

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Public debt is a legal obligation of the part of a government to make interest or paying back payments to holders of designated claims in accordance with a defined temporal schedule. After the Second World War, public debt seemed a very vital source of development expenditure. Most of the countries in the world started to borrow systematically and still borrowing to develop their economics at a faster pace (Joshi, 1982). The phenomenon of public debt was originated in Great Britain in the 17th century where a group of merchants provided grants and loans to the government. In return, they received the privilege of royal charter to fund the Bank of England, which becomes the country's Central Bank. There are discrete references to the great king, Prithvi Narayan Shah, raising revenue and even borrowing from the public for unifying the kingdom of Nepal. Even Rana Prime Minister Chandra Shamsheer is reported to have borrowed money from PashupatiNath Temple to resettle the emancipated slaves around 1925 (Sharma, 2002).

Government of the country usually borrows because current revenue may not be sufficient to meet its increasing expenditure. In the context of UDCs like Nepal has been passing through the critical phase of vicious circle of poverty and huge resource gap. This problem can be solved not only by the investment from private sector but also by the deliberate actions of the government in the field of transportation, communication, power, road, other basic infrastructure and directly productive activities. For this the regular sources of government revenue are insufficient to meet the required expenditure. Therefore, government has to make deficit budget. Which depend upon borrowing from internal and external sources. External sources include foreign loan and grants from bilateral and multilateral agencies whereas internal sources include individuals, financial institutions, non-banking financial institutions, commercial banks, central bank, and individual and so on.

In recent years, the subject matter of public debt is concerned with economic and social development of the country. There are several techniques of financing economic development that are put into operation in the process of economic development of underdeveloped countries. Public debt is considered as an effective instrument of fiscal as well as monetary policy, which helps to increase revenue generation, saving mobilization and control the inflation. Public debt is usually more familiar with underdeveloped countries rather than developed countries because the scope of domestic borrowing in these countries is very limited due to the lack of internal resources gap.

The demanding features of Nepal's public debt both internal and external have been increasing rapidly each year. Since developing countries like Nepal always need foreign currencies to import many capital goods that are required for development. These countries have to depend more on external borrowing than internal borrowing. Like other UDCs, Nepal is also indebted from the external debt and seems likely to increase further. Hence, public debt in underdeveloped countries can be considered the strong weapon to kill all economic illness.

Nepal is an underdeveloped country. The main objective of 13th plan is to be able to attain the status of developing country by 2022. Under-developed country like Nepal are facing various problems like vicious circle of poverty, inequality, resources mobilization, unemployment, illiteracy, different types of conflicts and the natural disasters like earthquake. Underdeveloped country where private sector is not well developed, government has to invest huge amount of money for development activities. To get rid from it, the country should invest as large amount of capital in socio-economic and physical infrastructure development in present time. The expenditure is growing rapidly but GDP is growing slowly. It results deficit in the budget. The deficit can be bridge by imposing more taxation or by borrowing the money from public or other agencies. Imposing more taxation is not appropriate by welfare point of view in underdeveloped country. Therefore, the more appropriate method is debt financing. Even Developed country like Canada, Japan, and USA are using the tools of public debt.

The total financial obligations incurred by all governmental bodies are called public debt. It is also known as government debt. Classical economists were against public borrowing and favored the minimum expenditure from the government side. After the great depression of 1930's, Keynes emerged with the new way of thinking in favor of increasing government role in the economic activities. According to him, if there is capital deficiency in the economy, internal and external debt is essentially required. It needs heavy investment to build social overhead capital of least developed countries like Nepal. After the Second World War, public debt seemed a very vital source of development expenditure. Most of the countries in the world, started to borrow systematically and still borrowing to develop their economies at a faster pace (Joshi, 1982). Internal sources include borrowing from individuals and from banking sector including central bank. External source includes foreign loans, grants from bilateral and multilateral agencies. Like WB, IMF, ADB and so on.

Nepal remained debt free country until F/Y 1961/62 (MoF, 2013). Accumulation of debt began from F/Y 1963. In Nepal, both internal and external borrowing has been increasing rapidly each year. Nepal recorded a Government debt of 28% of the country's GDP in 2014. Government debt to GDP in Nepal averaged 48.72% from 1999 until 2014, reaching an all time high of 69.50 % in 2001 and a record low of 28.80 % in 2014 (NRB annual reports, 2014). Nepal ranked 118th position on public debt as a percentage of GDP, when Japan ranked 1st and Saudi Arabia ranked last on the list (IMF, 2015). Nepal recorded a government debt equivalent to 26.80 percent of the country's GDP in 2017. Government Debt to GDP in Nepal averaged 45.07 percent from 1999 until 2017, reaching an all time high of 60.50 percent in 2001 and record low of 25.30 percent in 2015 (IMF, 2017). There is increasing trend of public borrowing but debt serving capacity of country has not been increased with the same pace. In this context, Nepal is going to face debt crises in the near future. Burden of public debt refers to the sacrifice as it will impose on the community through a rise in taxation that is necessary at the time of repayment and at the time of annual interest payment in the government loans. Burden can be divided into two type; monetary and real. External debts give more burdens in comparison to internal debt.

1.2 Statement of the Problem

The features of Nepalese economy is poverty, low productivity, low income, high MPC, low saving, existence of non-monitories sectors. There is less share of internal debt and the other hand taxation alone is not possible to raise sufficient fund. Thus, Nepal is more dependent of external debt. Public debt is one of the methods to fulfill the deficit financing. The main argument regarding public debt is whether it creates burden in the economy or not. It depends on the nature of investments productive or unproductive. If it is productive investment, there will not be a burden and if it is unproductive investment, the situation will get worse by the debt burden to the government.

In the context of Nepal, increasing the size of public debt is challenging. Every year, budgetary deficit is growing. So, there is need for effective management of available resources. The external public debt accounts large share of the total public debt in most of the fiscal years. This shows that Nepal is dependent on foreign debt which has become a serious problem in the economy. Ever increasing debt will create a serious problem in the economy like debt trap, colonization, internal instability etc. In fact, if public debt increases and not utilized properly, there will be macro-economic imbalance which creates excessive dependency upon foreign assistance.

After the public movement of 1990's, public debt has increased rapidly but debt servicing capacity has not been accompanied. The current situation of public debt of Nepal shows that it may face debt crisis in the future. So, government should take serious attention on above mentioned problems.

Following are the research questions:

- 1) What is the structure and trend of internal, external and total debt situation in Nepalese economy?
- 2) Is public debt contributing more effectively on GDP growth rate of Nepal?

1.3 Objectives of the Study

The general objective of the study is to analyze the role, structure and trend of public debt in the economic development of Nepal. This study tries to fulfill the following specific objectives:

1. To observe the structure and trend of internal, external and total debt situation in Nepalese economy.
2. To analyze the role of public debt and GDP growth in Nepal.

1.4 Significance of the Study

Government borrowing is necessary for developing country like Nepal. In the present context of globalization and liberalization, the development requirements are increasing. The study totally concern with role structure and trend of public debt Nepal. For the economic development of underdeveloped countries, government most invest on various sectors such as education, transportation, communication and other sector of the economy. To build-up such social overhead capitals, there is need of heavy investment. The revenue of the country itself cannot incur all the expenditure. That is why, the important of public debt, is increasing. The load of public debt is growing rapidly, so it is a matter of the concern, otherwise it may create adverse impact on the economy.

This study provides several information of the situation of the Nepalese public debt, its scope, necessity, structure, composition, and overall impact of public debt in Nepalese economy. Effective and appropriate utilization of debt is also the matter of the study. It is also useful for the researcher, policy makers and general students. The study also provides important information of our budgetary system and contribution of public debt on budget. It also deals about the sources of debt, its present situation and some recommendation related to debt.

1.5 Period of the Study

This study covers a period of 16 years starting from F/Y 2000/2001 to F/Y 2015/2016.

1.6 Limitations of the Study

1. This study emphasizes only on the role, structure and trend of public debt in Nepal.
2. This thesis has covered only secondary data.
3. It has not examined the reliability of the secondary data.

1.7 Organization of the Study

This study has organized into five major chapters. The chapter one includes the introduction, statement of the problem, objectives and validity. The chapter second deals with literature review. The chapter three explains data and research methodology. The chapter four describes analysis, interpretation and presentation of data. The chapter five includes summary, major findings, conclusion and recommendations. At the end, it includes a list of references.

CHAPTER - TWO

REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 Classical Review

The classical philosophy propounded by Smith (1776) and his supporters have view laissez-fair, equates a sound and balance budgetary policy that does not consider the fiscal deficit and public borrowing. Economic activities are best under the private sector because they have the greed of profit thus resources are optimally and efficiently used so the classical economists were in favor of minimum role of government.

Classical economists were generally against public debt. They assumed the minimum role of government in to the economic activities such as, maintenance of law and order, justice and social security. According to them economy is always equilibrium in full employment, so there is no need of government regulation. They were in favor of laissez-fair policy. They preferred balanced budget. Therefore, there is no need of public debt. Classical economists like Say, Mill, Malthus gave their argument that debt crates burden in the economy because of its unproductive nature (Singh, 1991).

The internal debt may not have direct burden in a community as a whole since the payment of interest and increase to meet the debt burden involved simply transfer the purchasing power from one group of person to another to extend the creditors and tax payers are the same there may not be any net burden at along the community but to extend the creditors and tax payer belong to different section of the community may take place. Generally government bonds and securities are hold by mostly rich people whereas the burden of taxation fall both the rich as well as poor sector of the community (Lerner, 1955).

Classical economist was in the favor of productive use of the government borrowing. They approved the public debt for the productive purpose, that is, for capital projects since the fruits of such projects could be sold to the buyers and debt servicing and repayment of the principal and interest did not necessitate additional taxation. These are

called the self-liquidating projects. In the words on Musgrave, self liquidation projects may be defined narrowly as investment in public enterprises that provide a fee or sales income sufficient to service the debt incurred in their financing or they may increase future income and the tax base. Such projects permit servicing (interest and amortization) of the debt incurred in their financing without requiring an increase in the future level of tax rates (Musgrave, 1959).

Classical economist (economist of 18th and 19th century) are generally against public debt. They assumed that individual, consumer and the business firm employs the resources more efficiently. They were against the role of the state and they had the philosophy that the government is the best, which governs the least. According them state has to perform its limited activities; maintenance of law and order, justice and social security. Classical economist like Say, Malthus and Bastable have the strong faith that "Debt crates burden in the economy because of it unproductive nature (Harris, 1974).

The classical Economist Smith (1776) opposed any use of Public Debt. He took Public debt as leads to extravagance-encouraged resort to war and induced generally disadvantage economic conditions for the nation, which employed it. Similarly, Bastable (1964) observed a nation can't any more than an individual keep adding continually to its liabilities without at least coming to the end of its resources. They also taken Public Debt is no longer a cake-eating feast but rather a careful and efficient brain to handle the management of the public debt. In this context Shiras opines, as government must remember that borrowing is not a short cut to prosperity except for what can reasonably regarded as productive expenditure (Lekhi, 1995).

Classical economists developed advance theories of public debt. These theories, however, received less attention compared with those of value and distribution. Classical theories of national debt at best receive cursory consideration and are only used to offer further justification to modern theories. Smith's discussion of the unproductive role of the state and the Ricardian equivalence theorem are examples that are found routinely in the books of public finance or macroeconomics. As for the ideas of classical economists, per se these are considered inappropriate for modern economies and are ignored even in books

of history of economic thought. This paper takes issue with this view and argues that the ideas of classical economists on public debt might be more relevant nowadays than is commonly thought (Bhatia, 2003).

It is not that the classical writers were against any form of debt. They favored minimum public. Expenditure and between taxation and borrowing, they favored taxation for the following reasons:

-) Deficit financing might produced currency or action and inflation.
-) Payment of interest on public on public debt and refund, of the principle will require additional taxation. It might be difficult. Since government power to tax is not unlimited.
-) 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 debts will definitely a burden to the economy.

Thus, classical economist always favor of minimum government expenditure in the economy. They generally against public borrowing and always suggest for balance budget and laissez-fair policy. They like to approve public debt only for productive programs and believed that debt serving did not necessitate additional taxation.

2.1.2 Keynesian Review

It was only after the great depression of the 1930's when new wave of thinking took place in the writing of Keynes. Who advocated for increasing government role in the economic activities by adopting deficit financing so that effective demand can be created in the economy ensuring employment opportunities. In the 1950s, a development process in the developing countries took place significantly. To meet the growing need the fund should rise for meeting development requirements. Capital deficiency resulted in increasing volume of budgetary deficits. The great depression of 1930's and the Keynesian revolution paved the way for the development of the modern theory of public debt as a

part of the functional finance. Those who follow Keynes are of the view that public debt is income generating and so it is not burden of the community (Acharya, 2015).

Moulton (1943) mentioned that public debt as a national asset rather than liability and says that it is essential for the prosperity of the country.

Hanson (1941) wrote in that effect of public borrowing on redistribution of income where net transfer of resources from lower income groups to upper income groups. He further states that, If government borrowing to taken from the small savers, the increase in the size of public debt will not prove unfavorable to an equitable distribution of wealth. But if the growth of it is very rapid, it will not be possible for relatively small savers to take any large proportion of new securities issued. They will be absorbed by the rich and the well-to do and by large corporations. A rapid growth in public debt is therefore likely to intensify inequalities in wealth distribution.

Harris (1974) analyzed that government expenditure could be productive and need not necessarily be wasteful and so case for public borrowing is not strengthened. Those who follow can take into account the income generating aspect of the public debt and reject any possibility of internal debt being burden upon the community.

Lerner (1955) expressed that the internal debt may not have direct money burden in a community as a whole, since the payment of interest to meet the burden involved simply transfer the purchasing power from one group of persons to another. To extent the creditors and taxpayers are the same as there may not be any net burden at all on the community but to extent the creditor's and tax payer's belong to different income groups the change in the distribution of income among different section of the community may take place. Generally, government bonds and securities holders are mostly rich people whereas the burden of taxation fall both the rich as well as poor section of the community.

Singh (2004) observed that increased government expenditure by using deficit finance is likely to raise the level of aggregate output and income. Hence, public borrowing need not necessarily be unproductive, inflationary and burdensome. Many Keynesian carried the analysis to the other extreme and hold the view that if debts are internally held, there

is nothing to worry about their size. Such a debt involves merely a serious of transform payment and they reject the economy as a whole. Hence, the only concern should be about economic stability at the high level of income and employment.

Mookerjee (1979) explained that in the word in which Keynesianism abounds, one might reasonably expect that balancing of the government's budget would be regarded as an outdated policy goal. A great many other Pre-Keynesian fiscal notions have gone hackneyed. One seldom hears those days that a rupee of government expenditure causes a corresponding reduction of a rupee of private outlay, that government expenditure cannot raise the level of national income, or that we can never achieve fuller employment by government spending. However, amidst the wide acceptance of the goals and tools of Keynesianism, there is remarkable persistence in the notion that government budgets ought to be balanced even balance annually.

After Fukushima earthquake of 2011, Japan needs huge government expenditure and for that, they collected fund from public debt and invested in economy. Now Japan also is in recovery phase. Japan ranked first on taking public debt from 2011 to till now. Keynesians debt theory is even practical in present time.

Keynes suggested that deficit spending is crucial to avoid long term recession but at The age between 2000 to 2007 Britain, Germany, France, Italy, Spain, Ireland, Portugal, Denmark, Rumania are increasing retirement age and sloshing in public outlays and cut in welfare program and increase in tax (VAT). However, people are against this policy. In France various trade unions was in fight with government launching strikes with the help of students. Prof. Stieglitz argued that this plan of slashing government outlays is only a temporary; it is not last solution to reduce public debt. But above mentioned governments are reducing government spending to narrow down the public debt and decrease the deficit. After the Global Economic, meltdown (2007-2009) these countries realize that reducing government expenditure is not long-term solution, so they again increased government expenditure even that is from public debt. After reinvesting in economy there economy gradually came to recovery phase. So Keynesian debt theory is always effective on rescission.

2.1.3 Post-Keynesian Review

During World War II and the post-war years, the size of public debt increased enormously. The increase in the size of public debt has caused some revision in economists thinking on the subject. The post Keynesian economists accept a large part of modifications of the classical debt theory has brought by Keynesian economics. However, it emphasizes the transfer and management aspect as well as the interrelationship between public debt and money supply (Harris, 1974).

Some Post-Keynesian economists argued that deficit spending is necessary, either to create the money supply or to satisfy demand for savings in excess of what can be satisfied by private investment.

The developing countries have the natural resources but lack of the technology for management. There is gap between import-export, saving -investment and income-expenditure. To fulfill this gap debt is an essential fact. It may be internal or external. Due to lack of capital, skill, and management underdeveloped countries fails to receive internal borrowing. Borrowing can be undertaken in order to mobilize the technology for the economic development. It has produced or transfers of resources form the richer to the poorer countries. In these context the term foreign debt is a means of reducing the gap.

Harris (1974) mentioned that government expenditure could be productive and need not necessarily be waste full and so case for public borrowing is strengthened. Those who follow can take into account the income generation aspects of the public debt and reject any possibility of internal debt being burden upon the community.

Groves (1950)concluded that Mill propounded the views that public debt should function as the balance wheel of the economy. Stuart's view as presented by Walter F. Setter is as under, Public borrowing must be adjusted to the condition of trade at the particular time. Public borrowing is in appropriate as long as circulation is full because it would only raise the rate of interest and have undesirable consequences is stagnation in one part of the economy and there is unemployment and a slackening of trade and industry, the state should absorb this excess and through its expenditure throw it into new channels of

circulation. Thus, the use of public credit is conceived as the balanced wheel in the economy. It keeps resource fully employed and prevents stagnation in any point of economy from having an adverse effect elsewhere. In addition, public debt credit is a necessary instrument of war finance.

Avramovic(1964)mentioned that external borrowing in terms of a country's debt servicing capacity. They provided as useful framework for the examination of external borrowing: assuming that country borrows only to help finance well-conceived development programs and his authors visualize three stages in the external debt cycle. In stage one; the country's saving is below the desired level of investment. It borrows from abroad to finance part of its investment and also to service the external debt. The burden of debt servicing is continuously differed and debt increase rapidly. In the age two, saving has grown enough to finance all domestic investment however, the country continuous to borrow abroad to cover service cost of debt. The external debt grows but at a slower rate in stage one, at the end of the stage two it reaches a maximum. In stage three, the country stops borrowing abroad to cover interest payments and being to reduce the external debt. A very poor country may take a long time to move through stage one and two, if the return on capital obtained by foreign borrowing is low relative to the interest rate, may never reach stage three.

Goode (1984) analyzed that borrowed money when used to finance public investment causes no such reduction, all that will happen is change in the composition of capital formation. To him the inference is that failure to restrict borrowing to the finance of the investment will retard economic growth. A weakness of argument is that the not all outlays classified. As investments actually contribute to growth, while some expenditure.

Munla (1992) observedthat the origin of debt problems and explained. The debt crisis had its origin in the substantial rise in the external liabilities of the developing countries during the second half of the 1970s and early 1980s, in an environment of large –scale recycling of the oil exporter’s surpluses rising world inflation and negative real interest rate. At the time, many viewed this recycling of funds as a positive development: creditors were able to identify new investment out less and deters could acquire funds needs for development purposes.

He again explained that an external debt crisis was due to:

1. A drastic deterioration in external economic environment in form severe recession in the industrialized economics.
2. Economic mismanagement and policy errors in debtor countries.
3. Excessive lending by commercial banks to some countries, with little regard to country risk limits.

Munla contributed towards principle of the debt strategy and pointed out three fundamentals principles which are:

1. Debtor countries need to pursue strong adjustment programs, supported by determined structural reforms, aimed at increasing domestic resources mobilization. Attracting non-debt creating flows, and reducing impediments to growth.
2. Creditors and donors need to ensure to provision of adequate external financing in support of such programs on a case-by-case basis.
3. The internal economic environment must be conducive to the success of these efforts.

Gurley and Shaw (1995) presented that public debt is applied for the maintenance of balance between the expenditure and revenue for financing economic development, since developed or developing countries always face the problem of fund, which is reflected in a large extent and as ever-increasing financial resources gap in government budgetary. Therefore, the selection of appropriate method for 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. Finance aspects are as important as other aspect of economic development and their study should be received proper attention.

Singh (2004) expressed that public borrowing does not always deprive the private economy of resources and instance in a period of widespread unemployment. It is also not accepted now that borrowing in a period of full employment must be inflationary. It

depends on the circumstances. If borrowing taps funds otherwise spend on consumption, it is not more inflationary any then taxation. A long public debt, if internally hold, poses many problems for the economy.

The Post-Keynesian did not reject the entirely classical notion regarding to public debt rather put in a better prospective. 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 spread unemployment, it may be productive as well as essential.

-) Besides, it is not accepted now because borrowing in the period of full employment generally becomes inflationary then taxation.
-) Internally holding of large public debt posses many problem for the economy. It complicates the monetary policy and creates difficulties of management and so on.
-) In resorting to borrowing, government should be guided by macroeconomic side. Post Keynesian economist advanced their idea that government borrowing does not always deprive the private economy of resources as, for instance, in a period of widespread unemployment. It is also not accepted now that borrowing in a period of full employment must be inflationary. If depends on these circumstances if borrowing taps funds otherwise spent in consumption, it is not more inflationary then taxation. A large public debt, if internally held, poses many problems for the economy. They thinks that income, saving and investment are the crucial factor to achieve steady growth for developing countries. So the overall aim of borrowing is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth.

2.1.4 Review in Modern Context

Public debt plays a prominent role in underdeveloped countries. It helps the mobilization of resources for the economic Development. In such countries, resource of revenue are inadequate and insufficient for the heavy expenditure that has to be incurred for the development schemes. The objectives of the government borrowing of LDCs is that should be used as an investment to mobilize saving of people which would otherwise have gone to idle or east fully and consumption. Public debt should be advocated for creating additional capacity and producing capital equipment. Generally government borrows for the creation of infrastructures in the economy. Since it require huge investment initially which cannot be meet only through revenue collection. The aim of the government policy should be helped in strengthening the Money and capital market, which is turn accelerate development and price stability. The government of LDCs tries to mobilize the saving of the community partly through the device of public borrowing in order to meet the financial need of its developments programs. Especially in underdeveloped countries, as a fiscal instrument to rise the effective demand, which ultimately leads to accelerate pace of economic Development. It also acts as an effective instrument of inflation generated in the process of growth and ensure growth with stability. It also acts as a balancing wheel that controls the tempo of the business cycle. In the period of depression when aggregate demand is not enough to accelerate the level of production and employment, compensatory fiscal policy suggest to increase in public expenditure and public works by mobilizing idle saving in the hands of people through public borrowing to create effective demand and promote an economic recovery (Barman, 1986).

Growth in the debt ratio causes ratio causes alarm for two reasons. First, growth in debt ratio might lead to crowding out of private investment. Second and important is the assumption that government spending out of the borrowed funds might be unproductive (Michael &Posher, 1992).

The Chelliah (1992) observed that the ideal situation is on which, first revenue will meet subsidies, other transfers, interest payment and the greater part of current expenditure, debt finance will be used for meeting the government non remunerative capital

formation, a proportion of current expenditure designed to increase social capital and productivity the government of financial investments and second, the total domestic saving, the nongovernment 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 correct amount of seignior age.

Deficits financing are considered to represent sinful profligate spending at the expense of future generations who will be left with a smaller endowment of invested capital. This fallacy seems to stem from a false analogy to borrowing by individuals. Current reality is almost the exact opposite. Deficits add to the net disposable income of individuals, to the extent that government disbursements that constitute income to recipients exceed that abstracted from disposable income in taxes, fees, and other charges. This added purchasing power, when spent, provides markets for private production, inducing producers to invest in additional plant capacity, which will form part of the real heritage left to the future. This is in addition to whatever public investment takes place in infrastructure, education, research, and the like. Larger deficits, sufficient to recycle savings out of a growing gross GDP in excess of what can be recycled by profit-seeking private investment, are not an economic sin but an economic necessity. Deficits in excess of a gap growing as a result of the maximum feasible growth in real output might indeed cause problems, but we are nowhere near that level. Even the analogy itself is faulty. If General Motors and individual households had been required to balance their budgets in the manner being applied to the Federal government, there would be no corporate bonds, no mortgages, no bank loans, and many fewer automobiles, telephones, and houses. 15 Fatal Fallacies of Financial Fundamentalism-William (Vickrey, 1996).

According to Sing, the level of government borrowing is a function of the ability and willingness of person and business to lend and the governments' power and intention to tax. Maximum level of debt can be expressed in terms of the following equation.

$$D X \frac{Y_t Z_0}{r}$$

Where,

D = Maximum sustainable national debt.

O = Constant expenditure for ordering government operation.

Y_t = Maximum ratio of tax rate receipts to national income.

r = The contractual interest rate of government debt.

However, the burden controversy depends upon the nature of investment, productive or unproductive. If it is productive, there will not be a burden because of creation of real asset in the economy. This further generates income of the people thereby increasing national income. If it is unproductive, the situation will naturally be burdensome on the government (S.K. Singh, 2001).

An underdeveloped country is characterized by shortage of capital resources. Since the saving capacity of masses is very low, the authorities have to take appropriate measures to step up rates of saving and investment in the economy. Public loan had been frequently raised by rules for financing useless and expensive wars, conspicuous consumption and other forms wasteful expenditure. The practice of raising public loans and having deficit budgets symbolizes and irrational behavior which should be avoided so that it would help to become free from debt.

Bhatia (2003) analyzed that public debt should not become drain upon it budget interest payment on public debt should be taken as a burden. The burden that arises from large public debt and a large tax collection for interest payment depend upon three things

- i. The resources used in administering the tax collection and interest payment.
- ii. It manifests itself in the form of loss of maneuverability in the public budget and related.
- iii. Distributive effects that such a process generates.

Total indebtedness of a government, especially as evidence by securities issued to investors. The national debt grows whenever the government operates a budget deficit that is, when government spending exceeds government revenue in a year. To finance its debt, the government can issue securities such as bonds or treasure bills. The levels of

national debt varies from country to country. It ranges from less than 10% of the GDP to more than double it. Public borrowing is thought to have an inflationary effect on the economy and is often used during recessions to stimulate consumption, investment, and employment (Britannica Ready Reference Encyclopedia, 2006).

The Case Study of Central and West African Countries developed a simple analytical framework and showed that highly concessional external debt is usually a superior choice to domestic debt in terms of financial costs and risks, even in the face of a probable devaluation. The paper has stressed the importance of the availability and terms of financing, and of overall long term debt sustainability. It reviews the principles and practical considerations involved in the choice between foreign and domestic financing of fiscal deficits. This paper explains factors such as the country's size; the level of government revenue and the track record in servicing debt play a major role in determining possible government financing options. In practice under the circumstances prevailing in most Sub-Saharan African countries, debt management strategies usually need to focus on short term cash management. Given their low creditworthiness, Sub-Saharan African countries will have difficulty, in the short run, to diversify budget deficit financing sources. This paper states the financing systems of Sub-Saharan African countries are generally underdeveloped and lacking in diversity. Some of countries have a fairly extensive co-operative credit sector, but none so far has active markets in financial instrument. Although regional institutions are introducing securities markets, these initiatives are still at an early stage. So, domestic budget financing in Sub-Saharan African still mainly consists of bank loan. (IMF, 2006).

Domestic government debt markets play a critical role in managing public debt efficiently and in reducing the vulnerability of developing countries to financial crisis. This study assists countries in designing a reform and capacity building program in debt management and domestic government debt market development and covered all areas that has potentially important policy implications to (WB, 20010).

The study proposes a theoretical model of endogenous growth that demonstrates that the level of the public debt to GDP ratio should negatively impact the effect of fiscal policy on growth. This effect occurs because government indebtedness extracts a portion of

young people's saving to pay interest on the debts. Therefore, the payment of debt interest requires an allocation exchange system across generations that are similar to a pay as you go pension system, which result in changes in the saving rate of the economy (Casar Mussolini, 2014).

In the long-term, public debt influence the GDP growth and the result is a negative sign pointing out the government gross debt lowers the GDP growth. The correlation has the same sign in the short-term, when public debt maintains its negative influence on GDP growth, controlling for other major determinant factor of growth, such as FDIs or total investments. Some studies evaluate the direct or indirect impact of higher indebtedness on economic growth for countries in the EU, which were in the epicenter of the extended sovereign debt crisis (Mencinger&Verbic, 2016).

2.2 Review in Nepalese Context

Various researcher, student, administrators, economist, foreigners have made thesis, studies and report about Nepalese public debt. Some of those articles, thesis and project reports related to the subject included in this thesis are as follows. Joshi (1982) concluded that internal debt can play a vital role to develop money market, capital market and external debt is mainly for rapid economic development and to fill up the resource gap in the economy. for development expenditure is persistent because of poor mobilization of internal resources. Macro economic imbalances such as every widening trade deficit, investment saving gap and large amount of fiscal deficit have been the main issues before N.G. there are the factor contributing to the foreign aid dependency syndrome. Excessive flow of foreign loan to bridge up three gaps (fiscal deficit, trade deficit and investment saving gaps). Therefore, the substantial increase in foreign debt has increased its burden of debt servicing but debt-servicing capacity of the economy is not increasing satisfactorily. He has found out that the average annual growth rate of GDP, export earning is considerably as compared with the rate of magnitude of debt and debt servicing requirements which clearly shows that the debt servicing capacity of Nepal is very poor which is also responsible for increasing debt obligations.

Koirala (2001) presented that Public debt is a useful resource for economic development and several inverse consequences are found by its overuse. The debt crisis of 1980s is widely known as the result of the overuse of resources. The result of the overuse of resources. The WB has established MIGA and the IMF has minted SDRs to curb the crisis in the third world. He further opines that we have only two options; either mobilizes more foreign debt to invest for economic development or put the hand on hand doing nothing. In a nutshell, we should have debt management plan for its better use and regular servicing. The government debt has over a given year is equal to the budget deficit of a higher economic growth requires a higher label of investment that is not possible simply from taxation so that a government seek public borrowing.

Sharma (2002) explained that ever-increasing debt in Nepal and its servicing has really created a situation which is deriving the country towards debt trap by following reasons:

-) Huge amount of loan is allocated for meeting expenses within the development expenditure.
-) A good amount of borrowed fund is for debt servicing.
-) Volume of borrowed amount exceed the minimum legal limited of borrowing.

Thapa (2005) analyzed that Nepal's debt burden and servicing should not be called an excessive, on the basis of its level of development. It is quite burdensome. 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 external resources. Nepal will have to borrow an unlimited amount of financial resource form both internal and external source. Therefore, until our growth rate takes momentum. We should be extremely judicious while borrowing to finance the budget deficits. Another worrying issue is debt management system in Nepal. Now it should not be delayed even a single minute to introduce this system to remain safe from heavy price sooner or later.

Bhandari (2006) stated that public debt is widely accepted measure for financing government expenditure. His future observe that due to the high Interest rate of internal debt, the debt serving of internal debt is grater then external debt serving. The large

portion of revenue is spending for debt serving. It has found that the debt serving capacity is lower than the total debt obligation. In his view the average growth rate of debt serving obligation is higher than the growth rate of GDP, revenue and export earnings. So the growth rate of debt becomes faster and higher than the redemption of debt.

Neupane (2007) observed that government borrowing has been increasing unlikely and financed mostly on the unproductive sector including uncertainties, high expenditure, hence government always lacks of resources then borrows the new loan to previous ones. That's why, the public debt and its interest is mounting rapidly, but addressing capacity for redemption of the debt is not increasing in same pace.

Thapa (2007) presented that government should maintain fiscal imbalance by applying strong fiscal monitoring policy, which might contribute to control growing unproductive and useless expenses in one side and increased revenue on other. To maintain imbalance the government expenditure has to be controlled and allocated the basis of national priority and to increase government revenue through transparent tax policy and effective tax administration. It is better to reduce the increasing trend of public debt. Revenue collection should be increased substantially in order to attain self-sufficiency in the long run. To increase the government revenue must effective tax policy, effective tax administration, control corruption, re-estimation of tax, rationalization of tax structure and expansion on the tax base.

Subedi (2008) concluded that the average annual growth rate of GDP, revenue and export earnings are considerably low as compared with that of debt and its servicing obligation and most of the borrowed funds are using in unproductive sector. Because of the misuse of borrowed funds, other things remaining the same there are symptoms of steadily falling into debt trap.

Ghimire (2008) expressed that the average annual growth rate of GDP revenue and export earnings are considerably low as compared with rate of debt and its servicing obligation and most of the borrowed funds are using in unproductive sector. Because of the misuse of borrowed funds, other things remaining the same there are symptoms of steadily falling into the debt trap. The angle amount of the debt and poor serving capacity

of the government compel to think the sinking condition of the country economy. It arises several questions about the capacity of debt servicing and existing of the nation. Excessive dependency on foreign assistance makes the balance of payment on the favor of creditors which is horrible situation to get rid of. Any way it can play the useful role for the economic development of every nation and it is widely accepted measure also for financing government expenditure.

Pant (2008) mentioned the deficiency of revenue in Nepalese economy. He has mentioned the importance of public debt in the developing countries like Nepal to support the budgetary deficit. It has suggested adopting the administration with effective tax policy. It has been recommended that the government should give emphasis to macroeconomic stability while accepting short time or long time loan. The government should pay attention in all the sectors of the economy with high economic growth rate by reducing excessive external dependency and internal resource mobilization

Thapa (2010) discussed that the reality behind the deficit condition is the budget. In the case of Nepal, about the forthcoming budget: A vision has mentioned that the three year interim plan has estimated an average, fiscal deficit/GDP ratio of 4.7 percent (foreign loan 2.5 percent and domestic loans 2.2 percent). In the fiscal year 2009/10 fiscal deficit/GDP ratio has estimated 4.3 percent foreign loan 2.8 percent and internal loan 1.8 percent. In this regard keeping inflationary trend, government borrowing should not exceed 50 billion for the FY year 2010/11.

Rijal(2010) analyzed that the trend and structure of public debt in Nepal from FY 1987/88 to F/Y 2006/07. While doing the research of twenty fiscal years he concluded that the average annual growth rate of GDP and revenue are considerably low as compared with that old debt and its servicing obligation. Other things remaining the same, there are several symptoms that says Nepal is steadily falling into the debt trap. It is because the average annual growth rate of internal debt servicing to total revenue, regular expenditure and GDP are 13.3% , 16.4%, and 1.5% respectively over the review period. Similarly the export-import gap is widening year by year. The volume of imported goods and services is higher than the volume of exported goods and services. As a result there exist a loss or, deficit in the balance of payment. So, he recommends the

following remedial points to overcome from the upcoming problems of falling into debt trap.

-) The government should maintain fiscal balance.
-) Resources should be channelized efficiently through productive activities.
-) Increase the revenue collection by well-improved administrations as well as administrators.
-) Government should mobilize the revenue in the prime field of the economy such as building infrastructure for hydro-power, transportation, industries and so on.

The problem of Nepalese economy is export- import gap. So, to reduce the gap, the government should promote export oriented industries or, import substitution industries.

Nepal faces a moderate risk of external public debt distress but risks could arise from financial sector vulnerabilities, a shock to remittances, or quasi-fiscal liabilities. Although external debt burden indicators generally do not breach the thresholds in both baseline scenario and stress tests, under a heightened financial stress scenario, the debt burden rises notably, with external debt breaching thresholds for prolonged periods. This test stresses the need to urgently address financial sector weaknesses via in-depth reforms. The analysis also suggests that contingent liabilities from SOEs and the pension scheme could pose additional risks to debt dynamics. This highlights the importance of containing net domestic financing of deficits to around 2 percent of GDP in the near term that would create space for contingent liabilities, though there is marginal room to accommodate additional capital spending in case it is strengthened via enhanced public financial management (IMF, 2012).

CEID Nepal (2012) analyzed the study of overall situation of public debt in Nepal. It examined that the high stock of debt , show growth rate of economy and outflow of considerable amount of resources in the form of debt servicing have raised questions debt sustainability and also whether foreign or domestic borrowing on current terms is beneficial for our economy or not. This study proposed to analyze impact of debt on macroeconomic performance and so on, the methodology approach used in this study is

based on: published status reports, audits reports and financial records, and consultation and interactions with the officials of key stakeholders this study was carried out for a quick assessment of the situation, as per the call made for financial Comptroller General Office. The study has examined and identified the key issue in the overall debt situation of Nepal and has made recommendation for its improvement.

Bhandari (2014) stated that the internal, external and total debt has not caused negative impact on GDP growth of Nepal. That why, it is better to take the loan for the economic development but it should be properly utilized on productive sectors otherwise debt trap will drag us to the path of difficult situation from where we cannot escape from it.

Neupana (2014) wrote that the ratio of fiscal deficit to GDP has decreased from 10.65% to 7.02% in F/Y 1990/91 to 2010/11. However, average annual growth rate of fiscal deficit to GDP 7.02% and that of budget deficit to GDP is 5.16% during the study period. The share of internal debt is increasing year by year at high rate. Average annual growth rate of total debt as percentage of GDP is 4.42% whereas the average growth rate of internal and external debt as percentage of GDP is 1.57 and 2.85% respectively. The amount of multilateral loans has been increasing day by day. The government receives more than 90% of external loan from multilateral source and less than 10% external loan from bilateral sources. The growing trend of borrowing creates a great problem for debt management and becomes a major challenging issue for the country. The borrowing money is unlikely financed on the non-monetary and unproductive sector of the economy which in turn has the burden for the country.

Nepal recorded a Government Debt to GDP of 28.80 percent of the country GDP in 2014. Government Debt to GDP in Nepal averaged 48.72 percent from 1999 until 2014, reaching an all time high of 69.50 percent in 2001 and a record low of 28.80 percent in 2014. Government Debt to GDP in Nepal is reported by the Nepal Rastra Bank (NRB, 2014).

Bhandari (2015) stated that the level of public debt is increasing in the Nepalese economy. While talking about composition of public debt, the average share of external debt is greater than that of internal debt. However, in the latter period, the share of internal debt is significantly greater than that of external debt. The growth rate of economy seems to be

relatively low. Low rate of economic and high rate of inflation is one major problem of Nepalese economy. Therefore, the efforts should be accelerating the growth rate so that more employment opportunities can be generated and income of the people can be increase. For this, those measures should be employed which increase the level of aggregate supply. For this, investment should be increase and use of new technology should be promoted. Efforts should be directed towards maintaining the price stability. As the study is based on the descriptive analysis, the cause and effect relationship between the variables could not be found. So, there is further scope to study such relationship between the abovementioned different variables.

Nepal debt is 5,779 million dollars, has increased 421 million since 2015. This amount means that the debt in 2016 reached 27.33% of Nepal GDP, a 2.3% point rise from 2015, when it was 25.03% of GDP. It has rise since 2006 in global debt terms, when it was 4,422 million dollars although it has fallen as a percentage of GDP, when it amounted to 48.9%. Nepal per capita debt in 2016 was 199 dollars per inhabitant. In 2005 it was 188 dollars, afterwards rising by 11 dollars, and if we again check 2006 we can see that then the debt per person was 171 dollars. The position of Nepal, as compared with the rest of the world, has remained in 2016 in terms of GDP percentage. Currently it is country number 26 in the list of GDP and 10 in debt per capita, out of the 184 (MoF 2016).

Hence, Nepal is indebted with internal and external debt. Nepalese budgetary deficit is fulfilled by loan, which is inflationary. However, there is no any best way to avoid borrowing because there is low saving rate. Wide saving-investment gap, revenue-expenditure gap and export-import gap. To fulfill these deficits, there is necessary of borrowing . If it is used appropriately we can improve growth rate, otherwise, may direct towards debt trap.

2.3 Research Gap

In context of Nepal, there are a few studies which focus on debt growth nexus. Past studies have also suffered from conflicting results. The past studies have open the way to future research stating that the application of relevant methodology would provide time outcomes. Further, 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.

Above research worked mainly concerned with the public debt of Nepal. Issues of public debt are not a new phenomenon. Earlier thesis also has studied the different aspect of public debt like trend, pattern, financial resource gap and relationship between public debt and GDP. However issues of public debt changes with the changes in time. Therefore, this earlier research study may not be grasping the current issues of public debt because these studies have used old data and information. As a result, these earlier research may not be relevant for the understanding of the different contemporary issues of public debt. In this context, this research study has tried to find out the trend, pattern, financial resource gap and GDP in Nepal by using latest data and information.

Further, in the changed 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 government debt and economic growth is utmost important and it is expected that it will contribute extra knowledge in the existing field.

CHAPTER - III

DATA AND METHODOLOGY

3.1 Research Design

Data collected from secondary sources is presented systematically to use inductive method and other careful information and necessary interpretation is cleared in descriptively. The nature of the research design is descriptive. It is designed to examine the role, structure and trend of public debt in Nepal. The descriptive analysis includes the presentation of data ratio, percentage and so on into different tables and graphs which are needed in this research. This study shows the role, structure and trend of public debt in F/Y 2000/2001 to F/Y 2015/16.

3.2 Period of the Study

This empirical analysis is made to cover the period of sixteen years starting from F/Y 2000/2001 to F/Y 2015/2016.

3.3 Description of the Variables

Gross Domestic Product (GDP) - GDP refers to the total output of goods and services produced by countries economy in a certain time period specially in a fiscal year within the territory, by resident and non-residents, regardless of its allocation between domestic and foreign claims.

Public Debt -Public debt refers to loan raised by a government within a country or outside the country. A government resorts to public debt when its expenditures exceed its revenue. Public loans are collected by the government from banks, institutions and individuals on the conditions given in writing that those would be repaid and interest would be paid regularly as per the terms of the loan. Governments borrow to finance their operations and to regulate the volume of aggregate activity in the economy. Public debt involves the issue of short terms and long terms securities.

Budget Deficit - It is the revenue gap between the total expenditure minus total revenue plus foreign grants. In other words, it is the excess of government's total expenditure over its income.

Fiscal Deficit - It is the gap between total expenditure minus total revenue of the government.

External Debt (ED) - external debt occurs when a borrowing unit acquires money from international resources. It refers to international transfer made at concessional terms rather than at market rates for promoting economic development of the nation. Alternatively, external debt refers to the obligation of a country to foreign agency or government through bilateral and multilateral sources.

Internal Debt (ID) - Internal debt refers to the public loan within the country for domestic or internal sources. The government borrows money domestically from individuals and financial institutions.

Total Debt (TD) - It is the sum of internal debt and external debt.

Symbolically, $TD = ED + ID$

Bilateral debt (BD) - Bilateral Debt is the debt based on a direct arrangement between two countries. Bilateral debt occurs when a debt unit acquires money or a quantity of goods and services from the government of the country.

Multilateral Debt (MD) - Multilateral debt results when a debt unit acquires money or goods and services from union of nations or government institutions, business person and consumers or international organizations such as WB, IMF, EU.

Debt Servicing - The sum of interest and principle payment and repayment or interest on external public and publicly guaranteed debt.

Burden of Debt - Burden of debt is the sacrifice of the community through a risk in taxation at the time of repayment and for paying the annual interests on the government.

Export of Goods and Services (XGS) - It is the amount of the goods and services sold to another country.

Import of Goods and Services (MGS) - It is the total value of goods and services purchase from the rest of the world.

Inflation - Inflation is defined as a gradual and persistent rise in the general price level. The consumer price index published and compiled by NRB has taken as the measurement of inflation.

3.4 Nature and Sources of Data

The study is descriptive as well as analytical in nature. This analysis of the study attempt to get various empirical results using secondary data. The secondary sources include following sources:

-) Economic Surveys and budget speeches of MoF.
-) Published documents of NRB, CBS and NPC.
-) Thesis available at Central Library and Library of Central Department of Economic, Tu.
-) Articles published in different national and international newspapers and journals.
-) websites.

3.5 Data Collection Procedures

Research methodology is a way to have a systematic guidance for conducting research. It refers to the various steps to be adopted by research in studying of problem with certain objectives. Descriptive, analytical and explanatory research design is used to gain and insight about the public debt situation in Nepal. It is based on facts and interpretation of information gathered in relation to the problem under consideration.

This research is basically based on the secondary data. The data required for this study is collected from past thesis, annual reports of NPC, NRB, CBS and MoF.

3.6 Tools and Techniques of Data Analysis

The study is based on simple tools, such as percentage, average annual growth rate and arithmetic mean. The data collected from relevant sources are processed according to the need of the study. Growth rate are presented by using simple mathematical tools like average and percentage. The available data have been reclassified, regrouped and analyzed in order to make them useful in examining the objective of the study. To make the information easily understandable and visible there is use of tabulation of data and its graphical presentation, where necessary. For the analysis of data, computer Programmed Microsoft Excel has been used.

CHAPTER - IV

ANALYSIS, PRESENTATION AND INTERPRETATION OF DATA

4.1 Role of Public Debt in Nepal

The government of a country usually borrows because current revenue may not be sufficient to meet its expenditure. The government borrowing is necessary to fill the gap between the tax and non-tax revenues and the increasing government expenditure. The loan operation of the modern government especially in LDCs has been increased due to the government's active participation in the economic development on one hand and the limited availability of fund for investment from the private sectors on the other. Thus, the investment for accelerating the role of capital formation for development purpose has led the government to expand resources through public borrowing, internally and externally. The aim of public borrowing should be helpful in straitening the money and capital market, which in turn accelerate development and price stability.

Public borrowing is made by two component, External and Internal borrowing. A government can borrow from individuals, financial institution, Central bank and commercial banks as internal sources. Similarly the main sources of external borrowing are: international financial institutions like IMF, WB, ABD and so on. These institutions give loan to the member countries for a short term for covering the temporary BOP difficulties and for the long term for the development projects. Secondly, friendly countries also provide loans for development projects. 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 and so on. For this, there is no other possible means of government revenue for LDCs. So public debt is very important for these requirement.

Public debt was not altogether a new practice in Nepal. In the past king/prime ministers of different era used to take resources of public debt. King PrithiviNararyan Shah had borrowed from public for financing the war in 1760 AD. RanaBahadur Shah borrowed a large amount of money from Indian merchants to meet internal expenses. Cash levy was imposed on country in wide basis in 1804-1906 A.D. to finance the repayment of debt

incurred by the king RanaBahadur Shah. The Rana Prime Minister Chandra Shamsher had also borrowed money from Pashupatinath temple to resettle the emancipated slaves around 1925 A.D. After the democracy, first five years plan is introduced in 1956 A.D. In this plan period, most of the expenditure was incurred with the foreign grants. During that plan period, some deficit amount of Rs. 27.8 million was from surplus balanced account and loan from Nepal Rastra Bank (NRB, 1996). With the enforcement of public debt act 1968, domestic public debt in the form of Treasury Bills, Development Bonds and National Saving Certificates were issued in 1962; 1963/64 and 1968 respectively. These bonds and bills were regular in nature. Some of them were issued as deficit financing instruments while others were issued with a view to deepen the money market. (Since 1963/64 Nepal has started borrowing from external sources.(Gawali&Bajracharya, 2004). Government borrowing in Nepal is rapidly increasing since the F/Y 1984/85 the government started to raise borrowing with new long term security National Saving Certificate.

Nepal has been borrowing heavily from external sources mainly to balance the budgetary deficit. In the beginning and till F/Y 2001/2002 in total debt situation the share of external debt was more in comparison to internal debt. After the fiscal year 2001/2002, the situation has changed. The share of internal debt is increasing and the share of external debt is slowly decreasing except the F/Y 2009/2010. This is the positive sign for the Nepalese economy.

Public borrowing plays a vital role in under-developed countries like Nepal. It also helps in the financing of economic development through the mobilization of resources. In Nepal, sources of revenue are inadequate and insufficient for the economic development due to low level of income and saving capacity of people. In spite of these problems expenditure of the government is going on rapidly in order to achieve rapid economic development, mobilize unutilized resources. Government receives revenue through internal sources which are not enough in maximization of resources available to the government. External borrowing remains alternative sources If Internal borrowing is not sufficient. Under developed countries like Nepal is suffering from vicious circle of poverty. To escape out of such circle, capital formation is regarded as a prime mover of

development which is necessary in Nepal. But in Nepal, the available stock of capital goods is not sufficient to employ the available labor force on the basis of modern techniques of production. This condition is rapid because it has low rate of saving, investment, income, low living standard due to low per capita income and poverty, dualistic economy, unutilized natural resources, lower health and education condition of people, deficiency of capital etc. in comparison to developed countries in which development is financed by the automatic forces of capital formation under free market economy. But Nepal has market imperfection. In such market, resources are not mobilized properly due to lack of capital. So that public debt is only one solution to fulfill the lack of capital deficiency.

Public borrowing is needed for stabilization, since full employment and price stability do not come about automatically in a market economy but require public policy guidance. Without it the economy tends to be subjected to unemployment or inflation. Underdeveloped countries like Nepal have low income whereby it is very difficult for mobilization of resource. Nepal has so vague 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. The government policy to promote development is less effective. Thus the rigorous fiscal policy must be adopted to maximize domestic saving for requires investment. The availability of capital fund 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 developing countries. Public borrowing is regarded as a prime mover for economic development. Along with this reasonable abundance of natural resources, a spirit of enterprise, a technically trained labor force and dedicated civil servant are the essential requirement for achieving rapid economic development. For this increased capital is needed which seems the fundamental problem of economic development in under developed countries like Nepal due to low level of income and saving capacity of people. In such condition government can take loan from internal as well as external sources.

Some roles of public debt are as follows:

1. Public debt is necessary to recover deficit budget, fill the gap between the tax and non-tax revenues and export-import gap of country.
2. Deficit financing is the most useful method of promoting economic development of under-developed countries and used for the development of economy and social overhead capital such as construction of roads, power projects, school, hospitals, reconstruction etc. Deficit financing is able to break bottlenecks such as lack of capital, technical skill and monetary stability etc.
3. Public borrowing is an effective instrument for mobilization of resources since increase in tax rate is against of public willingness.
4. Public borrowing is regarded as a basic tool for development of developing countries. Without public debt, the adequate mobilization of internal resources could not have been made in order to accelerate the rate of economic development.
5. Public borrowing should be helpful in straitening the money and capital market, which in turn accelerate development and price stability.
6. To tackle the emergency period of crisis like earthquake, flood and other natural and political disasters.
7. To alleviate poverty and maintain the peace and security.

4.2 Public Borrowing and Deficit Financing

Deficit financing is used to mean any public expenditure that is in excess of current public revenue. It has been used for acquiring resources for economic development. When the government cannot raise the enough revenue through taxation and other sources, expenditure meet through public borrowing known as deficit financing. To fulfill such deficit, government can adopt the following solutions:

- Loan from Central Bank
- Loan from people
- Issuing paper money
- External loan

Deficit financing cannot create real resources, which do not exist in the economy. It is only a device that helps to transfer resources to government. The real resources require for economic development must exist in the form of material equipment, labor and skill. Printing money or issuing bank credit cannot create these things. Deficit financing only can put the funds at the disposal of government which can be used for acquiring the real resources provided they are available in the economy.

Deficit financing is the most useful method of promoting economic development of under-developed countries and may be used for the development of economy and social overhead capital such as construction of roads, power projects, school, hospital, reconstruction etc. By providing socially useful capital, deficit financing is able to break bottlenecks such as lack of capital, technical skill and monetary stability etc. of development and thereby increase productivity. Deficit financing as an instrument of economic development, has been given an important place in Nepal's development plans. It has been regarded as a means to cover the gap in financial resources for want of adequate internal and external monetary sources in order to fulfill the physical targets in the plans. Deficit financing is restored mainly to enable the government to obtain necessary resources for plan. The level of outlay local down by government cannot meet

only by taxation and other resources. The gap in resources some extent is made up partly by external assistance but when external assistance is not enough to fill the gap, deficit financing has to be undertaken when the target of production and employment cannot be achieved by the level of expenditure with resources obtained through taxation and other sources, additional resources have to found. How much deficit financing must be done is decided by lacking into consideration a number of other important factors and careful limits. A policy of deficit financing is an important and most fruitful instrument for capital formation in under-developed countries like Nepal. However, deficit financing always does not provide available long term solution. The Nepalese experience has clearly established the fact that heavy dose of deficit financing are advisable because heavy dose of money infected economy and also creates the problem of monetary of monetary stability which make the fruits of development meaningless. It may also lead to inflationary pressure and loss of confidence in the currency. Thus, the effects of deficit financing may be dangerous to economy if its limits are exceeded. So, greater stress needs to be placed on the mobilization of domestic resource for financing of development programs in Nepal. In this context, public borrowing can be taken as effective instruments for mobilization of economic resources for development in Nepal.

4.3 Public Debt and Mobilization of Resources

For economic development of under-developed countries public borrowing is a means of mobilizing financial resources due to revenue constraints. 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 developed to producing capital expenditure the fruits of which subsequently be sold to purchase for fees should be financed by loan . Mobilization of resources for financing ever financing ever increasing development outlay is an extremely difficult problem in development economy. It is in the extent that the role of taxation is emphasized. But there is limit to taxation. If this limit is crossed, taxation poses a serious problem in economic incentives. This leads to the use of public borrowing as a method of resource mobilization (Singh, 1991).

Domestic saving is the only the reliable source of financing economic development but unfortunately the rate of domestic saving is very low in Nepal because of low income, poverty and most part of income have to pay on tax. In such circumstances, public borrowing should be adopted by government for productive purpose. Public borrowing consists of internal borrowing and external borrowing. Moreover external borrowing sources of debt are supplementary in nature as internal saving mobilization is stagnant. The foreign source is the only option to finance development activities as internal borrowing capacity of an economy is determined by rate and faith of people upon government etc. therefore public borrowing seems to be safe and effective measure for mobilizing resources for development. In modern era, in the context of Nepal, public borrowing is applied in the development process of under developed countries is a wide perspective. It is used not only for meeting the huge wasteful expenditure of for recovering the deficiency of effective demand but is used as an instrument of fiscal policy for mobilizing , saving for development purpose and also as an effective instrument of monetary policy for combating inflation created in the process of growth, the ensuring growth with stability.

The objective of public debt in developing country like Nepal is that the public debt should be used as an instrument to mobilize saving of the people, which would otherwise have gone to ideal or wastefully consumption. Public debt should be advocated creating additional capacity and producing capital equipments. Generally government borrows for the creation of infrastructure in the economy since it requires huge investment initially which cannot be meet only through revenue collection.

The aim of public debt policy should be to help in strengthening the money and capital market which in turn accelerate development and price stability. In most of underdeveloped countries, there is match between revenue and expenditure in one hand and in another investment on infrastructure, development is needed. Due to this reason abundant resources are not available through the revenue. In such situation public debt can play major role of raising resources for developing funding. Public borrowing plays a significant role in development not only by supplying required funds but also established regular and acceptable channel for private investment in government securities which not

only provides liquidity to invest but also profit by the investment. Public borrowing plays an important role in the development of money and capital markets. Government Treasury bills and bonds are the main instrument of financial market which are raised for the purpose of mobilizing resource in right place. So, public borrowing is an effective instrument for mobilization of resources since increase in tax rate is against of public willingness.

4.4 Role of Fiscal Policy

Nepal being a least developed country has been facing the problem of fund where level of government revenue is very low because of low tax payable capacity of people. But level of government expenditure in the form of regular and development expenditure is increasing rapidly because of growing concept of globalization, liberalization and privatization. Such concept demands heavy investment for infrastructure development and socio-economic development. Since government revenue is increasing slowly and government expenditure is increasing rapidly, public borrowing becomes important to bridge the fiscal deficit of a country.

Nepal has been incurring fiscal deficit with the evolution of budgetary development in the first budget of the country in 1951 in which total revenue was NRs. 30.5 million and total expenditure at NRs. 52.2 million incurring thus the fiscal deficit of NRs. 22 million. This trend has continued uninterruptedly until now. Such condition really forced government for borrowing.

Public debt is the result of mismatch between revenue and expenditure over a time frame. A widening saving-investment gap persisting demand for public expenditure accompanied by a sticky revenue ratio have pushing the size of debt in Nepal. Nepal has been implementing periodic plan from 1956. Various objectives of economic development are determined in each periodic plan. To fulfill such objectives of economic development there is need of heavy investment to build up socio-economic infrastructure. Since government finance is very low, public debt plays important role to meet such investment. Hence, it should be noted that dependency on public borrowing is only the temporary solution to bridge the gap between revenue and expenditure. The basic

rationale of public debt is to promote domestic growth and long term economic development in the country. Public debt, if prudently and skillfully operate and managed can become an important instrument of economic development (Koirala, 2002).

4.5 Public Borrowing and Economic Development

Under-developed countries are suffering from poverty, unemployment, low level of income, low tax payable capacity, economic instability etc. To get rid of this above mentioned problem, economic development is necessary to accelerate economy. Economic development helps to transform the traditional society into modern society. So economic development is the main goal of developing countries but there are resource constraints to achieve such goal. Since other sources of revenue are limited public borrowing becomes useful resource for development. Most of the under-developed countries are conformed to rapid population growth low human capital development inadequate infrastructural problems and repressive regions. More importantly the inappropriate domestic policies fiscal policy, monetary policy, liberalization, investment policy and taxation policy pursued by the country have contributes to this weak and disappointing overall growth performance. In such situation, public debt can vital role for economic development. Nepal being a least developed country has the potential for development. There is low rate of saving, investment, income and low living standard due to the low per capita income and poverty, dualistic economy, unutilized natural resources, lower health and education condition of the people, deficiency for capital in under developed countries.

Resources gap is a burning problem of such under developed country due to deficiency of capital. So that public debt is only one solution to cross the resource constraint. Nepal is facing the deficiency of capital in relation to their production and natural resources due to low tax payable capacity of the people causes low income which creates low saving. Nepal is also suffering from vicious circle of poverty. To break vicious circle and uplift country with a self sustaining growth, a large amount of initial investment is necessary. Thus, the government of such under-developed country should emphasize to stimulate and accelerates capital formation. There is need of heavy investment to fulfill the

objectives of economic development. Since it is not possible through the persons, there is need of government finance, such finance is not possible through government also because of poor tax payable capacity of the people in under-developed countries like Nepal. At this critical juncture, public debt becomes important source to collect information small potentiality of saving and low level of tax payable capacity finally hampers economic development which can be removed by using borrowing and a nation becomes prosperous. In conclusion public borrowing is regarded as a basic tool for development in developing countries. Without public debt the adequate mobilization of internal resources could not have been made in order to accelerate the rate of economic development. Public borrowing proceeds regular channel for investment and also helps in the strengthening the money and capital markets which in turn accelerate development and price stability. As a fiscal measure it is a source of revenue to the government as it channels saving from the public to expansion of the productive capacity .So borrowing as a method of financing for development is quite suitable as it has less expansionary effect on the money supply than deficit financing (Lekhi, 2001).

4.6 Problems of Borrowing in Under-Developed Countries

Nepal is facing several problems or constraints in reflecting its borrowing programs. The main characteristic of Nepal are low saving, low investment, low level of income, dualistic economy, under-developed industrial sector, illiteracy, technological constraints, unorganized money and capital markets and most recently Grate earthquake. Poverty is the growing phenomenon. Due to all these reasons, financial sectors are also under developed. The rural sectors of such developing country appear the largest sector and a substantial volume of saving may originate in this sector. But it is not reality, since most of the financial and banking institutions are city oriented. So these are problem of rural saving. There is also existence of barter economy in rural areas so that people have no capacity and willingness to save due to poverty and illiteracy. Financial sectors are not well organized for rural saving and investment activities. Mobilization of rural income has not any contributive impact on the economy. Due to lack of appropriate financial and banking sector in rural areas, large part of money expenses in unproductive purpose.

Values and institutions have also negative impact for the development of physical and financial sectors.

Domestic resources are inadequate to meet the financial requirement for economic development. In such condition government is bound to take external loan. But Nepal has less economic and political relation with developed countries for the external borrowing and has less capacity to pay the dues on the other. This is because the most part of the expenses used for productive purpose which decreased the trust and further providing of borrowing is less possible. Then factors like political stability, low level of debt servicing capacity, unproductive expense, corruption etc. decrease the intention of donors for providing loan and grants. To conclude, development of finance sectors is essential to strengthen the economy. Money and capital markets are the main indicators of development which can play major role for government borrowing as a short term or long term (Regmi, 2008).

4.7 Resource Gap

Resource gap in Nepalese economy has always been a common phenomenon since the starting of the systematic budgeting system in Nepal. Every individual as well as government needs fund to maintain their daily expenditure but importance of fund is much more essential for government due to the concept of national development. To finance for the development work government must collect funds through the taxation and other sources of revenue. However government revenue is inadequate to meet the expenditure because of limited sources of revenue generation. To collect needy funds government must increase in the tax rate and fee which is unjustifiable for the point of view of social welfare. On the other side the tax and custom administration is not fair, transparent and swift to somewhat extent so that government cannot collect the revenue as it predicts. That is why the annual growth rate of total expenditure and the collected revenue are not increasing in the same pace. Thus, revenue expenditure gap is growing in every fiscal year.

Table 4.1

Different Scenario of Resource Gap

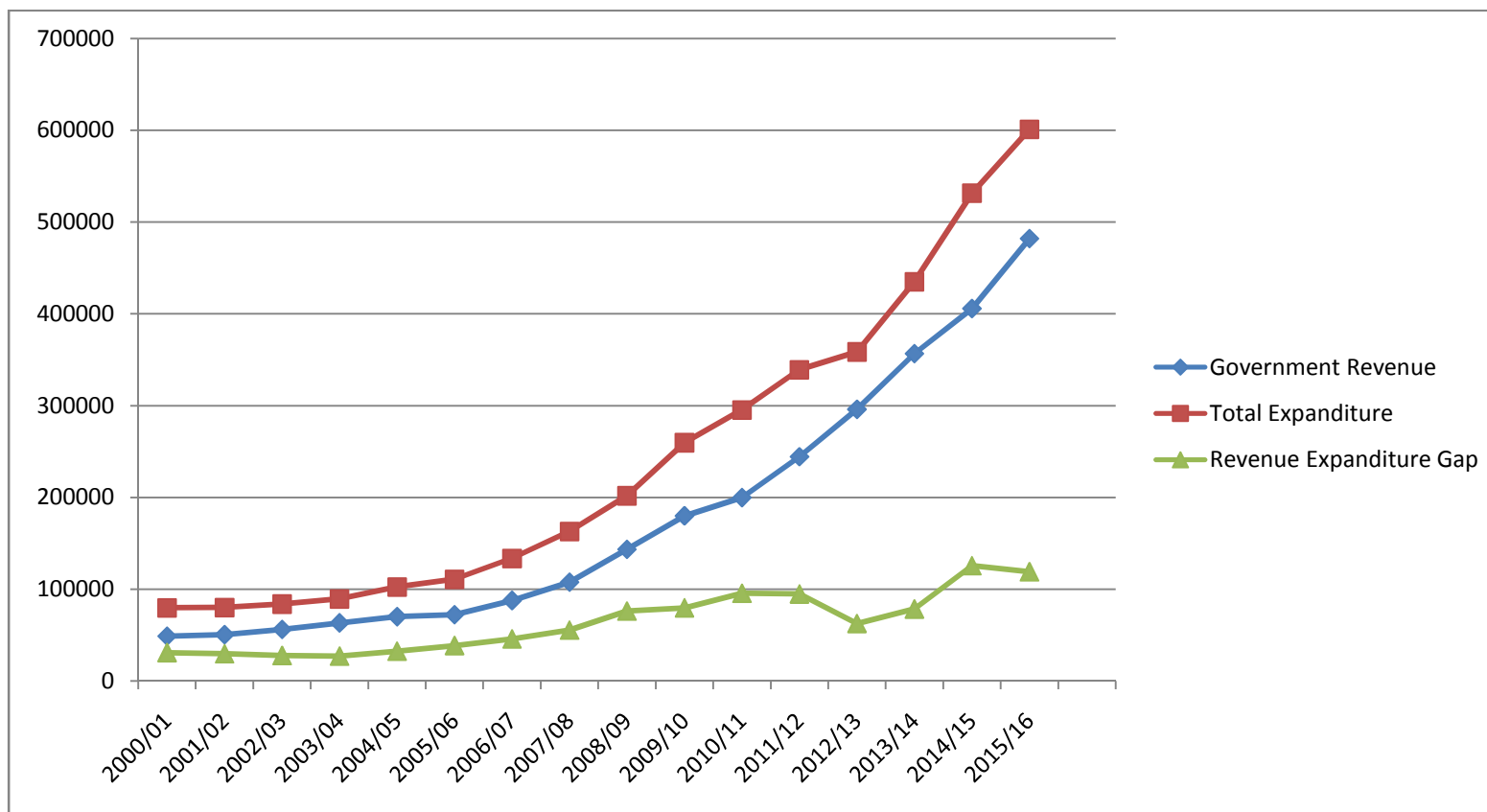
(NRs. In Million)

F/Y	Government Revenue	Annual Growth rate of Govt. Revenue	Total Expenditure	Annual Growth rate of Government Expenditure	Revenue Expenditure Gap	GDP	Revenue as % of GDP	Expenditure as % of GDP	Revenue Expenditure Gap as % 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	63331	10.9	89442.6	6.5	27111.6	473545	13.2	18.9	5.7
2004/05	70122.7	12.5	102560	14.7	32437.7	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	7.1
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	7
2011/12	244374	22.3	339168	14.83	94794	1527344	15.9	22.2	6.2
2012/13	296021	21.1	358638	5.7	62617	1695011	17.5	21.2	3.7
2013/14	356620	20.5	435052	21.3	78432	1964540	18.2	22.1	3.9
2014/15	405866	13.8	531558	22.2	125692	2130150	19	25	6
2015/16	481962	18.7	601016	13	119054	2247422	21.4	26.7	5.3
AAGR		16.6		15			15	20.6	6.3

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Figure 4.1

Different Scenario of Resource gap in Nepal



Source: Based on Table 4.1

Table 4.1 shows that the second column and the fourth column show the trend in revenue and expenditure in Nepal. The sixth 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. 60,1016 million in F/Y 2015/16, where total revenue has increased from NRs.48,893.6 million in F/Y 2000/01 to NRs. 481,962 million in F/Y 2015/16. This shows the public expenditure has dominated to government revenue. Thus, the revenue-expenditure gap is NRs. 30,941.5 million in F/Y 2000/01. This gap is increasing continuously increasing in each FY. In F/Y 2015/16 this gap has been NRs. 119,054 million. This indicates that the resource gap is serious problem in Nepal

The annual growth rate of government revenue and total expenditure is 14 percent and 20.5 percent in F/Y 2000/01 respectively but the annual growth rate of government revenue and total expenditure is 18.7 percent and 13 percent respectively in F/Y 2015/16. 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 2015/16. GDP is the main indicator of the economic development that is why analysis of resource gap as percentage of GDP is more important. The revenue expenditure gap has been decreased from 7.9 percent in F/Y 2000/01 to 5.3 percent in F/Y 2015/16. Average annual growth rate of revenue expenditure gap as percentage of GDP is 6.3 percent.

Figure 4.1 shows that different scenario of resources gap. It show that both revenue and expenditure are increasing year by year but the increasing rate of expenditure is higher than revenue, So, the gap between revenue and expenditure is high in every F/Y but in last three year it is decreasing then after increasing and again decreasing. The resource gap shows that the growth rate of revenue is grater then expenditure. This indicates the serious situation of increasing trend of revenue gap.

4.8 Growth Trend in Government Debt

The role of government 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. Therefore, Nepal is facing large and growing financial resource gap in the budgetary resource. In this context, the government borrowing both external and internal is needed for supplementing the resource gap. The government has to borrow large amount of loans to meet the fiscal deficit. Public debt is the main source for financing fiscal deficit in Nepalese fiscal system and both internal and external sources of borrowing have been adopted in any underdeveloped economy for financing fiscal deficit, which is common phenomenon in any underdeveloped economy. That total debt has been increasing rapidly since the restoration of multiparty system.

Due to the rapid increasing in the government expenditure, public debt has become imperative in bridging the resource gap. The government has been unable to raise the revenue to meet the expenditure needed. Government of Nepal collects revenue from tax revenue and non-tax revenue. The state has not been able to collect tax revenue as expected due to the several reasons. All those factors have contributed to the government failure in collecting required revenue. This leaves with the government no other option then borrowing to need the revenue shortfall and the borrowing has taken place either within the country or from abroad.

Table 4.2**Trends in Government Debt and Annual Growth Rate****(NRs. In Million)**

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	8938.1	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	76.6	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
2014/15	42368	20432	62800	67.5	32.5	2130150	2.0	1.0	3.0
2015/16	87775	43774	131549	66.7	33.3	2247422	3.9	2.0	5.9
AAGR				60.5	39.4		2.1	1.4	3.5

Source: Economic Surveys(F/Y 2000/01- 2015/16),GoN/MoF (2000-2016).

Table 4.2 shows that the government borrowing and annual growth rate from the period 2000/01 to 2015/16. The contribution of both external and internal 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 50.5 percent and 39.4 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. 131,549 million in F/Y 2015/16. Debt increase rapidly in recent fiscal year is for the reconstruction cause by the Earthquake 2015.

The share of internal debt and external debt as percentage of GDP is 1.78 percent and 3.06 percent respectively in F/Y 2000/01. This has been changed to 3.9 and 2.0 respectively in F/Y 2015/16. The contribution of external debt has been decreased compared to internal debt in the study period from F/Y 2000/01 to 2015/16.

4.9 Internal Debt Instrument of Nepalese Government

There are five types of domestic borrowing instrument, which are Development Bonds, National Saving Certificates, Citizens Saving Certificate, Special Bonds and Treasury Bills.

(I) Development Bonds

Development Bonds was started to publish from 1963, initially it was issued in face value at the pre-determined interest rate. After 2005, it starts to issue on auction. It is divided into competitive and non-competitive categories dividing at least 15 % for non-competitive bidders. The notice would be public in newspaper with special features and also put in NRB website. Development bond can be purchase by minimum Rs. 25000 and up to rupees exactly divisible by 25000.

(II) National Saving Certificate and Citizen Saving Certificate

The main aim of this Saving Certificate is to mobilize small savings. These are generally non-market and tax exempted debt instrument for the public. However, in Nepal these two saving certificate are marketable and taxable securities at the moment, These certificate are sold in face value with pre-determined interest rate. For the issuance, noticed with necessary terms and condition would be published in newspaper. There are some different between these two Saving Certificate. Citizens Saving Certificate can also

be purchase by people where National Saving Certificate can be purchase by both people and banking and non-banking institution. Both Saving Certificate are issued in form of promissory notes and stock. Ownership of promissory type certificate can be transfer by simple process of signature endorsement between buyers and sellers.

(III) Treasury Bills

Treasury Bills are short term obligation of up to one year. The government has issued 28 days, 91 days, 182 days and 364 days treasury bills. They are issued on the auction as specified in the issue calendar. NRB prepare debt calendar including the schedule of servicing amount of previously raised loan and the additional amount of accorded by government. The treasury bill most of the time purchased by Commercial Banks as a competitive bidders. At least 15 percentage of offered amount has to be separated for non-competitive bidders and they should purchase the bill at average discount rate. It should be noted that commercial banks are not allowed to take part as non-competitors. Treasury Bills are issued on every Tuesday. Before one week of issuing Treasury Bills, the notice of auction would be published in the national daily newspaper mentioning the necessary terms like series number, offered price, offered amount, taxable/non-taxable, maturity period. Earnest money, issue date, bidding time and other conditions.

(IV) Special Bonds

Special Bond is issued by a National Government, generally with promise to pay periodic interest payments and to repay the face value on the maturity date. Government Bonds are usually denominated in the countries own currency, in which case the government can't be force to default, although it may choose to do so. If a government is close to default on its debt the media often, refer to this as a sovereign debt crisis. The terms on which a government can sell bonds depend on how creditworthy the market considers it to be.

4.9.1 Pattern of Internal Public Debt in Nepal

Nepal started borrowing since 1961. For the economic development of the economy, various rigorous plans have been made. Only plans on the paper can't create economic development, because developing country like Nepal have not those sufficient resource, which are needed for the productive investments. One of the major sources to fulfill the resource to fulfill the resource gap on the budgetary position is internal source.

Government issues different type of monetary instrument to raise internal debt. They are treasury bills, development bonds, national saving certificates and special bonds. The contribution shares of the different instrument varied widely. Until the first national bond was issued in 1984, development bonds were the major sources of internal public debt and second major source is treasury bills in the beginning. From 1960 to onward, the structure of internal debt was changed greatly because after then there is dominant role of treasury bills in the internal public debt. Now the major holders of the bonds are NRB, commercial banks, public and private organization and individual. Among them NRB is remaining the largest holder and commercial banks were collectively second largest holders. Government mobilize the internal borrowing by issuing treasury bill, development bonds, national bonds and special bonds which are selling form banking and non-banking sector and individuals. Therefore it can be said that by coordinating the various rigorous plans with the fulfillment source of the resource gap on the budgetary position, we get economic development.

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 Bond	percent Share of National Saving Certificate	percent Share of Special Bond
2000/01	21026.9	4262.2	11526.5	17541.4	54357	38.7	7.8	21.2	32.2
2001/02	27610.8	5962.2	12476.4	13994.3	60043.7	46	9.2	21	23.3
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	487.11	206700	66.02	22.8	8.02	0.23
2014/15	119858	57070	1658.5	487.11	201657	59.4	28.3	0.8	0.3
2015/16	116059	108900	906.5	487.11	239029	48.5	45.6	0.8	0.2
AAGR						61.3	22.4	6.8	7.8

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Table 4.3 shows that the pattern of internal net outstanding internal debt in Nepal during the period F/Y 2000/01 to F/Y 2015/16 in which the government mainly mobilizes the internal resources by four sources. The contribution of treasury bills is larger because its average annual growth rate is 61.3percent which is larger than others.

The percentage share of treasury bills, development bonds, national saving certificate and special bonds are 38.7 percent, 7.8 percent, 21.2 percent and 32.2 percent respectively in F/Y 2000/01 but in F/Y 2015/16, 48.5 percent, 45.6percent, 0.8percent and 0.2percent respectively. It shows that the share of treasury bills has major in the mobilization of internal debt. But the average annual growth rate of treasury bills, development bonds, national saving and special bonds are 61.3 percent, 22.4 percent, 6.8 percent and 7.8 percent which shows that the share of treasury bills has dominated in the mobilization of internal debt during the study period. Share of Development Bond is in increasing trend. Share of national saving certificate and special bonds are in decreasing trend and in recent fiscal year there share is less than one percentage. Data had been decling due to political instability.

4.10 Pattern of External Debt in Nepal

The foreign assistance in terms of grants and loans are the major sources 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 inadequate. Therefore, external debt is the most essential source of revenue to the government. Nepal has borrowed the external loan through bilateral and multilateral sources. Bilateral loans are loans from government and their agencies, loans from autonomous bodies and direct loans from official export credit agencies. Multilateral loans are loans and credits from multilateral agencies such as World Bank, International Monetary Fund, Regional Development Banks and multilateral and intergovernmental agencies. The pattern of bilateral and multilateral debt is shown in the following.

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	7698.6	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	1.4	98.6	517993	0.02	1.76	1.79
2005/06	40.6	8173.7	8214.3	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	8979.9	7	92.9	781262	0.08	1.71	1.14
2008/09	612.9	9356	9968.9	6.1	93.9	938671	0.07	0.99	1.06
2009/10	4550.6	6672.8	11223.4	40.5	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	1.01
2011/12	3254.4	7828.7	11083	29.4	70.6	1527344	0.21	0.51	0.72
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	1928517	0.08	1.01	1.1
2014/15	3427.6	22188	25615.6	13.4	86.6	2130150	0.16	1.04	1.2
2015/16	3201.5	30026.8	33228.3	9.6	90.3	2247422	0.14	1.3	1.5
AAGR				18	82		0.20	1.12	1.34

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Table 4.4 shows that the pattern of external debt in terms of disbursement by major sources. It shows that bilateral loan is in decreasing trend and multilateral loan is in increasing trend and it reflects that the total external debt has been increasing in each fiscal year expect 2006/07.

External debt is NRs. 12,044 million in F/Y 2000/01 which is increased to NRs. 33,228.3 million in F/Y 2015/146The average annual growth rate of bilateral debt and multilateral debt is 18 percent and 82 percent respectively which shows that the share of multilateral debt is high in total external debt.

4.11 Net Outstanding Debt

Nepal started to raise the debt since 2061/62 systematically, from the very beginning of borrowing, it has kept the vital supporting role to meet the public expenditure. Now a days the fiscal deficit of country has been ever growing. The result is increment in the volume of outstanding public debt. To meet the financial resource gap, the government has to borrow a large amount of loan. There is ever increasing trend of financial resource gap to fill the needs loan from external and internal sources. There is ever increasing trend of financial resource gap, which need more loan and repayment principle and interest. It makes the outstanding public debt is increasing trend.

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.

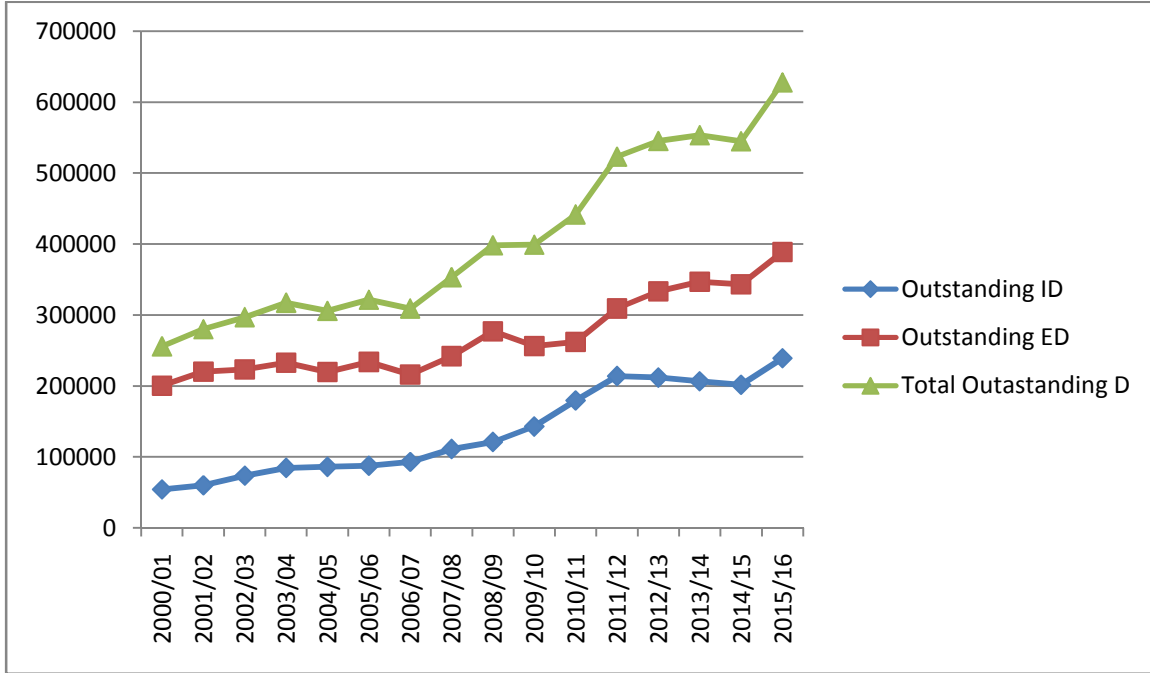
Table 4.5**Net Outstanding Public Debt to GDP Ratio****(NRs. In Million)**

F/Y	Outstanding ID	Outstanding ED	Total Outstanding Debt	GDP	OID as % of GDP	OED as % of GDP	TODas % 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	1928517	10.5	17.9	28.5
2014/15	201657	343262	544919	2130150	9.4	16.1	25.6
2015/16	239029	388760	627789	2247422	10.6	17.3	27.9
AAGR					13.5	31.7	45.9

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Figure 4.2

Trend of Outstanding Public Debt



Source: Figure 4.5

Table 4.5 shows 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 debt is NRs. 54,337 million and NRs.200,404.4 million respectively. In F/Y 2015/16, net outstanding internal and external debt has been increased to NRs. 239,029 million and NRs. 388,760 million respectively.

The average annual growth rate of internal and external debt as percentage of GDP is 13.5 percent and 31.7 percent respectively. In overall, the net outstanding debt share of external source is larger than internal sources. Hence, this shows that external debt dependency is increasing rapidly in each FY.

Figure 4.2 shows that trend of internal and external outstanding debt. It shows that both external and internal debt are increasing year by year but the increasing rate of external debt is higher than internal debt.

4.12 PublicDebt as Percentage of Fiscal Deficit

Public debt has been the main sources for financing budget deficit each year when budget is increasing it has also increase the fiscal deficit in Nepalese fiscal system. A deficit position occurs when the government spends more than its current revenue. The government must borrow from somewhere to meet its deficit financing. Broadly, there are two sources of deficit financing-internal and external. The total public debt has been increasing rapidly since the restoration of multiparty system for meeting the various requirements in economical and social demands which has increase the fiscal deficit.

Underdeveloped country has low rate of saving, investment, income and low living standard due to the low per capita income and poverty, dualistic economy, unutilized natural resources, lack of capital etc. Resources gap is burning problem of the underdeveloped economy due to the lack of capital public debt is only on solution to fill the lack of capital.

Table 4.6**Percentage of Debt in Fiscal Deficit****(NRs. In Million)**

F/Y	Internal Debt(ID)	External Debt(ED)	Total Debt	Fiscal Deficit	ID as percent of Deficit	ED as percent of Deficit
2000/01	7000	12044	19044	24188.1	22.6	38.9
2001/02	8000	7698.7	15698.7	22940.6	27	26
2002/03	8880	4546.4	13426.4	16437.1	32	16.4
2003/04	5607	7629	13236	15828.2	20.7	28.1
2004/05	8938.1	9266	18204.1	18046.5	27.6	28.6
2005/06	11834.2	8214.4	20048.6	24779.6	30.7	21.3
2006/07	17892.3	10053.5	27945.8	30091.7	39	21.9
2007/08	20500	11325.5	31825.5	32642	62.8	34.7
2008/09	18417.1	9968.9	28386	49804.7	36.9	20
2009/10	29914	11223.4	41137.4	41197.4	72.6	27.2
2010/11	42515.8	12075.6	54591.4	48669.1	87.3	24.8
2011/12	36419	11083	47502	51184	71.2	21.7
2012/13	19043	11969	31012	24170	77.1	48.4
2013/14	19980	21130	41110	38150	52.4	55.4
2014/15	42368	20432	62800	81145	52.2	25.2
2015/16	87775	43774	131549	69605	126	63
AAGR					52.4	31.3

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Table 4.6 shows that total public debt in F/Y2000/01 is NRs.19,044 million which has been increased to NRs131,549 million in F/Y 2015/16. In F/Y 2015/16 both internal and external debt rapidly increase to NRs. 87,775 million and NRs. 43,774million respectively. This is because, necessary fund for reconstruction of Earthquake 2015. F/Y 2015/16 is the only that F/Y where fiscal deficit is less then public debt. The Average annual growth rate of ID and ED is 52.4 percentage and 31.1 percentage respectably.

The fiscal deficit has been increased to NRs. 24,188.1 million from NRs. 69,605. The internal debt has occupied 22.6 percent of deficit whereas the external debt has occupied 38.9 percent of fiscal deficit in F/Y 2000/01. But in F/Y2015/16 the internal debt has occupied 126 percent of fiscal deficit whereas the external debt has occupied 63 percent of fiscal deficit.The scenarion indicates that the government growing reliance on external loan for meeting ever increasing fiscal deficit.

4.13 Export-Import Gap

Nepalese economy is developing economy where one of the major problem us export-import gap. Nepal is lest developed country with limited exportable good without specialization such as food, grains, garment product, carpet and other raw materials. Nepal is exporting vary few goods and services is low price which reduce the competitiveness of the product. Major exportable goods are raw materials and food grain but import goods are final as well as capital goods. So that year by year the gap is growing rapidly. There is few possibilities to reduce import of goods. So that we most promote export.

Table 4.7
Export-Import Gap
(Rs in million)

FY	Export(X)	Import(M)	Export-Import Gap (X-M)
2000/01	55654.1	115687.2	-60033.1
2001/02	46944.8	107389	-60444.2
2002/03	49930.6	124352.1	-74421.5
2003/04	53910.7	136277.1	-82366.4
2004/05	58705.7	149473.6	-90767.9
2005/06	60234.1	173780.3	-113546.2
2006/07	59383.1	194694.6	-135311.5
2007/08	59266.5	221937.8	-162671.3
2008/09	67697.5	284469.6	-216772.1
2009/10	60824	374335.2	-313511.2
2010/11	64338.5	396975.5	-331837
2011/12	74261	461667.7	-387406.7
2012/13	76917.1	556740.2	-479823.1
2013/14	91991.4	714365.9	-622374.5
2014/15	85319.1	774684.1	-689365
2015/16	69670.1	773113.2	-703443.1

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Table 4.7 shows that the pattern of export and import in review period. In F/Y 2000/2001 the export was Rs.5,565.4 million and import is Rs. 115,687.2 million where the export import gap (X-M) in the same year was Rs. 60,033.1 million. The pattern of export has been increasing till F/Y 2013/14 and it become Rs. 91,991.4 million and its decrease and become 69,670.1 million till F/Y 2015/16 . Import also has been increasing and become Rs 773,113.2 million in F/Y 2015/16, where the export-import gap has been increasing each and every year and become Rs. 703443.1 in F/Y 2015/16.

This export import gap situation clearly show that export import gap is increasing in each fiscal year and each fiscal year we are in tread deficit. Big amount of money goes as a trade deficit and we always have to take Public Debt.

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

Debt servicing has the primary claim upon the allocation of national budget. To that extent priority for economic activities such as irrigation, drinking water, health, education, 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 big amount of external and internal loan with the obligation of future repayment. In Nepalese context, foreign loan share is rapidly increasing which increase financial and real burden for the future generation. Therefore, 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. The external debt is in confessional rates whereas internal borrowing in normally at market rate. As a result, repayment amount of internal debt is grater then the external one. The public debt of Nepal is still burdensome, as foreign loan are available at subsidized rate.

Table 4.8**Internal and External Debt Servicing in Nepal****(NRs. In Million)**

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 GD
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	0.9	2.2
2014/15	47430	17028	49132.8	2130150	2.2	0.7	2.9
2015/16	50335	18615	52196.5	2247422	2.2	0.8	3
AAGR					1.5	1.2	2.7

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

Table 4.8 shows that 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

2015/16. Debt servicing is increasing rapidly. In the F/Y 2000/01, total debt servicing was NRs. 10,394.6 million which has increased to NRs. 52,196.5 million in F/Y 2015/16.

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 1.5 percent, external debt servicing as percentage of GDP is 1.2 percent and total debt servicing as percentage of GDP is 2.7 percent 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 = Total Debt Servicing – External Debt Servicing

Total Debt Servicing = Interest Payment + Principal Repayment

4.15 Trend of Regular Expenditure and Debt Servicing

Debt service is the cash that is required to cover the repayment of interest and principal on a debt for a particular period. 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 people of Nepal. Nepalese per capita debt stood to NRs. 22,081 in the last fiscal year. This amount falls by 2 percentages at the end of the first eight months of the current fiscal year to NRs. 21,665 (Economic Survey), F/Y 2000/01 GoN/MoF 2016.

Table 4.9**Regular Expenditure and Debt Servicing****(NRs. in Million)**

F/Y	Regular Expenditure(R.E.)	Annual Growth Rate of R.E.	Total Debt Servicing	External Debt Servicing	Total Debt Servicing as percent of R.E.	External Debt Servicing as percent of R.E.
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
2014/15	339408	11.8	49132.8	17028	14.5	5
2015/16	371297	10	52196.5	18615	14.1	5
AAGR		14.7			20.06	9.8

Source: Economic Surveys (F/Y 2000/01- 2015/16), GoN/MoF (2000-2016).

In the F/Y 2000/01 total debt servicing was NRs. 10,394.6 million which was 24.3 percent of regular expenditure of that year. Total debt servicing was decreased and reached 14.1 percent of regular expenditure in F/Y 2015/16. The average annual growth rate of regular expenditure is 14.7 percent which is greater than the average annual growth rate of external debt servicing as percentage of regular expenditure.

On the 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 9.8 percent in the study period.

4.16 Situation of Debt Trap in Nepal

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

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

Nepal has paid matured principle and interest on the time. Still it had not taken new loan to pay previous one. All shows that Nepal has not fall in debt trap still. But, there also exist economic problems in external debt management in Nepal. The leakages, corruption, inefficient and less productive use of public debt are problems exist in external debt management, hence, we are also in critical situation and if we do not improve it, we may fall in debt trap in near future (Paudel,2016).

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

In the context of developing countries like Nepal, public debt playing a prominent role for socio-economic development of the nation. Every year the government expenditure is increasing. In recent Fiscal year, big sum of money is needed to reconstruction of earthquake and for social securities. Public revenue is not growing and trade deficit is increasing. So public debt is source of deficit financing because economically Nepal is backward and its economic performance is not satisfactory. Now Nepal is facing and actual research gap problem. Nepal is demanding more and more financial resources through public debt to bridge the growing resource gap in budget.

There are mainly two sources of public borrowing internal and external. In the internal source treasury bills, development bonds, special bonds and national saving certificate are included. Similarly, in external sources Nepal is receiving borrowing in the form of bilateral and multilateral sources as ADB, WB IMF etc. For Nepal, both internal and external debt plays a significant role as a means of financing economic development. Public borrowing has to be undertaken within the country as well as abroad. Only through internal sources, it is not sufficient to promote the rapid development of the Nepalese economy. Thus, external debt financing contributes significantly to the external development of Nepal.

Data shows that internal and external debt has been increasing rapidly but external borrowing is more vigorous than internal borrowing. The share of outstanding external debt in total outstanding debt is more than the internal debt. It seems that government could not raise enough internal borrowing due to its limited sources and the presence of non-monetized sectors.

Nepal is indebted by both internal and external loans but highly indebted by external servicing. Thus, its proper management has been a challenging task for Nepal. So the government should be responsible to utilize the public debt in productive sector rather

than unproductive sectors. The government regulates the better fiscal policy and concern in the proper implementation. Otherwise Nepal is going to face debt crisis in the future in which debt bearing obligations would become impediments to the balanced management of the economy.

Summary of Major findings are as follows:

- In the study period from F/Y 2000/01 to F/Y 2015/16, the government revenue has increased from NRs. 48,893.6 million to NRs. 481,962 million with the average annual growth rate of 16.6 percent in revenue. In the same period, the expenditure has increased from NRs. 79,835.1 million to NRs. 601,016 million the average annual growth rate of government expenditure is 15 percent. However, the growth rate of revenue is not sufficient for financing the increased government expenditure.
- In the study period from F/Y 2000/01 to F/Y 2015/16, the gap between revenue and expenditure has increased from NRs. 30,941.5 million to NRs. 119,054 million. The resource gap has been increasing in each year that shows there is excessive increase in government expenditure than government revenue, which leads the resource gap.
- The amount of internal debt was NRs. 7,000 million in F/Y 2000/01 and it has increased to NRs. 87,775 million in F/Y 2015/16. Similarly, the amount of external debt was NRs. 12,044 million in F/Y 2000/01 and it has increased to NRs. 43,774 million in F/Y 2015/16. Percentage share of internal debt and total debt in F/Y 2000/01 was 36.8 and 63.2 percent respectively. The portion of internal debt has been increasing in average, this is good sign then before.
- Total external debt was NRs. 12,044 million in F/Y 2000/01 in which NRs. 586.7 million was taken from bilateral and NRs. 11,457.3 million from multilateral sources. It has gone up to NRs. 33,228.3 million where NRs. 3,201.5 million from bilateral and NRs. 30,026.8 million from multilateral sources. In the study period the share of bilateral debt is 18 percent and the share of multilateral debt is 82 percent.

Average annual growth rate of total external debt as a percentage of GDP is 1.34 percent where as the percentage share of bilateral and multilateral debt is 0.2 and 1.12 percent

respectively. This shows that the external debt is heavily dependent upon multilateral sources.

- In F/Y 2000/01 to F/Y 2015/16, the contribution of treasury bills is larger because its average annual growth rate is 61.3 percent. The percentage share of treasury bills, development bonds, national saving certificate and special bonds are 38.7 percent, 7.8 percent, 21.2 percent and 32.2 percent respectively in F/Y 2000/01 but in F/Y 2015/16, 48.5 percent, 45.6 percent, 0.8 percent and 0.2 percent respectively. It shows that the share of treasury bills has major in the mobilization of internal debt. But the average annual growth rate of treasury bills, development bonds, national saving and special bonds are 61.3 percent, 22.4 percent, 6.8 percent and 7.8 percent.

- The outstanding internal and external debt in F/Y 2000/01 was NRs. 4,357 million and NRs. 200,404.4 million respectively. But in F/Y 2015/16 both outstanding internal and external debt is NRs 239,029 million and NRs. 388,760 million respectively. The average annual growth rate of internal and external debt as percentage of GDP is 13.5 and 31.7 percent respectively.

- In F/Y 2000/01, fiscal deficit was NRs. 24,188.1 million which is increased to NRs. 69,605 million in F/Y 2015/16. The fiscal deficit is increasing in each fiscal year.

- In F/Y 2000/2001 the export was Rs. 5,565.4 million and import is Rs. 115,687.2 million where the export import gap (X-M) in the same year was Rs. 60,033.1 million. The pattern of export has been increasing till F/Y 2015/16 and it become Rs. 91,991.4 million and its decrease and become 69,670.1 million till F/Y 2015/16. Import also has been increasing and become Rs 773,113.2 million in F/Y 2015/16, where the export-import gap has been increasing each year and become Rs. 703,443.1 million in F/Y 2015/16.

- The total debt servicing was NRs. 10,394.6 million in F/Y 2000/01 which has increased to NRs. 52,196.5 million in F/Y 2015/16. During the period between F/Y 2000/01 to F/Y 2015/16, the average annual growth rate of total debt servicing as percentage of GDP is

2.7 percent. In that period the average annual share of internal debt servicing is more than external debt servicing.

- In the F/Y 2000/01 total debt servicing was NRs. 10,394.6 million which was 24.3 percent of regular expenditure of that year. Total debt servicing was decreased and reached 14.1 percent of regular expenditure in F/Y 2015/16. The average annual growth rate of regular expenditure is 14.7 percent which is greater than the average annual growth rate of external debt servicing as percentage of regular expenditure. On the 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 9.8 percent in the study period.

5.2 Conclusion

The government expenditure has increased more rapidly than government revenue because of the limited resources. Therefore, the government has borrowed from internal and external sources. The growing trend of borrowing creates a great problem for debt management and becoming a major challenge issue for the country. The borrowing money is unlikely financed on the non-monetized and unproductive sectors of the economy which in turn has the burden for the economy.

The condition 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 up these gaps. Consequently, burden of debt and debt servicing obligation are increasing rapidly in each year but debt servicing capacity of the economy is not increasing the same pace.

In course of research, it was found that government borrowing has increased unlikely and financed mostly on the unproductive sectors and hence government always lacks resources then takes the new loan to pay the previous ones. That's why the public debt

and its interest is mounting rapidly but addressing capacity for redemption the debt is not increasing in the same pace.

The study clearly shows the facts that the average annual share of outstanding debt as a percentage of GDP is almost 45.9 percent. It concluded that we are entrapped in the debt. If debt management is not set effectively and effective programs for debt financing are not carried out we shall not escape from the situation of debt trap.

5.3 Recommendations

On the basis of above findings, the following are the purpose recommendations which can be helpful to address the problems of public debt financing in Nepal.

- Government should promote export to minimize export-import gap.

In Nepal, the maximum export-import gap is the main features of foreign trade deficit. For this there is a need for export promotion and diversification of trade both country wise and commodity wise. The establishment and operation of export processing zone be great help to enhance the export of Nepalese goods.

- Government should maintain fiscal balance by applying strong fiscal and monetary policy.

The size of revenue collection is very low and expenditure is very high which creates fiscal imbalance. This has led to heavy borrowing from internal and the volume of borrowing and maximizing revenue collection. Government should maintain the strong fiscal discipline. It must set and implement the effective legal system to control the ever-increasing corruption, unnecessary expenses and improper allocation of resources. This might contribute to control growing unproductive and useless expenses on one side and increased revenue on the other side. Government efforts should be directed towards mobilizing internal resources and thus to reduce dependency on loans for financing development expenditure.

- Government should adapt effective tax policy to generate revenue.

The size of revenue collection is low and expenditure is very high which creates fiscal imbalance. This has leads to heavy borrowing from internal and external sources. So, for reducing the volume of borrowing and maximizing revenue collection, government should adapt effective tax policy by improving tax administration.

- Government should try to receive more grants rather loans.

The government should try to get the grants more and more as far as possible. There is more domination on bilateral grants. The government should maintain such external policy so that more grants should be received rather than the loans.

- Government should increase the debt servicing capacity of the country.

To increase the Debt servicing capacity, Government should increase GDP growth, revenue growth and export earnings growth in sustainable path so that country will not trapped on the debt servicing problem Government should be conscious about falling the country into debt trap. To prevent from debt trap, government should create new debt servicing capacity. The inflowing loan should be utilized as possible as in productive and currency earning areas.

- Proper attention should be given to the macro-economic stability of the country.

Nepal has so many under-developed areas, where the role of government is dominating. Government should maintain the balance between urban and rural areas, agricultural and industrial sectors, trades and non-traded sector. The maintenance of such various unbalanced sectors of the economy should be done through control of unproductive expenditure, big push through capital and proper utilization of resources of the under-developed areas. Government should reduce foreign dependency, various measures must be applied such as export promotion, tourist attraction and import substitution policy should be emphasized and import of capital goods should be increased for the productive purpose.

- The internal borrowing for short-term should be minimized and long-term internal borrowing should be given priority.

- To reduce the foreign dependency various measure must be applied such as export promotion, import substitution and tourist attraction policy .
- Government should discourage capital flight and proper environment should be given for foreign direct investors.

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