DEVELOPMENTS IN DOMESTIC SAVING MOBILIZATION IN NEPAL : AN OVERVIEW

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1. Role and Significance of Domestic Saving, and the Associated Indicators

Nepal is one of the least developed countries in the world.She is beset with many characteristic features of underdevelopment which also work as impediments to further growth and development. The per capita GNP in 1990 was US$ 170, average annual growth rate percent between 1965 – 90 was 0.5, the agricultural sector alone contributed around 60 percent of GDP and employed 80 percent of labor force, whereas the industrial sector, which accounted for not more than 10 percent of GDP, provided employment for less than 5 percent of manpower. Due mainly to the low level of GDP, the consumption ratio was very high, generally leading to reduction in the level of saving and the need for increased reliance on foreign saving to finance development.

As evident from Table 1, Nepal had very low levels of domestic saving ratio (8 percent), the exports of goods and services ratio (12 percent), and a significantly large negative resource balance (gross domestic saving minus gross domestic investment) at 10 percent in 1990. In such a background, in the quest for increasing the rate of economic growth and fulfilling the growing aspirations of the people through higher level of investment relative to saving, Nepal experienced sharp rise in the external outstanding debt/GNP ratio, with the ratio jumping to 53.0 percent in 1990 from 10.4 percent in 1980, a surge of more than four times. Total external debt as a percentage of exports of goods and services was also notably high, at 402.6 percent, in 1990.

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Table 1. **Structure of Demand**

1. Per Capita GNP, $ (1990) — 170

2. Average Annual Growth Rate (%) (1965-90) — 0.5

3. <u>Structure of Demand (Distribution of GDP, %)</u>

		1965	1987	1988	1989	1990
(a)	General Govt. Consumption	-	11	10	11	12
(b)	Private Consumption	100	78	80	82	80
(c)	Gross Domestic Investment	6	21	20	19	18
(d)	Gross Dome[illegible] Saving	0	11	10	7	8
(e)	Exports of G[illegible]ds & Non-factor Services	8	13	13	13	12
(f)	Resource Balance	-6	-10	-10	-12	-10

4 (a) Total External Debt as a Percentage of Exports of Goods and Services:

1980	85.5
1990	402.6

4 (b) Total External Debt as a Percentage of GNP:

1980	10.4
1990	53.0

<u>Source:</u> World Development Report (various issues), World Bank.

Therefore, in order to achieve high and sustained rates of economic growth, Nepal especially is very much in need of substantial rise in the level of domestic resources to finance the required investments besides enhancement in the quality of such investments. In fact, in Nepal, during the past three decades, investment relative to saving was maintained at an unsustainably high level. In particular, the level of investment increased sharply during the 1980s, with more than half of all domestic investment financed from external sources. The poor domestic saving rate prompted a continuing heavy reliance on foreign sources for investment. Excess reliance on borrowing to meet increasing government expenditure due to limited revenue mobilization thus resulted in increasing debt stock and debt servicing obligations.

Foreign capital was very dominant in Nepal's plan financing. During the fifth (1976 - 1980), the sixth (1981 - 1985) and the seventh (1986 - 1990) plan periods, foreign grants and loans financed the total development expenditure of the government to the extent of 47.3 percent, 48.1 percent, and 59.5 percent respectively. This shows a distinctly upward trend in the reliance on foreign resources and, consequently, the downward share of the revenue surplus in meeting the development expenditure. A large chunk of the development expenditure was meant for government consumption, resulting in relatively lower level of government investment out of the given development expenditures. The share of investment in development expenditure ranged between 47.0 percent in 1991 to 74.7 percent in 1981, with the average share at 63.8 percent during the period 1975 - 1991. The deteriorating level of revenue surplus as a percentage of development expenditure, which slumped to 19.8 percent in 1991 from 47.8 percent in 1975, also signified the declining performance of the government revenue vis-a-vis the regular expenditure. As the average share of revenue surplus as a percentage of development expenditure for the entire period was 28.1 percent, the rest 71.9 percent of the development expenditure had to be financed through borrowing, leading to enhanced internal as well as external indebtedness of the government.

Table 2. **Government Development Expenditure and Its Financing***

(Amount in Rs Million)

Year[1]	Government Investment	Development Expenditure	Share of Investment in Development Expenditure(%)	Revenue Surplus (Revenue minus Regular Expenditure)	Revenue Surplus as a Percentage of Development Expenditure
1975	546	967.2	56.5	461.9	47.8
1976	681	1,238.8	56.0	441.1	35.6
1977	739	1,498.3	49.3	490.8	32.8
1978	1,186	1,808.0	65.6	715.1	39.6
1979	1,226	1,978.8	62.0	770.2	38.9
1980	1,701	2,308.6	73.7	717.9	31.1
1981	2,039	2,731.1	74.7	1058.0	38.7
1982	2,418	3,726.9	64.9	1,045.1	28.0
1983	2,964	4,982.1	59.5	844.5	17.0
1984	3,341	5,163.8	64.7	1,135.8	22.0
1985	3,938	5,488.7	71.7	1,010.5	18.4
1986	4,393	6,213.1	70.7	1,060.5	17.1
1987	5,156	7,378.0	69.9	1,839.9	24.9
1988	6,228	9,428.0	66.1	2,673.3	28.4
1989	9,022	12,328.8	73.2	2,100.7	17.0
1990	7,719	12,997.5	59.4	2,615.7	20.1
1991	7,510	15,979.5	47.0	3,159.6	19.8

* The data sources in this and the ensuing tables are from the various issues of Economic Survey and Budget Proposals unless otherwise specified.

1 All the years in this and the ensuing tables end in the mid-July. The cut-off period for the present study has been taken as mid-July, 1991.

The share of total foreign assistance in Nepal reached 7.0 percent of GDP in 1991 from 2.9 percent in 1976, with the share of bilateral and multilateral sources as percentage of GDP being at 1.9 percent and 1.0 percent in 1976, and 2.8 percent and 4.2 percent in 1991 respectively (Table 3). This shows a significant rise in the multilateral source of assistance as compared to the bilateral source over the period. Similarly, the grants / GDP share, which was 1.7 percent in 1975, came down to 1.6 percent in 1991. The loan / GDP share, on the other hand, rose from 0.6 percent in 1975 to 5.4 percent in 1991. As a percentage of total foreign assistance also, the respective shares of grants and loans were 73.1 percent and 26.9 percent in 1975.

Table 3. **Bilateral and Multilateral Grants and Loans**

(Amount in Rs Million)

Year	Grants and Loans: Bilateral	Grants and Loans: Multilateral	Total	Total: Grants	Total: Loans	Percentage Share of Foreign Assistance (Grants and Loans) in Total Government Exp.
1975	-	-	386.8	282.8	104.0	25.6
			(2.3)	(1.7)	(0.6)	
1976	330.7	174.9	505.6	359.7	145.9	26.4
	(1.9)	(1.0)	(2.9)	(2.1)	(0.8)	
1977	370.9	186.0	556.9	392.5	164.4	23.9
	(2.1)	(1.1)	(3.2)	(2.3)	(0.9)	
1978	456.7	391.7	848.4	466.6	381.8	31.7
	(2.3)	(2.0)	(4.3)	(2.4)	(1.9)	
1979	538.8	450.6	989.4	599.3	390.1	32.8
	(2.5)	(2.0)	(4.4)	(2.7)	(1.8)	
1980	846.4	494.1	1,340.5	805.6	534.9	38.6
	(3.6)	(2.1)	(5.7)	(3.4)	(2.3)	
1981	858.1	704.1	1,562.2	868.9	693.3	38.2
	(3.1)	(2.6)	(5.7)	(3.2)	(2.5)	
1982	909.5	813.7	1,723.2	993.3	729.9	32.1
	(2.9)	(2.6)	(5.5)	(3.2)	(2.3)	
1983	947.2	1,128.7	2,075.9	1,090.1	985.8	29.7
	(2.8)	(3.3)	(6.1)	(3.2)	(2.9)	
1984	983.2	1,564.3	2,547.5	876.6	1,670.9	34.3
	(2.5)	(4.0)	(6.5)	(2.2)	(4.3)	
1985	1,156.3	1,520.1	2,676.4	923.4	1,753.0	31.9
	(2.6)	(3.4)	(6.0)	(2.1)	(3.9)	
1986	1,481.1	2,010.4	3,491.5	1,120.6	2,370.9	35.6
	(2.9)	(4.0)	(6.9)	(2.2)	(4.7)	
1987	1,078.4	2,236.1	3,314.4	1,078.0	2,236.0	28.8
	(1.8)	(3.8)	(5.6)	(1.8)	(3.8)	
1988	2,261.6	2,826.9	5,088.5	1,994.2	3,094.3	36.1
	(3.3)	(4.1)	(7.4)	(2.9)	(4.5)	
1989	1,707.7	3,959.2	5,666.9	1,478.2	4,188.7	31.5
	(2.2)	(5.1)	(7.3)	(1.9)	(5.4)	
1990	2,553.9	3,892.2	6,446.1	1,807.8	4,638.3	32.8
	(2.8)	(4.3)	(7.1)	(2.0)	(5.1)	
1991	2,939.9	4,400.5	7,340.4	1,629.9	5,710.5	31.2
	(2.8)	(4.2)	(7.0)	(1.6)	(5.4)	

Note: Figures in parantheses indicate percentages of the corresponding GDP.

Over the period, the share of grants decelerated and that of the loans spurted with their shares at 22.2 percent and 77.8 percent respectively in 1991. Bilateral grants and loans, which formed 65.4 percent of the total foreign assistance in 1976 slipped to 40.1 percent in 1991, whereas the multilateral component rose from 35.6 percent to 59.9 percent during the same period (Table 4). Given the increased grants and concessionary elements in the bilateral assistance as compared to the multilateral one, such a drastic shift in the nature of foreign assistance could put additional constraint on the budget and economy of the recipient country if the resources are not put to their maximum use.

Table 4. **Bilateral and Multilateral Grants and Loans**

(In Percentage of Total Foreign Assistance)

	Grants and Loans			Share of	
Year	Bilateral	Multilateral	Total	Grants	Loans
1975	-	-	100.0	73.1	26.9
1976	65.4	35.6	100.0	71.1	28.9
1977	66.6	33.4	100.0	70.5	29.5
1978	53.8	46.2	100.0	55.0	45.0
1979	54.5	45.5	100.0	60.6	39.4
1980	63.1	36.9	100.0	60.1	39.9
1981	54.9	45.1	100.0	55.6	44.4
1982	52.8	47.2	100.0	57.6	42.4
1983	45.6	54.4	100.0	52.5	47.5
1984	38.6	61.4	100.0	34.4	65.6
1985	43.2	56.8	100.0	34.5	65.5
1986	42.4	57.6	100.0	32.1	67.9
1987	32.5	67.5	100.0	32.5	67.5
1988	44.4	55.6	100.0	39.2	60.8
1989	30.1	69.9	100.0	26.1	73.9
1990	39.6	60.4	100.0	28.0	72.0
1991	40.1	59.9	100.0	22.2	77.8

The substantial rise in the public investment, from 3.3 percent of GDP in 1975 to 7.1 percent in 1991 as compared to the slower increase in the private investment, from 11.2 percent in 1975 to 13.0 percent in 1991, is also reflected in the increased total expenditure of the government during the period 1975 — 1991. As a percentage of GDP, regular expenditure increased to 7.2 percent in 1991 from 3.3 percent in 1975 whereas the development expenditure marked a substantial increment, with the share rising from 5.8 percent in 1975 to 15.2 percent in 1991. The total expenditure of the government has accordingly shot up to 22.4 percent of GDP in 1991 from 9.1 percent in 1975 (Table 5).

Table 5. **Regular and Development Expenditure of the Government**

Year	Percentage Distribution			Percent of GDP				
	Regular Expen-diture	Develop-ment Expen-diture	Total Expen-diture	Regular Expen-diture	Develop-ment Expen-diture	Total Expen-diture	Govern-ment Revenue	Overall Deficit (Total Expenditure - Revenue)1/
1975	36.1	63.9	100.0	3.3	5.8	9.1	6.1	3.0
1976	35.3	64.7	100.0	3.9	7.1	11.0	6.4	4.6
1977	35.7	64.3	100.0	4.8	8.7	13.5	7.7	5.8
1978	32.4	67.6	100.0	4.4	9.1	13.5	8.0	5.5
1979	34.5	65.5	100.0	4.7	8.9	13.6	8.2	5.4
1980	33.5	66.5	100.0	5.0	9.9	14.9	8.1	6.8
1981	33.3	66.7	100.0	5.0	10.0	15.0	8.9	6.1
1982	30.5	69.5	100.0	5.3	12.0	17.3	8.6	8.7
1983	28.6	71.4	100.0	5.9	14.8	20.7	8.4	12.3
1984	30.6	69.4	100.0	5.8	13.1	18.9	8.7	10.2
1985	34.6	65.4	100.0	6.5	12.4	18.9	8.8	10.1
1986	36.6	63.4	100.0	7.1	12.3	19.4	9.2	10.2
1987	35.9	64.1	100.0	7.0	12.4	19.4	10.1	9.3
1988	33.2	66.8	100.0	6.8	13.7	20.5	10.7	9.8
1989	31.5	68.5	100.0	7.3	15.9	23.2	10.0	13.2
1990	33.9	66.1	100.0	7.3	14.3	21.6	10.2	11.4
1991	32.1	67.9	100.0	7.2	15.2	22.4	10.2	12.2

1 Without Grants.

The government revenue, on the other hand, rose modestly, from 6.1 percent of GDP in 1975 to 10.2 percent in 1991, resulting in an overall budget deficit of 12.2 percent of GDP in 19991 from 3.0 percent in 1975 (Table 6).

Table 6. Financing of Overall Budget Deficit

	Percent of GDP				
Year	Overall Deficit (Expenditure minus Revenue)	Grants	External Debt	Internal Debt	Change in Cash Balance (-) Surplus
1975	3.0	1.7	0.6	0.6	0.1
1976	4.6	2.1	0.8	1.1	0.6
1977	5.8	2.3	1.0	1.7	0.8
1978	5.5	2.4	1.9	1.2	-
1979	5.4	2.7	1.8	0.9	-
1980	6.8	3.4	2.3	0.8	0.3
1981	6.1	3.2	2.5	0.9	-0.5
1982	8.7	3.2	2.4	1.6	1.5
1983	12.3	3.2	2.9	3.0	3.2
1984	10.2	2.2	4.2	4.0	-0.2
1985	10.1	2.1	4.0	4.0	-
1986	10.2	2.3	4.9	2.8	0.2
1987	9.3	2.2	4.5	2.8	-0.2
1988	9.8	3.0	5.5	1.7	-0.4
1989	13.2	2.2	7.3	1.7	2.0
1990	11.4	2.2	6.5	2.4	0.3
1991	12.2	2.1	5.9	4.3	-0.1

Among the sources of financing the overall budget deficit, the share of grants went down to 16.9 percent of total deficit from its share of 56.0 percent in 1975. However, external loans, which financed 20.6 percent of the deficit in 1975, recorded a phenomenal rise over the years and financed 48.8 percent in 1991 (Table 7).

Table 7. **Financing of Overall Budget Deficit**
(Percentage Distribution)

Year	Overall Deficit	External Financing Grants	Loans	Total	Internal Financing[1]
1975	100.0	56.0	20.6	76.6	23.4
1976	100.0	45.1	18.3	63.4	36.6
1977	100.0	39.0	16.3	55.3	47.7
1978	100.0	42.7	34.9	77.6	22.4
1979	100.0	49.6	32.3	81.9	18.1
1980	100.0	50.7	33.6	84.3	15.7
1981	100.0	51.9	41.5	93.4	6.6
1982	100.0	37.0	27.2	64.2	35.8
1983	100.0	26.3	23.8	50.1	49.8
1984	100.0	21.8	41.5	63.3	36.7
1985	100.0	20.6	39.2	59.8	40.2
1986	100.0	22.8	48.5	71.3	28.7
1987	100.0	23.2	48.9	72.1	27.9
1988	100.0	30.7	56.5	87.2	12.8
1989	100.0	16.4	55.4	71.8	28.2
1990	100.0	19.0	57.4	76.4	23.6
1991	100.0	16.9	48.8	65.7	34.3

1 Internal loan and change in cash balance.

Internal loans, which financed 19.8 percent of deficit in 1975, shared 35.5 percent of the deficit in 1991. Over the 17-year period (1975-1991), as average percentages of GDP, regular expenditure shared 5.7 percent and development expenditure 11.5 percent (total expenditure 17.2 percent). The government revenue financed only 8.7 percent, resulting in an overall deficit of 8.5 percent of GDP, with the foreign grants, external debt and internal financing contributing 2.5 percent, 3.5 percent, and 2.5 percent in terms of GDP. This shows that foreign resources financed more than 70 percent of the overall budget deficit during the period.

As a direct consequence of the increasing reliance on foreign assistance in general and foreign loans in particular to meet the widening overall budget deficit as detailed above, the external debt stock of the government rose from Rs 346.1 million (2.1 percent of GDP) in 1975 to a whopping Rs 58,460.9 million (55.5 percent of GDP) in 1991. External debt stock as a percentage of the exports of goods and services rose from 21.9 percent in 1975 to 382.1 percent in 1991. This means a compounded annual increment rate of 19.6 percent during the period. Besides, external debt servicing as a percentage of the exports of goods and services also witnessed significant rises, with a low 0.7 percent in 1975 to 7.1 percent in 1991 (Table 8).

Table 8. **Outstanding External Debt and Its Servicing**

Year	Outstanding External Debt (Rs Million)	Outstanding Debt: As Percentage of GDP	Outstanding Debt: As Percentage of Exports of Goods & Services	External Debt Services as Percentage of Exports of Goods & Service
1975	346.1	2.1	21.9	0.7
1976	477.2	2.7	24.4	0.8
1977	629.4	3.6	29.7	0.8
1978	972.3	4.9	44.5	0.9
1979	1,320.9	5.9	48.2	0.8
1980	1,807.3	7.7	62.6	0.8
1981	2,451.3	9.0	66.6	1.6
1982	3,177.8	10.3	83.9	2.0
1983	4,717.6	14.0	129.0	2.6
1984	6,321.1	16.1	147.3	3.0
1985	9,203.2	20.7	168.4	3.5
1986	10,330.2	20.5	157.3	4.3
1987	15,171.9	25.6	198.2	6.4
1988	20,826.0	30.2	233.7	6.6
1989	29,216.9	37.7	280.9	6.7
1990	36,800.9	40.5	319.0	9.7
1991	58,460.9	55.5	382.1	7.1

With the impending maturity of additional loans in the near future, the debt servicing is likely to be a serious problem unless significant domestic resource mobilization effort is carried out, while at the same time, maintaining a prudent level of budget deficit and enhancing the resource allocative efficiency substantially through pursuance of suitable macro-economic policies. In addition to the external debt, the internal debt as percentage of GDP also rose markedly, from 3.1 percent in 1975 to 19.2 percent in 1991. Despite such phenomenal increment in the internal debt stock, the share of internal debt in total debt stock fell from 59.8 percent in 1975 to 25.7 percent in 1991, with the corresponding share of external debt stock rising from 40.2 percent in 1975 to 74.3 percent in 1991 (Table 9). This is an indication of the tremendous leap in the external debt stock of the government during the period.

Table 9. Total Government Debt Stock

Year	Percentage Distribution			Internal Debt as Percentage of GDP
	Total Debt	Internal Debt	External Debt	
1975	100.0	59.8	40.2	3.1
1976	100.0	57.9	42.1	3.8
1977	100.0	59.8	40.2	5.4
1978	100.0	54.3	45.7	5.9
1979	100.0	50.1	49.9	6.0
1980	100.0	44.6	55.4	6.2
1981	100.0	36.5	63.5	5.2
1982	100.0	36.9	63.1	6.0
1983	100.0	37.3	62.7	8.3
1984	100.0	40.4	59.6	10.9
1985	100.0	39.4	60.6	13.5
1986	100.0	40.4	59.6	13.9
1987	100.0	35.9	64.1	14.4
1988	100.0	34.7	65.3	16.1
1989	100.0	29.6	70.4	15.8
1990	100.0	27.4	72.6	15.3
1991	100.0	25.7	74.3	19.2

As regard the terms and conditions of foreign capital as outlined in Table 10, in 1990, the average interest rate was 0.9 percent, maturity period 40.2 years, grace period 10.3 years, and a grant element of 79.2 percent. Out of the total external debt, short-term debt was 1.2 percent, concessional debt 89.2, percent and multilateral debt 77.9 percent. There is no private, non-guaranteed long-term debt obligation of Nepal.

Table 10. **Average Terms of New Commitments and Other Details of External Debt**

Year	Interest Rate (%)	Maturity (Years)	Grace Period (Years)	Grant Element (Percent)	Short-term Debt/Total External Debt[1/] (EDT) (%)	Conces-sional Debt/ EDT (%)	Multi-lateral Debt/EDT
1970	2.8	26.9	6.2	53.1	...	...	...
1980	0.8	45.9	10.1	81.2	3.4	75.7	62.0
1983	1.8	38.2	9.4	70.9	17.7	76.2	65.7
1984	1.8	39.3	8.1	68.9	5.1	88.4	77.9
1985	1.6	42.1	8.8	73.1	3.9	88.5	77.2
1986	1.8	39.9	9.0	71.7	2.7	87.3	74.3
1987	3.1	32.5	8.2	59.1	1.9	84.4	70.4
1988	0.9	39.6	10.0	78.5	2.0	82.0	69.5
1989	0.9	39.2	10.1	78.9	1.3	85.7	73.8
1990	0.9	40.2	10.3	79.2	1.2	89.2	77.9

1 Including short-term and use of IMF credit. The total external debt (EDT) of US$ 1,621 million in 1990 was composed of :

(Amount in US$ Million)

Long-term debt outstanding : 1,557 (Central Government 1,444; Public Corporation 109)
- **Public and publicly guaranteed 1,557**
  - **Official creditors 1,449**
    - **Multilateral 1,262**
      - **Concessional 1,258**
        - **IDA 667**
      - **Non-concessional 4**
        - **IBRD 0**
    - **Bilateral 187**
      - **Concessional 187**
  - **Private creditors 108**
    - **Bonds 0**
    - **Commercial banks 0**
    - **Other private 108**
- **Private non-guarantee 0**

Use of IMF credit 44
Short-term credit 20
Total External debt 1,621

Source: World Debt Tables, 1991-92 : External Debt of Developing Countries, Volume 2, Country Tables, World Bank, 1991.

2. Definition and Concept of Domestic Saving

Nepal adopts the United Nations System of National Accounts (SNA). Gross domestic product by industrial origin is computed on the basis of the following originating sectors:

1) Agriculture, Fisheries and Forestry
2) Mining and Quarrying
3) Manufacturing:
   a) Modern
   b) Cottage
4) Electricity, Gas and Water
5) Construction
6) Trade, Restaurants and Hotels:
   - Trade
   - Restaurants and Hotels
7) Transport, Communications and Storages
8) Financial and Real Estate
9) Community and Social Services:
   - Public
   - Extra Territorial
   - Private Services

Addition of indirect tax less subsidy, which is calculated for agricultural and non-agricultural sectors, to the GDP by industrial origin gives GDP at market price. Exports and imports of goods and non-factor services are available from the balance of payments summary. Gross capital formation both in the public and private sectors along with the change in stock is calculated, the sum of which is regarded as total investment. The consumption figures for the public sector are also available. When total resources available (GDP at market prices plus imports of goods and non-factors services) are equated with the total uses of the resources the information of which is estimated as above, i.e., exports of goods and non-factor services plus investment plus public consumption, the residual is the private consumption. As memorandum item, gross domestic saving is GDP at market prices minus total consumption. Gross domestic saving added to net factor income from abroad and net current transfer gives gross national savings. GDP plus gross national saving is the GNP at market prices.

Therefore, the accuracy of saving estimates is directly dependent on the accuracy of the data on investment, consumption, and exports and imports of goods and non-factor services. As private consumption is estimated as a residual, the accuracy of this figure cannot be independently verified. As a result, not only is the detection of statistical discrepancy possible, there are also difficulties in estimating the gross fixed capital formation and change in stock due to data limitations. Information on the composition of consumption expenditures among services, non-durables, and durables are not available. The saving components - foreign, public and private - are not calculated in the national accounts summary. The question of the private saving being subdivided into its business and household components is thus far-off. Therefore, the measurement problems of the public, private, and total saving are substantially large. Besides, the problems of over and under-invoiocing of imports and exports as well as other ways of capital flight and the magnitudes thereof provide bias to the estimates. The exchange, trade, and tax systems must also have had some impact on the preciseness of data included in the estimates of national accounts and measurement of saving.

3. Domestic Saving Mobilization

The average annual compound growth rate of domestic saving in Nepal between 1975 and 1991 is 9.3 percent from Rs 1,662 million to Rs 6,864 million in absolute amounts (Table 11).

Table 11. Growth of Domestic Saving and Investment
(Amount in Rs Million)

	Gross Domestic Saving									
	Total		Public		Private		Investment		Nominal GDP	
Year	Amount	Annual Growth %	Amount	Annual Growth %	Amount	Annual Growth %	Amount	Annual Growth %	Amount	Annual Growth %
1975	1662	-	-249	-	1911	-	2402	-	16571	-
1976	2040	22.74	-178	-28.51	2218	16.06	2632	9.58	17394	4.97
1977	2332	14.31	63	-135.39	2269	2.30	2768	5.17	17280	-0.66
1978	2540	8.92	111	76.19	2429	7.05	3507	26.70	19732	14.19
1979	2585	1.77	-77	-169.37	2662	9.59	3514	0.20	22215	12.58
1980	2591	0.23	315	-509.09	2276	-14.50	4270	21.51	23351	5.11
1981	2974	14.78	497	57.78	2477	8.83	4808	12.60	27307	16.94
1982	3078	3.50	42	-91.55	3036	22.57	5314	10.52	30988	13.48
1983	2887	-6.21	-574	-1466.67	3461	14.00	6628	24.73	33761	8.95
1984	3886	34.60	-235	-59.06	4121	19.07	7351	10.91	39390	16.67
1985	6239	60.55	-454	93.19	6693	62.41	10184	38.54	44417	12.76
1986	5887	-5.64	-489	7.71	6376	-4.74	10599	4.08	50428	13.53
1987	7321	24.36	-595	21.68	7916	24.15	12898	21.69	59246	17.49
1988	7604	3.87	-1161	95.13	8765	10.73	15237	18.13	68858	16.22
1989	7366	-3.13	-1409	21.36	8775	0.11	17108	12.28	77534	12.60
1990	5560	-24.52	-1107	-21.43	6667	-24.02	16476	-3.69	90825	17.14
1991	6864	23.45	244	-122.04	6620	-0.70	21163	28.45	105300	15.94

The growth rate of investment, in contrast, is 14.6 percent per annum, with the saving-investment gap rising by 20.3 percent, compounded annually. As can be observed from Table 12, the saving/GDP ratio in 1991 was 6.5 percent with the investment/GDP ratio at 20.1 percent, resulting in a record saving gap/GDP ratio of 13.6 percent in that year. Although the public saving/GDP ratio has been negative for most of the years, private saving gap was at its highest in 1991.

Table 12. **Total Investment, Domestic Savings and Savings Gap**
(Amount in Rs Million)

		Saving			Investment[3]			Saving-Investment Gap		
Year	GDP	Total[1]	Public[2]	Private	Total	Public	Private	Total	Public	Private
1975	16,571	1,662	-249	1,911	2,402	546	1,856	740	795	(55)
		(10.0)	(-1.5)	(11.5)	(14.5)	(3.3)	(11.2)	(4.5)	(4.8)	(0.3)
1976	17,394	2,040	-178	2,218	2,632	681	1,951	592	859	(267)
		(11.7)	(-1.0)	(12.7)	(15.1)	(3.9)	(11.2)	(3.4)	(4.9)	(1.5)
1977	17,280	2,332	63	2,269	2,768	739	2,029	436	676	(240)
		(13.5)	(0.4)	(13.1)	(16.0)	(4.3)	(11.7)	(2.5)	(3.9)	(1.4)
1978	19,732	2,540	111	2,429	3,507	1,186	2,321	967	1,075	(108)
		(12.9)	(0.6)	(12.3)	(17.8)	(6.0)	(11.8)	(4.9)	(5.4)	(0.5)
1979	22,215	2,585	-77	2,662	3,514	1,226	2,288	929	1,303	(374)
		(11.6)	(-0.4)	(12.0)	(15.8)	(5.5)	(10.3)	(4.2)	(5.9)	(1.7)
1980	23,351	2,591	315	2,276	4,270	1,701	2569	1,679	1,386	293
		(11.1)	(1.3)	(9.7)	(18.3)	(7.3)	(11.0)	(7.2)	(6.0)	(1.3)
1981	27,307	2,974	497	2,477	4,808	2,039	2,769	1,834	1,542	292
		(10.9)	(1.8)	(9.1)	(17.6)	(7.5)	(10.1)	(6.7)	(5.7)	(1.0)
1982	30,988	3,074	42	3,036	5,314	2,418	2,896	2,236	2,376	(140)
		(9.9)	(0.1)	(9.8)	(17.1)	(7.8)	(9.3)	(7.2)	(7.7)	(0.5)
1983	33,761	2,887	-574	3,461	6,628	2,964	3,664	3,741	3,538	203
		(8.5)	(-1.7)	(10.2)	(19.6)	(8.8)	(10.8)	(11.1)	(10.5)	(0.6)
1984	39,390	3,886	-235	4,121	7,351	3,341	4,010	3,465	3,576	(111)
		(9.9)	(-0.6)	(10.5)	(18.7)	(8.5)	(10.2)	(8.8)	(9.1)	(0.3)
1985	44,417	6,239	-454	6,693	10,184	3,938	6,246	3,945	4,392	(447)
		(14.0)	(-1.0)	(15.0)	(22.9)	(8.9)	(14.0)	(8.9)	(9.9)	(1.0)
1986	50,428	5,887	-489	6,376	10,599	4,393	6,206	4,712	4,882	(170)
		(11.6)	(-1.0)	(12.6)	(21.0)	(8.7)	(12.3)	(9.4)	(9.7)	(0.3)
1987	59,246	7,321	-595	7,916	12,898	5,156	7,742	5,577	5,751	(174)
		(12.4)	(-1.0)	(13.4)	(21.8)	(8.7)	(13.1)	(9.4)	(9.7)	(0.3)
1988	68,858	7,604	-1,161	8,765	15,237	6,228	9,009	7,633	7,389	244
		(11.0)	(-1.7)	(12.7)	(22.1)	(9.0)	(13.1)	(11.1)	(10.7)	(0.4)
1989	77,534	7,366	-1,409	8,775	17,108	9,022	8,086	9,742	10,431	(689)
		(9.5)	(-1.8)	(11.3)	(22.0)	(11.6)	(10.4)	(12.5)	(13.4)	(0.9)
1990	90,825	5,560	-1,107	6,667	16,476	7,719	8,757	10,916	8,826	2,090
		(6.1)	(-1.2)	(7.3)	(18.1)	(8.5)	(9.6)	(12.0)	(9.7)	(2.3)
1991	105,300	6,864	244	6,620	21,163	7,510	13,653	14,299	7,266	7,033
		(6.5)	(0.2)	(6.3)	(20.1)	(7.1)	(13.0)	(13.6)	(6.9)	(6.7)

1 Gross domestic saving (i.e., GDP - consumption of the government and the non-government sectors).
2 Excess of public current revenues over current spending ,i.e., public consumption.
3 Including the stock adjustment.

Note: Figures in parantheses indicate percentages of the corresponding GDP. Amounts within parantheses under the private sector of the saving–investment gap column are surpluses.

Table 13 (a) shows the domestic investment and the inter-sectoral flow of funds during the three five-year period (1976 - 1990). The table shows an average investment of 16.6 percent of GDP in the fifth plan (1976 - 80), 19.2 percent in the sixth (1981 - 85) and 21.0 percent in the seventh (1985 - 90). With the domestic saving financing 12.2 percent, 10.6, percent and 10.1 percent of the investment ratio, the net external borrowing requirement was 4.4 percent, 8.6 percent, and 10.9 percent during three plan periods respectively [Tables 13 (a) and (b)].

Table 13 (a). **Domestic Investment and Inter-sectoral Flow of Funds During the three Five-Year Periods(1976-1990).**

(Percent of GDP)

Resources	Public Sector	Private Sector	Total
Investment :			
1976-80	5.4	11.2	16.6
1981-85	8.3	10.9	19.2
1986-90	9.3	11.7	21.0
Financed by :			
1. Own Savings			
1976-80	0.2	12.0	12.2
1981-85	-0.3	10.9	10.6
1986-90	-1.3	11.4	10.1
Net Borrowing Requirement:			
1976-80	5.2	(0.8)	4.4
1981-85	8.6	-	8.6
1986-90	10.6	0.3	10.9
2. Saving Gap Met Through Borrowing:			
2.1 From Private Sector			
1976-80	0.8	-0.8	-
1981-85	-	-	-
1986-90	-	-	-
2.2 From Rest of the World:			
1976-80	4.4	-	4.4
1981-85	8.6	-	8.6
1986-90	10.6	0.3	10.9

Table 13 (b). **Yearwise Inter-sectoral Flow of Funds**

year	Sector	Investment	Financed by Own Savings	Borrowing Requirement	Savings Gap Met Through		
					Private Sector	Rest of the World	Total
1975	Public Sector	3.3	-1.5	4.8	0.3	4.5	4.8
	Private Sector	11.2	11.5	-0.3	-0.3	-	-0.3
	Total	14.5	10.0	4.5	-	4.5	4.5
1976	Public Sector	3.9	-1.0	4.9	1.5	3.4	4.9
	Private Sector	11.2	12.7	-1.5	-1.5	-	-1.5
	Total	15.1	12.7	2.4	-	3.4	3.4
1977	Public Sector	4.3	0.4	3.9	1.4	2.5	3.9
	Private Sector	11.7	13.1	-1.4	-1.4	-	-1.4
	Total	16.0	13.5	2.5	-	2.5	2.5
1978	Public Sector	6.0	0.6	5.4	0.5	4.9	5.4
	Private Sector	11.8	12.3	-0.5	-0.5	-	-0.5
	Total	17.8	12.9	4.9	-	4.9	4.9
1979	Public Sector	5.5	-0.4	5.9	1.7	4.2	5.9
	Private Sector	10.3	12.0	-1.7	-1.7	-	-1.7
	Total	15.8	11.6	4.2	-	4.2	4.2
1980	Public Sector	7.3	1.3	6.0	-	6.0	6.0
	Private Sector	11.0	9.7	1.3	-	1.3	1.3
	Total	18.3	11.1	7.2	-	7.2	7.2
1981	Public Sector	7.5	1.8	5.7	-	5.7	5.7
	Private Sector	10.1	9.1	1.0	-	1.0	1.0
	Total	17.6	10.9	6.7	-	6.7	6.7
1982	Public Sector	7.8	0.1	7.7	0.5	7.2	7.7
	Private Sector	9.3	9.8	-0.5	-0.5	-	-0.5
	Total	17.1	9.9	7.2	-	7.2	7.2
1983	Public Sector	8.8	-1.7	10.5	-	10.5	10.5
	Private Sector	10.8	10.2	0.6	-	0.6	0.6
	Total	19.6	8.5	11.1	-	11.1	11.1
1984	Public Sector	8.5	-0.6	9.1	0.3	8.8	9.1
	Private Sector	10.2	10.5	-0.3	-0.3	-	-0.3
	Total	18.7	9.9	8.8	-	8.8	8.8
1985	Public Sector	8.9	-1.0	9.9	1.0	8.9	9.9
	Private Sector	14.0	15.0	-1.0	-1.0	-	-1.0
	Total	22.9	14.0	8.9	-	8.9	8.9
1986	Public Sector	8.7	-1.0	9.7	0.3	9.4	9.7
	Private Sector	12.3	12.6	-0.3	-0.3	-	-0.3
	Total	21.0	11.6	9.4	-	9.4	9.4
1987	Public Sector	8.7	-1.0	9.7	0.3	9.4	9.7
	Private Sector	13.1	13.4	-0.3	-0.3	-	-0.3
	Total	21.8	12.4	9.4	-	9.4	9.4
1988	Public Sector	9.0	-1.7	10.7	-	10.7	10.7
	Private Sector	13.1	12.7	0.4	-	0.4	0.4
	Total	22.1	11.0	11.1	-	11.1	11.1
1989	Public Sector	11.6	-1.8	13.4	0.9	12.5	13.4
	Private Sector	10.4	11.3	-0.9	-0.9	-	-0.9
	Total	22.0	9.5	12.5	-	12.5	12.5
1990	Public Sector	8.5	-1.2	9.7	-	9.7	9.7
	Private Sector	9.6	7.3	2.3	-	2.3	2.3
	Total	18.1	6.1	12.0	-	12.0	12.0
1991	Public Sector	7.1	0.2	6.9	-	6.9	6.9
	Private Sector	13.0	6.3	6.7	-	6.7	6.7
	Total	20.1	6.5	13.6	-	13.6	13.6

During the seventh plan period, the private sector had to rely on the foreign saving to the extent of 0.3 percent. But this ratio went up significantly to 6.7 percent in 1991, with the own savings of the private sector financing 6.3 percentage points out of the investment ratio of 13.0 percent. The public sector had to depend on the foreign saving for the whole period, with the public saving ratios during the sixth and the seventh plans being in the negative at 0.3 percent and 1.3 percent respectively.

Table 14. **Gross Domestic Saving**

	Percentage Distribution			Percent of GDP		
Year	Public	Private	Total	Public	Private	Total
1975	-15.0	115.0	100.0	-1.5	11.5	10.0
1976	-8.7	108.7	100.0	-1.0	12.7	11.7
1977	'2.7	97.3	100.0	0.4	13.1	13.5
1978	4.4	95.6	100.0	0.6	12.3	12.9
1979	-3.0	103.0	100.0	-0.4	12.0	11.6
1980	12.2	87.8	100.0	1.3	9.7	11.1
1981	16.7	83.3	100.0	1.8	9.1	10.9
1982	1.4	98.6	100.0	0.1	9.8	9.9
1983	-19.9	119.9	100.0	-1.7	10.2	8.5
1984	-6.0	106.0	100.0	-0.6	10.5	9.9
1985	7.3	107.3	100.0	-1.0	15.0	14.0
1986	-8.3	108.3	100.0	-1.0	12.6	11.6
1987	-8.1	108.1	100.0	-1.0	13.4	12.4
1988	-15.3	115.3	100.0	-1.7	12.7	11.0
1989	-19.1	119.1	100.0	-1.8	11.3	9.5
1990	-19.9	119.9	100.0	-1.2	7.3	6.1
1991	3.6	96.4	100.0	0.2	6.3	6.5

Table 15. Gross Domestic Investment

	Percentage Distribution			Percent of GDP		
Year	Public	Private	Total	Public	Private	Total
1975	22.7	77.3	100.0	3.3	11.2	14.5
1976	25.9	74.1	100.0	3.9	11.2	15.1
1977	26.7	73.3	100.0	4.3	11.7	16.0
1978	33.8	66.2	100.0	6.0	11.8	17.8
1979	34.9	65.1	100.0	5.5	10.3	15.8
1980	39.8	60.2	100.0	7.3	11.0	18.3
1981	42.4	57.6	100.0	7.5	10.1	17.6
1982	45.5	54.5	100.0	7.8	9.3	17.1
1983	44.7	55.3	100.0	8.8	10.8	19.6
1984	45.4	54.6	100.0	8.5	10.2	18.7
1985	38.7	61.3	100.0	8.9	14.0	22.9
1986	41.4	58.6	100.0	8.7	12.3	21.0
1987	40.0	60.0	100.0	8.7	13.1	21.8
1988	40.9	59.1	100.0	9.0	13.1	22.1
1989	52.7	47.3	100.0	11.6	10.4	22.0
1990	46.8	53.2	100.0	8.5	9.6	18.1
1991	35.5	64.5	100.0	7.1	13.0	20.1

Table 16. **Saving-Investment Gap**[1]

Year	Percentage Distribution			Percent of GDP		
	Public	Private	Total	Public	Private	Total
1975	107.4	(7.4)	100.0	4.8	(0.3)	4.5
1976	145.1	(45.1)	100.0	4.9	(1.5)	3.4
1977	155.0	(55.0)	100.0	3.9	(1.4)	2.5
1978	111.2	(11.2)	100.0	5.4	(0.5)	4.9
1979	140.3	(40.3)	100.0	5.9	(1.7)	4.2
1980	82.5	17.5	100.0	5.9	1.3	7.2
1981	84.1	15.9	100.0	5.6	1.1	6.7
1982	106.3	(6.3)	100.0	7.7	(0.5)	7.2
1983	94.6	5.4	100.0	10.5	0.6	11.1
1984	103.2	(3.2)	100.0	9.1	(0.3)	8.8
1985	111.3	(11.3)	100.0	9.9	(1.0)	8.9
1986	103.6	(3.6)	100.0	9.7	(0.3)	9.4
1987	103.1	(3.1)	100.0	9.7	(0.3)	9.4
1988	96.8	3.2	100.0	10.7	0.4	11.1
1989	107.1	(7.1)	100.0	13.4	(0.9)	12.5
1990	80.9	19.1	100.0	9.7	2.3	12.0
1991	50.8	49.2	100.0	6.9	6.7	13.6

1 Figures in parantheses are saving-investment surpluses.

Table 17 (a). **Investment and Saving**

(Amount in Rs Million)

Year	Total Investment	Saving Public	Saving Private	Saving Foreign
1975	2,402	-249	1,911	740
		(-10.4)	(79.6)	(30.8)
1976	2,632	-178	2,218	592
		(-6.8)	(84.3)	(22.5)
1977	2,768	63	2,269	436
		(2.3)	(82.0)	(15.7)
1978	3,507	111	2,429	967
		(3.2)	(69.2)	(27.6)
1979	3,514	-77	2,662	929
		(-2.2)	(75.8)	(26.4)
1980	4,270	315	2,276	1,679
		(7.4)	(53.3)	(39.3)
1981	4,808	497	2,477	1,834
		(10.3)	(51.5)	(38.2)
1982	5,314	42	3,036	2,236
		(0.8)	(57.1)	(42.1)
1983	6,628	-574	3,461	3,741
		(-8.6)	(52.2)	(56.4)
1984	7,351	-235	4,121	3,465
		(-3.2)	(56.1)	(47.1)
1985	10,184	-454	6,693	3,945
		(-4.4)	(65.7)	(38.7)
1986	10,599	-489	6,376	4,712
		(-4.6)	(60.1)	(44.5)
1987	12,898	-595	7,916	5,577
		(-4.6)	(61.4)	(43.2)
1988	15,237	-1,161	8,765	7,633
		(-7.6)	(57.5)	(50.1)
1989	17,108	-1,409	8,775	9,742
		(-8.2)	(51.3)	(56.9)
1990	16,476	-1,107	6,667	10,916
		(-6.7)	(40.5)	(66.2)
1991	21,163	244	6,620	14,299
		(1.1)	(31.3)	(67.6)

Note: Figures in parantheses denote the percentage share of respective total investment.

Tables 14 - 17(b) show the gross domestic saving, gross domestic investment, saving-investment gap, and total saving and investment. Accordingly, during 1975-1991, the public, private, and total saving as percentages of GDP averaged respectively at -0.5, 11.2, and 10.7 percent, the corresponding public, private, and total investment being at 7.4 percent, 11.4 percent, and 18.8 percent, resulting in the saving-investment gap of 7.9 percent in public sector, a surplus of 0.2 percent in private sector, and a gap of 8.1 percent in the total saving. The private sector recorded saving-investment surpluses in all the years except for 1980, 1981, 1983, 1988, 1990, and 1991, whereas the public sector experienced saving-investment gaps for all the years from 1975 through 1991.

Table 17 (b). **Investment and Saving Components**

	Percentage Distribution of Investment				
	Domestic Saving				
Year	Public	Private	Total	Foreign Saving	Total Investment
1975	-10.4	79.6	69.2	30.8	100.0
1976	-6.8	84.3	77.5	22.5	100.0
1977	2.3	82.0	84.3	15.7	100.0
1978	3.2	69.2	72.4	27.6	100.0
1979	-2.2	75.8	73.6	26.4	100.0
1980	7.4	53.3	60.7	39.3	100.0
1981	10.3	51.5	61.8	38.2	100.0
1982	0.8	57.1	57.9	42.1	100.0
1983	-8.6	52.2	43.6	56.4	100.0
1984	-3.2	56.1	52.9	47.1	100.0
1985	-4.4	65.7	61.3	38.7	100.0
1986	-4.6	60.1	55.5	44.5	100.0
1987	-4.6	61.4	56.8	43.2	100.0
1988	-7.6	57.5	49.9	50.1	100.0
1989	-8.2	51.3	43.1	56.9	100.0
1990	-6.7	40.5	33.8	66.2	100.0
1991	1.1	31.3	32.4	67.6	100.0

Table 17 (b) depicts the financing components of total investment, which shows that, for the period under study, public saving contributed negatively to the total investment with 2.5 percent, whereas the private saving shared 60.5 percent of the investment. The domestic saving, therefore, constituted 58.0 percent and the rest 42.0 percent of the investment was financed by the foreign saving. The foreign saving component was the highest in 1991 and 1990, with the shares reaching 67.6 percent and 66.2 percent respectively. It was the lowest in 1977 with the figure reaching a low of 15.7 percent.

Table 18. **Public, Private and Total Consumption**
(Amount in Rs Million)

	Public		Private		Total	
Year	Amount	Annual Growth (%)	Amount	Annual Growth (%)	Amount	Annual Growth (%)
1975	1,257 (7.6)	-	13,652 (82.4)	-	14,909 (90.0)	-
1976	1,294 (7.5)	2.9	14,060 (80.8)	3.0	15,354 (88.3)	3.0
1977	1,260 (7.3)	-2.6	13,689 (79.2)	-2.6	14,949 (86.5)	-2.6
1978	1,471 (7.4)	16.7	15,721 (79.7)	14.8	17,192 (87.1)	15.0
1979	1,889 (8.5)	28.4	17,741 (79.9)	12.8	19,630 (88.4)	14.2
1980	1,565 (6.7)	-17.2	19,195 (82.2)	8.2	20,760 (88.9)	5.8
1981	1,922 (7.0)	22.8	22,411 (82.1)	16.8	24333 (89.1)	17.2
1982	2,638 (8.5)	37.3	25,272 (81.6)	12.8	27,910 (90.1)	14.7
1983	3,416 (10.1)	29.5	27,458 (81.3)	8.6	30,874 (91.4)	10.6
1984	3,644 (9.2)	6.7	31,860 (80.9)	16.0	35,504 (90.1)	15.0
1985	4,371 (9.8)	20.0	33,807 (76.1)	6.1	38,178 (86.0)	7.5
1986	5,133 (10.2)	17.4	39,408 (78.1)	16.6	44,541 (88.3)	16.7
1987	6,570 (11.1)	28.0	45,355 (76.5)	15.1	51,925 (87.6)	16.6
1988	8,511 (12.4)	29.5	52,743 (76.6)	16.3	61,254 (89.0)	18.0
1989	9,186 (11.8)	7.9	60,638 (78.2)	15.0	69,824 (90.0)	14.0
1990	10,394 (11.5)	13.2	74,871 (82.4)	23.5	85,265 (93.9)	22.1
1991	10,486 (10.0)	0.9	87,950 (83.5)	17.5	98,436 (93.5)	15.4

Note: Figures in parantheses indicate percentages of the respective GDP.

Regarding consumption, as contained in Table 18, during 1975 - 1991, public consumption grew at an annual compounded rate of 14.2 percent, private consumption by 12.3 percent, and total consumption by 12.5 percent. This reflects the highest rate of growth in the public consumption. As a percentage of GDP, public, private, and total consumption during the period averaged at 9.2 percent, 80.1 percent, and 89.3 percent respectively. There is a 3.5 percentage point increase in the total consumption ratio, from 90.0 percent in 1975 to 93.5 percent in 1991 compared to the 1.1

percentage point increase in the private and 2.4 percentage point increase in the public consumption ratio during the same period.

With respect to the composition of investment, during 1975 - 1991, in terms of compounded annual increment rate, total investment rose by 14.6 percent, gross domestic fixed capital formation also by 14.6 percent (public 17.9 percent and private 13.3 percent), and increment in stock by 13.9 percent (Table 19).

Table 19. Total Investment and Its Components

	Percentage Distribution					Percent of GDP				
	Gross fixed Capital Formation					Gross fixed Capital Formation				
Year	Public	Private	Total	Change in Stock	Total Invest-ment	Public	Private	Total	Change in Stock	Total Invest-ment
1975	21.0	71.5	92.5	7.5	100.0	3.0	10.4	13.4	1.1	14.5
1976	24.0	68.8	92.8	7.2	100.0	3.6	10.4	14.0	1.1	15.1
1977	24.9	68.3	93.2	6.8	100.0	4.0	10.9	14.9	1.1	16.0
1978	31.7	62.2	93.9	6.1	100.0	5.6	11.1	16.7	1.1	17.8
1979	32.4	60.5	92.9	7.1	100.0	5.1	9.6	14.7	1.1	15.8
1980	34.3	51.9	86.2	13.8	100.0	6.3	9.5	15.8	2.5	18.3
1981	37.9	51.5	89.4	10.6	100.0	6.7	9.0	15.7	1.9	17.6
1982	46.8	56.0	102.8	-2.8	100.0	8.0	9.6	17.6	-0.5	17.1
1983	44.4	54.8	99.2	0.8	100.0	8.7	10.8	19.5	0.1	19.6
1984	42.7	51.3	94.0	6.0	100.0	8.0	9.6	17.6	1.1	18.7
1985	35.7	56.5	92.2	7.8	100.0	8.2	12.9	21.1	1.8	22.9
1986	37.4	51.6	89.0	11.0	100.0	7.9	10.8	18.7	2.3	21.0
1987	36.7	55.0	91.7	8.3	100.0	8.0	12.0	20.0	1.8	21.8
1988	36.0	52.0	88.0	12.0	100.0	8.0	11.5	19.5	2.6	22.1
1989	38.9	43.4	82.3	17.7	100.0	8.6	9.6	18.2	3.9	22.1
1990	41.0	46.4	87.4	12.6	100.0	7.4	8.4	15.8	2.3	18.1
1991	33.1	60.1	93.2	6.8	100.0	6.6	12.1	18.7	1.4	20.1

Similarly, as a percentage of GDP, total investment rose to 20.1 percent in 1991 from 14.5 percent in 1975, gross fixed capital formation inclined to 18.7 percent from 13.4 percent (public share grew to 6.6 percent from 3.0 percent and private to 12.1 percent from 10.4 percent) and stock increased to 1.4 percent from 1.1 percent during the period under observation. On an average, as a percentage of GDP, total investment during the period was at a level of 18.7 percent, gross fixed capital formulation at 17.1 percent (public 6.7 percent and private 10.4 percent), and stock increment at 1.6 percent. Therefore, out of the total capital formation during the period, the shares of public and private sectors were respectively at 39.0 percent and 59.0 percent on an average basis. Of the total investment, however, the share of the public sector was 35.7 percent, that of the private sector 55.9 percent (total gross fixed capital formation 91.6 percent), and the stock increment constituted 8.4 percent during the whole period.

4. Role of Central Bank and Financial Institutions in Domestic Saving Mobilization

Development of a sound financial structure is a sine qua non to the growth of an efficient financial intermediation system in general and the promotion of saving mobilization in an effective manner in particular. The role of the central bank in this process of financial development is of utmost importance. Besides the central bank and the commercial banks, many other non-bank financial institutions formed the institutional dimension in the formal sector, besides the widespread rural as well as urban unorganized / informal financial sector. The financial system is dominated by the banking system, with the commercial banks constituting around 80 percent of total deposits and two government-controlled commercial banks sharing a major chunk of the total deposits.

The history of financial and monetary development in Nepal is not very old. It was in 1937 that the first commercial bank (Nepal Bank Ltd.) was established. The central bank was established in 1956. There were only 9 commercial bank branches at the time of the setting up of the central bank in the country. One of the primary objective of the central bank was, naturally therefore, the mobilization of capital for development, thereby encouraging trade and industry, besides the promotion of banking system in Nepal. The first decade of its establishment was mainly devoted to the abolition of the dual currency system. There was also the stark need for the development of an organized system of banking and financial institutions which could act as precondition to the successful operation of monetary policy of the central bank as there was absence of an organized and institutionalized system of monetary and financial operations. So, Nepal Rastra Bank (NRB) made substantial contribution in the setting up and operation of many of the financial institutions through the provision of financial assistance to the extent possible. Nepal Industrial Development Corporation (NIDC) was established in 1959 to provide financial and technical assistance in setting up, modernization and expansion of industrial units in the private sector. It is the only government institution specializing in meeting the long-term and short-term financial requirements of the industrial sector.

In Nepal, a financial institution to provide institutional agricultural credit was established as a cooperative bank in 1963. But the individual farmers outside the cooperatives were not covered by it as its lending operations were confined to cooperative members only. After the implementation of the land reform program in 1964, a Land Reform Savings Corporation was established to manage the substantial amount of rural savings generated under the compulsory savings scheme of the land reform. Both of these institutions were later merged with the Agricultural Development Bank (ADB/N) which was set up in 1968 in order to meet the need for an institution with a broader financial and operational framework so that the large agricultural credit requirements of the nation could be satisfied. The ADB/N supplements its capital resources with borrowing from NRB, foreign sources, and deposits from the public.

The Provident Fund Corporation (PFC) was established in 1962 with a view to mobilize saving through the development of contractual saving facilities. It has the primary duty of regulating and managing provident funds of government and other offices. PFC collects 10 percent of salary of the employees and also the same percentage of contributions made by the employees. The resources thus collected are then invested by the Corporation.

With the increased banking needs of the economy, the second commercial bank, Rastriya Banijya Bank, came into existence in 1966 with 100 percent government ownership, whereas the Nepal Bank Ltd., the first commercial bank, had 51-percent government ownership.

The National Insurance Corporation (NIC) was set up in 1968 to carry out insurance activities in the country. It is the only insurance company allowed to provide life insurance in addition to general insurance business in Nepal. The investment portfolio of the insurance companies and that of the PFC consists primarily of government development securities, commercial banks' time deposits, and treasury bills.

The Credit Guarantee Corporation (CGC) was established in October 1974 with the aim of ensuring smooth channeling of the flow of credit to the priority sector (agriculture, cottage industries, and services), for which it guarantees loans extended by the commercial banks.

Established in August 1976, the main objective of the Securities Exchange Center (formerly Securities Marketing Center) was to facilitate a ready market for the transactions in the shares and securities (The Center at present is transformed into the Stock Exchange).

In order to promote the saving habit among the rural population without easy access to ordinary banking facilities, postal saving offices were set up since fiscal year 1981/82. Although the postal saving offices are spread all over the 75 districts of the country, with their number rising to 101 with 10,913 deposit holders, the volume of deposits with the postal saving offices remained around 5 million rupees in mid-July 1990.

The beginning of financial liberalization process in Nepal got a shape with the first joint-venture bank - Nepal Arab Bank Ltd. - being set up in 1984 which was followed by the establishment of Nepal Indo-Suez Bank in 1986 and Nepal Grindlays Bank in 1987 (The number of such joint-venture banks at the present date has reached five). Fifty percent share capital of each of these banks is owned by their respective parent companies whereas the rest 50 percent is shared by Nepalese financial institutions and the general public. Another measure toward financial reform was taken in July 1984 when Agricultural Development Bank branches were permitted to collect deposits from the public. This was a significant innovation in the financial development process as a development bank was allowed to conduct commercial banking business. This measure substantially reduced the excessive dependence of ADB/N on central bank resources for its lending operations.

The government budget for the fiscal year 1990/91 had provided for the setting up of Citizen's Investment Fund as a measure for mobilization of domestic saving as it was felt that enhanced mobilization of savings, apart from increasing investment and domestic saving, would also bring about positive impact on price situation by reducing the excess liquidity in the economy and demand pressure on consumer goods. It was stated that a certain portion of the salary of all the civil servants, employees in the public enterprises, and other agencies or general individuals would be deposited in this fund. The establishment of such a scheme, it was believed, would promote family welfare as well as supplement saving schemes that could provide for a more secure future. In this context, until it acquired legal standing, provision was made to compulsorily deposit five percent of the salary (later made voluntary) in the account of the Citizen's Investment Fund maintained in NRB. After it was made voluntary, with some of the employees withdrawing their savings, the Fund had a saving of Rs 8.7 million by the end of FY 1990/91 despite such savings being exempted from income tax and earning an annual interest rate of 15 percent.

As regard the commercial bank branch expansion policy of NRB, it was believed that such a policy, besides increasing the sphere of monetization, would also contribute significantly toward channeling small and scattered savings into the banking net and making their optimal uses through better investments. Branch expansion was regarded as a pre-requisite to the expansion of banking services so essential for mobilizing greater amount of financial savings in the economy. A Banking Promotion Board was set up in 1968 with the objective of expanding the banking network and providing at least one commercial bank branch in each of the 75 districts of the country. The NRB also pursued a policy of compensating at a specified ratio the loss suffered by the commercial banks, and also provided, without interest, working capital funds for encouraging the commercial banks to open branches in places as directed by the NRB under the banking development program. By mid-July 1977, all the districts in Nepal came under banking net. Although the seventh plan (1986-1990) had put a target of increasing the number of bank branches in order to serve 30,000 people by a bank branch, the actual result as in mid-July 1990 has been a bank branch for a total of 41,196 people. The figure has risen to 41,864 people per bank branch in 1991.

NRB pursued an interest rate policy with a view to mobilize savings to the maximum extent possible, and thereby lessening aggregate demand, make productive use of the mobilized savings and correct the external imbalances. NRB also made necessary changes in the interest rates applicable to deposits and lendings of the financial institutions from time to time. However, as the rate of interest prevailing then was not positive due to higher rate of inflation, people did not find any attraction for the monetary saving. But lower rate of lending was responsible for the excessive increase in the demand for credit and also for the diversion of the savings for unproductive investments. There was adverse impact on the price and balance of payments position due to increased demand for domestic credit. Instead of pursuing control policies for the solution of such distortions, it was thought preferable to encourage more savings and contract the aggregate demand itself. Accordingly, a major revision took place in the deposit and loan rates of banks and financial institutions, on April 27, 1975, whereby deposit rate was raised up to 16 percent and lending rate up to 18 percent. This revision assured depositors a positive real rate of return on their savings. As an effect of this revision, time deposits became the most significant instrument on the sources side of the commercial banks balance sheets.

Similarly, with a view to rationalizing the interest rate structure of banks and financial institutions and to make it more market-related, the deposit and lending rates of commercial banks were partially liberalized in May 1986 wherein only minimum interest rate on deposits was fixed by the central bank without imposing no ceiling on the maximum rate. Similarly, on the lending side, maximum interest rate on priority sector lending was fixed by the central bank whereas all other lending rates were left at the discretion of the commercial banks themselves. This partial liberalization of interest rates had a positive impact on savings mobilization.

The interest rate reform process was completed when NRB completely liberalized the interest rate structure of banks and financial institutions, effective August 31, 1989. Accordingly, commercial banks and other financial institutions were left free to determine their own deposit and lending rates. This measure was initiated with a view to provide more options to commercial banks in the mobilization of savings and portfolio management through market-determined borrowing and lending rates.

The savings (deposits) mobilized through the financial system in Nepal over the years is shown in Table 20.

Table 20. **Deposits Mobilized Through the Financial System**
(Outstanding in mid-July; Amount in Rs Million)

	Total Deposits with Commercial Banks						
Year	Amount	Share of GDP(%)	Other Deposits[1]	Provident Funds	Insurance Funds (Premium)	Total Deposits	Total Deposits as percentage of GDP
1975	1,166.2	7.0	66.3	177.8	16.8	1,427.1	8.6
1976	1,600.3	9.2	98.1	210.9	17.7	1,927.0	11.1
1977	2,132.9	12.3	125.6	276.5	26.3	2,561.3	14.8
1978	2,517.8	12.8	107.3	350.2	31.2	3,006.5	15.2
1979	2,902.2	13.1	86.3	448.7	35.2	3,472.4	15.6
1980	3,329.7	14.3	77.1	555.5	34.0	3,996.3	17.1
1981	4,143.2	15.2	69.3	820.4	41.5	5,074.4	18.6
1982	4,907.0	15.8	71.6	1,048.6	51.3	6,078.5	19.6
1983	6,286.5	18.6	71.4	1,303.7	65.1	7,726.7	22.9
1984	7,067.0	17.9	75.8	1,580.9	74.8	8,798.5	22.3
1985	8,536.1	19.2	78.4	2,007.0	98.3	10,719.8	24.1
1986	10,275.7	20.4	112.5	2,431.4	138.4	12,958.0	25.7
1987	11,812.4	19.9	79.6	2,978.6	156.7	15,027.3	25.4
1988	14,951.9	21.7	77.7	3,622.5	194.9	18,847.0	27.4
1989	18,954.6	24.5	47.3	4,441.3	216.0	23,659.2	30.5
1990	21,885.0	24.1	234.1	5,335.1	216.1	27,670.3	30.5
1991	26,687.5	25.3	302.5	6,940.9	245.4	34,176.3	32.5

1 Includes other deposits and compulsory savings with the Agricultural Development Bank and postal saving deposits.

On the basis of the information, total deposits grew at an annual compounded rate of 22.0 percent over the period 1975 — 1991, whereas, deposits with commercial banks saw a compounded annual increment rate of 21.6 percent. Total deposits as a percentage of GDP rose from 8.6 percent in 1975 to 32.5 percent in 1991. Deposits with commercial banks witnessed a rise from 7.0 percent in 1975 to 25.3 percent in 1991, implying, therefore, that the other deposits grew from 1.1 percent in 1975 to 7.2 percent in 1991.So the increment rate of the other deposits was the highest vis-a-vis the increment rates of total deposits and deposits with commercial banks. On an average basis, total deposits as a percentage of GDP during the period was 21.3 percent. The same percentage for the commercial bank deposits was 17.1 percent. The difference (4.1 percent) was the average of other deposits to GDP ratio. Commercial bank deposits averaged 80.3 percent of total deposits, the rest 19.7 percent being other deposits during the period. However, other deposits, which had constituted 18.6 percent of total deposits in 1975, grew to 22.2 percent of the total in 1991. This shows a comparatively higher rise for the other deposits in relation to the commercial bank deposits.

5. Policies and Procedures Adopted to Improve Domestic Saving

Besides the emphasis placed on bank branch expansion, increase in the number of banks as well as other financial institutions and competition among them, and liberalization of interest rate, etc., as mentioned above, some other important measures were undertaken which were significant from the point of view of improving domestic saving mobilization.

The Structural Adjustment Facility (SAF) in Nepal was implemented since FY 1986/87 with the objective of expediting the process of economic development under a sound and stable macroeconomic environment. Maintaining internal and external stability and improving the allocative efficiency of the economy were considered the vital aspects of financial and monetary reform measures under the SAF (Nepal at the present is implementing the Extended SAF). The reform measures can be categorized like the control of credit for maintaining the price and balance of payments stability, regular auctions of treasury bills so that the interest rate could be market-related, redesigning of NRB refinance facility, establishment of call money markets, stipulations as to the level of capital adequacy ratio, single borrower limit, setting up of credit information bureau, classification of outstanding credit, productive sector credit, implementation of short-term monetary programming, upward adjustment of the interest rate on government overdraft facilities, repayment of government-guaranteed loans, issue of new national savings certificates, change in tax-exemption status for new issues of government securities with maturity period exceeding 182 days, and measures to strengthen the financial performance of public enterprises. The stabilization and structural measures implemented since FY 1985/86 were fruitful toward reducing the financial disequilibrium and enhancing the growth performance of the economy. Increased efforts on revenue mobilization and restraint in public expenditures through curtailed outlays for non-essential public expenditure and scaling down of development projects with low priority were considered essential. Regulating excess liquidity in the economy should lower consumption and enhance saving. As public sector expenditure is restrained, it frees more resources to finance activities in the private sector. As a result, the share of public sector in total domestic credit was bound to fall.

An expansionary fiscal policy is associated with more fiscal deficit as the government revenue cannot match the huge expansion in the government expenditure. Bank financing of fiscal deficit raises the money supply, credit supply for the private sector is reduced, and inflation directly hits the poorer sections of the society. The SAf had, therefore, a basic objective of maintaining the fiscal deficit at a sustainable level through reduction in unnecessary expenditure and increased revenue.

NRB, in pursuance of its monetary policy exercise, raised the bank rate since May 1991, from 11 percent to 13 percent (it is at the present brought back to 11 percent), on commercial bank borrowing from NRB through a basic window, with a view to put pressure to the commercial banks for upward revision of the deposit rates. This measure was an indication to the commercial banks to adopt a dear money policy and rely more on their own resources through increased mobilization of deposits rather than on central bank for their requirement of resources. As a result, commercial banks made some upward revision in the interest rate levels, which was bound to have had some positive impact on deposit mobilization.

Open market operations are an important monetary control instrument available to the central bank. After the liberalization of the banking system, NRB gave up direct methods of credit control such as fixation of interest rates and credit ceiling which were the primary methods of credit control since the establishment of NRB. As the commercial banks decide their own interest rates for both deposit as well as lending since August 31, 1989, NRB has, as a substit to the method of direct credit control, initiated auctioning of short-term treasury bills since November 1988. The system of regular auctioning had pushed up the interest rate on treasury bills up to 9.7 percent from 5 percent earlier. The NRB also started auctioning of NRB bonds on the same terms and conditions as treasury bills. These measures expanded the market of government securities through the development of a more flexible interest rate structure.

It was thus envisaged that monetary control would be exercised through indirect instruments, leaving financial institutions free to allocate credit in accordance with market forces. A key consideration was to maintain positive real interest rates through the use of indirect monetary instruments so as to sustain confidence and discourage capital outflows. The government intended to maintain a broad maturity range of government securities in order to foster the development of an active domestic capital market. The auctions of treasury bills formed an integral part of a monetary program and the open market operations a principal instrument of monetary control. The NRB thus encouraged the deepening of financial markets. All these were assumed to have had significant impact on the financial development and increased financial resource mobilization through the banking system. However, as mentioned earlier, the domestic saving mobilization efforts in Nepal could not exihibit any satisfactory progress especially toward the later half of the period covered by this study.