

**TREND OF PUBLIC DEBT AND ITS EFFECTS ON NEPALESE
ECONOMY**

A Thesis

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LETTER OF RECOMMENDATION

The Thesis entitled "**Trend of Public Debt and Its Effects on Nepalese Economy**" has been prepared by **Sher Bahadur Shahi** under my supervision in partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

I forward it with recommendation for approval.

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APPROVAL LETTER

We certify that this thesis entitled "**Trend of Public Debt and Its Effects on Nepalese Economy**" submitted by **Mr. Sher Bahadur Shahi** to the Central Department of Economic, Faculty of Humanities and Social Science, Tribhuvan University, in partial fulfillment of the requirements for the degree of MART of ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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ACRONYMS

CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and Administration.
CEDECON	:	Central Department of Economics
DCs	:	Developed Countries
DE	:	Development Expenditure
FDI	:	Foreign Direct Investment
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GDP	:	Gross Domestic Product
GN	:	Government of Nepal
GNI	:	Gross National Income
GNP	:	Gross National Product
IDS	:	Integrated Development system
IMF	:	International Monetary Fund

LDCs	:	Least Developed Countries
MoF	:	Ministry of Finance
NPC	:	National Planning Commission
NRB	:	Nepal Rastra Bank
PCI	:	Per Capita Income
RE	:	Regular Expenditure
TDE	:	Total Development Expenditure
TE	:	Total Expenditure

CHAPTER I

INTRODUCTION

1.1 General Background of the Study

The government of a country gets its income mainly from two sources: public revenue and public debt. Public debt carries with the obligation to back to persons, institutions or countries from whom it has been obtained but there is not any repayment obligation in government revenue. According to P.A. Samuelson, "the accumulated amount what the government has borrowed to finance past deficit is called public debt." (Samuelson, 1964:628). An internal debt is owned by a nation to its own citizens and it poses no burden. An external debt is owned by a nation from foreigners and it is burdensome.

So, public debt has great particularly in the developing countries in view of increasing magnitude of fiscal deficit. In the literature of public debt some economist have put forth some issues regarding burden of public debt. So the argument generally give whether public debt inflicts burden on the economy and also it can be shifted to future generation or not in this context, this issue of burden public debt is divided between primary burden or financial burden and secondary burden or real burden of the debt. According to the MC Wright, "the financial burden of the national debt is to measure by effects of the interest change and the taxes levied to meet them. The relation with the taxes for interest bears to the national money income".

The secondary burden of debt emerges due to the adverse effects of taxation up on the ability and willingness to work and on the capacity and willingness to save, which is the real burden to public debt. The secondary burden of public debt can be explains in terms of "pigou effect" or "asset effect" and "kaldor effect". According to Pigo "Due to the purchase of government securities the financial assets of the investor increased that adversely affect the propensity to save in the economy. It may prove to be a boom in a depression but it is not always true in developing countries. According to Kaldor effect "holding of the larger debt not only diversely affects willingness to save but it also adversely effects the work in invest on increase in the national debt can make the owners of government bond less willing to work. One of the reason for working the earning of money to put away of the rainy day in weakened because there is more put away already for rainy days".

The classical economists were generally against the public debt(borrowing) but they realized, public debt is useful for self-liquidating projects In the words of R.A. Musgrave” “ self-liquidating project may be defined narrowly as investment in public enterprises that provide a fee of sales in come sufficient to service the debt incurred in their financing or they may be defined broadly as expenditures projects that increase future income and tax base such projects permit servicing of the debt incurred in their financing without requiring an increase in the future level of tax rate”

Classist economists had generally negative attitude towards public debt and they always want to minimize the role of government. They said “let the money fructify in the pockets of the people”. Classical economist like J-B says. J-B Mill, T.R. Malthus, C.F. Beatable have given their arguments that public debt creates burden on the economy because of its unproductive nature. However the classical theory is criticized mainly on the two ways. Firstly, every government expenditure is not always unproductive, hence public debt may not always a burden up on the economy, secondly, the traditional view regarding the shifting of the debt burden is not correct. The real burden of public debt must be born in the initial period of debt creation when government borrows from private use and put into public projects in the initial period.

After the great depression 1930s, new way of thinking took place the writing of J.M Keynes who advocated for increasing government role is the economic activities by adopting deficit financing so that effective demand is created is the economy ensuring employment opportunities. To meet the deficit budget of government, he argued about public debt which need not necessary be unproductive, inflationary and burdensome. Similarly, many Keynesian carried out the views that public debt is income generating and so it is not burden of the community.

According to Richard Goode “Borrowed money when used to finance public investment cause no such reduction all that will happen is the change in the consumption of capital formation, the inference is that failure to restrict borrowing to the finance of investments will retard economic growth. A weakness of the government is that not all outlays classified as investment actually contribute to growth, while some expenditure usually classified as government consumption to promote growth”.(Goode, 1984)

Michael Posner(1992), points out that growth in the debt ration causes alarm for two reasons. First, growth in debt ratio might lead to crowding out of private investment. Second and more

important, is the assumption that government spending out of the borrowed funds might be unproductive.

The persistent features of Nepal's public debt both internal and external have been increasing rapidly every year. The trend of external debt is increasing more rapidly in absolute term than internal debt. Since developing countries like Nepal always need foreign currencies to import many capital goods required for development, these countries have to depend more on external borrowing than internal for favorable balance of payment, maintaining the availability of foreign exchange and controlling the inflation. Government of Nepal started to collect funds through public debt to fulfill the deficits and to launch big development projects internally from 1803 (Regmi, 1971:71) and externally from 1951.

1.2 Statement of the Problem

Nepal is facing the problem of financing ever increasing resource gap because government expenditure is increasing rapidly but government revenue is not increasing at the same ratio.

In Nepal both internal and external borrowings have been increasing rapidly each year. The external borrowing is increasing more rapidly than internal borrowing. Increasing trend of public borrowing, debt servicing obligation are also increasing rapidly, but debt servicing capacity of the country has not been increasing at the same ratio. In this context, Nepal is facing debt crises in the near future in which debt obligation will become major impediments to the balanced management of the country. Public debt has great particularly in the developing countries in view of increasing magnitude of fiscal deficit. In the literature of public debt some economist have put forth some issues regarding burden of public debt. So the argument generally give whether public debt inflicts burden on the economy and also it can be shifted to future generation or not in this context, this issue of burden public debt is divided between primary burden or financial burden and secondary burden or real burden of the debt. According to the MC Wright, "the financial burden of the national debt is to measure by effects of the interest change and the taxes levied to meet them. The relation with the taxes for interest bears to the national money income".

Nepalese economy is characterized by three kind of macroeconomic imbalances viz saving investment gap, export-import gap and revenue-expenditure gap. To fill up this gap public debt in the form of either internal or external is inevitable. The volume of external debt is excessively rising in the recent years under liberalized policy. As globalization concept is wide spreading all over the world, aid is gradually decreasing and emphasis is going on

loans, technology, transfer and trade which have created high degree of debtness and consequently, debt servicing obligations are increasing. In the meanwhile the loan is not self-liquidating i.e. the debt repayment capacity is not increasing in the same pace. So ever increasing debt and debt servicing obligation will create a serious problem in the economy like “debt-trap”, colonization, internal public instability etc. In short, these may appear macroeconomic imbalances create excessive dependency upon foreign assistance. For this purpose, the study has made an attempt to identify the following problems:

-) What is the situation of public debt since 1990/91 to 2013/14?
-) What is the trend of external and internal debt?
-) What is the condition of resource gap in Nepalese context?
-) What are the problems of public debt?
-) What is the relationship between public debt and GDP in Nepal?

1.3 Objectives of the Study

The general objective of the study is to examine and analyze the trend and pattern of public debt in Nepal with the following specific objectives..

-) To analyze the trend and pattern of public debt in Nepal.
-) To analyze the ratio of public debt to GDP of Nepal.
-) To recommend the ways for optimal utilization of public debt in Nepal.

1.4 Signification of the Study

At present, economic planning is taken as the main tool of the economic development. In economic planning various objectives are made due. Due to low level of taxable capacity of the people, public debt is essential to meet the objectives of development plans in Nepal. Hence public debt has become a reliable and common instrument for resource mobilization and hence to break the vicious circle of poverty in underdeveloped country like Nepal. In the context of underdeveloped country like Nepal, the government has to invest a huge amount in socio-economic sector as well as in direct productive sectors. For this, there is need of heavy investment due to which the scope and importance of public debt has been increasing day by day. Most of the existing studies are concentrating on the examination of the structure, pattern and burden of external debt in Nepal. However, this research paper provides an updated information for the existing studies. Unlike the past studies, it explores and analyzes the effect of external debt on the output growth of Nepal.

So this study will focus on the existing scenario of public debt, requirements of borrowing, trend and structure of public debt. So this study will be beneficial not only for the readers like students and researchers but also for the future economic plans and policies. Hence its significance is obvious.

1.5 Limitations of the Study

This study has the followings...

-) This study covers only the time period between 1990/91 to 2013/14.
-) This research is completely based on secondary data and information.
-) This study is not attempted to examine the effect of public debt on other macroeconomic variables except GDP.
-) This study gives emphasis only on the trend and pattern of public debt in Nepal.

1.6 Organization of the Study

The Chapter division of this research will be as follows:

I Introduction

1.1 General Background

1.2 Statement of The Problems

1.3 Objective of the Study

1.4 Significance of the Study

1.5 Limitation of the Study

1.6 Organization of the Study

II Review of the Literature

III Research Methodology

IV Trend and Structure of the Public Debt in Nepal.

V Conclusions, Summary and Recommendation

This thesis consists of five chapters in total. The chapter one summarizes the introduction, chapter second deals with literature review and chapter three contains research methodology, chapter four describes the trend and structure of public debt. That covers the burden of public debt in Nepal. And final chapter includes summary, major findings, conclusion and recommendations. At the end of it there is the inclusion of a list of annex and bibliography.

CHAPTER II

REVIEW OF THE LITERATURE

Generally, the classical economists were against public borrowing and favored the minimum expenditure from the government side. Classical economists like J.B.Say, J.S.Mill and T.R. Malthus have given their argument that, "Debt creates burden in the economy because of its unproductive nature." (Singh, 1982:312-314). However, modern economists consider public borrowing as an important technique of public finance. Public loans in modern times are necessary to meet financially unfavorable situations like deficit in budget, flood and famine, war expenditure etc. Many economists like J.M. Keynes has advocated increased public expenditure financed through borrowing and not through taxation as means to remove depression and unemployment. Public borrowings are considered as very useful for the development of natural resources of developing countries. (Tyagi 1976:21). Since the past time, many individuals and institutions have studied and express their view on public debt regarding, its burden, structure, trends etc. Some of them may be outlined as following:

Ghurugharana K.K. (1996), in this article entitled "The role of foreign Aid in Economic Development and Poverty Alleviation" analyzed the burden of public debt, as debt servicing cost in Nepal and has come to the view that the long term upward trend of increasing debt burden deficit greater burden. He concludes that, through the loan component of foreign Aid, Nepal is suffered more than other countries like India, China through the rate of return is very low and rapidly increase value of debt slowly brings the Nepalese economy towards crises of debt –trap. Acharya K.P. (1998), in his article, "Burden of public debt in Nepal" analyzed that internal debt is more productive than external debt.

Sharma G.N. (1998) in his article, "The growing fiscal imbalance in Nepal: Are we falling into debt trap?" analyzed that the ever increasing debt in Nepal and its servicing has really created a situation, which is driving the country towards debt trap because of the following reasons:

1. Large amount of loan is allocated for meeting current expenses within the development expenditure.
2. A good amount of borrowed fund is used for debt servicing.
3. Volume of borrowed amount exceeds the maximum legal limit of borrowing.

Poundyal S.R. (2003) has submitted his thesis paper entitled, "Trend and structure of public Debt in Nepal" has concluded, borrowed fund from external resources must be spent on those projects, which are highly productive in nature and can produce expectable items and there should be constituted a committee to supervise and narrator and to control unnecessary foreign borrowing. He also adds that government should adopt appropriate policy to reduce excessive external dependency and encourage internal resource mobilization for the sustainable development of the economy.

In case of Nepal, large size of overdraft from Nepal Rashtra Bank account for more than 50% is of borrowing. Therefore, the debt servicing regular expenditure ratio is about 50% and ratio of outstanding debt to GDP is above 50%, it is the most alarming situation.

Hence, Nepal is heavily indebted with internal and external borrowing, Nepal's budgetary deficit is fulfilled by loan, which is inflationary. But there is no any way to avoid borrowing because the people are so poor. Wide saving investment gap, revenue expenditure gap and export-import gap. To cover all these deficits there is need of borrowing. If it is used properly we can enhance the economic growth rate otherwise, may leads for debt trap. Having reviewed few literatures on public debt, the study will focuses on existing scenario of public debt, requirements of borrowing, trend and structure of public debt in Nepal.

2.1 Theoretical Review

The classical economists were generally against the public borrowing and favored the minimum role of government. They assume that individual consumer and business firm employ resources more efficiently. According to them, economic activities are best in private sector because they the greed of profit, through which allocation of resources would be more efficient. On the other hand the government does not have such greed. Due to this they are in favor of limit size of public sector and reduce the function of government to the minimum possible extent. They further believed that any government intervention into the economic result rigidity and disrupt the smooth functioning. This would help to bring about the optimum allocation of resources and the achievement of full employment and maximum output. Under a fully employed economy, therefore government can acquire resources by borrowing only at the cost of private sector where they are more fruitfully engaged. The classicists were not against form of government expenditure. What they favored was minimum public expenditure. In between taxation and borrowing, Classicists favored taxation for the following reasons:

- i. Deficit financing means an increase in public debt. Since it is an easy method to obtain income, government is likely to be extravagant and irresponsible. Consequently, public debt will definitely become a burden to the economy.
- ii. Payment of interest on public debt and refunding of the principle will require additional taxation. It might prove to be difficult since government's power to tax is not unlimited.
- iii. Deficit financing might produce currency deterioration and price inflation.

However, the classicist economists were not against all types of public debt. They favored public debt for self-liquidating projects.

Musgrave (1959) has defined that self-liquidating projects are narrowly investment in public enterprises that provide the fee or sales income sufficient to service that debt incurred in their financing or they may be defined broadly as servicing of the debt incurred in their financing without requiring an increase in the future level of tax rates.

2.1.1 Keynesian View

Unlike the classical economists, Keynes did not accept the notion of free enterprise economy which is self-equilibrium at full employment level. He advanced the concept of under employment equilibrium. He argued that resources in the private sector might remain unemployed for relatively longer time period if the government became unconscious. In such situation when resources are unemployed on large scale, government employment of these resources does not necessarily deprive the private sector of anything. On the contrary increasing government spending by using idle men and materials is likely to raise the level of aggregate demand and thereby aggregate output and income. Due to this, Keynesian strongly prescribed to increase the public expenditure even by undertaking deficit financing or borrowing.

For Keynesian if debts are internally held, there is nothing to worry about their size. It is because such debt involves merely a series of transfer payments and they cancel out for the economy as a whole. Hence the only concern was on a high level of income and employment. This has emerged the concept of double budget. But Keynesian viewed that deficit budget even by undertaking public debt, would be a powerful tool during the time period of stagnation/ depression.

2.1.2 Post Keynesian View

During the second world war II and post world war period, the size of public debt and servicing increased enormously. This has made the economists to make the revision on the aspect of public debt. The post Keynesian development was that it emphasized the transfer and management aspect as well as interrelationship between public debt and money supply.

The post Keynesian economists like learner also shared the view that internal debt inflicts no burden simply because it's a transfer of fund from one pocket on the other from left hand to right hand. He further mention that the international loan yields the borrower a real benefit and it enable to consume or invest more than he is earning or producing.

When he pays the interest or repays the loan he must tighten his belt, reducing his consumption or investment. In the case of nation debt, which had neither the benefit or the burden, the belt cannot be let out when borrowing need not be tightened when repaying (Poudel, 2003)

It cannot be denied that internally held public debt devolves a series of transfer payments in the form of taxes and debt service payment and the economy as a whole they cancel out. But the volume of public debt cannot be dismissed as of no consequences. This is because heavy debt constitutes of burden for the future generation. The Post Keynesian did not reject the entirely classical notion regarding to public debt rather put it in a better perspectives.

- i. According to them, public borrowing does not always deprive the private sector from the use of resources. As for example during the time period of wide spreader employment, it may be productive.
- ii. Besides, it is not accepted now that borrowing in the period of full employment must be inflationary.
- iii. A large public debt if internally held poses many problems for the economy. It complicates the monetary policy and creates the difficulties of management and so on.
- iv. In resorting to borrowing, government should be guided by macro-economic considerations its effects on macro-economic variables.

2.1.3 Recent View

Chelliah (1961) has observed that if revenue will meet subsidies, other transfers, interest payments and the greater the part of current expenditure: debt finance will be used for meeting the governments non remunerative capital formation and the total domestic

borrowing will be determined in such a way that given the rate of domestic saving, the non-government sector will be able to obtain a due share of saving and that there will be no need to borrow from the central bank more than the current amount of seigniorage, it is the ideal situation for borrowing. It can be presented in another way also:

The level of government borrowing is the function of ability and willingness of person and business to lend and the government's power and intention to tax. Maximum level of debt can be expressed in terms of following equations:

$$D = Y_t - O/r$$

Where,

D = maximum sustainable national debt

O = constant expenditure of ordinary government operation

t = maximum rate of tax receipts to national income (Y) and

r = contractual interest rate of government debt.

However, the burden of debt depends on the nature of investments, productive or unproductive. If it is productive, there will not be a burden because of creation of real asset in the economy which further generates income of the people thereby increasing national income. If it is unproductive the situation will naturally be a burden to the government.

2.2 Reviews in International Context

Newman (1968) has examined that the classical economists viewed the economy as always being or tending to be fully employed. Hence their thinking on public debt stressed real rather than monetary aspects. In an economy which all resources are in use, government cannot acquire resources by borrowing save at the expense of the private sector. Borrowing must divert scarce means of production from the private sector to public sector of the economy.

Taylor (1971) has analyzed the nature and the burden of public debt upon the economy upon which fiscal policy must stand without it the financing of public emergencies would be impossible. Public debt is desirable, no matter what its burden when incurred for the purpose of the securing benefits which outweigh the burden. In this sense debt is the necessary evil like cost of production: if the benefit could be secured with fewer burdens the alternative

would be preferable. The burden of public debt is represented by the economic hardship which it imposes. This hardship may take the form of waste of productive efficiency for the economic as whole or undesirable economic burdens imposed upon particular class. The possibility of inflation resulting from the form of borrowing constitutes another element of burden.

Goode (1984) has observed that borrowed money when used to finance public investment causes no such reduction. All that will happen is the change in the consumption of capital formation. The inference is the failure to restrict borrowing to the investment will retard economic growth. A weakness of the argument is that not all outlays classifies as investment actually contribute to growth, while some expenditure usually as government consumption promoted growth.

Gurley and Shaw (1955) have studied about the maintenance of balance between the expenditure and revenue for financing economic development, since developed, developing countries always face the problem of fund, which is reflect in a large extent and as ever increasing financial resource gap in government budgetary. Therefore the selection of appropriate method for financing development is very important for the success of a development plan. Various methods to be adopted mobilizing financial resources and their implication for the economy are among the leading issues in economic development and their study should be received proper attention.

Buiter (2001) has observed that the government borrows only to finance public sector formation cannot be easily rationalized in terms of generally accepted economic principles. At worst it could become a straight jacket on the fiscal and financial strategy. It also risks inducing a misplaced sense of complacency about the accumulation of public investment related to public debt. Debt must be serviced through future higher current revenues or lower public spending regardless of what motivated its issuance.

2.3 Reviews in Nepalese Context

Acharya (1968) has started that public debt is most popular in these days because of payment of debt on maturity that can be adjusted through the issue of fresh public debt instruments. But the fact is that habit of purchasing bond issued by the government should be developed among the people so that no difficulty may be faced in getting the bond purchased by the people.

Joshi (1982) has examined that borrowed fund from external resources produce expectable items and there should be constituted a committee to supervise and narrator and to control unnecessary foreign borrowing. The role of government is dominating private sectors in all sectors of the economy in Nepal. Thus the government should adopt suitable economic policy. The government should pay attention in all sectors of the economy with high economic growth rate by reducing excessive external dependency and internal resources mobilization for the development purpose. And the economy will be capable to move in a self-sustaining growth path.

Gurugharana (1996) has studied the burden of public debt as debt servicing cost in Nepal and has come to the conclusion that the long term upward trend of increasing debt burden inflict greater burden. He finally said that through the loan component of foreign aid, Nepal is softer than other countries like India and China, yet the very low rate of return and rapidly increased volume of debt is slowly bringing towards crisis of debt trap in Nepalese economy.

Adhikari (1996) has analyzed the foreign debt-servicing problem in Nepal. She found that substantial increasing in foreign between the period of F/Y 1974/75 to F/Y 1993/94. She prescribed effective implementation of liberalization policy in area of investment. This can bring a great relief to the country by creating capacity for foreign exchange earning which can reduce burden of debt servicing substantially in the years to come.

Koirala (2002) has stated that debt is the useful resource for economic development, several inverse consequences were found by it's over use. The debt crisis nineties eighties is widely known as the result of over use. The World Bank has established Multilateral Insurance Guarantee Agency (MIGA) and the international monetary fund has minted Special Drawing Right (SDR) to cubs the crisis in the third world. He further opines that we have only two options: either mobilize more foreign debt to invest for economic development or put the hand in hand doing nothing. The government debt has a simple relationship with the government deficit, the increase in the government debt over a given year is equal to the budget deficit, the increase in the government debt crisis over a given year or equal to the budget deficit of a higher economic growth requires a higher level of investment that is not possible simply from taxation so that government seeks public borrowing.

Krishna (1998) has studied that if a country borrows from abroad then it has to be repaid the principal and interest. The capacity to pay the debt service cost should be realized by investing the borrowed funds into increased production activities. The increase in the

production and consumption would also increase exports. Only then a country can find funds to pay the debt service cost. He emphasized mostly on productively used of available public debt then only it helps to raise national income and GDP. Hence borrowing can increase economic welfare in both lending and borrowing countries.

Subedit (2004) has try to study the debt situation with the following objectives.

-) To analyze the trend and structure of Debt in Nepal
-) To identify the debt servicing problem
-) To measure the burden of debt in Nepal

He found that Nepal is going on indebted and it will fall in debt crisis if the strong obligation and commitments are not made. The burden of interest payment is higher than the burden of principal payment in Nepal. Growth rate of external debt in Nepal is faster than the growth rate of export earnings. Finally he has concluded that due to the depreciation of Nepalese currency via the convertible foreign currency, the burden of debt servicing has been increasing year by year.

Thapa (2007) has observed that although Nepal's debt burden and its servicing should not be called as excessive on the basis of development, it's quite burdensome. Debt burden has reached this level even to achieve such meager development. Nepal has not taken high growth path so far and once it takes it will require enormous amount of investment and that investment will have to be made through borrowing from both domestic as well as the external sources. At that time Nepal will have to borrow an unlimited amount of financial resources from both the sources. Therefore until growth takes momentum, we should be extremely judicious while borrowing to finance the budget deficits.

2.4 Research Gap

In context of Nepal, there are a few studies which focus on debt growth nexus. Past studies have also suffered conflicting results. The past studies have open the way to future research stating that the application of relevant methodology would provide time outcomes. Future, the objectives and methodologies of the present study are different from those of aforementioned reviewed studies and articles. So, this study intends to link and fill gaps in the literature of the past at academic level covering large span of time series annual data.

Further, in the change socio-economic structure of the economy, the past studies may not provide sound guidelines for present policy prescription. Therefore, an in depth study on

relationship between debt and economic growth is almost important and it is expected that it will contribute extra knowledge in the existing field.

CHAPTER III

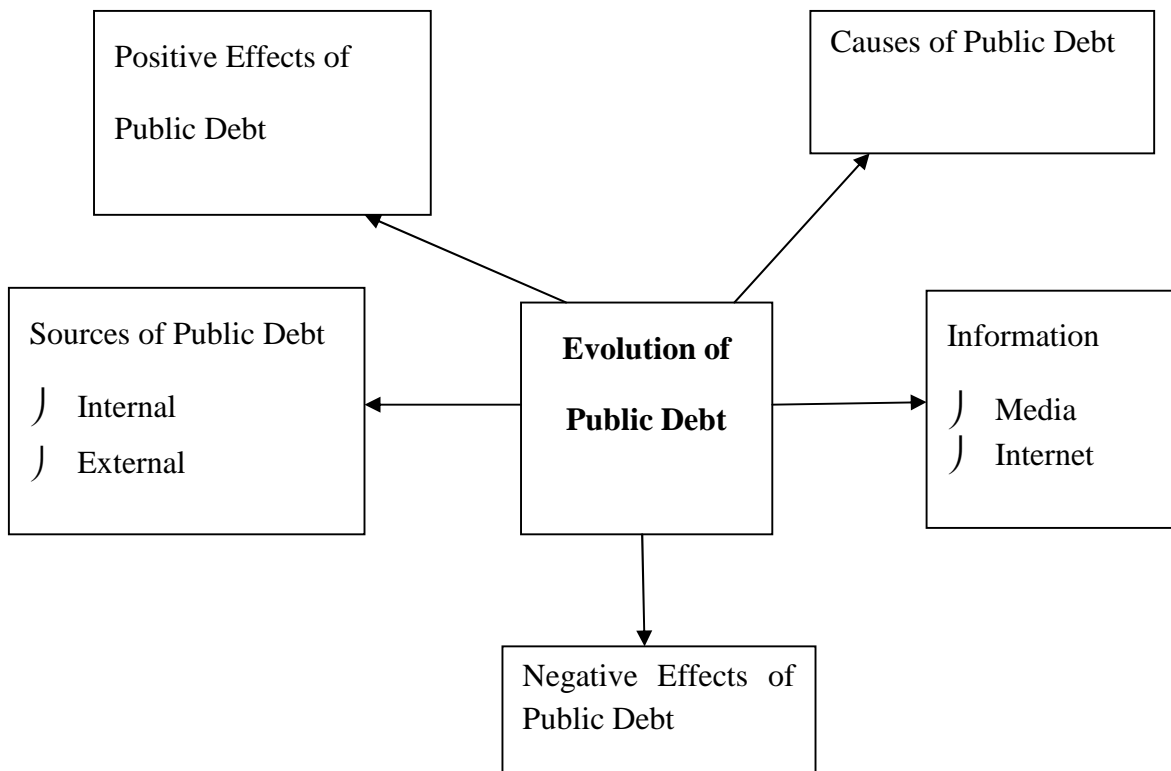
RESEARCH METHODOLOGY

3.1 Conceptual Framework

A systematic research study needs to follow a proper methodology to get the predetermined objects. Research methodology is a sequential procedure and methods to be adopted in a systematic study.

The following conceptual framework is designed that relates the structure of public debt in Nepal.

Chart 2.1: Conceptual Framework



3.2 Research Design

Research Design is the Plan, Structure and strategy of investigation conceived so as to obtain answers to research questions. The study can be divided into both the qualitative and quantitative analysis but this study is “Public Debt Structure burden in Nepal” it is based in descriptive analysis.

A research design is a procedural plan that is adopted by the researcher to answer question validity, objectivity, accurately and economically.

This study is based on secondary data of the public debt and the approach of this study is historical, analytical as well as descriptive. This study analyzes the trend and pattern of public debt of Nepal. For this purpose, we will estimate some tables, figures, conceptual framework chart. These tables, figures, conceptual framework have been explained analytically. The available data from various documents are collected, classified and tabulated according to meet the need of the chapter.

3.3 Selection of Study Period

The study of trend and structure of Public debt in Nepal is selected 14 years data from 2000 to 2014. It analyzes the outstanding debt trends which are essential to observe the burden of debt to the citizens.

3.4 Nature Sources of Data Collection

This study considers descriptive in nature and totally depends upon secondary data so, the study is based on secondary data and information collected from various sources such as:

1. Economy survey and budget speech-ministry of finance, government of Nepal
2. Published document of Nepal Rastra Bank, central bureau of statistics, and national planning commission.
3. Dissertation available at central library and library of central department of economics, TU
4. Newspaper, journal etc.
5. Other published or unpublished seminar paper.

3.5 Data Processing Procedures and Analysis Tools

This study is basically based on simple statistical tools and techniques. The data collected from relevant sources are processed according to the need of the chapter. The available data from various documents are collected, classified, tabulated, analyzed and presented to the scope and objective of study.

CHAPTER IV

TREND AND STRUCTURE OF PUBLIC DEBT IN NEPAL

4.1 Introduction to Public Debt in Nepal

Public debt is interlinked with the basis government fiscal flows of taxation and expenditure. If the volume of government expenditure exceeds the volume of tax revenue & other non-tax revenue then a deficit budget exists. Such a deficit budget provides the fundamental precondition for debt creation. Once debt has been created, it requires interest payment to maintain the debt and refinancing operations of the debt are beyond the material of existing securities.

The phenomenon of public debt was originated in Great Britain in 17th century where city merchants provide grants and loans to the government. It is interrelated with basic government fiscal flows of taxation and expenditure. When the volume of government expenditure exceeds that of the government revenue, the deficit budget arises. Thus, a deficit budget provides the fundamental precondition for the debt creation. Such create budgets needs interest payment to maintain the debt and refinancing operation of the debt.

Some historical events suggest that public debt is no altogether a new practice in Nepal. In the past, king/prime ministers used to take resource of public debt. King Prithivi Narayan Shah had borrowing for the public debt for financing the war in 1768 A.D. The Rana Prime Minister Chandra Shumsher had also borrowing money from Pashupatinath temple to resettle the released slaves 1925 A.D. some occasional borrowing continued thereafter.

Nepal was a debt free country until 1951 A.D. with the enforcement of public debt act 1960, Domestic public in the forms of Treasure Bills, Development Bond and National Saving Certificates were issued in 1962, 1963/64 and 1984 respectively. These bonds and bills are of regular nature. Some of them are issued as deficit financing instruments while others are issued with a view to depend the money market. Besides, there are many other bonds such as: special bonds, land compensation bonds (1964), force compensation bonds (1965), interest prize bonds (1999) and other various special bonds.

In Nepal, first expenditure of foreign aid was that of the government 13 January, 1951 with an agreement of "Fur Point-Program". In the first five year (1956/57-1960/60) of Nepal, the development expenditure was fulfilled by foreign grants. But from second there year plan (1962/63-1964/65), Nepal started to obtain the external loan/debt from 1963/64 and internal

debt from FY 1964. For the first time FY 1963/64, the government flatted securities from mobilizing internal saving to finance the country economic development programs. The amount of external borrowing of Nepal are bilateral source i.e. developed countries, mainly American, Japan, Norway, China, India and others and multilateral sources like IMF, VOB and APD.

-) There are mainly three reasons for raising the government borrowing:
 - To recover the deficit budget.
 - To tackle the emergency period of crisis.
 - Sustain the economic and monetary stability.
 - To stimulate the social and physical infrastructure.
 - To maintain the peace and security.

Nepal has been borrowing heavily from external sources mainly to balance the budgetary deficit to fulfill the objective of the economic development, there is need of heavy investment to build up socio-economic infrastructure such as health, education, transportation, communication etc. For this, there is no other possible means for government revenue. So public debt is a most for it is widely accepted as a means of deficit financing measures to reduce as gap between excepted government expenditure minus expected revenue plus foreign grant.

Thus,

$$\text{Deficit} = \text{Expenditure} - (\text{Revenue} + \text{Foreign Grants})$$

Expenditure is estimated for a targeted rate of growth. Saving-investment gap and slow growth of revenue as compared to growth in government expenditure cause this deficit. Saving-investment gap will prompt the government to borrow for creative socio-economic infrastructure required also for promotion invested from the private sector investment.

Since Nepal has the sufficient internal resources for the economic development. The huge amount of debt is inevitable. The debt proportion of the budgeting is to relied upon the GDP of the nation. It is hence necessary to maintain the internal debt with in the limit of 2 percentage of GDP.

4.2 Role of Public Debt in Underdeveloped Countries

Public debt plays a prominent role in underdeveloped countries like Nepal. Economic development is one of the main tasks of the governments that help to stimulate the growth of the economy with stability but due to lack of financial resources it cannot be achieved easily. In this context the role of taxation is emphasized but there is limited taxation. This leads to the use of public borrowing as a method of resource mobilization. The public borrowing for financing productive investment generates additional productive capacity in the economy which would not have been possible in its absence. Therefore, the selection of appropriate methods for financing development is important for the success of a development plan. Various methods are adopted for mobilizing financial resources and their implications for the economy are among the leading issues in economic development. Financial aspects are as important as the other aspects of economic development and their study should be given attention.

In the past, the way of living was very simple and borrowings were very small. The government also followed the policy of non-intervention in economic system. But in modern time, especially after the world depression of 1929/30, the public authorities gave started to take keen interest in economic development of their respective countries. Thus public borrowing has become 'sine-qua-non' for the economic development of nation (Lekhi, 1995, 365).

Thus underdevelopment countries like Nepal have low income whereby it is very difficult for mobilization of resources. Nepal has so many areas where resources are abundant but those are not monetized. These sectors make the mobilization of financial resources more complex. People have no incentives to save and also have no opportunities to save of such venue which is very high. The government policy to promote development is less effective. Thus the rigorous fiscal policy must be adopted to maximize domestic saving for required investment. The availability of capital funds can be increased through compulsory saving by the help of various fiscal instruments like borrowing, deficit financing and import restriction. There is no doubt public debt is one of the major sources for development financing in development countries.

4.3 Public Borrowing and Mobilization of Resources

For economic development of underdevelopment countries borrowing from public can be another important source for mobilizing the financial resources. No doubt, to uplift the

economic development public borrowing has significant role. In terms of the orthodox theory of public finance, the Current expenditure of government development to producing capital expenditure the fruits of which subsequently be sold to purchase for fees, Should be financed by loan. But Keynesian theory emphasized on demand generating aspects of public debt.

Mahesh Raj Joshi(1982)in his M.A Dissertation entitled “Structure of Public Debt in Nepal” has observed that the system of public debt also has helped to mobilize the internal financial resources in the productive sector of country’s economy. Borrowing for deficit financing is being advocated specially as a device for maintaining the circuit flow of money so as to promote full employment by applying short terms credit instruments.

Mobilization of resources for financing ever increasing development outlay is an extremely difficult problem in developing economy. It is in the context that the role of taxation is emphasized. But there is limit to taxation. If this limit is crossed taxation possesses a serious problem of economic incentives. This leads to the use of public borrowing as a method of resources mobilization.

NirajanBasnet (2003) in his M.A thesis entitled “A Study of public Debt in Nepal” has said that in modern era, to finance the excessive increased development expenditure, borrowing is an effective instrument for mobilization of resources which is less inflationary. Nobody wants to pay more tax unless he has to get more return. So increase in tax rate is against of public willingness. Taxation constitutes a method of forced saving public borrowing is a device to utilize a substantial part of voluntary saving for financing the development plan of the public sectors. Public borrowing has certain advantage over taxation. Taxation, pushed beyond a certain limit has adversely affects economic incentives but public borrowing even though it evolves the withdrawal of resources by curtailing consumption just like taxes, does not produce an unfavorable reaction on incentives partly because of its voluntary nature and partly because of the exception of repayment.

4.4 Deficit financing and Economic Development

Deficit financing in the context of underdevelopment countries have different connotation. It is the most useful method of promotion economic development in underdevelopment countries. The nature of an underdeveloped countries is such that sufficient private investment is not forthcoming due to various social, economic and institutional factors. Deficit financing may be used for the development of economic and social overheads such as

construction of roads, railways, power projects, schools, hospital etc. By providing socially use full capital, deficit financing is able to break bottleneck and structure rigidities and there by increases productivity. Deficit financing has been regarding as a means to cover the gap in financial resources for loan of adequate internal and external monetary sources on order to fulfill the physical targets in the plans (Nevin,1963,95). The use of the deficit financing for economic development may be likened to fire which if unregulated produces havoc, while regulated it gives light and warmth. The danger is therefore not so much in the instrument itself as in the use to which it is put. Much depends on the degree of caution we exercise (Jhingan, 1998,371).

Deficit financing, in Nepalese context, has a crucial role in development plans. It has been regarding as a means to cove the gap in financing resources for need of adequate internal and external monetary sources to achieves the targets of different short terms and ling terms plans (Dhakal,2008,26).

We can conclude that public borrowing is the means for to meet deficit financing of the economic. It has very closely relation with borrowing both internal and external. Borrowing is easy sources to finance deficit for economic development in the developed and underdeveloped countries.

4.5 Contribution of Public Debt in Economic Development

The role of public debt in an underdeveloped economy goes beyond financing government expenditure. Generally, government borrows for the creation of infrastructure in the economy. Since, it requires huge investment in itially, this cannot be met only thought revenue collection. The aim of the public debt policy should be to help in strengthening the money and capital market, which in turn accelerate development and price stability.

Edward Nevin (1963,95) has observed on capital funds in underdeveloped countries as indeed a vital important role of public debt in underdeveloped territory is to secure funds not for the government itself, but in order to establish a regular and acceptable channel by which private investor may obtain access to funds which would otherwise have been lost to invest within that territory.

It is not merely that monetary action and debt management interact so that they ought to be one control. They are one and individual debt management lies at the heart of monetary control and it is essential that this unity should be adequately reflected in our institutional arrangement. Thus debt management is an instrument of influencing the structure of interest

rates through which desired impulse can be transmitted to the development economy (The Radcliff Committee,1959,224).

Public debt plays an important part in the development of the capital stock as well. The growth of public debt helps the development of the money market and the capital market. Public debt hence plays a significant role in the economic development. The success of public borrowing depends up on the capacity to save in the economy and attractiveness of the government securities. Government securities have been recognized to be a very safe investment. An investor takes pride in his investment because he thinks that he has contributed to development of the country. Domestic resources are not sufficient to promote rapid development of the Nepal. An underdeveloped economy caught up in the vicious circle of poverty can achieve a real break-through only with the help of external capital. It is an accepted fact that economic development mostly be financed by domestic saving and that foreign aid only supplement domestic saving.

Due to the market imperfection and low saving capacity, mobilization of adequate financial resources is difficult in underdeveloped countries. However, further strengthening of the financial institutions of money and capital market, government must facilitate by market appropriate policy measures. Then, only domestic resources mobilization will be strengthened which helps to finance for the process of economy development. Borrowing from the market may increase capital accumulation where borrowing from central bank may have inflationary pressure in the economy. Hence, it is desirable to increase market borrowing so as to increasing the pace of economic development.

4.6Trend of Fiscal Deficit and Budget Deficit

The main source of revenues of Nepal's Government are taxes, fees and charges, royalties on natural resources and the sale of state owned goods or services or from public goods. It also receives income from investment and often from debt. These revenues are used for recurrent and capital expenditure but in Nepal resources gap is always being a common phenomenon after the starting of the systemic budgetary systems. Managing the available internal resources is the great problem of the country. The expenditure and the revenue collection are not increasing in same pace.

Due to defective custom and tax administration, corruption, lack of patriotism etc. Government of Nepal is unable to keep the growth of total expenditure and revenue in the

same pace. The yearly volume of government expenditure has overlapped its revenue collection resulting fiscal deficit. Similarly, weak performance of export trade, low tax capacity and insufficient external borrowing or grants has lead to increasing budgetary deficit.

Table 4.1

Different Scenario of Resource Gap

F/Y	Govt. Revenue	Annual Growth Rate of Govt Revenue	Total Expenditure	Annual Growth Rate of Govt Expenditure	Revenue Expenditure Gap	GDP	Revenue as Percent of GDP	Expenditure as Percent of GDP	Revenue Expenditure Gap as Percent of GDP
2000/01	48893.6	14	79835.1	20.5	30941.5	394052	12.4	20.3	7.9
2001/02	50445.5	3.2	80072.2	0.3	29626.5	425454	11.9	18.8	7
2002/03	56229.8	11.5	84006.1	4.9	27776.3	444052	12.7	18.9	6.3
2003/04	6331	10.9	89442.6	6.5	27111.6	473545	13.2	18.9	5.07
2004/05	70122.7	12.5	102560	14.7	324377.7	517993	13.5	19.8	6.3
2005/06	72282.7	3.1	110889	8.1	38607.1	630300	11.5	17.6	6.1
2006/07	87712.1	21.3	133605	20.5	45892.5	696989	12.6	19.2	6.6
2007/08	107623	22.7	163000	22	55377.3	781262	13.7	20.8	7
2008/09	143475	33.3	201966	34.7	76187.5	938671	15.3	23.4	8.1
2009/10	179946	25.4	259689	18.2	79743.3	1096038	16.4	23.7	7.3
2010/11	199819	11.1	295363	13.7	95544.4	1369431	14.5	21.5	6.9
2011/12	244374	22.3	339168	14.83	94794	1527344	15.91	22.2	6.2
2012/13	296021	21.1	358638	5.74	62617	1692643	17.48	21.18	3.69
2013/14	356620	20.5	435050	21.3	78430	194162	18.36	22.4	4.03
Average Annual Growth Rate		16.64		14.71			14.23	20.62	42.17

Source: Economic Surveys (F/Y 2000/01-2013/14)

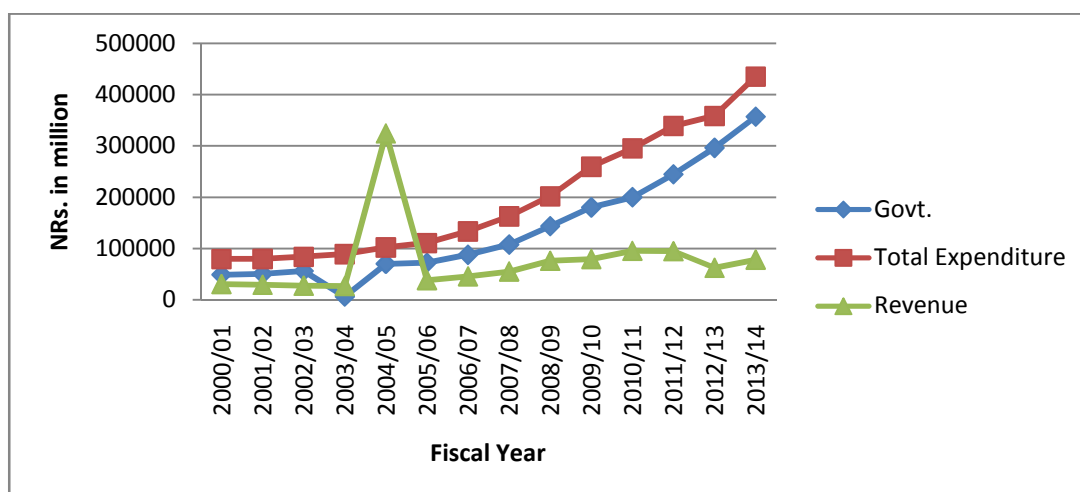
In the above Table 5.1 the second column and the fourth column shows the trend in revenue and expenditure in Nepal. The six column shows the revenue expenditure gap in which we can see the increasing tendency mainly because of increasing volume of total expenditure than revenue. The amount of total expenditure was NRs 79,835.1 million in F/Y 2000/01 has gone up to NRs 435,050 million in F/Y 2013/14 ; whereas total revenue has increased from NRs 48,893.6 million in F/Y 2000/01 to NRs 35,660 million in F/Y 2013/14. This shows the public expenditure has dominated to government revenue. Thus, the revenue expenditure gap is NRs 30,941.5 million in 2000/01. This gap is increasing continuously increasing in each F/Y. In F/Y 2013/14 this gap has been NRs 78,430 million. This indicates that the resource gap is serious problem in Nepal.

The annual growth rate of government revenue and total expenditure is 14% and 20.5% in F/Y 2000/01 respectively but the annual growth rate of government revenue and total expenditure is 20.5% and 21.3% respectively in F/Y 2013/14. This indicates that there is considerable improvement in the allocation of government revenue as compared to F/Y 2000/01.

The tenth column shows the resource gap as percentage of GDP. GDP has been increasing continuously from F/Y 2000/01 to F/Y 2013/14. GDP is the main indicator of the economic development that's why analysis of resource gap as percentage of GDP is more important. The revenue expenditure gap has been decreased from 7.9% in F/Y 2000/01 to 4.03% in F/Y 2013/14. Average annual growth rate of revenue expenditure gap as percentage of GDP is 6.37%. We can show the different scenario of resource gap in Nepal in the following figure.

Figure 4.1

Different Scenario of Resource Gap in Nepal



4.7 Growth Trend in Government Debt

The scope of government debt has been increasing and investing more, so the government expenditure is increasing. The reliance on taxation is not possible in view of the large amount of financial resources required for government expenditure. So, Nepal is facing large and growing financial resource gap in the budgetary resource. In this context, the government borrowing external and internal both is needed for supplementing the resource gap. The government has to borrow large amount of loans to meet the fiscal deficit, which is shown in the following table and figure.

Table 4.2

Trends in Government Debt and Annual Growth Rate

F/Y	Internal Debt(ID)	External Debt(ED)	Total Debt(TD)	%share of ID in TD	% share of ED in TD	GDP	ID as % of GDP	ED as % of GDP	TD as % of GDP
2000/01	7000	12044	19044	36.8	63.2	394052	1.78	3.06	4.83
2001/02	8000	7698.7	15698.7	51	49	425454	1.81	1.81	3.69
2002/03	8880	4546.4	13426.4	66.1	33.9	444052	2	1.02	3.02
2003/04	5607.8	7629	13236	42.4	57.6	473545	1.18	1.61	2.8
2004/05	8938.9	9266	18204.1	49.1	50.9	517993	1.73	1.79	3.51
2005/06	11834.2	8214.4	20048.6	59	41	630300	1.88	1.3	3.18
2006/07	17892.3	10053.5	27945.8	64	36	696989	2.57	1.44	4.01
2007/08	20500	11325.5	31825.5	64.4	35.6	781262	2.62	1.45	4.07
2008/09	18417.1	9968.9	28386	64.8	35.1	938671	1.96	1.06	3.02
2009/10	29914	11223.5	41137.4	72.7	27.3	1096038	2.72	1.02	3.75
2010/11	42515.8	12075.6	54591.6	77.8	22.1	1369431	3.1	1.1	3.9
2011/12	23419	11083	47502	76.66	23.33	1527344	2.38	0.73	3.11
2012/13	19043	11969	31012	61.4	38.6	1692643	1.12	0.71	1.83
2013/14	19980	21130	41110	48.6	51.4	1941624	1.02	1.08	2.11
Average Annual Growth Rate				59.63	40.36		1.96	1.37	3.35

Sources: Economic Surveys (F/Y 2000/01– 2013/14)

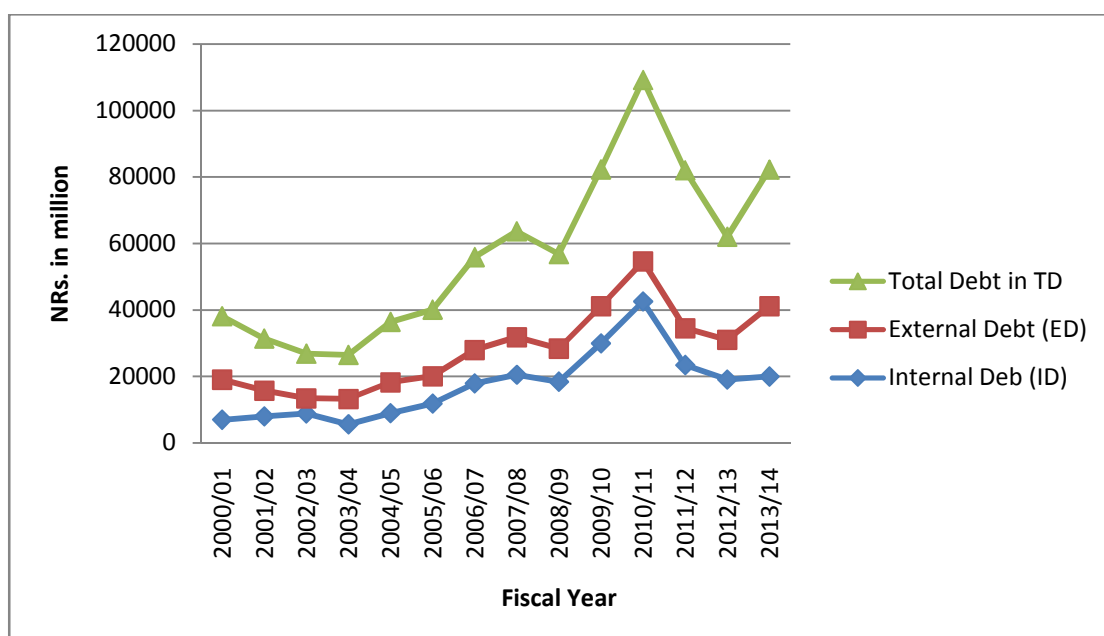
Table 4.2 shows that the government borrowing and annual growth rate from the period 2000/01- 2013/14. This table shows that the contribution of both internal and external debt to the total debt has been in the pace of increasing trend. The average

annual growth rate as percentage share of internal debt and external debt to total debt is 59.63 percent and 40.36 percent respectively. The above table shows that the total debt has been increased from NRs 19,044 million in F/Y 2000/01 to NRs 41,110 million in F/Y 2013/14.

The share of internal and external debt as percentage of GDP is 1.78 percent and 3.06 percent respectively in F/Y 2000/01. This has been decreased to 1.02 and 1.08 percent respectively in F/Y 2013/14. The contribution of external debt has been decreased compared to internal debt in the study period from F/Y 2000/01 to 2013/14

Figure 4.2

Trends in Government Debt in Nepal



4.8 Pattern of Internal Net Outstanding Debt in Nepal

Nepal has started internal borrowing since F/Y 1961/62. The main purpose of borrowing the internal debt is to meet the resource gap and to mobilize the internal resources for development. Internal debt plays important role on cash management and to support the expenditure for development activities. Government is receiving internal debt from various sources by means of treasury bills, development bonds, national saving certificates and special bonds. The annual net outstanding internal debt has been shown in table 5.2.

Table 4.3

Ownership Pattern of Government Bond and Treasury Bills

(NRs. In Million)

F/Y	Treasury Bills	Development Bonds	National Saving Certificate	Special Bonds	Total Outstanding Internal Debt	Percent Share of Treasury Bills	Percent Share of Development Bonds	Percent Share of National Saving Certificate	Percent Share of Special Bond
2000/01	21026.9	4262.2	11526.5	17541.4	54357	46	9.9	20.8	29.2
2001/02	27610.8	5962.2	12476.4	13994.3	60043.7	56.3	15.2	15.8	19.2
2002/03	48860.7	16059.2	9629.8	9164.5	83714.2	58.3	19.2	11.5	11.1
2003/04	49429.6	17549.2	9029.8	8946.2	84954.8	58.2	20.7	10.6	10.8
2004/05	51383.1	19999.2	6576.7	8176.3	86135.3	59.7	23.2	7.6	10.4
2005/06	62970.3	17959.2	3876.8	8225.6	93031.9	67.7	19.3	4.2	8.8
2006/07	74445.3	19177.1	1516.9	7245.7	102385	71.7	18.7	1.5	8.1
2007/08	85033.1	21735.4	1116.9	5139.8	113025	72.2	19.8	0.9	4.2
2008/09	86515.1	29478.5	216.9	5030	121241	71.3	24.3	0.1	4.1
2009/10	102044	35519.4	0	5369.7	142933	71.4	24.9	0	3.7
2010/11	120341	43519.4	10680	5029.1	179569	67	24.2	5.9	3.7
2011/12	131624	57519.5	15680.1	502.87	214000	61.5	26.9	7.3	2.4
2012/13	136468	51610.9	15680	1334.55	211900	64.4	24.5	7.4	0.6
2013/14	136468	47110.9	16586.5	0	2076700	66.2	22.8	8.02	0
Average Annual Growth Rate						63.7	20.9	7.3	8.9

Sources: Economic Surveys (F/Y 2000/01 – 2013/14)

Table 4.3 shows the pattern of internal net outstanding internal debt in Nepal during the period of F/Y2000/01 to F/Y2013/14 in which the government mainly mobilizes the internal resources by four sources. The contribution of treasury bill is larger because its average annual growth rate 63.7 percent which is larger than others.

The percent share of treasury bills ,development bonds, national saving certificate and special bonds are 46%,9.9%,20.8% and 29.2% respectively in F/Y2000/01.It shows that the share of treasury bills has dominated in the mobilization of internal debt.But the average annual growth rate of treasury bills,development bonds,national saving certificates and special bonds are 63.7%,20.9%,7.3% and 8.9% which shows that the share of treasury bill has dominated in the mobilization of internal debt during the study period.

4.9 Pattern of External Debt in Nepal

The foreign assistance in terms of grants and loans are the major resources of external financing in Nepal. The need of external borrowing is growing due to the revenue deficit. Internal debt is not sufficient to government for development activities. Due to the low resource mobilization the fund collection is not sufficient. So, the external debt is most essential source of revenue to the government. Nepal has borrowed the external loan through bilateral and multilateral sources. Bilateral loans are from government and their agencies, loans from autonomous bodies and direct loans from official export credit agencies. Multilateral loans are loans and credit from multilateral agencies such as World Bank, International Monetary Fund, Regional Development Banks and intergovernmental agencies. The pattern of bilateral and multilateral debt is shown in the following Table 4.4

Table 4.4

Pattern of External Debt in Terms of Disbursement by Major Sources

(NRs in Million)

F/Y	Bilateral Debt	Multilateral Debt	Total External Debt	Percent Share of Bilateral Debt	Percent Share of Multilateral Debt	GDP	Bilateral Debt as Percent of GDP	Multilateral Debt as Percent of GDP	External Debt as Percent of GDP
2000/01	586.7	11457.3	12044	4.9	95.1	394052	0.15	2.91	3.06
2001/02	87	7611.3	7698.7	1.1	98.9	425454	0.02	1.79	1.81
2002/03	657.2	3889.2	4546.4	14.5	85.5	444052	0.15	0.88	1.02
2003/04	66	7563.2	7629	0.9	99.1	473545	0.01	1.6	1.61
2004/05	126.5	9139.6	9266	1.4	98.6	517993	0.02	1.76	1.79
2005/06	40.6	8173.7	8214.4	0.5	99.5	630300	0.01	1.3	1.3
2006/07	9004.6	1048.9	10053.5	89.6	10.4	696989	1.29	0.15	1.44
2007/08	632.1	8347.8	11325.5	7	92.9	781262	0.08	0.71	1.45
2008/09	612.9	9356	9968.9	6.1	93.9	938671	0.07	0.99	1.06
2009/10	4550.6	6672.8	11223.5	40.	59.5	1096038	0.4	0.6	1.02
2010/11	4823.7	7251.9	12075.6	39.9	60.6	1369431	0.3	0.5	1.1
2011/12	3254.4	7828.7	11083	29.4	70.6	1527344	0.21	0.51	0.73
2012/13	2574.4	9394.9	11969	21.5	78.5	1692643	0.15	0.56	0.71
2013/14	1573.7	19556.9	21130	7.4	92.6	1941624	0.08	0.01	1.08
Average Annual Growth Rate				18.91	81.12		0.21	1.16	1.37

Source: Economic Surveys (F/Y 2000/01-2013/14)

Table 4.4 shows that pattern of external debt in term of disbursement by major sources. It shows that bilateral loan is in decreasing and multilateral loan is in increasing trend and it also reflects that the total external debt has been increasing in each fiscal year.

External debt is NRs 12,044 million in F/Y 2000/01 which is increased to NRs 21,130 million in F/Y 2013/14. The average annual growth rate of bilateral debt and multilateral debt is 18.91% and 81.12% respectively which shows that the share of multilateral debt is high in total external debt.

4.10 Outstanding Debt

Net outstanding total debt means both internal and external debt after deducting repayment of principal and interest. The government has to borrow large amount of loans to meet the financial resource gap thus there is increasing trend of total net outstanding public debt in each fiscal year. The net outstanding debt has been shown in Table 5.5 and figure 5.3.

Table 4.5
Net Outstanding Public Debt Ratio

(NRs in Million)

F/Y	Outstanding ID	Outstanding ED	Total Outstanding Debt	GDP	ID as % of GDP	ED as % of GDP	Total Debt as % of GDP
2000/01	54357	200404	255908	394052	13.8	50.9	64.9
2001/02	60043.7	220126	280169	425454	14.1	51.7	65.9
2002/03	73620.7	223433	297054	444052	16.6	50.3	66.9
2003/04	84645.3	232779	317425	473545	17.9	49.2	67.1
2004/05	86133.7	219642	305776	517993	16.6	42.4	59
2005/06	87564.2	233969	321533	630300	13.9	37.1	51
2006/07	93031.9	216201	309233	696989	13.3	31	44.4
2007/08	111239	242061	353300	781262	14.2	30.9	45.1
2008/09	121241	277040	398281	938671	12.9	29.5	42.4
2009/10	142933	256243	399176	1096038	13	23.4	36.4
2010/11	179569	262252	441821	1369431	13.1	19.1	32.2
2011/12	214000	309300	523200	1527344	14	20.2	34.3
2012/13	211900	333400	545300	1692643	12.5	19.7	32.2
2013/14	206700	346800	553500	1941624	10.5	17.9	28.5
Average Annual Growth Rate					14.01	33.81	47.88

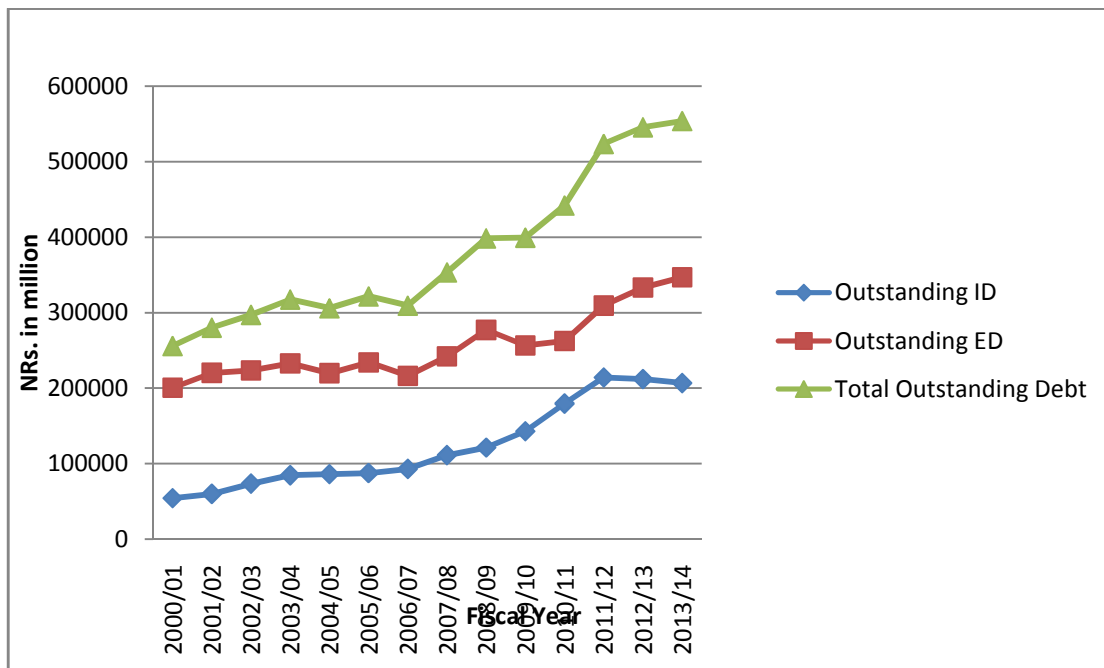
Source: Economic Surveys (F/Y 2000/01-2013/14)

Table 4.5 and Figure 4.3 show that the net outstanding public debt. Both net outstanding internal and external public debt are increasing in each FY. In F/Y 2000/01, net outstanding internal and external public debt is NRs 54,337 million and NRs 200,404.4 million respectively. In F/Y 2013/14, net outstanding internal and external public debt has been increased to NRs 206,700 million and NRs 346.800 million respectively.

The average annual growth rate of internal and external debt as percentage of GDP is 14.01% and 33.81% respectively. In overall, net outstanding debt share of external source is larger than internal sources. Hence, this shows that external debt dependency is increasing rapidly in each F/Y.

Figure 4.3

Pattern of Net Outstanding Debt in Nepal



4.11 Public Debt as Percentage of Fiscal Deficit

In Fiscal system of Nepal, the fiscal deficit is financed through both internal and external borrowing. Since the government expenditure is rapidly increasing which is unable to raise revenue accordingly. Thus, accumulation of debt is mainly for financing the deficit. The internal and external debt as a percentage of fiscal deficit is shown in Table 4.6 and Figure 4.4.

Table 4.6**Percentage of Debt in Fiscal Deficit**

(NRs in Millions)

F/Y	Internal Debt	External Debt	Total Debt	Fiscal Deficit	Foreign Grants	Annual growth rate of Deficit	ID as Percentage of Deficit	ED as percentage of Deficit
2000/01	7000	12044	19044	24188.1	6753.4	32.3	22.6	38.9
2001/02	8000	7698.7	15698.7	22940.6	6686.2	-4.2	27	26
2002/03	8880	4546.4	13426.4	16437.1	11339.1	-6.2	32	16.4
2003/04	5607.8	7629	13236	15828.2	11283.4	-2.4	20.7	28.1
2004/05	8938.9	9266	18204.1	18046.5	14391.2	19.2	27.6	28.6
2005/06	11834.2	8214.4	20048.6	24779.6	13827.5	19	30.7	21.3
2006/07	17892.3	10053.5	27945.8	30091.7	15800.8	21.4	39	21.9
2007/08	20500	11325.5	31825.5	32642	20735.3	8.47	62.8	34.7
2008/09	18417.1	9968.9	28386	49804.7	26382.8	52.6	36.9	20
2009/10	29914	11223.5	41137.4	41197.4	38546	-17.3	72.6	27.2
2010/11	42515.8	12075.6	54591.6	48669.1	57997.8	10.1	87.3	24.1
2011/12	23419	11083	47502	51184	40812	5.16	71.2	21.7
2012/13	19043	11969	31012	24170	35229	-51.72	77.1	48.4
2013/14	19980	21130	41110	38150	33960	54.39	22.4	55.4
Average Annual Growth Rate						10.01	47.14	29.53

Source: Economic Surveys (F/Y 2000/01-2013/14)

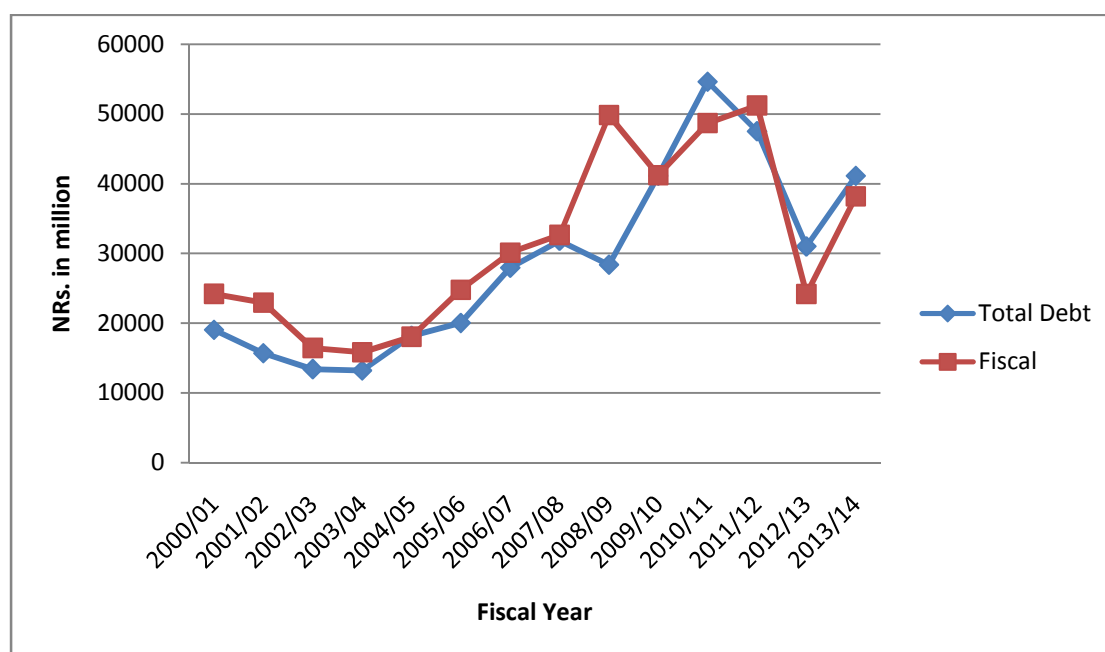
Table 4.6 depicts the raising of total public debt .Total public debt in F/Y 2000/01 is NRs 19,044 million which has been increased to NRs 41,110 million inF/Y2013/14.In F/Y 2013/14 both internal and external debt are increased to NRs 19,980 million and NRs 21,130 million respectively.The fiscal deficit has been increased to NRs 38,150 million from NRs 24,188.1 million.

The internal debt has occupied 22.6% of deficit whereas the external debt has occupied 38.9% of fiscal deficit in F/Y2000/01.But in F/Y 2013/14 the internal debt has occupied 52.4% of fiscal deficit whereas the external deficit has occupied 55.4 % of fiscal deficit.

The scenario indicates that the government growing reliance on external loan for meeting ever increasing fiscal deficit.

Figure 4.4

Pattern of Public Debt and Fiscal Deficit



4.12 Share of External and Internal Debt Servicing as Percentage of GDP

Debt serving in foreign loan entails double burdens first, debt servicing has the primary claim upon the allocation of national budget. To that extent priority for economic activities such as irrigation, health, education, drinking water road and electricity are deprived of resources. Secondly, debt servicing of external debt involves the scarcest resource the foreign exchange. It curbs the capacity to import capital goods needed for the country. Nepal has been taking the huge amount of internal and external loans with the obligation of future repayment. In Nepalese context, foreign loan shares rapidly increasing which increase financial and real burden for the future generation. So, the debt servicing is one of the problems of Nepalese economy because most of the portion of revenue has been used to pay the interest of internal and external debt.

Table 4.7 and Figure 4.5 show the ratio of internal and external debt servicing to total debt servicing and their percentage share to GDP during the period from F/Y 2000/01 to F/Y 2013/14.

Table 4.7**Internal and External Debt Servicing in Nepal**

(NRs in Millions)

F/Y	Internal Debt Servicing(IDS)	External Debt Servicing(EDS)	Total Debt Servicing(TDS)	GDP	IDS as % of GDP	EDS as % of GDP	TDS as % of GDP
2000/01	4193.2	6201.4	10394.6	394052	1.1	1.6	2.6
2001/02	5637.8	6567.5	12205.3	425454	1.3	1.5	2.9
2002/03	8663.4	7519.2	16182.6	444052	2	1.7	3.6
2003/04	9424.9	7908.9	17338.8	473545	2	1.7	3.7
2004/05	11651.4	8099.9	19751.3	517993	2.3	1.6	3.8
2005/06	11271.7	9150.8	20423.5	630300	1.8	1.5	3.3
2006/07	13321.8	9594.5	22916.3	696989	1.9	1.4	3.3
2007/08	15900.7	10014.7	25915.4	781262	2	1.3	3.3
2008/09	8713.8	12494	21207.8	938671	0.9	1.3	2.3
2009/10	7689.3	13201.1	20890.4	1096038	0.7	1.2	1.9
2010/11	5574.1	13481.1	19055.2	1369431	0.4	0.9	1.3
2011/12	6626.8	13532.4	20159.2	1527344	0.4	0.9	1.3
2012/13	20940.1	14190.1	35130.2	1692643	1.2	0.8	2.1
2013/14	25152.5	16724.6	41877	1941624	1.3	0.91	2.2
Average Annual Growth Rate					1.38	1.31	2.69

Source: Economic Surveys.(F/Y 2000/01-2013/14)

Table 4.7 shows the ratio of internal and external debt service to total debt servicing and their percentage shows to GDP during the period from F/Y 2000/01 to F/Y2013/14.Above Table shows that the total debt servicing is increasing rapidly. In F/Y 2000/01, total debt servicing was NRs10,394.6 million which has increased to NRs 41,877 million in F/Y 2013/14.

The increasing trend of internal debt servicing is greater than external debt servicing.The average annual growth rate of internal debt servicing as percentage of GDP is 1.38%,external debt servicing as percentage of GDP is 1.31% and total debt servicing as percentage of GDP is 2.69% which shows that the burden of internal debt servicing is growing rapidly than the

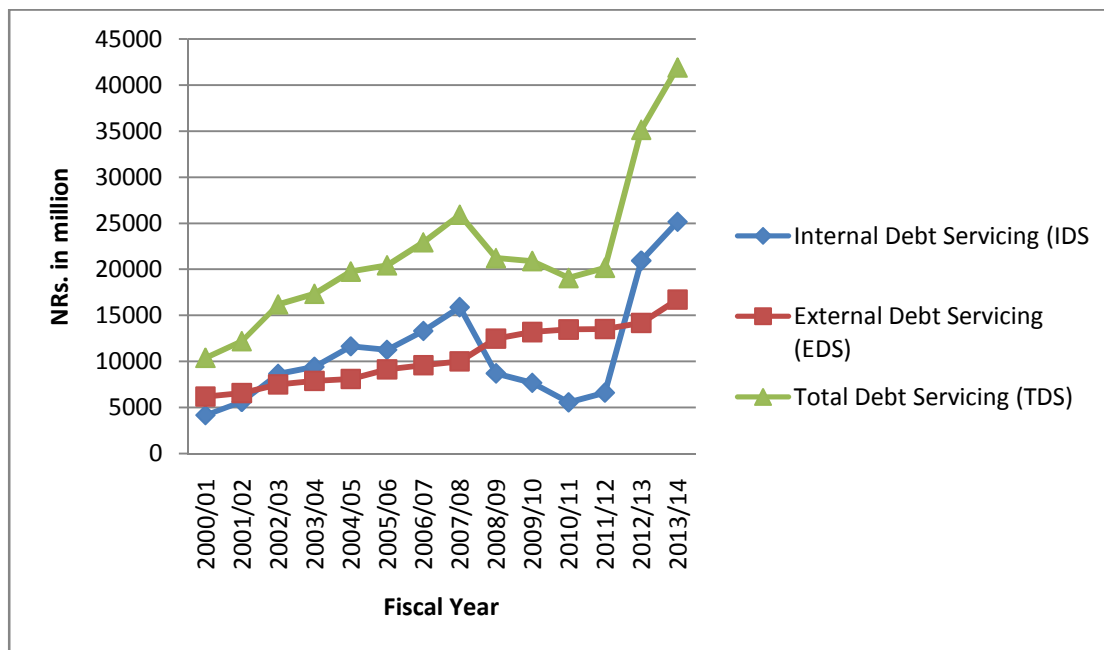
burden of external debt servicing. Thus, to remove this problem of burden proper debt management is necessary in Nepal.

Note: External Debt Servicing = Repayment + interest payment

Internal Debt Servicing = Interest payment + Principal Repayment

Figure 4.5

Pattern of Internal and External Debt Servicing



4.13 Trend of Regular Expenditure and Debt Servicing

In annual budgetary process the total debt servicing is a part of regular expenditure. The process of debt servicing has burden on the regular expenditure. The effect is on the head of the people of Nepal. Table 5.8 and Figure 4.6 shows the total debt servicing and total external debt servicing and their percentage share in regular expenditure.

Table 4.8**Regular Expenditure and Deb Servicing**

(NRs in Millions)

F/Y	Regular Expenditure(RE)	Annual Growth Rate of RE	Total Debt Servicing	External Debt Servicing	Total Debt Servicing as % of RE	External Debt Servicing as % of RE
2000/01	42769.2	23.9	10394.6	6201.4	24.3	14.5
2001/02	48590	13.6	12205.3	6567.5	25	13.5
2002/03	54973	13.2	16182.6	7519.2	29.4	13.7
2003/04	55552.1	1.1	17338.8	7908.9	31.2	17.3
2004/05	61686.4	11.1	19751.3	8099.9	25.4	13.1
2005/06	67017.8	8.6	20423.5	9150.8	23.1	8.2
2006/07	77122.4	15.1	22916.3	9594.5	29.7	12.4
2007/08	98172.5	27.3	25915.4	10014.7	26.4	10.2
2008/09	127738.9	30.1	21207.8	12494	16.6	9.8
2009/10	151019.1	18.2	20890.4	13201.1	13.8	8.7
2010/11	168824.2	11.7	19055.2	13481.1	11.2	7.9
2011/12	243460	15.8	20159.2	13532.4	8.28	5.6
2012/13	247455.5	1.6	35130.2	14190.1	14.2	5.7
2013/14	303531.8	22.7	41877	16724.6	13.8	5.5
Average Annual Growth Rate		15.29			20.88	10.44

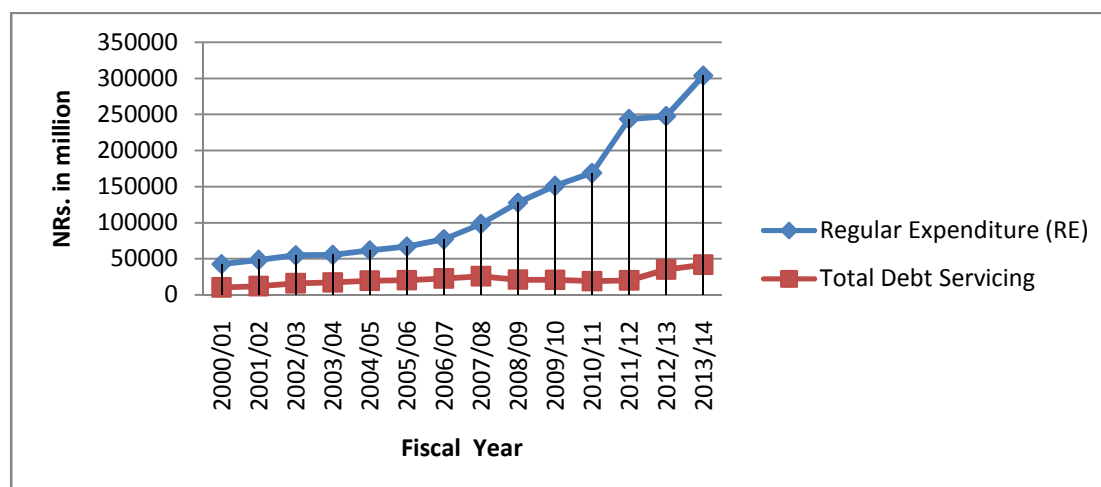
Source: Economic Surveys(F/Y 2000/01-2013/14)

In the F/Y 2000/01 total debt servicing was NRs 10,394.6 million which was 24.3 percentage of regular expenditure of that year.Total debt servicing was decreased and reached 13.8 percentage of regular expenditure in F/Y 2013/14. The average annual growth rate of regular expenditure is 15.29 percent which is greater than the average annual growth rate of external debt servicing as percentage of regular expenditure.

On other hand,the external debt servicing was NRs 6,201.4 million in F/Y 2000/01 which is 14.5 percent of regular expenditure. The portion of average external debt servicing as percentage of regular expenditure has been 10.44 percent in the study period.

Figure 4.6

Pattern of Regular Expenditure and Debt Servicing



4.14 Trend of Foreign Aid in Development Planning

During different plan periods, the government hastried to solve the different problems of people and different development concerts have been initiated with the help of public debt in Nepal.The following table shows the contribution of public debt in the public sector development expenditures of the different plan periods. Table 5.9 shows the trend of foreign aid in different development planning.

Table 4.9

Share of Foreign Aid in Development Expenses in Economic Plans

(NRs in Million)

Periodic Plans	Development Expenditure	Foreign Aid	Foreign Aid as % of Dev.Exp.
First Plan(1956-61)	382.9	382.9	100
Second Plan(1962-65)	614.7	478.3	77.8
Third Plan(1965-70)	1639.1	919.8	56.1
Fourth Plan(1970-75)	3356.9	1509.1	45
Fifth Plan(1975-80)	8870.6	4264.1	48.1
Sixth Plan (1980-85)	21750	13260	60.1
Seventh Plan(1985-90)	29000	20480	70.6
Eighth Plan (1992-97)	113519.1	74355	65.5
Nineth Plan(1997-2002)	189580	111548	58.5
Tenth Plan (2002-2007)	234029	127311.7	54.4
Three year Interim Plan (2007/08-2009/10)	178990	140660	78.6
Three year Plan(2010/11-2012/13)	364340	249280	68.42

Source: Periodic Plans of Nepal (NPC,(1956-2013)

The contribution of Aid as percentage of development expenditure has gradually declined from 100% in the first plan to 45% in the fourth plan. It increased gradually, reaching 65.5% in the fifth plan, 58.8% in the eighth plan and ninth plan respectively. It is decreased to 54.4% in the tenth plan. The portion of foreign aid in the development expenditure in the three interim plans is estimated to be 78.6%. So it shows that without public debt, a country could not have afforded development plans in real condition.

Nepal today finds massive external support for construction, trading, social development, buildings and humanitarian consideration from multilateral and bilateral sources. So the external assistance has great contribution in the economic development of Nepal and its function to bridge the gap between expenditure and domestic capacity for saving.

4.15 Situating of Debt Trap in Nepal

The condition of debt trap is a great challenge for developing countries like Nepal when the country loses principal payment capacity and interest payment capacity, there arises a situation that whole borrowed money will be used for debt obligation payment. Nepal faces the problem of fiscal deficit. Nepal is facing an ever-increasing problem of resource gap. It has such a situation due to the following conditions.

-) Productivity is very low
-) Less contribution by an annually ever-growing labor force
-) Low quality of human resources available
-) A traditional nature in tax administration
-) The inflow of easy money through various channels
-) Sluggish change in the traditional economic structure

4.16 Burden of Public Debt in Nepal

The burden of public debt refers to the sacrifice it will impose on the community through a rise in taxation necessitated at the time of repayment and for paying the annual interest in the government loans. In other words, it refers to every government is bound to repay the public borrowing whether internally or externally with

Interest, monetary or real and it may tend to fall either on the present or sometime on the future generation. The total burden of public debt can be divided into two parts:

1. Internal burden of public debt

2. External burden of public debt

4.16.1 Burden of Internal Debt

The debt incurred by the government from the domestic sources or inside the country is known as internal borrowing internally, the government can borrow from individual's commercial bank charitable trusts, financial institutions and the central bank in a country.

In case of internal debt there is not net money burden on the community since payment of interest and taxation simple involves transfer of purchasing power from taxpayers to bondholders. Direct money burned is equal to the amount of goods and services sacrificed by the people due to rise in taxes Prof. Dalton conveys that these can never by any directly money burden or direct money benefit of an internal debt if all transactions connected with an internal debt resolves themselves into a series of transactions connected with an internal debt resolves themselves into a serious of transfer of wealth within the community.

There may be redistribution of income, if the bondholders and taxpayers belong to different income group. Bondholders are generally rich people and taxpayers are both rich and poor. Taxes are generally imposed on active working population while debt is repaid to old age and leisurely class. In two case there is net burden of taxation. Dalton points out that this may cause more direct real burden upon the people belonging to other sector than the weather class and the progressive taxation may not be so sharply progressive as to counter balance among the weather classes, the income derive from public securities.

4.16.2 Burden of External Debt

In the time of contracting external debt, the debtor country either gets consumption goods or capital goods from real resources. At the time of repayment principle and an outflow of resource take place. If the country had acquired consumptions goods, it would not add to its productive capacity and so at the time of payments of loans, there will be a net loss of resources. Since loans add interest also there is net loss of resources over there inflow. On other hand, it foreign loans is used for investment proposed, like the plan and machinery and other resources, productive capacity of debtor country will increase out of debt repayment take place. Here there is no excess net burden.

If loans have not invested in export oriented industries or if the exports of the debtor country do not increase than this will be balanced of payment difficulties at the time of the repayment. This has happened in the under developed countries. Similarly, if there is

currency devaluation, the debt burden will increase because larger volume of domestic resources will have to be given from the same amount.

In this ground, therefore the country has to spend the borrowed fund for investment propose which can generate the productive capacity and increase the volume of expert that increase the capacity formation, then it is quite possible that the borrow fund would not have any burden to the community.

It often claimed that the burden of public debt is shifted to future generation that is debt financing of current expenditure leads to a burden upon future generation of the society. There is also debate among the economists this subject. The classical economists opined that through debt financing it is the present generation which suffers a loss of resources. The figure generation will suffer if present generation reduce its saving to meet the debt finance and thereby leaves smaller amount capital of the coming generation. The present generation, by not reducing its consumption, is passing the burden on to future generations. But modern economists present that there may not be no shift of the basis burden to future generation because the same posterity which plays the additional taxes, will be benefited from the repayment of the debt.

Although we made the above discussion it is really difficult to conclude that the burden of debt shift to future generation or not. Hence this position has remained an unsettled riddle so far.

4.17 Issues of Debt Servicing in Nepal

Nepal's economy suffered when the conflict intensified in 2001 and is now recovering. Nepal's neighbors-India and China-have huge economies and sustained growth, offering important markets which Nepal can benefit from so strengthening economic links with accounts for two main neighbors is a priority, particularly with India which accounts for two third of Nepal's treaded. Nepal's main exports are garments and carpets. It also has opportunities to develop tourisms & hydro- power resources. Similarly, agriculture, which makes up GDP, has significant potential, but it is depending on remittances from the 2 million Nepalese working overseas generate more foreign earning than exports, and around 15 percent of national income foreign Direct investment is very low at \$6 million (MoF, 2001).

Debt servicing refers to payment of interest and principle after maturity. The debt serving issue is debated topic in case of Nepal. Each year the share of external debt burden is increasing to the coming generations. To pay the existing debt even we are borrowing from

internal and external sources. The annual growth rate of total debt is rapidly increasing. In survey period it is found that 7.33 percentage.

Nepal is receiving mostly multilateral loans of terms as long as 30-40 years. All the loans are soft loans with semi-annual repayment arrangements after maturity. As bulks of external loans are concessional, Nepal has little choices in creditors/lenders currencies and even terms are conditions of the borrowing limiting the significance of debt management. However, it is significant as an instrument of financing the government expenditure, particularly to meet the saving-investment gap as well larger fiscal & trade deficit and foreign currency gap in Nepal.

The amount of internal debt is relatively smaller compared to external borrowing however; the external debt is in concessional rates whereas internal borrowing is normally at market rate. As a repayment amount of internal debt is greater than that of external one. The public debt of Nepal is still less burdensome, as foreign loans are available at subsidized rate.

The trend of total debt servicing, internal debt servicing and external debt serving can be shown in given table.

CHAPTER V

FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Major Findings

-) In the study period the government revenue has increased from Rs.10729.9 millions to Rs.199818.7 millions with the average annual growth rate of revenue is 11.5 percent between period in F/Y 1990/91 to F/Y 2010/11 in the same period, the expenditure is increased from Rs.23549.8 millions to Rs.295363.4 millions with the average annual growth rate of 14.12 percent. But the growth of revenue is not sufficient for financing increased government expenditure. This shows the widening financial resources gap because of political instability and terrorism problems.
-) The gap between revenue and expenditure or deficit is Rs.12819.9 million and Rs.95594.7 million in F/Y 1990/91 to F/Y 2010/11 respectively. The gap is increased by year by years.
-) The budget has increased from Rs.10655.1 million to Rs.33406.7 million respectively over the period F/Y 1990/91 to F/Y 2010/11 with an average annual growth rate of 1.7 percent.
-) The ratio of fiscal deficit to GDP has decreased from 10.65 percent to 7.02 percent in F/Y 1990/91 to 2010/11. However, average annual growth rate of fiscal deficit to GDP 7.02 percent and that of budget deficit to GDP is 5.16 percent during the studying the studying period.
-) The total government has increased with an average annual growth rate of 7.33 percent. The total debt has increased from Rs.10809.4 million in F/Y 1990/91 to 54591.4 million in F/Y 2010/11. Similarly, average annual growth rate of internal and external debt is 17.52 percent and 5.32 percent respectively in the review period. The amount of internal debt is Rs.452.7 million in F/Y 1990/91 and increased to Rs.42515.8 million in F/Y 2010/11. Similarly, the amount of external debt has increased from Rs.6256.7 million in F/Y 1990/91 to Rs.12075.6 millions in F/Y 2010/11. But the share of internal debt in increasing year at high rate. Average annual growth rate of total debt as percentage of GDP is 4.42 percent whereas the average growth rate of internal and external debt as percentage to GDP is 1.57 and 2.85 percent respectively.

-) External loans consist of bilateral and multilateral loans in which the amount of multilateral loans has been increasing day by day. Total external debt was Rs.6256.7 millions in F/Y 1990/91, in which Rs.12075.6 million was taken from bilateral and Rs.7963.2 million was taken from multilateral sources. It has gone up to 12075.6 million in F/Y 2010/11, which Rs.4112.4 million from bilateral and Rs.7963.2 million multilateral sources.
-) Average annual growth rate of total external debt is 5.32 percent in which the average annual growth rate of bilateral and multilateral loans has remained 0.4 percentages and 2.31 percentages during the survey period. The government received more than 90 percentages of external loans from multilateral sources and less than 10 percent external loan from bilateral sources. This shows that external loans is heavily depended upon the multilateral loans is heavily depended upon multilateral sources.
-) The government of Nepal mainly collected internal borrowing by four instruments as treasury bills, development bonds, national servicing certificate and special bonds have yielded Rs.120340.7 million respectively in F/Y 2010/11 and average annual growth rate has been remained 23.57 percent, 10.34 percent, -2.91 percent and 0.15 percent respectively.
-) The totally outstanding public debt, external outstanding debt and internal debt was Rs.80361.2 million, Rs.59505.3 million and 20854.9 million respectively at the first year of survey period and has become Rs.5144803 million, Rs.259651.8 million and Rs.184205.7 million respectively at the final year of survey period. The average annual growth rate of total outstanding public debt, external outstanding debt and internal outstanding debt have remained 9.0 percent 8.64 percent and 10.24 percent respectively. The share of internal outstanding debt to GDP was 17.33 percent in F/Y 1990/91 and with fluctuation has remained at 14.18 percent in F/Y 2010/11. The share of external outstanding debt to GDP was 49.44 percent in F/Y 1990/91 and has remained 26.8 percent in F/Y 2010/11. The ratio of external outstanding debt to GDP is also in fluctuating trend.
-) Total debt servicing of Nepal's is increasing rapidly in the 1990/91 was Rs.3493.9 million and positioned to Rs.26442.5 millions in F/Y 2010/11 with the average annual growth of 13.1 percent. In F/Y 1990/91 the internal debt servicing and external debt servicing are Rs.2407.4 million and Rs.1086.5 million respectively and increased to

Rs.30091.7 million and Rs.14882.3 million respectively and external debt servicing are increasing. The average annual growth rate internal debt servicing is 12.9 percent and external debt servicing is 14.5 percent during review period.

-) The share of internal debt servicing to total debt servicing was 68.9 percent in F/Y 1990/91 and that of external debt servicing was 31.1 percent. In F/Y 2010/11, the contribution of internal debt servicing is 61.4 percent whereas the contribution of external debt servicing is 39.3 percent. The average annual share of internal debt servicing to total debt servicing is 61.9 percent and that of external debt servicing is 39.2 percent. This debt shows that the share of internal debt servicing to total debt servicing is in decreasing trend and external debt servicing to total debt servicing is in increasing trend.

5.2 Conclusions

Public debt is taken by the government to meet government expenditure. It plays a vital role in socio-economic development of the country. It is widely accepted measure for financial government expenditure. The government of a country gets its income from two sources namely; public debt and public. The revenue, expenditure and GDP of Nepal are increasing each and every. But, the growth of revenue is not sufficient for financing increased government expenditure.

Nepal started obtained internal debt since F/Y 1963/64 with the object of national development. To fulfill the resources gap public debt is necessary. The development activities of Nepal mostly depend on the public debt especial external debt because our domestic resource is not adequate and sufficient to meet the growing needs of development funds. The degree of indebtedness of the external debt has increased, due to the poor mobilization of internal resources, widening investment saving gap, export import gap, revenue expenditure gap and large amount of fiscal deficit. So, there has been excessive flow of foreign loans to bridge these gaps. The growing trend of borrowing create greater problem for debt management and become major challenging issue for the country. The borrowing money is unlikely financed on the non-monetized and an unproductive sector of the economy which is turn has the burden for the country.

Debt servicing is one of the problems of Nepalese because most of the portion revenue has been used to pay the interest of internal and external debt. Due to high interest rate of internal debt, the debt servicing of internal debt is greater than external debt servicing. It was found that the average annual growth rate of debt servicing obligation is higher than the growth of

GDP, revenue. Consequently burden of debt and servicing obligation are increasing rapidly in each year but debt servicing capacity of the economy is not increasing in the same pace. The public debt and its interest is mounting rapidly, but addressing capacity for redemption the debt is not increasing in the same pace. Excessive use of debt makes the BOP on the favor of creditors which is horrible situation if this sort of debt goes on increasing, debt does not play vital role but plays unbearable role to the economy.

5.3 Recommendations

To fulfill the gap between revenue and expenditure debt is used year heavily. So to rescue from the burden debt the effective utilization and management of public debt is necessary. On the basis of above findings, the followings are the prospect recommendations which can be helpful for the public debt management in Nepal.

-) Slow growth, a subsistence economy and limited scope for the collection of revenue and political instability are affecting revenue mobilizations. Resources constraints compounded by reduced foreign assistance and the situation of the insure the most efficient use of available resources and political stability. Continuously monitoring, transparent abatement of corrupt practices and properly auditing, including social auditing should help to attain the goal of prosperous Nepal.
-) Government should maintained balance between total expenditure and total revenue. Government should focus to rural sector as well to end the expenditure dual economy. For this there should be public private partnership is required. The number of banking and financial institutions should be external and set up even in rural sector to monetized and collect the scatter saving and mobilize the financial resources. So that investment-saving gap can be minimized along with economic development.
-) A greater focus needs to be applied to the promotion and diversification of exports in term of both commodity composition and destination.
-) Coordination must be promoted between planning and executing bodies through mutual operation, networking and the exchanges of in formations.
-) The government should adopt the policy of more grants and less loans. External borrowing should be spent on such projects from which returns can be obtained and no more tax obligations are need to repay the loans.
-) The government debt securities need to be diversified by studying investor's demands. In the other words, varied government bonds like insurance bonds, pension and provident fund bonds, municipal bonds, floating rate bonds and other special

bonds can be issued to channelize the surplus funds from the targeted groups. All the government securities should be allowed to trade in the secondary market at competitive market price. This will encourage investors investing in the government securities market, which ultimately reduces the cost of government debt by ensuring risk free investment environment.

-) Government activities should be focused on to increase debt increased of external debt.
-) Tight monetary and fiscal policies along with flexible exchange rate management are required. Industrial and trade policies induce private investment and promote manufacturing sectors.
-) Government activities should be focused on the decline of interest rate on the public debt servicing in such a manner so that it may put less burden on the economy. In other words, the cost of the public debt should be minimum which in turn, would have a less adverse effect on the willingness to work and save.
-) To increase the debt servicing capacity government should increase revenue growth, GDP growth and export earnings growth in sustainable path so that country is not in debt servicing problem.
-) Government should try to minimize borrowing from the banking sector which is to create the inflationary situation and to protect it non-banking sectors which stipulate the domestic saving and investment.

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