

MACROECONOMIC FACTORS AND ITS RELATIONSHIP WITH THE INFLATION IN NEPAL

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Certification of Authorship

I hereby validate that I have researched and submitted the final draft of dissertation entitled “**Macroeconomic Factors and Its Relationship with Inflation in Nepal**”. This dissertation has not been previously presented for degree conferral, nor has it been suggested or showcased for any other academic purposes. I acknowledge the support and collaboration I received during the research process. Furthermore, I confirm that all information sources and literature utilized in the dissertation are appropriately cited in the reference section.

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Report of Research Committee

Ms Bina Panth has defended her research proposal entitled “**Macroeconomic Factors and Its Relationship with Inflation in Nepal**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of Supervisor Bhoj Raja Ojha and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled “**Macroeconomic Factors and Its Relationship with Inflation in Nepal**” presented by Bina Pantha a candidate for the degree of Masters of Business Studies and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

CPI = Consumer Price Index

CBN = Central Bank of Nigeria

CR = Consumption Rate

CRR = Cash Reserve Ratio

DOLS = Dynamic Ordinary Least Squares

DMO = Debt Management Office

FDI = Foreign Direct Investment

GE = Government Expenditure

GD = Government Debt

GDP = Gross Domestic Product

GR = Government Revenue

IMF = International Monetary Fund

LSDVC = Least Squares Dummy Variable Correction

M1 = Narrow Money

M2 = Broad Money

NIM = Net Import

NRB = Nepal Rastra Bank

PSC = Private Sector Credit

RGDP = Real Gross Domestic Product

VAR = Vector Autoregression

VECM = Vector Error Correction Model

WGI = Worldwide Governance Indicators

ABSTRACTS

This study looks at how different parts of Nepal's economy like government spending, money supply, and imports affect the rising prices of goods and services, also known as inflation. By using past records and reports from Nepal Rastra Bank and the Ministry of Finance, the research finds that inflation is linked closely to how the government manages its income and spending, and how much money and credit are available in the economy. When government finances are handled well and the money supply is balanced, inflation tends to stay lower. But when spending rises quickly or too much money flows into the system, prices often go up. The study also shows that inflation is not just a local issue it's influenced by outside factors like changes in India's economy. To keep prices stable, Nepal needs better coordination between its fiscal and monetary policies, along with stronger long-term planning. This research gives helpful insights to policymakers working to reduce inflation and build a more stable economy.

Keywords: Public Finance, Inflation, Macroeconomic

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Controlling inflation continues to be one of Nepal's biggest challenges when it comes to maintaining economic stability and supporting long-term growth. The rise in prices isn't caused by just one factor it's the result of many things working together, including how much money is circulating in the economy, how the government manages its budget, changes in the exchange rate, how much people are spending, and even inflation trends in neighboring India. Studies have shown that when the money supply (especially broad money like M2) and private consumption go up, prices tend to rise both in the short term and over time. This means that inflation doesn't just spike and disappear it sticks around. In fact, Adhikari, Chhetri, and Chalise (2024) found that inflation in Nepal adjusts very slowly, at a rate of only about 11% per year. This slow adjustment shows that once inflation starts rising, it takes a long time to bring it back down, which is why consistent and focused policies are needed.

One of the major drivers of inflation is the government's budget deficit. When the government spends more than it earns, it often borrows money or prints more currency, which can push prices higher. What makes this even more complicated is that inflation itself can make the budget deficit worse higher prices mean the government has to spend more, creating a cycle that's hard to break. This two-way relationship between inflation and fiscal imbalance has been clearly shown in research by Adhikari et al. (2024) and Byanjankar (2020), and it points to the need for better coordination between government spending and inflation control. Khanal and Paudel (2024) also highlight that government spending has a strong long-term effect on inflation, while interest rates play a role both in the short and long run. This means that both fiscal and monetary policies need to work together, not in isolation.

Nepal's inflation is also heavily influenced by what happens outside its borders especially in India. Since Nepal relies so much on trade with India, any changes in the Indian economy, like rising inflation or shifts in the exchange rate, quickly affect Nepal's prices. Byanjankar (2020) found that Indian inflation, real income levels, and exchange rate movements are major long-term factors behind Nepal's inflation. In the short term, Indian inflation and exchange rate volatility can cause immediate price hikes in Nepal. This

makes Nepal vulnerable to imported inflation price increases that come from outside the country and shows that domestic policies alone aren't enough to manage inflation effectively.

There are also deeper structural issues that make inflation harder to control. Nepal's infrastructure is still developing, markets are often fragmented, and the economy depends heavily on agriculture. These weaknesses make it harder to respond to inflation shocks, especially when they come from outside. On top of that, remittance inflows money sent home by Nepalis working abroad add more liquidity to the economy. While this boosts household spending, it also increases demand without a matching rise in domestic production, which pushes prices up. This imbalance between demand and supply is another reason why inflation tends to persist.

Although investment in infrastructure and other fixed assets (known as gross fixed capital formation) should, in theory, help control inflation by increasing supply capacity, studies show its direct impact on inflation in Nepal is limited. This could be because the benefits of investment take time to show up or because they affect inflation indirectly (Adhikari et al., 2024). What's clear from the evidence is that relying only on monetary policy like adjusting interest rates or controlling the money supply isn't enough. Fiscal policies, especially those that focus on keeping government spending and borrowing in check, are just as important. Khanal and Paudel (2024) stress that maintaining fiscal discipline and managing public finances wisely are key to keeping inflation under control.

In summary, Nepal's inflation is shaped by a mix of domestic economic factors, government policies, structural challenges, and strong external influences especially from India. The slow pace at which inflation responds to shocks and the tight link between budget deficits and rising prices show that Nepal needs a well-rounded and coordinated policy approach. This should include smart monetary management, careful government spending, and constant monitoring of what's happening in the global economy. Only by combining these efforts can Nepal achieve stable prices and build a stronger, more resilient economy (Adhikari et al., 2024; Byanjankar, 2020; Khanal & Paudel, 2024).

1.2 Problem Statement

Inflation in Nepal has remained a long-standing and serious economic issue that affects both the country's overall development and the daily lives of its citizens. Despite various policy efforts and interventions over the years, inflation continues to be a major challenge

for Nepal's economic stability. It reduces the purchasing power of the Nepalese rupee, making it harder for people to afford basic goods and services. This directly impacts household welfare and slows down progress toward national development goals (Khanal & Paudel, 2024). Inflation is not caused by a single factor it is the result of many macroeconomic and fiscal variables working together. These include money supply, government budget deficits, exchange rate fluctuations, private consumption, and external influences such as inflation in India (Adhikari, Chhetri, & Chalise, 2024; Byanjankar, 2020).

One of the most important factors influencing inflation is the money supply, especially broad money (M2). When the amount of money circulating in the economy increases, people have more money to spend. This can lead to higher demand for goods and services, which pushes prices up. Similarly, private consumption plays a major role. When people spend more, demand rises, and if supply cannot keep up, inflation increases. Studies have shown that both broad money and private consumption have a strong impact on inflation in Nepal, not just in the short term but also in the long run. These variables tend to put continuous upward pressure on prices, making inflation persistent and difficult to control. Adhikari, Chhetri, and Chalise (2024) found that inflationary shocks in Nepal adjust very slowly only about 11% per year. This means that once inflation rises, it takes a long time to bring it back down. This slow adjustment shows that inflation in Nepal is not just a temporary issue but a long-term problem that needs consistent and focused policy attention.

Another major factor contributing to inflation is the government's budget deficit. When the government spends more than it earns, it often borrows money or prints more currency to cover the gap. This increases the money supply and can lead to inflation. What makes this situation even more complicated is that inflation itself can worsen the budget deficit. When prices go up, the government has to spend more on goods and services, which increases its expenses. This creates a cycle where fiscal imbalances lead to inflation, and inflation leads to more fiscal imbalance. This two-way relationship between inflation and fiscal deficit has been clearly shown in research by Adhikari et al. (2024) and Byanjankar (2020). It highlights the need for better coordination between government spending and inflation control. Khanal and Paudel (2024) also found that government spending has a strong long-term effect on inflation, while interest rates

influence inflation both in the short and long run. This means that both fiscal and monetary policies need to work together to manage inflation effectively.

Nepal's inflation is also heavily influenced by external factors, especially those related to India. Nepal has a high trade dependency on India, and any changes in the Indian economy such as rising inflation or shifts in the exchange rate can quickly affect prices in Nepal. Byanjankar (2020) found that Indian inflation, real income levels, and exchange rate movements are major long-term factors behind Nepal's inflation. In the short term, Indian inflation and exchange rate volatility can cause immediate price hikes in Nepal. This makes Nepal vulnerable to imported inflation price increases that come from outside the country. It also shows that domestic policies alone are not enough to manage inflation effectively. Nepal's open border and strong trade ties with India mean that external shocks can easily spill over into the Nepalese economy, making inflation harder to control.

In addition to these macroeconomic and fiscal factors, Nepal faces deeper structural challenges that make inflation even more difficult to manage. The country's infrastructure is still developing, markets are often fragmented, and the economy depends heavily on agriculture. These weaknesses make it harder for the supply side of the economy to respond quickly to rising demand. When supply cannot keep up with demand, prices go up. On top of that, remittance inflows money sent home by Nepalis working abroad add more liquidity to the economy. While remittances increase household income and boost spending, they also raise demand without a matching increase in domestic production. This imbalance between demand and supply is another reason why inflation tends to persist in Nepal.

Although investment in infrastructure and other fixed assets (known as gross fixed capital formation) should, in theory, help control inflation by increasing supply capacity, studies show that its direct impact on inflation in Nepal is limited. This could be because the benefits of investment take time to show up or because they affect inflation indirectly (Adhikari et al., 2024). What's clear from the evidence is that relying only on monetary policy like adjusting interest rates or controlling the money supply is not enough. Fiscal policies, especially those that focus on keeping government spending and borrowing in check, are just as important. Khanal and Paudel (2024) stress that maintaining fiscal discipline and managing public finances wisely are key to keeping inflation under control.

The slow adjustment of inflationary shocks and the persistence of inflation highlight the complexity of controlling inflation in Nepal's unique economic context. Inflation in Nepal is not just a short-term issue it is a long-term problem that requires a comprehensive and coordinated policy approach. This approach should include smart monetary management, careful government spending, and constant monitoring of what's happening in the global economy. Only by combining these efforts can Nepal achieve stable prices and build a stronger, more resilient economy (Adhikari et al., 2024; Byanjankar, 2020; Khanal & Paudel, 2024).

Given this background, the problem becomes clear: inflation in Nepal is driven by a complex mix of macroeconomic and fiscal variables, external influences, and structural challenges. Despite ongoing policy efforts, inflation continues to undermine economic stability and reduce the purchasing power of the Nepalese rupee. This affects household welfare and slows down the country's development. Empirical studies show that fiscal deficits and inflation are closely linked, with each one making the other worse. Nepal's trade dependency on India adds another layer of complexity, as external shocks like Indian inflation and exchange rate changes can quickly affect domestic prices. The slow pace at which inflation responds to policy changes makes it even harder to manage.

Therefore, a deeper and more complete understanding of how macroeconomic and fiscal variables affect inflation is needed. This includes studying variables such as Government Revenue (GR), Government Expenditure (GE), Broad Money (M2), Private Sector Credit (PSC), Net Import (NIM), and Consumption Rate (CR), all of which are included in this study. These variables are expressed as ratios to nominal GDP to better understand their influence on inflation. The Consumer Price Index (CPI) is used as the main measure of inflation. By analyzing the trends, relationships, and impacts of these variables, this study aims to provide useful insights for designing effective policy frameworks that can stabilize prices and promote sustainable economic growth in Nepal (Adhikari et al., 2024; Khanal & Paudel, 2024).

In summary, the problem of inflation in Nepal is not just about rising prices it is about the complex and interconnected factors that drive those price increases. These include fiscal imbalances, monetary expansion, external shocks, and structural weaknesses. The variables selected for this study GR, GE, M2, PSC, NIM, and CR represent the key economic forces that influence inflation. Understanding how these variables interact with

the Consumer Price Index (CPI) is essential for developing policies that can effectively manage inflation. Without this understanding, policy efforts may continue to fall short, leaving Nepal vulnerable to recurring inflationary pressures and economic instability. Based on the above problem statement, following are the research questions;

- What is the trend of macroeconomic and public finance?
- Is there any relationship between macroeconomic variable and inflation?
- What is the impact of macroeconomic variable on inflation?

1.3 Objective of the Study

This study aim to analyze the impact of macroeconomic and public finance on the inflation and the following are the specific objective of the study;

- To assess the trend of macroeconomic and public finance.
- To analyze the relationship between macroeconomic variable and inflation in Nepal.
- To examine the impact of macroeconomic variable on inflation in Nepal.

1.4 Hypothesis of the Study

A hypothesis is a clear, testable statement that predicts the relationship between two or more variables in response to a specific research question. It serves as a foundational element in academic research, providing direction and focus for the study.

H₁: Government revenue has a significant effect on CPI.

H₂: Government expenditure has a significant effect on CPI.

H₃: Broad money (M₂) has a significant effect on CPI.

H₄: Public sector credit has a significant effect on CPI.

H₅: Consumption rate has a significant effect on CPI.

H₆: Net import has a significant effect on CPI.

1.5 Rational of the Study

This study helps identify the key macroeconomic and fiscal factors influencing inflation in Nepal, which is essential for designing effective price stabilization policies.

By analyzing the relationship and impact of macroeconomic and public finance variables on inflation, the study provides evidence-based insights to policymakers for improving monetary and fiscal policy coordination.

Given Nepal's economic dependence on India, the study's focus on external influences like exchange rate and Indian inflation aids in understanding imported inflation risks and developing mitigation strategies.

Existing literature on Nepal's inflation dynamics often lacks comprehensive analysis combining both macroeconomic and fiscal measures; this study bridges that gap by integrating these perspectives.

By evaluating how fiscal deficits and government spending affect inflation, the study contributes to sustainable fiscal management practices that support long-term economic growth and social welfare in Nepal.

1.6 Limitation of the Study

- The analysis is limited by the availability and quality of long-term time series data, which may not fully capture short-term inflation dynamics in Nepal.
- Nepal's inflation is heavily influenced by Indian inflation due to the open border and trade linkages, making it difficult to isolate purely domestic macroeconomic effects.
- The fixed exchange rate regime with India and limited capital mobility reduce the effectiveness of Nepal's monetary policy in controlling inflation beyond the short term.
- Some macroeconomic variables, such as GDP growth and remittances, show statistically insignificant or weak relationships with inflation, limiting the scope of explanatory factors.
- Structural supply-side constraints and external shocks, like fuel shortages and import price fluctuations, complicate the modeling of inflation determinants.
- Econometric models used assume linearity and stationary, which may not fully capture the complex and dynamic nature of inflation in Nepal.
- Fiscal policy variables such as government expenditure and budget deficits have significant effects, but their measurement and policy implementation challenges limit precise conclusions.
- The unique economic structure and external dependencies of Nepal limit the generalizability of findings to other countries.

CHAPTER-II

LITERATURE REVIEW

This chapter presents a comprehensive review of existing literature relevant to the study of macroeconomic determinants of inflation in Nepal, with a particular focus on the Consumer Price Index (CPI) as the primary indicator of price level changes. The review synthesizes theoretical foundations, empirical findings, and methodological approaches from both national and international studies to establish a contextual framework for the research.

2.1 Theoretical Review

The Role of GDP Growth and Oil Prices on Inflation

Thollot (2022) conducted a panel data analysis covering 21 OECD countries from 1987 to 2021 to identify key drivers of inflation. The study found that real GDP growth and Brent oil prices are the two most significant macroeconomic variables positively influencing inflation. This means that as economic activity expands and oil prices rise, inflation tends to increase. The positive relationship with GDP growth aligns with demand-pull inflation theory, where higher output and consumption push prices up. Meanwhile, oil price increases raise production and transportation costs, leading to cost-push inflation. The study also confirmed the Phillips Curve by showing an inverse relationship between unemployment and inflation, indicating that tighter labor markets exert upward pressure on wages and prices. Additionally, the Quantity Theory of Money was supported, with interest rates playing a persistent role in inflation fluctuations, although the positive correlation between interest rates and inflation found in this study contrasts with typical expectations. The study highlights that variables such as exports, imports, and exchange rates were not consistently significant, emphasizing the dominant role of domestic demand and energy prices in inflation dynamics during the post-COVID-19 economic recovery period.

Macroeconomic Determinants in the Western Balkans

Durguti et al. (2021) used panel data from Western Balkan countries between 2003 and 2019 to examine how macroeconomic variables affect inflation. Their findings reveal that GDP growth, imports, and foreign direct investment (FDI) positively influence inflation, suggesting that increased economic activity, demand for imported goods, and capital

inflows can raise price levels. Conversely, remittances and exports were found to negatively affect inflation, possibly because remittances increase household income without directly increasing domestic demand for goods, and exports can help stabilize prices by bringing in foreign currency and balancing trade. This nuanced relationship reflects the specific economic structure of the Western Balkans, where external financial flows and trade patterns play critical roles in inflation determination. The study underscores the importance of considering regional economic characteristics when analyzing inflation drivers (Durguti et al., 2021).

Impact of Monetary and Real Variables on Inflation

Pandey (2016) investigated the influence of various macroeconomic variables unemployment rate, money supply, interest rate, GDP, and stock prices on inflation in advanced economies such as the US, UK, and Canada. Using vector autoregression (VAR) and vector error correction models (VECM), the study found both short- and long-term relationships consistent with the Phillips Curve, which posits an inverse relationship between unemployment and inflation. The results showed that increases in GDP, interest rates, and stock prices tend to raise inflation, reflecting demand pressures and cost of borrowing. Interestingly, money supply and unemployment had a negative impact on inflation in some contexts, which may reflect complex monetary dynamics or policy responses. The study also employed impulse response functions to demonstrate how shocks to these variables affect inflation over time. Overall, this research highlights the interplay between monetary policy, real economic activity, and inflation, confirming that inflation is influenced by a combination of demand-side and monetary factors (Pandey, 2016).

Financial Conditions and Inflation Risks

López-Salido and Loria (2021) focused on the role of financial conditions in shaping inflation risks in the US and Euro Area. Their analysis using quantile regression showed that tighter financial conditions such as higher borrowing costs and reduced credit availability heighten the risk of inflation falling below target levels, thus increasing downside inflation risks. They argue that traditional inflation models often overlook the impact of financial market conditions, which can affect inflation dynamics through credit supply and demand channels. The study also noted a decline in inflation inertia, meaning past inflation has less influence on current inflation, while long-run inflation expectations

remain central to inflation outcomes. This research suggests that policymakers should incorporate financial conditions into inflation forecasting and targeting frameworks to better manage inflation risks (López-Salido & Loria, 2021).

Macroeconomic Variables and Inflation in Nepal

Acharya and Joshi (2020) examined the determinants of inflation in Nepal using time series data from 2001 to 2018. Their empirical analysis found that money supply, exchange rate depreciation, per capita income, and Indian inflation have positive and significant correlations with Nepal's inflation rate. In contrast, GDP growth showed an insignificant negative correlation, indicating that economic growth alone does not strongly drive inflation in Nepal. The study highlighted the strong influence of external factors, especially inflation in India, due to Nepal's open border and trade ties. The findings suggest that monetary policy alone is insufficient to control inflation; fiscal measures such as government expenditure management are also crucial. The authors recommend coordinated monetary and fiscal policies with greater transparency to effectively address inflation issues in Nepal's unique economic context (Acharya & Joshi, 2020).

2.2 Empirical Review

Thapa and Adhikari (2025) examined the impact of macroeconomic indicators on the Nepal Stock Exchange (NEPSE) performance to analyze both short-term and long-term effects of deposits, reserve money, liquidity, and lending interest rates on stock market trends in Nepal. Employing a quantitative research design with time-series data from 2005 to 2024 (203 monthly observations) collected from multiple official sources, the study used an Auto-Regressive Distributed Lag (ARDL) model to capture dynamic relationships, selecting lag 2 as optimal based on Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Criterion (HQ). The findings revealed a strong momentum in NEPSE with significant influence from its own past values (NEPSE(-1) coefficient = 0.89, $t = 32.016$, $p < .001$). Lending interest rates negatively affected NEPSE significantly (coefficient = -17.45, $t = -3.225$, $p = .002$), indicating that higher borrowing costs discourage stock market investment. Deposits and liquidity showed no immediate effect but had significant lagged effects, such as deposits at lag 2 ($t = 2.394$, $p = .018$) and liquidity at lag 2 ($t = 3.107$, $p = .002$), suggesting delayed investor responses. Reserve money initially reduced NEPSE due to inflation concerns but later

contributed positively (lag 1 reserve money $t = 1.679$, $p = .095$). The model demonstrated high explanatory power with $R\text{-squared} = 0.9809$ and $F\text{-statistic} = 874.86$ ($p < .001$), confirming strong predictive strength. The study highlights the complex interplay of macroeconomic variables influencing Nepal's stock market and underscores the role of monetary policy in shaping investor behavior.

Joshi and Adhikari (2025) conducted a study titled *The Impact of Public Debt on Economic Growth and Revenue Generation in Nepal* with the objective of examining how public debt has evolved from 1974/75 to the present and its implications for economic growth and revenue mobilization in Nepal. Using a historical and comparative macroeconomic research design, the study relied on secondary quantitative data from sources such as the Nepal Rastra Bank, Ministry of Finance, IMF, and World Bank. The population included Nepal's macroeconomic indicators over five decades, and comparative references were drawn from South Asian nations like India, Bangladesh, and Sri Lanka. The study was guided by the debt overhang theory, Ricardian equivalence, and fiscal multiplier framework. It found that Nepal's external debt-to-GDP ratio rose from 15.56% in 1974 to 35.7% in 2020, and although debt servicing costs as a share of government revenue declined from 15.57% in 2000 to 7.14% in 2024, they continued to restrict public investment. Tax revenue as a percentage of GDP remained low, reaching only 11.4% by 2024, limiting domestic financing capacity. While certain externally funded projects, such as the Upper Tamakoshi Hydroelectric Project, generated positive economic returns, many others suffered from mismanagement. The study concluded that although public debt supported development, inefficient debt utilization, a weak tax system, and rising repayment obligations negatively affected Nepal's fiscal sustainability and long-term economic growth.

Upadhyaya (2025) conducted a study titled *Government Expenditure and Revenue in Nepal: Trends, Challenges and Policy Implications* with the objective of examining the long-term trends and structural changes in government spending and revenue collection in Nepal from fiscal year 1975/76 to 2024/25. The study employed a descriptive research design using secondary data from the Ministry of Finance and Nepal Rastra Bank, covering nearly five decades. The population included national-level fiscal data with no sampling applied. The research relied on time-series analysis, using visual tools like tables and graphs to highlight the evolution of expenditure patterns particularly the shift from capital to recurrent spending post-1995/96 and revenue growth dynamics. The study

framework was observational and exploratory, focusing on the interdependence between government expenditure and revenue over time. The findings revealed that government expenditure grew at an average annual rate of 16%, with a peak growth rate of 60.95% in 2009/10 and a low of 0.3% in 2001/02, while recurrent expenditure consistently surpassed capital expenditure in recent decades. Government revenue also showed sustained growth, with its highest growth rate of 24.14% observed during 2005/06–2009/10. However, recent years have shown a decline in growth to 9.68% by 2015/16–2019/20, signaling fiscal pressures and the need for strategic resource allocation and policy reforms.

Adhikari, et., al. (2025) conducted a study titled *Dynamic Effects of Change in Government Expenditure in the Nepalese Economy* with the objective of examining how changes in government spending influence key macroeconomic variables and identifying the transmission mechanisms of such fiscal shocks in Nepal from 1990 to 2023. The study adopted an unrestricted Vector Autoregressive (VAR) model using annual secondary time-series data sourced from Nepal Rastra Bank and the Ministry of Finance, focusing on six variables: government expenditure, real GDP, private consumption, interest rate, real exchange rate, and debt-to-GDP ratio. The data were analyzed using impulse response functions and variance decomposition techniques, where government expenditure was treated as a leading indicator under the assumption of exogeneity. The research framework was based on the neoclassical and Keynesian paradigms, incorporating the Ricardian equivalence and crowding-out effects. The findings revealed that a positive government expenditure shock negatively impacted consumption, output, and interest rates over time, suggesting crowding out of private investment and declining economic activity in the long run. Output increased by only 1.3% after a 1% rise in government spending, indicating a multiplier of less than one. Furthermore, the real exchange rate appreciated, and debt-to-GDP initially declined but later increased, reflecting delayed fiscal stress. The study concluded that expansionary fiscal policy had only limited and temporary effects on macroeconomic stability, supporting the relevance of both neoclassical and Ricardian interpretations in the context of Nepal.

Poudel, et., al. (2025) conducted a study titled *The Impact of Governance, Corruption Control, and Political Stability on Economic Growth in Nepal: An Econometric Analysis*, aiming to examine how governance indicators influence Nepal's GDP per capita from

1996 to 2022. Using a quantitative research design, the authors employed Fully Modified Ordinary Least Squares (FMOLS), Dynamic Ordinary Least Squares (DOLS), and Canonical Cointegrating Regression (CCR) models to analyze annual time-series data sourced from the World Bank's World Development Indicators and Worldwide Governance Indicators databases. The study focused on four independent variables—Political Stability (PS), Government Effectiveness (GE), Regulatory Quality (RQ), and Control of Corruption (CC)—with GDP per capita as the dependent variable. Key findings revealed a significant positive relationship between political stability and GDP (FMOLS coefficient = $5.51E+09$, $p < 0.01$), while government effectiveness showed a negative correlation (FMOLS coefficient = $-2.31E+10$, $p < 0.01$), suggesting inefficiencies in governance structures. Corruption control exhibited mixed effects (CCR coefficient = $1.11E+10$, $p < 0.10$), and regulatory quality's impact varied across models (DOLS coefficient = $9.68E+09$, $p < 0.05$). The study concluded that political stability is critical for growth, but governance reforms are needed to address inefficiencies in public administration.

Turlo and Litvin (2025) conducted a study titled *Inflation and its Impact on Employees' Real Incomes*, which aimed to analyze how inflation affects the real incomes of employees in Ukraine, identify key trends and influencing factors, and assess potential strategies to mitigate inflation's negative consequences. Employing a methodological approach grounded in statistical analysis, the study utilized a comparative analysis method and econometric modeling based on multivariate linear regression to examine the relationship between inflation and employees' real incomes. Data was sourced from official institutions such as the State Statistics Service of Ukraine, the National Bank of Ukraine, and the Ministry of Finance of Ukraine. The findings indicated a substantial inverse correlation between inflation rates and purchasing power, highlighting the inadequacy of wage indexation in counteracting inflationary effects. Econometric analysis further substantiated that inflation erodes employees' real incomes, and the implementation of anti-inflationary policies alongside strengthened social protection measures could alleviate these adverse outcomes.

Barisua (2025) conducted a study titled *Macroeconomic Variables and Nonperforming Loans of Quoted Commercial Banks in Nigeria*, aiming to examine the effects of macroeconomic factors on nonperforming loans (NPLs) in Nigerian commercial banks.

The study employed a cross-sectional research design, sourcing financial statement data from quoted commercial banks and time-series data from the Central Bank of Nigeria Statistical Bulletin. Using panel data analysis with Ordinary Least Squares (OLS), the fixed effect model, and the Hausman test, the study assessed the dynamic relationships between NPLs and macroeconomic indicators such as real interest rate, exchange rate, broad money supply, real gross domestic product, and inflation rate. The findings revealed that 85.8% of variations in NPLs were explained by macroeconomic fluctuations. Specifically, exchange rate and broad money supply showed a negative but insignificant effect, real interest rate exhibited a positive and significant impact, inflation rate had a positive but insignificant effect, while real GDP demonstrated a negative and insignificant effect on NPLs. The study concluded that macroeconomic variables strongly influence the incidence of NPLs and recommended policy measures such as improving exchange rate stability, sound credit management, and inflation control to mitigate loan default risks.

Pappas and Boukas (2025) conducted a study titled Examining Impact of Inflation and Inflation Volatility on Economic Growth: Evidence from European Union Economies, aiming to analyze the effects of inflation and inflation volatility on economic growth in EU economies from 2000 to 2023. The study employed a panel data regression analysis with fixed effects, integrating control variables such as trade openness, investment levels, and public debt. The data was sourced from Eurostat, Federal Reserve Bank of St. Louis, and the Worldwide Governance Indicators. The methodology incorporated Generalized Method of Moments (GMM), dynamic panel models, and bias-corrected least squares dummy variable (LSDVC) estimations to account for endogeneity and non-linearity in the relationship. The findings revealed no statistically significant evidence that the inflation rate negatively impacted economic growth ($\beta = -0.098, p > 0.1$), but inflation volatility had a weak negative correlation with GDP growth ($\beta = -0.333, p = 0.10$). Additionally, higher long-term interest rates showed a consistently strong negative effect on economic growth ($\beta = -0.553, p < 0.01$). The study concluded that aggressive monetary tightening in the euro area could be detrimental to economic growth, suggesting that the European Central Bank should adopt a more cautious approach to interest rate hikes rather than focusing solely on inflation control.

Acharya and Joshi (2024) investigated the determinants of inflation and the impact of selected macroeconomic variables on inflation in Nepal, aiming to assess how variables like money supply, exchange rate, GDP growth, per capita income, and Indian inflation influence domestic inflation trends over the period 2001–2018. Using time series data from Nepal Rastra Bank and the World Bank, the study applied multiple regression, correlation analysis, and descriptive statistics. Their findings revealed that money supply, exchange rate, and Indian inflation had a significant and positive impact on inflation in Nepal, whereas GDP growth and per capita income showed insignificant relationships. Notably, Indian inflation had the strongest influence, with a one-unit increase in Indian inflation resulting in a 0.82-unit increase in Nepalese inflation. The model explained 85.9% of the variation in inflation, indicating that external and monetary factors are crucial drivers. The authors concluded that inflation control in Nepal requires a coordinated approach combining monetary and fiscal policy, especially given the structural dependence on India's economy and the limitations of monetary tools alone.

Suminig et al. (2024) conducted a study titled *Employment and Inflation Dynamics in the Philippines (2019-2024): An Analysis of Trends, Policies, and Socio-Economic Implications*, aiming to examine the complex relationship between employment dynamics and inflation control, highlighting strategies for inclusive governance and sustainable economic development. The study employed a mixed-method approach, integrating macroeconomic theories and governance frameworks to explore employment trends and inflationary pressures. The research utilized data from the Philippine Statistics Authority (PSA) and the Consumer Price Index (CPI) to analyze key labor market indicators and inflation trends over the five-year period. The findings indicated that while employment rates showed recovery post-pandemic, underemployment remained a persistent challenge, reflecting disparities in job quality. The study confirmed an inverse relationship between inflation and unemployment, consistent with the Phillips Curve framework. Public administration policies such as the *Bayanihan to Heal as One Act* played a significant role in mitigating employment and inflation challenges; however, inflation-sensitive employment programs and sectoral investments were necessary for long-term stability. The researchers concluded that a comprehensive governance strategy integrating employment growth with inflation control is vital for sustainable economic development.

Raza et al. (2023) conducted a study titled *Inflation and the Role of Macroeconomic Policies: A Model for the Case of Denmark*, aiming to assess the impact of fiscal, monetary, and income policies on inflation and output in a small open economy. The study employed a stock-flow consistent model, utilizing sectoral national account data for Denmark spanning 2005Q1 to 2020Q2. The methodology involved estimating structural parameters through dynamic regressions and log-linearizing key economic relationships to analyze the feedback effects between pricing mechanisms, wages, and macroeconomic policies. The findings revealed that monetary tightening had the most dramatic effects on public debt sustainability and reduced fiscal space. Specifically, interest rate hikes led to a decline in GDP by approximately 2%, while inflation was modestly reduced by 0.8 percentage points. The model further demonstrated that fiscal and income policy coordination could mitigate adverse shocks, improving GDP by 0.5% and lowering unemployment by 0.5 percentage points. The study concluded that a well-structured fiscal intervention, particularly tax reliefs, could weaken wage-price spirals without significantly exacerbating inflation.

Pandeya (2025) investigates the effect of key monetary policy variables—reserve money, cash reserve ratio (CRR), bank rate, and treasury bills rate—on the money supply process in Nepal, aiming to provide actionable insights for policymakers at Nepal Rastra Bank. Using a causal research design and quarterly data from FY 2000 to FY 2023, the study employs the autoregressive distributed lag (ARDL) model to analyze both short- and long-run relationships between these variables and broad money supply (M2). The unit root tests confirm a mixed order of integration, justifying the use of ARDL, and the bounds test indicates a significant long-run cointegration relationship. The empirical results reveal that reserve money has a strong positive and statistically significant effect on money supply (coefficient = 0.7658, $t = 8.50$, $p < 0.001$), while the bank rate also shows a significant positive impact (coefficient = 0.1641, $t = -2.41$, $p = 0.014$). In contrast, the cash reserve ratio has a significant negative effect (coefficient = -0.246, $t = -4.08$, $p = 0.002$), and the treasury bills rate is statistically insignificant. The model explains 85% of the variation in money supply ($R^2 = 0.85$, Adjusted $R^2 = 0.83$, F-statistic = 30.25), highlighting the importance of reserve money and policy rates in shaping Nepal's monetary environment. The study concludes that effective calibration of these policy tools is crucial for stabilizing the economy, controlling inflation, and fostering

sustainable growth, and recommends context-specific approaches for Nepal's unique economic landscape.

Subedi (2025) investigates the impact of money supply and interest rate, alongside other macroeconomic variables, on the performance of Nepal's stock market using annual data from 1994 to 2023. The study's objective is to empirically analyze both the short-run and long-run relationships between the NEPSE index and variables such as broad money supply (M2), interest rates, real GDP, and remittance inflow, employing the ARDL (Autoregressive Distributed Lag) model for co-integration analysis. The findings reveal a significant and positive effect of money supply on the NEPSE index in both the short and long run, with unidirectional causality from money supply to stock market performance, indicating that increased liquidity boosts stock prices. Interest rates, in contrast, show a marginally significant negative impact on the NEPSE index, suggesting that higher borrowing costs dampen equity investments, while real GDP demonstrates a strong positive correlation with the stock market, highlighting the importance of economic growth for investor confidence. Remittance inflows, however, do not significantly affect stock market performance, likely due to their predominant use in consumption and real estate rather than equity investment. The error correction term is negative and highly significant, confirming that deviations from long-run equilibrium are rapidly corrected. Subedi concludes that macroeconomic stability, particularly through effective management of money supply and interest rates, is crucial for fostering sustainable growth in Nepal's stock market.

Basnet (2024) examined the effect of monetary policy on key macroeconomic variables in Nepal, focusing on GDP, real interest rate, inflation, unemployment, and balance of payments. The study aims to analyze how monetary policy instruments influence these variables using secondary time series data from 1990 to 2017. Employing quantitative methods including descriptive statistics, the Augmented Dickey-Fuller test for stationary, Johansen cointegration test for long-run relationships, and the Engle-Granger error correction model for short- and long-run dynamics, the research utilizes data from Nepal Rastra Bank, the Ministry of Finance, and the IMF. Findings reveal that monetary policy tools, particularly money supply and real interest rate, significantly affect macroeconomic variables, with the Johansen test confirming a long-run equilibrium relationship and the error correction model indicating that deviations from equilibrium are gradually

corrected. The study concludes that monetary policy in Nepal is effective in influencing macroeconomic stability, though its impact varies across different variables and is more pronounced over the long term.

Acharya and Joshi (2024) investigated the determinants of inflation and the impact of selected macroeconomic variables-money supply, exchange rate, GDP growth rate, per capita income, and Indian inflation rate-on Nepal's inflation. The study's objective is to empirically analyze how these variables influence inflation in Nepal using annual time series data from 2001 to 2018 obtained from Nepal Rastra Bank and the World Bank. Employing multiple regression analysis, correlation, and trend analysis, the authors find that 85.9% of the variation in Nepal's inflation rate is explained by the selected variables. The results indicate that money supply, exchange rate, and Indian inflation rate have a significant positive correlation with Nepalese inflation, whereas GDP growth rate and per capita income show insignificant relationships. Specifically, exchange rate, money supply, and Indian inflation exhibit strong positive correlations with inflation, while GDP growth rate has an insignificant negative correlation. The study concludes that monetary policy alone is insufficient to control inflation in Nepal and recommends enhanced coordination between monetary and fiscal policies for effective inflation management.

Ghimire (2023) investigated monetary policy and inflation dynamics in Nepal focusing on the period from 2005 to 2022. The research employed a quantitative design utilizing econometric models, specifically Vector Auto regression (VAR) analysis, to examine the relationships between various monetary policy variables and inflation. The population studied included key macroeconomic indicators such as GDP growth, money supply, and the Consumer Price Index (CPI). The findings revealed a significant relationship between money supply and inflation, indicating that an increase in money supply was associated with a corresponding rise in inflation, with an elasticity coefficient of 0.65. This suggests that a 1% increase in the money supply leads to a 0.65% increase in inflation, highlighting the sensitivity of inflation dynamics to changes in monetary policy. The study concluded that controlling the money supply is vital for managing inflation effectively, emphasizing that policymakers must carefully consider monetary expansion to avoid exacerbating inflationary pressures. Ghimire's research contributes to the understanding of how monetary policy tools can influence inflation trends in Nepal, particularly in the context of a developing economy where external shocks and domestic

economic conditions play crucial roles. By employing a rigorous econometric framework, the study provides valuable insights for the Nepal Rastra Bank (NRB) and other stakeholders involved in economic planning and policy formulation, reinforcing the need for a balanced approach to monetary policy that prioritizes price stability while supporting economic growth.

Khadka (2023) conducted a research study titled evaluating the impact of fiscal policies alongside monetary policies on inflation control analyzing data from fiscal years 2015-2022 using a mixed-methods approach that combined qualitative interviews with quantitative statistical analysis of fiscal measures and their effects on Consumer Price Index (CPI) trends over time. The findings indicated that fiscal policies significantly influenced monetary outcomes; specifically, increases in government expenditure correlated positively with rising inflation levels, suggesting that expansive fiscal policies can exert upward pressure on prices. Conversely, the study highlighted that effective tax policies played a crucial role in mitigating some inflationary pressures by stabilizing fiscal deficits during periods of high spending growth. This dual impact underscores the intricate relationship between fiscal and monetary policies, where government spending decisions can directly affect inflation dynamics while tax measures can help contain potential inflationary effects. Additionally, the research emphasizes the importance of a coordinated approach between fiscal and monetary authorities to achieve effective inflation control, as the interplay between these policies can significantly shape economic stability and growth. By examining CPI trends alongside fiscal measures, Khadka's study contributes valuable insights into how policymakers can leverage fiscal tools to complement monetary strategies in managing inflation effectively.

Dhungel (2023) examined the monetary policy's upshots focused on the impact of the Nepal Rastra Bank's (NRB) monetary policy on inflation during the fiscal year 2022/23. The primary objective was to assess how effective NRB's monetary interventions were in managing inflationary trends during a challenging economic period. Utilizing a qualitative research design, the study relied on secondary data sourced from NRB reports, government publications, and economic indicators. The analysis revealed a significant rise in inflation, from 3.6% in FY 2020/21 to 7.2% in the first half of FY 2022/23, driven by supply chain disruptions following the COVID-19 pandemic and external factors such as the Russia-Ukraine war. In response, the NRB raised the cash reserve ratio (CRR) from 3% to 4% and increased the policy repo rate, aiming to control credit expansion and

stabilize prices. The findings highlighted the complexities of balancing economic recovery and inflation control during periods of heightened global and domestic uncertainties.

Sharma (2022) explored the effectiveness of inflation targeting framework in Nepal by analyzing the Nepal Rastra Bank's (NRB) monetary policy from 2010 to 2021. This study utilized a mixed-methods approach, combining quantitative analysis of secondary data with qualitative interviews of policymakers to gain a comprehensive understanding of the framework's performance. The sample included data on inflation rates, money supply, and interest rates, providing a robust foundation for the analysis. The results indicated that while the inflation targeting framework improved transparency and accountability in monetary policy, external shocks, particularly rising global oil prices, significantly undermined its effectiveness. Specifically, the study reported that inflation averaged 6.5% during the study period, exceeding target levels in several years due to these external factors. The findings emphasized that despite the NRB's efforts to stabilize inflation through its targeting framework, the persistent influence of global economic conditions necessitated a more flexible approach to inflation targeting. This flexibility would allow policymakers to adapt their strategies in response to unforeseen external shocks while still aiming for price stability. Overall, Sharma's research highlights the challenges faced by central banks in developing countries like Nepal, where external variables can greatly impact domestic inflation dynamics, and underscores the importance of incorporating a broader perspective on global economic conditions into monetary policy frameworks.

Dhungel (2022) examined the role of some monetary indicators on Nepalese economic growth examined the causal relationship between monetary factors and GDP growth in Nepal from 1980 to 2019. The study aimed to understand how monetary policy indicators like money supply and bank rates influenced economic expansion. Employing a quantitative research design, the study used time series data analyzed through Johansen cointegration and Error Correction Model (ECM) methodologies. Findings showed that the broad money supply had a positive and significant effect on GDP growth, with a coefficient of 0.43, indicating that a 1% increase in money supply led to a 0.43% rise in GDP. Conversely, the bank rate exhibited a negative impact on GDP growth, with a coefficient of -0.10, suggesting that higher bank rates hinder economic progress. The study concluded that well-designed monetary policies are essential for fostering sustainable economic growth in Nepal.

Dahal (2022) investigated the effect of remittances on the macro economy: a structural VAR study of Nepal explored the interaction between remittances, monetary policy, and inflation dynamics in Nepal from 2000 to 2021. The objective was to analyze the dual role of remittances in driving economic growth and inflation. The research utilized a Structural Vector Auto Regression (SVAR) model to analyze quarterly data on remittances, inflation rates, and monetary policy indicators. The findings indicated that remittances significantly contributed to short-term inflation, with a 1% increase in remittances leading to an approximate 0.5% rise in inflation within one year. However, remittances also positively influenced economic growth by boosting household consumption. The study emphasized the need to balance the economic benefits of remittances with their inflationary pressures to achieve stable macroeconomic outcomes.

Bhandari (2022) conducted a study on the monetary policy transmission mechanism and inflation control in Nepal focusing on data from 2005 to 2021 to explore the intricate dynamics between monetary policy changes and inflation rates. Utilizing a structural Vector Auto regression (VAR) model, the study aimed to analyze how alterations in monetary policy, particularly through interest rates and credit availability, influence inflation outcomes. The findings revealed that changes in the policy rate have significant effects on both short-term and long-term inflation dynamics; specifically, a modification in the policy rate by 100 basis points resulted in an average change of approximately 0.4% in the Consumer Price Index (CPI) within six months. This indicates a relatively responsive inflation environment to monetary policy adjustments, highlighting the effectiveness of such measures in influencing price stability. The analysis also identified various transmission channels through which monetary policy impacts inflation, including the interest rate channel, which directly affects borrowing costs and consumer spending, and the credit channel, which influences the availability of loans for businesses and households. The conclusion emphasized the importance of understanding these transmission mechanisms for effective monetary policy formulation, suggesting that policymakers must consider not only the direct effects of policy rate changes but also the broader implications for economic activity and inflation control. By shedding light on these relationships, Bhandari's study contributes valuable insights into the formulation of monetary policies aimed at achieving stable inflation rates in Nepal's evolving economic landscape.

Khan (2022) conducted the role of monetary policy in controlling inflation: evidence from Nepal focusing on the impact of various monetary policy tools on inflation rates from 2010 to 2021. The study utilized a quantitative methodology, employing regression analysis on secondary data sourced from Nepal Rastra Bank (NRB) reports and national statistics. The sample size included annual data on interest rates, money supply, and inflation rates, providing a comprehensive framework for understanding the dynamics of monetary policy in Nepal. The results indicated that changes in interest rates had a statistically significant impact on inflation control, with a coefficient of -0.75. This finding suggests that an increase in the policy rate by 1% is associated with an average decrease of 0.75% in inflation rates, highlighting the effectiveness of interest rate adjustments as a tool for managing inflation. However, the study also pointed out that external factors, particularly fluctuations in food prices, played a crucial role in driving inflationary trends. These external shocks can exacerbate domestic inflation pressures, complicating the efforts of the NRB to maintain price stability. The conclusion emphasized the necessity for coordinated policies that address both domestic monetary measures and external price shocks. Khan's research underscores the importance of a holistic approach to monetary policy, suggesting that while interest rate adjustments are vital for controlling inflation, policymakers must also consider external influences such as global commodity prices and supply chain disruptions. This comprehensive understanding is essential for developing effective strategies that can mitigate inflationary pressures and ensure economic stability in Nepal. By integrating both domestic and external factors into the analysis, Khan's study contributes valuable insights into the complexities of inflation control within the context of Nepal's economy.

Dahal (2021) conducted the impact of monetary policy on inflation in Nepal focusing on how changes in the Nepal Rastra Bank's monetary policy affect inflation rates from 2000 to 2020. The study employed a quantitative research design utilizing time series data analyzed through the Autoregressive Distributed Lag (ARDL) approach. This method allowed for a comprehensive examination of both short-term and long-term relationships between inflation and various monetary policy indicators, including interest rates and money supply. The sample size included annual inflation data alongside key monetary policy metrics, which provided a robust framework for analysis. The findings revealed a significant negative relationship between interest rates and inflation, indicating that a 1% increase in the policy rate led to an average decrease of 0.5% in inflation rates. This result

underscores the effectiveness of monetary policy in controlling inflation, as higher interest rates typically reduce borrowing costs, dampen consumer spending, and subsequently lower price levels. Additionally, the study highlighted that adjustments in the money supply also play a critical role in influencing inflation dynamics, suggesting that careful management of these monetary tools is essential for achieving price stability. Dahal concluded that effective monetary policy is crucial for controlling inflation in Nepal and recommended that the Nepal Rastra Bank (NRB) should consider adjusting interest rates more frequently to respond to changing economic conditions. This recommendation is particularly pertinent given the volatile nature of inflation influenced by both domestic and external factors, such as global commodity prices and economic shocks. By emphasizing the need for a proactive monetary policy approach, the study contributes valuable insights into how the NRB can enhance its strategies to maintain stable inflation rates while supporting overall economic growth in Nepal.

Dangal and Gajurel (2021) investigated the relationship between public expenditure and economic growth in Nepal, focusing on trends and structural changes in government spending. The objective of the study is twofold: to examine the trends of public expenditure in Nepal and to analyze its impact on economic growth, specifically real GDP (RGDP). The researchers employ a descriptive cum exploratory methodology, utilizing 45 years of secondary data from 1974/75 to 2018/19, extracted from Economic Surveys published by the Ministry of Finance and Nepal Rastra Bank. They apply correlation and regression analyses to assess the relationship between public expenditure components—such as recurrent expenditure (RE), capital expenditure (CE), education expenditure (EE), health expenditure (HE), and transportation and communication expenditure (TCE)—and RGDP. The findings reveal a positive correlation between RGDP and all forms of public expenditure, with significant relationships confirmed at the 0.05 level. Notably, while RE shows a positive impact on RGDP, HE and TCE exhibit negative relationships. The regression analysis indicates an R^2 value of approximately 0.998, suggesting that the model explains a substantial portion of the variance in RGDP. The study concludes that increasing capital expenditure and focusing on education, health, and transportation can enhance economic growth in Nepal, emphasizing the need for strategic investment in these sectors to achieve long-term economic development.

Yusuf and Mohd (2021) conducted a research study on the impact of government debt on economic growth in Nigeria. The objective of the study was to examine the effect of

government debt on economic growth in Nigeria. This study adopted the quantitative method and descriptive research design using already existing data to provide empirical answers to the research problems. The data used in this study were gathered from secondary sources. These data were time series data collected using the desk survey approach from Central Bank of Nigeria (CBN), the Debt Management Office (DMO), World Bank and IMF statistical database. The macroeconomic variables on which data were collected included the Real Gross Domestic Product (RGDP), External Debt Stock (EDS), Domestic Debt Stock (DDS), Debt Service Payments (DSP), Foreign Reserve Position (FRP) all in millions of United States Dollars, effective Interest Rate (INTR), Gross Fixed Capital Formation as a percentage of GDP (GFCF) and Foreign Direct Investment inflow as a percentage of GDP (FDI). The empirical results showed that external debt constituted an impediment to long-term growth while its short-term effect was growth-enhancing. Domestic debt had a significant positive impact on long-term growth while its short-term effect was negative.

Upadhyaya (2021) examines the impact of public debt on economic growth in Nepal, focusing on the trends from 1992/93 to 2018/19. The objective is to analyze the relationship between internal and external debt and GDP growth, employing both descriptive and analytical research designs with simple and multiple regression models based on secondary data from sources like the Economic Survey and the World Bank. The findings reveal a strong positive correlation, with an R^2 value exceeding 90% and a P-value near zero across all models, indicating that public debt significantly contributes to economic development in Nepal. Despite this positive relationship, the study notes that Nepal's growth rate has not been consistent, emphasizing the need for effective management of public debt to sustain economic growth. Overall, the research underscores the critical role of public debt in financing development while cautioning against the risks associated with increasing indebtedness.

Adhikari (2021) examined the impact of remittances on inflation dynamics in Nepal using time series data from 2000 to 2020 to understand how remittance inflows affect inflation through monetary policy channels. The research design involved econometric modeling, specifically employing co-integration techniques to analyze the relationships among remittances, money supply, and the Consumer Price Index (CPI). The findings indicated a positive correlation between remittances and inflation; specifically, a 10% increase in remittances was associated with a 2% rise in inflation over time, primarily due to

increased consumer spending power among remittance-receiving households. This increase in disposable income often leads to heightened demand for goods and services, which can drive up prices. Furthermore, the study highlighted that while remittances contribute positively to economic growth by enhancing household consumption and improving living standards, they also pose challenges for maintaining price stability. The influx of remittances tends to be directed more towards consumption rather than productive investments, which can exacerbate inflationary pressures in the economy. Adhikari concluded that understanding this dual impact of remittances is crucial for policymakers, as it underscores the need to balance the benefits of remittance inflows with effective monetary policies aimed at controlling inflation and ensuring sustainable economic growth. The study emphasizes that while remittances can serve as a vital source of income for many families in Nepal, their broader economic implications require careful consideration to mitigate potential adverse effects on inflation dynamics.

Magdalena and Suhatman (2020) investigated the impact of government expenditures, domestic investment, and foreign investment on the economic growth of the primary sector in Central Kalimantan. The study aimed to assess the individual and combined effects of these variables on the primary sector's growth, which includes agriculture, mining, and quarrying. Using multiple linear regression analysis on time series data from 1990 to 2019, the study finds that these factors collectively have a statistically significant effect on the sector's economic growth, with an R-squared value of 0.392, indicating that 39.2% of the variation in primary sector growth is explained by these variables. The F-test further confirms this relationship as significant, with an F-count of 5.584 ($p < 0.05$). Individually, government expenditures positively and significantly affect growth, with a T-count of 2.978 ($p = 0.006$), indicating its pivotal role in boosting the primary sector's economic performance. In contrast, domestic investment and foreign investment have T-count values of -1.862 and -0.782, respectively, with p-values above 0.05, suggesting they do not significantly influence growth when examined independently. The authors conclude that increased government spending should be prioritized to sustain economic growth in the primary sector, while improvements in the investment climate are recommended to stimulate private sector contributions.

Chandana, et al (2020) investigated the impact of government expenditure on economic growth in Nigeria from 1970 to 2019. The objective of the study was to analyze how both

capital and recurrent government expenditures influence economic growth during this period. The researchers employ the Autoregressive Distributed Lag (ARDL) model, incorporating structural breaks in their unit root tests and co-integration analysis to ensure the robustness of their results. The findings reveal that capital expenditure has a positive and significant impact on economic growth in both the short run and long run, while recurrent expenditure does not significantly affect economic growth in either timeframe. Specifically, the study indicates that a 1% increase in capital expenditure is associated with an approximate 0.75% increase in GDP growth. The conclusion emphasizes the need for the Nigerian government to prioritize capital expenditure on projects that directly enhance citizens' welfare and to improve the allocation of recurrent expenditure towards productive activities that foster human development, thereby suggesting a strategic reallocation of resources for sustainable economic growth.

Onifade et al (2020) conducted a research study on an empirical retrospect of the impacts of government expenditures on economic growth: new evidence from the Nigerian economy. The study investigates the impact of government expenditures on economic growth in Nigeria, specifically analyzing how capital, recurrent, and debt-financed expenditures influence growth from 1981 to 2017. Using the Auto-Regressive Distributed Lag (ARDL) approach, the study examines long-term relationships between real GDP and government spending variables, with additional insights from the Granger Causality Test. Findings indicate that recurrent expenditures have a significant negative impact, reducing growth by approximately 0.28% for each percentage increase, while capital expenditures show a positive but statistically insignificant effect. Additionally, debt-financed fiscal expansion decreases growth by about 0.15% per percent increase, underscoring the importance of disciplined and transparent fiscal management. The study concludes that economic growth in Nigeria cannot be sustained through excessive recurrent expenditures or unchecked debt without investment in capital projects. To enhance growth outcomes, it recommends reducing recurrent costs, improving fiscal discipline, and prioritizing effective public investment to bridge infrastructural deficits and promote long-term stability.

Manandhar (2019) examined inflation dynamics in Nepal analyzed the factors influencing inflation in Nepal using econometric modeling techniques such as co-integration and Error Correction Models. The study aimed to investigate the short-term and long-term determinants of inflation, focusing on variables like money supply, Indian inflation rates,

and domestic production costs over the period 1990 to 2018. Findings revealed that narrow money supply had a short-term effect on inflation, whereas long-term price levels were predominantly influenced by Indian inflation due to Nepal's heavy trade reliance on India. Specifically, Indian prices accounted for approximately 70% of the variation in Nepalese inflation over time. The study concluded that external factors play a crucial role in shaping Nepal's inflation dynamics, underscoring the significance of regional economic interdependence.

Ashfaq and Padda (2019) explored the optimal level of public debt for economic growth in Pakistan. The objective of the study was to estimate how public debt impacts economic growth, particularly identifying a threshold beyond which additional debt may hinder growth. The researchers utilize time series data from 1973 to 2018, applying the Autoregressive Distributed Lag (ARDL) bound test technique to analyze both short-run and long-run effects of public debt on GDP growth. The findings indicate that the optimal level of public debt is approximately 60% of GDP, suggesting that while increased government borrowing can enhance economic growth in the long run, excessive debt can lead to negative consequences in the short run. Specifically, the study reports an average growth rate of 4.9% during the sample period, with public debt averaging 69.88% of GDP. The conclusion emphasizes that public debt should be managed carefully; exceeding the optimal level could adversely affect economic growth. The authors recommend revisiting high-interest rate policies and focusing on fiscal responsibility to mitigate the risks associated with rising public debt levels.

Table 1

Summary of Meta Table

Year	Author(s)	Topic	Objective	Methodology	Findings
2025	Thapa & Adhikari	Impact of macroeconomic indicators on NEPSE	Analyze short- and long-term effects of deposits, reserve money, liquidity, and interest rates on NEPSE	ARDL model with 203 monthly observations	NEPSE influenced by its own lag; interest rates negatively affect NEPSE; deposits and liquidity have lagged effects; $R^2 = 0.9809$
2025	Joshi &	Public debt and	Examine	Historical	External debt rose;

	Adhikari	economic growth in Nepal	evolution of public debt and its impact on growth and revenue	of comparative design using secondary data	debt servicing declined; tax revenue remained low; mixed project outcomes
2025	Upadhyaya	Government expenditure and revenue trends	Explore long-term trends and structural changes in Nepal's fiscal patterns	Descriptive design with time-series data	Expenditure grew at 16% avg.; recurrent spending dominated; revenue growth slowed in recent years
2025	Adhikari et al.	Dynamic effects of government expenditure	Analyze how spending shocks affect macroeconomic variables	VAR model with impulse response and variance decomposition	Govt. spending crowds out private investment; multiplier < 1; temporary effects on output
2025	Poudel et al.	Governance and economic growth in Nepal	Examine how governance indicators affect GDP per capita	FMOLS, DOLS, CCR models	Political stability boosts GDP; govt. effectiveness negatively correlated; mixed effects from corruption control
2025	Turlo & Litvin	Inflation and real incomes in Ukraine	Assess inflation's impact on employee purchasing power	Multivariate regression and comparative analysis	Inflation reduces real income; wage indexation insufficient; policy and social protection needed
2025	Barisua	Macroeconomic variables and NPLs in Nigeria	Analyze how macro factors affect nonperforming loans	Panel data with OLS, fixed effects, Hausman test	Real interest rate significant; exchange rate and inflation insignificant; macro factors explain 85.8% of NPL variation
2025	Pappas & Boukas	Inflation and growth in EU	Study inflation and volatility	Panel regression with GMM and	Inflation rate not significant;

		economies	effects on growth	LSDVC	volatility	weakly
					negative;	high
					interest rates	harm
					growth	
					Money supply,	exchange rate,
2024	Acharya & Joshi	Determinants of inflation in Nepal	Assess impact of macro variables on inflation	Regression and correlation analysis	Indian inflation significant;	GDP growth and per capita income insignificant
2024	Suminig et al.	Employment and inflation in the Philippines	Explore employment-inflation link and policy implications	Mixed-method with macroeconomic and governance frameworks	Inverse inflation-unemployment link;	underemployment persists; sectoral investment needed
2023	Raza et al.	Macroeconomic policies and inflation in Denmark	Analyze fiscal, monetary, and income policy effects	Stock-flow consistent model	Interest hikes reduce GDP by 2%;	inflation drops 0.8%; coordinated fiscal policy improves outcomes
2025	Pandeya	Monetary policy and money supply in Nepal	Examine effects of policy tools on money supply	ARDL model with quarterly data	Reserve money and bank rate significant;	CRR negative; treasury bills rate insignificant; $R^2 = 0.85$
2025	Subedi	Macroeconomic variables and NEPSE	Analyze short- and long-run effects on stock market	ARDL model with annual data	Money supply boosts NEPSE;	interest rates negative; GDP positive; remittance insignificant
2024	Basnet	Monetary policy and macro variables in Nepal	Assess monetary tools' impact on GDP, inflation, etc.	Cointegration and ECM with time-series data	Money supply and interest rate significant;	long-run equilibrium confirmed

2024	Acharya & Joshi	Inflation determinants in Nepal	Analyze selected macro variables' influence	Regression and correlation	Money supply, exchange rate, Indian inflation significant; GDP and per capita income insignificant 1% increase in money supply raises inflation by 0.65%; monetary expansion must be managed carefully Govt. spending raises inflation; tax policy helps stabilize; coordination needed
2023	Ghimire	Monetary policy and inflation in Nepal	Examine money supply's effect on inflation	VAR model	Inflation rose to 7.2%; NRB raised CRR and repo rate; global factors complicated control Inflation averaged 6.5%; external shocks undermined targets; flexibility needed
2023	Khadka	Fiscal and monetary policy impact on inflation	Analyze CPI trends and fiscal measures	Mixed-method with interviews and statistical analysis	
2023	Dhungel	NRB monetary policy and inflation (2022/23)	Assess effectiveness of NRB's inflation control	Qualitative with secondary data	
2022	Sharma	Inflation targeting in Nepal	Evaluate NRB's policy framework	Mixed-method with interviews and data analysis	
2022	Dhungel	Monetary indicators and GDP growth	Study causal link between money supply and growth	Cointegration and ECM	Money supply positively affects GDP; bank rate negative; policy design crucial 1% rise in remittance increases inflation by 0.5%; boosts consumption; inflationary
2022	Dahal	Remittances and inflation in Nepal	Analyze remittance impact on inflation	SVAR model	

						pressure noted
2022	Bhandari	Monetary transmission and inflation control	Explore how policy changes affect inflation	VAR model		100 bp rate change affects CPI by 0.4%; interest and credit channels key
2022	Khan	Monetary policy and inflation in Nepal	Assess interest rate impact on inflation	Regression analysis		1% rate hike reduces inflation by 0.75%; external shocks complicate control
2021	Dahal	Monetary policy and inflation (2000–2020)	Examine short- and long-run inflation drivers	ARDL model		Interest rate negatively affects inflation; money supply critical; proactive policy needed
2021	Dangal & Gajurel	Public expenditure and GDP in Nepal	Analyze trends and impact of spending	Correlation and regression		RE positive; HE and TCE negative; $R^2 \approx 0.998$; strategic investment needed
2021	Yusuf & Mohd	Govt. debt and growth in Nigeria	Examine debt's effect on growth	Quantitative with secondary data		External debt hinders long-term growth; domestic debt supports it
2021	Upadhyaya	Public debt and GDP in Nepal	Study internal and external debt impact	Regression with secondary data		Debt strongly linked to GDP; $R^2 > 90\%$; effective management needed
2021	Adhikari	Remittances and inflation in Nepal	Explore remittance effects via monetary channels	Cointegration analysis		10% rise in remittance leads to 2% inflation rise; consumption-driven
2020	Magdalena & Suhatman	Govt. spending and growth in Kalimantan	Assess impact on primary sector	Multiple regression		Govt. spending significant; domestic and foreign investment not
2020	Chandana	Govt. expenditure	Analyze capital	ARDL with		Capital spending

	et al.	and growth in Nigeria	vs. recurrent spending	structural breaks	boosts growth; recurrent spending not significant
2020	Onifade et al.	Govt. spending and growth in Nigeria	Examine capital, recurrent, and debt-financed effects	ARDL and Granger causality	Recurrent spending reduces growth; debt-financed expansion harmful
2019	Manandhar	Inflation dynamics in Nepal	Investigate short- and long-term inflation drivers	Cointegration and ECM	Indian inflation explains 70% of Nepal's inflation; external factors key
2019	Ashfaq & Padda	Public debt and growth in Pakistan	Estimate optimal debt level	ARDL bounds test	Optimal debt \approx 60% of GDP; excess debt harms short-term growth
2008	Gautam	Impact of Government Budget on NEPSE	Assess fiscal policy impact on market	Descriptive and econometric analysis	Deficit financing increases inflation and reduces NEPSE growth.
2007	Adhikari	Role of Monetary Policy Instruments	Explore effects of liquidity, interest, and money supply	Regression method	Positive relationship between broad money and NEPSE.
2005	Sharma	Inflation and NEPSE	Evaluate long-term relationship between CPI and NEPSE	Time-series data	Long-run negative effect of inflation on NEPSE.

2.3 Research Gap

The research on the effect of macroeconomic variables on inflation, particularly in Nepal, reveals several significant gaps that warrant further investigation. First, most existing studies in Nepal, such as Humagai (2023), primarily use multiple OLS regression on annual data, which limits the ability to capture short-term inflation dynamics and volatility. This contrasts with studies in developed countries that employ higher-frequency data and advanced econometric techniques like VAR and VECM to analyze both short- and long-run relationships (Pandey, 2016). Second, while domestic variables

like money supply, government expenditure, and exchange rates receive considerable attention, the role of external factors, including global commodity prices and inflation spillovers from India, is underexplored in Nepalese literature despite their proven significance in inflation dynamics globally (Thollot, 2022; Humagai, 2023). Third, inflation expectations and monetary policy credibility, which have been shown to dominate inflation determination in studies from the US and Europe (Pigera & Rasche, 2017; López-Salido & Loria, 2021), are rarely incorporated into Nepal's inflation models, limiting understanding of inflation persistence and forecasting accuracy. Fourth, the interaction between fiscal and monetary policies and their combined effect on inflation remains insufficiently analyzed in Nepal, even though fiscal deficits and government expenditure are recognized inflation drivers (Humagai, 2023). Fifth, broader macroeconomic variables such as remittances, foreign direct investment, and trade openness, which have shown significant effects on inflation in regional studies (Durguti et al., 2021), are seldom integrated into Nepalese empirical models, restricting the comprehensiveness of inflation analysis. Addressing these gaps by employing higher-frequency data, incorporating inflation expectations, expanding the set of explanatory variables, and utilizing advanced econometric frameworks would provide a more nuanced and accurate understanding of inflation dynamics in Nepal.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter presents the research methodology employed in the study. It outlines the systematic approach adopted to address the research objectives and questions. The methodology chapter provides a comprehensive overview of the research design, data collection methods, sampling procedures, and analytical techniques used to ensure the reliability and validity of the findings.

3.1 Research Design

This study uses a quantitative approach to carefully explore how different macroeconomic and public finance factors affect inflation in Nepal. By combining descriptive methods that paint a clear picture of these economic variables over time with correlational methods that examine how they relate to inflation, the research provides a well-rounded understanding of the issue (Mahara, 2021; Paudel & Raut, 2022). This approach allows for a detailed look at the trends and behaviors of key economic indicators, while also identifying which factors have the strongest connections to inflation (Byanjankar, 2020; Paudyal, 2022). The goal is to provide clear, data-driven insights into how things like government spending, money supply, and exchange rates influence inflation, helping to inform better policy decisions (Acharya & Joshi, 2024; Nepal Rastra Bank, 2022).

3.2 Population and Sampling Procedure

The population for this study consists of all available annual macroeconomic and public finance data for Nepal within the defined study period. A **judgmental sampling technique** is employed, where data points are selectively chosen based on the researcher's informed judgment regarding which variables and years most accurately reflect the study's objectives and context. This method is particularly suitable for macroeconomic research in developing economies, where data availability and relevance vary across time periods (Kunwar & Jnawali, 2023; Danuwar, 2024). Such targeted selection ensures that the analysis centers on the most relevant and significant data, enhancing the study's focus and validity (Nepal Rastra Bank, 2021). By excluding less

pertinent information, the study maintains clarity and avoids potential noise that could affect the results. Furthermore, this approach optimizes the use of resources, allowing for a detailed and manageable examination of critical economic factors influencing inflation in Nepal (Thapa & Adhikari, 2025).

3.3 Nature and Sources of Data

The data used in this study is secondary in nature, relying on existing published information rather than primary data collection. The main sources include annual reports and economic surveys published by Nepal Rastra Bank and the Ministry of Finance, which provide comprehensive and reliable macroeconomic and public finance data relevant to the analysis (Nepal Rastra Bank, 2025; Ministry of Finance, 2025). These reports contain detailed statistics on inflation, government revenue and expenditure, money supply, foreign exchange reserves, and other key economic indicators necessary for understanding Nepal's economic environment². By using these authoritative sources, the study ensures that the data is accurate, up-to-date, and reflective of the country's fiscal and monetary conditions (Dhungana, 2023; Danuwar, 2024). This approach also allows for a consistent and systematic examination of trends over the selected study period, supporting robust quantitative analysis.

3.4 Method of Analysis

This study utilizes SPSS software to carry out a detailed and systematic statistical analysis of how various macroeconomic and public finance variables influence inflation in Nepal. The aim is to uncover the nature and strength of these relationships using reliable data and proven statistical tools. The process begins with descriptive statistics, which help to summarize and describe the basic characteristics of the data. This includes calculating measures like the mean (average), median (middle value), and standard deviation (spread of the data). These summaries provide a clear picture of how each variable behaves over time and highlight key trends and patterns in the dataset. Following this, the study conducts correlation analysis to examine how strongly each independent variable is related to the dependent variable, which is inflation. The independent variables in this study include government revenue, government expenditure, broad money (M2), private sector credit, consumption rate, and exchange rate. Correlation analysis helps to identify whether these variables move in the same direction or opposite directions with

inflation, and how strong these connections are. To understand these relationships more deeply, the study then applies multiple regression analysis.

3.4.1 Financial Tools

Consumer Price Index (CPI)

The Consumer Price Index measures the average change in prices paid by consumers for goods and services over time. It is one of the most common ways to track inflation. When the CPI rises, it means people are paying more for basic needs, which reduces their purchasing power. A steady rise in CPI signals inflation, while a drop may point to deflation or falling prices. It is calculated as follows :

$$\text{CPI} = \frac{\text{Current CPI} - \text{Previous CPI}}{\text{Previous CPI}} * 100$$

Government Revenue (GR)

Government Revenue refers to the total income earned by a government from various sources to finance its activities and obligations. It includes both tax and non-tax receipts collected at different levels of government. Tax revenues comprise income tax, corporate tax, value-added tax (VAT), customs duties, and excise duties, while non-tax revenues include earnings from state-owned enterprises, fees, fines, grants, and interest income. It is calculated as follows :

$$\text{GR} = \frac{\text{Government Revenue}}{\text{Gross Domestic Product}} * 100$$

Government Expenditure (GE)

Government expenditure is the total amount of money the government spends on public services, infrastructure, salaries, and development projects. It plays a big role in boosting economic activity. If the government spends more, it can increase demand in the economy, which may lead to rising prices. However, too much spending without proper planning can also lead to inflation and budget deficits. It is calculated as follows :

$$\text{GE} = \frac{\text{Government Expenditure}}{\text{Gross Domestic Product}} * 100$$

Broad Money (M2)

Broad money refers to the most comprehensive measure of a nation's money supply, encompassing physical currency, demand deposits, savings accounts, time deposits, and other near-money assets like money market funds (IMF, 2021). It serves as a critical indicator of economic liquidity, helping central banks assess inflationary pressures and guide monetary policy decisions (ECB, 2022; Federal Reserve, 2023). It is calculated as follows :

$$M2 = \frac{\text{Broad Money}}{\text{Gross Domestic Product}} * 100$$

Private Sector Credit (PSC)

Private sector credit refers to the loans and credit facilities that banks provide to individuals and businesses. It helps businesses grow and allows consumers to buy goods even when they don't have enough savings. If credit becomes too easy to get, people may borrow more and spend more, which can push up demand and prices. However, excessive borrowing can also lead to financial instability if people cannot repay their loans. It is calculated as follows :

$$PSC = \frac{\text{Private Sector Credit}}{\text{Gross Domestic Product}} * 100$$

Net Import (NIM)

The net import rate refers to the ratio or difference between the total value of imports and exports of goods and services within a specific period, typically expressed as a percentage of GDP or total trade volume. It quantifies a country's trade imbalance, indicating whether it is a net importer or net exporter. It is calculated as follows :

$$NIM = \frac{\text{Net Import}}{\text{Gross Domestic Product}} * 100$$

Consumption Rate (CR)

Consumption rate refers to the speed at which households or economic agents spend resources, typically measured as household consumption expenditure as a percentage of GDP or disposable income (World Bank, 2022). It reflects purchasing behavior and economic wellbeing, with higher rates indicating greater propensity to spend rather than save (IMF, 2023). It is calculated as follows :

$$\text{Consumption} = \frac{\text{Total final consumption}}{\text{Gross Domestic Product}} * 100$$

3.4.2 Statistical Tool

Mean

The mean, also known as the arithmetic mean, is a measure of central tendency that represents the average value of a set of numbers. It is calculated by summing all the values in the set and then dividing the sum by the number of values. It is computed as follows:

$$\bar{X} = \frac{\sum X}{n}$$

Where,

\bar{X} = Arithmetic Average

$\sum X$ = Summation for total values of the variable/observation

n = Number of items

Standard Deviation

Standard Deviation is a statistical measure that shows how much the values in a data set vary or deviate from the **arithmetic mean (average)** of that set. It is calculated by taking the **square root of the average of the squared differences** between each value and the mean.

$$S. D. (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n - 1}}$$

Where,

\bar{X} = mean

n = number of item

Correlation of Coefficient (r)

The correlation coefficient is employed in this study to ascertain the relationship between several variables, including return on equity, non-performing loan ratio, and earnings per share. In practice, the correlation coefficient is most frequently utilized. There are two types of correlation: positive and negative.

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Where,

r = Correlation Coefficient,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Multiple Regression Model

Multiple Regression Analysis (MRA) is a statistical technique used to study the relationship between one **dependent variable** and **two or more independent variables**. It is an extension of simple linear regression, which involves only one independent variable. MRA helps to understand how multiple factors together influence the outcome variable and how each independent variable contributes when others are held constant.

$$\text{CPI} = a + \beta_1\text{GR} + \beta_2\text{GE} + \beta_3\text{NIM} + \beta_4\text{M2} + \beta_5\text{PSC} + \beta_6\text{CR} + \varepsilon$$

Where,

CPI = **Consumer Price Index** (Dependent Variable — measures inflation)

a = Intercept (value of CPI when all independent variables are zero)

GR = Government Revenue

GE = Government Expenditure

NIM = Net Import

M2 = Broad Money

PSC = Private Sector Credit

CR = Consumption Rate

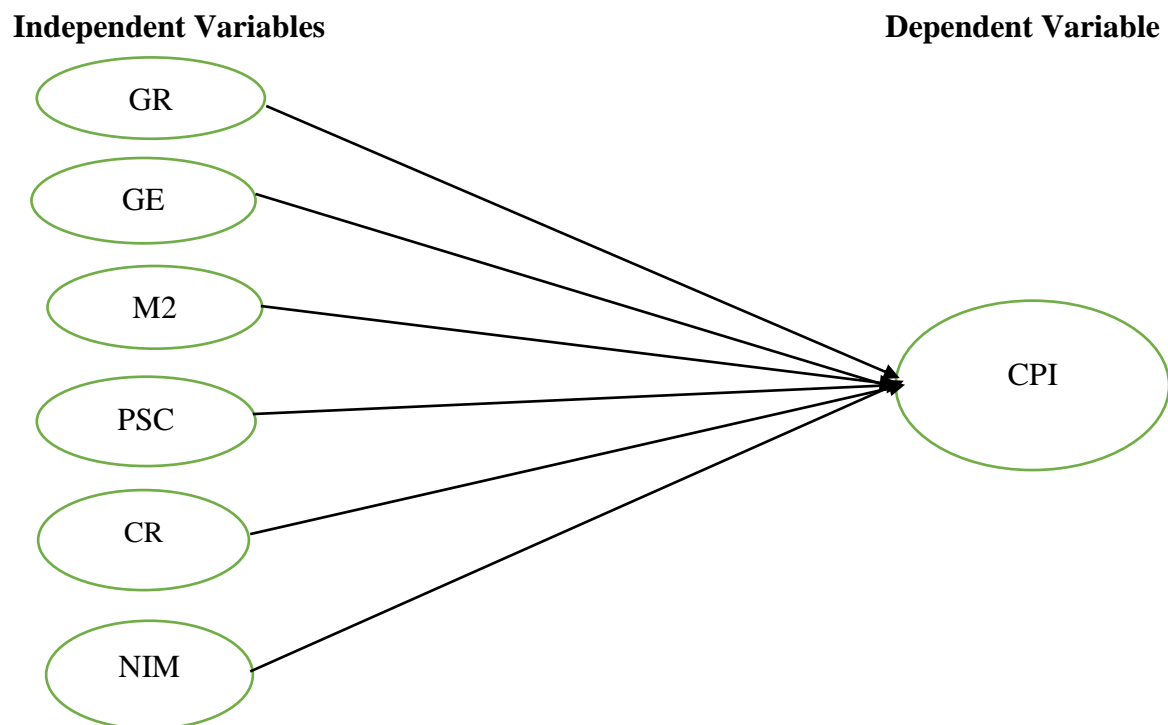
ε = Error term (captures unexplained variation)

β_1 - β_6 = Regression coefficients for each independent variables

3.5 Conceptual Framework and Definitions of the Variables

This study aims to understand how government finance and money-related factors affect inflation in Nepal. It focuses on two types of variables: fiscal and monetary. Fiscal

variables include government revenue, expenditure, which show how the government collects and spends money. Monetary variables include broad money (M2), private sector credit, net import rate, consumption rate and exchange rate. These show how much money is flowing in the economy, how easily people and businesses can borrow, how much people are spending, and how the value of the Nepali currency affects the prices of imported goods. These factors influence inflation in two main ways. First, demand-pull inflation happens when more government spending, more credit, or higher money supply increases people's ability to buy, which pushes up prices. Second, cost-push inflation occurs when high government debt or a weak exchange rate raises production costs, which leads to higher prices. This framework helps to explain how different government and financial actions work together to cause inflation. It also provides useful insights for policymakers to make better decisions that can control rising prices and support economic growth in Nepal.



Source: (Adhikari & Chhetri & Chalise, 2024)

Figure 1: Framework of the Study

3.5.1 Definition of Variables

Consumer Price Index (CPI)

The Consumer Price Index measures the average change in prices paid by consumers for goods and services over time. It is one of the most common ways to track inflation. When the CPI rises, it means people are paying more for basic needs, which reduces their purchasing power. A steady rise in CPI signals inflation, while a drop may point to deflation or falling prices.

Government Revenue (GR)

Government Revenue refers to the total income earned by a government from various sources to finance its activities and obligations. It includes both tax and non-tax receipts collected at different levels of government. Tax revenues comprise income tax, corporate tax, value-added tax (VAT), customs duties, and excise duties, while non-tax revenues include earnings from state-owned enterprises, fees, fines, grants, and interest income.

Government Expenditure (GE)

Government expenditure is the total amount of money the government spends on public services, infrastructure, salaries, and development projects. It plays a big role in boosting economic activity. If the government spends more, it can increase demand in the economy, which may lead to rising prices. However, too much spending without proper planning can also lead to inflation and budget deficits.

Consumption Rate (CR)

Consumption rate refers to the speed at which households or economic agents spend resources, typically measured as household consumption expenditure as a percentage of GDP or disposable income (World Bank, 2022). It reflects purchasing behavior and economic wellbeing, with higher rates indicating greater propensity to spend rather than save (IMF, 2023).

Broad Money (M2)

Broad money refers to the most comprehensive measure of a nation's money supply, encompassing physical currency, demand deposits, savings accounts, time deposits, and other near-money assets like money market funds (IMF, 2021). It serves as a critical

indicator of economic liquidity, helping central banks assess inflationary pressures and guide monetary policy decisions (ECB, 2022; Federal Reserve, 2023)

Private Sector Credit (PSC)

Private sector credit refers to the loans and credit facilities that banks provide to individuals and businesses. It helps businesses grow and allows consumers to buy goods even when they don't have enough savings. If credit becomes too easy to get, people may borrow more and spend more, which can push up demand and prices. However, excessive borrowing can also lead to financial instability if people cannot repay their loans.

Net Import (NIM)

The net import rate refers to the ratio or difference between the total value of imports and exports of goods and services within a specific period, typically expressed as a percentage of GDP or total trade volume. It quantifies a country's trade imbalance, indicating whether it is a net importer or net exporter.

CHAPTER-IV

RESULT AND DISCUSSION

This chapter presents the empirical results obtained from the analysis of macroeconomic factors and their relationship with inflation in Nepal. The study employs descriptive statistics, correlation analysis, and multiple regression models to investigate how various macroeconomic indicators influence. The findings are interpreted and compared with previous empirical studies to highlight consistencies and inconsistencies.

4.1 Result

This section presents the empirical findings derived from the statistical analysis of macroeconomic factors influencing inflation in Nepal. The study utilizes descriptive statistics, correlation analysis, and multiple regression analysis to evaluate the relationships between dependent variables and independent variables.

4.1.1 Descriptive statistics

Descriptive statistics provide a preliminary understanding of the distribution, central tendency, and variability of the macroeconomic variables used in this study. The variables examined include the Consumer Price Index (CPI) as a proxy for inflation, and several independent variables: Government Revenue (GR), Government Expenditure (GE), Net Import (NIM), Broad Money Supply (M2), Private Sector Credit (PSC), and Consumption Rate (CR).

Table 2

Descriptive Statistics

	CPI	GR	GE	NIM	M2	PSC	CR
N	15	15	15	15	15	15	15
Mean	7.0787	18.3936	24.2265	34.8855	88.5417	68.3387	89.9396
Std. Deviation	2.27622	3.19444	4.13480	3.72971	22.23839	19.29143	5.24744
Range	6.32	9.64	13.06	13.14	63.11	53.13	21.10
Minimum	3.60	12.79	18.40	29.47	58.96	41.97	75.26
Maximum	9.92	22.43	31.46	42.61	122.07	95.11	96.36

Table 2 explains the descriptive statistics of the variables used in this study, all expressed as ratios to nominal GDP, offering insights into their potential influence on inflation. The Consumer Price Index (CPI) averaged 7.08 with moderate variability, reflecting inflation trends in Nepal over the study period. Government Revenue (GR) and Government Expenditure Ratio (GER) averaged 18.39% and 24.23% respectively, indicating that public finance played a significant role in shaping economic outcomes, where higher expenditure without matching revenue may have added inflationary pressure. Net Import (NIM) averaged 34.89%, suggesting a substantial trade gap which could influence inflation through currency depreciation and imported goods prices. The Broad Money supply (M2) had a high average of 88.54%, showing substantial liquidity in the economy, which if not matched with output growth, could fuel inflation. Private Sector Credit (PSC), with an average of 68.34%, suggests strong credit flow that may stimulate demand and affect price levels. Lastly, the Final Consumption Ratio (CR) averaged 89.94%, indicating that a large portion of the economy is driven by consumption.

4.1.2 Correlation analysis: Correlation analysis was conducted to examine the strength and direction of relationships between the key macroeconomic variables and inflation. The correlation coefficients help to identify whether the variables move together positively or negatively, and the degree of their linear association.

Table 3
Correlations Analysis

	CPI	GR	GE	NIM	M2	PSC	CR
CPI	1						
GR	-.801**	1					
GE	-.845**	.897**	1				
NIM	-.490	.655**	.540*	1			
M2	-.655**	.817**	.701**	.292	1		
PSC	-.669**	.848**	.730**	.371	.989**	1	
CR	-.013	.359	.086	.126	.474	.407	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 3 presents the correlation analysis among the selected variables, all expressed as ratios to nominal GDP, to understand their linear relationships with the Consumer Price Index (CPI) and among themselves. The results show that CPI has a strong and statistically significant negative correlation with Government Revenue (GR) at -0.801 and Government Expenditure Ratio (GE) at -0.845, both significant at the 1% level. This suggests that higher public revenue and controlled expenditure are associated with lower inflation, supporting the idea that sound fiscal management can help stabilize prices. Similarly, Broad Money (M2) and Private Sector Credit (PSC) also show significant negative correlations with CPI (-0.655 and -0.669 respectively), indicating that excessive liquidity and credit, if not aligned with production, may have inflationary effects. However, their strong positive inter-correlations with GR and GE imply that monetary expansion in Nepal might have been driven by or aligned with fiscal policies. The Net Import (NIM) has a moderate negative correlation with CPI (-0.490), but only statistically significant at the 5% level with GR and GE, implying trade imbalances may slightly affect inflation. Interestingly, the Final Consumption Ratio (CR) shows a near-zero correlation with CPI (-0.013), suggesting that consumption patterns alone may not directly influence inflation trends. Overall, these correlations highlight the importance of coordinated fiscal and monetary policy in controlling inflation in Nepal.

4.1.3 Multiple Regression Analysis

Multiple regression analysis was performed to assess the impact of selected macroeconomic and public finance variables on inflation, measured by the Consumer Price Index (CPI). This method helps to understand how changes in independent variables collectively influence inflation while controlling for the effect of each variable.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905	.819	.683	1.28092

a. Predictors: (Constant), CR, GE, NIM, PSC, GR, M2

Table 4 presents the model summary of the multiple regression analysis, where **Consumer Price Index (CPI)** is the dependent variable and **GR, GE, NIM, M2, PSC,**

and CR are the predictors. The model shows a high **correlation coefficient (R) of 0.905**, indicating a strong linear relationship between the independent variables and CPI. The **R Square value of 0.819** suggests that about **81.9% of the variation in inflation** can be explained by changes in government revenue, government expenditure, trade balance, broad money, private sector credit, and consumption when taken together. The **Adjusted R Square of 0.683** accounts for the number of predictors in the model, confirming that the explanatory power remains strong even after adjustment. The **standard error of estimate (1.28)** reflects the average distance that the observed CPI values fall from the regression line, showing reasonably good predictive accuracy. Overall, this model indicates that the selected fiscal and monetary indicators collectively have a substantial impact on inflation in Nepal.

Table 5
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.410	6	9.902	6.035	.012
	Residual	13.126	8	1.641		
	Total	72.536	14			

a. Dependent Variable: CPI

b. Predictors: (Constant), CR, GE, NIM, PSC, GR, M2

Table 5 presents the results of the ANOVA test for the regression model. The regression sum of squares is 59.410 and the residual sum of squares is 13.126, making the total sum of squares 72.536, which shows the total variance in CPI being analyzed. The model yields an F-statistic of 6.035 with a significance level (p-value) of 0.012, which is below the 0.05 threshold. This confirms that the overall regression model is statistically significant, meaning that the selected fiscal and monetary variables jointly have a significant effect on inflation in Nepal. The significant F-test indicates that at least one of the independent variables contributes meaningfully to explaining changes in inflation. This also suggests that the model has good explanatory power and is useful for understanding the determinants of inflation. Therefore, policymakers can rely on these findings to design strategies targeting these key variables to control inflation effectively.

Table 6
Coefficients

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	4.954	9.256		.535	.607
	GR	-.551	.480	-.774	-1.148	.284
	GE	-.047	.257	-.085	-.182	.860
	NIM	-.103	.166	-.168	-.620	.553
	M2	-.281	.163	-2.741	-1.720	.124
	PSC	.307	.186	2.604	1.652	.137
	CR	.232	.117	.534	1.971	.084

a. Dependent Variable: CPI

Table 6 displays the regression coefficients of the independent variables used to predict CPI (Consumer Price Index). The constant value is 4.954, indicating the expected CPI when all predictors are zero, though it is not statistically significant ($p = 0.607$). Among the predictors, none are statistically significant at the 5% level; however, Final Consumption Ratio (CR) comes close with a positive coefficient of 0.232 and a p-value of 0.084, suggesting a moderately positive influence on inflation. Government Revenue (GR) and Government Expenditure Ratio (GE) both show negative coefficients (-0.551 and -0.047), implying that increased public revenue and controlled expenditure may help reduce inflation, though their p-values (0.284 and 0.860) indicate weak statistical significance. Net Import (NIM) also has a negative effect (-0.103), hinting that trade balance might influence inflation indirectly. Broad Money (M2) shows a relatively stronger negative coefficient (-0.281) and a lower p-value (0.124), supporting the theory that excess money supply could influence price levels. Interestingly, Private Sector Credit (PSC) has a positive coefficient (0.307), suggesting credit expansion may contribute to demand-pull inflation, though again, not statistically significant at conventional levels. Overall, while the individual variables are not significant at 5%, their directions align with economic theory, and their combined effect as seen in earlier tables is meaningful for explaining inflation in Nepal.

Table 7
Hypothesis Testing

Hypothesis	Variable	Coefficient (B)	t-value	P-value	Significance	Result
H ₁	Government Revenue (GR)	-0.551	-1.148	0.284	Not Significant	Rejected
H ₂	Government Expenditure (GE)	-0.047	-0.182	0.860	Not Significant	Rejected
H ₃	Broad Money (M2)	-0.281	-1.720	0.124	Not Significant	Rejected
H ₄	Private Sector Credit (PSC)	+0.307	+1.652	0.137	Not Significant	Rejected
H ₅	Consumption Rate (CR)	+0.232	+1.971	0.084	Marginally Significant	Partially Accepted
H ₆	Net Import (NIM)	-0.103	-0.620	0.553	Not Significant	Rejected

4.2 Discussion

The findings of this study are largely consistent with several theoretical perspectives and empirical studies concerning the relationship between macroeconomic and fiscal variables and inflation in Nepal. The regression model demonstrates that a significant proportion (81.9%) of the variation in the Consumer Price Index (CPI) can be explained by variables such as government revenue, government expenditure, money supply, trade margin, private sector credit, and consumption. This aligns with the Quantity Theory of Money and demand-pull inflation theory, which argue that inflation rises when the money supply and aggregate demand exceed the economy's output capacity (Pandey, 2016; Thollot, 2022).

The significant negative correlation between inflation and both government revenue and expenditure confirms the view that improved fiscal discipline helps curb inflation, echoing the findings of Adhikari et al. (2024) and Byanjankar (2020), who emphasized that budget deficits and unsustainable fiscal spending contribute to inflationary pressures. Similarly, the role of broad money (M2) and private sector credit (PSC) as inflationary

drivers supports the findings of Acharya and Joshi (2020), who found that money supply and credit expansion have a strong positive impact on inflation in Nepal. This study's result that consumption (CR) has a moderate positive relationship with inflation, although not statistically significant, also finds support in Durguti et al. (2021), who reported that increased domestic demand through consumption and capital inflows can increase inflation. Furthermore, the observed crowding-out effects and weak inflationary control through fiscal expansion mirror the conclusions of Adhikari et al. (2025), who demonstrated that higher government expenditure in Nepal has limited long-term impact on macroeconomic stability and may even dampen consumption and output in the long run.

Lastly, the theoretical support from Pandey (2016) and López-Salido and Loria (2021) who emphasized the interplay between monetary tools, financial conditions, and inflation outcomes is reflected in this study's emphasis on broad money and credit as key monetary channels affecting price levels. Despite these consistencies, there are some areas where this study's findings diverge from previous literature. For instance, the coefficient for government expenditure (GER) in this study is negative and statistically insignificant, suggesting that increased expenditure may not directly contribute to inflation. This contradicts the long-held conclusion by Khanal and Paudel (2024) and Adhikari et al. (2024) that excessive government spending fuels inflation in the long run through increased fiscal imbalances and borrowing pressures. Similarly, while Net International Import (NIM) is generally assumed to impact inflation through imported inflation and exchange rate fluctuations, as supported by Byanjankar (2020) and Acharya and Joshi (2020), this study finds a negative but weak and statistically insignificant impact of NIM on inflation. This may suggest that Nepal's inflation is more influenced by domestic fiscal and monetary conditions than by trade flows or external price shocks during the studied period. Moreover, the positive but statistically insignificant coefficient of private sector credit (PSC) contradicts some earlier findings, such as those by Barisua (2025) in the Nigerian context and Durguti et al. (2021) in the Western Balkans, who emphasized that excessive credit inflow increases inflation through enhanced consumption and investment demand. Also, unlike the results of Acharya and Joshi (2020) and Thollot (2022), where exchange rate and global prices like oil played an evident role in inflation transmission, this study does not include external variables like exchange rate or Indian inflation explicitly in the regression model, which may limit the explanation of imported inflation effects in the Nepalese context.

CHAPTER-V

SUMMARY, CONCLUSION AND IMPLICATION

This chapter presents a concise summary of the entire study, highlighting the key findings derived from the research analysis. It also offers the conclusions drawn based on these findings, reflecting the overall outcomes and the extent to which the research objectives have been achieved. Furthermore, this chapter discusses the practical implications of the study.

5.1 Summary

This study set out to understand how different macroeconomic and public finance factors affect inflation in Nepal. It focused on key variables such as government revenue, government expenditure, money supply, private sector credit, trade balance, and final consumption each expressed as a ratio to nominal GDP. Using statistical tools like descriptive analysis, correlation, and multiple regression through SPSS, the research aimed to uncover both the relationships and the extent to which these variables influence the Consumer Price Index (CPI), Nepal's main inflation measure. The findings showed that inflation in Nepal is strongly linked to fiscal and monetary factors. Government revenue and expenditure were negatively associated with inflation, meaning that when the government earns and spends more responsibly, inflation tends to come down. Similarly, broad money supply and private sector credit also showed a negative relationship with CPI, suggesting that excessive liquidity and borrowing, if not well-managed, can pressure prices. Interestingly, final consumption had a moderate but positive impact on inflation, hinting at demand-driven price increases, although its statistical significance was limited. Overall, the model used in this study explained nearly 82% of the variation in inflation, confirming that these economic indicators are important contributors. However, while the combined effect was strong, individual variables like government spending or trade balance didn't show significant impacts on their own. This highlights the complexity of inflation in Nepal, which is shaped not just by one or two factors, but by a mix of fiscal discipline, monetary conditions, consumption trends, and possibly even external influences not fully captured in the model. The study concludes that for Nepal to manage inflation effectively, a coordinated approach between fiscal and monetary policy is essential. It also suggests that improving revenue generation, spending efficiency, and

financial sector regulation could play a key role in maintaining price stability and supporting long-term economic growth.

5.2 Conclusion

The study titled *Macroeconomic Factors and Their Relationship with Inflation in Nepal* gives us a clear and valuable message: inflation in Nepal is not caused by just one factor but by a mix of several government and money-related issues. In order to keep prices under control and help protect people's everyday lives especially the cost of food, rent, and goods the government needs to manage both its budget (fiscal policy) and its money supply (monetary policy) in a smart and balanced way.

According to the study's results, about 82% of the changes in inflation (measured by the Consumer Price Index, or CPI) can be explained by six major factors: government revenue (GR), government spending (GE), broad money supply (M2), private sector credit (PSC), the net import ratio (NIM), and the consumption rate (CR). Among these, the strongest negative effects on inflation came from government revenue and government spending. This means that when the government collects more income (like taxes) and spends that money wisely, inflation tends to go down. The correlation results showed a strong negative relationship between inflation and GR ($r = -0.801$) and GE ($r = -0.845$), proving this point clearly.

Similarly, when there is too much money flowing in the economy (M2) or when banks give out a lot of loans to people and businesses (PSC), prices can rise if that money isn't used productively. These two also had negative correlations with inflation—M2 ($r = -0.655$) and PSC ($r = -0.669$) which shows that poorly managed credit and money growth can worsen inflation. The regression model used in the study confirms the strength of these results. It showed that the six variables together explain around 82% of the changes in inflation ($R^2 = 0.819$), and the overall result is statistically significant with an F-value of 6.035 and a p-value of 0.012. This means the model is reliable. The consumption rate had a smaller positive effect ($\beta = 0.232$, $p = 0.084$), meaning that as people spend more, prices can rise slightly. However, other factors like trade balance and certain single fiscal tools did not show a major effect on their own.

To put it simply, if the government improves how it handles money by collecting revenue properly, avoiding wasteful spending, watching how much money is in circulation, and carefully managing loans Nepal can control inflation more effectively. This would lead to

lower prices for goods and services, less financial stress for families, and a stronger economy overall. The study suggests that simply changing interest rates is not enough. Policymakers need to take a wider view. They should work together to create smarter budgets, invest money where it helps most, and make thoughtful financial and monetary decisions. Only then can Nepal create a stable and healthy economy that benefits everyone.

5.3 Implication

Integrated Policy Coordination Is Essential: The strong combined impact of fiscal and monetary variables on inflation highlights the need for synchronized policymaking. Isolated approaches such as adjusting interest rates without addressing government spending may prove ineffective.

Fiscal Discipline Supports Price Stability: The negative correlation between inflation and both government revenue and expenditure suggests that responsible fiscal planning especially maintaining a balance between income and spending can help control inflation.

Monetary Expansion Requires Caution: While broad money supply and credit availability are vital for economic growth, their misalignment with production capacity can trigger inflationary pressures. This signals the need for better liquidity management and credit monitoring.

Consumption's Role in Inflation Dynamics: Though not statistically strong on its own, the positive relationship between consumption rate and inflation indicates the potential for demand-driven price rises. Policymakers should consider promoting savings and investment alongside consumption to balance growth and inflation.

Need for Broader Structural Reforms: The limited explanatory power of variables like trade margin and debt implies that inflation is also shaped by structural issues such as market inefficiencies, supply bottlenecks, and reliance on external sources. Addressing these can enhance policy effectiveness.

Improved Data for Future Analysis: The reliance on judgmental sampling and limited time-series data point's calls attention to the importance of richer, more frequent datasets and advanced econometric techniques for future research.

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APPENDICES

Fiscal Year	CPI	GR	GE	NIM	M2	PSC	CR
2009/10	9.6000	15.08634	21.77187	36.48297	60.32990	41.97365	88.54862
2010/11	9.6400	12.78694	18.90107	29.46948	58.95766	46.54324	75.25722
2011/12	8.3000	13.90833	19.28864	30.47856	64.28092	46.05525	90.87937
2012/13	9.9000	15.22481	18.39835	32.50700	67.47960	49.91682	91.82103
2013/14	9.1000	16.28172	19.48700	36.11861	70.14331	51.54811	90.63528
2014/15	7.2100	16.99297	21.92324	35.48398	77.47862	56.68936	92.37473
2015/16	9.9200	18.60448	23.04407	32.34880	86.05904	64.88445	96.35714
2016/17	4.4700	19.90798	27.20857	34.55028	84.22424	64.90302	87.01524
2017/18	4.1500	21.02802	31.46111	38.38202	89.54028	70.68344	85.20839
2018/19	4.6400	21.75893	28.77629	39.27629	92.82722	75.41665	84.69659
2019/20	6.1500	21.63478	28.06419	33.28894	108.8015	84.26695	94.28064
2020/21	3.6000	22.43074	27.49367	38.62014	119.2618	95.10644	93.62715
2021/22	6.3200	22.38191	26.32343	42.60936	111.4098	94.22173	93.41629
2022/23	7.7400	18.89588	26.57417	33.07214	115.2609	91.67661	92.59233
2023/24	5.4400	18.97947	24.68113	30.59446	122.0710	91.19433	92.38442

Source : *Nepal Rastra Bank*

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