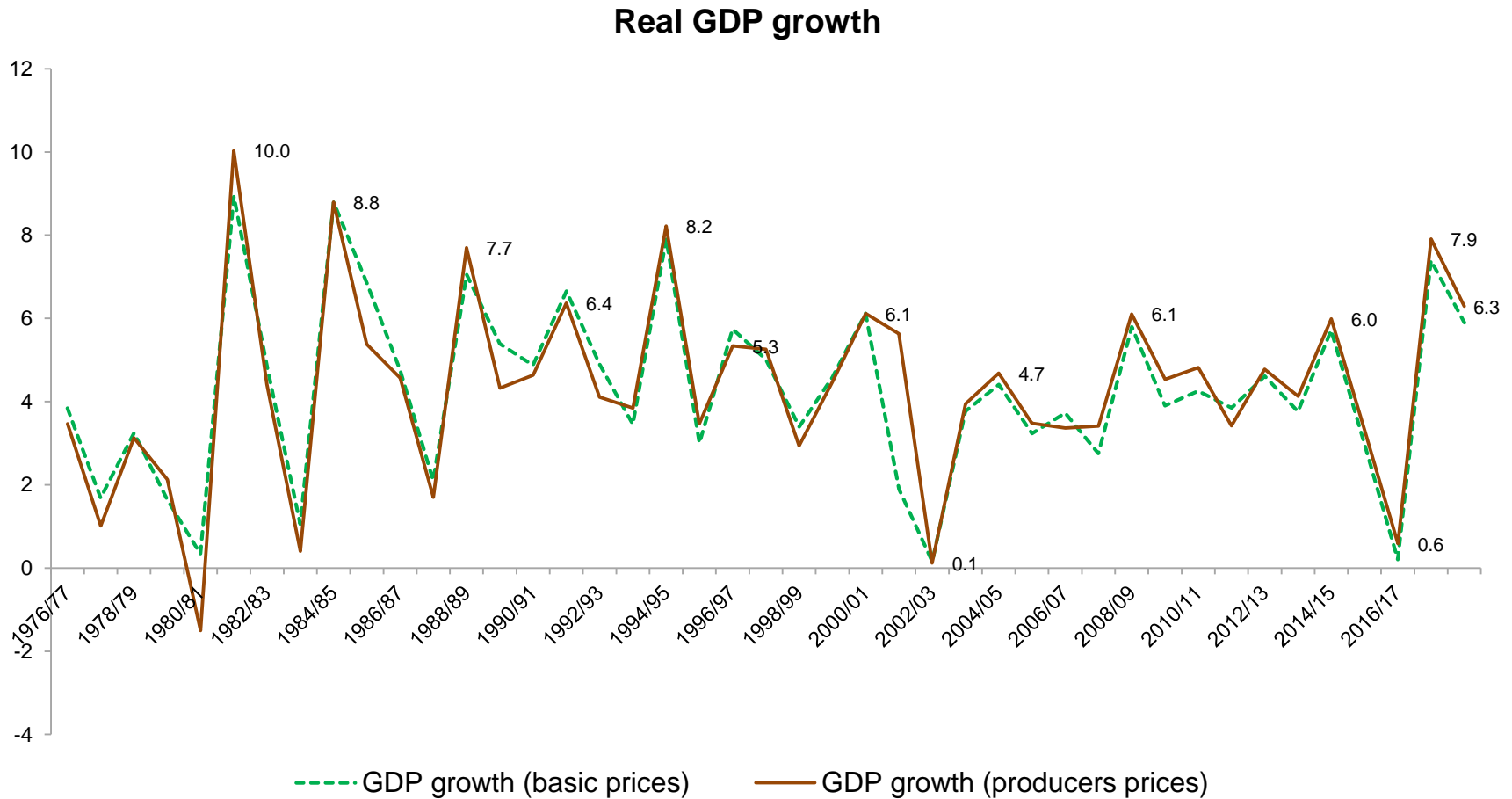
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Presentation Outline

1. Current economic performance
2. Structural transformation and prosperity
3. Key cross-sectoral constraints
4. Key risks
5. Key opportunities
6. Short-term economic outlook

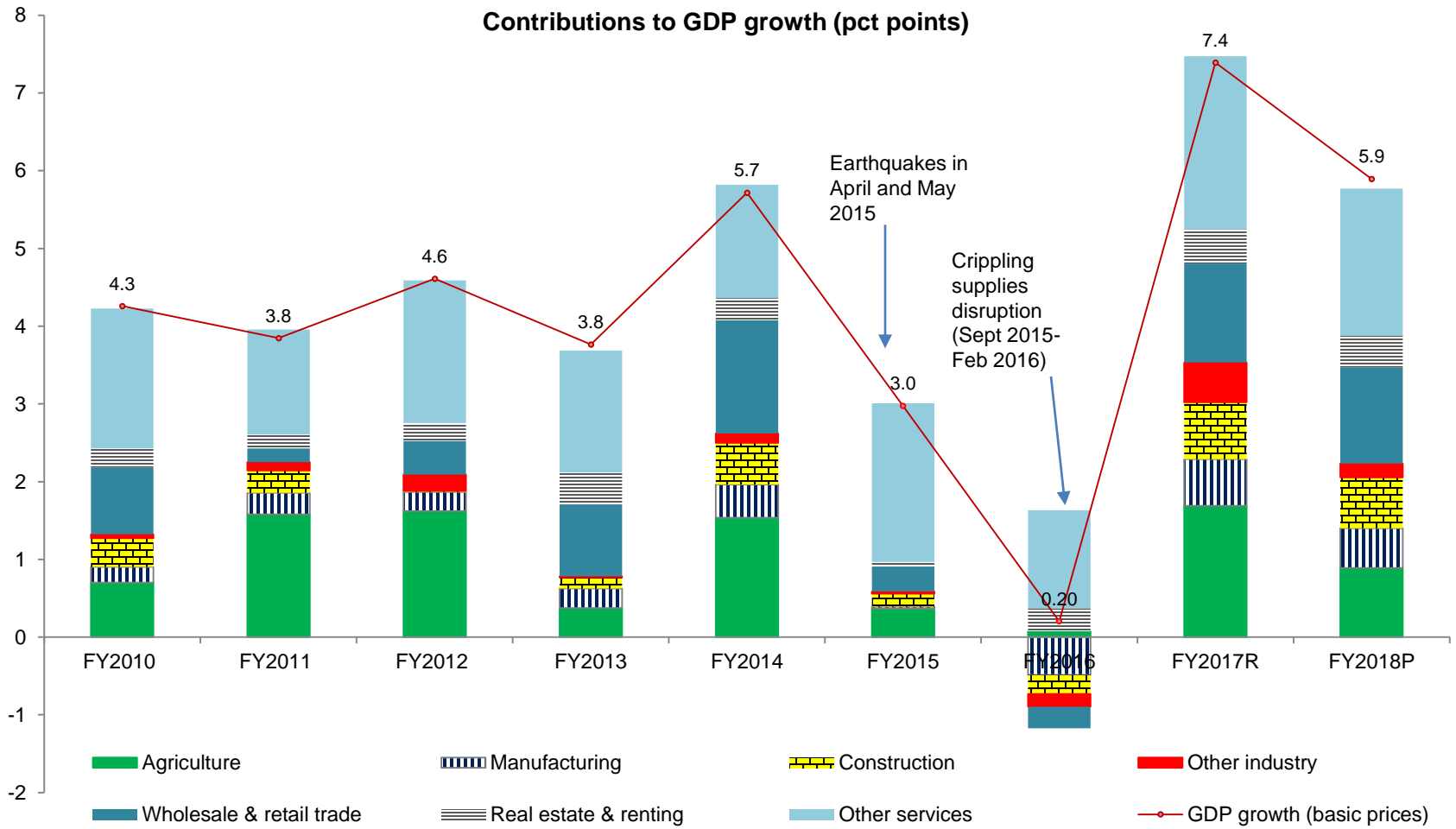
Current Economic Performance

Real GDP growth in the last two years (FY2017 and FY2018) have been pretty robust.



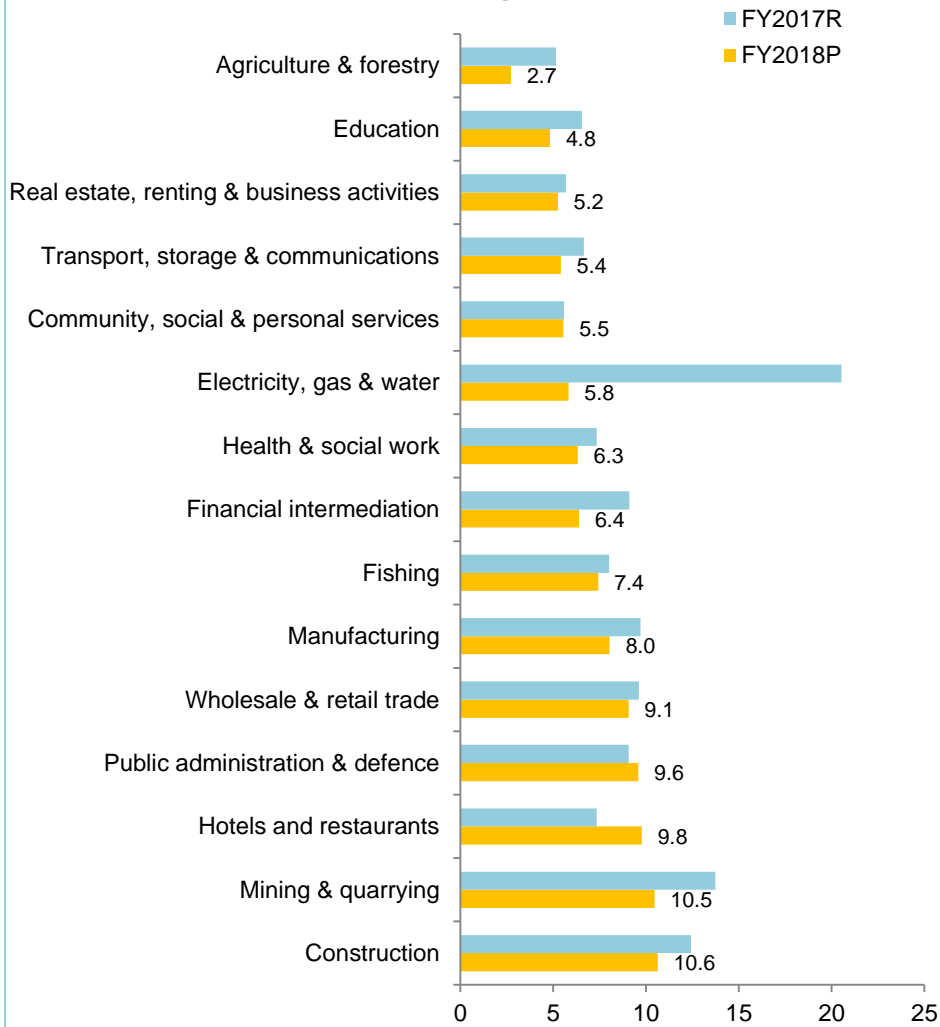
Amazing two consecutive years!

Main reason behind the amazing two consecutive years: base effect & fiscal stimulus

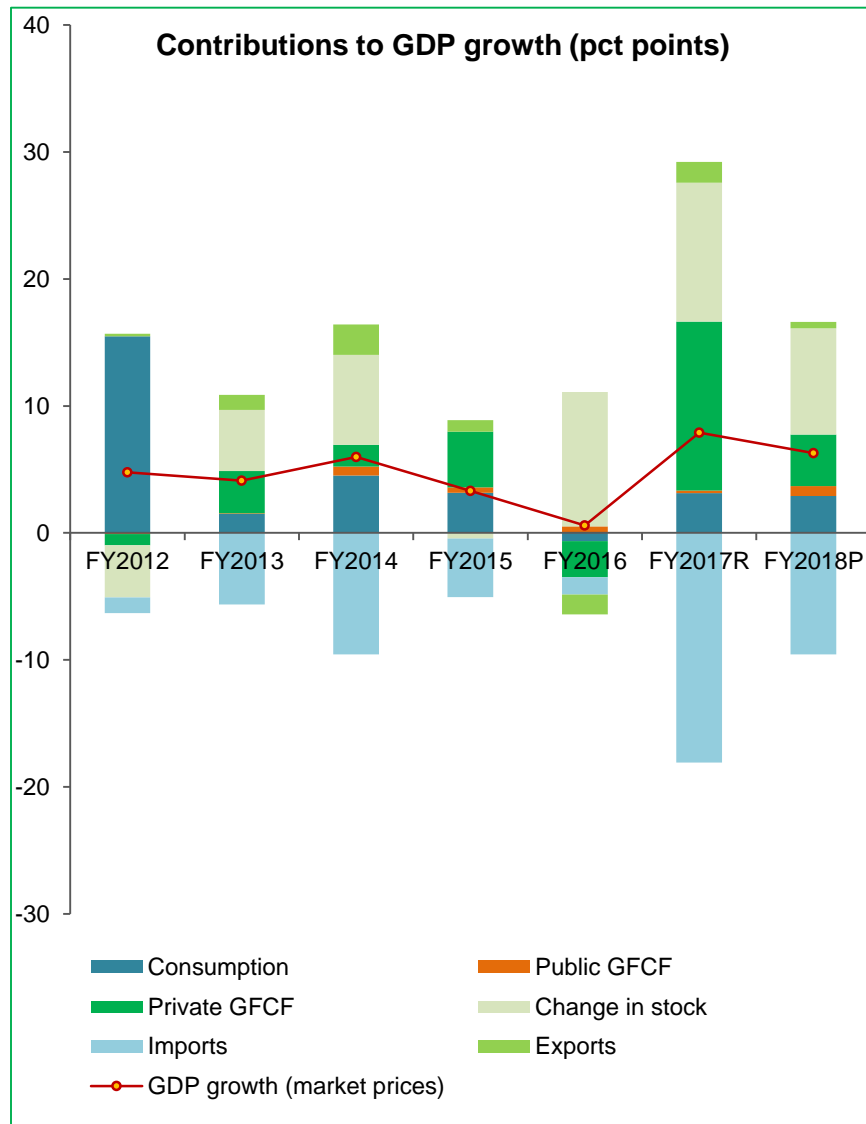


Elections spending and post-EQ reconstruction

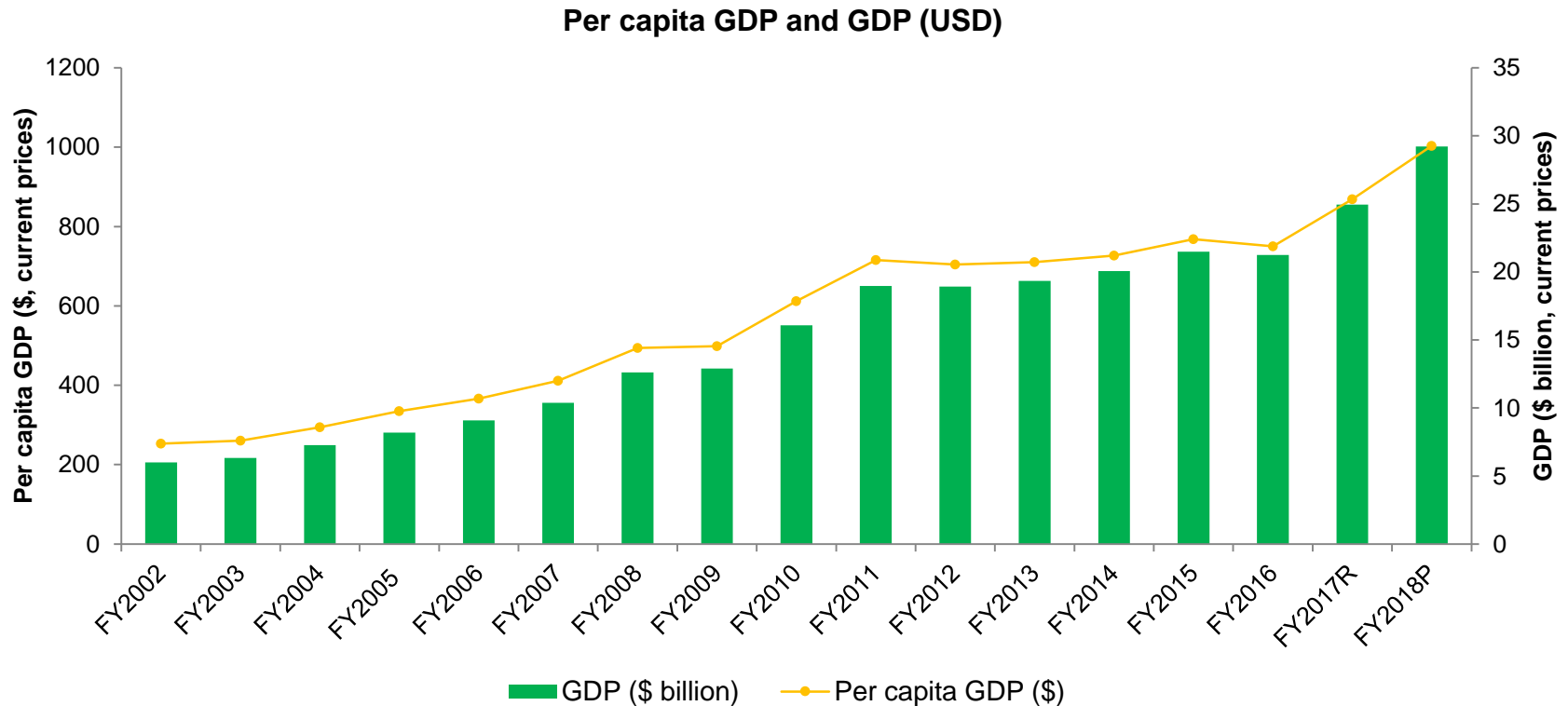
Sub-sectoral growth (%)



Contributions to GDP growth (pct points)



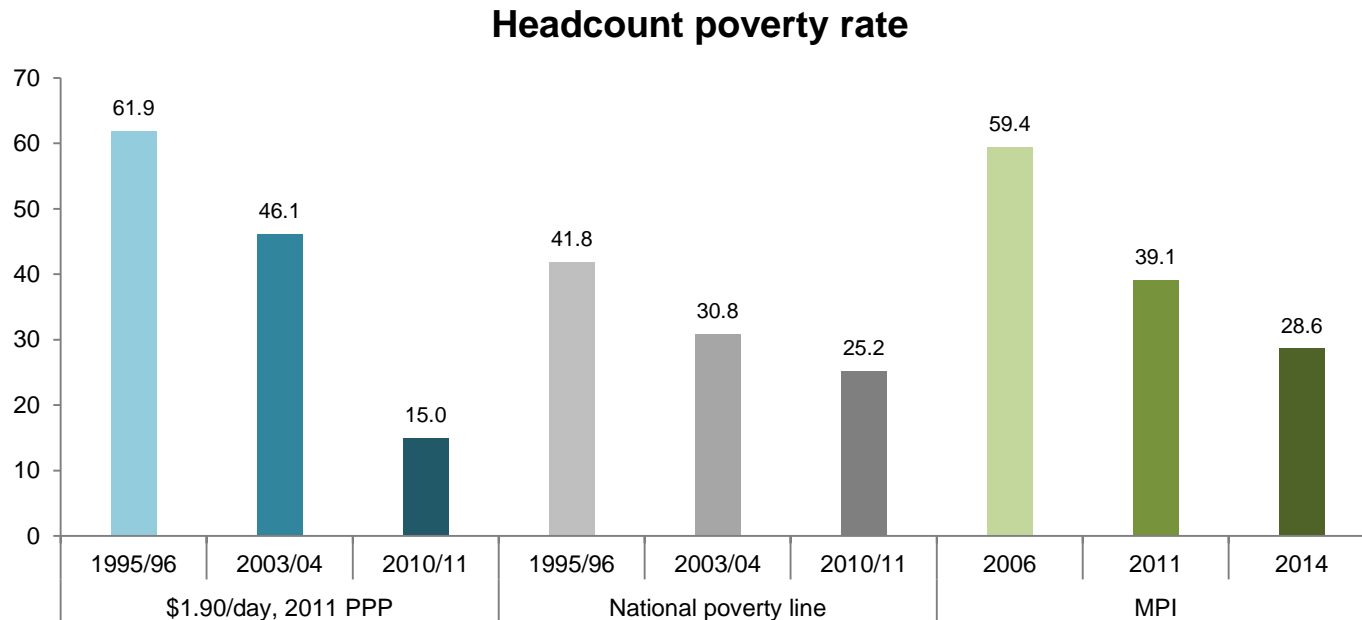
Per capita GDP > US\$1000



- Per capita GDP above US\$1000 for the first time -- who felt the increase in per capita income?
- **Does the two years of stellar growth performance and rising per capital GDP mean Nepal is marching towards accelerated, sustained and shared prosperity?**

Structural Transformation & Prosperity

- **Shared prosperity:** overall per capita income growth, and higher rate of increase of bottom 40% of population

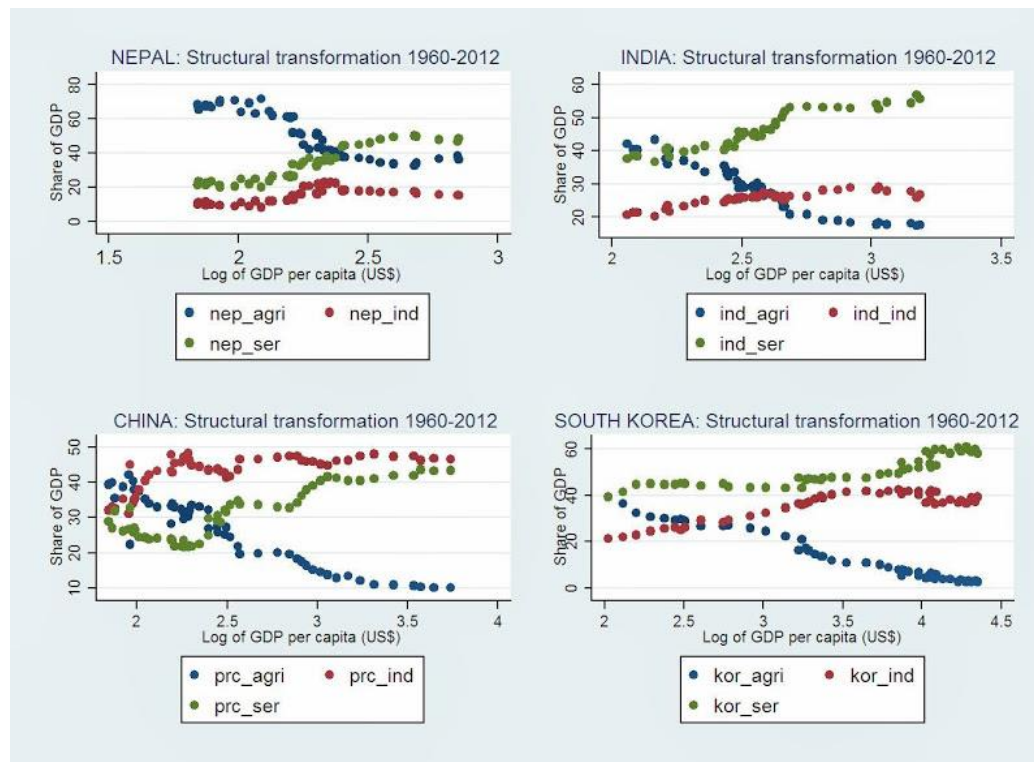


National goals (2030 target):

- \$1.90 a day poverty: 8%
- Per capita GNI: US\$2500 (\$730 in 2016)
- Gini coefficient: 0.16 (0.33 in 2010/11)

Unusual Structural Transformation

Can the economy sustain jobs-rich GDP growth over 7%, be middle income country by 2030 and sustain reduction in poverty and inequality?



Current pace and nature of structural transformation not going to lead us there – stuck in low growth trap (deindustrialization)

- Breaking dependence on remittances (Dutch disease effects)
- Diversifying sources of growth (stable factors)

Rapid Structural Transformation

7 key sectors for accelerated, inclusive and sustainable economic growth

- High value agriculture
- Road and air transport
- Tourism
- Energy
- Light manufacturing
- Urban development
- Education/ICT and skills

Increase quantum and quality of investment. HOW?

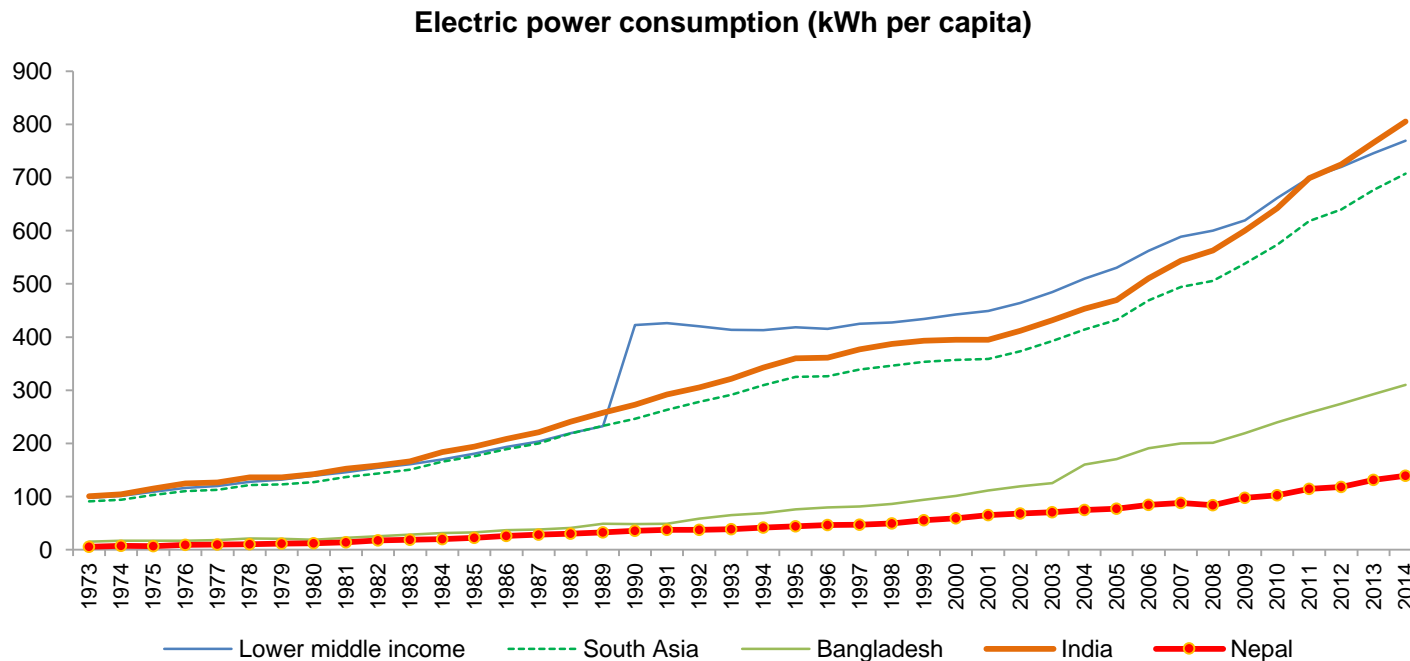
- Enhance budget execution, especially capital spending
- Increase private sector investment (domestic and FDI)

Tangible reforms and its implementation are key going forward

Key Cross-sectoral Constraints

1. Lack of policy clarity

- Lack of clarity on specific sectoral priorities and policies of the government
- Long term economic vision is incoherent given resources: express ways or waterways or railways



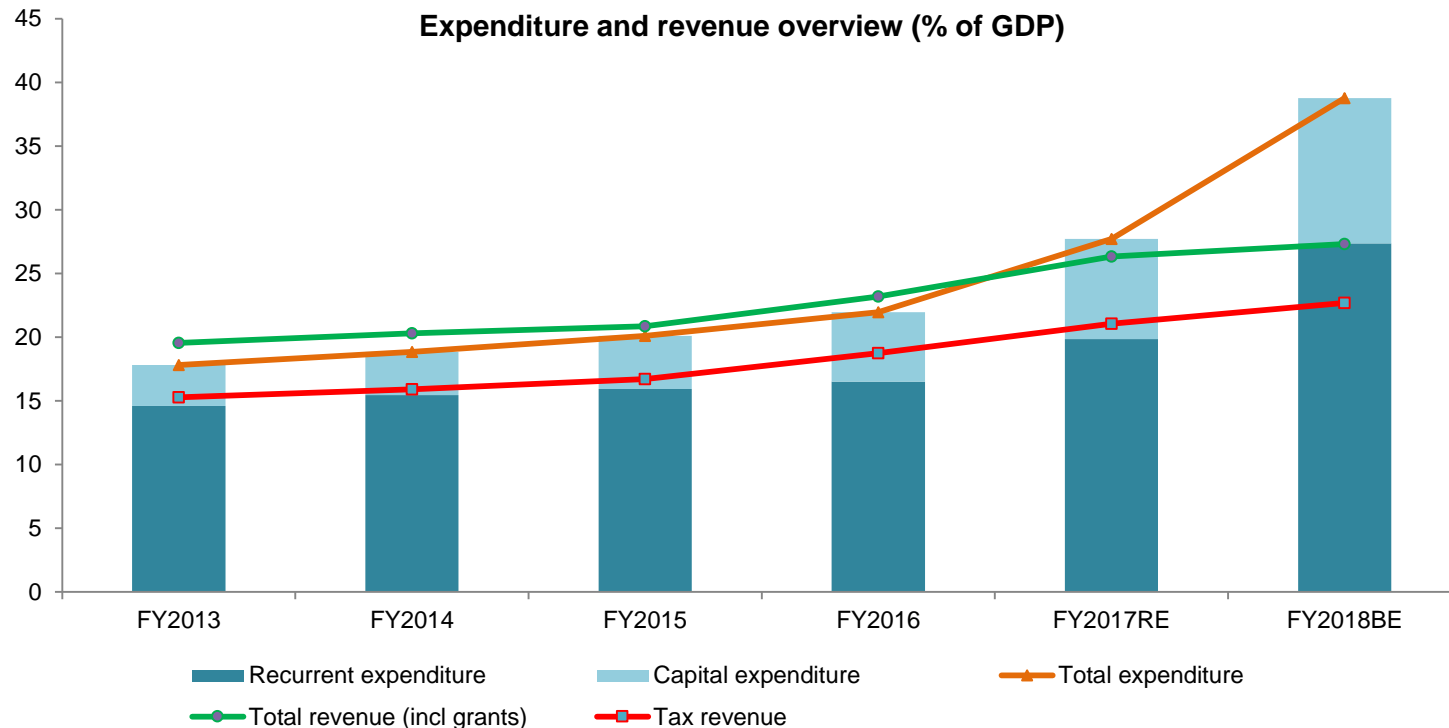
2. Inadequate productivity-enhancing infrastructure

- Energy and transmission lines, road and air transport, irrigation

Key Cross-sectoral Constraints

3. Fiscal management

- Large expenditure needs vs limited avenues for revenue growth
- Administrative cost of federalism: 3-4% of GDP + dependence on transfers
- Fiscal deficit to shoot beyond 5% of GDP



Key Cross-sectoral Constraints

4. Business regulations

- Loosening rigid regulations and increasing formalization
- High regulatory burden, high cost of finance, cumbersome hiring and firing, high cost of starting a business, burdensome collateral laws, corporate and shareholder governance, tax compliance, high cost of trading across border
- FDI single window is operational

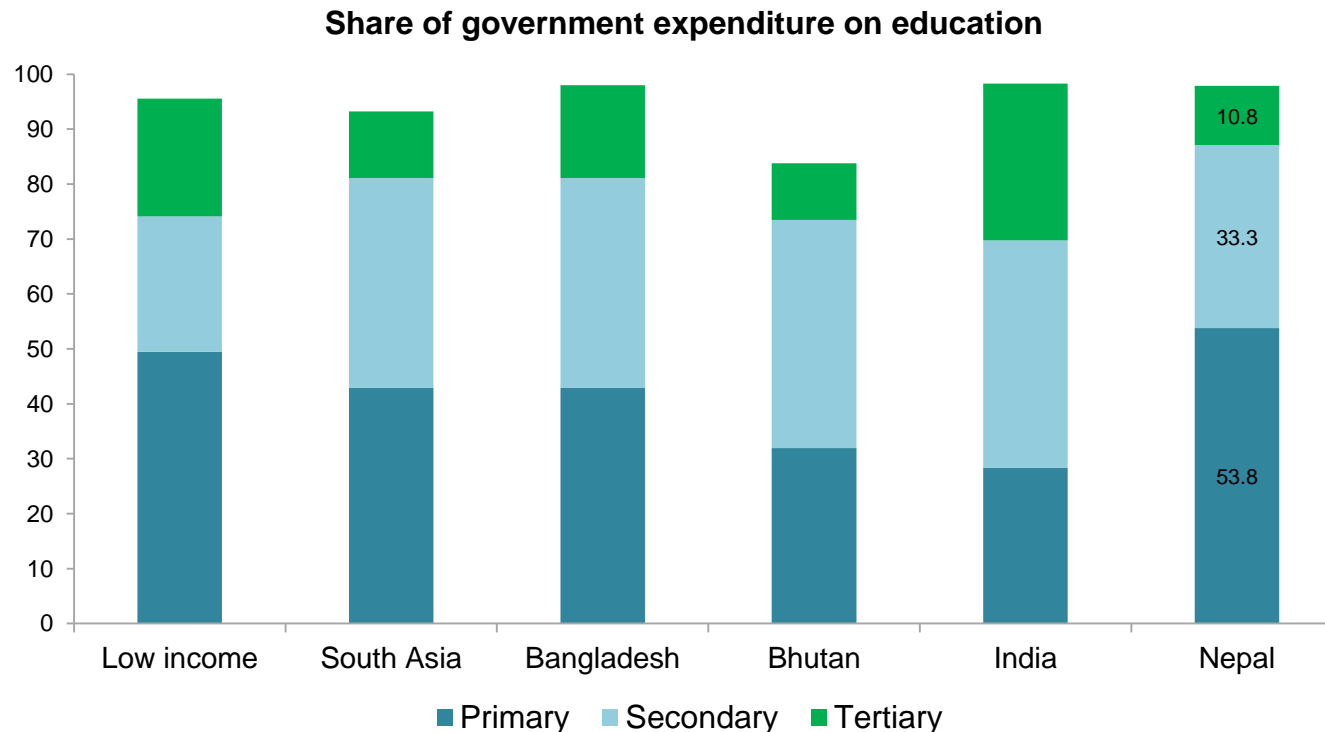
5. Unsophisticated financial system

- Recurring interest rate volatility and immature capital market
- Ever-greening of bad assets, asset-liability mismatches
- Too many BFIs but weak regulatory and supervisory practices

Key Cross-sectoral Constraints

7. Inadequate human capital

- Shortage of labor as well as skills gap
- Just 12% of third graders in Nepal read at grade level (symptom of a defunct education system or poorly skilled workforce)
- Too much focus on primary school enrollment



Key Cross-sectoral Constraints

8. Weak institutions/governance

- Bureaucratic inertia to new reforms or approaches to doing work
- Widespread corruption (CPI ranking reflects a part of it)
- Lack of capacity of local and provincial governments to plan, execute and monitor development projects

9. Anti-competitive practices

- Encouraging early moves from the government against transport syndicates
- Freight and petroleum transport syndicates, agricultural cartels, education and health sectors, banking, airlines
- Control either price or quantity or both

Key Risks

1. **Macroeconomic risk** (fiscal, external)
2. **Financial instability risk** (asset-liability mismatch, weak governance)
3. **Weak contract management** (lack of capacity in bureaucracy/private sector)
4. **Coordination and governance risk** (regulatory overreach, fiduciary risks)
5. **Political instability risk** (intra-party quarrel, insurgency era reconciliation issues, unaddressed grudges of Madhesi community)
6. **Informal and shadow economy** (high tax & regulatory burden)
7. **Overdependence on India** (petroleum pipeline, hydro export, import of goods)
8. **REER appreciation** or sudden devaluation of NRs
9. **Natural disasters/climate change**

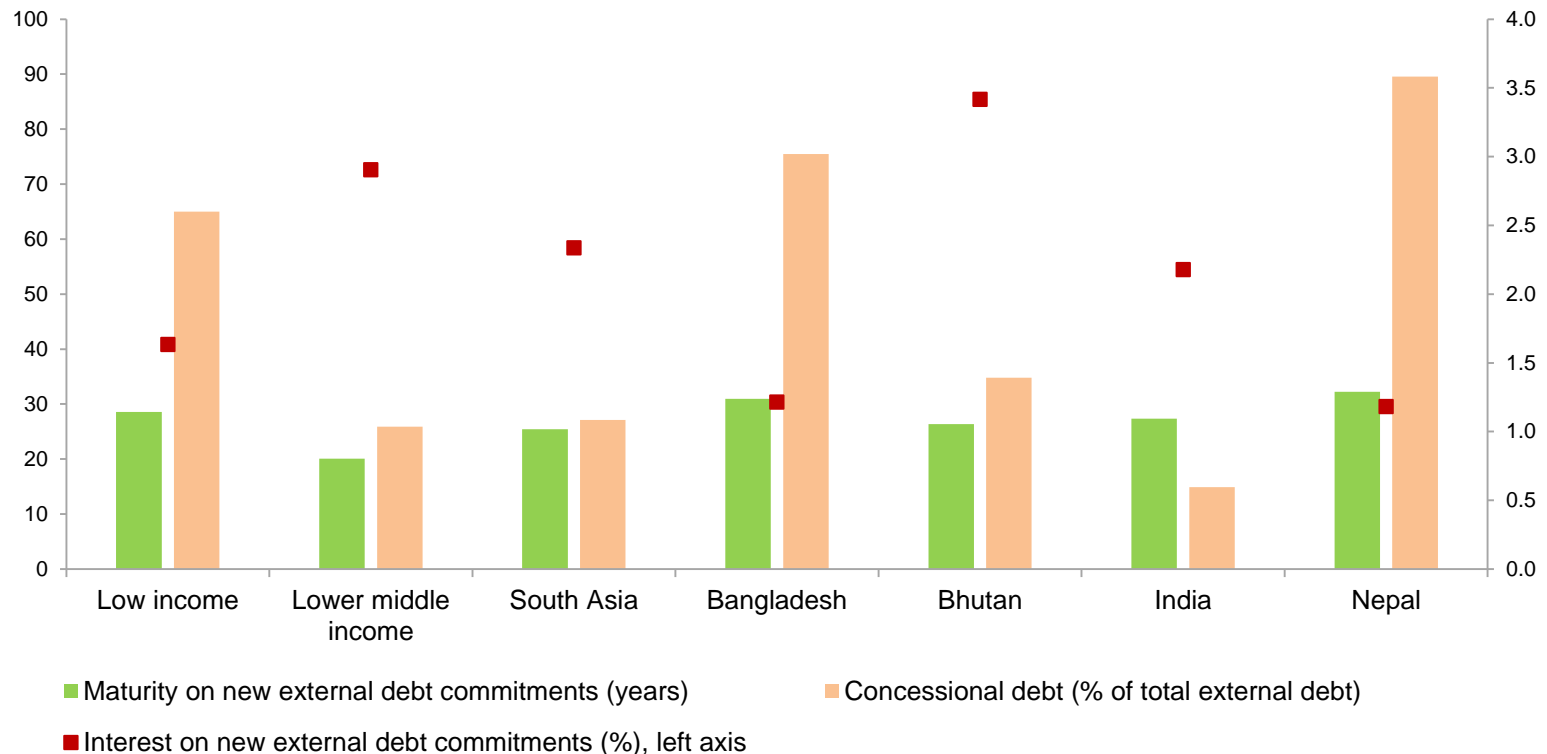
Key Opportunities

1. **Federalism** (devolution of authority and better public service delivery)
2. **Macroeconomic soundness** (low public debt, moderate inflation, high forex)
3. **Bountiful natural resources** (hydropower, water reserves, forests, bio and climatic diversity)
4. **Demographic dividend** (15-49 age cohorts >50%; youthful population)
5. **Peace/political dividend** (stable government, low likelihood of armed conflict)
6. **Geographic advantage** (large and growing India and China; prospect for light manufacturing with relatively cheaper input cost and faster technology and knowledge absorption)
7. **Leverage technology** (high internet and mobile penetration, technology-enabled services in agriculture, healthcare, education, ICT, financial inclusion)
8. **Project bank** (ongoing work on shovel-ready projects that have passed project readiness filter, several large-scale transformation projects ongoing)

Key Opportunities

9. Significant goodwill (BRI, BBIN, concessional borrowing, cultural and religious tourism)

Average interest, maturity & concessional debt



Short-term Economic Outlook

- Overall stable outlook over the medium-term
- Better execution of central government's capital budget
- Increased local level spending (out of self generated or transferred revenue)
- Large-scale infrastructure projects (hydropower, drinking water, irrigation, airports, expressways)
- GDP growth of about 5% is doable (industrial, post-EQ reconstruction, tourism activities)
- High inflationary pressures and current account deficit
- High fiscal deficit and financial sector volatility
- Increased private sector confidence is the key
- Equally important is efficient budget execution and public service delivery

THANK YOU!

2018-05-09



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