



## Economic Growth and Development

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DOI: <https://doi.org/10.55248/gengpi.5.0224.0506>

### ABSTRACT:

The main objective of the study is to examine the economic growth and development of Nepal. All the data was gathered from secondary sources. Date of economic growth were taken from differne website. In order to continue its economic growth and development, Nepal must take a multi-pronged approach that addresses these challenges head-on. This will require the government to invest in infrastructure and education, as well as create a supportive business environment that encourages investment and entrepreneurship. Additionally, the country must focus on developing its tourism industry, which has enormous potential to provide jobs and boost economic growth. By addressing the challenges that stand in the way of economic growth, and by investing in key areas such as infrastructure, education, and tourism, Nepal can continue its path towards a bright future. With the right policies and investments, Nepal can become a leading economic player in South Asia and provide a better future for its people. Effective implementation of government policies and programs, supported by adequate resources and improved governance mechanisms, will be essential for translating strategies into tangible outcomes. Collaboration between the government, private sector, and development organizations is crucial to achieving sustainable economic growth and lifting more people out of poverty in Nepal.

Keywords: GDP, Tourism, Infrastructure development and Human Capital Development

### INTRODUCTION

#### Background of the study

Economic growth means the increment of a nation's wealth over a period. Economic growth also relates to an increase in the production of goods and services in a country and increases the value of a country's economic output. Economic growth is caused by an increase in the quantity of resources, an increase in the quality of the resources, and improvements in technology. Economic growth can be measured by a country's GDP. Economic growth plays a significant role in reducing poverty and improving the quality of life of people. An increase in capital goods, labor, technology, and manpower also helps to increase the economic growth of a country provide employment opportunities, and raise the standard of living of people. Economic Growth can be measured by real GDP by adding all the income of consumers, businesses, and governments in a certain period.

However, economic development is different from economic growth. It is an improvement in the quality of life, especially for the most vulnerable sectors of society. It is concerned with creating opportunities for everyone to live better and safer lives. This can be achieved through better access to healthcare, education, and job opportunities. Overall, economic growth and development are essential for a country's socio-economic progress. Although economic development is often used to describe the process by which countries with low living standards become nations with high living standards, it also specializes in introducing changes that reduce poverty and increase the overall health and well-being of the general population. Despite the presence of environmental, social, and political challenges, economic development has proven to be an effective tool for improving educational levels and reducing inequality within communities. It is a process that works on many distinct levels to improve the quality of life for citizens in any given country. It is a powerful tool for bringing about positive change, but it is often accompanied by a fair share of economic, social, and political risks.

Situated in South Asia, Nepal ranks among the least developed countries in the world. Despite having a rich cultural heritage, natural resources, and a large pool of human capital, the country has struggled to achieve sustained economic growth and development. Over the past few decades, the Nepalese economy has been marked by political instability, poor governance, and underdeveloped infrastructure, which have impeded its progress.

Since the end of the civil war in 2006, the Nepalese government has made significant efforts to promote economic growth and development. The government has implemented several reforms to improve the business environment, attract foreign investment, and promote entrepreneurship. Additionally, it has placed a strong emphasis on infrastructure development, particularly in the energy and transportation sectors.

Despite these efforts, the Nepalese economy still faces numerous challenges. The country is heavily dependent on agriculture, which accounts for a large portion of its GDP and employment. However, the sector is plagued by low productivity, limited access to markets, and poor infrastructure. The lack of diversification in the economy also means that it is vulnerable to external shocks, such as natural disasters and changes in global commodity prices.

Another major constraint to the economic growth and development of Nepal is the lack of access to finance, particularly for small and medium-sized enterprises. This is due to several factors, including the lack of formal credit institutions, limited access to information, and a shortage of skilled human capital. Furthermore, corruption and a weak legal system also undermine the business environment, making it difficult for entrepreneurs to start and grow their businesses.

In spite of these challenges, Nepal also presents numerous opportunities for economic growth and development. For example, the country has a large young and growing population that is eager to work and contribute to the economy. Additionally, the Nepalese government has made a concerted effort to promote tourism, which has the potential to be a major source of foreign exchange and employment.

The economic growth and development of Nepal have been a topic of debate for many years. The country has seen a rapid increase in its GDP from \$2.3 billion in 1990 to \$14.6 billion in 2013. However, the growth has been uneven, and the country has not been able to keep up with the global trend. The main reasons for the country's slow growth are inadequate resources, a lack of governance and economic infrastructure, and a lack of human resources.

Nepal is a country of about 8 million people. The majority of the population is rural, and the country has a very low population density. The country has a large population of people who are not able to service the country's economic needs. The country's agricultural sector is the mainstay of the country's economy, and the country has been able to maintain a high level of agricultural production. However, the country is facing several Challenges, including a lack of human resources, a lack of governance, and a lack of resources.

The oil production in Nepal is due to several factors, including the mining and development of the mountain ranges, the demand for oil and gas, and the need to support social security. Nepal is a country with a relatively small economy, but it is growing rapidly. The economy is service-based, and it is estimated that the country has a population of over 15 million. The country is also well-connected by air and land linkages.

The Nepalese government has recognized the need to address these economic challenges and has implemented various policies and programs aimed at promoting economic growth and reducing poverty. The National Planning Commission's 11th Five-Year Plan, for instance, emphasizes inclusive growth and poverty reduction as key priorities. Despite these efforts, the impact of these policies has been limited due to implementation bottlenecks, inadequate resources, and governance issues.

The private sector in Nepal, though showing potential, faces obstacles in terms of limited capacity and access to finance. The financial sector, including banks and other financial institutions, still needs strengthening to provide sufficient credit and financial services to individuals and businesses. Moreover, the education and training sector struggles to equip the workforce with the necessary skills and knowledge demanded by a rapidly evolving economy. The lack of skilled labor hampers productivity and competitiveness in various sectors, hindering overall economic growth.

Given these challenges, it is imperative to conduct a comprehensive study that assesses the current state of the Nepalese economy and provides recommendations for sustainable economic growth and development. Such a study will contribute to the existing literature and inform policymakers, government agencies, and other stakeholders about effective strategies to overcome these challenges and create an enabling environment for Nepal's economic transformation. By addressing these issues, Nepal can unlock its economic potential, reduce poverty, and improve the well-being of its citizens.

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## Statement of the problem

Since it has been hampered by a variety of factors including political unpredictability, a lack of infrastructure, and inadequate investment, Nepal's economic development and growth are a cause for concern. Nepal has the potential for economic growth, but there are obstacles in the way of luring in international investment and providing enough employment opportunities for its fast-expanding population. Along with addressing inequality and poverty, the nation has battled to keep its growth rate steady. Nepal must implement effective policies and strategies to meet these difficulties and encourage inclusive growth to address these issues and support sustainable economic development.

Nepal has a high dependency on agriculture and remittance. Due to this the economic growth of Nepal can easily decrease with some minor problems. Likewise, agriculture and remittance, lack of investment, unemployment, political instability, poverty, etc. also are the major problems that arise in the economic growth and development of Nepal. Hence to increase economic growth and development rate in Nepal government should give more attention to modernizing the agricultural sector by cooperating with the private sector to strengthen the supply of production. Nepal should put an effort into reducing imports like fossil fuel increasing the production of hydropower and becoming self-reliant in the economic sector.

Therefore, there is a need to understand the reasons behind the slow progress of Nepal's economy and identify possible solutions to overcome these challenges. A comprehensive analysis of the current situation, as well as a critical examination of the existing policies and initiatives, can provide valuable insights for promoting sustainable economic growth and development in Nepal. By conducting a thorough analysis, the country can formulate a roadmap for economic development, which will benefit not only the current generation but also future generations.

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## Objectives of the study

The basic objective of the study is to find out the economic growth and development of Nepal. The Specific objective is as follows:

- To examine the main sources of economic growth and development.
- To examine the relationship between economic growth and development.

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## Methodology

The major objective of this seminar paper is to explore the economic growth and development rate of Nepal, its challenges, and its impact. All the data was gathered from secondary sources which means data that is collected by others has helped me to study the economic growth and development of Nepal. These sources helped me to learn about the economy of Nepal and discuss the challenges and solutions for economic growth and development.

There are various methods used to study and track economic growth such as GDP which helps to measure the value of goods and services produced by a nation. Gross Domestic Product (GDP) is used to understand and analyze the total income of people during a certain period.

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## Description and Analysis

### Theoretical Review

The topic of economic growth and development in Nepal is a critical one, given the country's potential to become a significant economic player in South Asia. The country has a rich cultural heritage and a diverse range of natural resources, including some of the world's highest mountains and fertile plains. However, Nepal has faced several challenges in its quest for economic growth, including a lack of infrastructure and a weak business environment.

The text discusses the three most important economic growth theories and the influential theorists associated with them. These theories include classical theory, neo-classical theory, and modern theory of economic study. While the theories have distinct differences, they share the objective of understanding and explaining economic growth. Classical economists, such as Adam Smith and Ricardo, focused on studying how economies expand and contract. The neo-classical theorists, such as Solow and Swan, emphasized the behavior of economic participants within a system as crucial to growth. The modern theory, represented by Harrod and Domar, highlighted the challenge of satisfying unlimited needs with limited resources and emphasized the importance of knowledge in driving growth.

In summary, the classical, neo-classical, and modern growth theories aim to explain economic growth, but they approach it from different perspectives. Classical economists focus on the expansion and contraction of economies, while neo-classical theorists emphasize the behavior of economic participants within a system. The modern theory addresses the challenge of meeting unlimited needs with limited resources and highlights the significance of knowledge in driving growth. The theories and their associated theorists contribute to the ongoing debate on the nature and determinants of economic growth.

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## Literature Review

One of the subjects that has been studied the most in Nepal is Economic Growth and Development. Economic Growth and Development promote social equality among the masses so that there is an equal distribution of wealth and income and people enjoy some quality of wealth, status, and livelihood.

Kindleberger and Herrick (1977) propose that delving into the processes of growth and development itself can elucidate the distinctions between growth models and development models. Growth models tend to overlook or neglect factors such as the diverse composition of the economy, varied sector responses, and individual reactions within a context of poverty. On the other hand, models of economic development focus on these elements, recognizing their central importance."

According to Colander (1993), the US economy has shown a consistent trend of growth or expansion. Economists typically measure this growth using changes in real gross domestic product (real GDP), which represents the market value of final goods and services produced in an economy, adjusted for the prices of a specific year. As production and sales increase, both total output and total income in the economy rise, benefiting most individuals who experience higher levels of prosperity. Economic growth is generally welcomed as it provides people with more resources and opportunities compared to previous years.

Dornbush et al. (2006) explain that economic growth is attributed to various factors, including the growth of inputs such as labor and capital, as well as advancements in technology. Capital accumulation occurs through saving and investment, contributing to increased output and productivity. Additionally, the rate of population growth plays a role in determining the long-term level of output per person. The neoclassical growth model suggests that poorer countries' standard of living will eventually converge towards the level observed in wealthier countries.

Adam Smith describes his opinion on how to analyze economic growth with two factors they are, the total output factor and the population growth factor. Calculation of total output can be used on three variables they are: First, natural resources; Second, human resources; Third, and capital stock. If the second factor is population growth, it is carried out in determining market area and economic growth (Sengupta, 2011)

David Ricardo is thinking about the well-known economic growth, which is about the law of diminishing returns. David Ricardo's thinking about how population growth can affect the decline in marginal products due to the limited amount of land. David Ricardo posits that enhancing workforce productivity necessitates greater technological advancements and significant capital accumulation. In this manner, economic growth will be realized or achieved (Sengupta, 2011). The essence of David Ricardo's theory is he believed that for every increase in population, there must be increased land and employment. On the other hand, (Brito, 2011) explains that the modern economic growth process has been contemporaneous with a demographic revolution; except this, it seems to be independent of the rate of growth of the population.

John Maynard Keynes wrote a book called *The General Theory of Employment of Interest and Money*, 1936. This book was authored in response to the 1930s great depression, challenging the inadequacies of Classical and Neo-Classical thinking. Keynesian growth theory asserts that the consumption of one individual in the economy can contribute to the increased income of others. At the time of the great depression crisis, people refrained from consuming and instead hoarded money. This is what causes the cycles of money circulation to stop and causes the economy to paralyze. The solution to this problem according to Keynes is government intervention.

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### **The process to overcome the challenges faced by Nepal in its economic growth and development**

The economy of Nepal faces significant challenges in terms of achieving sustained economic growth and development. Nepal's economy heavily relies on agriculture, which is susceptible to frequent natural disasters such as earthquakes and floods. This vulnerability hampers the country's economic growth potential. The government of Nepal has implemented various policies and programs aimed at promoting economic development, but their impact has been limited due to inadequate resources and challenges in implementation. To address these challenges and foster economic growth and development, several key recommendations can be made.

- First, it is crucial to create a favorable business environment and improve access to finance for the private sector. This can be achieved by simplifying business registration procedures, reducing bureaucratic barriers, and providing incentives for investment. Strengthening the financial sector by expanding the availability of credit and financial services will facilitate entrepreneurship and spur economic activities.
- Second, enhancing the education and training sector is vital to improving the skills and knowledge of the workforce. This can be done through targeted investments in education, vocational training programs, and partnerships with industries to align skills with market demands. Developing a skilled workforce will enhance productivity, attract investments, and promote innovation in various sectors, including tourism and manufacturing.
- Third, the tourism industry presents significant potential for economic growth and job creation in Nepal. Investing in infrastructure development, promoting cultural heritage and natural attractions, and improving marketing efforts will help attract more tourists and generate revenue. Strengthening the tourism sector will not only diversify the economy but also contribute to reducing poverty and unemployment.
- Finally, effective implementation of government policies and programs is crucial. This requires allocating adequate resources, enhancing coordination among government agencies, and addressing challenges related to governance and corruption leading to tangible results in economic growth and development.

By implementing these recommendations, Nepal can overcome its economic challenges and achieve sustainable economic growth, improved living standards, and reduced poverty. Collaboration between the government, private sector, and development organizations will be essential to drive these changes and pave the way for a prosperous future for Nepal and its citizens. Over the past decade, the Nepalese government has made significant efforts to address these challenges. They have taken steps to invest in infrastructure, particularly in the transportation, energy, and communication sectors. Additionally, they have taken measures to improve the business environment, such as reducing bureaucratic hurdles and simplifying regulations. The government has also prioritized the development of the tourism industry, which has enormous potential to generate employment and foreign exchange earnings.

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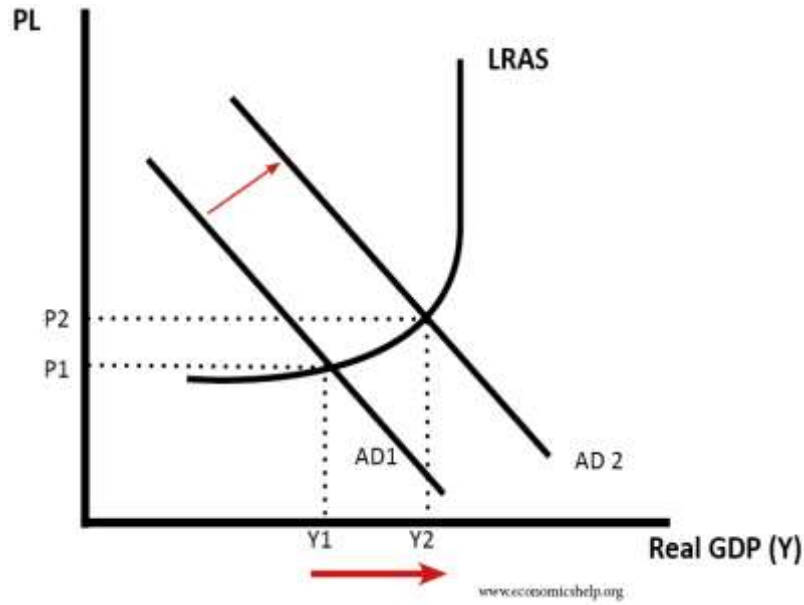
### **Data Analysis**

Economic growth refers to a rise in national output or income in higher real GDP (Gross Domestic Product). There are two main aspects of economic growth:

1. Aggregate demand (AD) encompasses consumer spending, investment levels, government spending, and the balance of exports and imports.
2. Aggregate supply (AS) (Productive capacity, the efficiency of economy, labor productivity)

To increase economic growth and development we need to see a rise in demand and/or an increase in productive capacity:

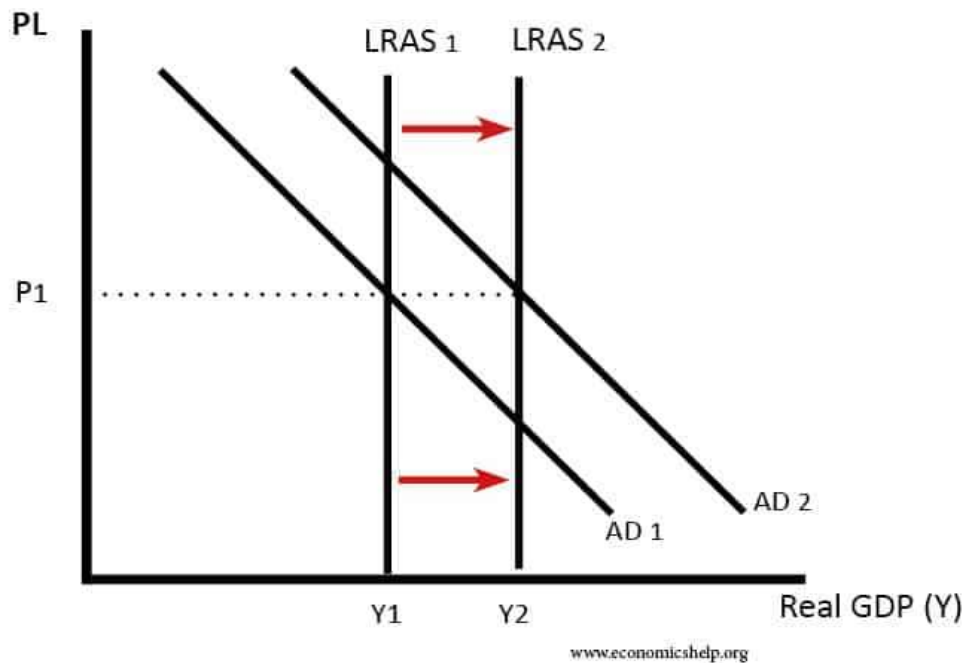
- **A rise in aggregate demand**



Aggregated demand can increase for various reasons.

- Lower interest rates – decrease the cost (expense) of borrowing, leading to increased consumer spending and investment.
- Increased real wages – if nominal wages grow above inflation, then consumers have more disposable to spend.
- Higher global growth – leading to higher export expenditure.
- Devaluation, making exports more affordable and imports more costly, increasing (raising) domestic demand.
- Rising wealth, e.g., rising house prices causes consumers to spend more (they feel more confident and can remortgage their hour

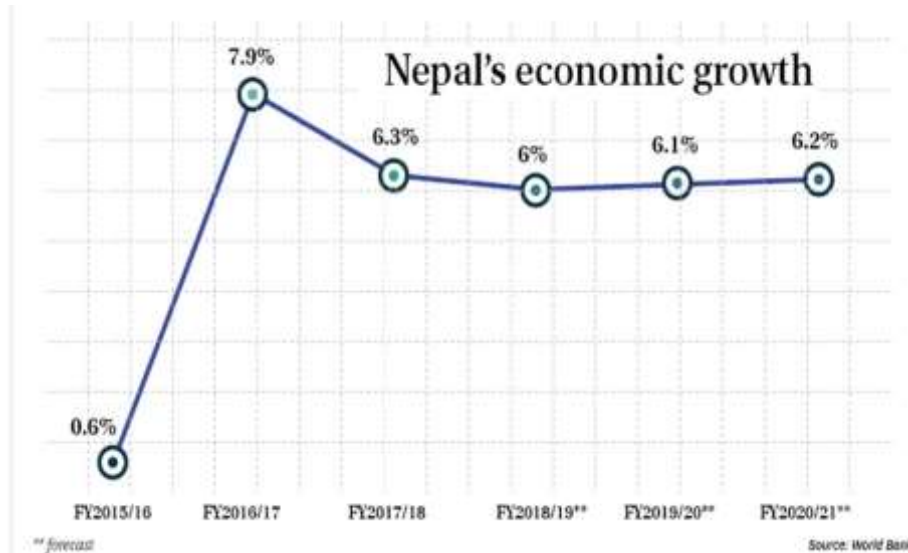
➤ **Growth in productivity**



This is growth in aggregate supply (productive capacity). This can occur due to:

- Development of new technology, e.g., steam power and telegrams helped productivity in the nineteenth century. Internet, artificial intelligence (AI), and computers are contributing to increased productivity in the twenty-first century.
- Introduction of new management techniques, e.g., Better industrial relations help workers become more productive.

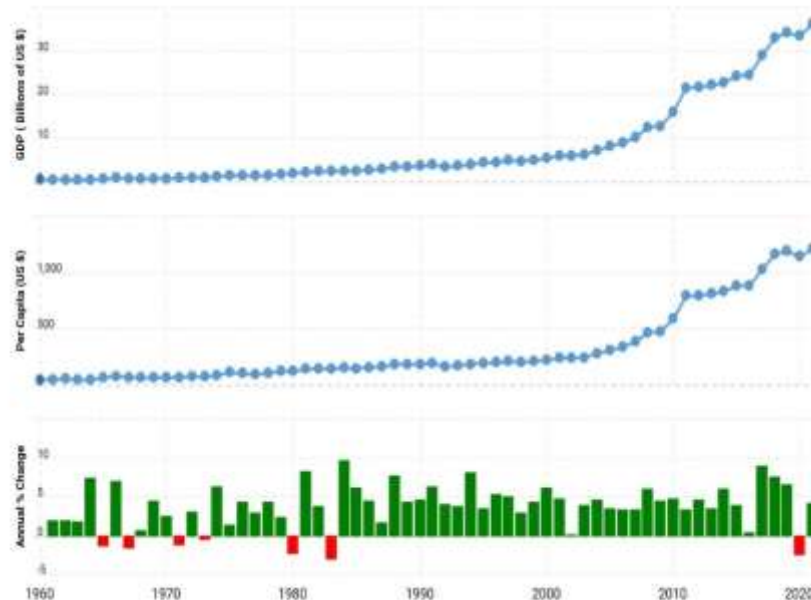
- Improved skills and qualifications.
  - More flexible working practices – working from home, self-employment.
  - Increased net migration – especially encouraging workers with skills that are in short supply (e.g., builders, fruit pickers).
  - Raise the retirement age and therefore increase the supply of labor.
  - Public sector investment – e.g., improved infrastructure, increased spending on education
- ❖ Nepal's Economic growth chart from the fiscal year 2015/16 to FY2020/21



Source: World Bank

The above figure shows Nepal's economic growth from the fiscal year 2015 to 2021. Overall, the economic growth rate is continuously fluctuating. In 2016/2017 the economic growth rate increased to 7.9% but in later years it started to decrease. In FY 2017/2018 the economic growth decreased to 6% and it slowly increased in the later year.

- ❖ Nepal's economic growth rate, GDP and Per capita income chart from 1960 to 2023



Source: World Bank

The above bar graph shows the annual change in Nepal's economic growth rate. There was an increment in economic growth from 1960 to 1964 and a decline in 1965 and 1967. From 1980 onwards the economic growth rate of Nepal increased and there was the development process going on.

**Difference between economic growth and development.**

<b>Economic Growth</b>	<b>Economic Development</b>
Economic growth refers to production.	Economic development refers to productivity.
Economic growth is not a continuous process because it is measured in certain periods.	Economic development is a continuous process.
Economic growth can be the best solution for developed countries.	Whereas economic development can be the best solution for developing countries.
Without economic development, economic growth is possible to measure.	But without economic growth, economic development is not possible.
For example: - GDP, GNP	For example: - Per Capita Income

**Prospects for economic growth and development**

Nepal has significant potential for economic growth and development. Here are some key factors that could contribute to its prospects:

1. **Infrastructure development:** Nepal has been investing in improving its infrastructure, such as transportation networks, energy generation, and communication systems. Infrastructure development can attract investment, enhance connectivity, and support various sectors of the economy.
2. **Tourism:** Nepal is known for its natural beauty, rich cultural heritage, and adventure tourism opportunities, including trekking and mountaineering. By promoting tourism, Nepal can attract more visitors, generate foreign exchange, and create employment opportunities.
3. **Hydroelectric power:** Nepal has abundant water resources, which can be harnessed for hydroelectric power generation. The country has the potential to become an exporter of electricity by developing its hydropower infrastructure. This could boost its economy and provide a stable source of revenue.
4. **Agriculture and agro-processing:** Agriculture plays a crucial role in Nepal's economy, employing a significant portion of the population. Improving agricultural productivity, enhancing value chains, and promoting agro-processing industries can help increase agricultural exports and improve farmers' income.
5. **Foreign investment and trade:** Encouraging foreign investment and expanding trade relations can stimulate economic growth. Nepal has been working on improving the ease of doing business and providing incentives to attract foreign investors. Enhancing trade agreements and diversifying export markets can also contribute to economic development.
6. **Human capital development:** Investing in education, skills training, and healthcare can enhance the human capital of the country. A skilled workforce can attract industries, foster innovation, and contribute to overall economic growth.
7. **Regional cooperation:** Nepal's participation in regional cooperation initiatives, such as the South Asian Association for Regional Cooperation (SAARC) and the Belt and Road Initiative (BRI), can provide opportunities for trade, investment, and infrastructure development.

However, it's important to acknowledge that Nepal faces some challenges on its path to economic growth and development. These challenges include political instability, weak governance, inadequate infrastructure, access to finance, and geographical constraints. To realize its economic potential, Nepal needs to address these challenges, implement effective policies, attract investments, promote entrepreneurship, and ensure sustainable development practices. Additionally, a stable political environment, good governance, and continuous efforts to improve the ease of doing business can contribute to Nepal's long-term economic growth and development.

**Conclusion**

In conclusion, Nepal is a country with huge potential for economic growth and development. The country has a rich history and culture and is home to some of the world's most beautiful landscapes and tourist destinations. The government of Nepal has made significant efforts in recent years to develop the country's economy and has made progress in several key areas, including tourism, agriculture, and industry. However, there are still many challenges that need to be addressed, including a lack of infrastructure, a shortage of skilled workers, and a weak business environment.

In order to continue its economic growth and development, Nepal must take a multi-pronged approach that addresses these challenges head-on. This will require the government to invest in infrastructure and education, as well as create a supportive business environment that encourages investment and entrepreneurship. Additionally, the country must focus on developing its tourism industry, which has enormous potential to provide jobs and boost

economic growth. Nepal has a lot of potential for economic growth and development, but there is still much work to be done. By addressing the challenges that stand in the way of economic growth, and by investing in key areas such as infrastructure, education, and tourism, Nepal can continue its path towards a bright future. With the right policies and investments, Nepal can become a leading economic player in South Asia and provide a better future for its people.

Addressing the economic challenges faced by Nepal is crucial for its long-term growth and development. The country's heavy reliance on agriculture, vulnerability to natural disasters, limited private sector capacity, and inadequate access to finance pose significant obstacles. However, through targeted strategies and collaborative efforts, these challenges can be overcome by creating a favorable business environment, improving access to finance, and promoting entrepreneurship. Nepal can unleash the potential of its private sector and stimulate economic growth. Strengthening the education and training sector will enhance the competitiveness of the workforce, ensuring that they possess the skills and knowledge needed for diverse industries. Additionally, developing the tourism industry by investing in infrastructure and marketing efforts will unlock its immense potential, generating employment opportunities and attracting foreign investment.

Moreover, effective implementation of government policies and programs, supported by adequate resources and improved governance mechanisms, will be essential for translating strategies into tangible outcomes. Collaboration between the government, private sector, and development organizations is crucial to achieving sustainable economic growth and lifting more people out of poverty in Nepal.

By addressing these recommendations and embracing a holistic approach to economic growth and development, Nepal can pave the way for a prosperous future, with improved living standards, reduced poverty rates, and enhanced economic resilience. It is a collective endeavor that requires commitment, cooperation, and a long-term vision to propel Nepal towards a path of inclusive and sustainable development.

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